

CalPERS' Preliminary Net Investment Return Is -6.1% for the Fiscal Year 2021/22: What Does This Mean for the City of Huntington Beach?

July 22, 2022

CalPERS just released their preliminary investment return of -6.1% for the FY2021/22. Please see the CalPERS press release below:

<https://www.calpers.ca.gov/page/newsroom/calpers-news/2022/calpers-preliminary-investment-return-2021-22>

The first half of 2022 was very challenging for the global markets due to market volatility, geopolitical instability, domestic interest rate hikes, and inflation. As a result, CalPERS' investment returns for the 12-month period ended June 30, 2022 was heavily impacted. The negative returns will require additional Unfunded Actuarial Liability (UAL) payments for all CalPERS agencies including the City of Huntington Beach starting in FY2024/25. The City's payments for FY2022/23 (\$5.5M UAL Payment) and FY23/24 (no UAL payment due to the CalPERS' 21.3% return in FY2020/21) remains unchanged since there is a two-year lag. Based on a preliminary estimate from CalPERS, we anticipate the City's UAL payment to be approximately \$3.5 million which is \$1 million more than what was anticipated in the City's long-term financial plan. The City previously projected a \$2.5 million UAL payment in FY2024/25, anticipating a more modest pull back in market returns. The estimated FY2024/25 payment is subject to change based on the final CalPERS investment return and other factors including demographic and actuarial changes. The final CalPERS payment amount for FY2024/25 will not be released until July/August 2023. UAL payments beyond FY2024/25 will be based on future years' returns. The Finance Department will monitor CalPERS investment returns closely and adjust the City's long-term financial plan accordingly.

As part of the City's pension debt refinancing plan, City Council adopted an Unfunded Accrued Liability Pension Funding Policy mandating that we set-aside additional funds to pay off any new future pension debt. The City has \$12.4 million in the Section 115 Trust plan and \$741,000 in the Pension Rate Stabilization Reserve as of June 30, 2022. City Council also approved an additional \$1.4 million transfer to the Section 115 Trust in the FY2022/23 budget. The City would have a total of \$14.5 million available at the end of the fiscal year including any investment earnings to go towards offsetting future UAL payments created by the negative return in FY2021/22, as well as future CalPERS investment returns that may not benefit UAL payments.