

**CITY OF PACIFICA, CALIFORNIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 7 - Pension Plans:

A. General Information about the Pension Plans

The City has pension plans with the California Public Employees Retirement System (CalPERS) and the California Public Employees Retirement System (PARS). Information about the pension plans follows.

California Public Employees Retirement System (CalPERS)

Plan Descriptions – All qualified permanent and probationary employees are eligible to participate in the City’s defined benefit pension plans as follows:

- Miscellaneous (agent multiple-employer plan)
- Safety Police (cost-sharing multiple-employer plan)
- Pepra Safety Police (cost-sharing multiple-employer plan)
- Safety Fire (cost-sharing multiple-employer plan)
- Pepra Safety Fire (cost-sharing multiple-employer plan)

These plans are administered by the California Public Employees’ Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

At June 30, 2018, the City reported the following amounts related to the pension plans:

| | <u>Deferred Outflows of Resources</u> | <u>Net Pension Liability</u> | <u>Deferred Inflows of Resources</u> |
|---------------|---|----------------------------------|--|
| Miscellaneous | \$5,719,309 | (\$17,739,118) | (\$740,803) |
| Safety | 9,836,781 | (31,620,401) | (2,086,202) |
| PARS REP | 71,548 | (1,441,153) | (34,745) |
| Total | <u>\$15,627,638</u> | <u>(\$50,800,672)</u> | <u>(\$2,861,750)</u> |

**CITY OF PACIFICA, CALIFORNIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 7 - Pension Plans (Continued):

B. Miscellaneous Plan

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

The Plans’ provisions and benefits in effect at June 30, 2018, are summarized as follows:

| | <u>Miscellaneous</u> |
|---|---------------------------------|
| Benefit formula | 2% @ 55 2.5% @ 55 2% @ 62 |
| Benefit vesting schedule | 5 years service |
| Benefit payments | monthly for life |
| Retirement age | 55-62 |
| Monthly benefits, as a % of eligible compensation | 2-2.5% |
| Required employee contribution rates | 7.816% |
| Required employer contribution rates | 17.934% |

Contributions – Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers to be determined on an annual basis by the actuary and be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

Net Pension Liability – The City’s net pension liability for the Miscellaneous Plan is measured as the total pension liability, less the pension plan’s fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

**CITY OF PACIFICA, CALIFORNIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 7 - Pension Plans (Continued):

B. Miscellaneous Plan (Continued)

Changes in the Net Pension Liability – The changes in the Net Pension Liability for the Miscellaneous Plan are as follows:

| | Increase (Decrease) | | |
|---|----------------------------|--------------------------------|----------------------------------|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability/(Asset) |
| Balance at June 30, 2016 Measurement Date | \$88,031,539 | \$72,566,637 | \$15,464,902 |
| Changes in the year: | | | |
| Service cost | 1,631,204 | | 1,631,204 |
| Interest on the total pension liability | 6,501,283 | | 6,501,283 |
| Contribution - employer | | 1,459,527 | (1,459,527) |
| Contribution - employee | | 711,067 | (711,067) |
| Net investment income | | 7,967,324 | (7,967,324) |
| Changes in assumptions | 5,308,829 | | 5,308,829 |
| Difference between expected and actual experience | (1,136,322) | | (1,136,322) |
| Benefit payments, including refunds of employee contributions | (4,185,238) | (4,185,238) | |
| Administrative expense | | (107,140) | 107,140 |
| Net changes | 8,119,756 | 5,845,540 | 2,274,216 |
| Balance at June 30, 2017 Measurement Date | \$96,151,295 | \$78,412,177 | \$17,739,118 |

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the City for the Miscellaneous Plan, calculated using the discount rate, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

| | <u>Miscellaneous</u> |
|-----------------------|----------------------|
| 1% Decrease | 6.15% |
| Net Pension Liability | \$30,552,336 |
| Current Discount Rate | 7.15% |
| Net Pension Liability | \$17,739,118 |
| 1% Increase | 8.15% |
| Net Pension Liability | \$7,161,413 |

**CITY OF PACIFICA, CALIFORNIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 7 - Pension Plans (Continued):

B. Miscellaneous Plan (Continued)

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions –
For the year ended June 30, 2018, the City recognized pension expense of \$1,034,684. At June 30, 2018, the City reported deferred outflows of resources related to pensions for the Plan from the following sources:

| | Miscellaneous | |
|--|-----------------------------------|----------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Pension contributions subsequent to measurement date | \$1,571,900 | |
| Differences between actual and expected experience | | (\$740,803) |
| Changes in assumptions | 3,000,642 | |
| Net differences between projected and actual earnings on plan investments | 1,146,767 | |
| Total | \$5,719,309 | (\$740,803) |

\$1,571,900 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows:

| Year Ended June 30 | Annual Amortization |
|-----------------------|------------------------|
| 2019 | \$1,694,212 |
| 2020 | 1,813,884 |
| 2021 | 470,708 |
| 2022 | (572,198) |
| | \$3,406,606 |

Contributions, Actuarial assumptions and information regarding the discount rate are discussed in Note 7E below.

C. Safety Plan

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expense. The discount rate of 7.15% used for the June 30, 2017 measurement date is without reduction of pension plan administrative expense.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

**CITY OF PACIFICA, CALIFORNIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 7 - Pension Plans (Continued):

C. Safety Plan (Continued)

The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

| | Safety-Police | |
|---|-----------------------------|--------------------------------|
| | Prior to January 1, 2013 | On or after January 1, 2013 |
| Hire date | | |
| Benefit formula | 3% @ 50 | 2.7% @ 57 |
| Benefit vesting schedule | 5 years service | 5 years service |
| Benefit payments | monthly for life | monthly for life |
| Retirement age | 50 | 57 |
| Monthly benefits, as a % of eligible compensation | 3% | 2-2.7% |
| Required employee contribution rates | 8.988% | 11.500% |
| Required employer contribution rates | 19.723% | 11.990% |

| | Safety-Fire | |
|---|-----------------------------|--------------------------------|
| | Prior to January 1, 2013 | On or after January 1, 2013 |
| Hire date | | |
| Benefit formula | 3% @ 55 | 2.7% @ 57 |
| Benefit vesting schedule | 5 years service | 5 years service |
| Benefit payments | monthly for life | monthly for life |
| Retirement age | 55 | 57 |
| Monthly benefits, as a % of eligible compensation | 2.4-3% | 2-2.7% |
| Required employee contribution rates | 8.982% | 11.500% |
| Required employer contribution rates | 17.875% | 11.990% |

Contributions, actuarial assumptions and information regarding the discount rate are discussed in Note 7E below.

As of June 30, 2018, the City reported net pension liabilities for its proportionate shares of the net pension liability of the Safety Plan as \$31,620,401.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the City for the Safety Plan, calculated using the discount rate, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

| | Safety |
|-----------------------|---------------|
| 1% Decrease | 6.15% |
| Net Pension Liability | \$47,938,405 |
| Current Discount Rate | 7.15% |
| Net Pension Liability | \$31,620,401 |
| 1% Increase | 8.15% |
| Net Pension Liability | \$18,281,246 |

**CITY OF PACIFICA, CALIFORNIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 7 - Pension Plans (Continued):

C. Safety Plan (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions – For purposes of measuring the net pension liability and deferred outflows/inflows or resources related to pensions, and pension expense, information about the fiduciary net position of the Plans and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

The City's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The City's proportionate share of the net pension liability for the Plan as of June 30, 2017 and 2016 was as follows:

| | |
|------------------------------|-----------------------|
| Proportion - June 30, 2016 | 0.530% |
| Proportion - June 30, 2017 | <u>0.529%</u> |
| Change - Increase (Decrease) | <u><u>-0.001%</u></u> |

For the year ended June 30, 2018, the City recognized pension expense of \$3,463,494. At June 30, 2018, the City reported deferred outflows of resources related to pensions for the Plan from the following sources:

| | Safety | |
|---|-----------------------------------|----------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Pension contributions subsequent to measurement date | \$2,398,015 | |
| Differences between actual and expected experience | 340,595 | (\$88,802) |
| Changes in assumptions | 4,939,483 | (378,970) |
| Net differences between projected and actual earnings on plan investments | 1,077,001 | |
| Differences between actual contributions and proportionate share of contributions | 277,176 | (995,606) |
| Change in proportion | <u>804,511</u> | <u>(622,824)</u> |
| Total | <u><u>\$9,836,781</u></u> | <u><u>(\$2,086,202)</u></u> |

CITY OF PACIFICA, CALIFORNIA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2018

NOTE 7 - Pension Plans (Continued):

C. Safety Plan (Continued)

\$2,398,015 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows:

| Year Ended June 30 | Annual Amortization |
|-----------------------|------------------------|
| 2019 | \$1,580,517 |
| 2020 | 2,718,687 |
| 2021 | 1,683,551 |
| 2022 | (630,191) |
| | <u>\$5,352,564</u> |

D. PARS Plan

Plan Description – The PARS Retirement Enhancement Plan (REP) was implemented July 1, 2003 and closed to new participants hired after January 1, 2012. Eligibility to participate in REP is for the following positions: City Attorney, Administrative Services Director, non-safety Department Director or non-safety management employee of the City on or after July 1, 2003. Participants receiving the benefits are non-safety Management Group Employees. This plan is separate from CalPERS and is established as a 401(a) Defined Benefit Plan. The REP is administered by PARS.

The REP provides a benefit equal to 0.5% of final average compensation for City management service earned after plan inception (July 1, 2003). In addition, any City employee in a covered management position as of the date of plan inception will receive up to an additional 10 years of service for any City service (management or non-management) prior to July 1, 2003.

Eligibility for an immediate benefit is defined as reaching age 55, completing five years of full-time City management service, and retiring concurrently from both the City and CalPERS after leaving City employment.

Employees Covered – At June 30, 2018 there were 10 active employees covered by the benefit terms of the plan.

**CITY OF PACIFICA, CALIFORNIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 7 - Pension Plans (Continued):

D. PARS Plan (Continued)

Changes in the Net Pension Liability – The net pension liability of the REP is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016 projected forward to June 30, 2017, is as follows:

| | Increase (Decrease) | | |
|---|----------------------------|--------------------------------|----------------------------------|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability/(Asset) |
| Balance at June 30, 2017 Measurement Date | \$3,649,086 | \$2,175,050 | \$1,474,036 |
| Changes in the year: | | | |
| Service cost | 47,461 | | 47,461 |
| Interest on the total pension liability | 244,298 | | 244,298 |
| Contribution - employer | | 121,576 | (121,576) |
| Net investment income | | 133,898 | (133,898) |
| Effect of economic/demographic gains or losses | (78,177) | | (78,177) |
| Effect of assumptions changes or inputs | | | |
| Administrative expenses | | (9,009) | 9,009 |
| Benefit payments, including refunds of employee contributions | (157,202) | (157,202) | |
| Net changes | 56,380 | 89,263 | (32,883) |
| Balance at June 30, 2018 Measurement Date | <u>\$3,705,466</u> | <u>\$2,264,313</u> | <u>\$1,441,153</u> |

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the City for the PARS Plan, calculated using the discount rate, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

| | REP |
|-----------------------|-------------|
| 1% Decrease | 5.75% |
| Net Pension Liability | \$1,884,791 |
| Current Discount Rate | 6.75% |
| Net Pension Liability | \$1,441,153 |
| 1% Increase | 7.75% |
| Net Pension Liability | \$1,067,870 |

**CITY OF PACIFICA, CALIFORNIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 7 - Pension Plans (Continued):

D. PARS Plan (Continued)

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions –
For the year ended June 30, 2018, the City recognized pension expense of \$317,030. At June 30, 2018, the City reported deferred outflows of resources related to pensions for the Plan from the following sources:

| | REP | |
|--|-----------------------------------|----------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between actual and expected experience | | (\$34,745) |
| Changes in assumptions | | |
| Net differences between projected and actual earnings on plan investments | \$71,548 | |
| Total | \$71,548 | (\$34,745) |

The REP Measurement Date is the same as the fiscal year end date, therefore, the fiscal year 2018 contribution of \$121,576 was recognized as part of the pension expense during the year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows:

| Year Ended June 30 | Annual Amortization |
|-----------------------|------------------------|
| 2019 | \$12,288 |
| 2020 | 25,138 |
| 2021 | (2,911) |
| 2022 | 2,288 |
| | \$36,803 |

Contributions, Actuarial assumptions and information regarding the discount rate are discussed in Note 7E below.

E. Information Common to the Miscellaneous, Safety and PARS Plans

Beginning in fiscal year 2017, CalPERS collects employer contributions for the cost-sharing plan as a percentage of payroll for the normal cost portion as noted in the rates above and as a dollar amount for contributions toward the unfunded liability and side fund. The dollar amounts are billed on a monthly basis. The City's required contribution for the unfunded liability and side fund was \$1,969,988 in fiscal year 2018.

CITY OF PACIFICA, CALIFORNIA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2018

NOTE 7 - Pension Plans (Continued):

E. Information Common to the Miscellaneous, Safety and PARS Plans (Continued)

Contributions – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers to be determined on an annual basis by the actuary and be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

PARS Retirement Enhancement Plan (REP) - The City makes all contributions necessary to fund the benefits available under the REP. Employees are not permitted to make any contributions.

For the year ended June 30, 2018, the contributions to all Plans were as follows:

| | <u>Employer Contributions</u> |
|---------------|-----------------------------------|
| CalPERS: | |
| Miscellaneous | \$1,571,900 |
| Safety | 2,398,015 |
| PARS REP | <u>121,576</u> |
| Total: | <u><u>\$4,091,491</u></u> |

**CITY OF PACIFICA, CALIFORNIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 7 - Pension Plans (Continued):

E. Information Common to the Miscellaneous, Safety and PARS Plans (Continued)

Actuarial Assumptions – For the measurement period ended June 30, 2017, the total pension liabilities were determined by rolling forward the June 30, 2016 total pension liability. The June 30, 2016 total pension liabilities were based on the following actuarial methods and assumptions:

| | CalPERS | PARS REP |
|----------------------------------|---|--|
| Valuation Date | June 30, 2016 | June 30, 2017 |
| Measurement Date | June 30, 2017 | June 30, 2018 |
| Actuarial Cost Method | Entry-Age Normal Cost Method | |
| Actuarial Assumptions: | | |
| Discount Rate | 7.15% | 6.75% |
| Inflation | 2.75% | 2.75% |
| Payroll Growth | 3.0% | 3.0% |
| Projected Salary Increase | Varied by Entry Age and Service | Consistent with the rates used to value the Miscellaneous Agency CalPERS Pension Plans (Entry Age 30). |
| Investment Rate of Return | 7.5% (1) | 6.75% |
| | | Pre-retirement: Consistent with the Non-Industrial rates used to value Miscellaneous Agency CalPERS Pension Plans. |
| | | Post-retirement: CalPERS 1997-2011 Healthy Retiree Tables (sex-distinct) with an assumed base year of 2008 and full generational projections using Scale AA. |
| Mortality | Derived using CalPERS' Membership Data for all Funds | Retirement rates of 30% per year starting at age 55 with required years of service. |
| | Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter | |
| Post Retirement Benefit Increase | | |

(1) Net of pension plan investment expenses, including inflation

(2) The mortality table used was developed based on CalPERS' specific data.

The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the CalPERS 2014 experience study report available on CalPERS website.

California Public Employees Retirement System Plans (CalPERS)

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2015 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

**CITY OF PACIFICA, CALIFORNIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 7 - Pension Plans (Continued):

E. Information Common to the Miscellaneous, Safety and PARS Plans (Continued)

Discount Rate – The discount rate used to measure the total pension liability was 7.65% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

| Asset Class | New Strategic Allocation | Real Return Years 1 - 10(a) | Real Return Years 11+(b) |
|-------------------------------|--------------------------------|--------------------------------|-----------------------------|
| Global Equity | 47.0% | 4.90% | 5.38% |
| Global Fixed Income | 19.0% | 0.80% | 2.27% |
| Inflation Sensitive | 6.0% | 0.60% | 1.39% |
| Private Equity | 12.0% | 6.60% | 6.63% |
| Real Estate | 11.0% | 2.80% | 5.21% |
| Infrastructure and Forestland | 3.0% | 3.90% | 5.36% |
| Liquidity | 2.0% | -0.40% | -0.90% |
| Total | <u>100%</u> | | |

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

**CITY OF PACIFICA, CALIFORNIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 7 - Pension Plans (Continued):

E. Information Common to the Miscellaneous, Safety and PARS Plans (Continued)

Pension Liability - In December 2016, CalPERS' Board of Directors voted to lower the discount rate from 7.5% to 7.0% over the next three fiscal years, beginning in fiscal year 2018. The change in the discount rate will affect the contribution rates beginning in fiscal year 2019 and result in increases to the normal costs and unfunded actuarial liabilities.

PARS Retirement Enhancement Plan (REP)

The REP's range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation as follows:

| Asset Class | Target Allocation | Long-term Expected Arithmetic Real Rate of Return |
|----------------------------|----------------------|--|
| Cash | 2.66% | 0.31% |
| Core Fixed Income | 45.83% | 2.14% |
| Broad US Equities | 37.82% | 4.59% |
| Developed Foreign Equities | 8.65% | 5.52% |
| Emerging Market Equities | 3.60% | 7.82% |
| US REITs | 1.44% | 5.04% |
| Total | <u>100%</u> | |

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position with CalPERS and PARS are available in the separately issued CalPERS financial report with CalPERS and City of Pacifica respectively.