

## **PENSION MANAGEMENT PLAN**

### **Purpose and Background**

The County of Nevada contracts with the California Public Employees' Retirement System (CalPERS) to manage its pension due in large part to the complexity and expertise required to ensure benefits are paid both timely and in compliance with employee pension contract provisions. Under this contract, CalPERS is responsible for investing the deposits made by Nevada County, distributing retiree pension payments and providing compliance reports to the County each year. The compliance reports are referred to as actuarial reports because of the extensive financial analysis included which reflects the County's current funded status, total pension obligations, a 20-year amortization payment schedule, investment risk assumptions, and projected Fiscal Year (FY) payments. It also provides an estimate of the County's total obligation based on the pension formulas which consider employee-specific factors such as years of service, age of separation and type of benefits provided.

The County's funded status changes each year based on a variety of factors, not all of them within the County's control:

- |          |  |
|----------|--|
| CalPERS: | Investment performance, interest costs, employee payments, amortization changes (new 20-year payment plan)             |
| County:  | Additional employees, plan changes approved by the Board of Supervisors, additional payments made on pension liability |

This Annual Pension Management Plan strategically operationalizes the County's adopted Pension Management Policy by evaluating funded status, risk factors, available resources and priorities in order to select and recommend pension funding actions for implementation. A companion document, the Annual Pension Policy Compliance Report will serve as a review of how well the County adhered to its policy each year.

This Annual Pension Management Plan is intended to:

- Reflect the County's annual pension program
- Provide a clear framework for Additional Discretionary Payments (ADPs), use of the Section 115 Trust, and reserves
- Integrate pension strategy into budget and long-term financial planning
- Meet the stated objectives of the Pension Management Policy:
  - Establish and make measurable progress toward achieving targeted funding levels for the Pension Plans
  - Ensure sufficient assets are available to pay all benefits under the Pension Plans
  - Manage and control future contribution volatility to the extent reasonably possible
  - Strive to attain the highest recommended funding status of pension liabilities

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- Provide guidance in making annual budget decisions
- Support the creation of sustainable, fiscally responsible future budgets
- Demonstrate prudent financial management practices
- Enhance transparency regarding pension funding processes and rationale
- Ensure that pension funding decisions protect both current and future stakeholders

It is important to note that the numbers and assumptions contained in this report are based upon the CalPERS Actuarial Valuation – June 30, 2024 report, which prescribes employer required contributions for FY 2026-27. This report will attempt to clarify throughout, but a basic presumption is that FY 2026-27 actions are based upon FY 2024-25 actual employee counts, payroll amounts, and market value of assets on deposit with CalPERS.

### **Governance Structure**

The County manages its pension strategy through two related but distinct lenses:

- Pension-plan lens:
  - The County’s Miscellaneous and Safety Plans remain distinct in the actuarial reports defining each plan’s annual normal cost percentage, employee and employer share and unfunded accrued liability.
- Benefitting-fund lens:
  - This ensures that the overall pension strategy is not solely reliant on general fund dollars, but also includes state and federal sources where appropriate and is based upon the County’s payroll allocation methodology.

### **Funding Level Objective**

Nevada County’s Pension Management Policy, adopted October 14, 2025, defines the Funding Level Objective as dynamic and long-term in nature, meaning, to achieve the desired level of funding requires iterative movement over the period of amortization, which for CalPERS is 20 years.

The long-term funding level objective is 85% with CalPERS and 15% within the County’s Section 115 Pension Trust, for a total of 100%. Utilizing both CalPERS and Pension Trust allows the County to be flexible in its ability to address fluctuation in funded levels at CalPERS due to changes to the number of employees, market performance, and any changes to the pension benefit plans.



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To achieve this funding level, the Pension Management Policy identifies a variety of tools and ways to analyze progress each year. This report will summarize the analysis and identify a recommended set of actions to be completed in the upcoming FY 2026-27.

Nevada County’s current funding level is as follows:

Plan	Funded Ratio at June 30, 2024	Combined Ratio*	Policy Target Funded Ratio / Combined Funded Ratio
Miscellaneous	65.7%	66.25%	85% / 100%
Safety	70.9%	71.48%	85% / 100%
	*(Includes balance of Section 115 Trust at June 30, 2024: \$3,997,224)		

### Conclusion

The continued progress in moving active employees from 1<sup>st</sup> Tier or Classic Benefit Groups to PEPRAs limits the increase in pension liability due to adding new employees because there is a greater employee cost share towards future pension benefits. CalPERS assumes a market performance over time of 6.8%, however in any given year, the actual market performance impacts the funded ratio positively or negatively. The County’s overall funded ratio at June 30, 2024 remains materially below the Policy Target Funded Ratio and Funding Level Objective, necessitating additional deposits above what is required to make progress towards the target.

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### Annual Contribution, UAL, and ADP Program

#### Annual Contribution

The Annual Contribution refers to the cost of pension benefits for active employees during the fiscal year. CalPERS uses a term “normal cost,” defined as a percentage of payroll needed to fund future benefits for active employees. The normal cost percentage is shared between the Employer and Employee based upon their benefit group or tier. The specific rates and assumption breakdown for FY 2026/27 payments is based upon payroll and number of employees at June 30, 2024 and are listed as follows:

#### Normal Cost by Benefit Group

Benefit Group	% Employee Share of Normal Cost at 6/30/2024	% Employer Share of Normal Cost at 6/30/2024	Payroll*	Number of Employees at 6/30/2024
Safety 1 <sup>st</sup> Tier (Classic)	8.99%	29.38%	\$3,197,403	21
Safety 2 <sup>nd</sup> Tier (Tier 2)	8.99%	25.03%	\$2,883,793	28
<i>Safety 3<sup>rd</sup> Tier (PEPRA)</i>	<i>14.5%</i>	<i>14.86%</i>	<i>\$6,575,001</i>	<i>76</i>
Miscellaneous 1 <sup>st</sup> Tier (Classic)	7.88%	14.62%	\$14,771,444	143
Miscellaneous 2 <sup>nd</sup> Tier (Tier 2)	6.91%	12.72%	\$4,771,994	42
<i>Miscellaneous 3<sup>rd</sup> Tier (PEPRA)</i>	<i>8.5%</i>	<i>9.03%</i>	<i>\$41,822,039</i>	<i>562</i>

\*Note: Payroll assumptions are based upon FY 2023-24 figures

The County Auditor-Controller is responsible for submitting payments to CalPERS for both the Employer share, paid by Nevada County and the Employee share, deducted from employee paychecks. The Employer share is paid from funding sources in alignment with each employee’s payroll allocation. Generally, 52% of employer costs are paid from the County’s general fund with the remaining 48% paid from other sources such as state realignment, reimbursements, and grants as well as federal grants and reimbursements.

The Payroll amounts and employee counts listed above and contained in the CalPERS reports are illustrative assumptions based on known data two-years prior to actual payments being made. Deductions and payments use current payroll costs so amounts contributed will vary from the table above. Payments are not made for vacant positions.

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Unfunded Accrued Liability

The CalPERS Actuarial Valuation report provides extensive information on the County’s Unfunded Accrued Liability (UAL) which is the amount of benefit obligation promised to employees that has not yet been paid. CalPERS allows the County to pay for this liability over a 20-year amortized period at 6.8% interest.

Starting with the Actuarial Valuation dated June 30, 2024, CalPERS has combined the UAL analysis for each Tiered plan. This means instead of having three separate reports for Safety and three separate reports for Miscellaneous employees, there are two. The calculated UAL for Safety and Miscellaneous as of June 30, 2024 is as follows:

<b>Plan</b>	<b>Unfunded Actuarial Liability at June 30, 2024</b>
Miscellaneous	\$219,666,624
Safety	\$41,500,696

CalPERS offers two ways to pay the annual UAL contribution as noted below:

	<b>Monthly</b>	<b>Annual</b>	<b>Pre-Payment</b>
<b>Safety</b>	\$324,943	\$3,899,319	\$3,773,142
<b>Miscellaneous</b>	\$1,633,060	\$19,596,720	\$18,962,594
<b>Total</b>	<b>\$1,958,003</b>	<b>\$23,496,039</b>	<b>\$22,735,736</b>

Since 2019, the County has used the pre-payment option for the required UAL payment. It is recommended this practice continues for Fiscal Year 2026-27 in the amount of \$22,735,736. This pre-payment option saves the County \$760,303 in interest charges when completed by July 31 2026.

Additional Discretionary Payment (ADP)

One way to positively impact the County’s Funded Ratio is to contribute additional funds above what is required. This is referred to as an Additional Discretionary Payment, or ADP. There are several ways to fund an ADP and it can be applied to the CalPERS pension plans in a variety of ways, both of which require a strategic analysis to identify the most advantageous and cost-effective benefit to the County.

For FY 2026-27, it is recommended that the County fund an ADP through collection of an additional 1% of payroll, estimated at \$879,831, with \$465,852 from the general fund and \$413,979 in other funds, per the labor cost allocation. This ADP of \$879,831 will be applied proportionately to the Safety and Miscellaneous plans.

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Additionally, it is recommended the County fund an ADP through the year-end fund balance reconciliation process. The Fund Balance Policy, revised May 2026, identifies a process for allocating general fund dollars at year-end which includes ensuring adequate reserves and then allocating 25% of what remains to the Section 115 Pension Trust for disbursement.

Finally, the County’s General Fund currently has an assignment for Pension Liability which can be applied as an ADP or deposited to the Section 115 Pension Trust for future action. It is recommended these funds be transferred to the Section 115 Pension Trust until the updated CalPERS Actuarial report is available in July. At that time, staff will use the Pension Management Policy framework to identify the best, most advantageous use of these funds. Current balance of this assignment is \$6,000,000.

## Annual Review of Supplemental Policy Tools

The following questions are prescribed in the Pension Management Policy to encourage further review of opportunities for improving the County’s Funded Status:

Question	Response
Is the discount offered with prepayment of the full annual UAL installment by July 31 advantageous?	Yes
Will additional ADPs be funded from reserves, one-time revenues or fund surpluses?	Yes
Will capital financing be available for eligible projects, thereby allowing redirection of funds towards pension?	No
Can the County use non-pension debt refunding savings as a source for ADP?	No
Are pension costs embedded in rates and fees where legally and operationally appropriate so as to capture full cost allocation equitably?	Will Review
Did this evaluation of the County’s pension obligation occur within the guidelines of the Board-adopted Pension Management Policy?	Yes
Did the review account for CalPERS Actuarial Report’s fresh-start option and is it recommended for implementation?	No
Were there any policy variances, temporary constraints or affordability limitations identified?	Yes



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### **Reporting Compliance Summary**

This Pension Management Plan is intended to follow the framework and strategy prescribed in the Pension Management Policy to provide the Board of Supervisors and public with additional insight into how the County is working to address its pension obligation. There are both timing and affordability constraints that impact achievement of the long-term Funding Level Objective. It is only through careful analysis to develop strategic recommendations and focused, prioritization of excess resources that the County can make incremental progress towards higher levels of funding.

In addition to the recommended ADP activity in FY 2026-27, it is recommended that the Board direct staff to review all fees and rate allocation methodology to confirm whether fully burdened staff rates are embedded and include pension obligation cost in an appropriate and equitable way. Additional staff work is needed to stand up the transparency portal on the County website to reflect the Pension Management Policy, Annual Report, CalPERS Actuarial Report and compliance dashboard.

Twice each year going forward, the Board of Supervisors will receive pension related reports during a public meeting. This includes an updated Annual Pension Management Plan and a Policy Compliance Report. It is expected that the first Pension Policy Compliance Report will be provided in January 2027. The Compliance Report will include disposition of the activities recommended in this plan, an analysis of the most recent CalPERS Actuarial Report (expected in August 2026), and identify pension-related actions for inclusion in the development of the FY 2027-28 Budget.