

EXHIBIT B



California Public Employees' Retirement System
Actuarial Office
P.O. Box 942709
Sacramento, CA 94229-2709
TTY: (916) 795-3240
(888) 225-7377 phone • (916) 795-2744 fax
www.calpers.ca.gov

November 24, 2025

CALPERS ID: 1958786993
EMPLOYER NAME: CITY OF COMMERCE
RATE PLAN: 490
BENEFIT DESCRIPTION: SECTION 20903 - ADDITIONAL SERVICE CREDIT (GOLDEN HANDSHAKE) – LOCAL MEMBER

Dear Requestor:

A cost analysis for granting two years of additional service to designated members (Golden Handshake) and related information is enclosed. This actuarial valuation report reflects the following proposed benefit provision changes:

Additional two years of service for designated members - Golden Handshake

The employer has provided CalPERS with a list of members to include in this cost analysis.

Number of eligible members*	52
Average Pay	\$92,009
Average Service	19.08
Average Age	55.79

*Members hired on or after July 1, 2024 are not included in the valuation

California Government Code section 20903 allows an agency to provide its employees, who retire during a designated period, two years of additional service credit. Before an agency may adopt the Golden Handshake resolution, the governing body must certify that it intends to keep some of the resulting vacancies permanently unfilled and reduce the workforce. The provision permits agencies to reduce staff and provide immediate payroll savings by offering a retirement incentive for eligible employees.

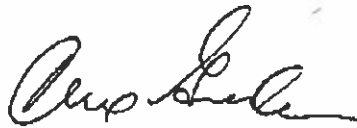
The estimated total increase in retirement benefit costs and analysis regarding estimated changes in required employer contribution rates are provided in the attached cost analysis, which is intended to satisfy Government Code section 7507(b). In order to satisfy section 7507(c), the employer must make this report public at a public meeting at least two weeks prior to adopting the Golden Handshake. This subsection may also require an actuary to be present at the meeting at which the Golden Handshake is adopted to provide information as needed.

Important Risk Disclosure

- **The Nature of Actuarial Work:** All actuarial calculations, including the ones in this cost estimate, are based on numerous assumptions about the future. This includes demographic assumptions about the percentage of your employees that will terminate, die, become disabled, and retire in each future year, and economic assumptions, about what salary increases each employee receives and the most important assumption, what the assets at CalPERS will earn for each year into the future until the last dollar is paid to current members of your plan. While CalPERS has set these assumptions as our best estimate of the future, it must be understood that these assumptions are very long-term predictors and will not be realized each year as we go forward. **This means that your required employer contributions can vary with or without any benefit changes because short term experience does not conform to the long-term actuarial assumptions.**

- **Change in Actuarial Assumptions:** On November 17, 2021, the CalPERS Board of Administration (board) adopted new actuarial assumptions based on the recommendations in the November 2021 CalPERS Experience Study and Review of Actuarial Assumptions. This study reviewed the retirement rates, termination rates, mortality rates, rates of salary increases and inflation assumptions for public agencies. These new assumptions are incorporated in this actuarial valuation. In addition, the board adopted a new strategic asset allocation as part of its Asset Liability Management process. The new asset allocation along with the new capital market assumptions and economic assumptions support a discount rate of 6.80%. This includes a reduction in the price inflation assumption from 2.50% to 2.30%.
- Investment return is much more volatile than liability fluctuations and can cause employer rates to vary significantly. For example, for the past twenty-year period ending June 30, 2024, returns for each fiscal year ranged from -23.6% to +21.3%. The impact of investment return on employer contribution rates varies significantly based on the plan's volatility ratio (the ratio of the market value of assets to the payroll).
- The risks associated with whether actual future measurements differ significantly from expected future measurements are disclosed in this report. **These risk disclosures are important and should be reviewed.**

If you have questions about the cost analysis, please call (888) CalPERS (225-7377). Please ask to speak to a contract analyst for questions about the contract. Please ask to speak to the signing actuary below for questions about this cost analysis.



ALEX GRUNDER, ASA, MAAA
Senior Actuary, CalPERS

Enclosures

Estimated Cost/Savings of Golden Handshake

A Golden Handshake program generally results in increased retirement benefit costs but lower payroll and ancillary benefit costs (at least for some period of time). An appropriate method for determining the ultimate cost / savings of such a program is to compare the estimated increase in retirement benefit costs to the estimated payroll and ancillary benefit savings. There is generally no way to know which of the eligible members will retire under the program. **All “post-change” results provided in this report assume all eligible members will retire.** If some eligible employees choose to continue working, the cost will be different. However, it is not necessarily true that if 80% of eligible members choose to retire, the cost will be 80% of the results shown in this report. The cost of the additional service varies by individuals, and those for whom it has a higher value may be more likely to elect to take advantage, meaning that the cost for the 80% that elect to retire could be more than 80% of the cost if all members elect to retire.

The ultimate cost/savings will also depend heavily on the extent to which members who retire under the program are replaced or not replaced. Both the increase in retirement benefit costs and the decrease in payroll/ancillary benefits depend on this.

Adoption of the proposed Golden Handshake would affect the cost of retirement benefits provided in this plan in two ways:

1. Increase in Past Service Cost – this is the current value of the improved benefit for all past service of eligible members, expressed as a lump-sum dollar amount. According to CalPERS policy, a new Unfunded Accrued Liability base is established in the amount of the past service cost increase for the Golden Handshake program and amortized over 5 years.
2. Decrease in Normal Cost – employer normal costs for remaining active members will be unaffected by the Golden Handshake program. However, to the extent members who retire under the program are not replaced, total required employer normal cost payments will be reduced.

This report provides estimates of the increase in retirement benefit costs but does not provide estimated payroll/ancillary benefit savings. For a full picture of the financial impact of this program, payroll and ancillary benefit costs should be estimated and compared to the retirement benefit costs provided in this report.

Present Value of Projected Benefits

The table below shows the change in the plan's total present value of benefits for the proposed plan change. The present value of benefits represents the total dollars needed today to fund all future benefits for *current* members of the plan (i.e., without regard to future employees).

Also provided in the table is the present value of future member contributions for members assumed to retire under the Golden Handshake program. Without the program, these member contributions would be expected to be paid to the plan. If the retiring members are not replaced, these member contributions will not be contributed to the plan.

The change in the present value of benefits due to the Golden Handshake program plus “lost” member contributions is an estimate of the total retirement benefit cost of the program if retiring members are not replaced.

PLAN CHANGE COST ANALYSIS - VALUATION BASIS: JUNE 30, 2024**Miscellaneous Plan Of City of Commerce****CALPERS ID: 1958786993****BENEFIT DESCRIPTION: SECTION 20903 ADDITIONAL SERVICE CREDIT (GOLDEN HANDSHAKE) – LOCAL MEMBER**

Estimated Cost of Golden Handshake Benefits if No Replacement of Employees		
Total Present Value of Projected Benefits (PVB) from June 30, 2024 Valuation		\$161,717,524
As of Assumed Program Effective Date (1/1/2026)		
	Pre-Change	Post-Change
PVB for Eligible Members	\$36,103,865	\$36,001,599
Change to PVB		-\$102,266
Present Value of Future Member Contributions for eligible members	\$1,804,431	\$0
Reduction in Future Member Contributions		\$1,804,431
Estimated Total Increase in Retirement Benefit Costs (Assuming no replacement) *		\$1,702,165

* The Estimated Total Increase in Retirement Benefit Costs shown in the table above assumes that all employees eligible for retirement elect to retire under the Golden Handshake program. For certain eligible members, the present value of future benefits decreases as a result of immediate retirement under this program due either:

1. Forfeiture of the value of higher future service retirement benefits at later retirement dates.
2. An actuarial liability gain due to the early retirement benefit factor applied if the member has not yet reached the normal retirement age.

If eligible members meeting the above criteria are excluded from the valuation, the estimated increase to the PVB is \$2,099,906, with reduction in future member contributions of \$681,619. This would yield a total estimated increase in retirement benefit costs of \$2,781,525.

As discussed in the Important Risk Disclosure in the cover letter, actual cost in the future will differ from our estimates due to experience deviating from the long-term actuarial assumptions on which the estimates are based.

Accrued Liability

The plan's Accrued Liability is the portion of the Present Value of Projected Benefits attributable to past service. A plan with assets exactly equal to the plan's accrued liability is "on schedule" in funding that plan. A plan with assets below the accrued liability is "behind schedule", or is said to have an *unfunded liability*, and must temporarily increase contributions to get back on schedule. Of course, events such as plan changes and investment or demographic gains or losses can change a plan's condition from year to year.

The increase in the plan's accrued liability due to the Golden Handshake program determines the increase in unfunded liability that is amortized over a 5-year period which increases required annual employer contributions.

The table that follows shows the accrued liability (AL), unfunded accrued liability, funded status for the plan as of the most recent valuation date, and the changes in the accrued liability due to the Golden Handshake program as of the assumed effective date of the program.

PLAN CHANGE COST ANALYSIS - VALUATION BASIS: JUNE 30, 2024

Miscellaneous Plan OF City of Commerce

CALPERS ID: 1958786993

BENEFIT DESCRIPTION: SECTION 20903 ADDITIONAL SERVICE CREDIT (GOLDEN HANDSHAKE) – LOCAL MEMBER

Estimated Cost of Golden Handshake Benefits if all Employees Replaced		
Total Entry Age Accrued Liability (AL) from June 30, 2024 Valuation		\$141,899,008
Market Value of Assets (MVA) as of June 30, 2024		\$125,080,102
Unfunded Liability/(Excess Assets) (UAL = AL – MVA) as of June 30, 2024		\$16,818,906
Funded Status (MVA / AL) as of June 30, 2024		88.1%
As of Assumed Program Effective Date (1/1/2026)		
	Pre-Change	Post-Change
Entry Age Accrued Liability for Eligible Members	\$31,400,917	\$36,001,599
Change to Entry Age Accrued Liability		\$4,600,682
Estimated Total Increase in Retirement Benefit Costs (if all employees replaced)		\$4,600,682

For a Golden Handshake program, the increase in accrued liability is typically greater than the increase in the present value of projected benefits. The difference is the value of normal costs that would have been charged for the retiring members between the valuation date and their projected retirement date (without the Golden Handshake program). ***If these retiring members are replaced (resulting in these normal costs being accrued by replacement members), a more appropriate estimate of the total increase in retirement benefit costs attributable to the Golden Handshake program is the increase in accrued liability shown above.*** For certain eligible members, the accrued liability decreases as a result of retirement under this program due to the value of future retirement benefit factor increases that they forfeit if they accept the Golden Handshake. If the Golden Handshake is declined by these members, the change to the Entry Age Accrued liability could be approximately \$4,716,726 rather than the \$4,600,682 shown above.

Estimated Impact on Future Employer Contributions

The previous sections of this report provide information regarding the estimated total cost of additional retirement benefits under the proposed Golden Handshake program. Estimating this cost is important so that it can be compared against estimated savings due to payroll and other ancillary benefits. However, the estimate of the total cost of additional retirement benefits does not by itself indicate how year-by-year future contribution requirements will be impacted. The purpose of this section is to discuss how the expected cost of the program is spread over future contribution requirements.

CalPERS policy provides that the change in unfunded liability due to a Golden Handshake program will be separately amortized over a period of 5 years and all other components of the plan's unfunded liability/excess assets will continue to be amortized separately. Future employer normal costs are expected to be lower provided at least some of the retiring members are not replaced.

PLAN CHANGE COST ANALYSIS - VALUATION BASIS: JUNE 30, 2024**Miscellaneous Plan OF City of Commerce****CALPERS ID: 1958786993****BENEFIT DESCRIPTION: SECTION 20903 ADDITIONAL SERVICE CREDIT (GOLDEN HANDSHAKE) – LOCAL MEMBER****Normal Cost for Fiscal Year 2026-27**

The employer normal cost rate determined in the June 30, 2024 actuarial valuation, and applicable to fiscal year 2026-27, is unaffected by the Golden Handshake program. However, if member payroll for that year is reduced due to this program, this normal cost rate will be applied to lower payroll which will result in lower normal cost dollars paid during that year. **The reduction in fiscal year 2026-27 employer normal cost can be estimated by multiplying the plan's current employer normal cost rate by the estimated decrease in payroll due to this program.**

Normal Cost for Fiscal Year 2027-28 and Beyond

The employer normal cost rate that will be determined in the June 30, 2025 actuarial valuation (applicable to the 2027-28 fiscal year) will also be unaffected by this Golden Handshake program as all eligible members will be retiring after that date. **An estimate for the employer normal cost reduction in fiscal year 2027-28 can be determined by multiplying the plan's current employer normal cost rate by the estimated decrease in payroll due to this program in fiscal year 2027-28.** The employer normal cost rate is provided in the table below. This estimate of the decrease in the employer normal cost reduction also applies to future fiscal years.

Employer Normal Cost Based on June 30, 2024 Actuarial Valuation		
<u>Employer Normal Cost Rates (FY 2026 – 27)</u>		
Miscellaneous Plan		11.07%
Classic Members Plan		13.07%
PEPRA Members Plan		8.89%
Employer Normal Costs are made as a percentage of payroll. Future employer normal cost contribution reductions can be estimated using the procedures described in the text above.		
Note – individual member normal cost rates are not impacted by the Golden Handshake program.		
Increase to Future Required Employer UAL Contributions	Pre-Change	Post-Change
Projected Unfunded Accrued Liability Payment (FY 2028-29)	\$1,876,545	\$3,149,551
Increase to Required Employer Unfunded Accrued Liability Payments beginning July 1, 2028 (level dollar payment persists for 5 years)		\$1,273,006
Increase to Required Employer Unfunded Accrued Liability Payments if only members with an increased accrued liability elect to retire under the Golden Handshake program beginning July 1, 2028 (level dollar payment persists for 5 years)		\$1,305,116

Additional Risk Disclosures

With the adoption of the Actuarial Standards of Practice Number 51 (ASOP 51), there is an increase in the amounts of disclosures about the risk associated with pension plans. These risks are shown in both the annual valuation report, as well as this cost analysis report. The following are some risk disclosures that your actuary feels you should be aware of before adopting the Golden Handshake.

The actuarial calculations supplied in this communication are based on a number of assumptions about very long-term demographic and economic behavior. Unless these assumptions (terminations, deaths, disabilities, retirements, salary growth, and investment return) are exactly realized each year, there will be differences on a year-to-year basis. The year to year differences between actual experience and the assumptions are called actuarial gains and losses and serve to raise or lower the employer's required contributions from year to year. As a result, the required contributions will fluctuate, especially due to the unpredictability of investment returns.

Provided on the following pages are several measures to help your agency understand the risks associated with the proposed contract.

Specifically, these exhibits illustrate the risk associated with:

- The Plan's Sensitivity to the Discount Rate, Mortality, and Inflation
- The Plan's Maturity, and
- The Potential Costs for Terminating the Proposed Contract

The risks analyzed here are not a comprehensive list but are instead the risks we believe to have the greatest impact on the additional retirement benefit costs due to the Golden Handshake program. There are other risks associated with the proposed contract not analyzed here that could impact the cost of the plan.

PLAN CHANGE COST ANALYSIS - VALUATION BASIS: JUNE 30, 2024**Miscellaneous Plan OF City of Commerce****CALPERS ID: 1958786993****BENEFIT DESCRIPTION: SECTION 20903 ADDITIONAL SERVICE CREDIT (GOLDEN HANDSHAKE) – LOCAL MEMBER**

Discount Rate Sensitivity

The discount rate assumption is calculated as the sum of the assumed real rate of return and the assumed annual price inflation, currently 4.5% and 2.3%, respectively. Changing either the price inflation assumption or the real rate of return assumption will change the discount rate. The sensitivity of the valuation results to the discount rate assumption depends on which component of the discount rate is changed. Shown below are various valuation results as of June 30, 2024, assuming alternate discount rates by changing the two components independently. Results are shown using the current discount rate of 6.8% as well as alternate discount rates of 5.8% and 7.8%. The rates of 5.8% and 7.8% were selected since they illustrate the impact of a 1.0% increase or decrease to the 6.8% assumption.

Sensitivity to the Discount Rate Due to Varying the Real Rate of Return Assumption

The following tables indicate the sensitivity of key valuation results, before and after the Golden Handshake, to changes in the assumed real rate of return. For this analysis, the inflation assumption was unchanged at 2.3%.

Sensitivity Analysis (Pre-Change)			
As of June 30, 2024	1% Lower Discount Rate	Current Discount Rate	1% Higher Discount Rate
Discount Rate	5.8%	6.8%	7.8%
a) Accrued Liability	\$159,889,100	\$141,899,008	\$126,954,365
b) Market Value of Assets	\$125,080,102	\$125,080,102	\$125,080,102
c) Unfunded Liability (Surplus) [(a) - (b)]	\$34,808,998	\$16,818,906	\$1,874,263
d) Funded Ratio [(b) ÷ (a)]	78.2%	88.1%	98.5%

Sensitivity Analysis (Post-Change)			
As of June 30, 2024	1% Lower Discount Rate	Current Discount Rate	1% Higher Discount Rate
Discount Rate	5.8%	6.8%	7.8%
a) Accrued Liability	\$164,036,258	\$146,067,369	\$131,168,554
b) Market Value of Assets	\$125,080,102	\$125,080,102	\$125,080,102
c) Unfunded Liability (Surplus) [(a) - (b)]	\$38,956,156	\$20,987,267	\$6,088,452
d) Funded Ratio [(b) ÷ (a)]	76.3%	85.6%	95.4%

PLAN CHANGE COST ANALYSIS - VALUATION BASIS: JUNE 30, 2024**Miscellaneous Plan OF City of Commerce****CALPERS ID: 1958786993****BENEFIT DESCRIPTION: SECTION 20903 ADDITIONAL SERVICE CREDIT (GOLDEN HANDSHAKE) – LOCAL MEMBER****Sensitivity to the Discount Rate Due to Varying the Price Inflation Assumption**

The following tables indicate the sensitivity of key valuation results, before and after the Golden Handshake, to changes in the price inflation assumption. For this analysis, the real rate of return assumption was unchanged at 4.5%.

Sensitivity Analysis (Pre-Change)			
As of June 30, 2024	1% Lower Inflation Rate	Current Inflation Rate	1% Higher Inflation Rate
a) Accrued Liability	\$146,541,239	\$141,899,008	\$132,409,321
b) Market Value of Assets	\$125,080,102	\$125,080,102	\$125,080,102
c) Unfunded Liability (Surplus) [(a) - (b)]	\$21,461,137	\$16,818,906	\$7,329,219
d) Funded Ratio [(b) + (a)]	85.4%	88.1%	94.5%

Sensitivity Analysis (Post-Change)			
As of June 30, 2024	1% Lower Inflation Rate	Current Inflation Rate	1% Higher Inflation Rate
a) Accrued Liability	\$151,048,620	\$146,067,369	\$136,056,738
b) Market Value of Assets	\$125,080,102	\$125,080,102	\$125,080,102
c) Unfunded Liability (Surplus) [(a) - (b)]	\$25,968,518	\$20,987,267	\$10,976,636
d) Funded Ratio [(b) + (a)]	82.8%	85.6%	91.9%

PLAN CHANGE COST ANALYSIS - VALUATION BASIS: JUNE 30, 2024**Miscellaneous Plan OF City of Commerce****CALPERS ID: 1958786993****BENEFIT DESCRIPTION: SECTION 20903 ADDITIONAL SERVICE CREDIT (GOLDEN HANDSHAKE) – LOCAL MEMBER**

Mortality Rate Sensitivity

The following table looks at the change in the June 30, 2024 plan costs for eligible members under two different longevity scenarios, namely assuming rates of post-retirement mortality are 10% lower or 10% higher than our current mortality assumptions adopted in 2021. This type of analysis highlights the impact on the plan of a change in the mortality assumption.

Sensitivity Analysis (Pre-Change)			
As of June 30, 2024	10% Lower Mortality Rates	Current Mortality	10% Higher Mortality Rates
a) Accrued Liability	\$145,015,304	\$141,899,008	\$139,044,227
b) Market Value of Assets	\$125,080,102	\$125,080,102	\$125,080,102
c) Unfunded Liability (Surplus) [(a) - (b)]	\$19,935,202	\$16,818,906	\$13,964,125
d) Funded Ratio [(b) + (a)]	86.3%	88.1%	90.0%

Sensitivity Analysis (Post-Change)			
As of June 30, 2024	10% Lower Mortality Rates	Current Mortality	10% Higher Mortality Rates
a) Accrued Liability	\$149,144,752	\$146,067,369	\$143,246,082
b) Market Value of Assets	\$125,080,102	\$125,080,102	\$125,080,102
c) Unfunded Liability (Surplus) [(a) - (b)]	\$24,064,650	\$20,987,267	\$18,165,980
d) Funded Ratio [(b) + (a)]	83.9%	85.6%	87.3%

Maturity Measures

As pension plans mature, they become more sensitive to risks. Understanding plan maturity and how it affects the ability of a pension plan sponsor to tolerate risk is important in understanding how the plan is impacted by investment return volatility, other economic variables and changes in longevity or other demographic assumptions.

One way to look at the maturity level of CalPERS and its plans is to look at the ratio of a plan's retiree liability to its total liability. A pension plan in its infancy will have a very low ratio of retiree liability to total liability. As the plan matures, the ratio increases. A mature plan will often have a ratio above 60%-65%.

Ratio of Retiree Accrued Liability to Total Accrued Liability	Pre-Change	Post-Change
1. Retired Accrued Liability	\$88,856,200	\$121,903,181
2. Total Accrued Liability	\$141,899,008	\$146,067,369
3. Ratio of Retiree AL to Total AL [(1) + (2)]	0.63	0.83

Another measure of the maturity level of CalPERS and its plans is the ratio of actives to retirees, also called the support ratio. A pension plan in its infancy will have a very high ratio of active to retired members. As the plan matures and members retire, the ratio declines. A mature plan will often have a ratio near or below one.

To calculate the support ratio for the rate plan, retirees and beneficiaries receiving a continuance are each counted as one, even though they may have only worked a portion of their careers as an active member of this rate plan. For this reason, the support ratio, while intuitive, may be less informative than the ratio of retiree liability to total accrued liability above.

For comparison, the support ratio for all CalPERS public agency plans as of June 30, 2023, was 0.78 and was calculated consistently with how it is for the individual rate plan. Note that to calculate the support ratio for all public agency plans, a retiree with service from more than one CalPERS agency is counted as a retiree more than once.

Support Ratio	Pre-Change	Post-Change
1. Number of Actives	157	105
2. Number of Retirees	227	279
3. Support Ratio [(1) + (2)]	0.69	0.38

In the tables above, the "post-change" results assume all eligible members retire under this program and are not replaced.

The actuarial calculations supplied in this communication are based on various assumptions about long-term demographic and economic behavior. Unless these assumptions (e.g., terminations, deaths, disabilities, retirements, salary increases, investment return) are exactly realized each year, there will be differences on a year-to-year basis. The year-to-year differences between actual experience and the assumptions are called actuarial gains and losses and serve to lower or raise required employer contributions from one year to the next. Therefore, employer contributions will inevitably fluctuate, especially due to the ups and downs of investment returns.

Asset Volatility Ratio (AVR)

Shown in the table below is the asset volatility ratio (AVR), which is the ratio of market value of assets to payroll. Plans that have a higher AVR experience more volatile employer contributions (as a percentage of payroll) due to investment return. For example, a plan with an AVR of 8 may experience twice the contribution volatility due to investment return volatility than a plan with an AVR of 4. It should be noted that this ratio is a measure of the current situation. It increases over time but generally tends to stabilize as a plan matures.

PLAN CHANGE COST ANALYSIS - VALUATION BASIS: JUNE 30, 2024**Miscellaneous Plan OF City of Commerce****CALPERS ID: 1958786993****BENEFIT DESCRIPTION: SECTION 20903 ADDITIONAL SERVICE CREDIT (GOLDEN HANDSHAKE) – LOCAL MEMBER****Liability Volatility Ratio (LVR)**

Also shown in the table below is the liability volatility ratio (LVR), which is the ratio of accrued liability to payroll. Plans that have a higher LVR experience more volatile employer contributions (as a percentage of payroll) due to changes in liability. For example, a plan with an LVR of 8 is expected to have twice the contribution volatility of a plan with an LVR of 4 when there is a change in accrued liability, such as when there is a change in actuarial assumptions. It should be noted that this ratio indicates a longer-term potential for contribution volatility, since the AVR, described above, will tend to move closer to the LVR as the funded ratio approaches 100%.

The table below contains these measures of potential future rate volatility. For this purpose, the “post-change” results assume all eligible members retire under this program and are not replaced.

Contribution Volatility	As of June 30, 2024 (Pre-Change)	As of June 30, 2024 (Post-Change)
1. Market Value of Assets without Receivables	\$124,963,349	\$124,963,349
2. Payroll	12,942,573	8,158,095
3. Asset Volatility Ratio (AVR) [(1) + (2)]	9.7	15.3
4. Accrued Liability	\$141,899,008	\$146,067,369
5. Liability Volatility Ratio (LVR) [(4) + (2)]	11.0	17.9

Funded Status – Termination Basis

The funded status on a termination basis is an estimated range for the financial position of the plan had the contract with CalPERS been terminated as of June 30, 2024. The accrued liability on a termination basis (termination liability) is calculated differently from the plan's ongoing funding liability. For the termination liability calculation, both compensation and service are frozen as of the valuation date and no future pay increases or service accruals are assumed. This measure of funded status is not appropriate for assessing the need for future employer contributions in the case of an ongoing plan, that is, for an employer that continues to provide CalPERS retirement benefits to active employees. Unlike the actuarial cost method used for ongoing plans, the termination liability is the present value of the benefits earned through the valuation date.

A more conservative investment policy and asset allocation strategy was adopted by the CalPERS Board of Administration (board) for the Terminated Agency Pool. The Terminated Agency Pool has limited funding sources since no future employer contributions will be made. Therefore, expected benefit payments are secured by risk-free assets and benefit security for members is increased while limiting the funding risk. However, this asset allocation has a lower expected rate of return than the remainder of the PERF and consequently, a lower discount rate assumption. The lower discount rate for the Terminated Agency Pool results in higher liabilities for terminated plans.

The discount rate used for actual termination valuations is a weighted average of the 10-year and 30-year Treasury yields where the weights are based on matching asset and liability durations as of the termination date. The discount rates used in the following analysis is based on 20-year Treasury bonds, which is a good proxy for most plans. The discount rate upon contract termination will depend on actual Treasury rates on the date of termination, which varies over time, as demonstrated below.

Valuation Date	20-Year Treasury Rate	Valuation Date	20-Year Treasury Rate
06/30/2015	2.83%	06/30/2020	1.18%
06/30/2016	1.86%	06/30/2021	2.00%
06/30/2017	2.61%	06/30/2022	3.38%
06/30/2018	2.91%	06/30/2023	4.06%
06/30/2019	2.31%	06/30/2024	4.61%

As Treasury rates are variable, the table below shows a range for the termination liability using discount rates 1% below and above the 20-year Treasury rate on the valuation date. The price inflation assumption is the 20-year Treasury breakeven inflation rate, that is, the difference between the 20-year inflation indexed bond and the 20-year fixed-rate bond.

The Market Value of Assets (MVA) also varies with interest rates and will fluctuate depending on other market conditions on the date of termination. Since it is not possible to approximate how the MVA will change in different interest rate environments, the results below use the MVA as of the valuation date.

PLAN CHANGE COST ANALYSIS - VALUATION BASIS: JUNE 30, 2024**Miscellaneous Plan OF City of Commerce****CALPERS ID: 1958786993****BENEFIT DESCRIPTION: SECTION 20903 ADDITIONAL SERVICE CREDIT (GOLDEN HANDSHAKE) – LOCAL MEMBER**

The following tables show the termination liabilities before and after the proposed Golden Handshake.

Pre-Change

	Discount Rate: 3.61% Price Inflation: 2.45%	Discount Rate: 5.61% Price Inflation: 2.45%
1. Termination Liability ¹	\$210,509,175	\$161,827,042
2. Market Value of Assets (MVA)	\$125,080,102	\$125,080,102
3. Unfunded Termination Liability [(1) – (2)]	\$85,429,073	\$36,746,940
4. Funded Ratio [(2) ÷ (1)]	59.4%	77.3%

Post-Change

	Discount Rate: 3.61% Price Inflation: 2.45%	Discount Rate: 5.61% Price Inflation: 2.45%
1. Termination Liability ¹	\$215,972,128	\$166,276,627
2. Market Value of Assets (MVA)	\$125,080,102	\$125,080,102
3. Unfunded Termination Liability [(1) – (2)]	\$90,892,026	\$41,196,525
4. Funded Ratio [(2) ÷ (1)]	57.9%	75.2%

¹ The termination liabilities calculated above include a 5% contingency load in accordance with board policy.

In order to terminate the plan, first contact our Pension Contract Services unit to initiate a Resolution of Intent to Terminate. The completed Resolution will allow a CalPERS actuary to provide a preliminary termination valuation with a more up-to-date estimate of the plan's assets and liabilities. Before beginning this process, please consult with a CalPERS actuary.

PLAN CHANGE COST ANALYSIS - VALUATION BASIS: JUNE 30, 2024**Miscellaneous Plan OF City of Commerce****CALPERS ID: 1958786993****BENEFIT DESCRIPTION: SECTION 20903 ADDITIONAL SERVICE CREDIT (GOLDEN HANDSHAKE) – LOCAL MEMBER**

Funded Status – Low-Default-Risk Basis

Actuarial Standard of Practice (ASOP) No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*, requires the disclosure of a low-default-risk obligation measure (LDROM) of benefit costs accrued as of the valuation date using a discount rate based on the yields of high quality fixed income securities with cash flows that replicate expected benefit payments. Conceptually, this measure represents the level at which financial markets would value the accrued plan costs, and would be approximately equal to the cost of a portfolio of low-default-risk bonds with similar financial characteristics to accrued plan costs.

As permitted in ASOP No. 4, the Actuarial Office uses the Entry Age Actuarial Cost Method to calculate the LDROM. This methodology is in line with the measure of “benefit entitlements” calculated by the Bureau of Economic Analysis and used by the Federal Reserve to report the indebtedness due to pensions of plan sponsors and, conversely, the household wealth due to pensions of plan members.

As shown below, the discount rate used for the LDROM is 5.35%, which is the Standard FTSE Pension Liability Index¹ discount rate as of June 30, 2024.

Selected Measures on a Low-Default-Risk Basis	Pre-Change	Post-Change
Discount Rate	5.35%	5.35%
1. Accrued Liability – Low-Default-Risk Basis (LDROM)	\$169,190,331	\$173,345,173
2. Market Value of Assets (MVA)	\$125,080,102	\$125,080,102
3. Unfunded Accrued Liability – Low-Default-Risk Basis [(1) – (2)]	\$44,110,229	\$48,265,071
4. Unfunded Accrued Liability – Funding Policy Basis	\$16,818,906	\$20,987,267
5. Present Value of Unearned Investment Risk Premium [(3) – (4)]	\$27,291,323	\$27,277,804

The difference between the unfunded liabilities on a low-default-risk basis and on the funding policy basis represents the present value of the investment risk premium that must be earned in future years to keep future contributions for currently accrued plan costs at the levels anticipated by the funding policy.

Benefit security for members of the plan relies on a combination of the assets in the plan, the investment income generated from those assets, and the ability of the plan sponsor to make necessary future contributions. If future returns fall short of 6.8%, benefit security could be at risk without higher than currently anticipated future contributions.

The funded status on a low-default-risk basis is not appropriate for assessing the sufficiency of plan assets to cover the cost of settling the plan's benefit obligations, nor is it appropriate for assessing the need for future contributions.

¹ This index is based on a yield curve of hypothetical AA-rated zero coupon corporate bonds whose maturities range from 6 months to 30 years. The index represents the single discount rate that would produce the same present value as discounting a standardized set of liability cash flows for a fully open pension plan using the yield curve. The liability cash flows are reasonably consistent with the pattern of benefits expected to be paid from the entire Public Employees' Retirement Fund for current and former plan members. A different index, hence a different discount rate, may be needed to measure the LDROM for a subset of the fund, such as a single rate plan or a group of retirees.

Additional Disclosure

Please note that the cost analysis provided in this document **may not** be relied upon after you receive your next annual valuation. If you have not taken action to adopt the Golden Handshake by this date, you must contact our office for an updated cost analysis, based on the new annual valuation.

The actuarial methodologies and plan benefit provisions are the same as those that may be found in the appendices of the June 30, 2024 annual report. The actuarial assumptions are those recommended to and adopted by the board in the 2021 CalPERS Experience Study and Review of Actuarial Assumptions, except that all decrements for Golden Handshake eligible members were removed for fiscal year 2024-25 and these members are assumed to retire in fiscal year 2025-26.

Actuarial Certification

This actuarial valuation for the proposed Golden Handshake is based on the participant, benefits, and asset data used in the June 30, 2024 annual valuation, with the benefits modified if necessary to reflect what is currently provided under your contract with CalPERS, and further modified to reflect the proposed Golden Handshake. The valuation has been restricted to those individuals designated by the employer and excludes those designees currently ineligible to retire based on CalPERS data. Note that a Golden Handshake could be granted to members not included in this valuation report, possibly even members not yet hired by the employer, which would result in additional employer costs not disclosed here. The valuation has been performed in accordance with standards of practice prescribed by the Actuarial Standards Board, and the assumptions and methods are internally consistent and reasonable for this plan, as prescribed by the CalPERS Board of Administration according to provisions set forth in the California Public Employees' Retirement Law.

The undersigned are actuaries who satisfy the *Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States* of the American Academy of Actuaries with regard to pensions.



ALEX GRUNDER, ASA, MAAA
Senior Actuary, CalPERS