

About Pensions in Laguna Beach (October 2025 Update)

The subject of pensions comes up quite a bit. Pension costs are substantial here in Laguna Beach, as in any (nearly) 100-year-old, full-service city (with its own Fire, Police, and Marine Safety departments). So, let’s talk about it.

Please note that with the below information, I am using many generalizations - but am trying to be as specific as possible when I can.

I – General Pension Background. In California, most city government employees are part of the **California Public Employee Retirement System (CalPERS)**. Our City has contracted with CalPERS since 1945. Many state employees are also part of CalPERS, as are many non-credentialed school district employees.

Public employee pensions are based on one of many **retirement formulas** – which are typically referred to as something like “3% at 50”, “2.5% at 55”, or “2% at 62.” The middle formula, for example, generally means that a retiree will be paid 2.5% of their single highest year’s annual pay for every year worked in the retirement system, if they retire at age 55. Note that in more recent formulas, “annual pay” is often an average of the last three years’ salary. To show the two main pension tiers, let’s look at two employees with similar careers:

Table 1 - Classic vs. PERPRA – Simple Examples

Employee	Tier	Formula	Years of Service	Final Pay (Annual)	Retirement Age	Annual Pension
Mary	Classic	2.5% @ 55	30 years	\$120,000	55	\$90,000 (2.5% x 30 x \$120,000)
Joe	PEPRA	2% @ 62	30 years	\$120,000 ¹	62	\$72,000 (2% x 30 x \$120,000)

Mary (Classic) can retire earlier and receive a higher pension because her formula is more generous. Joe (PEPRA) must work longer to reach full benefits, but his pension is more sustainable for the City over time. Both contribute a portion of their salary toward their pension, but PEPRA employees pay a higher share of the “normal cost.”

Pension math works like this: pension funding is generally shared between the employee and the employer. Each pays about half of the **“normal” cost** of their pension with, the annual amount that needs to be invested to fund the employee’s future pension benefit.

¹ More precisely, this would be an average of Joe’s final three years’ wages.

The **normal cost** is based on what each employee’s position, pay level, years of service, expected lifespan, and an assumed certain rate of return on invested assets. In other words, it’s the amount needed each year to keep the pension plan on track under normal conditions. Somewhat straightforward, right?

II – About Unfunded Liability. But there’s a wildcard to normal costing – the **unfunded liability**. “**Unfunded Actuarial Liability**” (shortened to “UAL”) happens when something **not normal** (i.e. outside of expectations) happens. Such as investments that underperform, or the retired workforce lives longer than expected, or wages or pension formulas change in a surprising way that’s not in the actuarial estimates².

The UAL matters because it represents pension costs that have already been earned, but not yet fully funded. Each year, the City must make additional payments to CalPERS to reduce this balance. The larger the UAL, the higher the annual payments, and the greater the impact on future budgets and long-term financial planning.

Laguna Beach’s [adopted FY 25-26 budget](#) discusses pensions in more detail on pages 12-13. Table 2 is a summary:

Table 2 – Laguna Beach specific information

Item	Amount/Detail
Total UAL	About \$95 million (as of June 30, 2024)
Annual UAL Payments	\$8.7 million, increasing to \$11.1 million by FY 29-30
Total City Pension Costs	\$14.2 million (includes normal cost and UAL)
Employees in PEPRA	66% of the total workforce
Classic Tier Liability	79% of UAL is attributable to retirees or separated employees

Critically, the UAL was predominantly baked in years ago – we can only get rid of it by paying it down. Here’s why: if my math is correct, over 79% (nearly 4/5ths!) of the UAL is for **people no longer working here**. That’s \$76 million. Our system today – our city’s taxpayers today - is paying the retirement costs of 100s of people who are not here. And the lion’s share of the benefits of those expenditures don’t accrue – not one bit - to most people working now.

² Pension formulas changed dramatically in 2000 (SB 400), when the State Legislature and Governor saw budget surpluses and said, “we can afford to give a (sudden) increase in pension benefits without costing employers anything.” Local governments then negotiated the pension changes (sometimes in lieu of salary increases) city-by-city, making them universally expected by job applicants. It did cost agencies – a lot. Read more [here](#).

The good news is PEPRA clearly works. It’s been in place for about 12 years, and the unfunded liability for these positions is noticeably small compared to that of Classic employees and retirees.

III – PEPRA and UAL Math in More Detail. Let’s look at this in more detail, using Table 3 and Table 4. I generated these tables using public data directly from CalPERS (you can find it [here](#)). Table 3 shows details about pensions and employees (and retirees) as of June 30, 2023. Table 4 shows similar information – but less detail – for persons as of June 30, 2024. Looking at Table 3:

- The “Classic” tier Police plan had an unfunded liability of about \$31 million. Yet only 14 PD “Classic” employees were active in the workforce. The PEPRA tier for Police staff – including 37 active staff - had an unfunded liability of only \$587,000.
- “The “Classic” tier for Fire had an unfunded liability of about \$24.8 million. Yet at most 17 Fire Classic employees are working today. The PEPRA tier for Fire staff - which covers 5 retirees and 16 current employees – had a liability of only about \$337,000.
- You can see each tier’s “**funded status**,” which shows what percent of the assets are in hand to pay the cost of the tier’s retirement benefits. “100% funded status” would mean no unfunded liability.

Table 3 – Pension Info as of June 30, 2023

Retirement Plan and Tier	# of Active Members	# of Retired, Separated, or Transferred Members	Unfunded Liability (as of 6-30-2023)	Funded Status
Classic - Police	14	144	\$ 31,026,037	69.00%
Classic - Fire	17	74	\$ 24,845,817	68.40%
Classic - Marine Safety	2	9	\$ 2,852,440	72.60%
2nd Tier - Police	5	8	\$ 402,657	87.10%
2nd Tier - Fire	6	4	\$ 612,590	85.70%
PEPRA -Police	37	22	\$ 587,674	86.00%
PEPRA - Fire	16	5	\$ 337,336	86.20%
PEPRA - Marine Safety	13	0	\$ 114,433	87.70%
Classic - Miscellaneous	77	502	\$ 35,794,229	76.10%
PEPRA - Miscellaneous	144			
<i>Totals =</i>	331	768	\$ 96,573,213	

Let’s compare that with Table 4, which shows a Date of Value of June 30, 2024 (I know, it’s many months old – but even in October 2025 it’s “hot off the presses” in terms of when CalPERS provides these calculations). I’ll note that CalPERS started to group the tiers

together in the June 30, 2024 valuations (for example, the three Police tiers in 2023 – PEPRA, Classic, and 2nd Tier – were all grouped into one Police tier in 2024):

Table 4 – Pension Info as of June 30, 2024

Retirement Plan and Tier	# of Active Members	# of Retired, Separated, or Transferred Members	Unfunded Liability (as of 6-30-2024)	Funded Status
All Tiers - Police	59	179	\$ 31,414,125	71.80%
All Tiers - Fire	41	82	\$ 25,285,541	71.70%
All Tiers - Marine Safety	16	10	\$ 2,895,526	76.50%
All Tiers - Miscellaneous	210	525	\$ 35,715,287	77.50%
<i>Totals =</i>	326	796	\$ 95,310,479	

Table 4 shows that:

- Funded status slightly improved – notwithstanding the grouping issue above.
- Retiree (and people otherwise separated) counts continued to grow, with:
 - In 2024, 1 active employee working for every 2.44 retirees (or separated or otherwise transferred employees) – 1:2.44
 - In 2023, this relationship was 1 active member for 2.32 retirees – 1:2.32.

IV – Returns Matter. Remember too that the unfunded liability is going to vary regularly – it’s a moving target based in part on investment performance (click [here](#) to see how CalPERS describes how pensions are funded). Generally³:

- If CalPERS’ investment returns beat 6.8% during a fiscal year, our City plans’ funded status will edge higher, but not right away due to “smoothing.”
- When investment returns are below 6.8%, our plans’ funded status dips lower.

Table 5 shows CalPERS’ Investment returns over the last five years⁴:

Table 5 – CalPERS Investment Returns Compared to Benchmark

Fiscal Year	Benchmark Rate	Actual Performance	Difference
2020-21	7.00%	21.30%	14.30%
2021-22	6.80%	-6.10%	-12.90%
2022-23	6.80%	5.80%	-1.00%
2023-24	6.80%	9.30%	2.50%
2024-25	6.80%	11.16%	4.36%

³ There is a [rate smoothing process](#) that absorbs higher and lower returns over multiple years.

⁴ Source: CalPERS

When CalPERS earned an 21.3% return in FY 2020–21, Laguna Beach’s UAL dropped from about \$73 million to \$38 million, a big improvement that reflected those strong market gains. But when CalPERS posted a –6.1% return the very next year, our UAL climbed back up to around \$83 million. These swings show just how closely pension costs are tied to investment performance, and why it’s so important for CalPERS to meet, or ideally exceed, its target of 6.8%. Cal-PERS has been thoughtful about slowly ramping down the target, which used to be at 7.75% as recently as 2012.

The relatively poor returns in FY 22-23 are now in our contribution rates (i.e. what CalPERS charges us to fund pensions) for FY 25-26 (note the generally three-year lag). Similarly, the good / better returns in FY 23-24 and FY 24-25 will not show up in our UAL until rate schedules for FY 26-27 and FY 27-28, respectively.

V – Takeaways. To me, the most important takeaways are:

- SB 400 (2000) still reverberates through public agencies, including ours.
- We have a significant unfunded liability, and we seem to be addressing it (but we can always do more – it’s a question of competing resource needs).
- A big portion of the UAL reflects legacy costs; it is for people no longer here or retired.
- The 2013 pension reform effort statewide is working well, and working well here, too.
- Even with PEPRAs, we need to plan and budget appropriately for the estimated \$2.4M jump in annual pension costs expected in the coming few years, which are projected to peak in 2029-30, and then gradually decline over the following 13 years. Employees will continue to contribute toward their share of these costs.
- At some point in the not-too-distant future, the cost curve (including addressing the UAL) should plateau and then start to move downward, as the PEPRAs population increases.

I always appreciate your questions and thoughtful comments about our work.

Sincerely,

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Disclosure: I am both a Classic tier employee and a PEPRAs tier employee – having separated from Classic service in 2018, and “reinstating” as a PEPRAs member in 2024. I don’t receive a pension while I work, but I do accrue more years in the system (as PEPRAs years).