



# Section 115 Irrevocable Pension Trust

February 14, 2018



# Agenda



- Recap of CalPERS Pension Funding Workshop
- Why Choose a Section 115 Irrevocable Pension Trust
- Pension Trust Services Selection Process
- PARS Section 115 Irrevocable Pension Trust
- Future Steps
- Staff Recommendations



# Recap of CalPERS Pension Funding Workshop

- Factors Contributing to CalPERS Funded Status (How We Got Here)
- CalPERS Plan Changes in Response to Pension Funded Status
- Actuarial Information for City's Safety and Miscellaneous Plans
- Options to Consider to Address Rising Pension Costs

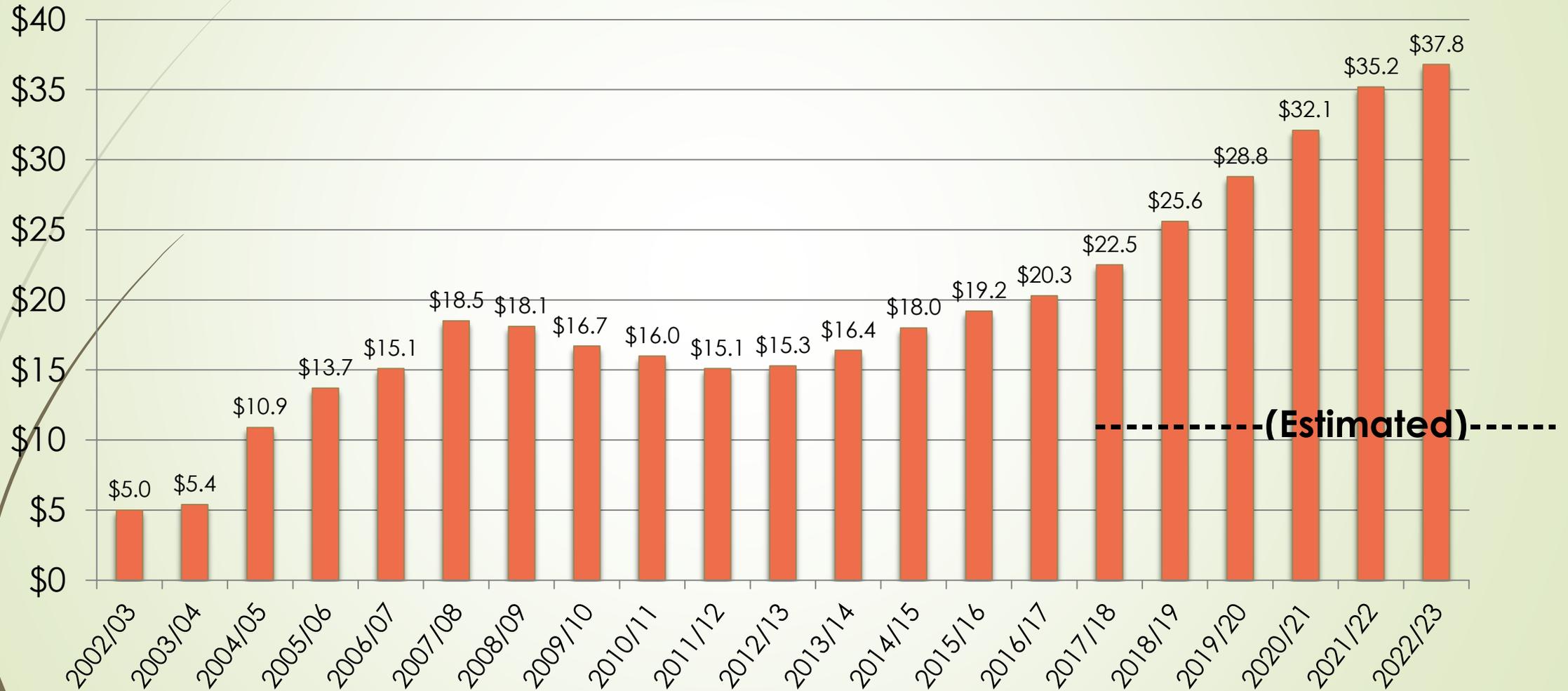
# CalPERS Unfunded Liability

Plan	Unfunded Liability	Funded Ratio
Miscellaneous	\$131,893,218	65.8%
Safety	112,448,666	68.6%
Total	\$244,341,884	24% increase from 2015

Source: CalPERS Valuation as of  
June 30, 2016

# PERS CONTRIBUTIONS

(MILLIONS)



Source: Pension Workshop Presentation on September 27, 2017



# Why a Section 115 Trust?

- Greater Investment Security compared to CalPERS Investment Return Fluctuations
- Maintains City Oversight and Control over Investment of Trust Assets
- Preserves City Discretion to Withdraw Funds from Trust at any time to make PERS Payments during Rate Increases or Economic Downturns
- Greater Investment Flexibility compared to Restrictions on General Fund Investments
- Trust is Irrevocable and Designed to prefund Pension Obligations



# Pension Trust Services Selection Process

- Received proposals from three firms
    - PARS
    - Keenan Financial
    - Public Financial Management Group (PFM)
  - The City Treasurer, Assistant Director of Finance and Benefits Manager examined offerings of each proposal
  - Selected PARS to provide services
- 



# PARS Pension Stabilization Program (PRSP)

- Separate Accounts (or sub-trusts)
- Separate Liabilities
- Economies of Scale
- Local Control
- Tailored Investments
- Providers of the PARS PRSP
- Current relationship with PARS for retirement program for part-time employees



# Future Steps

- Staff will return in May during the Operating Budget Briefing with an amendment to the City's financial policy to permit the deposit of other monies into the Trust as well as a strategic plan for funding the Trust
- Staff will provide an annual review of the Performance/Asset Allocation of the Trust during the Year End Financial Report to Council



# Staff Recommendations



- Adopt Resolution No. 2018-11 Authorizing the Establishment of Section 115 Irrevocable Pension Trust with Public Agency Retirement Services (PARS)
- Approve Initial Deposit of \$1,984,000 from the General Fund “PERS Rate Smoothing Reserve” to fund the Trust
- Authorize the Deputy City Manager/Administrative Services to act as City’s Plan Administrator of the Trust Program
- Approve and Authorize the Mayor and City Clerk to execute a Consulting Agreement between PARS and the City to Administer the Trust
- Approve a Budget Adjustment to transfer General Fund proceeds to a Pension Trust Fund
- Approve Selection of Moderately Conservative Investment Portfolio for Investment of Trust Funds



# Highmark Capital Management Returns

RETURNS AS OF SEPTEMBER 30, 2017

	Equity (%)	1 Year	3 Years	5 Years
Capital Appreciation	65-85%	14.07%	7.54%	9.56%
Balanced	50-70%	12.25%	6.63%	8.12%
Moderate	40-60%	10.14%	6.00%	7.03%
Moderately Conservative	20-40%	6.51%	4.67%	5.14%
Conservative	5-20%	3.88%	3.69%	3.71%

# Pension Rate Stabilization Program Trust Fund

## Investment Earnings Net of Fees

<b>Section 115 Irrevocable Pension Trust Fund</b>		
Initial Deposit	\$1,984,000	
Estimated Rate of Return	<u>5.5%</u>	
Annual Investment Earnings		109,120
Trust Administrator (PARS) Fee (.25%)	(4,960)	
Trustee/Investment Management Fee (.35%)	<u>(6,944)</u>	
Total Annual Program Fee		<u>(11,904)</u>
Estimated Investment Earnings Net of Fees		\$97,216

# PROGRAM FEES

## Administration/Consulting Fees Management Fee

### For Plan Assets From: Annual Rate

- \$ 0 to \$10,000,000  
0.35%
- \$10,000,001 to \$15,000,000  
0.25%
- \$15,000,001 to \$50,000,000  
\$15,000,000 0.20%
- \$15,000,001 and above  
\$50,000,000 0.15%

0.10%

### Annual Rate

0.25%

0.20%

0.15%

0.10%

## Trustee/Investment

### For Plan Assets From:

\$0 to \$5,000,000

\$5,000,001 to \$10,000,000

\$10,000,001 to

\$15,000,001 to

\$50,000,001 and above