



# Pension Trust Fund

*Study Session  
December 6, 2016*

# Pension Environment

- City actuarial review (Bartel)
- CalPERS potential change to the assumed investment return rate February 2017
- League of California Cities mobilization
- Low CalPERS returns (0.6% last year, 2.4% year before)
- Beacon Economics economic outlook for California lowered from Stable to Uncertain <sup>2</sup>

# Pension Costs

- Component of total compensation – Beyond the City's control
- CalPERS continues to miss investment targets and may be forced to de-risk its portfolio, increasing costs to employers
- Rising pension costs impact services that the City provides to the community

# Pension Costs Summary

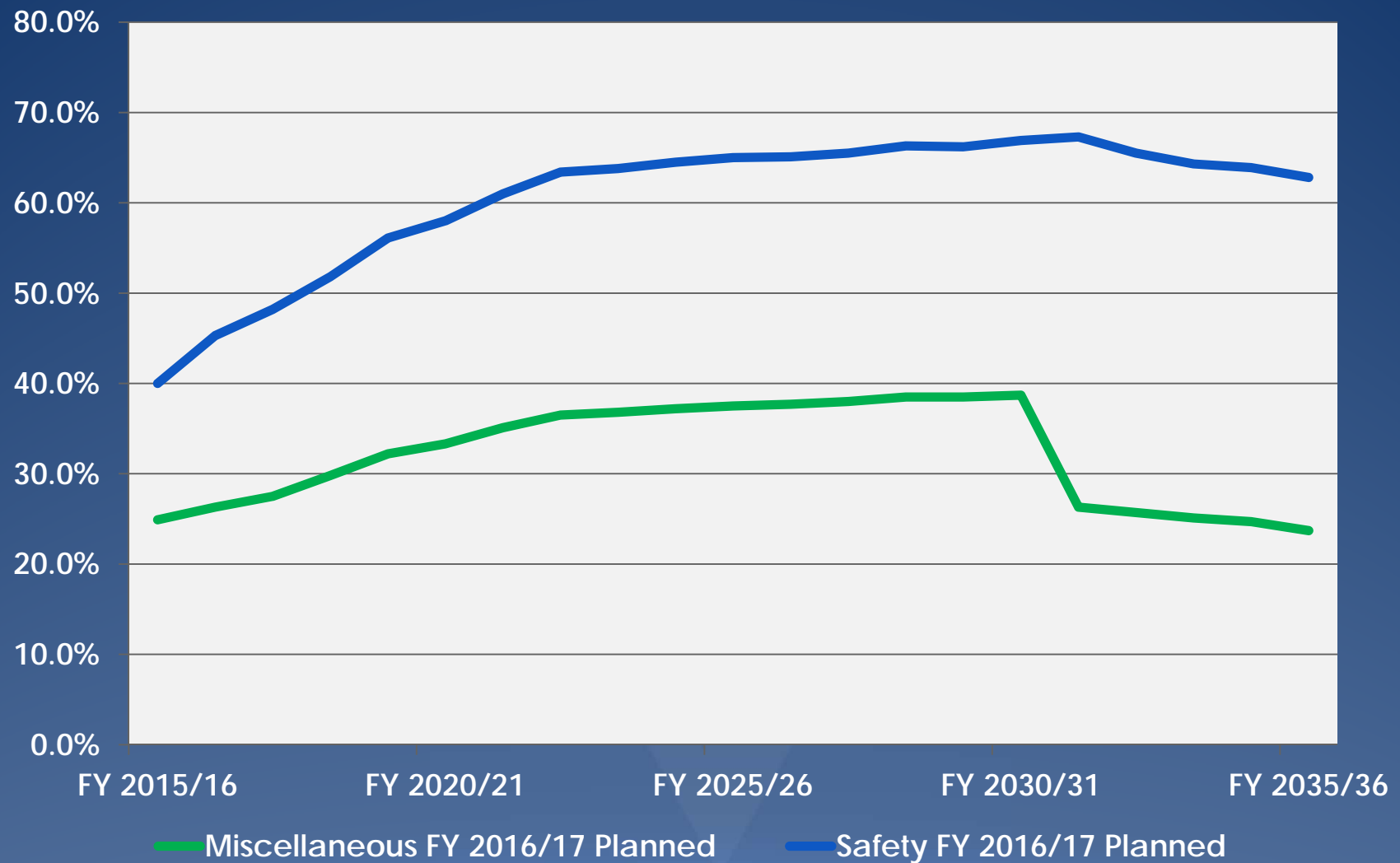
## Miscellaneous and Safety

Actuarial Liability	\$974.3 M
Assets	\$723.7 M
Unfunded Liability*	\$250.6 M
Funded Ratio	74.3%
Total Employer Contribution Amount for FYE 2017	\$30.1 M

\* Unfunded Liability includes Active, Inactive, and Retirees

New long term projections being developed now, to be completed by mid-January

# Projected PERS Rates



# Pension Cost

- Current practice is to reserve funds in an internal service fund – Pension Rate Uncertainty Reserve
- Subject to conservative general investment policy
- Not restricted to be used for Pensions – can be re-appropriated by Council

# Pension Trust Strategy

- Previously only way to reduce liability was additional contributions
- The new rules increase the period over which the additional contributions are amortized
- This is a disincentive to prepayment

# Pension Trust

- Pension Rate Stabilization Program (PRSP)
  - Uses an Internal Revenue Code Section 115 Irrevocable Trust to pre-fund pension costs and reduce GASB 68 Net Pension Liabilities
- Very much like the City's OPEB Trust, it is a tool to address one of the City's liabilities

# Pension Trust

- Separate trust fund managed by a Investment Manager under a separate investment policy
- Segregates the City's reserves for Pension Rate Stabilization
- Provides more control and investment flexibility over investment of funds set aside to fund pensions

# Pension Trust

## Strategy Outcomes

- Reduce unfunded pension liability under GASB 68
- Enhanced control of retirement assets
  - Currently within one system - CalPERS
- Smooth retirement system contribution volatility, restricting funds for that use
- Flexibility to affect stabilize costs by absorbing unexpected future increases

# Investment Policy

- Investment Restrictions that apply to the general fund
  - Safeguard Principal
  - Meet Liquidity Requirements
  - Earn a return on funds invested
- Safety is primary goal over returns
- Restrictions are not applicable to assets held in an Irrevocable Section 115 Trust

# Pension Trust

- Funding through savings in a given year (one time contribution)
- Budgeted planned contributions like planned for OPEB based on actuarial analysis

# Pension Trust

## Steps to Implementation

- City Council authorizes establishment of a Pension Trust
- Generation and signature of legal documents
- Develop an Investment Policy and guidelines for Investment Manager
  - Set discount rate
  - Choose an active or passive investment strategy
  - Identify risk tolerance
  - Prohibit certain investments

# Pension Trust

## Steps to Implementation

- City Council identifies initial funding source and level and approves deposit into Trust Fund
- Develop policies and procedures for future annual contributions and/or disbursements
- Scheduled Reviews of Investment Performance

# Pension Trust

## Upcoming Timeline

- December 2016 - City Council Reviews FY 2015/16 Year-End Report
- 1<sup>st</sup> Qtr. 2017 – City Council Authorizes Pension Trust Fund
- 2<sup>nd</sup> Qtr. 2017 –
  - FY 2017/18 Recommended Budget Released
  - Budget Workshop
  - City Council Adoption of Budget with Recommendation for Initial Deposit to Pension Trust Fund
- 3<sup>rd</sup> Qtr. 2017 – Make Deposit into Pension Trust Fund

# Pension Trust

Questions?/Discussion