

IRC Section 115 Pension Supplemental Trust

Board of Directors
August 3, 2022

Presentation Outline

- Need for a financially sustainable strategy for dealing with unfunded pension and OPEB obligations
- Benefits of Pension Supplemental Trust
- Financial Impact
- Next Steps

Purpose and Need

- District needs a **sustainable strategy** to address **unfunded** pension and OPEB obligations.
- District's **unfunded obligations** at the end of Fiscal Year 2022 is **over \$100m.**
- Committee on Retirement and Benefits Administration: “...**the appropriate way** to attain reasonable assurance that benefits will remain sustainable **is for a government to accumulate resources for future benefit payments in a systematic and disciplined manner** during the active service life of the benefiting employees”

Background: District Unfunded Obligations

	OPEB	CalPERS
■ Projected 6/30/22 Unfunded	\$18.5M	\$94.2M
■ Projected Contributions (percentage of payroll)		
• 2022/23	5.5%	19.4%
• 2032/33	5.2%	24.5%
• Change	(0.3)%	5.1%
■ Benefits	Flexible	Mandated
■ Contributions	Flexible	Mandated
■ Investments		
• Expected future returns	6.25%	6.8%
• Investment Control	District	CalPERS

→ \$13.3 million
→ \$22.0 million

CERBT Account Summary: OPEB

As of April 22, 2022	Strategy 1
Initial contribution <small>(5/4/2009)</small>	\$600,000
Additional contributions	\$27,450,152
Disbursements	\$0
CERBT expenses	(\$146,435)
Investment earnings	\$11,625,797
Total assets	\$39,529,514
Money-weighted annualized net rate of return <small>(5/4/2009 – 4/22/2022 = 13 Years)</small>	7.61%

What is Pension Supplemental Trust?

- A special **irrevocable trust** fund.
 - Reimburse District for CalPERS contributions
 - Make payments directly to CalPERS
- Allows public employers to **prefund** their future pension costs.
- Accumulates assets over time to help manager long-term pension costs.
- This is done outside of CalPERS

Benefits of Pension Supplemental Trust

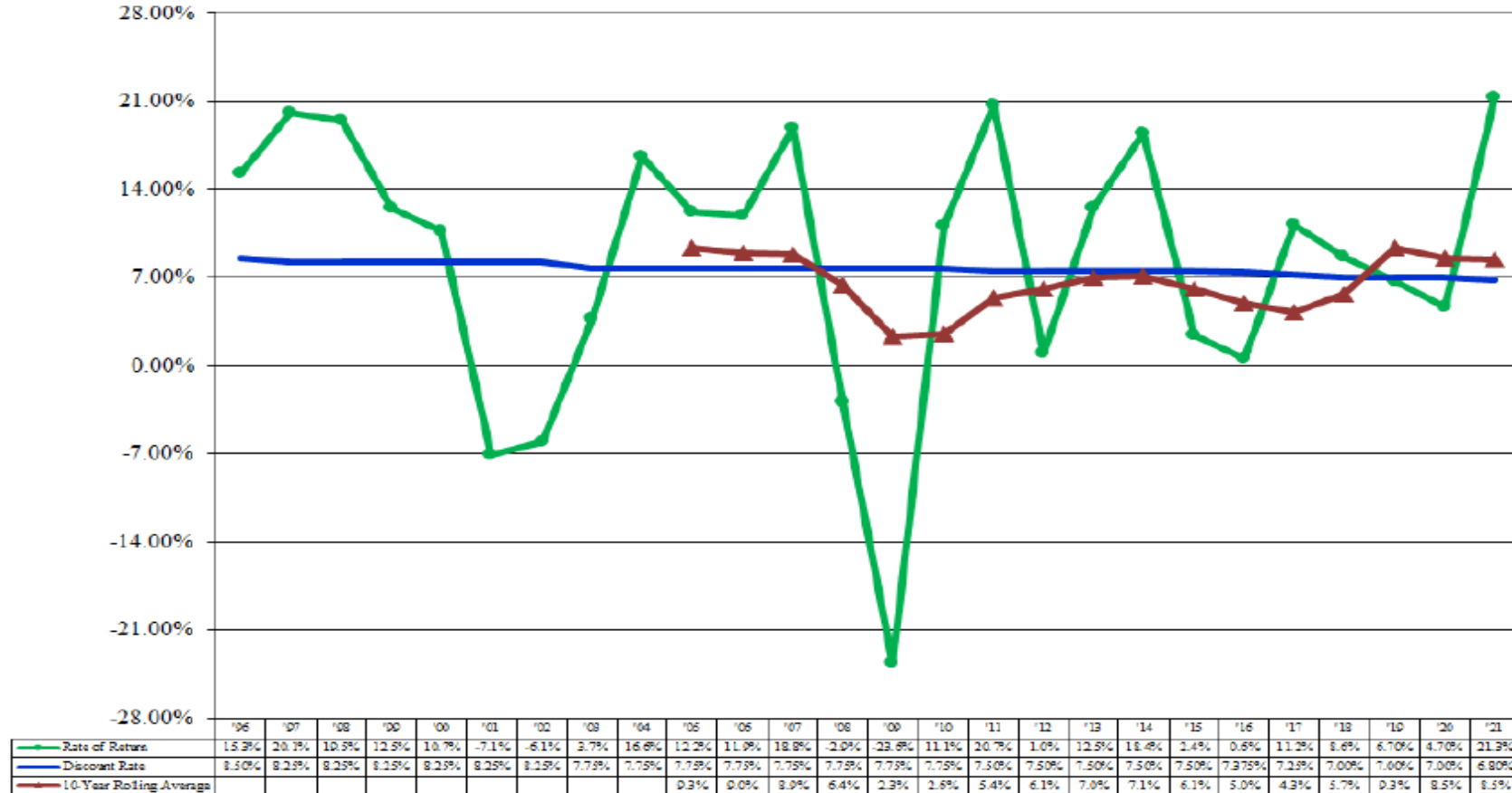
- **More flexibility than paying CalPERS directly**
 - **Extra CalPERS payments cannot be used as future “credit”**
 - **District decides if and when and how much money to put into the Trust**
 - **District decides if and when and how much to transfer to the CalPERS**
- **Funding strategies typically focus on**
 - **Stabilizing contribution rates**
 - ❑ **Mitigate expected contribution rates to better manage budget**
 - **Reducing the unfunded liability**
 - **Combination**
 - ❑ **Use funds for rate stabilization/budget predictability**
 - ❑ **Target increasing fund balance to pay off UAL sooner**

Benefits of Pension Supplemental Trust

- **Over 200 trusts established, mostly since 2015**
 - **Trust providers: PARS, PFM, Keenan, and CalPERS**
- **Some Local Agencies with Pension Supplemental Trust**
 - **BART**
 - **MTC**
 - **Livermore/Amador Valley Transit Authority**
 - **San Mateo County Law Library**
 - **Santa Clara County Housing Authority**
 - **Santa Cruz County Regional Transportation Commission**
 - **Transportation Authority of Marin**
 - **Town of Los Gatos**

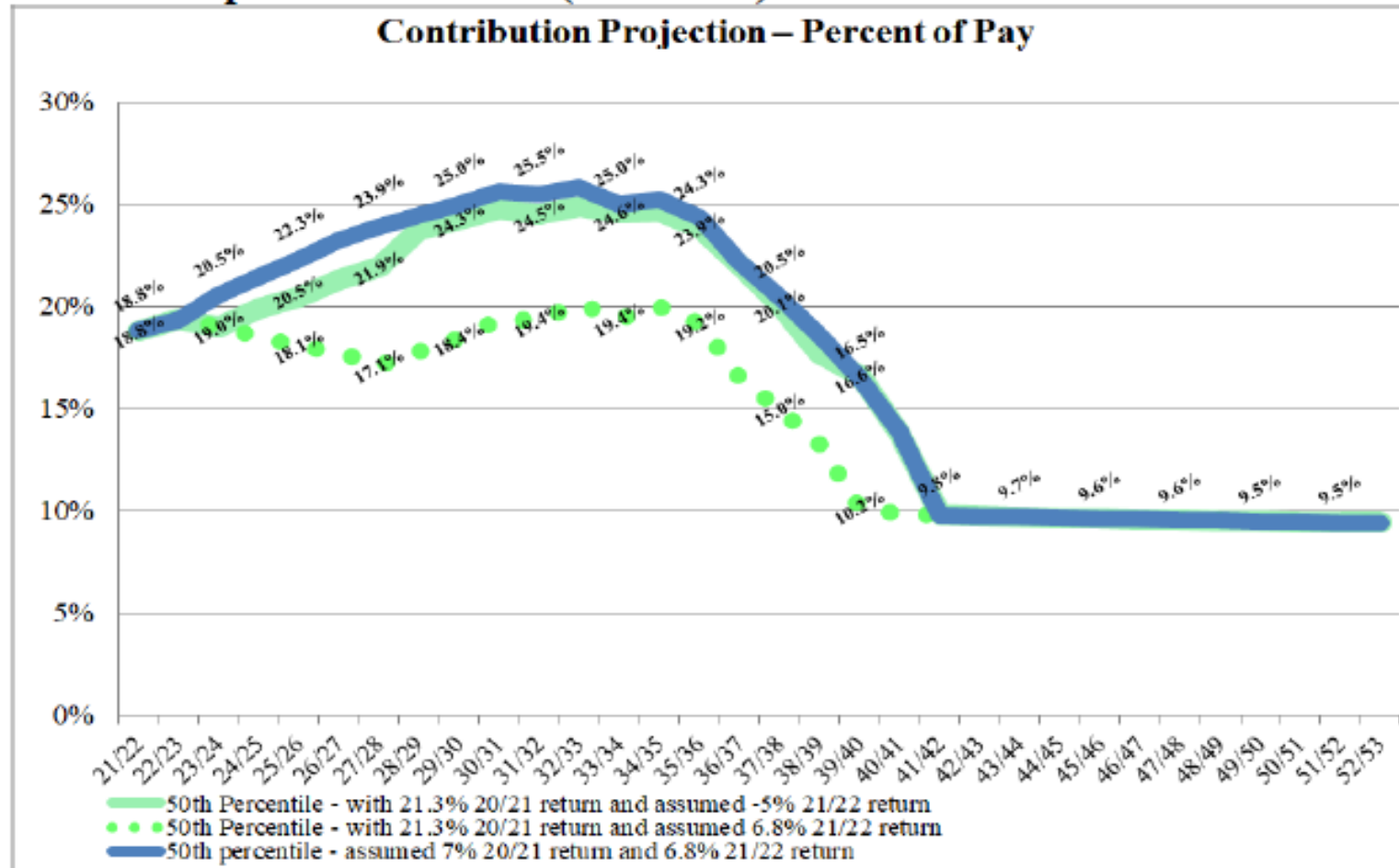
Benefits of Pension Supplemental Trust

CalPERS Historical Returns
Annual Return on Market Value of Assets



Benefits of Pension Supplemental Trust

Impact of 20/21 and (estimated) 21/22 Investment Returns
Contribution Projection – Percent of Pay



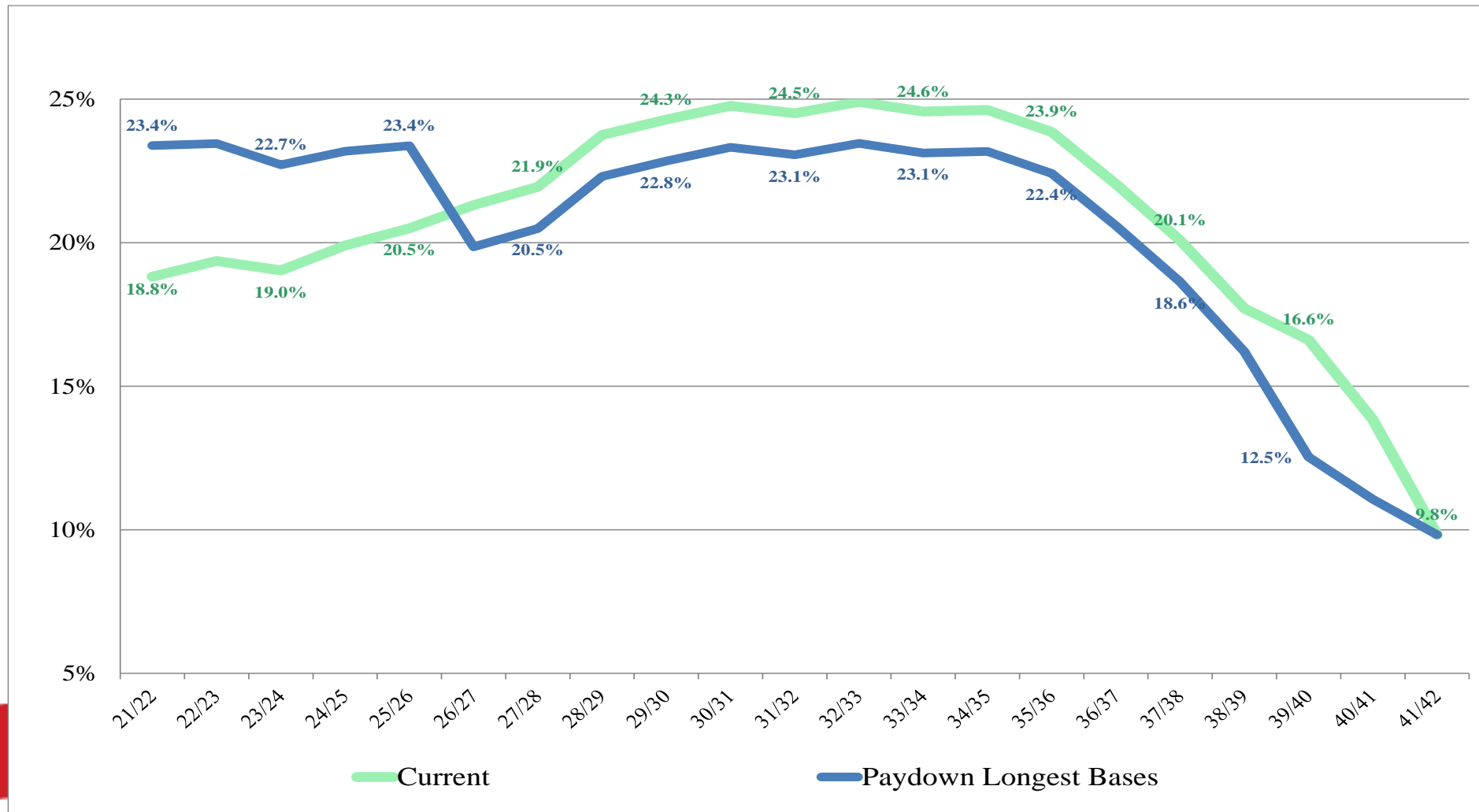
Benefits of Pension Supplemental Trust

Additional Payments Illustration

- Following illustrates additional 5 years of \$3 million annual contributions to CalPERS/Supplemental Trust starting June 30, 2022, total \$15 million.
- Longest Bases: 2016 Gain/Loss (26 years remaining, respectively)

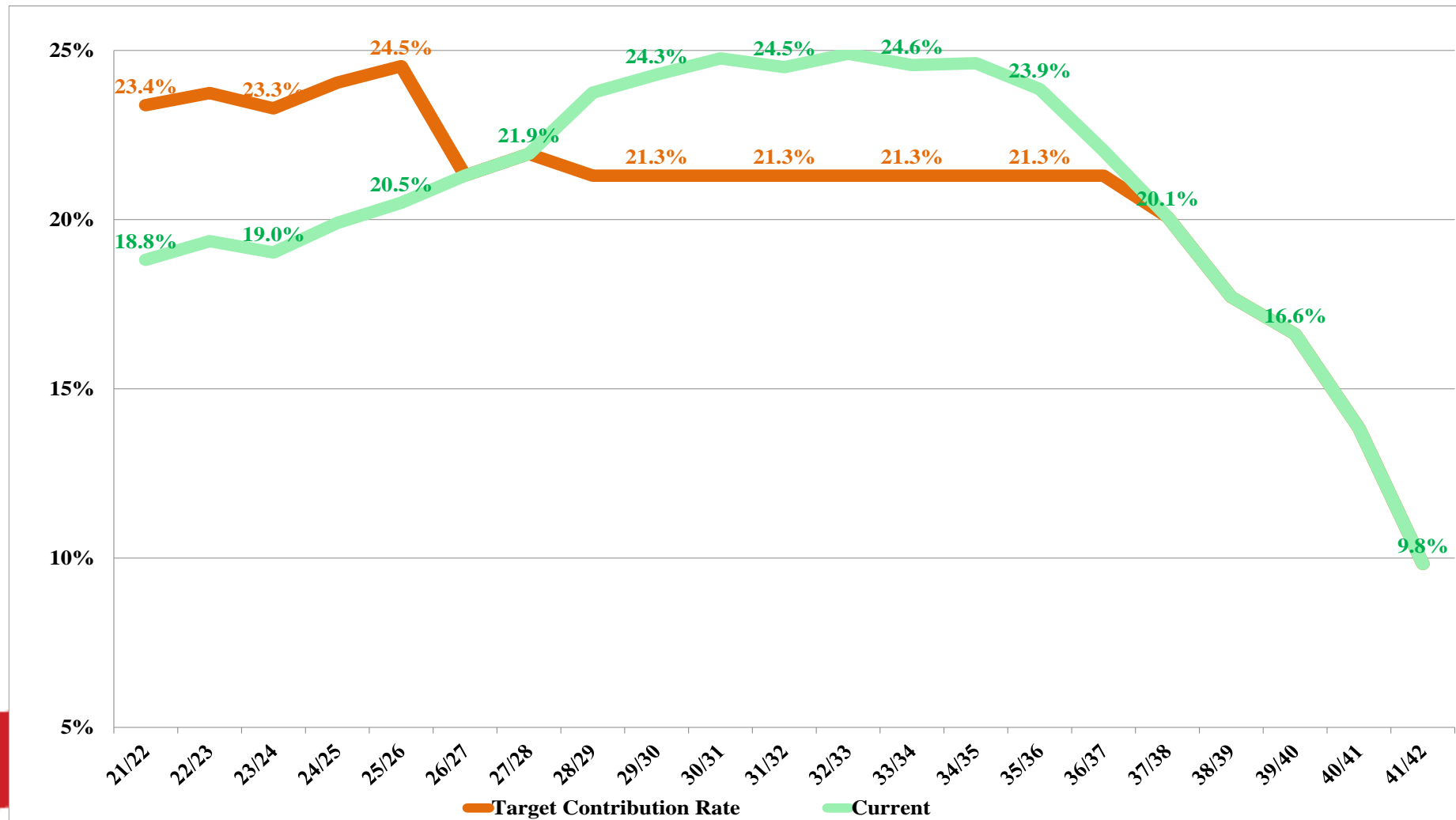
Benefits of Pension Supplemental Trust

**Payments to CalPERS
Contribution Rate Projection**



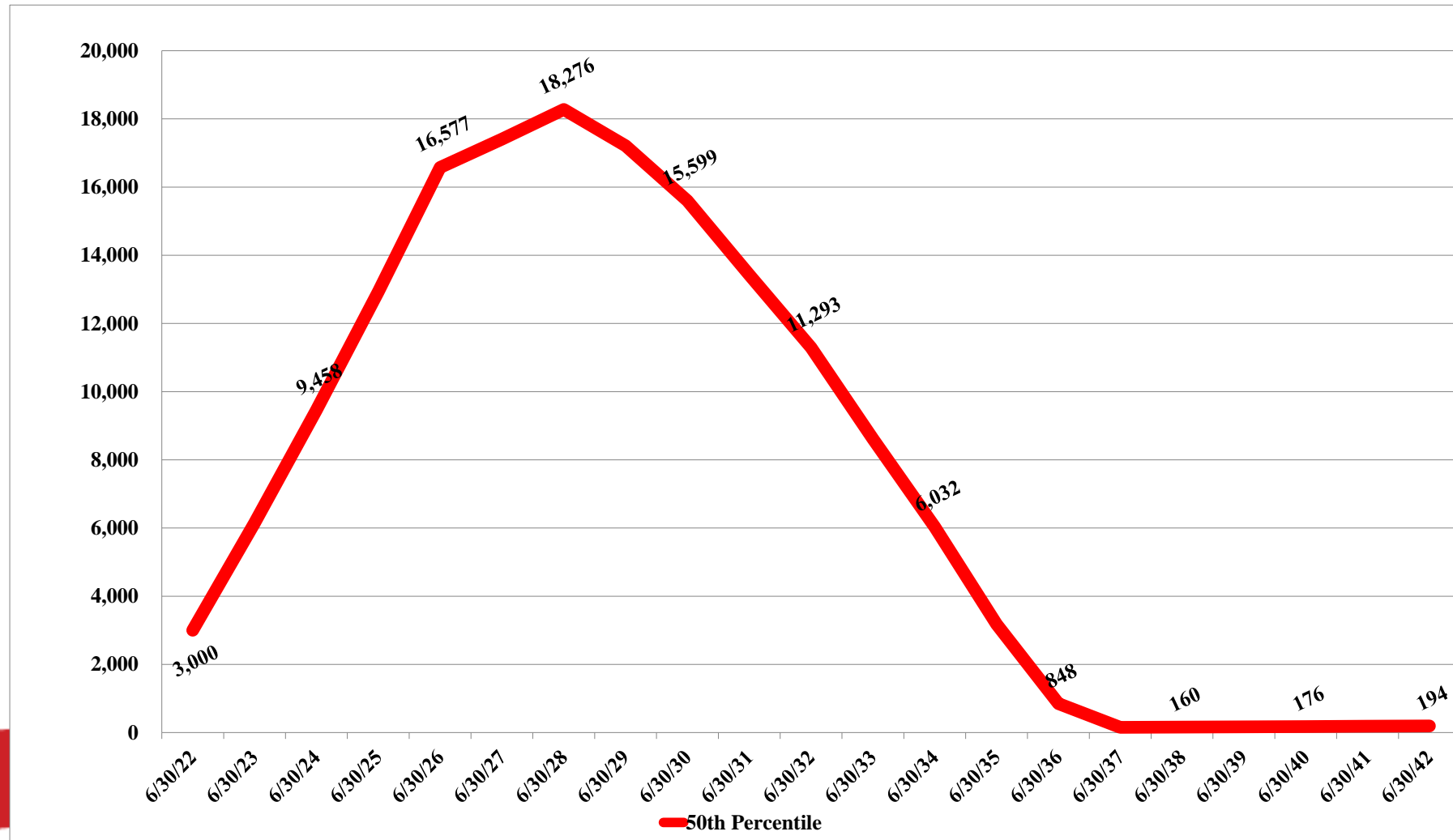
Benefits of Pension Supplemental Trust

**Payments to Supplemental Trust
Contribution Rate Projection**



Benefits of Pension Supplemental Trust

Payments to Supplemental Trust
Supplemental Trust Balance (\$000's)



Budget Impact

- Initial contribution up to \$21 million could be funded by the District's funds included in the Fiscal 2023 Adopted Budget
- Subsequent contribution will be made in accordance with the Policy about the Pension Supplemental Trust to be approved by the Board

Next Steps

- Obtain Board feedback
- Staff will return with final recommendation which could include the following:
 - Solicit / RFP for Trust providers
 - Obtain Board approval to set up Pension Supplemental Trust
 - Create a policy about the contributions to the Pension Supplemental Trust
 - Set-up the Pension Supplemental Trust