



City of Alameda

Pension Rate Stabilization Program (PRSP) and Other Post-Employment Benefits (OPEB) Funding Policy

Purpose and Introduction

The purpose of this Pension Rate Stabilization Program (PRSP) and Other Post-Employment Benefits (OPEB) Funding Policy ("Policy") is to establish a methodology and a process for funding current and future costs associated with the City's contractual obligations to provide pension and retiree medical benefits as set forth in the City's labor agreements.

Adoption and Implementation

The City Council is responsible for adopting the Pension Rate Stabilization Program (PRSP) and Other Post-Employment Benefits (OPEB) Funding Policy and for approving any significant revision. The City Manager, or his/her designee, is responsible for developing administrative procedures, as needed, to implement the Policy. In this role, the City Manager, or his/her designee, is authorized to make minor administrative changes in the Policy as long as they are intended to carry out the purpose of this Policy and will not have any significant policy impact. The City Council will review and approve this policy via resolution, as needed, to ensure it meets the current and future needs of the City.

Definitions

General Fund Surplus – General Fund Surplus, as defined by this policy, is the difference between the current year and prior year General Fund "Residual fund balance in excess of policy or fund balance deficits," found under the Net Position and Fund Balances footnote of the Annual Comprehensive Financial Report (ACFR). The amount is considered Surplus only if the current year residual fund balance is greater than the prior year residual fund balance. This amount comprises unassigned residual fund balance after meeting all annual auditing and financial reporting requirements.

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Initial Set Up

The City shall establish an Internal Revenue Service Code Section 115 approved irrevocable trust to achieve a higher rate of return on investments than that earned on the pooled investment portfolio or LAIF. Once the City transfers funds into such a trust, they can only be utilized for payment of employee pension or OPEB costs. After the trust is set up with PARS, money currently invested in the OPEB Trust will be transferred over to the new combination Pension/OPEB Trust and shall be allocated entirely to the PRSP OPEB account.

The following outlines the governance and administration of the proposed Trust:

City Council has the authority to establish the Trust and define policies for the administration of the Trust funds.

City Manager and staff have overall responsibility for the Trust funds and will develop and

manage procedures in accordance with the City Council's adopted policies.

Trust Administrator, PARS, keeps plan documents current to ensure that they reflect the substantive plan and provides ongoing consulting, reporting and plan accounting records.

Trustee, currently US Bank, will be the plan's trustee and custodian and will safeguard the assets in the Trust, hold the investment securities for safekeeping and make disbursements on request.

Investment Manager, currently Highmark Capital Management, will recommend investment portfolio allocations based upon the Pension/OPEB Trust Funds' adopted investment policies and manage those assets accordingly.

Trust Administrator

Public Agency Retirement Services (PARS) has established a multiemployer irrevocable trust in compliance with the requirements of Section 115 of the Internal Revenue Code. While it is a multi-employer trust, each employer's contributions benefit only its own employees. There is no sharing of either liability or investment earnings, and separate employer accounts are maintained. PARS serves as the administrator of the Trust.

Trustee

Any contributions made to the program are held and invested by a trustee. The trustee duties include:

1. Safeguarding assets for the benefit of retirees;
2. Providing oversight protection of the investments;
3. Custodian of the assets; and
4. Disbursing funds to pay for pension costs and/or retiree healthcare premiums.

Investment Manager

Investment Manager assists the City with selecting investment strategy depending on what rate of return the City expects to earn and level of risk tolerance the City is willing to take. Investment Manager provides annual review of the investment portfolio and asset allocation as well as takes on fiduciary responsibility for the City's pension and OPEB assets management.

Asset Allocation Investment Strategy

PARS provides flexibility to the City in the selection of the investment strategy for its funds in the Trust, giving the City control on target yield and level of risk on its investments. Within the Trust, the City has the option of pre-funding either or both of the Pension and OPEB accounts. In either case, the City has the ability to select one of five Investment Options that best suits its desired or expected return on its investments in the Trust. Each Investment Option allocates the assets in varying investment combinations of equity, fixed income, and cash. With each Investment Option, as the expected rate of return increases so does the assumed risk.

The Asset Allocation Strategies and the corresponding Investment Options currently available are:

	Equity	Fixed Income	Cash
Conservative	5% - 20%	60% - 95%	0% - 20%
Moderately Conservative	20% - 40%	50% - 80%	0% - 20%
Moderate	40% - 60%	40% - 60%	0% - 20%
Balanced	50% - 70%	30% - 50%	0% - 20%
Capital Appreciation	65% - 80%	10% - 30%	0% - 20%

The City Manager, or his/her designee, in coordination with the City Treasurer and Investment Manager will select the most appropriate investment option for each account (Pension and OPEB) in the Trust.

This Policy recognizes that there will be investment market place volatility and that actual economic and demographic experience will differ from assumed experience. Accordingly, this Policy is intended to provide flexibility to smooth such volatility and experience in a reasonable, systematic and financially sound manner.

Annual Contributions

In order to establish realistic and appropriate thresholds for annual contributions, the City adopts the following requirement for contributions to be shared among all City Funds proportionate with the number of employees allocated to these funds in any given year:

	Minimum	Maximum
Pension	\$250,000	Unlimited
OPEB	\$100,000 or as required in the MOUs	Unlimited

~~Note: FY 2015-16 OPEB Annual Required Contribution (ARC) was \$10.987 million, as determined by the actuarial valuation report prepared in accordance with the Governmental Accounting Standards Board Statement No. 45. Per Bartel & Associates, if the City funds OPEB component of the Trust at the ARC level, the OPEB Trust would be fully funded by FY 2034-35.~~

Pension Plans 1079/1082 (closed pension plans) – starting FY 2016-17, the City shall transfer any unspent funds to the Pension component of the Trust. Each year thereafter, the City shall contribute at least as much as a year prior of the unspent funds plus any additional available funds. Available funds arise due to passing of participants in Plans.

Annual contributions from Successor Agency and Alameda Municipal Power shall be deposited to the OPEB Miscellaneous/Safety (Pre 1-1-2019) account of the Trust.

After fiscal year close and the annual audit has been completed, the Finance Department shall determine if a General Fund Surplus exists. If a General Fund Surplus exists, the Finance Department will calculate the amount of General Fund Surplus. City staff will then propose half (50%) of the General Fund Surplus be used in the following manner: 75% shall be used to reduce CalPERS unfunded liability and 25% shall be

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contributed into the City's Public Agency Retirement Services (PARS) Section 115 Irrevocable Trust.

~~One-half of each fiscal year's General Fund surplus over the 25% available fund balance shall be put into a Trust Fund or directly into paying off the CalPERS unfunded liability for either pensions or post-employment benefits.~~

Annual Withdrawals

In order to establish realistic and appropriate thresholds for annual withdrawals, the City adopts the following limitations on the withdrawals:

	Minimum	Maximum
Pension	\$0	10% or less of CalPERS Annual Required Contribution
OPEB	\$0	Annual Required Contribution (ARC)

Actuarial Terms Definition:

Normal Cost

The City incurs an annual pension and OPEB retirement obligation for current employees. The ongoing cost for pension and OPEB earned by current employees during the current year is referred to as the “normal” cost.

Unfunded Actuarial Accrued Liability (UAAL)

The actuarial valuation calculates an unfunded actuarial accrued liability (UAAL) as of the valuation date. The UAAL represents the difference between assets available in the trust fund and the liability related to prior employment service for former and existing employees.

Annual Required Contributions (ARC)

The ARC to fund pension and OPEB, as determined by the actuarial valuation, reflect the normal cost plus amortization of the UAAL, until such time as the UAAL is fully amortized.