

March 21, 2017

COMBINED PENSION & OPEB TRUST

PUBLIC EMPLOYEE
RETIREMENT SYSTEM (PERS)

OTHER POST EMPLOYMENT
BENEFITS (OPEB)

Tonight

- ◆ Update on Other Post Employment Benefit (OPEB) Liability
- ◆ Update on Public Employment Retirement System (PERS) Liability
- ◆ Consider creating new Pension Rate Stabilization Plan (PRSP) Trust
- ◆ Adopt Pension and OPEB Funding Policy

Other Post Employment Benefits (OPEB)

- ◎ OPEB in Alameda
 - Mostly Health Insurance for Public Safety Retirees
- ◎ As of 2015 - \$113 million Liability
 - 5% funded or \$5.7 million

OPEB Funding Strategy

- 2014 Created OPEB Trust (initial deposit of \$300,000)
- April 2015 - Negotiated labor contracts with Public Safety to help pay for the retirement benefit in return for salary increases
- January 2016 - City contributed \$5.0 million and \$250,000/year for ten years
- Public Safety employees annually contribute up to 4% of their salary (depending on date of hire)

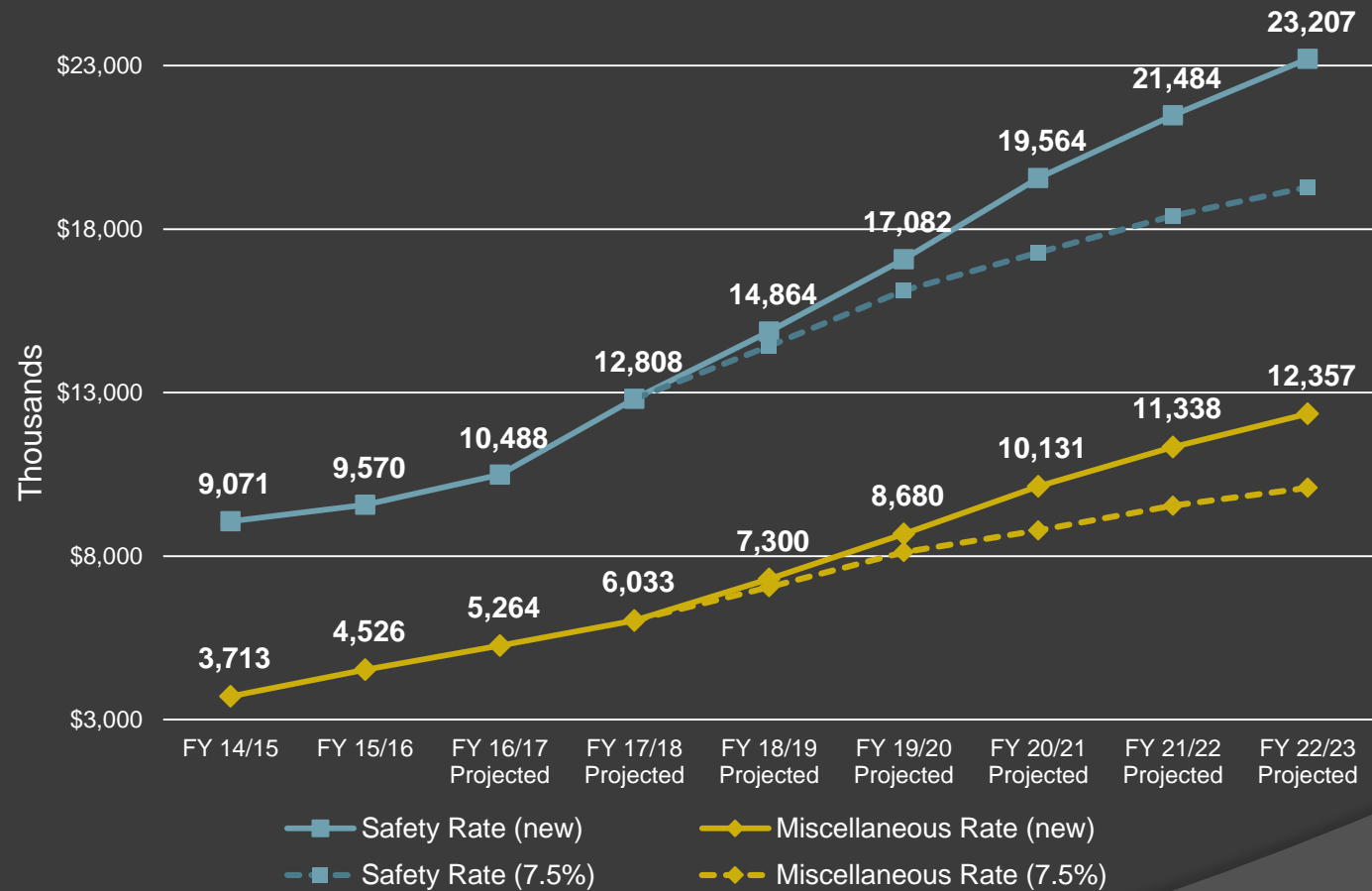
Pension Liability

- ⦿ GASB 68 – requires more comprehensive measure of pension liability
- ⦿ 2014 Alameda's Pension unfunded liability
 - \$170 million
 - Safety – 66% funded or \$243 million in assets
 - Misc. – 82% funded or \$200 million in assets
 - Total Assets = \$443 million
- ⦿ 2015 – Alameda's Pension unfunded liability
 - \$203 million
 - Safety – 63% or \$241 million in assets
 - Misc. – 77% or \$195 million in assets
 - Total Assets = \$436 million in assets

PERS – What's Happening?

- ⦿ Ratio of Retirees to Active Employees is increasing
- ⦿ PERS Smoothing Effect (PERS is changing assumptions)
 - Life expectancy is increasing
 - Shorter Amortization Period
 - Reduction of Discount Rate (new)
 - From 7.5% To 7%

Estimated PERS Increases



Why Prefund Pension Obligations?

- ⦿ Address Long-Term Costs
- ⦿ Deal with Pension (GASB 68) Liability
- ⦿ Protect from Diversion
- ⦿ Have a Rainy Day Fund
- ⦿ Stabilize Costs
- ⦿ Achieve Better Returns
- ⦿ Strengthen Credit Rating

Reserve Account vs. PRSP

● Reserve Account

General fund investing restrictions

Fixed Income only

Investments not tailored
for long-term

Revocable

Accessed for other uses

Not free from creditors

No corporate trustee

● PRSP Trust

Gov't Code Section 53216

Fixed Income or diversified

Can be tailored for short or long-term

Irrevocable

Dedicated solely to pension costs

Exclusive benefit/free from creditors

Corporate trustee to
mitigate fiduciary risk

Structure of the PRSP Trust

- IRC SECTION 115 – A governmental trust designated specifically to be used for pension funding whereby any income derived is tax exempt
- IRREVOCABLE – To comply with GASB rules, trust was set up as irrevocable, which means that once contributions are placed into trust, assets can only be used for retirement plan purposes
- MULTIPLE EMPLOYER – Based on proprietary model that PARS has used since 1990
 - Separate accounts – Program is aggregation of separate accounts with centralized administration and pooled investments
 - No risk sharing – Each employers contributions provide benefits only for employees of that employer. There is no cross-liability or joint liability among participating public agencies and no sharing of assets.

Funding Strategy

- ◎ PARS Pension Rate Stabilization Program Trust
 - Similar to OPEB Trust
 - Funds deposited can only be used for pension expenses
 - Accumulated assets may help offset liability for accounting purposes
 - Greater return than Local Agency Investment Fund (LAIF) and in some cases PERS

Funding Strategy

- ◎ PARS Pension Rate Stabilization Program Trust
 - Investment strategy is controlled by the City
 - Assets can be used to pay for PERS payments
 - Rating agencies look favorably on Trust investments versus pooled cash
- ◎ Will be combined with existing OPEB Trust (though in separate accounts) to benefit from larger investment and reduced fees

NEW - Pension & OPEB Trust Funding Policy

- Contributions to Trust shared among Funds in proportion to number of employees
- Minimum Contribution
 - Pension - \$250,000
 - OPEB - \$100,000
- Starting in 2017, unspent funds from 1079/1082 closed pension plans transferred to pension component of Trust

NEW - Pension & OPEB Trust Funding Policy

- ◎ 10% of Police and Fire annual Departmental savings to be deposited in OPEB Trust
- ◎ Annual withdrawals
 - Pension payments - 10% or less of CalPERS annual required contributions
 - OPEB payments – no more than actual annual required contribution
- ◎ Reviewed annually with investment policy

QUESTIONS