

PUBLIC  
AGENCY  
RETIREMENT  
SERVICES

**PARS**

TRUSTED SOLUTIONS. LASTING RESULTS.



# CITY OF CALABASAS

PARS 115 Trust – OPEB Prefunding Program & Pension Rate Stabilization Program (PRSP)  
May 18, 2022

# CONTACTS

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# PARS 115 TRUST TEAM

## Trust Administrator & Consultant



- Serves as record-keeper, consultant, and central point of contact
- Sub-trust accounting
- Coordinates all agency services
- Monitors plan compliance (IRS/GASB/State Government Code)
- Processes contributions/disbursements
- Hands-on, dedicated support teams

<b>38</b>	<b>2,000+</b>	<b>1,000+</b>	<b>490+</b>	<b>500K+</b>	<b>\$6.7B</b>
Years of Experience (1984-2022)	Plans under Administration	Public Agency Clients	115 Trust Clients	Plan Participants	Assets under Administration

## Trustee



- 5th largest commercial bank and one of the nation's largest trustees for Section 115 trusts
- Safeguard plan assets
- Oversight protection as plan fiduciary
- Custodian of assets

<b>159</b>	<b>\$5.0T</b>
Years of Experience (1863-2022)	Assets under Administration

## Investment Manager



- Investment sub-advisor to trustee U.S. Bank
- Investment policy assistance
- Uses open architecture
- Active and passive platform options
- Customized portfolios (with minimum asset level)

<b>103</b>	<b>\$20.2B</b>
Years of Experience (1919-2022)	Assets under Management & Advisement

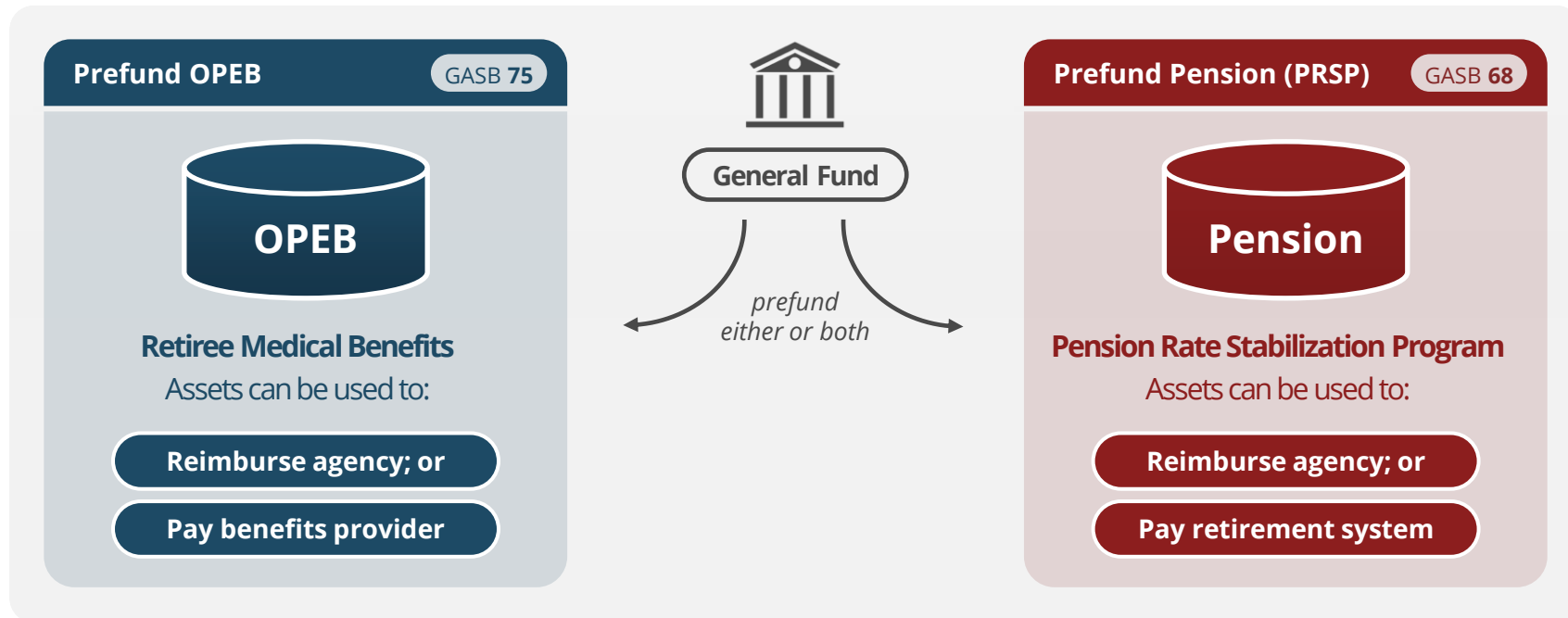
# 115 TRUST – OPEB/PENSION CLIENT LIST (490+)

## CITIES & TOWNS (144)

Updated May 2022

Alameda	El Centro	Mammoth Lakes	Rolling Hills
Alhambra	El Segundo	Manhattan Beach	Rosemead
Anaheim	Elk Grove	Merced	Ross
Atherton	Emeryville	Modesto	San Anselmo
Atwater	Escondido	Monrovia	San Jacinto
Bakersfield	Fairfax	Morgan Hill	San Leandro
Beaumont	Fairfield	Napa	San Ramon
Bell Gardens	Fountain Valley	National City	Santa Ana
Benicia	Fullerton	Norco	Santa Clara
<b>Beverly Hills</b>	Galt	Norwalk	<b>Santa Clarita</b>
Brea	Garden Grove	Novato	Sausalito
Brisbane	Gilroy	Oakley	Selma
Burlingame	<b>Glendale</b>	Orinda	Solana Beach
<b>Camarillo</b>	Goleta	Oroville	Stanton
Capitola	Grass Valley	Pacifica	Stockton
Carmel	Half Moon Bay	Palmdale	Taft
Chino Hills	Hawthorne	Palo Alto	Temecula
Chula Vista	Healdsburg	<b>Pasadena</b>	Temple City
Claremont	Hemet	Patterson	<b>Thousand Oaks</b>
Colma	Hercules	Perris	Tiburon
Commerce	Hermosa Beach	Pico Rivera	Tustin
Corcoran	Huntington Beach	Piedmont	Twentynine Palms
Coronado	Indian Wells	Pinole	Union City
Costa Mesa	Indio	Pittsburg	Upland
Covina	La Habra	Placentia	Vallejo
Crescent City	La Mesa	Pleasant Hill	Villa Park
Cudahy	La Quinta	Pleasanton	Walnut
Cupertino	La Verne	Port Hueneme	West Covina
Cypress	Laguna Niguel	Rancho Cucamonga	West Sacramento
Daly City	Lake Forest	Redding	Westminster
Dana Point	Lakewood	Redwood City	Winters
Del Rey Oaks	Lemon Grove	Rialto	Woodland
Dinuba	Livermore	Richmond	Woodside
Duarte	Lodi	Rio Vista	Yountville
Dublin	Los Alamitos	Riverside	Yuba City
El Cajon	Los Altos Hills	Rohnert Park	Yucca Valley

# PARS IRS-APPROVED SECTION 115 TRUST



**Subaccounts**  
 OPEB and Pension assets are individually sub-accounted, and can be divided by dept., bargaining group, or cost center

**Financial Stability**  
 Assets in the PARS Section 115 Combination Trust can be used to address unfunded liabilities.

**Flexible Investing**  
 Allows separate investment strategies for OPEB and Pension subaccounts.

**Anytime Access**  
 Trust funds are available anytime; OPEB for OPEB and Pension for Pension.

**Economies-of-Scale**  
 OPEB and Pension assets aggregate and reach lower fees on tiered schedule sooner – saving money!

**No Set Up Cost or Minimums**  
 No set-up costs, no minimum annual contribution amounts, and no fees until assets are added.

# OPEB ACTUARIAL RESULTS

Data from 2021 ACFR Valuation Date: June 30, 2019	Pay-as-you-Go Discount Rate: 2.16%	Percent Change	Prefunding Discount Rate: 5.16%
<b>Total OPEB Liability (TOL)</b>	\$8,756,453	30-36% ▼	?
<b>Fiduciary Net Position</b>	\$0	--	\$0
<b>Net OPEB Liability (NOL)</b>	\$8,756,453	30-36% ▼	?
<b>Service Cost for FY 2020-21</b>	\$491,142	30-36% ▼	?
<b>Annual Benefit Payments (Pay-as-you-Go) for FY 2020-21</b>	\$111,775	--	\$111,775

**Rule of thumb:** For every one percent increase in the discount rate, the unfunded liability is lowered by 10-12%.

# WHY PREFUND OPEB OBLIGATIONS?

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- Greater expected rate of return (discount rate) which lowers your liabilities
- Contributions into trust are “assets” that offset liabilities on financial statements
- GASB 68 – Pension liabilities listed as line item on Balance Sheet in 2015  
GASB 75 – OPEB liabilities listed as line item on Balance sheet in 2018
- **GFOA recommends prefunding OPEB and considers it “best practice” (January 2012)**
- Credit rating companies look more favorably on agencies who adopt an Irrevocable Trust and prefund
  - At least 4 agencies have improved credit rating
  - Higher credit rating means lower borrowing costs
- OPEB assets are accessible for OPEB expenses at any time
- Prefunding has no downside other than market fluctuation (similar to pension)

# BACKGROUND – PENSION

- Since 2015, GASB 68 has required disclosing Net Pension Liability on financial statements as a line item on the balance sheet
- Before the concept of pension prefunding, the only way to reduce retirement system unfunded liabilities was to send additional contributions in excess of annual required employer contributions
- Pension trust prefunding assets can be transferred to the retirement system at the Agency's direction, which can help offset future rate increases (i.e., pension rate stabilization).

## CalPERS Changes

CalPERS has announced changes directly affecting unfunded liability amounts and employer contributions:

### Lowering of Discount Rate <sup>1</sup>

**7.0%**  
▼  
**6.8%**

CalPERS lowered the discount rate from 7.0% to 6.8%. The impact is reflected in the June 30, 2021 valuation reports.

<sup>1</sup> Contributions from policy changes beginning FY 23-24.

### Shortened Amortization Period <sup>2</sup>

**30 years**  
▼  
**20 years**

New actuarial liabilities are amortized over 20 years instead of 30, increasing required annual employer contribution amounts\*

<sup>2</sup> 5-year ramp up in payments beginning FY 15-16 with full impact in FY 19/20.





# PENSION FUNDING STATUS

As of June 30, 2020, City of Calabasas’s CalPERS pension plan is funded as follows:

Combined Miscellaneous Groups *	Valuation as of June 30, 2019	Valuation as of June 30, 2020	Change
Actuarial Liability	\$38.5 M	\$41.7 M	8.4% ↑
Assets	\$30.5 M	\$32.7 M	7.3% ↑
Unfunded Liability	\$8.1 M	\$9.1 M	12.6% ↑
Funded Ratio	79.1%	78.3%	1.0% ↓
Employer Contribution Amount	\$1.2 M (FY 20-21)	\$1.3 M (FY 21-22)	6.4% ↑
Employer Contribution Amount – Projected *	---	\$1.7 M (FY 27-28)	31.4% ↑

\* Data through 2027-28 from Agency’s latest CalPERS actuarial valuation.

# WHY PREFUND PENSION OBLIGATIONS?

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## 1. Complete Local Control over Assets

Agency has complete control over assets, including contributions, disbursements and the timing, amount, and risk tolerance level of investments

## 2. Pension Rate Stabilization

Assets can be transferred to the retirement system at the Agency's direction, potentially reducing/eliminating large fluctuations in employer contribution amounts

## 3. Rainy Day Fund

Emergency source of funds when employer revenues are strained in difficult budgetary or economic times

## 4. Diversification

Allows for investment flexibility and offers the potential for assets to earn greater returns than the general fund; spread the risk vs. sending additional money to CalPERS



# SIMPLE INVESTMENT APPROACH

## 1. Input Phase

- Target discount rate
- Risk tolerance
- Investment philosophy
- Asset allocation
- Timing on use of funds

## 2. Model Portfolios

Strategy	Equity
Capital Appreciation	65-85%
Balanced	50-70%
Moderate	40-60%
Moderately Conservative	20-40%
Conservative	5-20%

## 3. Dedicated Portfolio Manager

- Makes recommendation
- Fiduciary responsibility
- Drafts investment policy
- Annual on-site reviews
- Cell phone access

# PROGRAM FEES

As of March 31, 2022

## Trust Administration/Consulting Fees\*



### Plan Set-Up Fee:

None

### Ongoing Fees:

0.25%	for assets \$0-10 million
0.20%	for assets \$10-15 million
0.15%	for assets \$15-50 million
0.10%	for assets over \$50 million

## Discretionary Trustee/Investment Management Fees\*\*



### Plan Set-Up Fee:

None

### Ongoing Fees:

0.35%	for assets under \$5 million
0.25%	for assets \$5-10 million
0.20%	for assets \$10-15 million
0.15%	for assets \$15-50 million
0.10%	for assets over \$50 million

\* PARS does not receive any compensation from the investments or any commissions, back-end loads, or any other forms of compensation.

\*\* Subject to change due to rebalancing, as fees are waived for plan assets in First American Funds (money market)

# HIGHMARK CAPITAL MANAGEMENT

As of March 31, 2022

## ACTIVE PORTFOLIO RETURNS

Strategy	Equity (%)	1 Year	3 Years	5 Years	10 Years
Capital Appreciation	65-85%	4.22%	11.34%	9.99%	9.19%
Balanced	50-70%	2.49%	9.69%	8.73%	7.94%
Moderate	40-60%	1.50%	8.42%	7.64%	6.99%
Moderately Conservative	20-40%	-0.56%	5.80%	5.48%	5.16%
Conservative	5-20%	-2.02%	3.88%	3.92%	3.79%

\* Past performance does not guarantee future results.

# WHY TAKE THIS STEP?

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1. **Smooths out rate volatility**

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2. **Offers hedge against inflation**

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3. **Provides a fiscal tool in your financial toolbox**

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4. **Prepare today for tomorrow's realities**

**Questions?**