CalPERS CEPPT Program

Kensington Police Protection
and
Community Services District
February 25, 2020

CalPERS

Why Prefund Employer Pension Contributions?

Why Prefund Employer Pension Contributions?

- Employer pension contributions are increasing
  - Employer budgets are not increasing at the same rate
- Asset-liability relationships can be volatile
  - Economic and investment volatility
- Employers seeking general fund investment alternatives
  - Looking for higher yields than County treasury and LAIF
- Increased investment income can reduce employer pension contributions from principal assets and save employers money

Pension Liabilities

Employer Pension Cost Considerations

- Normal cost
  - Ongoing
  - PEPRA is cheaper than classic but increases with payroll
- Unfunded accrued liabilities (UAL)
  - Currently exist for most agencies
  - Will reoccur if plan experience is negative
- Overall cost trends
  - Likely to increase for 10 years due to unfunded liabilities
  - Likely to decrease with PEPRA but increase with payroll

Employer Pension Contribution Projections*

Fiscal Year	Payroll	Normal Cost Contribution (% of Payroll)	Normal Cost Contribution	Unfunded Accrued Liability Payment	Total Contribution
2019-20	**$222,668,205**	9.006%	**$20,053,499**	**$46,684,999**	**$66,738,498**
2020-21	$228,235,925	9.7%	$22,138,885	$51,444,000	$73,582,885
2021-22	$234,512,413	9.7%	$22,747,704	$57,309,000	$80,056,704
2022-23	$240,961,504	9.7%	$23,373,266	$62,184,000	$85,557,266
2023-24	$247,587,946	9.7%	$24,016,031	$64,775,000	$88,791,031
2024-25	$254,396,614	9.7%	$24,676,472	$68,051,000	$92,727,472
2025-26	$260,756,529	9.7%	$25,293,383	$61,959,349	$87,252,732
2026-27	$267,275,443	9.7%	$25,925,718	$64,506,907	$90,432,625
2027-28	$273,957,329	9.7%	$26,573,861	$66,362,182	$92,936,043
2028-29	$280,806,262	9.7%	$27,238,207	$68,270,370	$95,508,577
2029-30	**$287,826,418**	9.7%	**$27,919,163**	**$70,232,574**	**$98,151,737**

*Data for 2019-2025 is from 6/30/2017 CalPERS actuarial valuation report. Data for 2025-2030 are not actuarial projections.

Prefunding Pension Contributions

Pension Contribution Tools for Employers

- Full pre-payment of annual UAL payment
- Additional discretionary payments (ADP) of UAL
- Re-amortization of bases (“Fresh Start”)
- **Establish “Section 115” pension contribution prefunding trust**

Pension Contribution Prefunding Trust Options

- Establish and grow a contingency reserve
  - For revenue and contribution volatility
- Prefund future normal cost payments
- Prefund future annual UAL payments
- Prefund future ADP's
  - Make smaller more frequent ADP's
    - Mitigate market timing risk

Pension Contribution Prefunding Trust Benefits

- Grow assets for future pension contributions
- Retain liquidity of trust assets via reimbursement
- Invest assets over different time horizons than pension fund
- Invest assets with less volatility than pension fund
- Earn more investment income than in shorter term options (e.g. LAIF and County Treasury)
- Irrevocably dedicate assets for future pension contributions

Investment Management

Investment Considerations

- What is my investment time horizon?
- What is the appropriate level of investment risk?
- What is the associated level of expected investment return?
- Which investment strategy best matches my needs?
- How do I establish realistic expectations?
- How do I measure performance?

CEPPT and CERBT Investment Policies

- CalPERS Board accepts investment fiduciary responsibility
  - GC 21710-21715 (CEPPT)
  - GC 53620-53622 (CERBT)
- CalPERS Board approves investment policy
- Policies managed compliantly by the same skilled investment professionals that manage the Public Employees Retirement Fund (PERF)
  - External asset class management by SSgA

CEPPT and CERBT Investment Policies

Investment risk is managed through:

- Investment policy compliance
- Broad diversification of assets
- Performance measured against established benchmarks
  - Consistently low tracking error
- Oversight by independent external investment consultant, CFO, and Office of Enterprise Risk Management

CEPPT/CERBT Expected Rates of Return & Risk

Portfolios	CERBT Strategy 1	CERBT Strategy 2	CEPPT Strategy 1	CERBT Strategy 3	CEPPT Strategy 2
Expected Time-Weighted Net Return, Near Term	5.85%	5.22%	5.00%	4.41%	4.00%
Expected Time-Weighted Blended Net Return, Longer Term	7.59%	7.01%	N/A	6.22%	N/A
Standard Deviation of Expected Investment Returns	11.83%	9.24%	8.2%	7.28%	5.2%

Near term is 10 years. Longer term is 60 years. Expected returns are net of fees. CERBT total fees are 10 bps. CEPPT total fees are 25 bps. CERBT data use 2018 capital market assumptions. CEPPT data use 2019 capital market assumptions. Standard deviation is 10 years.

CEPPT Asset Class Target Allocations

Asset Classification	Benchmark	Strategy 1	Strategy 2
Global Equity	MSCI ACWI IMI (Net)	40% ±5%	14% ±5%
Fixed Income	Bloomberg Barclays U.S. Aggregate Bond Index	47% ±5%	73% ±5%
Global Real Estate (REITs)	FTSE EPRA/NAREIT Developed Liquid (Net)	8% ±5%	8% ±5%
Treasury Inflation Protected Securities (TIPS)	Bloomberg Barclays US TIPS Index (Series L)	5% ±3%	5% ±3%
Liquidity	91-Day Treasury Bill	0% +2%	0% +2%

CERBT Asset Class Target Allocations

Asset Classification	Benchmark	Strategy 1	Strategy 2	Strategy 3
Global Equity	MSCI All Country World Index	59% ±5%	40% ±5%	22% ±5%
Fixed Income	Barclays Capital Long Liability Index	25% ±5%	43% ±5%	49% ±5%
Global Real Estate (REITs)	FTSE EPRA/NAREIT Developed Liquid Index	8% ±5%	8% ±5%	8% ±5%
Treasury Inflation Protected Securities (TIPS)	Barclays Capital Global Real: US TIPS Index	5% ±3%	5% ±3%	16% ±3%
Commodities	S&P GSCI Total Return Index	3% ±3%	4% ±3%	5% ±3%
Liquidity	91-Day Treasury Bill	0% +2%	0% +2%	0% +2%

CEPPT Investment Strategy Considerations

- Shorter to intermediate term investment horizon
  - Lower volatility investment strategy required
- We expect lower average account balances than OPEB
- We expect earlier and more frequent disbursements
- These cash flow factors require aligning investment strategy with investment horizon
  - If misaligned, there is greater risk of investment return underperformance and of higher investment volatility

CERBT Investment Returns – Time Weighted

Periods Ended January 31, 2019

Fund	Assets	1 Month	3 Months	FYTD	1 Year	3 Years	5 Years	10 Years	ITD
CERBT Strategy 1 (Inception June 1, 2007)	$9,258,438,272	-0.09%	3.57%	6.84%	14.20%	9.02%	6.64%	8.24%	5.17%
Benchmark		-0.07%	3.56%	6.77%	14.15%	8.79%	6.32%	8.09%	4.81%
CERBT Strategy 2 (Inception October 1, 2011)	$1,427,467,936	0.67%	3.12%	6.57%	13.85%	8.27%	5.84%	NA	7.62%
Benchmark		0.69%	3.12%	6.52%	13.86%	8.04%	5.53%	NA	7.44%
CERBT Strategy 3 (Inception January 1, 2012)	$670,732,405	1.25%	2.66%	5.99%	12.89%	7.13%	4.83%	NA	5.96%
Benchmark		1.25%	2.66%	5.96%	12.89%	6.95%	4.58%	NA	5.74%

Time weighted return reports the performance of the investment vehicle, not of the employer assets. Returns are gross. Historical performance is not necessarily indicative of actual future investment performance or of future total program cost. Current and future performance may be lower or higher than the historical performance data reported here. Investment return and principal value may fluctuate so that your investment, when redeemed, may be worth more or less than the original cost. The value of an employer's CERBT fund shares will go up and down based on the performance of the underlying funds in which the assets are invested. The value of the underlying funds' assets will, in turn, fluctuate based on the performance and other factors generally affecting the securities market.

Funding Policies

CEPPT Funding Policy Considerations

- Will my liabilities increase or decrease over time?
- When will my contributions reach their peak?
- When will I reimburse my CEPPT assets?
- Which CEPPT investment strategy best matches my needs at this time?

Employer Controls the CEPPT Funding Policy

- Chooses appropriate CEPPT investment strategy
  - Based on investment time horizon
- Decides if, when, and how much to contribute
  - Voluntary and never required
- Decides if and when to seek reimbursement of CEPPT assets
  - Any pension contributions made this fiscal year are reimbursable

Disclaimer

The following information assumes a single investment outcome of a 5% annualized compounded rate of return and is used for simple illustration only. It does not consider the probabilistic range of investment outcomes that are likely to be the actual experience from one year to the next. Actual outcomes will almost certainly differ. Assets can be gained or lost.

Compounding Interest Model

Investment Duration (Years)	1	2	3	4	5	6	7	8	9	10	11
Nominal Expected Compounded Annualized Rate of Investment Return	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Cumulative Expected Compounded Rate of Investment Return	5%	10%	16%	22%	28%	34%	41%	48%	55%	63%	71%
Required Investment Principal Contribution Needed to Generate $1	$0.95	$0.91	$0.86	$0.82	$0.78	$0.75	$0.71	$0.68	$0.64	$0.61	$0.58

Employer Normal Cost Contribution Prefunding Scenario ($ Millions)

Fiscal Year	Normal Cost Contribution	Investment Duration (Years)										
		1	2	3	4	5	6	7	8	9	10	11
2019-20	$20.1	$19.1										
2020-21	$22.1	$21.1	$20.1									
2021-22	$22.7	$21.7	$20.6	$19.7								
2022-23	$23.4	$22.3	$21.2	$20.2	$19.2							
2023-24	$24.0	$22.9	$21.8	$20.7	$19.8	$18.8						
2024-25	$24.7	$23.5	$22.4	$21.3	$20.3	$19.3	$18.4					
2025-26	$25.3	$24.1	$22.9	$21.8	$20.8	$19.8	$18.9	$18.0				
2026-27	**$25.9**	$24.7	$23.5	$22.4	$21.3	$20.3	$19.3	$18.4	**$17.5**			
2027-28	$26.6	$25.3	$24.1	$23.0	$21.9	$20.8	$19.8	$18.9	$18.0	$17.1		
2028-29	$27.2	$25.9	$24.7	$23.5	$22.4	$21.3	$20.3	$19.4	$18.4	$17.6	$16.7	
2029-30	$27.9	$26.6	$25.3	$24.1	$23.0	$21.9	$20.8	$19.8	$18.9	$18.0	$17.1	$16.3

Employer UAL Contribution Prefunding Scenario ($ Millions)

Fiscal Year	UAL Contribution	Investment Duration (Years)										
		1	2	3	4	5	6	7	8	9	10	11
2019-20	$46.7	$44.5										
2020-21	$51.4	$49.0	$46.7									
2021-22	$57.3	$54.6	$52.0	$49.5								
2022-23	$62.2	$59.2	$56.4	$53.7	$51.2							
2023-24	$64.8	$61.7	$58.8	$56.0	$53.3	$50.8						
2024-25	$68.1	$64.8	$61.7	$58.8	$56.0	$53.3	$50.8					
2025-26	$62.0	$59.0	$56.2	$53.5	$51.0	$48.5	$46.2	$44.0				
2026-27	**$64.5**	$61.4	$58.5	$55.7	$53.1	$50.5	$48.1	$45.8	**$43.7**			
2027-28	$66.4	$63.2	$60.2	$57.3	$54.6	$52.0	$49.5	$47.2	$44.9	$42.8		
2028-29	$68.3	$65.0	$61.9	$59.0	$56.2	$53.5	$50.9	$48.5	$46.2	$44.0	$41.9	
2029-30	$70.2	$66.9	$63.7	$60.7	$57.8	$55.0	$52.4	$49.9	$47.5	$45.3	$43.1	$41.1

Participation Costs

CEPPT/CERBT Total Participation Cost Fee Rates

- Total all-inclusive cost of participation is expressed in basis points and applied to employer assets under management
  - CEPPT is currently 25 basis points
  - CERBT is currently 10 basis points
  - CEPPT and CERBT are separate, self-funded, trust funds
  - CEPPT and CERBT do not profit
  - Employer account charged daily
  - Rate can be changed without prior notice and may be higher or lower in the future

CERBT Fee Rate History

Fiscal Year	Total Participation Cost
2007-2008	2.00 basis points
2008-2009	6.00 basis points
2009-2010	9.00 basis points
2010-2011	12.00 basis points
2011-2012	12.00 basis points
2012-2013	15.00 basis points
2013-2014	14.00 basis points
2014-2015	10.00 basis points
2015-2016	10.00 basis points
2016-2017	10.00 basis points
2017-2018	10.00 basis points
2018-2019	10.00 basis points
2019-2020	10.00 basis points

Advantages of the CEPPT and CERBT

Advantages of the CEPPT and CERBT

- Investment management expertise and scale
- Lowest total participation cost
- Dedicated customer outreach and support team
- Streamlined administration
- GASB compliant financial reporting

Contacts and Communication

Questions? Where to Get Trust Fund Information?

Name	Title	E-mail	Desk	Mobile
Matt Goss	Outreach & Support Program Manager	Matthew.Goss@calpers.ca.gov	(916) 795-9071	(916) 382-6487
Karen Lookingbill	Outreach & Support Manager	Karen.Lookingbill@calpers.ca.gov	(916) 795-1387	(916) 501-2219
Jasper Jacobs	Outreach & Support Analyst	Jasper.Jacobs@calpers.ca.gov	(916) 795-0432	(916) 717-3886
Colleen Cain-Herrback	Administration & Reporting Program Manager	Colleen.Cain-Herrback@calpers.ca.gov	(916) 795-2474	(916) 505-2506
Robert Sharp	Assistant Division Chief	Robert.Sharp@calpers.ca.gov	(916) 795-3878	(916) 397-0756

Program E-mail Addresses	Prefunding Programs Webpages
CERBT4U@calpers.ca.gov – Questions & Document Submittal	www.calpers.ca.gov/CERBT
CEPPT4U@calpers.ca.gov – Questions & Document Submittal	www.calpers.ca.gov/CEPPT
CERBTACCOUNT@calpers.ca.gov – Online Record Keeping System	