



Staff Report

TO: Finance and Audit Committee Members
FROM: Jennifer Ustation, Finance Director
DATE: January 10, 2022
SUBJECT: Pension Funding Policy and Investment Strategy for PARS 115 Trust

Background and Analysis:

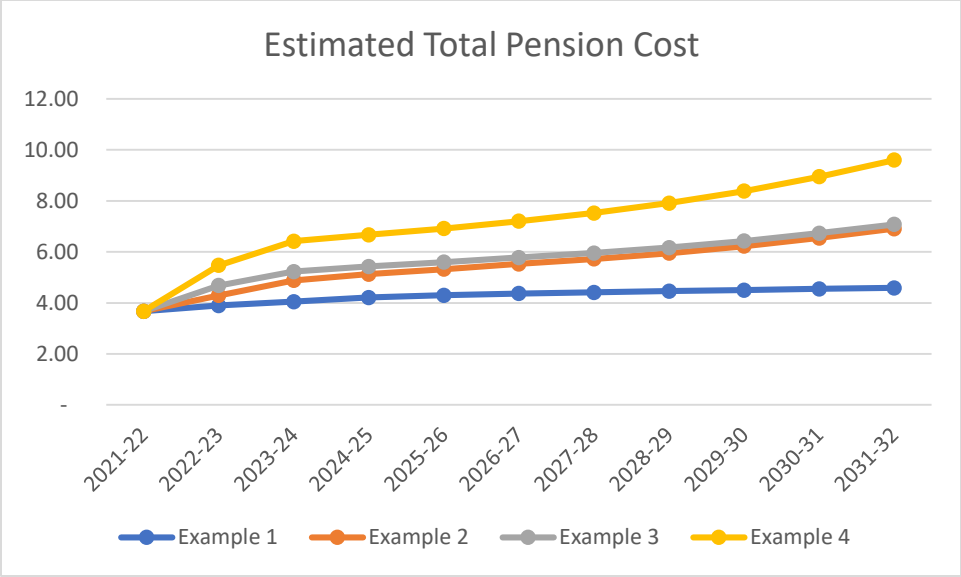
On September 21, 2021, City Council was presented with an update on CalPERS which discussed the current unfunded liability, the recent trigger of CalPERS Funding Risk Mitigation Policy and where CalPERS was in their current Asset Liability Management Process. City Council directed City staff to research pension 115 trust options, model financial scenarios and create a pension funding policy.

On December 7, 2021, City Council approved to establish a pension 115 trust with Public Agency Retirement Services (PARS). The next steps in the process were to model financial scenarios and provide City Council with options on a funding policy with a recommendation from the Finance and Audit Committee to fund the trust. Once the funding policy and investment strategy have been chosen, PARS will provide an investment policy tailored to the chosen investment strategy for the Finance and Audit Committee to review and recommend to City Council for approval.

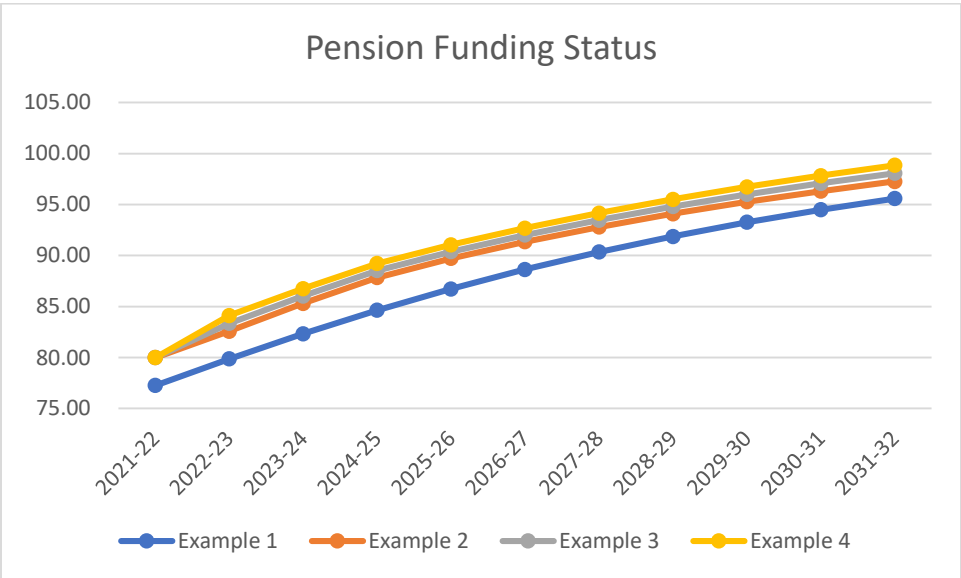
Pension Funding Policy Examples

Provided as Attachment A is a funding policy matrix. The matrix provides what the City is currently required to do through CalPERS (example 1) which then builds to add an extra layer of funding level. The matrix addresses time frame, funding components, allowable uses of funding components, service delivery outcomes and fiscal impact. The City is currently 75.7% funded as of June 30, 2020, valuation.

The cost to the City for each layer of funding level has been modeled to each example in the matrix. These costs are estimates as the actual results of scenarios are unknown at this point. Once the policy is put in place it will be prudent to evaluate results every year to determine if the costs outweigh the results.



The overall pension funding status will vary based on the actual inputs into the system. City staff has modeled the scenarios that have been provided to determine the estimated pension funding status based off of the scenarios provided.

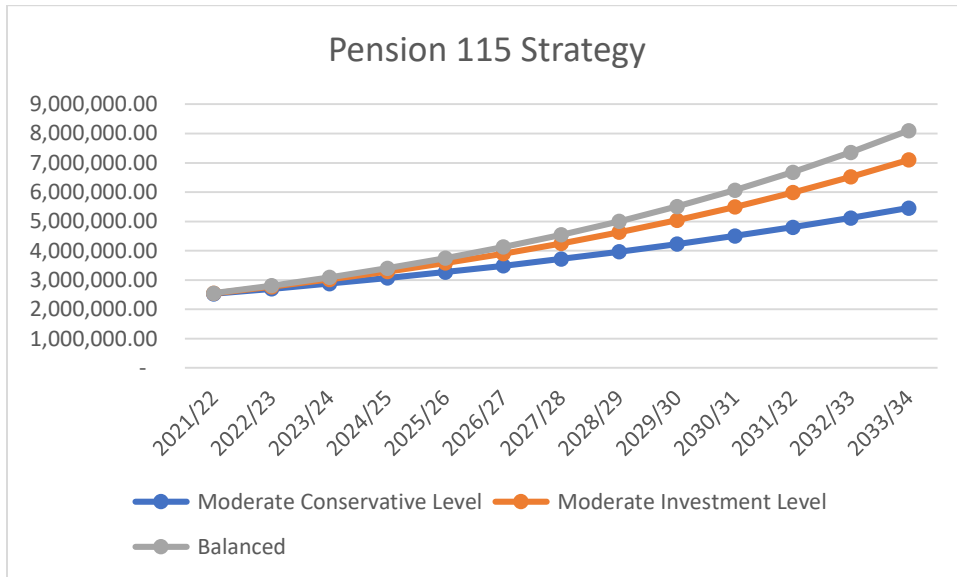


Pension 115 Trust Investment Strategy

PARS provides five (5) different strategy options with each option being either an active or passive approach. An active approach allows for actively buying and selling assets in the anticipation of making profits and outperforming a benchmark. A passive approach is a long-term strategy in which investors buy and hold a diversified mix of assets in an effort to match, not beat the market. City staff has modeled out three of the five options

with potential scenarios based on the five-year return for each of the strategies at an active level.

<u>Strategy</u>	<u>Equity %</u>	<u>Fixed Income</u>	<u>Cash</u>
Moderate Conservative	20-40%	50-80%	0-20%
Moderate	40-60%	40-60%	0-20%
Balanced	50-70%	30-50%	0-20%



City Staff Recommendations

City staff recommends starting with Example 2 for the funding policy with an active moderate investment strategy. Example 2 has shown to have a target funding level of 85% with a minimum funding level of 80% and maximum level of 100%. Steps will be taken during the budget process to determine if Example 3 could be implemented without impacting service delivery. Costs of this funding policy could be reduced, should the pension 115 trust outperform the model. Providing an active approach will potentially allow the investments earnings to outperform the benchmark therefore reducing the amount needed to be appropriated to the trust.

Recommended Action:

Discuss pension funding policy and investment strategy and provide recommendation for City Council.

Attachments:

- A. Pension Funding Policy Matrix
- B. HighMark Portfolio Performance Reports as of September 30, 2021