



Legislation Details (With Text)

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| Title: | Discussion on Section 115 OPEB (Other Post-Employment Benefits) Trust and Pension Trust Investment Report for the Quarter Ended March 31, 2022 | | | | |
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| Date | Ver. | Action By | Action | Result |
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Discussion on Section 115 OPEB (Other Post-Employment Benefits) Trust and Pension Trust Investment Report for the Quarter Ended March 31, 2022

SUMMARY AND RECOMMENDATION

Staff recommends that the Finance Committee (Committee) review the OPEB Trust and Pension Trust investment report for the quarter ended March 31, 2022. This report is for information only.

BACKGROUND

OPEB Trust

In Fiscal Year (FY) 2008-09, the City established a Section 115 OPEB Trust with PARS. The primary objective is to accumulate resources in the trust and generate investment income to fund the City's OPEB obligations in future years. The trust account was set up with an initial contribution of \$500,000, and the City has been proactive in funding its unfunded liabilities. Over the years, the City Council has authorized various contributions into the trust. At the end of March 2022, the assets in the OPEB Trust total \$20.8 million including contributions and investment earnings. The inception-to-date investment return is 6.02%.

Pension Trust

In June 2021, the City Council authorized the establishment of a Section 115 Pension Trust with PARS. The goal is to set aside funds and accumulate investment earnings to buy down the City's unfunded pension liabilities. The \$750,000 annual budget allocation that was used to fund the OPEB Trust would be used to fund the Pension Trust effective FY 2020-21. As part of the FY 2021-23 budget adoption, the City Council also approved a \$5 million contribution to the trust.

The City transferred \$1.5 million to PARS in the first quarter to open the trust account, and the remaining \$5.0 million was transferred to PARS in the second and third quarters of FY 2021-2022. Using a dollar-cost averaging strategy to invest funds helped the City to reduce the risks of

volatility/market downturns.

At the end of March 2022, the assets in the Pension Trust total \$6.3 million. The inception-to-date investment return is -5.13%. The stock market has been volatile lately due to the Ukraine crisis, inflation, and supply chain shortages. Assets in the Pension Trust are planned for long-term investment and fluctuations are expected from time to time.

As part of the FY 2021-22 mid-year budget review, the City Council authorized a one-time contribution in the amount of \$608,500 to the Pension Trust in March 2022. Funds will be transferred to the trust in the current FY or in the next FY depending on the market conditions.

Pension costs are expected to go down in an estimated 20 years as more employees participate in the less generous California Public Employees' Pension Reform Act (PEPRA) plans, which took effect in January 2013. The table below shows the percentages of participation in the Classic and PEPRA plans as of April 2022.

| Category | Classic | PEPRA |
|-------------------------|---------|-------|
| All Employees | 51% | 49% |
| Miscellaneous Employees | 50% | 50% |
| Sworn Employees | 56% | 44% |

Highmark Capital has prepared a quarterly investment report for the OPEB Trust and Pension Trust for the period ending March 31, 2022, summarizing the investment performance. Representatives from PARS and Highmark Capital will be attending the May 3rd meeting to provide the Committee an update regarding the market outlook and investment performance.

DISCUSSION

At the time the OPEB Trust was established, the City selected a "Moderately Conservative" investment strategy. The objective is to provide current income and moderate capital appreciation. The investment time horizon is long-term. With this risk tolerance, the trust can accept modest price fluctuations to pursue its investment objectives.

The Investment Guidelines Document for the OPEB Trust provides that the asset allocation shall generally be in the ranges presented below, allowing for some reweighting by the Investment Manager if the actual weighting differs substantially.

| OPEB Trust - Strategic Asset Allocation Ranges | | |
|---|--------------|-------------|
| Cash | Fixed Income | Equity |
| 0%-20% | 50%-80% | 20%-40% |
| Policy: 5% | Policy: 65% | Policy: 30% |

For the Pension Trust, the City selected a "Moderate" investment strategy. The primary objective is to generate a reasonable level of growth. The investment time horizon is slightly longer than the horizon for the OPEB Trust. With this risk tolerance, the trust can accept price fluctuations to pursue its investment objectives. The "Moderate" strategy is more aggressive than the "Moderately Conservative" strategy, and the investment return is expected to be higher in the long term.

| <i>Pension Trust - Strategic Asset Allocation Ranges</i> | | |
|---|--------------|-------------|
| Cash | Fixed Income | Equity |
| 0-20% | 40%-60% | 40%-60% |
| Policy: 5% | Policy: 45% | Policy: 50% |

The asset allocations for both the OPEB Trust and the Pension Trust for the quarter ended March 31, 2022, comport with the policies.

Assets in the OPEB Trust portfolio decreased from \$22.0 million in the prior quarter to \$20.8 million. Assets in the Pension Trust were \$6.3 million mainly representing initial contributions from the City. Fluctuations are expected from time to time due to changes in market conditions.

Investment returns are as follows. Please refer to the attached investment report for details.

| Trust | 3 Months | 1 Year | 3 Years | 5 Years | 10 Years | Inception to Date |
|----------------|-----------------|---------------|----------------|----------------|-----------------|--------------------------|
| OPEB | -5.23% | -0.58% | 5.79% | 5.46% | 5.13% | 6.02% |
| Pension | -4.86 | N/A | N/A | N/A | N/A | -5.13% |

ATTACHMENT(S)

- Investment Report for the Quarter Ended March 31, 2022

PREPARED BY

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