

# California Employers Pension Prefunding Trust (CEPPT)

Burney Water District

February 14, 2023

# Outline for Discussion

- CalPERS Prefunding Trust Funds
- Pension Cost Considerations & Outlook
- CalPERS Pension Funding Tools
- CEPPT 115 Trust
  - Investments
  - Administration
- Next Steps

# CalPERS IRC Section 115 Trust Funds

## California Employers' Retiree Benefit Trust (CERBT - OPEB)

- Voluntarily prefund non-pension, other post-employment benefits (OPEB)
- Established 2007
- 598 employer participants
- ~\$16B invested assets
- 3 Investment Portfolio choices

## California Employers' Pension Prefunding Trust (CEPPT - Pension)

- Voluntarily prefund required pension contributions
- Established 2019
- 79 employer participants
- ~\$100M invested assets
- 2 Investment Portfolio choices

# Prefunding Program Employers

**620 contracting employers (598 CERBT and 79 CEPPT)**



State of California



156 Cities or Towns



10 Counties

81 School Employers



32 Courts



340 Special Districts &  
Public Agencies



# Pension Cost Considerations & Outlook

## Cost Considerations

- **Normal Cost**
  - Ongoing perpetual cost
  - Naturally rises due to payroll & headcount
- **Unfunded Accrued Liability (UAL)**
  - Exists for most agencies
  - Will reoccur if plan is negative
  - 6.8% interest

## Outlook

- Likely to increase for the next 5 to 15 years
- Fluctuating volatile costs
- Employers will need to budget more

## Burney Water District's CalPERS Pension Plans Summary

Plan	Funded Status (6/30/2021)	Unfunded Liability (6.8% Interest)	UAL Payment 2022-23	Normal Cost 2022-23	Total Contribution 2022-23
Miscellaneous Plan	78.2%	\$753,971	\$80,364	\$33,025	\$113,389
PEPRA Miscellaneous Plan	105.7%	(\$11,255)	\$0	\$14,338	\$14,338
Totals	79.6%	\$742,716	\$80,364	<b>\$47,363</b>	\$127,727

# Pay Down Your Miscellaneous Pension Debt Faster and Save

Date	Current Amortization Schedule		Alternate Schedules			
	Balance	Payment	10 Year Amortization		5 Year Amortization	
			Balance	Payment	Balance	Payment
6/30/2023	700,648	80,364	700,648	95,638	700,648	164,468
6/30/2024	665,240	80,093	649,456	95,638	578,324	164,467
6/30/2025	627,706	77,608	594,783	95,638	447,683	164,467
6/30/2026	590,185	74,918	536,392	95,638	308,159	164,468
6/30/2027	552,894	70,950	474,030	95,638	159,146	164,468
6/30/2028	517,169	73,557	407,428	95,638		
6/30/2029	476,320	76,243	336,297	95,638		
6/30/2030	429,918	78,995	260,329	95,638		
6/30/2031	377,516	81,828	179,195	95,638		
6/30/2032	318,623	80,680	92,544	95,639		
6/30/2033	256,911	79,385				
6/30/2034	192,341	76,422				
6/30/2035	126,441	71,535				
6/30/2036	61,113	23,728				
6/30/2037	40,746	17,964				
6/30/2038	24,953	11,841				
6/30/2039	14,413	7,079				
6/30/2040	8,078	3,965				
6/30/2041	4,531	4,683				
6/30/2042						
6/30/2043						
6/30/2044						
6/30/2045						
6/30/2046						
6/30/2047						
6/30/2048						
6/30/2049						
6/30/2050						
6/30/2051						
6/30/2052						
<b>Total</b>		<b>1,071,838</b>		<b>956,381</b>		<b>822,338</b>
<b>Interest Paid</b>		<b>371,190</b>		<b>255,733</b>		<b>121,690</b>
<b>Estimated Savings</b>				<b>115,457</b>		<b>249,500</b>

# Tools to Proactively Manage Pension Costs

## ADP (Additional Discretionary Payment)

- Makes up past underperformance
- Reduces pension UAL
- Catch up strategy
- Liquidity consideration

## CEPPT Sec 115 Trust

- Stabilizes future cash flow
- Improves future capacity to pay
- Catch up and keep up strategy



# Why Prefund Pension Contributions?

Grow assets for future pension contributions (Normal cost, UAL, ADP)

Earn higher than LAIF or County Treasury

Stabilize future budgets

Create rainy day fund

Preserve liquidity

# 10 Year Compounding Interest Scenario

Investment Duration (Years)	1	2	3	4	5	6	7	8	9	10
Expected Compounded Annualized Rate of Investment Return	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Cumulative Expected Compounded Rate of Investment Return	4%	9%	14%	19%	25%	30%	36%	42%	49%	55%
Future Value of \$1	\$1.04	\$1.09	\$1.14	\$1.19	\$1.25	\$1.30	\$1.36	\$1.42	\$1.49	\$1.55
Required Investment Principal Contribution Needed to Generate \$1M	\$957K	\$916K	\$876K	\$839K	\$802K	\$768K	\$735K	\$703K	\$673K	\$644K

# Pension Contribution Investment Tools

Portfolios	CalPERS Pension	CEPPT Strategy 1	CEPPT Strategy 2	LAIF
Expected Return	6.8%	4.5%	3.5%	~1%
Risk	11.4%	8.8%	6.1%	Lowest
Time Horizon	Longest Term	Employer Determined		Shortest Term
Liquidity	No	Yes		Yes

# CEPPT Portfolio Details

Asset Classification	Benchmark	CEPPT Strategy 1	CEPPT Strategy 2
Global Equity	MSCI All Country World Index IMI (Net)	37% ±5%	21% ±5%
Fixed Income	Bloomberg US Aggregate Bond Index	44% ±5%	61% ±5%
Global Real Estate (REITs)	FTSE EPRA/NAREIT Developed Index (Net)	14% ±5%	9% ±5%
Treasury Inflation Protected Securities (TIPS)	Bloomberg US TIPS Index, Series L	5% ±3%	9% ±3%
Cash	91-Day Treasury Bill	0% +2%	0% +2%

# Investment Returns Outperform Benchmarks

Periods Ended November 30, 2022

CERBT OPEB	Assets	1 Month	3 Months	FYTD	1 Year	3 Years	5 Years	10 Years	ITD
CERBT Strategy 1 (Inception June 1, 2007)	\$13,459,360,123	6.45%	0.06%	2.00%	-12.85%	3.73%	4.66%	6.37%	4.86%
Benchmark		6.44%	0.08%	1.99%	-13.00%	3.48%	4.40%	6.03%	4.46%
CERBT Strategy 2 (Inception October 1, 2011)	\$1,721,150,600	6.15%	-0.99%	0.17%	-13.71%	1.97%	3.62%	5.04%	6.07%
Benchmark		6.12%	-0.98%	0.16%	-13.78%	1.80%	3.42%	4.74%	5.80%
CERBT Strategy 3 (Inception January 1, 2012)	\$754,489,489	5.75%	-1.73%	-1.06%	-13.26%	0.96%	2.89%	3.86%	4.52%
Benchmark		5.71%	-1.74%	-1.09%	-13.31%	0.82%	2.73%	3.56%	4.25%
<b>CERBT Total</b>	<b>\$15,935,000,212</b>								

CEPPT PENSION	Assets	1 Month	3 Months	FYTD	1 Year	3 Years	5 Years	10 Years	ITD
CEPPT Strategy 1 (Inception October 1, 2019)	\$70,265,817	5.55%	0.06%	1.31%	-12.13%	1.96%	-	-	2.58%
Benchmark		5.53%	0.01%	1.29%	-12.30%	1.85%	-	-	2.50%
CEPPT Strategy 2 (Inception January 1, 2020)	\$26,939,687	4.67%	-0.55%	-0.26%	-11.87%	-	-	-	-0.50%
Benchmark		4.66%	-0.60%	-0.31%	-11.97%	-	-	-	-0.63%
<b>CEPPT Total</b>	<b>\$97,205,504</b>								

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 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.

# You Control Your Participation

## Investment portfolio

- 2 investment options or choose both
- Sub-account creation

## Voluntary contributions

- Never required
- Full control of amount and schedule

## Reimbursement/Liquidity

- Reimburse current year total pension expense (Normal cost + UAL + ADP)

# CEPPT Purpose #1 – Grow Your Pension Assets

## Prefund future pension costs in advance

- Normal Costs: FYE23: \$47,363 and increasing each year
- UAL Payment: FYE23: \$80,364 and increasing each year
- ADPs to reduce Pension UAL: \$742,716

## Take advantage of time and compounding interest

## Use this approach to dollar cost average ADPs

- Mitigate market timing and large single contribution risks

# Hypothetical Normal Cost Prefunding Scenario

Fiscal Year	Estimated Normal Cost	Investment Duration (Years)											
		1	2	3	4	5	6	7	8	9	10	11	
2022-23	\$47.4K	\$45.3K											
2023-24	\$48.7K	\$46.6K	\$44.6K										
2024-25	\$50.0K	\$47.9K	\$45.8K	\$43.8K									
2025-26	\$51.4K	\$49.2K	\$47.0K	\$45.0K	\$43.1K								
2026-27	\$52.8K	\$50.5K	\$48.3K	\$46.3K	\$44.3K	\$42.4K							
2027-28	\$54.2K	\$51.9K	\$49.7K	\$47.5K	\$45.5K	\$43.5K	\$41.7K						
2028-29	\$55.7K	\$53.3K	\$51.0K	\$48.8K	\$46.7K	\$44.7K	\$42.8K	\$41.0K					
2029-30	\$57.3K	\$54.8K	\$52.4K	\$50.2K	\$48.0K	\$46.0K	\$44.0K	\$42.1K	\$40.3K				
2030-31	\$58.8K	\$56.3K	\$53.9K	\$51.6K	\$49.3K	\$47.2K	\$45.2K	\$43.2K	\$41.4K	\$39.6K			
2031-32	\$60.5K	\$57.9K	\$55.4K	\$53.0K	\$50.7K	\$48.5K	\$46.4K	\$44.4K	\$42.5K	\$40.7K	\$38.9K		
2032-33	\$62.1K	\$59.4K	\$56.9K	\$54.4K	\$52.1K	\$49.9K	\$47.7K	\$45.7K	\$43.7K	\$41.8K	\$40.0K	\$38.3K	



# CEPPT Purpose #2 – Rainy Day Fund

- Will likely outperform LAIF and earn more interest
- Will allow for greater budgetary stability

Plan	3 Months Pension Cost
Miscellaneous	\$28,347
PEPRA Miscellaneous	\$3,585
<b>Total</b>	<b>\$31,932</b>

# CEPPT Employer Controls the Funding Policy

Send in pension reserves

Initial contributions but future contributions undetermined

Additional Discretionary Payments + 115 trust contributions

Ad-hoc, undetermined, future budget cycle

# Total Participation Cost Fee Rate

- All-inclusive cost of participation
  - 25 basis points (bps) fee on asset balance
  - Combines administrative, custodial, and investment fees
  - Self-funded, not-for-profit, fee rate may change in the future
- Zero cost to join CEPPT and setup account

## Fee Rate Illustration

Asset Value on Deposit*	All-Inclusive Fee Rate	Annual Cost
\$1,000,000	25 Basis Points (0.25%)	\$2,500

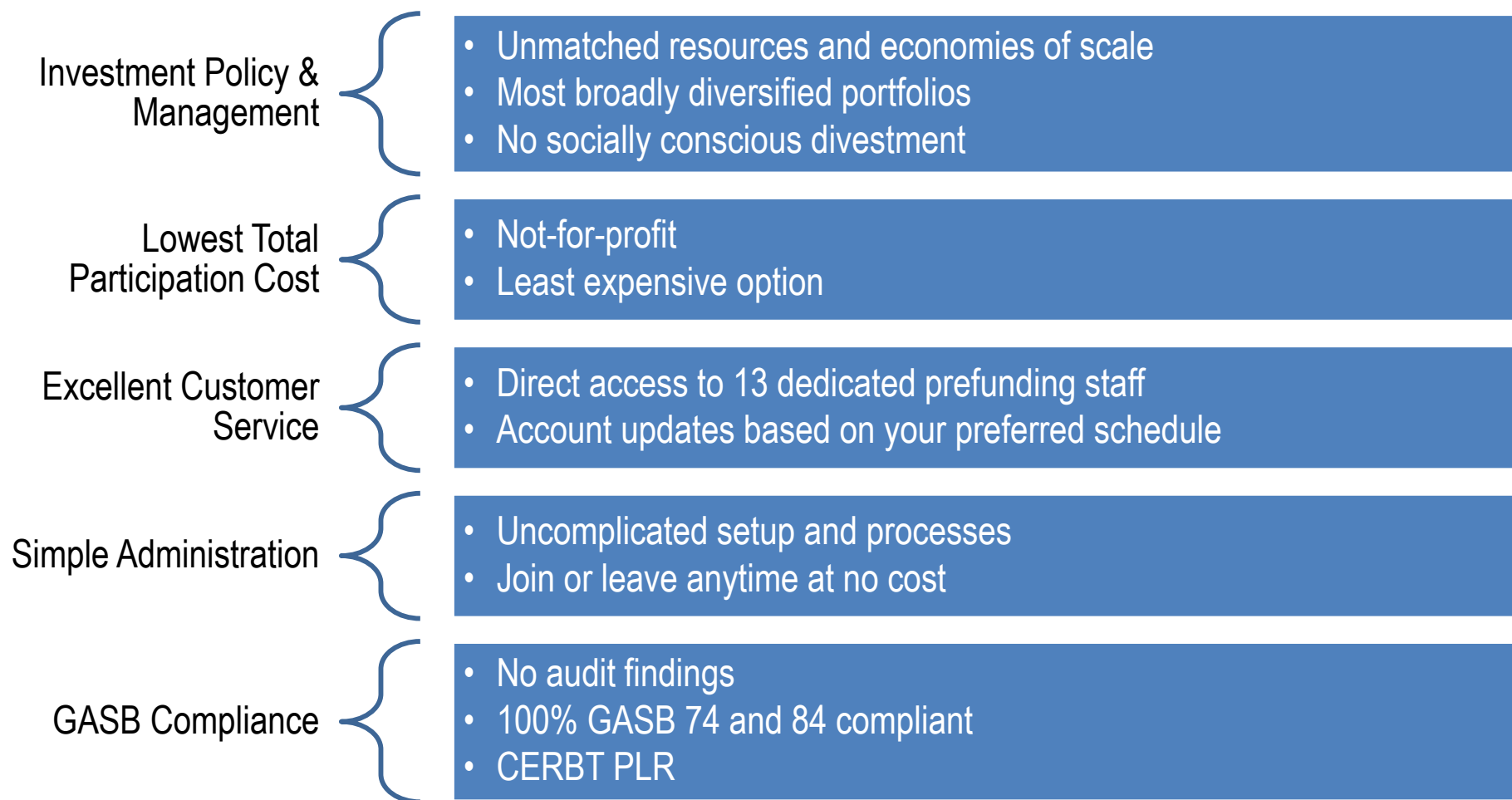
\*Asset values shown assume the amount is deposited on the first day of a 12-month calendar year and remains constant the entire 12 months ending on the last day with the exact same amount. No investment gains/losses, or contribution additions/withdrawals are experienced at any time during the 12 months.

There are **no** additional fees of any kind. No set-up, joining, renewal, contribution, disbursement, termination fees. No minimum contribution amount.

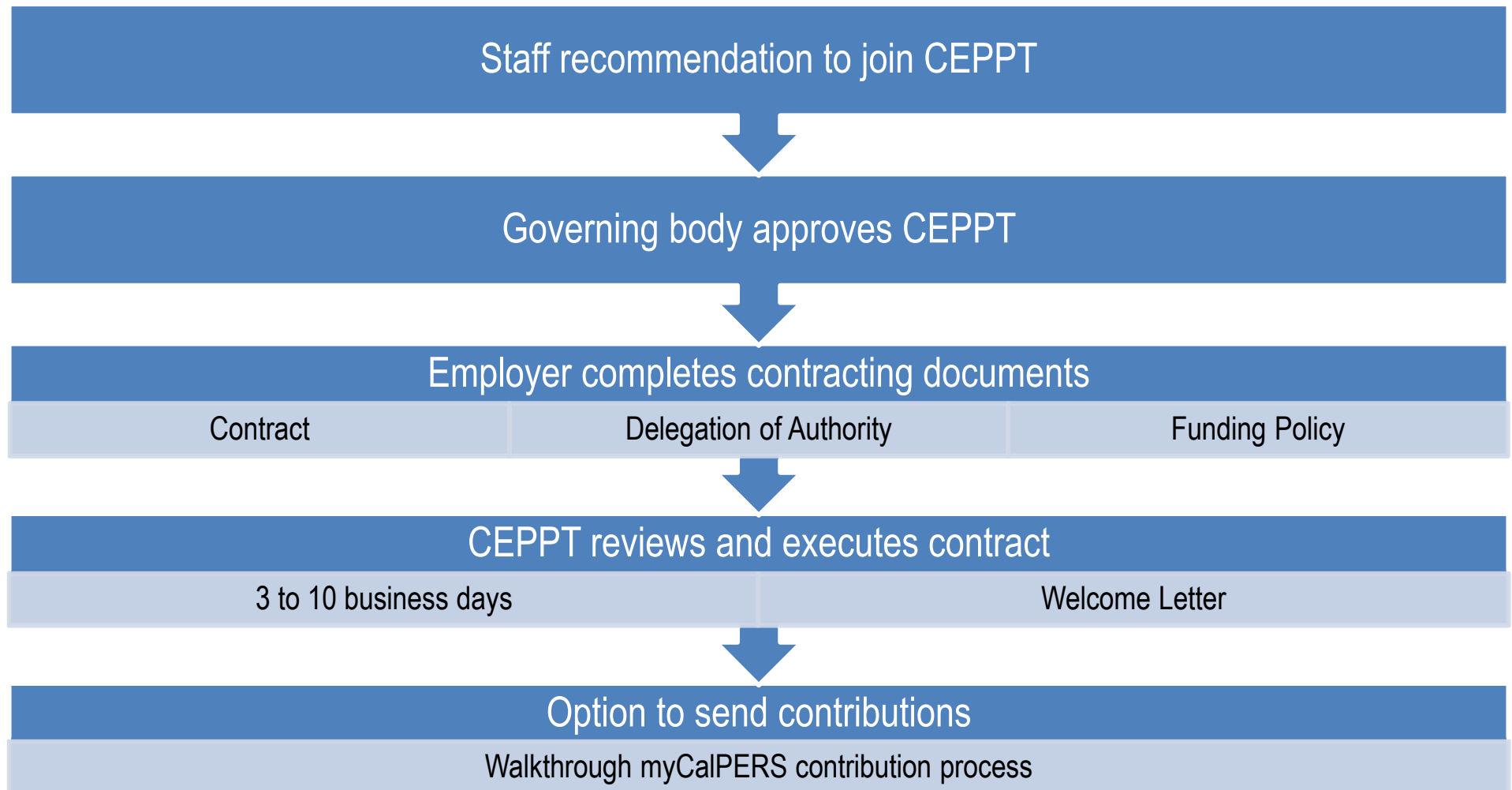
# CEPPT/CERBT Consistently Low Fee Rate History

Fiscal Year	CERBT	CEPPT
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	25.00 basis points
2020-2021	10.00 basis points	25.00 basis points
2021-2022	10.00 basis points	25.00 basis points
2022-2023	10.00 basis points	25.00 basis points

# Advantages of the CEPPT



# Uncomplicated Contracting Process



# Contracting Documents

## Governing Body

Contract Agreement

Delegation of Authority  
to Request Disbursements

## Agency

Funding Policy

# Next Steps

## Continue Pay-As-You-Go Option

- Most expensive approach
- Rely 100% on current & future operating budget
- Increasing pension costs may stress future budget

## Setup CEPPT Option

- ✓ Higher investment income than LAIF/Treasury
- ✓ Stabilize future cash flow & reduce budget dependency
- ✓ Rainy day fund
- ✓ Voluntary contributions & retain liquidity



# Questions? Where to Get Trust Fund Information?

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