

California Employers Pension Prefunding Trust (CEPPT)

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
- 597 employer participants
- \$15.8B invested assets
- 3 Investment Portfolio choices

California Employers' Pension Prefunding Trust (CEPPT - Pension)

- Voluntarily prefund required pension contributions
- Established 2019
- 78 employer participants
- \$91M invested assets
- 2 Investment Portfolio choices

Prefunding Program Employers

619 contracting employers (597 CERBT and 78 CEPPT)



State of California



156 Cities or Towns



10 Counties

81 School Employers



32 Courts



339 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

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	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 Index	8% ±5%	8% ±5%
Treasury Inflation Protected Securities (TIPS)	Barclays Capital Global Real: US TIPS Index	5% ±3%	5% ±3%
Cash	3-Month Treasury Bill	0% +2%	0% +2%

Investment Returns Outperform Benchmarks

Periods Ended October 31, 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)	\$12,516,618,331	3.32%	-9.58%	-4.18%	-19.64%	2.05%	3.66%	5.82%	4.46%
Benchmark		3.31%	-9.54%	-4.18%	-19.79%	1.81%	3.40%	5.48%	4.06%
CERBT Strategy 2 (Inception October 1, 2011)	\$1,617,589,748	1.84%	-10.32%	-5.64%	-19.76%	0.26%	2.63%	4.52%	5.54%
Benchmark		1.86%	-10.27%	-5.61%	-19.82%	0.09%	2.43%	4.22%	5.28%
CERBT Strategy 3 (Inception January 1, 2012)	\$713,633,483	0.87%	-10.57%	-6.43%	-18.62%	-0.76%	1.92%	3.37%	4.02%
Benchmark		0.89%	-10.55%	-6.44%	-18.65%	-0.88%	1.76%	3.07%	3.75%
CERBT Total	\$14,847,841,562								

CEPPT PENSION	Assets	1 Month	3 Months	FYTD	1 Year	3 Years	5 Years	10 Years	ITD
CEPPT Strategy 1 (Inception October 1, 2019)	\$65,500,411	2.18%	-8.44%	-4.02%	-17.64%	0.41%	-	-	0.86%
Benchmark		2.19%	-8.47%	-4.02%	-17.81%	0.34%	-	-	0.80%
CEPPT Strategy 2 (Inception January 1, 2020)	\$25,685,433	0.88%	-8.05%	-4.71%	-16.05%	-	-	-	-2.11%
Benchmark		0.88%	-8.09%	-4.75%	-16.16%	-	-	-	-2.24%
CEPPT Total	\$91,185,844								

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, UAL Payment, and ADPs

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	\$211K	\$202K											
2023-24	\$217K	\$208K	\$199K										
2024-25	\$223K	\$214K	\$204K	\$196K									
2025-26	\$229K	\$220K	\$210K	\$201K	\$192K								
2026-27	\$236K	\$226K	\$216K	\$207K	\$198K	\$189K							
2027-28	\$242K	\$232K	\$222K	\$212K	\$203K	\$194K	\$186K						
2028-29	\$249K	\$238K	\$228K	\$218K	\$209K	\$200K	\$191K	\$183K					
2029-30	\$256K	\$245K	\$234K	\$224K	\$214K	\$205K	\$196K	\$188K	\$180K				
2030-31	\$263K	\$251K	\$241K	\$230K	\$220K	\$211K	\$202K	\$193K	\$185K	\$177K			
2031-32	\$270K	\$258K	\$247K	\$237K	\$226K	\$217K	\$207K	\$198K	\$190K	\$182K	\$174K		
2032-33	\$277K	\$265K	\$254K	\$243K	\$233K	\$223K	\$213K	\$204K	\$195K	\$187K	\$179K	\$171K	

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	X
Safety	Y
Total	Z

CEPPT Employer Controls the Funding Policy

Send in pension reserves

- Golden Sierra Job Training Agency, San Gabriel Valley COG, Santa Clara County Housing Authority

Initial contributions but future contributions undetermined

- Butte County Mosquito VCD, City of Santa Fe Springs, El Dorado County Transportation Commission, Midway City Sanitary District

Additional Discretionary Payments + 115 trust contributions

- Chino Basin Wastewater Conservation District, City of Belvedere, City of Sierra Madre

Ad-hoc, undetermined, future budget cycle

- Beaumont-Cherry Valley RPD, City of Laguna Woods, Scotts Valley Fire Protection District

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

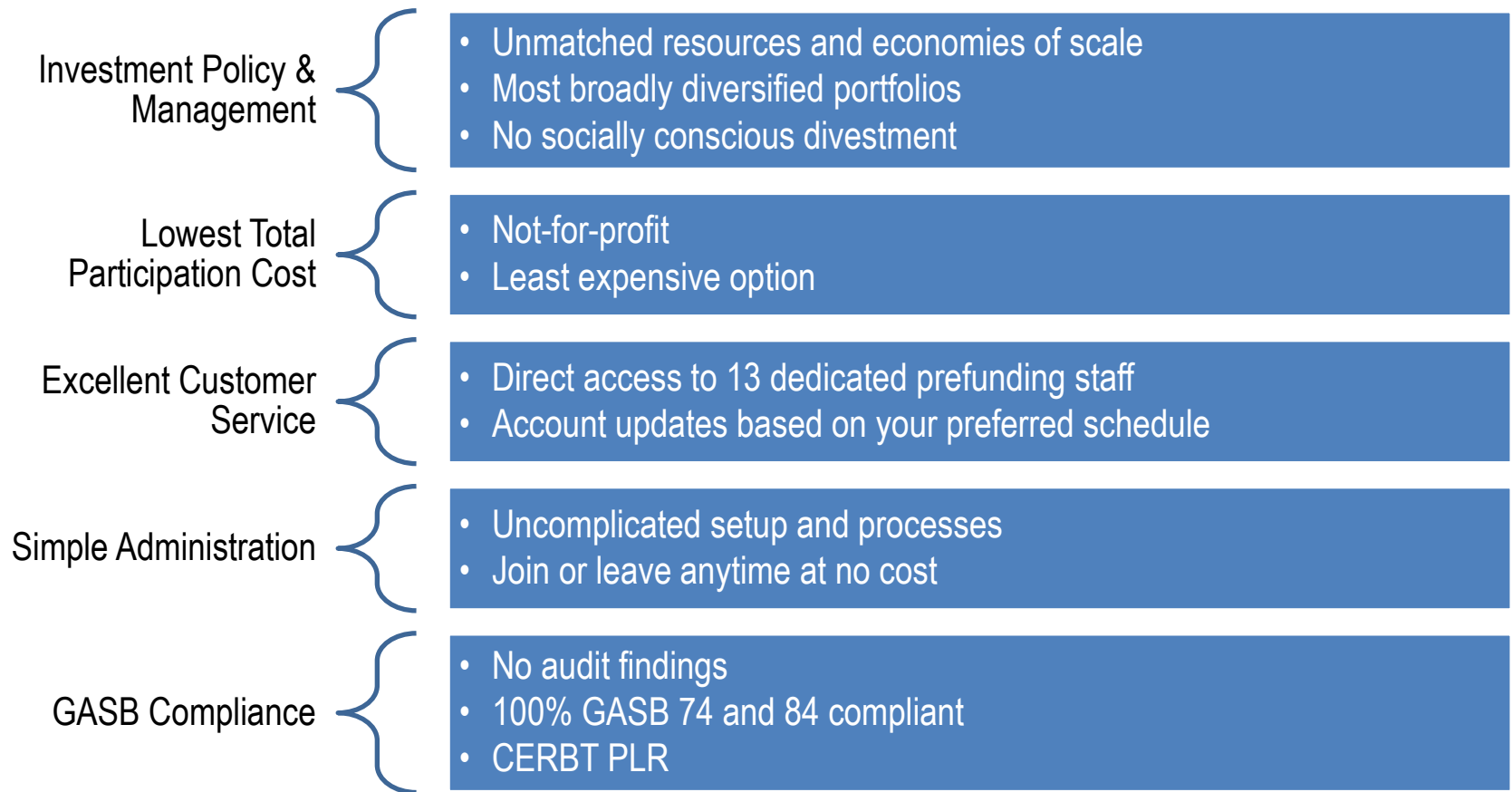
*Asset values shown assume the amount is deposited on the first day of a 12-month calendar year and remains constant the entire 12 months ending on the last day with the exact same amount. No investment gains/losses, or contribution additions/withdrawals are experienced at any time during the 12 months.

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

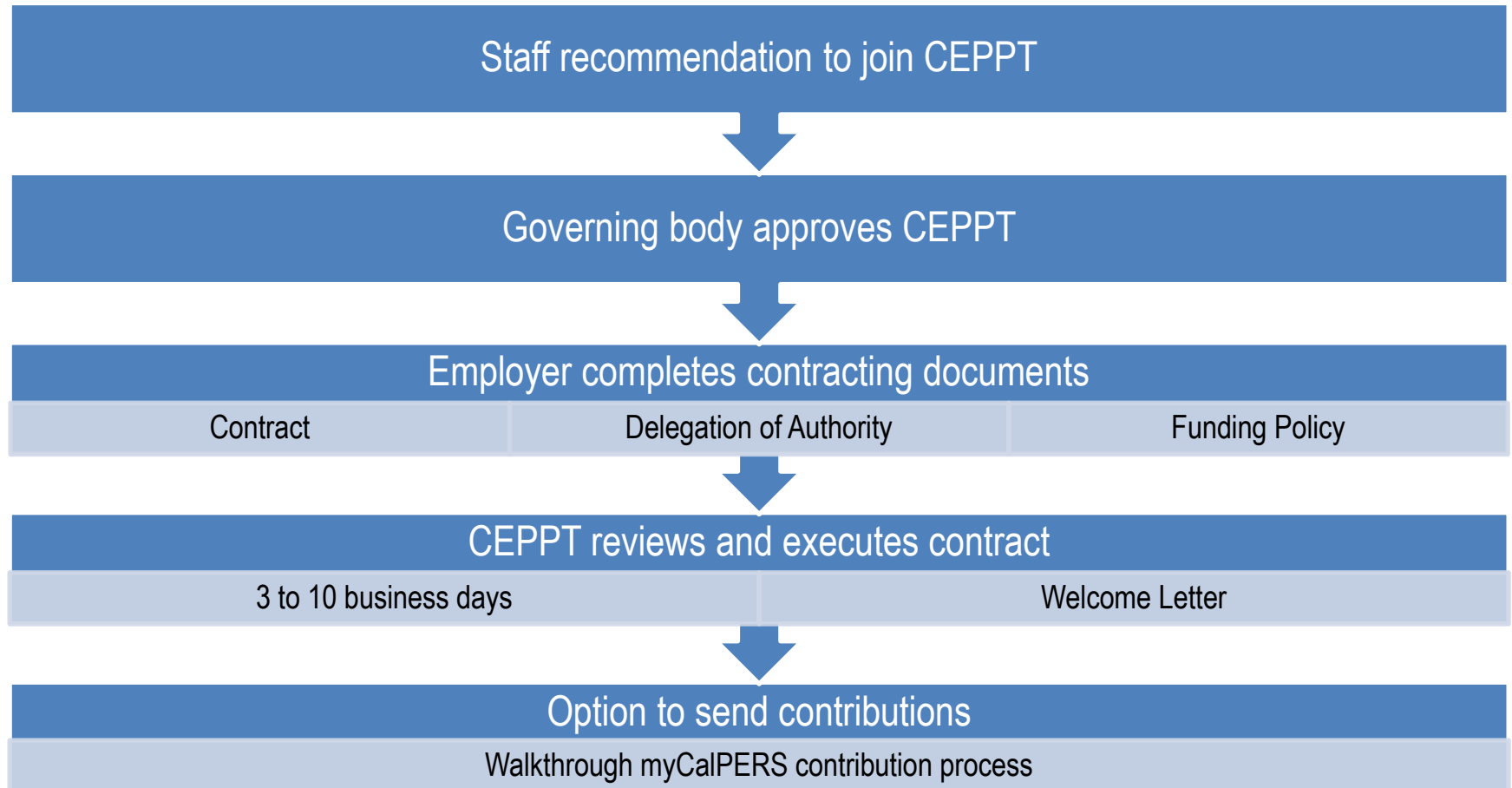
CEPPT/CERBT Consistently Low Fee Rate History

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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