

CalPERS Prefunding Programs

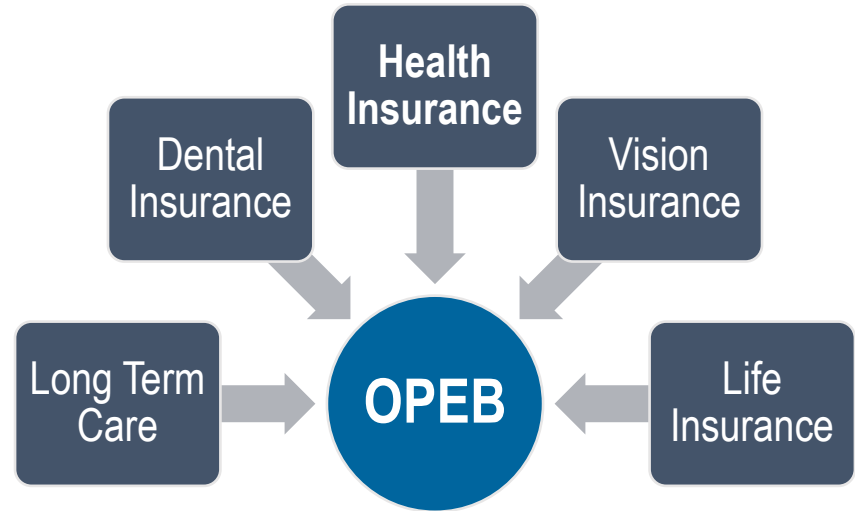
Strategies for Prefunding
OPEB and Pension

Agenda

- What is OPEB?
- Why Prefund OPEB?
- Pension Cost Components and Tools
- Why Prefund Pension?
- Next Steps
- Questions and Contacts

What is OPEB?

Other Post-Employment Benefits (OPEB) are non-pension benefits provided to retirees.



Why Does OPEB Create an Employer Liability?



Explicit Subsidy

A direct subsidy paid by the former employer toward a retiree's premiums
Employer pays for all or a portion of the premium for retiree and/or dependent =
OPEB liability



Implicit Subsidy

Employer provides access to coverage where retiree premiums are the same
cost as active premiums
Excess of expected retiree claims over premiums charged = **OPEB liability**

Why Prefund OPEB?

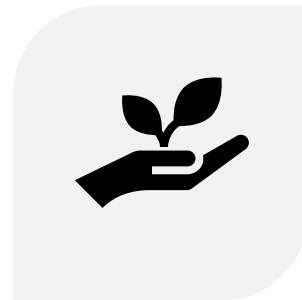
Why Prefunding OPEB is More Cost-Effective



REDUCES FUTURE
LIABILITIES



POTENTIAL FOR
INVESTMENT GROWTH
AND LOWER COSTS

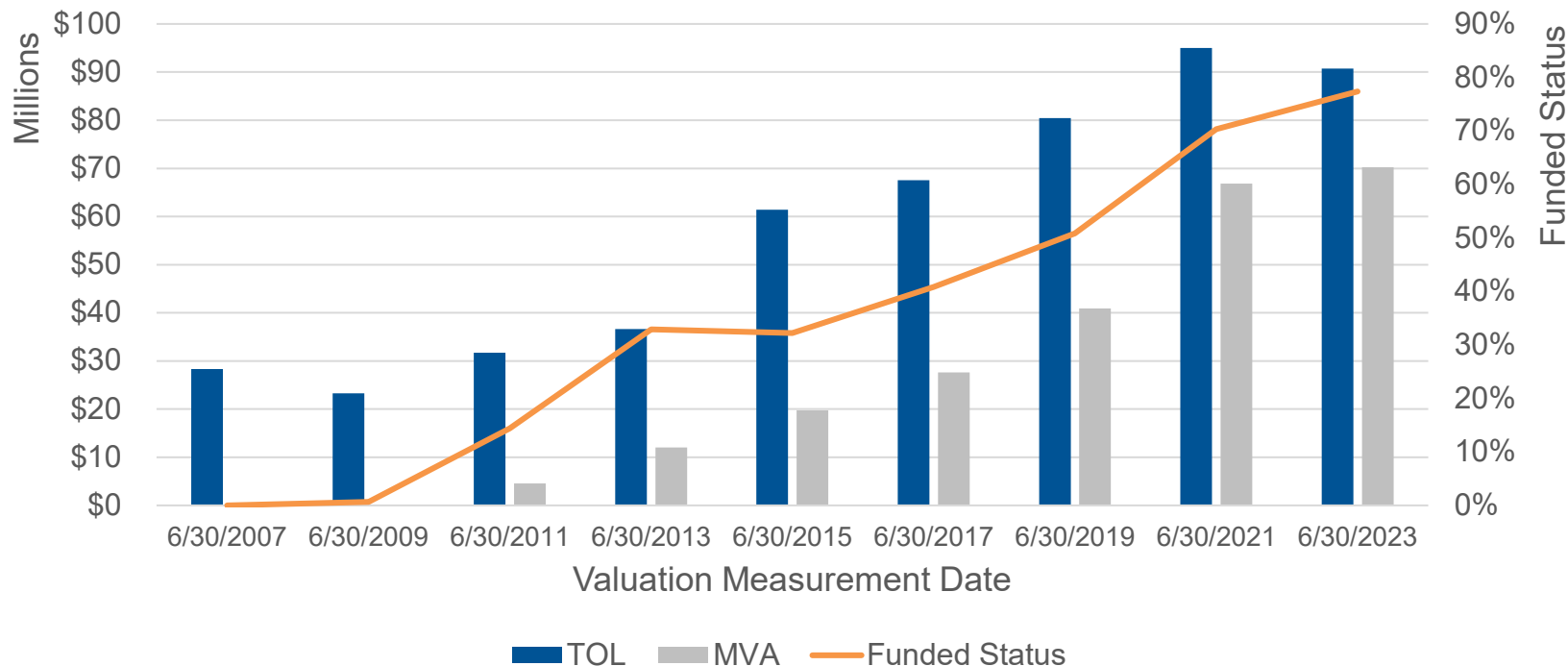


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Example: School's Prefunding vs. Pay-Go

Measurement Date	6/30/2019 (Pay-Go)	6/30/2021 (Prefund)
Discount Rate	3.13%	5.00%
Total OPEB Liability	\$1,523,835	\$1,433,070
Cumulative Section 115 Contributions	\$0	\$153,021
Net Investment Income Generated	\$0	\$14,493
Market Value of Assets	\$0	\$167,514
Net OPEB Liability	\$1,523,835	\$1,265,545
Funded Status	0%	13%

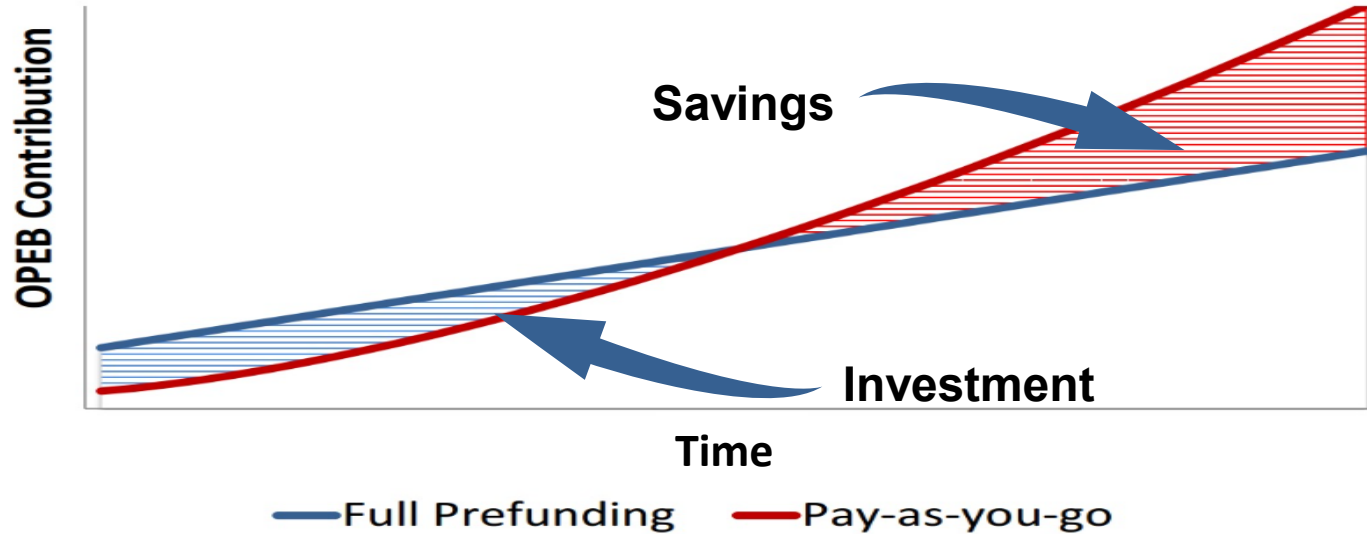
Example: County's OPEB Cash Flow



Financial Reporting Outcomes

Financial Statements	Policy A Pay-Go NO Prefunding	Policy B FULL Prefunding	Policy C PARTIAL Prefunding
Total OPEB Liability	\$76.7	\$50.3	\$61.4
Market Value of Assets	\$0	\$15.0	\$7.5
Net OPEB Liability	\$76.7	\$35.3	\$53.9

Prefunding OPEB Becomes Cheaper Than Pay-Go



Source: United States Common Sense

Pension Cost Components

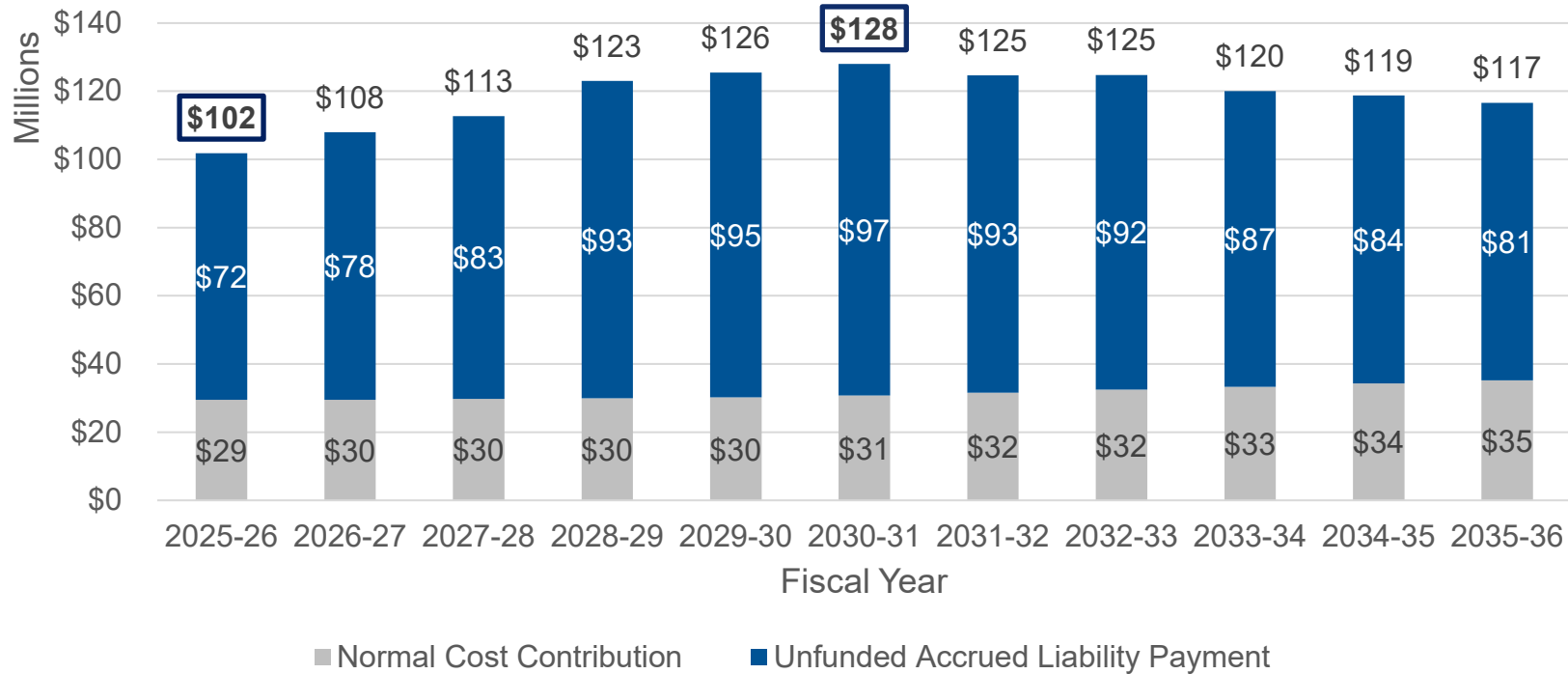
Pension Cost Considerations



Cost Considerations

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

Pension Contribution Example



Prefunding Cost Management Tools

Pension Management Tools

July UAL Prepayment

	Fiscal Year
Required Employer Contributions	2025-26
Employer Normal Cost Rate	22.82%
Plus	
Unfunded Accrued Liability (UAL) Contribution Amount	\$3,058,059
Paid either as	
1) Monthly Payment	\$254,838
Or	
2) Annual Prepayment Option*	\$2,959,104
The total minimum required employer contribution is the sum of the Plan's Employer Normal Cost Rate (expressed as a percentage of payroll and paid as payroll is reported) and the Unfunded Accrued Liability (UAL) Contribution Amount (billed monthly (1) or prepaid annually (2) in dollars). * Only the UAL portion of the employer contribution can be prepaid (which must be received in full no later than July 31). For Member Contribution Rates see the following page.	

Pension Management Tools

UAL Fresh Start Program

Date	Current Amortization Schedule		Alternative Schedules			
	Balance	Payment	15 Year Amortization		10 Year Amortization	
			Balance	Payment	Balance	Payment
6/30/2025	68,574,779	5,972,030	68,574,779	7,193,746	68,574,779	9,360,418
6/30/2026	67,066,124	6,562,222	65,803,553	7,193,746	63,564,426	9,360,418
6/30/2027	64,844,954	6,998,520	62,843,884	7,193,746	58,213,369	9,360,418
6/30/2028	62,021,855	8,003,037	59,682,957	7,193,746	52,498,440	9,360,418
6/30/2029	57,968,675	8,203,638	56,307,087	7,193,746	46,394,896	9,360,418
6/30/2030	53,432,569	8,369,874	52,701,658	7,193,746	39,876,311	9,360,418
6/30/2031	48,416,214	7,418,080	48,851,060	7,193,746	32,914,462	9,360,418
6/30/2032	44,042,369	7,313,313	44,738,621	7,193,746	25,479,207	9,360,417
6/30/2033	39,479,373	6,784,689	40,346,536	7,193,746	17,538,356	9,360,418
6/30/2034	35,152,396	6,539,014	35,655,789	7,193,745	9,057,526	9,360,417
6/30/2035	30,785,075	6,134,216	30,646,073	7,193,746		
6/30/2036	26,539,109	5,417,279	25,295,695	7,193,746		
6/30/2037	22,745,331	4,943,038	19,581,491	7,193,745		
6/30/2038	19,183,677	4,439,769	13,478,722	7,193,745		
6/30/2039	15,899,929	4,031,398	6,960,965	7,193,746		
6/30/2040	12,814,913	3,761,263				
6/30/2041	9,799,283	2,800,268				
6/30/2042	7,571,721	2,646,005				
6/30/2043	5,352,106	5,531,085				
6/30/2044						
6/30/2045						
6/30/2046						
6/30/2047						
6/30/2048						
6/30/2049						
Total		111,868,738	107,906,187		93,604,178	
Interest Paid		43,293,959	39,331,408		25,029,399	
Estimated Savings			3,962,551		18,264,560	

Pension Management Tools

ADP (Additional Discretionary Payment)

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

Section 115 Trust

- Stabilizes future cash flow
- Improves future capacity to pay

Why Prefund Pension?

Advantages of Prefunding Pension



MAINTAIN LOCAL
CONTROL OF
INVESTMENT



POTENTIAL FOR
INVESTMENT GROWTH
AND LOWER COSTS



PRUDENT FINANCIAL
MANAGEMENT

Pension Funding Examples

Prefund future pension costs in advance

- Normal Costs, UAL Payments, Additional Discretionary Payments

Diversification for long-term investment success

Use this approach to dollar cost average ADPs

- Mitigate market timing and large single contribution risks

Rainy Day Fund

- Section 115 Trusts are geared toward higher yields and will likely outperform LAIF and earn more interest.
- Will provide additional income source and allow for greater budgetary stability.

Plan	Hypothetical Three Months Pension Cost
Miscellaneous	\$146,085
PEPRA Miscellaneous	\$33,964
Safety Police	\$150,346
Safety Fire	\$3,662
PEPRA Safety Police	\$17,024
Total	\$351,081

Next Steps

Next Steps



Schedule a consultation



Review funding options



Submit a contracting form



Setup trust account options

CalPERS IRC Section 115 Trust Funds

California Employers' Retiree Benefit Trust (CERBT - OPEB)

- Voluntarily prefund non-pension, other post-employment benefits (OPEB)
- Established 2007
- 593 employer participants
- ~\$28.8B assets

California Employers' Pension Prefunding Trust (CEPPT - Pension)

- Voluntarily prefund required pension contributions
- Established 2019
- 106 employer participants
- ~\$374M assets

CEPPT/CERBT Investment Portfolios

Portfolios	CERBT OPEB Strategy 1	CERBT OPEB Strategy 2	CERBT OPEB Strategy 3	CEPPT Pension Strategy 1	CEPPT Pension Strategy 2
Expected Return	6.4%	6.1%	5.8%	5.4%	4.9%
Standard Deviation	11.5%	9.5%	8.1%	8.4%	5.9%

Total Participation Cost Fee Rate

- All-inclusive cost of participation
 - CERBT OPEB: 8.5 basis points (bps) fee on asset balance
 - CEPPT Pension: 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

Asset Value on Deposit*	All-Inclusive Fee Rate	Annual Cost
\$1,000,000	8.5 Basis Points (0.085%)	\$850
\$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.

Questions?



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