



PUBLIC
AGENCY
RETIREMENT
SERVICES

PARS

TRUSTED SOLUTIONS. LASTING RESULTS.

CITY OF MERCED

Proposal for PARS Pension Rate Stabilization Program (PRSP)
October 15, 2018

PARS TRUST TEAM



Trust Administrator & Consultant

- Recordkeeping/sub-trust accounting
- Actuarial coordination
- Monitor contributions/process disbursements
- Monitor plan compliance
- Ongoing client liaison

Trustee

- Safeguard plan assets
- Oversight protection
- Plan fiduciary
- Custodian of assets

Investment Manager

- Investment sub-advisor to U.S. Bank
- Open architecture
- Investment strategy and asset allocation development
- Investment policy assistance

Corporate Experience

34 years (1984 – 2018)

155 years (1863 – 2018)

99 years (1919 – 2018)

Plans Under Administration

1,600+ plans, 850+ public agencies, 400,000+ participants

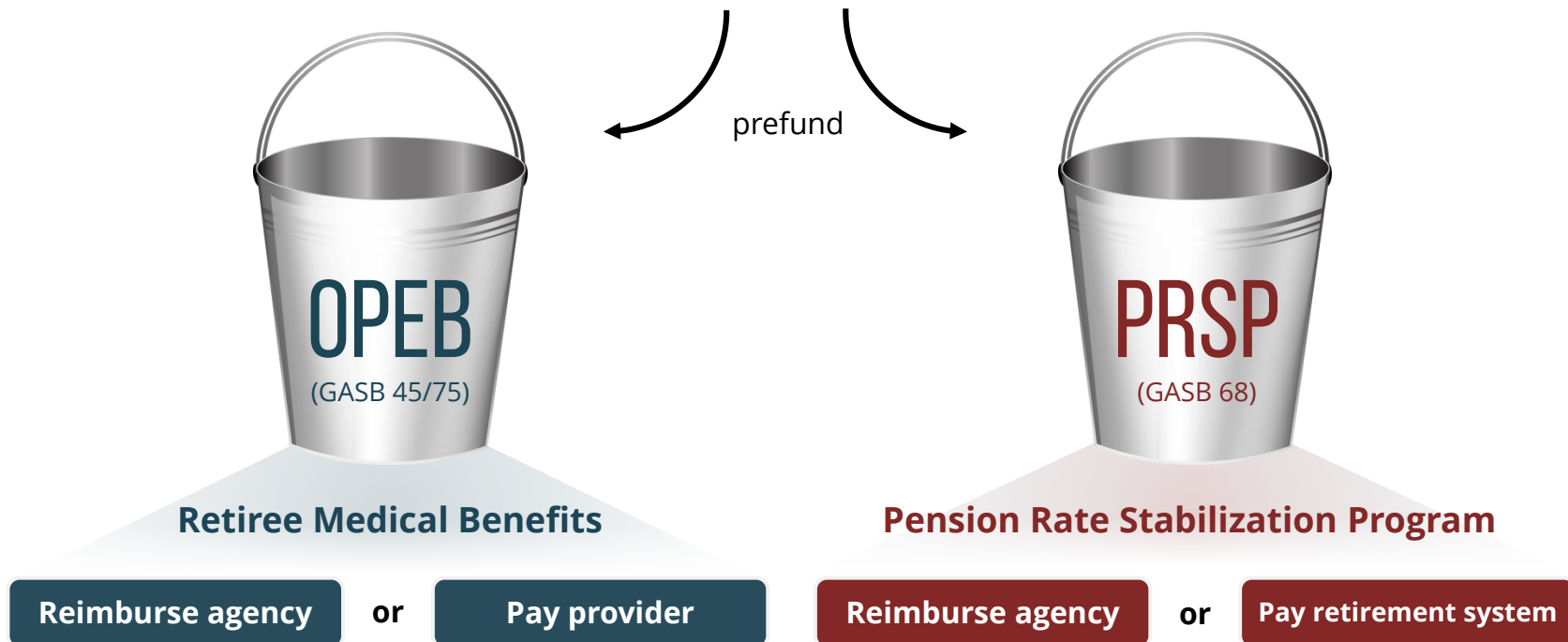
Dollars under Administration

Over \$3.2 billion

Over \$4.0 trillion

Over \$14.1 billion
under management

THE PARS IRS-APPROVED COMBINATION 115 TRUST



- Assets are sub-accounted for separately
- Prefund one now and the other later
- Addresses unfunded liabilities
- Can choose different investment risk tolerance levels for each

- Can access funds at anytime; OPEB for OPEB and pension for pension
- Assets (OPEB and Pension) aggregate and reach lower fees on tiered schedule sooner – saving money!
- No cost to set up; no fees until assets are added



PENSION FUNDING STATUS

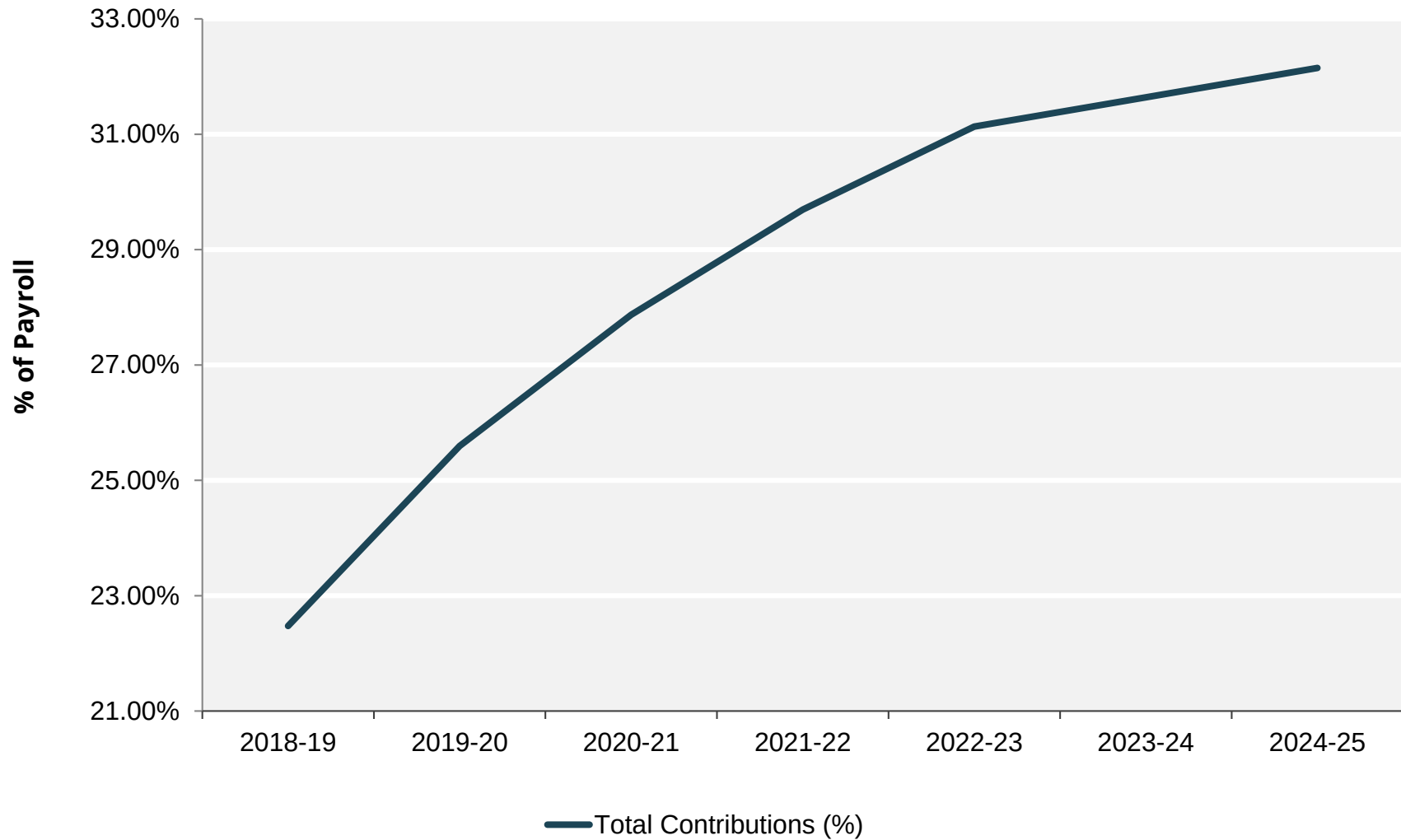
As of June 30, 2017, City of Merced's CalPERS pension plan is funded as follows*:

Actuarial Liability	\$295.9 M
Assets	\$214.5 M
Unfunded Liability	\$81.4 M
Funded Ratio	72.5%
Employer Contribution Amount (FY 18-19)	\$8.3 M
Projected Employer Contribution Amount (FY 24-25)	\$13.7 M (64.1% ↑)

** Data from Agency's 2017-18 CalPERS actuarial valuation*

PROJECTED EMPLOYER CONTRIBUTIONS (MISC.)

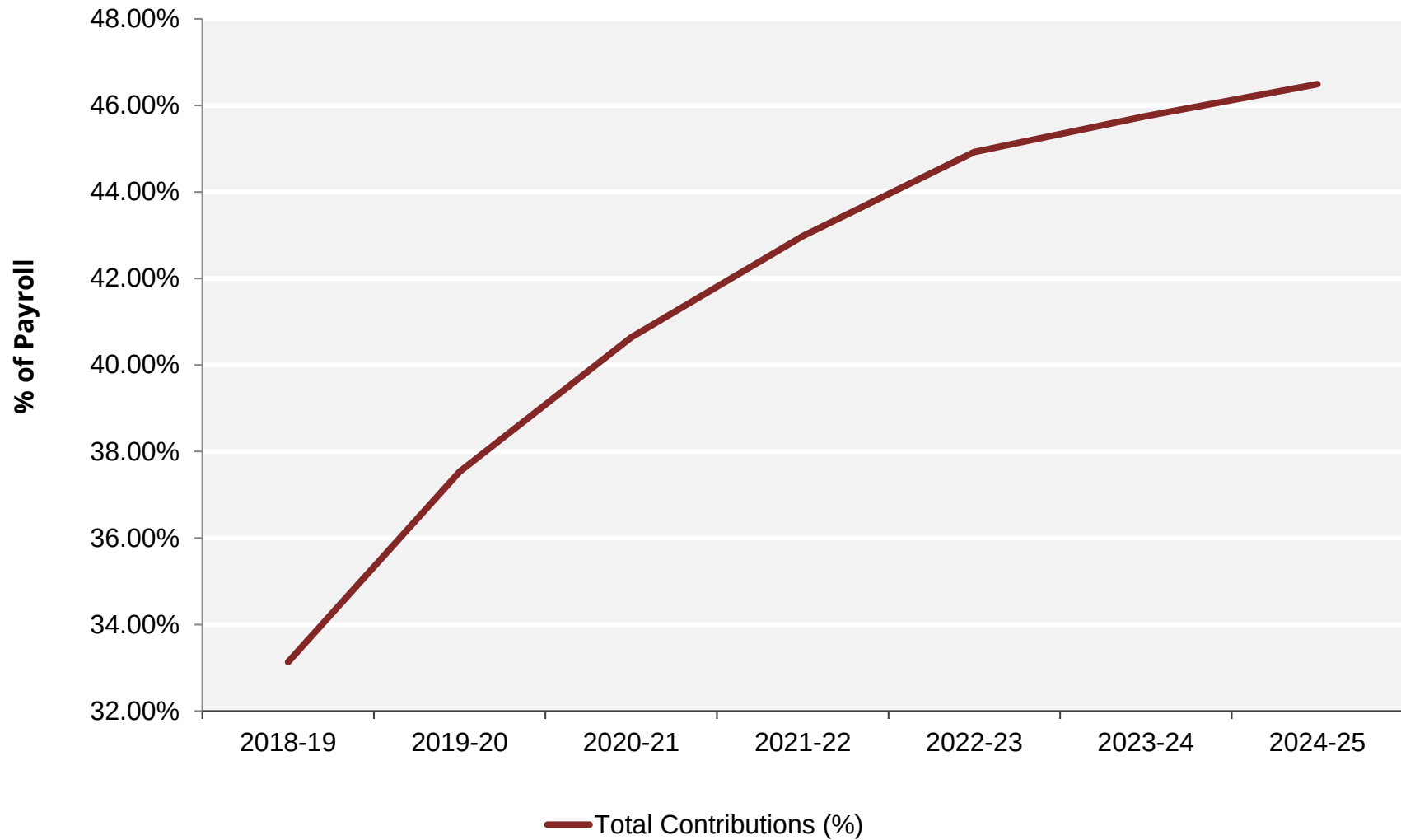
Projected misc. contributions increase from \$3.9M to \$6.4M* (63.7% ↑)



* Data from Agency's 2017-18 CalPERS actuarial valuation

PROJECTED EMPLOYER CONTRIBUTIONS (SAFETY)

Projected safety contributions increase from \$4.4M to \$7.2M* (64.4% ↑)



* Data from Agency's 2017-18 CalPERS actuarial valuation

WHY PREFUND PENSION OBLIGATIONS?

1

Complete Local Control over Assets

Pension Rate Stabilization Program provides an alternative to sending money directly to retirement system to address unfunded pension liabilities

2

Pension Rate Stabilization

Assets can be transferred to retirement system plan at the City's direction, which can reduce or eliminate large fluctuations in Employer contributions to retirement system

3

Rainy Day Fund

Emergency source of funds when Employer revenues are impaired based on economic or other conditions

4

Diversified Investing

Potential for Greater Return than General Fund

SAMPLE FUNDING POLICIES

1

Contribute 50% of a given year's realized year end surplus to address pension liability

SOLANA BEACH & ALAMEDA

2

Contribute amount equal to annual PERS employer contribution (\$6 million) in order to allow full access to trust assets at all times

BREA

3

Contribute \$4 million to stabilize PERS employer misc. Rates to 28% and safety rates to 44% through FY 23-24

HEALDSBURG

4

"One equals five plan" - Contribute \$1 million per year for 5 years based on premise that every contribution will save taxpayers \$5 million over 25 years

HUNTINGTON BEACH

5

Contribute Employer contribution equal to the 2.8% discount rate (as opposed to the standard 7.5% rate), with difference going into the Section 115 Trust

SAUSALITO

6

Maintains a 15% general fund reserve and is targeting to make contributions over and above that threshold into the Trust

REDWOOD CITY

7

Earmarked a portion of a recently approved local sales tax measure to be set aside for unfunded pension liabilities

FOUNTAIN VALLEY

8

Using one-time revenue source plus on-going savings from CalPERS unfunded liability pre-payment

PASADENA & WEST COVINA

9

Using one-time revenue source and lowering the minimum General Fund Reserve level from 30% to 20%

GLENDALE

INVESTMENT FLEXIBILITY

- City maintains oversight of the investment manager and the portfolio's risk tolerance level
- Investment restrictions that apply to the general fund (CA Government Code 53601) are not applicable to assets held in The PARS Section 115 Irrevocable Trust
- Assets held in the Trust can be diversified unlike assets held within the general fund
- Assets held in The PARS Section 115 Irrevocable Trust can be invested per Government Code Section 53216 and 53620
- Investments can be diversified and invested in a prudent fashion
- Investments can be tailored to the City's unique demographics and needs
- Increased risk diversification

HIGHMARK CAPITAL MANAGEMENT RETURNS

RETURNS AS OF JUNE 30, 2018

	Equity (%)	1 Year	3 Years	5 Years
Capital Appreciation	65-85%	9.66%	7.64%	9.00%
Balanced	50-70%	7.93%	6.58%	7.47%
Moderate	40-60%	6.42%	5.82%	6.59%
Moderately Conservative	20-40%	3.80%	4.22%	4.84%
Conservative	5-20%	1.88%	3.04%	3.51%

** Past performance does not guarantee future results*

CONTACTS

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