



City Council Staff Report

Subject: Section 115 Trust for Pension Investment Strategy

Date: December 12, 2023

Submitted By: Daniel Choe, Deputy Director of Administrative Services

Department: Administrative Services - Finance

Recommendation:

Receive an Update on the Investment Strategy for the City's Section 115 Trust for Pension.

Background:

On September 26, 2023, the City Council adopted Resolution No. 2023-154, approving the adoption of the Public Agencies Post-Employment Benefits Trust administered by Public Agency Retirement Services (PARS) for the establishment, administration, and management of a Section 115 Trust for pension in consideration of the benefits, as follows:

- **Financial Tool:** The Section 115 Trust is a financial instrument that can be used for prefunding pension and retirees' health plans.
- **Rainy-Day Fund:** The trust can be utilized as a rainy-day fund, providing financial security during unexpected challenges.
- **Tax-Exempt Earnings:** The trust offers the advantage of tax-exempt earnings, helping to maximize returns on investments.
- **Risk Management:** The trust helps address risk by enabling further diversification of investments. It employs conservative investment guidelines, reducing risk compared to CalPERS.
- **Proactive Pension Liability Management:** It is used to proactively address future increases in pension liabilities, ensuring fiscal responsibility.
- **Asset Protection:** Funds held in the trust that can only be used for their intended purposes, providing asset protection.
- **Local Control:** The trust allows for local control, permitting the withdrawal of funds to balance the budget or address unforeseen spikes in employer contribution rates.

In addition, the City Council authorized the initial funding of \$1.3 million for the Section 115 Pension Trust.

Currently, staff is working with PARS to establish the Section 115 Trust for pension prefunding. To complete the onboarding process, the City needs to determine an investment strategy for the pension prefunding trust. The PARS Trust program offers the following four pre-established investment strategies, as reflected as Attachment 1:

1. Fixed Income - 100% fixed income
2. Conservative - 60% fixed income, 40% equity
3. Balanced - 40% fixed income, 60% equity
4. Growth - 25% fixed income, 75% equity

On November 1, 2023, the City's Investment Advisory Committee reviewed the investment strategies presented by staff. At the conclusion of the meeting, the Committee passed a motion approving the utilization of the conservative investment strategy for the City's Section 115 Trust for Pension. The conservative investment strategy, consisting of 60% fixed income and 40% equity, was selected to preserve principal while ensuring a sufficient rate of return consistent with the City's objectives and risk tolerance in establishing the pension prefunding trust. The following additional rationales were provided for choosing this strategy:

- The City may need to withdraw pension funds in the shorter-term, especially when facing increasing CalPERS rates, and they prefer a strategy with lower potential volatility.
- The conservative approach is selected to minimize risk exposure. Higher risk exposure is associated with equity-heavy investment strategies.
- The conservative strategy offers the City an opportunity to outperform its investments and diversify pension assets outside of CalPERS. CalPERS investments are inherently aggressive, as they are targeting a 6.8% rate of return (current discount rate). This strategy allows agencies to assume significantly less risk compared to CalPERS investments.

Fiscal Impact:

There is no direct fiscal impact to the staff recommendation.

ATTACHMENTS:

1. [Vanguard Pre-Established Investment Strategies](#)