



Agenda Item 4c

September 11, 2012

ITEM NAME: California Employers' Retiree Benefit Trust Fiscal Year 2011-12 Results and Outlook

PROGRAM: California Employers' Retiree Benefit Trust (CERBT)

ITEM TYPE: Information Consent

EXECUTIVE SUMMARY

In fiscal year (FY) 2011-12, CERBT reported increases in the number of participating agencies, the net employer contributions, and the total fund assets under management. CERBT has reported increases in these categories for five consecutive years. Investment return for the year was positive but less than the expected long term return rate of the total fund.

During FY 2011-12, in close cooperation with the Fund Accounting Unit of the Fiscal Services Division and with the Affiliate Investment Programs Division, CERBT program staff implemented two major service improvements to the program: (1) three asset allocation investment strategies; and, (2) an on-line employer asset account reporting system.

CERBT program staff guided the transition of participating employers to date aligned valuation reporting of Other Post-Employment Benefits (OPEB) liabilities as required under Governmental Accounting Standards Board (GASB) Statement No. 57.

A CERBT program staff member is participating in the OPEB task force sponsored by the GASB. GASB is preparing to revise accounting standards related to OPEB.

BACKGROUND

The CERBT is a CalPERS trust plan program dedicated to pre-funding public employer OPEB liabilities. The CERBT began operation in March 2007. The first contribution to the CERBT was received in June 2007. In FY 2011-12, CERBT completed its fifth year of operation. The CERBT is obliged to report on behalf of participating employers in compliance with GASB Statement No. 43.

ANALYSIS

The CERBT program closed the year ending June 30, 2012, with assets of \$2.08 billion, and 338 contracted employers. During the FY employers made contributions in the amount of \$205 million and the fund provided \$51.6 million in reimbursements. The five year history continues to show that the CERBT program is effectively assisting participating employers to pre-fund their OPEB liabilities. In Attachment 1, the first chart shows the counts of how many employers have contracted from year to year, the second chart shows the net growth of employer contributions, and, the third chart shows total trust assets under management. Projecting through June 30,

2015, CERBT staff estimates that employers are likely to make additional net contributions within the range of \$0.75 billion to \$1.5 billion.

The CERBT staff completed the implementation of two service improvements important to employers, working closely with Fiscal Services Division and the Affiliate Programs Investment Division.

The first service improvement provided three asset allocation investment strategies. CERBT employers now elect one of three asset allocation investment strategies. The strategies share an underlying set of asset classes, but each strategy has a different long term expected return rate and volatility. As of August 15, 2012, 297 of 338 CERBT employers participated in Strategy 1, 27 employers in Strategy 2, and 14 employers in Strategy 3. Investment performance for the three strategies is shown in Attachment 1.

The second service improvement is on-line viewing of employer asset account reports, daily balances, and transactions. Participating CERBT employers now view their asset account transactions and balances on-line. Results of the previous business day are reported by 10:30 AM PST each business day. Employers can download their transaction records and reports (quarterly and annual) directly. This service is available to all participating employers.

A change in the governmental accounting standard required that about 75% of the participating CERBT employers advance their OPEB valuation reporting date in order for the CERBT fund plan to report compliantly. Employers were challenged to make this change. CERBT staff worked daily for more than nine months to encourage and to guide employers to report.

Despite the difficult budget situation, on average CERBT employers contributed about 60% of their annual required contribution (ARC) to the trust fund. Employer contributions to the trust fund are voluntary. Net employer contributions to the trust fund totaled about \$205 million in the year ending 6/30/2012.

GASB has formed an OPEB accounting standard task force of industry and academic experts to assist in its work. Bruce Eastes, CERBT program staff, is a member of the GASB OPEB taskforce. We expect the OPEB governmental accounting standards to be revised in a manner similar to the new pension accounting standards (published in June 2012). The outcome will almost certainly have a substantial impact on the financial reporting of the CERBT and its participating employers. We expect this work to be completed by June 30, 2014.

ATTACHMENTS

Attachment 1 – Performance Statistics

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