



## Consent

### Agenda Item 4c

March 17, 2015

**ITEM NAME:** California Employers' Retiree Benefit Trust Update

**PROGRAM:** California Employers' Retiree Benefit Trust

**ITEM TYPE:** Information Consent

#### **EXECUTIVE SUMMARY**

The California Employers' Retiree Benefit Trust (CERBT) program continues to grow and to deliver valuable service to contracted employers.

#### **STRATEGIC PLAN**

This agenda item supports the California Public Employees' Retirement System (CalPERS) Strategic Plan Goal A of improving long-term pension and health benefit sustainability.

#### **BACKGROUND**

The CERBT is a CalPERS trust plan program whose purpose is to prefund employer Other Post-Employment Benefit (OPEB) liabilities by delivering the highest long term investment return consistent with a given level of investment risk and plan requirements at the lowest cost.

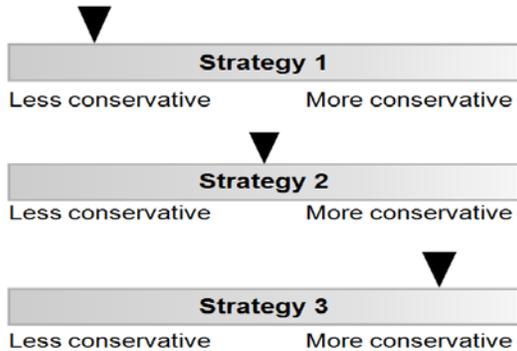
The CERBT program delivers five key advantages:

1. Excellent investment management.
2. Simple, focused administrative procedures.
3. Financial reporting compliant with governmental accounting standards.
4. Excellent customer service.
5. Lowest service cost.

It is the concurrent delivery of all five of these advantages that differentiates CERBT from its competitors.

The CERBT offers employers the choice of one of three investment strategies. Risk levels among strategies vary, depending upon the target asset class allocations. Generally, equities carry more risk than fixed income securities.

CERBT Investment Strategies	Strategy 1	Strategy 2	Strategy 3
Expected Long Term Rate of Return (Assumes 2.75% general inflation)	7.28%	6.73%	6.12%
Standard Deviation of Expected Returns	11.74%	9.32%	7.14%



Although the three asset allocation strategies are diversified and distinctly different, the five asset classes in which the three strategies invest are the same. The investment strategies differ only in the extent to which they participate in the five asset classes held in common.

Asset Classification	Investment Management – Benchmark	Strategy 1	Strategy 2	Strategy 3
Global Equity	Passive MSCI All Country World Index	57%	40%	24%
Fixed Income	Active Barclays Capital Long Liability Index	27%	39%	39%
Global Real Estate (REITs)	Passive FTSE EPRA/NAREIT Developed Liquid Index	8%	8%	8%
Treasury Inflation Protected Securities (TIPS)	Passive Barclays Capital Global Real: US TIPS Index	5%	10%	26%
Commodities	Passive S&P GSCI Total Return Index	3%	3%	3%

The CERBT is obliged to report on behalf of participating employers in compliance with Governmental Accounting Standards Board (GASB) Statement No. 43.

## **ANALYSIS**

The CERBT program marketing and retention work is delivered to employers through various channels. Beginning in March 2015, CERBT staff members are conducting workshops around the state. These workshops are hosted at CalPERS Regional Offices and at selected employer sites in Redding, Eureka, Lancaster, San Luis Obispo and Santa Barbara. In these workshops employers learn about the CERBT fund services and about the benefits of pre-funding OPEB. Workshops run through May 2015.

The CERBT staff has established a year round communication process intended to retain contracted employers. The CERBT staff communicate program developments, improvements, results, and employer account information to participating employers. These reports are provided through meetings, webinars, emails and teleconferences. In turn, employer staff use these annual reports to inform their governing bodies. Employers have reported that this communication effort is a useful and valuable service to them.

The CERBT trust fund continues to grow. During the one year period ending January 31, 2015, the number of contracted employers increased 14.1 percent, from 389 to 444. During the same period, cumulative employer net contributions increased 30.6 percent, from \$2.43 billion to \$3.18 billion; the CERBT assets under management increased 31.2 percent, from \$3.20 billion to \$4.20 billion and total covered lives increased 55.4 percent, from 241,938 to 376,001. There were no terminations, thus the retention rate was 100 percent.

Aggregate fund investment return exceeded the aggregate fund benchmark return (7.93 percent compared to 7.73 percent) during the same one year period ending January 31, 2015.

## **INFORMATION**

In May 2014, GASB issued two Exposure Drafts proposing significant improvements to financial reporting by state and local governments of OPEB, such as, retiree health insurance. The main objective of the Exposure Drafts is to improve accountability and the transparency of financial reporting related to OPEB. Another objective is to improve the usefulness of information for users of the general-purpose external financial reports of governmental employers and OPEB plans.

The Exposure Drafts proposed changes to OPEB accounting and reporting that essentially mirror those contained in the new pension standards (GASB 67 and 68), by requiring the Net OPEB Liability to be reflected on employer balance sheets and changing the expense recognition from the Annual Required Contribution (ARC) so that it will reflect the annual change in Net OPEB Liability (with some items being amortized).

On September 12, 2014, staff participated in the GASB public hearing session in Brisbane, CA. At that hearing we delivered our comments and concerns regarding the proposed changes to the OPEB standards, primarily focusing on areas where we believe, based on our dealing with employers, accountants, and auditors, the standards could be more specific or clear.

The GASB is expected to release the final standards by June 30, 2015. One member of our staff is participating in the GASB OPEB task force and continues to represent us and provide comments and feedbacks to GASB regarding the new OPEB standards.

**BUDGET AND FISCAL IMPACTS**

Not Applicable.

**BENEFITS/RISK**

Not Applicable.

**ATTACHMENTS**

Attachment 1 – California Employers’ Retiree Benefit Trust Update

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