

Prefunding Programs Annual Status Report

Item 5f - Attachment 2
Page 1 of 8

California Employers' Retiree Benefit Trust (CERBT)
California Employers' Pension Prefunding Trust (CEPPT)
Supplemental Income Plan (SIP)

Prepared for: Finance and Administration Committee - Report Period Ending June 30, 2020

Executive Summary

This review provides the fiscal year (FY) 2019-20 annual status program reports for the California Employers' Retiree Benefit Trust (CERBT), California Employers' Pension Prefunding Trust (CEPPT) and Supplemental Income Plan (SIP) prefunding programs. The new annual prefunding programs reports includes improvements and consolidates the three previously reported information consent items. The report provides information updates by program on the strategies, improvements, population and investments.

California Employers' Retiree Benefit Trust (CERBT)

Program Overview

The CERBT Fund is a Section 115 trust fund dedicated to prefunding Other Post-Employment Benefits (OPEB) for all eligible California public agencies. This program is available to public agencies to prefund future retiree benefits such as health, vision, dental, and life insurance. CERBT is the largest public employer OPEB trust fund in the state of California. Attributes of the CERBT program's success are excellent investment management, low total participation cost, personal direct service support, financial reporting compliance with governmental accounting standards, and uncomplicated administrative processes.

Program Update

Program Improvements

Program improvements made in 2019-20 to promote more efficient and effective operation performance and increase service delivery to employers were:

- Utilized technology to increase the number of online customer outreach workshops to over 500 employer participants.
- Increased customer outreach to provide annual account reviews.
- Improved efficiencies and service levels by developing "self-help" reporting functionality for employers in myCalPERS to enable access of data to prepare OPEB valuations.
- Held three technical support webinars attended by approximately 300 employers to assist with OPEB year-end financial reporting requirements.

Employer Retention

Participating employers receive year-round communication, education outreach services, and annual update reports to support retention. CalPERS team members conducted semi-annual workshops virtually, in person at CalPERS Regional Offices, and employer-hosted sites to provide education and technical support.

Prefunding Programs Annual Status Report

Prepared for: Finance and Administration Committee - Period Ending July 31, 2020

Item 5f - Attachment 2
Page 2 of 8

Participating employers also receive tailored reports that provide information on program developments, improvements, performance results, and account information for stakeholder communication and reporting requirements. The 99% retention is attributed to the program advantages and service delivery. In this fiscal year, three employers' contracts terminated, and two existing employer contracts merged into one.

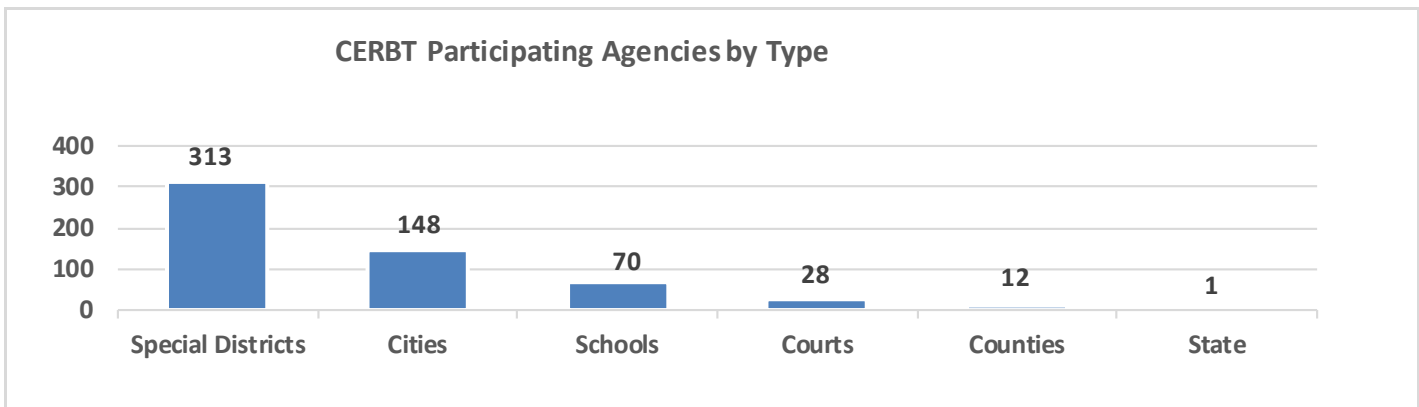
Participating Employer Enrollments and Contributions

During FY 2019-20, CERBT contracted employers increased to 572 employers. Since 2007, the program continues to grow while retaining 98% of the employer participants. When comparing the latest two fiscal years shown in the table below, the percentage of assets under management (AUM) increased by 19% and the number of participating employers increased by 2%.

FY	Participating Employers	Employer Net Contributions	Plan members	AUM
FY 2019-20	572	\$8.5 billion	807,578	\$11.7 billion
FY 2018-19	562	\$7.1 billion	804,579	\$9.8 billion

CERBT Participating Employers by Agency Type and New Agencies

Special Districts represent the highest proportion of participating employers in CERBT followed the cities. The table below provides the names of the 14 new contracting employers added to the program for FY 2019-20. The new agencies contributed \$152,577,647 million in contributions to the program.



New Agencies: Arcata Fire Protection District, Auburn Public Cemetery District, Carpinteria Valley Water District, City of Ontario, Georgetown Fire Protection District, Luther Burbank Elementary School District, Modoc County Superior Court, Mojave Air and Space Port, Rancho Santa Fe Elementary School District, Reclamation District No. 900, San Benito County Water District, Shasta Union High School District, Superior Court of Contra Costa, and Transportation Authority of Marin.

Fund Assets and Cumulative Net Contributions

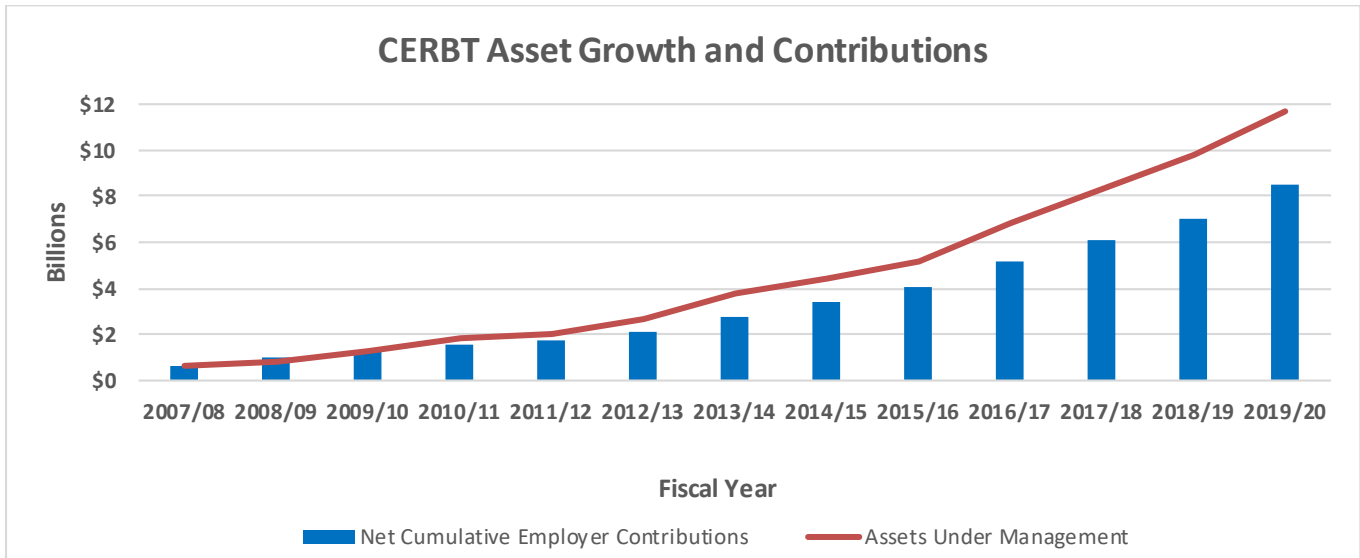
During FY 2019-20, CERBT assets increased to \$11.7 billion in assets under management, an increase of \$1.8 billion. During the same period, employer cumulative net contributions were \$8.5 billion, an increase of \$1.5 billion. The table below shows the CERBT asset growth in billions and contributions since 2007.

Prefunding Programs Annual Status Report

Prepared for: Finance and Administration Committee-Period Ending June 30, 2020

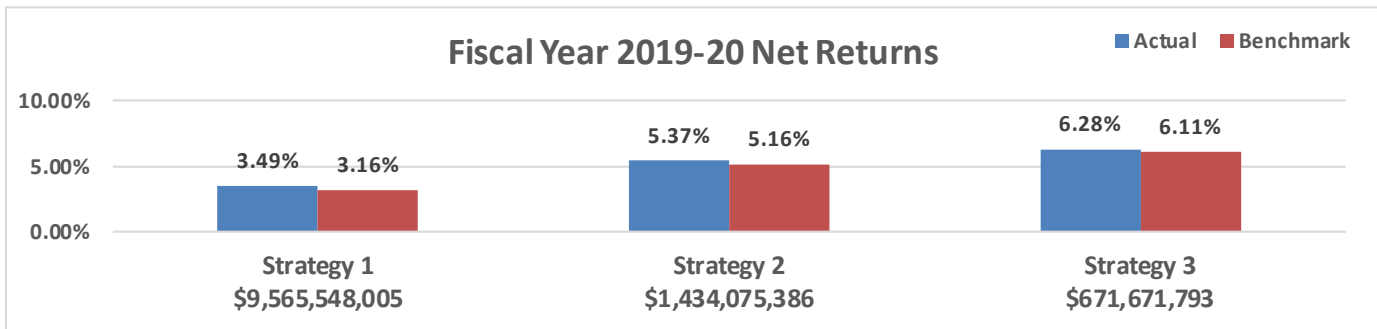
Item 5f-Attachment 2

Page 3 of 8



Investment Performance

The CERBT Fund returns net of fees for the 12 months ending June 30, 2020, as compared to their respective benchmarks is shown in the chart below. CERBT Strategy 3 posted the highest returns, which are primarily attributable to a higher allocation to fixed income. Fixed income was the strongest performing asset class during the previous fiscal year.



Asset Allocation Strategies

Each strategy offers a distinctly different long-term expected return and return volatility. Strategy 1 has the highest long-term expected rate of return and return volatility while Strategy 3 has the lowest long-term expected rate of return and return volatility.

Strategy Options	Expected Rate of Return	Standard Deviation
Strategy 1	7.59%	11.83%
Strategy 2	7.01%	9.24%
Strategy 3	6.22%	7.28%

California Employers' Pension Prefunding Trust (CEPPT)

Program Overview

California Employers' Pension Prefunding Trust Fund (CEPPT) is CalPERS's newest program that became operational in July 2019. CEPPT is a Section 115 trust fund dedicated to prefunding employer contributions to defined benefit pension systems for eligible California public agencies. Even those not contracted with CalPERS are potentially eligible to participate. CEPPT also offers excellent investment management, low total participation cost, personal direct service support, financial reporting compliance with governmental accounting standards, and uncomplicated administrative processes to promote the CEPPT programs success.

Program Update

Program Improvements

Program developments made to promote more efficient and effective operation performance and increase service delivery to employers were:

- Centralized CEPPT contract functions to improve services to employers and manage cost.
- Utilized technology to increase the number of online customer outreach workshops to over 500 employer participants.
- Exceeded projected new contract growth by increasing daily customer outreach up to 100 calls per week.

Participating Employer Enrollments and Contributions

The CEPPT program provides employers an opportunity to save money by investing now for their future pension contributions, by using investment earnings to offset future pension expenses.

As of July 2020, CEPPT has a total of 15 new employers and \$11 million in AUM. Since inception, program team members have hosted workshops to communicate the advantages of the CEPPT program to eligible employers at CalPERS regional office locations, online, in person, and through teleconferences.

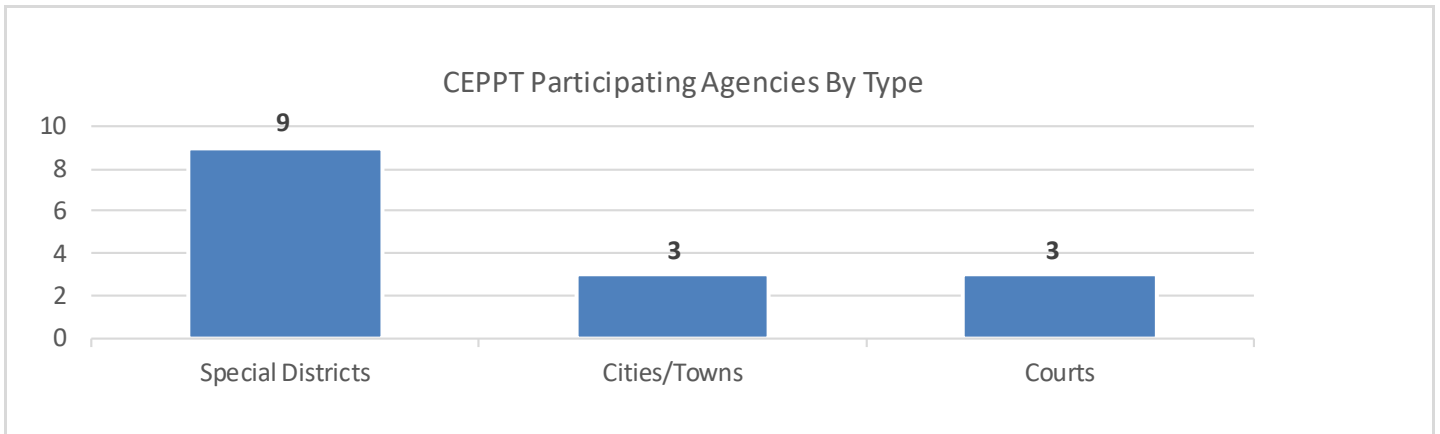
Total Participating Employers	Net Contributions	AUM
15	\$10.5 million	\$11 million

CEPPT Participants by Agency Type and New Agencies

Special Districts represent the highest proportion of participating agencies in CEPPT. The table below provides the names of the 15 new contracting employers added to the CEPPT in FY 2019-20. The new employers contributed \$10.5 million in contributions to the program. Midway City Sanitary District was the first employer to contact with the CEPPT Program.

Prefunding Programs Annual Status Report

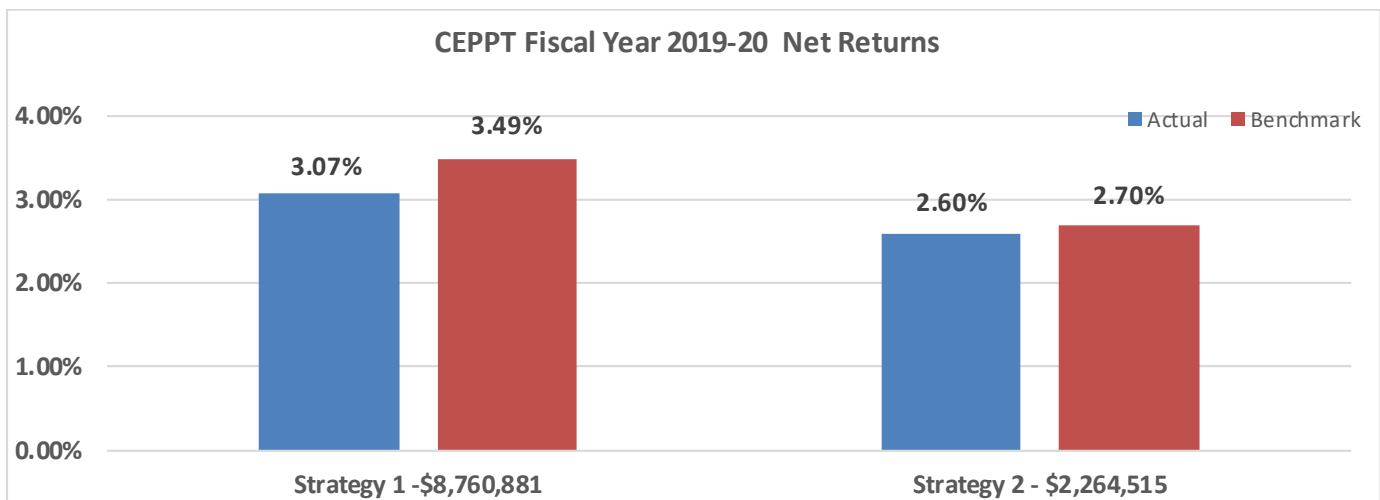
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New Employers: Amador County Superior Court, Aptos/La Selva Fire Protection Agency, Calaveras County Superior Court, Central Fire Protection District of Santa Cruz County, City of Buena Park, City of Yreka, Kentfield Fire Protection District, Midway City Sanitary District, Mono County Superior Court, NorthStar Community, Services District, Ross Valley Sanitary District, Tiburon Fire Protection District, Town of Los Gatos, Transportation Authority of Marin, and Truckee Sanitary District

Investment Performance

The CEPPT Fund returns net of fees since their funding dates, as compared to their respective benchmarks is shown in the chart below. The performance inception date for Strategy 1 is October 1, 2019; the performance inception date for Strategy 2 is January 1, 2020.



Asset Allocations Strategies

Each strategy offers a distinctly different long-term expected return and return volatility. Strategy 1 has the highest long-term expected rate of return and return volatility while Strategy 2 has the lowest long-term expected rate of return and return volatility.

Strategy Options	Expected Rate of Return	Standard Deviation
Strategy 1	5.00%	8.2%
Strategy 2	4.00%	5.2%

Supplemental Income Plan (SIP)

Program Overview

The SIP program offers two deferred compensation plans—the CalPERS 457 and the Supplemental Contributions Plan (SCP). The CalPERS 457 Plan was established in 1995 and is referenced in section 21670 of the California Public Employees' Retirement Law (PERL). The CalPERS 457 Plan is a deferred compensation supplemental retirement income plan that is available to employees of local public agencies and schools that contract with CalPERS for this plan. The CalPERS Supplemental Contributions Program (SCP) was established in 1999 and is referenced in section 22970 of the PERL. The SCP is an after-tax supplemental contributions program available to State employees, as well as active judges who are members of the Judge's Retirement System I and II.

Program Update

Program Improvements

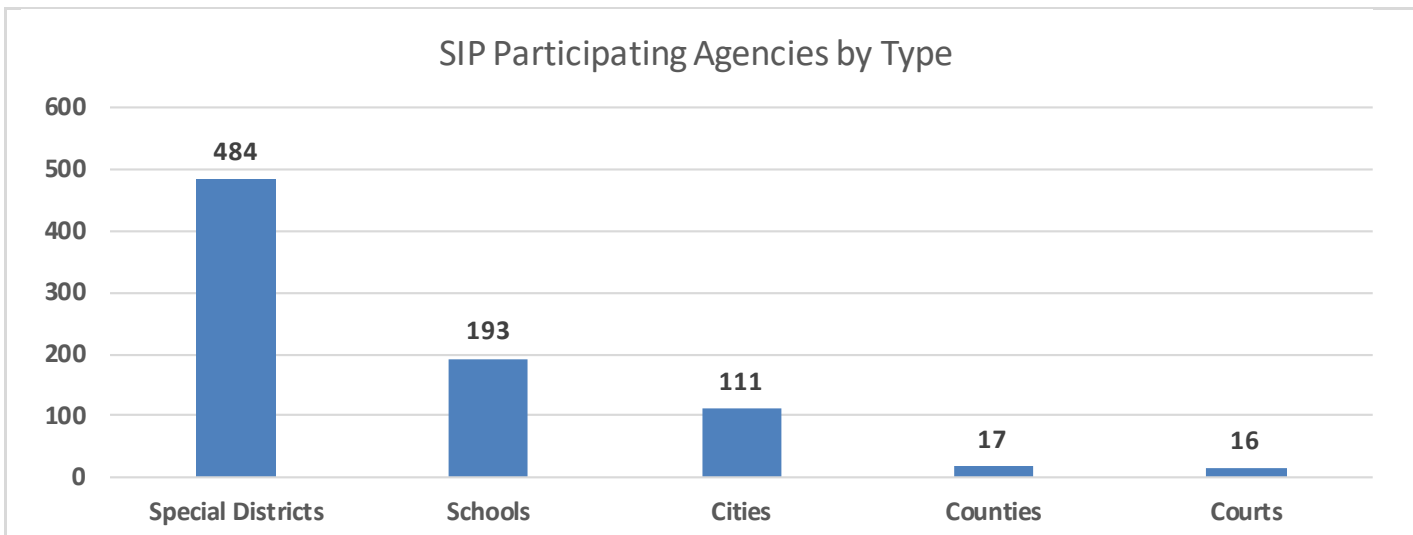
Below are program improvements made in 2019-20 to promote more efficient and effective operation performance and increase service delivery to employers.

- 457 Plan Document Private Letter Ruling submitted to and received back from the IRS
- Implementation of the SECURE ACT and the CARES ACT
- Successfully negotiated and implemented a new contract with lower fees with Third-Party Administrator (VOYA Financial)
- Implementation of a fee reduction for the 457 Plan along with associated communication to agencies and participants.
- Implemented a Roth program that currently has 174 agreements for participation
- Launched new website to promote increased plan participation

Employer Retention

SIP team members have a proactive agency retention program that utilizes both internal communication methods and in-person outreach meetings to ensure quality customer service at the agency level. For FY 2019-20, SIP team members conducted in-person plan reviews with 41 of the contracting employers. In addition, SIP's Third-Party Administrator, Voya Financial, provides participant education and field services to all SIP contracting employers. This ensures that at the participant level all active and prospective participants have a venue to learn about SIP and have their questions answered. VOYA Financial also conducts daily field activities including (in-person) one-on-one meetings, group presentations and webinars, scheduled phone meetings and exhibiting at CalPERS Benefits Education Events. For FY 2019-20, the field education representatives conducted in-person account reviews with 6,867 participants, were onsite at agencies 1,200 times, conducted 451 group presentations, and 13 webinars.

There is a total of 821 employers participating in the SIP program. Special districts represent the highest proportion of participating agencies in SIP followed by cities/towns. The table below provides a breakout of participating agency types along with a list of new agencies (14) for FY 2019-20.



New Employers: Esparto Unified School District, City of Imperial, Greenfield Unified School District, Burney Water District, Eastside Mosquito Abatement District, Pleasant Valley County Water District, Riverside County Law Library, West Valley Clean Water Program Authority, Heber Public Utility District, Lockeford Community Services District, Cachuma Conservation Release Board, Humboldt Waste Management Authority, Diablo Water District, and Housing Authority of the City of Los Angeles.

Participant Enrollments and Contributions

During FY 2019-20 SIP employer participants increased to 821 and assets increased to \$1.88 billion in AUM, an increase of \$100 million. During the same period, the table below shows participant cumulative net contributions were \$113.9 million, an increase of \$7.4 million. When comparing the latest two fiscal years shown in the table below, the percentage of AUM increased by 7%.

FY	Participating Employers	Participant Contributions	Plan members	AUM
FY 2019-20	*821	\$113.9 million	38,482	\$1.88 billion
FY 2018-19	*818	\$106.5 million	37,360	\$1.78 billion

* During FY 2019-20 there were 14 new agency adoptions. However, there were also six agency consolidations and four agency terminations. The net result is a gain of three agencies compared to previous year.

Investment Update

Fund Assets and Cumulative Net Contributions

During FY 2019-20, SIP assets increased to \$1.88 billion in AUM, an increase of \$100 million. During the same period, participant cumulative net contributions were \$113.9 million an increase of \$7.4 million.

Prefunding Programs Annual Status Report

Prepared for: Finance and Administration Committee - Period Ending July 31, 2020

Item 5f -Attachment 2
Page 8 of 8

CalPERS Target Retirement Date Fund Highlights

Returns were between 6.94% and 1.89% before fees for the 12 months ending June 30, 2020, and all outperformed their respective benchmarks by between 29 and 69 basis points on a gross basis.

The CalPERS Target Retirement Date Funds and Core Fund returns before fees for the 12 months ending June 30, 2020, as compared to their respective benchmarks is shown in the table below.

Fund	Assets	Gross Return	Benchmark	Excess
TARGET RETIREMENT DATE FUNDS				
Income	\$112,183,822	6.94%	6.38%	0.55%
2015	\$92,771,112	6.73%	6.17%	0.56%
2020	\$171,019,803	6.21%	5.55%	0.65%
2025	\$179,482,848	5.29%	4.60%	0.69%
2030	\$159,814,867	3.92%	3.56%	0.36%
2035	\$94,987,013	2.87%	2.45%	0.43%
2040	\$85,232,067	1.96%	1.59%	0.37%
2045	\$46,515,121	1.96%	1.59%	0.37%
2050	\$25,432,087	1.96%	1.59%	0.36%
2055	\$9,759,503	1.96%	1.59%	0.37%
2060	\$3,669,346	1.89%	1.59%	0.29%

Fund	Assets	Gross Return	Benchmark	Excess
CORE FUNDS				
US Equity Index Fund	\$546,985,490	6.47%	6.53%	-0.06%
International Equity Index Fund	\$61,476,476	-4.16%	-4.74%	0.57%
Real Assets Fund	\$6,758,651	-7.89%	-8.69%	0.79%
Intermediate-Term Bond Index Fund	\$70,488,127	8.89%	8.74%	0.15%
Short-Term Bond Index Fund	\$42,460,696	4.26%	4.20%	0.06%
Short-Term Investment Fund	\$121,274,838	1.67%	1.63%	0.04%

The following update was made to the Target Retirement Date Funds on October 1, 2019:

- Annual glide path rebalance was applied, which moves certain funds to a slightly more conservative allocation.