Section 115 Trust for Pension Costs

Long-Term Financial Policy and Audit Subcommittee

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Background

- A Section 115 trust is an irrevocable trust used to pay pension or other post employment benefit (OPEB)-related costs
- Funds accumulated in the trust may only be used to send to CalPERS
- The City considered establishing this type of trust with $4M of Pension fund reserves from the 2003 POBs
- City instead made an additional discretionary payment (ADP) of that amount to CalPERS

Section 115 Basics

- The Trust operates as an investment account; City can access the funds at any time to send to CalPERS
- Presents more investing options than in the City’s general investment portfolio
- City has control over investment strategy, and returns contribute the growth of the fund
- Many cities use the trust to be more conservative than CalPERS, but more aggressive than their general investment portfolio
- If CalPERS rate of return is targeted at 6.8%, and the City investment portfolio returns .5%, could target 4% growth as alternative

Pension Strategy

- Develop formal Council policy for funding the trust
- If we have significant balance in trust, could use for unfunded accrued liability (UAL) payments on highest years of City’s payoff schedule to lower peak of payments
- Use in the same manner as an ADP
- Pair with Pension Obligation Bond (POB)
  - Initial savings directed to the trust
  - Use those savings as a stabilization fund to mitigate the risks in the initial period of issuance

Next Steps

- Solicit proposals and evaluate
- Return to LTFPA with recommendation
- If moving forward, target establishing the trust in the first part of Calendar Year