Pension Funding

El Dorado County, CA

Understanding Pension Funding

Pension Basics

Hurdles and Other Considerations

How are we doing relative to our funding targets?

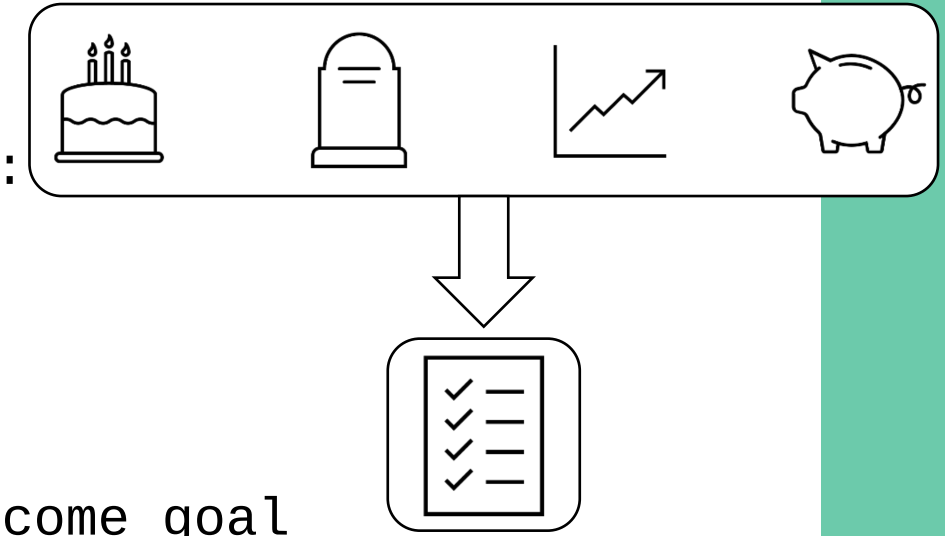
Potential Strategies

Building Blocks of Pension Funding Policy

Educate	Analyze	Present	Adopt	Administer	Evaluate
Pension Basics & Economic Headwinds	Model investment return scenarios	Develop funding policy	Formally adopt and implement funding policy	Monitor funding policy to ensure fiscal stability and growth	Revisit funding policy

Pension Basics

Pension Funding Concepts are Similar to Other Retirement Plans



Participant or employer set retirement goals:

- Expected retirement age
- Life expectancy goal
- Expected investment earnings rate
- Expected savings balance or replacement income goal

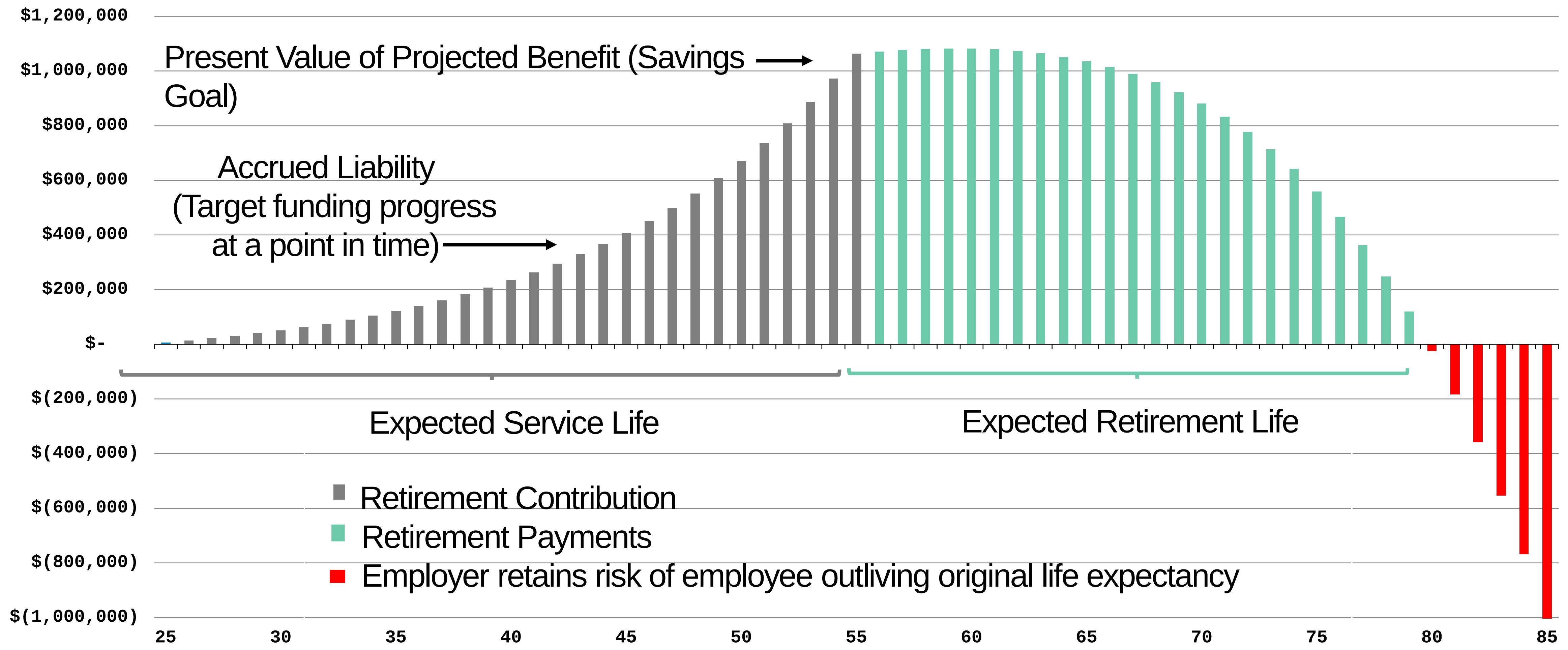
Goals determine initial savings rate estimated to achieve retirement goals

As compared to a defined contribution plan, the key difference with a defined benefit pension plan is who bears the funding risk if assumptions don’t hold true.

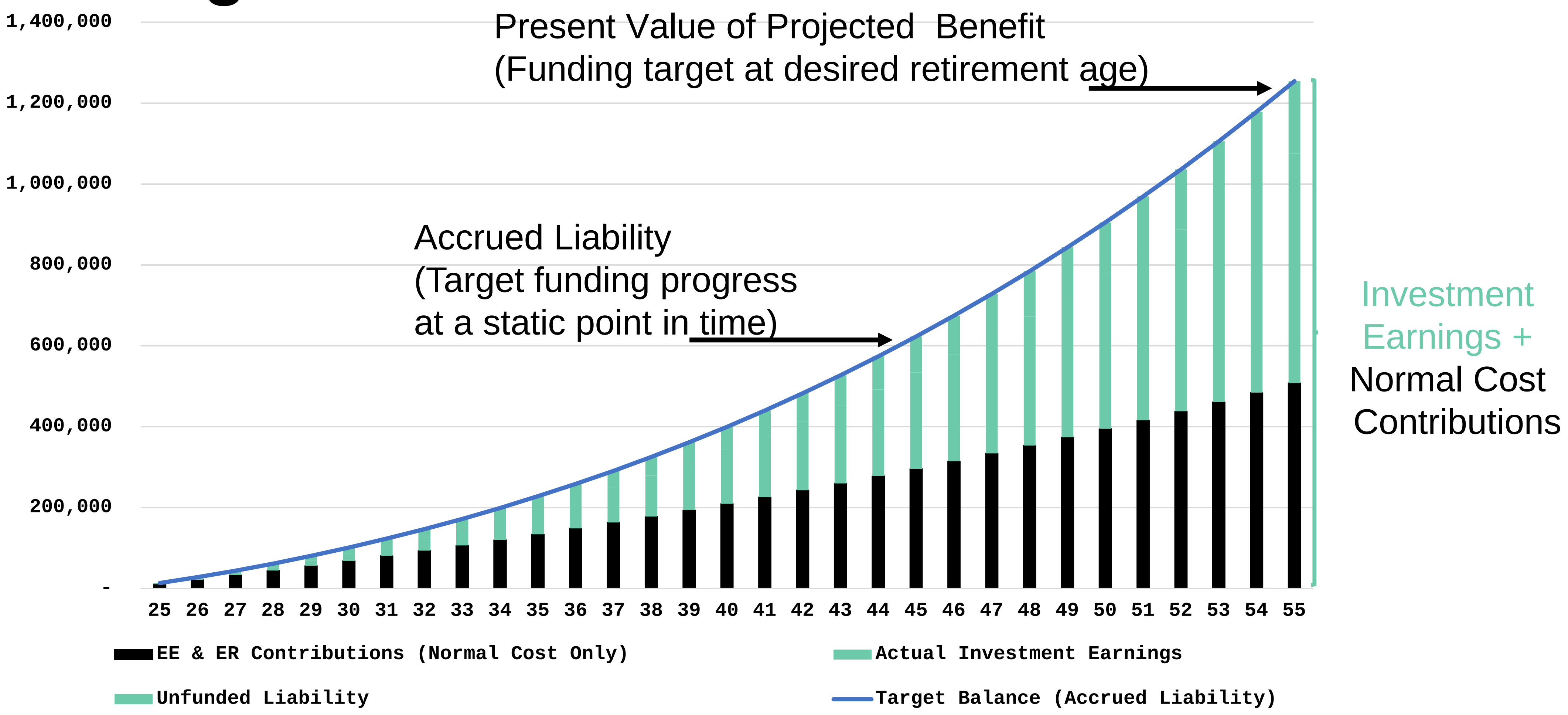
Pension Jargon Glossary

- Assumption = Target, Goals or Expected Results
- Experience = Actual Results
- Normal Cost = Initial contribution rate (Employee and Employer contributions)
- Present Value of Projected Benefit (PVPB) = Value of all future benefits in today’s dollars
- Accrued Liability (AL) = Target funding progress at a given point of time
- Unfunded Accrued Liability (UAL) = Amount actual savings falls short of funding target
- Amortization of UAL = Additional annual contribution needed to get back on track
- Annual Required Contribution = Normal Cost + Amortization of UAL

Illustration of Mortality Risk for an Individual Employee



Retirement Plans Are Sensitive to Investment Earnings



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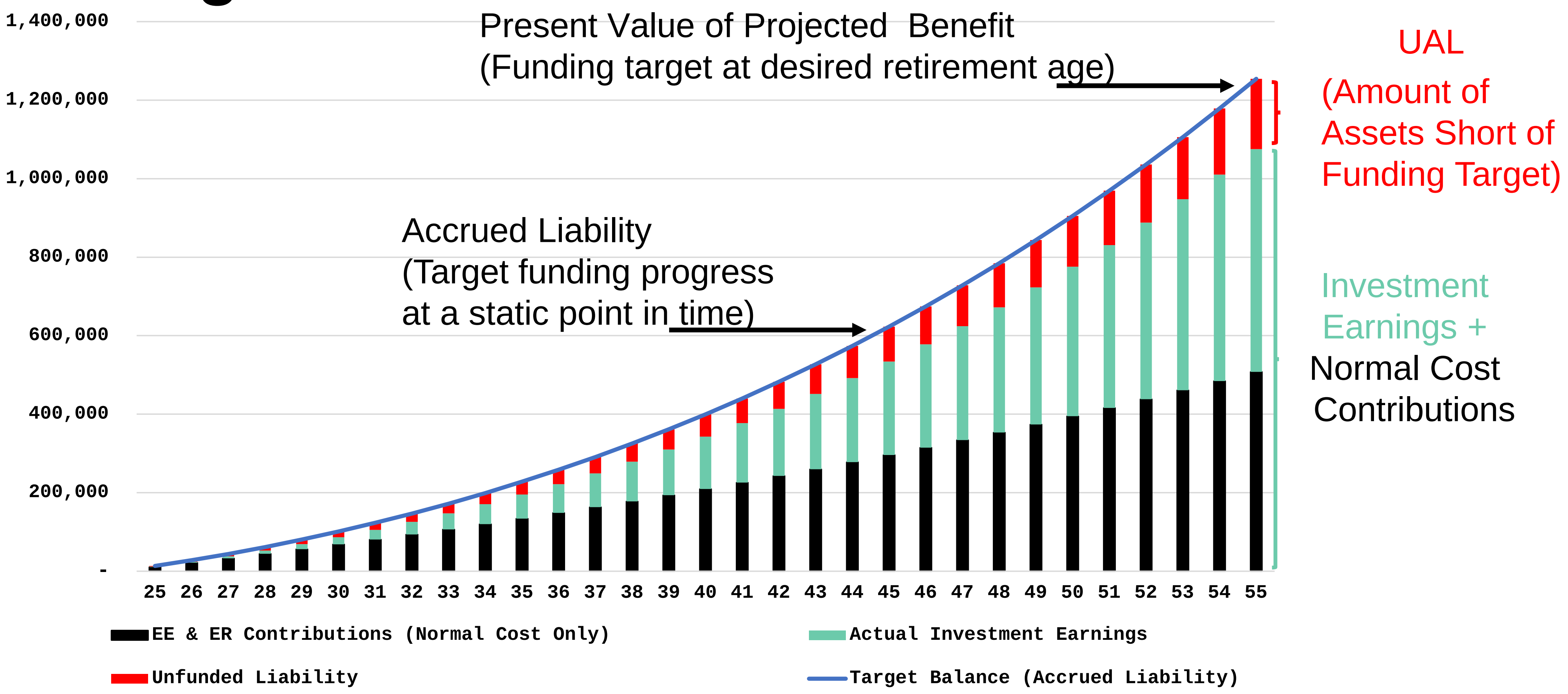
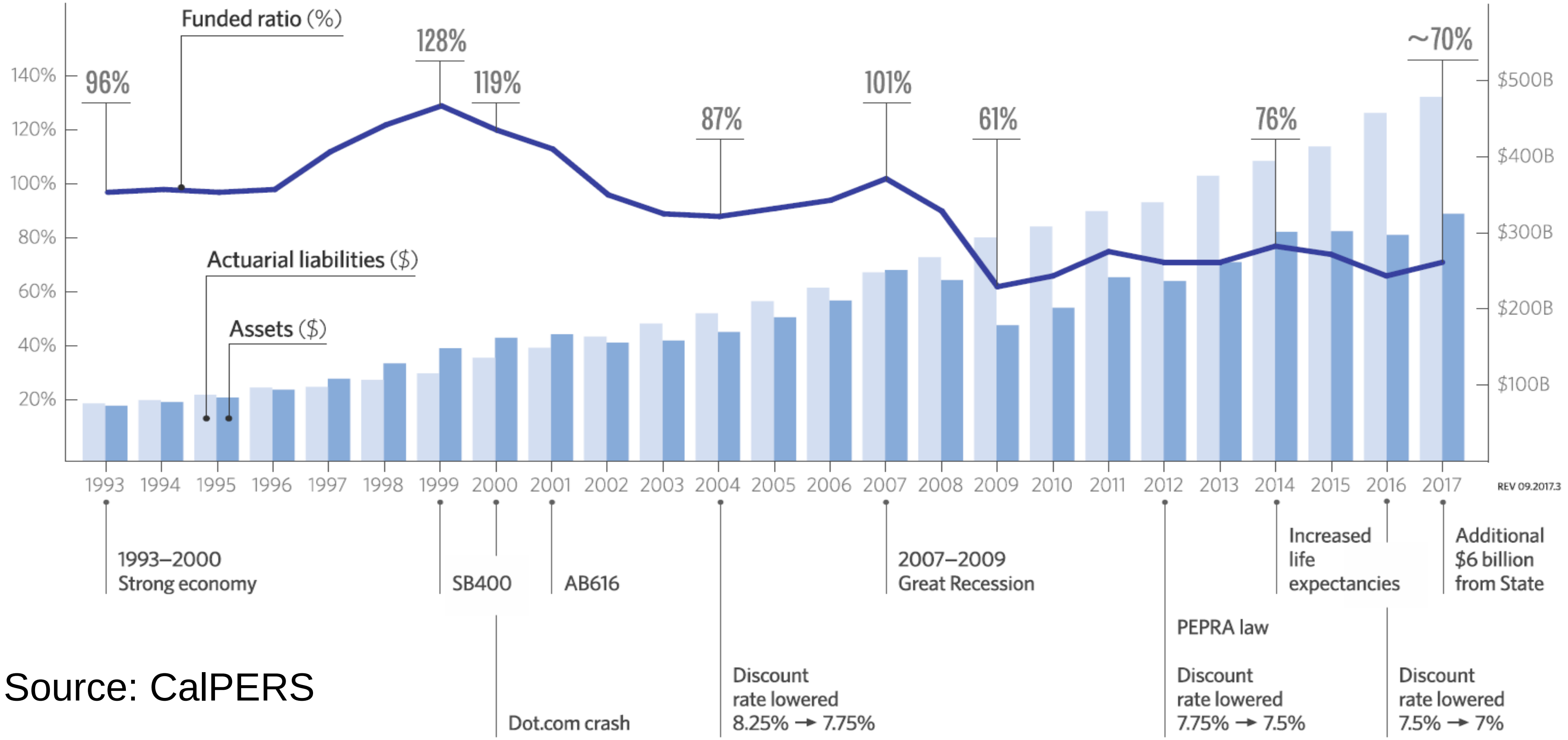
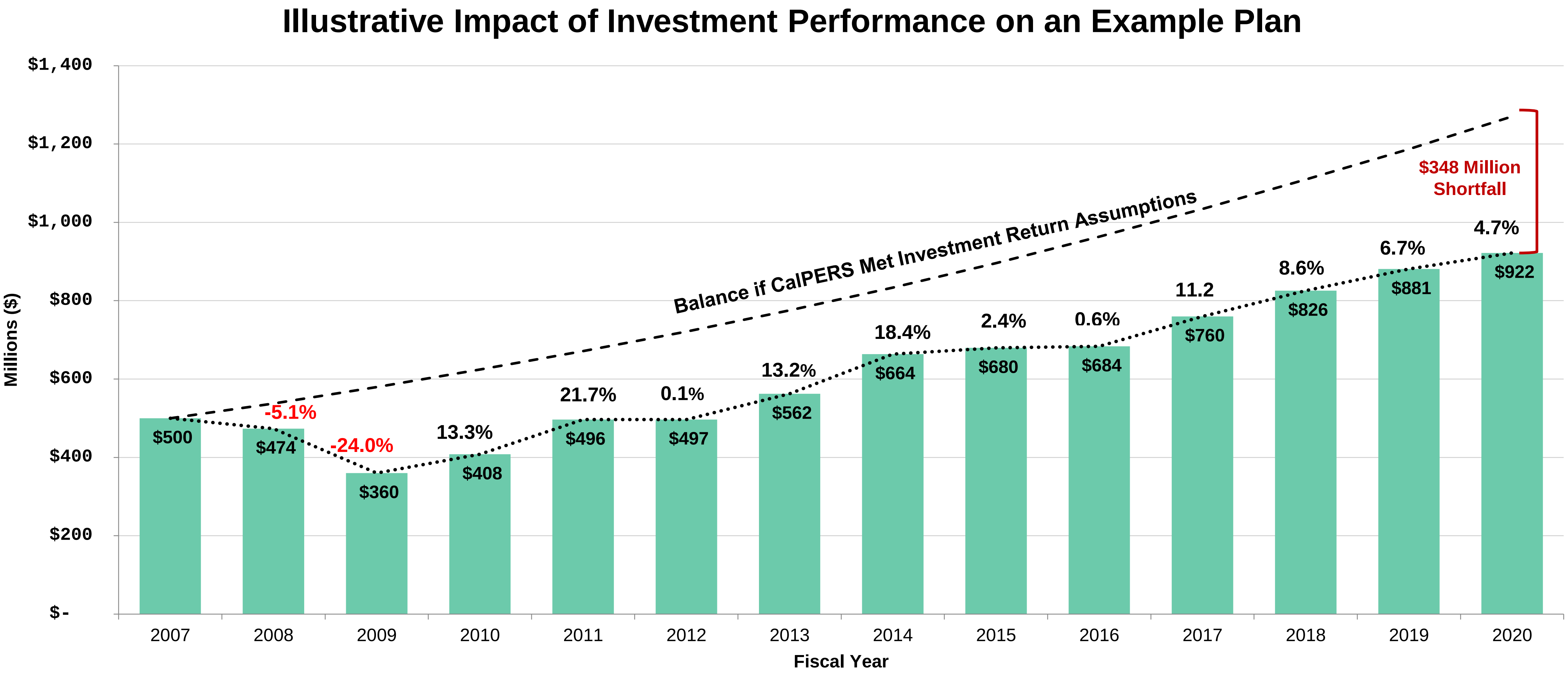


Historical Factors Impacting Funded Status



Source: CalPERS

Hasn't The Market Already Recovered?

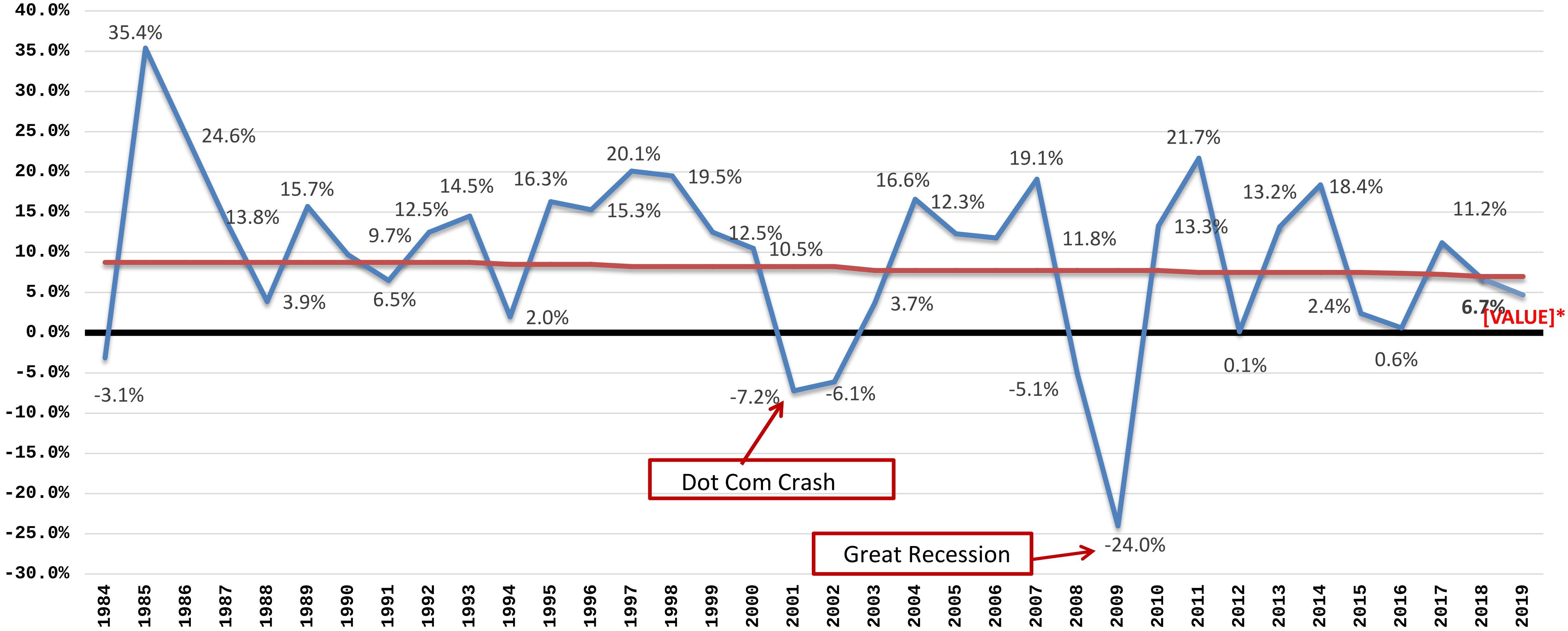


Hurdles & Considerations December 2020

Events & Concerns

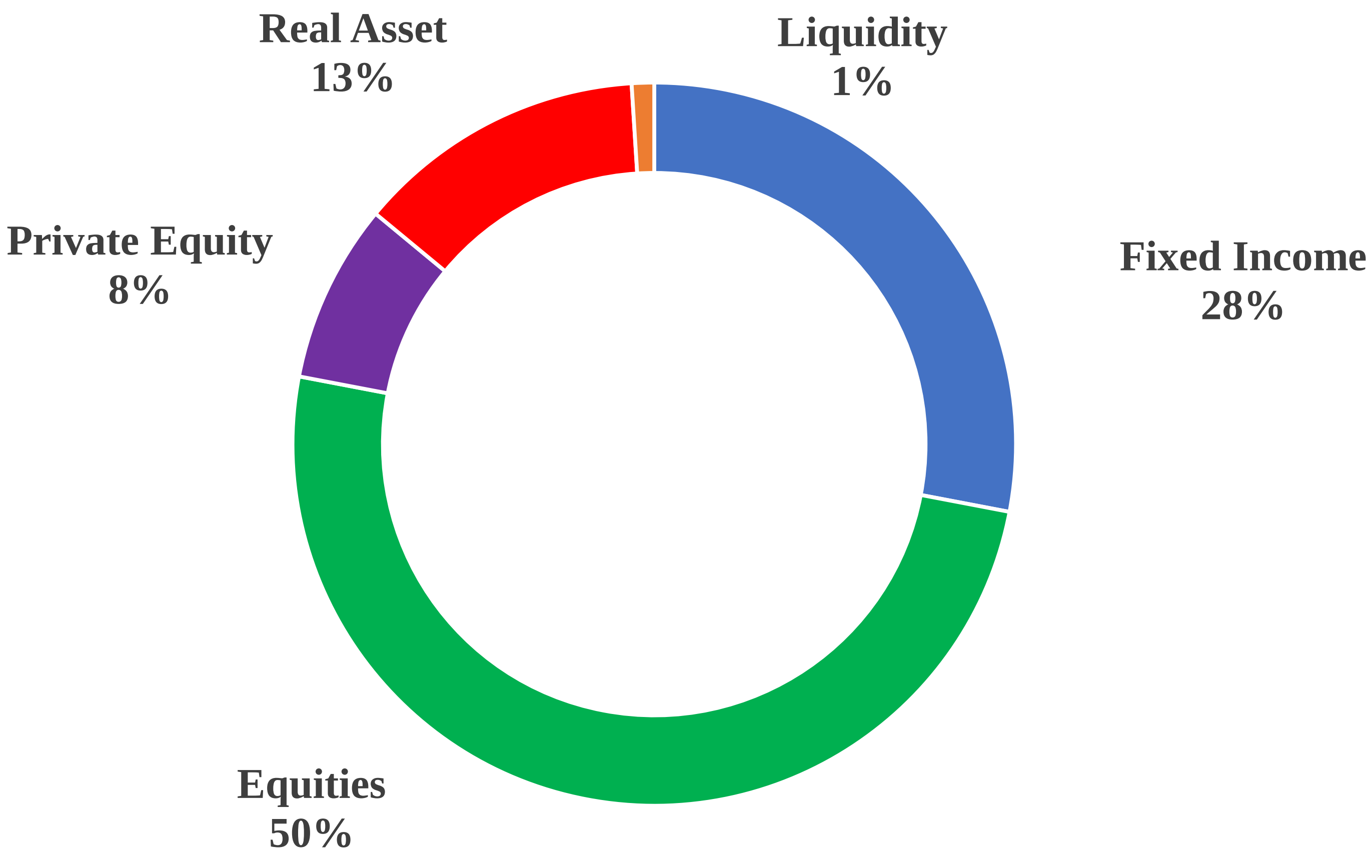
- Still paying off Great Recession losses and changes in assumptions in an increasing payment schedule
- 2019 Investment Experience Loss 6.7% vs 7% ~ $4,047,841
- 2020 Investment Experience Loss 4.7% vs 7% ~ $16,089,000
- Projected Capital Market Assumptions (CMA's) on future investment returns projected to underperform 7% Investment Earning Goal both in the near term (10 Years 4.85%) and long-term (30 Years 6.42%)
- Potential further reductions to discount rate November 2021

CalPERS Historic Investment Returns



* Not included in CalPERS Valuation but are included in GovInvest Forecast

New Asset Allocation Effective June 30, 2020

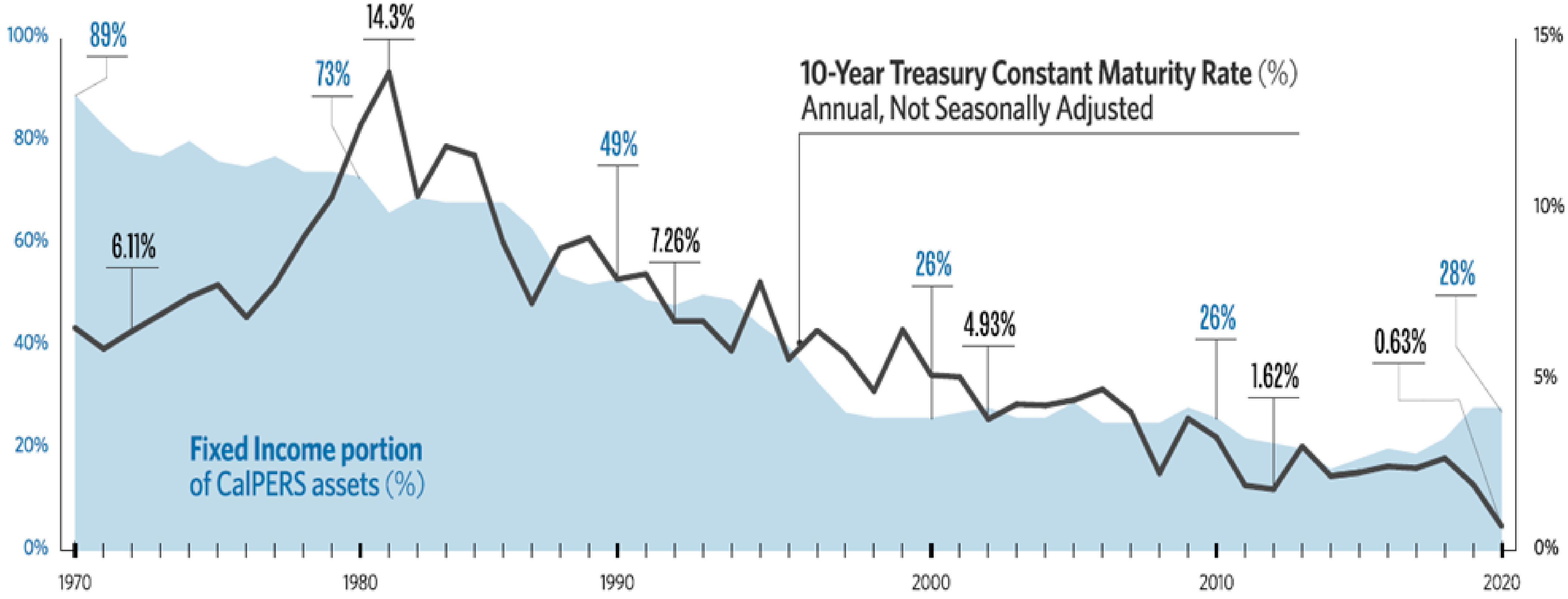


*Source: *"CalPERS and Employers: Fiscal Year Returns, Cost Impacts and Our Path Forward", 7/21/2020

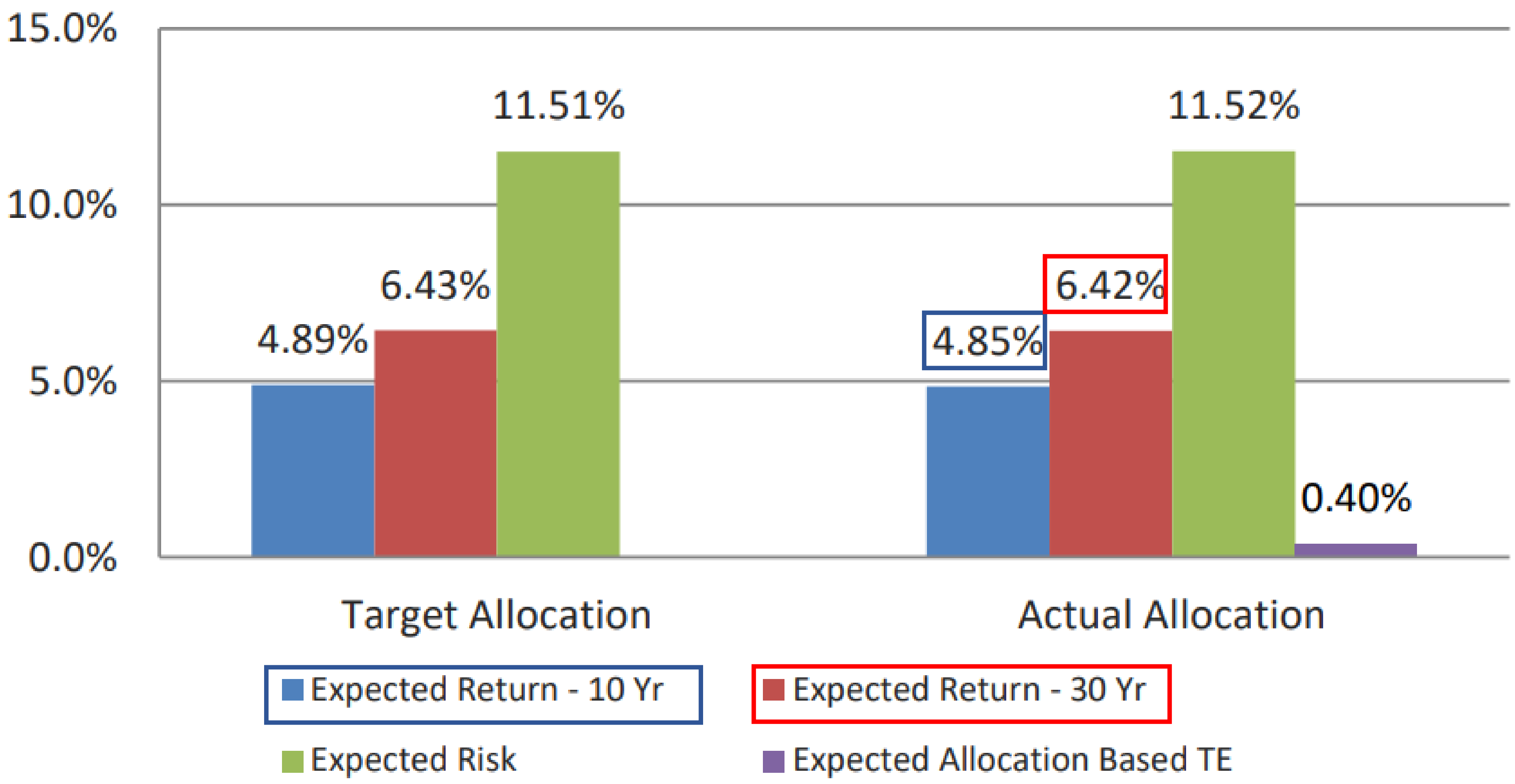
Challenges to Achieving Target Returns

US Treasury Yields Reduced to Near Zero

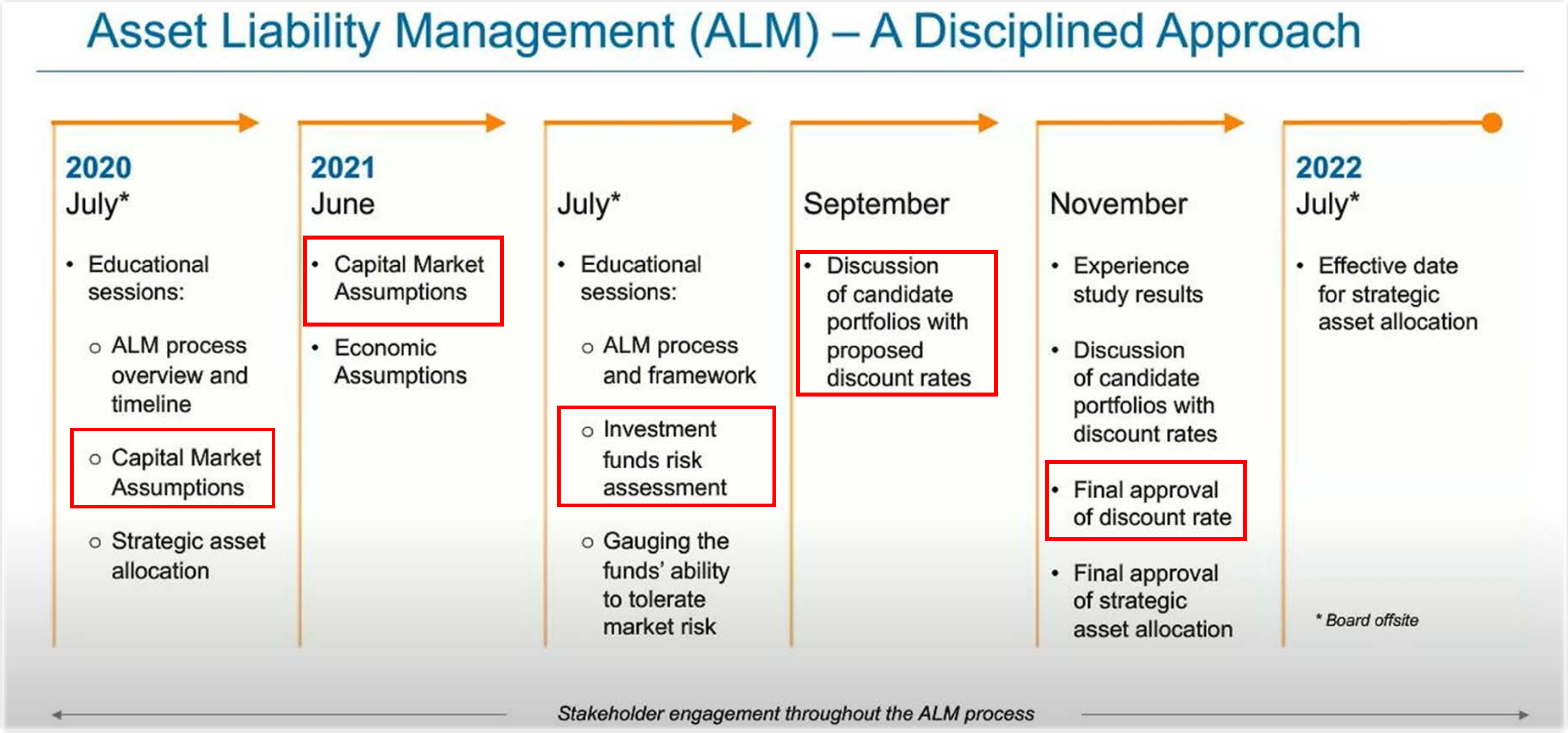
We Need to Take Risks to Achieve Returns



CalPERS Expected Return and Risk Estimates
As of December 31, 2020



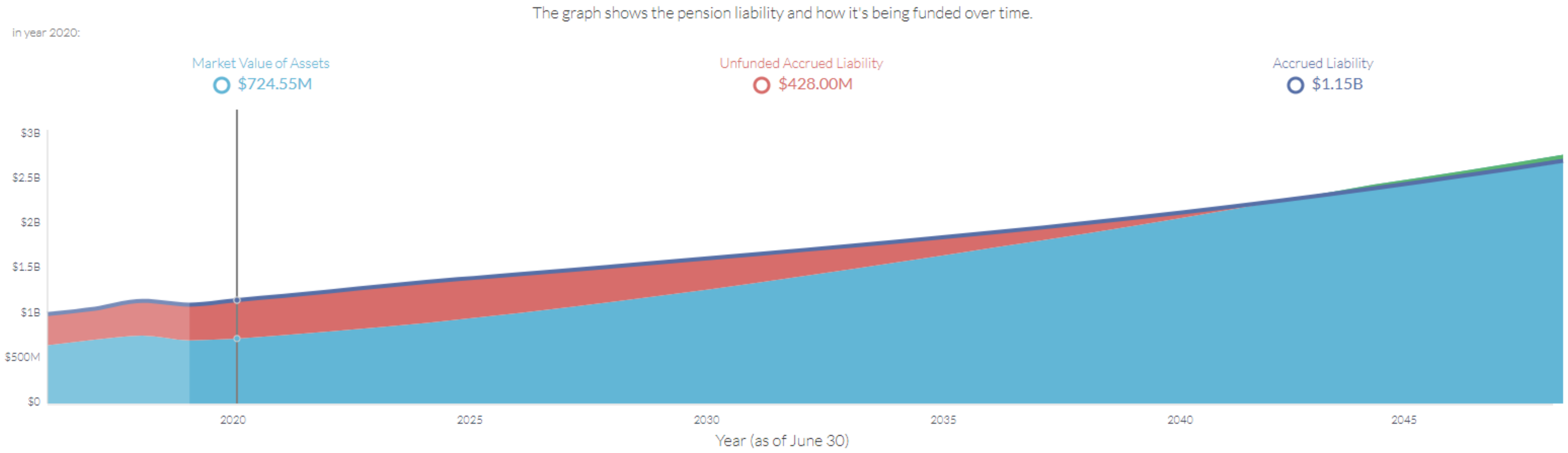
Source: CalPERS



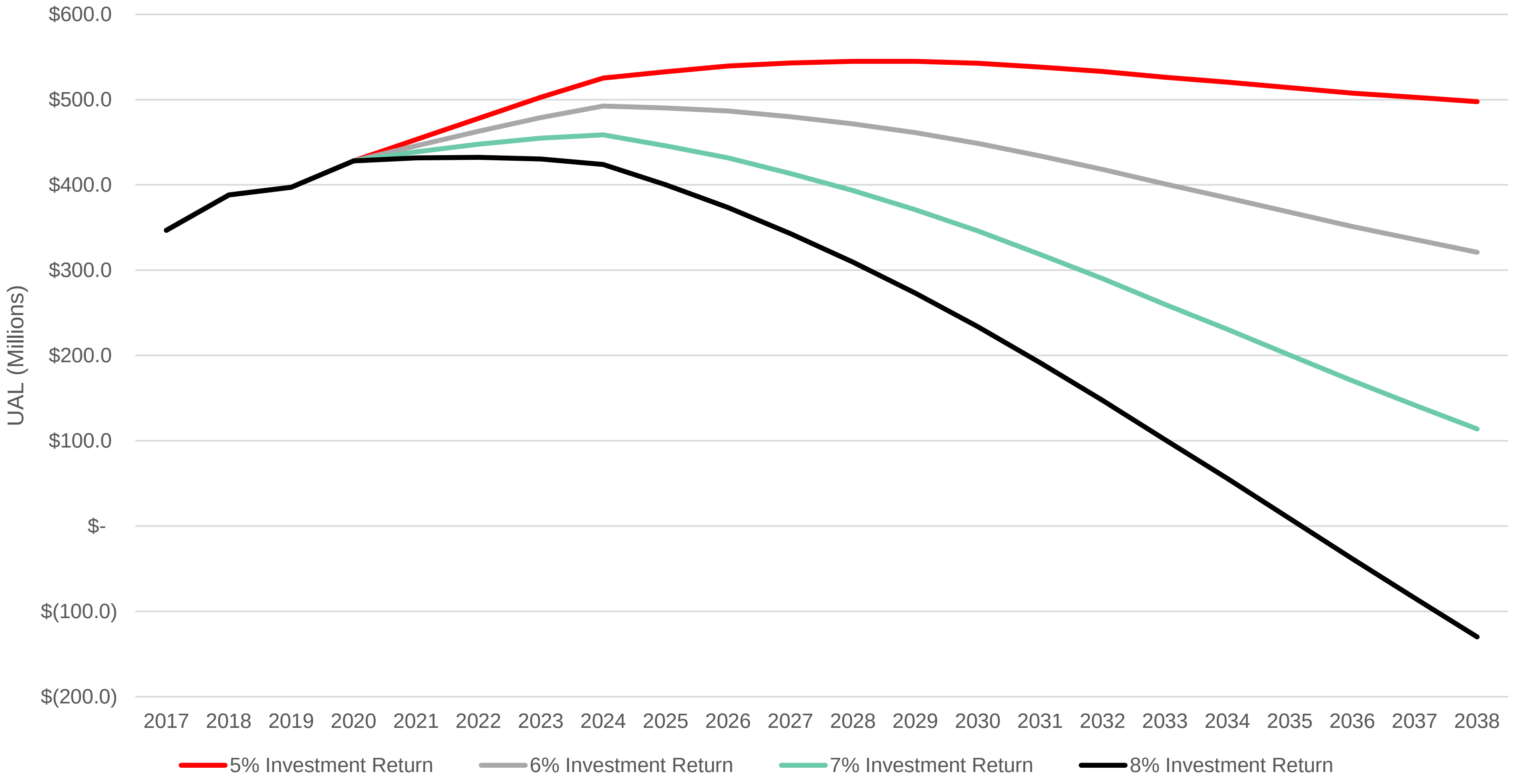
Source: CalPERS

How is El Dorado County Doing?

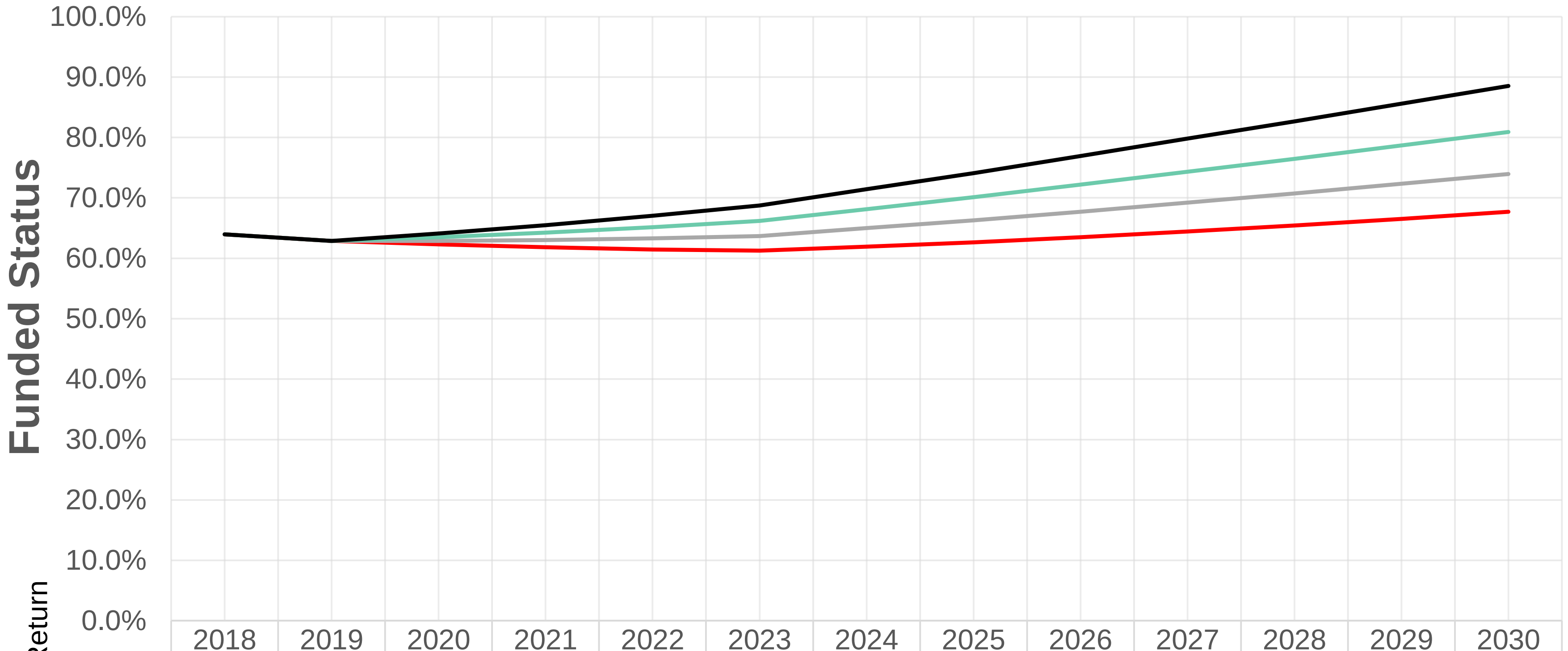
Unfunded Accrued Liability (UAL)



Projected UAL Balance
(Various Investment Return Scenarios)



Plan Funded Status
(Various Investment Return Scenarios)



Investment Return	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
5%	63.9%	62.9%	62.3%	61.8%	61.5%	61.3%	61.9%	62.6%	63.5%	64.4%	65.4%	66.5%	67.7%
6%	63.9%	62.9%	62.9%	63.0%	63.3%	63.7%	65.0%	66.3%	67.7%	69.2%	70.7%	72.3%	74.0%
7%	63.9%	62.9%	63.5%	64.2%	65.1%	66.2%	68.1%	70.1%	72.2%	74.3%	76.5%	78.7%	80.9%
8%	63.9%	62.9%	64.1%	65.5%	67.0%	68.8%	71.4%	74.1%	77.0%	79.8%	82.7%	85.6%	88.5%

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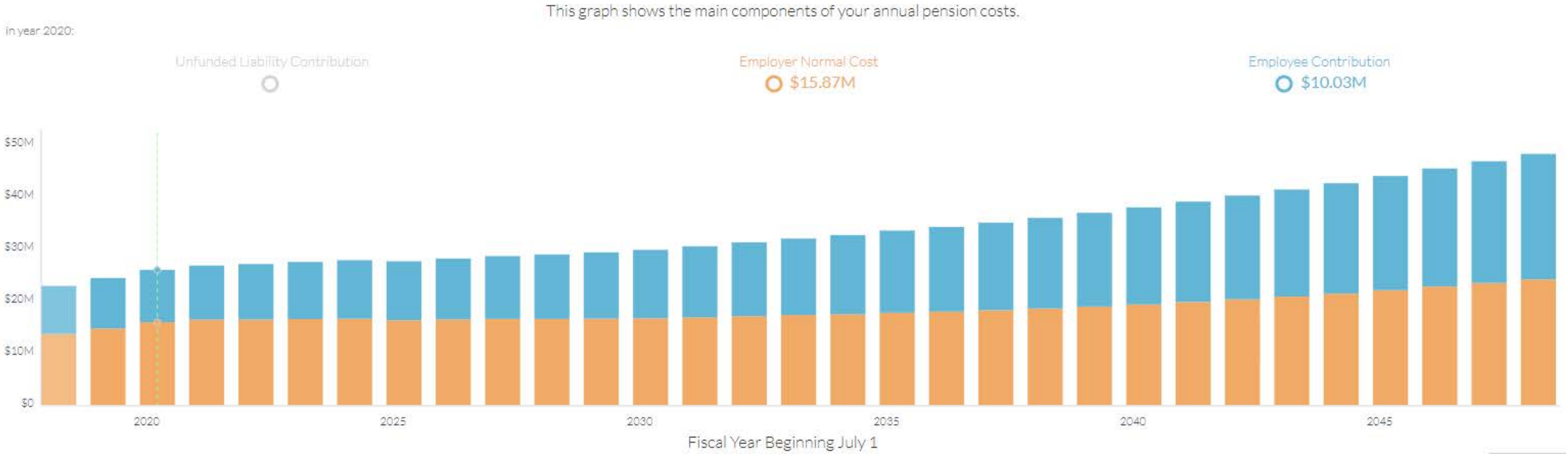
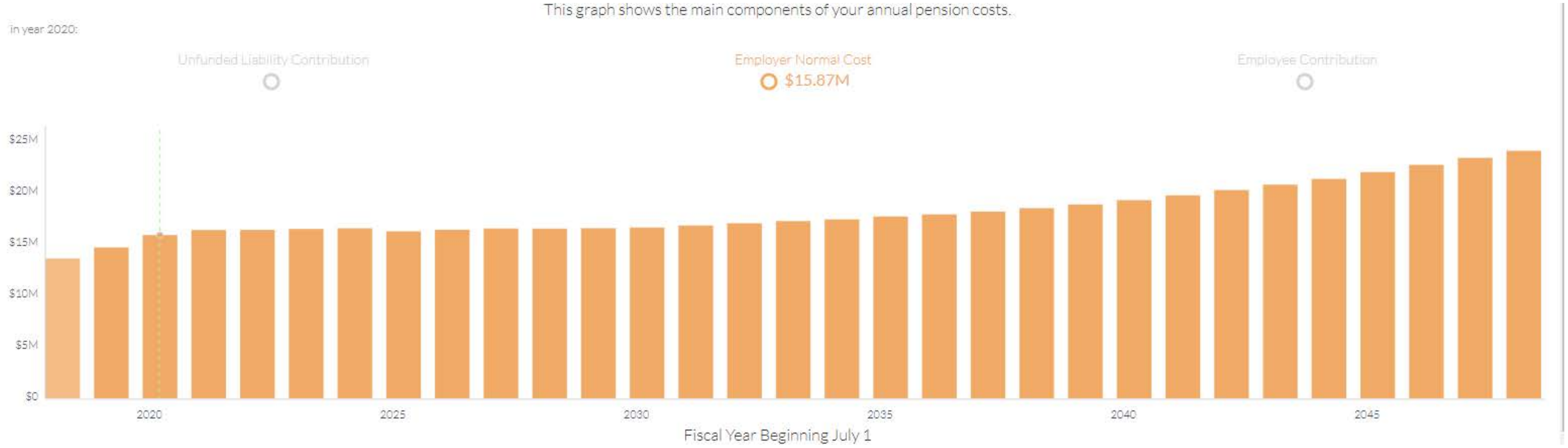
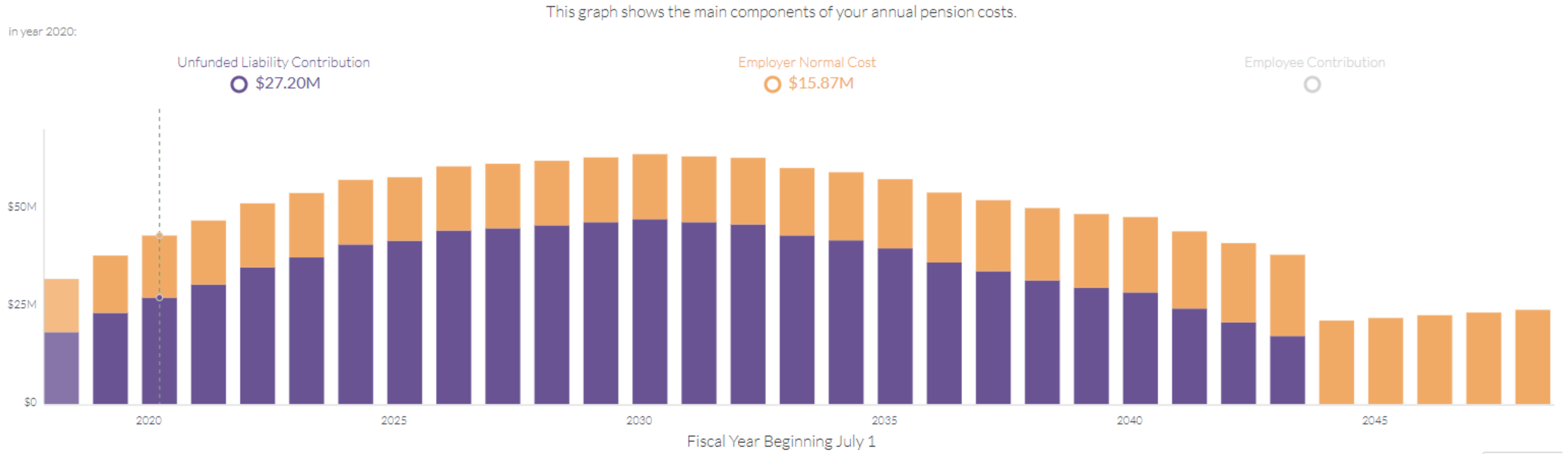
Total Normal Cost



Employer Normal Cost



Required Employer Contribution



How is El Dorado County Doing Relative to Other Counties?

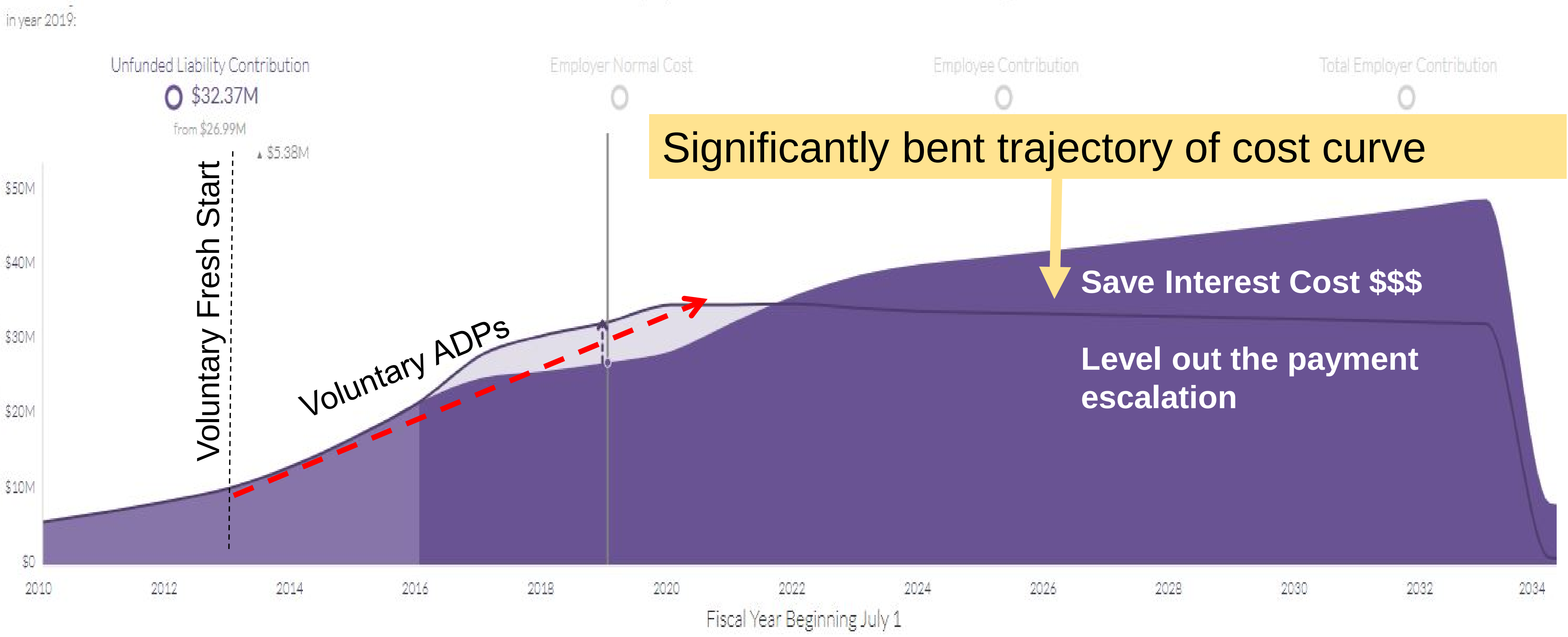
County	Funded Status
Placer	63.3%
Nevada	64.8%
El Dorado	66.4%
Amador	68.9%
Butte	70.8%
Shasta	71.1%

Potential Strategies to Manage Unfunded Pension Liability

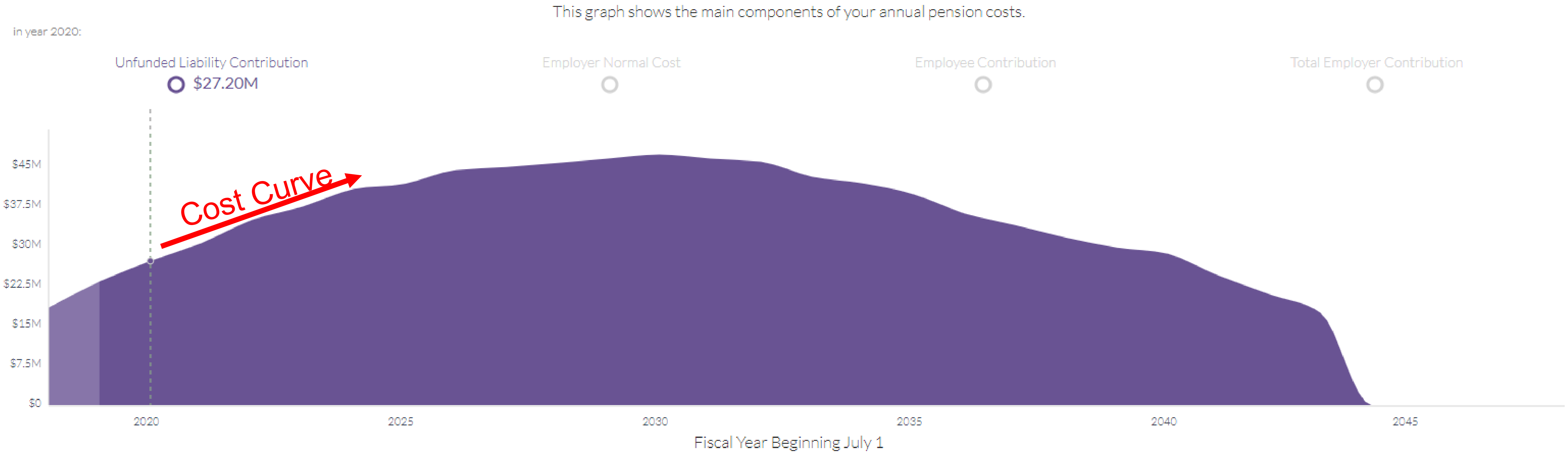
Benefits of Actively Managing Payment Options?

1) Savings are compelling
2) Smoother budgetary transitions
3) Preserve financial flexibility

Illustrative



Baseline Unfunded Liability Payment Plan



Unfunded Pension Liability Funding Goals

- Keep Amortization Schedules Under 20 Years
- Maximize Long-term Savings
- Unfunded Liability Contributions should be aggressive but mindful of current needs
- Maximize use of Additional Discretionary Payments (ADP)
- Keep contributions to CalPERS relatively level
- Don’t increase risk
- Choose most cost-effective path

* New 20-year level-dollar amortization policies adopted by CalPERS are applied prospectively unless early implemented

Future Pension Funding Policy Decision

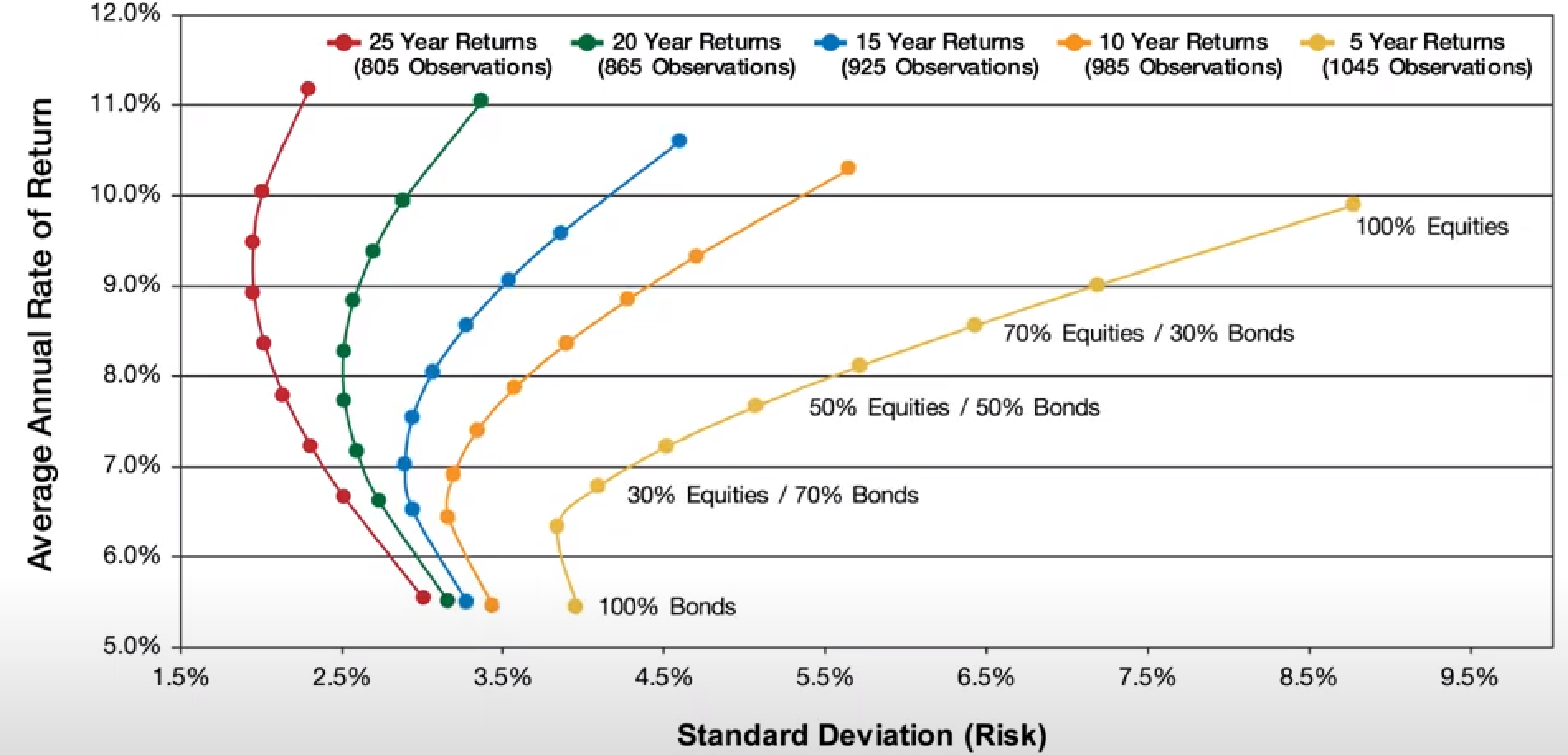
1) Continue with Additional Discretionary Payments (ADP)

2) Fresh Start two or more bases to level out inclining payment ramp.

3) Divert ADP contributions to Section 115 Pension Prefunding Trust

Potential Merits and Limitations of Section 115 Pension Prefunding Trusts

Long Term Asset Allocation



Source: Fisher Investments

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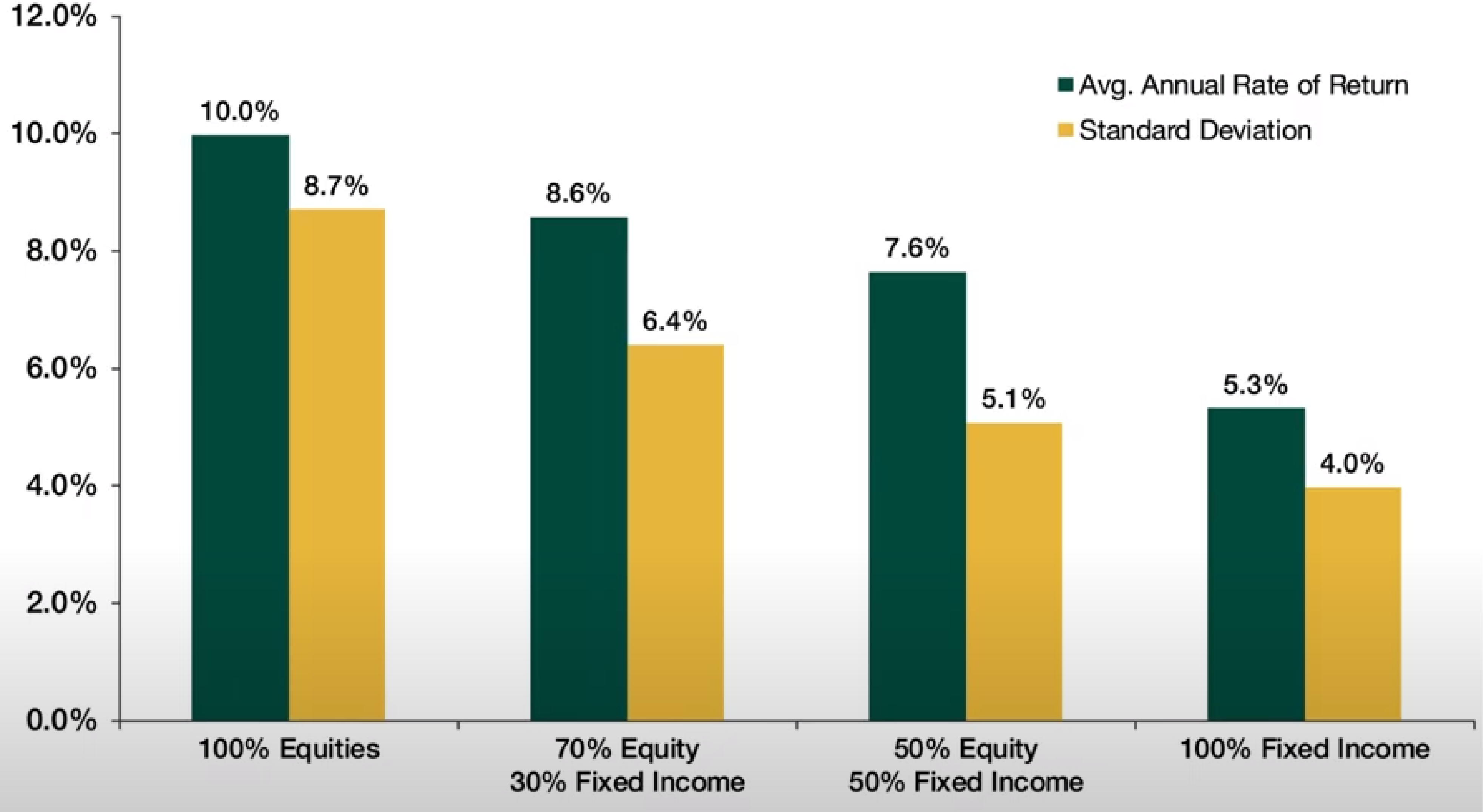
5-Year Time Horizon



Source: Fisher Investments

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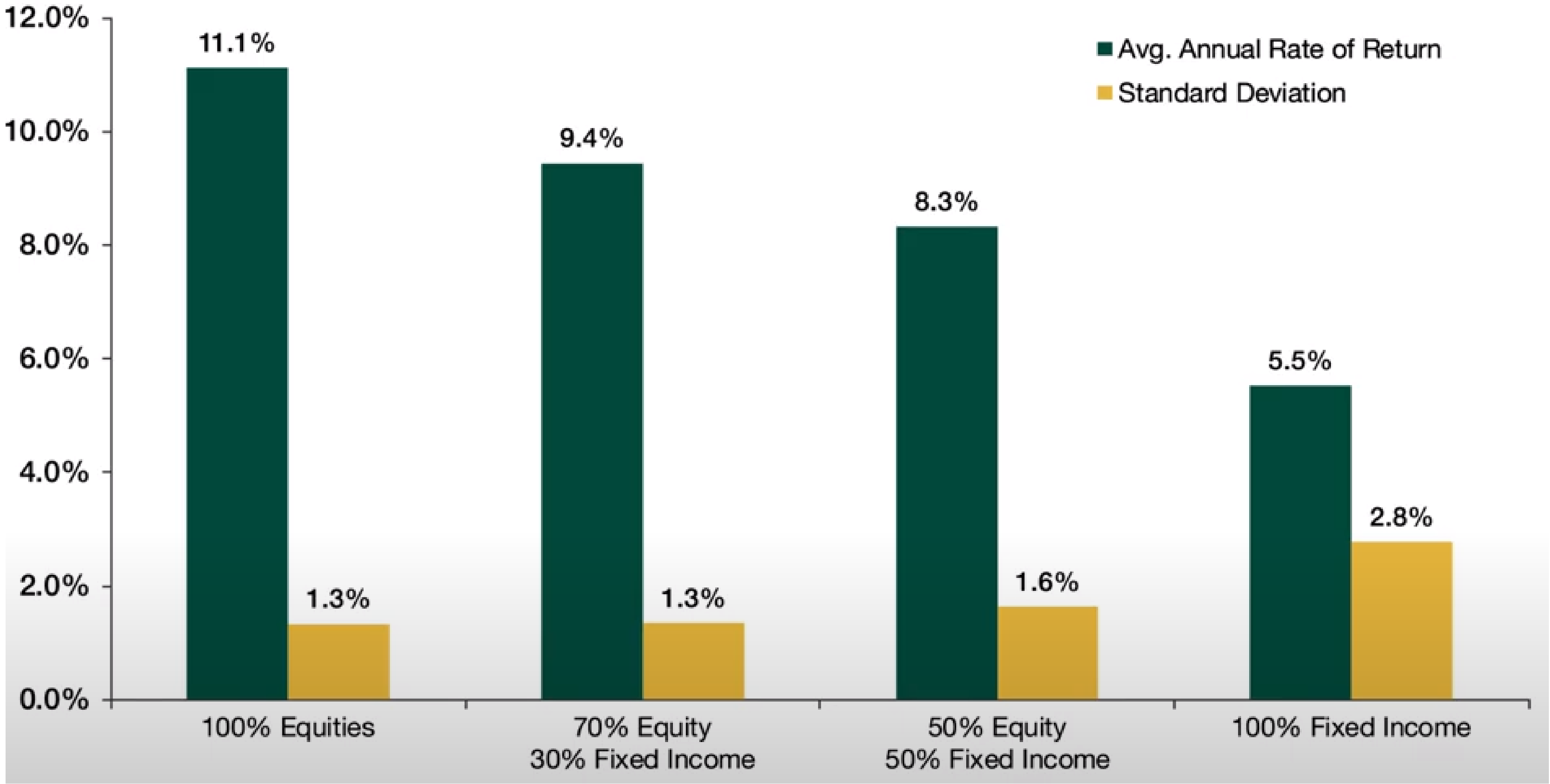
30-Year Time Horizon



Source: Fisher Investments

Potential Benefits of Using a Section 115 Trust

- Trust assets can be theoretically accessed to pay CalPERS at anytime to reduce volatility and offset unexpected rate increases (rate stabilization).
- Provides access to a broader universe of investments that the County can undertake on its own, including stocks and longer-term bonds.
- Allows the County to maintain control and investment oversight of assets.
- Rainy Day Fund - Emergency source of funds when Employer revenues are impaired based on economic or other conditions
- Diversifies investment assets and strategies.

Potential Limitations of Using a Section 115 Trust

- Does not directly reduce Net Pension Liability
- Assets not recognized when CalPERS sets contribution rates
- Added cost to administer
- Added complexities for reporting & administration
- May introduce additional risks
  - Potentially short investment horizon
  - Difficult to diversify a small portfolio
  - Headline risk
- Assets can't be simply transferred to CalPERS. They must be sold at current market value
- In the event of an economic downturn, when the reserve funds might need to be accessed, the market value of the trust portfolio is also likely to be negatively impacted by the downturn.
- The Trust would not likely have a material impact on overall pension asset diversification or investment return relative to the billions of pension assets already at CalPERS.

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Comments From Major Provider of 115 Trusts

- There are approximately 124 public agencies in California that have adopted a 115 trust.
- Of those, we have 60 agencies that have adopted our program.
- The types of agencies run the gamut from perceived wealthy agencies to those not considered as well off.
- The average deposit is probably under $1 million
- Our program has no minimum fees nor monthly minimum, so those Counties that may not be able to contribute substantial sums can still participate.
- We simply charge a percentage of assets in the program to administer the program (which starts at 0.6%) so those making smaller deposits would pay smaller fees.
- The smallest deposit we have from an agency is $50,000.

Building Blocks of Pension Funding: Next Steps

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Next steps

Questions

Disclaimer

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