

OPEB & Pension Investment Policy and Discount Rate Analysis

Audit Committee Regular Meeting

September 27, 2021



CUPERTINO

Topics

1. Background
2. CalPERS Update
3. Pension Funding Strategies
4. Discount Rate Sensitivity Analysis
5. Recommendation

Background



Section 115 Trust

OPEB Trust

Established FY 2010

\$38.0M in assets

8.16% return

Pension Trust

Established FY 2018

\$18.5M in assets

15.45% return

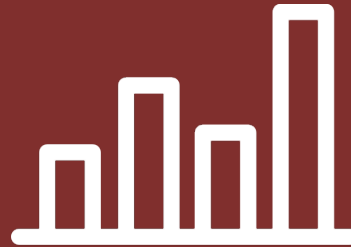
Pension Funding Challenges



State and
CalPERS
Control



Underfunded
Pension
System



Volatility



Risk

Solution: Section 115 Trust



Gives City
Local Control
of Pension
Assets



Prefunds
Future Pension
Costs



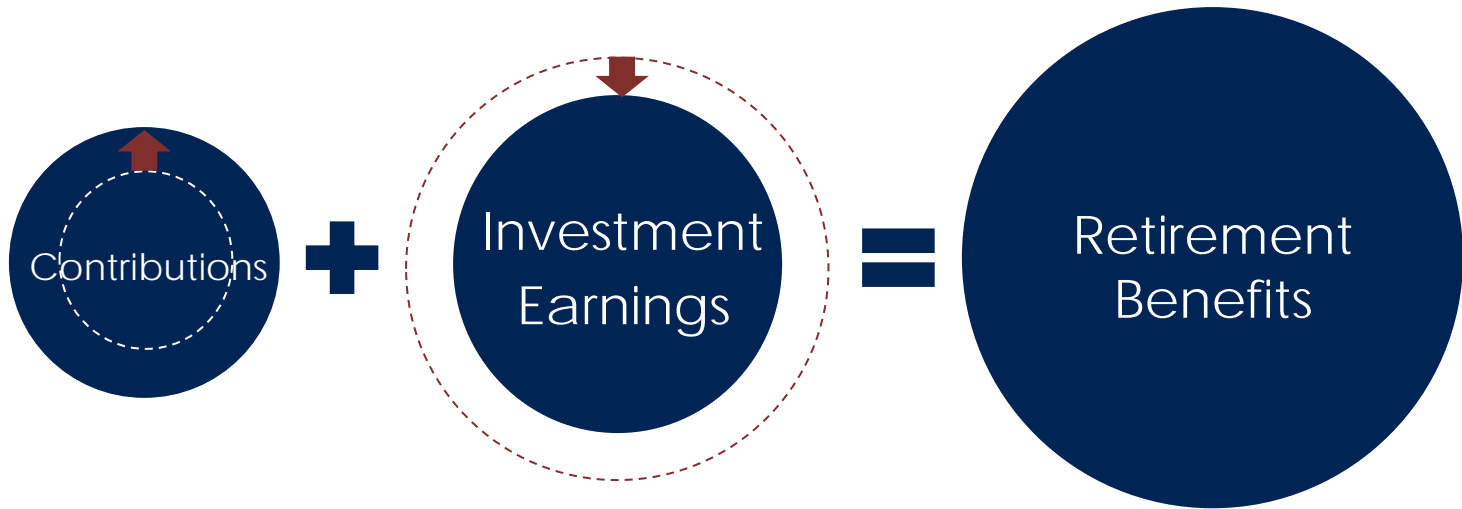
Stabilizes
Volatility in
Pension Costs



Diversifies
Pension Assets
from CalPERS

Impact of Investment Returns

If the investment return is lower than expected ...



... the City's required contributions will increase to cover the shortfall

Impact of Discount Rate



Discount Rate



Contributions



Probability of meeting
investment return



Risk

CalPERS Update



Investment Returns

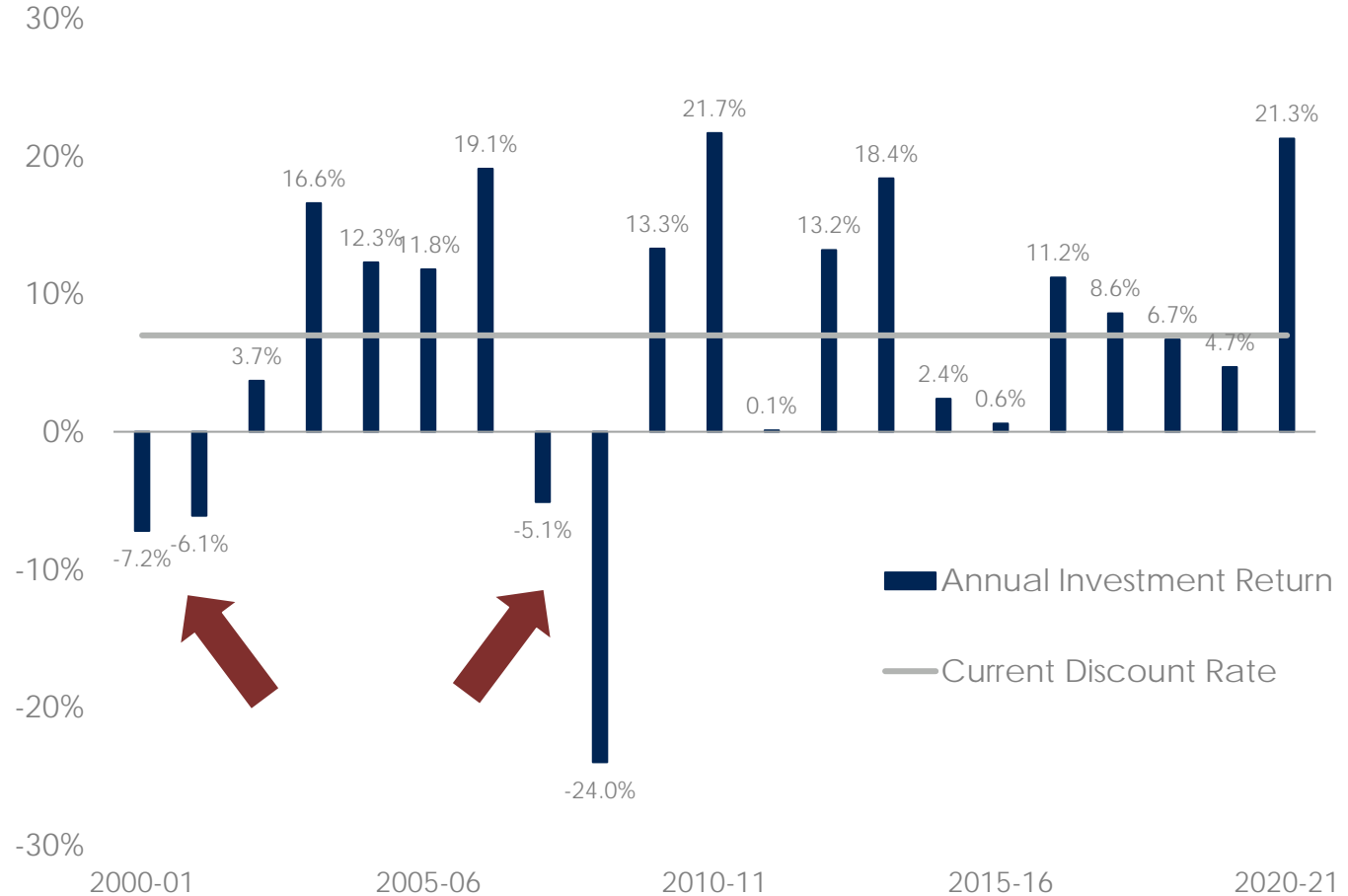
21.3%

FY 2020-21

6.9%

20-Year

CalPERS Historical Investment Returns



Returns triggers discount rate decrease

Current Discount Rate

7.0%

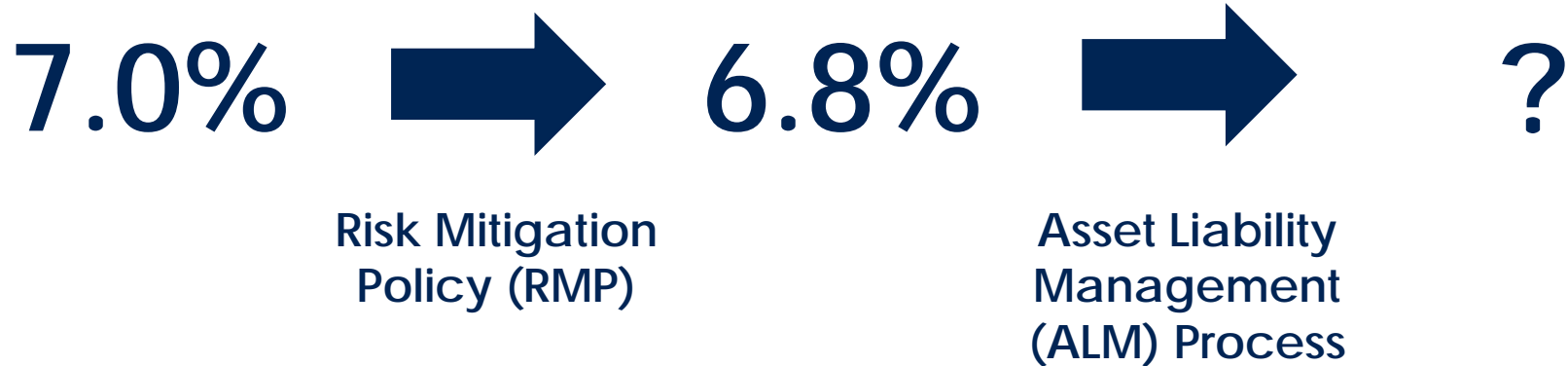


New Discount Rate

6.8%

Risk Mitigation
Policy (RMP)

CalPERS to select final discount rate



Pension Funding Strategies



What is our pension funding goal?

80% funded status within 20 years

6.25% discount rate

How do we get there?

\$42M

Assets

20 Year

Time Horizon

Progress Towards Pension Funding Goal

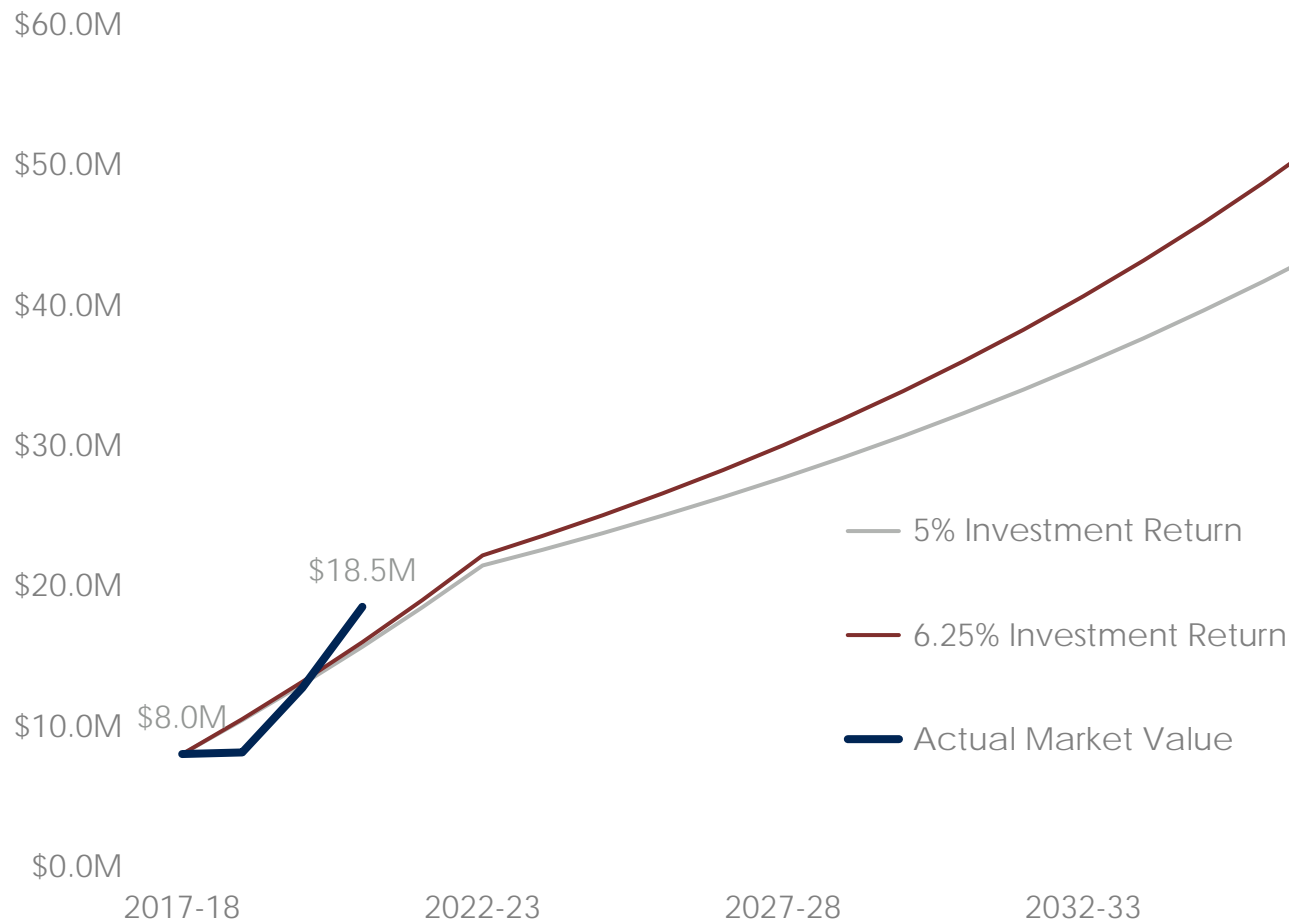
Are we on track?

\$14.0M

Contributions

\$18.5M

Market Value



Discount Rate Sensitivity Analysis



Pension Costs

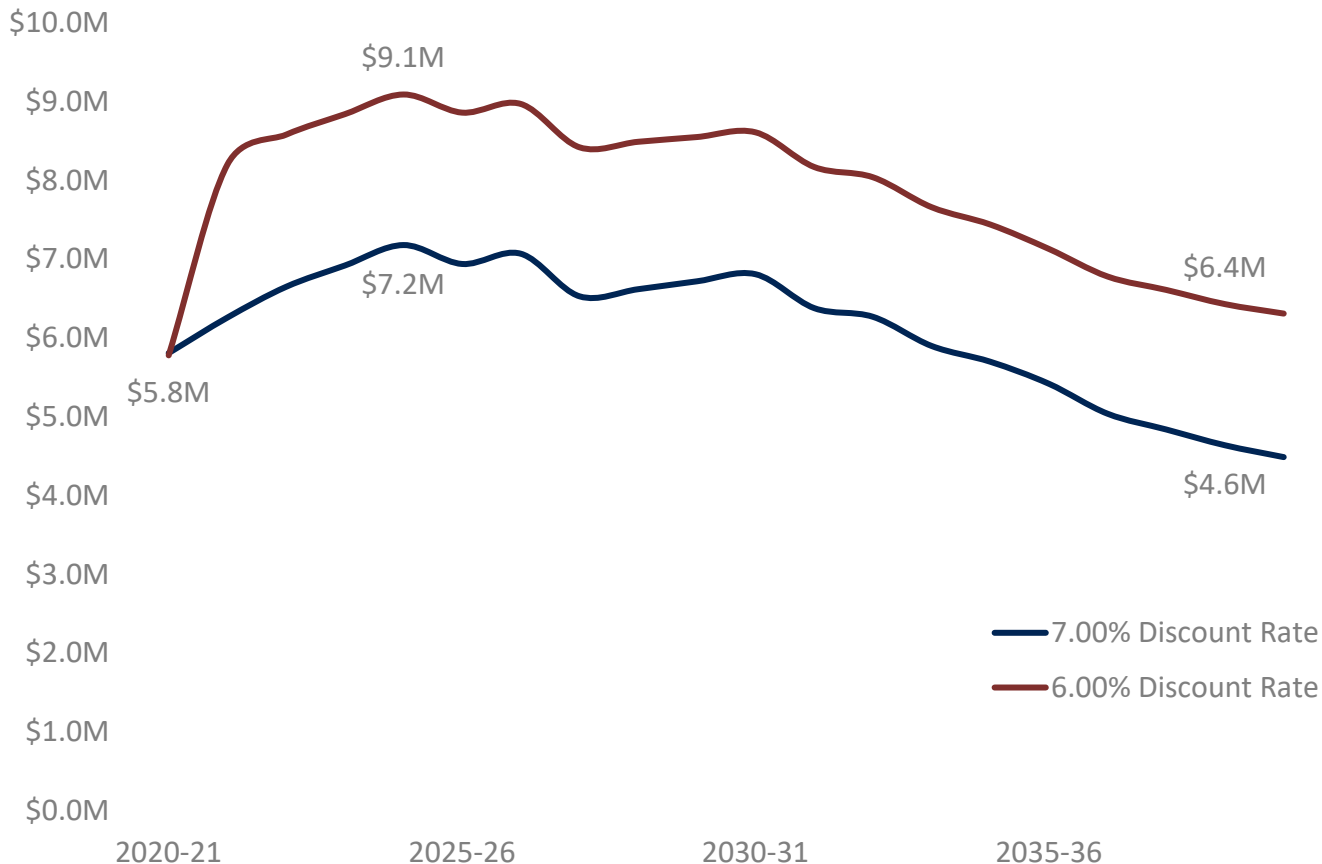
If the discount
rate goes down

1%

annual costs
increase by

\$2.5M

CalPERS Annual Contribution



OPEB Costs

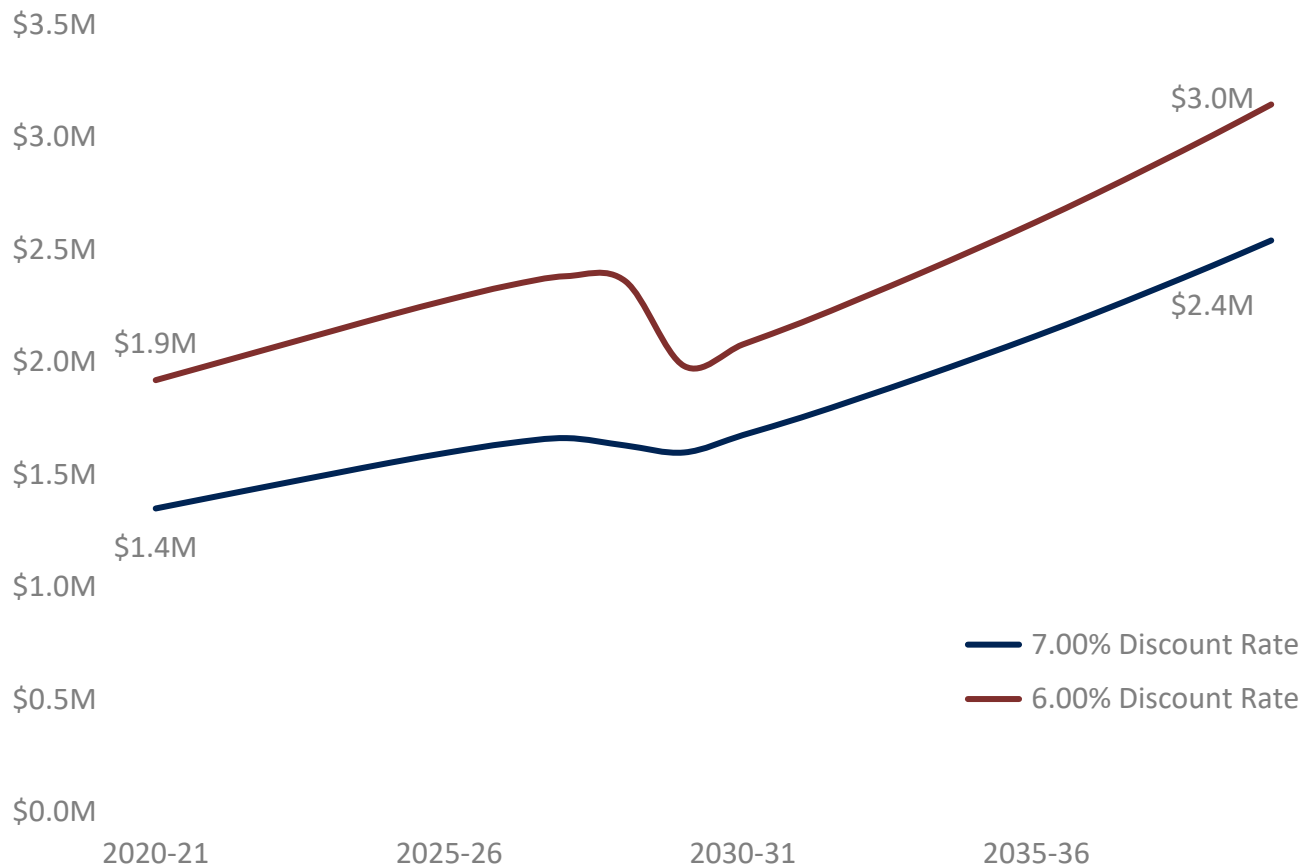
If the discount
rate goes down

1%

annual costs
increase by

\$0.6M

OPEB Annual Contribution



Recommendation



Investment Policy Recommendation

OPEB Trust

6.50%

Target Rate of Return

Pension Trust

6.25%

Target Rate of Return

Thank you!

Questions?



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