WEBINAR TOPICS

- The PARS-CCLC Pension Rate Stabilization Program (PRSP) is a first-of-its kind, IRS-approved trust program which is designed to prefund pension obligations.

- Offered to community college districts in partnership with the Community College League of California, this presentation will address:
  - Background on Program
  - Reasons to prefund pension
  - PRSP structure
  - Investments
  - Fees
  - Advantages
BACKGROUND

- Community colleges dealing with STRS/PERS contribution rate increases impacting their budgets
- The Chancellor’s office recommended both this and last budget years that colleges plan ahead for long term ongoing liabilities such as pension and OPEB (retiree healthcare) by setting funds aside
- GASB 68 specified that colleges must disclose Net Pension Liability on financial statements (beginning in FY 2014/15)
- Community College League member survey on the issue showed significant interest in concept, prompting decision to sponsor program - May 2015
- PARS received IRS approval of first multiple employer trust for pension prefunding in nation - June 2015
- PARS-CCLC Pension Rate Stabilization Program launched – Summer of 2015
- 113 colleges, schools, cities, counties and special districts in CA and growing quickly – as of December 2017
PROGRAM PARTNERS

- PARS
  - Trust Administrator
- U.S. Bank
  - Trustee
- Community College League of California
- Investment Manager

PRSP 115 Trust Program
STRS/PERS CONTRIBUTION RATE INCREASES

District STRS/PERS contribution rate increases through 2024-25:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>STRS</th>
<th>PERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-2017</td>
<td>12.58%</td>
<td>13.89%</td>
</tr>
<tr>
<td>2017-2018</td>
<td>14.43%</td>
<td>15.53%</td>
</tr>
<tr>
<td>2018-2019</td>
<td>16.28%</td>
<td>18.10%</td>
</tr>
<tr>
<td>2019-2020</td>
<td>18.13%</td>
<td>20.80%</td>
</tr>
<tr>
<td>2020-2021</td>
<td>19.10%</td>
<td>23.80%</td>
</tr>
<tr>
<td>2021-2022</td>
<td>19.10%</td>
<td>25.20%</td>
</tr>
<tr>
<td>2022-2023</td>
<td>19.10%</td>
<td>26.10%</td>
</tr>
<tr>
<td>2023-2024</td>
<td>19.10%</td>
<td>26.80%</td>
</tr>
<tr>
<td>2024-2025</td>
<td>19.10%</td>
<td>27.30%</td>
</tr>
</tbody>
</table>
STRS FUNDING BURDEN

- Unfunded liability increased from $22.5B in 2008 to $70.5B in 2012
- AB 1469 passed in 2013 to increase the “shared” contributions by the state, employers and employees by $5.5 billion from the existing $2.2 billion, beginning as of July 1, 2014 and to be phased in over seven years through 2020-21
- The burden of the solution is clearly on the employers
- As intended under AB 1469, the 2013 STRS unfunded liability of $74 billion breaks down as follows:
  - $47 billion – or 63% – will be funded by employers
  - $8 billion – or 10% – will be funded by employees
  - $20 billion – or 27% – will be funded by the state
EMPLOYER RATE INCREASES

- STRS employer rates have increased to 14.43% in 2017-18, up from 12.58% in 2016-17
- No additional funds are provided for this cost increase
- Under current law, once the statutory rates are achieved, STRS has authority to marginally increase or decrease the employer and state contribution rates

<table>
<thead>
<tr>
<th>Year</th>
<th>Employer</th>
<th>Pre-PEPRA Employees</th>
<th>Post-PEPRA Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-17</td>
<td>12.580%</td>
<td>10.250%</td>
<td>9.205%</td>
</tr>
<tr>
<td>2017-18</td>
<td>14.430%</td>
<td>10.250%</td>
<td>9.205%</td>
</tr>
<tr>
<td>2018-19</td>
<td>16.280%</td>
<td>10.250%</td>
<td>9.205%</td>
</tr>
<tr>
<td>2019-20</td>
<td>18.130%</td>
<td>10.250%</td>
<td>9.205%</td>
</tr>
<tr>
<td>2020-21</td>
<td>19.100%</td>
<td>10.250%</td>
<td>9.205%</td>
</tr>
</tbody>
</table>
EMPLOYER RATE INCREASES (CONT.)

• The employer contribution rate to PERS has increased from 13.89% in 2016-17 to 15.53% in 2017-18

• The PERS employer contribution is projected to increase as shown below from 2018-19 and beyond:

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>Estimated*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-17</td>
<td>13.89%</td>
<td>18.10%</td>
</tr>
<tr>
<td>2017-18</td>
<td>15.53%</td>
<td>20.80%</td>
</tr>
<tr>
<td>2018-19</td>
<td></td>
<td>23.80%</td>
</tr>
<tr>
<td>2019-20</td>
<td></td>
<td>25.20%</td>
</tr>
<tr>
<td>2020-21</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2021-22</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* PERS-provided estimates, April 2017
Annual pension costs increase from $6.6 million to $10.0 million in 2024-25.

* STRS and PERS contributions for 2017-2018 are taken from the 2017-2018 Adopted Budget
* *STRS and PERS contributions for 2018-2019 and thereafter assumes consistent STRS/PERS covered payroll amounts from the 2017-2018 Budget Numbers (increases are only based on increased STRS/PERS contribution rates)
THREE OPTIONS FOR DISTRICTS

1. Set aside reserve funds
2. Fund into Pension Rate Stabilization Program (PRSP) trust
3. Pay-As-You-Go
# Reserve Account vs. PRSP

<table>
<thead>
<tr>
<th>Reserve Account</th>
<th>PRSP Trust</th>
</tr>
</thead>
<tbody>
<tr>
<td>General fund investing restrictions</td>
<td>Govt. Code Section 53216</td>
</tr>
<tr>
<td>Fixed income only</td>
<td>Fixed income or diversified</td>
</tr>
<tr>
<td>Investments not tailored for long term</td>
<td>Can be tailored for short or long term</td>
</tr>
<tr>
<td>Revocable</td>
<td>Irrevocable</td>
</tr>
<tr>
<td>Accessed for other uses</td>
<td>Dedicated solely to pension costs</td>
</tr>
<tr>
<td>Not free from creditors</td>
<td>Exclusive benefit/free from creditors</td>
</tr>
<tr>
<td>No corporate trustee</td>
<td>Corporate trustee to mitigate fiduciary risk</td>
</tr>
<tr>
<td>No impact on GASB 68</td>
<td>Addresses on GASB 68 liability</td>
</tr>
</tbody>
</table>
STRUCTURE OF THE PARS TRUST

IRC SECTION 115
- A governmental trust designed specifically to be used for pension prefunding whereby any income derived is tax exempt

IRREVOCABLE
- To comply with GASB rules, trust was set up as irrevocable which means that once contributions are placed into trust, assets can only be used for retirement plan purposes

MULTIPLE EMPLOYER
- Based on proprietary PARS model
- Separate accounts - program is aggregation of separate accounts with centralized administration and pooled investments
- No risk sharing - each employer’s contributions provide benefits only for employees of that employer. There is no cross-liability or joint liability among participating public agencies and no sharing of assets
COMPREHENSIVE SERVICES

The PARS Trust Team offers a variety of services:

<table>
<thead>
<tr>
<th>Consulting</th>
<th>Investment Fiduciary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Management</td>
<td>Document Preparation</td>
</tr>
<tr>
<td>Trustee Services</td>
<td>Custodian Services</td>
</tr>
<tr>
<td>Ongoing Compliance Monitor</td>
<td>Disbursement Processing</td>
</tr>
<tr>
<td>Funding Processing</td>
<td>Contribution Processing</td>
</tr>
</tbody>
</table>
APPROACHES TO PREFUNDING

- **Leave the funds** to accumulate over years without short term disbursement
- **Rainy day use**: Allow the assets to grow over a period of years, but make disbursements during tough economic or budgetary times
- **Annual rate increases payback**: Make disbursements to cover only the rate increase amounts
- **Total annual pension costs**: Make disbursements to cover annual pension costs
- **Fixed income option if short term need** for funds
- **Diversified options if longer term need** for greater long term returns
- **Conservative portfolio with limited equity exposure most common**
WHY PREFUND PENSION OBLIGATIONS?

1. **Address Long-Term Costs**
   STRS/PERS costs are a long term burden beyond 2020; prudent diversified investment planning is important to current and future management of obligations

2. **Protect from Diversion**
   Funds are protected from diversion to other uses and curtails stakeholder pressure to use funds in other ways

3. **Create a Rainy Day Fund**
   Assets can be used as an emergency source of funds for pension-related costs when District revenues are impaired based on economic or other conditions

4. **Stabilize Costs**
   When contribution rates increase, assets can be transferred from the program to STRS/PERS, which can help to pay large contribution increases
WHY PREFUND PENSION OBLIGATIONS?

5. **Address Pension Liability**
   Contributions placed into an exclusive benefit trust are assets which address the district’s ongoing pension liability.

6. **Achieve Better Returns**
   Prefunding with PRSP enables diversified investing that may achieve greater returns than County Treasury Pools.

7. **Strengthen Credit Rating**
   Credit rating agencies may look more favorably upon districts who take steps to reduce liabilities.
INVESTMENT OPTION A:

VANGUARD

This non-advisory approach offers very low costs with portfolios comprised of institutional class, index-based, mutual funds and the following target asset allocations:

<table>
<thead>
<tr>
<th>Portfolios</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Fixed Income</td>
</tr>
<tr>
<td>(b) Conservative</td>
</tr>
<tr>
<td>(c) Balanced</td>
</tr>
<tr>
<td>(d) Growth</td>
</tr>
</tbody>
</table>

INVESTMENT OPTION B:

HIGHMARK CAPITAL MANAGEMENT

HighMark Capital Management, when acting as a sub-advisor to the Discretionary Trustee, U.S. Bank, offers managed portfolios and provides oversight of the investment process. Portfolios have been designed exclusively for the PARS-CCLC PSRP.

<table>
<thead>
<tr>
<th>Active Managed Portfolios</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Conservative</td>
</tr>
<tr>
<td>(b) Moderately Conservative</td>
</tr>
<tr>
<td>(c) Moderate</td>
</tr>
<tr>
<td>(d) Balanced</td>
</tr>
<tr>
<td>(e) Capital Appreciation</td>
</tr>
</tbody>
</table>

*Available according to asset size*
INVESTMENT OPTION A

VANGUARD APPROACH

- The District can invest its assets in one of four investment pools which have been designed specifically by Vanguard

**FIXED INCOME**
- Bonds 92%
- Cash 7%

**CONSERVATIVE**
- Bonds 55%
- Equity 43%
- Cash 2%

**BALANCED**
- Bonds 38%
- Equity 61%
- Cash 1%

**GROWTH**
- Bonds 22%
- Equity 77%

- Portfolios are comprised of institutional class, index-based, mutual funds selected for their low-weighted expense ratios
- Assets are pooled for economies of scale but there is no cross sharing of earnings or liabilities
INVESTMENT OPTION B

HIGHMARK CAPITAL MANAGEMENT APPROACH

Efficient frontier of portfolios with varying ranges of equities and fixed income

Expected Return

Expected Standard Deviation (Volatility)

Conservative
Moderately Conservative
Moderate
Balanced
Capital Appreciation

<table>
<thead>
<tr>
<th>Equity</th>
<th>Fixed Income</th>
<th>Cash</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conservative</td>
<td>5-20%</td>
<td>60-95%</td>
</tr>
<tr>
<td>Moderately Conservative</td>
<td>20-40%</td>
<td>50-80%</td>
</tr>
<tr>
<td>Moderate</td>
<td>40-60%</td>
<td>40-60%</td>
</tr>
<tr>
<td>Balanced</td>
<td>50-70%</td>
<td>30-50%</td>
</tr>
<tr>
<td>Capital Appreciation</td>
<td>65-85%</td>
<td>10-30%</td>
</tr>
</tbody>
</table>

*Each Investment Objective reflects the associated PARS Diversified Portfolio as of 9/30/2017. A client’s portfolio construction may vary depending on the client’s investment needs, objectives, and restrictions as well as the prevailing market conditions at the time of investment.*
STEPS TO IMPLEMENTATION

1. Board of Trustees authorizes establishment of The PARS Trust and appoints a Plan Administrator by adoption of resolution

2. PARS provides legal documents for signature by Plan Administrator

3. District develops investment policy and guidelines for Investment Manager
   - Setting discount rate target
   - Risk tolerance
   - Active or passive; custom or model
   - Prohibited investments outlined

4. After receipt of signed documents, District’s account is set up within one week

5. District makes initial deposit to The PARS Trust

6. PARS conducts an annual review of investment performance
KEY ADVANTAGES OF PARS-CCLC PRSP

- **Ready-to-use** irrevocable multiple employer trust and investment program
- **IRS Private Letter Ruling** on multiple employer basis (obtained June 2015)
- "**Turn-key**" comprehensive approach so costs and burdens are not shifted to the District
- **No startup costs** or termination costs/restrictions
- **Local control** that allows each District to determine its own funding schedules
- Fully vetted **signature-ready documents** for streamlined implementation
- **Economies of scale** decrease fees as assets grow
- **Flexible investment options** that include both discretionary & District-directed approaches
- **Regular reporting** and ongoing support that includes monthly statements and in-person client reviews
- **Partnership with CCLC** to help meet the needs of Districts
- **Local support & individualized attention** from California-based services team
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