

AGENDA ITEM

ITEM I.C. NOV 19

Date: November 19, 2015

To: Members, OPEB Trust Plan Committee
Members, Planning & Budget Committee

From: Leah Wilson, Chief Operating Officer

Subject: Performance Review of OPEB Trust Assets

BACKGROUND:

The State Bar administers a single-employer defined benefit Post-Retirement Welfare Benefits Plan for Executive Staff Employees ("OPEB Plan"). The OPEB Plan provides postretirement health care benefits for its eligible executive staff employees. Under the provisions of the OPEB Plan, a committee ("Committee") was established to operate and administer the OPEB Plan in accordance with the terms of the OPEB Plan. The Committee is composed of the Treasurer of the Board of Trustees, the President of the Board of Trustees, and the Executive Director, or their designees.

For executive staff employed as of August 19, 2006, eligibility requires fifteen years of services to the State Bar as a regular employee. For employees who become executive staff after August 19, 2006, eligibility requires fifteen years of service to the State Bar as a regular employee, with at least the last ten years of service preceding retirement as an executive staff employee. The employee must also elect to receive retirement benefits effective within one hundred twenty days of retirement from State Bar employment under CalPERS. Active executive employees who are not eligible for retirement benefits are assumed to have an equal portion of the present value of the benefits attributed to each year of service from date of hire to expected retirement age. The OPEB Plan included fifty-four active executive staff employees as of December 31, 2014, and sixty-two retirees and beneficiaries received benefits as of December 31, 2014. The State Bar has the right to modify plan provisions prospectively at its discretion.

On December 15, 2008, the State Bar created an irrevocable trust for the OPEB Plan ("OPEB Trust") to set aside assets to fund the cost of retiree health care benefits to eligible executive employees. During the years of 2008 to 2013, the OPEB Trust was administered by the State Bar and investment was held under the custodian of Wells Fargo bank. In December 2012, the State Bar began to transfer funds from the OPEB Trust managed by Wells Fargo Bank to a higher-yielding California Employers' Retiree Benefit Trust (CERBT) managed by the California Public Employees' Retirement System (CalPERS) and, on an ongoing basis, to make annual transfers to the CERBT to pay the State Bar's Annual Required Contribution (ARC), as determined by the State Bar's actuary. The first \$3 million OPEB asset transfer to CalPERS was completed in December 2012, and the remaining OPEB assets balance of \$11.4 million were transferred to CalPERS in 2013.

CURRENT STATUS:

The most recent actuarial study, completed in June of 2013, valued the OPEB liability at \$25.9 million (as of June 30, 2013), and the ARC is approximately \$1.7 million. As of September 30, 2015, the market value of the total OPEB assets are \$19 million. The independent actuary is currently working on the 2015 valuation. Both the Accrued Actuarial Liability (AAL) and the Annual Required Contribution (ARC) will be reassessed during the valuation process. Staff expected that the valuation report will be finalized in January 2016. The tables below illustrate the valuation summary as of June 2013, and the funding status for 2014 and 2015:

Valuation summary

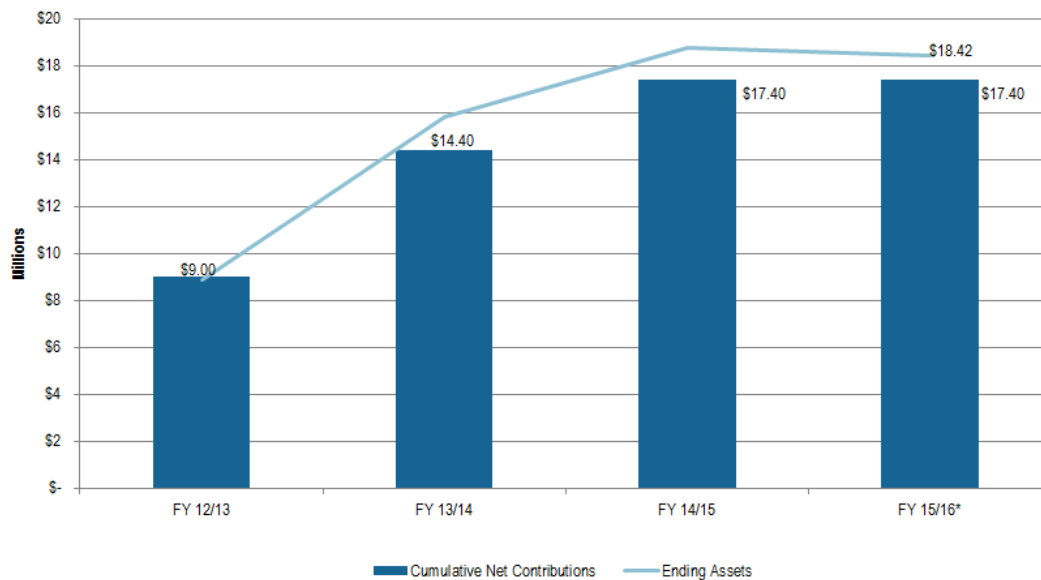
Valuation dated June 30, 2013 – John Botsford, Milliman, Inc.	
Actuarial Accrued Liability (AAL)	\$25,857,708
Present Value of Benefits (PVB)	\$32,427,893
Annual Required Contribution (ARC)	\$1,660,946
Normal Cost	\$792,847
Amortization of Unfunded Actuarial Accrued Liability	\$868,099
Pay-as-you-go	\$935,379
Total Covered Lives (Active & Retiree)	115
Asset Allocation Strategy Selection	Strategy 3
Discount Rate	6.00%

Funded status comparison

Fiscal Year Ending	Estimated AAL	Market Value of Assets	Funded Ratio
6/30/2014	\$26,801,816	\$15,823,522	59.04%
6/30/2015	\$28,347,905	\$18,788,226	66.28%

The table below illustrates the State Bar's cumulative contributions to CERBT from date of inception:

Contribution summary by fiscal year



The table below illustrates the Account summary as of August 2015.

Account summary

Account summary as of August 31, 2015	
Initial contribution (12/28/2012)	\$3,000,000
Additional contributions	\$14,400,401
Disbursements	(\$0)
CERBT expenses	(\$40,590)
Investment earnings	\$1,056,426
Total assets	\$18,416,236
Average annualized internal rate of return (12/28/2012-8/31/2015)	3.15%

CALIFORNIA EMPLOYER'S RETIREE BENEFIT TRUST (CERBT) OVERVIEW:

CERBT is a CalPERS trust plan program dedicated to receiving employer contributions and to pre-funding public employer health and other post-employment benefit costs for retirees and their beneficiaries consistent with GASB 43 and 45. CERBT is the largest multiple-public employer OPEB trust in the nation. The program is open exclusively to California government agencies, and it is governed by the CalPERS Board of Administration.

Assets in the CERBT are invested in a pooled fund, in which each participating entity holds separate interest. Investment earnings are separately accounted for and are allocated on a monthly basis. Investments are selected by professional staff in conformity with investment policies set by the CalPERS Investment Committee. The CalPERS Board of Administration assumes fiduciary responsibilities, manages investments and asset allocation, and approves official estimates of the expected rate of return of the pool. Investment policies, asset allocation, portfolios are reviewed, updated and approved by the Board on a regular basis.

FUND PERFORMANCE

The CERBT fund received its initial employer contribution in September 2007. As of June 2015, CERBT employer assets have grown to \$4.5 billion, with 462 contracted California government employer participants. The table below illustrates the time weighted rates of return from date of inception, and annual average return rate is approximately 5.61% for the asset allocation selected.

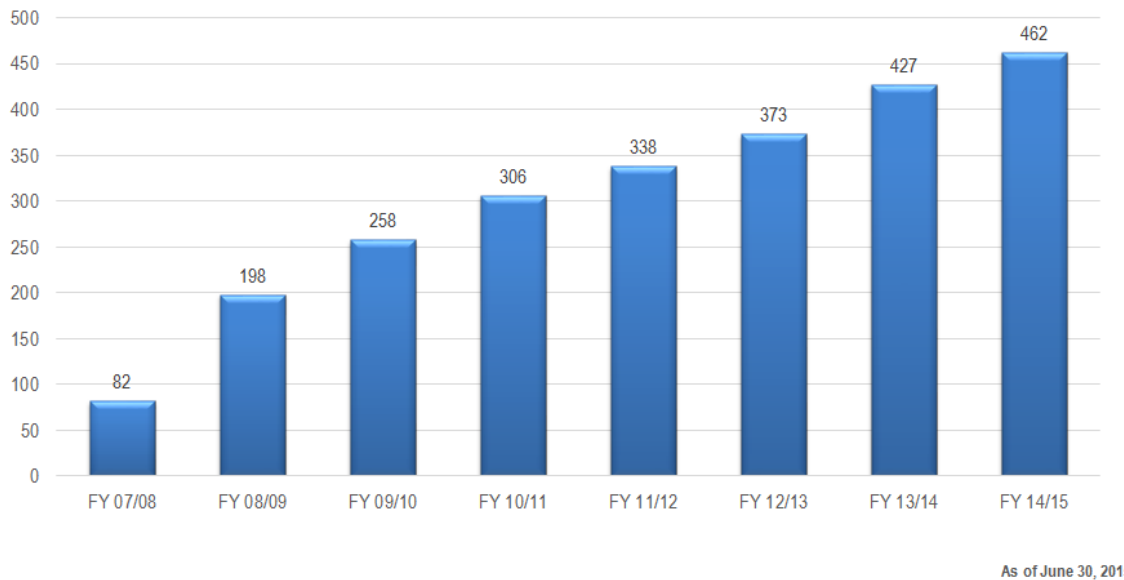
CERBT investment results – time weighted

Periods Ended August 31, 2015

<u>Fund</u>	<u>Assets</u>	<u>1 Month</u>	<u>3 Months</u>	<u>FYTD</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>ITD</u>
CERBT Strategy 1 (Inception June 1, 2007)	\$3,609,713,007	-4.43%	-5.97%	-3.90%	-4.80%	7.02%	8.86%	3.60%
Benchmark		-4.43%	-6.04%	-3.89%	-5.19%	6.66%	8.65%	3.16%
CERBT Strategy 2 (Inception October 1, 2011)	\$643,387,493	-3.41%	-4.88%	-2.85%	-3.99%	5.60%	-	7.82%
Benchmark		-3.37%	-4.87%	-2.77%	-4.29%	5.24%	-	7.76%
CERBT Strategy 3 (Inception January 1, 2012)	\$168,672,781	-2.48%	-3.83%	-1.97%	-3.03%	4.07%	-	5.61%
Benchmark		-2.42%	-3.80%	-1.87%	-3.44%	3.60%	-	5.29%

The table below shows the cumulative number of contracted agencies participating in the CERBT trust plan program. The program has been growing constantly since date of inception.

CERBT employers cumulative growth



ASSET ALLOCATION STRATEGY

In 2011, CERBT staff expanded the menu of portfolios available to participating entities from a single “one size fits all” profile to a new three asset allocation strategies, ranging from conservative, moderate to aggressive. Each asset allocation strategy has a distinct level of investment return, market volatility and risk. The tables below summarize the three asset allocation strategies by asset classification percentages and their expected long-term rates of return.

On June 12, 2012, the Board authorized staff to transfer the State Bar’s OPEB assets to the CalPERS/CERBT Conservative Strategy Portfolio.

Asset Classification	Aggressive	Moderate	Conservative
Global Equity	57%	40%	24%
U.S. Nominal Bonds	27%	39%	39%
Global Real Estate (REITs)	8%	8%	8%
Inflation Linked Bonds	5%	10%	26%
Commodities	3%	3%	3%

	Aggressive	Moderate	Conservative
Expected Long Term Rate of Return <small>(General Inflation Rate Assumption of 2.75%)</small>	7.28%	6.73%	6.12%
Standard Deviation of Expected Returns	11.74%	9.32%	7.14%

If you have any questions or would like additional information, please contact Christine Wong at Christine.wong@calbar.ca.gov.