SWEETWATER SPRINGS WATER DISTRICT

TO: Board of Directors **AGENDA NO. V-G**

FROM: Steve Mack, General Manager

Meeting Date: August 3, 2017

SUBJECT: PARTICIPATION IN THE PUBLIC AGENCY RETIREMENT SERVICES (PARS) PENSION RATE STABILIZATION PROGRAM

RECOMMENDED ACTION: Receive a presentation by General Manager Steve Mack on District participation in the PARS Pension Rate Stabilization Program and provide direction to staff.

FISCAL IMPACT: none

DISCUSSION:

The District has decided to become more active in addressing its CalPERS retirement unfunded actuarial liability (UAL). In May 2017 we made an accelerated one-time payment on our UAL directly to CalPERS in the sum of $60,000. An additional approach to addressing UAL is to try to offset CalPERS costs with higher investment returns -- and therefore riskier ones -- on District funds. This is a very similar approach to our participation in CERBT to offset UAL in our retiree health costs. The PARS program and CERBT both offer a solution to the District's limited investment choices.

At the June 2017 meeting, we received a presentation from Rick Icasio of PARS on teh various programs provided by PARS, it's setup and examples of how it can be used. As a reminder, the PARS "Pension Rate Stabilization Program" provides a vehicle for higher returns by way of a IRC Section 115 Trust. Elements of the program, or any Section 115 Trust, are:

- Can be used by local governments to fund essential governmental functions (i.e., retiree healthcare, pension)
- Trust is irrevocable and designed to pre-fund retirement plan obligations
- Once contributions are placed into trust, assets from the trust can only be used for retirement plan purposes:
    - Reimburse District for CalPERS contributions
    - Assets can be transferred to CalPERS at anytime for pension
    - Up to 2 years of pension costs can be withdrawn for other expenses.

The staff vision of using PARS is fund it using a portion of District Reserves, with the goal of earning better returns on funds the District has no intention of using absent a dire emergency. We think a good starting point is approximately $200,000 which is approximately 2 years of retirement costs for the District.

PARS has investment portfolios with different risk scenarios that, on average, should get rate of returns similar to what CalPERS aims for (4-8 percent) and much higher than the County funds get (currently in the 1% vicinity). A "safe withdrawal rate" would be an amount less than projected returns.

The cost of participating in PARS is estimated at a minimum of 55 basis points, or .55% annually.

Staff met with Gaylord Schaap (Tim Lipinski was away on vacation) to discuss this item. Gaylord concurred with the staff recommendation.