



Pension Stabilization Trusts - What Are They?

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BACKGROUND

- \$11.8B Unfunded Pension Liability at June 30, 2019
 - PSPRS = \$9.3B
 - CORP = \$1.8B
 - EORP = \$0.7B
- Employers are Facing Increasing Costs
 - FY 20-21 = \$1.1B Employer Costs
- PSPRS Board is Committed to Creating New Tools for Employers to Address Increasing Costs



Options to Fund Pension Costs

1. Pay-As-You-Go
2. Internal Reserve
3. Pension Stabilization Trust (*Today's Topic*)



What is a Pension Stabilization Trust?

- Voluntary Participation
- Irrevocable Trust Created Under IRS Section 115 (Section 115 Trust)
- Originally Created to Fund Other Post Employment Benefits (OPEB)
- Entities in California and Michigan Now Using for Managing Pension Costs
 - CalPERS, Community College League of California



Why Use a Pension Stabilization Trust?

1. Local Control

Employer Controls Contributions, Disbursements, and Investment Risk Tolerance

2. Diversified Investments (Risk Tolerance)

Employer Selects Investments and May Earn in Excess of Internal Reserve Returns

3. Stabilize Pension Costs (Budget Flexibility)

Assets can be used to mitigate larger than expected contribution increases or extra payments

4. Protect From Diversion (Irrevocable Trust)

Funds must be used for pensions costs and cannot be used elsewhere

5. Strengthen Credit Rating

Rating agencies look favorably at employers who take additional steps to address pension expenses and unfunded liabilities



What is the Pension Stabilization Trust Structure?

1. Turn-key program administered by PSPRS
 - PSPRS Hires Related Third Parties (i.e. administrator, custodian)
 - Low Cost Fee Structure (pass on costs only)
2. Employers Create Investment Options (working with PSPRS CIO)
 - PSPRS creates a list of potential investments based on employer feedback
 - Offerings designed to achieve specific employer objectives (i.e. income or growth)
3. Employer Selects Investment Option
 - Employer directs how the money is invested
 - Employer decides when and how much to contribute
4. Contract Between Stabilization Trust and Employer
 - One Stabilization Trust for Each Employer PSPRS Plan



Outstanding Items and Questions

- Create Employer Advisory Committee to Create Investment Options
 - Send E-Mail of Interest Memo to Mark Steed at msteed@psprs.org
- Create an Early Adoption Incentive Fee Structure?
- Applicable to ASRS?



Comments and Questions