



RECOMMENDED ACTION

To approve the revised Investment Policy Statement for the Retirement Plan for contract employees.

STAFF REPRESENTATIVE

Lisa Patton, Executive Director/VP, Finance and Budget

BACKGROUND

On March 25, 2021, Long Beach Transit's Board of Directors authorized the President and CEO to enter into a contract with Public Agency Retirement Services for administration services for the Retirement Plan for contract employees (Plan).

In conjunction with the assessment of pension administrative services, the investment management options for LBT's two defined benefits pension programs were also evaluated.

The contract employee pension plan is overseen by a joint Pension Committee comprised of three LBT members and three Amalgamated Transit Union Local 1277 representatives, the committee concurs with the staff recommendation to approve the revised Investment Policy Statement (IPS) for the Plan.

The purpose of the IPS is to assist the Committee to effectively supervise, monitor, and evaluate the investable assets of the Plan. It is the responsibility of the Committee to oversee the hiring and performance of the investment management firm along with the overall returns of plan assets.

LBT's Retirement Plan for contract employees is a defined benefit pension program. The assets of the Plan are managed by an independent investment management firm, who is guided by the IPS for the Plan.

As of the most recent actuarial valuation dated July 1, 2020, the Contract plan had 685 total participants, with 91 retirees and beneficiaries receiving monthly benefits. The Contract plan held \$63.8 million in plan assets.

The current investment return assumption for the Contract Plan is 6.50% per annum. During the last ten years, historical rates of return have averaged 5.73%, however; in the last five years the rates of return averaged only 3.55%.

The Pension Committee, with assistance from pension investment professionals, completed an assessment of the low historical investment returns and of the investment management options. Based upon this assessment, staff is proposing changes to the IPS in order to improve pension portfolio performance while maintaining the same level of risk.



Board Agenda Item No. 8

April 22, 2021

The proposed changes reflect an asset allocation strategy to improve performance of plan assets to achieve the assumed rate of return of 6.50% per annum and to meet ongoing future obligations to Plan participants and beneficiaries.

Current Strategic Allocation (%)

Proposed Strategic Allocation (%)

<u>Target</u>		<u>Target</u>	
US Stocks	25	Global Equities	55
International Equity	23		
Real Estate Securities	6	Real Estate Assets	10
Multi-strategy	15	Diversifying	10
Fixed Income	30	Fixed Income	25
Cash Equivalent	1	Cash Equivalent	0
TOTAL	100	TOTAL	100

BUDGETARY/FISCAL IMPACT

The Plan currently expends approximately \$120,000, or 0.20% of assets, toward investment management services per year. Adoption of the proposed IPS is expected to increase these fees to approximately \$148,000 per year, or 0.24% of assets, an annual increase of approximately \$28,000.

As the Plan investment returns increase, the long term cost of the plan is expected to decrease. Expenses for this service will be funded by plan assets and reported annually in the audited financial statements.

ALTERNATIVES CONSIDERED

The Board could maintain the current IPS; however, staff does not recommend this option as it will prevent the Plan from maximizing plan assets to meet ongoing and future obligations to Plan participants.

STAFF RECOMMENDATION

Staff is requesting LBT's Board of Directors to approve the revised IPS for the Retirement Plan for contract employees.

Kenneth A. McDonald
President and Chief Executive Officer