



Agenda Item 7a

December 15, 2015

ITEM NAME: Funded Status

PROGRAM: Enterprise

ITEM TYPE: Information

EXECUTIVE SUMMARY

This agenda item is an update on the organization's progress toward meeting the goals of the California Public Employees' Retirement System (CalPERS) 2012-17 Strategic Plan as measured through a suite of CalPERS Board of Administration (Board) affirmed Strategic Measures (Attachment 1). Specifically, this item examines the Strategic Measure that evaluates Funded Status.

STRATEGIC PLAN

This agenda item supports the CalPERS Strategic Plan Goal A to improve long-term pension and health benefit sustainability.

BACKGROUND

In August 2012, the Board adopted the CalPERS 2012-17 Strategic Plan. In July 2013, an initial set of Strategic Measures were developed as part of a larger effort to support the use of enterprise-wide measurements to guide the organization. In July 2014, the Board affirmed the suite of Strategic Measures which included the Strategic Measure covered in this item.

The recent adoption of a Risk Mitigation Policy (November 2015) by the CalPERS Board of Administration was a step toward reducing risk and volatility in the Pension Fund to help ensure the long-term sustainability of the system and to be able to pay the promised pension benefit payments. By incrementally lowering the discount rate in years of good investment returns, the policy helps to achieve greater predictability and less volatility in contribution rates.

In addition to the newly adopted policy, other risk mitigation steps taken by the CalPERS Board include the adoption of updated mortality assumptions, new amortization and smoothing methods, and the adoption of a new asset allocation with an associated lower volatility.

ANALYSIS

The Strategic Measure Funded Status seeks to measure the funded status of the pension plan (the “PERF”), defined as the ratio of assets to a plan’s accrued liabilities. The PERF’s funded status, reported as a funded ratio, was 76 percent funded as of June 30, 2014 and estimated to be 73% funded as of June 30, 2015¹.

If the funded status is less than 100 percent, employer contributions are required to be higher than the employer’s normal cost and while this does not necessarily mean that contributions need to be higher than the current contribution level, employer contributions are structured with the objective of accumulating assets (based on market value of assets) equal to 100% of the relevant pension obligation over a reasonable period of time.

The funded status is a measure of a plan’s status at a point-in-time and changes over time. Several factors that may impact the funded status include benefit changes, investment returns, and actuarial assumptions, including mortality projections and assumed future rates of returns. This means that while the funded status alone can give insight into a pension’s financial solvency, it is more meaningful to view the funded status in light of these factors at each time and over several years to determine critical trends.

Funded status as a measure of the health and financial soundness of the system is also most meaningful when viewed together with other relevant information contained in funding valuation reports and the Annual Funding Levels and Risk Report. This data and information includes but is not limited to:

- Contribution levels
- Actuarial assumptions
- Pension and investment market trends
- Discount rate and capital market assumptions
- Probability and sensitivity analysis

BUDGET AND FISCAL IMPACTS

Not applicable

¹ Information on the funded status of individual plans can be found in the Annual Review of Funding Levels and Risks Report, November 17, 2015 and in individual actuarial valuation reports issued annually.

BENEFITS/ RISK

Measuring the funded status is necessary to the understanding, maintaining and improving of the long term sustainability of the pension system and the execution of dynamic processes for risk reduction over a reasonable amount of time. Working toward achieving 100% funding helps to ensure the payment of promised benefits in the future. Low funding levels may indicate there are insufficient funds available in the future to pay for all promised benefits.

While the goal is to reach 100 percent funding, future events are unknown and therefore, adopting a risk mitigation policy that provides reasonable assurance the cost of those benefits will be funded in an equitable and sustainable manner is an important step to addressing the risk in the system.

ATTACHMENTS

Attachment 1 – Strategic Measures Summary
Attachment 2 – Funded Status Measures Report

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