CalPERS

Finance and Administration Committee

Agenda Item 9

December 20, 2016

Item Name: Workshop: Securing CalPERS' Future – Managing Funding Risks, Stakeholder Outreach and Engagement

Program: Financial, Actuarial, Investment, and Communication and Stakeholder Relations

Item Type: Information

Executive Summary

Based on direction from the CalPERS Finance and Administration Committee meeting in November 2016, the team expanded engagement with school stakeholders to gauge their knowledge, preparation, priorities, and preferences related to a potential change of the discount rate. The team prepared and disseminated information on potential financial impacts to employers and active members and held stakeholder meetings with employer associations, labor leaders, and retiree associations, respectively. Their feedback and input was considered and incorporated when preparing materials for the Committee's consideration.

The workshop will build upon previous discussion about securing CalPERS' future - managing funding risk, stakeholder outreach and engagement. This includes the impact to the funded status, normal costs, and unfunded accrued liabilities if the Board elects to lower the assumed rate of return.

Strategic Plan

This agenda item supports Strategic Plan Goal A – to improve long-term pension and health benefit sustainability and specifically addresses the objective to fund the system through an integrated view of pension assets and liabilities.

Background

At the September 20, 2016 Finance & Administration Committee meeting the team was directed to survey agencies on prefunding pension liabilities and explain additional options for consideration and bring back their findings at the November committee meeting.

During the November 15, 2016 Finance & Administration Committee the team presented an overview of managing funding risks, and stakeholder outreach and engagement. The chair directed the team to:

- Expand the survey to the school employer population for input, and to meet with key leaders from retiree, member, and employer associations to exchange information
- Bring back further information and a recommendation to the Board based upon the 2017-18 and 2018-19 timelines.

Analysis
The presentation appendix includes follow-up from the November Finance & Administration Committee on additional stakeholder outreach efforts, assumed rate of return trends from other US pension plans, and analyses on the probability of achieving various levels of return in the future.

The team expanded engagement with school stakeholders to gauge their knowledge, preparation, priorities, and preferences related to a potential change of the discount rate. With the assistance of our school employer association partners, we surveyed nearly 260 school employers. The team also prepared and disseminated information on potential financial impacts to employers and active members. Stakeholder meetings were held with employer associations, labor leaders, and retiree associations, respectively, and their feedback and input was considered and incorporated when preparing the presentation materials.

As indicated in the Funding Level and Risk report presented in August 2016, the trend nationally for public pension plans in recent years has been a reduction in the rate of return assumption. The Funding report highlighted findings from the Public Fund Survey produced by the National Association of Retirement Administrators (NASRA). Among the 127 plans measured in the survey, 46% (59) dropped their assumed rate of return since 2012.

The team completed analyses on the probability of achieving various levels of return in the future. These analyses use computerized mathematical simulation of thousands of possible future return scenarios to estimate how likely it is that the existing asset allocation will achieve a given level of return. In short, these analyses indicate that achieving the current 7.5% expected rate of return over the next 10 years will be a significant challenge.

Budget and Fiscal Impacts
Not applicable.

Benefits and Risks
The benefits of reducing the assumed rate of return include:

- Strengthens long-term sustainability of the fund to pay promised benefits
- Reduces negative cash flow; additional contributions will help to offset growing pension payments
- Reduces the long-term chances of falling below a 50% or 60% funded status that would weaken the sustainability of the fund
- Improves chances of earning our assumed rate of return

Attachments

Attachment 1 – Workshop: Securing CalPERS Future - Managing Funding Risk, Stakeholder Outreach and Engagement
Attachment 2 – Pension Consulting Alliance: Unconstrained Optimization VS 7.5%
Attachment 3 – Wilshire: Investment Return Environment

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