



Finance and Administration Committee Agenda Item 5e

February 14, 2017

Item Name: Treasury Analysis and Liquidity Report

Program: Financial Office

Item Type: Information Consent

Executive Summary

This is the Semi-Annual Treasury Analysis and Liquidity Status Report for the period ending December 31, 2016. The report shows CalPERS maintained adequate liquidity coverage levels for all funds in normal environments. The liquidity coverage ratios (LCRs) for the Public Employee's Retirement Fund ("PERF") fluctuated due to the approved asset allocation increase to liquidity by the Investment Committee.

The Legislators' Retirement Fund ("LRF") Level I assets would have been inadequate had a stressed environment occurred. Though the Long Term Care Fund ("LTCF") did not fall below the established LCR threshold for this reporting period, the fund's increase in claim payments is a risk to Level I assets. Staff will recommend at the May Finance and Administration Committee meeting for a LRF and LTCF reserve to be established in order to manage potential funding risk.

Strategic Plan

This agenda item supports Goal B of the CalPERS 2012-2017 Strategic Plan, which is to cultivate a high-performing, risk-intelligent, and innovative organization.

Background

The Treasury Management Policy ("Policy") requires the Treasury Management Program ("Program") to provide the Finance and Administration Committee ("Committee") with an update on fund liquidity status. The Semi-Annual Treasury Analysis and Liquidity Status Report (Attachment 1) fulfills this obligation by providing liquidity coverage ratio analysis and cash flow forecasting analysis for the PERF, LRF, Judges' Retirement Fund I ("JRF I"), Judges' Retirement Fund II ("JRF II"), Health Care Fund / Contingency Reserve Fund ("HCF/CRF"), and the LTCF to be known as ("All Funds"). The last report was presented to the Committee in August 2016.

Analysis

Liquidity Coverage Analysis

The report confirms the liquidity coverage for All Funds remained above the threshold in the normal environment. In July through December 2016, the PERF exceeded the interim strategic asset allocation for the Liquidity Program due to the asset allocation change to liquidity. In September 2016, the Investment Committee approved new interim asset allocation policy targets, which included an increase to the liquidity target from 1% (+/- 3%) to 4% (+3/-6%).

With the exception of the LRF, All Funds maintained adequate Level I liquidity had a stressed or crisis event occurred. The LRF Level I LCR fell below the threshold and would have used Level III assets if a stressed event had occurred. While the LTCF did not fall below the established LCR threshold for this reporting period, the fund's increase in claim payments is a risk to Level I assets. Staff will recommend at the May meeting for a LRF and LTCF reserve to be established in order to manage potential funding risk.

Cash Flow Forecasting Accuracy Analysis

In July, the PERF's inflows were higher than normal due to employers' participation in the unfunded accrued liability prepayment option. In October, the PERF's inflows were higher due to quarterly state employer contributions. Investment cash flow estimates for the PERF continue to be improving, but the asset allocation changes and unexpected inflows from real estate and private asset classes caused forecast volatility.

JRF II and LRF total cash flow forecasting was in the 90th percentile. JRF I had unexpected increases in employer contributions and benefit payments. The HCF/CRF had forecast volatility due to timing of premium payments and increased medical and pharmacy claim payments. The LTCF had an increase in claim payments which affected the forecast accuracy.

Budget and Fiscal Impacts

Not Applicable

Benefits and Risks

Not Applicable

Attachments

Attachment 1 – Semi-Annual Treasury Analysis and Liquidity Status Report

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