

Terminated Agency Pool

April 2017

Topics

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- TAP Funded Status
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TAP Purpose

- Secure (immunize) the benefits for members of agencies which have terminated their CalPERS contract
- Prudently manage the short and long term benefit payment and investment risks associated with terminated plan liabilities
- Accurately track and account for terminated agencies and their members

TAP Facts at a Glance

- As of June 30, 2015

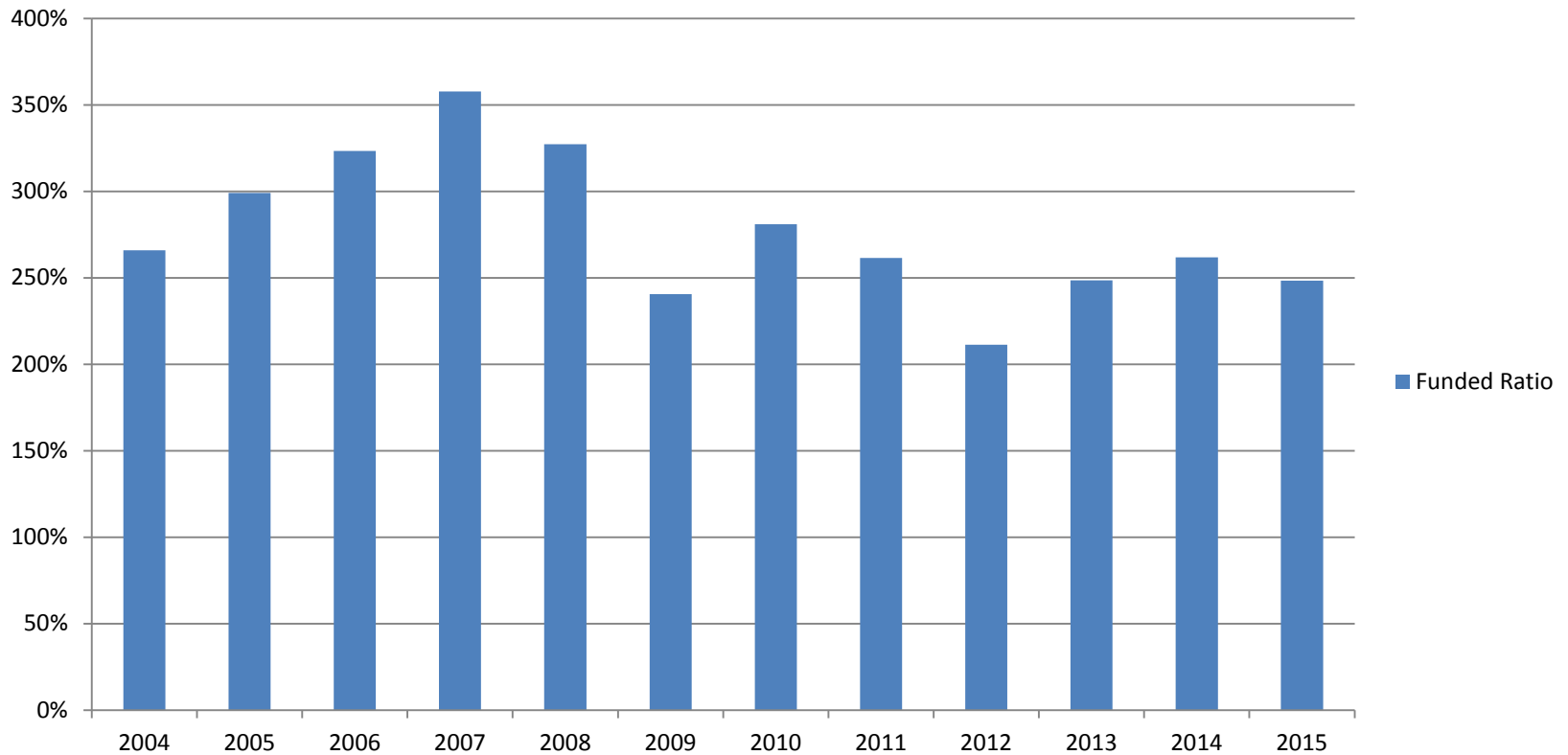
Number of Agencies	93
Total Membership	1,051
- Retirees	716
- Average Monthly Pension	\$573

- Comparison of Current & Prior Year Financial results

\$ Millions	2015	2014
MV Assets	\$219.7	\$215.4
Liabilities	\$88.5	\$82.2
Unfunded Accrued Liability	\$(131.2)	\$(133.1)
Funded Ratio	248.3%	261.9%

TAP Facts at a Glance

Funded Ratio



TAP Facts at a Glance: Risks

- Small plan size is highly sensitive to change
- Any additional agency that enters the TAP will lower the funded status of the plan even if it is fully funded.
- The funded status of the TAP is largely a result of the last 3 decades of unprecedented performance of long duration bonds, however, going forward the Market return outlook for U.S. Government Securities is low
- Final compensation for 8% of TAP members not frozen and other variables, such as mortality, exist; potential increase in future liabilities
- Significant changes jeopardize retirement security of current TAP members, erodes surplus
- CalPERS has no future recourse to agencies in the TAP after termination

Financial Impact

- Example 1
 - New agency added to pool
 - Fully funded: \$30 million of Assets and Liabilities
- Financials as of June 30, 2015

	Current	New Agency Added	After Agency Added
MV Assets	\$219.7	\$30	\$249.7
Liabilities	\$88.5	\$30	\$118.5
UAL	\$(131.2)	\$0	\$(131.2)
Funded Ratio	248.3%		210.7%

Financial Impact

- Example 2
 - New agency added to pool
 - Fully funded: \$60 million of Assets and Liabilities
- Financials as of June 30, 2015

	Current	New Agency Added	After Agency Added
MV Assets	\$219.7	\$60	\$279.7
Liabilities	\$88.5	\$60	\$148.5
UAL	\$(131.2)	\$0	\$(131.2)
Funded Ratio	248.3%		188.4%

Termination Funding Calculation

- CalPERS Actuarial Offices determines if any deficiency or surplus exists at termination date on an individual Employer Plan level
 - Use immunized discount rate not PERF discount rate
 - Deficiency amounts are owed to CalPERS
 - Surplus amounts are repaid to agency
- Market based discount rate used to value termination liabilities
 - Blend of yields on 10 Year and 30 Year US Treasury Bonds
 - Match duration of liabilities at termination date
- CalPERS has no future recourse to agencies after termination

TAP Investment Policy

Risk minimizing investment policy utilized

- Immunized Segment
 - Cash flow matching with US Government securities
 - Adequate liquidity to meet future needs
- Segment when funded status exceeds 100%
 - Invested along side assets of the PERF
 - Capture potential gains (and losses) of the PERF

TAP Funded Status

TAP's financial condition attributable to:

- Termination Funding on a risk minimizing basis
- Performance of TAP assets exceeded expected returns
 - 10% annual average return since 1977
- TAP funds were never diluted to improve benefits
- Reactivated agencies removed from the TAP at 100% funding level
 - Excess investment returns remain in the TAP

Legislation and Board Review

Voluntary Terminations

- Agencies may terminate their CalPERS contract
 - PERL § 20570 Termination by Governing Body
 - Contract in effect for at least 5 years
 - Resolution of governing body of intention to terminate (ROI)
- Termination Process
 - Presentation to FAC Termination Process in November 2016
 - Finance & Administration Committee November 2016 Agenda Item 7.b. Collections and Termination Process

Legislation

Involuntary Terminations

- CalPERS Board resolution
 - PERL § 20572 Failure to Pay Contributions or File Information
 - 30 days after demand to pay
 - Termination effective 60 days after board resolution adopted

Legislation

Involuntary Terminations

- Required to reduce benefits
 - Proportionate reduction in benefits
 - PERL § 20572
- Authority not to reduce benefits for underfunded plans
 - Subject to “not impact actuarial soundness of the terminated agency pool”
 - PERL § 20577.5

Discussion & Questions