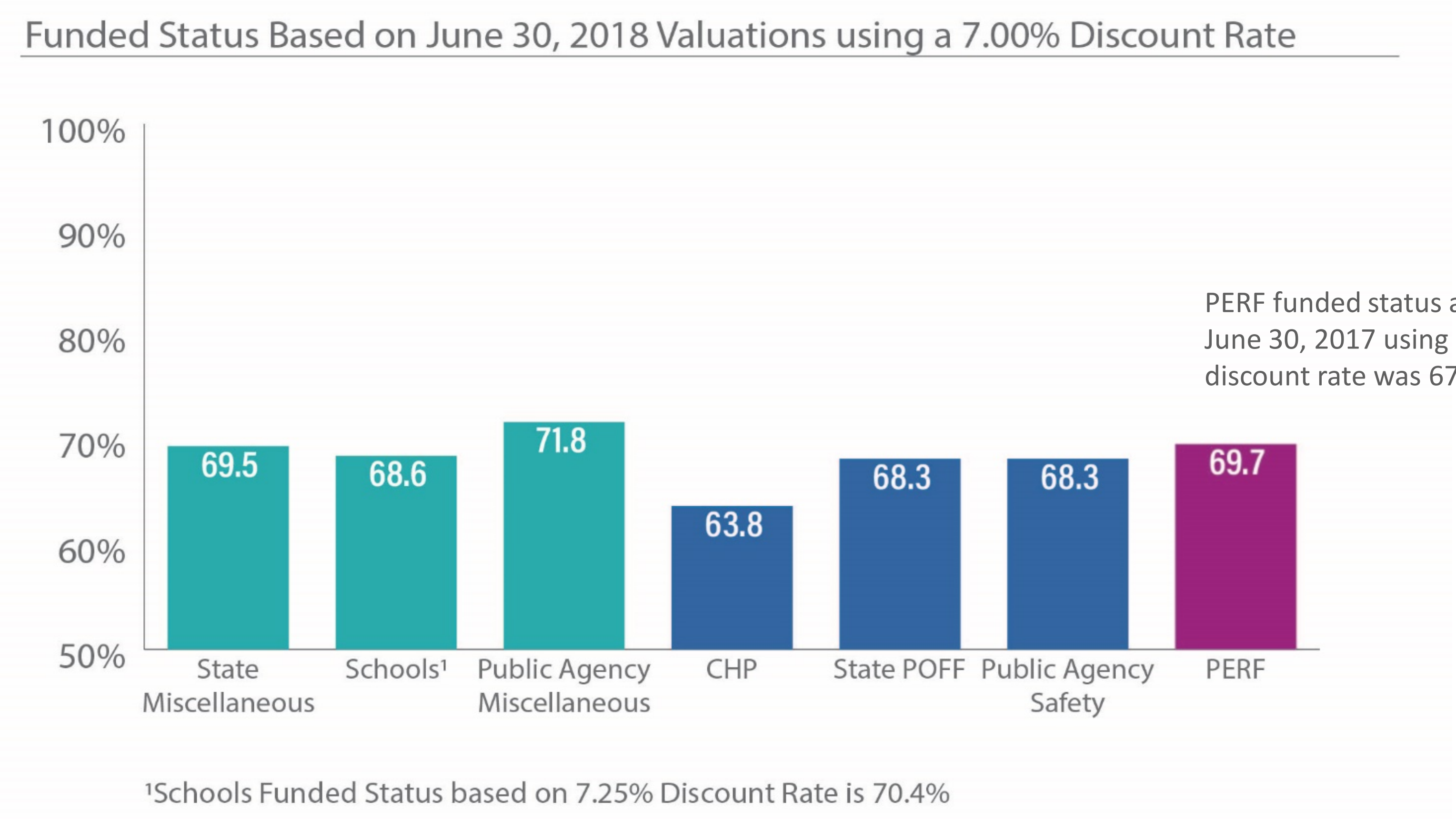
Annual Review of Funding Levels and Risk Report

Finance & Administration Committee
November 19, 2019

Overview

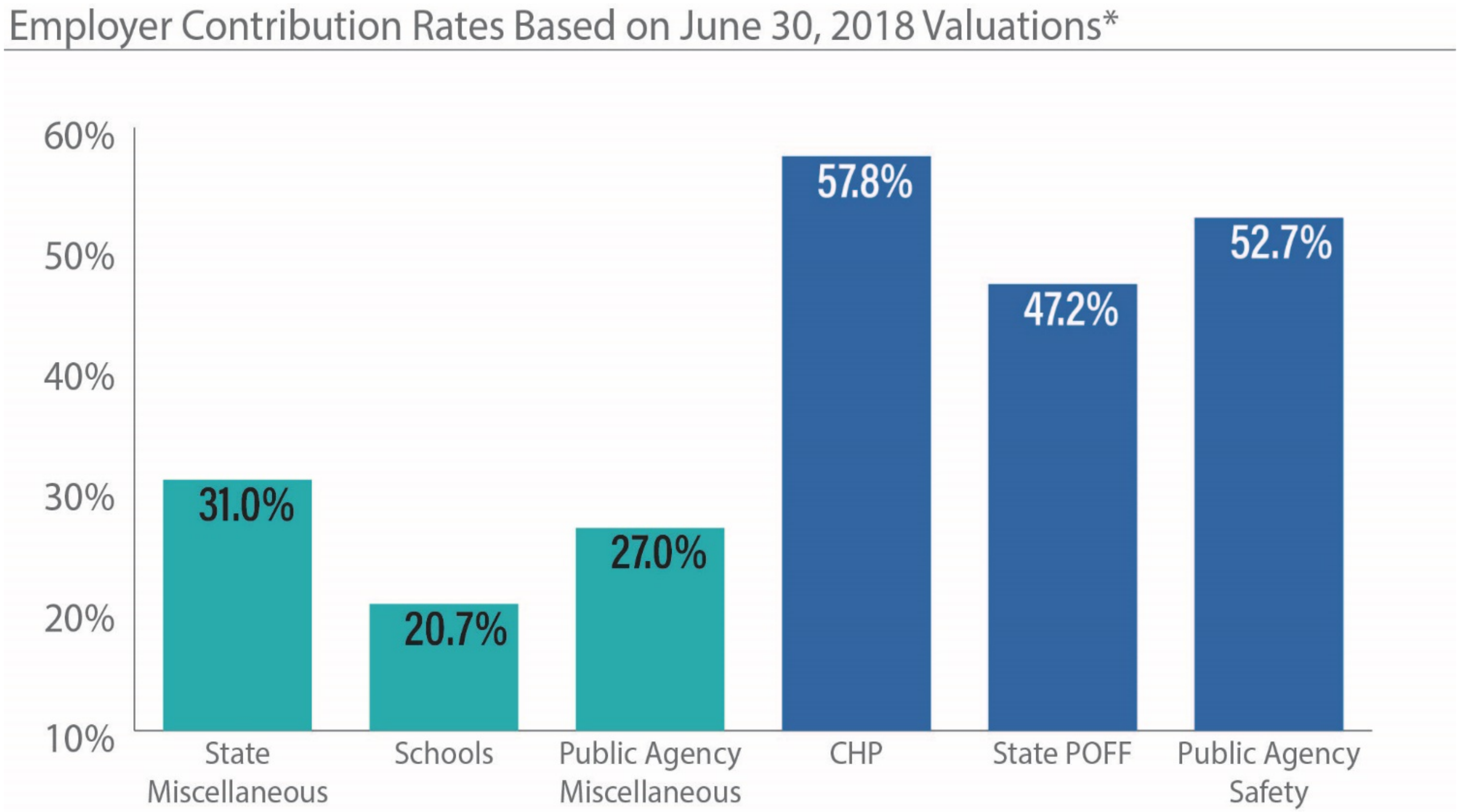
- Recent trends
  - Slowly improving funded status
  - Increasing employer contributions
- Important risk drivers
  - Investment return
  - Plan maturity
  - Employer financial pressures
    - Contribution levels
    - Contribution volatility
  - Discount rate

Recent Trends



PERF funded status as of June 30, 2017 using a 7% discount rate was 67.9%

Recent Trends



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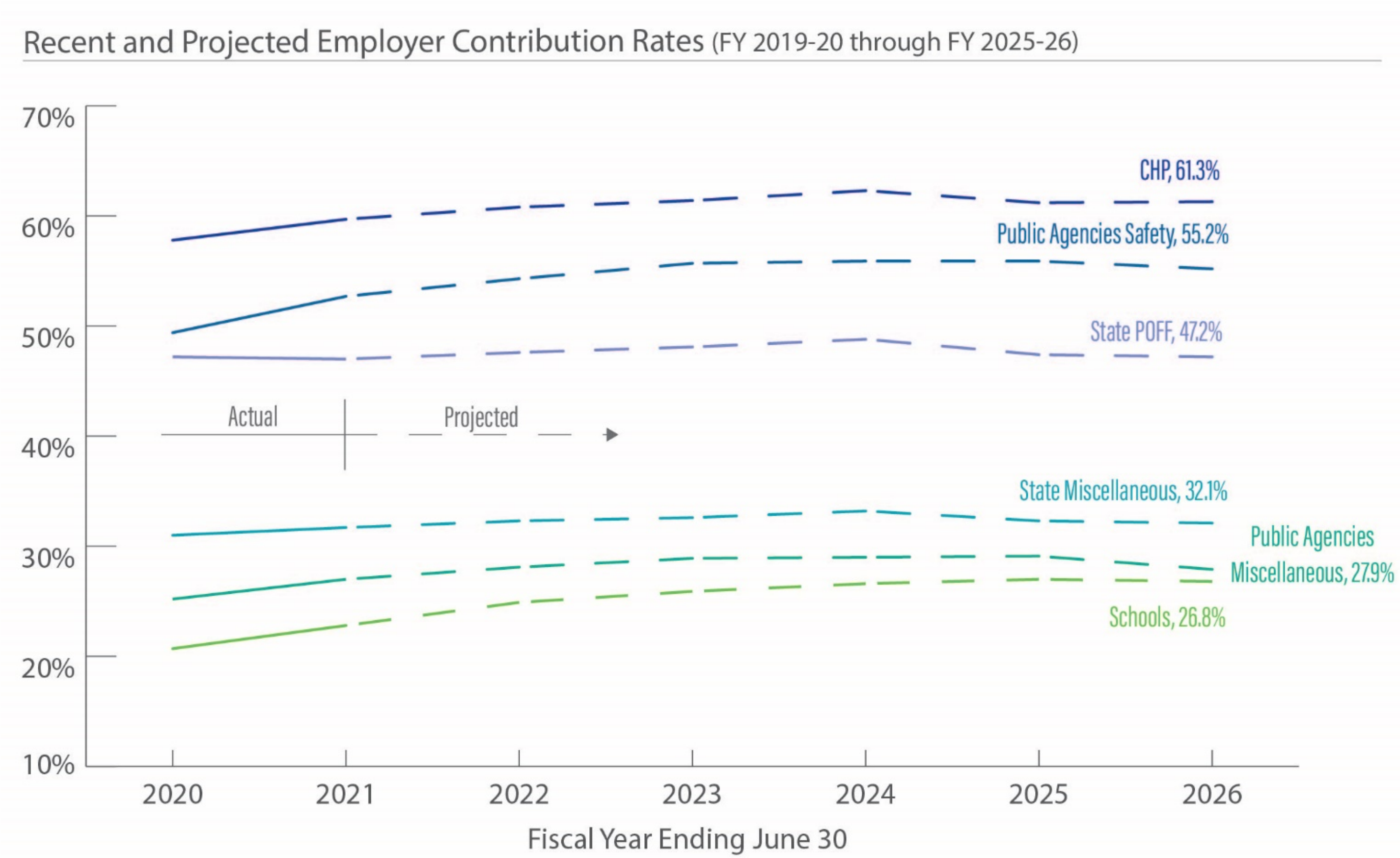

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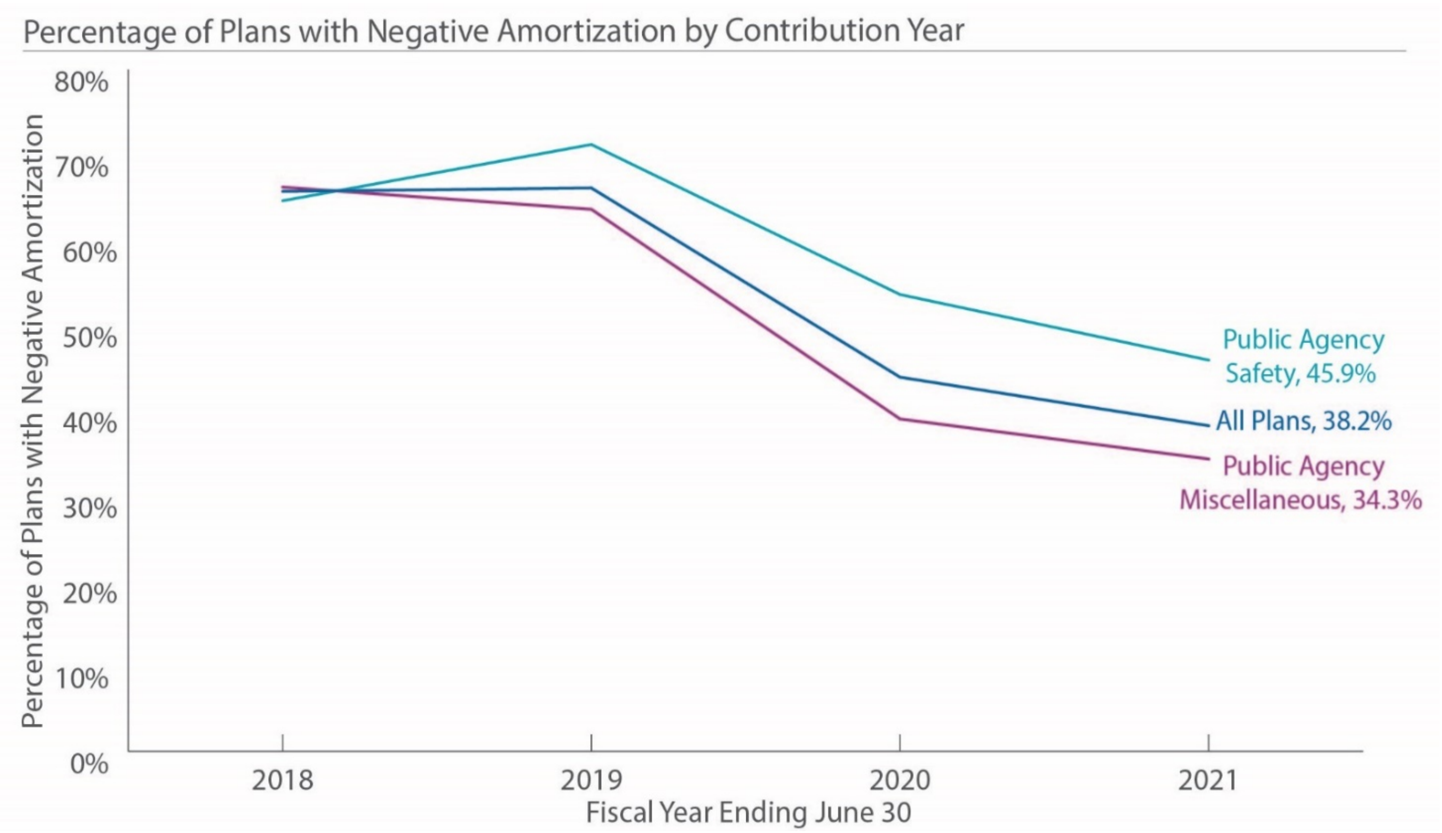

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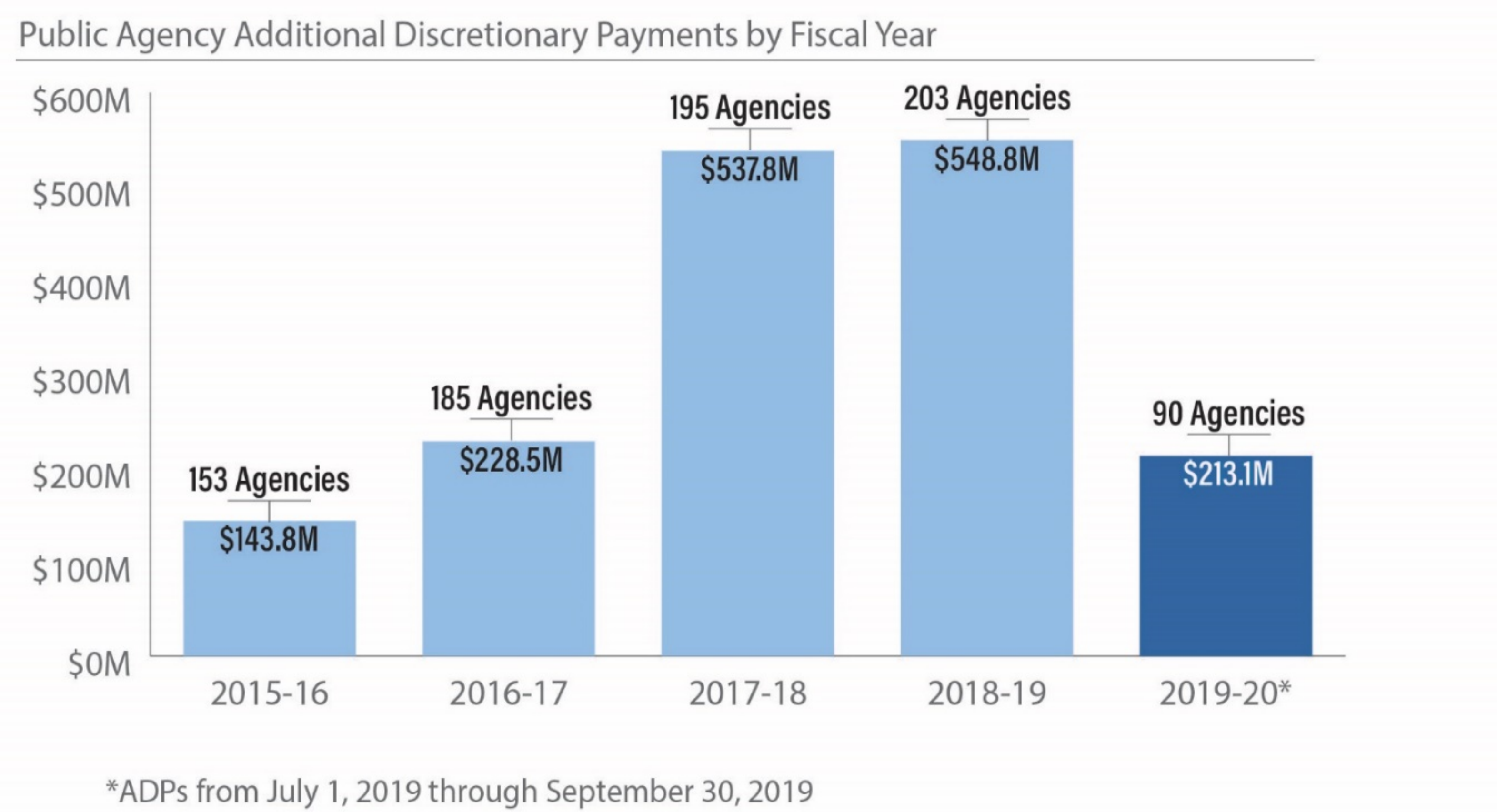
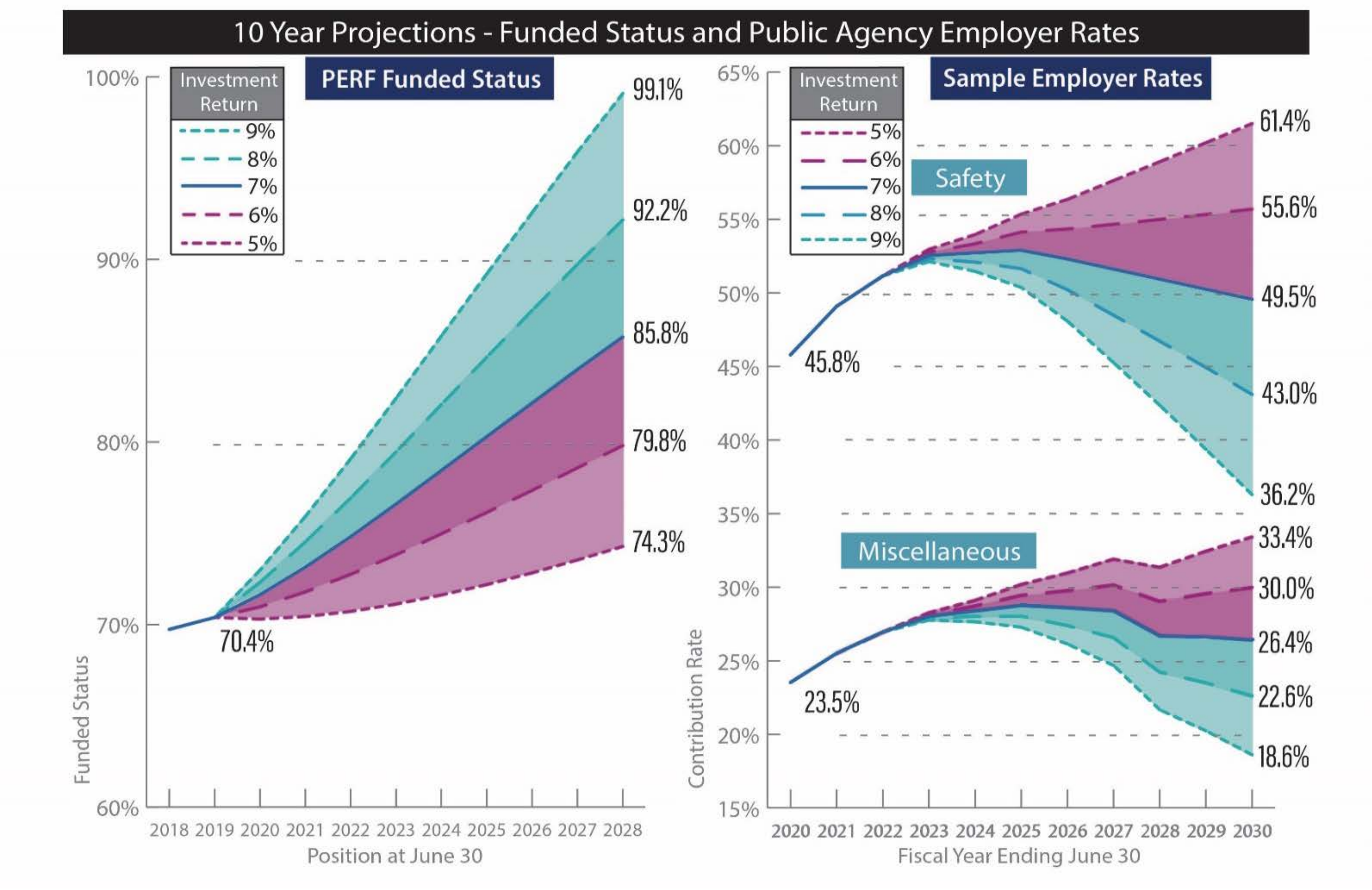


Risk Drivers – Investment Return



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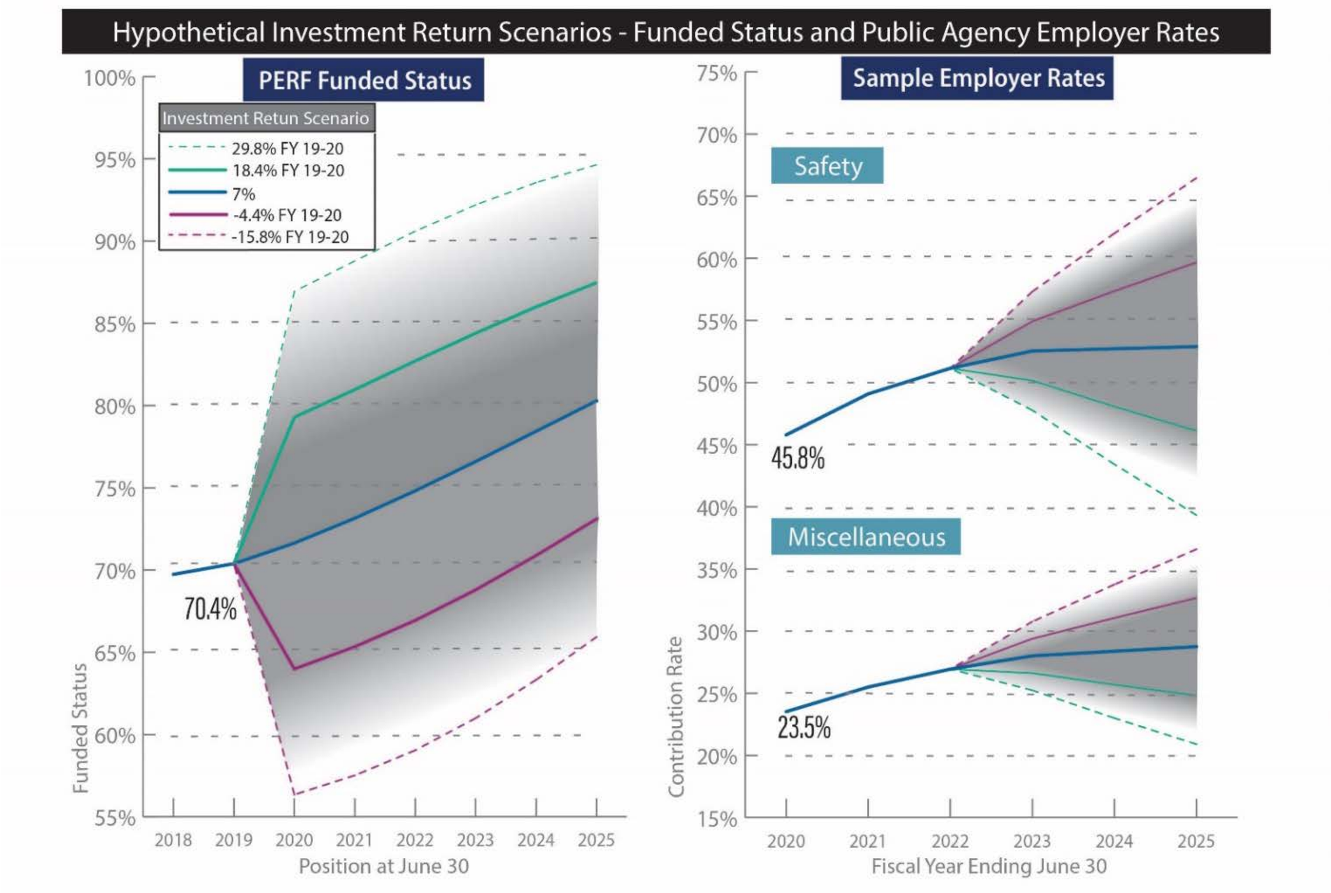
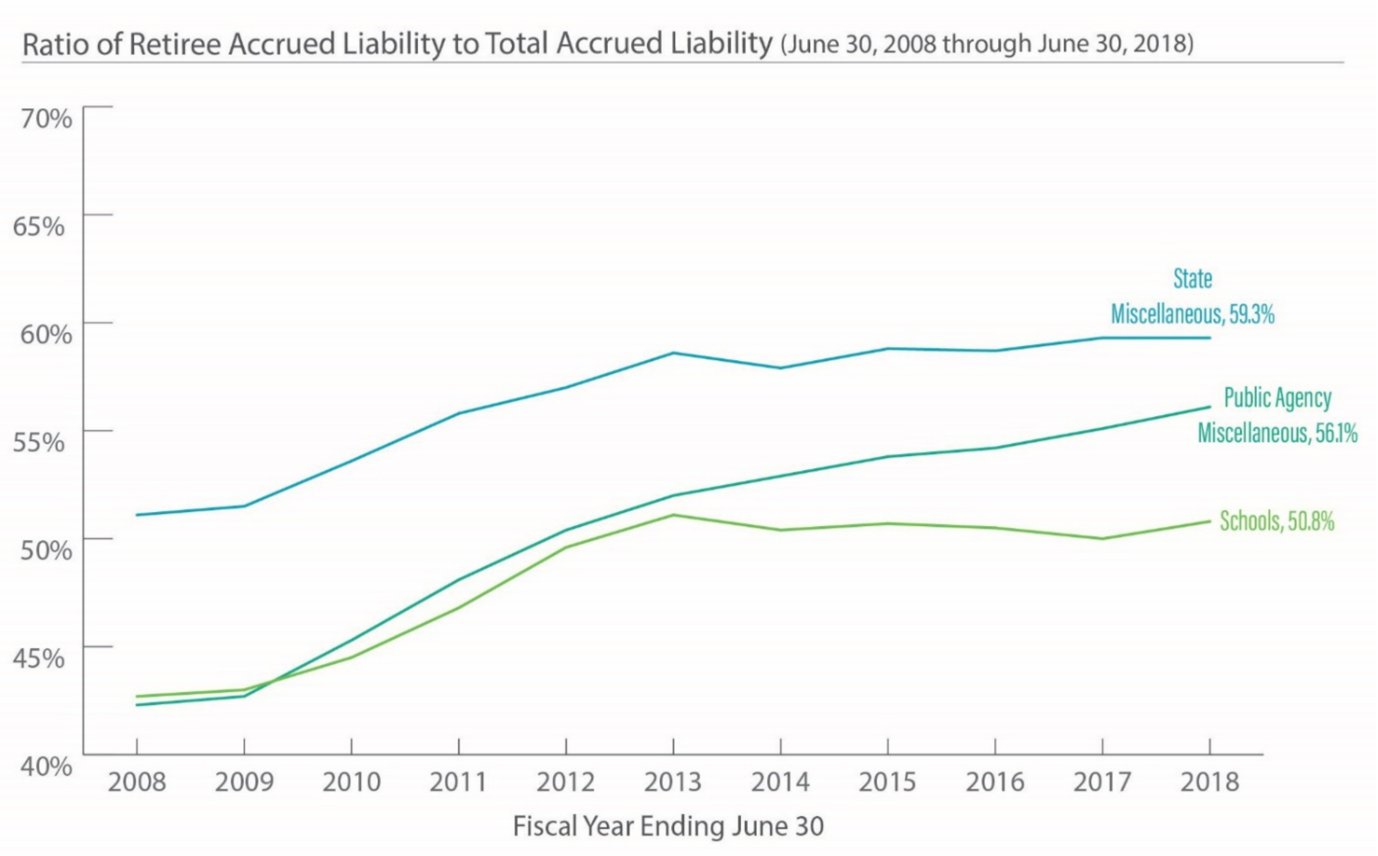


Risk Drivers – Investment Return

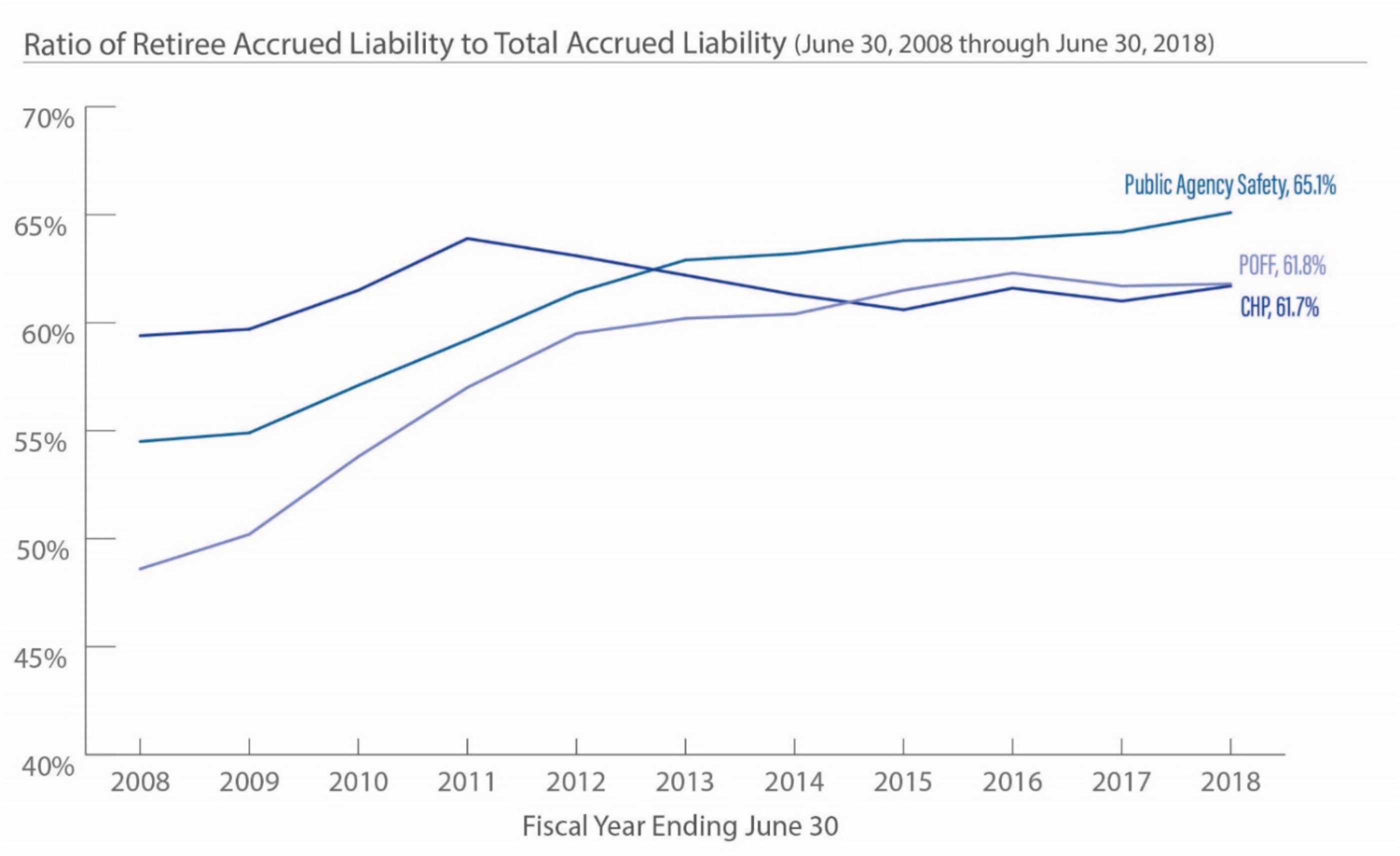
Probability of Falling Below Given Funding Level (at any point in the next 30 years)

Plan	40%	50%	60%
State Misc.	<1%	1%	24%
Schools	<1%	1%	21%
CHP	<1%	2%	39%
POFF	<1%	1%	19%
PA Misc.	<1%	2%	29%
PA Safety	<1%	5%	43%

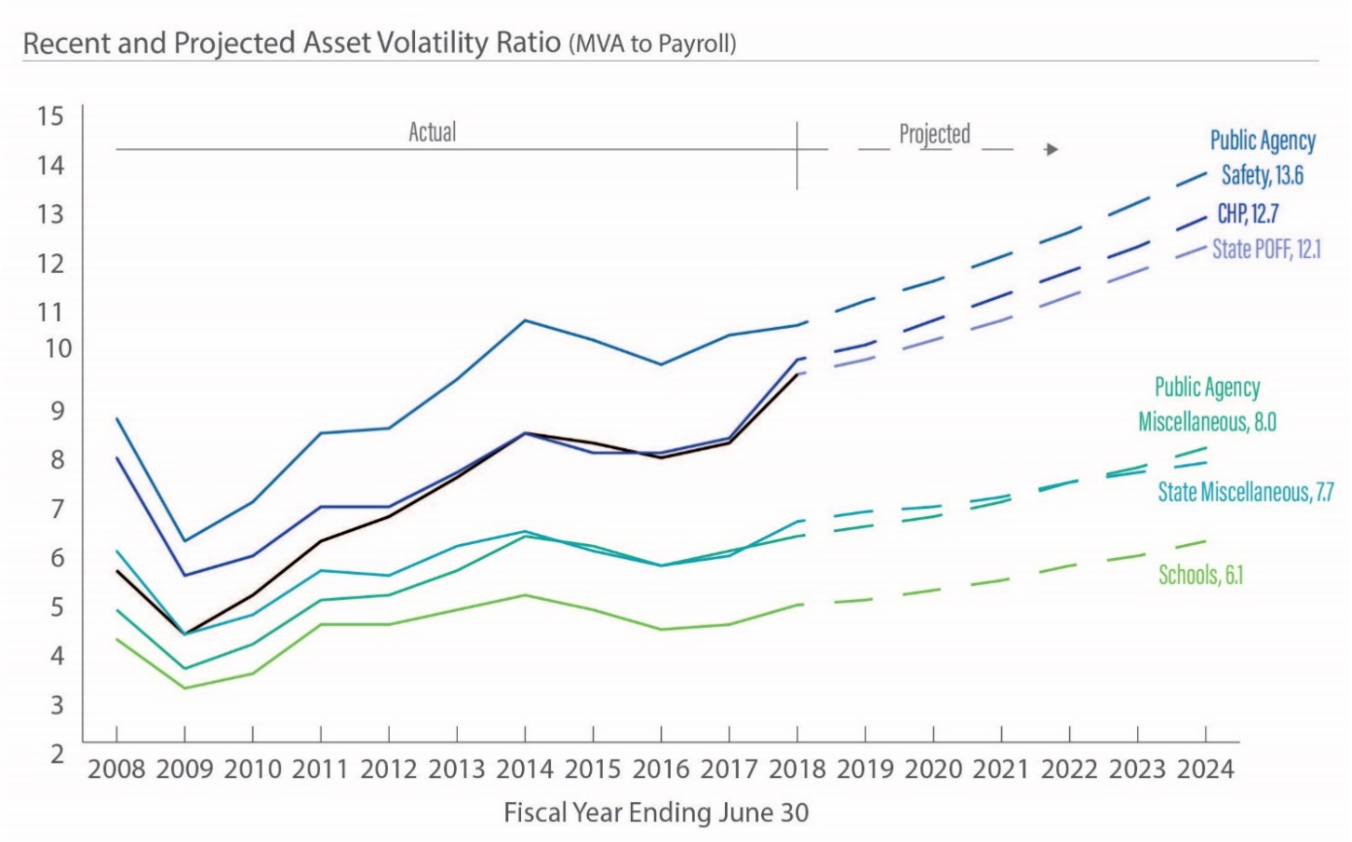
Maturity Measures



Maturity Measures



Maturity Measures



Employer Financial Pressures

- Average public agency employer contribution rates
  - Miscellaneous plans: 27.0% of payroll (25.2% last year)
  - Safety plans: 52.7% of payroll (49.0% last year)
- Required contributions expected to increase over next several years
- Additional discretionary payment (ADPs) have helped
- Risk of increased contribution volatility due to plan maturity and to a lesser extent modifications to the amortization policy

Employer Financial Pressures

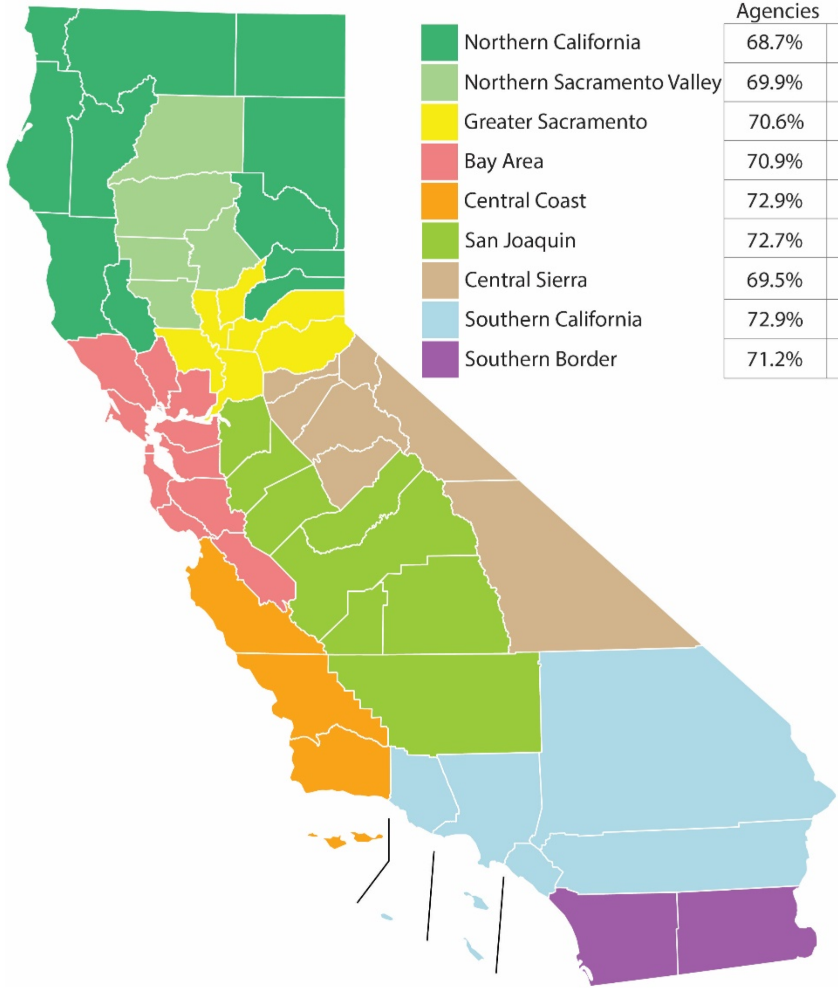
Probability of Employer Contribution Rate Increases of Selected Magnitudes
(at any point in the next 30 years)

Plan	3% of Payroll	5% of Payroll	7% of Payroll
State Misc.	57%	14%	7%
Schools	38%	9%	5%
PA Misc.	43%	11%	6%
Plan	**5% of Payroll**	**7% of Payroll**	**9% of Payroll**
CHP	64%	32%	16%
POFF	52%	21%	11%
PA Safety	55%	23%	12%

Discount Rate

- Reduced to 7.0% for June 30, 2018 valuations
- Further reductions may be necessary if:
  - Capitol market assumptions continue to decrease, or
  - Higher asset allocation toward lower risk investments, or
  - The board chooses to lower the assumption to reflect a margin

Average Funded Ratio of CalPERS Public Agency Plans by Region as of June 30, 2018 Valuations



	Misc. Agencies	Safety Agencies
Northern California	68.7%	71.0%
Northern Sacramento Valley	69.9%	66.5%
Greater Sacramento	70.6%	67.1%
Bay Area	70.9%	67.5%
Central Coast	72.9%	67.4%
San Joaquin	72.7%	68.0%
Central Sierra	69.5%	72.3%
Southern California	72.9%	69.0%
Southern Border	71.2%	70.7%