

## Revised State Employer Contribution Rates

In April 2020, the Board adopted employer contribution rates for the State plans for fiscal year 2020-21. Subsequently, the actuarially determined rates have been revised to reflect a change in the State's application of the \$2.5 billion supplemental payment made in July 2019 as well as modification to certain member rates. Original and revised rates are as follow:

	<b>Original (Adopted April 2020)</b>	<b>Revised Actuarially Determined Rate</b>	<b>Revised Rate Reduced Due to \$2.5 Billion Payment</b>
State Miscellaneous	31.43%	31.76%	29.27%
State Industrial	21.04%	21.62%	17.31%
State Safety	21.28%	21.66%	18.77%
State Peace Officers & Firefighters	47.00%	48.93%	34.45%
California Highway Patrol	58.84%	59.76%	59.76%

## Background

The five plans included in this State valuation provide retirement benefits to members employed by the State of California. This includes employees of the California State University system but generally does not include employees of the University of California system. It also does not cover school employees or employees of local governments that have elected to contract with CalPERS.

In April 2020, the Board adopted contribution rates for the State plans for fiscal year 2020-21, determined by the June 30, 2019 actuarial valuation. Subsequently, due to budget challenges caused by the COVID-19 pandemic, the Department of Finance provided CalPERS with new direction in June 2020 on the application of the \$2.5 billion supplemental payment made by the State in July 2019. In addition, the member rate for California Highway Patrol was revised via Side Letter agreement from what was reflected in the June 30, 2019 actuarial valuation. These changes affect the actuarially determined employer contribution rates for fiscal year 2020-21 and require reapproval by the Board.

In addition to the above changes, Assembly Bill 84 (AB 84)/Senate Bill 111 (SB 111) amended existing statute to remove additional supplemental payments scheduled to be made by the State in future fiscal years. The elimination of these payments does not affect the June 30, 2019 valuation results or fiscal year 2020-21 contribution rates. However, it does affect projected employer contribution rates in the coming fiscal years. An updated projection will be included in the State actuarial valuation report issued later this year.

Certain other results of the June 30, 2019 valuation, including but not limited to accrued liability, market value of assets, unfunded accrued liability, and funded status, are unchanged from what was reported in Agenda Item 7c from the April 21, 2020 Finance and Administration Committee meeting.

### July 2019 Supplemental Payment

Government Code section 20825.1 directs the State to make a supplemental payment to reduce unfunded accrued liability (UAL) for the State plans. In July 2019, the State made a payment of \$2.5 billion pursuant to this statute, allocated among plans as follows:

Plan	Payment per GC 20825.1
State Miscellaneous	\$848,057,000
State Industrial	82,930,000
State Safety	184,427,000
State Peace Officers & Firefighters	1,384,586,000
California Highway Patrol	0
<b>Total</b>	<b>\$2,500,000,000</b>

According to the original statute and direction from the Department of Finance, this payment was to be split between an advance payment for fiscal year 2019-20 and an additional UAL paydown. The advance payment portion was an acceleration of part of the UAL payment required for fiscal year 2019-20 with a corresponding reduction in the required employer rate for that fiscal year. The additional UAL paydown portion was intended to supplement the required payment, thereby reducing UAL more quickly and generating long-term savings.

In order to capture all contribution savings over the next two fiscal years, in June 2020 the Department of Finance revised the application of the portion originally intended to be an additional UAL payment to instead be supplanting payments for fiscal years 2020-21 and 2021-22. Relative to the original projection of employer contribution rates in future years, the revised application of the \$2.5 billion payment reduces required contributions for fiscal years 2020-21 and 2021-22 and increases required contributions for subsequent fiscal years.

The allocation of the July 2019 supplemental payment of \$2.5 billion among plans and fiscal years is as follows:

Plan	2019-20	2020-21	2021-22	Total
State Miscellaneous	\$32,384,208	\$339,222,800	\$476,449,992	\$848,057,000
State Industrial	3,166,795	33,172,000	46,591,205	82,930,000
State Safety	7,042,595	73,770,800	103,613,605	184,427,000
State Peace Officers & Firefighters	52,872,296	553,834,400	777,879,304	1,384,586,000
California Highway Patrol	0	0	0	0
<b>Total</b>	<b>\$95,465,894</b>	<b>\$1,000,000,000</b>	<b>\$1,404,534,106</b>	<b>\$2,500,000,000</b>

### Patrol Member Contribution Change

For CHP, the employer contribution rate adopted by the Board in April 2020 anticipated a 1% increase in the member contribution rate, effective July 1, 2020. As part of a Side Letter agreement between the State and the California Association of Highway Patrolmen in June

2020, previously negotiated increases in the Patrol member contribution rate were suspended. This suspension of the increase in the member rate for fiscal year 2020-21 necessitates an increase in the required employer contribution rate.

### Impact of Changes on Actuarially Determined Employer Contributions

Shown here are the original actuarially determined employer contributions for fiscal year 2020-21 approved by the Board in April 2020, the effects of the changes described above, and the revised total employer contributions:

Plan	Original Rate (Approved by Board in April 2020)	Revised Actuarially Determined Rate Including Revised Patrol Member Rates	Impact of \$2.5 Billion Supplanting Payment	Revised Total Employer Contribution Rate
State Miscellaneous	31.43%	31.76%	(2.49%)	29.27%
State Industrial	21.04%	21.62%	(4.31%)	17.31%
State Safety	21.28%	21.66%	(2.89%)	18.77%
State POFF	47.00%	48.93%	(14.48%)	34.45%
California Highway Patrol	58.84%	59.76%	-	59.76%

### Additional Contribution Pursuant to Government Code Section 20683.2

Employer contributions pursuant to Government Code section 20683.2, appropriated annually as part of the State budget, are in addition to the actuarially determined contributions. For more background on these contributions, see Agenda Item 7c from the April 21, 2020 Finance and Administration Committee meeting. Employer contributions for fiscal year 2020-21 including the GC 20683.2 additional contributions are as follow:

Plan	<u>Revised Total Employer Contribution for 2020-21</u>	<u>Additional Statutory Contribution for GC 20683.2</u>	<u>Final Total Contribution for 2020-21</u>
State Miscellaneous	29.27%	0.10%	29.37%
State Industrial	17.31%	0.88%	18.19%
State Safety	18.77%	1.18%	19.95%
State Peace Officers & Firefighters	34.45%	1.65%	36.10%
California Highway Patrol	59.76%	1.32%	61.08%

## **Benefits and Risks**

Information about the risks associated with the funding of these plans will be included in the valuation report that will be released later this year. This information includes investment return scenarios, discount rate sensitivity, volatility ratios, and other analyses.