

Annual Review of Funding Levels and Risks Report

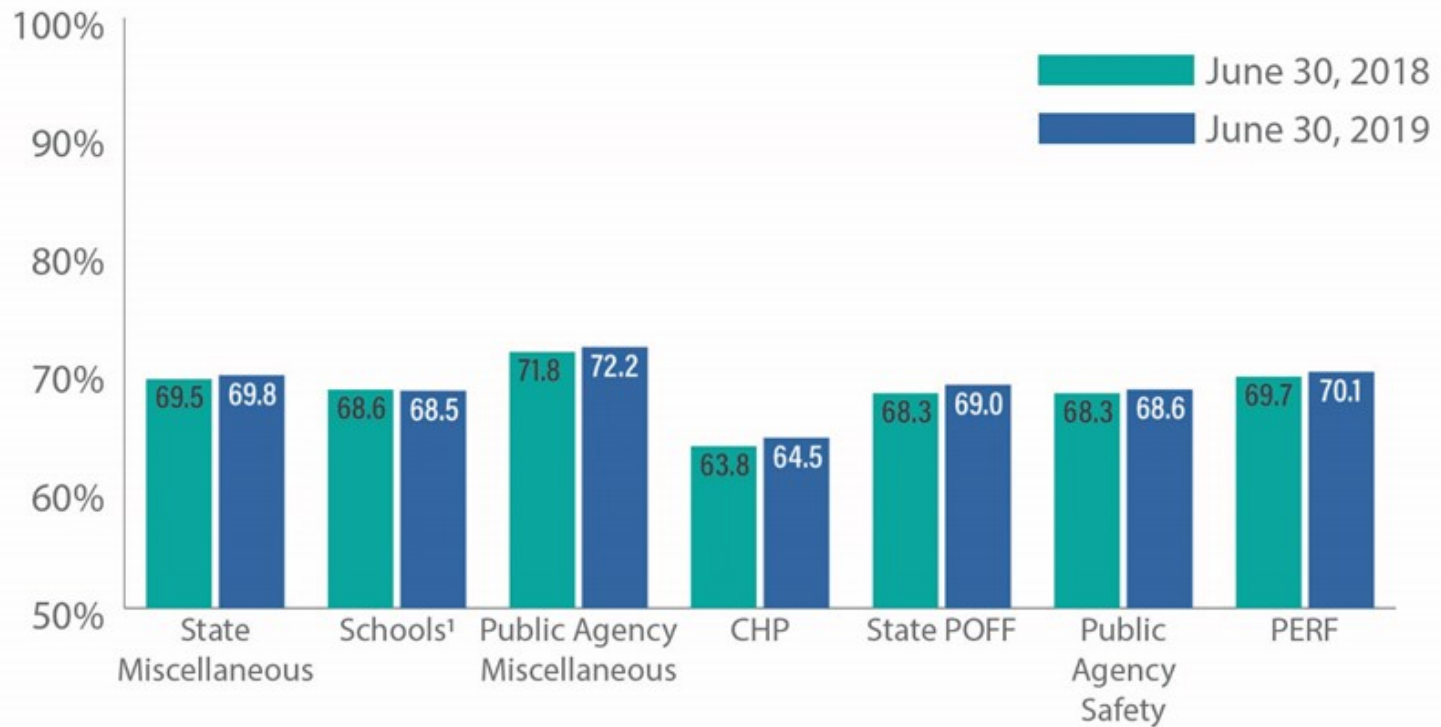
Finance & Administration Committee
November 17, 2020

Overview

- Current Results
- Pandemic Impacts
- Important Risk Drivers

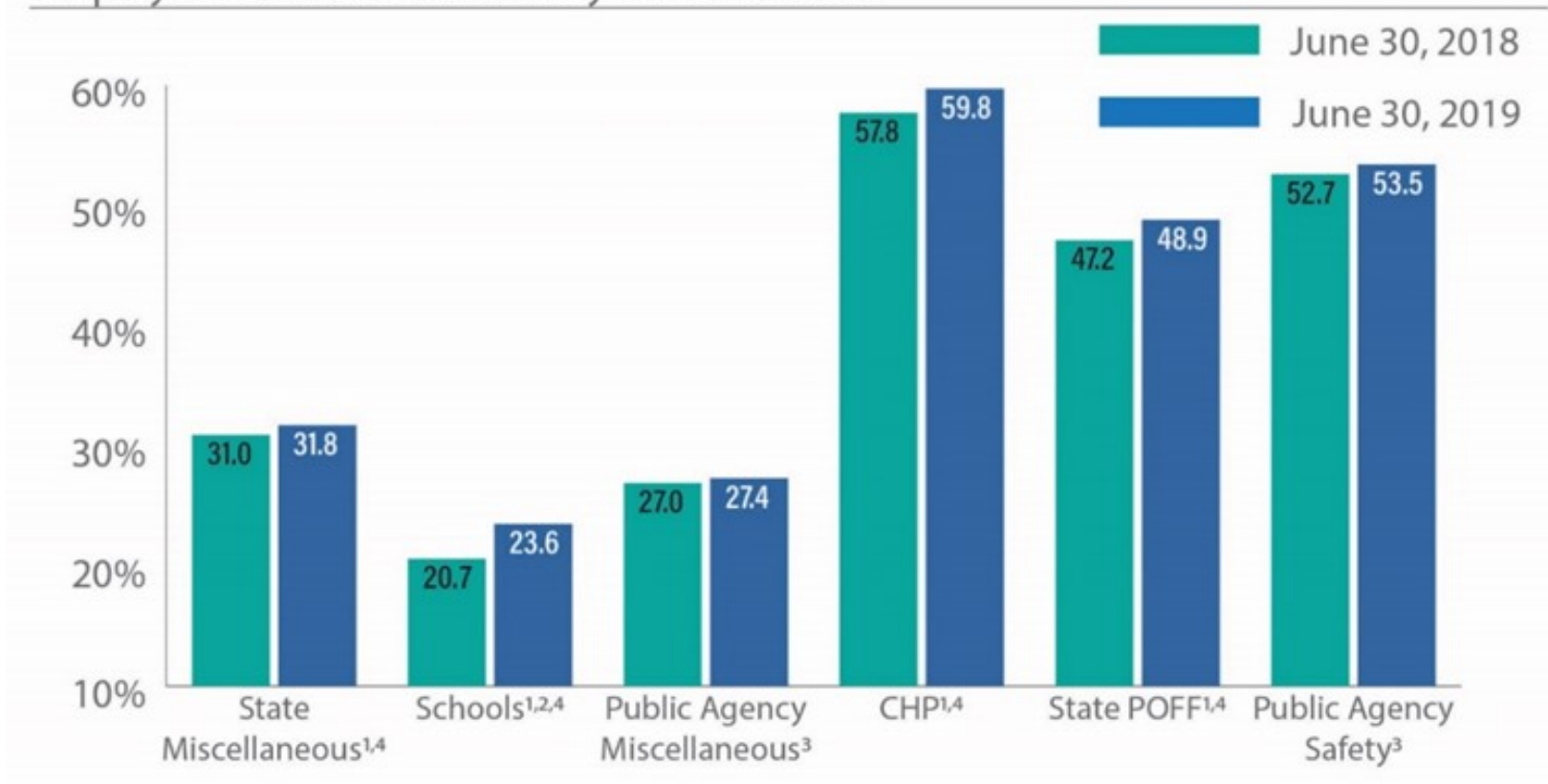
Current Results

Funded Status Based using a 7.00% Discount Rate

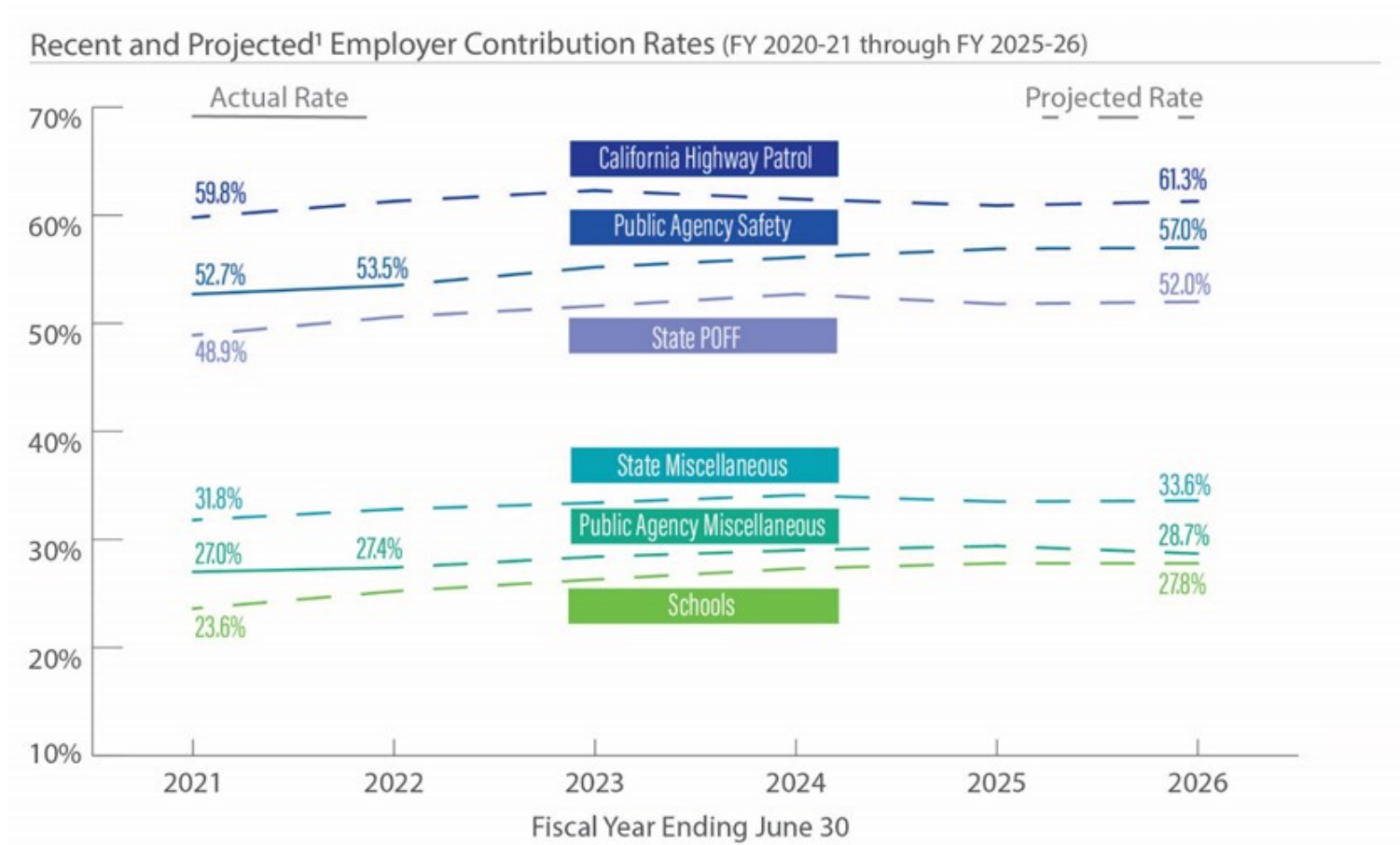


Current Results

Employer Contribution Rates by Valuation Date

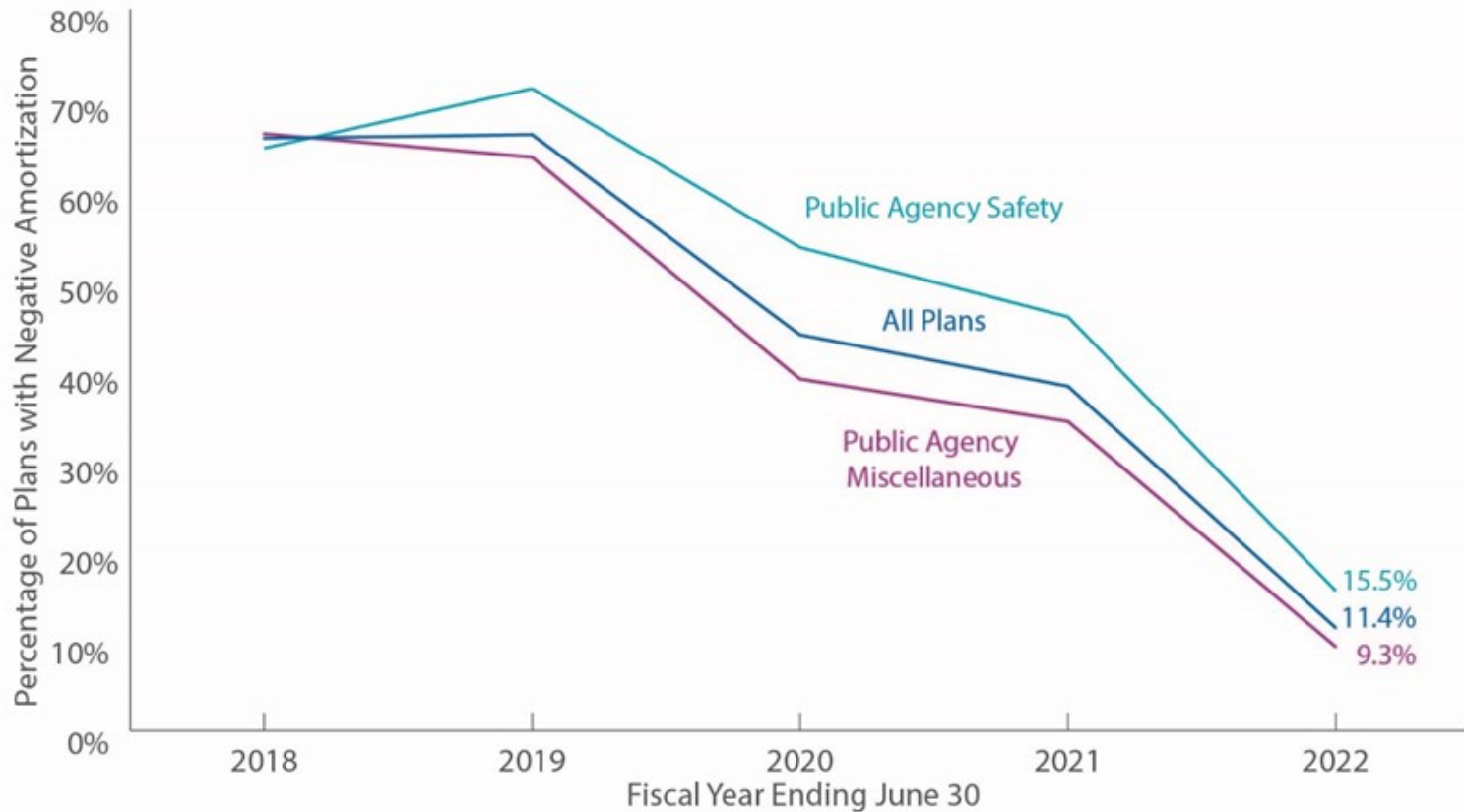


Current Results



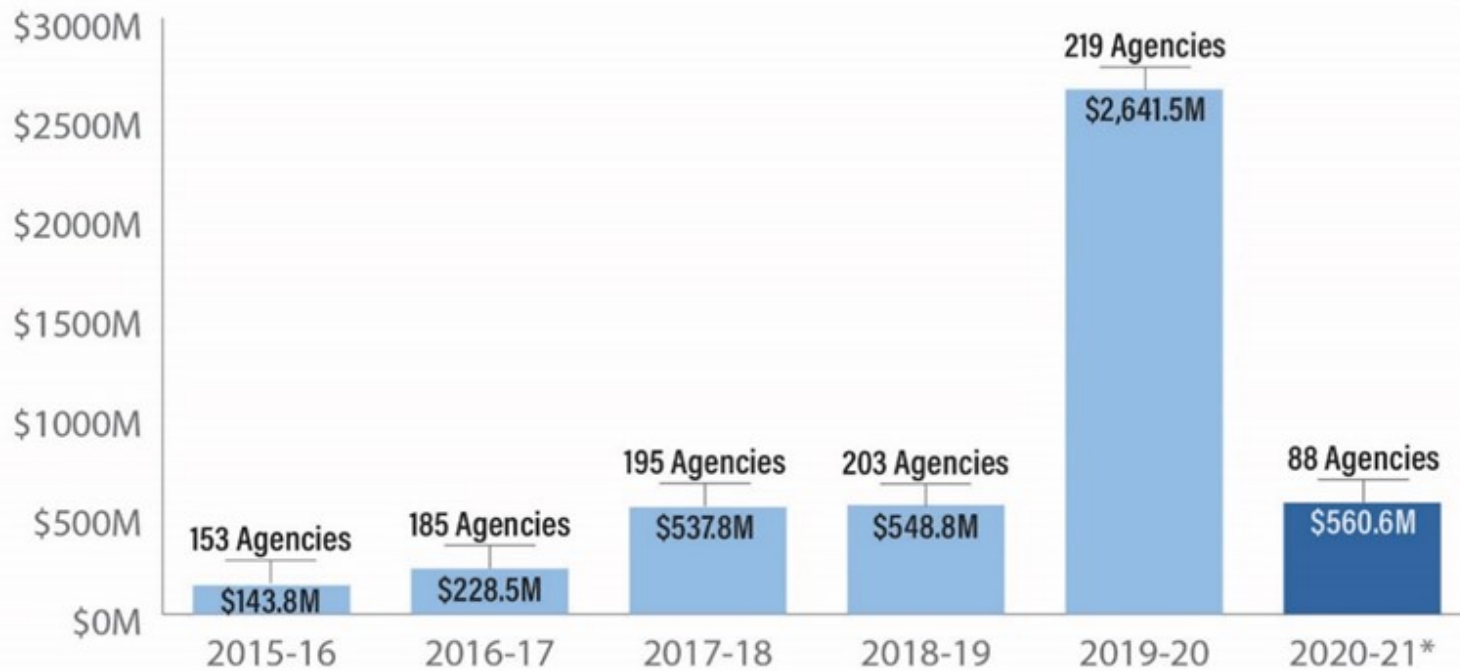
Current Results

Percentage of Plans with Negative Amortization by Contribution Year



Current Results

Public Agency Additional Discretionary Payments by Fiscal Year



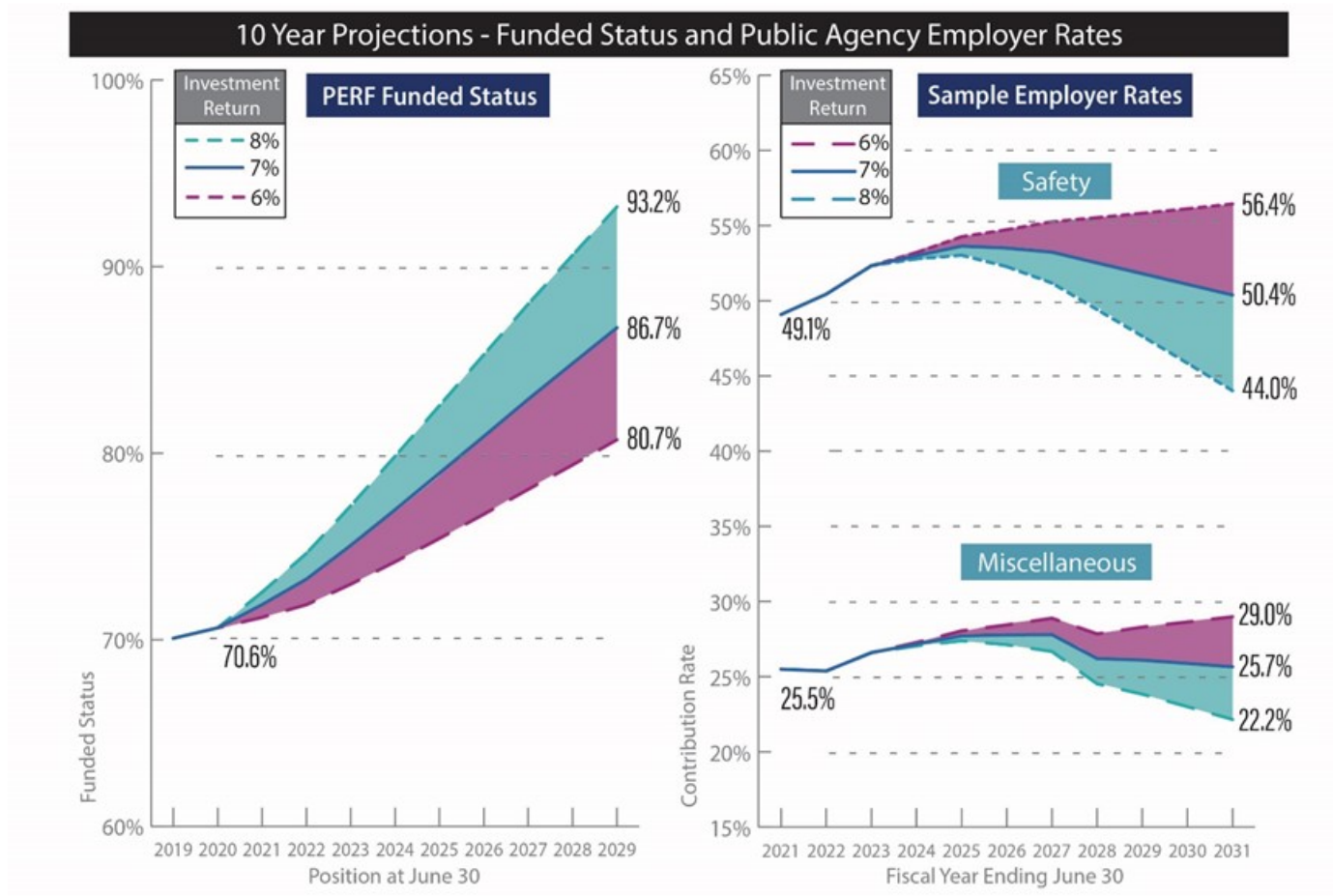
Pandemic Impacts

- Over 16,000 deaths in California
- Severe revenue impacts for many CalPERS employers
- Potential impacts of future experience
 - Investment returns
 - Mortality
 - Retirements
 - Disability retirements
 - Pay increases

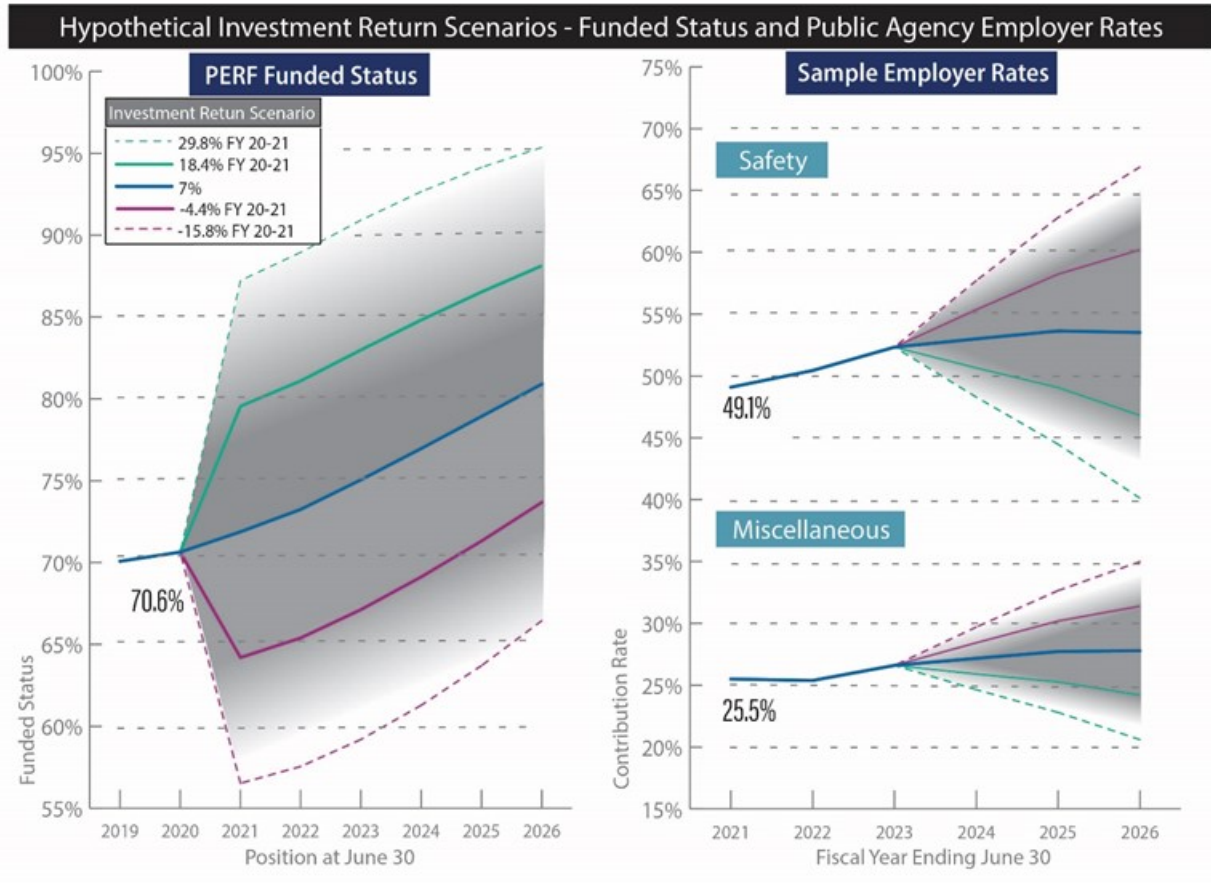
Pandemic Impacts

- Investment return for fiscal year 2019-2020 was 4.7%
- Early data shows somewhat higher mortality, retirements
- Experience impacts likely short-term with minimal impact on retirement system
- Employers' ability to continue to make required contributions still biggest concern

Risk Drivers – Investment Return



Risk Drivers – Investment Return



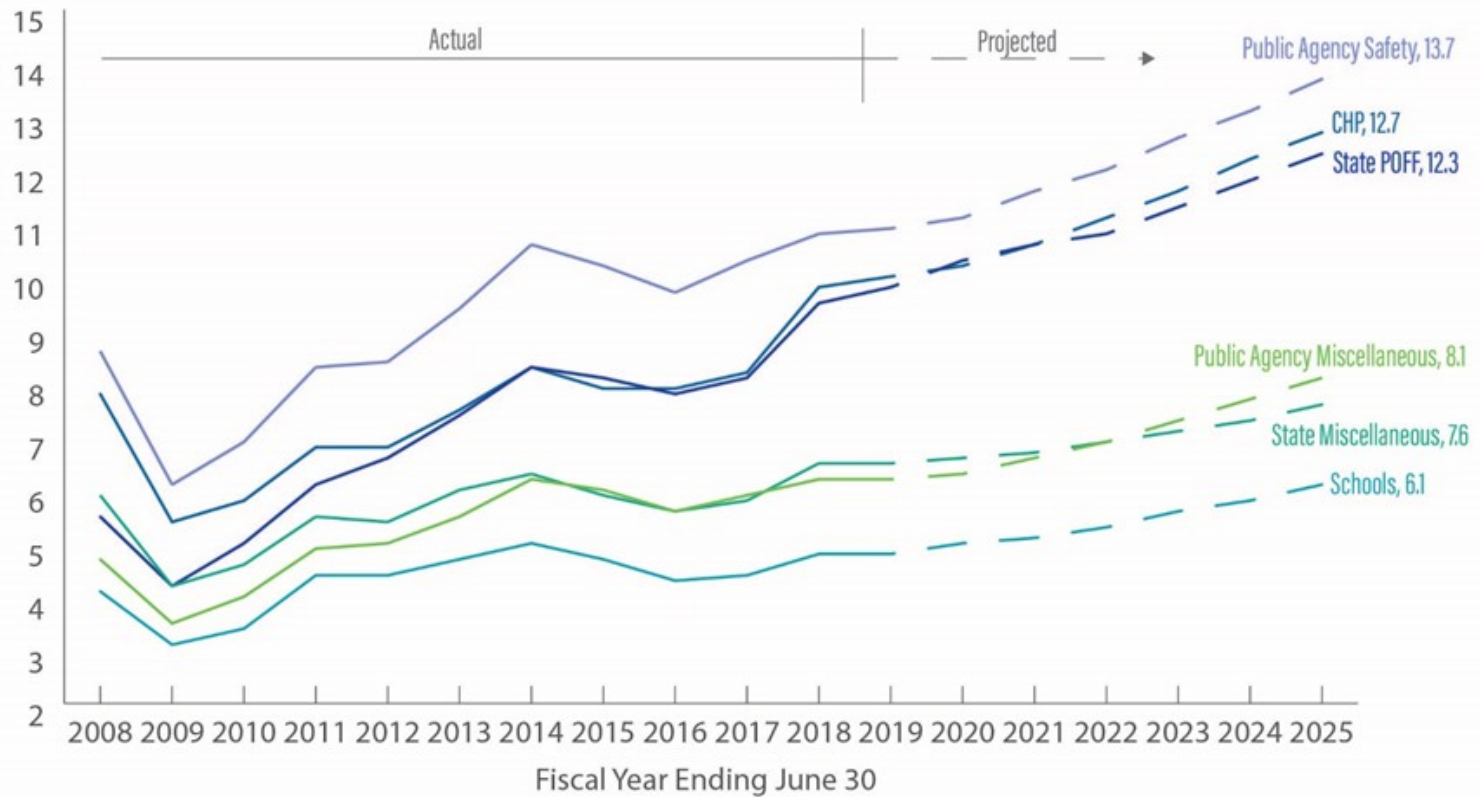
Risk Drivers – Investment Return

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

Plan	40%		50%		60%	
	2019	2020	2019	2020	2019	2020
State Misc.	<1%	<1%	1%	1%	24%	22%
Schools	<1%	<1%	1%	1%	21%	21%
CHP	<1%	<1%	2%	2%	39%	37%
POFF	<1%	<1%	1%	1%	19%	20%
PA Misc.	<1%	<1%	2%	1%	29%	23%
PA Safety	<1%	<1%	5%	3%	43%	36%

Maturity Measures

Recent and Projected Asset Volatility Ratio (MVA to Payroll)



Employer Financial Pressures

- Average public agency employer contribution rates
 - Miscellaneous plans: 27.4% of payroll (27.0% last year)
 - Safety plans: 53.5% of payroll (52.7% last year)
- Required contributions expected to increase over next several years
- Increase in usage of Pension Obligation Bonds, Golden Handshakes, Furloughs
- Financial Necessity policies within broader amortization policy are an option

Employer Financial Pressures

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

Plan	3% of Payroll		5% of Payroll		7% of Payroll	
	2019	2020	2019	2020	2019	2020
State Misc.	57%	55%	14%	14%	7%	7%
Schools	38%	35%	9%	10%	5%	5%
PA Misc.	43%	45%	11%	12%	6%	8%

Plan	5% of Payroll		7% of Payroll		9% of Payroll	
	2019	2020	2019	2020	2019	2020
CHP	64%	65%	32%	34%	16%	16%
POFF	52%	51%	21%	21%	11%	11%
PA Safety	55%	55%	23%	25%	12%	14%

Discount Rate

- Asset Liability Management process in 2021 to review:
 - Investment policies / asset allocation
 - Long-term investment return / discount rate
- Capitol market assumptions trending downward
- Decisions on asset allocation will partially determine if reduction in discount rate is necessary

Questions ?