Funding Risk Mitigation Event

Finance & Administration Committee

September 16, 2025

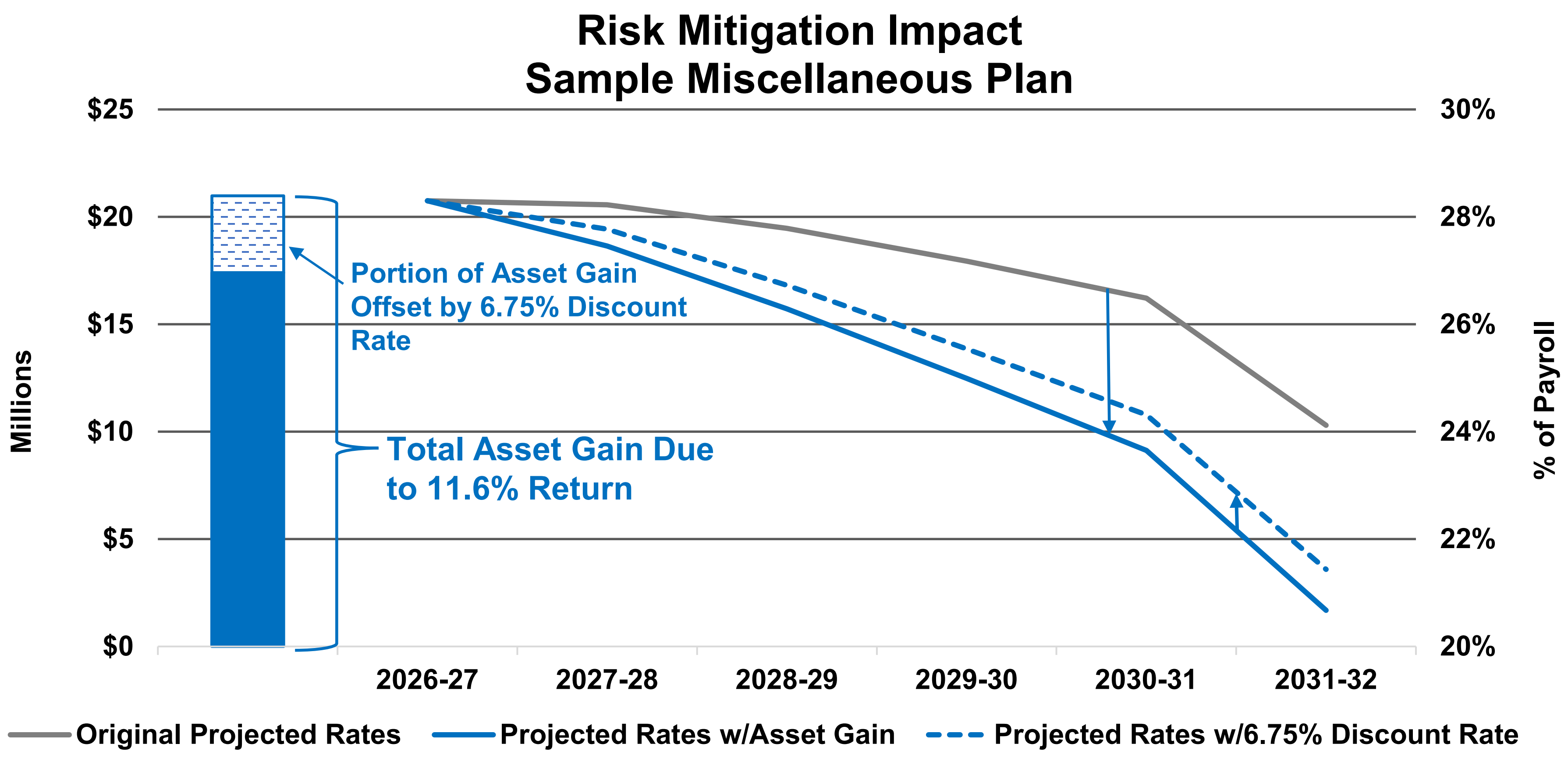
Funding Risk Mitigation Policy: Purpose

- Risk in the fund
- Discount rate
- Employer contributions
- System sustainability
- Volatility
- Asset allocation

Thresholds and Impacts

Excess Investment Return *If the actual investment returns exceed the discount rate by:*	**Reduction in Discount Rate** *Then the discount rate will be reduced by:*	**Reduction in Expected Investment Return** *And the expected investment return will be reduced by:*
2.00%	0.05%	0.05%
7.00%	0.10%	0.10%
10.00%	0.15%	0.15%
13.00%	0.20%	0.20%
17.00%	0.25%	0.25%

Illustration of Projected Employer Contributions



Possible PEPRA Member Rate Increases

Estimated Number of Plans and Members to Receive an Increase to PEPRA Member Rates Due to Risk Mitigation and a 6.75% Discount Rate*		
	Miscellaneous	**Safety**
% of Plans	**3.3%**	**5.1%**
% of Members	**4.3%**	**9.3%**

* These rate increases would be in addition to those caused by the additional assumption changes from the current Experience Study

Recommendation:

Staff recommends making no changes to the discount rate and expected investment rate of return since the formal Asset Liability Management (ALM) process is underway during the 2025 year.

Questions?

Appendix

Funding Risk Mitigation Policy: History

- Adopted in 2015
  - Revised in 2017, lowered expected investment return threshold from 4%-2%
- Temporarily suspended while discount rate phased to 7% over three years (February 14, 2017 – June 30, 2020)
- First triggered by June 30, 2021 FY investment returns bringing discount rate to 6.8%
- February 2024 - Board provided direction to bring back revised policy removing automatic trigger
- April 2024 – Board approved the following policy revisions:
  - Removed the automatic change to the discount rate
  - Added a triggered board discussion if annual assumed rate of return exceeds two percent
  - Updated procedural steps to align with removal of automatic mechanism