Finance and Administration Committee

Agenda Item 5a

September 15, 2026

Item Name: Funding Risk Mitigation Event

Program: Financial Office

Item Type: Action

Recommendation

Staff recommends making no changes to the discount rate and expected investment rate of return.

Executive Summary

Based upon the Funding Risk Mitigation Policy (Policy) revised in April 2024, when a Funding Risk Mitigation Event occurs, an item will be brought to the board for discussion on whether the discount rate and expected investment return should be adjusted in accordance with the thresholds noted within the Policy.

As of June 30, 2026, the investment return was 14.8% This return exceeds the discount rate by 8% and meets the threshold for triggering a Funding Risk Mitigation Event.

This item is designed to initiate a board discussion and action on whether to reduce the discount rate and the expected investment return by 0.10%.

Strategic Plan

The policy supports the pension sustainability goal to strengthen the long-term sustainability of the pension fund.

Background

The Funding Risk Mitigation Policy was revised by the board in April 2024 to trigger a Board discussion around potential adjustments to the discount rate, expected investment return, and strategic asset allocation targets when the annual investment return at June 30 exceeds the discount rate by 2.00%.

Analysis

- The investment return for the fiscal year ending June 30, 2026 is 14.8%.

- The current discount rate is 6.8%.
- The actual investment return exceeds the discount rate by 8% and creates a Funding Risk Mitigation Event.
- In accordance with the Policy, when a Funding Risk Mitigation Event occurs, an agenda item will be brought to the board for discussion on whether the discount rate and expected investment return should be adjusted as set forth in Table 1 below, and the strategic asset allocation targets should be adjusted consistent with such new discount rate and expected investment return.

Table 1: Funding Risk Mitigation Event Thresholds and Impacts

Excess Investment Return	**Reduction in Discount Rate**	**Reduction in Expected Investment Return**
If the actual investment returns exceed the discount rate by:	*Then the discount rate will be reduced by:*	*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%

Budget and Fiscal Impacts

Not Applicable.

Benefits and Risks

- Lowering the discount rate and expected investment rate of return would increase employer liabilities and contributions which, in turn, may cause PEPRA employee contributions to increase.
- If the discount rate is decreased, there is a risk that increased employer contributions cannot be sustained by some employers and as a result could create delays in contribution receipts to CalPERS.
- The ALM recommendation and underlying capital market assumptions support a discount rate of 6.8%.
- A potential benefit of reducing the discount rate and expected investment rate of return could lower funding risk over time. This approach makes it more likely to achieve consistent investment returns by investing in less risky asset classes, thereby minimizing potential volatility, and reducing overall risk to the system.

Attachments

Attachment 1 – Current Funding Risk Mitigation Policy

Attachment 2 – Funding Risk Mitigation PowerPoint Presentation

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