Upcoming CalPERS Issues

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Agenda

- What has been happening?
  - GASB 68
  - Annual Valuations
- Where are Employer rates heading?
- What is coming up?
  - Funding Risk Mitigation Policy
- "On the Horizon"

What Has Been Happening?
(GASB 68, Annual Valuations, Additional Funding)

First Year GASB 68 Reports

- All June 30, 2014 reports are available
  - Approx. 90% of agent plans provided to employers
  - Approx. 75% of cost-sharing plans provided to employers
- Remaining employers can order reports through my|CalPERS
  - Non-Pooled Plan Report Cost: $2500 per plan
  - Pooled Plan Report Cost : $850 per plan

“Second Year” GASB 68 Reports

- Will be produced December 2015 through April 2015
- Actuarial Valuation date – June 30, 2014
- Measurement date – June 30, 2015
- Measurement period – July 1, 2014 through June 30, 2015
- Used for
  - Second year of GASB 68 for employers with June 30 fiscal year end
  - First year of GASB 68 for other employers

Annual Valuation

- Delayed due to GASB 68 & resource constraints
- Not all reports available for CalPERS Educational Forum
  - Next week in San Jose

Accelerated Funding

- New Section in Valuation Report at 6/30/13

Alternate Amortization Schedules

The amortization schedule shown on the previous page shows the minimum contributions required according to CalPERS amortization policy. There has been considerable interest from many agencies in paying off these unfunded accrued liabilities sooner and the possible savings in doing so. As a result, we have provided alternate amortization schedules to help analyze your current amortization schedule and illustrate the advantages of accelerating unfunded liability payments towards your plan's unfunded liability of $836,108 as of June 30, 2013.

Shown below are the level rate payments required to amortize your plan's unfunded liability assuming a fresh start over the various periods noted. Note that the payments under this scenario would increase by 3 percent for each year into the future.

Level Rate					
Period	**2015-16 Rate**	**2015-16 Payment**	**Total Payments**	**Total Interest**	**Savings**
15	18.794%	$76,646	$1,425,526	$589,418	$128,223
10	25.575%	$104,296	$1,195,633	$359,525	$358,749

Accelerated Funding

- Multiple ways to do it
  - Fresh start
  - Discretionary payment on an ad hoc basis
- Discuss with your Plan Actuary

Where Are Employer Rates Heading?

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The New Amortization Policy

- Adopted by the CalPERS Board in April 2013
- Designed to pay down unfunded liability faster
- 5 year direct rate smoothing
  - 30 year closed amortization of gains and losses
  - Five year ramp up/down

The New Amortization Policy

- Affected employer contribution rates for the first time in FY 2015-16 (this year)
- No impact on normal cost
- Higher contributions short term
- Lower contributions long term (25 + years)
- Better funded status long term

New Asset Allocation & Actuarial Assumptions

- Adopted by the Board in February 2014
- Changed economic and demographic assumptions
  - Projecting mortality improvements
- Different implementation for State vs. public agencies
  - Valuation Date
  - Smoothing period

New Asset Allocation & Actuarial Assumptions

- Affected public agency contribution rates for the first time in FY 2016-17 (next year)
- Earlier implementation for State
- Generally higher normal cost
- Generally higher contributions

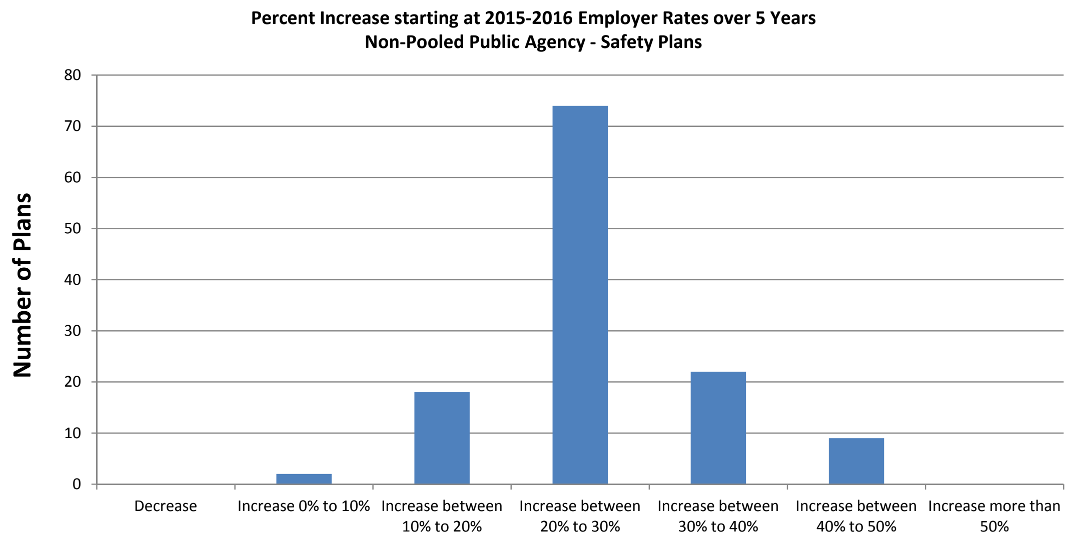
Changes to Risk Pooling

- Primarily due to PEPRA:
  - Closing of classic risk pools
- Combining all pools into two (Miscellaneous and Safety)
- Allocating pool's unfunded liability to each plan based on total liability instead of payroll
- Contributions toward unfunded liability set in dollars instead of a percentage of payroll
  - Rate still available in report

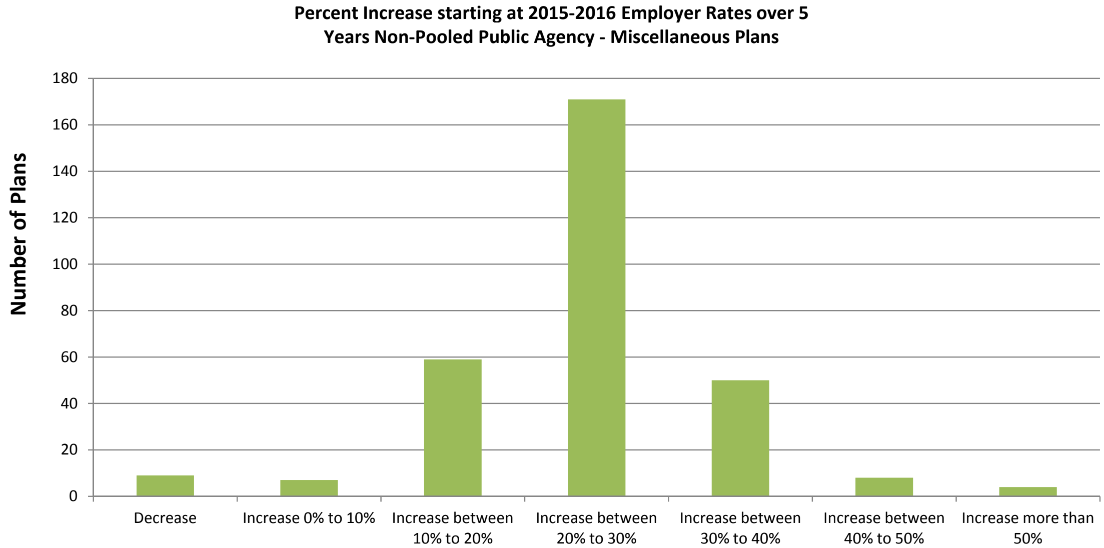
Changes to Risk Pooling

- Affected employer contribution rates for the first time in FY 2015-16
- Impact specific to each pooled plan was included in the rate set by the June 30, 2013 valuation report

Five Year Outlook for Safety Plans



Five Year Outlook for Miscellaneous Plans



Where can I see my future rates?

- Risk Section of your annual actuarial report
- Estimated rates under five scenarios
  - Expected return – 7.5 percent per year
  - Optimistic #1 – 12.0 percent per year
  - Optimistic #2 – 18.9 percent per year
  - Pessimistic #1 – 2.8 percent per year
  - Pessimistic #2 – -3.8percent per year

What Is Coming Up?

(Funding Risk Mitigation)

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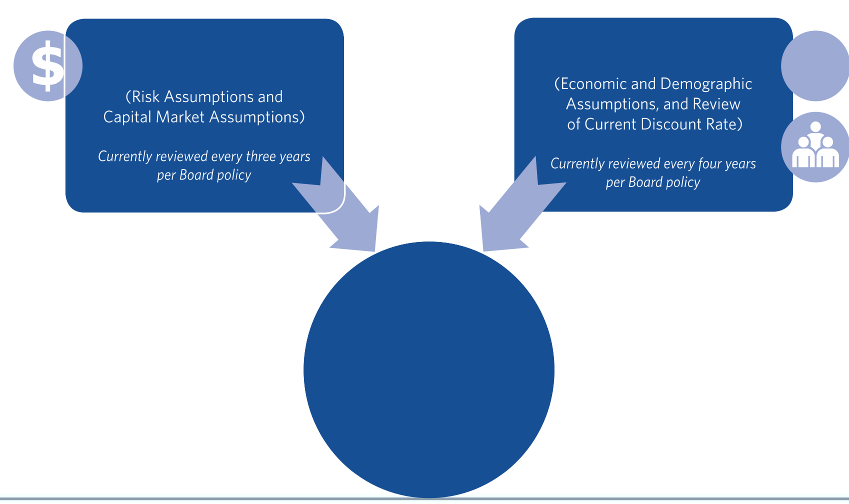
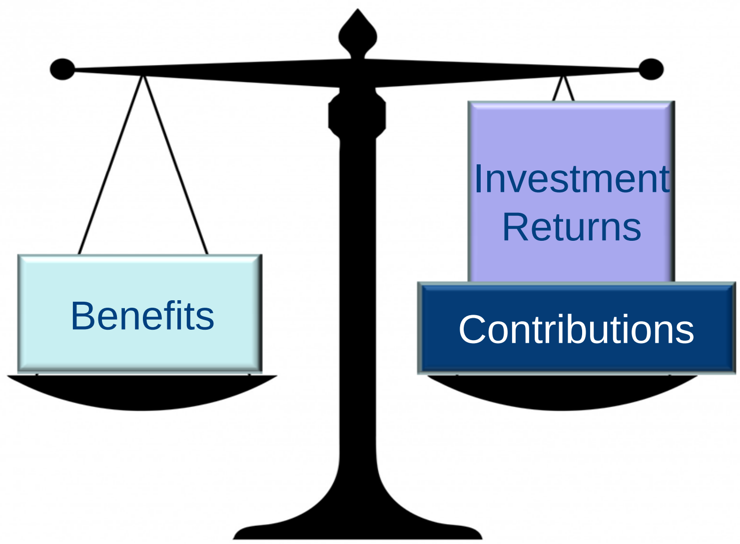
Asset Liability Management Framework

- An integrated approach that considers assets, liability, and risk to ensure the sustainable funding of the system.



CalPERS

Balancing the Fund



Factors Driving Funding Risk

Plan Demographics

- Plans are maturing
- Public employees are living longer
- Increase cash outflows

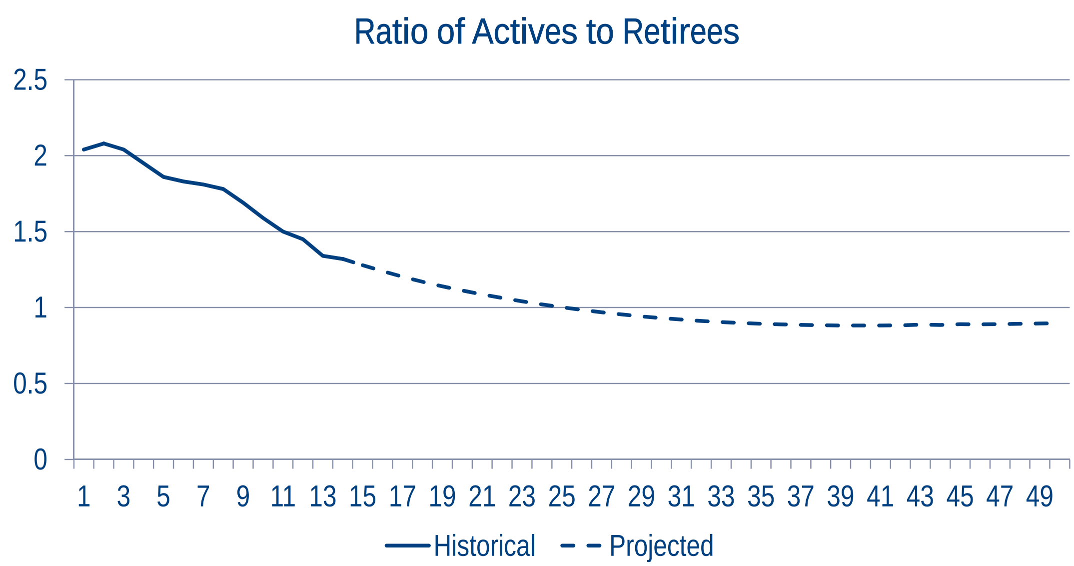
Benefit Structure

- Asset and liability to payroll ratios increase with higher benefit formulas

Investment Volatility

- Current Risk-Return includes significant volatility
- Market return expectations

CalPERS Pension Funds Are Maturing



What is Funding Risk Mitigation?

- Funding Risk Mitigation seeks to reduce funding risk over time
- Reducing funding risk should mitigate the impact of investment volatility on employer contribution rates and funding levels over time

How Will Funding Risk Mitigation Work?

- When an investment return exceeds the discount rate by a certain threshold, a Funding Risk Mitigation Event will trigger
- When a Funding Risk Mitigation Event is triggered, a portion of the investment return is used to pay for lowering the expected investment return and discount rate
- For example, a 11.5% investment return would reduce the expected investment and discount rate return five (5) basis points (0.05%)

Current Status/Next Step

- CalPERS staff presented a draft Funding Risk Mitigation Policy earlier this week
- Board directed staff to bring it back in November without any changes
  - But did request an additional option with a slightly lower threshold
- Second reading of the Policy is scheduled to occur at the November Finance and Administration Committee Meeting

On The Horizon

On the Horizon

- Normal Cost by Benefit Formula
  - Additional disclosures in annual valuations
  - When? Hopefully in next year's annual valuations
- ALM Workshop
  - Review of capital market assumptions
  - Review of actuarial assumptions
  - Review of risk mitigation policy (if adopted)
  - When? Late 2017 and early 2018

Questions & Comments