

# *CalPERS Update & Discussion*

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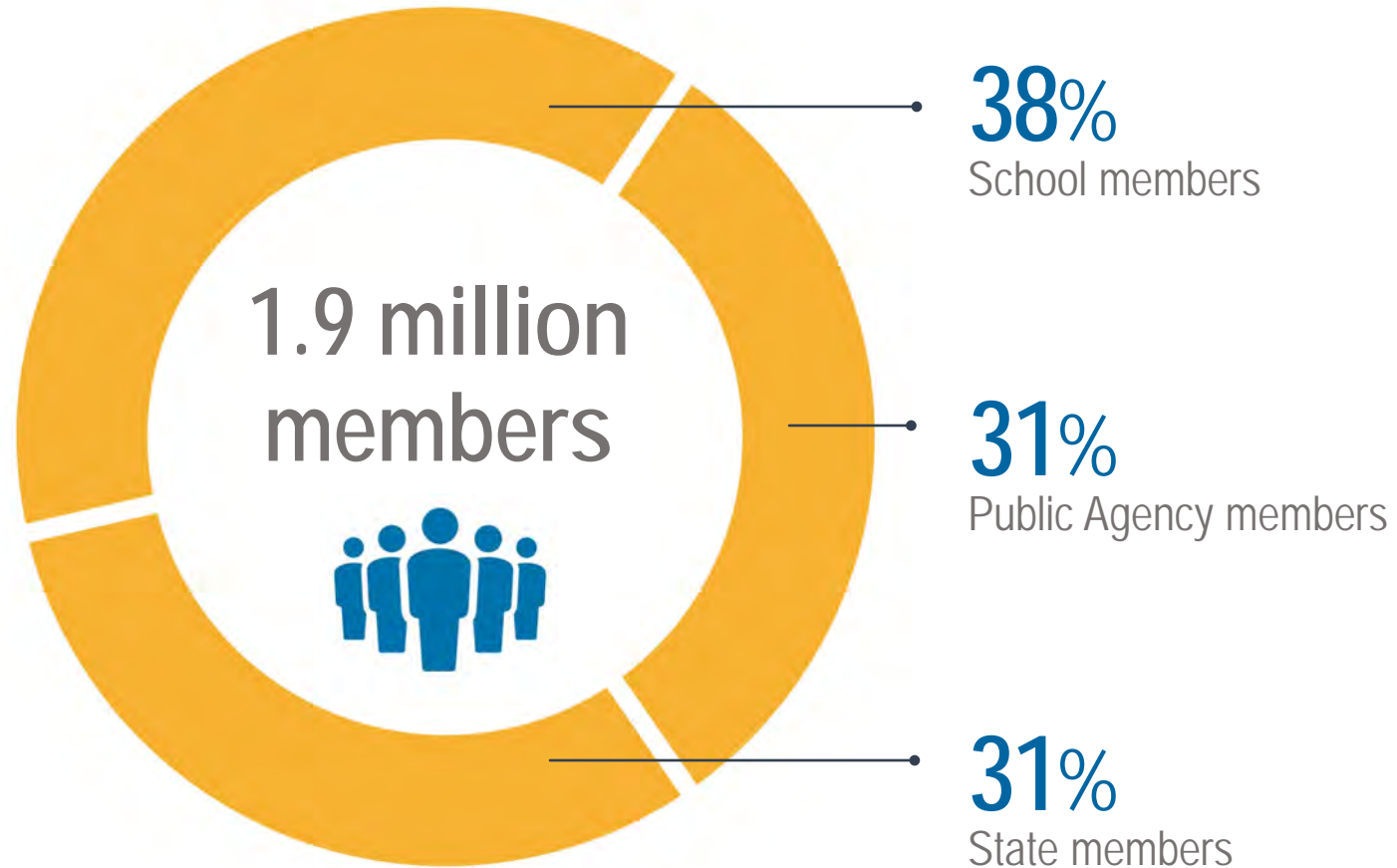
Kurt Schneider | Supervising Pension Actuary

October 10, 2019

# Fundamental Concepts and Investments

# CalPERS Membership

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# Functions In Pension Decision-Making

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## CalPERS Board

- Fiduciary obligation
- Set risk tolerance
- Set investment asset allocation

## Legislature

- Set menu of pension benefit formulas
- Make and change pension laws
- Benefit design changes

## Employees

- Make contributions
- Select employer
- Collectively bargain salary and (optional) cost sharing

## CalPERS Staff

- Administer pensions
- Calculate pension costs
- Effectuate investment strategy

## Employers

- Select pension formulas
- Add optional provisions
- Set salaries
- Make contributions

## Courts

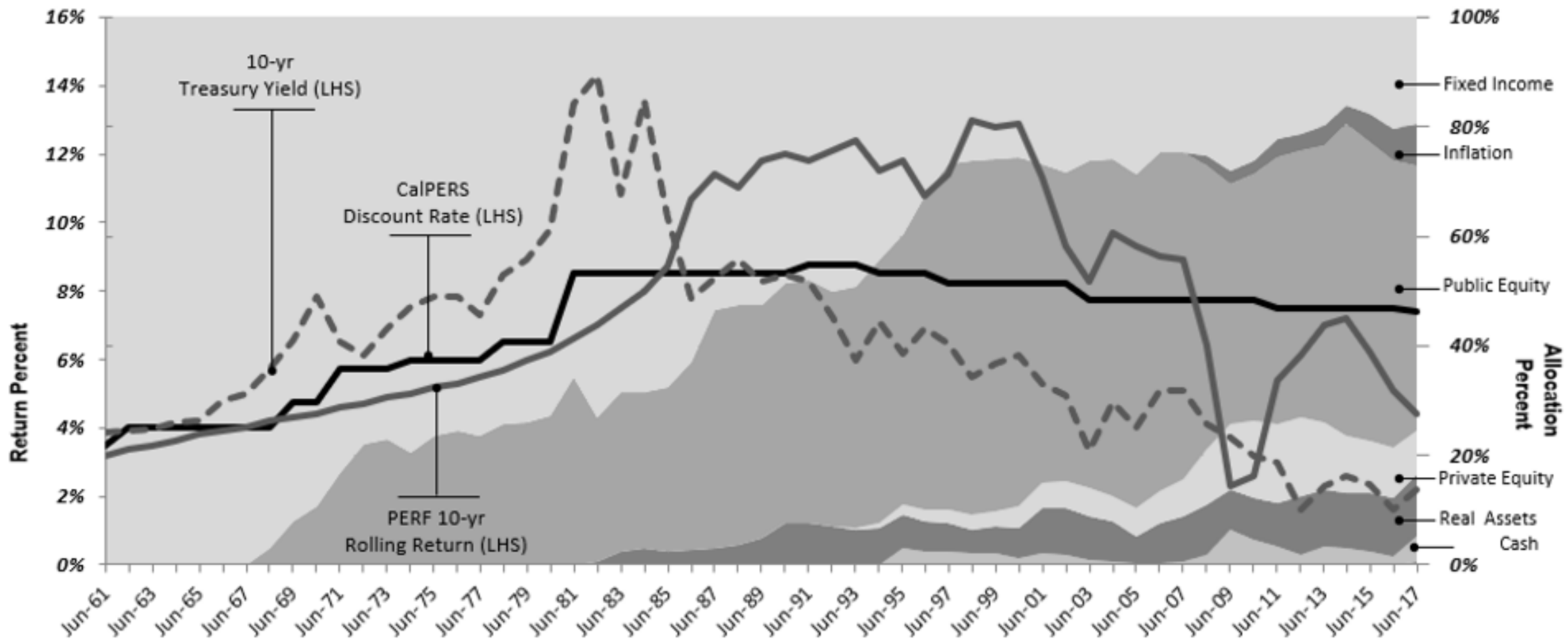
- Rule on legal questions of pension law

# CalPERS Recent & Historical Investment Performance

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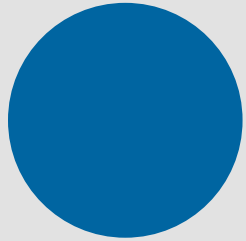
**Current Fund Value \$380 billion~**



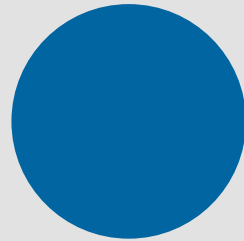


# Three Key Risks

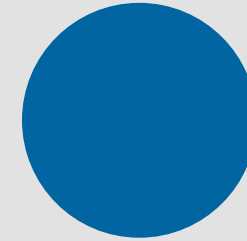
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Investment  
risk/liquidity



Climate risk  
to the portfolio



Employer  
Affordability

# How are CalPERS Pensions Funded?

## The CalPERS Pension Buck

As of June 2018, CalPERS' income over the last 20 years demonstrates that every dollar spent on public employee pensions comes from the following sources:

**59¢**

CalPERS investment earnings

**28¢**

CalPERS employers

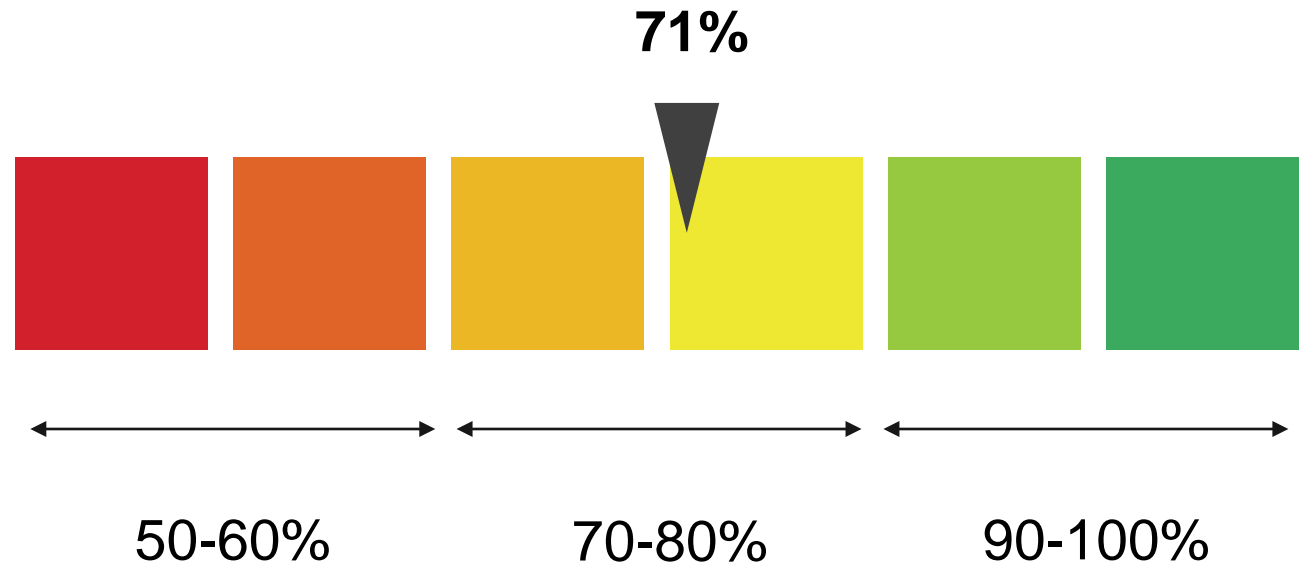
**13¢**

CalPERS members





Funded status goal:  
**100%**



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# Divestment | Corporate Engagement

# CalPERS Focus Going Forward

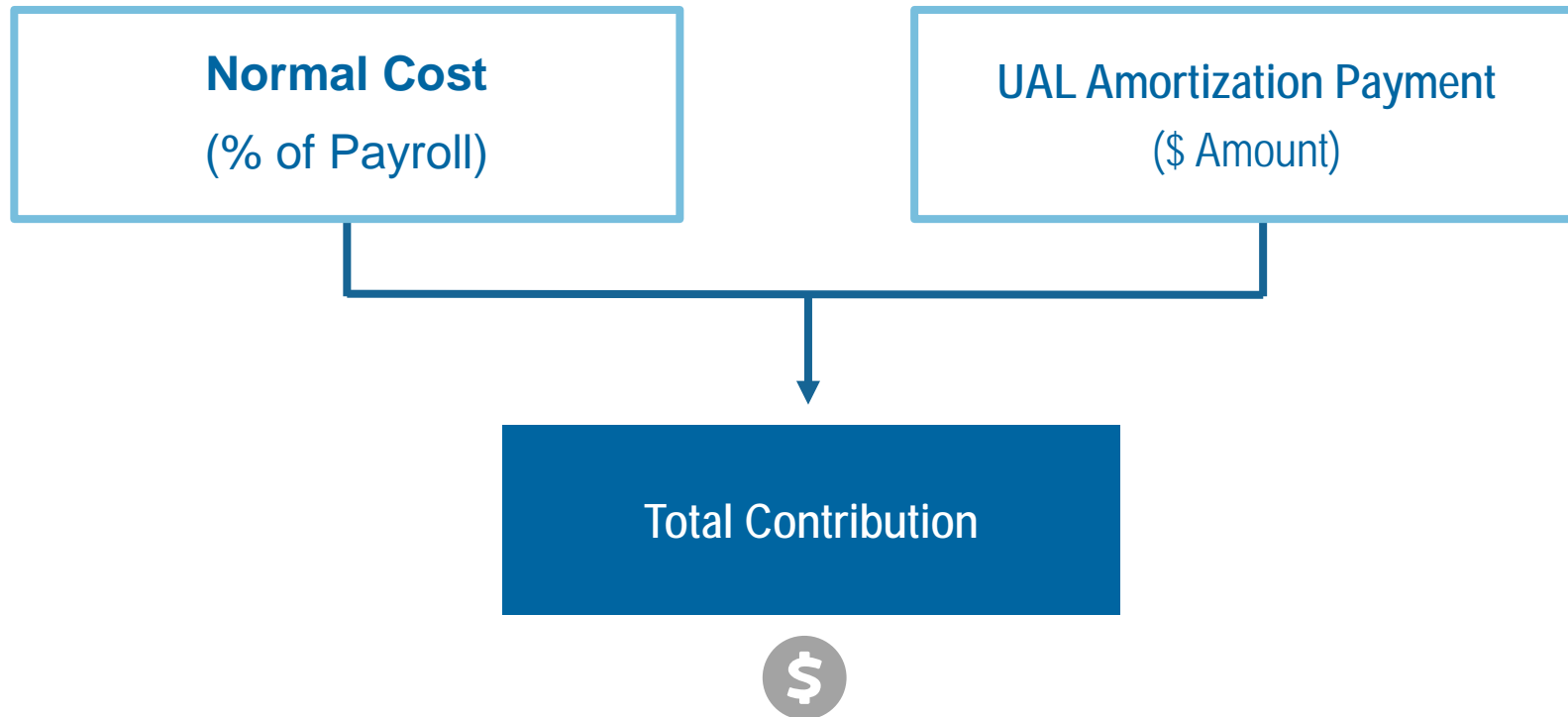
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- Investment performance is paramount
  - growth assets are key
- Top quality leadership and investment team
- Streamlined investment strategies
- Capitalize on and weather financial market downturns
- Recognize that employers are essential to sustaining benefits
- One message to all stakeholders
- Provide access and information

# Actuarial Concepts and the City's Pension Costs

# Contribution Components

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# Unfunded Accrued Liability (UAL)

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$$\text{UAL} = \text{Accrued Liability} - \text{Market Value of Assets}$$

# Required Contribution is the Minimum Payment

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- Agencies are required to make minimum annual payments on the UAL
- Unfunded accrued liability is long-term debt
- Interest rate charged on UAL = Discount rate

# Principles of Paying Down Debt

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- Basic Financial Principle – pay down most costly debt first
- Government Finance Officers Association (GFOA)
  - Every agency should have a funding policy
  - Provide assurance that benefits will be funded equitably and sustainably
  - Handle UAL paydown in a systematic way



# Options for Accelerating the Funding of a Plan

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**Ad Hoc**  
Additional Discretionary  
Payments (ADPs)

**Fresh Start**  
Full or partial

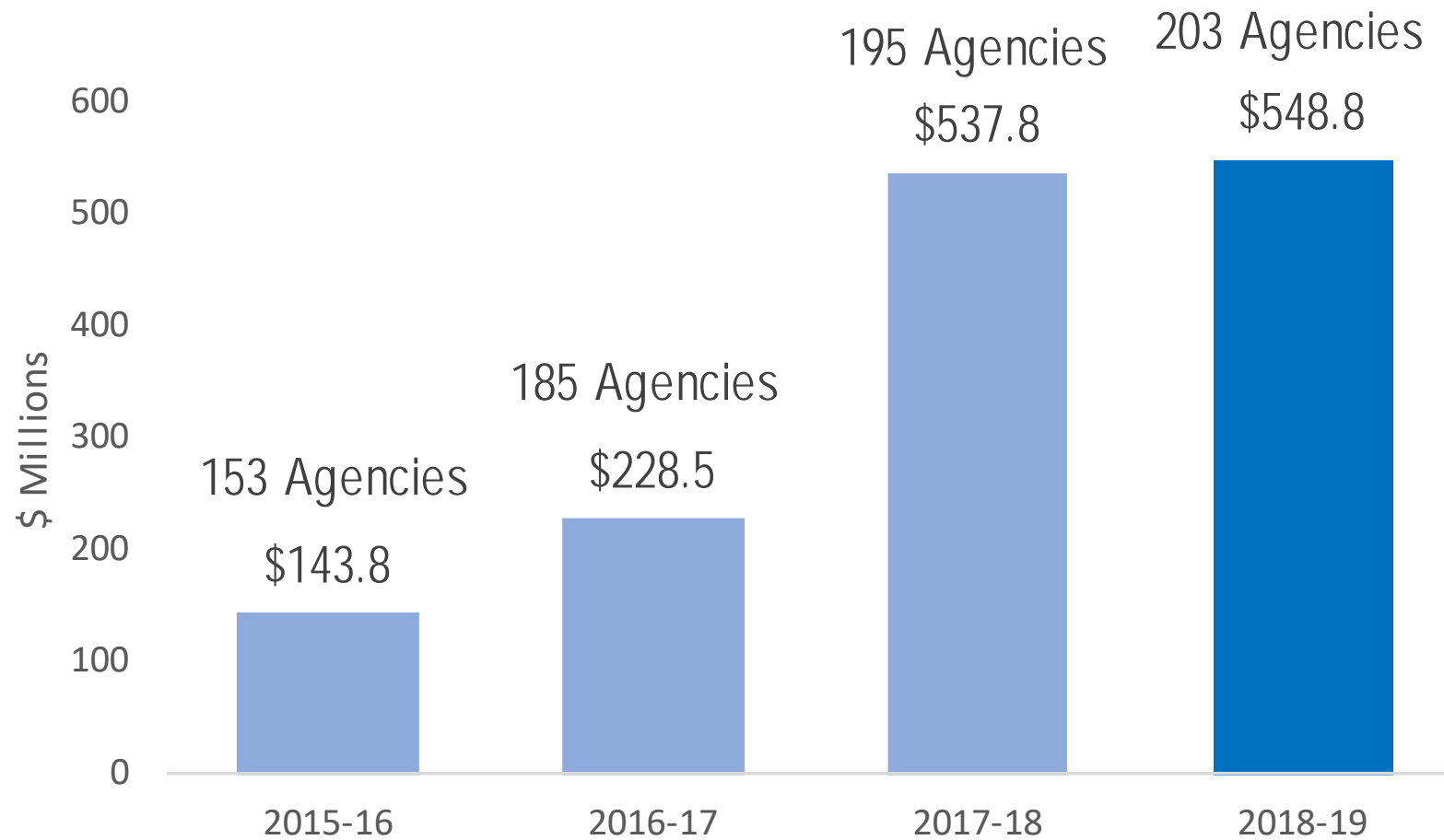
**IRS Section 115**  
Trusts

# Additional Discretionary Payments (ADPs)

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- Saves money by reducing future interest payments
- Ad hoc basis
- Savings strategies
  - Short-term Savings : apply to shortest base
  - Long-term Savings : apply to longest base
- Can be used to achieve contribution stability
- If used in conjunction with agency's funding policy ADPs can
  - Handle UAL paydown in a systematic way, and
  - Provide assurance that benefits will be funded equitably and sustainably

# ADPs in Practice



# ADPs in Practice (continued)

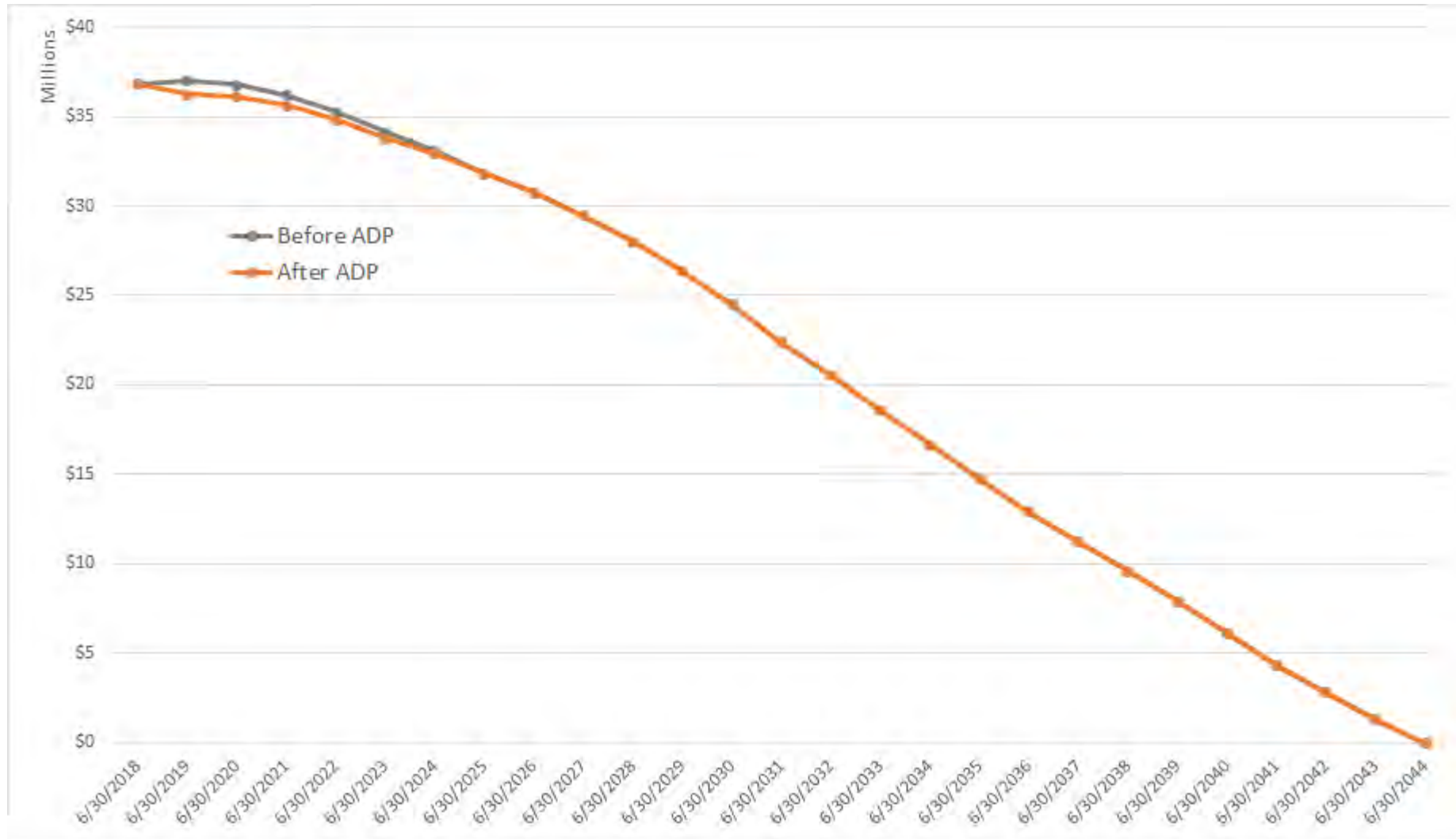
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- Woodland – May 2018
- Lodi – July 2018 and July 2019
- Rocklin – 2016, 2017, 2018 and 2019
- Yuba City – September 2018

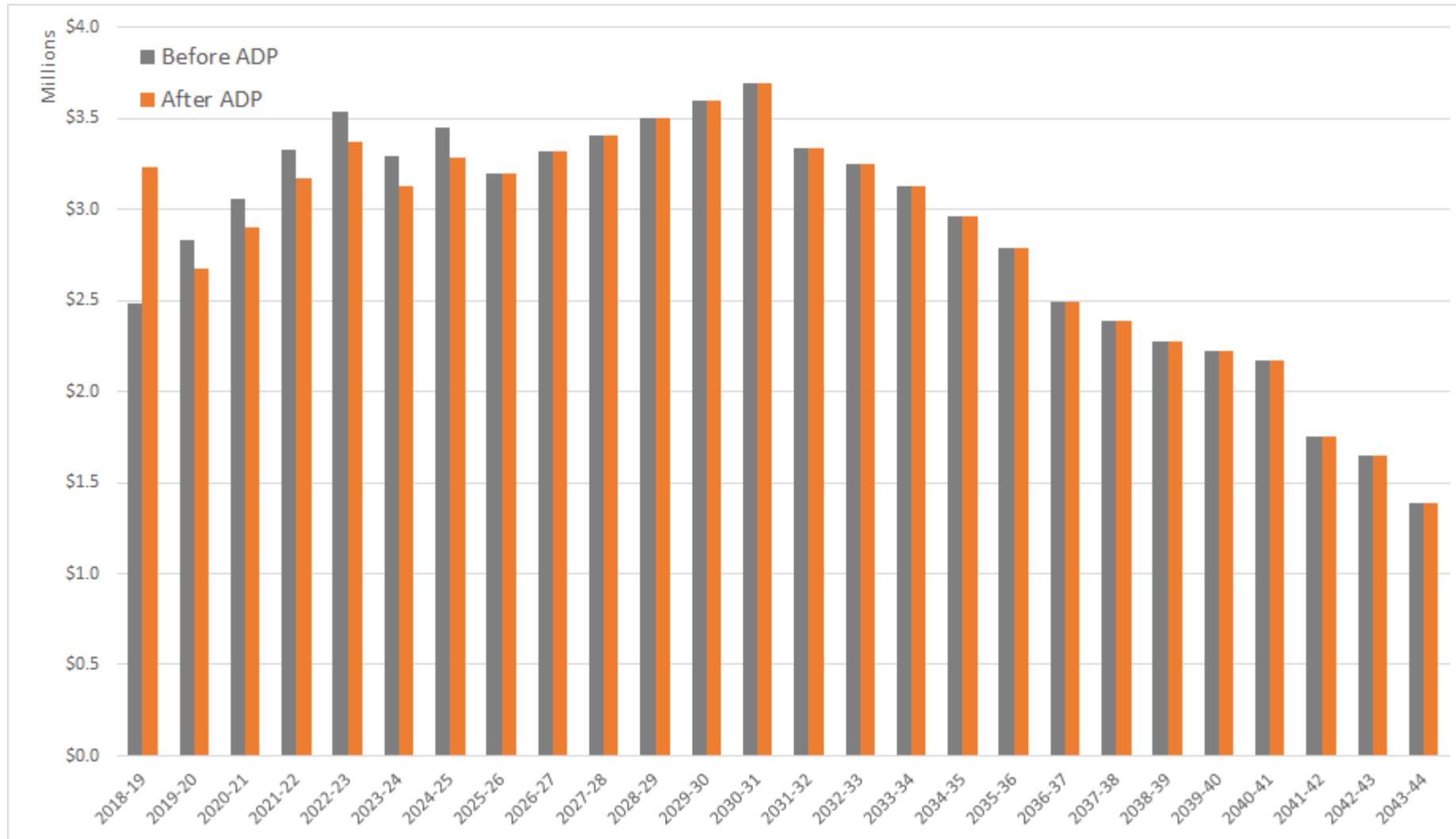
# Schedule of Amortization Bases

Reason for Base	Date Established	Ramp Up/Down 2020-21	Escalation Rate	Amortization Period	Balance 6/30/18	Expected Payment 2018-19	Balance 6/30/19	Expected Payment 2019-20	Balance 6/30/20	Scheduled Payment for 2020-21
BENEFIT CHANGE	06/30/02	No Ramp	2.750%	3	\$1,293,432	\$291,185	\$1,082,768	\$298,875	\$849,404	\$304,824
ASSUMPTION CHANGE	06/30/03	No Ramp	2.750%	5	\$1,738,566	\$1,054,017	\$769,982	\$146,550	\$672,289	\$150,580
METHOD CHANGE	06/30/04	No Ramp	2.750%	6	\$(152,532)	\$(22,779)	\$(139,647)	\$(23,388)	\$(125,229)	\$(23,835)
ASSUMPTION CHANGE	06/30/09	No Ramp	2.750%	11	\$3,240,806	\$327,975	\$3,128,402	\$336,830	\$2,998,970	\$342,547
SPECIAL (GAIN)/LOSS	06/30/09	No Ramp	2.750%	21	\$1,523,980	\$104,603	\$1,522,457	\$107,457	\$1,517,874	\$108,825
SPECIAL (GAIN)/LOSS	06/30/10	No Ramp	2.750%	22	\$649,495	\$43,475	\$649,989	\$44,662	\$649,289	\$45,213
ASSUMPTION CHANGE	06/30/11	No Ramp	2.750%	13	\$215,114	\$19,590	\$209,908	\$20,120	\$203,790	\$20,444
SPECIAL (GAIN)/LOSS	06/30/11	No Ramp	2.750%	23	\$(1,468,820)	\$(96,035)	\$(1,472,298)	\$(98,659)	\$(1,473,305)	\$(99,838)
PAYMENT (GAIN)/LOSS	06/30/12	No Ramp	2.750%	24	\$387,089	\$24,757	\$388,576	\$25,434	\$389,467	\$25,729
(GAIN)/LOSS	06/30/12	No Ramp	2.750%	24	\$9,535,105	\$609,841	\$9,571,738	\$626,519	\$9,593,683	\$633,767
(GAIN)/LOSS	06/30/13	100% →	2.750%	25	\$11,718,625	\$621,363	\$11,896,186	\$797,960	\$11,903,503	\$807,498
ASSUMPTION CHANGE	06/30/14	100% →	2.750%	16	\$6,682,699	\$367,645	\$6,770,193	\$503,528	\$6,723,253	\$639,309
(GAIN)/LOSS	06/30/14	100% →	2.750%	26	\$(8,959,019)	\$(357,138)	\$(9,216,724)	\$(489,243)	\$(9,355,818)	\$(618,671)
(GAIN)/LOSS	06/30/15	80% ↗	2.750%	27	\$5,276,186	\$142,371	\$5,498,249	\$219,426	\$5,656,150	\$295,840
ASSUMPTION CHANGE	06/30/16	60% ↗	2.750%	18	\$2,206,395	\$41,636	\$2,317,775	\$85,551	\$2,391,524	\$130,206
(GAIN)/LOSS	06/30/16	60% ↗	2.750%	28	\$5,037,814	\$69,908	\$5,318,147	\$143,669	\$5,541,805	\$217,786
ASSUMPTION CHANGE	06/30/17	40% ↗	2.750%	19	\$(19,658)	\$(77,054)	\$58,671	\$1,107	\$61,633	\$2,247
(GAIN)/LOSS	06/30/17	40% ↗	2.750%	29	\$(4,696,969)	\$0	\$(5,025,757)	\$(69,824)	\$(5,305,333)	\$(141,025)
METHOD CHANGE	06/30/18	20% ↗	2.750%	20	\$874,999	\$(19,009)	\$955,912	\$(19,532)	\$1,043,030	\$19,447
ASSUMPTION CHANGE	06/30/18	20% ↗	2.750%	20	\$2,049,408	\$(73,704)	\$2,269,107	\$(75,731)	\$2,506,281	\$46,729
(GAIN)/LOSS	06/30/18	20% ↗	2.750%	30	\$(281,661)	\$0	\$(301,377)	\$0	\$(322,473)	\$(4,404)
<b>TOTAL</b>					<b>\$36,851,053</b>	<b>\$3,072,647</b>	<b>\$36,252,257</b>	<b>\$2,581,311</b>	<b>\$36,119,787</b>	<b>\$2,903,218</b>

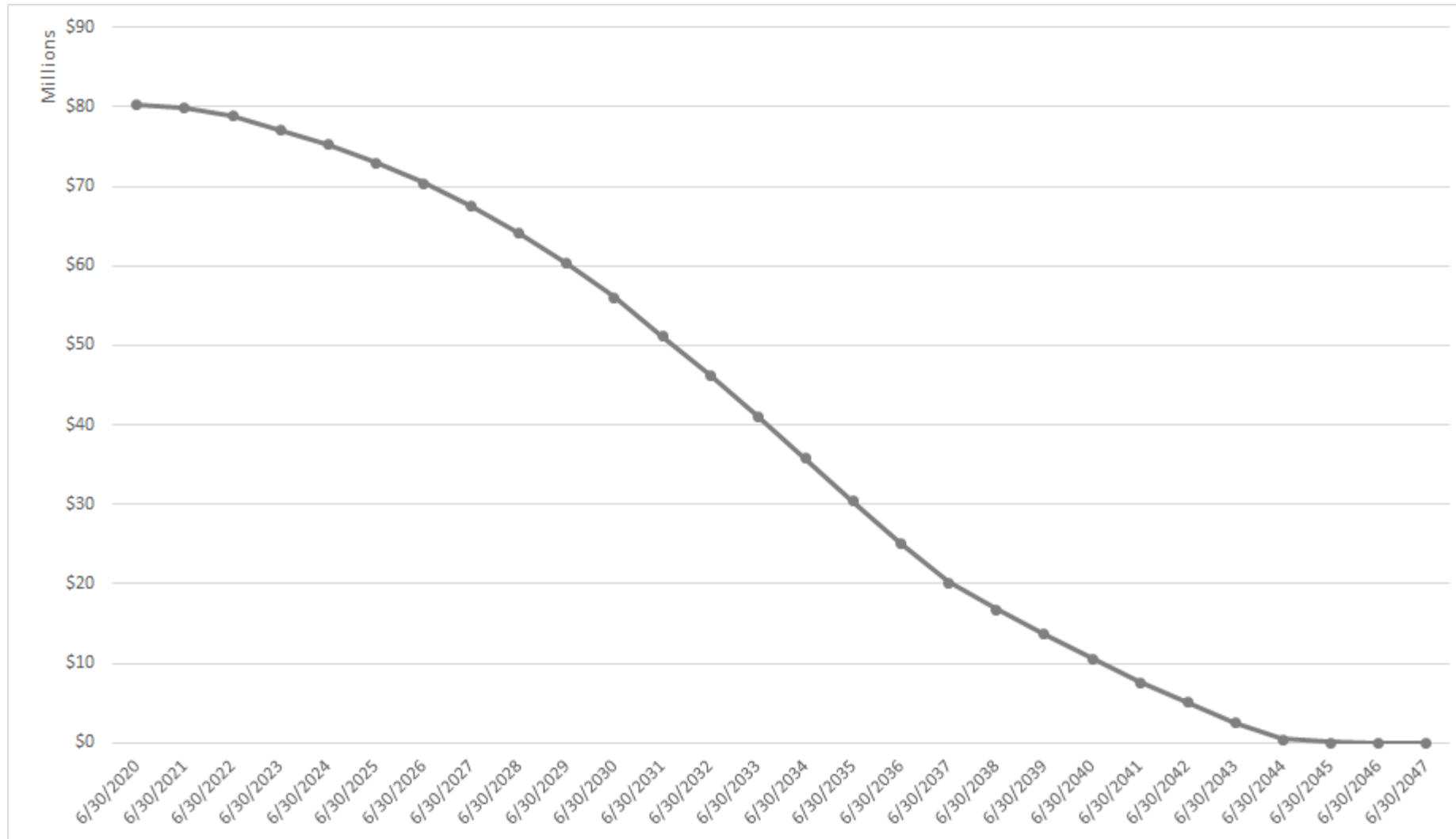
# Miscellaneous UAL Balance before and after 2018 ADP



# Miscellaneous UAL Annual Payments before and after ADP

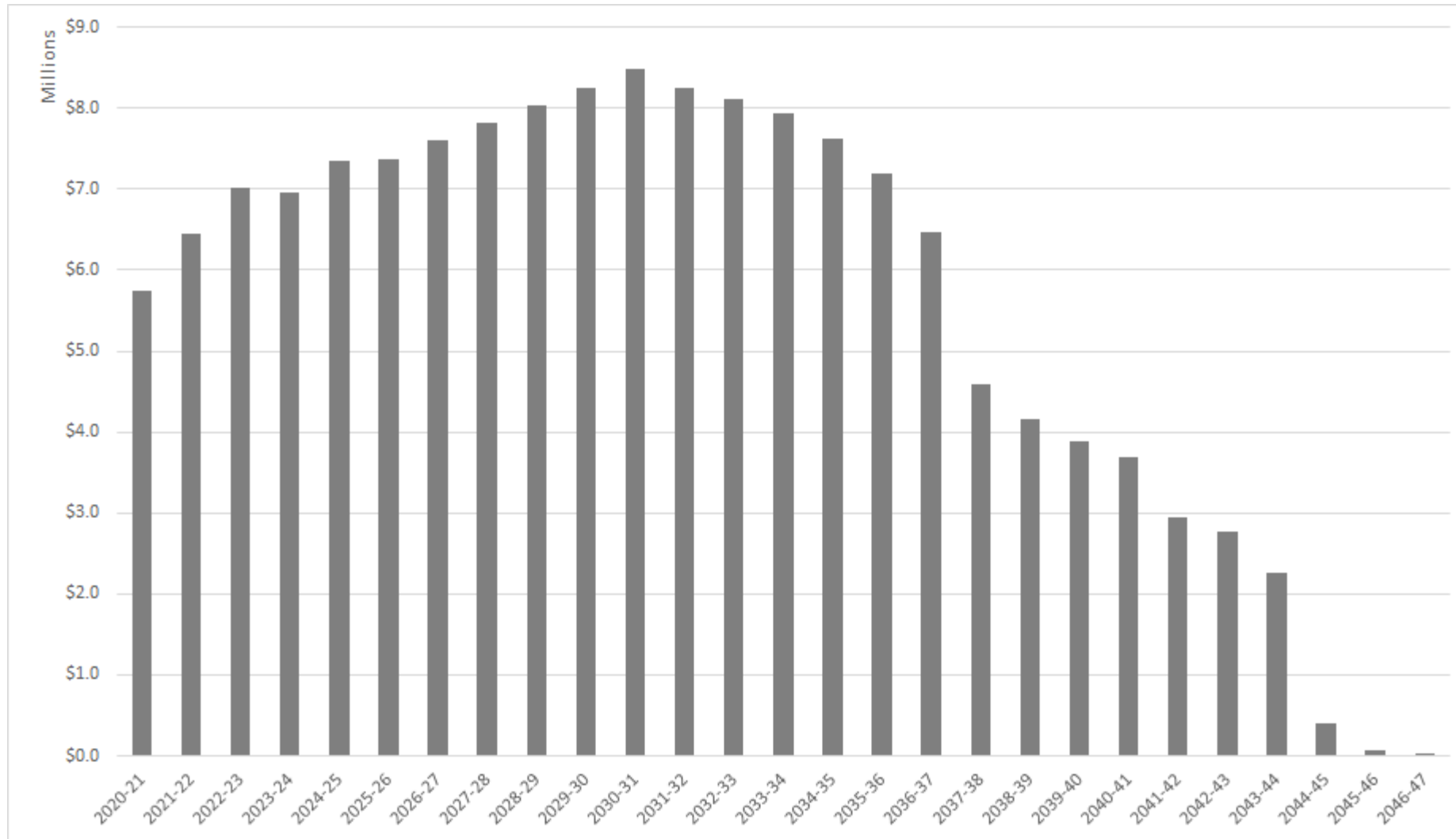


# Combined Yuba City Projected UAL Balance

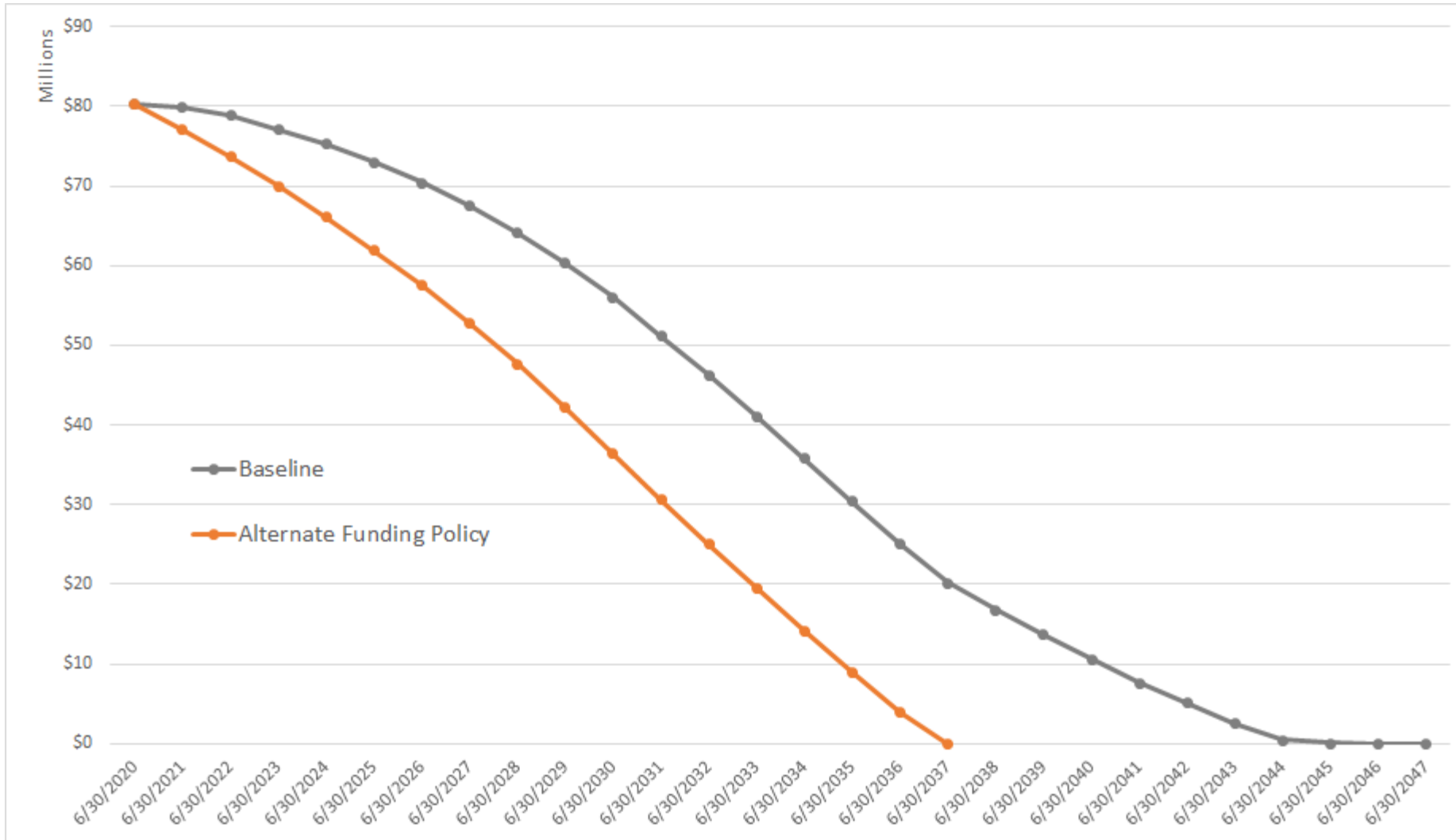




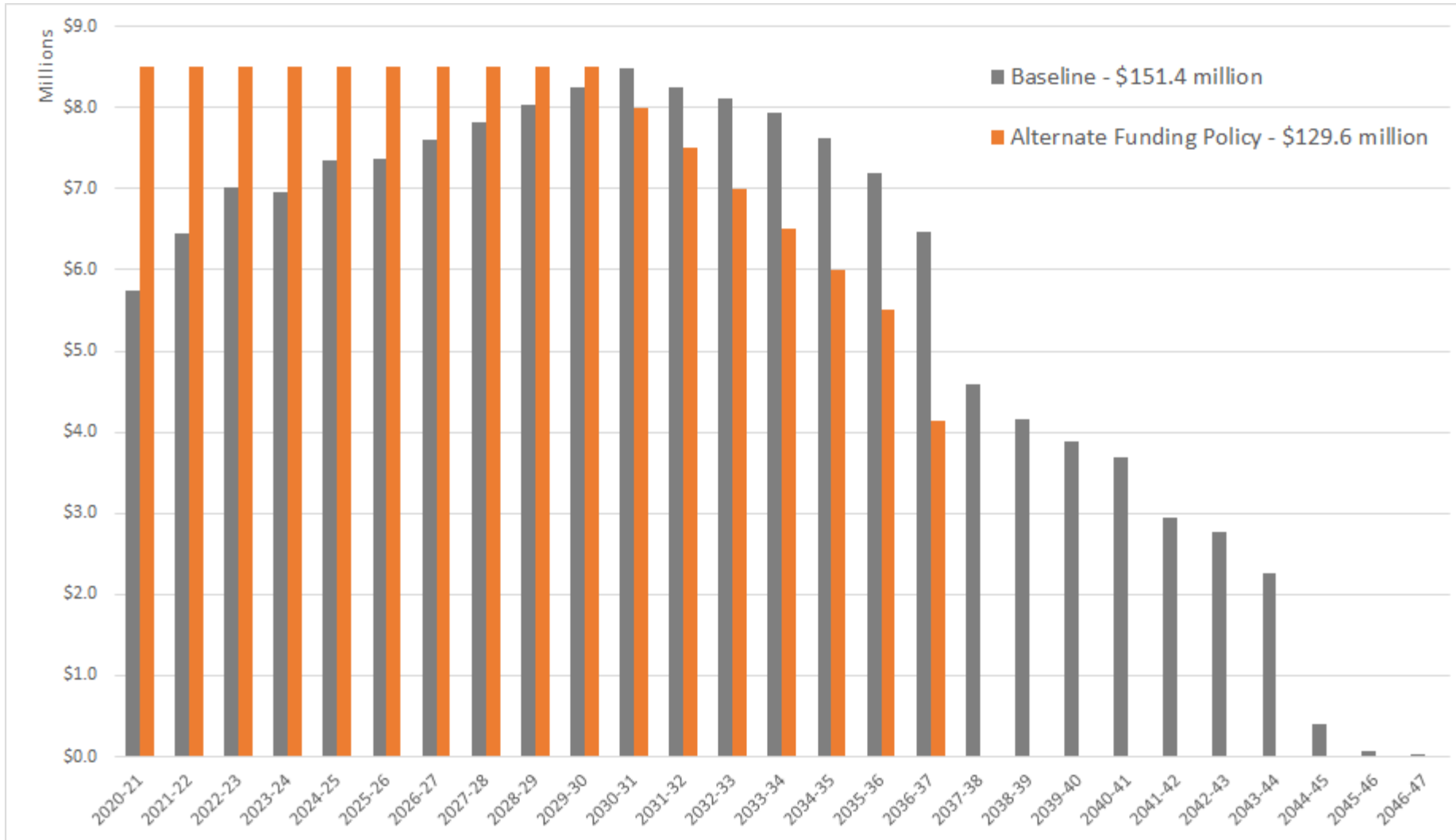
# Combined Yuba City Projected UAL Payments



# Alternate Yuba City Projected UAL Balance



# Alternate Yuba City Projected UAL Payments



# Alternate Funding Policies

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- ADPs allow maximum flexibility
- Agency can budget for any payment structure
  - Level annual payments
  - Gradually increasing payments
  - Gradually decreasing payments
- Agency can target full funding date

# Advantages to Establishing a Funding Policy

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- Provides assurance that benefits will be funded equitably and sustainably
- Handles UAL paydown in a systematic way
- Allows agency to budget contributions years in advance
- Actuarial experience or assumption changes less likely to trigger contribution increases
- Significant savings are possible