CalPERS Background

- **1,439** School Districts
- **1 State of California**
- **1,581** Public Agencies
- **3,021** Total Employers in Retirement Program
- **1.85 Million** Members
- **650,000** Receiving Monthly Pension Benefit

Source: June 30, 2016 Comprehensive Annual Financial Report

* Retirees and beneficiaries and survivors
What We’re Focused On

Risk  Costs  Complexity
Our Priorities

• Customer Satisfaction Driven
• Team Member Engagement
• Efficient and Effective Organization
• Reliable Partner
• Best Practice Leader
CalPERS Funded Status

65%
Pensions are a Shared Responsibility

Employer

CalPERS

Employees

Pension
The CalPERS Pension Buck

Source: CalPERS income over the last 20 years as of June 2016.
ALM Framework

Asset Liability Management (ALM)

Plan Demographics
- Actuarial Assumptions
- Actuarial Reports

Benefit Structure
- Funding & Risk Mitigation Policy
- Actuarial Policies: Smoothing/Amortization

Market Conditions
- Investment Allocation
- Treasury Management

Pension Beliefs

CalPERS: Ensuring Long-Term Sustainability
Factors Driving Funding Risk

Plan Demographics

- Asset and liability ratios
- Plans are maturing
- Public employees are living longer
- Increased cash outflows

Market Conditions

- Current portfolio and market environment includes significant risk of volatility
- Market valuations and return expectations
Historical & Projected PERF Contributions & Investments for Benefit Payments

- Current Contribution
- Add'l Contribution at 7% Disc Rate
- Investments Used
Terminated Agency Pool

- **Secure (immunize)** the benefits for members of agencies which have terminated their CalPERS contract

- **Prudently manage** the short and long term benefit payment and investment risks associated with terminated plan liabilities

- **Accurately track** and account for terminated agencies and their members
## TAP Facts at a Glance

As of June 30, 2015:

<table>
<thead>
<tr>
<th>Number of Agencies</th>
<th>93</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Membership</td>
<td>1,051</td>
</tr>
<tr>
<td>• Retirees</td>
<td>716</td>
</tr>
<tr>
<td>• Average Monthly Pension</td>
<td>$573</td>
</tr>
</tbody>
</table>

Comparison of Current & Prior Year Financial results:

<table>
<thead>
<tr>
<th>$ Millions</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>MV Assets</td>
<td>$219.7</td>
<td>$215.4</td>
</tr>
<tr>
<td>Liabilities</td>
<td>$88.5</td>
<td>$82.3</td>
</tr>
<tr>
<td>Unfunded Accrued Liability</td>
<td>$(131.2)</td>
<td>$(133.1)</td>
</tr>
<tr>
<td>Funded Ratio</td>
<td>248.3%</td>
<td>261.9%</td>
</tr>
</tbody>
</table>
TAP Facts at a Glance: Risks

• Small plan size is highly sensitive to change

• Any additional agency that enters the TAP will lower the funded status of the plan even if it is fully funded

• The funded status is largely a result of the last 3 decades of unprecedented performance of long duration bonds; going forward the market return outlook for U.S. Government Securities is low
TAP Facts at a Glance: Risks

• Final compensation for 8% of TAP members not frozen and other variables, such as mortality, exist; potential increase in future liabilities

• Significant changes jeopardize retirement security of TAP members, erode surplus

• CalPERS has no future recourse to agencies in the TAP after termination
Monitoring Employer Financial Health

• Strengthened and streamlined the collection and termination process, including member notification.

• Adopted a risk oversight process to improve monitoring and reduce risk to members.

• Developed tools to identify risks using a standardized review criteria.

• Improved oversight of agencies with all inactive plans to reduce risk.
Public Agency Demographics

1,521—Total Public Agencies in Retirement Program

<table>
<thead>
<tr>
<th>Agency Type</th>
<th># of Agencies</th>
<th>% of Total Agencies</th>
<th>Total Participants 2</th>
<th>% of Total Participants</th>
<th>Current UAL 4 &amp; Funded % @ 7.5% ($ in Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cities or Towns</td>
<td>449</td>
<td>30%</td>
<td>371,032</td>
<td>52%</td>
<td>$28,071 73%</td>
</tr>
<tr>
<td>Counties</td>
<td>39</td>
<td>3%</td>
<td>195,191</td>
<td>27%</td>
<td>$10,051 75%</td>
</tr>
<tr>
<td>Special Districts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>● JPAs</td>
<td>170</td>
<td>11%</td>
<td>23,878</td>
<td>3%</td>
<td>$641 80%</td>
</tr>
<tr>
<td>● Non-Profits</td>
<td>63</td>
<td>4%</td>
<td>15,057</td>
<td>2%</td>
<td>$218 85%</td>
</tr>
<tr>
<td>● Others 3</td>
<td>800</td>
<td>52%</td>
<td>114,537</td>
<td>16%</td>
<td>$6,582 77%</td>
</tr>
<tr>
<td>Total</td>
<td>1,521</td>
<td>100%</td>
<td>719,695</td>
<td>100%</td>
<td>$45,563 74.38%</td>
</tr>
</tbody>
</table>

1Data Source: June 30, 2015 Annual Valuation Reports
2Includes members who have service in more than one rate plan.
3Represents special districts in California who formed and are governed under a specific California government Code
4UAL: Unfunded Accrued Liability
All Public Agency Funded Status

<table>
<thead>
<tr>
<th>Agency Type</th>
<th>Funding Status at 7.5%</th>
<th>Funding Status at 2%</th>
</tr>
</thead>
<tbody>
<tr>
<td>City or Town</td>
<td>73%</td>
<td>36%</td>
</tr>
<tr>
<td>County</td>
<td>75%</td>
<td>37%</td>
</tr>
<tr>
<td>JPA</td>
<td>80%</td>
<td>40%</td>
</tr>
<tr>
<td>Non-Profits</td>
<td>85%</td>
<td>43%</td>
</tr>
<tr>
<td>Other Special Districts</td>
<td>77%</td>
<td>39%</td>
</tr>
</tbody>
</table>
Risk Oversight

Assessment and Monitoring

In-depth Review

Employer Engagement
Risk Prioritization

Risk Detection

**Tier 1**
Requires immediate attention and has significant impact

**Tier 2**
May lead to more serious impact

**Tier 3**
May require greater controls and oversights
Risk Management

- Employer Education
- Oversight & Early Detection
- Policies & Procedures
## Inactive Agency Demographics

### 59—Inactive Public Agencies in Retirement Program

<table>
<thead>
<tr>
<th>Agency Type</th>
<th># of Agencies</th>
<th>% of Total Agencies</th>
<th>Total Participants</th>
<th>% of Total Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cities or Towns</td>
<td>0</td>
<td>0%</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Counties</td>
<td>1</td>
<td>2%</td>
<td>348</td>
<td>18%</td>
</tr>
<tr>
<td><strong>Special Districts</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>● JPAs</td>
<td>13</td>
<td>22%</td>
<td>684</td>
<td>36%</td>
</tr>
<tr>
<td>● Non-Pros</td>
<td>10</td>
<td>17%</td>
<td>271</td>
<td>14%</td>
</tr>
<tr>
<td>● Others(^2)</td>
<td>35</td>
<td>59%</td>
<td>595</td>
<td>32%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>59</strong></td>
<td><strong>100%</strong></td>
<td><strong>1,898</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

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\(^1\)Data Source: 2016 valuation report dataset; Total participants represent the actual participants in each rate plan.

\(^2\)Represents special districts in California who formed and are governed under a specific California government Code.
## Inactive Agency Unfunded Accrued Liability

59—Inactive Agencies in Retirement Program

<table>
<thead>
<tr>
<th>Agency Type</th>
<th># of Agencies</th>
<th>Current UAL &amp; Funded % @ 7.5% ($ in Millions)</th>
<th>Termination UAL &amp; Funded % @ 2.0% ($ in Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cities or Towns</td>
<td>0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Counties</td>
<td>1</td>
<td>$10</td>
<td>$40</td>
</tr>
<tr>
<td><strong>Special Districts</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>● JPAs</td>
<td>13</td>
<td>$45</td>
<td>$236</td>
</tr>
<tr>
<td>● Non-Profits</td>
<td>10</td>
<td>$3</td>
<td>$27</td>
</tr>
<tr>
<td>● Others(^2)</td>
<td>35</td>
<td>$23</td>
<td>$153</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>59</strong></td>
<td><strong>$81</strong></td>
<td><strong>$456</strong></td>
</tr>
</tbody>
</table>

\(^1\)Data Source: 2016 valuation report dataset

\(^2\)Represents special districts in California who formed and are governed under a specific California government Code.
Day 1
Monthly Billing of Payroll

Day 31
Account Delinquent

Day 36
Collection Call Received

Day 40–60
Agency Elevated

Day 50
Review

Review to determine if audit needed

Month 2
Final Collection Letter

Month 3
Final Demand Letter

Month 4
Prepare for Board Review

Prepare Bonds agenda item for Board review

Month 5
Board Review

Month 7–9
Assets Moved to Terminated Agency Pool

Review for approval to terminate/reduce benefits based on non payment

Account considered delinquent if payment not received

myCalPERS system generates late notice to employer

10 days notice for payment; members receive notification

30 days to pay; members notified of status and risk of benefit reduction

Immediate benefit reductions
2018 Legislative Strategies

- **Establish timeframes** from employer’s intent to finalizing voluntary terminations and require employers to notify past and present employees of their intention to terminate.

- **Require new contracting** JPA member agencies to be joint and severally liable for the JPA’s pension obligations and allow the Board to refuse to contract with a JPA whose members are not liable.