



Finance and Administration Committee

Agenda Item 5g

April 15, 2024

Item Name: Funding Risk Mitigation Policy

Program: Financial Office

Item Type: Action

Recommendation

Approve the revised Funding Risk Mitigation Policy.

Executive Summary

The Finance and Administration Committee (FAC) directed the team to make the following edits to the policy during the February 2024 meeting:

1. Remove the automatic change to the discount rate.
2. Add a triggered board discussion if we exceed our assumed rate of return by two percent.

Strategic Plan

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

Background

In 2015, CalPERS adopted the policy to help balance pension plan risks, funding, and costs. The policy embraces pension fund prudence by lowering the expected investment return and the discount rate in years of unanticipated market strength, reduces investment volatility and provides additional certainty when it comes to employer contribution rates.

During the February 2024 FAC meeting, the committee gave direction to remove the automatic change to the discount rate and add a triggered board discussion in years we exceed our assumed rate of turn by two percent.

Analysis

The automatic mechanism to lower the discount rate in years that exceed the assumed rate of return by two percent was removed from the policy. As a result of this change, the procedural steps in the policy were revised to align with bringing an agenda item to the board if there is a funding risk mitigation event. In addition, the policy was updated to the new template and minor grammatical edits were made.

Budget and Fiscal Impacts

Not Applicable.

Benefits and Risks

The proposed policy edits align with direction received from the committee, there are no anticipated risks.

Attachments

Attachment 1 – Current Funding Risk Mitigation Policy

Attachment 2 – Revised Funding Risk Mitigation Policy (redlined view)

Attachment 3 – Revised Funding Risk Mitigation Policy (clean view)

Attachment 4 – Funding Risk Mitigation PowerPoint Presentation

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