Overview:
Supplemental Pension Payment

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Background

- The California Public Employees' Retirement System (CalPERS) manages the retirement benefits of more than 1.8 million members, including almost 600,000 state members

- Retirement benefits of CalPERS members, including state employees, are funded by

  1. Employee contributions

  2. Employer Contributions

  3. Investment returns earned by those contributions

Background (Continued)

- State employees belong to one of the five CalPERS state retirement plans

- The state makes an annual contribution to these plans, towards the retirement benefits of its employees

- The amount is actuarially calculated to determine how much the state needs to contribute to secure state employees’ retirement benefits

Current State of CalPERS' State Plans

- As of June 30, 2016, the five CalPERS state retirement plans have an aggregate funded status of 65.1%, and an aggregate unfunded liability of $59.5 billion

- CalPERS recently decided to lower its expected rate of future investment returns (discount rate) from 7.5 to 7%, which increased unfunded liabilities

- This increased the actuarially-required state contribution to $5.3 billion in fiscal year (FY) 2017-18

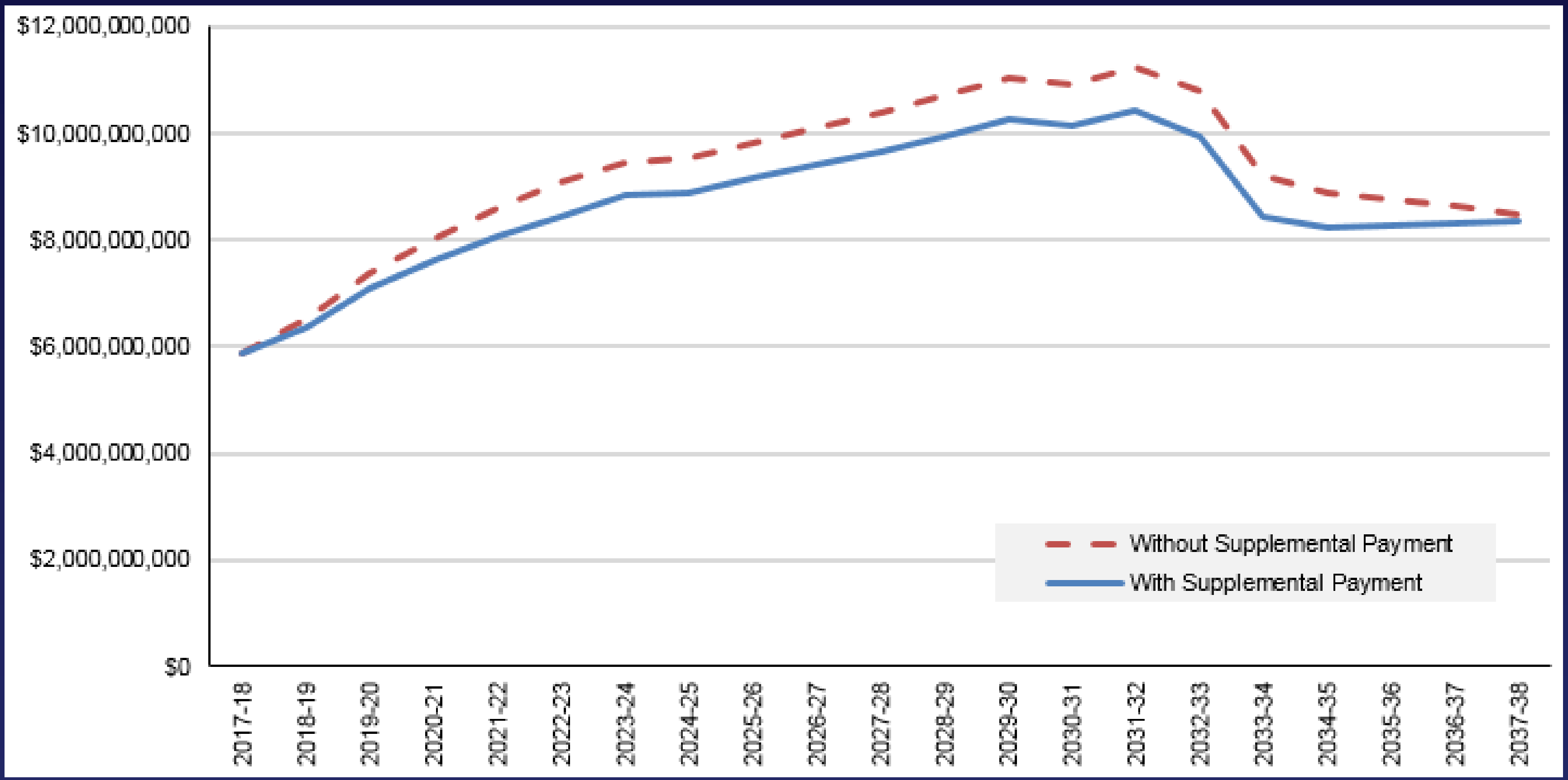
Supplemental Pension Payment

- The payment is a one-time, $6 billion payment to CalPERS, in addition to the actuarially-determined annual state contribution
- Without payment, state contributions are estimated to reach $9.7 billion in FY 2023-24
- Partially buys down the impact of the discount rate reduction
- Will be funded through an internal cash loan from a pooled fund that houses the state's surplus cash for short periods, and earns a low rate of return (currently about 1%)

Estimated Impact

- $11 billion in savings over the next 20 years
- Estimated savings account for the decrease in future state contributions ($12 billion), and the interest owed on the loan funding the payment ($1 billion)
- Estimated savings based on CalPERS' actuarial assumptions, including the 7% discount rate
- For reference, the 20-year average return for CalPERS is 7.03% as of June 30, 2016

Projected State Contributions



Internal Cash Loan

- **State is in a healthy cash position to execute the loan**
- **The cash loan takes advantage of the large cash cushion the state has grown through the implementation of significant ongoing spending reductions and structurally balanced budgets**
- **FY 2017-18 is projected to end with $33 billion in unused cash, after making the $6 billion loan**

Loan Repayment

- All state funds normally responsible for retirement contributions must pay back the loan by 2030
- The General Fund’s portion of the loan will be repaid using available debt repayment funds
- These debt repayment funds have been made available through the passage of Proposition 2

Loan Repayment (Continued)

- Proposition 2 was an initiative passed by voters in 2014
- Requires a small percent of specified revenues to be set aside by the state to build a rainy day fund, and to pay down qualified debt payments
- Qualifying payments include budgetary borrowing, pensions, and retiree health benefits
- The supplemental pension payment meets the eligibility requirements for Proposition 2 debt repayment funding

Rating Agency Feedback

- Credit rating agencies have viewed the payment positively because it reduces long-term unfunded pension liabilities at a faster rate
- In June 2017 report, Moody's referred to the payment as a "credit positive development"
- Fitch viewed "California as being well positioned to realize the plan's goals" and added that the payment "poses relatively little risk to overall state liquidity"