PERS Update

Association of Chief Business Officials of California Community Colleges (ACBO)

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Outline

- How is Calpers handling the current crisis
- Current situation
- Timing of rate impact on Schools pool
- Current handling of potential losses
- Proposed handling of potential losses
- Summary

How is CalPERS Handling the Current Crisis?

- CalPERS is aware of the fiscal pressures.
- Developed Methods which will mitigate short-term rate impact.
- Maintain long-term fund integrity.

How is CalPERS Handling the Current Crisis?

- Investment side
  - Maintaining a diversified long term strategy
- Liability and Rate setting side (Actuarial)
  - Looking at revising corridors and smoothing to mitigate rate impact.
  - Stress testing strategies for long term funded ratio reliability.
  - Should know by July on which direction we will take.

Current Market Situation

- CalPERS Return for July 2008 to April 2009
  - Negative 25%

	Hypothetical Investment Return for 2008-2009					
	-30% Return	**-25% Return**	**-20% Return**			
Estimated Increase in Fiscal Year 2010/2011	Increase of about 5% to 6% of Payroll	Increase of about 3.5% to 4.5% of Payroll	Increase of about 2% to 3% of Payroll			

Timing

- Returns in Fiscal 2008/2009 are important for rate setting
- Valuation as of June 30, 2009 is sent to CalPERS Board in May 2010
- Sets State and Schools Employer Rates for fiscal 2010/2011

Schools Pool Example

- Pool's Market Value of Assets = $45.5 billion

- Payroll = $10.4 billion

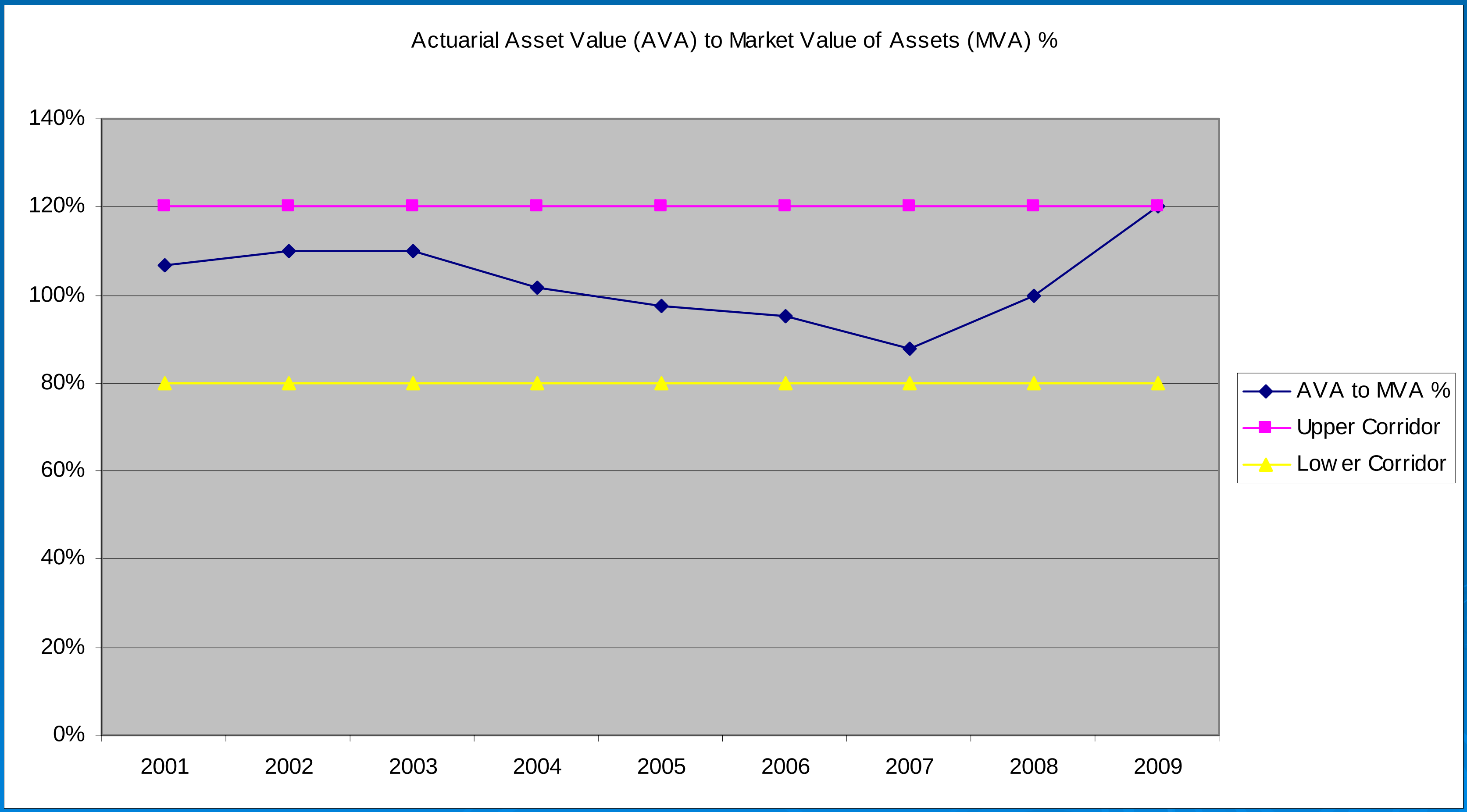
- MVA / Payroll about = 4.5

- If return for 2008/2009 turns out to be -25% then expect an increase of about **4%** of payroll.

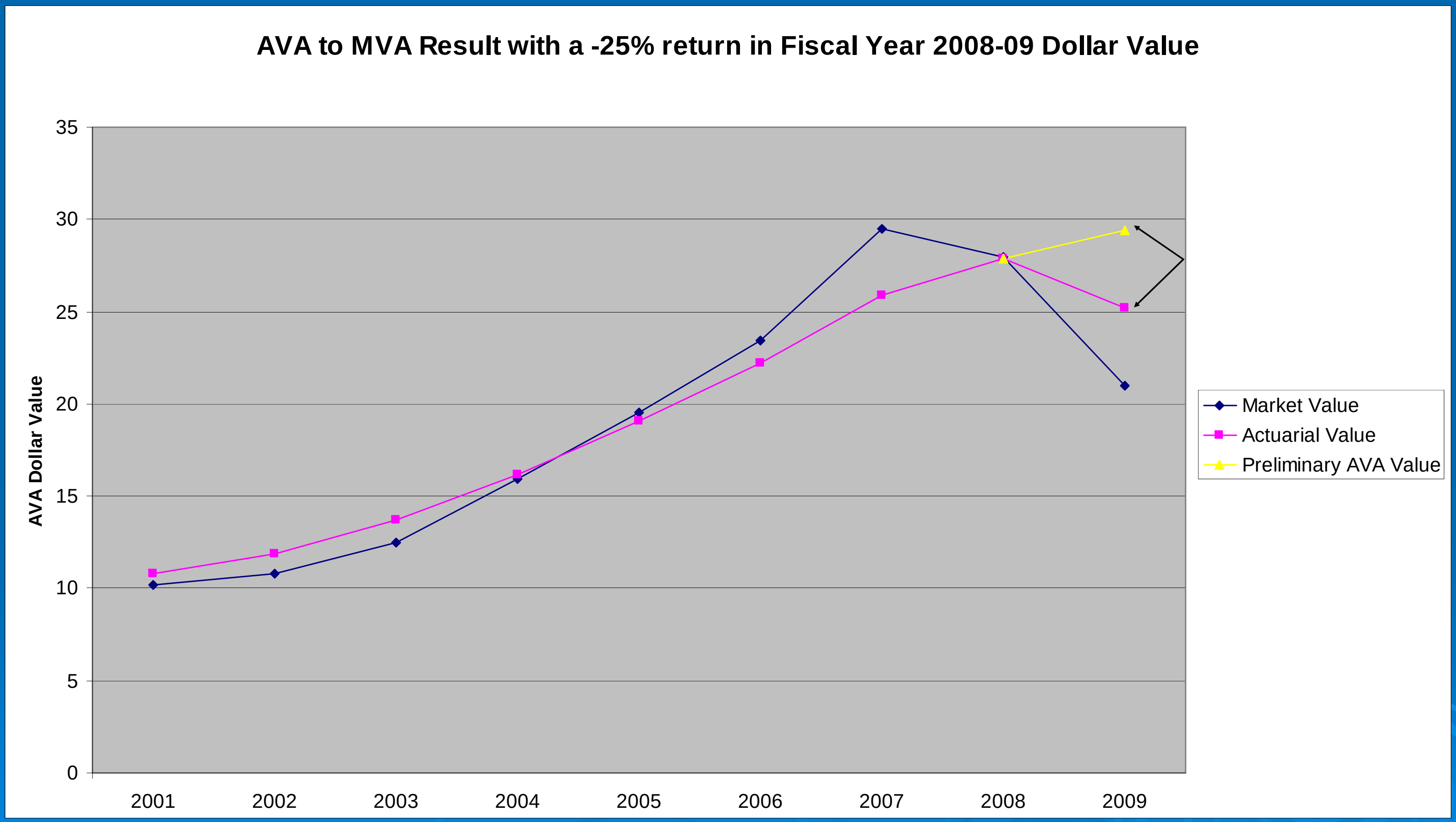
Why does the rate jump when we have smoothing?

- Yes we have smoothing, but the losses are so large that the smoothed AVA (Actuarial Value of Assets) lands out side the 120% corridor.
- With **<u>current Board Policies</u>** we can't smooth outside the corridor. So we force the AVA to be 120% of MVA (Market value of Assets).

Key Statistic: AVA to MVA Ratio



Amount of Payoff Amortized Immediately (No Smoothing outside the Corridor) Pink to Yellow Points



Proposed Approach on Handling Losses

- Assume this is an unique event so move Corridors temporarily

- Increase Corridor to 140% on June 30, 2009, to 130% in 2010 and 120% in 2011

- Effect is to delay the recognition of the 2008-2009 investment losses in hope of a market rebound.

Proposed Approach on Handling Losses (cont.)

- If we get a +30% in the following year then your rates will remain stable.

- If no economic rebound then rate increases delayed two years.

Summary under Current Methods

- Your 2009/2010 rates have been set at 9.709%
- Your 2010/2011 rates WILL be affected by current market conditions.
- We estimate a rate of 12.5% at a -20% return
- A 15% rate at a -30% return. Expect these rates for the foreseeable future.

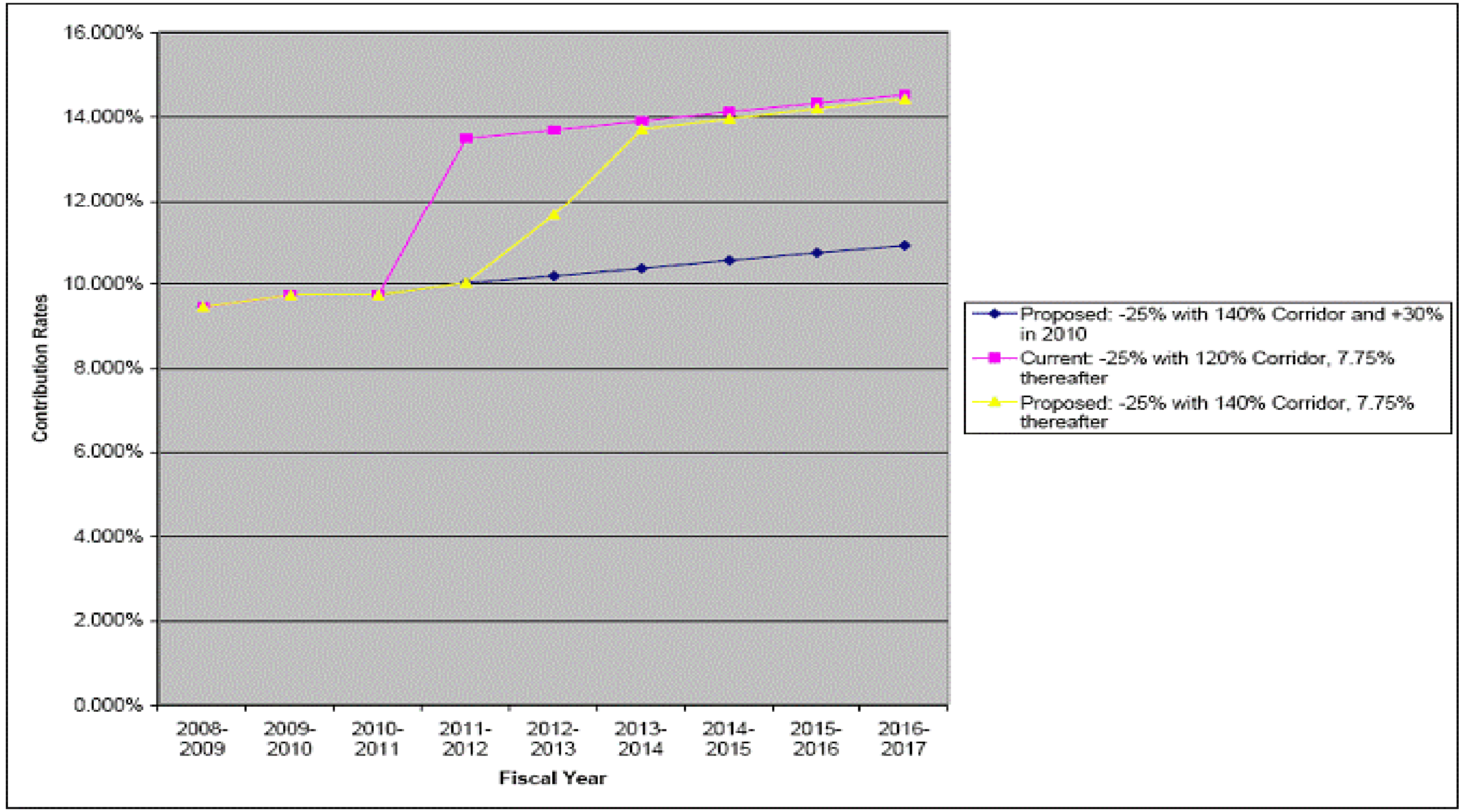
Summary under Proposed Methods

- Your 2010/2011 rate will be affected mildly by current market conditions.

- Our estimate is about 10.5% at a -20% return to 12% at a -30% return.

- Expect the long-term rates to follow the Current method rates if the markets don't recover quickly.

Rate Comparison Current Versus Proposed Smoothing Methods



Questions