



**DATE:** September 21, 2022

**TO:** Council Budget and Finance Committee

**FROM:** Director of Finance

**SUBJECT:** CalPERS Update

### **RECOMMENDATION**

That the Committee receives the report on the CalPERS Update.

### **SUMMARY**

This report provides an overview of CalPERS preliminary investment return for Fiscal Year 2021-2022.

### **BACKGROUND**

The City of Hayward offers its employees and retirees a defined pension benefit plan that is managed and administered by the California Pensions Retirement System (CalPERS), a State of California Pension program. For each of the City's plans (Police, Fire, & Miscellaneous), CalPERS provides an annual actuarial valuation report detailing the latest status of the City of Hayward Pension plans for employees and retirees. These actuarial reports are used to calculate the annual required contribution to the pension obligations. In addition, updates on the rate of investment return, funding status, and changes based on various impacts are detailed in the report.

In October 2021<sup>1</sup>, staff presented the Committee with an overview of the June 30, 2020, CalPERS Actuarial Valuation Report, including financial scenarios based on the potential changes to the 7.0 percent discount rate, which was triggered based on unprecedented returns on investments in fiscal year 2020-2021. The scenarios presented included financial impacts based on a potential change in discount rate ranging between 6.8 percent and 6.375 percent. At the time of that report, the CalPERS' Board of Directors had not formally approved the change in discount rate. In November 2021, the CalPERS Board of Directors approved a change in discount rate from 7.0 percent to 6.8 percent.

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<sup>1</sup> CBFC Meeting on 10/20/21, [CITY OF HAYWARD - File #: RPT 21-117 \(legistar.com\)](#)

Updated CalPERS Actuarial Valuation Reports for each plan through June 30, 2021 have not yet been released by CalPERS. It is anticipated that the valuation reports will be published and made available within the next several weeks. Staff will provide the Committee with an overview based on the most recent CalPERS Actuarial Valuation reports at a future Council Budget and Finance Committee meeting.

## **DISCUSSION**

Each year, CalPERS announces its investment returns for the fiscal year. In July 2021, CalPERS announced that their investment return for fiscal year 2020-21 was 21.3 percent. This unprecedented investment return triggered the Funding Risk Mitigation policy, which states the discount rate may be adjusted in times when investment during the fiscal year exceeds the current target rate of return by two or more percent. In November 2021, the CalPERS Board of Directors (Board) approved the change in discount rate from 7.0 percent to 6.8 percent.

The City continues to monitor CalPERS investment returns each fiscal year to evaluate the impact on the City and each of its retirement plans. In July 2022, CalPERS announced a preliminary -6.1 percent net return on investment for the 12-month period ending on June 30, 2022. This is a vast shift compared to the fiscal year 2020-2021, where CalPERS announced a historic high of 21.3 percent investment returns. This is CalPERS' first loss reported for its investment returns since the Great Recession in 2009.

The negative return, combined with the change in the discount rate to 6.8 percent, led to a roughly 9 percent drop in the pensions' funded estimated overall funded status, which is 72 percent. The combination of the negative return coupled with the change in the discount rate are expected to result in higher employer contributions in future years.

In the next several weeks, CalPERS is expected to release Actuarial Valuation Reports through June 30, 2021 for all three plans, which will include the updated discount rate of 6.8 percent. Staff will return to the Committee at a future date with an update on long-term fiscal implication of the change in discount rate coupled with the recent CalPERS investment returns for fiscal year 2021-2022.

## **ECONOMIC IMPACT**

This is an informational item and has no direct economic impact.

## **FISCAL IMPACT**

While the rising costs of funding associated with the City's pension plans is a challenging piece of the operating budget, the conveyance of the information included in this report has no fiscal impact.

## **NEXT STEPS**

Staff will return to the Committee at a future date with an update on long-term fiscal implication of the change in discount rate coupled with the recent CalPERS investment returns for fiscal year 2021-2022.

*Prepared by:* Nicole Gonzales, Deputy Director of Finance

*Reviewed by:* Dustin Claussen, Director of Finance

Approved by:

A handwritten signature in black ink, appearing to read 'Kelly McAdoo', with a long horizontal stroke extending to the right.

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Kelly McAdoo, City Manager