CalPERS Board Approves Significant Lowering of Discount Rate
Increased Employer and Employee Contributions Coming

The CalPERS board of directors recently approved a plan to lower its discount rate (the expected rate of return on portfolio investments) from the current 7.5 percent to 7 percent over the next three years with corresponding incremental increases in employer/employee payments over an eight-year smoothing period. These changes will take effect fiscal year 2018-19 for local agencies.

Negotiated between representatives from CalPERS, labor and Gov. Jerry Brown's Administration, the approved plan differs from the original CalPERS recommendation that would have lowered the discount rate immediately to 7 percent.

Lowering the discount rate will mean higher contributions from city employers and employees. This is not easy for any CalPERS participating agency, however, stabilizing the fund ensures that the defined benefit promised to employees will be fulfilled. Standing League policy supports prudent policies to address the shortfall that recognize the impacts on local government. City officials are seeking a balance that brings stability to the pension fund while reducing spikes in employer contributions.

The graphics below illustrate the rate break down and phase in overtime model adopted by the CalPERS Board. CalPERS staff is working on a formula that will be shared with agencies to help calculate their increased contributions rates.

Discount Phase in Timeline

Fiscal Year	Fractions of Rates
18-19	1/5 of 7.375
19-20	2/5 of 7.375 and 1/5 of 7.25
20-21	3/5 of 7.375, 2/5 of 7.25, 1/5 of 7.00
21-22	4/5 of 7.375, 3/5 of 7.25, 2/5 of 7.00
22-23	**Full impact of 7.375, 4/5 Impact of 7.25, 3/5 impact of 7.00**
23-24	**Full Impact of 7.375, Full Impact of 7.25, 4/5 Impact of 7.00**
24-25	**Full impact of 7.375, full impact of 7.25, Full Impact 7.00**

Rates By Year Breakdown

Rate	Phase In	Fiscal Year
7.375	1/5	18-19
	2/5	19-20
	3/5	20-21
	4/5	21-22
7.375	**Full Impact of 7.35%**	**22-23**
Rate	**Phase In**	**Fiscal Year**
7.250	1/5	19-20
	2/5	20-21
	3/5	21-22
	4/5	22-23
7.250	**Full Impact of 7.25%**	**23-24**
Rate	**Phase In**	**Fiscal Year**
7.000	1/5	20-21
	2/5	21-22
	3/5	22-23
	4/5	23-24
7.000	**Full Impact of 7.00%**	**24-25**