Several factors have contributed to unsustainable of the CalPERS system. While such factors should be acknowledged, it remains far more important that all stakeholders work collaboratively to craft a path forward to ensure a sustainable public pension system that also recognizes the public's need for reliable and adequate services. Based on the League of California Cities® Retirement Sustainability Study Findings, anecdotal evidence, and in consultation with Bartel Associates, the League has identified five primary factors.

1. **Enhanced Benefits:** The most prominent source of the pension system’s cost escalation began with enhanced pension benefits granted by state and local government employers following the passage of SB 400 and AB 616 in 1999 and 2000. Cities throughout California followed the state’s lead in providing enhanced benefits and, when negotiated, statute required those enhanced benefits apply to both prior and future service. These enhanced benefits have caused a ripple effect that have fundamentally altered the way in which local agencies can retain employees and provide basic and critical services to the public.

2. **Investment Losses:** Fallout from the Great Recession played a pivotal role in CalPERS’ lackluster investment returns. In 2008, CalPERS suffered a negative 27 percent return on investment — factoring in the 2008 discount rate (7.75 percent) results in a gross 34.75 percent impact to the fund. Moreover, CalPERS’ outside investment advisors expect returns over the next decade will also be below anticipated returns. CalPERS projects that the projected market rate assumptions will yield a 6.1 percent return for the fund over the next decade. While it is widely known that CalPERS determines its discount rate, using a 60-year blended return to calculate its discount rate — 6.1 percent is well below the 7 percent assumption. Under the current statutory paradigm, public employers will assume the liability associated with this shortfall.

3. **Cost of Living Adjustments:** Automatic Cost of living adjustments (COLA) have continued to hamper CalPERS’ ability to compound investment earnings, hampering growth. A Sept. 27, 2017 Sacramento Bee article states “CalPERS in the past has looked at how suspending COLA’s would affect the pension fund. Freezing them would improve pension plans for public safety employees by up to 18 percent and for other employees by up to 15 percent, according to CalPERS.” This potentially significant gain in funded status should not be overlooked.

4. **CalPERS Contribution Policy:** CalPERS contribution policy, most notably after the Great Recession, did not require agencies pay interest on accrued unfunded liability. While this shift in policy was an attempt to ease the burden on employers, the policy resulted in pushing unfunded liability payments to future taxpayers.

5. **Demographics:** The liability for retirees at most cities significantly exceeds that of actives. This creates more volatility and led to having a much bigger impact funded status (and ultimately contributions) than any prior downturn.