

**STATE OF CALIFORNIA
DEPARTMENT OF HUMAN RESOURCES
SAVINGS PLUS PROGRAM**

**FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT
YEARS ENDED DECEMBER 31, 2018 AND 2017**

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SAVINGS PLUS PROGRAM
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INDEPENDENT AUDITORS' REPORT

Ms. Eraina Ortega, Director
State of California, Department of Human Resources Savings Plus Program
Sacramento, California

Report on the Financial Statements

We have audited the accompanying combined financial statements of fiduciary net position and changes in fiduciary net position of the State of California, Department of Human Resources Savings Plus Program (the Plan), which comprise a 457(b) Plan, a 401(k) Plan, a Part-time, Seasonal, and Temporary Employees Retirement Program ("PST Program"), and an Alternate Retirement Program ("ARP"), as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the accompanying table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Plan as of December 31, 2018 and 2017, and the respective changes in its fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2019, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Plan's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Baltimore, Maryland
May 21, 2019

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES
SAVINGS PLUS PROGRAM
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018 AND 2017**

This section presents management's discussion and analysis of the State of California, Department of Human Resources (CalHR) Savings Plus Program's ("Savings Plus") financial performance for the years ended December 31, 2018 and 2017 and 2016.

Savings Plus administers a deferred compensation plan ("457(b) Plan") established in 1974 under Section 457(b) of the Internal Revenue Code (IRC); a tax-deferred thrift plan ("401(k) Plan") established in 1985 and implemented in 1989 under Section 401(k) of the IRC; a Part-time, Seasonal, and Temporary Employees Retirement Program ("PST Program") established in 1991 under Section 457(b) of the IRC; and an Alternate Retirement Program ("ARP") established in 2004 under Section 401(a) of the IRC. CalHR's authority to establish these plans is found in the *California Government Code* sections 19993, 19999.5, 19999.2, and 19999.3, respectively. The 457(b) Plan and the 401(k) Plan together are referred to as the "Main Plan." The four plans together are referred to as the "Plan" or "Savings Plus" for the sake of this document.

USING THE FINANCIAL REPORT

This discussion and analysis is intended to serve as an introduction to the Plan's basic financial statements, which comprise the following three components: (1) Combined Statement of Fiduciary Net Position, (2) Combined Statement of Changes in Fiduciary Net Position, and (3) Notes to Combined Financial Statements. Collectively, this information presents the fiduciary net position held in trust for participants.

The Combined Statement of Fiduciary Net Position reports Savings Plus' assets, liabilities, and resultant fiduciary net position where $\text{Assets} - \text{Liabilities} = \text{Fiduciary Net Position}$. The assets are held in a trust for the benefit of participants at Savings Plus' year-end, December 31. It can be thought of as a snapshot of the financial position of the Plan at that specific point in time.

The Combined Statement of Changes in Fiduciary Net Position reports Savings Plus' transactions that occurred during the plan year where $\text{Additions} - \text{Deductions} = \text{Net Change in Fiduciary Net Position}$. It is a record of the activity that occurred during the year and explains the changes that have occurred since the prior year's fiduciary net position on the Combined Statement of Fiduciary Net Position.

Although the 457(b) Plan and the 401(k) Plan are separate, distinct retirement savings plans, they are generally and collectively referred to as the "Main Plan." Main Plan investment options ("Core" investments) consist of eleven (11) Target Date Funds, five (5) passively managed funds (index funds), four (4) actively managed equity funds, one (1) actively managed socially responsible fund, one (1) actively managed diversified real return fund, one (1) actively managed bond fund, one (1) short-term investment fund (STIF), and one (1) STIF–Cash fund. In addition to the Core investments, Savings Plus offers a self-directed brokerage account (SDBA). The PST Program and ARP invest assets in the above-noted STIF option. Savings Plus utilizes a combination of separately managed investment accounts, collective investment trusts, Federal Deposit Insurance Corporation (FDIC), and mutual funds.

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CONDENSED SUMMARY FINANCIAL STATEMENTS

The following tables present a condensed summary of the fiduciary net position and changes in fiduciary net position for the year ended December 31, 2018 (in thousands):

Combined Statement of Fiduciary Net Position

	457(b) Plan	401(k) Plan	PST	ARP	Total
ASSETS					
Total Investments	\$ 6,439,108	\$ 6,508,644	\$ 94,144	\$ 3,552	\$ 13,045,448
Total Receivables	139,109	123,676	1,198	-	263,983
Total Assets	<u>6,578,217</u>	<u>6,632,320</u>	<u>95,342</u>	<u>3,552</u>	<u>13,309,431</u>
FIDUCIARY NET POSITION HELD IN TRUST					
Total Fiduciary Net Position Held in Trust	<u>\$ 6,578,217</u>	<u>\$ 6,632,320</u>	<u>\$ 95,342</u>	<u>\$ 3,552</u>	<u>\$ 13,309,431</u>

Combined Statement of Changes in Fiduciary Net Position

	457(b) Plan	401(k) Plan	PST	ARP	Total
ADDITIONS					
Total Contributions	\$ 623,478	\$ 570,374	\$ 25,988	\$ (271)	\$ 1,219,569
Net Investment Income (Loss)	(328,129)	(359,088)	1,318	54	(685,845)
Total Additions	<u>295,349</u>	<u>211,286</u>	<u>27,306</u>	<u>(217)</u>	<u>533,724</u>
DEDUCTIONS					
Total Withdrawals	525,396	455,016	22,734	2,015	1,005,161
Administrative Expenses	4,373	3,447	5	13	7,838
Total Deductions	<u>529,769</u>	<u>458,463</u>	<u>22,739</u>	<u>2,028</u>	<u>1,012,999</u>
CHANGE IN FIDUCIARY NET POSITION	<u>\$ (234,420)</u>	<u>\$ (247,177)</u>	<u>\$ 4,567</u>	<u>\$ (2,245)</u>	<u>\$ (479,275)</u>

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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CONDENSED SUMMARY FINANCIAL STATEMENTS (CONTINUED)

The following tables present a condensed summary of the fiduciary net position and changes in fiduciary net position for the year ended December 31, 2017 (in thousands):

Combined Statement of Fiduciary Net Position

	<u>457(b) Plan</u>	<u>401(k) Plan</u>	<u>PST</u>	<u>ARP</u>	<u>Total</u>
ASSETS					
Total Investments	\$ 6,673,913	\$ 6,755,274	\$ 89,684	\$ 5,797	\$ 13,524,668
Total Receivables	138,724	124,223	1,091	-	264,038
Total Assets	<u>6,812,637</u>	<u>6,879,497</u>	<u>90,775</u>	<u>5,797</u>	<u>13,788,706</u>
FIDUCIARY NET POSITION HELD IN TRUST					
Total Fiduciary Net Position Held in Trust	<u>\$ 6,812,637</u>	<u>\$ 6,879,497</u>	<u>\$ 90,775</u>	<u>\$ 5,797</u>	<u>\$ 13,788,706</u>

Combined Statement of Changes in Fiduciary Net Position

	<u>457(b) Plan</u>	<u>401(k) Plan</u>	<u>PST</u>	<u>ARP</u>	<u>Total</u>
ADDITIONS					
Total Contributions	\$ 567,163	\$ 520,109	\$ 24,957	\$ 147	\$ 1,112,376
Net Investment Income	779,837	849,757	1,188	293	1,631,075
Total Additions	<u>1,347,000</u>	<u>1,369,866</u>	<u>26,145</u>	<u>440</u>	<u>2,743,451</u>
DEDUCTIONS					
Total Withdrawals	459,544	373,145	21,636	26,537	880,862
Administrative Expenses	3,905	3,138	4	26	7,073
Total Deductions	<u>463,449</u>	<u>376,283</u>	<u>21,640</u>	<u>26,563</u>	<u>887,935</u>
CHANGE IN FIDUCIARY NET POSITION	<u>\$ 883,551</u>	<u>\$ 993,583</u>	<u>\$ 4,505</u>	<u>\$ (26,123)</u>	<u>\$ 1,855,516</u>

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CONDENSED SUMMARY FINANCIAL STATEMENTS (CONTINUED)

The following tables present a condensed summary of the fiduciary net position and changes in fiduciary net position for the year ended December 31, 2016 (in thousands):

Combined Statement of Fiduciary Net Position

	457(b) Plan	401(k) Plan	PST	ARP	Total
ASSETS					
Total Investments	\$ 5,784,845	\$ 5,755,897	\$ 85,148	\$ 31,920	\$ 11,657,810
Total Receivables	144,241	130,017	1,122	-	275,380
Total Assets	<u>5,929,086</u>	<u>5,885,914</u>	<u>86,270</u>	<u>31,920</u>	<u>11,933,190</u>
FIDUCIARY NET POSITION HELD IN TRUST					
Total Fiduciary Net Position Held in Trust	<u>\$ 5,929,086</u>	<u>\$ 5,885,914</u>	<u>\$ 86,270</u>	<u>\$ 31,920</u>	<u>\$ 11,933,190</u>

Combined Statement of Changes in Fiduciary Net Position

	457(b) Plan	401(k) Plan	PST	ARP	Total
ADDITIONS					
Total Contributions	\$ 503,787	\$ 479,815	\$ 25,083	\$ (381)	\$ 1,008,304
Net Investment Income	393,331	419,901	1,421	974	815,627
Total Additions	<u>897,118</u>	<u>899,716</u>	<u>26,504</u>	<u>593</u>	<u>1,823,931</u>
DEDUCTIONS					
Total Withdrawals	426,819	356,887	22,585	29,930	836,221
Administrative Expenses	3,441	2,829	4	32	6,306
Total Deductions	<u>430,260</u>	<u>359,716</u>	<u>22,589</u>	<u>29,962</u>	<u>842,527</u>
CHANGE IN FIDUCIARY NET POSITION	<u>\$ 466,858</u>	<u>\$ 540,000</u>	<u>\$ 3,915</u>	<u>\$ (29,369)</u>	<u>\$ 981,404</u>

NOTES TO FINANCIAL STATEMENTS

The notes to the financial statements are an integral part of the financial statements and include additional information not readily evident in the statements themselves. Information in the financial statement notes is described below:

- Note 1 provides a general description of the Plan, as well as descriptions of staff support and administration, participant accounts, vesting, portfolio structure, participant loans, SDBA, administrative expenses, participant-directed fees, contributions, benefit payments, and in-service distributions.
- Note 2 summarizes the Plan's significant accounting policies.
- Note 3 describes the Plan's investment options including required disclosures and risks.
- Note 4 describes *Transfers In* and *Transfers Out* values.
- Note 5 describes the Plan's termination rights.
- Note 6 describes the Plan's tax status.
- Note 7 discloses reclassifications of certain amounts in the prior year's financial statements.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018 AND 2017**

FINANCIAL HIGHLIGHTS

457(b) Plan

The following financial highlights occurred during the 457(b) Plan years ended December 31, 2018 and 2017:

- The 457(b) Plan's fiduciary net position decreased from approximately \$6.813 billion to \$6.578 billion from 2017 to 2018; a decrease of approximately \$235 million and an increase of approximately \$884 million during plan years 2018 and 2017, respectively. The change in asset value in both years was primarily due to a decrease/increase in net appreciation in fair value of investments and net contributions/withdrawals. Net appreciation (depreciation) in fair value of investments, which measures net change in the fair value of investments and interest earned on those investments, was approximately \$(329) million and \$790 million in 2018 and 2017, respectively. In addition, net contributions into and withdrawals from the 457(b) Plan resulted in a positive inflow of \$98 and \$108 million in 2018 and 2017, respectively.
- The number of 457(b) Plan participant accounts increased from 147,759 to 155,888 from 2017 to 2018; an increase of nearly 8,100 and 6,900 accounts during 2018 and 2017, respectively. Participants with 457(b) Plan accounts may have 401(k) Plan accounts as well.
- At December 31, 2018, the five (5) largest 457(b) Plan investment options were: Large Cap Index Fund (14.1%); Large Cap Fund (10.9%); STIF–Cash (10.1%); STIF (10.0%); and Mid Cap Fund (7.5%) totaling 52.6% of 457(b) Plan assets. Combined Target Date Fund assets totaled 21.2% of 457(b) Plan assets. At December 31, 2017, the five (5) largest 457(b) Plan investment options were: Large Cap Index Fund (14.4%); Large Cap Fund (11.3%); STIF (10.3%); STIF–Cash (8.8%); and Mid Cap Fund (8.6%) totaling 53.4% of 457(b) Plan assets. Combined Target Date Fund assets totaled 20.1% of 457(b) Plan assets.

401(k) Plan

The following financial highlights occurred during the 401(k) Plan years ended December 31, 2018 and 2017:

- The 401(k) Plan's fiduciary net position decreased from approximately \$6.879 billion to \$6.632 billion from 2017 to 2018; a decrease of approximately \$247 million and an increase of approximately \$994 million during plan years 2018 and 2017, respectively. The change in asset value in both years was primarily due to a decrease/increase in net appreciation in fair value of investments and net contributions/withdrawals. Net appreciation (depreciation) in fair value of investments, which measures net change in the fair value of investments and interest earned on those investments, was approximately \$(359) million and \$858 million in 2018 and 2017, respectively. In addition, net contributions into and withdrawals from the 401(k) Plan resulted in a positive inflow of \$115 and \$147 million in 2018 and 2017, respectively.
- The number of 401(k) Plan participant accounts increased from 113,146 to 115,263 from 2017 to 2018; an increase of nearly 2,100 and 2,300 accounts during 2018 and 2017, respectively. Participants with 401(k) Plan accounts may have 457(b) Plan accounts as well.
- At December 31, 2018, the five (5) largest 401(k) Plan investment options were: Large Cap Index Fund (16.0%); Large Cap Fund (12.1%); Mid Cap Fund (8.5%); STIF (8.3%); and STIF–Cash (7.0%), totaling 51.9% of 401(k) Plan assets. Combined Target Date Fund assets totaled 19.7% of 401(k) Plan assets. At December 31, 2017, the five (5) largest 401(k) Plan investment options were: Large Cap Index Fund (16.4%); Large Cap Fund (12.5%); Mid Cap Fund (9.7%); STIF (8.3%); and STIF–Cash (5.7%), totaling 52.6% of 401(k) Plan assets. Combined Target Date Fund assets totaled 18.7% of 401(k) Plan assets.

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FINANCIAL HIGHLIGHTS (CONTINUED)

PST Program and ARP

The following financial highlights occurred during the Plan's years ended December 31, 2018 and 2017:

- The PST Program's fiduciary net position increased from approximately \$91 million to \$95 million from 2017 to 2018; an increase of approximately \$4.6 million and \$4.5 million during plan years 2018 and 2017, respectively. The PST Program's asset growth shows new contributions slightly outpaced transfers out and withdrawals. Net appreciation in fair value of investments was \$1.3 million and \$1.2 million during plan years 2018 and 2017, respectively.
- The total number of PST Program participant accounts increased from 95,367 to 96,781 from 2017 to 2018; an increase of nearly 1,400 accounts and nearly 2,600 accounts during 2018 and 2017, respectively.
- ARP's fiduciary net position decreased from approximately \$6 million to \$4 million from 2017 to 2018; a decrease of approximately \$2 million and \$2 million during plan years 2018 and 2017, respectively. The Plan is designed that a reduction in assets is expected at this point in the Plan's timeline. Net appreciation in fair value of investments was less than \$0.1 million and less than \$0.3 million during plan years 2018 and 2017, respectively.
- The number of ARP participant accounts decreased from 1,690 to 945 from 2017 to 2018; a decrease of nearly 700 accounts and nearly 5,700 accounts during 2018 and 2017, respectively. The decline in ARP accounts was anticipated as a result of the program no longer accepting new participants after June 30, 2013. Since the majority of ARP accounts left the program during Phase III (ARP Payout Election period) and new accounts are not being created, the program experienced expected declines during plan years 2018 and 2017.

OTHER HIGHLIGHTS

In September 2018, Nationwide Bank (an underlying FDIC provider within the STIF-Cash fund) ceased doing business in this space, resulting in a full asset transfer to Union Bank. As of December 31, 2018, the STIF-Cash fund maintains two FDIC-insured providers making up approximately 50 percent of the fund's asset allocation.

Effective January 1, 2019, Savings Plus entered into an agreement with Callan Associates, LLC as its consultant for plan design and third-party provider search and selection services. RVK Inc. provided such services from 2009 through 2018.

Effective January 1, 2019, the passage of Senate Bill No. 1504 amended Government Code 19993.05 to allow for a broad range of investment products to be provided in the Core portfolio under tax-advantaged retirement savings plans.

ECONOMIC DISCUSSION

The markets started the year in a bullish manner with enthusiasm about the 2017 Tax Cuts and Jobs Act signed in December 2017. Investors reacted to promising economic news early on, but the historic low-risk environment enjoyed by investors in the previous year ended with volatility returning to markets in 2018, driven by concerns over monetary tightening, global trade (U.S./China tariffs and negotiations,

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ECONOMIC DISCUSSION (CONTINUED)

Brexit, etc.), and weakening future economic growth. Volatility escalated into the final weeks of trading in 2018, as stock markets sold-off into bear market territory. Trading moves were indicative of nervous investors reacting to the news, whether confirmed or speculated. Contributing to the level of uncertainty at year-end were the U.S. budget impasse and subsequent partial government shutdown, reports of the President exploring his legal authority to remove the Federal Reserve Chair, and the Treasury Secretary's proactive outreach to CEOs of six of the nation's largest banks to ensure each had ample liquidity.

As we enter 2019, markets and the economy appear to be at an important inflection point. Ten years beyond the global financial crisis of 2008 and following unprecedented accommodative monetary policy, the Federal Reserve continues to tighten liquidity in its efforts to work the key Federal Funds rate back to "neutral" – a theoretical rate that neither stimulates nor depresses economic growth. The likelihood of slowing U.S. growth may be attributed to the waning of the short-term fiscal stimulus and boost to corporate earnings from last year's tax reform and the possibility of U.S. and China trade talks developing into a trade war. Though economic growth was very strong through 2018 (annual real GDP at 3.0%, unemployment at just 3.7%, wages growing at 3.1%, etc.), the combination of these factors create a drag on future growth. Consistent with these influences, there have been recent signs of slowing, particularly in interest-sensitive areas of the economy such as housing and automobile lending that would be among the first to be hampered by tightening liquidity. All of these factors highlight the delicate nature of the Federal Reserve's attempt to neutralize interest rates after taking such aggressive steps following the financial crisis.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the California Savings Plus Program. Questions concerning any of the information provided in this report or requests for additional information should be addressed to CalHR Savings Plus Program, 1515 S Street, Suite 500N, Sacramento, CA 95811. Inquiries may also be made online at savingsplusnow.com or by calling (855) 616-4776.

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES
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COMBINED STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2018
(In Thousands)**

	457(b) Plan	401(k) Plan	PST	ARP	Total
ASSETS					
Investments:					
Short-Term Investments	\$ 1,297,375	\$ 999,206	\$ 94,144	\$ 3,552	\$ 2,394,277
Investment Options	4,800,535	5,152,360	-	-	9,952,895
Self-Directed Brokerage Account	341,198	357,078	-	-	698,276
Total Investments	<u>6,439,108</u>	<u>6,508,644</u>	<u>94,144</u>	<u>3,552</u>	<u>13,045,448</u>
Receivables:					
Contributions Receivable	40,645	35,820	1,198	-	77,663
Loans Receivable from Participants	98,464	87,856	-	-	186,320
Total Receivables	<u>139,109</u>	<u>123,676</u>	<u>1,198</u>	<u>-</u>	<u>263,983</u>
Total Assets	<u>6,578,217</u>	<u>6,632,320</u>	<u>95,342</u>	<u>3,552</u>	<u>13,309,431</u>
FIDUCIARY NET POSITION HELD IN TRUST					
Total Fiduciary Net Position Held in Trust	<u>\$ 6,578,217</u>	<u>\$ 6,632,320</u>	<u>\$ 95,342</u>	<u>\$ 3,552</u>	<u>\$ 13,309,431</u>

See accompanying Notes to Combined Financial Statements.

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES
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COMBINED STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2017
(In Thousands)**

	457(b) Plan	401(k) Plan	PST	ARP	Total
ASSETS					
Investments:					
Short-Term Investments	\$ 1,275,489	\$ 948,758	\$ 89,684	\$ 5,797	\$ 2,319,728
Investment Options	5,045,500	5,437,744	-	-	10,483,244
Self-Directed Brokerage Account	352,924	368,772	-	-	721,696
Total Investments	<u>6,673,913</u>	<u>6,755,274</u>	<u>89,684</u>	<u>5,797</u>	<u>13,524,668</u>
Receivables:					
Contributions Receivable	37,589	33,743	1,091	-	72,423
Loans Receivable from Participants	101,135	90,480	-	-	191,615
Total Receivables	<u>138,724</u>	<u>124,223</u>	<u>1,091</u>	<u>-</u>	<u>264,038</u>
Total Assets	<u>6,812,637</u>	<u>6,879,497</u>	<u>90,775</u>	<u>5,797</u>	<u>13,788,706</u>
FIDUCIARY NET POSITION HELD IN TRUST					
Total Fiduciary Net Position Held in Trust	<u>\$ 6,812,637</u>	<u>\$ 6,879,497</u>	<u>\$ 90,775</u>	<u>\$ 5,797</u>	<u>\$ 13,788,706</u>

See accompanying Notes to Combined Financial Statements.

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES
SAVINGS PLUS PROGRAM
COMBINED STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED DECEMBER 31, 2018
(In Thousands)**

	457(b) Plan	401(k) Plan	PST	ARP	Total
ADDITIONS					
Contributions:					
Employee Contributions (Adjustments)	\$ 432,365	\$ 386,791	\$ 25,605	\$ (394)	\$ 844,367
Transfers In	191,113	183,583	383	123	375,202
Total Contributions	<u>623,478</u>	<u>570,374</u>	<u>25,988</u>	<u>(271)</u>	<u>1,219,569</u>
Investment Income:					
Net Appreciation (Depreciation) in Fair Value of Investments	(328,571)	(358,582)	1,318	54	(685,781)
Interest Income from Participant Loans	2,688	3,016	-	-	5,704
Net Loan Activity	(2,246)	(3,522)	-	-	(5,768)
Net Investment Income (Loss)	<u>(328,129)</u>	<u>(359,088)</u>	<u>1,318</u>	<u>54</u>	<u>(685,845)</u>
Total Additions	<u>295,349</u>	<u>211,286</u>	<u>27,306</u>	<u>(217)</u>	<u>533,724</u>
DEDUCTIONS					
Withdrawals:					
Benefits and Withdrawals	196,689	139,461	7,195	547	343,892
Loan Defaults	3,114	2,117	-	-	5,231
Transfers Out	325,593	313,438	15,539	1,468	656,038
Total Withdrawals	<u>525,396</u>	<u>455,016</u>	<u>22,734</u>	<u>2,015</u>	<u>1,005,161</u>
Administrative Expenses	<u>4,373</u>	<u>3,447</u>	<u>5</u>	<u>13</u>	<u>7,838</u>
Total Deductions	<u>529,769</u>	<u>458,463</u>	<u>22,739</u>	<u>2,028</u>	<u>1,012,999</u>
CHANGE IN FIDUCIARY NET POSITION	(234,420)	(247,177)	4,567	(2,245)	(479,275)
Fiduciary Net Position – Beginning of Year	<u>6,812,637</u>	<u>6,879,497</u>	<u>90,775</u>	<u>5,797</u>	<u>13,788,706</u>
FIDUCIARY NET POSITION – END OF YEAR	<u>\$ 6,578,217</u>	<u>\$ 6,632,320</u>	<u>\$ 95,342</u>	<u>\$ 3,552</u>	<u>\$ 13,309,431</u>

See accompanying Notes to Combined Financial Statements.

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES
SAVINGS PLUS PROGRAM
COMBINED STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED DECEMBER 31, 2017
(In Thousands)**

	457(b) Plan	401(k) Plan	PST	ARP	Total
ADDITIONS					
Contributions:					
Employee Contributions (Adjustments)	\$ 385,635	\$ 355,229	\$ 24,612	\$ (249)	\$ 765,227
Transfers In	181,528	164,880	345	396	347,149
Total Contributions	<u>567,163</u>	<u>520,109</u>	<u>24,957</u>	<u>147</u>	<u>1,112,376</u>
Investment Income:					
Net Appreciation in Fair Value of Investments	789,534	858,212	1,188	293	1,649,227
Interest Income from Participant Loans	1,718	2,120	-	-	3,838
Net Loan Activity	(11,415)	(10,575)	-	-	(21,990)
Net Investment Income	<u>779,837</u>	<u>849,757</u>	<u>1,188</u>	<u>293</u>	<u>1,631,075</u>
Total Additions	<u>1,347,000</u>	<u>1,369,866</u>	<u>26,145</u>	<u>440</u>	<u>2,743,451</u>
DEDUCTIONS					
Withdrawals:					
Benefits and Withdrawals	178,137	107,127	6,487	2,605	294,356
Loan Defaults	1,473	1,076	-	-	2,549
Transfers Out	279,934	264,942	15,149	23,932	583,957
Total Withdrawals	<u>459,544</u>	<u>373,145</u>	<u>21,636</u>	<u>26,537</u>	<u>880,862</u>
Administrative Expenses	3,905	3,138	4	26	7,073
Total Deductions	<u>463,449</u>	<u>376,283</u>	<u>21,640</u>	<u>26,563</u>	<u>887,935</u>
CHANGE IN FIDUCIARY NET POSITION	883,551	993,583	4,505	(26,123)	1,855,516
Fiduciary Net Position – Beginning of Year	5,929,086	5,885,914	86,270	31,920	11,933,190
FIDUCIARY NET POSITION – END OF YEAR	<u>\$ 6,812,637</u>	<u>\$ 6,879,497</u>	<u>\$ 90,775</u>	<u>\$ 5,797</u>	<u>\$ 13,788,706</u>

See accompanying Notes to Combined Financial Statements.

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES
SAVINGS PLUS PROGRAM
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 DESCRIPTION OF THE PLAN

The following description of the Plan provides only general information. Participants should refer to the Plan documents for a more complete description of the Plan's provisions.

General

The State of California, Department of Human Resources (CalHR) administers the Savings Plus Program ("Savings Plus"), which consists of a deferred compensation plan ("457(b) Plan") established in 1974 under Section 457(b) of the Internal Revenue Code (IRC); a tax-deferred thrift plan ("401(k) Plan") established in 1985 and implemented in 1989 under Section 401(k) of the IRC; a Part-time, Seasonal, and Temporary Employees Retirement Program ("PST Program") established in 1991 under Section 457(b) of the IRC; and an Alternate Retirement Program ("ARP") established in 2004 under Section 401(a) of the IRC. CalHR's authority to establish these plans is found in the *California Government Code* sections 19993, 19999.5, 19999.2, and 19999.3, respectively. The 457(b) Plan and the 401(k) Plan together are referred to as the "Main Plan." The four plans together are referred to as the "Plan" or "Savings Plus" for the sake of this document.

The purpose of the 457(b) Plan and the 401(k) Plan is to encourage and increase savings opportunities for state employees to better provide for and to complement their retirement income, including income received from their defined benefit retirement plan. Persons eligible to participate in the 457(b) Plan and the 401(k) Plan include state employees, appointed and elected officers of the state, California State Judges, California State University employees, and other eligible state employees.

The PST Program was implemented as a result of the 1990 Federal Omnibus Budget Reconciliation Act. It is a mandatory program with the purpose to provide a retirement savings program for state employees who are not covered by CalPERS, Social Security, or other specified state retirement plans.

The purpose of ARP (a mandatory program) was to provide a retirement savings plan in lieu of retirement benefits under CalPERS during the first twenty-four (24) months of state employment for certain employees first hired into state service (employment with the State of California) between August 11, 2004 and June 30, 2013. ARP is closed to new participants.

Staff Support

Savings Plus staff provides primary support to the Director of CalHR in the Director's role as the Named Fiduciary who has ultimate oversight of the administration of Savings Plus. Savings Plus staff makes recommendations to the Director on plan design; reviews administrative fees; monitors contract compliance; and serves as liaison to the third party administrator (TPA), investment providers, investment consultants, trustee/custodian, external legal counsel, and other third-party providers. Staff provides support in the areas of budget/fiscal, operations, projects, legislative analysis, and payroll, and facilitates employee participation in Savings Plus.

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES
SAVINGS PLUS PROGRAM
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 DESCRIPTION OF THE PLANS (CONTINUED)

Staff Support (Continued)

The Savings Plus Investment Committee makes recommendations to the CalHR Director on portfolio design, investment structure, and investment changes; establishes and maintains the Investment Policy Statement; and evaluates the Plan's investment performance, investment costs, and total plan costs to administer the Plan.

Administration

Savings Plus operates in an "unbundled" program structure. Currently, Nationwide Retirement Solutions, Inc. serves as Savings Plus' TPA. Nationwide provides consolidated recordkeeping services, an SDBA, a Managed Account Program, participant education and outreach services, processing functions, and call center services.

Savings Plus maintains separate contracts for the following services: Investment Management; Custodial, Trustee, and Securities Lending; Consulting; Transition Management; External Legal Counsel; and Financial Audit. Savings Plus provides some in-house specialized administrative functions.

Participant Accounts

Each participant's account is credited with the participant's contributions and earnings (realized and unrealized). The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

Vesting

Participant contributions and related earnings are immediately and fully vested.

Portfolio Structure

Savings Plus currently offers Main Plan participants twenty five (25) investment options ("Core" investments) and an SDBA through the following three-tiered structure:

Tier 1 – Target Date Funds: This tier consists of eleven (11) custom asset allocation funds. The funds are constructed using a combination of Savings Plus' Core investment options/strategies.

Tier 2 – Build Your Own Portfolio: This tier consists of five (5) index funds, four (4) actively managed equity funds, one (1) actively managed socially responsible fund, one (1) actively managed diversified real return fund, one (1) actively managed bond fund, one (1) short term investment fund (STIF), and one (1) STIF–Cash fund. Except for the index funds and the socially responsible fund, Savings Plus' investment options are constructed through the use of fund-of-fund structures.

Tier 3 – Schwab Personal Choice Retirement Account® (PCRA): This tier provides an SDBA option.

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES
SAVINGS PLUS PROGRAM
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 DESCRIPTION OF THE PLANS (CONTINUED)

Portfolio Structure (Continued)

Savings Plus' Main Plan investment strategies are offered through twenty-six (26) separate accounts, two (2) commingled trust funds, two (2) FDICs, and two (2) mutual funds.

The Qualified Default Investment Alternative (QDIA) for new enrollees is the Target Date Fund that aligns with the participant's date of birth. The asset allocations in the Target Date Funds are rebalanced annually, becoming more conservative as the target date approaches. Each Target Date Fund assumes age 62 as the date that distributions begin. Once enrolled, participants may change their investment election for contributions at any time.

PST Program assets are invested in the STIF–PST. ARP assets are invested in the STIF–ARP. The investment goal of these funds is to maximize total return consistent with capital preservation by investing in short-duration securities.

Additional information about Savings Plus' investments is available at savingsplusnow.com.

CalHR evaluates, selects, and negotiates agreements with investment management companies in accordance with the *State Contracting Manual*. This resource can be found at: www.dgs.ca.gov/OLS/Resources/Page-Content/Office-of-Legal-Services-Resources-List-Folder/State-Contracting. CalHR essentially uses competitive bidding processes; other state-approved non-competitive processes may be used in rare circumstances.

Participant Loans (Main Plan Only)

A participant in active payroll status is eligible to take a loan from the pre-tax portion of their 457(b) Plan and the pre-tax portion of the 401(k) Plan provided they agree to repay the outstanding loan balance, including accrued interest, within the specified time period. Since participants borrow from their account, their loan does not affect their credit rating.

Effective April 1, 2017, participants are permitted to take one loan per plan, not to exceed two outstanding loans across both 457(b) and 401(k) plans. Participants must have a minimum account balance of \$10,000 and the minimum loan amount is \$5,000.

For 2018 and 2017, the maximum loan amount is the lesser of 50 percent of the participant's account balance by plan minus any outstanding loan balances from all state-sponsored plans on the date of the loan or \$50,000 minus the difference between the highest outstanding loan balances from all state-sponsored plans within the last 12 months and the loan balance on the date of the loan request. The participant is charged a one-time \$50 loan initiation fee per loan.

Savings Plus offers two types of Loans: General Purpose for up to five (5) years and Purchase of Primary Residence for up to 15 years. Savings Plus reports a participant loan default as a distribution – a taxable event in the year of default.

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES
SAVINGS PLUS PROGRAM
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 DESCRIPTION OF THE PLANS (CONTINUED)

Participant Loans (Main Plan Only) (Continued)

The loan interest rate is equal to the prime rate plus 1.0 percent. The prime rate used is based upon the rate published in the *Wall Street Journal* two weeks prior to the end of the most current calendar quarter. The rate is effective on the first day of the next calendar quarter. As of December 31, 2018, the loan interest rate was 6.00 percent. As of December 31, 2017, the loan interest rate was 5.25 percent.

Self-Directed Brokerage Account (SDBA) (Main Plan Only)

Participants may transfer assets from their Core investments to an SDBA option. This allows participants to direct investments to a marketplace of retail investment options other than those available in the Core investment lineup. The SDBA allows greater flexibility by allowing the freedom to select and manage a portfolio from a larger universe of mutual funds, individual stocks, bonds, and a variety of other investment choices. Participants must maintain a minimum balance of \$2,500 or 50 percent of their total account balance, whichever is less, in their Core account. Transaction-based commissions and fees (paid to Schwab) are deducted directly from the assets in the SDBA.

Administrative Expenses

Savings Plus assesses all Main Plan participants an administrative fee of \$1.50 per month in their 457(b) Plan account and a \$1.50 per month in their 401(k) Plan account. Savings Plus assesses a \$1.50 monthly administrative fee against ARP accounts that maintain a balance after completion of the Phase III payout election process (see Note 1, Benefit Payments).

Participant-Directed Fees

Participants may incur the following participant-directed fees: (1) managed accounts, (2) loan initiation, (3) ACH loan non-sufficient funds, (4) paper check, (5) overnight check, (6) QDRO split, and (7) short-term trade (redemption).

Contributions

Main Plan contributions by eligible employees are voluntary. Participants predominantly contribute salary on a pre-tax basis. However, Savings Plus also permits contributions on an after-tax (Roth) basis. The State Controller's Office (SCO) is the primary payer of salary and processor of deductions of Savings Plus contributions. Additionally, there are a small number of payroll offices (e.g., Senate, Assembly, Legislative Analyst, District Fairs) that submit their contribution data separately.

In accordance with the IRC, the Plan limits an individual's annual contribution to an amount not to exceed the lesser of \$18,500 for 2018 and \$18,000 for 2017 or 100% of the employee's includable compensation.

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES
SAVINGS PLUS PROGRAM
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 DESCRIPTION OF THE PLANS (CONTINUED)

Contributions (Continued)

The Plan also provides certain catch-up provisions for participants age 50 or older and for participants within three years of their Normal Retirement Age, as defined by the Plan:

- Age-Based Deferrals – For 2018 and 2017, participants age 50 or older and actively employed may defer up to \$6,000 over the normal deferral limit to their 457(b) Plan and to their 401(k) Plan accounts.
- Traditional 457(b) Catch-Up – For 2018 and 2017, participants within the three (3) years prior to their Normal Retirement Age may be eligible to make a one-time election to contribute up to twice the annual contribution limit into their 457(b) Plan account for a maximum of three (3) consecutive years. The catch-up amount allowed is limited to the underutilized amount in the previous years while employed by the state and eligible to contribute to the 457(b) Plan. Participants may only use one of these catch-up provisions in the 457(b) Plan at a time.

Normal Retirement Age is the age specified in the 457(b) Plan Document and the age is typically chosen by the participant for the purpose of initiating the Traditional 457(b) Catch-Up election. To be eligible, the participant must have the right to retire and to receive full retirement benefits under the state's pension plan with no reduction for age or service and must not be later than age 70½.

Participants may cash out their accumulated unused leave time (Lump Sum Pay) when they retire; a taxable event. Another option is to contribute all or a portion of their Lump Sum Pay into their Savings Plus accounts via pre-tax or Roth contributions. Both contribution types may allow participants to maximize their contribution, while offering more flexibility with future distribution options. In addition, pre-tax contributions may allow participants to defer taxes.

For 2018 and 2017, participants who separated from service on or after November 1 could defer their Lump Sum Pay to their Savings Plus accounts into the following tax year, allowing them to potentially maximize contributions for both the current and following tax years.

Savings Plus allows in-plan Roth conversions for assets in the Main Plan. All pre-tax contribution sources, not including outstanding loans and balances invested in the SDBA, and earnings thereon, are eligible for in-plan Roth conversions in accordance with the standard in-service withdrawal distribution provisions. Savings Plus reports the gross Roth conversion amount to the IRS as taxable income in the year of the conversion.

For the PST Program, employees hired by the state or the California State University (CSU) system on a part-time, seasonal, or temporary time basis, whose wages do not qualify for Social Security deductions or membership in CalPERS, are required to contribute 7.5 percent of gross wages on a pre-tax basis into their PST Program account.

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES
SAVINGS PLUS PROGRAM
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 DESCRIPTION OF THE PLANS (CONTINUED)

Contributions (Continued)

For ARP, as of July 1, 2013, new CalPERS membership-eligible state employees are appointed directly into CalPERS instead of into ARP. While no new contributions were added to ARP during 2018 or 2017, state departments made corrections to personnel records of employees who were erroneously appointed into ARP. These corrections/contribution adjustments account for the (\$394,000) and (\$249,000) on the Employee Contributions (Adjustments) line item within the 2018 and 2017 Combined Statement of Changes in Fiduciary Net Position financial statements, respectively.

Coordination limits apply to 457(b) Plan and PST Program contributions. Additionally, Coordination limits apply to the 401(k) Plan, ARP (a tax-qualified plan under IRC 401(a)), and 403(b) Plan contributions inclusive of any other such state sponsored plans.

Benefit Payments

Generally, participant accounts cannot be closed and payments cannot be made until a "distributable event" occurs. A "distributable event" is an IRS approved event that allows payments from the Plan, such as death, disability, separation, retirement, etc.

Participants are eligible to take benefit payments from their 457(b) Plan pre-tax assets upon separation from state service or beginning at age 70½, regardless of employment status. Participants are eligible to take benefit payments from their 401(k) Plan pre-tax assets without an additional 10 percent tax for early withdrawal if they meet one of the following criteria: separated from state service during or after the year they turn age 55; for public safety employees, separated from state service during or after the year they turn age 50; or attainment of age 59½ regardless of employment status. Participants are eligible to take a tax-free qualified payment from their Roth assets if they meet the withdrawal guidelines stipulated above and the payment is made on account of death, disability, or attainment of age 59½ **and** the payment is made five (5) years or more after January 1 of the first year the participant made a Roth contribution.

For PST Program distributions, the participant must be separated from state service and have no contributions into or out of their account for 90 days or be at least age 70½, regardless of employment status. For ARP distributions, the participant must be separated from state service during or after the year they turn age 55 or be at least age 59½, regardless of employment status to receive a payment without an additional 10 percent early withdrawal penalty; or ARP participants may take a distribution by selecting Option 2 during ARP Phase III (see next paragraph).

Participants have the following payment options from their Main Plan accounts: lump-sum payment; periodic payments; partial lump-sum payment, or rollover to another qualified plan or to an IRA. The PST Program allows for direct payment or direct rollover distributions. ARP Phase III provided three payout options available based on the participant's date of appointment into ARP: Option 1 - Transfer ARP funds to CalPERS for retirement service credit; Option 2 - Take a distribution via direct payment or direct rollover; or Option 3 - Transfer ARP funds to a Savings Plus 401(k) account.

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES
SAVINGS PLUS PROGRAM
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 DESCRIPTION OF THE PLANS (CONTINUED)

In-Service Distributions

A 457(b) Plan participant who experiences an unforeseeable emergency (as defined by the IRC) may apply in writing for an unforeseen emergency withdrawal of both their contribution and the associated earnings. A 401(k) Plan participant who experiences an immediate and heavy financial need (as defined by the IRC) may apply in writing for a Hardship Withdrawal of their contributions, but may not request payment of any portion of their earnings. Payments are subject to applicable taxes and may be subject to early withdrawal penalties.

A participant may be entitled to a full withdrawal of their 457(b) Plan account prior to separation from service if they meet the following conditions specific to their 457(b) Plan account: (1) their account balance does not exceed \$5,000, (2) they have not made contributions during the two-year period ending on the date of distribution, (3) they do not have an active loan, (4) they do not have a freeze or hold on their account, and (5) they have not previously received a voluntary withdrawal distribution.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, including all applicable effective statements of the Governmental Accounting Standards Board ("GASB"), and on the accrual basis of accounting.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America may require management to make estimates and assumptions that affect amounts reported in financial statements and accompanying notes. Actual results may differ from those estimates.

Contributions and Contributions Receivable

Contributions are recognized when amounts are withheld from employees' payroll and posted to the participants' accounts. Contributions receivable represents amounts withheld from employees, but not yet remitted to / recorded by the master trust as of December 31.

Participant Loans and Loans Receivable

Participant loans are valued at their outstanding balances, which approximate fair value. The TPA reviews participant loans receivable throughout the year and defaulted loans identified by the TPA are taxable in the year of default. The loan status remains in default until either the participant pays the outstanding amount or upon separation, at which time the defaulted loan amount is reduced from the participant's account balance. Once a loan default occurs, the participant is prohibited from receiving another loan from the loan program unless/until the loan is paid off. Loans Receivable represents the value of investments on loan to participants as of December 31, 2018 and 2017.

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES
SAVINGS PLUS PROGRAM
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Participant Loans and Loans Receivable (Continued)

In the Combined Statement Of Changes In Fiduciary Net Position, the *Net Loan Activity* values include the net of all loan disbursements, loan repayments including interest, and defaulted loans.

Short Term Investments

Short Term Investments consist of the STIF and the STIF–Cash funds. The STIF invests in fixed income securities including securities issued by the U.S. Government, U.S. Agencies, corporate bonds, residential and commercial mortgage-backed securities, and asset-backed securities. The STIF–Cash provides safety and stability with savings account-like returns or better through a diversified combination of money market funds and FDIC insured savings accounts. The STIF–Cash managers include Government Money Market funds that invest primarily in U.S. Government related securities, and FDIC insured accounts, which have guarantees on deposits backed by the full faith and credit of the U.S. Government.

Securities Lending

The securities lending program (“Securities Lending”) is a non-cash collateral program. Bonds are received as collateral on Securities Lending transactions and are reported as investments in the accompanying financial statements. See Note 3 for further discussion.

NOTE 3 INVESTMENTS

This section describes the Plan’s authorized investments, loans receivable, investments authorized by debt agreements, GASB 72 disclosure of fair value of financial instruments, securities lending, investment fees, interest rate risk, credit risk, custodial credit risk, foreign currency risk, and concentration of credit risk.

Authorized Investments

As of December 31, 2018, funds held by the state may be invested in corporate stocks, bonds, securities, mutual funds, savings and loan accounts, credit union accounts, annuities, mortgages, deeds of trust, or other security interests in real or personal property. Deferred compensation funds are retirement funds for the purposes of Section 17 of Article XVI of the California Constitution.

Pursuant to sections 19993.05 and 19999.5 of the *California Government Code*, assets of the Plans may be invested in a range of investment options including, but not limited to, stocks and bonds listed with and traded on the New York Stock Exchange, the American Stock Exchange, or the National Market System sponsored by the National Association of Securities Dealers (NASD) and the National Association of Securities Dealers Automated Quotations system (NASDAQ), or any successor association, annuities, and shares or units of open-ended registered investment companies. However, CalHR may limit the number of banks, mutual fund companies, investment brokers, life insurance companies, and other financial institutions offering investments under the Plans as necessary to ensure the continued qualification of the Plans under the IRC and the cost-efficient and timely administration of the Plans.

STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES
SAVINGS PLUS PROGRAM
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 3 INVESTMENTS (CONTINUED)

Authorized Investments (Continued)

Although the Plans are exempt from the provisions of Section 3(32), Title I, of the Employee Retirement Income Security Act of 1974 (ERISA), CalHR generally follows the fiduciary best practices as outlined in ERISA.

The Plan's *Investment Policy Statement (IPS)* indicates that investment vehicles may consist of mutual funds, commingled investment trusts, and separate accounts, which also include FDIC/NCUA insured deposit savings accounts. Investments made through these vehicles are governed by the respective fund's investment guidelines outlined in the prospectus/fund fact sheet and investment advisory agreements, respectively.

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES
SAVINGS PLUS PROGRAM
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 3 INVESTMENTS (CONTINUED)

Authorized Investments (Continued)

The Plan offers participants the option to choose among Target Date Funds (TDF), index funds, actively managed funds, and an SDBA. The investment options and Assets Under Management (in thousands) consisted of the following at December 31, 2018:

2018						
Participant Directed Investments	457(b) Plan Balance	401(k) Plan Balance	PST Balance	ARP Balance	Total Plan Balance	% of Total AUM [†]
STIF – Cash	\$ 652,399	\$ 458,384	\$ -	\$ -	\$ 1,110,783	8.5%
STIF	644,976	540,822	94,144	3,552	1,283,494	9.8%
Short-Term Investments	1,297,375	999,206	94,144	3,552	2,394,277	18.3%
TDF Income*	269,510	267,219	-	-	536,729	4.1%
TDF 2015*	-	-	-	-	-	0.0%
TDF 2020*	231,826	248,989	-	-	480,815	3.7%
TDF 2025*	229,638	255,223	-	-	484,861	3.7%
TDF 2030*	192,901	191,275	-	-	384,176	2.9%
TDF 2035*	162,359	139,605	-	-	301,964	2.3%
TDF 2040*	122,126	88,995	-	-	211,121	1.6%
TDF 2045*	100,376	56,370	-	-	156,746	1.2%
TDF 2050*	38,436	22,942	-	-	61,378	0.5%
TDF 2055*	13,170	5,306	-	-	18,476	0.1%
TDF 2060*	6,217	5,741	-	-	11,958	0.1%
TDF 2065*	192	173	-	-	365	0.0%
Bond Index	286,762	320,352	-	-	607,114	4.7%
Large Cap Index	910,377	1,039,928	-	-	1,950,305	15.0%
Mid Cap Index	227,932	244,301	-	-	472,233	3.6%
Small Cap Index	126,120	140,708	-	-	266,828	2.0%
International Index*	117,468	133,626	-	-	251,094	1.9%
Socially Responsible	106,693	119,927	-	-	226,620	1.7%
Bond*	123,082	128,335	-	-	251,417	1.9%
Large Cap*	702,217	786,459	-	-	1,488,676	11.4%
Mid Cap*	482,679	555,351	-	-	1,038,030	8.0%
Small Cap	175,640	198,231	-	-	373,871	2.9%
International*	154,311	182,272	-	-	336,583	2.6%
Diversified Real Return*	20,503	21,035	-	-	41,538	0.3%
Investment Options	4,800,535	5,152,360	-	-	9,952,895	76.3%
Self-Directed Brokerage Account	341,198	357,078	-	-	698,276	5.4%
Balance as of 12/31/2018	\$ 6,439,108	\$ 6,508,644	\$ 94,144	\$ 3,552	\$ 13,045,448	100%

[†]Percentages in bold face font = investments with five percent or greater of total Plan AUM

*Represents international exposure contained within this investment option

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES
SAVINGS PLUS PROGRAM
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 3 INVESTMENTS (CONTINUED)

Authorized Investments (Continued)

The investment options and Assets Under Management (in thousands) consisted of the following at December 31, 2017:

2017						
Participant Directed Investments	457(b) Plan Balance	401(k) Plan Balance	PST Balance	ARP Balance	Total Plan Balance	% of Total AUM [†]
STIF – Cash	\$ 585,925	\$ 385,089	\$ -	\$ -	\$ 971,014	7.2%
STIF	689,564	563,669	89,684	5,797	1,348,714	10.0%
Short-Term Investments	1,275,489	948,758	89,684	5,797	2,319,728	17.2%
TDF Income*	146,743	127,074	-	-	273,817	2.0%
TDF 2015*	140,137	159,574	-	-	299,711	2.2%
TDF 2020*	236,240	255,090	-	-	491,330	3.6%
TDF 2025*	221,853	239,199	-	-	461,052	3.4%
TDF 2030*	184,421	183,661	-	-	368,082	2.7%
TDF 2035*	156,086	133,699	-	-	289,785	2.1%
TDF 2040*	115,366	82,412	-	-	197,778	1.5%
TDF 2045*	92,269	51,695	-	-	143,964	1.1%
TDF 2050*	30,575	19,954	-	-	50,529	0.4%
TDF 2055*	8,948	3,700	-	-	12,648	0.2%
TDF 2060*	6,243	5,510	-	-	11,753	0.1%
Bond Index	284,615	314,280	-	-	598,895	4.4%
Large Cap Index	963,952	1,105,093	-	-	2,069,045	15.3%
Mid Cap Index	254,729	273,951	-	-	528,680	3.9%
Small Cap Index	142,765	152,562	-	-	295,327	2.2%
International Index*	128,290	147,387	-	-	275,677	2.0%
Socially Responsible	104,788	121,240	-	-	226,028	1.7%
Bond*	115,918	117,094	-	-	233,012	1.7%
Large Cap*	753,748	843,681	-	-	1,597,429	11.8%
Mid Cap*	573,659	652,790	-	-	1,226,449	9.1%
Small Cap	177,706	205,582	-	-	383,288	2.8%
International*	186,018	222,081	-	-	408,099	3.0%
Diversified Real Return*	20,431	20,435	-	-	40,866	0.3%
Investment Options	5,045,500	5,437,744	-	-	10,483,244	77.5%
Self-Directed Brokerage Account	352,924	368,772	-	-	721,696	5.3%
Balance as of 12/31/2017	\$ 6,673,913	\$ 6,755,274	\$ 89,684	\$ 5,797	\$ 13,524,668	100%

[†]Percentages in bold face font = investments with five percent or greater of total Plan AUM

*Represents international exposure contained within this investment option

Loans Receivable

At December 31, 2018, outstanding participant loans totaled \$186.3 million, with \$98.5 million in the 457(b) Plan and \$87.8 million in the 401(k) Plan. At December 31, 2017, outstanding participant loans totaled \$191.6 million, with \$101.1 million in the 457(b) Plan and \$90.5 million in the 401(k) Plan. These loan values are reported as loans receivable in the accompanying financial statements.

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES
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NOTE 3 INVESTMENTS (CONTINUED)

Investments Authorized by Debt Agreements

Except for the SDBA, Plan investment options do not include individual bond issuances. Bond exposure is limited to open-end investment options provided through Amundi Pioneer Institutional Asset Management, Inc. and BlackRock Financial Management, Inc. through the Bond Fund and the Bond Index Fund; Janus Capital Management LLC (through August 2018), Voya Investment Management Co. LLC (effective September 2018) and Wells Capital Management, Inc. through the STIF option; and Boston Trust & Investment Management Company through the Socially Responsible Fund. In addition, the Target Date Funds have bond exposure, as the Bond Fund, Bond Index Fund, and STIF are underlying components of the Target Date Funds.

Disclosure about Fair Value of Financial Instruments

Savings Plus investments are recorded at fair value as of December 31, 2018 and 2017. GASB Statement No. 72 - *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the Plan's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2 Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.
- Level 3 Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Plan utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible in its assessment of fair value.

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES
SAVINGS PLUS PROGRAM
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NOTE 3 INVESTMENTS (CONTINUED)

Disclosure about Fair Value of Financial Instruments (Continued)

The following table summarizes Savings Plus investments (in thousands) within the fair value hierarchy at December 31, 2018 and 2017:

	At 12/31/2018	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments at Fair Value				
Investment Options	\$ 8,923,048	\$ 5,653,467	\$ 3,269,581	\$ -
Self-Directed Brokerage Account	563,573	530,203	33,370	-
Short-Term Investments	970,157	-	970,157	-
Total Investments at Fair Value	<u>10,456,778</u>	<u>6,183,670</u>	<u>4,273,108</u>	<u>-</u>
Investments at Amortized Cost				
Investment Options	134,444			
Short-Term Investments	1,424,120			
Self-Directed Brokerage Account	134,703			
Total Investments at Amortized Cost	<u>1,693,267</u>			
Investments at Net Asset Value				
Investment Options	895,403			
Total Investments at Net Asset Value	<u>895,403</u>			
Total Investments	<u>\$ 13,045,448</u>	<u>\$ 6,183,670</u>	<u>\$ 4,273,108</u>	<u>\$ -</u>

	At 12/31/2017	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments at Fair Value				
Investment Options	\$ 9,202,466	\$ 7,688,586	\$ 1,513,880	\$ -
Self-Directed Brokerage Account	587,648	567,236	20,412	-
Short-Term Investments	1,024,991	-	1,024,991	-
Total Investments at Fair Value	<u>10,815,105</u>	<u>8,255,822</u>	<u>2,559,283</u>	<u>-</u>
Investments at Amortized Cost				
Investment Options	112,954			
Short-Term Investments	1,294,737			
Self-Directed Brokerage Account	134,048			
Total Investments at Amortized Cost	<u>1,541,739</u>			
Investments at Net Asset Value				
Investment Options	1,167,824			
Total Investments at Net Asset Value	<u>1,167,824</u>			
Total Investments	<u>\$ 13,524,668</u>	<u>\$ 8,255,822</u>	<u>\$ 2,559,283</u>	<u>\$ -</u>

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES
SAVINGS PLUS PROGRAM
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NOTE 3 INVESTMENTS (CONTINUED)

Disclosure about Fair Value of Financial Instruments (Continued)

Investments in certain entities that calculate a net asset value (NAV) per share (or its equivalent) sometimes do not have a readily determinable fair value. For these investments, governmental accounting standards permit establishment of fair value using a practical expedient based on the NAV per share (or its equivalent). The following table summarizes Savings Plus' investments measured at NAV (in thousands), unfunded commitments, the investment redemption frequency and redemption notice period as of December 31, 2018 and 2017:

	Investments Measured at Net Asset Value			
	At 12/31/2018	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Investment Options ⁽¹⁾	\$ 895,403	\$ -	Daily	1-3 Days
Total Investments at Net Asset Value	<u>\$ 895,403</u>	<u>\$ -</u>		

	Investments Measured at Net Asset Value			
	At 12/31/2017	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Investment Options ⁽¹⁾	\$ 1,167,824	\$ -	Daily	1-3 Days
Total Investments at Net Asset Value	<u>\$ 1,167,824</u>	<u>\$ -</u>		

⁽¹⁾ Comprised of four funds. Each are valued at the net asset value of units held at the end of the period, based upon the fair value of the underlying investments.

Securities Lending

The Plan's investment portfolio participates in a non-cash (bonds borrowed) Securities Lending program managed by J.P. Morgan Chase Bank, N.A. ("J.P. Morgan"), whereby securities are loaned for the purpose of generating additional income, which is used by the Plan to offset administrative expenses. J.P. Morgan is responsible for making loans of securities on a collateralized basis from the Plan's investment portfolio to various third party broker-dealers and financial institutions. The fair value of the required bonds used as collateral must initially meet or exceed (1) 102 percent of the fair value for dollar denominated securities secured by dollar denominated government securities, (2) 102 percent for non-dollar denominated securities secured by government securities in the same denomination as the lent securities, (3) 105 percent for dollar denominated securities secured by non-dollar denominated government securities, and (4) 105 percent for non-dollar denominated securities secured by government securities in a different denomination from the lent securities, thus providing a margin against a decline in the fair value of collateral. Collateral is marked-to-market each business day to ensure the fair value of the collateral meets the collateral requirements.

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES
SAVINGS PLUS PROGRAM
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 3 INVESTMENTS (CONTINUED)

Securities Lending (Continued)

The types of securities available for loan during the year ended December 31, 2018 and 2017 included U.S. Government securities, U.S. Government agencies, Corporate bonds, Non-U.S. Fixed Income, U.S. equities, and Non-U.S. equities. The contractual agreement in place at calendar year-end between the Plan and J.P. Morgan as the Securities Lending agent provides indemnification in the event the borrower fails to return the securities lent or due to borrower default. U.S. Government Securities, U.S. Government Agencies, and U.K. Gilts are received as collateral for these loans and are held in safekeeping until such time that the borrower returns the loaned assets.

Since the Securities Lending program is a non-cash collateral program, bonds are received as collateral on Securities Lending transactions. At December 31, 2018 and 2017, the fair value of securities on loan was \$331.9 million and \$391.2 million, the fair value of the bonds on loan was \$68.9 million and \$112.0 million, totaling \$400.8 million and \$503.2 million, respectively, in Securities Lending obligations. The value of securities on loan are included within the investments in the accompanying financial statements.

Borrowers pay a fee to the Plan to borrow the securities. Revenue received by the Plan is used to help offset Plan administrative expenses. The gross Securities Lending revenue for 2018 and 2017 was \$0.830 million and \$1.044 million, respectively. Securities Lending fees paid to J.P. Morgan for 2018 and 2017 were \$0.289 million and \$0.209 million, respectively. Net income to the Plan for 2018 and 2017 was \$0.541 million and \$0.835 million, respectively. Effective April 1, 2018, the fee split between the Plan and JP Morgan changed from 80/20 percent to 65/35 percent.

With regard to counterparty credit risk, the Plan's bond collateral is held by the counterparty and is uninsured. All securities loaned can be terminated on demand by either the Plan or the borrower. Loans to an individual counterparty may not exceed 25 percent of the Plan's lendable portfolio. At December 31, 2018 and 2017, there had been no losses resulting from borrower defaults and the Plan had nominal credit risk exposure to borrowers related to any potential shortfall between J.P. Morgan's indemnification coverage and borrower collateral.

Investment Fees

The Plan's investment managers charge an investment management fee to manage the investments. The Plan assesses a 0.05 percent annualized expense reimbursement fee against Plan assets in the 457(b) Plan and the 401(k) Plan. This fee is used to help offset Plan administrative expenses. Additionally, there is a nominal Trustee/Custodial fee for J.P. Morgan's trustee and custodial services. The fund expense ratio represents the summarization of these fees. The investment-related expenses are included in net appreciation of fair value of investments.

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES
SAVINGS PLUS PROGRAM
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 3 INVESTMENTS (CONTINUED)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates could adversely affect the fair value of an investment. Since all investments are participant-directed, all risks exist at the participant level. Each individual within the Plan has the ability to liquidate their positions on demand and has responsibility for managing their exposure to fair value loss.

Investments within the Bond Fund, Bond Index Fund, STIF–Cash, STIF, Socially Responsible Fund, Diversified Real Return Fund, and the Target Date Funds are subject to such risk.

The following tables show the December 31, 2018 and 2017 value of investments subject to interest rate risk. These investments are unrated. CalHR selects the weighted average maturity as its primary mechanism for reporting interest rate risk. Fair value (in thousands) and weighted average maturity (in years) for each applicable investment and its respective fund(s) are as follows:

Investment	Fund(s)	Fair Value at 12/31/2018	Weighted Average Maturity
Boston Trust SRI	Socially Responsible Fund	\$ 71,086	4.93
BlackRock Bond Index	TDF Income Fund, TDF 2020 – 2065 Funds, Bond Index Fund, Bond Fund	991,522	13.61
Cohen & Steers DIS	TDF 2020 – 2065 Funds, Diversified Real Return Fund	27,479	0.76
Wells Capital Fixed Income	STIF Fund, TDF Income Fund, TDF 2020 – 2045 Funds	736,065	3.24
Voya Fixed Income	STIF Fund, TDF Income Fund, TDF 2020 – 2045 Funds	834,451	3.82
Amundi Pioneer U.S. Core Plus Bond	TDF Income Fund, TDF 2020 – 2065 Funds, Bond Fund	282,969	12.09
Amundi Pioneer Global Fixed Income	TDF Income Fund, TDF 2020 – 2065 Funds, Bond Fund	242,161	5.55
Northern Trust TIPS Index (through Oct. 2018) Rhumblin TIPS Index (eff. Oct. 2018)	TDF Income Fund, TDF 2020 – 2065 Funds, Diversified Real Return Fund	141,637	0.10
Goldman Sachs Government Money Market	STIF – Cash Fund, TDF Income Fund, TDF 2020 – 2045 Funds	574,540	0.11
RBC Government Money Market	STIF – Cash Fund, TDF Income Fund, TDF 2020 – 2045 Funds	216,295	0.10
		<u>\$ 4,118,205</u>	

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES
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NOTE 3 INVESTMENTS (CONTINUED)

Interest Rate Risk (Continued)

Investment	Fund(s)	Fair Value at 12/31/2017	Weighted Average Maturity
BlackRock Bond Index	TDF Income Fund, TDF 2015 – 2060 Funds, Bond Index Fund, Bond Fund	\$ 962,452	13.73
Wells Capital Management Fixed Income	STIF Fund, TDF Income Fund, TDF 2015 – 2040 Funds	707,706	3.04
Janus Capital Management Short Duration Bond	STIF Fund, TDF Income Fund, TDF 2015 – 2040 Funds	888,589	2.70
Amundi Global Fixed Income	TDF Income Fund, TDF 2015 – 2060 Funds, Bond Fund	231,614	8.36
Boston Trust Socially Responsible Fund	Socially Responsible Fund	61,061	5.73
T.Rowe Price Core Plus Bond (through Sept. 2017); Amundi Pioneer U.S. Core Plus Bond (eff. Oct. 2017)	TDF Income Fund, TDF 2015 – 2060 Funds, Bond Fund	261,921	13.91
BlackRock Government Money Market	STIF – Cash Fund, TDF Income Fund, TDF 2015 – 2040 Funds	180,577	0.22
RBC Government Money Market	STIF – Cash Fund, TDF Income Fund, TDF 2015 – 2040 Funds	457,797	0.25
Northern Trust TIPS	TDF Income Fund, TDF 2015 – 2060 Funds, Diversified Real Return Fund	119,763	8.13
		<u>\$ 3,871,480</u>	

Credit Risk

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations, such as the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer’s ability to make these payments will cause security prices to decline. These circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation, and/or adverse political developments. Certain fixed income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk.

A bond’s credit quality is an assessment of the issuer’s ability to pay interest on the bond, and ultimately to repay the principal. Credit quality is evaluated by one of the independent bond-rating agencies – for example, Moody’s Investors Service (“Moody’s”), Standard and Poor’s (“S&P”), or Fitch Ratings (“Fitch”). The lower the rating, the greater the chance, in the rating agency’s opinion, that the bond issuer will default or fail to meet its payment obligations. Generally, the lower a bond’s credit rating, the higher its yield should be to compensate for the additional risk.

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES
SAVINGS PLUS PROGRAM
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NOTE 3 INVESTMENTS (CONTINUED)

Credit Risk (Continued)

The following table presents the fixed income investments held within the investment options at December 31, 2018 (in thousands), categorized to give an indication of the level of credit risk assumed by Savings Plus:

Investments	Credit Rating ¹								12/31/2018 Fair Value
	AAA	AA	A	BBB	BB	B	CCC & Below	Not Rated	
Asset Backed	\$ 70,891	\$ 42,134	\$ 46,368	\$ 4,144	\$ -	\$ 1,467	\$ -	\$ 79,293	\$ 244,297
CDO/Collateralized Debt Obligation	2,575	-	-	-	-	-	-	32,081	34,656
CMO/REMIC	22,132	17,748	8	528	-	-	146	21,059	61,621
Commercial Mortgage Backed Securities	44,140	12,625	701	367	-	-	-	77,267	135,100
Commercial Paper (Interest Bearing)	-	-	-	-	-	-	-	8,917	8,917
Corporate Bonds	7,905	69,223	309,002	525,114	119,029	18,208	610	223,089	1,272,180
Government Bonds	29,776	857,363	20,429	21,596	10,390	2,682	-	192,981	1,135,217
Mortgage Backed Securities	-	324,144	-	-	-	-	-	54,953	379,097
Municipal Bonds	871	7,480	12,067	2,620	-	-	-	41	23,079
STIF	-	-	-	-	-	-	-	1,555,605	1,555,605
Treasury Bills	-	-	-	-	-	-	-	35,514	35,514
Total	178,290	1,330,717	388,575	544,369	129,419	22,357	756	2,280,800	4,885,282
Other Investments Not Subject to Credit Risk ²									8,160,166
Total Investments	\$ 178,289	\$ 1,330,717	\$ 388,575	\$ 544,369	\$ 129,420	\$ 22,357	\$ 756	\$ 2,280,801	\$ 13,045,448

¹ When a security received split ratings between Moody's and S&P, this schedule was prepared using the rating that is indicative of the highest degree of risk.

² Includes obligations of the United States Government or obligations explicitly guaranteed by the United States Government, which are not considered to have credit risk and do not require disclosure of credit quality.

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES
SAVINGS PLUS PROGRAM
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NOTE 3 INVESTMENTS (CONTINUED)

Credit Risk (Continued)

The following table presents the fixed income investments held within the investment options at December 31, 2017 (in thousands), categorized to give an indication of the level of credit risk assumed by Savings Plus:

Investments	Credit Rating ¹								12/31/2017 Fair Value
	AAA	AA	A	BBB	BB	B	CCC & Below	Not Rated	
Asset Backed	\$ 122,426	\$ 25,801	\$ 27,352	\$ 8,290	\$ -	\$ -	\$ -	\$ 7,021	\$ 190,890
CMO/REMIC	18,192	13,368	120	355	-	-	183	6,783	39,001
Commercial Mortgage Backed Securities	36,871	5,447	-	-	-	-	-	1,142	43,460
Corporate Bonds	6,056	55,180	382,714	614,365	125,340	15,352	201	505	1,199,713
Government Bonds	31,770	130,035	28,897	27,871	15,565	4,236	-	-	238,374
Mortgage Backed Securities	-	279,713	-	-	-	-	-	-	279,713
Municipal Bonds	204	7,385	13,353	2,668	-	-	-	-	23,610
STIF	-	-	-	-	-	-	-	1,398,578	1,398,578
Total	215,519	516,929	452,436	653,549	140,905	19,588	384	1,414,029	3,413,339
Other Investments Not Subject to Credit Risk ²									10,111,329
Total Investments	\$ 215,519	\$ 516,929	\$ 452,436	\$ 653,549	\$ 140,905	\$ 19,588	\$ 384	\$ 1,414,029	\$ 13,524,668

¹ When a security received split ratings between Moody's and S&P, this schedule was prepared using the rating that is indicative of the highest degree of risk.

² Includes obligations of the United States Government or obligations explicitly guaranteed by the United States Government, which are not considered to have credit risk and do not require disclosure of credit quality.

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES
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NOTE 3 INVESTMENTS (CONTINUED)

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Plan's deposits may not be returned to it. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Plan's name.

All deposits of the Plan are held on behalf of the Plan by the Plan's custodian in accordance with the formal deposit policy for custodial credit risk and are not exposed to custodial credit risk, as defined by Governmental Accounting Standards Board Statement No. 40.

The Plan's policy for custodial credit risk requires that deposits in the STIF–Cash fund held by Nationwide Bank (through September 2018), Union Bank, and Bank of Oklahoma be insured by the FDIC (currently at \$250,000 per participant account per institution). Amounts held in excess of the \$250,000 FDIC limit are properly collateralized at 110 percent of the excess amount. At December 31, 2018 and 2017, approximately \$16.9 million of participant assets representing 79 accounts and \$2.8 million of participant assets representing 18 accounts, respectively, required collateralization. In September 2018, Nationwide Bank ceased doing business in this space, resulting in a full asset transfer to Union Bank. This contributed to an increase in collateral required for 2018 over 2017; an increase of \$14.1 million in assets and 61 participants.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates could adversely affect the fair value of the investment. The fair value of these investments was \$536.3 million and \$625.1 million as of December 31, 2018 and 2017, respectively. The individual Core investment funds containing international exposure are identified with an asterisk in the Authorized Investments table within Note 3.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Plan's investment in a single issuer. The Plan's investments are managed by several investment fund managers. The concentrations of investments are determined by the participants' elections to invest in the available investment options. The investments with percentages that exceed five (5) percent of the Plan's net position are identified in bold font in the Authorized Investments table within Note 3. Since all investments are participant directed, all risks exist at the participant level. Each individual participant within the Plan has the ability to liquidate their position on demand and has responsibility for managing their exposure.

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES
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NOTE 4 TRANSFERS

In the Combined Statement Of Changes In Fiduciary Net Position:

The *Transfers In* values include all rollovers and transfers in, SDBA transfers in, account splits transfers in, and any corrections for these request types processed on participant accounts.

The *Transfers Out* values include all rollovers and transfers out, SDBA transfers out, account splits transfers out, and any corrections for these request types processed on participant accounts.

NOTE 5 TERMINATION RIGHTS

Although it has not expressed any intent to do so, the state has the right under the Plan to discontinue employee deferrals and to terminate the Plan. Upon termination of the Plan, benefits under the Plan would be payable as provided in the Plan documents.

NOTE 6 TAX STATUS

The IRS has determined and informed the Plan by letter dated April 4, 2019 that the 457(b) Plan and related trust are designed in accordance with Section 457 of the IRC, by letter dated January 11, 2017 that the 401(k) Plan and related trust are designed in accordance with Section 401 of the IRC, by letter dated January 12, 2010 that the PST Program and related trust are designed in accordance with Section 457 of the IRC, and by letter dated July 7, 2011 that ARP and related trust are designed in accordance with 401(a) of the IRC and, as such, are not subject to tax under present income tax law. CalHR, as the Plan administrator, believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

NOTE 7 RECLASSIFICATIONS

Certain amounts in the 2017 financial statements have been reclassified to conform with the 2018 presentation. These reclassifications do not affect Fiduciary Net Position Held In Trust or changes thereon as previously reported.



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Ms. Eraina Ortega, Director
and Management of State of California, Department of Human Resources Savings Plus Program
Sacramento, California

We have audited the basic financial statements of the State of California, Department of Human Resources Savings Plus Program (the Plan), which comprise a 457(b) Plan, a 401(k) Plan, a Part-time, seasonal and Temporary Employees Retirement Program ("PST Program"), and an Alternate Retirement Program ("ARP"), as of and for the years ended December 31, 2018 and 2017, and have issued our report thereon dated May 21, 2019. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Plan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Ms. Eraina Ortega, Director
and Management of State of California, Department of Human Resources Savings Plus Program

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Plan's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information and use of the Director, Plan management, and others within the Plan, and is not intended to be and should not be used by anyone other than these specified parties.



CliftonLarsonAllen LLP

Baltimore, Maryland
May 21, 2019