

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

**FINANCIAL STATEMENTS  
WITH INDEPENDENT AUDITORS' REPORT**

**YEARS ENDED DECEMBER 31, 2017 AND 2016**

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES  
SAVINGS PLUS PROGRAM  
TABLE OF CONTENTS  
YEARS ENDED DECEMBER 31, 2017 AND 2016**

<b>INDEPENDENT AUDITORS' REPORT</b>	<b>1</b>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	<b>3</b>
<b>COMBINED FINANCIAL STATEMENTS</b>	
<b>COMBINED STATEMENT OF FIDUCIARY NET POSITION</b>	<b>11</b>
<b>COMBINED STATEMENT OF CHANGES IN FIDUCIARY NET POSITION</b>	<b>13</b>
<b>NOTES TO COMBINED FINANCIAL STATEMENTS</b>	<b>15</b>
<b>INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b>	<b>36</b>

## INDEPENDENT AUDITORS' REPORT

Mr. Richard Gillihan, 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, 2017 and 2016, 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.

Mr. Richard Gillihan, Director  
State of California, Department of Human Resources Savings Plus Program

**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, 2017 and 2016, 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 10 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 June 29, 2018, 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  
June 29, 2018

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES  
SAVINGS PLUS PROGRAM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017 AND 2016**

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.

This discussion and analysis of Savings Plus' financial performance provides an overview of the Plan's financial activities for the years ended December 31, 2017 and 2016.

### **Using the Financial Report**

This discussion and analysis is an introduction to the basic financial statements. This financial report for each Plan consists of two financial statements and the notes to the financial statements.

The 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 the 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 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 over the year, and explains the changes that have occurred to the prior year's fiduciary net positions on the Statement of Fiduciary Net Position.

Although the 457(b) Plan and the 401(k) Plan are separate, distinct retirement savings programs, 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 option. 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, and mutual funds.

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.

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES  
SAVINGS PLUS PROGRAM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017 AND 2016**

**Financial Highlights**

457(b) Plan

The following financial highlights occurred during the 457(b) Plan years ended December 31, 2017 and 2016:

- The 457(b) Plan's fiduciary net position increased from approximately \$5.929 billion to \$6.813 billion from 2016 to 2017; an increase of approximately \$884 million and \$467 million during plan years 2017 and 2016, respectively. Asset growth in both years was primarily due to an increase in net appreciation in value of investments and net contributions/withdrawals. Net appreciation in value of investments, which measures net appreciation in the fair market value of investments and interest earned on those investments, was approximately \$790 million and \$389 million in 2017 and 2016, respectively. In addition, net contributions into and withdrawals from the Plan netted a positive inflow of \$108 and \$77 million in 2017 and 2016, respectively.
- The number of 457(b) Plan participant accounts increased from 140,840 to 147,759 from 2016 to 2017; an increase of nearly 6,900 and 6,400 accounts during 2017 and 2016, respectively. Participants with 457(b) Plan accounts may have 401(k) Plan accounts as well.
- 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 Plan assets. Combined Target Date Fund assets totaled 20.1% of 457(b) Plan assets. At December 31, 2016, the five (5) largest 457(b) Plan investment options were: Large Cap Index Fund (13.8%); STIF (12.1%); Large Cap Fund (11.0%); STIF-Cash (10.4%); and Mid Cap Fund (8.6%) totaling 55.9% of Plan assets. Combined Target Date Fund assets totaled 18.7% of 457(b) Plan assets.

401(k) Plan

The following financial highlights occurred during the 401(k) Plan years ended December 31, 2017 and 2016:

- The 401(k) Plan's fiduciary net position increased from approximately \$5.886 billion to \$6.879 billion from 2016 to 2017; an increase of approximately \$994 million and \$540 million during plan years 2017 and 2016, respectively. Asset growth in both years was primarily due to an increase in net appreciation in value of investments and net contributions/withdrawals. Net appreciation in value of investments, which measures net appreciation in the fair market value of investments and interest earned on those investments, was approximately \$858 million and \$416 million in 2017 and 2016, respectively. In addition, net contributions into and withdrawals from the Plan netted a positive inflow of \$147 and \$123 million in 2017 and 2016, respectively.
- The number of 401(k) Plan participant accounts increased from 110,828 to 113,146 from 2016 to 2017; an increase of 2,300 and nearly 1,000 accounts during 2017 and 2016, respectively. Participants with 401(k) Plan accounts may have 457(b) Plan accounts as well.
- 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 Plan assets. Combined Target Date Fund assets totaled 18.7% of 401(k) Plan assets. At December 31, 2016, the five (5) largest 401(k) Plan investment options were: Large Cap Index Fund (15.8%); Large Cap Fund (12.2%); STIF (10.0%); Mid Cap Fund (9.7%); and STIF-Cash (6.8%), totaling 54.5% of Plan assets. Combined Target Date Fund assets totaled 17.8% of 401(k) Plan assets.

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES  
SAVINGS PLUS PROGRAM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017 AND 2016**

**Financial Highlights (CONTINUED)**

PST Program and ARP

The following financial highlights occurred during the Plan's years ended December 31, 2017 and 2016:

- The PST Program's fiduciary net position increased from approximately \$86 million to \$91 million from 2016 to 2017; an increase of approximately \$4.5 million and \$3.9 million during plan years 2017 and 2016, respectively. The PST Program's asset growth shows new contributions slightly outpaced transfers out and withdrawals. Net appreciation in value of investments contributed \$1.2 million and \$1.4 million during plan years 2017 and 2016, respectively.
- ARP's fiduciary net position decreased from approximately \$32 million to \$6 million from 2016 to 2017; a decrease of approximately \$26 million and \$29 million during plan years 2017 and 2016, respectively. The Plan is designed that such reduction in assets is expected at this point in the Plan's timeline. Net appreciation in value of investments contributed \$0.3 million and just under \$1.0 million during plan years 2017 and 2016, respectively.
- The total number of PST Program participant accounts increased from 92,751 to 95,367 from 2016 to 2017; an increase of nearly 2,600 accounts and nearly 10,900 accounts during 2017 and 2016, respectively.
- The number of ARP participant accounts decreased from 7,362 to 1,690 from 2016 to 2017; a decrease of nearly 5,700 accounts and nearly 4,900 accounts during 2017 and 2016, respectively. The decline in ARP accounts was anticipated as a result of the program no longer accepting new participants as of June 30, 2013. Since the majority of ARP accounts leave the program during Phase III (ARP Payout Election period), and since new accounts are not being created, the program experienced the expected decline during plan years 2017 and 2016.

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES  
SAVINGS PLUS PROGRAM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017 AND 2016**

**Financial Highlights (CONTINUED)**

Condensed Summary of 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, 2017 (in thousands):

<b>Combined Statement of Fiduciary Net Position</b>					
	<u>457(b) Plan</u>	<u>401(k) Plan</u>	<u>PST</u>	<u>ARP</u>	<u>Total</u>
<b>ASSETS</b>					
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>
<b>NET POSITION HELD IN TRUST</b>					
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>
<b>Combined Statement of Changes in Fiduciary Net Position</b>					
	<u>457(b) Plan</u>	<u>401(k) Plan</u>	<u>PST</u>	<u>ARP</u>	<u>Total</u>
<b>ADDITIONS</b>					
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>
<b>DEDUCTIONS</b>					
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>
<b>CHANGE IN NET POSITION</b>	<u>\$ 883,551</u>	<u>\$ 993,583</u>	<u>\$ 4,505</u>	<u>\$ (26,123)</u>	<u>\$ 1,855,516</u>



**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES  
SAVINGS PLUS PROGRAM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017 AND 2016**

**Financial Highlights (CONTINUED)**

Condensed Summary of 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):

<b>Combined Statement of Fiduciary Net Position</b>					
	<u>457(b) Plan</u>	<u>401(k) Plan</u>	<u>PST</u>	<u>ARP</u>	<u>Total</u>
<b>ASSETS</b>					
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>
<b>NET POSITION HELD IN TRUST</b>					
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>
<b>Combined Statement of Changes in Fiduciary Net Position</b>					
	<u>457(b) Plan</u>	<u>401(k) Plan</u>	<u>PST</u>	<u>ARP</u>	<u>Total</u>
<b>ADDITIONS</b>					
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>
<b>DEDUCTIONS</b>					
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>
<b>CHANGE IN NET POSITION</b>	<u>\$ 466,858</u>	<u>\$ 540,000</u>	<u>\$ 3,915</u>	<u>\$ (29,369)</u>	<u>\$ 981,404</u>

A condensed summary of the fiduciary net position and changes in fiduciary net position for the year ended December 31, 2015 is not available. In future reports, additional years will be added until 3 years of historical data are presented.

**Other Highlights**

Effective January 1, 2016, Savings Plus entered into agreement with Nationwide Retirement Solutions, Inc. ("Nationwide") to provide Third Party Administrator (TPA) / recordkeeping duties. Nationwide had previously been the TPA from 2001 through 2012. Hewitt Associates LLC (Aon Hewitt) provided TPA services from 2013 through 2015.

Effective June 15, 2017, Savings Plus entered into an agreement with CliftonLarsonAllen LLP (CLA) to provide annual financial audit services. CLA conducted its first audit of the Plan's financial statements of fiduciary net position and changes in fiduciary net position for plan year 2016.

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES  
SAVINGS PLUS PROGRAM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017 AND 2016**

**2017 Asset Class and Economic Discussion**

U.S. Equities

U.S. Equity has now produced nine (9) straight years of positive returns since 2008, with 2017 being one of the least volatile years in nearly four (4) decades. The largest drawdown for the year was -2.75 percent and there were only four trading days where the market was down one percent or more. Several factors contributed to this success including a rebound in global economic growth and continued strength domestically. The third quarter was the second consecutive quarter of real GDP growth in excess of three (3) percent, annualized. Businesses seem to be gaining confidence in the global economy and have been increasing spending on equipment while growing inventories near year-end, contributing more than three-quarters of a percent to real GDP growth. Strong retail sales during the fourth quarter helped raise expectations for economic growth during the final quarter of 2017.

For the year, the S&P 500 returned nearly 22% with Information Technology showing the strongest return at 37%. Energy was the biggest detractor down 2% for the year, as oil remained well below the nearly \$80 per barrel it averaged in the ten years before the collapse of oil prices in the middle of 2014.

Large Cap stocks, up 21.7%, outperformed small cap stocks, which were up 14.7%. Mid Cap stocks finished the year up 18.5%. Large Cap Growth stocks were the best performing sector, gaining 30.2% for the year. Growth outperformed Value across all market capitalizations during the year.

Savings Plus actively managed investment options yielded the following 2017 one-year results (return, benchmark, and peer universe): Socially Responsible Fund (15.98%, 14.21%, 13.05%); Large Cap Fund (22.33%, 21.69%, 21.53%); Mid Cap Fund (20.80%, 18.52%, 18.15%); Small Cap Fund (15.00%, 14.65%, 12.13%).

Savings Plus passively managed investment options yielded the following 2017 one-year results (return, benchmark, and peer universe): Large Cap Index Fund (21.66%, 21.83%, 21.53%); Mid Cap Index Fund (16.09%, 16.24%, 18.15%); Small Cap Index Fund (14.47%, 14.65%, 12.13%). The results in each case show that Savings Plus trailed the benchmark slightly, but beat the peer universe in two of the three categories.

International Equities

Equity markets outside of the U.S. produced strong returns throughout 2017, in both developed and emerging markets. Early in the year, Economic releases out of Europe suggested an improving economy, including in the manufacturing industry and with consumer sentiment. Although, Britain continued to show signs of struggling with Brexit. Despite rising political tensions in North Korea, emerging markets led all global equities during 2017 and produced their second consecutive positive annual gain.

The International Index Fund one-year performance of 27.46% trailed its benchmark, the MSCI ACWI ex US IM Index by 0.35% and trailed its peer universe by 3.30%. The actively managed International Fund one-year performance of 27.37% trailed the benchmark by 0.44% and trailed the peer universe by 3.39%.

Currencies

The Dollar Index (DXY) finished 2017 down 10.27%. For the year, relative to the U.S. Dollar, the Euro appreciated by 13.8%, the Yen appreciated by 3.5%, and the British Pound rebounded with a 9.5% appreciation in 2017.

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES  
SAVINGS PLUS PROGRAM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017 AND 2016**

**2017 Asset Class and Economic Discussion (CONTINUED)**

Fixed Income

The U.S. Treasury yield curve continued to flatten during the fourth quarter with short to intermediate term rates rising and long-term yields falling. The Federal Open Market Committee decided to increase its overnight rate by 25 basis points in March and December. Credit spreads continued to tighten through year-end.

The Bond Fund one-year performance of 7.04% beat its benchmark by 1.97%, but trailed its peer universe by 1.71%. The Bond Index Fund one-year performance of 3.40% trailed its benchmark by 0.14%, but outperformed its peer universe by 0.07%.

While rising interest rates impacted the prices on all bonds during 2017, corporate bonds continued to perform better than several other fixed income securities during the year as credit spreads continued to tighten alongside an improving economy. U.S. Corporate Bonds were up 6.4% for the year, outperforming U.S. Treasuries by 410 basis points. For 2017, high yield bonds returned 7.5%, down from 17.1% in 2016.

The Short Term Investment Fund (STIF) one-year performance of 1.32% exceeded the benchmark by 0.48%, but trailed the peer universe by 0.19%. The STIF–Cash option performance of 0.86% matched its benchmark and exceeded the peer universe by 0.28%.

Commodities and Real Assets

The Bloomberg Commodity Index finished the year up 1.7%. U.S. REITs finished the year up 7.6%, while global REITs rebounded, returning 10.0% for the year. The Bloomberg Barclays U.S. TIPS Index was up 3.0%. Alerian MLP Index (oil & gas) fell 6.5% for the year even though oil prices increased from \$53 per barrel at the beginning of the year to \$61 per barrel by year-end. This can be attributed to forecasts for rising U.S. crude output and a gloomier outlook for global demand.

The Diversified Real Return Fund returned 6.39% for the year, which exceeded the benchmark (i.e. Consumer Price Index plus 3%) and peer universe by 1.43% and 3.31%, respectively.

Economic Discussion

Investors enjoyed a combination of strong market returns and subdued risk in 2017 with major stock markets up 20% or more (Wilshire 5000® 21.0%, MSCI EAFE 25.6%, MSCI EM 37.8%). The resurgent economic growth and blockbuster corporate profits resulted in this year's booming stock market. One of the biggest likely catalysts was the sweeping tax cuts President Trump signed into law, which should save corporate America billions in taxes.

Risk-assets have posted short-term returns that defy the nearly universally accepted understanding that global markets are stuck in a "low return" environment. The accommodative, "do whatever it takes" monetary policy of recent years has been a primary factor in suppressing risk. However, more recently, optimism over fiscal stimulus from tax and regulatory reforms has also contributed to dampen market risks. These low realized risks trigger some anxiety as to what the future might hold. Occasional market downdrafts and their accompanying spikes in volatility can lead to a healthier long-term market as they serve to relieve pressure by continuously reminding investors of inherent risks.

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES  
SAVINGS PLUS PROGRAM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2017 AND 2016**

**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](http://savingsplusnow.com) or by calling (855) 616-4776.

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

	<u>457(b) Plan</u>	<u>401(k) Plan</u>	<u>PST</u>	<u>ARP</u>	<u>Total</u>
<b>ASSETS</b>					
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 Option	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>
<b>NET POSITION HELD IN TRUST</b>					
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 FIDUCIARY NET POSITION  
DECEMBER 31, 2016  
(In Thousands)**

	<u>457(b) Plan</u>	<u>401(k) Plan</u>	<u>PST</u>	<u>ARP</u>	<u>Total</u>
<b>ASSETS</b>					
Investments:					
Short-Term Investments	\$ 1,304,585	\$ 966,295	\$ 85,148	\$ 31,920	\$ 2,387,948
Investment Options	4,179,245	4,483,150	-	-	8,662,395
Self-Directed Brokerage Option	301,015	306,452	-	-	607,467
Total Investments	<u>5,784,845</u>	<u>5,755,897</u>	<u>85,148</u>	<u>31,920</u>	<u>11,657,810</u>
Receivables:					
Contributions Receivable	31,936	30,007	1,122	-	63,065
Loans Receivable from Participants	112,305	100,010	-	-	212,315
Total Receivables	<u>144,241</u>	<u>130,017</u>	<u>1,122</u>	<u>-</u>	<u>275,380</u>
 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>
<b>NET POSITION HELD IN TRUST</b>					
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>

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
<b>ADDITIONS</b>					
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 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>
<b>DEDUCTIONS</b>					
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	<u>3,905</u>	<u>3,138</u>	<u>4</u>	<u>26</u>	<u>7,073</u>
Total Deductions	<u>463,449</u>	<u>376,283</u>	<u>21,640</u>	<u>26,563</u>	<u>887,935</u>
<b>CHANGE IN NET POSITION</b>	883,551	993,583	4,505	(26,123)	1,855,516
Net Position - Beginning of Year	<u>5,929,086</u>	<u>5,885,914</u>	<u>86,270</u>	<u>31,920</u>	<u>11,933,190</u>
<b>NET POSITION - END OF YEAR</b>	<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, 2016  
(In Thousands)**

	457(b) Plan	401(k) Plan	PST	ARP	Total
<b>ADDITIONS</b>					
Contributions:					
Employee Contributions (Adjustments)	\$ 352,807	\$ 331,031	\$ 24,573	\$ (782)	\$ 707,629
Transfers In	150,980	148,784	510	401	300,675
Total Contributions	<u>503,787</u>	<u>479,815</u>	<u>25,083</u>	<u>(381)</u>	<u>1,008,304</u>
Investment Income:					
Net Appreciation in Value of Investments	389,261	416,235	1,421	974	807,891
Interest Income from Participant Loans	1,783	2,444	-	-	4,227
Net Loan Activity	2,287	1,222	-	-	3,509
Net Investment Income	<u>393,331</u>	<u>419,901</u>	<u>1,421</u>	<u>974</u>	<u>815,627</u>
Total Additions	<u>897,118</u>	<u>899,716</u>	<u>26,504</u>	<u>593</u>	<u>1,823,931</u>
<b>DEDUCTIONS</b>					
Withdrawals:					
Benefits and Withdrawals	164,068	99,732	5,524	3,093	272,417
Loan Defaults	674	388	-	-	1,062
Transfers Out	262,077	256,767	17,061	26,837	562,742
Total Withdrawals	<u>426,819</u>	<u>356,887</u>	<u>22,585</u>	<u>29,930</u>	<u>836,221</u>
Administrative Expenses	<u>3,441</u>	<u>2,829</u>	<u>4</u>	<u>32</u>	<u>6,306</u>
Total Deductions	<u>430,260</u>	<u>359,716</u>	<u>22,589</u>	<u>29,962</u>	<u>842,527</u>
<b>CHANGE IN NET POSITION</b>	466,858	540,000	3,915	(29,369)	981,404
Net Position - Beginning of Year	<u>5,462,228</u>	<u>5,345,914</u>	<u>82,355</u>	<u>61,289</u>	<u>10,951,786</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 5,929,086</u>	<u>\$ 5,885,914</u>	<u>\$ 86,270</u>	<u>\$ 31,920</u>	<u>\$ 11,933,190</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, 2017 AND 2016**

**NOTE 1 DESCRIPTION OF THE PLANS**

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 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 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 employees who are not covered by CalPERS, Social Security, or other specified state retirement plans.

The purpose of ARP (a mandatory program) is 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.

**Staff Support**

Savings Plus staff provides primary support to the Director of CalHR in the Director's role as the 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; serves as liaison to the 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, 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, 2017 AND 2016**

**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 Plans.

**Administration**

Savings Plus operates in an "unbundled" program structure. Currently, Nationwide serves as Savings Plus' TPA. Nationwide provides consolidated recordkeeping services, a self-directed brokerage account option, 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; Investment 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**

Participants' 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 a self-directed brokerage account option 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 a self-directed brokerage account option.

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES  
SAVINGS PLUS PROGRAM  
NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 1 DESCRIPTION OF THE PLANS (CONTINUED)**

**Portfolio Structure (Continued)**

Savings Plus' Main Plan investment strategies are currently offered through twenty-seven (27) separate accounts, four (4) commingled trust funds, and three (3) mutual funds.

The Qualified Default Investment Alternative (QDIA) for new enrollees is the Target Date Fund that aligns with their date of birth. The asset allocations in the Target Date Funds are rebalanced each year, 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 for assets in the STIF-PST and STIF-ARP 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](http://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: <http://www.dgs.ca.gov/ols/Resources/StateContractManual.aspx>. 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. During 2016 through March 2017, participants were permitted to take up to two loans per plan and the minimum loan amount was \$2,500.

The loan provisions were modified effective April 1, 2017. The changes re-established the minimum account balance required to take a loan from \$5,000 to \$10,000, modified the number of loans allowable from two loans per plan to one loan per plan, not to exceed two outstanding loans across both 401(k) and 457(b) plans, and increased the minimum loan amount from \$2,500 to \$5,000.

For 2017 and 2016, the maximum loan amount is the lesser of 50 percent of plan account balance by plan minus outstanding loan balances from all state-sponsored plans on the date of the loan or \$50,000 minus highest outstanding loan balances from all state-sponsored plans within the last 12 months. The participant is charged a one-time \$50 loan initiation fee.

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, 2017 AND 2016**

**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 will be effective on the first day of the next calendar quarter. As of December 31, 2017, the loan interest rate was 5.25 percent. As of December 31, 2016, the loan interest rate was 4.50 percent.

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

Participants may transfer assets from their Core investments to a self-directed brokerage account option. This allows participants to direct investments to a marketplace of retail investment options other than those available in the Core investment lineup. The PCRA 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 self-directed brokerage account.

**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 the \$1.50 monthly administrative fee against ARP accounts that maintain a balance after completion of the Phase III payout election process (see Note 1, Payment of Benefits).

**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**

For the 457(b) Plan and the 401(k) Plan, contributions by eligible employees are voluntary. Participants predominantly contribute salary on a pre-tax basis. The State Controller's Office (SCO) is the primary payer of salary and processor of deductions of Savings Plus contributions. Savings Plus also permits contributions on an after-tax (Roth) basis. Aside from the SCO, there are a small number of payroll offices (e.g., Senate, Assembly, Legislative Analyst, District Fairs) who submit their contribution data separately.

For 2017 and 2016, the IRS announced the limits on contributions as follows:

Normal Deferrals	\$18,000
Aged-Based Deferrals (age 50 or older)	\$6,000
Traditional Catch-up deferrals (457(b) Plan only)	up to \$36,000

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES  
SAVINGS PLUS PROGRAM  
NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 1 DESCRIPTION OF THE PLANS (CONTINUED)**

**Contributions (Continued)**

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.

There are two catch-up provisions that allow participants to contribute more than the standard annual deferral limits if they are closer to retirement and eligible to participate:

- Age-Based Deferrals – For 2017 and 2016, 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 2017 and 2016, participants within the three 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 options in their 457(b) Plan.

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. This may allow the participant to maximize their contribution and defer taxes, while offering more flexibility with future distribution options.

For 2017 and 2016, participants who separated from service on or after November 1 could defer their Lump Sum Pay to their Savings Plus account into the following tax year, allowing them to potentially maximize contributions for both the current and following tax years.

Savings Plus added in-plan Roth conversion provisions to the Main Plan in 2016. All pre-tax contribution sources, not including outstanding loans and balances invested in the PCRA, 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% 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, 2017 AND 2016**

**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 2017 or 2016, state departments made corrections to personnel records of employees who were erroneously appointed into ARP. These corrections/contribution adjustments account for the (\$249,000) and (\$782,000) on the Employee Contributions (Adjustments) line item within the 2017 and 2016 Combined Statement of Changes in Fiduciary Net Position financial statements, respectively.

**Payment of Benefits**

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 turned 50; or attainment of age 59½ regardless of their 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 the PST Program distributions, the participant must be separated from state service and have not had a contribution 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).

For the 457(b) Plan and the 401(k) Plan, participants have the following payment options: 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 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, 2017 AND 2016**

**NOTE 1 DESCRIPTION OF THE PLANS (CONTINUED)**

**In-Service Distributions**

A 457(b) Plan participant who experiences an unforeseeable emergency (as defined by the Code) 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 Code) may apply in writing for a Hardship Withdrawal of their contributions. Participants may not request payment of a 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 an outstanding or defaulted loan, 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.

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES  
SAVINGS PLUS PROGRAM  
NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 delinquent loans identified by the TPA are disbursed from the participant's account through a deemed taxable distribution. 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, 2017 and 2016.

In the Combined Statement Of Changes In Fiduciary Net Position financial statement: the *Net Loan Activity* values include the net of all loan disbursements and loan repayments.

**Short Term Investments**

Short Term Investments consist of the Short Term Investment Fund (STIF) and the Short Term Investment Fund–Cash (STIF–Cash) investment 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 Federal Deposit Insurance Corporation (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**

Funds held by the state may be invested in corporate stocks, bonds, and 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.



**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES  
SAVINGS PLUS PROGRAM  
NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 3 INVESTMENTS (CONTINUED)**

**Authorized Investments (Continued)**

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.

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 Plans' *Investment Policy Statement (IPS)* indicates that investment vehicles may consist of mutual funds, commingled investment trusts, and separate accounts. Investments made through mutual funds, commingled investment trusts, and separate accounts are governed by the respective fund's investment guidelines outlined in the prospectus/fact sheet, and investment advisory agreements respectively.

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES  
SAVINGS PLUS PROGRAM  
NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**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 a self-directed brokerage option (PCRA). The investment options and Assets Under Management (in thousands) consisted of the following at December 31, 2017:

Investments Participant Directed	2017					
	457(b) Plan Balance	401(k) Plan Balance	PST Balance	ARP Balance	Total Plan Balance	% of Total AUM <sup>†</sup>
STIF-Cash	\$ 585,925	\$ 385,089	\$ -	\$ -	\$ 971,014	<b>7.2%</b>
STIF	689,564	563,669	89,684	5,797	1,348,714	<b>10.0%</b>
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	<b>15.3%</b>
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	<b>11.8%</b>
Mid Cap*	573,659	652,790	-	-	1,226,449	<b>9.1%</b>
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	<b>5.3%</b>
Balance as of 12/31/2017	\$ 6,673,913	\$ 6,755,274	\$ 89,684	\$ 5,797	\$ 13,524,668	100.0%

<sup>†</sup>Percentages in bold face font = investments with five percent or greater of total Plan AUM

\*Represents international strategy/exposure contained within this investment option

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES  
SAVINGS PLUS PROGRAM  
NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 3 INVESTMENTS (CONTINUED)**

**Authorized Investments (Continued)**

The investment options and Assets Under Management (in thousands) consisted of the following at December 31, 2016:

2016						
Investments Participant Directed	457(b) Plan Balance	401(k) Plan Balance	PST Balance	ARP Balance	Total Plan Balance	% of Total AUM <sup>†</sup>
STIF-Cash	\$ 604,338	\$ 392,783	\$ -	\$ -	\$ 997,121	<b>8.6%</b>
STIF	700,247	573,512	85,148	31,920	1,390,827	<b>11.9%</b>
<b>Short-Term Investments</b>	<b>1,304,585</b>	<b>966,295</b>	<b>85,148</b>	<b>31,920</b>	<b>2,387,948</b>	<b>20.5%</b>
TDF Income*	145,192	121,585	-	-	266,777	2.3%
TDF 2015*	131,910	150,119	-	-	282,029	2.4%
TDF 2020*	202,127	216,524	-	-	418,651	3.6%
TDF 2025*	179,207	190,239	-	-	369,446	3.2%
TDF 2030*	138,495	140,461	-	-	278,956	2.4%
TDF 2035*	115,211	101,112	-	-	216,323	1.9%
TDF 2040*	83,328	56,765	-	-	140,093	1.2%
TDF 2045*	62,352	32,538	-	-	94,890	0.8%
TDF 2050*	17,402	11,264	-	-	28,666	0.2%
TDF 2055*	3,334	1,302	-	-	4,636	0.1%
TDF 2060*	3,287	3,569	-	-	6,856	0.1%
Bond Index	266,374	287,132	-	-	553,506	4.7%
Large Cap Index	796,062	908,655	-	-	1,704,717	<b>14.6%</b>
Mid Cap Index	210,974	224,224	-	-	435,198	3.7%
Small Cap Index	120,045	120,496	-	-	240,541	2.1%
International Index*	81,430	97,847	-	-	179,277	1.5%
Socially Responsible	85,666	96,996	-	-	182,662	1.6%
Bond*	93,682	95,849	-	-	189,531	1.6%
Large Cap	636,869	705,063	-	-	1,341,932	<b>11.5%</b>
Mid Cap*	499,077	560,756	-	-	1,059,833	<b>9.1%</b>
Small Cap	155,377	179,800	-	-	335,177	2.9%
International*	138,262	165,721	-	-	303,983	2.6%
Diversified Real Return*	13,582	15,133	-	-	28,715	0.2%
<b>Investment Options</b>	<b>4,179,245</b>	<b>4,483,150</b>	<b>-</b>	<b>-</b>	<b>8,662,395</b>	<b>74.3%</b>
Self-Directed Brokerage Account	301,015	306,452	-	-	607,467	<b>5.2%</b>
<b>Balance as of 12/31/2016</b>	<b>\$ 5,784,845</b>	<b>\$ 5,755,897</b>	<b>\$ 85,148</b>	<b>\$ 31,920</b>	<b>\$ 11,657,810</b>	<b>100.0%</b>

<sup>†</sup>Percentages in bold face font = investments with five percent or greater of total Plan AUM

\*Represents international strategy/exposure contained within this investment option

**Loans Receivable**

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. At December 31, 2016, outstanding participant loans totaled \$212.3 million, with \$112.3 million in the 457(b) Plan and \$100.0 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  
SAVINGS PLUS PROGRAM  
NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 3 INVESTMENTS (CONTINUED)**

**Investments Authorized by Debt Agreements**

Except for the self-directed brokerage account, Plan investment options do not include individual bond issuances. Bond exposure is limited to open-end investment options provided through Amundi Smith Breeden LLC, T. Rowe Price Associates, Inc. (through September, 2017), Amundi Pioneer Institutional Asset Management, Inc. (effective October 2017), and BlackRock Financial Management, Inc. through the Bond Fund and the Bond Index Fund; Janus Capital Management LLC and Wells Capital Management, Inc. through the STIF option; and Boston Trust & Investment Management Company through the Socially Responsible Fund.

**Disclosure about Fair Value of Financial Instruments**

Savings Plus investments are recorded at fair value as of December 31, 2017 and 2016. 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  
NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**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, 2017 and 2016:

	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)
<b>Investments at Fair Value</b>				
Investment Options	\$ 9,202,466	\$ 7,688,586	\$ 1,513,880	\$ -
Self-Directed Brokerage Option	721,696	701,284	20,412	-
Short-Term Investments	1,024,991	-	1,024,991	-
Total Investments at Fair Value	<u>10,949,153</u>	<u>8,389,870</u>	<u>2,559,283</u>	<u>-</u>
<b>Investments at Amortized Cost</b>				
Investment Options	112,954			
Short-Term Investments	1,294,737			
Total Investments at Amortized Cost	<u>1,407,691</u>			
<b>Investments at Net Asset Value</b>				
Investment Options	1,167,824			
Total Investments at Net Asset Value	<u>1,167,824</u>			
Total Investments	<u>\$ 13,524,668</u>	<u>\$ 8,389,870</u>	<u>\$ 2,559,283</u>	<u>\$ -</u>

	At 12/31/2016	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)
<b>Investments at Fair Value</b>				
Investment Options	\$ 7,671,016	\$ 5,733,161	\$ 1,937,855	\$ -
Self-Directed Brokerage Option	607,467	594,602	12,865	-
Short-Term Investments	1,115,494	337,032	778,462	-
Total Investments at Fair Value	<u>9,393,977</u>	<u>6,664,795</u>	<u>2,729,182</u>	<u>-</u>
<b>Investments at Amortized Cost</b>				
Investment Options	109,401			
Short-Term Investments	1,272,454			
Total Investments at Amortized Cost	<u>1,381,855</u>			
<b>Investments at Net Asset Value</b>				
Investment Options	881,978			
Total Investments at Net Asset Value	<u>881,978</u>			
Total Investments	<u>\$ 11,657,810</u>	<u>\$ 6,664,795</u>	<u>\$ 2,729,182</u>	<u>\$ -</u>

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES  
SAVINGS PLUS PROGRAM  
NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**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, 2017 and 2016:

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

	Investments Measured at Net Asset Value			
	At 12/31/2016	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Investment Options <sup>(1)</sup>	\$ 881,978	\$ -	Daily	1-3 Days
Total Investments at Net Asset Value	<u>\$ 881,978</u>	<u>\$ -</u>		

<sup>(1)</sup> 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 Plans 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) 102.0 percent of the fair value for Dollar denominated securities secured by Dollar denominated government securities, (2) 102.0 percent for non-Dollar denominated securities secured by government securities in the same denomination as the lent securities, (3) 105.0 percent for Dollar denominated securities secured by non-Dollar denominated government securities, and (4) 105.0 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, 2017 AND 2016**

**NOTE 3 INVESTMENTS (CONTINUED)**

**Securities Lending (Continued)**

The types of securities available for loan during the year ended December 31, 2017 and 2016 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, 2017 and 2016, the fair value of securities on loan was \$391.2 million and \$193.9 million, the fair value of the bonds on loan was \$112.0 million and \$61.8 million, totaling \$503.2 million and \$255.8 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 2017 and 2016 was \$1.044 million and \$1.547 million, respectively. Securities Lending fees for 2017 and 2016 were \$0.209 million and \$0.309 million, respectively. Net income to the Plan for 2017 and 2016 was \$0.835 million and \$1.237 million, respectively.

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, 2017 and 2016, 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, 2017 AND 2016**

**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 have 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 depict the December 31, 2017 and 2016 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. Market value (in thousands) and weighted average maturity (in years) for each applicable investment and its respective fund(s) are as follows:

Investment	Fund(s)	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>	



**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES  
SAVINGS PLUS PROGRAM  
NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 3 INVESTMENTS (CONTINUED)**

**Interest Rate Risk (Continued)**

Investment	Fund(s)	Value at 12/31/2016	Weighted Average Maturity
BlackRock Bond Index	TDF Income Fund, TDF 2015 - 2060 Funds, Bond Index Fund, Bond Fund	\$ 854,837	13.42
Wells Capital Management Fixed Income	STIF Fund, TDF Income Fund, TDF 2015 - 2040 Funds	778,461	2.58
Janus Capital Management Short Duration Bond	STIF Fund, TDF Income Fund, TDF 2015 - 2040 Funds	847,736	2.59
Amundi Global Fixed Income	TDF Income Fund, TDF 2015 - 2060 Funds, Bond Fund	191,391	8.35
Boston Trust Socially Responsible Fund	Socially Responsible Fund	51,891	6.16
T. Rowe Price Core Plus Bond	TDF Income Fund, TDF 2015 - 2060 Funds, Bond Fund	205,324	14.31
BlackRock Government Money Market	STIF-Cash Fund, TDF Income Fund, TDF 2015 - 2040 Funds	194,682	0.25
RBC Government Money Market	STIF-Cash Fund, TDF Income Fund, TDF 2015 - 2040 Funds	426,525	0.20
Northern Trust TIPS	TDF Income Fund, TDF 2015 - 2060 Funds, Diversified Real Return Fund	100,962	8.26
		<u>\$ 3,651,809</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  
NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**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 <sup>1</sup>								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	<u>215,519</u>	<u>516,929</u>	<u>452,436</u>	<u>653,549</u>	<u>140,905</u>	<u>19,588</u>	<u>384</u>	<u>1,414,029</u>	<u>3,413,339</u>
Other Investments Not Subject to Credit Risk <sup>2</sup>									<u>10,111,329</u>
Total Investments	<u>\$ 215,519</u>	<u>\$ 516,929</u>	<u>\$ 452,436</u>	<u>\$ 653,549</u>	<u>\$ 140,905</u>	<u>\$ 19,588</u>	<u>\$ 384</u>	<u>\$ 1,414,029</u>	<u>\$ 13,524,668</u>

<sup>1</sup> 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.

<sup>2</sup> 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  
NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 3 INVESTMENTS (CONTINUED)**

**Credit Risk (Continued)**

The following table presents the fixed income investments held within the investment options at December 31, 2016 (in thousands), categorized to give an indication of the level of credit risk assumed by Savings Plus:

Investments	Credit Rating <sup>1</sup>								Fair Value
	AAA	AA	A	BBB	BB	B	CCC & Below	Not Rated	
Asset Backed	\$ 123,383	\$ 7,258	\$ -	\$ 7,664	\$ -	\$ -	\$ -	\$ -	\$ 138,305
CMO/REMIC	380	10,405	95	-	-	-	-	391	11,271
Commercial Mortgage Backed Securities	37,091	3,599	-	-	-	-	-	175	40,865
Corporate Bonds	19,814	67,784	339,097	624,665	158,282	8,763	854	405	1,219,664
Government Bonds	30,673	92,428	10,855	23,143	19,789	-	-	-	176,888
Mortgage Backed Securities	-	195,992	-	-	-	-	-	-	195,992
Municipal Bonds	236	5,617	16,572	2,802	-	-	-	-	25,227
STIF	-	-	-	-	-	-	-	1,373,663	1,373,663
Total	<u>211,577</u>	<u>383,083</u>	<u>366,619</u>	<u>658,274</u>	<u>178,071</u>	<u>8,763</u>	<u>854</u>	<u>1,374,634</u>	<u>3,181,875</u>
Other Investments Not Subject to Credit Risk <sup>2</sup>									<u>8,475,935</u>
Total Investments	<u>\$ 211,577</u>	<u>\$ 383,083</u>	<u>\$ 366,619</u>	<u>\$ 658,274</u>	<u>\$ 178,071</u>	<u>\$ 8,763</u>	<u>\$ 854</u>	<u>\$ 1,374,634</u>	<u>\$ 11,657,810</u>

<sup>1</sup> 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.

<sup>2</sup> 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  
NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**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 Plans' policy for custodial credit risk requires that deposits in the Short Term Investment Fund—Cash held by Nationwide Bank, Union Bank, and Bank of Oklahoma be insured by the Federal Deposit Insurance Corporation (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, 2017 and 2016, approximately \$2.8 million of participant assets representing 590 accounts and \$2.3 million of participant assets representing 580 accounts, respectively, required collateralization.

**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 \$625,100,503 and \$475,008,058 as of December 31, 2017 and 2016, respectively. The individual core investment funds containing international strategies are identified in 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 fund managers. The concentrations of investments are determined by the participants' elections to invest in the available investment options. The investment percentages of Assets Under Management are identified in Note 3 with percentages that exceed five (5) percent of the Plan's net position in bold font. 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.

**NOTE 4 TRANSFERS**

In the Combined Statement Of Changes In Fiduciary Net Position financial statement:

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

The *Transfers Out* values include all account splits, external plan-to-plan transfers, in-plan Roth rollovers, rollovers out, transfers out, and PCRA transfers out, and any corrections for these request types processed on participant accounts.

**STATE OF CALIFORNIA, DEPARTMENT OF HUMAN RESOURCES  
SAVINGS PLUS PROGRAM  
NOTES TO COMBINED FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 5 PLAN TERMINATION**

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 January 12, 2010 that the 457(b) Plan and related trust are designed in accordance with Section 457 of the Internal Revenue Code (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. 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 2016 financial statements have been reclassified to conform with the 2017 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**

Mr. Richard Gillihan, 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, 2017 and 2016, and have issued our report thereon dated June 29, 2018. We conducted our audit 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 audit, 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 audit 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.

Mr. Richard Gillihan, 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 audit 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  
June 29, 2018