

CalPERS Funding Risk Mitigation Policy

History, Current Status, Next Steps

July 15, 2021

Welcome



Michael Cohen
Chief Financial Officer



Scott Terando
Chief Actuary



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*Stakeholder Strategy
Manager*

Agenda

1. History and purpose of the risk mitigation policy
2. Conditions for triggering the policy
3. Timing and sequence for implementing policy outcomes
4. Context within the ALM process
5. Impacts on employer and employee contribution rates
6. Opportunities for stakeholder engagement

History

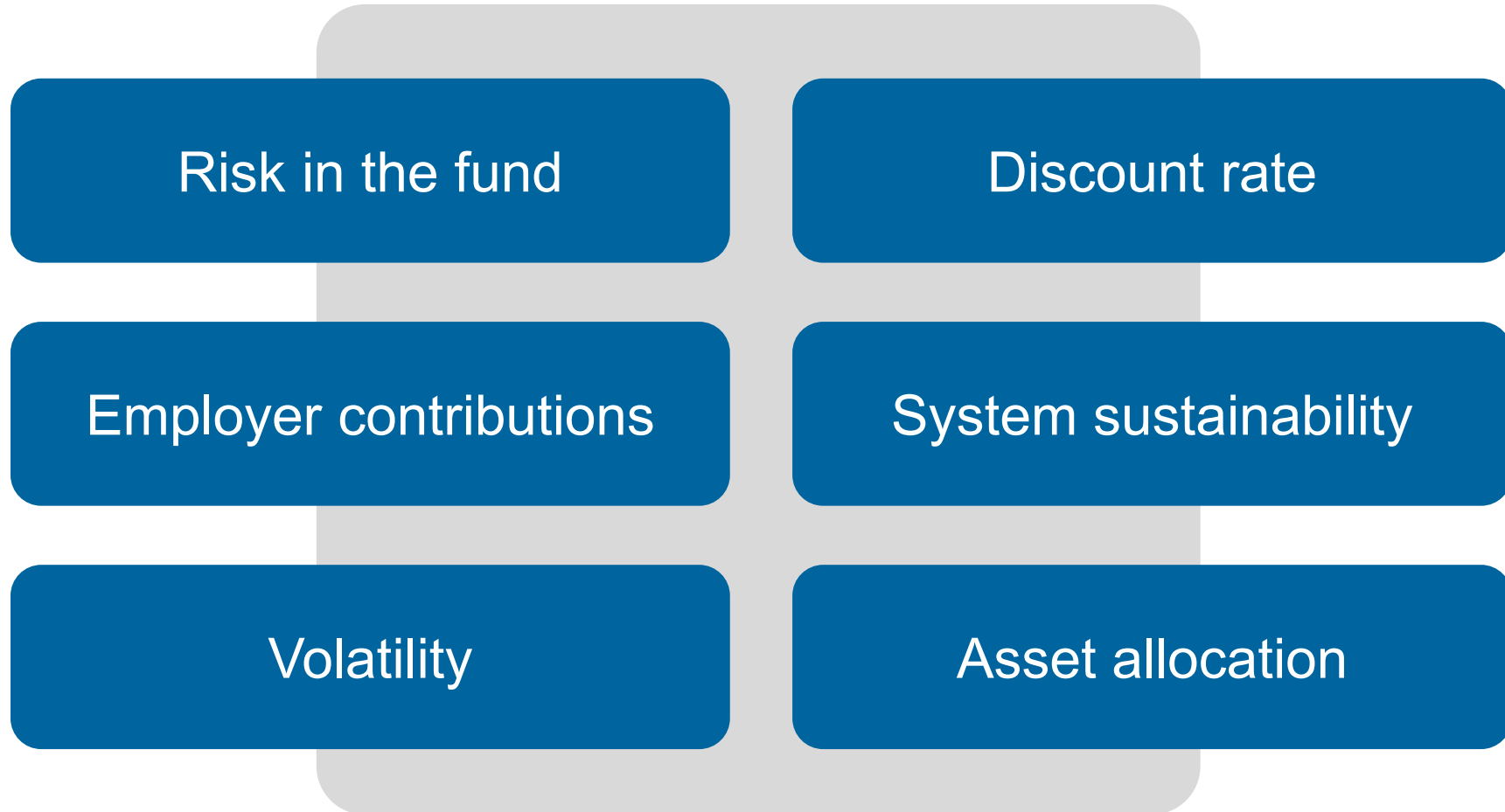
Adopted by CalPERS Board
in 2015

Had not been triggered
from 2015-2021

Temporarily suspended
while discount rate phased to
7% over three years

Triggered by June 30, 2021 FY
investment returns

Purpose



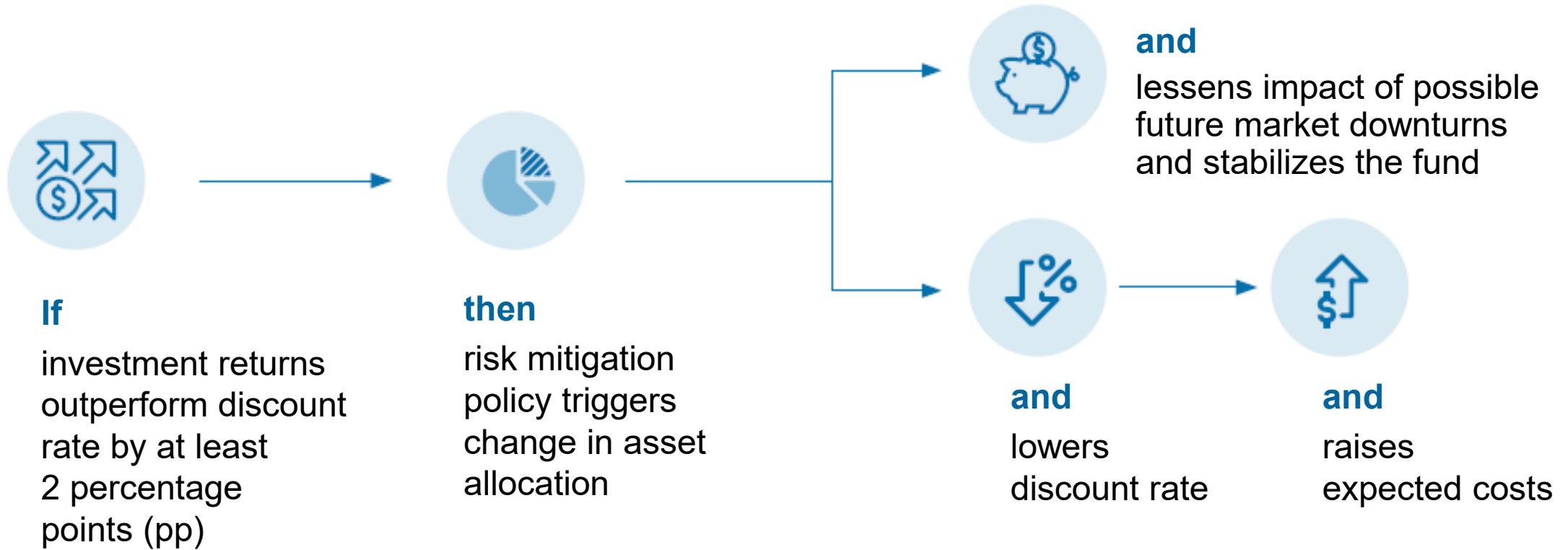
How the Policy Mitigates Pension Funding Risk to the Investment Portfolio

Lowers the discount rate in years of good investment returns

Lowers investment volatility over time

Provides greater predictability and less volatility in contribution rates for employers

How Risk Mitigation Policy Works



Conditions for Triggering the Policy



If investment returns outperform discount rate by:

+2 pp → 9%

+7 pp → 14%

+10 pp → 17%

+13 pp → 20%

+17 pp → 24%



then resulting discount rate will be:

6.95%

6.90%

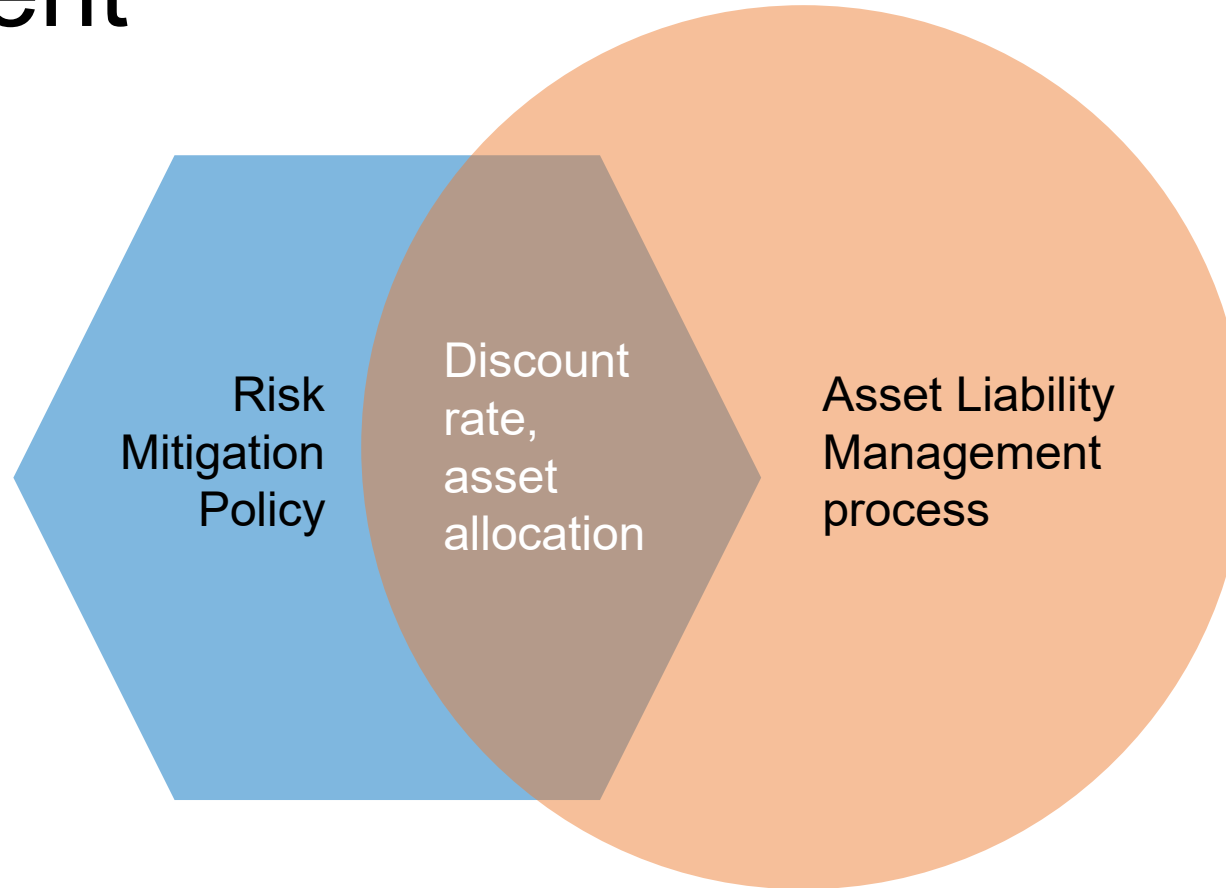
6.85%

6.80%

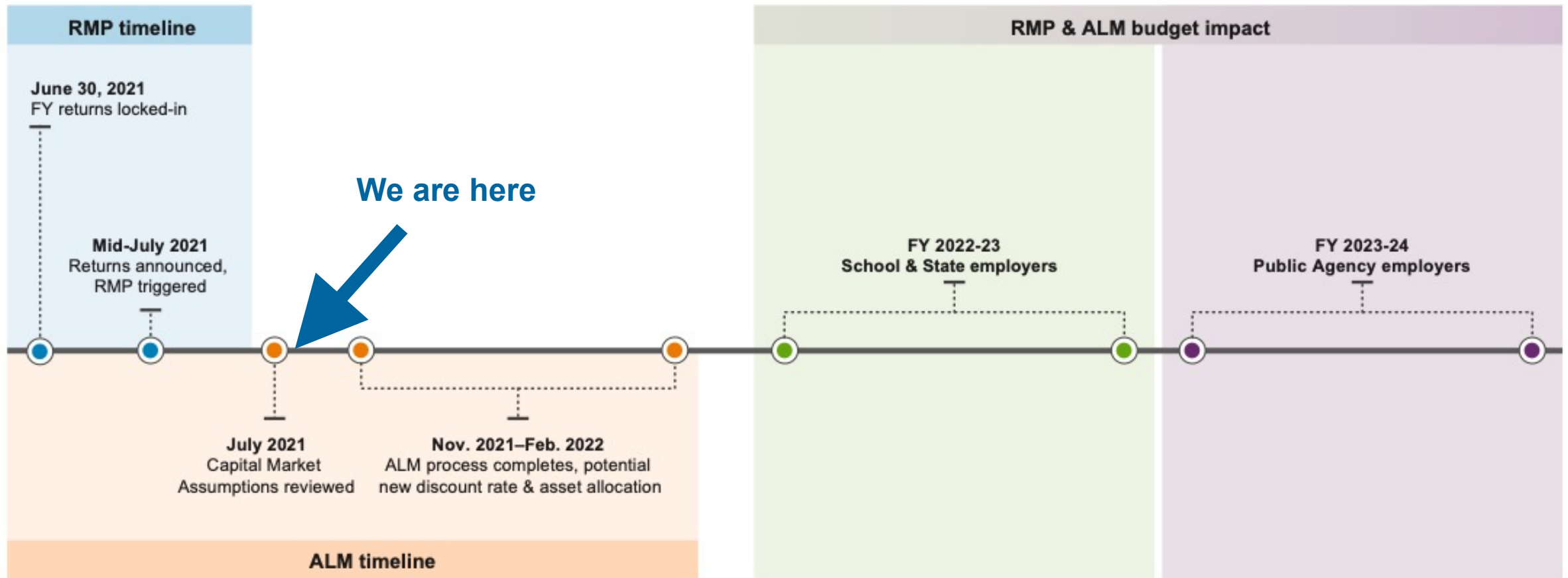
6.75%

← **We are here**

Risk Mitigation Policy and Asset Liability Management



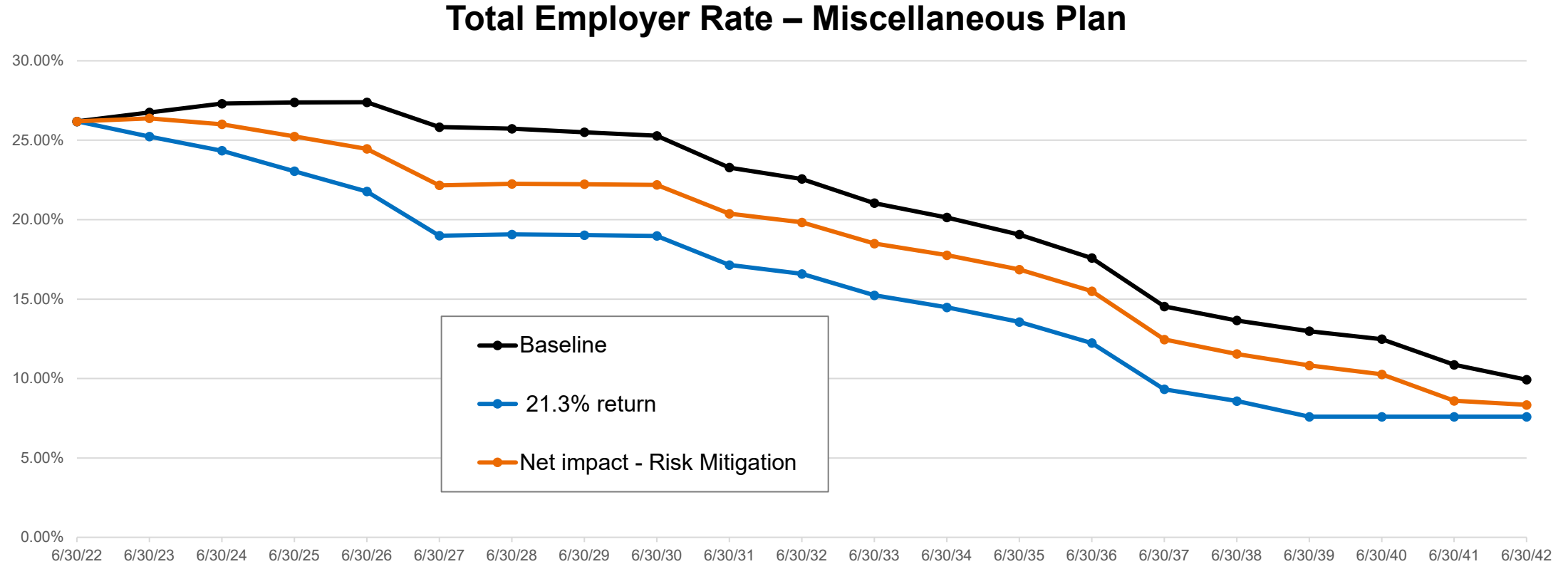
Implementation



What Happens to Employer/Employee Contribution Rates with the 21.3% Return

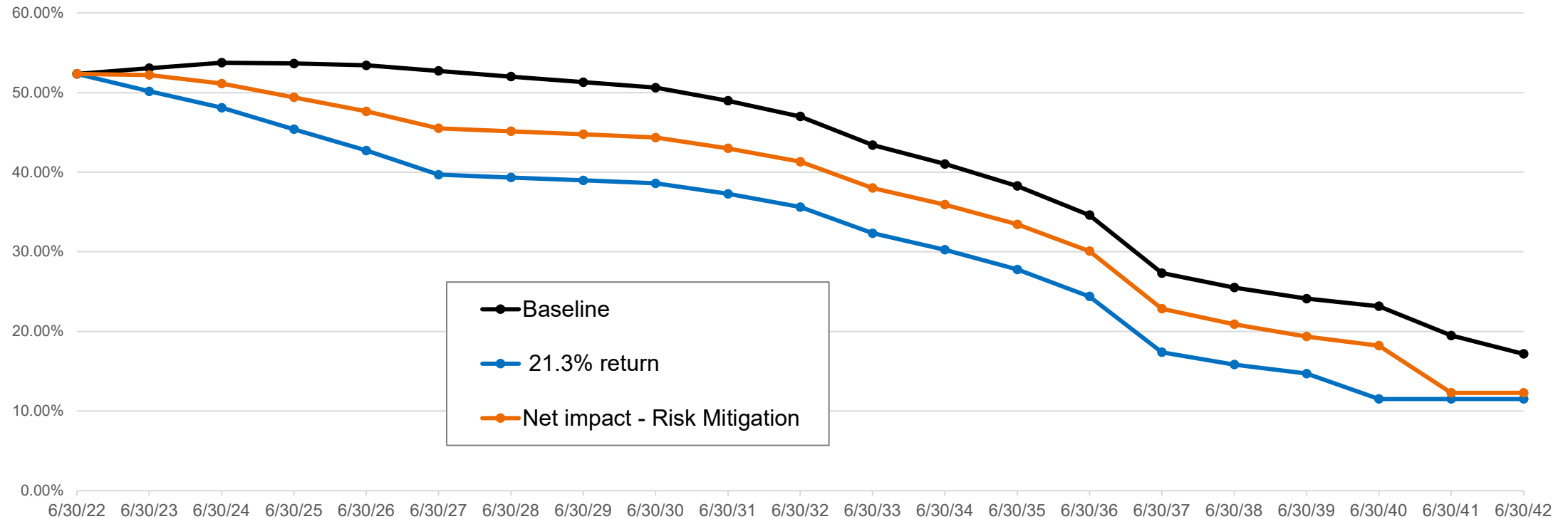
- Discount rate will reduce to **6.80%**
- CalPERS Asset Allocation will not immediately change significantly until the ALM process concludes
- Classic member contribution rates – no change
- PEPRA member contribution rates – potential rate increase of approximately 0.5% increase for some members
- Retirees – no change

Sample City – Miscellaneous Plan



Sample City – Safety Plan

Total Employer Rate – Safety Plan



Sample PEPRA Member Impacts

Example 1	Base Rate	Discount Rate 7%	Discount Rate 6.80%
Total Normal Cost	13.50%	14.35%	15.10%
Employee Rate	6.75%	6.75% →	7.50%

Example 2	Base Rate	Discount Rate 7%	Discount Rate 6.80%
Total Normal Cost	14.20%	14.35%	15.10%
Employee Rate	7.00%	7.00% →	7.00%

Opportunities for stakeholder engagement



* Board offsite

Quarterly stakeholder webinars throughout the ALM process:
January 20, April 27, August 3, and September 15, 2021

Questions