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September 25, 2012

Mr. Henry Jones
Chair, Investment Committee
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

Re: Updates to Risk-Based and Target Retirement Date Funds Policy

You requested our opinion regarding the updates presented by Staff within the Risk-Based and Target Retirement Date Funds policy.

Recommendation

Staff's revisions update and clarify the policy concerning the target retirement date funds as well as improve the description within the policy regarding how the target date "glideslope" is calculated. These updates and changes do not affect the substance of the policy or how the funds will be managed. As a result, Wilshire recommends that the Investment Committee approve this policy as presented.

Discussion

Target Retirement Date funds have dramatically grown in popularity over the last decade throughout the investment industry and are becoming a common investment vehicle for savers of all ages. We were an advocate for adding these funds as an option to the Supplemental Income Plans when CalPERS chose to do so several years ago.

At the time, the policy governing these portfolios spelled out the asset allocation by age for each participant, assuming each person who invested in these plans did so in a perfectly rational and predictable manner based on their current age and their predicted retirement age. In reality, individuals often tend to invest in these funds dramatically differently than what economists might predict. Spousal income, other savings, post-retirement employment plans, estate planning, and a variety of other issues may lead people to invest in target retirement date funds with different target dates than the simple predicted retirement age.

The new version of this policy spells out the asset allocation in each fund by target retirement year, more clearly defining the return and risk expectations for participants in each fund. We have discussed with Staff the fact that this is still a bit of a cumbersome presentation and will require annual updates, but this appears to be the clearest manner of presenting this information that either of us have thought of. We are working with Staff to brainstorm a simpler way of presenting this data in future versions of this policy.

Should you require anything further or have any questions, please do not hesitate to contact us.

Best regards,

