Board of Administration

California Public Employees' Retirement System

Workshop

May 20, 2015

ITEM NAME: Workshop – Pension Funding Risk and Risk Mitigation Strategy

PROGRAM: Actuarial, Investment, and Financial Offices

ITEM TYPE: Information

EXECUTIVE SUMMARY

This workshop will build upon previous discussions about the risks faced in the funding of the Public Employees' Retirement System and how these risks are changing. It will introduce refinements to the previously discussed concepts to mitigate the risks outlined. In addition, the workshop will engage the Board in a discussion of these risk mitigation concepts and seek guidance from the Board regarding the strategy.

STRATEGIC PLAN

This agenda item supports Strategic Plan Goal A – to improve long-term pension and health benefit sustainability. It specifically addresses the objective to fund the system through an integrated view of pension assets and liabilities.

BACKGROUND

In February 2015, staff did a workshop for the Board to provide an overview of the funding risks faced in the funding of the Public Employees' Retirement System, how these risks are changing, and introduced several concepts that could be applied to mitigate these risks.

During the discussion that took place at that workshop, the Board expressed a desire to further explore two possible risk mitigation strategies. In this workshop, staff will be providing more detailed information on these two risk mitigation strategies.

ANALYSIS

Reducing the risk in the funding of the system will be difficult because it will involve tradeoffs between short and long-term considerations. Last February, staff presented a workshop to the Board where several risk mitigation concepts were discussed. During that workshop, the Board expressed a desire to further explore two risk mitigation approaches. These two approaches are:

- Flexible glide path – lowering the discount rate and expected investment volatility following a great investment return
- Blended glide path – similar to the flexible glide path but with check points over time that would trigger additional asset allocation changes and lowering of the

discount rate if investment returns did not result in a sufficient reduction in volatility.

During the workshop, these two approaches will be discussed in further detail including how they could be implemented, and their pros and cons. The results of modeling undertaken by staff to better illustrate the benefits and costs of the risk mitigation approaches will be provided.

BUDGET AND FISCAL IMPACTS
Not applicable.

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