

# Securing CalPERS Future: Managing Funding Risks, Stakeholder Outreach & Engagement

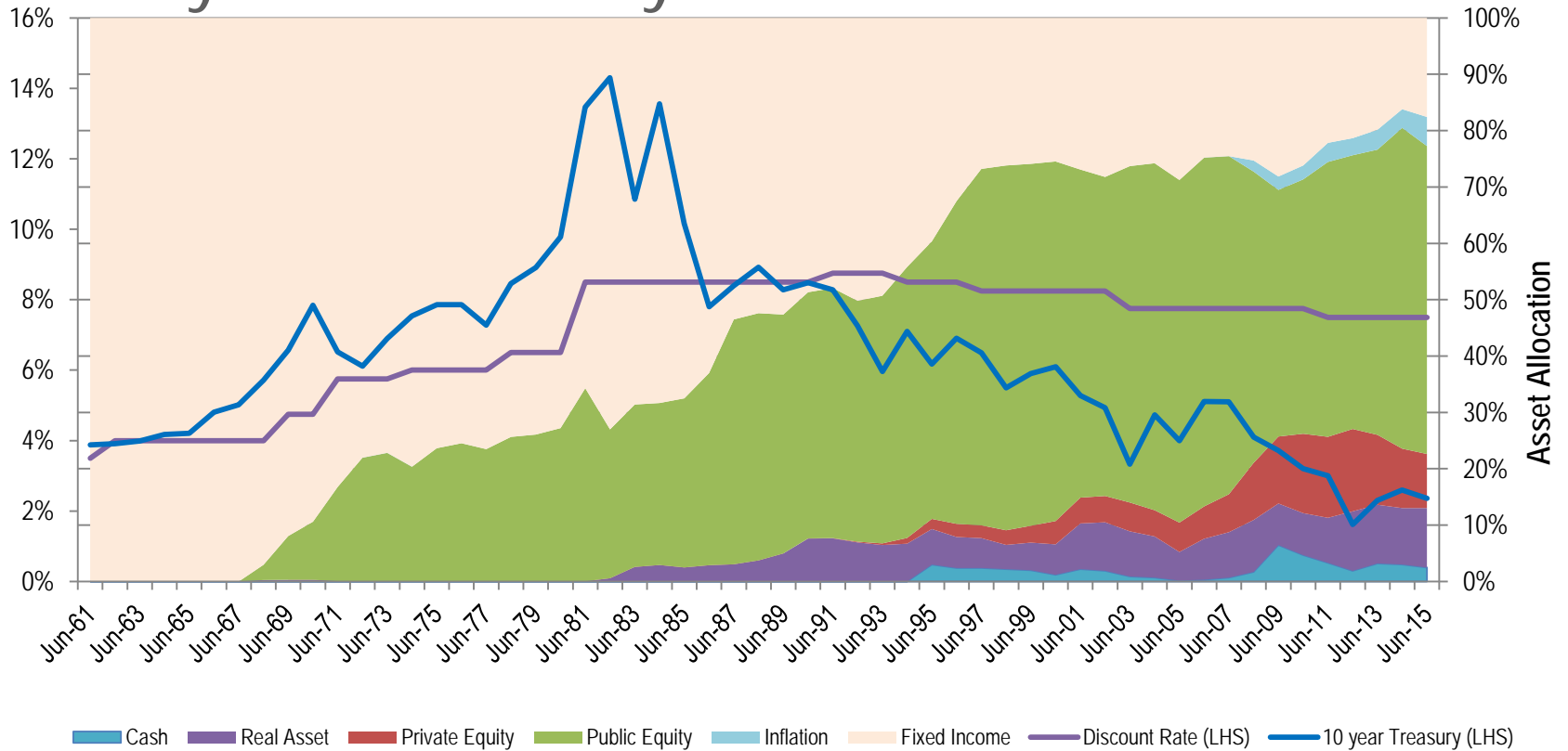
CalPERS Finance and Administration Committee

November 15, 2016

# Agenda

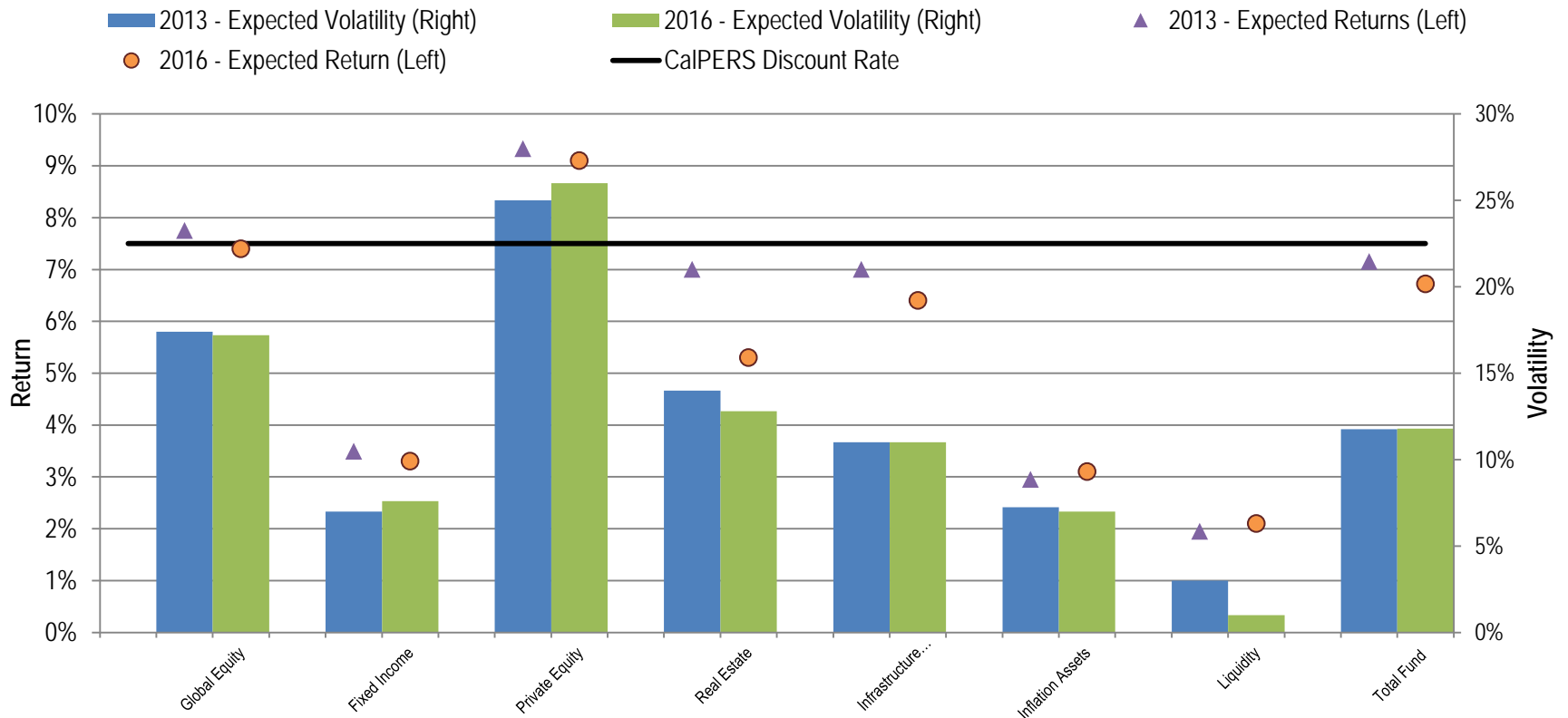
- Why we are preparing for a low return environment
- Review the changing demographics and funded status of our plan
- Recap stakeholder outreach and engagement
- US pension plans discount rate trends

# CalPERS Historical Allocation Discount Rate and 10yr US Treasury Yield



- Data Source: CalPERS Comprehensive Annual Financial Reports (CAFR) for Discount rate and allocation
- Data Source: Bloomberg for 10YR US Treasury Constant Maturity Rate (H15T10Y)
- Inflation asset class was not provided as a separate line item in the 2014 & 2015 CAFRs. Used the asset allocations from the AA-Spreadsheet

# 10-Year Expected Returns & Volatilities 2013 vs 2016 Capital Market Assumptions



# Expected Return and Risk Estimates

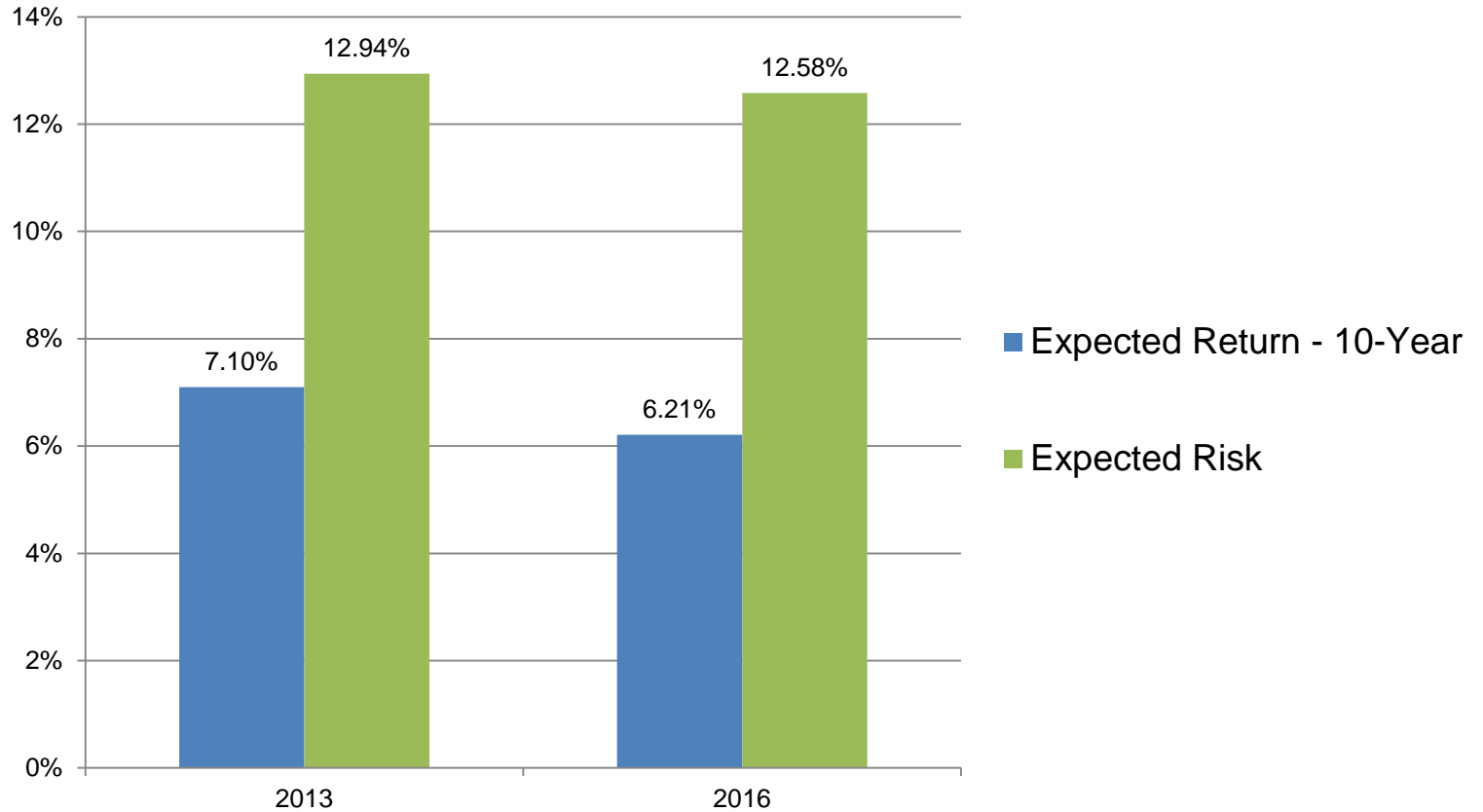
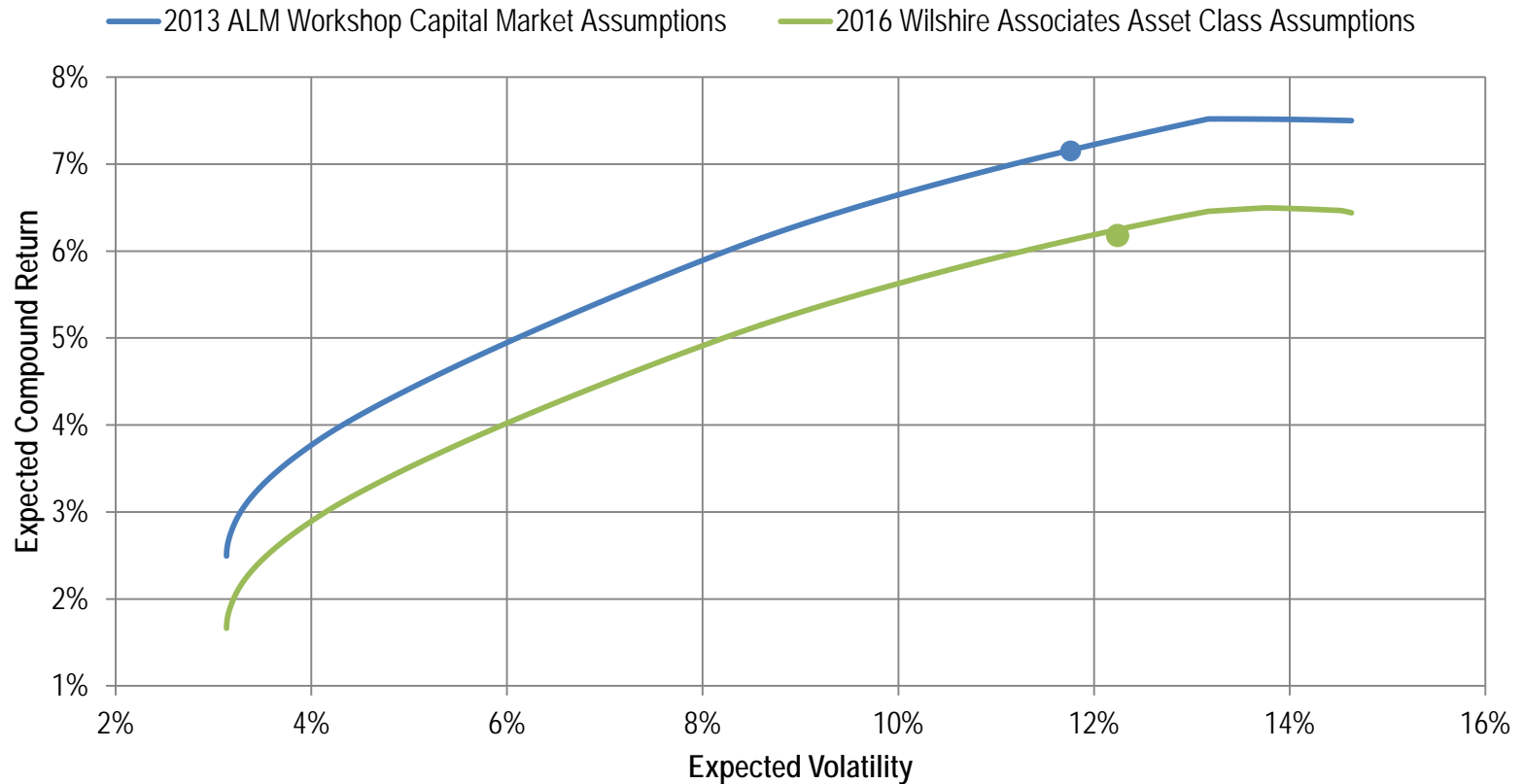


Chart Source: Wilshire Associates

# Funding Risk – Current Strategic Asset Allocation

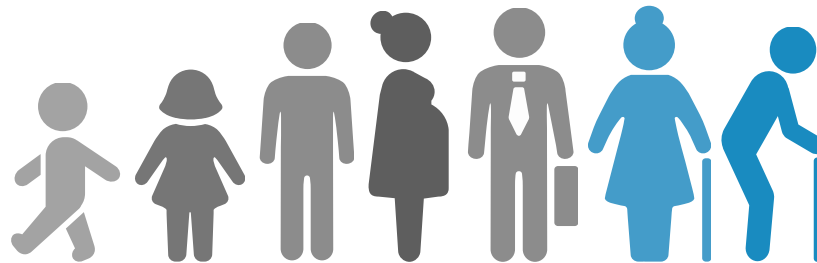
## Efficient Frontier



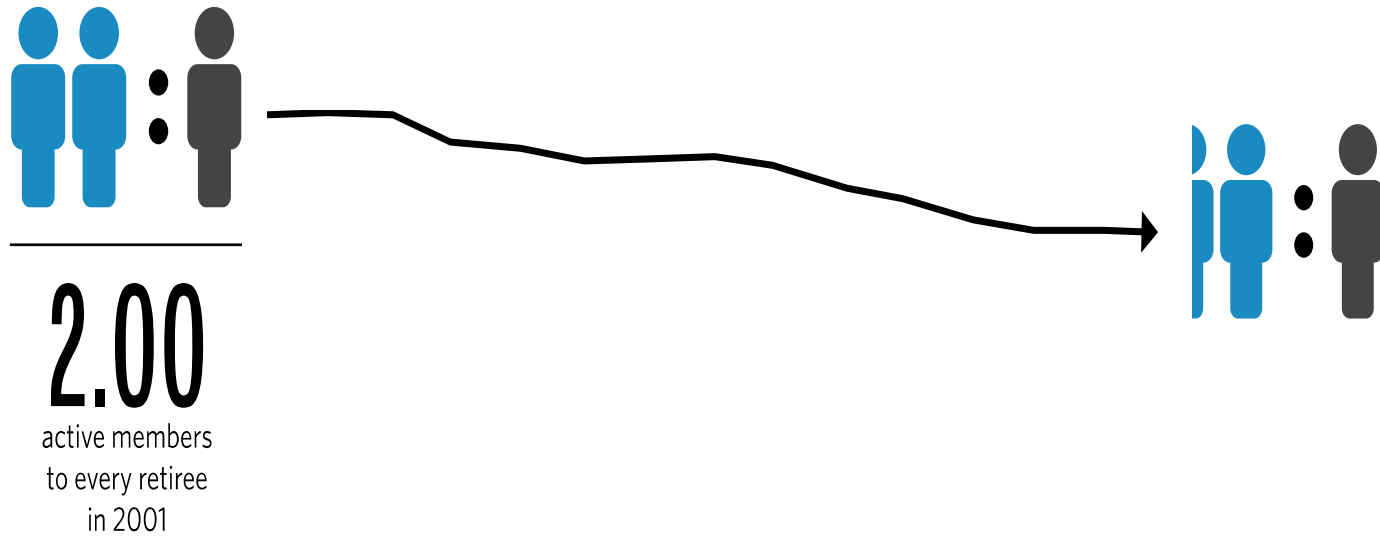
## Challenges ahead...

- Global growth is slowing
- U.S. growth, the driver of global growth, will struggle to make 1.5% this year
- Many business cycle indicators in mid-to late cycle- maybe two to four years of slow growth
- Historically low interest rate environment

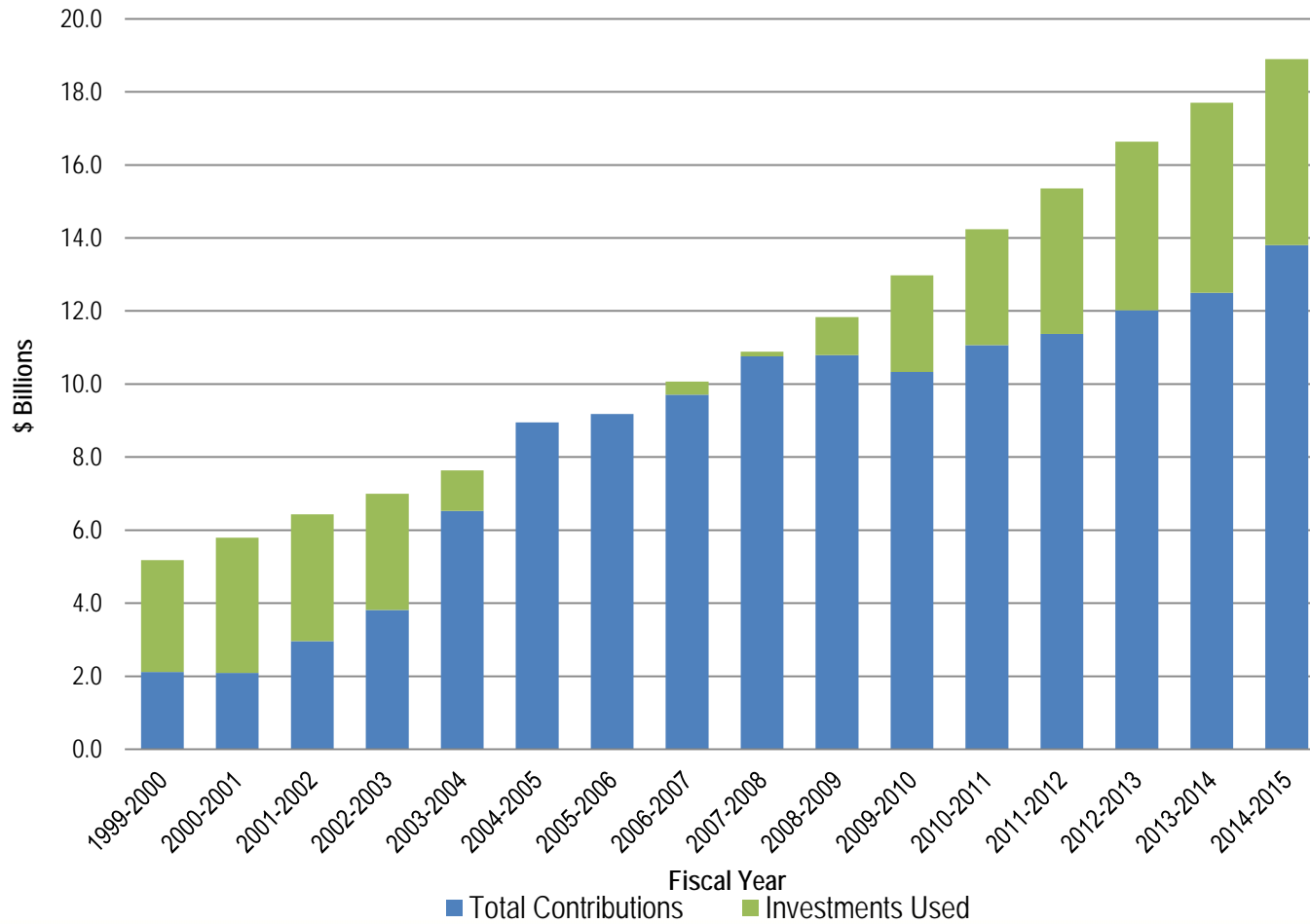
# Aging Population

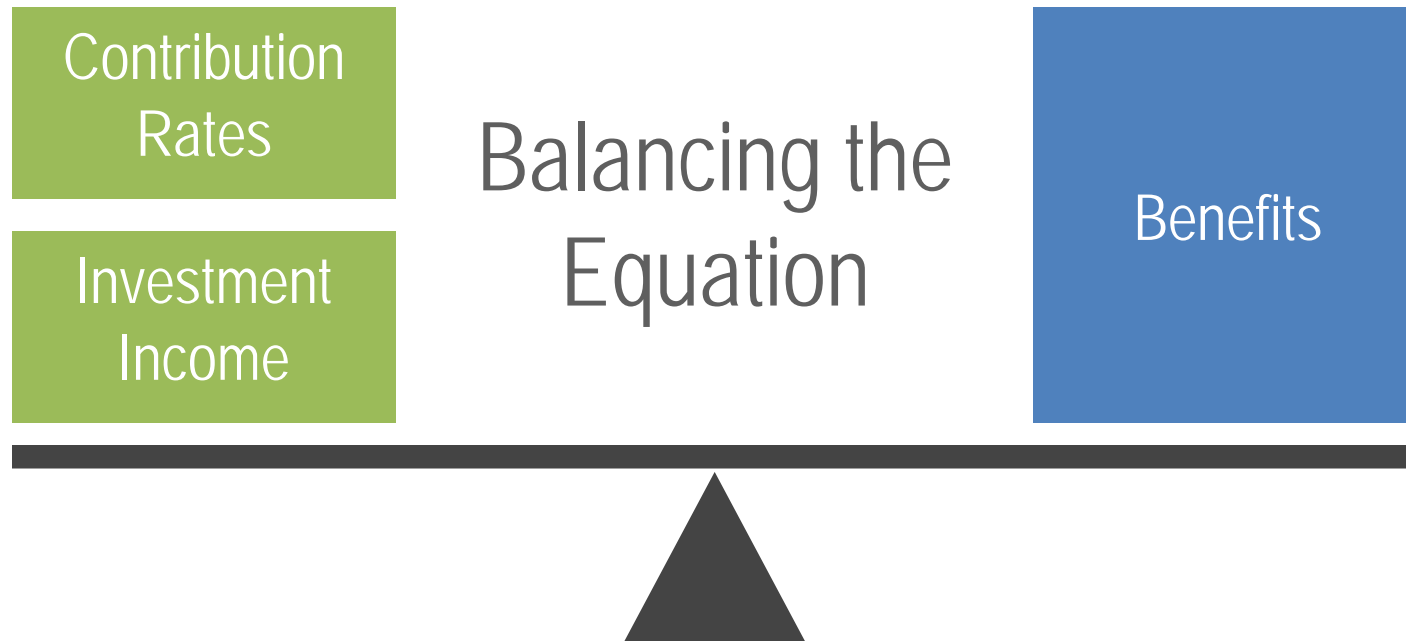






# Cash Flow Negative





## The view ahead...

- Caution: low returns ahead
- We're focused on risk
- Our partnership: a shared responsibility

## Stakeholder Outreach - Employers

- Engaged employers and compiled input via surveys and in-person contact
- Questions designed to elicit level of awareness, preparation, risk tolerance and preferences related to potential discount rate reduction
- 616 employers provided responses
- Meetings and engagements with member association leaders

# Awareness

- Overall 76% of employers are following the market impact on CalPERS' investment performance
  - School employers: 52%
- Some level of planning for higher rates through forecasting or pre-funding

# Employers' Priorities

- 68% of employers said most important is reducing volatility of contribution rates
  - 21% - Risk Mitigation
  - 11% - Maximize Returns

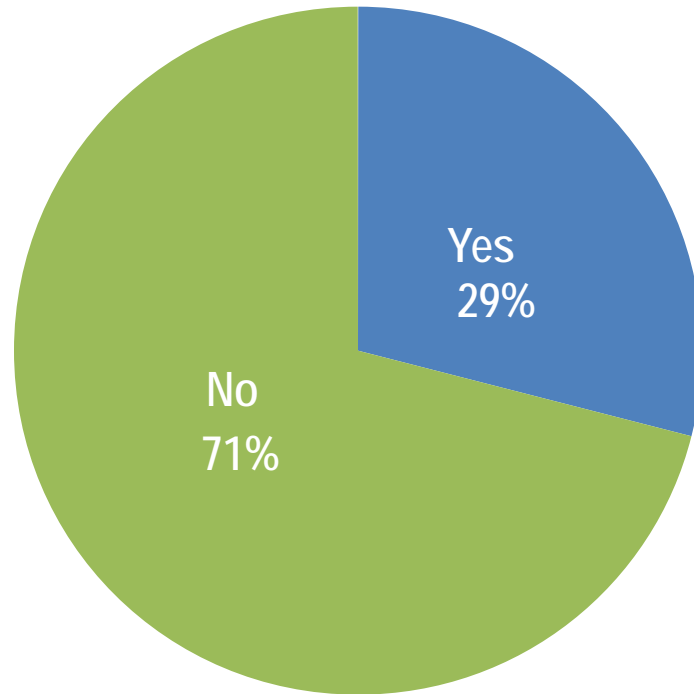


# Financial Readiness

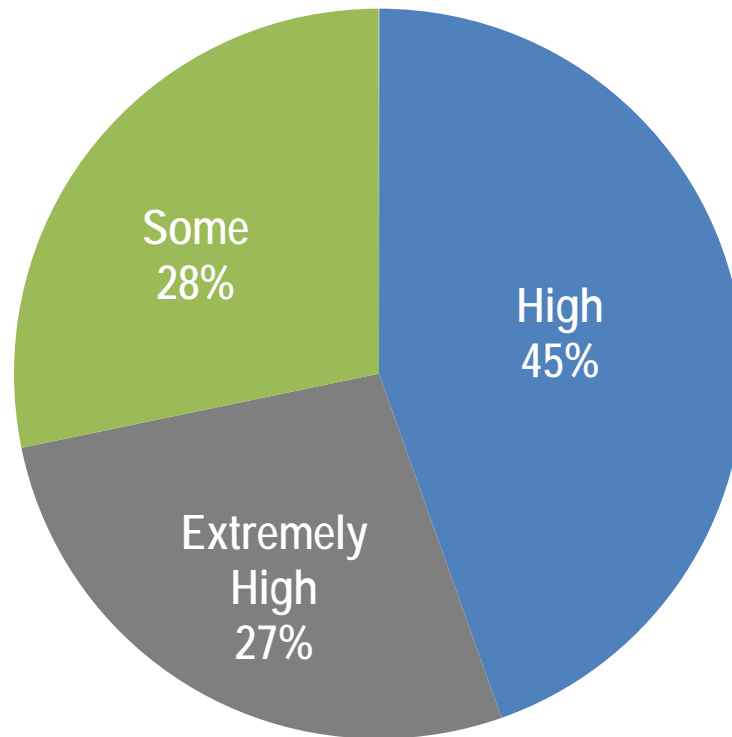
- How are employers financially preparing in anticipation of an increase in future contribution rates?
  - 61% Budget forecasting out three & five years
  - 18% Considering a pre-funding trust
  - 9% Pre-funding a trust already
  - 13% Considering making additional payments to CalPERS
  - 12% Making additional Payments to CalPERS already
  - 6% Other



# Are employers prefunding pension liabilities?

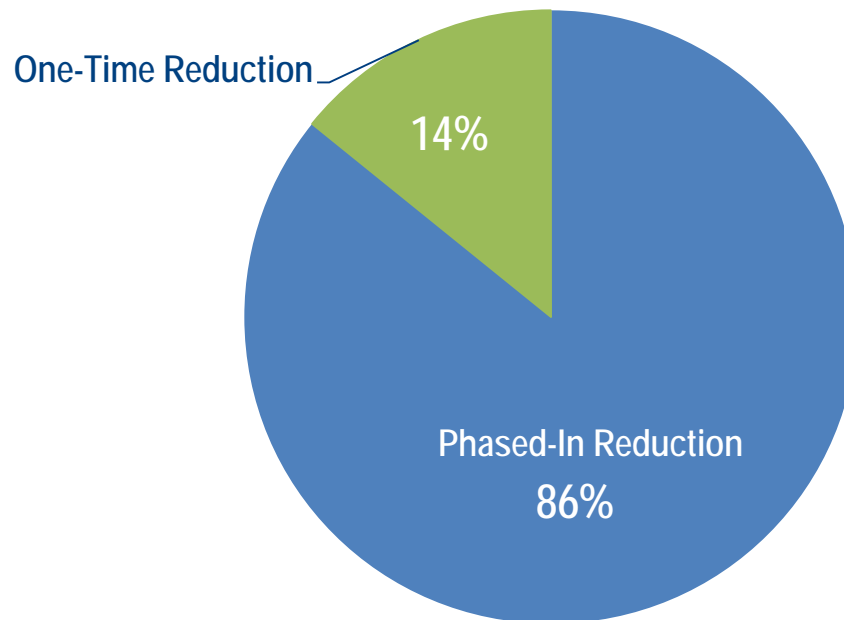


# Impact of Discount Rate Decrease in Next 12 Months



# Phased-In Reduction vs One-Time Reduction Discount Rate

- 86% of employers favor phasing in reduction

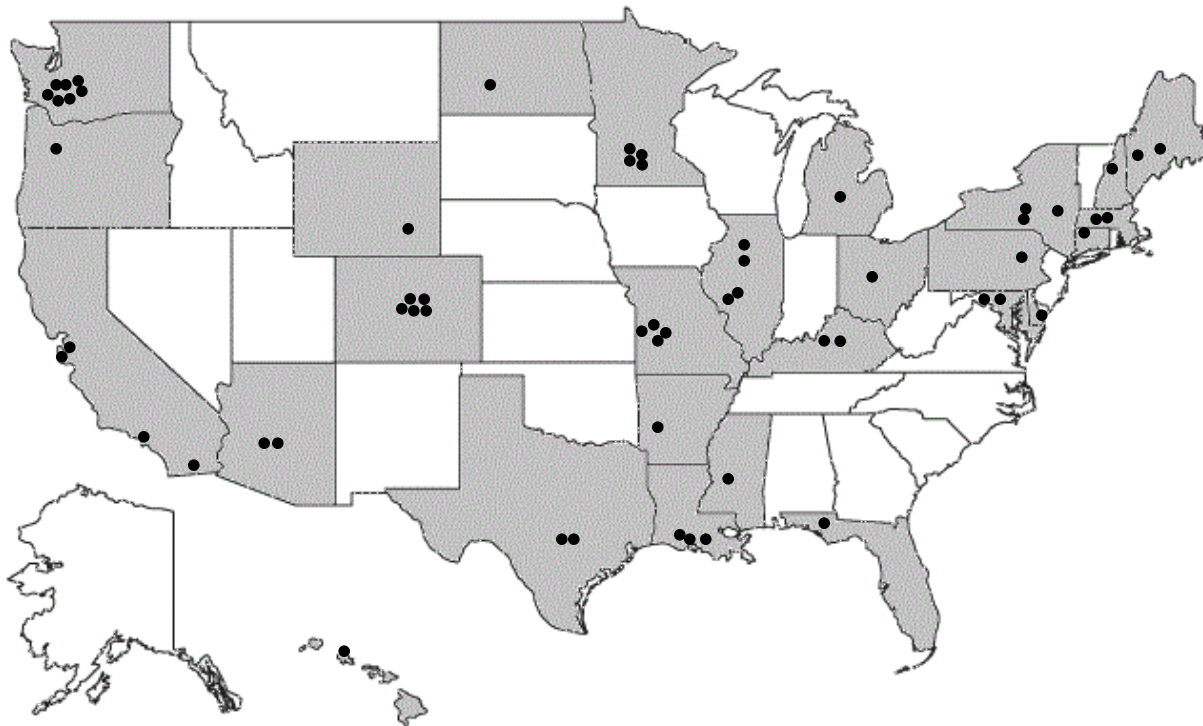


## Member Association Feedback

- Increased costs to employer and employees
- The inability of the recently approved Risk Mitigation policy to take effect
- CalPERS focus on a short-term market environment over the next 10 years
- Incremental approaches and revisiting of policies and assumptions instead of a long-term focused plan.

# Other US Pension Plans Discount Rates

Since FY 2012...



59  
↓  
Discount Rate

50 BPS  
Median Discount Rate Reduction

7.5%  
Median Discount Rate

Data from CalPERS 2016 Annual Funding Level and Risks Report

# Proposed Next Steps

- December 2016 - Board workshop
  - Impacts
    - Costs
    - Funded status
    - Timing
  - Staff Recommendations
- Continue stakeholder outreach