



# Treasury Management Reserve Policy

## Purpose

This document sets forth the financial policy (“Policy”) for Treasury Management Reserves (“TM Reserve”). The purpose of the Policy is to govern the practices related to the TM Reserves set forth in the Treasury Management Policy.

The Finance and Administration Committee (“Committee”) intends for the Policy to be a dynamic document which will be reviewed and modified periodically to reflect the changing nature of CalPERS’ assets and investment programs, benefit and structural changes, and economic conditions.

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## Background

The California Public Employees' Retirement System ("CalPERS") Pension Beliefs adopted by the CalPERS Board of Administration ("Board") sets forth the pension fund's views on public pension, funding, and administration.

The Treasury Management Program ("TMP") establishes and manages TM Reserves to ensure the payment of member benefits and other obligations without interruption while optimizing the use of fund assets. TM Reserves do not include liquid assets whose intended use is self-insurance, prefunded obligations, minimum bank account balances, collateral, or any other use than the one defined above.

## Strategic Objective

The TMP shall establish and manage TM Reserves to ensure the payment of member benefits and other obligations without interruption while optimizing the use of fund assets.

## Policy

A. TM Reserves are liquid assets dedicated to the payment of member benefits and other obligations during a stressed or crisis event and shall be:

1. Dedicated - Held for the purpose directed by the TMP, not available for other uses, and its use is directed by the Chief Financial Officer;
2. Liquid - Assets can be converted to cash with de minimis impairment by the next business day;
3. Dynamic – Amount of TM Reserve can scale up or down based on need; and,
4. Transparent – TM Reserve levels can be monitored by the TMP.

TM Reserves do not include liquid assets whose intended use is self-insurance, prefunded obligations, minimum bank account balances, collateral, or any other use than the one defined above.

B. The establishment and management of TM Reserves shall be based on a detailed and measured understanding of the following:

1. Market and non-market liquidity risks which could threaten the payment of member benefits and other obligations;
2. Availability of additional funding options as defined in the Treasury Management Policy under normal, stressed, and crisis conditions; and,
3. Cost effectiveness of the TM Reserve as compared to other funding options.

## Policy, continued

- C. TM Reserves shall be designed and sized according to the specific characteristics of the program and the factors which could impact it.
1. The amount of a TM Reserve will be based on the portion of funding for the payment of member benefits and other obligations which could be reasonably impaired during a stressed or crisis event.
  2. TM Reserves will be structured to achieve cost and operational efficiency.
  3. TM Reserves will only be established to ensure the payment of the obligations for which CalPERS' is responsible.
- D. Reserves and Targets have been established for Funds as described below:

| <b>Funds</b>                                     | <b>Reserve</b>  |
|--|---|
| Public Employees' Retirement Fund                | Prefund monthly benefit payments by 5 business days                                       |
| Legislators' Retirement Fund                     | TM reserve equal to two months coverage of benefit payments and program obligations       |
| Judges' Retirement Fund                          | TM Reserve equal to two month coverage of member benefit payments and program obligations |
| Judges' Retirement Fund II                       | No TM Reserve at this time  |
| California Employers' Retiree Benefit Trust Fund | Prefund monthly benefit payments by 5 business days                                       |
| Public Employees' Long Term Care Fund            | TM reserve equal to one month's coverage of expected program obligations                  |

The Public Employees' Health Care Fund, the Contingency Reserve Fund, the Deferred Compensation Fund, the Supplemental Contribution Plan Fund, and the Replacement Benefit Fund are not considered for TM Reserves due to the self-funding nature of these programs and existence of self-insurance funds for program specific events.

## Key Terms / Definitions

For the purposes of this document, the following terms and definitions apply.

| Key Term                 | Definition  |
|--------------------------|---|
| Cash                     | Cash or cash equivalent instrument(s) which can be available for payment of member benefits or other CalPERS' obligations by the next business day with little or no impairment.  |
| Coverage                 | A measure of the enterprise's ability to continue to pay over a fixed period of time member benefits and other near term obligations from available Funding options.  |
| Crisis Event             | A severe, unanticipated market or non-market event for which the Funding contingency plans require the options for the payment of CalPERS' obligations to be identified and evaluated based on the nature of the event. |
| Dedicated Assets         | Held for the purpose directed by the TMP, not available for other uses, and its use is directed by the Chief Financial Officer.   |
| Dynamic                  | Amount of TM Reserve can scale up or down based on need.  |
| Liquid Assets            | Assets can be converted to cash with de minimis impairment by the next business day.  |
| Liquidity                | Availability of assets that can be converted to cash quickly and efficiently in order to pay member benefits or other obligations.  |
| Liquidity Coverage Ratio | Standard industry measurement of short term liquidity based on liquid assets, cash inflows, and cash outflows. The formula is $LCR = \text{Cash} + \text{Contributions/Payments} + \text{Contingency Uses}$ .           |

## Key Terms / Definitions, continued

| Key Term       | Definition  |
|----------------|---|
| Pre-Funding    | Cash management technique where the cash required to pay a member benefit or other CalPERS' obligation is raised and set aside prior to the payment day in order to mitigate potential market risk. |
| Stressed Event | A severe market or non-market event for which Funding contingency plans have been made and options are identified and available to meet CalPERS' obligations.                                       |
| TM Reserves    | Liquid assets dedicated to the payment of member benefits and other obligations during a stressed or crisis event.  |
| Transparent    | TM Reserve levels can be monitored by the TMP.  |

## Roles and Responsibilities

### A. Finance and Administrative Committee

The Committee's responsibilities with respect to the TM Reserves shall include, but are not limited to:

1. Oversight of senior management as they establish and manage TM Reserves as necessary for programs;
2. Annually review the Policy and significant strategies related to CalPERS' TM Reserves; and,
3. Review for approval Staff recommendations for changes to the Policy.

### B. Enterprise Treasury Team

The Enterprise Treasury Team's responsibilities with respect to TM Reserves shall include:

1. Establishment and management of TM Reserve;
2. Authorization for the use of a TM Reserve; and,
3. Reporting on the use and effectiveness of TM Reserves to the Committee.

## Authoritative Sources

CalPERS will administer this policy in compliance with the following legal, regulatory, and policy requirements:

| Source   | Description  |
|--|--|
| California Constitution, Article XVI, Section 17 | The retirement board of a public pension or retirement system shall have the sole and exclusive fiduciary responsibility over the assets of the public pension or retirement system. |

## Related Documents

For additional information, please refer to:

| Document                   | Relevance               |
|----------------------------|-------------------------|
| Treasury Management Policy | Policy Section III, B.3 |

## Revision History

The following revisions have been made to this policy:

| Version | Modification Date | Summary of Changes |
|---------|-------------------|--------------------|
| 1       | 10/20/2015        | Original           |
| 2       | 02/28/2017        | Formatting Changes |
| 3       | 12/14/2017        | Formatting Changes |