Ensuring a Sound and Sustainable Pension Fund
Asset Liability Management (ALM)

Ongoing CalPERS Board Review and Decisions
Bolded items are actionable by Board Committees and/or Board of Administration

2017

January
Educational Workshop:
• CalPERS adopts an asset allocation mix that lowers investment risk but largely keeps investment strategy unchanged

February
Board Adopts:
• Modifications to Funding Risk Mitigation Policy and temporarily suspends

April
Educational Workshop:
• Private asset roles and benchmarks
FAC Review:
• Affiliate Funds Valuations
June
IC Approves:
• Capital Market & Economic Assumptions for 2018-2028

July
Release FY 2016-17 Investment Returns
Educational Workshop:
• Use of leverage in strategic asset allocation decisions

September
FAC Review:
• Notification of Risk Mitigation Policy Thresholds (Policy temporarily suspended)
• Amortization
• Inflation Sensitivity
• Leverage

October
CalPERS Educational Forum:
• Education and engagement opportunity with employers and other stakeholders

November
Educational Workshop:
• Candidate portfolios for strategic ALM
• Capital Market Assumptions
• Risk
FAC Review:
• Cash flow analysis and strategic approach
• Experience Study that looks at lifespan, workforce changes, and payroll trends
• Amortization Policy (1st reading)

December
Experience study results
First Opportunity for Board to adopt:
• Strategic asset allocation mix
• Actuarial assumptions
• Discount rate
FAC Approves
• Amortization Policy

2018

February
Second Opportunity for Board to Adopt:
• Strategic asset allocation mix
• Actuarial assumptions
• Discount rate

April
FAC Review:
• Affiliate Funds Valuations which may include asset allocation mix

July
CalPERS Implements:
• Board adopted strategic asset allocation for PERF

September
FAC Reviews:
• Notification of Risk Mitigation Policy Thresholds (Policy temporarily suspended)

November
FAC Review:
• Use of leverage in strategic asset allocation decisions

2017-18 Key Asset Liability Management Milestones

Jan 2017
Educational Workshop: Public Assets

June 2017
Approval of Capital Market & Economic Assumptions

Oct 2017
CalPERS Educational Forum

Dec 2017
First opportunity for Board to adopt ALM changes

July 2018
Implementation of Board decisions

Apr 2017
Educational Workshop: Private Assets

July 2017
Fiscal Year Investment Returns announced & Educational Workshop: Leverage

Nov 2017
Experience Study & Educational Workshop: Candidate Portfolios

Feb 2018
Second opportunity for Board to adopt ALM changes

2017.8.1
Asset Liability Management (ALM)

The ALM is an integrated review of our assets and liabilities to inform decisions designed to achieve a sound and sustainable fund. It is an innovative and transparent approach to guide the Board in sound decision making.

**Asset Allocation**
(Risk Assumptions and Capital Market Assumptions)
Currently reviewed every four years per Board policy

**Actuarial Assumptions**
(Economic and Demographic Assumptions, and Review of Current Discount Rate)
Currently reviewed every four years per Board policy

Sustainable Funding
- Fiduciary duty
- Constitutional authority
- Statutory requirement
- Professional standards

ALM Review Cycle Components & History

**Asset Allocation (including expected investment return)**
This process includes a review of the current Asset Allocation and the role each asset class plays within the portfolio. It looks at risk tolerances for each asset class and most importantly, provides Capital Market Assumptions that reflect the expectations of what the financial markets will deliver.

Asset Allocations were reviewed in 2014, 2010, 2007 and 2004

**Actuarial Assumptions (including Discount Rate)**
Economic Assumptions include the Discount Rate, and wage and price inflation projections; Demographic Assumptions include retirement, employment and mortality rate projections. The Discount Rate is the long term interest rate used to fund future pension benefits.

Economic Assumptions were reviewed in 2014, 2012 and 2004
Demographic Assumptions were reviewed in 2014, 2010 and 2004
Discount Rate was reviewed in 2016 (reduced to 7.0% over 3 years, 2012 (changed from 7.75 to 7.5%), 2011 (no change) and 2004 (changed from 8.25 to 7.75%)

**Funding Levels & Risk Report**
An annual assessment of the funded status and overall soundness and sustainability of the plan, beginning in 2012.

**Funding Risk Mitigation Policy**
CalPERS Board of Administration approved November 2015, suspended until 2020.