



Marcie Frost
CalPERS Chief Executive Officer

A Message to Our Members

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It's amazing how inundated we can sometimes get by the daily flood of information and news. That's why I wanted to take a moment to tell you directly about what matters most to us at CalPERS.

Let's start with this number: 65.

That's the percentage of assets we have today to pay all the pension benefits that you have been promised. We keep that figure squarely in front of us at all times because the lower the number, the more at risk the fund is during turbulent economic times. The percentage needs to be higher, and all of us at CalPERS are determined to bring it up. It's not easy and it will take time. We have a clear plan and a path forward to increase our funded status, built on three strategies:

- Addressing financial challenges
- Operating our organization as efficiently as possible to contain costs
- Sound investing

Building a Strong Foundation

The CalPERS Board took an important step last year to strengthen your pension fund when it lowered CalPERS' expected rate of return on our investments. The CalPERS rate of return is referred to as the "discount rate". It's what we assume our \$325 billion investment portfolio will earn each year.

Financial experts have warned us to expect a lower rate of return on our investment portfolio over the next decade, so the Board decided to gradually lower the discount rate from 7.5 percent to 7 percent over the next three years.

This was a wise move by the Board. It brings more cash into the fund as we move toward our goal of fully funding the pension benefits that have been promised.

The action does put real pressure on our employer partners, the 3,000 public agencies, schools, special districts, and the State of California that contract with us to offer you a pension. They will have to contribute more.

Many employees hired after January 2013, when the Public Employees' Pension Reform Act took effect, also have to contribute more. Those changes will have a positive impact on the fund in the next 10 to 20 years and help the bottom line of our employers across the state. In the meantime, we must do all we can to assist them.

Cost-Effective Operations

We must run CalPERS like we would expect any company we invest in to do. We support our team members so they have the tools and resources to serve you, while also making sure we're operating efficiently, continually evaluating how we do our work, and refining and streamlining our efforts where we can. When we listen to our team members and our customers, we're able to make the most informed decisions about where we spend our limited resources in ways that will make the most difference.

Investing for the Future

Our investments are key to our long-term success. We're in the middle of a year-long review of our assets, liabilities, and the current economic climate to ensure we have the right mix of investments to take advantage of what the markets give us. The review includes stocks, bonds, real estate, and private equity, an asset class worth mentioning because of concerns over costs.

Private equity has higher fees than other asset classes. The fees charged by third-party managers to handle the investments are also intended to reward the investor for exceptional performance. As an industry leader, we've successfully pushed fees lower, and we're disclosing the fees we do pay. Transparency is important as we negotiate better terms and conditions.

Investing in private equity is well worth the effort. Our \$26 billion private equity program is our highest returning asset. Its success is essential to sustaining our fund for decades and paying the benefits you've earned.

Our plan to raise our funded status is on track. We know there are difficult challenges ahead, but we've laid the groundwork for the future while holding true to our commitment to you. When we opened our doors for the first time in 1932, we began with a promise to help public service workers achieve a basic level of financial security in their retirement. Over 85 years, through economic growth and near global financial collapse, our mission hasn't changed at all. We still serve those who serve California.

Thank you,

Marcie Frost

