CalPERS Funding Risk Mitigation Policy History, Current Status, Outlook

June 24, 2021



Welcome



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Agenda

- 1. History and purpose of the risk mitigation policy
- 2. Conditions for triggering the policy
- 3. Timing and sequence for implementing policy outcomes
- 4. Context within the ALM process
- 5. Impacts on employer and employee contribution rates
- 6. Opportunity for stakeholder engagement

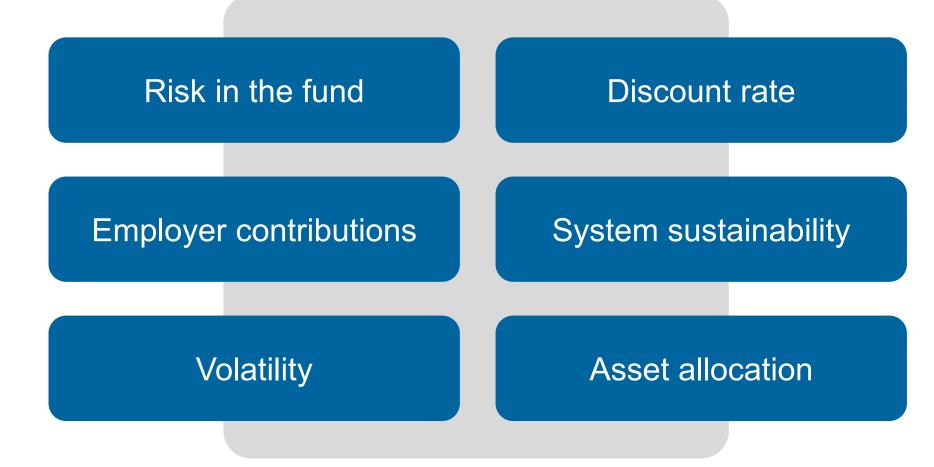


History

- Adopted by CalPERS board in 2015
- Has not been triggered since adoption
- Temporarily suspended while discount rate phased to 7% over three years
- Currently active

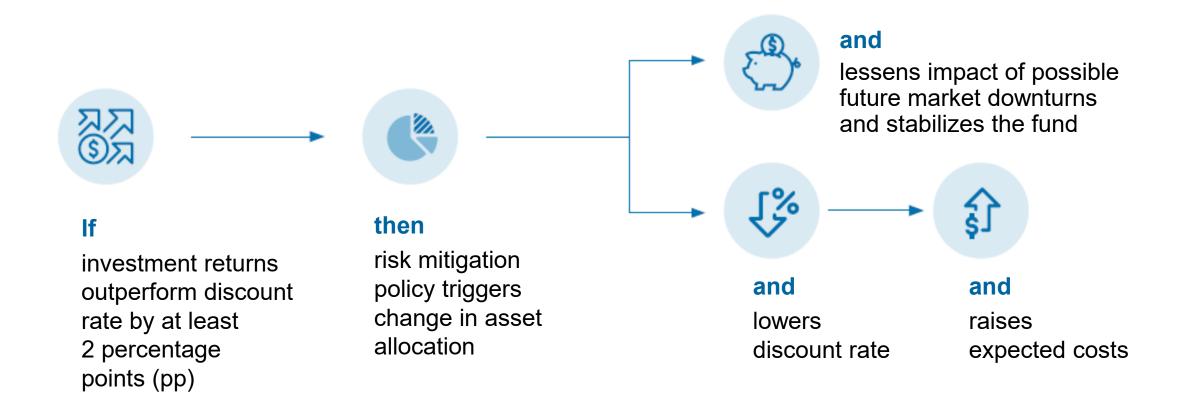


Purpose





How Risk Mitigation Policy Works





Conditions for Triggering the Policy



Н

investment returns outperform discount rate by:



then

resulting discount rate will be:

$$+2 pp \rightarrow 9\%$$
 6.95%

 $+7 pp \rightarrow 14\%$
 6.90%

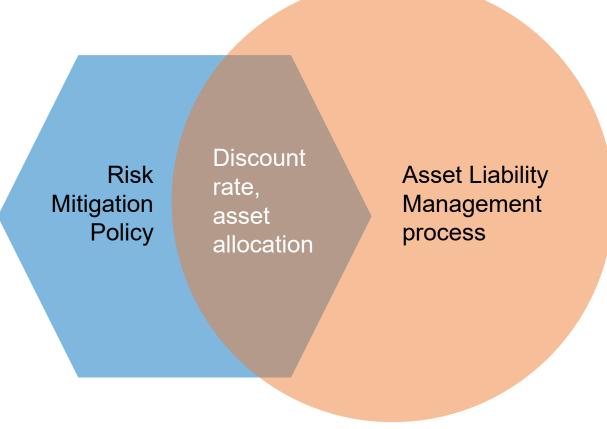
 $+10 pp \rightarrow 17\%$
 6.85%

 $+13 pp \rightarrow 20\%$
 6.80%

 $+17 pp \rightarrow 24\%$
 6.75%

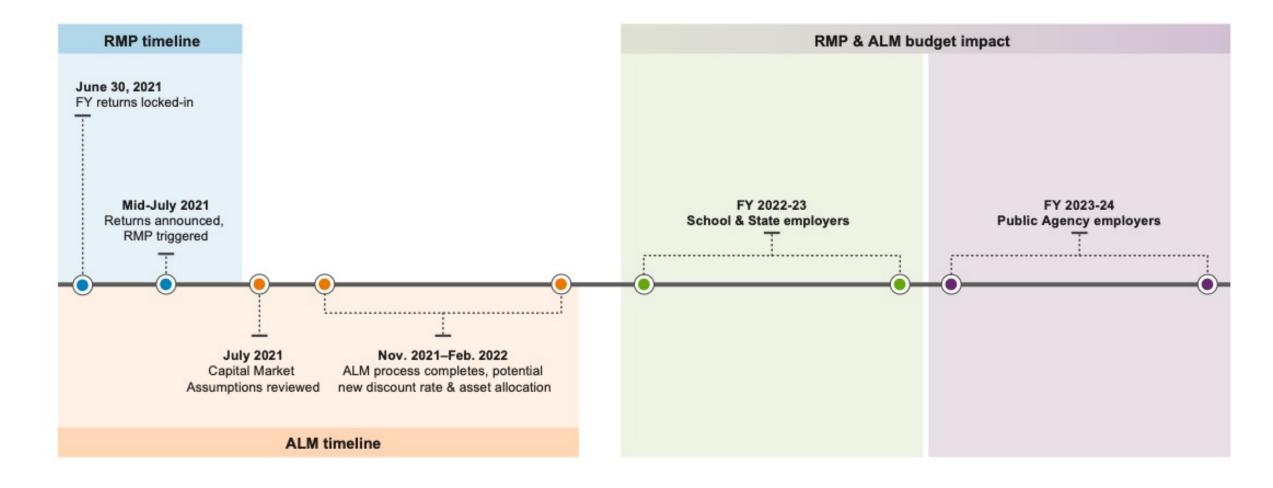
Risk Mitigation Policy and Asset Liability

Management





Implementation





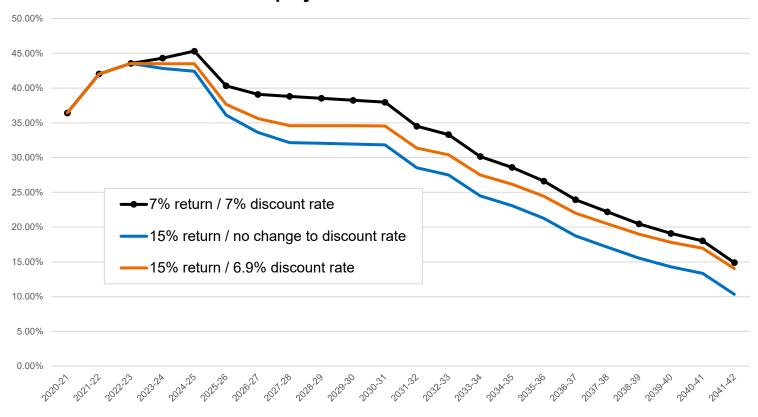
What would happen to employer/employee contribution rates assuming a 15% return?

- Discount rate will reduce to 6.90%
- CalPERS Asset Allocation would not immediately change significantly until the ALM process concludes
- Classic member contribution rates no change
- PEPRA member contribution rates potential rate increase of approximately 0.5% increase for some members
- Retirees no change



Sample city – miscellaneous plan

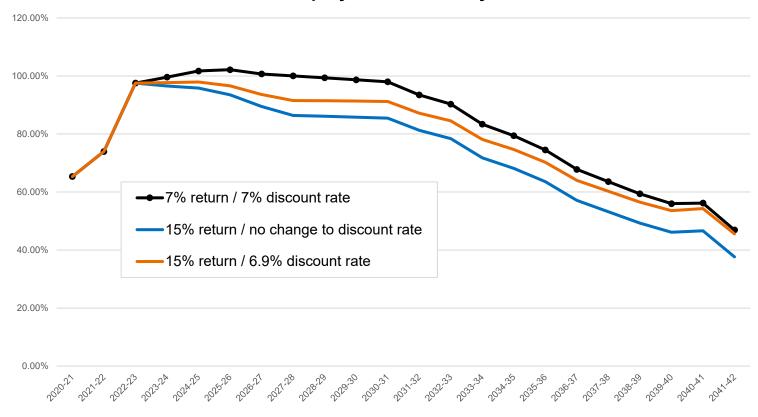
Total Employer Rate – Miscellaneous Plan





Sample city – safety plan







Opportunities for stakeholder engagement

2021

February

- Educational sessions:
 - ALM concepts and framework
 - o ALM timeline

June

 Review of economic climate

July*

- Capital Market Assumptions
- Educational sessions:
 - ALM process and framework
 - Investment funds risk assessment
 - Gauging the funds' ability to tolerate market risk

September

- Discussion
 of candidate
 portfolios with
 proposed
 discount rates
- Draft Experience study results (first reading)

November

- Experience study results
- Discussion
 of candidate
 portfolios with
 discount rates
- Adopt new actuarial assumptions
- Adopt new economic assumptions
- Final approval of discount rate
- Final approval of strategic asset allocation

2022

July*

 Effective date for strategic asset allocation

* Board offsite

Questions

