

CalPERS Funding Risk Mitigation Policy

History, Current Status, Outlook

June 24, 2021

Welcome



Michael Cohen
Chief Financial Officer



Scott Terando
Chief Actuary



Christine Reese
Investment Director



David Teykaerts
*Stakeholder Strategy
Manager*

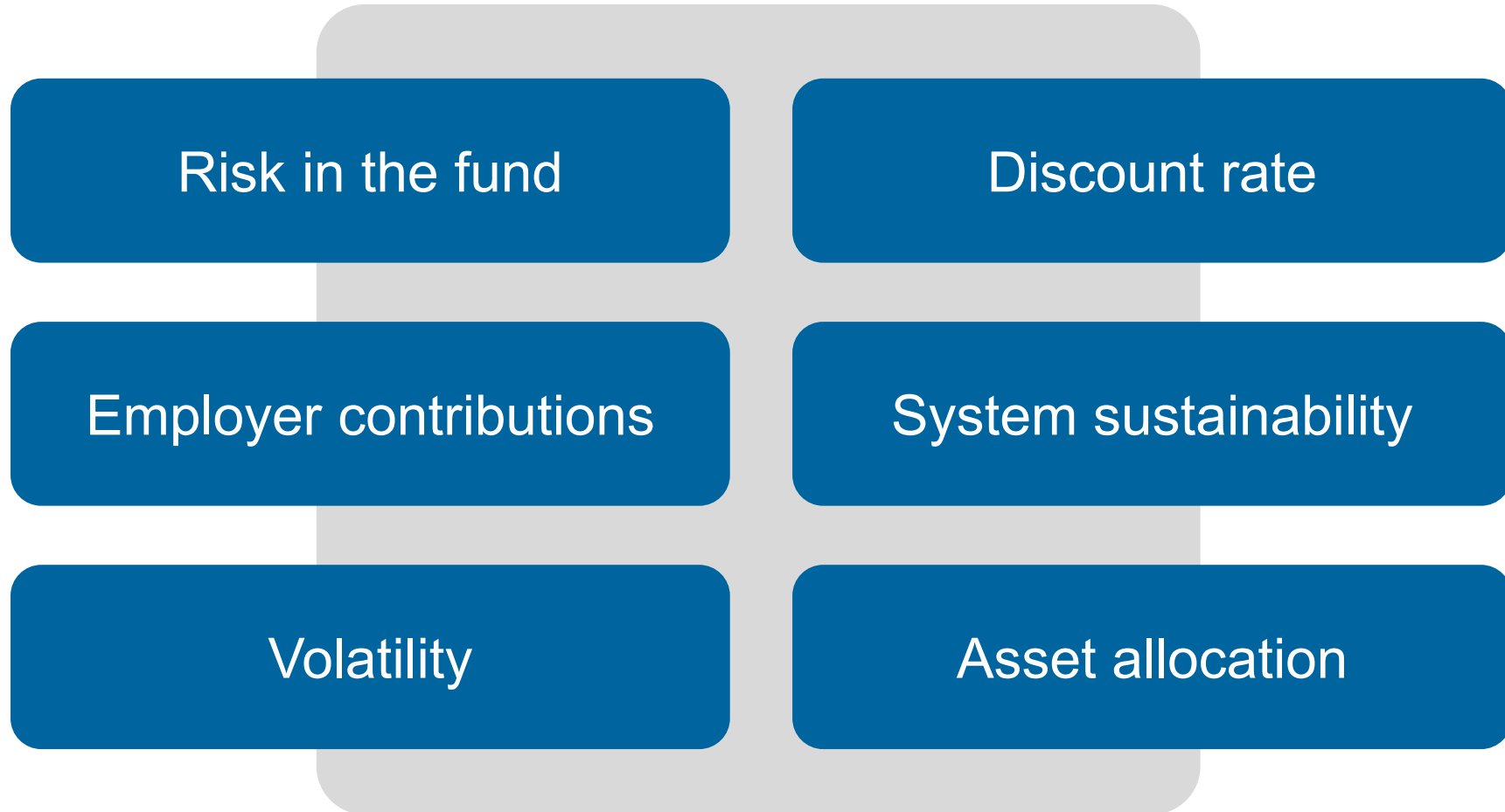
Agenda

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

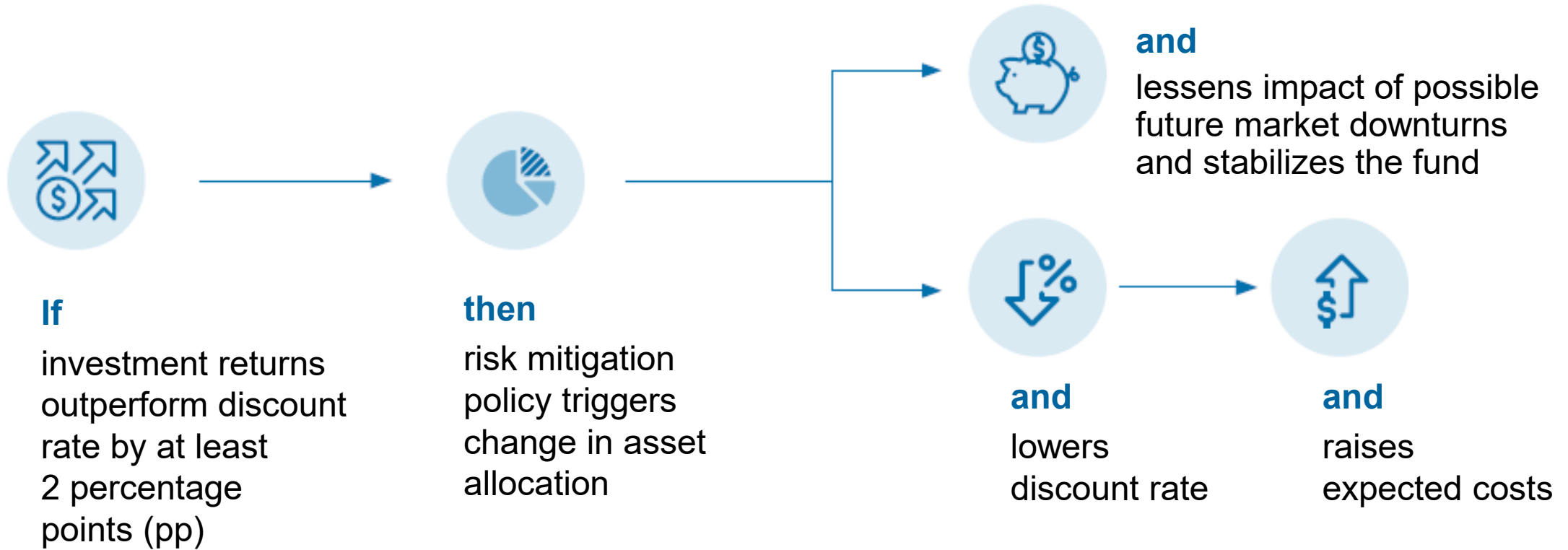
History

- 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



If
investment returns outperform discount rate by:

+2 pp → 9%

+7 pp → 14%

+10 pp → 17%

+13 pp → 20%

+17 pp → 24%



then
resulting discount rate will be:

6.95%

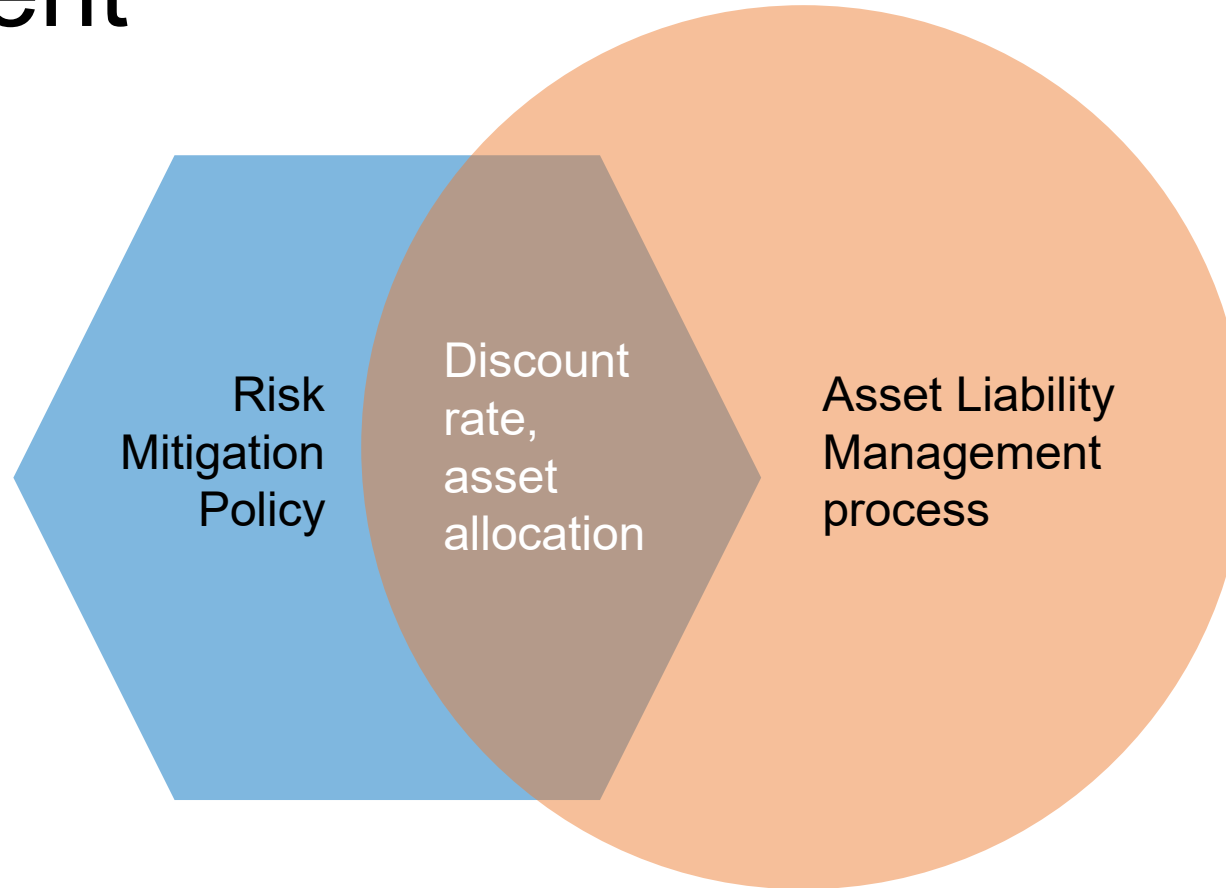
6.90%

6.85%

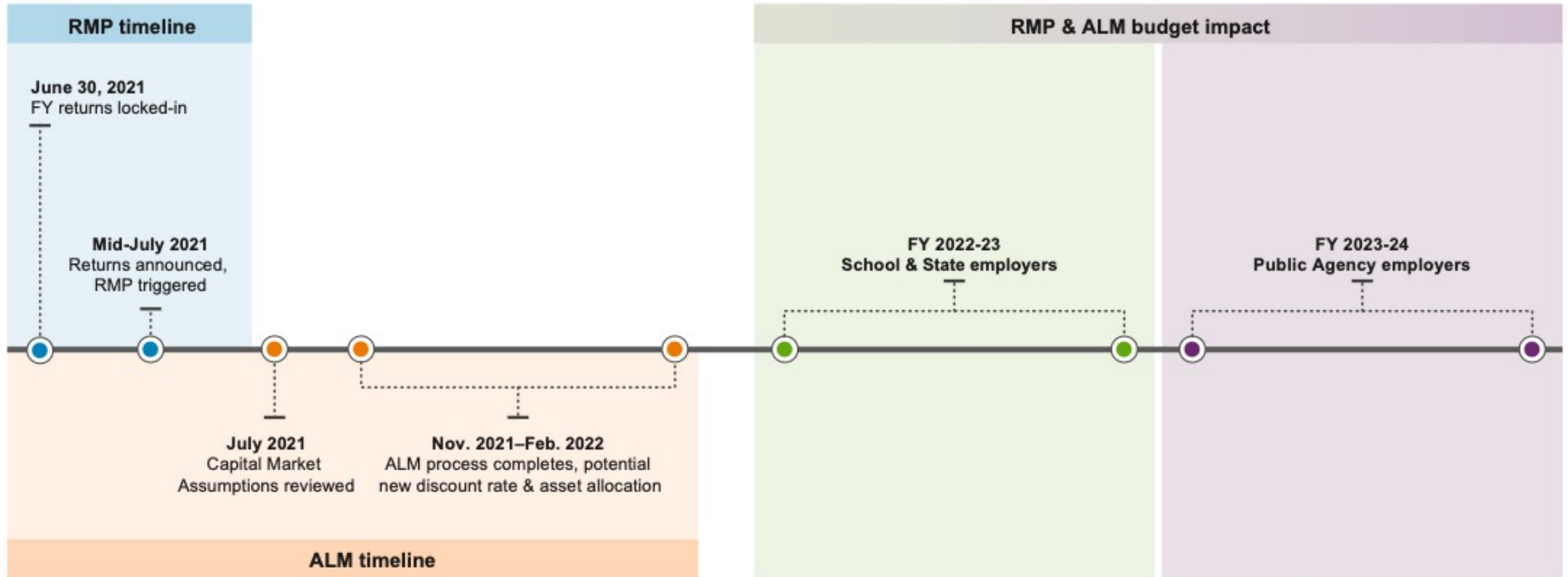
6.80%

6.75%

Risk Mitigation Policy and Asset Liability Management



Implementation

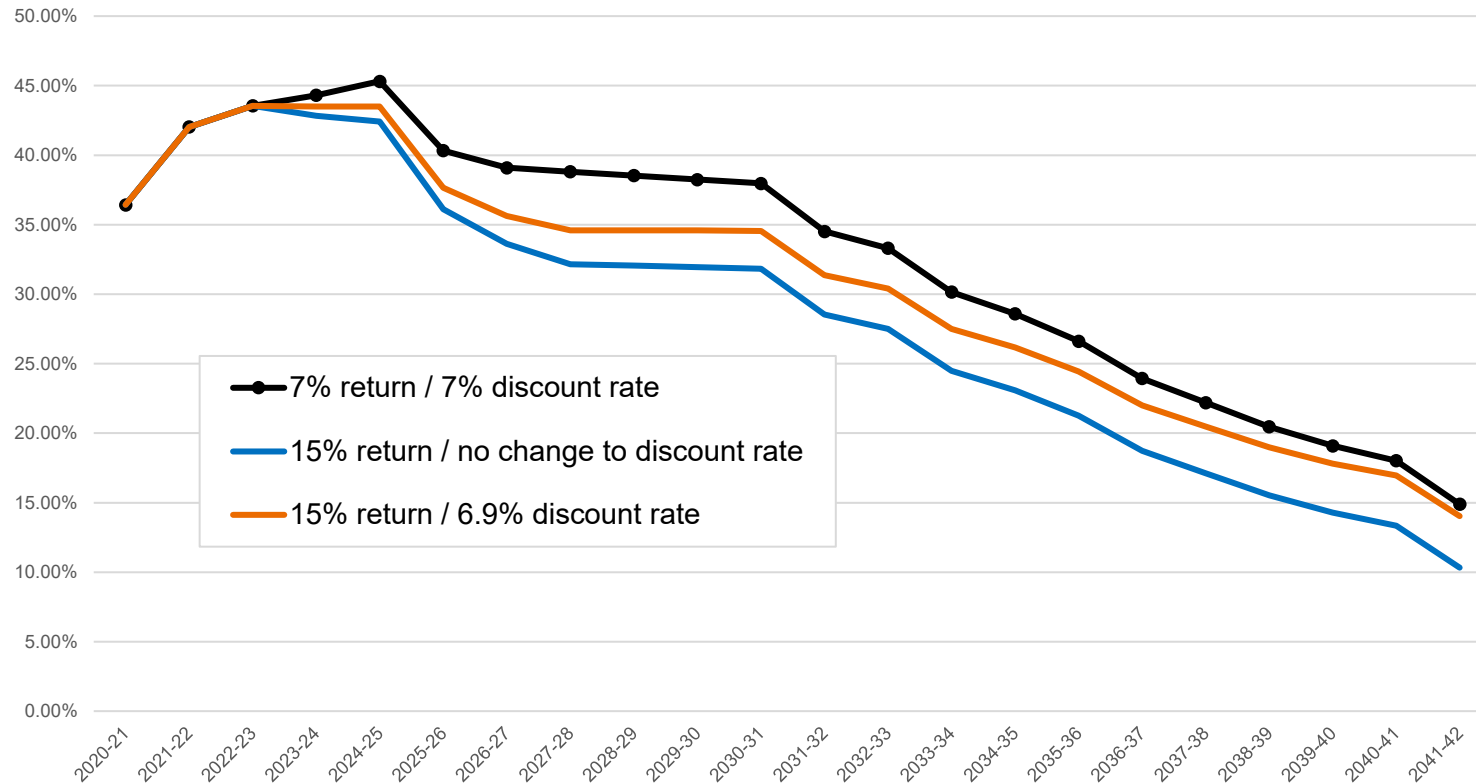


What would happen to employer/employee contribution rates assuming a 15% return?

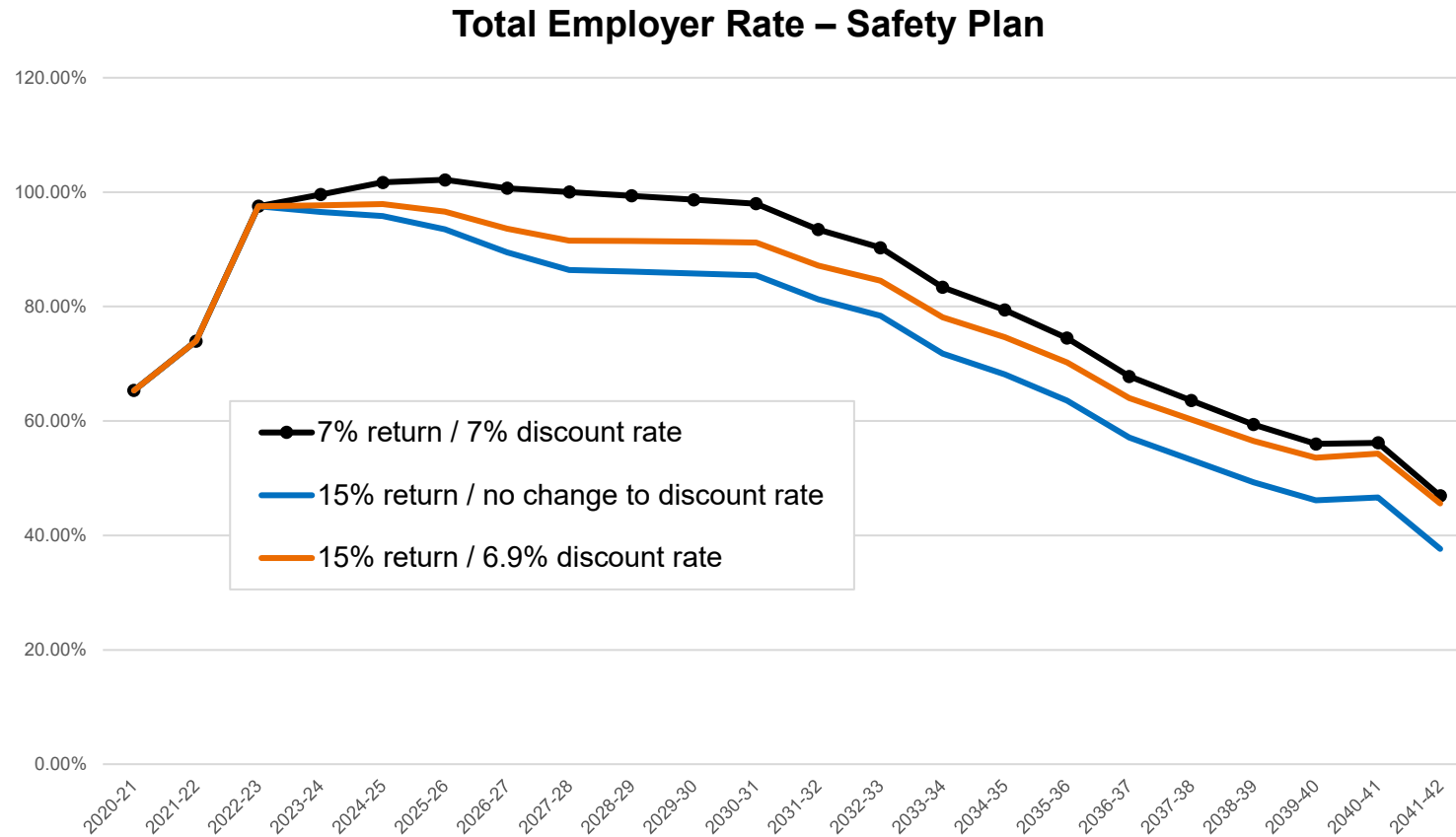
- Discount rate will reduce to 6.90%
- CalPERS Asset Allocation would not immediately change significantly until the ALM process concludes
- Classic member contribution rates – no change
- PEPRA member contribution rates – potential rate increase of approximately 0.5% increase for some members
- Retirees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

Sample city – miscellaneous plan

Total Employer Rate – Miscellaneous Plan



Sample city – safety plan



Opportunities for stakeholder engagement



Quarterly stakeholder webinars throughout the ALM process:
January 20, April 27, August 3, and September 15, 2021

Questions