Funding Risk Mitigation Policy

Effective Date

November 18, 2015
This policy is effective immediately upon adoption.

Introduction

The Funding Risk Mitigation Policy (Policy) seeks to reduce CalPERS funding risk over time. It establishes a mechanism whereby CalPERS investment performance that significantly outperforms the discount rate triggers adjustments to the discount rate, expected investment return, and strategic asset allocation targets.

Reducing the volatility of investment returns will increase the long-term sustainability of CalPERS pension benefits for members.

Policy

This Policy applies to the Public Employees' Retirement Fund (PERF).

If a ***Funding Risk Mitigation Event*** occurs, the discount rate and expected investment return shall be adjusted as set forth in Table 1 below, and the strategic asset allocation targets shall be adjusted consistent with such new discount rate and expected investment return. The current CalPERS strategic asset allocation targets can be found in the CalPERS Total Fund Investment Policy, and are defined or approved during the periodic Asset Liability Management process undertaken by CalPERS, subject to adjustments per this Policy.

Table 1: Funding Risk Mitigation Event ***Thresholds*** and Impacts

Excess Investment Return	**Reduction in Discount Rate**	**Reduction in Expected Investment Return**
If the actual investment returns exceed the discount rate by:	*Then the discount rate will be reduced by:*	*And the expected investment return will be reduced by:*
4.00%	0.05%	0.05%
7.00%	0.10%	0.10%
10.00%	0.15%	0.15%
13.00%	0.20%	0.20%
17.00%	0.25%	0.25%

Discount rate reduction shall be governed by the following parameters:

a) Reduced by increments of five (5) basis points (0.05%)
b) Maximum reduction per year of 25 basis points (0.25%)
c) The discount rate/expected investment return shall not be reduced to the point where the estimated investment return volatility drops below eight percent (8%) according to the Capital Market Assumptions most recently adopted by the Investment Committee.

Upon the occurrence of a Funding Risk Mitigation Event:

1. Staff shall report the annual net investment return for the given fiscal year ending June 30^{th} to the CalPERS Board of Administration.

2. Staff shall implement new strategic asset allocation targets based on the reduction in investment return indicated in Table 1 in accordance with the current schedule of asset allocation ranges and targets adopted by the Investment Committee.

3. The new strategic asset allocation targets shall take effect on October 1 of the fiscal year immediately following the ***Event Year***.

4. The total fund policy benchmark shall be adjusted consistent with the new strategic asset allocation targets and Staff shall report the new strategic asset allocation targets, total fund policy benchmark and expected investment return to the Investment Committee.

5. The discount rate shall be adjusted and reported to the Finance & Administration Committee.

6. Member calculations, including optional factors and service credit purchase, shall reflect the reduced discount rate effective October 1 of the fiscal year immediately following the Event Year.

7. The effect of any reduction in discount rate for a given Event Year shall be included in the actuarial valuations calculated as of June 30 for such year.

Reviews

Funding risk mitigation progress will be reported in the Annual Funding Levels and Risks Report.

CalPERS staff periodically conducts the ALM process with the Board of Administration. This policy shall be reviewed as part of the CalPERS cyclical Asset Liability Management (ALM) process. Staff will review funding risk mitigation actions taken with the Board and the Board will assess the progress that has been made.

Glossary of CalPERS Specific Terms

Italicized terms appearing in the Policy are CalPERS specific in nature and are defined below:

Term	Definition
Funding Risk Mitigation Event	The achievement of a time-weighted annual investment return net of investment expenses for a given fiscal year, as first publicly reported following the end of such fiscal year, that exceeds the CalPERS discount rate by 2.00% or more.
Event Year	The fiscal year in which the funding risk mitigation event occurred.
Threshold	The time-weighted annual investment return, net of investment expenses, in excess of the discount rate required for a funding risk mitigation event to occur.