

CalPERS Funding Risk Mitigation Policy

Finance & Administration Committee
February 20, 2024

History

Adopted in 2015

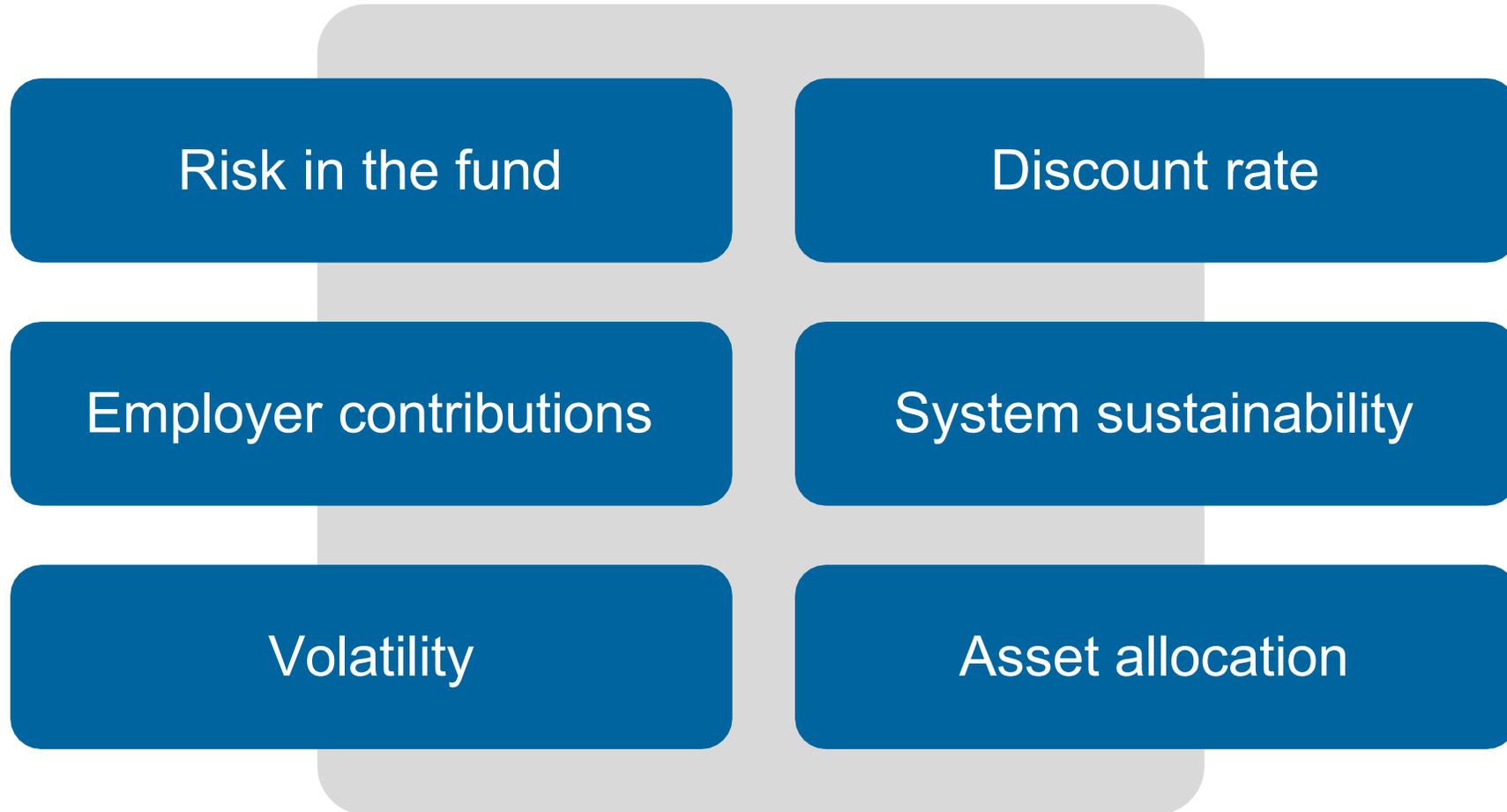
Lowered excess investment
return threshold from
4% - 2% in 2017

Temporarily suspended while
discount rate phased to 7%
over three years

(February 14, 2017 - June 30, 2020)

First triggered by June 30, 2021
FY investment returns

Purpose



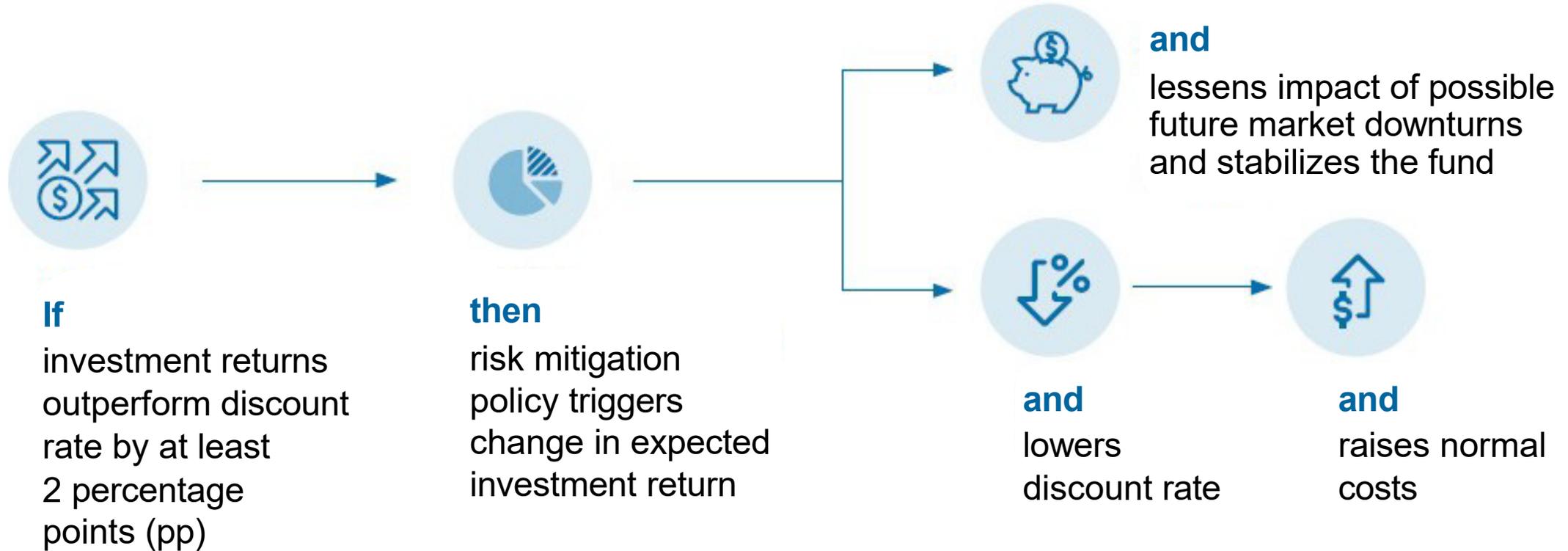
How the Policy Attempts to Mitigate Pension Funding Risk

Lowers the discount rate in years of good investment returns

Lowers investment volatility over time

Provides greater predictability and less volatility in contribution rates for employers

How Risk Mitigation Policy Works



Conditions for Triggering the Policy



If investment returns outperform discount rate by:

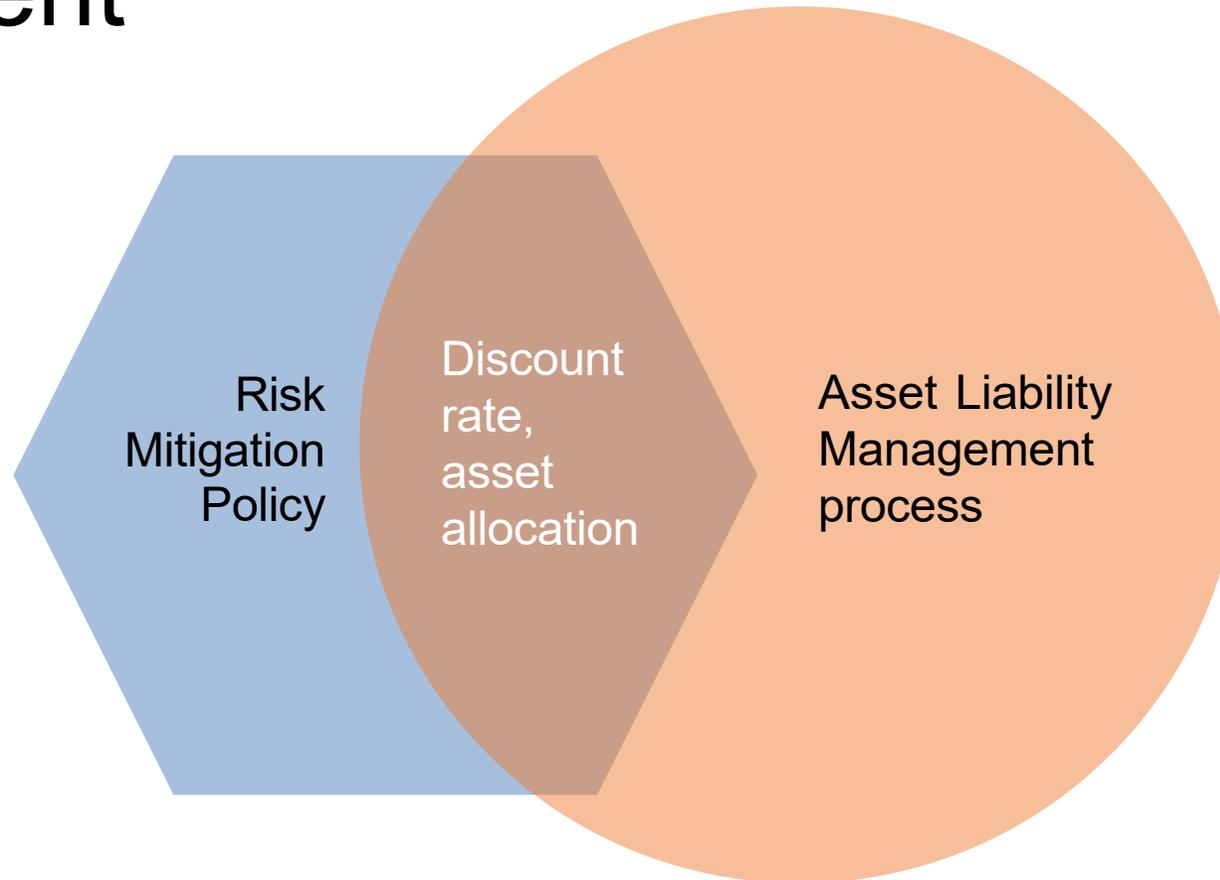
+2 pp	—————→
+7 pp	—————→
+10 pp	—————→
+13 pp	—————→
+17 pp	—————→



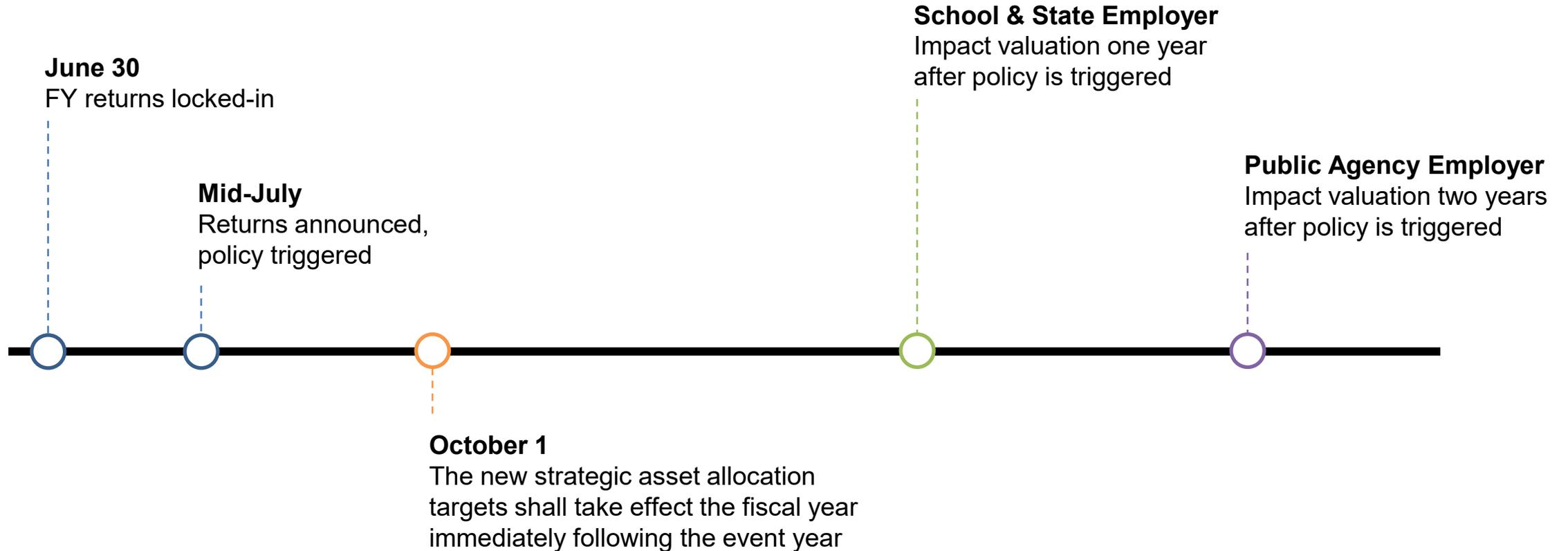
then reduction in discount rate will be:

0.05%
0.10%
0.15%
0.20%
0.25%

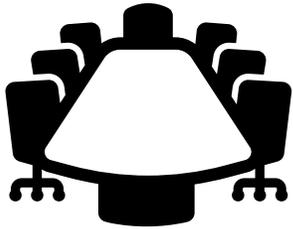
Risk Mitigation Policy and Asset Liability Management



Implementation Timeline

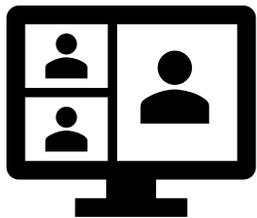


Feedback



Seeking direction from the committee:

- Keep Policy as-is with no changes
- Revise Policy
- Revoke Policy



Stakeholder Outreach

- February Labor and Employer Executive Roundtable Meetings
- February/April Stakeholder Engagement Briefings

Questions?