



Investment Committee

Agenda Item 6b

June 15, 2026

Item Name: Asset Liability Management: First Reading - Supplemental Income Plans Recommendations

Program: Affiliate Investment Program

Item Type: Information

Executive Summary

This agenda item presents the asset liability management (ALM) review and recommendations for the Supplemental Income Plans (SIP), which includes the Public Employees' Deferred Compensation Fund and the Supplemental Contributions Program Fund. The review has been completed in partnership with RVK, Inc., an investment consultant with expertise in defined contribution glide path analysis and design.

The focus of this review is the SIP Target Date Fund Glide Path, which is an investment strategy in which the asset allocation of each target date fund de-risks over time, gliding to a more conservative allocation as retirement approaches. The annual de-risking allocation adjustments and quarterly rebalancing for each target date fund are managed by CalPERS and provide participants with the benefit of a disciplined asset allocation approach.

The objectives of this review are multi-faceted with a focus on minimizing retirement income shortfall, maximizing income replacement in retirement, reducing risk of loss leading up to and in retirement, and minimizing costs. The conclusions below guided the glide path selection and recommendation:

- The current glide path closely matches the intended objectives.
- Many participant outcomes are incrementally improved with the updated glide path.
- Adding inflation protection assets helps achieve comparable outcomes with lower risk.

The recommended SIP Target Date Fund Glide Path reflects current participant demographics, utilizes updated Capital Market Assumptions, adds an allocation to Treasury Inflation Protected Securities (TIPS) to enhance inflation protection, and improves risk measures.

Upon approval, the relevant investment policies will be updated through the administrative policy change process. An opinion letter from Wilshire Associates, Inc. is included as Attachment 2.

Strategic Plan

This agenda item supports the CalPERS Strategic Plan goal of strengthening long-term sustainability. The periodic review and evaluation of the SIP Target Date Fund Glide Path is intended to strengthen the sustainability of the Supplemental Income Plans.

Investment Beliefs

This agenda item supports the following CalPERS Investment Beliefs:

- Investment Belief 2: A long-term investment horizon is a responsibility and an advantage;
- Investment Belief 7: CalPERS will take risk only where we have a strong belief we will be rewarded for it;
- Investment Belief 8: Costs matter and need to be effectively managed; and
- Investment Belief 9: Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error.

Background

ALM is governed by the CalPERS ALM Policy, operates on a four-year cycle, and is the process by which the asset allocation of the SIP Target Date Fund Glide Path is modified to reflect demographic changes, market conditions, and investment risks.

The SIP includes the Public Employees' Deferred Compensation Plan (457), primarily comprised of public agency employee participants, and the Supplemental Contributions Program (SCP), primarily comprised of State employee participants. On December 31, 2025, the 457 Plan held \$3.1 billion in retirement savings for 38,101 participants across 863 public agencies; the Supplemental Contributions Program held \$126 million in retirement savings for 5,619 participants.

The SIP offers participants three types of investment funds:

- Target Date Funds – Participants can select a target date fund that aligns with their retirement date and CalPERS manages the asset allocation.
- Core Funds – Participants can select core market index funds and manage their asset allocation.
- Self-Managed Account – Participants can invest directly in mutual funds, ETFs, stocks, bonds, money market funds, and certificates of deposit.

While participants have the choice to select any combination of funds in the investment fund lineup, target date fund usage has been trending higher over the last several years. For this review period, target date funds represent 80% of contributions and 56% of balances, highlighting the utility and importance of the glide path.

This is the first reading of the Asset Liability Management: Supplemental Income Plans and the following recommendations are presented:

- Adopt the Capital Market Assumptions.

- Approve adding TIPS to the SIP Target Date Fund Glide Path allocation.
- Adopt the TIPS benchmark of Bloomberg US Government Inflation-Linked 1-10 Year Bond Index, as recommended by Wilshire.
- Approve the recommended SIP Target Date Fund Glide Path.

Analysis

The SIP Target Date Fund Glide Path analysis is comprised of three components:

Demographic Analysis – Evaluating the participant population demographic data and savings patterns to determine the most relevant attributes that will inform the retirement income review.

Retirement Income Projections – Evaluating expected retirement outcomes using the current glide path, forward-looking simulations, and stress tests of the retirement outcomes.

Glide Path Evaluation & Recommendation – Evaluating if optimized changes to the glide path have the potential to improve retirement outcomes.

Demographic Analysis

Compared to the 2022 analysis, the demographic review shows increased plan participation, salaries, and median age at withdrawal. The demographics also show reduced savings rates and a higher income replacement goal, both of which may be indicative of economic stress and the impact of inflation on participants.

The 2026 review incorporates the following assumptions based on SIP demographic data:

- Starting Age: 21
- Retirement Age: 62
- Years of Service: 41 (down 1 year from 2022)
- Household Size: 2
- Annual Contribution: 1.0%–2.8% (down from 1.9%-3.2% in 2022)
- Income Replacement Goal: 89% (up from 83% in 2022)
- Pension Formula: 2% at age 62
- Social Security Coverage: None

Distribution patterns show that a majority of participants remain in the plan past age 60, with partial withdrawals increasing due to required minimum distributions after age 73. Full cash-outs and rollovers remain stable, indicating sustained participant engagement.

Retirement Income Projections

Evaluating the current glide path and demographic data, retirement outcomes show that participant saving rates combined with projected income needs in retirement result in a 94% probability of income shortfall in achieving an 89% income replacement goal. The estimated income replacement from pension and SIP savings is 65% of final salary prior to retirement, with the SIP contributing 4.6% to the total. Stress testing confirms that higher savings rates, delaying retirement, or having Social Security benefits can significantly improve income replacement

rates and reduce shortfall risk. Inflation is a concern, as it can erode pension income and savings over time.

Glide Path Evaluation and Recommendation

The foundation for the evaluation and design of the glide path is participant demographics. Based on the median participant profile, the glide path aims to balance improvements to income replacement outcomes with mitigating the risk of substantial losses during the distribution phase caused by significant downturns. An optimization methodology is used to evaluate glide path alternatives to arrive at a recommendation.

The Capital Market Assumptions (CMAs) are another key input to the glide path analysis and the values utilized are from the CalPERS’ CMA survey and are consistent with the CMAs used for the ALM Affiliate Fund Review.

Several alternative glide paths were evaluated in comparison to the current glide path. One glide path introduced no asset class changes, while others introduced allocation changes to equities or added an allocation to short-term bonds or Treasury Inflation Protected Securities (TIPS). The results showed that a small allocation to 1-10 Year TIPS across the glide path could achieve comparable retirement outcomes at lower levels of portfolio risk.

The table below shows a comparison between the current glide path and the recommended glide path that includes a small TIPS allocation. Both glide paths align with the SIP demographic data and deliver comparable retirement income outcomes. Although expected return and income replacement are slightly lower and the probability of shortfall slightly increases, the recommended glide path improves risk-adjusted returns with lower expected volatility, reduces the probability of negative outcomes, and adds structural inflation protection.

Measure	Current Glide Path	Recommended Glide Path	Difference	Improved? Y / N / -
Expected Return	5.68%	5.67%	-0.01%	N
Expected Volatility	12.25%	11.97%	-0.28%	Y
Ending Balance	\$234,221	\$234,382	+\$161	Y
Income Replacement	65.2%	65.1%	-0.1%	N
SIP Income Replacement	4.6%	4.6%	0%	-
Probability of Shortfall	93.7%	94.1%	+0.4%	N
Years Before Drawdown	8	8	0	-
Additional Contribution	5.2%	5.1%	-0.1%	Y
Probability of Negative Returns Near Retirement	22.9% – 3.0%	21.7% – 2.2%	-1.2% – 0.8%	Y
Worst-case Annual Return at Distribution (5 th percentile)	-6.45%	-5.91%	+0.54%	Y

Budget and Fiscal Impacts

Modifying portfolios brings transaction and other associated costs that may increase the investment expenses and impact both expected and realized investment returns. Recommendations reflect this potential impact.

Benefits and Risks

The benefits of reviewing and updating the SIP Target Date Fund Glide Path are:

1. Reviewing the current glide path provides support for adopting a refreshed glide path with an appropriate risk/return profile, using current demographics and capital market assumptions.
2. The updated glide path may improve participant retirement outcomes.

The risks of reviewing and updating the SIP Target Date Fund Glide Path are:

1. Reviewing the glide path requires evaluating and balancing a variety of assumptions and risks and requires reliance on demographic and investment assumptions, which are inherently uncertain.
2. Improvements to retirement outcomes may deviate from projections.

Attachments

Attachment 1: Asset Liability Management: First Reading – Supplemental Income Plans Recommendations

Attachment 2 – Wilshire Opinion Letter

Brian Leu

Interim Managing Investment Director
Total Fund Portfolio Management

Michele Nix

Chief Financial Officer

Stephen Gilmore

Chief Investment Officer