California Public Employees' Retirement System Asset Liability Management Policy

Purpose

The California Public Employees' Retirement System (CalPERS or the System) Pension and Investment Beliefs adopted by the CalPERS Board of Administration (board) set forth the pension fund's views on public pension design, funding, investment management, and administration. The board has also established a key strategic goal of strengthening the long-term sustainability of the pension fund. This strategic goal is to be pursued through funding the System with an integrated view of pension assets and liabilities and actively assessing and managing funding risk through an Asset Liability Management (ALM) framework. This document sets forth the policy (Policy) for the establishment and maintenance of this ALM framework.

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CalPERS

Background

An effective ALM Program (ALMP) is important to ensuring that contributions, plus investment returns, are sufficient to pay the benefits and expenses of the System and is critical to implementing the Pension and Investment Beliefs, pursuing the key strategic goal of strengthening the long-term sustainability of the pension fund and carrying out the fiduciary duty owed to members.

Many policies approved by the board address elements of ALM (see list of ALM-related policies in Related Documents below). This Policy addresses how the various ALM activities covered by the ALM-related policies are to be coordinated and managed in concert with each other.

Strategic Objective

The strategic objective of the Policy is to strengthen the long-term pension fund sustainability. A key process supporting this objective is the ALM Cycle, which takes place every four years. This Policy establishes how staff is to oversee and coordinate the Four-Year ALM Cycle (ALM Cycle).

Policy

Staff shall establish and maintain an ALMP in pursuit of long-term pension fund sustainability. The ALMP shall have a management structure in place to effectively oversee ALM strategies and to respond to dynamic market and operational environments appropriately and effectively.

1. The Chief Financial Officer (CFO) is responsible for the oversight of the ALMP.
2. The ALMP shall establish and maintain an Asset Liability Management Advisory Committee (ALMAC), chaired by the CFO or an authorized designee. The members are the Chief Executive Officer (CEO), CFO, Chief Actuary, Chief Investment Officer (CIO), ~~Deputy~~ Chief Operating Investment Officer (~~D~~COIO), Deputy Executive Officer of Communications & Stakeholder Relations (CSR)~~, and the Chief Actuary.~~ The General Counsel will serve as an advisory member. Members may assign additional representatives from the Financial Office (FINO), Investment Office (INVO), Actuarial Office (ACTO), Legal Office (LEGO), and CSR to serve in an advisory capacity. ALMAC members do not have term limits. The following activities are within the purview of the ALMAC:
    a. Coordination of the detailed ALM Cycle every four years as well as the Mid-Cycle Review.
    b. The recommendation to the board of the actuarial assumptions and employer/employee contribution rates.
    c. The recommendation to the board of the discount rate to be used.
    d. For funds under a Total Portfolio Approach (TPA), ~~T~~the recommendation to the board of the ~~target~~ reference portfolio and active risk limits, including all

capital market assumptions.

e. For funds under a Strategic Asset Allocation (SAA), the recommendation to the board of the target or policy portfolio, including all CMAs.

f. For funds under TPA, monitoring total fund risk.

~~e.~~g. For funds under SAA, ~~M~~monitoring actual asset allocations versus the targets and ranges established by the board.

~~f.~~h. Annual review of funding levels and risks to be reported to the board.

~~g.~~i. Implementation of the Funding Risk Mitigation Policy. This policy shall also be reviewed on a periodic basis with any recommended changes taken to the FAC for review and recommendation to the Board of Administration.

~~h.~~j. The review and update, as necessary, for presentation to the responsible board committees of the ALM aspects of all ALM-related policies.

~~i.~~k. Monitoring of the key ALM metrics and the status of ALM-related initiatives reported to the relevant board committees as prescribed by board policies.

~~j.~~l. Oversight of communications and outreach with employers and key stakeholders with respect to ALM-related issues, including, but not limited to, actuarial assumptions, funded status and the setting of contribution rates.

Four-Year ALM Cycle

ACTO shall analyze actuarial assumptions every four years and report its results to the board. INVO shall provide ~~a~~ comprehensive analyses covering economic scenarios, total fund risk for TPA funds, and risk and allocation for SAA funds, and report them to the board.~~strategic asset allocation analysis~~ These analyses, in concert,~~coincident with the review of actuarial methods and assumptions~~ will ~~to~~ be presented for review and approval as~~of policy target asset class allocations and ranges~~ the below board deliverables, and~~. These two activitie~~s together shall be overseen and coordinated by the ALMAC and ~~shall~~ be referred to as the ALM Cycle.

The ALMAC shall develop a specific plan, including a detailed timeline and set of materials for review with the board, as part of this process for both the Public Employees' Retirement Fund (PERF) and all Affiliate Funds~~.~~

Specific topics to be addressed shall include, but not be limited to, the following:

1. Capital market assumptions;
2. Economic ~~assumptions~~scenarios;
3. Actuarial experience study; ~~and~~
4. For TPA funds, analysis of current total fund risk metrics; and
~~4.~~5. For SAA funds, ~~A~~analysis of current risk metrics versus targets and allocation analysis.

Senior management shall present recommendations for approval by the board of the following:

~~1. Permissible, or target, risk levels;~~

~~2.~~1. Actuarial assumptions;

~~3.~~2. Discount rate;

3. Permissible investment asset classes~~; and segments; and~~

4. For TPA funds, a reference portfolio and active risk limits; and

5. For SAA funds, a ~~T~~target, or policy, asset allocation and ranges.

~~The ALM Cycle will be conducted for the Public Employees' Retirement Fund (PERF), and then the inputs to the ALM Cycle will be subsequently applied to the Affiliate Funds, as appropriate.~~

Policy Scope

This policy applies to the PERF as well as the Affiliate Funds of the System, as applicable.

Primary Responsibility

The ALMAC is responsible for this Policy. The FAC is responsible for overseeing staff's implementation of the Policy. The FAC intends for the Policy to be a dynamic document which will be reviewed and modified periodically to reflect the changing nature of CalPERS' assets and investment programs, benefit programs, and economic conditions.

Roles and Responsibilities

The FAC's responsibilities with respect to the ALMP shall include:

1. Oversee senior management as they take steps to manage, measure, monitor, and control (1) funding status and risks, (2) employer contribution rates, and (3) implementation of risk mitigation strategies.
2. Review Staff recommendations for changes to the Policy and take recommendations for changes to the Policy to the Board of Administration.

The Investment Committee (IC) responsibilities with respect to the ALMP shall include:

1. Oversee senior management as they take steps to manage, measure, monitor, and control investment portfolio allocations, returns, and risks.

Staff, with the oversight of the ALMAC, is responsible to implement the specific elements contained in the Policy section above. As indicated in that section, many organization units are involved in the ALM process, including FINO, INVO, ACTO, LEGO, and CSR. Staff shall develop a set of ALM Procedures, to be approved by the CalPERS CEO, defining the operational roles, responsibilities, and operational processes for each unit as they relate to ALM.

Key Terms and Definitions

For the purposes of this document, the following terms and definitions apply.

Key Term	Definition
Affiliate Funds	Affiliate Funds of the System include the following: California Employers' Retiree Benefits Trust (CERBT), California Employers' Pension Prefunding Trust (CEPPT), Judges' Retirement Fund, Judges' Retirement Fund II (JRF II) Legislators' Retirement Fund (LRF), Public Employees' Health Care Fund (HCF), Public Employees' Long Term Care (LTC) Fund, and Supplemental Income Plans (SIP).
Asset Liability Management (ALM)	ALM is the balancing of investment assets and contributions to appropriately match the level of benefits that have been promised to employees by employers who contract with CalPERS for benefits.
Actuarial Assumptions	Actuarial Assumptions are to include future wage and price inflation, mortality, service and other experience of CalPERS' members and other persons receiving benefits.
Capital Market Assumptions	Capital Market Assumptions are to include expected return, volatility and cash yield by asset class (and segments within asset classes, if applicable).
Discount Rate	The interest rate used to measure the total liability.
Employer and Employee Contribution Rates	The contribution requirements for Employers and Employees, expressed as a percentage of total payroll cost.
Funded Status	The measure of the percentage of accrued liabilities that are covered by net assets.
Target Investment Portfolio	The target investment portfolio is to be recommended by staff for board approval. The target portfolio is to be expressed as target percentages of the total portfolio (and ranges) by asset class and, potentially, by segments within asset classes. Program roles and benchmarks are to be articulated for each asset class and segment.

Key Term	Definition
Active Risk Limits	Board established limit of deviation from the reference portfolio, measured in basis points of standard deviation.
Actuarial Assumptions	Actuarial Assumptions are to include future wage and price inflation, mortality, service and other experience of CalPERS' members and other persons receiving benefits.
Affiliate Funds	Affiliate Funds of the System include the following: California Employers' Retiree Benefits Trust (CERBT), California Employers' Pension Prefunding Trust (CEPPT), Judges' Retirement System Fund, Judges' Retirement System II Fund (JRS II) Legislators' Retirement System Fund (LRS), Public Employees' Health Care Fund (HCF), Public Employees' Long-Term Care (LTC) Fund, and Supplemental Income Plans (SIP).
Asset Liability Management (ALM)	ALM is the balancing of investment assets and contributions to appropriately match the level of benefits that have been promised to employees by employers who contract with CalPERS for benefits.
Capital Market Assumptions	Capital Market Assumptions are to include expected return, volatility and cash yield by asset class (and segments within asset classes, if applicable).
Discount Rate	The interest rate used to measure the total liability.
Employer and Employee Contribution Rates	The contribution requirements for Employers and Employees, expressed as a percentage of total payroll cost.
Funded Status	The measure of the percentage of accrued liabilities that are covered by net assets.
Reference Portfolio	Hypothetical, low cost, passive benchmark portfolio reflecting a long-term investor's risk appetite.

Target Investment Portfolio	The target investment portfolio is to be recommended by staff for board approval. The target portfolio is to be expressed as target percentages of the total portfolio (and ranges) by asset class and, potentially, by segments within asset classes. Program roles and benchmarks are to be articulated for each asset class and segment.
Total Portfolio Approach	Framework where governance, strategy, and decisions are made with the total fund in mind.

Authoritative Sources

CalPERS will administer this policy in compliance with the following legal, regulatory and policy requirements:

Source	***Description***
Cal Gov't. Code §20120	The CalPERS Board of Administration is vested with the management and control of the Public Employees' Retirement System (System).
California Constitution, ART. XVI, §17	The board has plenary authority and fiduciary responsibility for the investment of monies and administration of the System. The Constitution also vests the board with the sole and exclusive power to provide for the actuarial services in order to assure the competency of the System.

Related Documents

~~Document~~	~~Relevance~~
~~Total Fund Investment Policy~~	~~Provides a framework for the management of CalPERS assets and outlines the objectives, benchmarks, restrictions, and responsibilities of the investment program. Sets out the process for establishing asset class allocation policy targets and ranges and managing those asset class allocations within their policy ranges.~~
~~Judges' Retirement Fund~~	~~Sets forth the investment policy for the Judges' Retirement Fund.~~
~~Judges' Retirement Fund II (JRF II)~~	~~Sets for the investment policy for the Judges' Retirement Fund II.~~
~~Legislators' Retirement Fund (LRF)~~	~~Sets forth the investment policy for the Legislators' Retirement Fund.~~
~~Funding Risk Mitigation Policy~~	~~Seeks to reduce CalPERS funding risk over time by lowering the discount rate when the CalPERS actual investment performance significantly outperforms the assumed discount rate.~~
~~Actuarial Assumptions Policy~~	~~Establishes the process of developing actuarial assumptions in order to measure and manage the liabilities of the System.~~
~~Actuarial Amortization Policy~~	~~Establishes the amortization methods to eliminate positive or negative unfunded liabilities in a manner that maintains benefit security for the members of the System while minimizing substantial variations in employer contribution rates.~~
~~Actuarial Cost Method Policy~~	~~Establishes the cost methodologies CalPERS will use to estimate pension costs.~~
~~Actuarial Contribution Allocation Policy~~	~~Provides guidance to CalPERS actuaries on the timing and methods used in the allocation of employer contributions to each employer's plans.~~

Document	**Relevance**
Actuarial Amortization Policy	Establishes the amortization methods to eliminate positive or negative unfunded liabilities in a matter that maintains benefit security for the members of the System while minimizing substantial variations in

	employer contribution rates.
Actuarial Assumptions Policy	Establishes the process of developing actuarial assumptions in order to measure and manage the liabilities of the System.
Actuarial Contribution Allocation Policy	Provides guidance to CalPERS actuaries on the timing and methods used in the allocation of employer contributions to each employer's plans.
Actuarial Cost Method Policy	Establishes the cost methodologies CalPERS will use to estimate pension costs.
CalPERS Investment Beliefs	Establishes a framework for the strategic management of the investment portfolio and organizational priorities.
CalPERS Statement of Investment Policy	Establishes the overarching investment purposes, objectives, and management framework for all funds under management.
California Employees' Pension Prefunding Trust Fund (CEPPT) Investment Policy	Sets forth the investment policy for CEPPT.
California Employees' Retirement Benefit Trust Fund (CERBT) Investment Policy	Sets forth the investment policy for CERBT.
Funding Risk Mitigation Policy	Seeks to reduce CalPERS funding risk over time by lowering the discount rate when the CalPERS actual investment performance significantly outperforms the assumed discount rate.
Legislators' Retirement Fund (LRF) Investment Policy	Sets forth the investment policy for LRF.
Judges' Retirement Fund Investment Policy (JRS)	Sets forth the investment policy for JRF.
Judges Retirement System II Fund (JRS II) Investment Policy	Sets forth the investment policy for JRF II.
Public Employees' Health Care Fund (HCF) Investment Policy	Sets forth the investment policy for HCF.
Public Employees' Long-Term Care Fund (LTC) Investment Policy	Sets forth the investment policy for LTC.
Public Employees' Retirement Fund (PERF) Investment Policy	Sets forth the investment policy for PERF.
Supplemental Income Plans (SIP) Investment Policy	Sets forth the investment policy for SIP.

Revision History

This procedure has been approved as follows:

Effective Date	***Version***	***Description of Changes (if needed)***
April 19, 2017	1.0	This is the initial ALM Policy
September 16, 2020	2.0	Modify Policy, Primary Responsibility, Roles and Responsibilities Sections
TBD	3.0	Modified Policy's ALMAC membership. Integrated TPA into 4-Year ALM Cycle definition, analyses topics, and Board deliverables. Updated Related Documents and Key Terms and Definitions.