

# Ensuring a Sound and Sustainable Pension Fund

# Asset Liability Management (ALM)

## Ongoing CalPERS Board Review and Decisions

Bolded items are actionable by Board Committees and/or Board of Administration

### 2017

#### January

Educational Workshop:

- CalPERS adopts an asset allocation mix that lowers investment risk but largely keeps investment strategy unchanged

#### February

**Board Adopts:**

- **Modifications to Funding Risk Mitigation Policy and temporarily suspends**

#### April

Educational Workshop:

- Private asset roles and benchmarks

FAC Review:

- Affiliate Funds Valuations

#### June

**IC Approves:**

- **Capital Market & Economic Assumptions for 2018-2028 July**

#### July

Release FY 2016-17 Investment Returns

Educational Workshop:

- Use of leverage in strategic asset allocation decisions

#### September

FAC Review:

- Notification of Risk Mitigation Policy Thresholds (Policy temporarily suspended)
- Amortization
- Inflation Sensitivity
- Leverage

#### October

CalPERS Educational Forum:

- Education and engagement opportunity with employers and other stakeholders

#### November

Educational Workshop:

- Candidate portfolios for strategic ALM
  - Capital Market Assumptions
  - Risk
- FAC Review:
- Cash flow analysis and strategic approach
  - Experience Study that looks at lifespan, workforce changes, and payroll trends
  - Amortization Policy (1st reading)

#### December

Experience study results

**First Opportunity for Board to adopt:**

- **Strategic asset allocation mix**
- **Actuarial assumptions**
- **Discount rate**

**FAC Approves**

- **Amortization Policy**

### 2018

#### February

**Second Opportunity for Board to Adopt:**

- **Strategic asset allocation mix**
- **Actuarial assumptions**
- **Discount rate**

#### April

FAC Review:

- Affiliate Funds Valuations which may include asset allocation mix

#### July

CalPERS Implements:

- Board adopted strategic asset allocation for PERF

#### September

FAC Reviews:

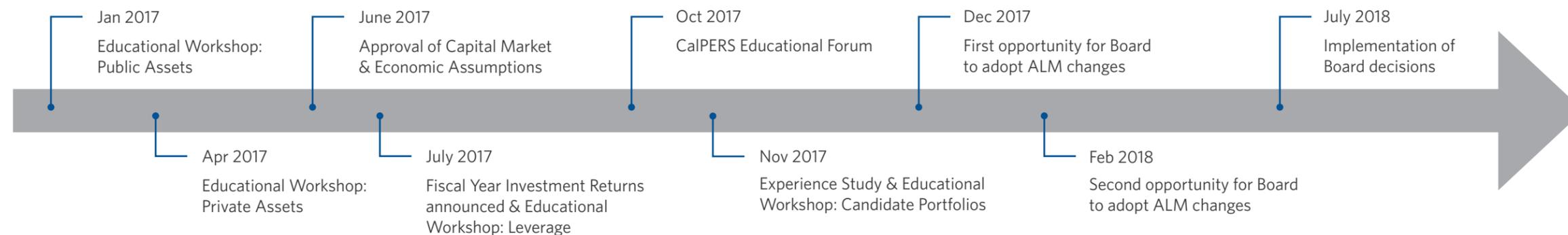
- Notification of Risk Mitigation Policy Thresholds (Policy temporarily suspended)

#### November

FAC Review:

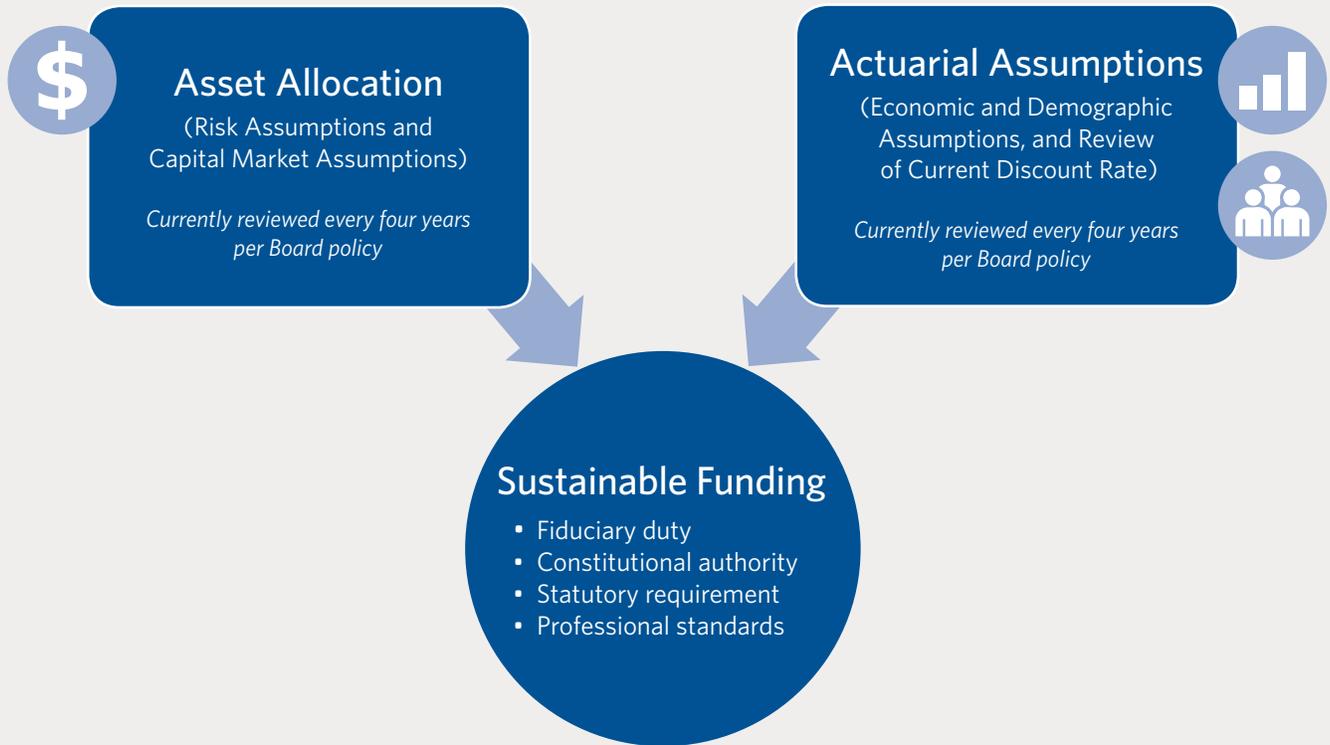
- Use of leverage in strategic asset allocation decisions

## 2017-18 Key Asset Liability Management Milestones



# Asset Liability Management (ALM)

The ALM is an integrated review of our assets and liabilities to inform decisions designed to achieve a sound and sustainable fund. It is an innovative and transparent approach to guide the Board in sound decision making.



## ALM Review Cycle Components & History

### Asset Allocation (including expected investment return)

This process includes a review of the current Asset Allocation and the role each asset class plays within the portfolio. It looks at risk tolerances for each asset class and most importantly, provides Capital Market Assumptions that reflect the expectations of what the financial markets will deliver.

Asset Allocations were reviewed in 2014, 2010, 2007 and 2004

### Actuarial Assumptions (including Discount Rate)

Economic Assumptions include the Discount Rate, and wage and price inflation projections; Demographic Assumptions include retirement, employment and mortality rate projections. The Discount Rate is the long term interest rate used to fund future pension benefits.

Economic Assumptions were reviewed in 2014, 2012 and 2004

Demographic Assumptions were reviewed in 2014, 2010 and 2004

Discount Rate was reviewed in 2016 (reduced to 7.0% over 3 years, 2012 (changed from 7.75 to 7.5%), 2011 (no change) and 2004 (changed from 8.25 to 7.75%)

### Funding Levels & Risk Report

An annual assessment of the funded status and overall soundness and sustainability of the plan, beginning in 2012.

### Funding Risk Mitigation Policy

CalPERS Board of Administration approved November 2015, suspended until 2020.