

CalPERS Asset Liability Management Cycle

CalPERS administers pension benefits for more than two million members. These benefits are funded by three sources: investment earnings and contributions by employers and employees.

The CalPERS Board of Administration oversees the long-term sustainability of the Public Employees' Retirement Fund (PERF) and the Affiliate Funds

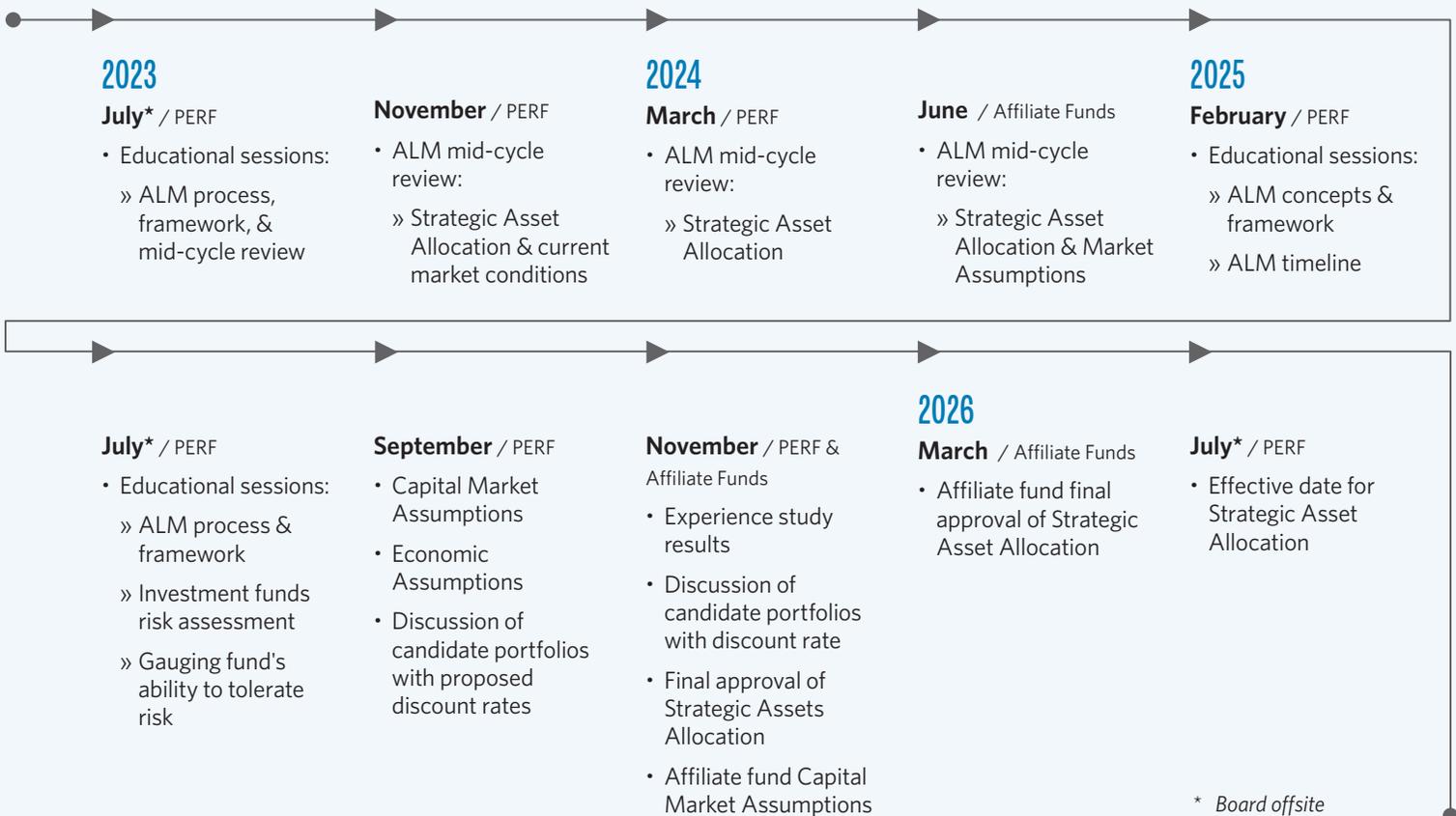
The ALM is a transparent review of our total fund that informs decisions to help achieve a sound and sustainable System.

through a process called Asset Liability Management (ALM). This formal process runs on a four-year cycle and includes a review of CalPERS' investment portfolios and retirement plan liabilities. Capital Market Assumptions are primarily based on expectations of future investment returns. Liability projections are based on demographic and economic factors and trends, including membership dynamics, future salary and payroll growth, retirement ages, inflation, and life expectancy.

The goal of the ALM process is to balance the expected cost of future pension payments with the expected future investment returns. During the process, the CalPERS

ALM Timeline for PERF and Affiliate Funds

Stakeholder outreach throughout the ALM process



board reviews its overall risks, taking into consideration the long-term sustainability of the System, volatility and expected return of the investment portfolio. Impacts on employer and employee contribution rates are also a key consideration.

The ALM process results in the following key decisions by the board:

- New strategic asset allocation of the investment portfolios
- Adoption of new actuarial assumptions
- Possible change to the discount rate which impacts employer and employee contribution requirements

Key Terms

Strategic Asset Allocation – percentage of the total investments by asset class, which includes:

- Global equity – U.S. and international public stocks
- Fixed income – government and corporate bonds, and structured securities
- Real assets – physical assets including commercial real estate, forestland, and infrastructure
- Private equity – investments in companies that are privately held and not available for purchase through public exchanges
- Liquidity – money market securities such as Treasury bills, certificates of deposit, and commercial paper

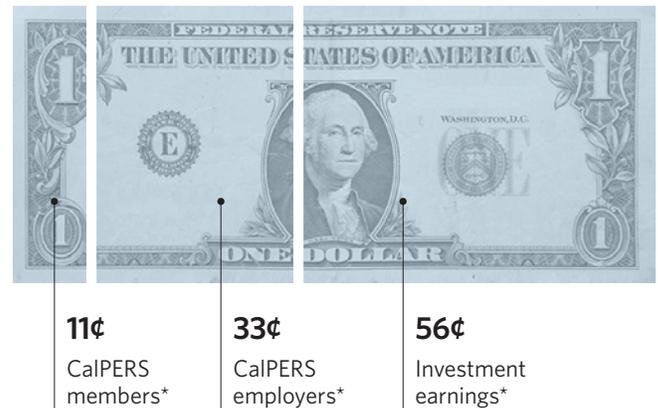
Discount Rate – the rate of interest used in calculating the accrued liabilities and normal costs for employers, as well as contributions for employees. It represents the long-term assumed rate of return on investments based on the portfolio allocation decided by the board.

Capital Market Assumptions – estimates investment returns, volatilities, correlations, and market constraints by asset segment, resulting in expected total returns for the CalPERS funds over long periods.

Experience Study – a review of the demographic and economic assumptions that are used to calculate the System’s projected liabilities and required contributions. Every four years, this study is conducted by the CalPERS actuaries, and examines factors like life expectancy, workforce changes, inflation, and payroll trends.

Affiliate Funds – separate pools of invested contributions for other Trusts administered by CalPERS, which includes Judges’ Retirement System (JRS) Fund, Judges’ Retirement System II (JRS II) Fund, Legislators’ Retirement System (LRS) Fund, California Employers’ Retiree Benefit Trust (CERBT) Fund, California Employers’ Pension Prefunding Trust (CEPPT) Fund, Long Term Care Fund (LTC), Health Care Fund (HCF) and Supplemental Income Plan Funds (SIP).

Pension Funding – each dollar of benefits is funded by investment earnings and employer and employee contributions. The largest contribution comes from CalPERS investment earnings.



* As of June 30, 2023

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