Whither Goest CalPERS?

CSMFO Annual Conference

Richard Costigan, Board Member

Marcie Frost, CEO

Scott Terando, Chief Actuary

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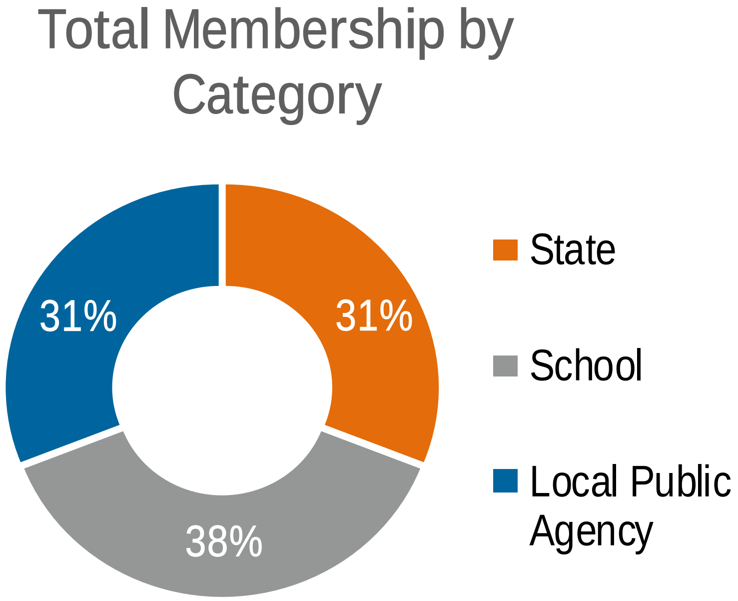
CalPERS


WELCOME

About CalPERS

- More than 3,900 Actuarial Valuations
- 1.8 Million Members
- $20.5 Billion Annual Retirement Benefits



Financial Highlights

$300 B

ASSETS UNDER MANAGEMENT

.61%

2015/16 PORTFOLIO RETURN

5.1%

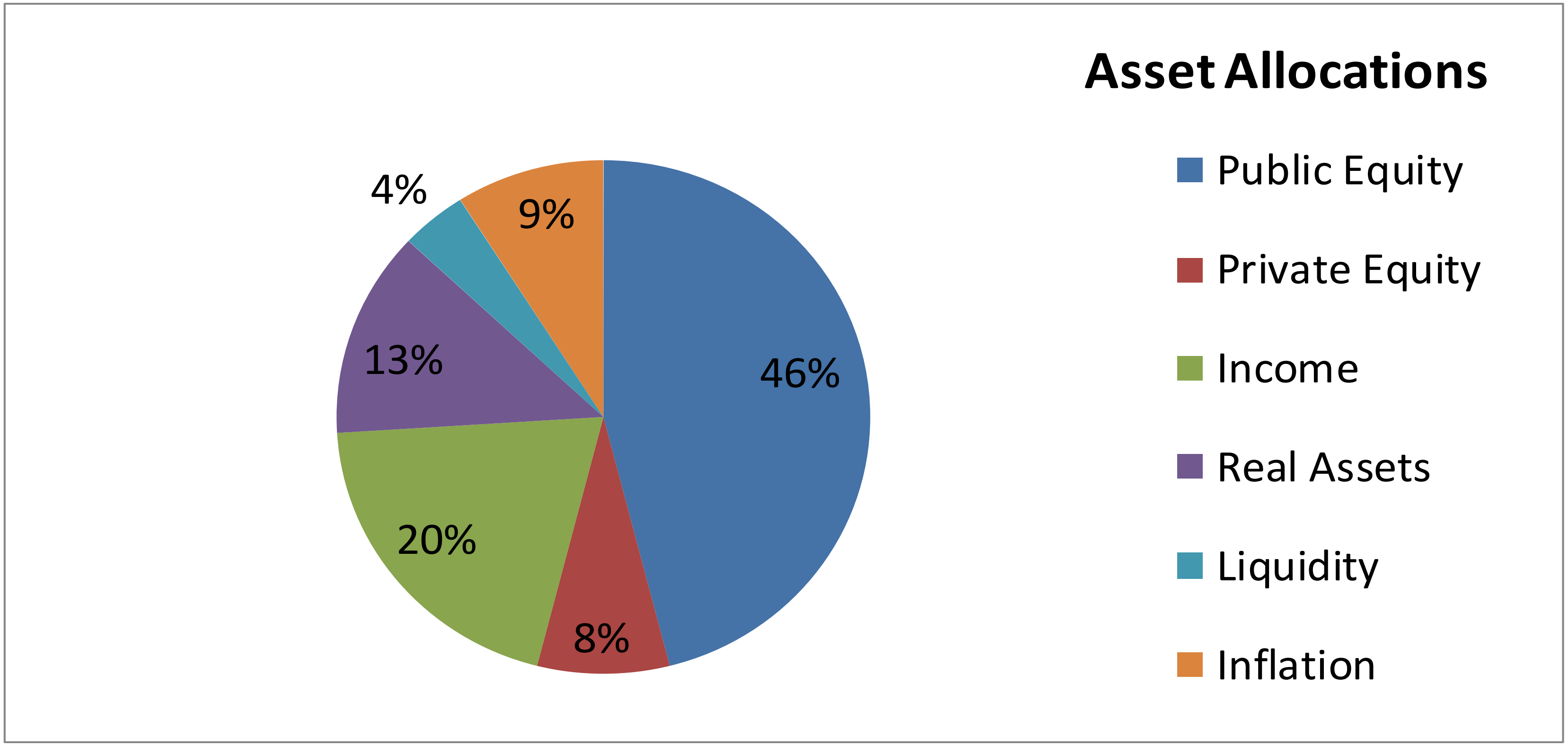
10 – YR ANNUALIZED RETURN

7.03%

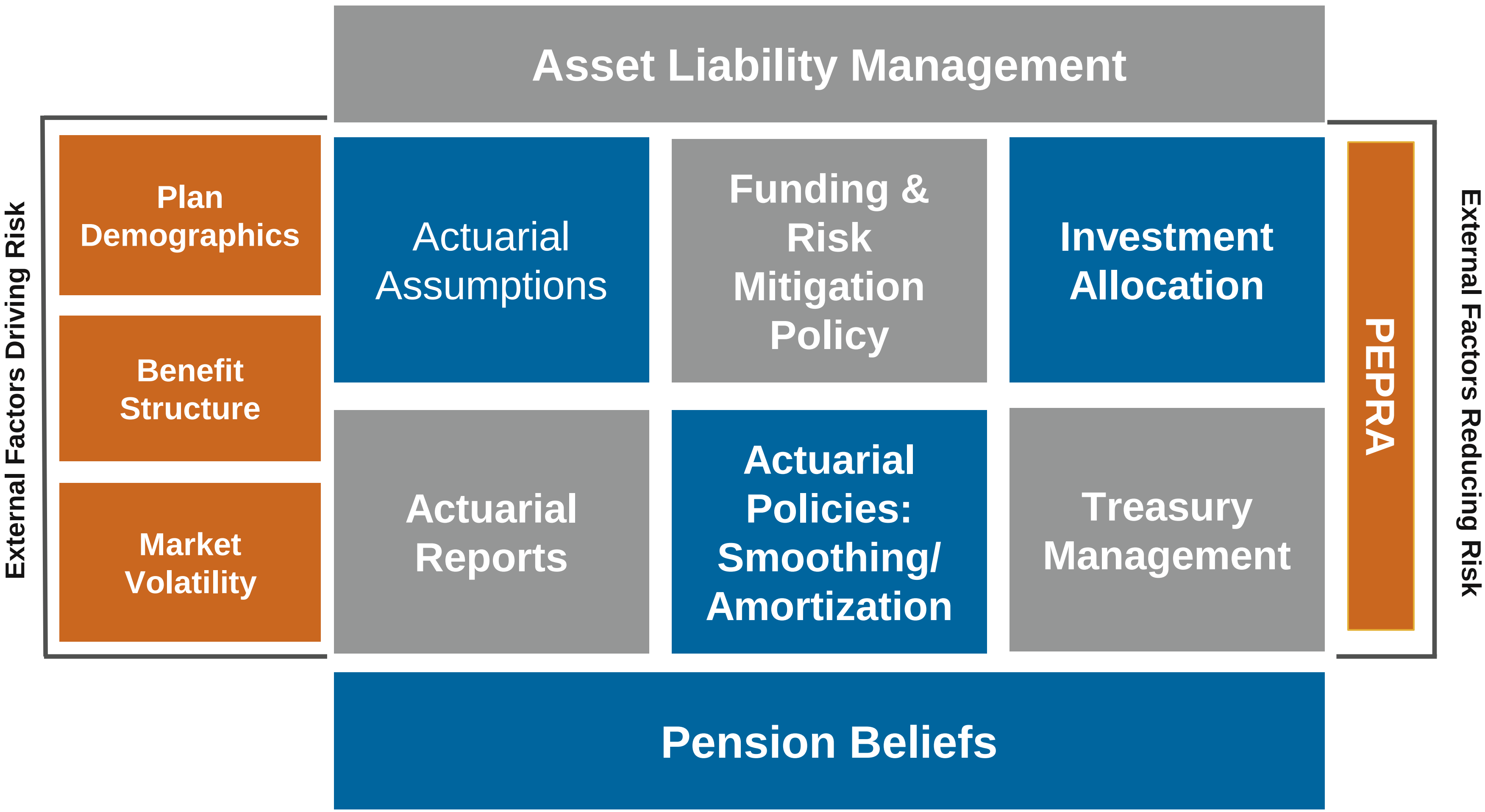
20 – YR ANNUALIZED RETURN

CalPERS Investments

Asset Allocations, as of September 2016



ASSET LIABILITY MANAGEMENT


Asset Liability Management
External Factors Driving Risk
Plan Demographics
Benefit Structure
Market Volatility
Actuarial Assumptions
Funding & Risk Mitigation Policy
Investment Allocation
Actuarial Reports
Actuarial Policies: Smoothing/ Amortization
Treasury Management
PEPRA
External Factors Reducing Risk
Pension Beliefs


WHAT IS DRIVING RISK?

Factors Driving Funding Risk

Plan Demographics

- Plans are maturing
- Public employees are living longer
- Increase cash outflows

Benefit Structure

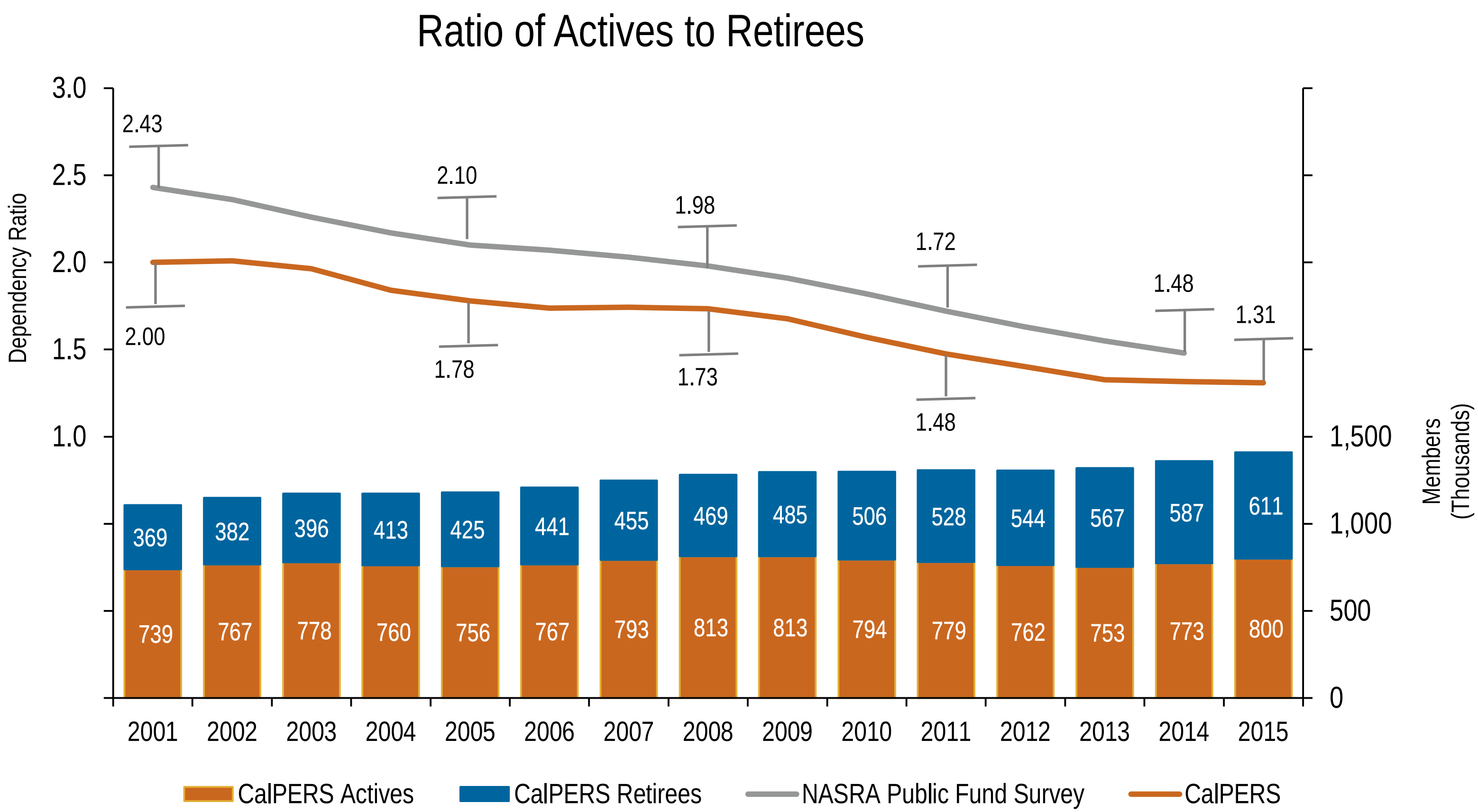
- Asset and liability to payroll ratios increase with higher benefit formulas

Market Volatility

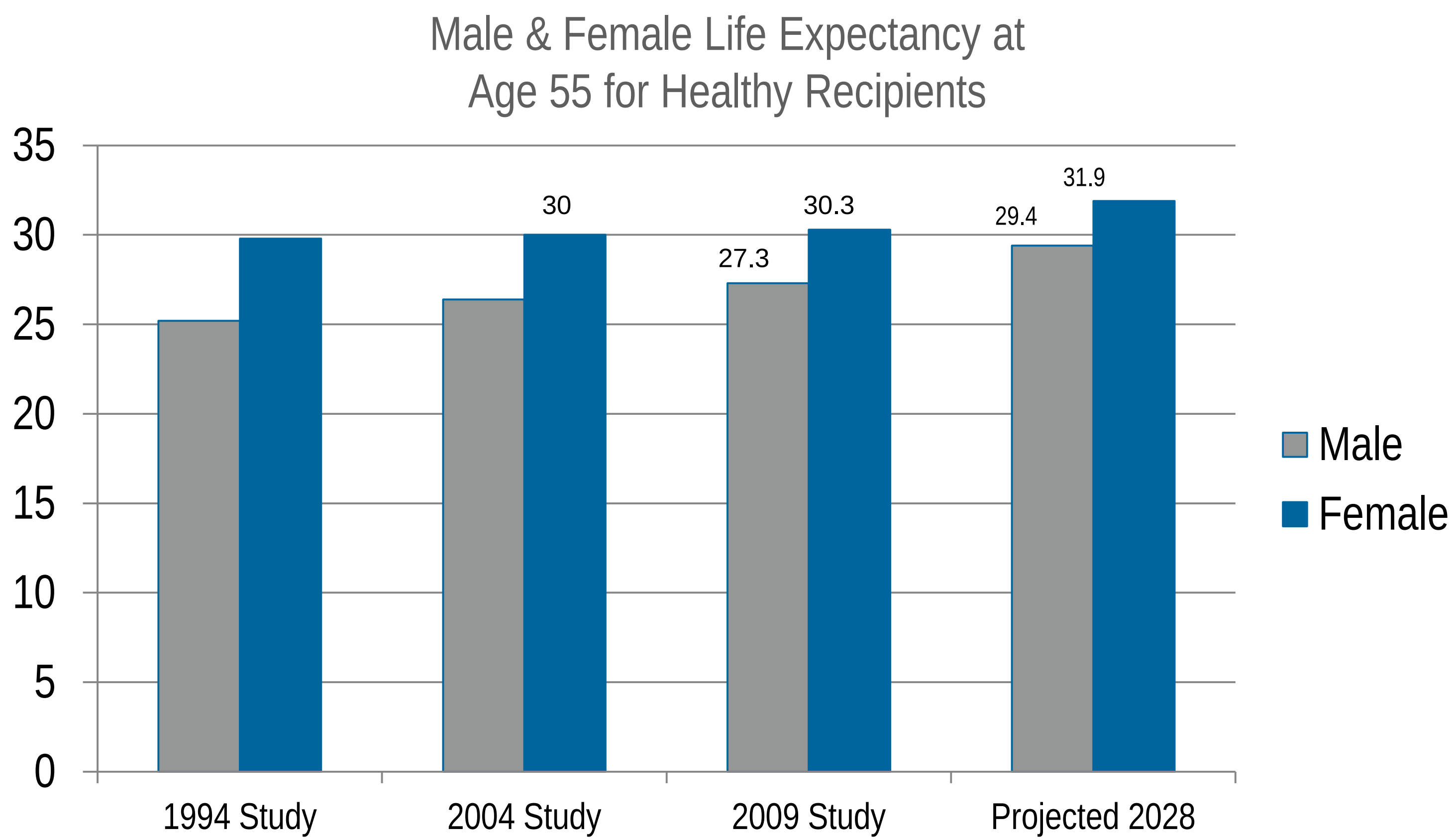
- Current risk return includes significant volatility
- Market return expectations

PLAN DEMOGRAPHICS

Pension Funds are Maturing



Life Expectancy is Increasing

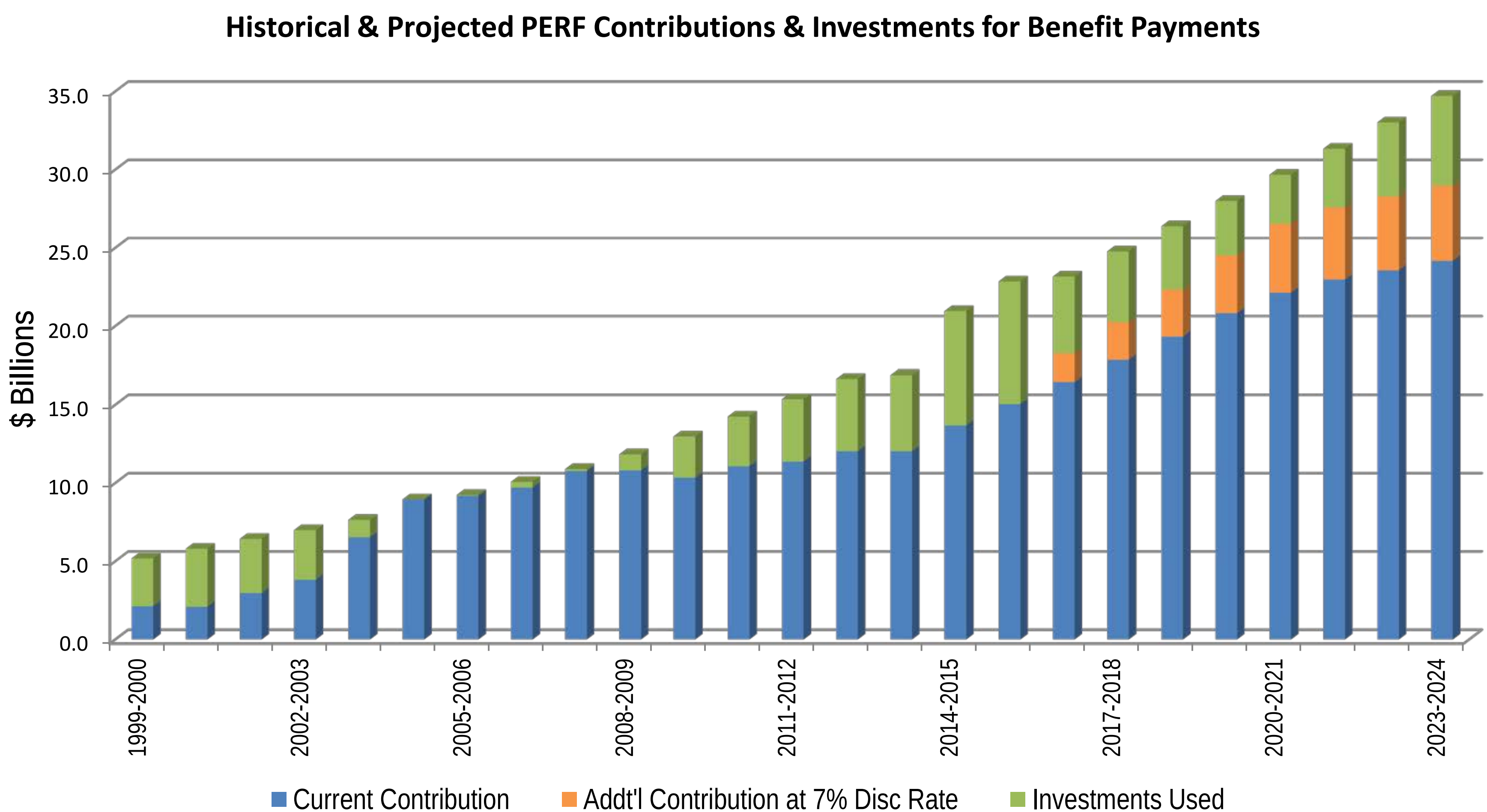


Plan Demographics Mitigation

- Actuarial Experience Study
- Change in Actuarial Assumptions
- Funding Level & Risk Report

BENEFIT STRUCTURE

Contribution & Benefit Payments



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Life Expectancy & Average Retirement Pension Benefits

June 30, 2007

 - 80 yrs

 - 84 yrs

$1,881 

June 30, 2015

 - 82 yrs

 - 85 yrs

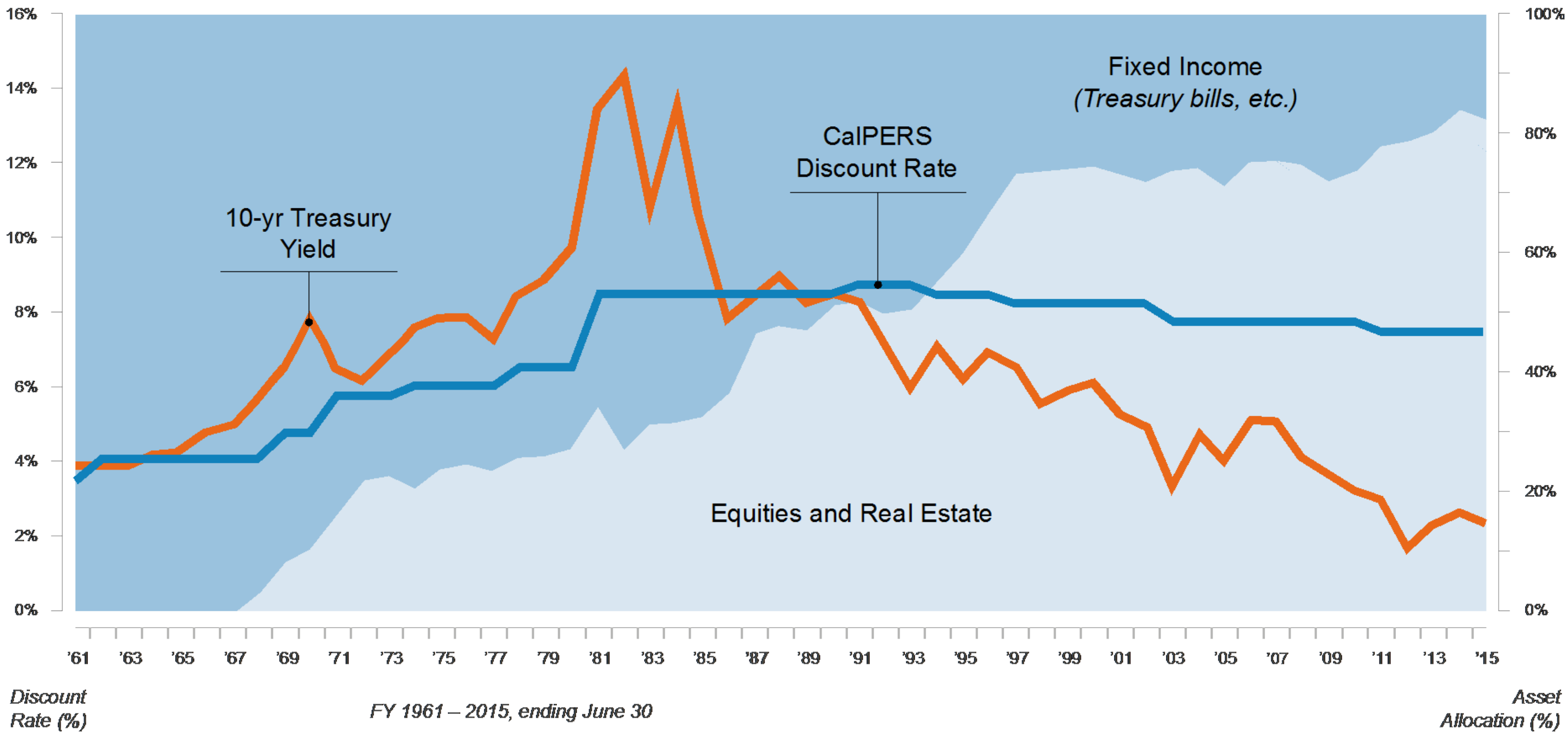
$2,627 

Benefit Structure Mitigation

- Funding Level & Risk Report
- New actuarial policies
- Smoothing
- Amortization
- Treasury Management

MARKET VOLATILITY

Lower Interest Rates =
More Risk and Lower Returns for All Investors



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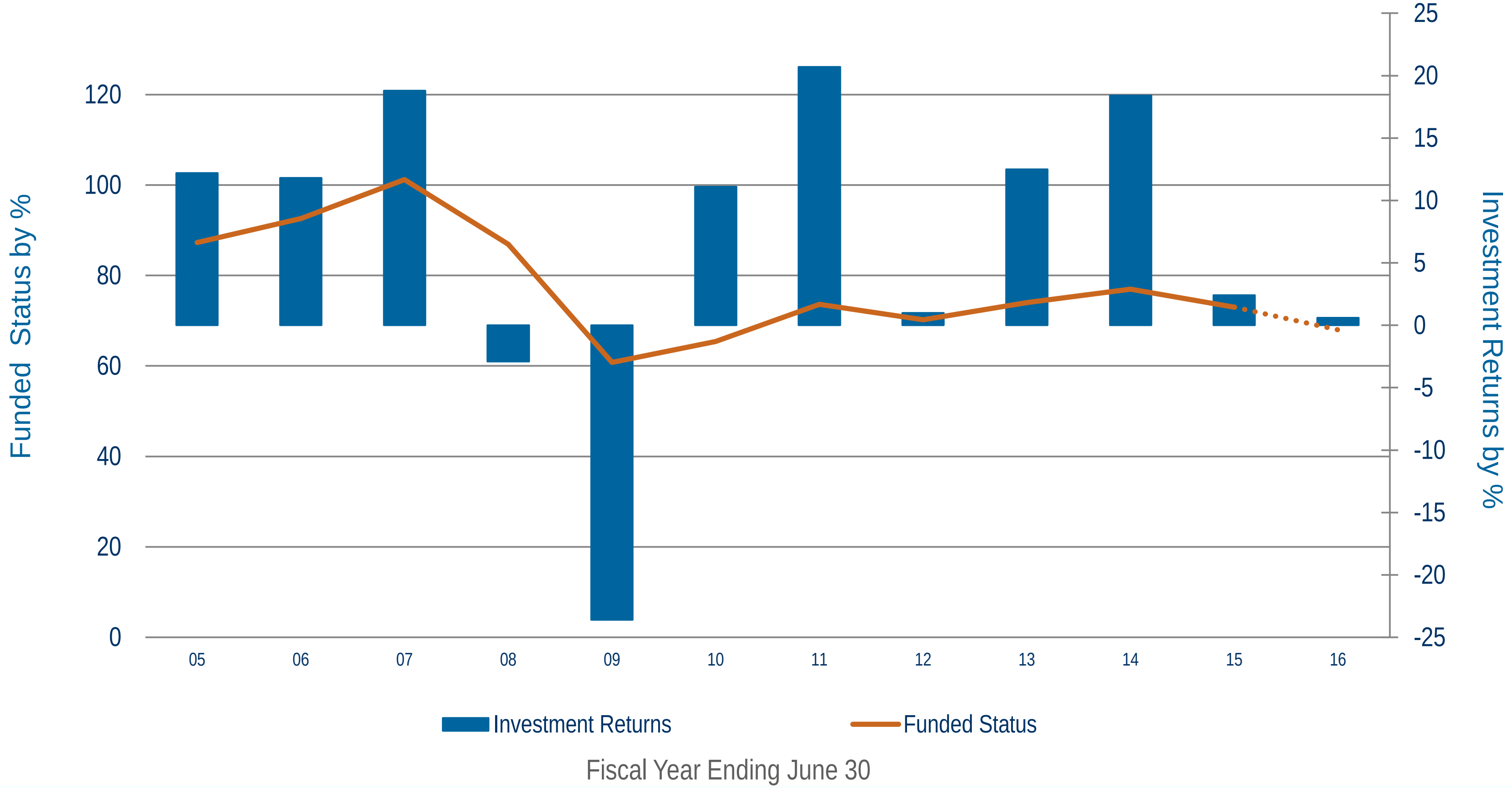
Funded Status & Investment Returns



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Market Volatility Mitigation

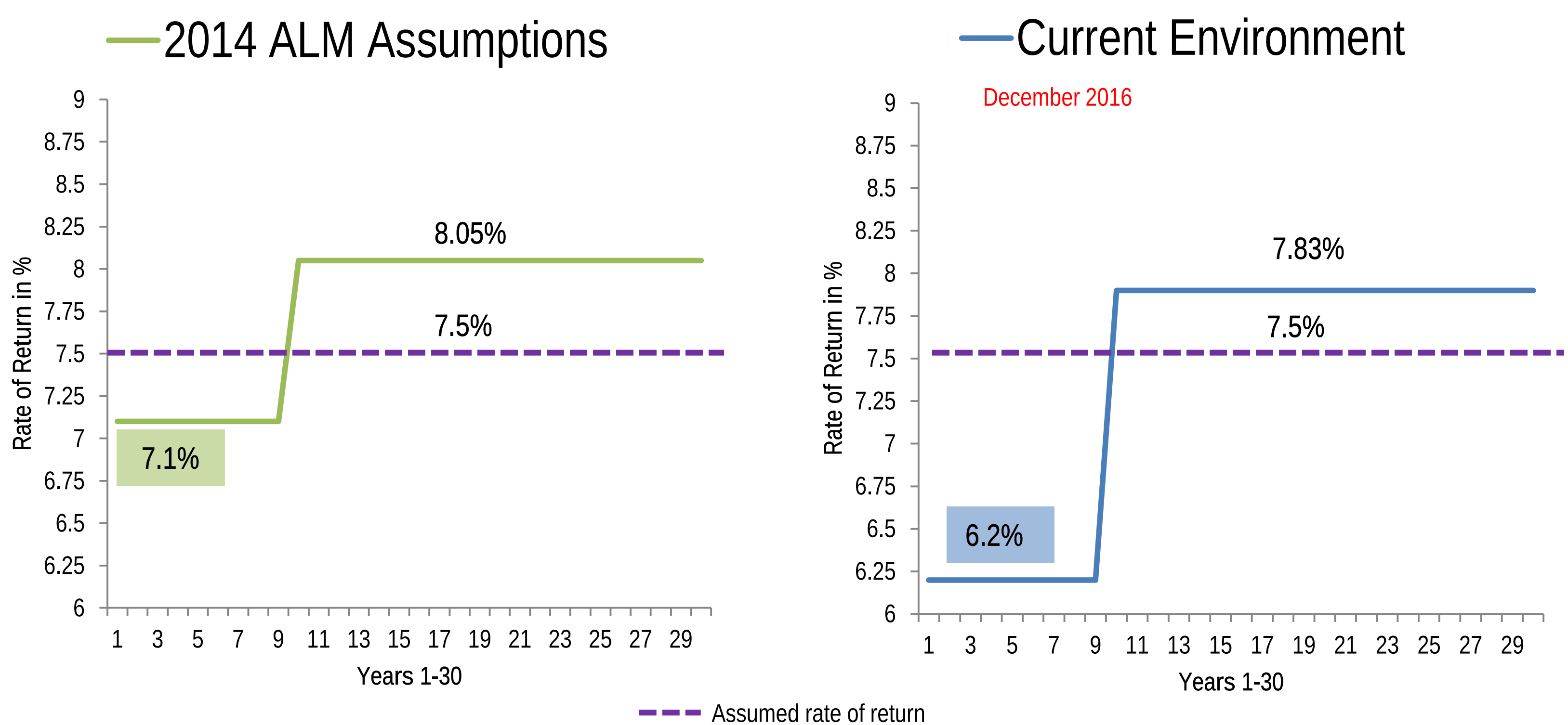
- Actuarial Valuation Report
- Investment Allocation
- New Actuarial Policies: Smoothing/ Amortization
- Funding Risk Mitigation Policy

WHY A DISCOUNT RATE CHANGE NOW?

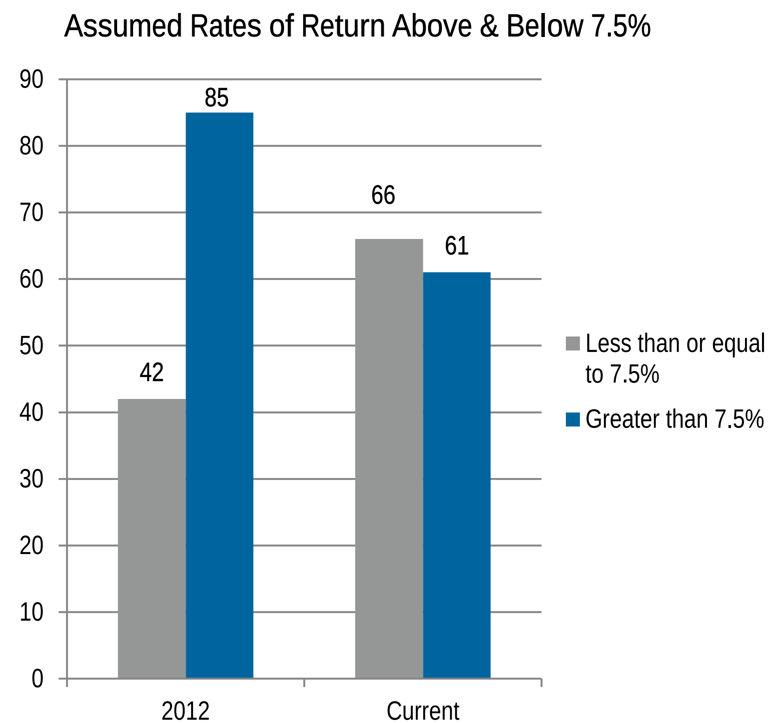
Why a Discount Rate Change Now?

- ALM cycle requires us to recognize changing conditions
- Market conditions have changed
- Seeing more uncertainty in the forecast
- Next 10 years are consequential
- To close the cash flow funding gap
- Risks in system continue to grow

Change in Market Conditions Led to this Action



Discount Rates are Trending Downward



Based on 2016 NASRA Survey

Since 2012
59
Assumed Rate of Return

8.0%
2012 Median Assumed Rate Of Return

7.5%
Current Median Assumed Rate of Return

Other Driving Factors

- Market conditions have changed
- Seeing more uncertainty in the forecast
- Next 10 years are consequential
- To close the cash flow funding gap
- Risks in system continue to grow

WHAT DID THE BOARD ADOPT AND HOW WILL IT BE IMPLEMENTED?

Approved Discount Rate Phase-In

Valuation Date	FY Required Contribution	Discount Rate
June 30, 2016	2018-19	7.375%
June 30, 2017	2019-20	7.25%
June 30, 2018	2020-21	7.00%

Timing of Change to Annual Valuations

Employers	Contribution Rate Change
State	17/18
Schools	18/19
Public Agencies	18/19

Public Agency - Employer Contribution Increases –Misc. Plan

FY Impact	Normal Cost	UAL Payments
2018-19	0.25% - 0.75%	2% - 3%
2022-23	1.0% - 3.0%	20% - 25%

Public Agency - Employer Contribution Increases –Safety Plan

FY Impact	Normal Cost	UAL Payments
2018-19	0.50% - 1.25%	2% - 3%
2022-23	2.0% - 5.0%	20% - 25%

Benefits of Reducing the Discount Rate

- Strengthens long-term sustainability of the fund to pay promised benefits
- Reduces negative cash flow; additional contributions will help to offset growing pension payments
- Reduces the long-term chances of falling below a 50% or 60% funded status that would weaken the sustainability of the fund
- Reduces the risk of contribution increases in the future from volatile investment markets

LOOKING AHEAD

Next Steps

- Public Agency valuations distributed in July 2017
- Begin Asset Liability Management cycle of reviews
  - Asset allocation
  - Capital market assumptions
  - Experience study
- Reconsider discount rate in February 2018

QUESTIONS

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