Strategies for Managing the New Reality

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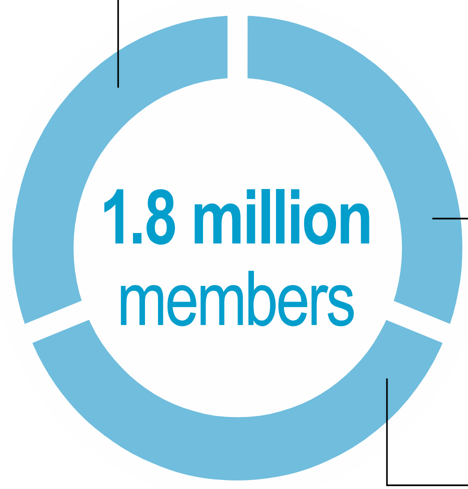
League of California Cities

CalPERS

Our Members



State members
578,470 / 31%

Public Agency members
575,138 / 31%

School members
705,946 / 38%

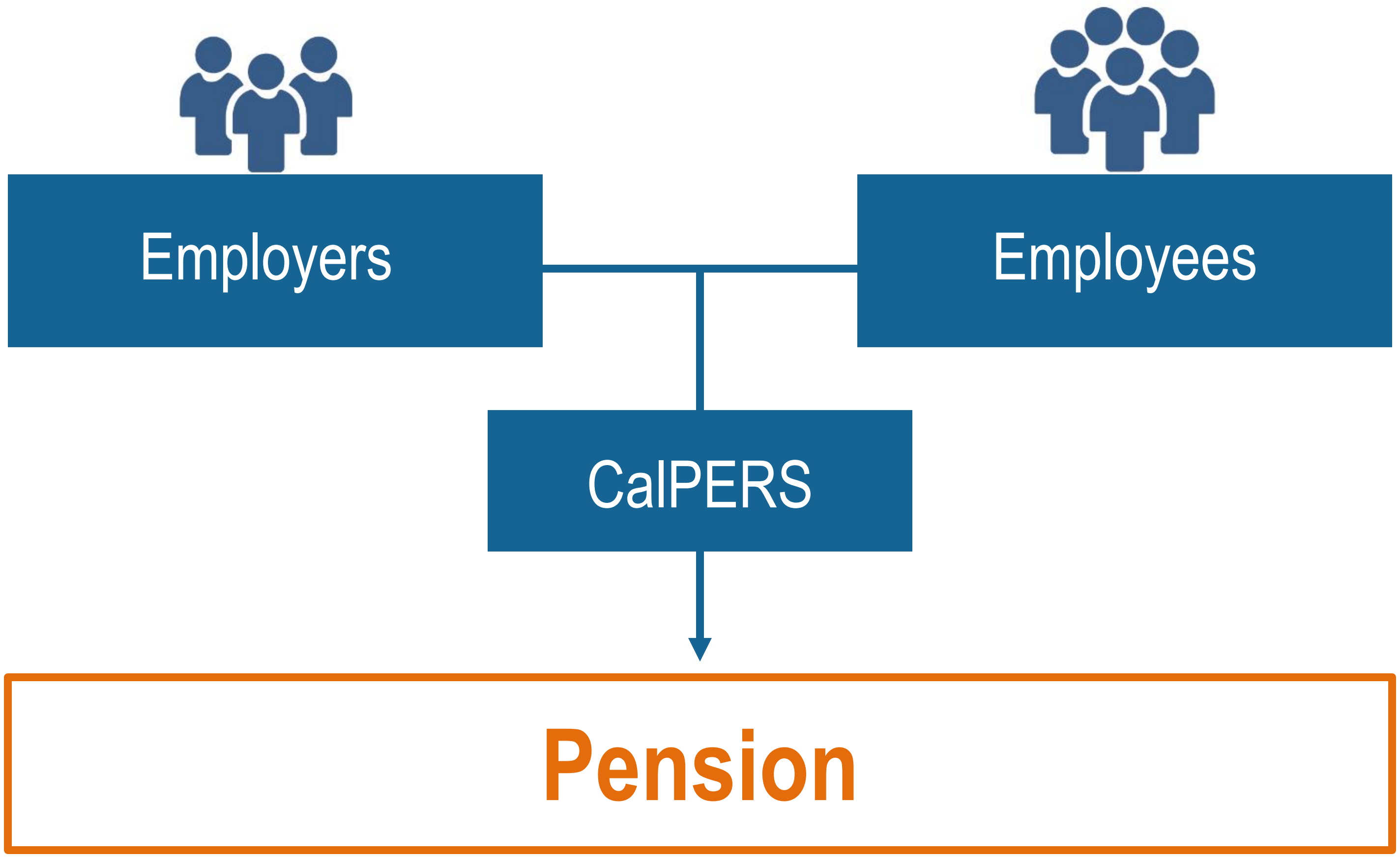
Financial Highlights

Today:
$331 billion in assets

11.2%	5.1%	7.0%
FY 2016/17 ESTIMATED PORTFOLIO RETURN	10 – YR ANNUALIZED RETURN	20 – YR ANNUALIZED RETURN

Since 1988 Fund Inception: 8.4% Annualized Return

Pensions are Funded from Three Sources



What is the Discount Rate?

- What we expect to earn on our investments
- Used to calculate the next fiscal year contributions and projected contributions

Approved Discount Rate Phase-In for Public Agencies

7.5% → 7.0%

Required contributions from FY 2018-19 to FY 2020-21

FY 2018-19 — 7.375%

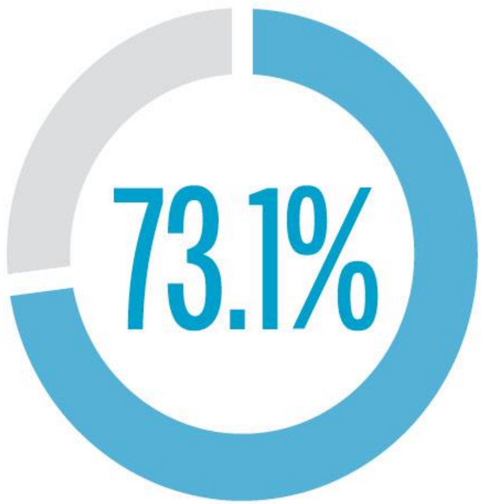
FY 2019-20 — 7.25%

FY 2020-21 — 7.0%

Employer Contributions

- Normal Cost + Unfunded Accrued Liability (UAL) determine the employer contribution
- Higher risks and maturity of the fund creates larger unfunded liability
- Lower discount rate increases UAL
- Contributions are determined by benefit rates, negotiated by the employers/employees

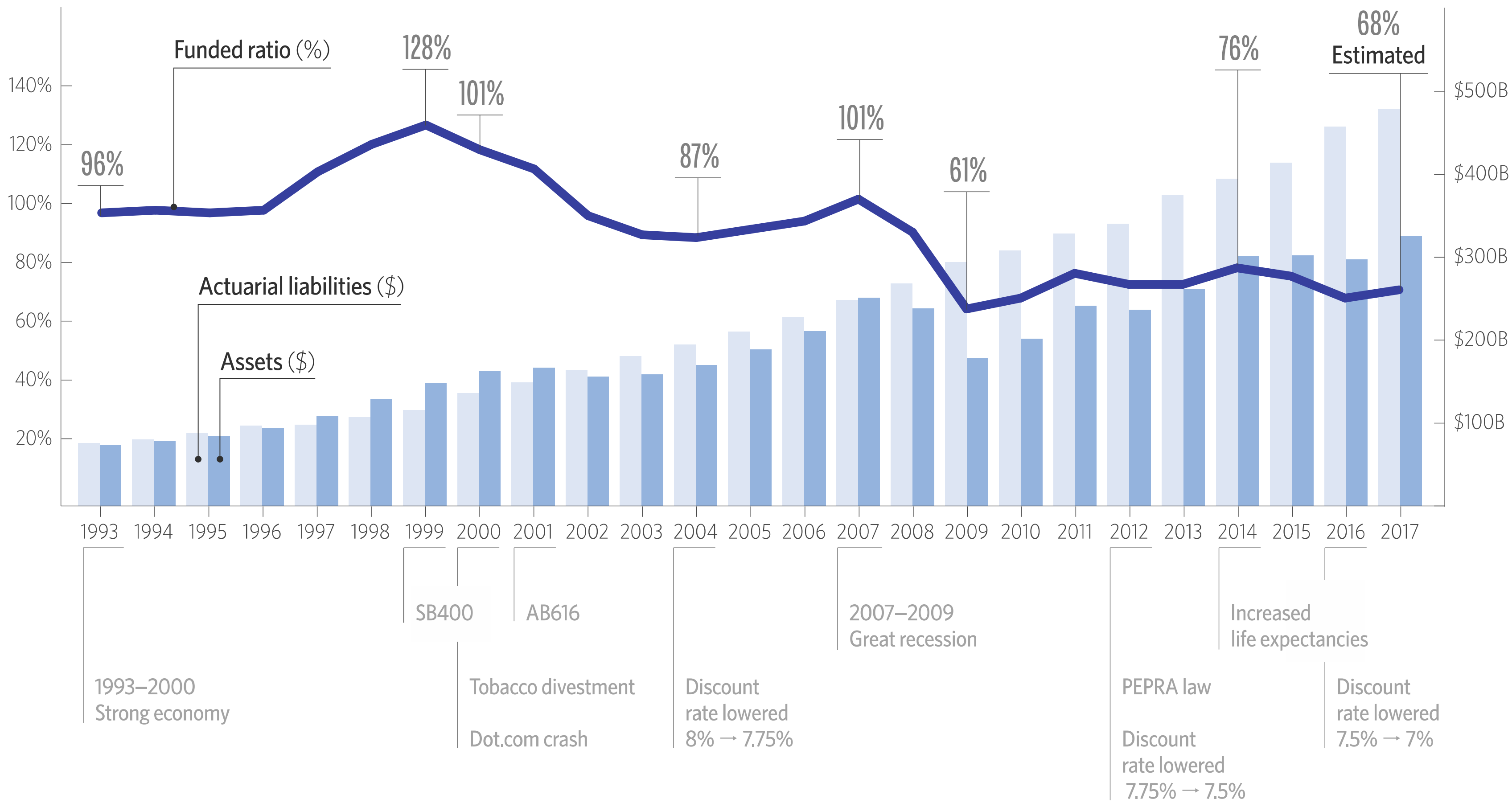
Funded Status (PERF)



FY 2014-15

FY 2016-17 estimate

Historical Factors Impacting Funded Status (1993-2017)



Factors Driving Funding Risk

Market Conditions

- Current portfolio and market environment includes significant risk of volatility
- Market valuations and return expectations

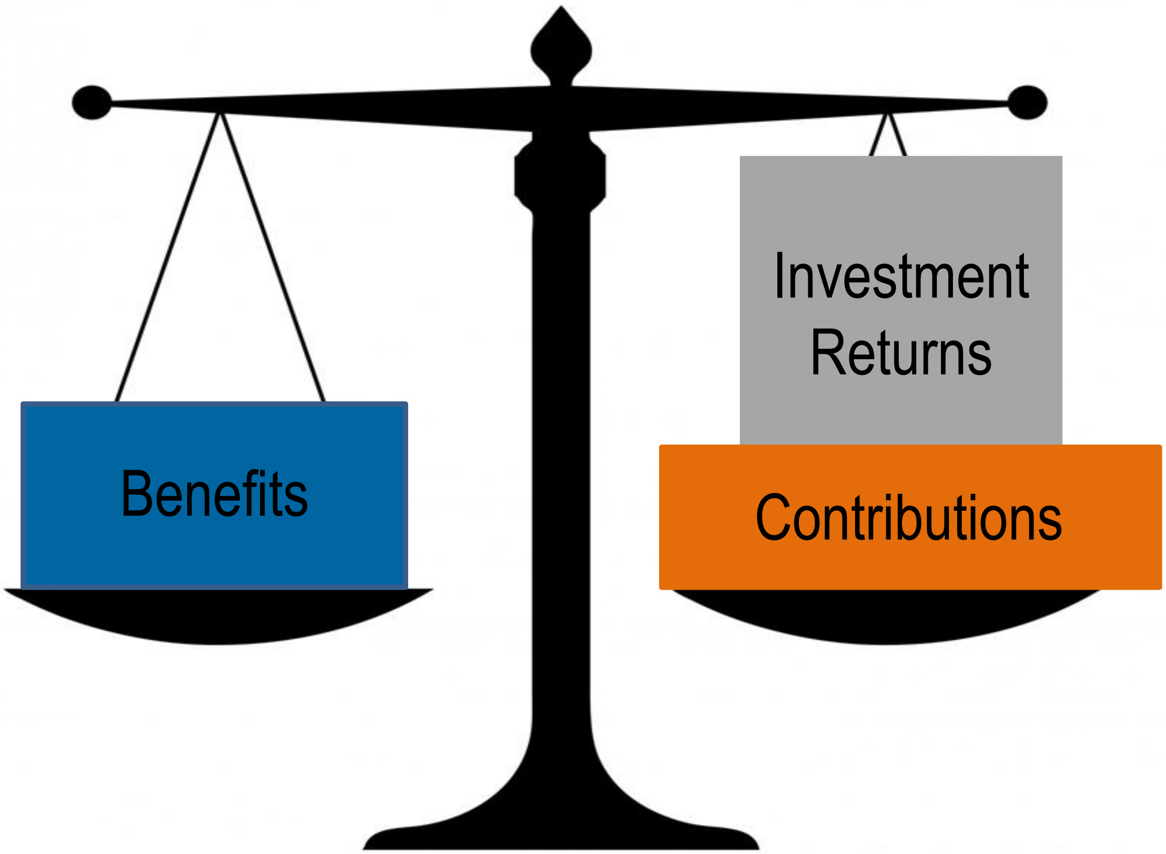
Plan Demographics

- Plans are Maturing
- Public Employees are living longer
- Increased cash outflows

Benefit Structure

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

Balancing the Fund



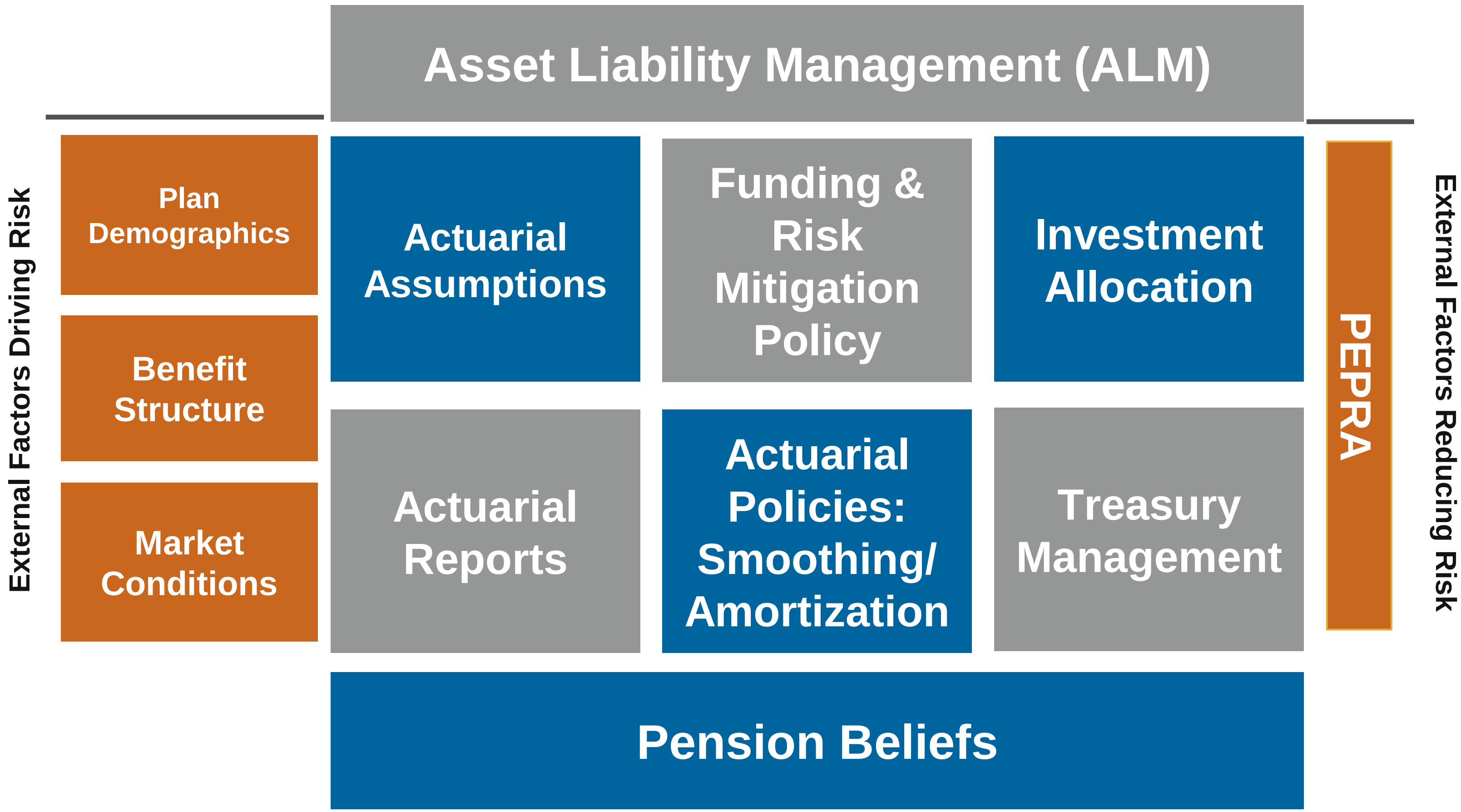
Considerations for Employer Budget Savings

- Additional UAL Contributions
- PEPRA Savings
  - $29 billion - $38 billion over the next 30 years

Engage in the Process and Get Involved

- Participate in the Asset Liability Management Process
- Take Part in Employer Education Opportunities
- Connect with CalPERS Staff and Board

Asset Liability Management (ALM) Framework



Stay Informed Through the ALM Process

CalPERS

Definitions

- **Normal Cost** – Determined by looking at the annual cost of providing benefits to active employees for the upcoming fiscal year. The normal cost should be viewed as the long term contribution rate.
- **Accrued Liability** (also called Actuarial Accrued Liability or Entry Age Normal Accrued Liability) – The total dollars needed as of the valuation date to fund all benefits earned in the past for *current* members.
- **Unfunded Accrued Liability** (UAL) – When a plan or pool's Value of Assets is less than its Accrued Liability, the difference is the plan or pool's UAL. If the UAL is positive, the plan or pool will have to pay contributions exceeding the Normal Cost.
- **Employer Contribution** – Sum of the normal cost and the UAL payment.

Definitions

- **Discount Rate –** The long-term rate used to fund future pension benefits. The discount rate is also known as the assumed rate of return because it’s what CalPERS expects its investments to earn during the fiscal year.
- **Funded Status** – A measure of how well funded, or how "on track" a plan or risk pool is with respect to assets versus accrued liabilities. A ratio greater than 100% means the plan or risk pool has more assets than liabilities and a ratio less than 100% means liabilities are greater than assets.