Our Members

1.8 million 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%
FY 2016/17 ESTIMATED PORTFOLIO RETURN

5.1%
10 – YR ANNUALIZED RETURN

7.0%
20 – YR ANNUALIZED RETURN

Since 1988 Fund Inception: 8.4% Annualized Return
Pensions are Funded from Three Sources

Employers

CalPERS

Employees

Pension
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)

73.1%  
FY 2014-15  

68%  
FY 2016-17 estimate
Historical Factors Impacting Funded Status (1993-2017)

1993–2000: Strong economy

1993–2000:
- SB400
- AB616
- Tobacco divestment
- Dot.com crash

2007–2009: Great recession
- Discount rate lowered 8% → 7.75%

2012–2017:
- PEPPRA law
- Discount rate lowered 7.75% → 7.5%
- Increased life expectancies

Discount rate lowered 7.5% → 7%
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

- Benefits
- Investment Returns
- Contributions
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

External Factors Driving Risk
- Plan Demographics
- Benefit Structure
- Market Conditions

External Factors Reducing Risk

- Pension Beliefs
- Actuarial Assumptions
- Funding & Risk Mitigation Policy
- Investment Allocation
- Actuarial Policies: Smoothing/Amortization
- Treasury Management

CalPERS
Stay Informed Through the ALM Process

Jan. 2017  
Educational Workshop: Public Access

Apr. 2017  
Educational Workshop: Private Assets

Jun. 2017  
Approval of Capital Market & Economic Assumptions

Jul. 2017  
Fiscal Year Investment Returns Announced & Educational Workshop: Leverage

Oct. 2017  
CalPERS Educational Forum

Nov. 2017  
Experience Study & Educational Workshop: Candidate Portfolios

Dec. 2017  
First opportunity for Board to Adopt ALM Changes

Feb. 2018  
Second Opportunity for Board to Adopt ALM Changes

Jul. 2018  
Implementation of Board Decisions
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.