

# CalPERS

## Pension Funding and Costs Update

Kelly Fox – Chief, Stakeholder Relations

December 12-13, 2018

**Fire Chiefs Leadership Seminar**



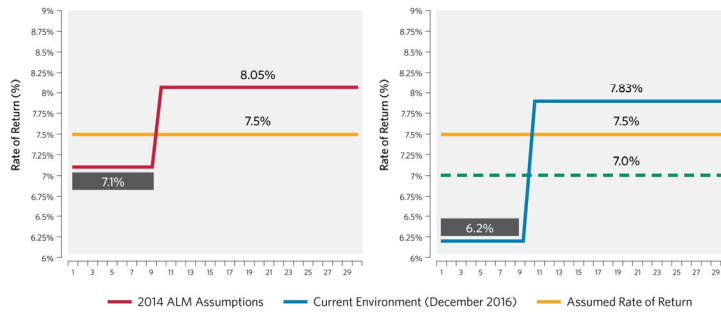
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## Current Fund Value \$350 billion

<b>8.6%</b> 2017/18 Portfolio Return	<b>8.1%</b> 5-yr Annualized Return	<b>5.6%</b> 10-yr Annualized Return	<b>6.1%</b> 20-yr Annualized Return	<b>8.40%</b> 30-yr Annualized Return
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## 2014 vs Current Capital Market Assumptions



## Three Key Actions in Past 24 Months

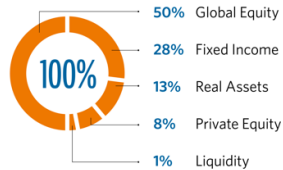
### Lower Discount Rate

Lowered the discount rate from 7.5% to 7% over three years (assumed rate of return)

7.5%  
↓  
7%

### New Asset Allocation

Adopted new strategic asset allocation effective July 1, 2018

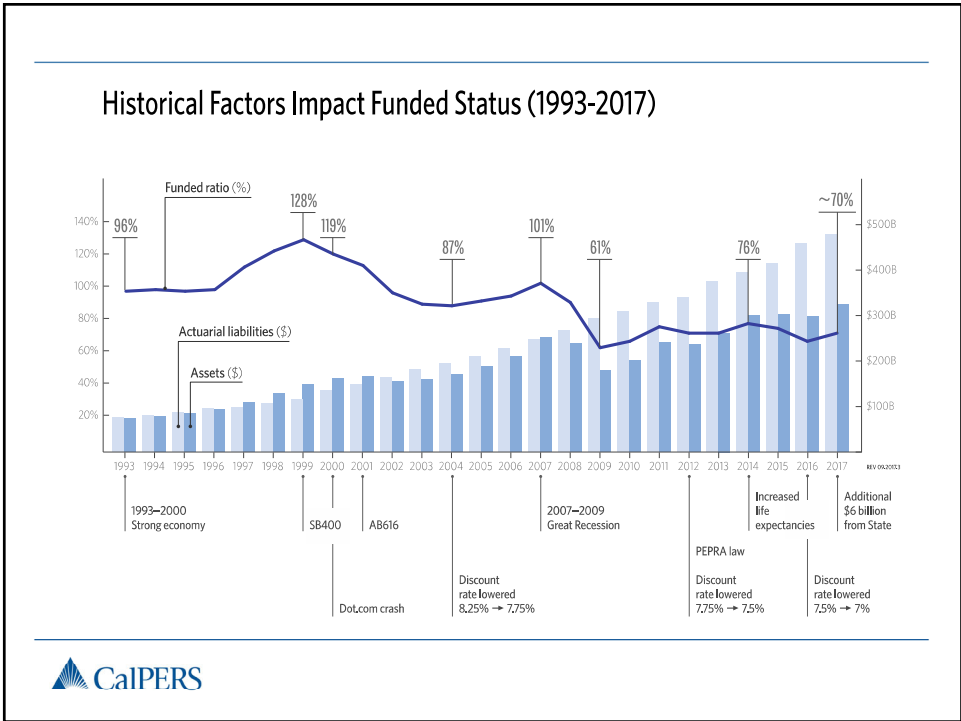
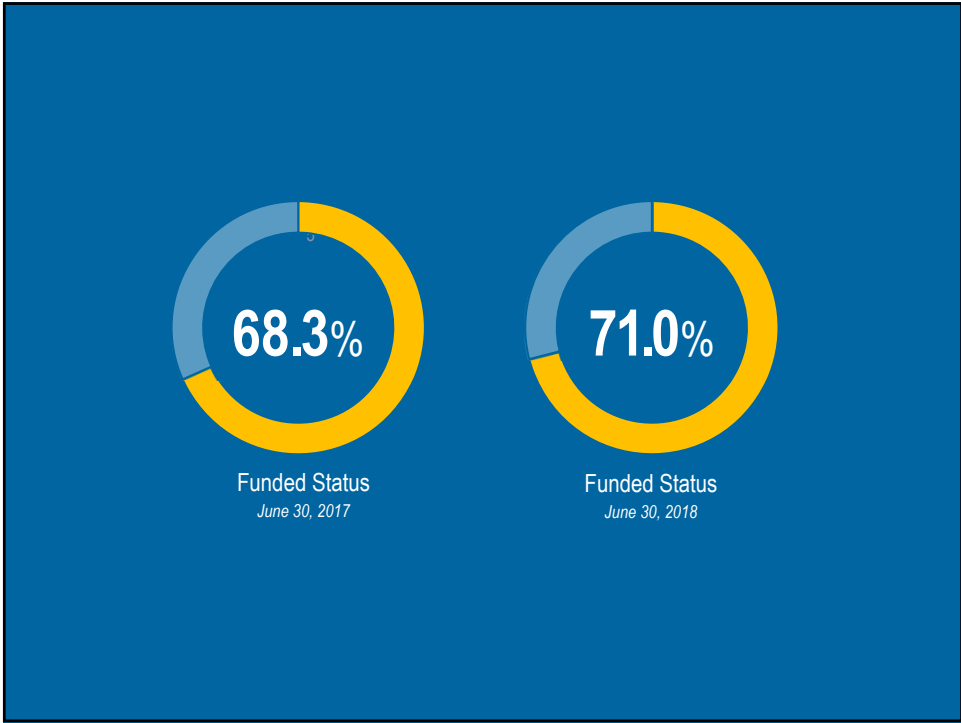


### Shorter Amortization

Shortened the amortization period for employers to pay their unfunded liability

30 yrs. → 20 yrs.  
=  
significant long-term savings

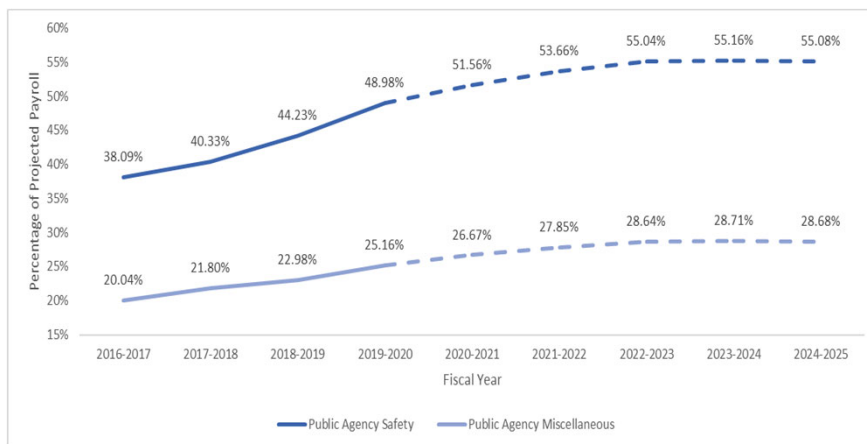




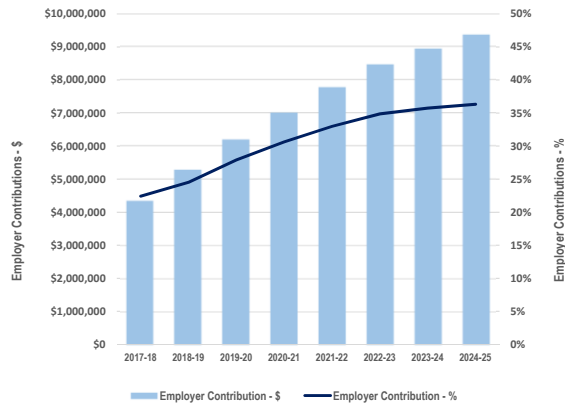
## How are CalPERS Retirement Benefits Funded?



## Average Projected Contribution Rates (as % of payroll)



## Sample Miscellaneous Plan Projected Employer Contributions (Normal Cost + UAL Payment)



## Sample Safety Plan Projected Employer Contributions (Normal Cost + UAL Payment)



## Strategies to Pay Down UAL

### Ad Hoc Additional Discretionary Payments

- Single/multiple additional payments
- Short/long-term strategies
- Significant savings possible
- Annual payment stabilization with multiple ADPs
- Flexibility

### Fresh Start

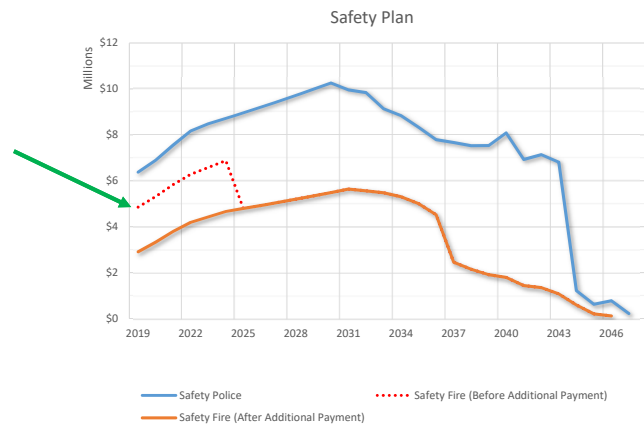
- Election to consolidate UAL bases into one base
- Amortization period reduced
- Annual payment stabilization and potential savings
- Commits employer to set strategy

### IRS Section 115 Trusts

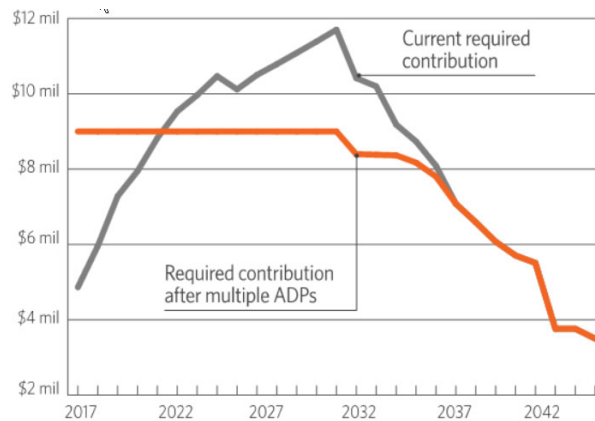
- Trust assets independent of plan's assets
- Accumulate additional funds to manage contribution volatility
- Alternative investment strategies available
- SB1413 (signed)



## Sample City - Projected UAL Payments with \$11m pre-payment



## Prepayment Impact: Example



## Private Equity: Top Performing Asset Class

**\$27 billion invested**

**16.1%**

2017-18 fiscal-year  
return

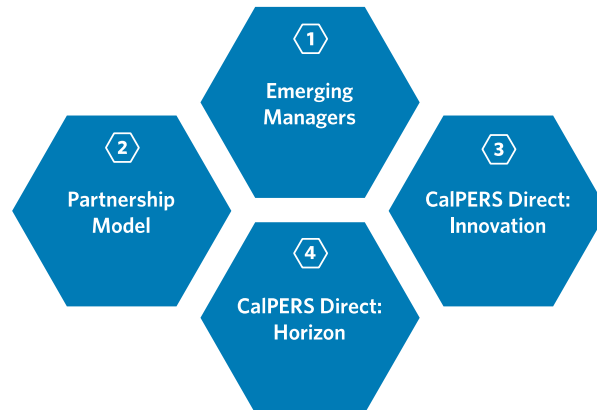
**10.6%**

20-year return

*As of June 30, 2018*

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## Private Equity Proposal



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## Considerations

- SB1124 (employer pays for misreported compensation)
  - Vetoed by Governor
  - Likely to return
- CAL FIRE/Air Time case – Dec 5
  - Final State Supreme Court Judge appointed by Gov Brown, Nov 14
  - Potential impacts to vested rights law interpretations
- Public Records Act – Retirement Type disputed



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## Committed to Partnership

- Transparency
- Engagement/Outreach
- One Message to All Stakeholder Groups
- Open Board Meetings

**Questions?**

# Thank you

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