CalPERS Funding Levels, Projections & Strategic Update

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Interim Chief Operating Investment Officer

Cal Cities Annual Conference and Expo
September 22, 2023
CalPERS By the Numbers

- **$41,040** Average Annual Pensions (for all retirees)
- **2,155,896** CalPERS Members
- **72%** (with a 6.8% discount rate) Funded Status Estimate
- **$29.1 billion** Annual Pension Benefits Paid

(As of fiscal-year ending 6/30/22)
Fiscal Year 2022-23 Investment Returns

Preliminary Net Return of 5.8%

Estimated PERF funded status at 6/30/2023 is 72%
(neither asset values nor liability values are final)

**Public Employees’ Retirement Fund (PERF) Metrics**
As of June 30, 2023

<table>
<thead>
<tr>
<th>Metric Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets Under Management</td>
<td>$462.8bn</td>
</tr>
<tr>
<td>10-Yr Total Return</td>
<td>7.1%</td>
</tr>
<tr>
<td>1-Yr Total Return</td>
<td>5.8%</td>
</tr>
<tr>
<td>5-Yr Cumulative Value Added</td>
<td>$3.8bn</td>
</tr>
<tr>
<td>1-Yr Cumulative Value Added</td>
<td>$0.6bn</td>
</tr>
</tbody>
</table>
## Preliminary Returns by Asset Class – FY 2022-23

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Net Rate of Return</th>
<th>Policy Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Equity</td>
<td>14.1</td>
<td>14.1</td>
</tr>
<tr>
<td>Income</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Private Equity*</td>
<td>-2.3</td>
<td>-5.9</td>
</tr>
<tr>
<td>Real Assets*</td>
<td>-3.1</td>
<td>-4.0</td>
</tr>
<tr>
<td>Private Debt*</td>
<td>6.5</td>
<td>3.7</td>
</tr>
<tr>
<td><strong>Total Fund</strong></td>
<td><strong>5.8</strong></td>
<td><strong>5.5</strong></td>
</tr>
</tbody>
</table>

* Private market asset valuations lag one quarter and are as of March 31, 2023.
## Long-Term Investment Returns

<table>
<thead>
<tr>
<th>Period</th>
<th>Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 year</td>
<td>7.5%</td>
</tr>
<tr>
<td>20 year</td>
<td>7%</td>
</tr>
<tr>
<td>10 year</td>
<td>7.1%</td>
</tr>
<tr>
<td>5 year</td>
<td>6.1%</td>
</tr>
<tr>
<td>1 year</td>
<td>5.8%</td>
</tr>
</tbody>
</table>

*(As of fiscal-year ending 6/30/23)*
Current PERF Policy Portfolio

November 2021

- Projected 20-year return of 6.8%
- Strategic leverage used for the first time, with the purpose of improving diversification by reducing equity exposure and increasing exposures to fixed income.
- New sources of diversification include:
  - First allocation to private debt, improving diversification
  - First allocation to EM sovereign debt
ALM Mid-Cycle Review - What to Expect

- Current survey suggests projected 20-year policy portfolio return is in the range of 6.2% to 7.9%, with a median around 7%.
- Actuarial Office indicates no material changes to 2021 analysis; believe the current 6.8% target return remains appropriate.
- November Board meeting:
  - Discussion of Capital Market Assumptions
  - Risk and return assessment of current portfolio (w/stress tests)
  - Risk and return assessment of candidate portfolios (w/stress tests)
  - Board to determine if any changes needed to asset allocation
Economic Update | Factors to Watch

Recent developments

• Weak expectations for growth over 2022 and 2023 were not realized
• Policy normalization continued
• Headline inflation improved, in line with expectations

Looking ahead

• Policy acts with a lag, interest rates adjusted for inflation are expected to move higher
• There are a wide range of expectations surrounding the risk of recession
• Risks to the global and US economic outlook remain tilted to the downside
Resilience & Innovation in Motion

Strategy 2030

Operational Excellence

Sustainable Investing

People & Culture

Pension Resiliency

Stakeholder Engagement

2023-24 Strategic Priorities
Timing of Valuation Results

• Public Agencies
  • Individual reports as of June 30, 2022, were released to myCalPERS
  • You must have access to your employer account to view
  • Reports will be posted to the public website in September
Public Agency Funded Ratios

Total PERF 81.2% 70.9%
**Recent History of Experience / Assumption Changes**

<table>
<thead>
<tr>
<th>FY 2020-21</th>
<th>FY 2021-22</th>
<th>FY 2022-23</th>
</tr>
</thead>
</table>
| - 21.3% return  
- Discount rate lowered to 6.8%  
- Other actuarial assumption changes  
- Higher mortality due to COVID | - -6.1% return  
- Higher COLAs due to high inflation | - 5.8% return  
- Potentially higher COLA and pay increases due to lingering high inflation |

First year required contributions impacted:
- PAs: FY 2023-24  
- Schools: FY 2022-23  
- PAs: FY 2024-25  
- Schools: FY 2023-24  
- PAs: FY 2025-26  
- Schools: FY 2024-25
<table>
<thead>
<tr>
<th></th>
<th>Average Funded Status ¹</th>
<th>Average Employer Contribution Rate ²</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Assets/Payroll</td>
<td>From 6/30/2021 Valuation Results</td>
</tr>
<tr>
<td>Non-Pooled Misc Plans</td>
<td>7.7</td>
<td>83.2%</td>
</tr>
<tr>
<td>Non-Pooled Safety Plans</td>
<td>13.5</td>
<td>80.1%</td>
</tr>
<tr>
<td>Pooled Misc Plans</td>
<td>6.8</td>
<td>86.9%</td>
</tr>
<tr>
<td>Pooled Safety Plans</td>
<td>13.6</td>
<td>82.8%</td>
</tr>
</tbody>
</table>

¹ Averages determined by dividing the sum of assets by the sum of accrued liability.
² Averages determined by dividing the sum of required contributions ($'s) by the sum of payroll.
## Impact of 1% Investment Loss – Typical Miscellaneous Plans

<table>
<thead>
<tr>
<th>Miscellaneous Plans</th>
<th>Asset Value</th>
<th>Asset Volatility Ratio (Assets /Payroll)</th>
<th>Funded %</th>
<th>1st Year Contribution Change +/-</th>
<th>5th Year Contribution Change +/-</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plan 1: Typical Plan</td>
<td>$50,000,000</td>
<td>7</td>
<td>74%</td>
<td>$12,259 (0.2%)</td>
<td>$61,293 (0.8%)</td>
</tr>
<tr>
<td>Plan 2: Larger Plan</td>
<td>$100,000,000</td>
<td>7</td>
<td>74%</td>
<td>$24,517 (0.2%)</td>
<td>$122,587 (0.8%)</td>
</tr>
<tr>
<td>Plan 3: Typical Plan w/ Higher Payroll</td>
<td>$50,000,000</td>
<td>4</td>
<td>74%</td>
<td>$12,259 (0.1%)</td>
<td>$61,293 (0.4%)</td>
</tr>
<tr>
<td>Plan 4: Typical Plan w/ Lower Payroll</td>
<td>$50,000,000</td>
<td>15</td>
<td>74%</td>
<td>$12,259 (0.4%)</td>
<td>$61,293 (1.6%)</td>
</tr>
<tr>
<td>Plan 5: Typical Plan w/Lower Funded Status</td>
<td>$40,540,541</td>
<td>5.7</td>
<td>60%</td>
<td>$9,939 (0.1%)</td>
<td>$49,697 (0.6%)</td>
</tr>
<tr>
<td>Plan 6: Typical Plan w/Higher Funded Status</td>
<td>$67,567,568</td>
<td>9.5</td>
<td>100%</td>
<td>$16,566 (0.2%)</td>
<td>$82,829 (1.0%)</td>
</tr>
</tbody>
</table>
6/30/2023 Estimated — Public Agency Funded Ratios

Public Agency Funded Status Distribution

- Total PERF: 81.2% (6/30/21)
- 70.9% (6/30/22)
- 72% (6/30/2023 (Estimated))
Pension Outlook Tool

- Resides on CalPERS website
- Available for anyone to use
- Updated annually with new valuation results
- Projects funded status and employer contribution requirements
- User can select plan(s) and various assumptions for future experience
Pension Outlook Tool – Model Any Plan’s Contribution Rate Projections
CalPERS Educational Forum

• Location Change!
• Attend educational sessions
• Speak with CalPERS experts
• Hear CalPERS leaders discuss issues facing your organizations
• Network with colleagues from around the state
• Registration is now open!
Thank you!
Questions?