

CalPERS

Pension Funding and Costs Update

Kelly Fox – Chief, Stakeholder Relations

December 12-13, 2018

Fire Chiefs Leadership Seminar

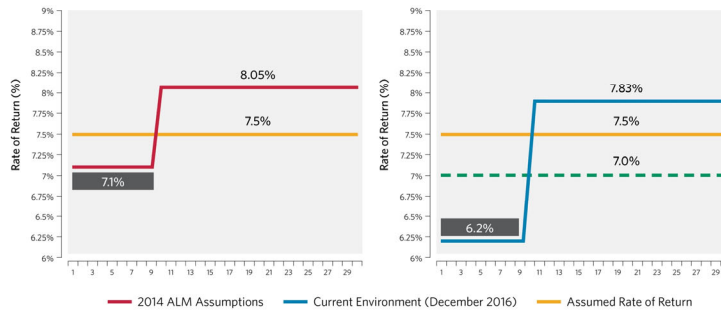


Current Fund Value \$350 billion

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



Three Key Actions in Past 24 Months

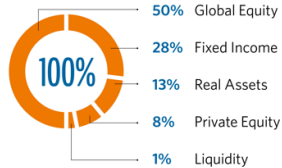
Lower Discount Rate

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

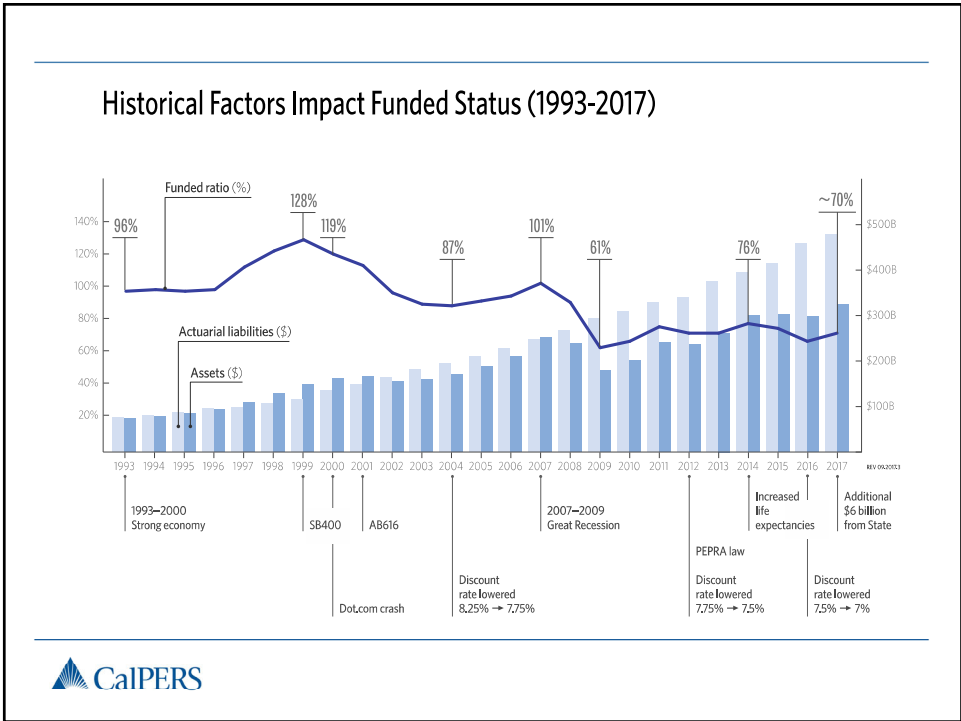
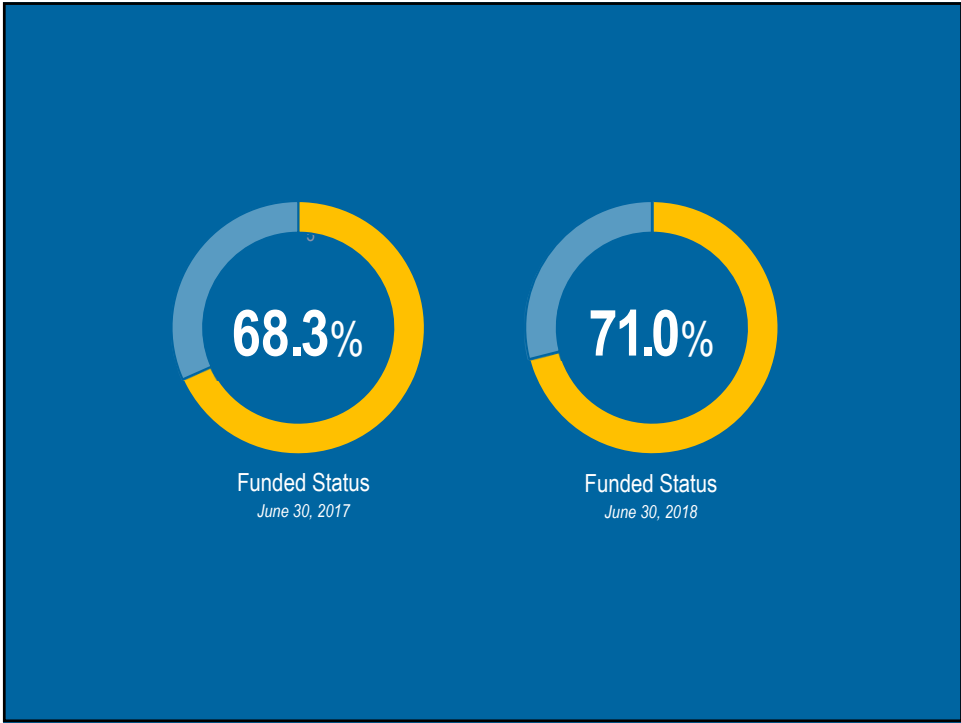


Shorter Amortization

Shortened the amortization period for employers to pay their unfunded liability

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

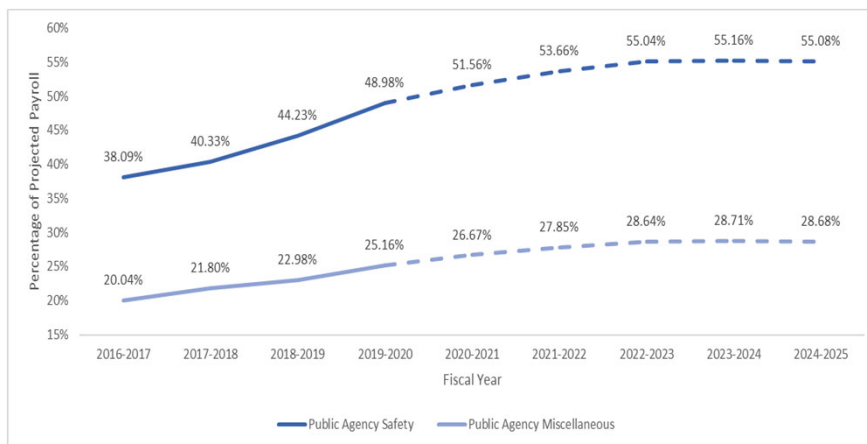




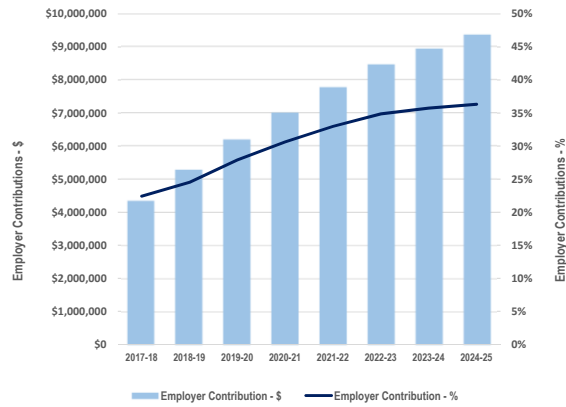
How are CalPERS Retirement Benefits Funded?



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

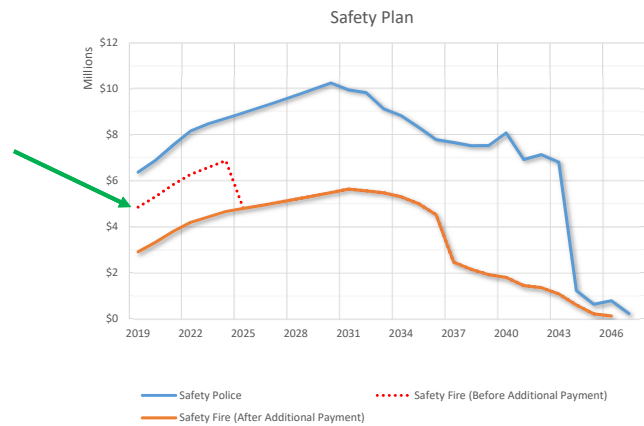
- Election to consolidate UAL bases into one base
- Amortization period reduced
- Annual payment stabilization and potential savings
- Commits employer to set strategy

IRS Section 115 Trusts

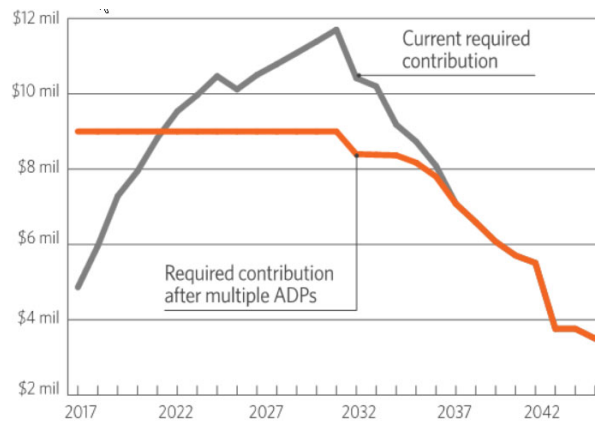
- Trust assets independent of plan's assets
- Accumulate additional funds to manage contribution volatility
- Alternative investment strategies available
- SB1413 (signed)



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



Prepayment Impact: Example



Private Equity: Top Performing Asset Class

\$27 billion invested

16.1%

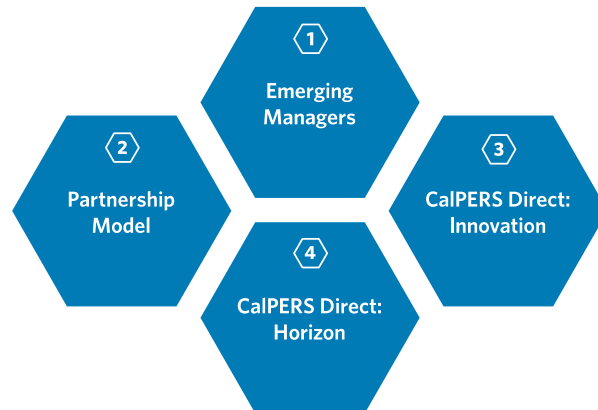
2017-18 fiscal-year
return

10.6%

20-year return

As of June 30, 2018

Private Equity Proposal



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

Committed to Partnership

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

Questions?

Thank you

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