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CalPERS is well prepared for market's ups and downs

By Rob Feckner, CalPERS President

Landscapers, school secretaries and custodians, police officers and firefighters, scientists, engineers, nurses and doctors – nearly 2 million public employees make the California Public Employees' Retirement System stronger.

Recent news reports and opinions would have you believe that these are dark days for a pension fund with assets of more than \$301 billion. Nothing could be further from the truth. Let me tell you why.

We recently reported our investment returns for the fiscal year July 1, 2015, to June 30, 2016. They were just shy of 1 percent, a small but significant achievement in a year of extraordinarily turbulent and volatile global markets. Through it all, we continued to pay promised retirement benefits. Clearly, these are challenging economic times. But we've been preparing for quite some time.

Last year, we put a policy in place to incrementally lower our discount rate, currently at 7.5 percent, in years of good investment returns. The new policy – carefully developed over many months of research and consultation with financial experts and stakeholders – takes effect when our investment earnings hit a certain level. Essentially, it means that our funding level will go up and the risk to our system will go down.

We know that changing the discount rate affects the pension contributions of the state of California and local agencies that belong to CalPERS. But we designed the policy to minimize any increases and recognize the financial difficulties that many local governments are still facing.

The plan unfolds over time because we pay pensions over time – just like you do your mortgage. That's why we don't overreact when our investment returns soar to 18 percent, as they did just two years ago, or when they fall, as they did this year. We invest for decades, not one year, not even 10.

In addition to our policy, we also have a disciplined process to review the changing demographics of our members, the state of our economy and what we can expect from financial markets. We will conduct these reviews over the next year to determine if our discount rate should be changed sooner rather than later.

Every family in California deserves retirement security. Defined benefit plans such as CalPERS are a cornerstone to a secure financial future. For employees, they're a solid path to a predictable income and peace of mind. For employers, they are a critical and cost-effective tool to recruit and retain highly skilled workers.

They are also a powerful financial engine. In California, CalPERS benefit payments generate nearly \$27 billion in economic activity every year, stimulating business growth, generating tax receipts and supporting more than 360,000 jobs in our local communities.

Let's put some perspective around public pensions and the importance of financial security for all. The choices CalPERS makes are never easy, but we make them with a long view. With so much at stake, we strive to keep our fund thriving for generations, to strengthen our commitment to our members and our communities and to deliver the pension benefits promised to public servants who work for all of us in California.

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