Calpers Wants to Speed Up Cuts in Investment Goals

By Heather Gillers

Top officers of the largest U.S. pension fund want to lower their investment targets, a move that would trigger more pain for cash-strapped cities across California and set an increasingly cautious tone for those who manage retirement assets around the U.S.

Chief Investment Officer Ted Eliopoulos and two other executives with the California Public Employees' Retirement System plan to propose next Tuesday that their board abandon a long-held goal of 7.5% annually, according to system spokesman Brad Pacheco. Reductions to 7.25% and 7% have been studied, according to new documents posted Tuesday.

The last time the California system lowered its investment expectation was in 2012, when the rate was dropped to 7.5% from 7.75%.

The new recommendation comes just 13 months after the fund known by its acronym Calpers agreed to a plan that would slowly scale back its target by as much as a quarter percentage point annually—and only in years of positive investment performance.

Now, Mr. Eliopoulos and other officials are concerned that plan may not be fast enough because of a mounting cash crunch and declining estimates of future earnings.

"There's no doubt Calpers needs to start aligning its rate of return expectations with reality," California Gov. Jerry Brown said in a statement provided to The Wall Street Journal.

7.5%

Calpers's annual investment target since 2012

The accounting maneuver would have real-life consequences for taxpayers and cities. It would likely trigger a painful increase in yearly pension bills for the towns, counties and school districts that participate in California's state pension plan. Any loss in expected investment earnings must be made up with significantly higher annual contributions from public employers as well as the state.

"Lowering the rate of return sooner is undoubtedly going to make it more difficult for cities that are teetering on the edge financially," said Bruce Channing, chairman of the city managers' pensions committee for the California League of Cities.

Nearly three quarters of school districts said in a survey conducted by Calpers that the impact of dropping the rate would be "high" or "extremely high."

A drop in Calpers's rate-of-return assumptions also could put pressure on other funds to be more aggressive about their reductions and concede that investment gains alone won't be enough to fund hundreds of billions of dollars in liabilities. Because of its size, Calpers typically acts as a bellwether for the rest of the pension world. It manages nearly $300 billion in assets for 1.8 million members.

Pensions have long been criticized for using unrealistic investment assumptions, which proved costly during the last financial crisis.