OCERS Update on the Assumed Rate of Return

A number of recent news articles have reported on the efforts of public pension plans to adjust their assumed rate of investment returns. Such news stories are not surprising – all public pension plans routinely review their portfolios, their assumptions, and make changes as the facts may dictate.

Close to home for example, the California Public Employees' Retirement System (CALPERS) has just announced that based on its most recent study of its portfolio asset allocation mix CalPERS will gradually move over the next three years from an assumed annual rate of investment return of 7.5% to 7%. By contrast, the Orange County Employees Retirement System (OCERS) is presently assuming it will earn an average of 7.25% annually on its invested assets, a lower assumption that CalPERS won't reach until 2018.

The OCERS Board of Trustees, while daily monitoring the plan's $13 billion investment portfolio, also performs a policy-mandated review of the portfolio asset allocation mix and various actuarial assumptions on a triennial basis. That triennial review for OCERS is just getting underway, with full discussion, input from our participating plan sponsors and actuarial reports all to be reviewed and considered in the summer of 2017.

The mix of OCERS investments in stocks, bonds, real estate and other assets differs from those of other public pension plans, including the CalPERS plan, for many reasons – the mix of active members compared to retirees, the size of benefits to be funded, the anticipation of inflation or other economic risks, even the fact that OCERS is one of the few plans nationwide that is still "cash flow positive" – that is, we take in more in contributions and earnings than we pay out in benefits, all of these can play a part in deciding the appropriate asset allocation for OCERS. And with differing investment mixes unique to each pension plan naturally comes differing expectations of investment earnings. What outcome we will see with regard to OCERS assumptions upon completion of this summer's review is obviously unknown at this time. What we can say is that both OCERS and CalPERS are each prudently reviewing their own plans and unique assumptions on a regular basis to ensure sound and reasonable expectations are in place.