The County Connection

To: A&F Committee

Date: January 28, 2011

From: Kathy Casenave
Director of Finance

Reviewed By:

SUBJECT: PERS Actuarial Valuation for June 30, 2009; Rate for FY 2012

SUMMARY OF ISSUES:

The PERS Actuarial Valuation Report for the period ending June 30, 2009 was recently received. This valuation is used to set the rate for the next fiscal year. **The employer rate for FY 2012 will be 5.2%, up** slightly from the current year's rate of 4.874%, but less than the previous projection of 6.3%. This employer rate is low when compared to social security (6.2%) and the CCCTA rate before the dot com stock rally (7.289% in FY 1997). For six years (FY 1999-2004), the employer rate was zero.

CalPERS has estimated that our rate for FY2013 will be 5.9%.

These estimates are based on a variety of factors:

- Future investment returns of 7.75%
- Payroll growth of 3.25%
- Demographic assumptions including the percentage of employees that will terminate, die, or retire in each future year.

Staff has included several pages of the actuarial report.

Funded Status Page 5

The funded status is **78.9%** (the PERS long term goal is 100%), with **unfunded liability totaling $11.5 million**. The prior year the funded status was 113.3%, with excess assets of $5.9 million. The unfunded liability will be gradually reduced (see next paragraph).

Investment rate of return

It is CalPERS' policy to use a constant investment return rate (7.75%) for the actuarial report rather than the actual rate of return. This is called *asset smoothing*- the delayed recognition of part of the investment gains or losses dampens the effect of short-term market value fluctuations in setting employers' rates. The delayed recognition is usually smoothed over a period of 15 years, based on an actuarial value that is not less than 80% or more than 120% of market value. Because of the significant loss in FY 2009, CalPERS has increased the corridor limits to 60%-140% for the FY 2012 rate and 70%-130% for the FY 2013 rate. The asset loss below 80% of market value will be amortized over 30 years. For FY 2014, the corridor will return to the 80%-120% corridor.

The investment loss for FY 2009 was 24% and it will be recognized over three years, affecting the contribution rates for FYs 2012, 2013, 2014. The investment gain in FY 2010 reduces the negative impact of the FY 2009 loss. If there is a FY 2011 investment gain, it will also reduce the negative impact.

Appendix D of the report **(Page D-1)** shows a table at the bottom of the page with projected contribution rates for FY 2014 based on five different scenarios. If the investment rate of return is 7.75%, then the Authority's contribution rate for FY 2014 will be 8.3%; if the return is 16%, then the rate will be 6.2%; if it is zero, the rate will be 10.3%.

These projections assume that the demographic assumptions will be realized, including payroll growth. The two year wage freeze will have a positive impact on the future contribution rate but it is unknown to what extent.

Actuarial Value of Assets, Page 19

The *actuarial* value, not the *market* value, of assets, is used to determine the funded status of the retirement plan as part of the asset smoothing process. If the actuarial value is greater than the market value it means that past deferred losses have not been completely recognized. If the actuarial value is lower than market, not all gains have been recognized.

Page 19 of the report shows that the market value of assets ($42.8 million, line 13, 1st section) is less than the *actuarial* value of assets ($58.9 million, line 19, 2nd section), so not all losses have been recognized.

Other Information- Page 23

- There are 115 retirees receiving benefits
- The average annual benefit is $10,689
- The average age of retirees is 68.04
- There are 258 active members
- The average annual payroll of the active members is $49,988
- The covered annual payroll is $12,896,961
- The average age for active members is 50.17

FINANCIAL IMPLICATIONS:

These rates were incorporated into the revised forecast presented at the December special board meeting.

An August 2009 letter from PERS states that there will be a gradual increase in the rate to recover from the prior investment losses. This forecast incorporates an annual increase up to 10.16% in FY 2020.

ACTION REQUESTED: None; information only.

ATTACHMENTS: Selected pages of the PERS valuation report.

Purpose of the Report

This report presents the results of the June 30, 2009 actuarial valuation of the MISCELLANEOUS PLAN OF THE CENTRAL CONTRA COSTA TRANSIT AUTHORITY of the California Public Employees' Retirement System (CalPERS). The valuation was prepared by the Plan Actuary in order to:

- set forth the actuarial assets and accrued liabilities of this plan as of June 30, 2009;
- certify that the actuarially required employer contribution rate of this plan for the fiscal year July 1, 2011 through June 30, 2012 is 5.218%;
- provide actuarial information as of June 30, 2009 to the CalPERS Board of Administration and other interested parties; and
- provide pension information as of June 30, 2009 to be used in financial reports subject to Governmental Accounting Standards Board (GASB) Statement Number 27 for a Single Employer Defined Benefit Pension Plan.

Use of this report for other purposes may be inappropriate.

Required Contributions

		Fiscal Year 2010/2011		Fiscal Year 2011/2012
Required Employer Contributions				
Employer Contribution Required (in Projected Dollars)				
Payment for Normal Cost	$	1,142,496	$	1,002,786
Payment on the Amortization Bases		(371,359)		(262,098)
Total (not less than zero)	$	771,137	$	740,688
Annual Lump Sum Prepayment Option*	$	742,887	$	713,554
Employer Contribution Required (Percentage of Payroll)				
Payment for Normal Cost		7.221%		7.064%
Payment on the Amortization Bases		(2.347%)		(1.846%)
Total (not less than zero)		4.874%		5.218%

Funded Status

		June 30, 2008		June 30, 2009
Present Value of Projected Benefits	$	65,526,252	$	67,318,989
Entry Age Normal Accrued Liability	$	49,153,981	$	54,287,105
Actuarial Value of Assets (AVA)		55,087,230		58,609,008
Unfunded Liability	$	(5,933,249)	$	(4,321,903)
Market Value of Assets (MVA)	$	55,683,764	$	42,809,180
Funded Status (on an MVA basis)		113.3%		78.9%
Superfunded Status		No		No

* Payment **must be** received by CalPERS between July 1 and July 15.

Reconciliation of the Market Value of Assets

1.	Market Value of Assets as of 6/30/08 Including Receivables	$	55,683,764
2.	Receivables for Service Buybacks as of 6/30/08		20,653
3.	Market Value of Assets as of 6/30/08		55,663,111
4.	Employer Contributions		732,374
5.	Employee Contributions		986,707
6.	Benefit Payments to Retirees and Beneficiaries		(1,192,880)
7.	Refunds		(135,863)
8.	Lump Sum Payments		0
9.	Transfers and Miscellaneous Adjustments		(19,141)
10.	Investment Return		(13,243,145)
11.	Market Value of Assets as of 6/30/09	$	42,791,162
12.	Receivables for Service Buybacks as of 6/30/09		18,018
13.	Market Value of Assets as of 6/30/09 Including Receivables	$	42,809,180

Development of the Actuarial Value of Assets

1.	Actuarial Value of Assets as of 6/30/08 Used For Rate Setting Purposes	$	55,087,230
2.	Receivables for Service Buybacks as of 6/30/08		20,653
3.	Actuarial Value of Assets as of 6/30/08		55,066,577
4.	Employer Contributions		732,374
5.	Employee Contributions		986,707
6.	Benefit Payments to Retirees and Beneficiaries		(1,192,880)
7.	Refunds		(135,863)
8.	Lump Sum Payments		0
9.	Transfers and Miscellaneous Adjustments		(19,141)
10.	Expected Investment Income at 7.75%		4,281,775
11.	Expected Actuarial Value of Assets	$	59,719,549
12.	Market Value of Assets as of 6/30/09	$	42,791,162
13.	Preliminary Actuarial Value of Assets [(11) + ((12) – (11)) / 15]		58,590,990
14.	Maximum Actuarial Value of Assets (140% of (12))		59,907,627
15.	Minimum Actuarial Value of Assets (60% of (12))		25,674,697
16.	Actuarial Value of Assets {Lesser of [(14), Greater of ((13), (15))]}		58,590,990
17.	Actuarial Value to Market Value Ratio		136.9%
18.	Receivables for Service Buybacks as of 6/30/09		18,018
19.	Actuarial Value of Assets as of 6/30/09 Used for Rate Setting Purposes	$	58,609,008

Summary of Valuation Data

	June 30, 2008	June 30, 2009
1. Active Members		
a) Counts	311	258
b) Average Attained Age	48.03	50.17
c) Average Entry Age to Rate Plan	37.54	37.31
d) Average Years of Service	10.49	12.86
e) Average Annual Covered Pay	$ 46,220	$ 49,988
f) Annual Covered Payroll	14,374,317	12,896,961
g) Projected Annual Payroll for Contribution Year	15,821,855	14,195,725
h) Present Value of Future Payroll	120,248,704	98,253,238
2. Transferred Members		
a) Counts	35	35
b) Average Attained Age	49.52	50.06
c) Average Years of Service	2.79	2.78
d) Average Annual Covered Pay	$ 64,200	$ 65,822
3. Terminated Members		
a) Counts	93	119
b) Average Attained Age	48.00	47.75
c) Average Years of Service	2.79	2.94
d) Average Annual Covered Pay	$ 35,515	$ 37,399
4. Retired Members and Beneficiaries		
a) Counts	112	115
b) Average Attained Age	67.74	68.04
c) Average Annual Benefits	$ 9,923	$ 10,689
5. Active to Retired Ratio	2.78	2.24

Counts of members included in the valuation are counts of the records processed by the valuation. Multiple records may exist for those who have service in more than one valuation group. This does not result in double counting of liabilities.

Investment Return Sensitivity Analysis

The investment return realized during a fiscal year first affects the contribution rate for the fiscal year 2 years later. Specifically, the investment return for 2009-2010 will first be reflected in the June 30, 2010 actuarial valuation that will be used to set the 2012-2013 employer contribution rates and 2010-2011 investment return will first be reflected in the June 30, 2011 actuarial valuation that will be used to set the 2013-2014 employer contribution rates.

In July 2010, the investment return for fiscal year 2009-2010 was announced to be 11.4%. Note that this return is before administrative expenses and also does not reflect final investment return information for real estate and private equities. The final return information for these two asset classes is expected to be available later in October. The preliminary 11.4% return for the 2009-2010 fiscal year is good news as it would help reduce the impact of the -24% return in 2008-2009 and the impact of the three year phase in adopted by the Board in June 2009. For purposes of projecting future employer rates, we are assuming an 11% investment return for fiscal year 2009-2010.

Based on an 11% investment return for fiscal year 2009-2010 and assuming that all other actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur between now and the beginning of the fiscal year 2012-2013, the effect on the 2012-2013 Employer Rate is as follows:

Estimated 2012-2013 Employer Rate	Estimated Increase in Employer Rate between 2011-2012 and 2012-2013
5.9%	0.7%

As part of this report, a sensitivity analysis was performed to determine the effects of various investment returns during fiscal year 2010-2011 on the 2013-2014 employer rates. Once again, the projected 2013-2014 rate increases assume that all other actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur between now and the beginning of fiscal year 2013-2014.

Five different 2010-2011 investment return scenarios were selected.

- The first scenario is what one would expect if the markets were to give us a 5th percentile return. The 5th percentile return corresponds to a -11% return for the 2010-2011 fiscal year.
- The second scenario is what one would expect if the markets were to give us a 25th percentile return. The 25th percentile return corresponds to a 0% return for the 2010-2011 fiscal year.
- The third scenario assumed the return for 2010-2011 would be our assumed 7.75% investment return which represents about a 47th percentile event.
- The fourth scenario is what one would expect if the markets were to give us a 75th percentile return. The 75th percentile return corresponds to a 16% return for the 2010-2011 fiscal year.
- Finally, the last scenario is what one would expect if the markets were to give us a 95th percentile return. The 95th percentile return corresponds to a 27% return for the 2010-2011 fiscal year.

The table below shows the estimated 2013-2014 contribution rate and the estimated increase over the 2012-2013 rate for your plan under the five different scenarios.

2010-2011 Investment Return Scenario	Estimated 2013-2014 Employer Rate	Estimated Increase in Employer Rate between 2012-2013 and 2013-2014
-11%	13.2%	7.3%
0%	10.3%	4.4%
7.75%	8.3%	2.4%
16%	6.2%	0.3%
27%	6.1%	0.2%