The County Connection

To:	A&F Committee	Date:	October 25, 2011
From:	Kathy Casenave KC Director of Finance	Reviewed By:	[signature]

SUBJECT: PERS Actuarial Valuation for June 30, 2010; Rate for FY 2013

SUMMARY OF ISSUES:

The PERS Actuarial Valuation Report for the period ending June 30, 2010 was recently received. This valuation is used to set the rate for the next fiscal year. **The employer rate for FY 2012 will be 5.219%, up** slightly from the current year's rate of 5.218%, but less than the previous projection of 5.9%. 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 FY 2014 will be 5.5%- considerably less than the prior year's projection of 8.3%. The main reason for the lower estimate is that the investment gain for FY 2011 was 20.7%, much higher than the 7.75% valuation assumption.

Estimates of future employer rates depend upon 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.

Several pages of the actuarial report are attached.

Funded Status Page 5

The funded status is 84% (the PERS long term goal is 100%), with unfunded liability totaling $9.3 million. The prior year the funded status was 78.9%, with the unfunded liability at $11.5 million.

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 *actuarial* value of assets ($62.3 million, line 19, 2nd section) is 127.5% of the market value of assets ($48.8 million, line 13, 1st section). Not all losses have been recognized.

Benefits payments of $1.3 million (Line 6, 1st section) are less than the $1.5 million in contributions (Lines 4 & 5, 1st section)

Other Information- Page 25

- There are 122 retirees receiving benefits
- The average annual benefit is $10,964
- The average age of retirees is 68.56

- There are 250 active members
- The average annual payroll of the active members is $51,960
- The covered annual payroll is $12,990,109
- The average age for active members is 51.11

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 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 increased the corridor limits to 60%-140% for the FY 2012 rate and 70%-130% for the FY 2013 rate. For FY 2014, the corridor limits will return to 80%-120%.

The Authority's actuarial value of assets for FY 2013 rate is 127.5% of the market value. (Page 19, Line 17).

Investment Return Sensitivity Analysis (Page D-1)

The FY 2011 investment return will be used for the FY 2014 employer rate. At the time of the preparation on the new actuarial report, it was estimated to be 20.7%, before administrative expenses. CalPERS estimates that the Authority's FY 2014 rate will be 5.5%, using a net 20% return for FY 2011.

The actuary also estimates the Authority's FYs 2015, 2016 & 2017 rates based on 5 different scenarios of investment returns for FY 2012, 2013, & 2014. If the 7.75% return is achieved in all three years the employer rates would be 5.8%, 6.1% & 6.4%.

The 7.75% for FY 2012 may be difficult to achieve due to the adverse worldwide economic developments of the last several months. A more conservative investment rate of 2.93% in all three years would result in estimated employer rates of 5.9%, 6.8% and 8.3% in FYs 2015, 2016, & 2017. These rates are used in the revised five year forecast presented in a separate memo.

The projections assume that the demographic assumptions will be realized, including payroll growth. *The wage freeze for FY 2012 will have a positive impact* on the future contribution rate but it is unknown to what extent.

FINANCIAL IMPLICATIONS:

These rates are being used for the revised forecast.

ACTION REQUESTED: None; information only.

ATTACHMENTS:

Selected pages of the PERS valuation report
CalPERS Facts at a Glance: Investments, October 2011

Purpose of the Report

This report presents the results of the June 30, 2010 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, 2010;
- certify that the actuarially required employer contribution rate of this plan for the fiscal year July 1, 2012 through June 30, 2013 is 5.219%;
- provide actuarial information as of June 30, 2010 to the CalPERS Board of Administration and other interested parties; and
- provide pension information as of June 30, 2010 to be used in financial reports subject to Governmental Accounting Standards Board (GASB) Statement Number 27 for a Single Employer Defined Benefit Pension Plan.

The use of this report for any other purposes may be inappropriate. In particular, this report does not contain information applicable to termination or alternative benefit costs. The employer should contact their actuary before disseminating any portion of this report for any reason that is not explicitly described above.

Required Contributions

Required Employer Contributions		Fiscal Year 2011/2012		Fiscal Year 2012/2013
Employer Contribution Required (in Projected Dollars)				
Payment for Normal Cost	$	1,002,786	$	997,446
Payment on the Amortization Bases		(262,098)		(251,265)
Total (not less than zero)	$	740,688	$	746,181
Annual Lump Sum Prepayment Option*	$	713,554	$	718,845
Employer Contribution Required (Percentage of Payroll)				
Payment for Normal Cost		7.064%		6.976%
Payment on the Amortization Bases		(1.846%)		(1.757%)
Total (not less than zero)		5.218%		5.219%

Funded Status

		June 30, 2009		June 30, 2010
Present Value of Projected Benefits	$	67,318,989	$	70,873,999
Entry Age Normal Accrued Liability	$	54,287,105	$	58,232,048
Actuarial Value of Assets (AVA)		58,609,008		62,352,007
Unfunded Liability (AVA)	$	(4,321,903)	$	(4,119,959)
Market Value of Assets (MVA)	$	42,809,180	$	48,899,647
Unfunded Liability (MVA)		11,477,925		9,332,401
Funded Status (MVA)		78.9%		84.0%
Superfunded Status		No		No

* Payment **must be** received by CalPERS before the first payroll of the new fiscal year and after June 30.

Reconciliation of the Market Value of Assets

1.	Market Value of Assets as of 6/30/09 Including Receivables	$	42,809,180
2.	Receivables for Service Buybacks as of 6/30/09		18,018
3.	Market Value of Assets as of 6/30/09		42,791,162
4.	Employer Contributions		606,714
5.	Employee Contributions		939,730
6.	Benefit Payments to Retirees and Beneficiaries		(1,299,581)
7.	Refunds		(87,740)
8.	Lump Sum Payments		0
9.	Transfers and Miscellaneous Adjustments		(1,042)
10.	Investment Return		5,933,397
11.	Market Value of Assets as of 6/30/10	$	48,882,641
12.	Receivables for Service Buybacks as of 6/30/10		17,006
13.	Market Value of Assets as of 6/30/10 Including Receivables	$	48,899,647

Development of the Actuarial Value of Assets

1.	Actuarial Value of Assets as of 6/30/09 Used For Rate Setting Purposes	$	58,609,008
2.	Receivables for Service Buybacks as of 6/30/09		18,018
3.	Actuarial Value of Assets as of 6/30/09		58,590,990
4.	Employer Contributions		606,714
5.	Employee Contributions		939,730
6.	Benefit Payments to Retirees and Beneficiaries		(1,299,581)
7.	Refunds		(87,740)
8.	Lump Sum Payments		0
9.	Transfers and Miscellaneous Adjustments		(1,042)
10.	Expected Investment Income at 7.75%		4,546,813
11.	Expected Actuarial Value of Assets	$	63,295,884
12.	Market Value of Assets as of 6/30/10	$	48,882,641
13.	Preliminary Actuarial Value of Assets [(11) + ((12) – (11)) / 15]		62,335,001
14.	Maximum Actuarial Value of Assets (130% of (12))		63,547,433
15.	Minimum Actuarial Value of Assets (70% of (12))		34,217,849
16.	Actuarial Value of Assets {Lesser of [(14), Greater of ((13), (15))]}		62,335,001
17.	Actuarial Value to Market Value Ratio		127.5%
18.	Receivables for Service Buybacks as of 6/30/10		17,006
19.	Actuarial Value of Assets as of 6/30/10 Used for Rate Setting Purposes	$	62,352,007

Summary of Valuation Data

	June 30, 2009	June 30, 2010
1. **Active Members**		
a) Counts	258	250
b) Average Attained Age	50.17	51.11
c) Average Entry Age to Rate Plan	37.31	37.16
d) Average Years of Service	12.86	13.95
e) Average Annual Covered Pay	$ 49,988	$ 51,960
f) Annual Covered Payroll	12,896,961	12,990,109
g) Projected Annual Payroll for Contribution Year	14,195,725	14,298,253
h) Present Value of Future Payroll	98,253,238	96,181,527
2. **Transferred Members**		
a) Counts	35	32
b) Average Attained Age	50.06	51.00
c) Average Years of Service	2.78	2.82
d) Average Annual Covered Pay	$ 65,822	$ 67,319
3. **Terminated Members**		
a) Counts	119	107
b) Average Attained Age	47.75	48.63
c) Average Years of Service	2.94	3.11
d) Average Annual Covered Pay	$ 37,399	$ 37,564
4. **Retired Members and Beneficiaries**		
a) Counts	115	122
b) Average Attained Age	68.04	68.56
c) Average Annual Benefits	$ 10,689	$ 10,964
5. **Active to Retired Ratio**	2.24	2.05

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

in October, this was increased to 20.9%

In July 2011, the investment return for fiscal year 2010-2011 was estimated to be 20.7%. 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. Our estimated preliminary 20.0% return for the 2010-2011 fiscal year is good news as it will 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 a 20% investment return for fiscal year 2010-2011.

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 2010-2011 will first be reflected in the June 30, 2011 actuarial valuation that will be used to set the 2013-2014 employer contribution rates, the 2011-2012 investment return will first be reflected in the June 30, 2012 actuarial valuation that will be used to set the 2014-2015 employer contribution rates and so forth.

Based on a 20% investment return for fiscal year 2010-2011 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 2013-2014, the effect on the 2013-2014 Employer Rate is as follows:

Estimated 2013-2014 Employer Rate	Estimated Increase in Employer Rate between 2012-2013 and 2013-2014
5.5%	0.3%

As part of this report, a sensitivity analysis was performed to determine the effects of various investment returns during fiscal years 2011-2012, 2012-2013 and 2013-2014 on the 2014-2015, 2015-2016 and 2016-2017 employer rates. Once again, the projected rate increases assume that all other actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur.

Five different investment return scenarios were selected.

- The first scenario is what one would expect if the markets were to give us a 5th percentile return from July 1, 2011 through June 30, 2014. The 5th percentile return corresponds to a -3.64% return for each of the 2011-2012, 2012-2013 and 2013-2014 fiscal years.
- The second scenario is what one would expect if the markets were to give us a 25th percentile return from July 1, 2011 through June 30, 2014. The 25th percentile return corresponds to a 2.93% return for each of the 2011-2012, 2012-2013 and 2013-2014 fiscal years.
- The third scenario assumed the return for 2011-2012, 2012-2013, 2013-2014 would be our assumed 7.75% investment return which represents about a 49th percentile event.
- The fourth scenario is what one would expect if the markets were to give us a 75th percentile return from July 1, 2011 through June 30, 2014. The 75th percentile return corresponds to a 12.25% return for each of the 2011-2012, 2012-2013 and 2013-2014 fiscal years.
- Finally, the last scenario is what one would expect if the markets were to give us a 95th percentile return from July 1, 2011 through June 30, 2014. The 95th percentile return corresponds to a 19.02% return for each of the 2011-2012, 2012-2013 and 2013-2014 fiscal years.

The table below shows the estimated projected contribution rates and the estimated increases for your plan under the five different scenarios.

2011-2014 Investment Return Scenario	Estimated Employer Rate			Estimated Increase in Employer Rate between 2013-2014 and 2016-2017
	2014-2015	2015-2016	2016-2017	
-3.64% (5th percentile)	7.3%	10.8%	14.0%	8.5%
2.93% (25th percentile)	5.9%	6.8%	8.3%	2.8% *
7.75%	5.8%	6.1%	6.4%	0.9%
12.25%(75th percentile)	5.8%	5.9%	5.9%	0.4%
19.02%(95th percentile)	5.6%	5.5%	5.1%	-0.4%

CalPERS

California Public Employees' Retirement System
External Affairs Branch • Office of Public Affairs
400 Q Street, Sacramento, CA 95811
(916) 795-3991 phone • (916) 795-3507 fax
www.calpers.ca.gov

FACTS AT A GLANCE: INVESTMENTS

OCTOBER 2011

Facts at a Glance is a monthly compilation of information of interest to Board Members, staff, and the general public. Information is current as of July 31, 2011, unless otherwise noted. Every effort has been made to verify the accuracy of the information, which is intended for general use only. Please direct any questions and comments to the Public Affairs Office at (916) 795-3991.

INVESTMENT PORTFOLIO MARKET VALUE

$235.8 billion (as of July 31, 2011)

ASSET CLASS BY MARKET VALUE & ALLOCATION

ASSET CLASS	ACTUAL INVESTMENT ($ BILLIONS)	ACTUAL ALLOCATION (%)	INTERIM STRETEGIC TARGET (%)	% PASSIVE VS. ACTIVE	
				PASSIVE	ACTIVE
Growth	$149.0	63.0%	64.0%	55.0%	45.0%
Public Equity	$115.8	49.0%	50.0%	71.0%	29.0%
Private Equity	$33.2	14.0%	14.0%	0.0%	100.0%
Income	$42.3	18.0%	19.0%	0.0%	100.0%
Liquidity	$10.2	5.0%	4.0%	0.0%	100.0%
Real	$21.6	9.0%	10.0%	6.0%	94.0%
Real Estate	$18.7	8.0%	8.0%	7.0%	93.0%
Forestland/Infrastructure	$2.9	1.0%	2.0%	0.0%	100.0%
Inflation	**$7.4**	**3.0%**	**3.0%**	0.0%	100.0%
Absolute Return Strategy	$5.3	2.0%	n/a%	0.0%	100.0%
TOTAL FUND	**$235.8**	**100.0%**	**100.0%**	**35.0%**	**65.0%**

**Target allocation effective July 2011*

GROWTH OF FUND

YEAR	YEAR-END 6/30	YEAR-END 12/31
1985	$28.6 billion	$32.7 billion
1990	$58.2 billion	$57.5 billion
1995	$87.8 billion	$96.9 billion
1996	$100.7 billion	$108.0 billion
1997	$119.7 billion	$128.2 billion
1998	$143.3 billion	$150.6 billion
1999	$159.1 billion	$171.9 billion
2000	$172.2 billion	$165.2 billion
2001	$156.0 billion	$151.8 billion
2002	$143.4 billion	$133.8 billion
2003	$144.8 billion	$161.4 billion
2004	$166.3 billion	$182.8 billion
2005	$189.8 billion	$200.9 billion
2006	$208.2 billion	$230.3 billion
2007	$251.4 billion	$253.0 billion
2008	$237.9 billion	$183.3 billion
2009	$181.0 billion	$203.3 billion
2010	$200.0 billion	$225.7 billion
2011	$237.5 billion	

TOTAL RETURNS[1]

Fiscal year to date ended 07/31/2011	0.2%
3 years for period ended 07/31/2011	1.3%
5 years for period ended 07/31/2011	3.3%
10 years for period ended 07/31/2011	5.4%

CALIFORNIA INVESTMENTS AND COMMITMENTS

Approximately $22.9 billion—or 9.7 percent of total fund as of July 31, 2011.

Growth	$13.6 billion
Income	$4.3 billion
Real Assets	$5.0 billion
Inflation	$0.0 billion
Absolute Return Strategy	$0.0 billion
Liquidity	$0.0 billion

HISTORICAL RATES OF RETURNS[1]

YEAR	YEAR END 6/30 (%)	YEAR END 12/31 (%)
1991	6.7	23.0
1992	13.9	6.5
1993	14.6	13.4
1994	2.0	-1.0
1995	16.4	25.3
1996	15.4	12.8
1997	20.2	19.0
1998	19.6	18.5
1999	12.6	16.0
2000	10.8	-1.4
2001	-7.1	-6.2
2002	-6.0[1]	-9.5
2003	3.9	23.3
2004	16.7	13.4
2005	12.6	11.1
2006	12.3	15.7
2007	19.1	10.2
2008	-4.9	-27.8
2009	-23.4	12.1
2010	11.6	12.6
2011	20.9	

Dated: 09/27/2011

[1] *Beginning 6/30/02 performance figures are reported as gross of fees.*