

County Connection

INTER OFFICE MEMO

To: Administration and Finance Committee

Date: December 29, 2014

From: Kathy Casenave *Kc*
Director of Finance

Reviewed By:

SUBJECT: PERS Actuarial Valuation for June 30, 2013; Rate for FY 2016

SUMMARY OF ISSUES:

The PERS Actuarial Valuation Report for the period ending June 30, 2013 was recently received. This valuation is used to set the rate for the next fiscal year. **The employer rate for FY 2016 will be 8.997%, up from the current year's rate of 7.105%.**

CalPERS has projected our rates for FY 2017 through FY 2021. These projections changed from the prior year, and will most likely change next year. Below are the CalPERS current projections compared with the prior report's projections:

	Current Projection	Prior Projection
FY 2016 Actual	8.997%	5.800%
FY 2017	9.200%	7.000%
FY 2018	9.000%	8.200%
FY 2019	8.800%	9.400%
FY 2020	8.600%	10.60%
FY 2021	8.400%	

Estimates of future employer rates depend upon a variety of factors:

- Future investment returns of 7.5%.
- Payroll growth of 3%.
- Demographic assumptions including the percentage of employees that will terminate, die, or retire in each future year.

The updated projections will be used for the budget and 10 year forecast. Even though the FY 2016-FY 2018 projections are more than the prior year, the out years are less. In the last CCCTA 10 year forecast, staff used the 10.6% rate for the FY 2020- FY 2023 years. When the 10 year forecast is updated, the 8.4% rate will be used for the FY 2021- FY 2024 years.

Several pages of the actuarial report are attached.

Funded Status, Based on Market Value of Assets, Page 6

The funded status is 95.1% (the PERS long term goal is 100%), with unfunded liability totaling \$3.4 million. The prior year the funded status was 89.6%, with the unfunded liability at \$6.8 million.

Investment rate of return, Page 13

It is CalPERS' policy to use a constant investment return rate (7.5%) 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 rate, the corridor limits returned to 80%-120%.

The CalPERS history of investment returns is shown on **Page 13** of the report.

Other Information- C-1 & C-2

- There are 155 retirees receiving benefits
- The average annual benefit is \$12,757
- The average age of retirees is 68.77
- There are 256 active members
- The average annual payroll of the active members is \$51,400
- The covered annual payroll is \$13,158,233
- The average age for active members is 51.56
- Page C-2 includes a breakdown of the active members by age and salaries & years of service. As of June 30, 2013, 24% of the workforce was over 60 years of age.

FINANCIAL IMPLICATIONS: These rates will be used for the revised forecast.

ACTION REQUESTED: None; information only.

ATTACHMENTS: Selected pages of the PERS valuation report

The use of this report for any other purposes may be inappropriate. In particular, this report does not contain information applicable to 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 Employer Contribution

	Fiscal Year 2014-15	Fiscal Year 2015-16
Actuarially Determined Employer Contributions		
1. Contribution in Projected Dollars		
a) Total Normal Cost	\$ 1,881,500	\$ 2,063,739
b) Employee Contribution ¹	933,747	1,006,204
c) Employer Normal Cost [(1a) – (1b)]	947,753	1,057,535
d) Unfunded Liability Contribution	(324,895)	236,093
e) Required Employer Contribution [(1c) + (1d)]	\$ 622,858	\$ 1,293,628
Projected Annual Payroll for Contribution Year	\$ 13,339,240	\$ 14,378,455
2. Contribution as a Percentage of Payroll		
a) Total Normal Cost	14.105%	14.353%
b) Employee Contribution ¹	7.000%	6.998%
c) Employer Normal Cost [(2a) – (2b)]	7.105%	7.355%
d) Unfunded Liability Rate	(2.436%)	1.642%
e) Required Employer Rate [(2c) + (2d)]	4.669%	8.997%
Minimum Employer Contribution Rate²	7.105%	8.997%
Annual Lump Sum Prepayment Option ³	\$ 914,094	\$ 1,247,686

¹For classic members this is the percentage specified in the Public Employees Retirement Law, net of any reduction from the use of a modified formula or other factors. For PEPRA members the member contribution rate is based on 50 percent of the normal cost. A development of PEPRA member contribution rates can be found in Appendix D. Employee cost sharing is not shown in this report.

²The Minimum Employer Contribution Rate under PEPRA is the greater of the required employer rate or the employer normal cost.

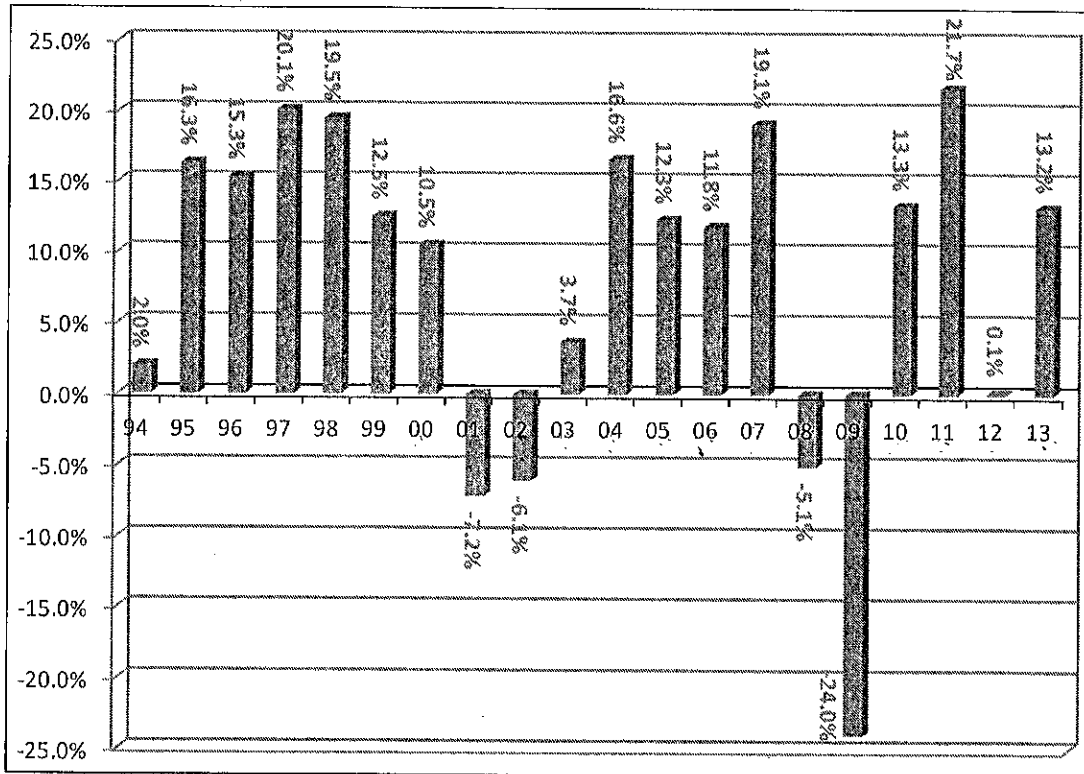
³Payment must be received by CalPERS before the first payroll reported to CalPERS of the new fiscal year and after June 30. If there is contractual cost sharing or other change, this amount will change.

Plan's Funded Status

	June 30, 2012	June 30, 2013
1. Present Value of Projected Benefits	\$ 76,945,025	\$ 81,999,152
2. Entry Age Normal Accrued Liability	65,329,327	69,119,201
3. Market Value of Assets (MVA)	\$ 58,524,861	\$ 65,752,326
4. Unfunded Liability [(2) – (3)]	\$ 6,804,466	\$ 3,366,875
5. Funded Ratio [(3) / (2)]	89.6%	95.1%
Superfunded Status	No	No

CalPERS History of Investment Returns

The following is a chart with the 20-year historical annual returns of the Public Employees Retirement Fund for each fiscal year ending on June 30. Beginning in 2002, the figures are reported as gross of fees.



The table below shows historical geometric mean annual returns of the Public Employees Retirement Fund for each fiscal year ending on June 30, 2013, (figures are reported as gross of fees). The geometric mean rate of return is the average rate per period compounded over multiple periods. It should be recognized that in any given year the rate of return is volatile. Although the expected rate of return on the recently adopted new asset allocation is 7.5 percent the portfolio has an expected volatility of 11.76 percent per year. Consequently when looking at investment returns it is more instructive to look at returns over longer time horizons.

History of CalPERS Geometric Mean Rates of Return and Volatilities					
	1 year	5 year	10 year	20 year	30 year
Geometric Return	13.2%	3.5%	7.0%	7.6%	9.4%
Volatility	-	17.9%	13.9%	11.8%	11.6%

Summary of Valuation Data

	June 30, 2012	June 30, 2013
1. Active Members		
a) Counts	246	256
b) Average Attained Age	51.46	51.56
c) Average Entry Age to Rate Plan	37.34	37.49
d) Average Years of Service	14.12	14.07
e) Average Annual Covered Pay	\$ 49,623	\$ 51,400
f) Annual Covered Payroll	12,207,294	13,158,323
g) Projected Annual Payroll for Contribution Year	13,339,240	14,378,455
h) Present Value of Future Payroll	87,584,074	94,853,300
2. Transferred Members		
a) Counts	30	26
b) Average Attained Age	49.65	49.39
c) Average Years of Service	3.14	2.57
d) Average Annual Covered Pay	\$ 66,375	\$ 67,426
3. Terminated Members		
a) Counts	97	101
b) Average Attained Age	51.16	51.75
c) Average Years of Service	3.04	3.53
d) Average Annual Covered Pay	\$ 36,040	\$ 37,137
4. Retired Members and Beneficiaries		
a) Counts	151	155
b) Average Attained Age	68.02	68.77
c) Average Annual Benefits	\$ 12,134	\$ 12,757
5. Active to Retired Ratio [(1a) / (4a)]	1.63	1.65

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.

Average Annual Benefits represents benefit amounts payable by this plan only. Some members may have service with another agency and would therefore have a larger total benefit than would be included as part of the average shown here.

Active Members

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.

Distribution of Active Members by Age and Service

Attained Age	Years of Service at Valuation Date						Total
	0-4	5-9	10-14	15-19	20-25	25+	
15-24	1	0	0	0	0	0	1
25-29	3	3	0	0	0	0	6
30-34	8	3	3	0	0	0	14
35-39	8	9	7	2	0	0	26
40-44	8	7	8	1	0	0	24
45-49	6	3	10	10	3	1	33
50-54	6	7	11	6	6	9	45
55-59	7	3	12	6	6	12	46
60-64	2	4	10	4	8	7	35
65 and over	1	2	5	3	4	11	26
All Ages	50	41	66	32	27	40	256

} 61 24%

Distribution of Average Annual Salaries by Age and Service

Attained Age	Years of Service at Valuation Date						Average
	0-4	5-9	10-14	15-19	20-25	25+	
15-24	\$34,550	\$0	\$0	\$0	\$0	\$0	\$34,550
25-29	41,406	51,004	0	0	0	0	46,205
30-34	42,355	49,622	58,402	0	0	0	47,351
35-39	57,952	49,027	50,570	51,678	0	0	52,393
40-44	41,106	48,964	61,715	48,131	0	0	50,560
45-49	44,504	48,131	47,024	59,824	48,131	57,630	50,968
50-54	39,450	52,055	45,052	51,092	74,551	54,938	52,110
55-59	38,183	77,460	44,927	45,536	59,899	65,398	53,395
60-64	49,822	41,151	46,947	69,864	42,193	46,666	47,925
65 and over	61,629	52,731	47,936	48,131	55,699	61,235	55,675
All Ages	\$44,447	\$51,148	\$49,046	\$54,792	\$55,979	\$58,428	\$51,400