

County Connection

INTER OFFICE MEMO

To: Administration and Finance Committee

Date: January 6, 2015

From: Erick Cheung
Director of Finance

Reviewed By:

SUBJECT: PERS Actuarial Valuation for June 30, 2014; Rate for FY 2017

SUMMARY OF ISSUES:

The PERS Actuarial Valuation Report for the period ending June 30, 2014 was recently received. This valuation is used to set the rate for the next fiscal year and provides CCCTA's funded status. **The employer rate for FY 2017 will be 7.553%, down** from the current year's rate of 8.998%. The CCCTA's funded status improved to **99.9% funded** from 99.5% funded in the prior year.

CalPERS has projected our rates for FY 2018 through FY 2022. 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 2017 Actual	7.553%	9.200%
FY 2018	7.900%	9.000%
FY 2019	8.400%	8.800%
FY 2020	8.800%	8.600%
FY 2021	9.200%	8.400%
FY 2022	9.600%	

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 employment, retire, or pass on in each future year.

The updated projections will be used for the budget and 10 year forecast. The revised projections for FY 2017 - FY2019 are less than the prior projection. The revision does increase to 9.2% and 9.6% in FY 2021 and FY 2022, respectively. PERS forecast include revisions this year to demographic changes for improved life expectancy and the assumed rate of return for FY 2015 of 2.4%.

Several pages of the actuarial report are attached.

Plan's Funded Status, Based on Market Value of Assets, Page 4

As stated earlier, the funded status is 99.9% with unfunded liability totaling \$39,198. The prior year funded status was 95.1%, with the unfunded liability of \$3.4 million. The main reason was the market value of assets of \$76.6 million increased \$10.8 million due to investment return of 17.7%.

Investment rate of return, Page 10

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 10** of the report.

Other Information- C-1 & C-2

- There are 169 retirees receiving benefits
- The average annual benefit is \$14,500
- The average age of retirees is 69.24
- There are 254 active members
- The average annual payroll of the active members is \$52,036
- The covered annual payroll is \$13,217,024
- The average age for active members is 50.62
- Page C-2 includes a breakdown of the active members by age and salaries & years of service. As of June 30, 2014, 23% 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

Required Employer Contribution

	Fiscal Year 2015-16	Fiscal Year 2016-17
Actuarially Determined Employer Contributions		
1. Contribution in Projected Dollars		
a) Total Normal Cost	\$ 2,063,739	\$ 2,101,687
b) Employee Contribution ¹	1,006,204	1,010,838
c) Employer Normal Cost [(1a) – (1b)]	1,057,535	1,090,849
d) Unfunded Liability Contribution	236,093	0
e) Required Employer Contribution [(1c) + (1d)]	\$ 1,293,628	\$ 1,090,849
Projected Annual Payroll for Contribution Year	\$ 14,378,455	\$ 14,442,599
2. Contribution as a Percentage of Payroll		
a) Total Normal Cost	14.353%	14.552%
b) Employee Contribution ¹	6.998%	6.999%
c) Employer Normal Cost [(2a) – (2b)]	7.355%	7.553%
d) Unfunded Liability Rate	1.642%	0.000%
e) Required Employer Rate [(2c) + (2d)]	8.997%	7.553%
Minimum Employer Contribution Rate²	8.997%	7.553%
Annual Lump Sum Prepayment Option ³	\$ 1,247,686	\$ 1,052,108

¹ For 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.

² The Minimum Employer Contribution Rate under PEPRA is the greater of the required employer rate or the employer normal cost. The timing of contributions made during the year coincides with the employer's payroll reporting periods. § 20572 of the Public Employees' Retirement Law assesses interest at an annual rate of 10 percent if a contracting agency fails to remit the required contributions when due.

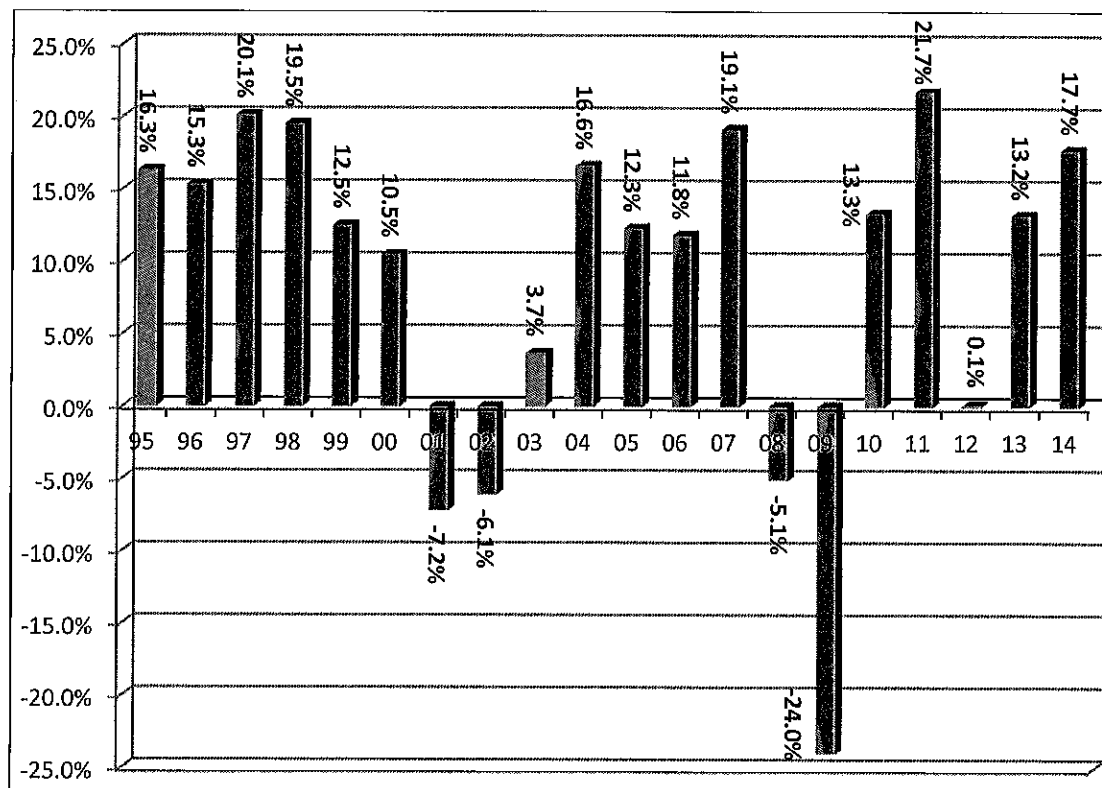
³ The Annual Lump Sum Prepayment can be made between July 1 and July 15 and should be made before the contributions for the first payroll reporting period of the new fiscal year are due. If there is contractual cost sharing or other change, this amount will change.

Plan's Funded Status

	June 30, 2013	June 30, 2014
1. Present Value of Projected Benefits	\$ 81,999,152	\$ 90,409,511
2. Entry Age Normal Accrued Liability	69,119,201	76,635,740
3. Market Value of Assets (MVA)	\$ 65,752,326	\$ 76,596,542
4. Unfunded Liability [(2) – (3)]	\$ 3,366,875	\$ 39,198
5. Funded Ratio [(3) / (2)]	95.1%	99.9%

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 various time periods ending on June 30, 2014, (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. The volatility is a measure of the risk of the portfolio expressed in the standard deviation of the fund's total return distribution, expressed in percent. 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	17.7%	13.0%	7.1%	8.4%	10.1%
Volatility	-	8.1%	14.0%	11.9%	11.4%

Summary of Valuation Data

	June 30, 2013	June 30, 2014
1. Active Members		
a) Counts	256	254
b) Average Attained Age	51.56	50.62
c) Average Entry Age to Rate Plan	37.49	37.02
d) Average Years of Service	14.07	13.60
e) Average Annual Covered Pay	\$ 51,400	\$ 52,036
f) Annual Covered Payroll	13,158,323	13,217,024
g) Projected Annual Payroll for Contribution Year	14,378,455	14,442,599
h) Present Value of Future Payroll	94,853,300	100,022,764
2. Transferred Members		
a) Counts	26	25
b) Average Attained Age	49.39	50.92
c) Average Years of Service	2.57	2.24
d) Average Annual Covered Pay	\$ 67,426	\$ 67,633
3. Terminated Members		
a) Counts	101	104
b) Average Attained Age	51.75	51.97
c) Average Years of Service	3.53	2.96
d) Average Annual Covered Pay	\$ 37,137	\$ 36,878
4. Retired Members and Beneficiaries		
a) Counts	155	169
b) Average Attained Age	68.77	69.24
c) Average Annual Benefits	\$ 12,757	\$ 14,500
5. Active to Retired Ratio [(1a) / (4a)]	1.65	1.50

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

Years of Service at Valuation Date							
Attained Age	0-4	5-9	10-14	15-19	20-25	25+	Total
15-24	3	0	0	0	0	0	3
25-29	5	2	0	0	0	0	7
30-34	10	4	1	0	0	0	15
35-39	13	6	11	2	0	0	32
40-44	7	8	5	1	1	0	22
45-49	7	4	11	7	2	0	31
50-54	4	6	10	7	8	10	45
55-59	11	2	8	6	5	8	40
60-64	1	4	11	6	5	9	36
65 and over	1	2	3	5	5	7	23
All Ages	62	38	60	34	26	34	254

59 employees - 60 and over or 23%

Distribution of Average Annual Salaries by Age and Service

Years of Service at Valuation Date							
Attained Age	0-4	5-9	10-14	15-19	20-25	25+	Average
15-24	\$39,026	\$0	\$0	\$0	\$0	\$0	\$39,026
25-29	49,383	53,992	0	0	0	0	50,700
30-34	43,680	48,436	61,221	0	0	0	46,118
35-39	52,440	47,682	53,813	54,435	0	0	52,145
40-44	42,790	50,381	70,366	48,530	53,170	0	52,550
45-49	44,701	48,530	47,994	64,705	48,530	0	51,127
50-54	41,525	54,262	45,066	46,343	72,046	54,877	53,153
55-59	40,661	53,911	47,741	44,236	63,159	71,337	52,223
60-64	46,512	67,276	52,227	44,292	47,591	51,587	51,614
65 and over	64,298	53,502	48,530	64,123	56,807	54,738	56,726
All Ages	\$45,470	\$52,487	\$51,427	\$52,544	\$60,168	\$57,851	\$52,036