

PENSION REFORM ISSUES

Doug Pryor
Vice President and Actuary
Bartel Associates, LLC

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AGENDA

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CALPERS CONTRIBUTION RATES

Projections

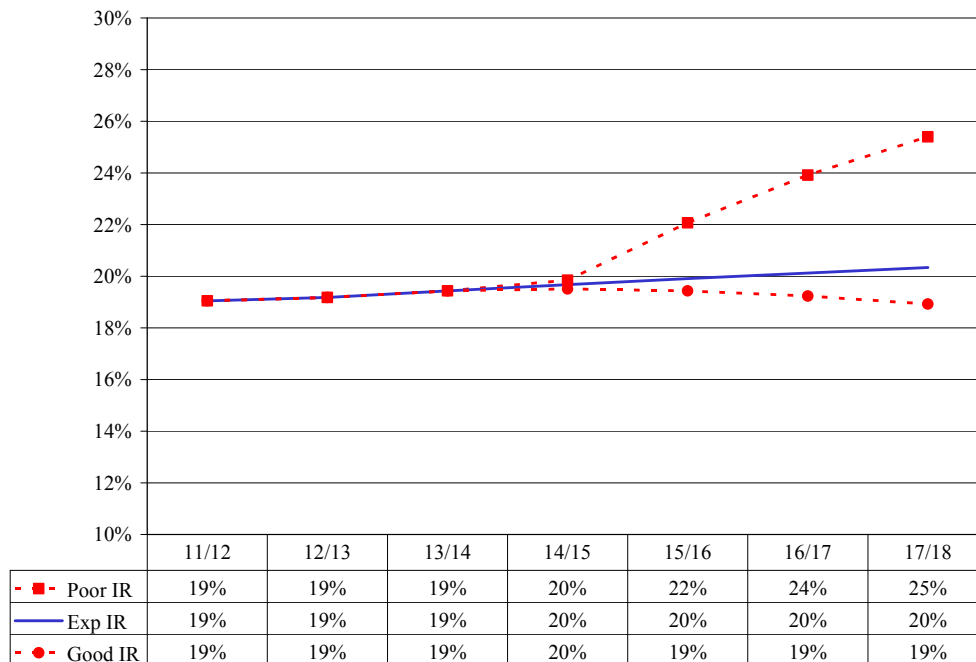
- More likely significant increases than decreases
- Absent extended very high investment returns
 - 10-15% for several years
 - Not predicted by independent investment advisors
- Market Value returns for sample contribution projections:

• June 30, 2010	13.3%
• June 30, 2011	21.7%
• June 30, 2012 - 2016	Poor Investment Return: \approx 0.4% - 3.6% Expected Investment Ret: \approx 7.75% Good Investment Return: \approx 15.3% - 11.8%



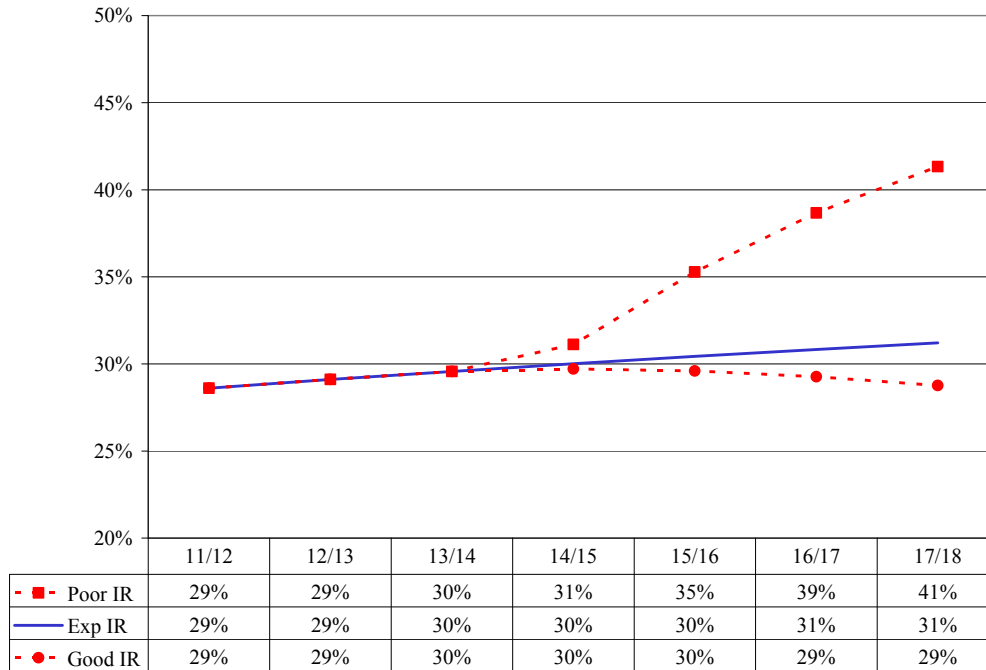
CALPERS CONTRIBUTION RATES

Sample Miscellaneous Plan Projections



CALPERS CONTRIBUTION RATES

Sample Safety Plan Projections



CALPERS CONTRIBUTION RATES

Economic Assumption Review

- March 2012 Board meetings
- Actuarial staff currently reviewing
- Potential changes mentioned recently by CalPERS actuaries:
 - Discount rate
 - CPI inflation
 - Wage inflation
 - **Potential** significant contribution rate increases
 - Miscellaneous 4% to 5%
 - Safety 7% to 8%



Current Employees
 (Subject to Constitutional Review)

- Eliminates air time and additional retirement service credit purchase
- Forfeit benefits for felony related to official duties
 - Excludes service > commission of felony
- No retroactive benefit enhancements
- Minimum Normal Cost contribution



Current Employees
 (Subject to Constitutional Review)

- Members pay 50% of Normal Cost
 - 3 Year phase in
 - Sample CalPERS rates:

	Current Member Rate	½ Total Normal Cost
Misc 2%@55	7%	8+%
Misc 2.7%@55	8%	9+%
Safety 2%@50	9%	11+%
Safety 3%@50	9%	13+%

- Agency can not pay any portion of member rate
- Offered hybrid plan (in lieu of current formula)
- Limited ability to work after retirement



Hybrid Plan

- Applies to all new members
- Defined Benefit/Defined Contribution and Social Security (if applicable)
 - “Twelve Point” summary:
 - 1/3, 1/3, 1/3 if in Social Security
 - 2/3, 1/3 if not
 - Legislation:
 - Criteria determined by Director of Finance
- Target for “full career” employee
 - 75% of Final Compensation at Normal Retirement Age

	Miscellaneous	Safety
Normal Retirement Age	67	57
Full Career	35	30



Hybrid Plan

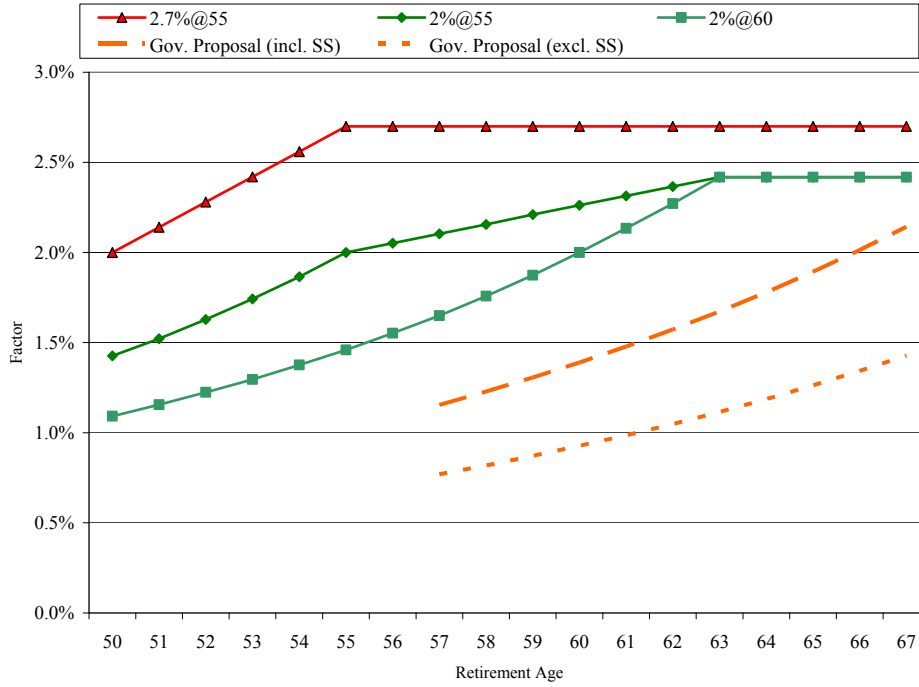
- Early Retirement:
 - Actuarial reduction for retirement < Normal Retirement Age
 - Safety – Age 52
 - Miscellaneous – Age 57
- Benefit Cap
 - IRS Limits
 - 2012:
 - With Social Security ≈\$110,000
 - Without Social Security ≈\$132,000



GOVERNOR'S PENSION PROPOSAL

Hybrid Plan

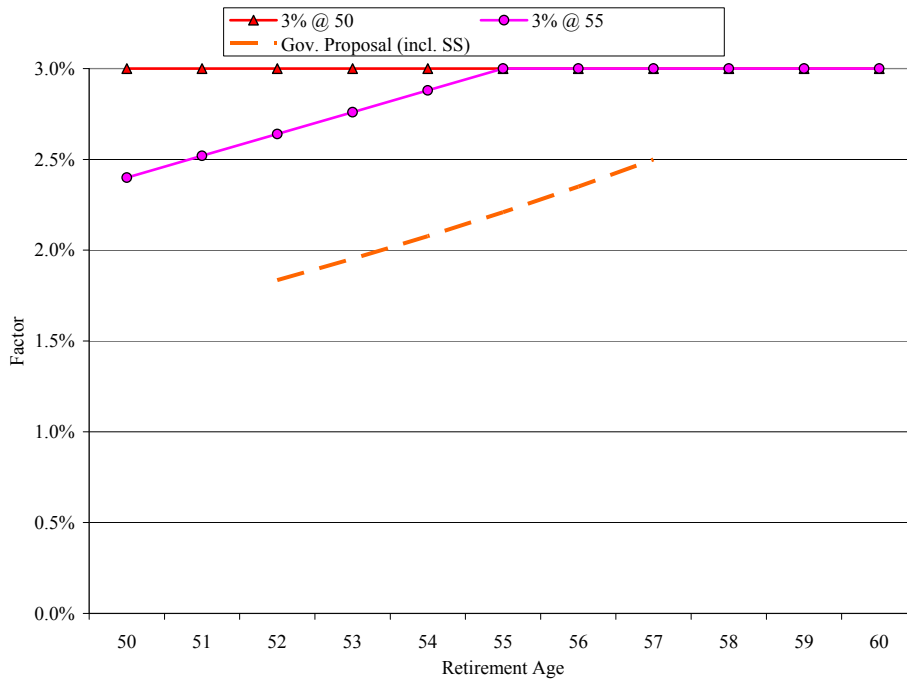
CalPERS Miscellaneous Benefit Comparison



GOVERNOR'S PENSION PROPOSAL

Hybrid Plan

CalPERS Safety Benefit Comparison



Hybrid Plan

- Hybrid Plan, or other plan set by retirement system:
 - Less risk to employer
 - Lower cost
- Three-year average final compensation
- Benefits based on regular, recurring pay



Hybrid Plan

- Prohibit Contribution Holidays
 - Minimum Normal Cost contribution



Change CalPERS Board Makeup

- Eliminate State Personnel Board Representative
- Eliminate Insurance Company Executive
- Add Four Members (appointed by the Governor):
 - One with Health Insurance Expertise
 - One Local Agency Elected Official
 - Two with Financial Expertise



PEMHCA State Vesting

- 15 year minimum service
- 25 years for 100%
- Actuarial reduction before Normal Retirement Age



Little Hoover Commission

■ Similarities:

- Create new (hybrid) pension system
- Eliminate air time purchase
- Prohibit contribution “holidays”
- Prohibit retroactive pension increase
- Employees pay 50% of Normal Cost
- Strengthen standards to reduce pensions for convicted criminals



Little Hoover Commission

■ Key Difference:

- Commission recommended Legislature give agencies authority to reduce future benefit accruals for current employees



GASB Pension Exposure Draft■ Timing¹:

- Exposure draft released July 2011
- Final statement expected June 2012
- Effective 2013/14 but 1 year earlier for sponsors of certain single-employer pension plans with assets of \$1 billion or more

¹ OPEB Accounting Exposure draft expected August 2013, with final statement expected June 2014

**GASB Pension Exposure Draft**

■ Major issues:

- Unfunded liability on balance sheet
- Discount rate for plans not funding full contribution
- Immediate recognition of AAL for all plan changes
- Deferred recognition of changes in active employee AAL for gains and losses and assumption changes over employees average future working lifetime
- Immediate recognition of all changes in retiree AAL
- Deferral of investment gains and losses over 5 years
- Disclosure of asset allocation and expected real rates of return for each asset class
- Entry age normal cost method

