The Outlook On CalPERS Pension Contributions

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Agenda

- Recent changes impacting employer rates
  - New smoothing policy
  - New asset allocation and actuarial assumptions
  - New risk pooling structure
- Impact of investment experience on rates
- "On the Horizon"

New Smoothing Methods

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The New Smoothing Policy

- Adopted by the CalPERS Board in April 2013
- Designed to pay down unfunded liability faster
- 5 year direct rate smoothing
  - 30 year closed amortization of gains and losses
  - Five year ramp up/down

The New Smoothing Policy

- Will impact employer contribution rates for the first time in FY 2015-16
- No impact on normal cost
- Higher contributions short term
- Lower contributions long term (25 + years)
- Better funded status long term

The New Smoothing Policy

- Estimated impact specific to each plan was included in the last year's actuarial valuation report
- Actual impact for FY 2015-16 is included in this year's actuarial valuation report

New Asset Allocation and Actuarial Assumptions

ALM Decisions at February Board Meeting

- Asset allocation
- What assumptions to use
  - Economic
  - Demographic
- How to adjust the funding
  - Amortization period
  - Smoothing period

Portfolios Considered by the CalPERS Board

Asset Allocation of Candidate Portfolios				Current Policy Portfolio
Asset Class Component	Portfolio A	Portfolio B	Portfolio C	
Global Equity	47%	50%	52%	50%
Fixed Income	19%	17%	16%	17%
Inflation Assets	6%	5%	4%	4%
Private Equity	12%	12%	12%	14%
Real Estate	11%	11%	11%	9%
Infrastructure and Forestland (Infra. & Forest)	3%	3%	3%	2%
Liquidity	2%	2%	2%	4%
Expected Compound Return (1-10 yrs.) :	7.15%	7.27%	7.35%	7.25%
Blended Return (1-60 yrs.)[1] :	7.56%	7.66%	7.72%	7.63%
Expected Volatility :	11.76%	12.22%	12.52%	12.45%
Potential Discount Rate:	7.50%	7.50%	7.50%	7.50%

[1]Blended return is the combination of the short-term (1 to 10 year) and the long-term (11 to 60 year) expected returns after deducting administrative fees.

Review of Actuarial Assumptions

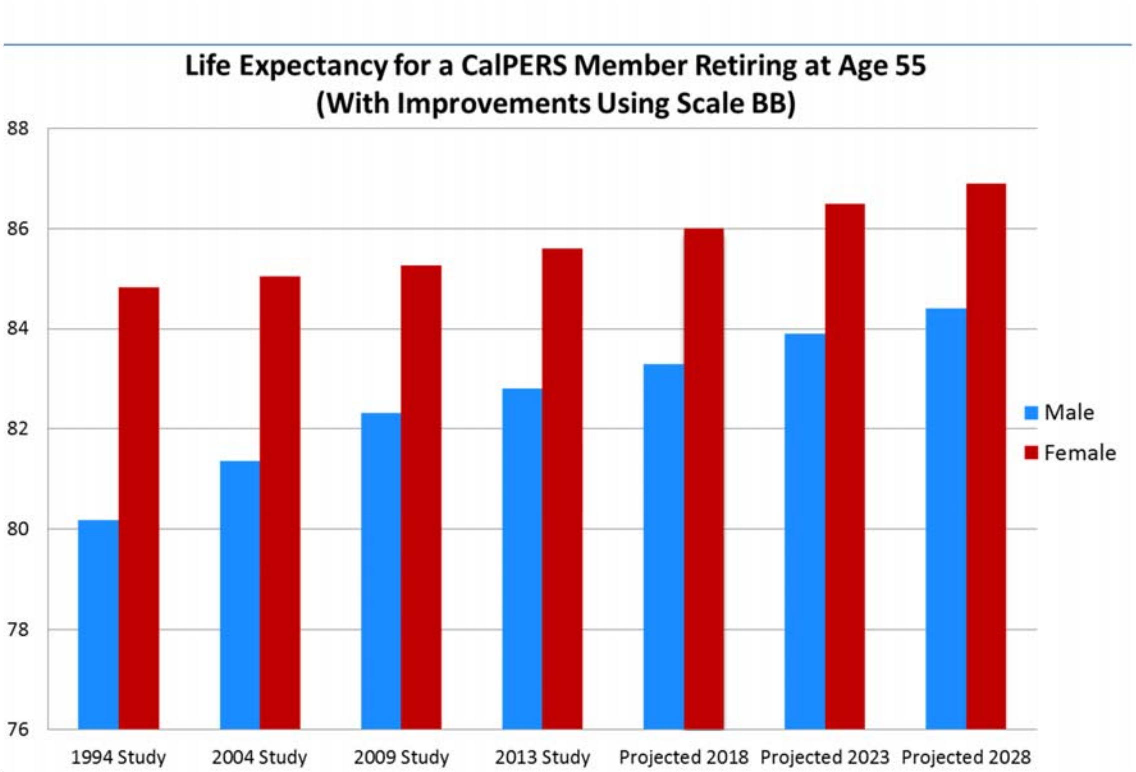
- Experience Studies are conducted to verify that Actuarial Assumptions reflect the most recent experience of the plan
- Board policy requires CalPERS to perform an Experience Study at least every four years
- The most recent Experience Study reviewed both economic and demographic assumptions based on data from 1997 to 2011

Review of Economic Assumptions

- No changes were made
  - Kept discount rate at 7.5%
  - No changes to wage inflation, price inflation and payroll growth

Review of Demographic Assumptions

- Highlights of findings and recommendation
  - Lower disability retirement rates
  - Higher service retirement rates (earlier retirement) for safety members, especially State POFF and State CHP
  - Greater salary increases for safety members later in their careers
  - Lower rates of mortality (longer life expectancy) for all members



Mortality Improvements

- Board adopted 20 year mortality projection
  - Projected to 2028

How to Adjust the Funding?

- Board was presented with various options
- Board adopted staff recommendation to follow current Board policy:
  - Amortize over 20 years
  - Smooth impact over 5 years (5 year ramp-up and ramp-down)
- First year impact of cost increase not until FY 2016-17

Impacts of New Assumptions on Employer Rates

- Estimated impact of new assumptions for each plan was included in the projected rates included in the 2013 actuarial valuation reports
- Actual impact for each plan will first be reflected in the valuation report that will be provided in the summer/fall of 2015

New Risk Pooling Structure

Risk Pooling Background

- Risk pooling is a type of insurance arrangement
  - Spreads demographic risks
  - Purpose is to avoid large liability losses
  - Serves to smooth the employer contribution rate
- Risk pooling was implemented with the 2003 actuarial valuations

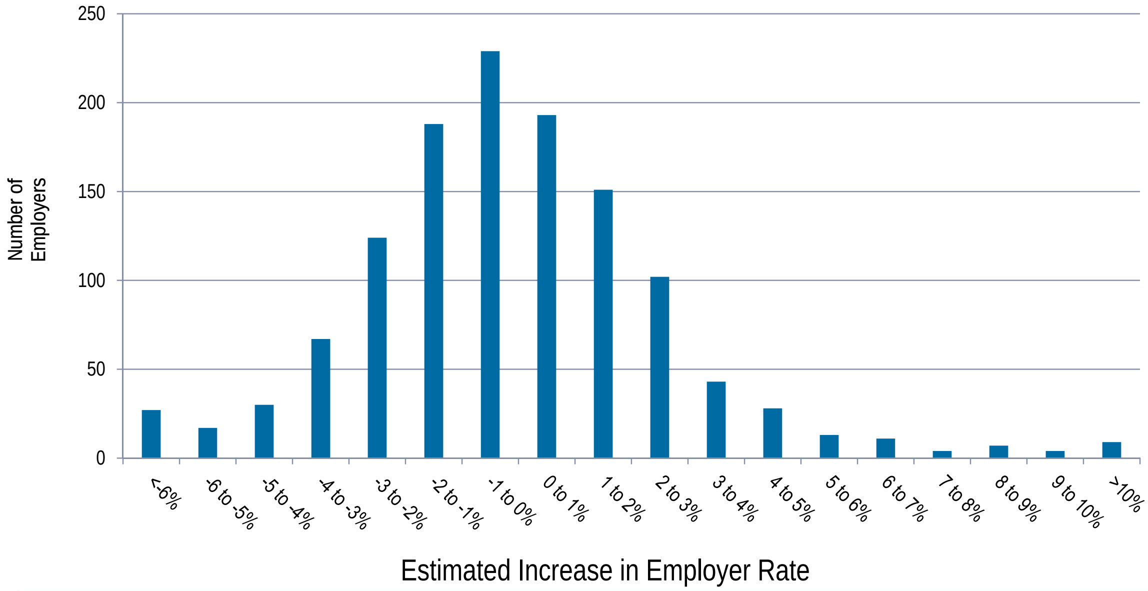
Why Changes to Risk Pooling?

- Staff identified several issues while reviewing pooling
  - Funding Issue
  - Equity Issue
  - Employer Contribution Rate Volatility issue
- Biggest contributor to these issues was PEPRA:
  - Closing of classic risk pools

Changes to Risk Pooling

- Combining all pools into two (Miscellaneous and Safety)
- Allocating pool's unfunded liability to each plan based on total liability instead of payroll
- Collecting employer contributions toward unfunded liability and side fund as dollar amounts instead of a percentage of payroll
  - Contribution rate will continue to be available for information purposes through the valuation report

Estimated Impact of Changes to Risk Pooling:



Benefits of Changes

- Retains benefits of risk pooling
- Does better job at addressing equity/fairness issue
- No overall contribution increases
- Permanent solution
- Provides ability for employers to pay down their share of pool's unfunded liability

Timing of Impact of New Risk Pool Structure on Rates

- Will impact employer contribution rates for the first time in FY 2015-16
- Impact specific to each pooled plan was be included in the rate set by the June 30, 2013 valuation report

Impact of Recent Investment Experience on Employer Rates

Impact of Investment Experience on Rates

- Investment experience is the primary cause of volatility
- Occurs when the actual investment return being different from the assumed discount rate
- Current assumption is 7.50 percent

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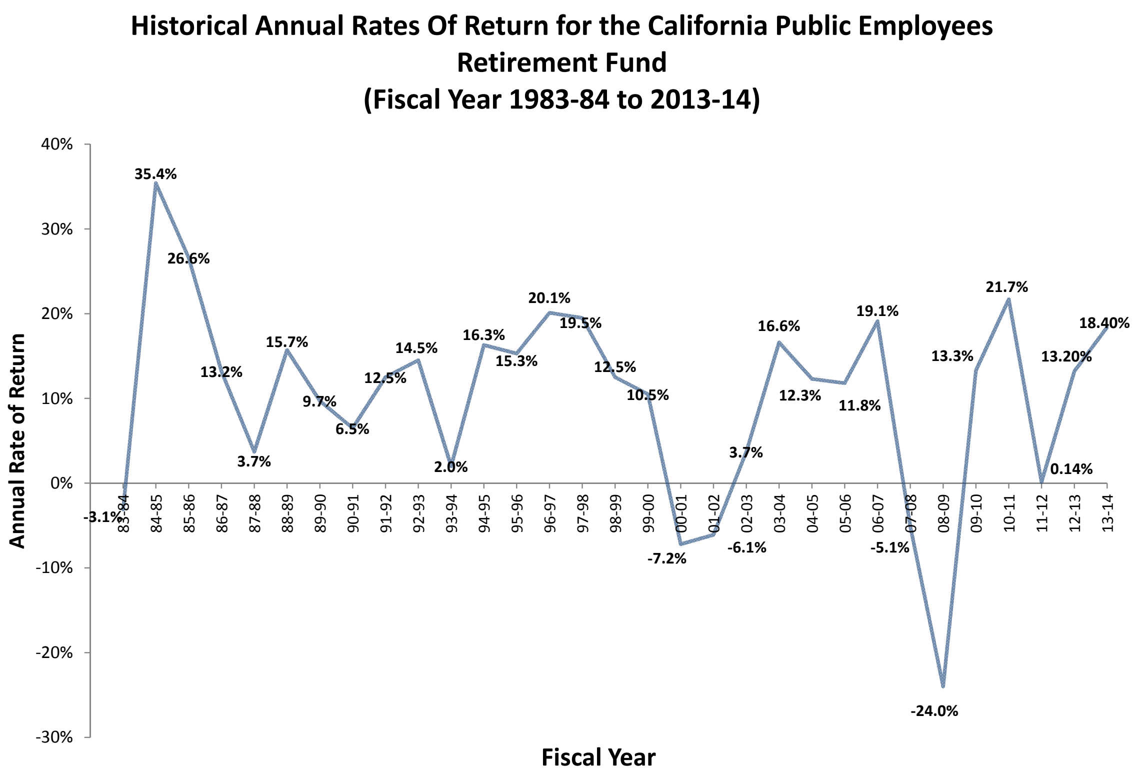


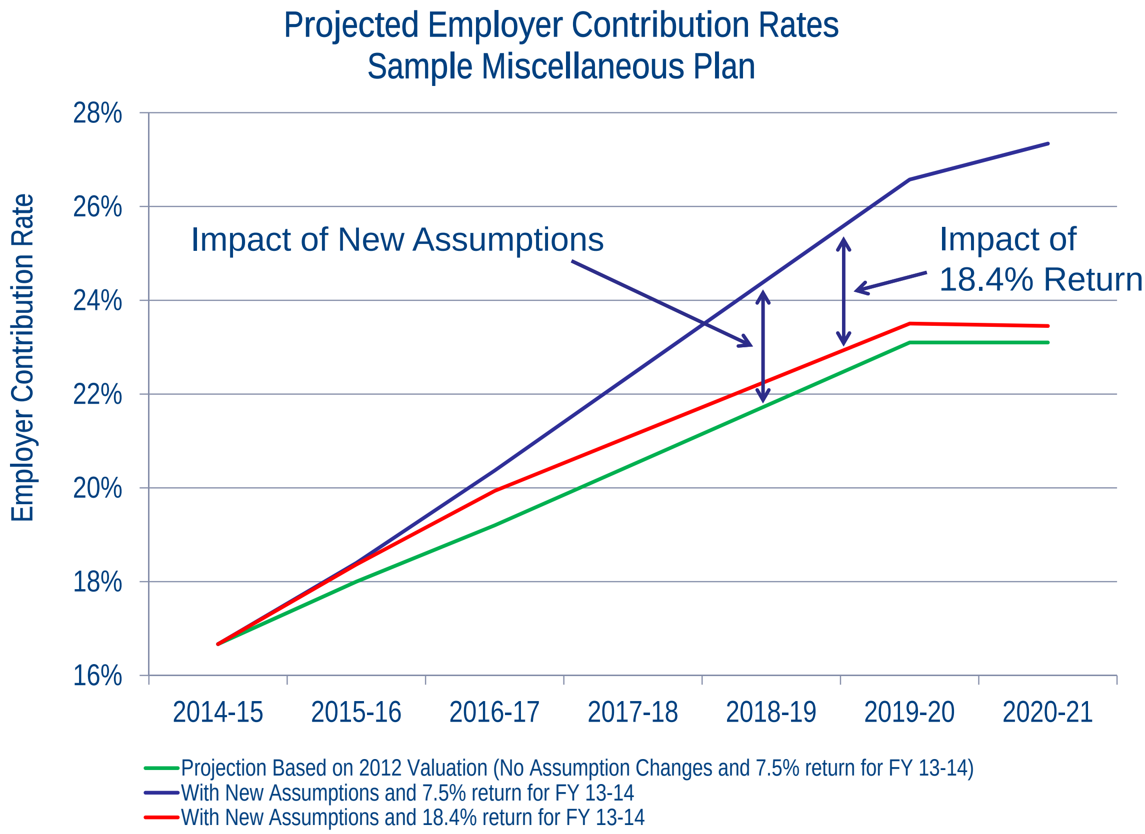
Data Source - CalPERS Comprehensive Annual Financial Reports

Historic Returns Earned by CalPERS

1 year	5 year	10 year	20 year	30 year
18.4%	13.1%	7.2%	8.4%	10.1%

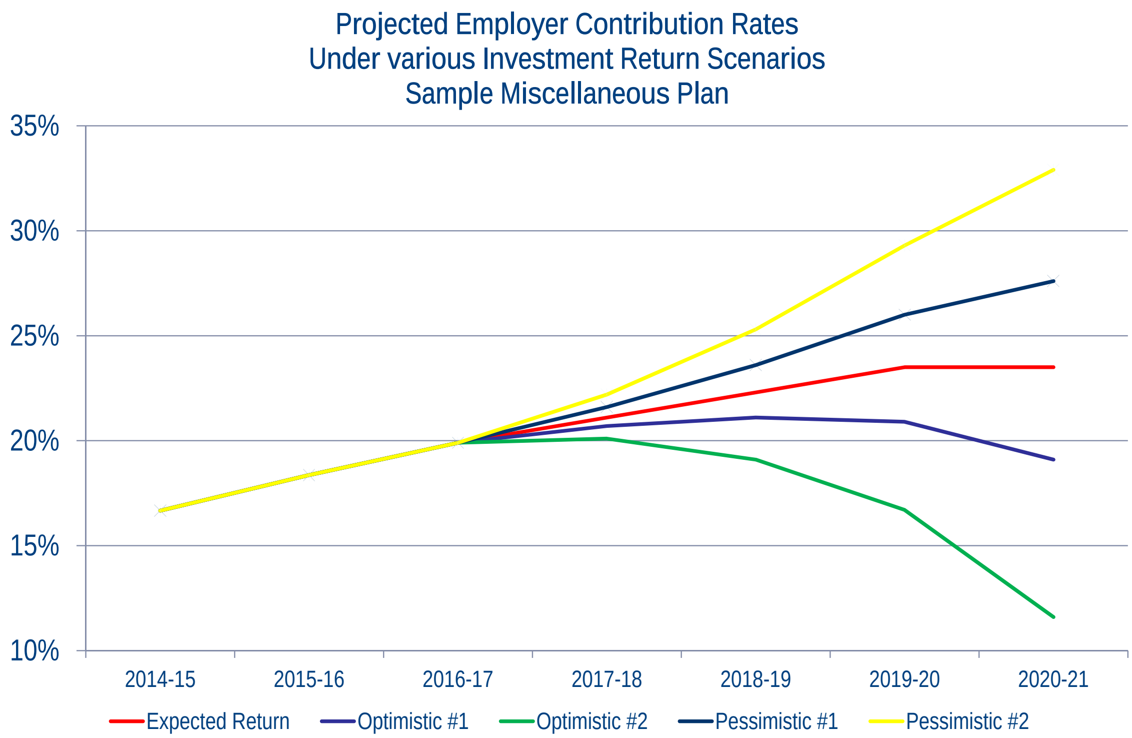
Recap of Timeline

- FY 2015-16
  - New smoothing policy begins
  - New pooling structure begins
- FY 2016-17
  - New assumptions take effect



Where can I see my future rates?

- Investment return sensitivity analysis
- Included in your annual actuarial report
- Estimated rates under five scenarios
  - Expected return – 7.5 percent per year
  - Optimistic #1 – 12.0 percent per year
  - Optimistic #2 – 18.9 percent per year
  - Pessimistic #1 – 2.8 percent per year
  - Pessimistic #2 – -3.8percent per year



Accelerated Funding

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Accelerated Pay Down – with Fresh Start

- New Section in Valuation Report at 6/30/13

Alternate Amortization Schedules

The amortization schedule shown on the previous page shows the minimum contributions required according to CalPERS amortization policy. There has been considerable interest from many agencies in paying off these unfunded accrued liabilities sooner and the possible savings in doing so. As a result, we have provided alternate amortization schedules to help analyze your current amortization schedule and illustrate the advantages of accelerating unfunded liability payments towards your plan's unfunded liability of $836,108 as of June 30, 2013.

Shown below are the level rate payments required to amortize your plan's unfunded liability assuming a fresh start over the various periods noted. Note that the payments under this scenario would increase by 3 percent for each year into the future.

Level Rate					
Period	2015-16 Rate	2015-16 Payment	Total Payments	Total Interest	Savings
15	18.794%	$76,646	$1,425,526	$589,418	$128,223
10	25.575%	$104,296	$1,195,633	$359,525	$358,749

How Do We Pay Down Sooner?

- Multiple ways to do it
  - Fresh start
  - Discretionary payment on an ad hoc basis
- Discuss with your Plan Actuary

On The Horizon

On the Horizon

- GASB
- PEPRA excessive compensation
- Asset allocation feasibility study
- PEPRA normal cost

GASB 68

- Pension accounting changes issued 6/25/12:
  - Effective for 2014/15 fiscal year
- Fundamental changes
  - Delinks contributions and accounting
  - Unfunded liability recognition drives expense

GASB 68

- Major issues:
  - Unfunded liability on balance sheet
  - Lower discount rate if projected assets do not cover projected benefit payments
    - Likely very rare in California
  - Significant additional disclosure

Will CalPERS Provide GASB 68 Information?

- CalPERS INTENDS on providing the information
- Updating systems to produce valuation reports
- Target to be ready by spring of 2015 and perform valuations between March and June
  - Have to produce over 3,000 separate reports!
- The Draft Report is similar to the Illustrations in Statement 68 and Implementation Guide

Fee for GASB 68 Valuation

- CalPERS will have to charge employers
  - PERF qualified trust
- CalPERS Board gave approval to proceed and charge employer
  - Still reviewing mechanism to collect fee from employer
  - Fees expected to be known in Early 2015
    - Agent / Cost-sharing likely fee difference
- Circular Letter will be issued and provide details once available

Potential GASB 68 Implementation Issues

- Different fiscal year end date for employers
  - Most employers will need the information for June 30, 2015 CAFR
- For first few years, CalPERS may not be able to provide all necessary information
  - Employers will have to rely on outside actuarial firm **if** information provided by CalPERS is deemed not sufficient by auditor
- Example:
  - Cross-over calculation to determine discount rate

Excessive Compensation Increases

- PEPRA requires the CalPERS Board to:
  - Define a significant increase in actuarial liability due to increased compensation
    - Non-represented employee only
  - Ensure that the employer that causes the increase in liability to other employers bears the increased cost associated with that liability

Excessive Compensation Increases Next Steps

- CalPERS staff developing proposed rules
- CalPERS will reach-out to employer community to obtain feedback
- Goal at this time is to propose regulations in spring/summer 2015

Asset Allocation Feasibility Study

- CalPERS business plan includes a feasibility study on offering different asset allocations to employers in the PERF
- Study only, no timeframe on an actual implementation

PEPRA Normal Cost

- PEPRA requires 50% cost sharing of normal cost for PEPRA members.
- Normal cost has to increase by 1% to trigger an increase in member contribution rate.
- Not enough data in the 2013 valuation to set new PEPRA normal cost
- 2014 valuations may be used to set new PEPRA normal cost

Questions & Comments