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Circular Letter

September 5, 2013

TO: **ALL PUBLIC AGENCY EMPLOYERS AND INTERESTED PARTIES**

SUBJECT: **2012 ANNUAL ACTUARIAL VALUATION REPORTS**

The purpose of this Circular Letter is to inform you of certain items relating to your 2012 actuarial valuation report that sets the contribution rates for the 2014-15 Fiscal Year.

2012 Valuation Reports Delayed

This year we do not expect to finish all valuations by October 31. Some reports will be delayed beyond October 31. We will upload all reports to my|CalPERS upon completion. In keeping with CalPERS green initiative, we will not be mailing hard copies of the reports.

This year was the first time the Actuarial Office used participant data extracted from the new my|CalPERS system to perform the valuations. The my|CalPERS system produces data with improved integrity and allows our actuaries to examine and analyze data more efficiently. However, because this was the first time we used my|CalPERS, staff took the time to manually verify that the extracted data was in a format useable to the Actuarial Valuation System. This created some delay. In previous years, valuation reports were often delivered in October. We hope to return to this schedule in the next cycle of valuation reports and apologize for any inconvenience the delay in this year's reports may cause.

Contribution Rates

The valuation reports this year will reflect the second year of the 2-year phase-in of the change in the discount rate to 7.50 percent. Also, note that employer rates will not reflect any employee cost sharing. Please refer to my|CalPERS for any employee cost sharing information.

In the coming valuation reports, you will see projected rates for the 2015-16 Fiscal Year. These rates will be based on the most recent information available, including an estimate of the investment return for Fiscal Year 2012-13 of 12 percent, and the impact of the new direct rate smoothing methods (described below) adopted by the CalPERS Board in April 2013.

New Smoothing Method

The impact of this new actuarial methodology on future rates will not affect contribution rates for Fiscal Year 2014-15, but will be reflected in the 2015-16 year and will be shown in the "Analysis of Future Investment Return Scenarios" subsection of the "Risk Analysis" section of your 2012 report.

Beginning with the June 30, 2013, valuation that will set the rates for the 2015-16 Fiscal Year, CalPERS will employ a smoothing policy that will pay for all gains and losses over a fixed 30-year period. This means that for the June 30, 2013, and subsequent valuations, all past and future actuarial gains and losses will be amortized over a 30-year period beginning with a 5-year rate phase-in (increasing phase-in with an actuarial loss, decreasing with an actuarial gain) to a peak rate that is level for 20 years, then has a 5-year phase-out until year 30 when that actuarial gain or loss is fully paid off.

If you have any questions, please call our CalPERS Customer Contact Center at **888 CalPERS** (or **888**-225-7377).

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Chief Actuary