CalPERS

Actuarial

Circular Letter

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To: **School Employers**

Subject: **Discount Rate Change**

The purpose of this Circular Letter is to inform you of recent changes to the CalPERS discount rate assumption and the impact these changes are expected to have on required school employer and PEPRA member contributions. This Circular Letter will assist you in planning for projected pension cost increases in future years. The June 30, 2016, annual actuarial valuations will provide updated projections of expected future year pension contribution rates and will be available late this summer.

At its December 21, 2016 meeting, the CalPERS Board of Administration approved lowering the CalPERS discount rate assumption, the long-term rate of return, from 7.50 percent to 7.00 percent over the next three years. For school employers, this will increase employer contribution costs beginning in Fiscal Year 2018-19.

The phase-in of the discount rate change approved by the Board for the next three Fiscal Years is as follows:

Valuation Date	Fiscal Year for Required Contribution	Discount Rate
June 30, 2016	2017-18	7.50%
June 30, 2017	2018-19	7.375%
June 30, 2018	2019-20	7.25%
June 30, 2019	2020-21	7.00%

Lowering the discount rate means plans will see increases in both the normal costs (the cost of pension benefits accruing in one year for active members) and the accrued liabilities. These increases will result in higher required employer contributions.

In addition, active members hired after January 1, 2013, under the Public Employees' Pension Reform Act (PEPRA) may also see their contribution rates rise.

The benefits of reducing the discount rate include:

- Strengthening long-term sustainability of the fund
- Reducing negative cash flows; additional contributions will help to offset the cost to pay pensions
- Reducing the long-term probability of funded ratios falling below undesirable levels
- Improving the likelihood of CalPERS investments earning our assumed rate of return
- Reducing the risk of contribution increases in the future from volatile investment markets

Results

Estimated school employer contribution rates that include the discount rate changes are shown below, as a percentage of payroll, along with the projections from the June 30, 2015 Schools Pool Valuation report. This analysis is based on the June 30, 2015 annual valuation for the Schools Pool. To provide a broad estimate, the projected rates assume the fund earned 0% for Fiscal Year 2015-16. These also assume that all other actuarial assumptions will be realized and no other changes to assumptions, contributions, benefits or funding occur during the projection period. Aside from the projected 2017-18 contribution rate, these projections do not take into account the positive impact PEPRA is expected to gradually have on the normal cost.

Projected Future Employer Contribution Rates (as a percentage of payroll)

Valuation Date	Fiscal Year Impact	From June 30, 2015 Annual Valuation Report with Discount Rate of 7.5 percent	Projection with Discount Rate Change
6/30/2015	2016-17	13.888%	13.888%
6/30/2016	2017-18	15.8%	15.8%
6/30/2017	2018-19	17.7%	18.7%
6/30/2018	2019-20	19.7%	21.6%
6/30/2019	2020-21	21.1%	24.9%
6/30/2020	2021-22	21.5%	26.4%
6/30/2021	2022-23	N/A	27.4%
6/30/2022	2023-24	N/A	28.2%

The shaded rows above are the projected employer contribution rates beyond the five-year projection quoted in the Schools Pool June 30, 2015, valuation report. Please keep in mind the above table should only be used as a general guide. The annual valuation report that will be released late this summer will provide updated projections.

If you have any questions about the information provided or how to apply it to your current valuations, please call our CalPERS Customer Contact Center at **888 CalPERS** (or **888**-225-7377) and ask to have your plan actuary contact you.

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