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Actuarial

Circular Letter

January 5, 2022
Circular Letter: 200-006-22
Distribution: IV

To: **All Public Agency Employers**
Subject: **Required Contribution Impact Due to Changes in Actuarial Assumptions**

Purpose

The purpose of this Circular Letter is to inform you of system changes which will impact employer and some member contribution rates. On November 17, 2021, the California Public Employees' Retirement System (CalPERS) Board of Administration voted to keep the discount rate at 6.8% and selected a new asset allocation for the fund's investment portfolio for the next four years. Additionally, new demographic and economic actuarial assumptions were adopted.

Background

The changes adopted by the board represent the culmination of nearly four years of work on the asset liability management (ALM) process. The ALM process is an integral part of the CalPERS 2017-22 Strategic Plan to fund the system through an integrated view of pension assets and liabilities and to improve long-term pension and health benefit sustainability. This process was conducted as a joint effort by the Investment, Actuarial, and Financial offices. Throughout the entire process, and particularly over the last year, CalPERS team members have engaged extensively with stakeholders to obtain their input. This process included an examination of the risk and/return characteristics of possible asset allocations as well as modeling the impact these asset allocations would have on the funding of the system.

In July 2021, the discount rate was lowered from 7.0% to 6.8% automatically due to the Funding Risk Mitigation Policy (PDF). That action was prompted by the announcement that the rate of return for fiscal year (FY) 2020-21 was 21.3%. The new asset allocation chosen by the board in November 2021 has an expected long-term rate of return of 6.8% per year.

The completion of the ALM cycle also coincided with a review of all actuarial assumptions used in the actuarial valuations through a process called an experience study. An experience study is a summarization of actual system experience over a defined period and, along with future expectations, is used in setting new actuarial assumptions. Experience studies which include reviews of both economic and demographic assumptions are required at least every four years under the Public Employees' Retirement Law. The previous study was conducted in 2017.

Discussion

The adopted changes to the actuarial assumptions are expected to increase slightly near-term employer contributions requirements. However, when the expected impact of the investment gain for FY 2020-21 is factored in, many plans will see required employer contributions that are comparable to or slightly lower than previously determined contribution requirements. Each plan is unique and contribution impacts will vary across public agencies. Factors that influence the impact of these changes include the benefit structure, the demographics of the plan members, and the funded status of the plan.

While most demographic assumptions were changed, the changes that are expected to have the most material impact on required contributions are slightly longer life expectancies for retirees and beneficiaries, earlier than expected retirement ages for certain safety groups, and higher expected future pay increases for some groups.

All newly adopted assumptions will be implemented in the June 30, 2021 Public Agency actuarial valuations, setting employer contribution requirements for FY 2023-24.

Below is a table showing the estimated impact of the new actuarial assumptions (excluding the discount rate) on employer rates by category. These figures do NOT include the impact of the discount rate drop to 6.8% or the FY 2020-21 investment return of 21.3%.

Category	**Estimated Change in Total Normal Cost (% of Payroll)**	**Estimated Change in Unfunded Accrued Liability (UAL) Contribution* (% of Payroll)**	**Estimated Change in Total Employer Contribution* (% of Payroll)**
Miscellaneous 2% at 60	0.2% to 0.9%	(0.6%) to 0.6%	0.1% to 1.4%
Miscellaneous 2% at 55	0.1% to 1.0%	(2.4%) to 0.7%	(2.0%) to 1.7%
Miscellaneous 2.5% at 55	0.2% to 1.0%	(1.9%) to 0.9%	(1.5%) to 1.9%
Miscellaneous 2.7% at 55	0.5% to 1.0%	(2.0%) to 0.8%	(1.5%) to 1.7%
Miscellaneous 3% at 60	0.5% to 1.1%	(2.4%) to 0.7%	(1.9%) to 1.8%
Miscellaneous 2% at 62	0.0% to 1.0%	N/A	N/A
Safety 2% at 50	(0.3%) to (0.1%)	(1.6%) to (1.2%)	(1.7%) to (1.3%)
Safety 3% at 55	(0.2%) to 1.1%	(1.4%) to (0.1%)	(1.6%) to 0.6%
Safety 3% at 50	0.2% to 2.1%	(3.5%) to 2.4%	(2.3%) to 4.1%
Safety 2.7% at 57	(0.3%) to 1.3%	N/A	N/A

* Assumes the increase in unfunded liability due to the assumption changes will be amortized in accordance with current board policy, i.e. over a 20-year period with level dollar amortization. Also assumes no change to the member contribution rates.

The table below shows the total estimated impact of new actuarial assumptions including the discount rate decrease to 6.8% and the FY 2020-21 investment return of 21.3%.

Category	Estimated Change in Total Normal Cost (% of Payroll)	Estimated Change in UAL Contribution* (% of Payroll)	Estimated Change in Total Employer Contribution* (% of Payroll)
Miscellaneous 2% at 60	0.9% to 1.7%	(5.4%) to 0%	(3.8%) to 1.4%
Miscellaneous 2% at 55	1.0% to 1.9%	(8.8%) to 0%	(7.2%) to 1.5%
Miscellaneous 2.5% at 55	1.2% to 2.4%	(10.1%) to 0.1%	(8.3%) to 2.0%
Miscellaneous 2.7% at 55	1.4% to 2.3%	(8.3%) to (0.5%)	(6.5%) to 1.4%
Miscellaneous 3% at 60	1.4% to 2.4%	(9.1%) to (0.3%)	(6.8%) to 1.5%
Miscellaneous 2% at 62	0.7% to 1.6%	N/A	N/A
Safety 2% at 50	0.9% to 1.4%	(5.4%) to (4.2%)	(4.2%) to (2.9%)
Safety 3% at 55	1.3% to 2.7%	(4.4%) to (0.8%)	(3.0%) to 1.7%
Safety 3% at 50	1.5% to 4.3%	(16.1%) to 0.3%	(12.9%) to 4.3%
Safety 2.7% at 57	1.0% to 2.6%	N/A	N/A

* Assumes the increase in unfunded liability due to the assumption changes will be amortized in accordance with current board policy, i.e. over a 20-year period with level dollar amortization. Also assumes no change to the member contribution rates.

PEPRA Member Rates

With the enactment of the Public Employees' Pension Reform Act of 2013 (PEPRA) new benefits were established for new public employees in California hired on or after January 1, 2013. PEPRA members that are employed by public agencies are required to contribute 50% of the total normal cost of their pension benefit as determined by the actuary. However, the PEPRA member rate is not adjusted unless the PEPRA total normal cost changes by 1% of payroll or more.

Below is a table which illustrates the estimated impact on the total normal cost from the changes in actuarial assumptions including the discount rate change. If the change to the Total Normal Cost is 1% or greater, PEPRA members will pay half of the increase.

Category	Estimated Change in PEPRA Total Normal Cost Rate (% of Payroll)
Public Agencies Miscellaneous	0.7% to 1.6%
Public Agencies Safety	1.0% to 2.6%

The ranges listed above are expected to cover 90% of the Public Agency plans.

The figures in this letter are estimates. The actual impact of the new assumptions on your employer contribution requirement will be implemented in the June 30, 2021 actuarial valuations which will set the employer contribution requirements for FY 2023-24.

The results of the experience study are described in detail in the 2021 experience study report, which can be found on the CalPERS website.

Questions

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

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