Consent

Agenda Item 5d

February 20, 2013

ITEM NAME: Results of the June 30, 2011, Actuarial Valuations for Public Agencies

PROGRAM: Actuarial Office

ITEM TYPE: Information Consent

EXECUTIVE SUMMARY

The Actuarial Office completed the June 30, 2011, Public Agency actuarial valuations in November 2012. These valuations set the employer contribution rates for fiscal year 2013-14. Overall, average employer rates increased by about 0.4 percent for miscellaneous plans and 0.8 percent for safety plans. On a positive note, the average funded ratio increased from 66.3 percent to 74.8 percent for Miscellaneous plans and from 64.9 percent to 73.1 percent for Safety plans.

STRATEGIC PLAN

This item is not a specific product of the Strategic Plan but is part of the regular and ongoing workload of the Actuarial Office.

BACKGROUND

The 2011 valuations are the third year of the 3-year temporary change in asset smoothing and amortization policies that were adopted to phase-in the 2008-09 investment loss. In addition, the valuations also reflect a change in assumptions, most significantly the reduction in the discount rate from 7.75 percent to 7.50 percent. However, the impact of the change in assumptions was phased-in over a two-year period.

ANALYSIS

Most plans will be experiencing an increase in their employer contribution rate in 2013-14. This is first due to the impact of the negative 24 percent investment return in 2008-09. In addition, the new economic assumptions that were adopted by the Board in April 2012, are also causing employer rates to increase. Most employer rates would have increased by 1 percent to 2 percent of payroll as a result of these new assumptions, but with the phase-in, the increases due to the new assumptions range from 0.5 percent to 1.2 percent of payroll.

What follows are highlights of the changes in employer rates between fiscal years 2012-13 and 2013-14.

- 10 percent of the plans (210 plans) experienced a decrease in their rate
- 89 percent of the plans (1788 plans) experienced an increase in their rate
- 1 percent of the plans (22 plans) experienced no change in rate
- 22 plans have a zero rate (prior to the Public Employees' Pension Reform Act of 2013 - PEPRA)

An additional 403 actuarial valuation reports were distributed for pooled plans with new different level of benefits, new agencies, and inactive plans. These are not included in the metrics that follow.

Plans stated as having a zero rate will not have a zero rate as a result of PEPRA. PEPRA mandates that plans receive the Normal Cost as a minimum contribution. As a result, plans that normally would have had a zero rate received a letter from CalPERS informing them of this new PEPRA requirement to contribute, along with members, at least an amount equal to the Total Normal Cost.

PEPRA plans created January 1, 2013, were provided with a rate letter on December 19, 2012, providing the Normal Cost rate and matching Employee rate and are not part of the following analysis.

The distribution of the changes in employer rates is shown in the following table.

Distribution of Changes in Employer Rates Between 2012-13 & 2013-14

Change in Employer Rate as a Percentage of Payroll	**Number of Plans**	**Percent of All Plans**
Decrease more than 3%	76	4%
Decrease between 1% and 3%	46	2%
Decrease 1% to Increase 1%	1,226	61%
Increase 1% to 3%	552	27%
Increase more than 3%	120	6%
Total	2,020	100%

As stated above, most plans are experiencing an increase in rate as a result of the impact of the negative 24 percent return in 2008-09 and the economic assumption change.

The following tables show the distribution of the 2012-13 and the 2013-14 contribution rates for Miscellaneous and Safety plans.

2012-13 Employer Rates

	Miscellaneous Plans			Safety Plans	
	Number of Plans	**Percent of Plans**		**Number of Plans**	**Percent of Plans**
0%	25	2%		1	0%
0-10%	260	18%		2	0%
10-20%	865	61%		53	9%
20-30%	246	17%		270	44%
30-40%	29	2%		218	35%
40+%	2	0%		72	12%
	1,427	100%		616	100%

2013-14 Employer Rates

	Miscellaneous Plans			Safety Plans	
	Number of Plans	**Percent of Plans**		**Number of Plans**	**Percent of Plans**
0%	22	2%		0	0%
0-10%	226	16%		2	0%
10-20%	882	61%		54	9%
20-30%	280	19%		280	44%
30-40%	28	2%		214	34%
40+%	4	0%		80	13%
	1,442	100%		630	100%

In addition, see Attachment 1 for a breakdown of employer contribution rates for fiscal year 2013-14 by benefit formula.

Estimate of 2014-15 Employer Contribution Rates

As in prior years, the actuarial valuation reports include an estimate of the employer contribution rates for the next fiscal year, in this case 2014-15. The estimated rates were calculated based on an estimated 0 percent investment return for fiscal year 2011-12. The estimated rates also include the impact of the second year of the phase-in of the economic assumption changes that the Board adopted in April 2012.

The following tables show the distribution of the estimated 2014-15 contribution rates for Miscellaneous and Safety plans.

Estimated 2014-15 Employer Rates

	Miscellaneous			**Safety**	
	Number of Plans	**Percent of Plans**		**Number of Plans**	**Percent of Plans**
0%	16	1%		0	0%
0-10%	212	15%		2	0%
10-20%	861	60%		37	6%
20-30%	314	22%		269	43%
30-40%	35	2%		217	34%
40+%	4	0%		105	17%
	1,442	100%		630	100%

As always, member contributions (whether paid by the employer or the employee) are in addition to the above rates unless the plan is superfunded**.**

Below is a table showing the average employer contribution rates for Miscellaneous plans and Safety plans for fiscal years 2012-13, 2013-14 and 2014-15.

Average Employer Contribution Rates

	Public Agency Miscellaneous Plans	**Public Agency Safety Plans**
Fiscal Year 2012-13	14.9%	31.2%
Fiscal Year 2013-14	15.3%	32.0%
Fiscal Year 2014-15	16.1%*	33.5%*

* The average projected rates for fiscal year 2014-15 were based on the estimated 0% return used for the valuations.

In addition, see Attachment 2 for a breakdown of the average employer contribution rates for fiscal year 2013-14 by benefit formula.

Funded Status

As a result of the 21.7 percent return in 2010-11, Public Agency plans are better funded as of the June 30, 2011, valuation date than they were on June 30, 2010. In addition**,** Miscellaneous plans tend to be better funded than Safety plans.

We are monitoring the funded status of Public Agency plans using the market value of assets. The funded ratio is equal to the market value of assets divided by the actuarial accrued liability, expressed as a percentage. The funded status on an actuarial value of asset basis is used for rate setting only and is not a true measure of the plan's ability to pay benefits.

The following table shows the average funded ratios on a market value of assets basis for all Miscellaneous and Safety plans.

<u>Funded Ratios on a Market Value Basis</u>

	Miscellaneous Plans	Safety Plans	All Plans
Average Funded Ratio on June 30, 2009	61.5%	60.3%	61.0%
Average Funded Ratio on June 30, 2010	66.3%	64.9%	65.8%
Average Funded Ratio on June 30, 2011	74.8%	73.1%	74.1%

In addition, see Attachment 2 for a breakdown of the average funded status as of June 30, 2011, by benefit formula.

As a result of the approximately 0 percent investment return for fiscal year 2011-12, the average funded ratio on June 30, 2012, is estimated to decrease by about 5 percent for both the Miscellaneous and the Safety plans.

Hypothetical termination liabilities were also included in the valuation reports for the first time. The funded ratios on a termination basis generally ranged from 50 percent to 60 percent for Miscellaneous plans and from 45 percent to 55 percent for Safety plans. These were based on a discount rate of 4.82 percent.

Risk Analysis

With the goal of being more transparent and providing additional information to all employers to better help them budget for future years, the Actuarial Office includes a risk section in each valuation report that includes an investment return scenario analysis and a discount rate sensitivity analysis.

Investment return scenario analysis can show potential risk to contribution rates by projecting employer rates for 2013-14 using the investment return from the 2011-12 fiscal year and an investment return scenario analysis for the three years following.

In addition, the Actuarial Office includes a discount rate sensitivity analysis in the annual actuarial valuation reports that look at the 2013-14 employer rate using discount rate scenarios if the Public Employees' Retirement Fund were to realize long-term investment returns of 1 percent lower and 1 percent higher than the current valuation discount rate of 7.50 percent.

ATTACHMENTS

Attachment 1 – Distribution of Employer Contribution Rates for Fiscal year 2013-14 Broken Down by Benefit Formula
Attachment 2 – Average Employer Contribution Rate by Benefit Formula and Average Funded Status by Benefit Formula

NANCY CAMPBELL
Supervising Pension Actuary
Actuarial Office

ANN BOYNTON
Deputy Executive Officer
Benefit Programs Policy and Planning