

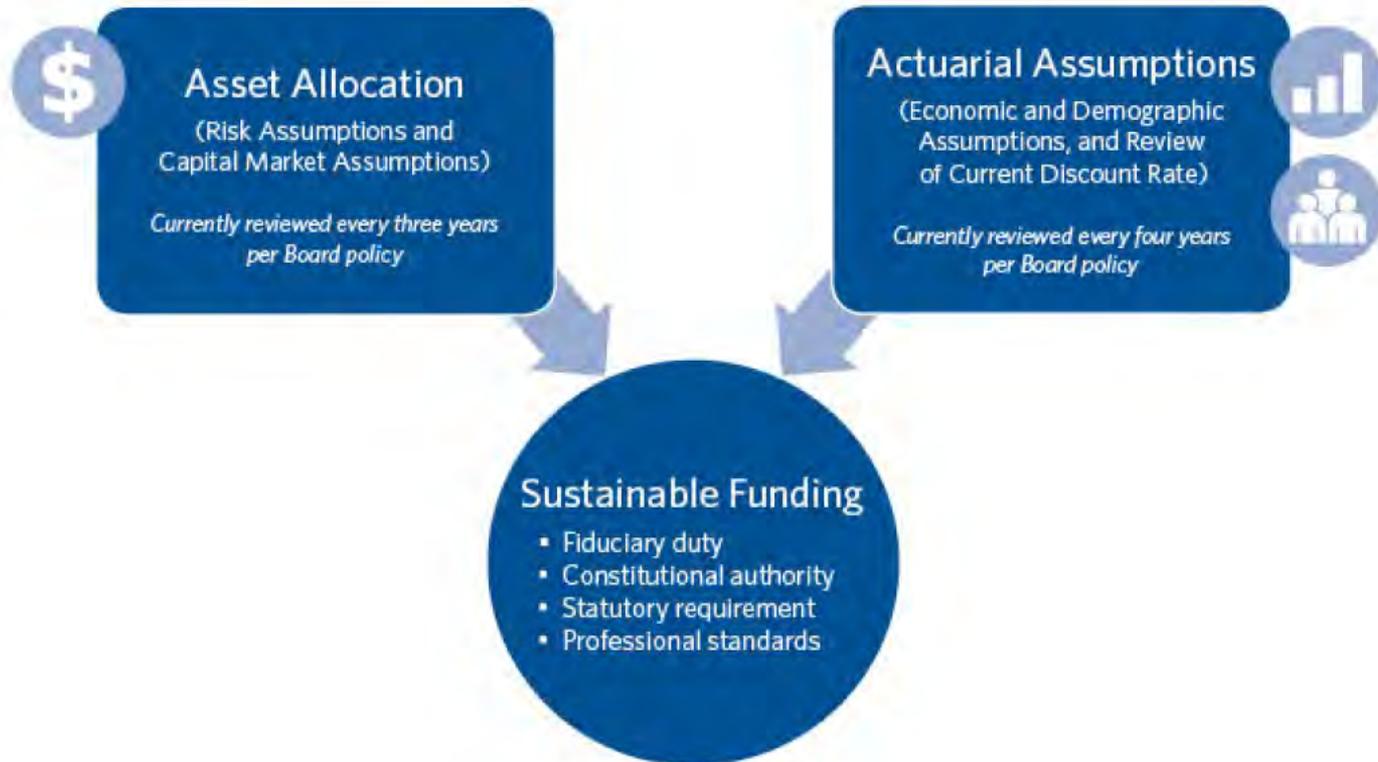


Experience Study & Actuarial Assumptions

December 17, 2013

Finance & Administration Committee

Why Are We Doing This Study Now?



Decisions Needed

- What Assumptions to Use
 - Economic
 - Demographic
- How to Adjust the Funding
 - Amortization Period
 - Smoothing Period

The Assumptions

Economic Assumptions

- Discount Rate
 - No Change Recommended – Stay at 7.5% per year
 - Assumes that Board Chooses Asset Allocation Similar to Base Case from November ALM Workshop
- Price Inflation, Wage Inflation & Payroll Growth
 - No Change Recommended

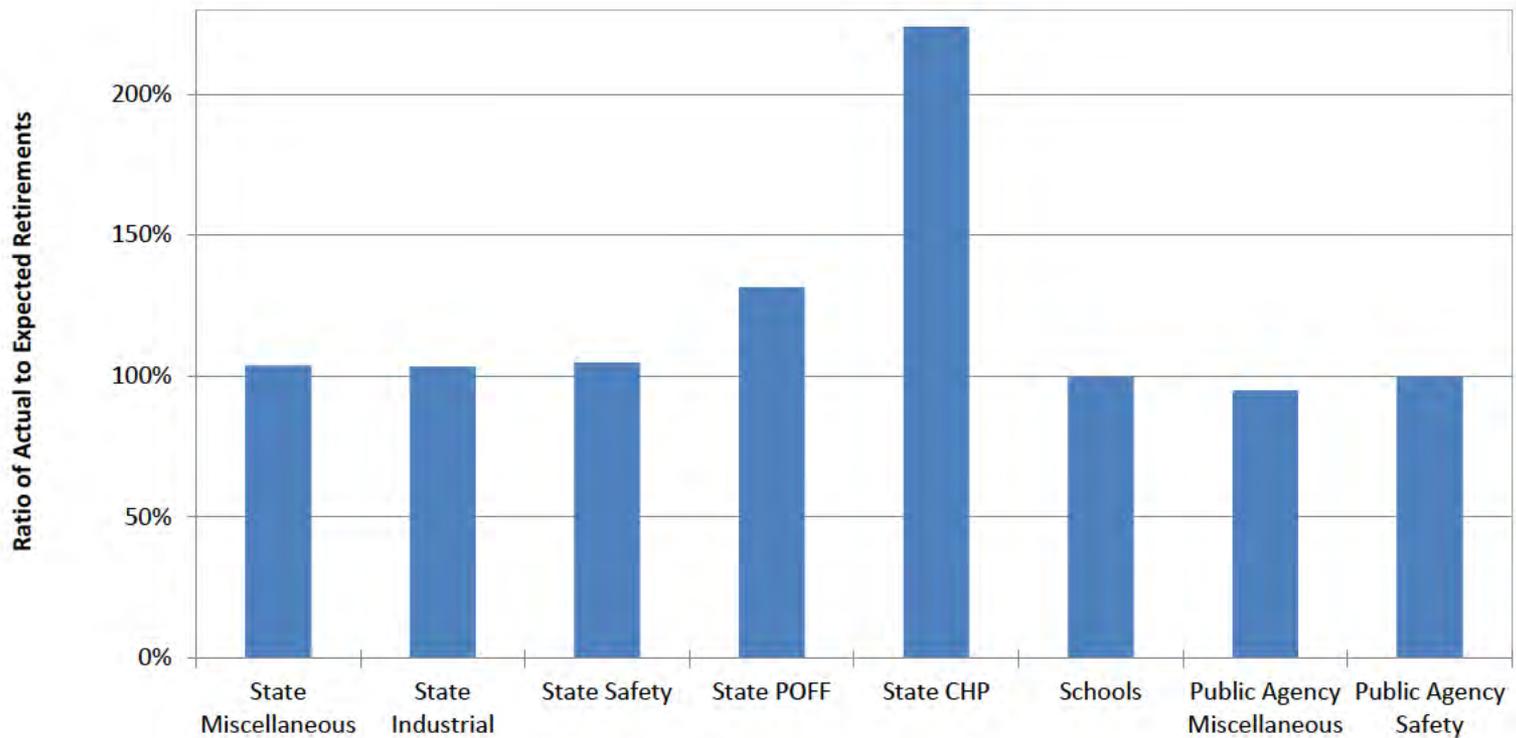
Demographic Assumptions

- Termination of Employment
 - No changes recommended
 - No impact on liabilities
- Disability Retirement
 - Changes recommended based on CalPERS experience
 - Lower rates for both industrial and non-industrial disability
 - Modestly lower liabilities for safety plans

Demographic Assumptions

- Retirement Assumption
 - Changes recommended based on CalPERS experience
 - Higher retirement rates (earlier retirement) for safety members
 - Higher liabilities for safety plans – especially State POFF and CHP

Retirements – Actual to Expected

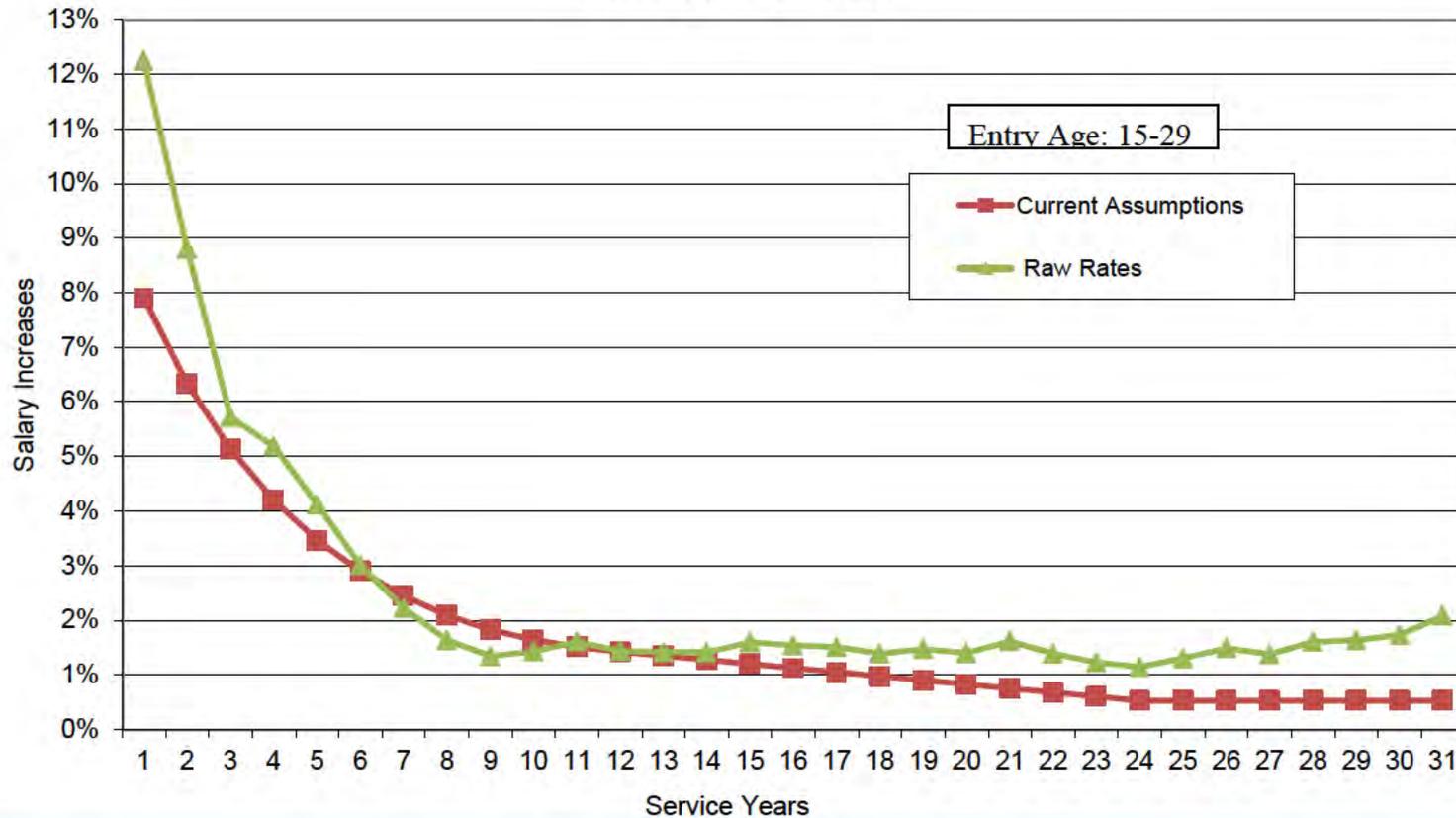


Demographic Assumptions

- Salary Scale
 - Changes recommended based on CalPERS experience
 - Greater salary increases for safety members later in their careers
 - Higher liabilities for safety members
 - Mixed changes for other groups

Salary Increases – Actual to Expected

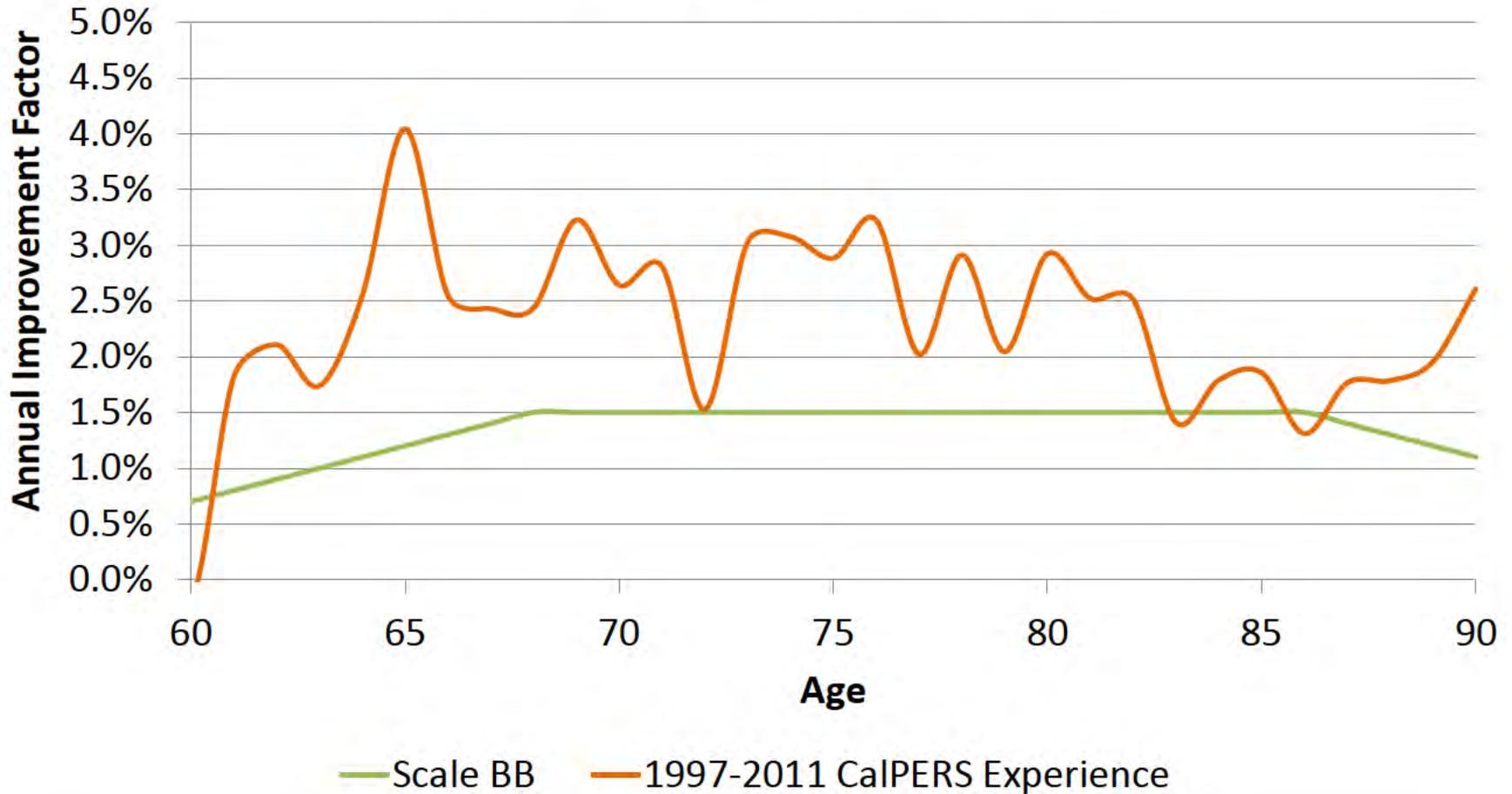
Public Agency - Police



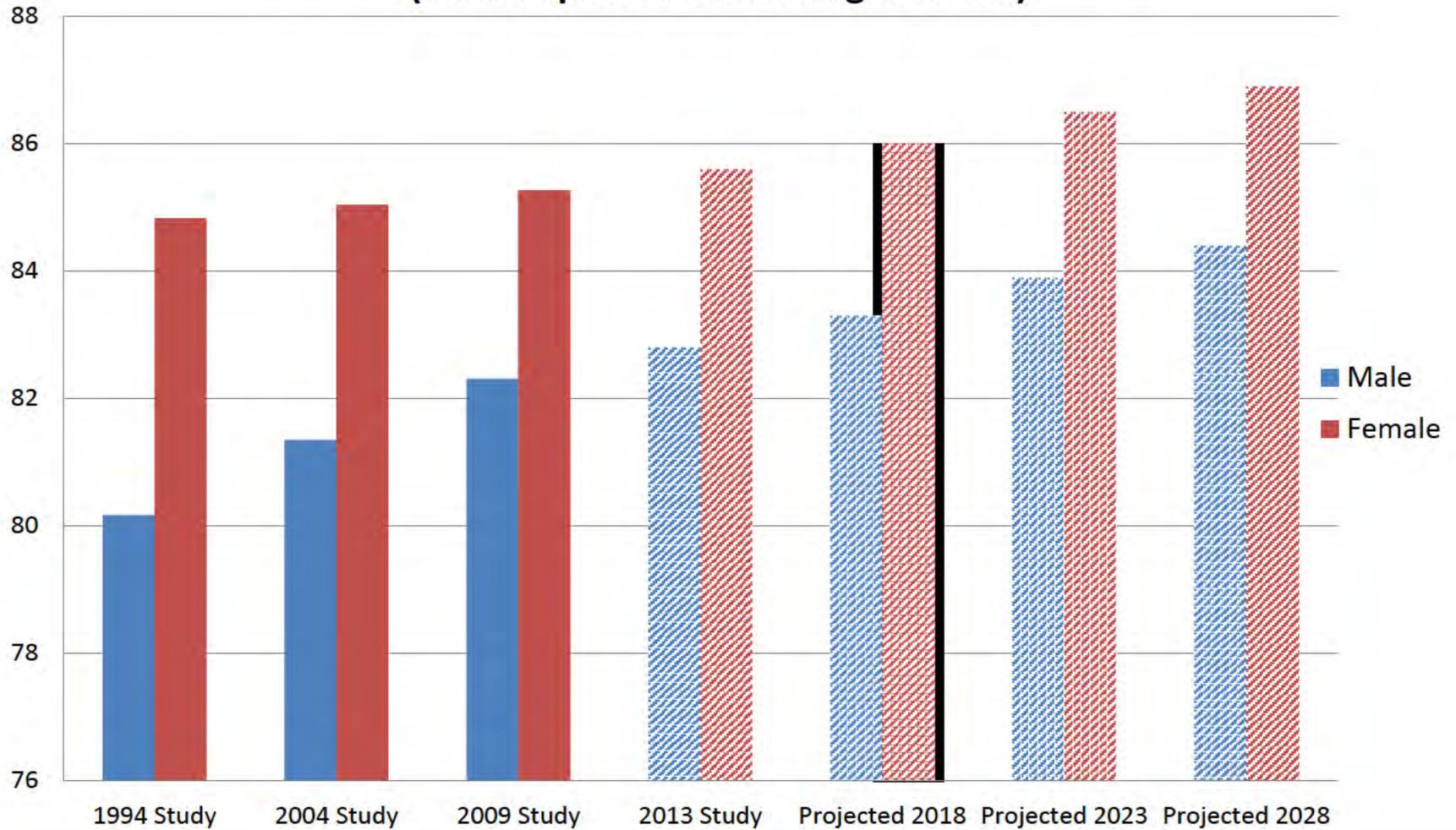
Demographic Assumptions

- Mortality
 - Lower rates of mortality (longer life expectancy) for all groups
 - Inclusion of expected future mortality improvement
 - Higher liabilities for all groups

Scale BB Vs. CalPERS Experience (For Males)



Life Expectancy for a CalPERS Member Retiring at Age 55 (With Improvements Using Scale BB)



Mortality Assumption

- Recommended mortality assumption
 - Based on CalPERS experience but with 20 year static projection using Scale BB
- Alternative mortality assumption
 - Based on CalPERS experience but with 15 year static projection using Scale BB

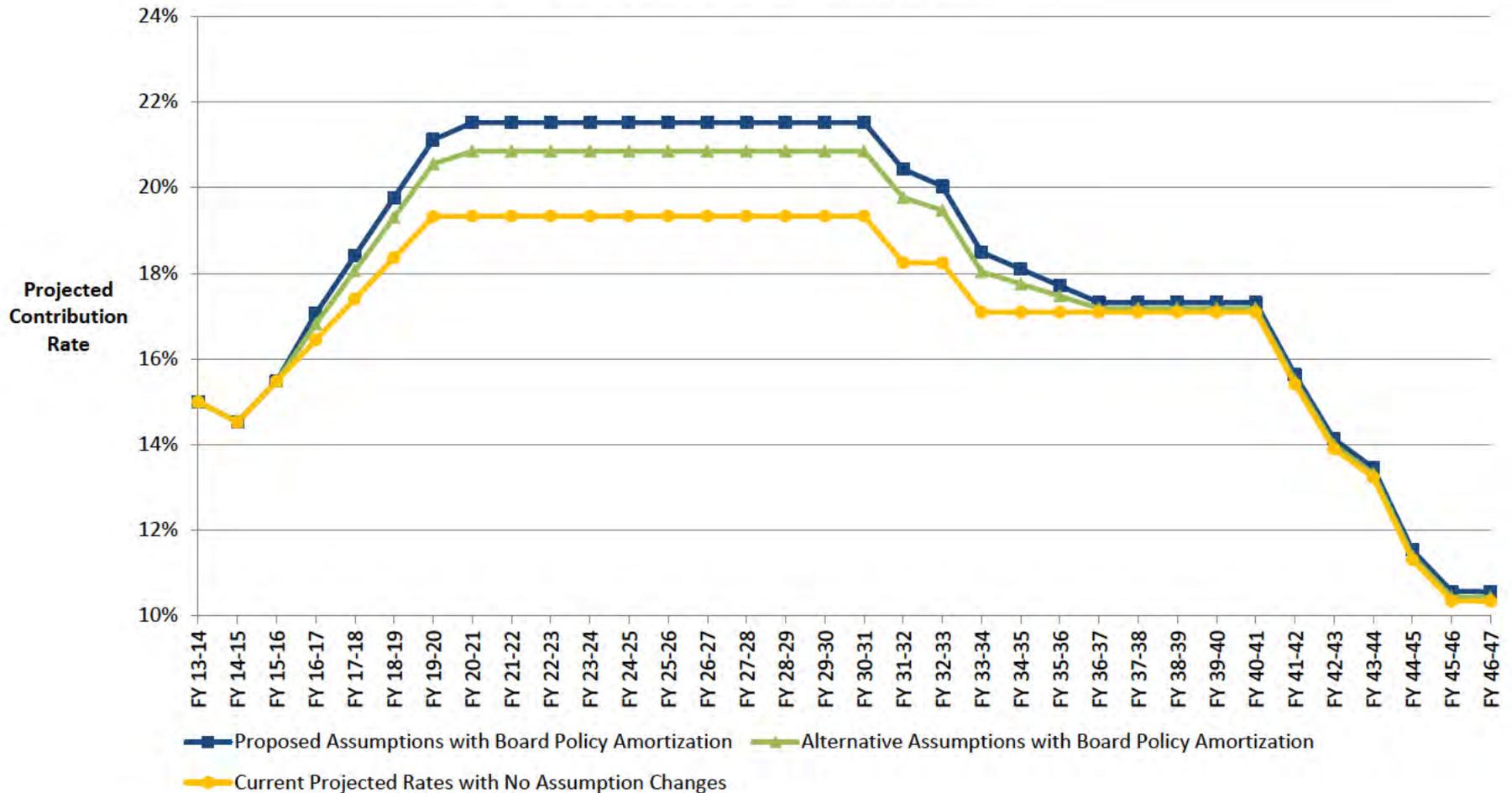
Impact on Contributions

Current Board Policy

- Amortize over 20 years
- Smooth impact over 5 years (5 year ramp-up and ramp-down)
- Impact shown in attachment 2 to the agenda item

Impact of Recommended and Alternative Assumptions

Sample Public Agency Miscellaneous



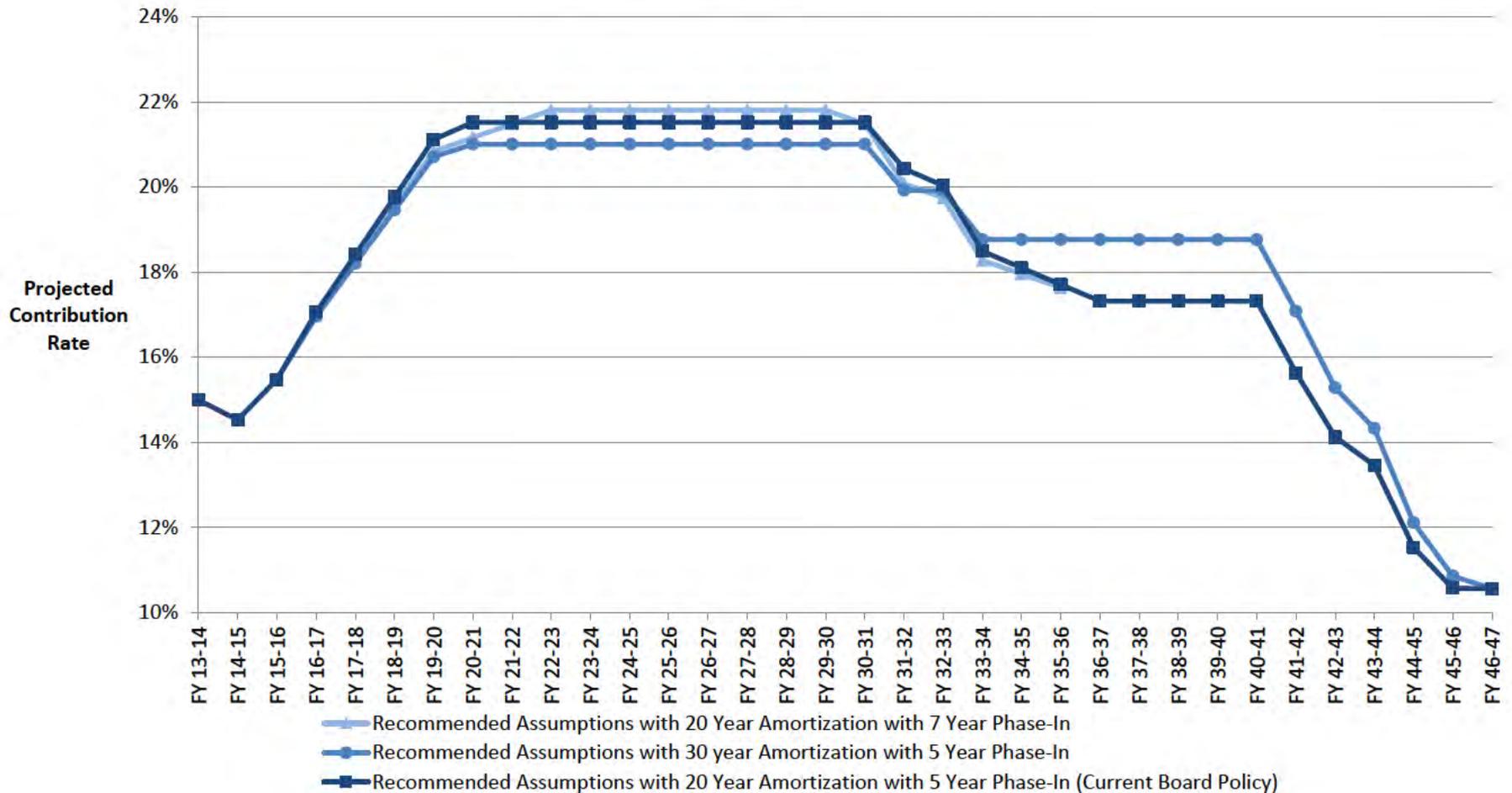
Possible Alternative Amortizations

Included in agenda item are two alternatives

- 20 year amortization period with 7 year smoothing
- 30 year amortization period with 5 year smoothing

Impact of Alternative Amortizations (Recommended Assumptions)

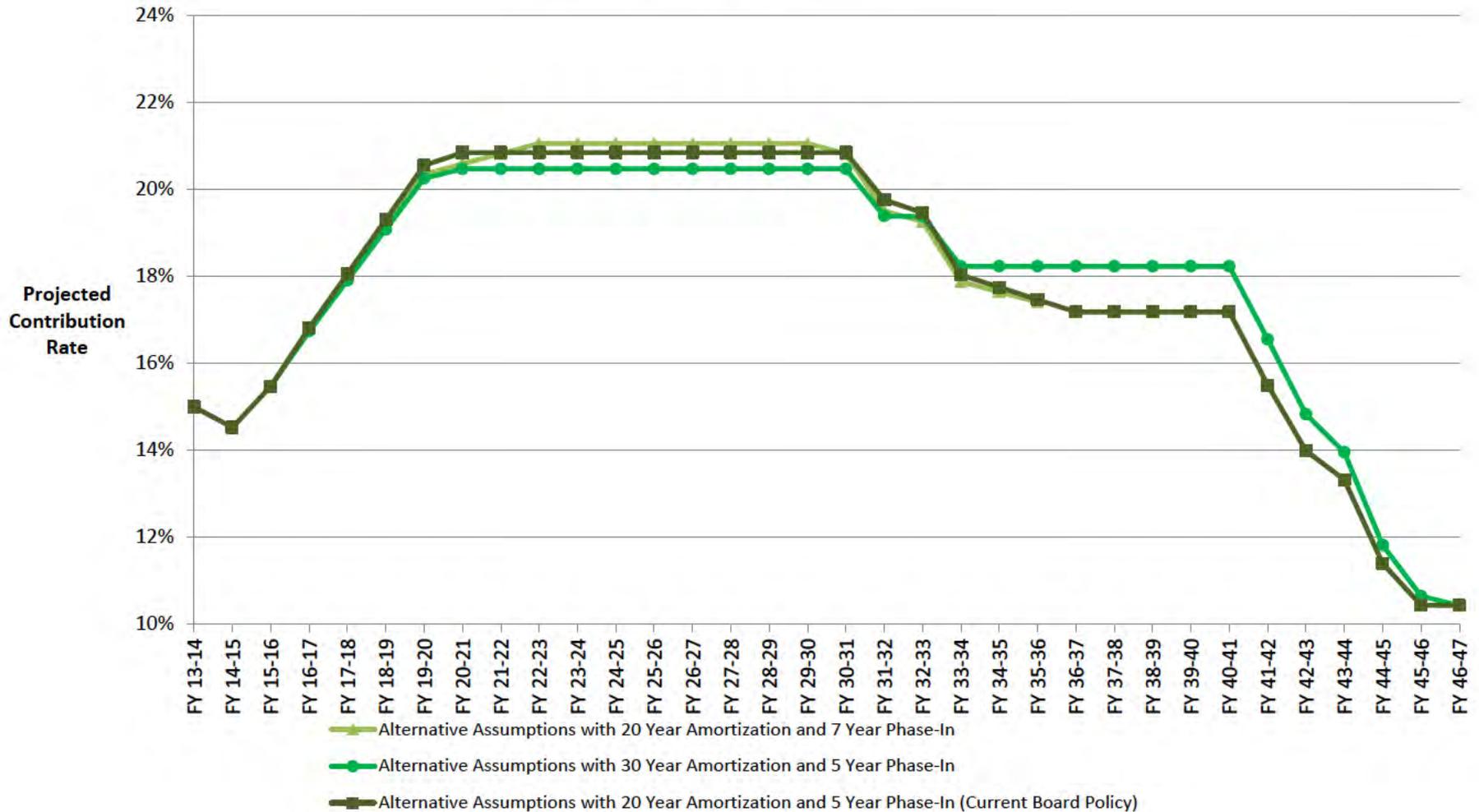
Sample Public Agency Miscellaneous



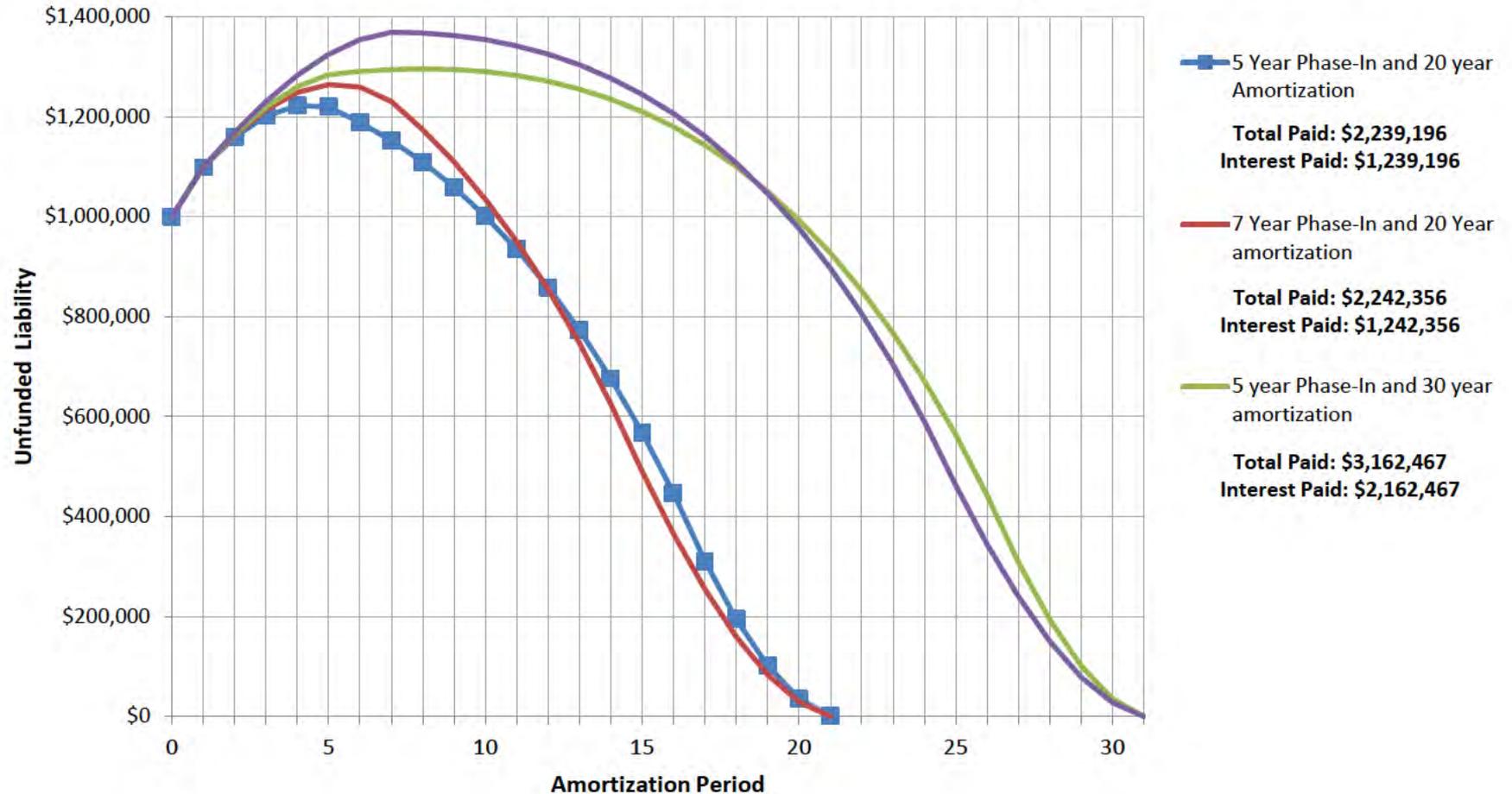
Impact of Alternative Amortizations

(Alternative Assumption – 15 year mortality projection)

Sample Public Agency Miscellaneous



Alternative Amortization/Smoothing Schedules



Impact on Accrued Liability/Funded Status

- Increase Liabilities by about \$22.6 billion
 - \$9 billion for State
 - \$3.6 billion for Schools
 - \$10 billion for Public Agencies
- Decrease Funded Status by about 4%

Impact on Normal Cost

- Recommended assumptions will increase 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.
 - Miscellaneous groups expected to see increases in normal cost of less than 1% of payroll.
 - Most safety groups expected to see an increase in normal cost between 1% and 2% of payroll.

Impact on Member Calculations

Will also impact some member calculations

- Service purchases under the present value method
 - Cost will increase
- Optional forms of benefit
 - Generally reduction will be less

Next Steps

- February Board Meeting
 - Investment Committee adopts new asset allocation targets and ranges
 - Board adopts new actuarial assumptions
- First year impact of cost increase from actuarial assumptions changes: FY 2016-17
- Impact of assumption change fully included in contribution rates: FY 2020-21

Questions