METHOD TO DETERMINE THE DISCOUNT RATE, INFLATION ASSUMPTION AND WAGE GROWTH ASSUMPTION FOR TERMINATION CALCULATIONS

The discount rate assumption to be used for actuarial valuations for employers terminating a contract (or portion of a contract) with CalPERS, and for the annual actuarial valuation of the Terminated Agency Pool, will be a weighted average of the 10 and 30 year US Treasury yields in effect on the valuation date. The weighted average percentages will be the weights that when applied to the duration of the 10 and 30 year US Treasury, determined at current spot rates, equal the duration of the expected benefit payment cash flows of the contract (or portion of a contract in the case of a partial termination) being terminated or the terminated Agency Pool.

In addition, the inflation assumption used to project the expected benefit payment cash flows of the contract (or portion of a contract in the case of a partial termination) being terminated or the terminated Agency Pool will be the inflation imbedded in the US Treasury Inflation Protected Securities (TIPS) on the valuation date. The wage growth assumption used for the same calculation will be 0.25% higher than the inflation assumption. This wage growth assumption will be used in combination with the merit, seniority and promotion component of individual salary increases previously adopted by the Board to project individual salaries into the future.