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Circular Letter

February 17, 2012

TO: PUBLIC AGENCY EMPLOYERS

SUBJECT: POTENTIAL CHANGES TO EMPLOYERS RATES DUE TO BOARD REVIEW OF ECONOMIC ASSUMPTIONS

The purpose of this Circular Letter is to inform you that the CalPERS Pension and Health Benefits Committee will consider changes to actuarial economic assumptions at its March 13, 2012 meeting. Assumption changes, if adopted, could have a significant impact on your employer rate. This Circular Letter is being sent out to alert Public Agency Employers of this upcoming agenda item in hope that employers will review it when it becomes available and comment on it as appropriate.

The assumptions that will be reviewed are: price inflation, real wage inflation and the real discount rate. If assumption changes are adopted, Public Agency Employer rates will change for the 2013-2014 fiscal year.

Background

In order to keep assumptions current, it is essential to review actuarial assumptions periodically. The price inflation assumption is currently 3%. It was last reviewed in 2004. The real wage inflation assumption is currently 0.25% and was last reviewed in 1998. The real discount rate assumption was last reviewed in March 2010 and is currently 4.75%, which added to the price inflation results in a discount rate of 7.75%.

Next Steps

Staff is expecting to recommend changes to some or all of these assumptions and they will be presented to the CalPERS Pension and Health Benefits Committee on March 13, 2012. A hypothetical analysis was performed on the impact of potential assumption changes. The following table show the potential impact on employer contribution rates for a typical Miscellaneous and Safety Plan when reducing the discount rate and price inflation assumptions and increasing the wage inflation assumption.

Example: Total Rate Increases For Various Assumption Changes

| | Miscellaneous Plan | Safety Plan |
|--|----------------------------|----------------------------|
| Real Discount Rate (A decrease of .25%) From 4.75% to 4.5% | 2% to 3% of Payroll | 4% to 5% of Payroll |
| Price Inflation (A decrease of .25%) From 3% to 2.75% | 1% to 2% of Payroll | 2% to 3% of Payroll |
| Wage Inflation (An increase of .25%) From 0.25% to 0.5% | 0.5% to 1.0% of Payroll | 1.0% to 1.5% of Payroll |
| All Three Changes Combined | 4% to 5% of Payroll | 7% to 8% of Payroll |

The staff agenda item and recommendations will be posted on the CalPERS website approximately one week prior to the meeting. If you wish to comment on the agenda item we urge you to do so in writing or at the meeting. If any assumption changes are adopted, the true impact for public agencies will be known when the actuarial office has completed the June 30, 2011 actuarial valuations for all employers in the fall of 2012. The June 30, 2011 valuations will set the employer rates that take effect on July 1, 2013.

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

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