City of Carson
Report to Mayor and City Council

April 16, 2013
New Business Discussion

SUBJECT:	CONSIDERATION OF RESOLUTION NO. 13-031 AND INTRODUCTION OF ORDINANCE NO. 13-1517 APPROVING AN AMENDMENT TO THE RETIREMENT CONTRACT BETWEEN CALPERS AND THE CITY OF CARSON
Submitted by David C. Biggs City Manager	Approved by David C. Biggs City Manager

I. SUMMARY

During the FY 2012/13 budget process, the City Council approved proceeding with an amendment to the retirement contract between the California Public Employees' Retirement System (CalPERS) and the City. This amendment will include the Pre-Retirement Option 2W Death Benefit to the City's retirement contract with CalPERS. Therefore, Resolution No. 13-031 (Exhibit No. 1) is being presented for your approval. In addition, an ordinance must be adopted to formally complete the contract amendment. Therefore, Ordinance No. 13-1517 (Exhibit No. 2) is being introduced with this Council agenda for first reading.

II. RECOMMENDATION

1. WAIVE further reading and ADOPT Resolution No. 13-031 "A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CARSON, CALIFORNIA DECLARING THE CITY'S INTENT TO APPROVE AN AMENDMENT TO THE CONTRACT BETWEEN THE BOARD OF ADMINISTRATION OF THE CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM AND THE CITY COUNCIL OF THE CITY OF CARSON."
2. WAIVE further reading and INTRODUCE Ordinance No. 13-1517 "AN ORDINANCE OF THE CITY OF COUNCIL OF THE CITY OF CARSON, CALIFORNIA, AUTHORIZING AN AMENDMENT TO THE CONTRACT BETWEEN THE BOARD OF ADMINISTRATION OF THE CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM AND THE CITY COUNCIL OF THE CITY OF CARSON."

III. ALTERNATIVES

TAKE other action the City Council deems appropriate.

IV. BACKGROUND

The City provides retirement benefits to eligible City employees through CalPERS. The City's current contract with CalPERS does not include the very essential Pre-Retirement Option 2W Death Benefit. Consequently, in the event of death of a retirement eligible employee while still in active City service, the employee's family does not receive the pension they would have received had the employee retired prior to his/her death. Amending the City's contract with CalPERS to include Government Code Section 21548 - the Pre-Retirement Option 2W Death Benefit will provide the surviving spouse of a retirement eligible employee, a lifetime allowance that is equal to the amount that the employee would have received if the employee had been retired from service on the date of death and had elected option 2W and Government Code Section 21459. Upon the death of the surviving spouse, the benefit shall be continued to minor children, or a lump sum shall be paid.

Under retirement option 2W, the same retirement allowance received by the employee is paid to his/her beneficiary for life. Government Code Section 21459 applies to employees who elect to receive optional settlement 2W and may concurrently and irrevocably elect to waive the provision for an increase to his or her allowance due to the death of his or her beneficiary and shall, instead, have his or her allowance based upon the waiver of this benefit.

As described in the contract amendment cost analysis (Exhibit No. 4), this contract amendment will change the present value of benefits by $842,326, the accrued liability by $634.793, and the total employer rate by 0.343%. The amendment to contract is anticipated to be completed and in place by July 6, 2013. All other provisions of the City's retirement contract with CalPERS remain the same.

V. FISCAL IMPACT

The estimated annual initial cost for this benefit is $80,000.00 and has been budgeted for FY 2012/13 and offset by the secured savings for pre-paying the City's 2012/13 CalPERS employer contributions. However, since the amendment will not be effective until after July 1, 2013, there will be no cost in the current fiscal year.

VI. EXHIBITS

1. Resolution No. 13-031 (pg. 4)
2. Ordinance No. 13-1517 (pg. 5)
3. CalPERS Amendment to Contract (pgs. 6-10)
4. Contract Amendment Cost Analysis (11-21)

Document1

Prepared by: Duane K. Munson, Human Resources Officer

TO:Rev09-04-2012

Reviewed by:

City Clerk	City Treasurer
Administrative Services	Public Works
Community Development	Community Services

Action taken by City Council

Date____________ Action____

____

RESOLUTION NO. 13-031

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CARSON, CALIFORNIA, DECLARING THE CITY'S INTENT TO APPROVE AN AMENDMENT TO THE CONTRACT BETWEEN THE BOARD OF ADMINISTRATION OF THE CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM AND THE CITY COUNCIL OF THE CITY OF CARSON

WHEREAS, the Public Employees' Retirement Law permits the participation of public agencies and their employees in the Public Employees' Retirement System by the execution of a contract, and sets forth the procedure by which said public agencies may elect to subject themselves and their employees to amendments to said Law; and

WHEREAS, one of the steps in the procedures to amend this contract is the adoption by the governing body of the public agency of a resolution giving notice of its intention to approve an amendment to said contract, which resolution shall contain a summary of the change proposed in said contract; and

WHEREAS, the following is a statement of the proposed change:

To provide Section 21548 (Pre-Retirement Option 2W Death Benefit) for local miscellaneous members.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF CARSON, CALIFORNIA, HEREBY FINDS, DETERMINES AND RESOLVES AS FOLLOWS:

Section 1. The above recitals are true and correct.

Section 2. The City does hereby give notice of intention to approve an amendment to the contract between the City Council of the City of Carson and the Board of Administration of the Public Employees' Retirement System, a copy of said amendment being attached hereto, as an Exhibit and by this reference made a part hereof.

PASSED, **APPROVED**, and **ADOPTED** this 16th day of April 2013.

Mayor Jim Dear

ATTEST:

City Clerk Donesia L. Gause, CMC

APPROVED AS TO FORM:

City Attorney

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ORDINANCE NO. 13-1517

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF CARSON, CALIFORNIA, AUTHORIZING AN AMENDMENT TO THE CONTRACT BETWEEN THE BOARD OF ADMINISTRATION OF THE CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM AND THE CITY COUNCIL OF THE CITY OF CARSON

THE CITY COUNCIL OF THE CITY OF CARSON, CALIFORNIA, DOES ORDAIN AS FOLLOWS:

Section 1. That an amendment to the contract between the Board of Administration, California Public Employees' Retirement System and the City Council of the City of Carson is hereby authorized, a copy of said amendment being attached hereto, marked Exhibit, and by such reference made a part hereof as though herein set out in full.

Section 2. The Mayor of the City Council is hereby authorized, empowered, and directed to execute said amendment for and on behalf of said Agency.

Section 3. This ordinance shall take effect 30 days after the date of its adoption, and prior to the expiration of 15 days from the passage thereof shall be published at least once in Our Weekly, a newspaper of general circulation, published and circulated in the City of Carson, and thenceforth and thereafter the same shall be in full force and effect.

PASSED, APPROVED and **INTRODUCED** this 16th day of April 2013.

Mayor Jim Dear

ATTEST:

City Clerk Donesia L. Gause, CMC

APPROVED AS TO FORM:

City Attorney

CalPERS

EXHIBIT

California
Public Employees' Retirement System

AMENDMENT TO CONTRACT

Between the
Board of Administration
California Public Employees' Retirement System
and the
City Council
City of Carson

The Board of Administration, California Public Employees' Retirement System, hereinafter referred to as Board, and the governing body of the above public agency, hereinafter referred to as Public Agency, having entered into a contract effective May 15, 1969, and witnessed April 30, 1969, and as amended effective January 16, 1971, August 7, 1976, June 13, 1977, July 21, 1979, September 26, 1981, November 6, 1982, June 18, 1983, February 22, 1996, December 18, 1996, September 19, 2003, December 6, 2003 and May 6, 2011 which provides for participation of Public Agency in said System, Board and Public Agency hereby agree as follows:

A. Paragraphs 1 through 16 are hereby stricken from said contract as executed effective May 6, 2011, and hereby replaced by the following paragraphs numbered 1 through 16 inclusive:

   1. All words and terms used herein which are defined in the Public Employees' Retirement Law shall have the meaning as defined therein unless otherwise specifically provided. "Normal retirement age" shall mean age 55 for local miscellaneous members entering membership in the miscellaneous classification before and not on or after December 18, 1996, age 60 for local miscellaneous members entering membership in the miscellaneous classification on or after December 18, 1996 and for those local miscellaneous members entering membership in the miscellaneous classification on or prior to December 6, 2003, and age 55 for local miscellaneous members entering membership for the first time in the miscellaneous classification after May 6, 2011.

2. Public Agency shall participate in the Public Employees' Retirement System from and after May 15, 1969 making its employees as hereinafter provided, members of said System subject to all provisions of the Public Employees' Retirement Law except such as apply only on election of a contracting agency and are not provided for herein and to all amendments to said Law hereafter enacted except those, which by express provisions thereof, apply only on the election of a contracting agency.

3. Public Agency agrees to indemnify, defend and hold harmless the California Public Employees' Retirement System (CalPERS) and its trustees, agents and employees, the CalPERS Board of Administration, and the California Public Employees' Retirement Fund from any claims, demands, actions, losses, liabilities, damages, judgments, expenses and costs, including but not limited to interest, penalties and attorneys fees that may arise as a result of any of the following:

    (a) Public Agency's election to provide retirement benefits, provisions or formulas under this Contract that are different than the retirement benefits, provisions or formulas provided under the Public Agency's prior non-CalPERS retirement program.

    (b) Any dispute, disagreement, claim, or proceeding (including without limitation arbitration, administrative hearing, or litigation) between Public Agency and its employees (or their representatives) which relates to Public Agency's election to amend this Contract to provide retirement benefits, provisions or formulas that are different than such employees' existing retirement benefits, provisions or formulas

    (c) Public Agency's agreement with a third party other than CalPERS to provide retirement benefits, provisions, or formulas that are different than the retirement benefits, provisions or formulas provided under this Contract and provided for under the California Public Employees' Retirement Law.

4. Employees of Public Agency in the following classes shall become members of said Retirement System except such in each such class as are excluded by law or this agreement:

    a. Employees other than local safety members (herein referred to as local miscellaneous members).

5. In addition to the classes of employees excluded from membership by said Retirement Law, the following classes of employees shall not become members of said Retirement System:

    a. **SAFETY EMPLOYEES.**

6. Removal of the exclusion of "Persons Compensated on an Hourly Basis Propectively only", pursuant to Section 20503, is declarative of agency's previous interpretation and does not mandate any new classes of employees into membership.

7. The percentage of final compensation to be provided for each year of credited prior and current service as a local miscellaneous member entering membership in the miscellaneous classification on or prior to December 18, 1996 and in employment before and not on or after December 6, 2003 shall be determined in accordance with Section 21354 of said Retirement Law (2% at age 55 Full).

8. The percentage of final compensation to be provided for each year of credited current service as a local miscellaneous member entering membership for the first time in the miscellaneous classification after December 18, 1996 and in employment before and not on or after December 6, 2003 shall be determined in accordance with Section 21353 of said Retirement Law (2% at age 60 Full).

9. The percentage of final compensation to be provided for each year of credited prior and current service as a local miscellaneous member in employment on or after December 6, 2003 and not entering membership for the first time in the miscellaneous classification after May 6, 2011 shall be determined in accordance with Section 21354.3 of said Retirement Law (3% at age 60 Full).

10. The percentage of final compensation to be provided for each year of credited current service as a local miscellaneous member entering membership for the first time in the miscellaneous classification after May 6, 2011 shall be determined in accordance with Section 21354 of said Retirement Law (2% at age 55 Full).

11. Public Agency elected and elects to be subject to the following optional provisions:

    a. Section 21574 (Fourth Level of 1959 Survivor Benefits).

    b. Section 20042 (One-Year Final Compensation).

    c. Section 21024 (Military Service Credit as Public Service).

    d. Section 20614, Statutes of 1978, (Reduction of Normal Member Contribution Rate). From July 21, 1979 and until September 26, 1981, the normal local miscellaneous member contribution rate shall be 3.5%. Legislation repealed said Section effective September 29, 1980.

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e. Section 20690, Statutes of 1980, (To Prospectively Revoke Section 20614, Statutes of 1978).

f. Section 20903 (Two Years Additional Service Credit).

g. Section 20503 (To Remove the Exclusion of Persons Compensated on an Hourly Basis, Prospectively from December 6, 2003).

h. Section 20475 (Different Level of Benefits). Section 21353 (2% @ 60 Full formula) is applicable to local miscellaneous members entering membership for the first time in the miscellaneous classification after December 18, 1996 and prior to December 6, 2003.

   Section 21354 (2% @ 55 Full formula) is applicable to local miscellaneous members entering membership for the first time in the miscellaneous classification after May 6, 2011.

i. Section 21548 (Pre-Retirement Option 2W Death Benefit).

12. Public Agency, in accordance with Government Code Section 20790, ceased to be an "employer" for purposes of Section 20834 effective on August 7, 1976.. Accumulated contributions of Public Agency shall be fixed and determined as provided in Government Code Section 20834, and accumulated contributions thereafter shall be held by the Board as provided in Government Code Section 20834.

13. Public Agency shall contribute to said Retirement System the contributions determined by actuarial valuations of prior and future service liability with respect to local miscellaneous members of said Retirement System.

14. Public Agency shall also contribute to said Retirement System as follows:

    a. A reasonable amount, as fixed by the Board, payable in one installment within 60 days of date of contract to cover the costs of administering said System as it affects the employees of Public Agency, not including the costs of special valuations or of the periodic investigation and valuations required by law.

    b. A reasonable amount, as fixed by the Board, payable in one installment as the occasions arise, to cover the costs of special valuations on account of employees of Public Agency, and costs of the periodic investigation and valuations required by law.

15. Contributions required of Public Agency and its employees shall be subject to adjustment by Board on account of amendments to the Public Employees' Retirement Law, and on account of the experience under the Retirement System as determined by the periodic investigation and valuation required by said Retirement Law.

16. Contributions required of Public Agency and its employees shall be paid by Public Agency to the Retirement System within fifteen days after the end of the period to which said contributions refer or as may be prescribed by Board regulation. If more or less than the correct amount of contributions is paid for any period, proper adjustment shall be made in connection with subsequent remittances. Adjustments on account of errors in contributions required of any employee may be made by direct payments between the employee and the Board.

B. This amendment shall be effective on the _____ day of _______________, ______.

BOARD OF ADMINISTRATION PUBLIC EMPLOYEES' RETIREMENT SYSTEM	CITY COUNCIL CITY OF CARSON
BY________________________________ KAREN DE FRANK, CHIEF CUSTOMER ACCOUNT SERVICES DIVISION PUBLIC EMPLOYEES' RETIREMENT SYSTEM	BY____________________________ PRESIDING OFFICER
	____________________________ Witness Date
	Attest: ____________________________ Clerk

CalPERS

California Public Employees' Retirement System
Actuarial Office
P.O. Box 942709
Sacramento, CA 94229-2709
TTY: (916) 795-3240
(888) 225-7377 phone • (916) 795-2744 fax
www.calpers.ca.gov

March 15, 2013

CALPERS ID: 1835910357
Employer Name: CITY OF CARSON
Rate Plan: MISCELLANEOUS PLAN

Dear Requestor:

A contract amendment(s) cost analysis for the valuation(s) requested and related information is enclosed.

The change in the employer contribution rate, as of the effective date of the proposed amendment, is displayed on page 3.

If you are aware of others interested in this information (i.e., payroll staff, county court employees, port districts, etc.), please inform them. Sections 20463 (b) and (c) of the California Public Employees' Retirement Law require the governing body of a public agency which requests a contract amendment cost analysis to provide each affected employee organization with a copy within five days of receipt. Likewise if this cost analysis is requested by an employee organization, the employee organization is required to provide a copy of the analysis to the public agency within five days of receipt.

This cost analysis expires July 1, 2013. A Resolution of Intention (R of I) approved by the agency governing body to amend the contract must be received by this office on or before July 1, 2013 and the amendment effective date must be before July 1, 2014. If either of these two conditions is not met, an updated cost analysis is required to amend the contract. An updated cost analysis may be available as early as November 2013.

To complete the contract amendment process based on the enclosed analysis, you must do the following:

- Follow the Contract Amendment Request process on MyCalPERS with our Retirement Contract Services Unit.
- Complete and return the adopted R of I to CalPERS on or before July 1, 2013. Adoption of the Final Resolution by this date is not required.

Important Risk Disclosure

- **The Nature of Actuarial Work**: All actuarial calculations, including the ones in this cost estimate are based on numerous assumptions about the future. This includes demographic assumptions about the percentage of your employees that will terminate, die, become disabled, and retire in each future year, and economic assumptions, about what salary increases each employee receives and the most important assumption, what the assets at CalPERS will earn for each year into the future until the last dollar is paid to current members of your plan. While CalPERS has set these assumptions as our best estimate of the real future of your plan, it must be understood that these assumptions are very long term predictors and will surely not be realized each year as we go forward. **This means that your employer contribution retirement rate can vary dramatically with or without any benefit changes because short term experience does not conform to the long term actuarial assumptions.**

- Investment return is much more volatile than liability fluctuations and can cause employer rates to vary significantly. For example, for the past twenty year period ending June 30, 2012, returns for each fiscal year ranged from -24% to +20.7%. The impact of investment return on employer contribution rates varies significantly based on the plan's volatility index (the ratio of the market value of assets to the payroll).

- **Projected Volatility Index**: As is stated above, the cost estimates supplied in this communication are based on a number of assumptions about very long term demographic and economic behavior. Even if these assumptions (terminations, deaths, disabilities, retirements, salary growth, and investment return) are exactly realized, there will be differences on a year to year basis. This year to year difference between actual experience and the assumptions is called a gain or loss which serves to lower or raise the employer's rates from year to year, respectively. So, the rates will fluctuate, especially due to the ups and downs of investment returns.

  The volatility in annual employer rates may be affected by this amendment. The reason is that higher benefits and earlier retirement ages require the accumulation of more assets per member earlier in their career. Rate volatility can be measured by the ratio of plan assets to active member payroll. Higher asset to payroll ratios produce more volatile employer rates. To see this, consider two plans, one with assets that are 4 times active member payroll, and the other with assets that are 8 times active member payroll. In a given year, when assets rise or fall 10% above or below the actuarial assumption, the plan with a volatility index of 4 experiences a dollar gain or loss of 40% of payroll while the plan with a volatility index of 8 experiences a dollar gain or loss of 80% of payroll. If this gain or loss is spread over 20 years (and we oversimplify by ignoring interest on the gain or loss), then the first plan's rate changes by 2% of pay while the second plan's rate changes by 4% of pay.

  Your plan's current volatility index (assets to payroll ratio) is 5.0. When you amend your plan, the liability changes but assets do not. So, the volatility index does not change immediately. However, as assets grow to equal your new accrued liability, your volatility index will also grow. So, we also disclose the ratio of accrued liability to payroll below to show what your future volatility index will become when you are 100% funded. The higher this ratio, the more volatile your future contribution rate will be. The table below contains these measures of potential future rate volatility. We call this the Projected Volatility Index.

As of June 30, 2011	Current Plan	Post-Amendment
Accrued Liability	$ 190,199,074	$ 190,833,867
Payroll	25,477,297	25,477,297
Projected Volatility Index	7.5	7.5

  It should also be noted that these ratios tend to stabilize as the plan matures. That is, all plans with no past service start their lives with zero assets and zero accrued liability – thus, asset to payroll ratio and liability to payroll ratio are equal to zero. However, as time goes by these ratios begin to rise and then tend to stabilize at some constant amount as the plan matures. Higher benefit levels and earlier expected retirements produce higher constant future ratios.

Modified smoothing policy: As you no doubt are aware, the current financial market volatility has impacted the CalPERS trust fund and will impact future employer rates. The CalPERS Board has adopted a *temporary modification to the* smoothing policy which was implemented in the June 30, 2009 valuation. The modification did the following:

- Expanded the rate smoothing corridor from 80% to 120% of market value of assets (MVA) to 60% to 140% of MVA for June 30, 2009, to 70% to 130% for June 30, 2010, and back to 80% to 120% of MVA for June 30, 2011.

- Isolated and amortized gains and losses recognized on these three years using a fixed and declining 30-year period as opposed to the rolling 30-year amortization period.

If you have questions about the cost analysis, please call (888) CalPERS (225-7377). Please ask to speak to a contract analyst for questions about the timing of the contract amendment. Please ask to speak to me for questions about this cost analysis.

Kung-pei Hwang

KUNG-PEI HWANG, ASA, MAAA
Senior Pension Actuary, CalPERS

Enclosures

PEPRA Impact

Because your rate plan does not belong to a risk pool, there is only one employer rate for all its members. The rate change outlined in this amendment applies to both classic and new members.

Actuarial Cost Estimates in General

What will this amendment cost? Unfortunately, there is no simple answer. There are two major reasons for the complexity of the answer:

- The first was described in the risk disclosure and involves the nature of actuarial work based on demographic and economic assumptions.
- The second is the fact that the actuarial funding process produces the answer to the question of amendment cost as the sum of two separate pieces:
    1. The increase in Normal Cost (i.e., the increase in future annual premiums in the absence of surplus or unfunded liability) expressed as a percentage of total active payroll, and
    2. The increase in Past Service Cost (i.e., Accrued Liability – representing the current value of the increased benefit for all past service of eligible members) which is expressed as a lump sum dollar amount.

To communicate the total cost, the Past Service Cost (i.e., the lump sum) is converted to a percent of payroll and added to the Normal Cost to set the employer rate required for the amendment. Converting the Past Service Cost lump sum to a percent of payroll requires a specific amortization period. For plans that amend the amortization period is usually 20 years.

Present Value of Projected Benefits

The table below shows the change in the plan's total present value of benefits for the proposed plan amendment. The present value of benefits represents the total dollars needed today to fund all future benefits for *current* members of the plan (i.e., without regard to future employees). The difference between this amount and current plan assets must be paid by future employee and employer contributions. As such, the change in the present value of benefits due to the plan amendment represents the "cost" of the plan amendment.

However, for plans with excess assets some or all of this "cost" may already be covered by current excess assets.

As of June 30, 2011		Current Plan		Post-Amendment
Total Assets at Market Value (MVA)	$	127,509,560	$	127,509,560
Actuarial Value of Assets (AVA)		142,496,715		142,496,715
AVA / MVA		111.8%		111.8%
Present Value of Projected Benefits (PVB)	$	222,545,491	$	223,387,817
Actuarial Value of Assets (AVA)		142,496,715		142,496,715
Present Value of Future Employer and Employee Contributions (PVB – AVA)	$	80,048,776	$	80,891,102
Change to PVB				842,326

Accrued Liability

It is not required, nor necessarily desirable, to have accumulated assets sufficient to cover the total present value of benefits until every member has left employment. Instead, the actuarial funding process calculates a regular contribution schedule of employee contributions and employer contributions (called normal costs) which are designed to accumulate with interest to equal the total present value of benefits by the time every member has left employment. As of each June 30, the actuary calculates the "desirable" level of plan assets as of that point in time by subtracting the present value of scheduled future employee contributions and future employer normal costs from the total present value of benefits. The resulting "desirable" level of assets is called the *accrued liability*.

A plan with assets exactly equal to the plan's accrued liability is simply "on schedule" in funding that plan, and only future employee contributions and future employer normal costs are needed. A plan with assets below the accrued liability is "behind schedule", or is said to have an *unfunded liability*, and must temporarily increase contributions to get back on schedule. A plan with assets in excess of the plan's accrued liability is "ahead of schedule", or is said to have *excess assets*, and can temporarily reduce future contributions. A plan with assets (AVA) in excess of the total present value of benefits is called *superfunded*, and neither future employer nor employee contributions are required. Of course, events such as plan amendments and investment or demographic gains or losses can change a plan's condition from year to year. For example, a plan amendment could cause a plan to move all the way from being superfunded to being in an unfunded position.

The changes in your plan's accrued liability, unfunded accrued liability, and the actuarial values of assets funded ratio as of June 30, 2011 due to the plan amendment are shown in the table below.

As of June 30, 2011	Current Plan	Post-Amendment
Entry Age Normal Accrued Liability (AL)	$ 190,199,074	$ 190,833,867
Actuarial Value of Assets (AVA)	142,496,715	142,496,715
Unfunded Liability/(Excess Assets) (UAL = AL – AVA)	$ 47,702,359	$ 48,337,152
Funded Ratio (AVA / AL)	74.9%	74.7%
Change to AL		634,793

Total Employer Contribution Rate

While the table above gives the changes in the accrued liability and funded status of the plan due to the amendment, there remains the question of what will happen to the employer contribution rate because of the change in plan provisions.

CalPERS policy is to implement rate changes due to plan amendments immediately on the effective date of the change in plan benefits. This change is displayed as the "Change to Total Employer Rate" on the following page. If the contract amendment effective date is on or before June 30, 2013, the change in the employer contribution rate should be added to the employer's current rate. In general, the policy also provides that the change in unfunded liability due to the plan amendment will be separately amortized over a period of 20 years from the effective date of the amendment and all other components of the plan's unfunded liability/excess assets will continue to be amortized separately.

However, your actuary may choose to apply different rules to plans with a current employer contribution rate of zero. The pre-amendment excess assets in these plans were sufficient to cover the employer's normal cost for one or more years into the future. A plan amendment will use up some or all of the pre-amendment excess assets. In order to maintain our goal of providing rates that are relatively stable, while taking into account known or expected future events, your actuary may decide to spread any remaining excess assets over a single number of years. This is known as a "fresh start" and will, in no case, be less than 5 years. You may call your actuary to discuss further alternative financing options. If the amendment uses up all excess assets and creates an unfunded liability (i.e., from being ahead of schedule to behind schedule), the total post-amendment unfunded liability may be amortized over 20 years.

In no case may the annual contribution with regard to a positive unfunded liability be less than the amount which would be required to amortize that unfunded liability, as a level percent of pay, over 30 years. The table below shows the change in your plan's employer contribution rate due to the plan amendment for fiscal year 2013/2014.

As of June 30, 2011	Current Plan	Post-Amendment
2013/2014 Employer Rate		
Payment for Normal Cost	10.361%	10.486%
Payment on Amortization Bases	11.585%	11.803%
Total Employer Rate	21.946%	**22.289%**
Change to Normal Cost		0.125%
Change to Total Employer Rate		0.343%
2013/2014 Employee Rate* (Classic Members)		
Total Employee Rate	8.000%	8.000%
Change to Total Employee Rate		
2013/2014 Employee Rate* (PEPRA Members)**		
Total Employee Rate	6.250%	6.250%
Change to Total Employee Rate		
2014/2015		
Estimated Employer Rate	23.1%	23.4%

In the above table, the Total Employer Rate is the actual initial contribution rate that will apply during fiscal year 2013/2014 if you adopt the amendment. The 2013/2014 rates do not incorporate the investment return for the fiscal year ending June 30, 2012. However, the 2014/2015 Estimated Employer Rate does incorporate this return, but assumes no demographic gains or losses.

* This rate is the employee rate before any social security modifications.

** The employee rate is different for classic and new members. The change to the normal cost due to this amendment does not impact the employee contribution rate.

Note that the change in normal cost in the table above may be much more indicative of the long term change in the employer contribution rate due to the plan amendment. The plan's payment on amortization bases shown in the table above is a temporary adjustment to the employer contribution to "get the plan back on schedule". This temporary adjustment to the employer rate varies in duration from plan to plan. For example, a plan with initial excess assets being amortized over a short period of time will typically experience a large rate increase when excess assets are fully amortized. While a plan amendment for such a plan may produce little or no increase in the employer contribution rate now, the change in normal cost due to the plan amendment will become fully reflected in the employer contribution rate as soon as initial excess assets are fully amortized.

Additional Disclosure

If your agency is requesting cost information for two or more benefit changes, the cost of adopting more than one of these changes **may not** be obtained by adding the individual costs. Instead, a separate valuation must be done to provide a cost analysis for the combination of benefit changes. If the proposed plan amendment applies to only some of the employees in the plan, the rate change due to the plan amendment still applies to the entire plan, and is still based on the total plan payroll.

Please note that the cost analysis provided in this document **may not** be relied upon after July 1, 2013. If you have not taken action to amend your contract, by this date, you must contact our office for an updated cost analysis, based on the new annual valuation.

Descriptions of the actuarial methodologies, actuarial assumptions, and plan benefit provisions may be found in the appendices of the June 30, 2011 annual report. Please note that the results shown here are subject to change if any of the data or plan provisions change from what was used in this study.

Certification

This actuarial valuation for the proposed plan amendment is based on the participant, benefits, and asset data used in the June 30, 2011 annual valuation, with the benefits modified if necessary to reflect what is currently provided under your contract with CalPERS, and further modified to reflect the proposed plan amendment. The valuation has been performed in accordance with standards of practice prescribed by the Actuarial Standards Board, and the assumptions and methods are internally consistent and reasonable for this plan, as prescribed by the CalPERS Board of Administration according to provisions set forth in the California Public Employees' Retirement Law.

Kung-pei Hwang

KUNG-PEI HWANG, ASA, MAAA
Senior Pension Actuary, CalPERS

Fin Process Ids: Annual-394867 Base-401545 Proposal-401546

Summary of Plan Amendments Valued

COVERAGE GROUP 70001

Pre-Amendment

Post-Amendment

- The Optional Settlement 2W Death benefit is a monthly allowance equal to the Service Retirement benefit that the member would have received had the member elected Optional Settlement 2W and retired on the date of his or her death. (A retiree who elects Optional Settlement 2W receives an allowance that has been reduced so that it will continue to be paid after his or her death to a surviving beneficiary.) The allowance is payable as long as the surviving spouse lives, at which time it is continued to any unmarried children under age 18. There is a guarantee that the total amount paid will at least equal the Basic Death Benefit.

- An employee's eligible survivor may receive the Optional Settlement 2W Death benefit if the member dies while actively employed, has attained at least age 50, and has at least 5 years of credited service (total service across all CalPERS employers and with certain other Retirement Systems with which CalPERS has reciprocity agreements). (A CalPERS member must be actively employed with the CalPERS employer providing this benefit to be eligible for this benefit.) An eligible survivor means the surviving spouse to whom the member was married at least one year before death. A member's survivor may choose this benefit in lieu of the Basic Death benefit or the 1957 Survivor benefit.

COVERAGE GROUP 70002

Pre-Amendment

Post-Amendment

- The Optional Settlement 2W Death benefit is a monthly allowance equal to the Service Retirement benefit that the member would have received had the member elected Optional Settlement 2W and retired on the date of his or her death. (A retiree who elects Optional Settlement 2W receives an allowance that has been reduced so that it will continue to be paid after his or her death to a surviving beneficiary.) The allowance is payable as long as the surviving spouse lives, at which time it is continued to any unmarried children under age 18. There is a guarantee that the total amount paid will at least equal the Basic Death Benefit.

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COVERAGE GROUP 70101

Pre-Amendment

Post-Amendment

- The Optional Settlement 2W Death benefit is a monthly allowance equal to the Service Retirement benefit that the member would have received had the member elected Optional Settlement 2W and retired on the date of his or her death. (A retiree who elects Optional Settlement 2W receives an allowance that has been reduced so that it will continue to be paid after his or her death to a surviving beneficiary.) The allowance is payable as long as the surviving spouse lives, at which time it is continued to any unmarried children under age 18. There is a guarantee that the total amount paid will at least equal the Basic Death Benefit.

- An employee's eligible survivor may receive the Optional Settlement 2W Death benefit if the member dies while actively employed, has attained at least age 50, and has at least 5 years of credited service (total service across all CalPERS employers and with certain other Retirement Systems with which CalPERS has reciprocity agreements). (A CalPERS member must be actively employed with the CalPERS employer providing this benefit to be eligible for this benefit.) An eligible survivor means the surviving spouse to whom the member was married at least one year before death. A member's survivor may choose this benefit in lieu of the Basic Death benefit or the 1957 Survivor benefit.

COVERAGE GROUP 70102

Pre-Amendment

Post-Amendment

- The Optional Settlement 2W Death benefit is a monthly allowance equal to the Service Retirement benefit that the member would have received had the member elected Optional Settlement 2W and retired on the date of his or her death. (A retiree who elects Optional Settlement 2W receives an allowance that has been reduced so that it will continue to be paid after his or her death to a surviving beneficiary.) The allowance is payable as long as the surviving spouse lives, at which time it is continued to any unmarried children under age 18. There is a guarantee that the total amount paid will at least equal the Basic Death Benefit.

- An employee's eligible survivor may receive the Optional Settlement 2W Death benefit if the member dies while actively employed, has attained at least age 50, and has at least 5 years of credited service (total service across all CalPERS employers and with certain other Retirement Systems with which CalPERS has reciprocity agreements). (A CalPERS member must be actively employed with the CalPERS employer providing this benefit to be eligible for this benefit.) An eligible survivor means the surviving spouse to whom the member was married at least one year before death. A member's survivor may choose this benefit in lieu of the Basic Death benefit or the 1957 Survivor benefit.