

HIGHLIGHTS AND EXECUTIVE SUMMARY

Purpose of Section 1

This section 1 report for the SAFETY FIRE PLAN of the CITY OF COSTA MESA of the California Public Employees' Retirement System (CalPERS) was prepared by the Plan Actuary in order to:

- set forth the actuarial assets and accrued liabilities of this plan as of **June 30, 2011**;
- determine the required employer contribution rate for this plan for the fiscal year July 1, 2013 through June 30, 2014;
- provide actuarial information as of June 30, 2011 to the CalPERS Board of Administration and other interested parties; and
- provide pension information as of June 30, 2011 to be used in financial reports subject to Governmental Accounting Standards Board (GASB) Statement Number 27 for a **Cost Sharing Multiple Employer Defined Benefit Pension Plan**.

The use of this report for any other purposes may be inappropriate. In particular, this report does not contain information applicable to alternative benefit costs. The employer should contact their actuary before disseminating any portion of this report for any reason that is not explicitly described above.

SECTION 1 – PLAN SPECIFIC INFORMATION FOR THE SAFETY FIRE PLAN OF THE CITY OF COSTA MESA

Required Employer Contributions

	Fiscal Year 2012/2013	Fiscal Year 2013/2014
Employer Contribution Required (in Projected Dollars)		
Risk Pool's Net Employer Normal Cost	\$ 2,201,921	\$ 1,832,899
Risk Pool's Payment on Amortization Bases	821,778	758,405
Surcharge for Class 1 Benefits		
a) FAC 1	130,877	101,004
b) PRSA	218,341	177,915
Phase out of Normal Cost Difference	0	0
Amortization of Side Fund	1,661,369	1,826,662
Total Employer Contribution	\$ 5,034,286	\$ 4,696,885
Employee Cost Sharing	(638,423)	(514,801)
Net Employer Contribution	4,395,863	4,182,084
Annual Lump Sum Prepayment Option*	\$ 4,234,825	\$ 4,033,560
Projected Payroll for the Contribution Fiscal Year	\$ 12,768,459	\$ 10,296,027
Employer Contribution Required (Percentage of Payroll)		
Risk Pool's Net Employer Normal Cost	17.245%	17.802%
Risk Pool's Payment on Amortization Bases	6.436%	7.366%
Surcharge for Class 1 Benefits		
a) FAC 1	1.025%	0.981%
b) PRSA	1.710%	1.728%
Phase out of Normal Cost Difference	0.000%	0.000%
Amortization of Side Fund	13.012%	17.741%
Total Employer Contribution	39.428%	45.618%
Employee Cost Sharing	(5.000%)	(5.000%)
Net Employer Contribution	34.428%	40.618%

Appendix C of Section 2 of this report contains a list of Class 1 benefits and corresponding surcharges for each benefit.

Risk pooling was implemented as of June 30, 2003. The normal cost difference is scheduled to be phased out over a five year period. The phase out of normal cost difference is 100% for the first year of pooling, and is incrementally reduced by 20% of the original normal cost difference for each subsequent year.

*Payment must be received by CalPERS before the first payroll reported to CalPERS of the new fiscal year and after June 30.

SECTION 1 – PLAN SPECIFIC INFORMATION FOR THE SAFETY FIRE PLAN OF THE CITY OF COSTA MESA

Plan’s Funded Status

	June 30, 2010	June 30, 2011
1. Present Value of Projected Benefits (PVB)	N/A	\$ 181,643,317
2. Entry Age Normal Accrued Liability	N/A	156,290,468
3. Plan’s Actuarial Value of Assets (AVA)	N/A	\$ 116,350,761
4. Unfunded Liability (AVA Basis) [(2) - (3)]	N/A	\$ 39,939,707
5. Funded Ratio (AVA Basis) [(3) / (2)]	N/A	74.5%
6. Plan’s Market Value of Assets (MVA)	N/A	\$ 103,982,067
7. Unfunded Liability (MVA Basis) [(2) - (6)]	N/A	52,308,401
8. Funded Ratio (MVA Basis) [(6) / (2)]	N/A	66.5%

Superfunded Status

	June 30, 2010	June 30, 2011
Is the plan Superfunded?	No	No
[Yes if AVA exceeds PVB, No otherwise]		

Projected Contributions

The rate shown below is an estimate for the employer contribution for Fiscal Year 2014/2015. The estimated rate is based on a projection of the most recent information we have available, including an estimate of the investment return for fiscal year 2011/2012, namely 0%:

Projected Employer Contribution Rate: 47.5%

The estimate also assumes that there are no liability gains or losses among the plans in your risk pool, that **your plan has no new amendments in the next year, and that your plan’s and your risk pool’s payrolls both increase exactly 3.0% in the 2011/2012 fiscal year.** Therefore, the projected employer contribution rate for 2014/2015 is just an estimate. Your actual rate for 2014/2015 **will be provided in next year’s report.**

SUMMARY OF FINANCIAL AND DEMOGRAPHIC INFORMATION

Plan's Side Fund

At the time your plan joined the Risk Pool, a side fund was created to account for the difference between the funded status of the pool and the funded status of your plan, **in addition to your existing unfunded liability. The side fund for your plan as of the June 30, 2011 valuation is shown in the following table.**

Your side fund will be credited, on an annual basis, with the actuarial investment return assumption. This assumption is 7.75% prior to July 1, 2012 and 7.5% after June 30, 2012. A positive side fund will cause your required employer contribution rate to be reduced by the Amortization of Side Fund shown above in Required Employer Contributions. A negative side fund will cause your required employer contribution rate to be increased by the Amortization of Side Fund. In the absence of subsequent contract amendments or funding changes, the side fund will disappear at the end of the amortization period shown below.

Plan's Side Fund Reconciliation

	June 30, 2010	June 30, 2011
Side Fund as of valuation date*	\$ (22,960,635)	\$ (24,530,390)
Adjustments	0	0
Side Fund Payment	1,518,711	1,568,069
Side Fund one year later	\$ (23,163,621)	\$ (24,803,797)
Adjustments	0	0
Side Fund Payment	1,568,069	1,661,369
Side Fund two years later	\$ (23,331,104)	\$ (24,941,538)
Amortization Period	22	21
Side Fund Payment during last year	\$ 1,661,369	\$ 1,826,662

* If your agency employed superfunded vouchers in fiscal year 2010/2011 to pay employee contributions, the June 30, 2011 Side Fund amount has been adjusted by a like amount without any further adjustment to the Side Fund's amortization period. Similarly, the Side Fund has been adjusted for the increase in liability from any recently adopted Class 1 or Class 2 contract amendments. Also, the Side Fund may be adjusted or eliminated due to recent lump sum payments. Contract amendments and lump sum payments may result in an adjustment to the Side Fund amortization period.

SECTION 1 – PLAN SPECIFIC INFORMATION FOR THE SAFETY FIRE PLAN OF THE CITY OF COSTA MESA

Hypothetical Termination Liability

In August 2011, the CalPERS Board adopted an investment policy and asset allocation strategy that more closely reflects expected benefit payments of the Terminated Agency Pool. With this change, CalPERS increased benefit security for members while limiting its funding risk.

The table below shows the hypothetical termination liability, the market value of assets, the unfunded termination liability and the termination funded ratio. The assumptions used, including the discount rate, are stated in Appendix A and take into account the yields available in the US Treasury market on the valuation date and the mortality load for contingencies. The discount rate is duration weighted and is not necessarily the rate that would be used for this plan if it were to terminate. The discount **rate for this plan's** termination liability would depend on the duration of the liabilities of this plan. For purposes of this estimate, **the discount rate of 4.82% is based on the June 30, 2011 30-year US Treasury Stripped Coupon Rate. Please note, as of June 30, 2012 the 30-year US Treasury Stripped Coupon Rate was 2.87%.**

Valuation Date	Hypothetical Termination Liability	Market Value of Assets (MVA)	Unfunded Termination Liability	Termination Funded Ratio	Discount Rate
06/30/11	\$ 228,332,766	\$ 103,982,067	\$ 124,350,699	45.5%	4.82%

Summary of Participant Data

The table below shows a summary of **your plan's** member data upon which this valuation is based:

	June 30, 2010	June 30, 2011
Projected Payroll for Contribution Purposes	\$ 12,768,459	\$ 10,296,027
Number of Members		
Active	95	78
Transferred	10	9
Separated	8	8
Retired	97	115

List of Class 1 Benefit Provisions

- One Year Final Compensation
- Post-Retirement Survivor Allowance