New Elected Official Workshop Pension Funding

Pension Information Session

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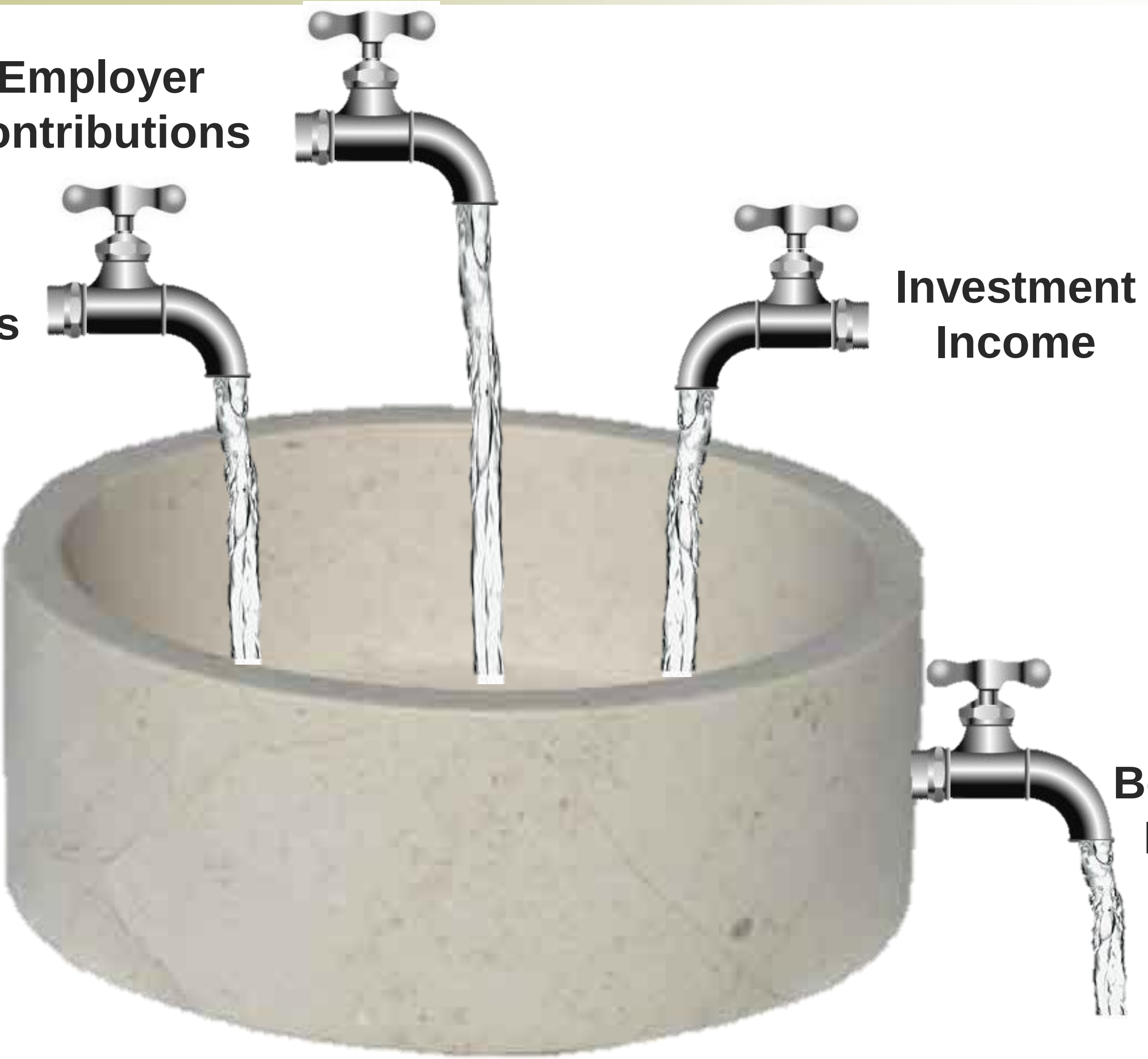
CalPERS - Overview

- Established in 1932 to administer and pay pensions to state employees
- Currently administering pension entitlements for more than 1.6 million members and more than 2,500 employers
- ACTO performs annual valuations for each employer to determine annual contribution requirements

CalPERS Overview (continued)

- CalPERS public agency plans are pre-funded
- Plan assets come from three different sources (ER Contributions, EE Contributions, Investment Returns)
- Most of the benefits are paid through investment earnings – (approx 2/3 of every dollar)
- CalPERS funding method is designed to collect contributions as a level percent of payroll over the members working career

Funding a Pension Plan



Components of Every Rate

- Every employer rate is made up of two parts
  - The normal cost or annual premium
    - pays for yearly benefit accruals
  - The amortization bases or unfunded liability payment
    - pays for any deficit or surplus accrued over the years

Normal Cost

- Simple Illustration
  - New employee hired at age 30 earning $40K
  - Retires at age 60 earning $100K
  - Under the 2% @60 formula, would receive .02 x 30 x $100,000 = $60,000 /yr
  - Requires about $720,000 to provide that pension for a male ($780K for female)
  - Total Normal Cost is the level percentage of pay that will accumulate to the $720K

Normal Cost

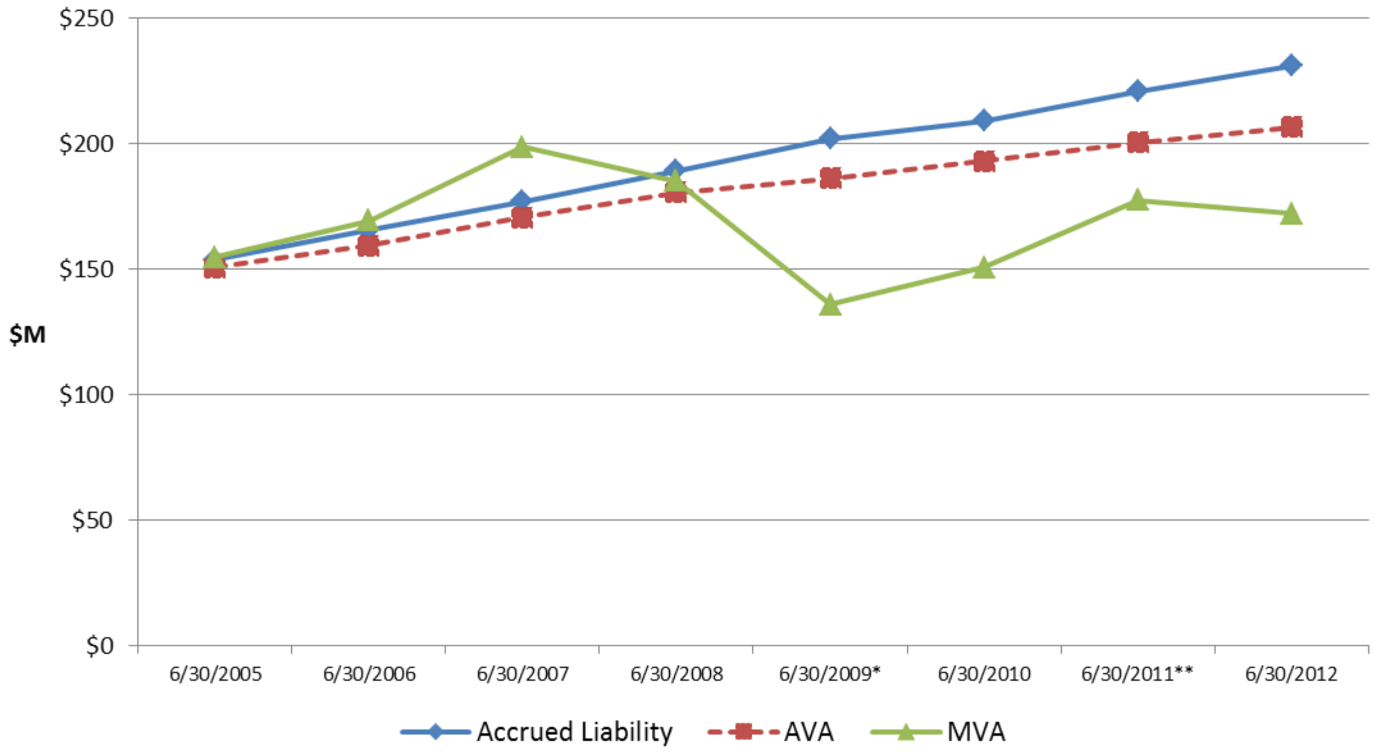
- Illustration (cont.)
  - Projected pension and total normal cost under various formulas

Formula	2% @62	2% @60	2.5% @55	3% @60
Projected Pension	54,000	60,000	75,000	90,000
Total Normal Cost	12.50%	14.00%	17.00%	20.00%
Employee Cont.	6.25%	**7.00%**	8.00%	8.00%
Employer Cont.	6.25%	**7.00%**	9.00%	12.00%

Accrued Liability

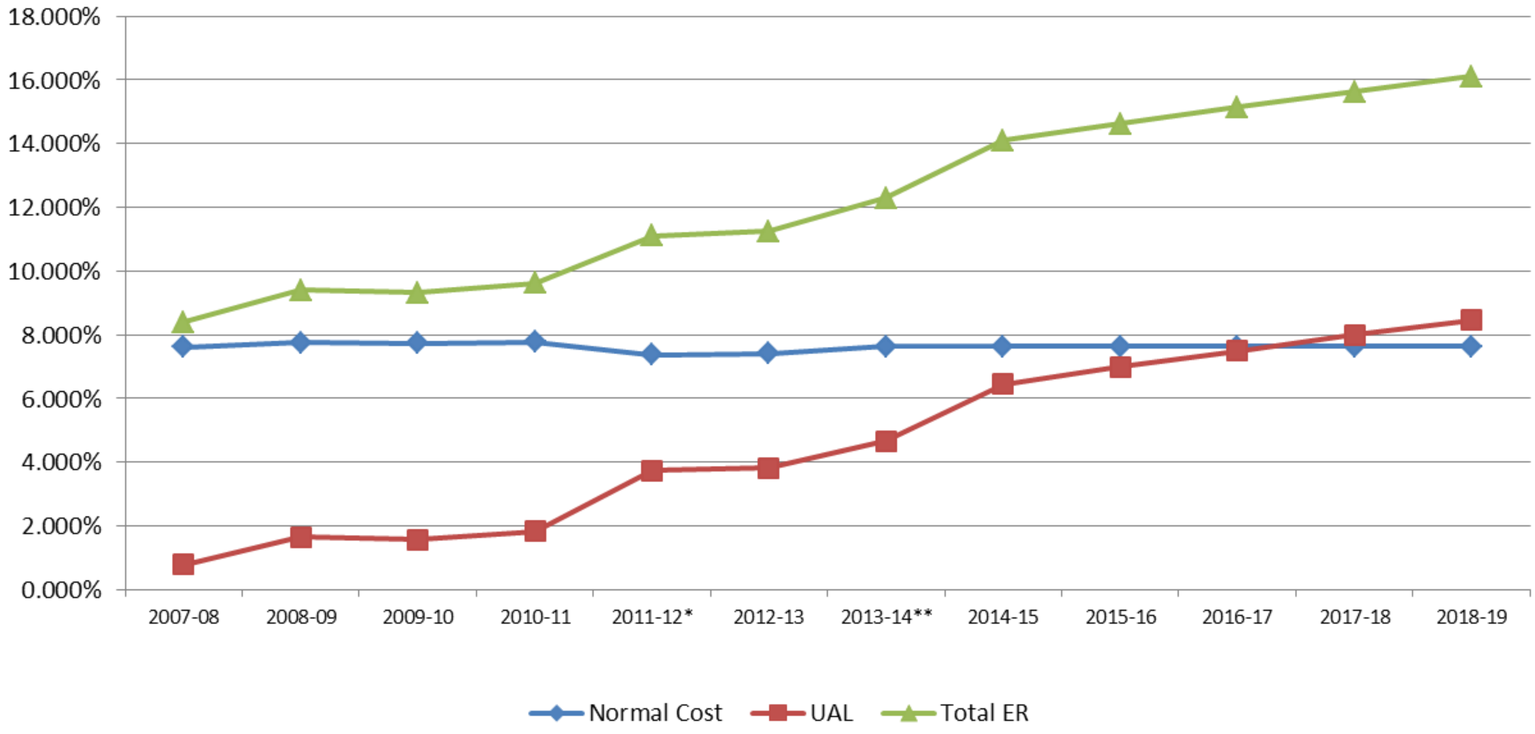
- Illustration continued
  - After 10 years sample employee earns $54K
  - Accumulating the Normal Cost with interest for 10 yrs = $80,000
  - If Plan Assets are $70,000 the Unfunded Accrued Liability (UAL) would be $10,000
  - UAL rate would be .4% of pay
  - Total Employer rate would be 7.4% of pay

Typical Plan Funding



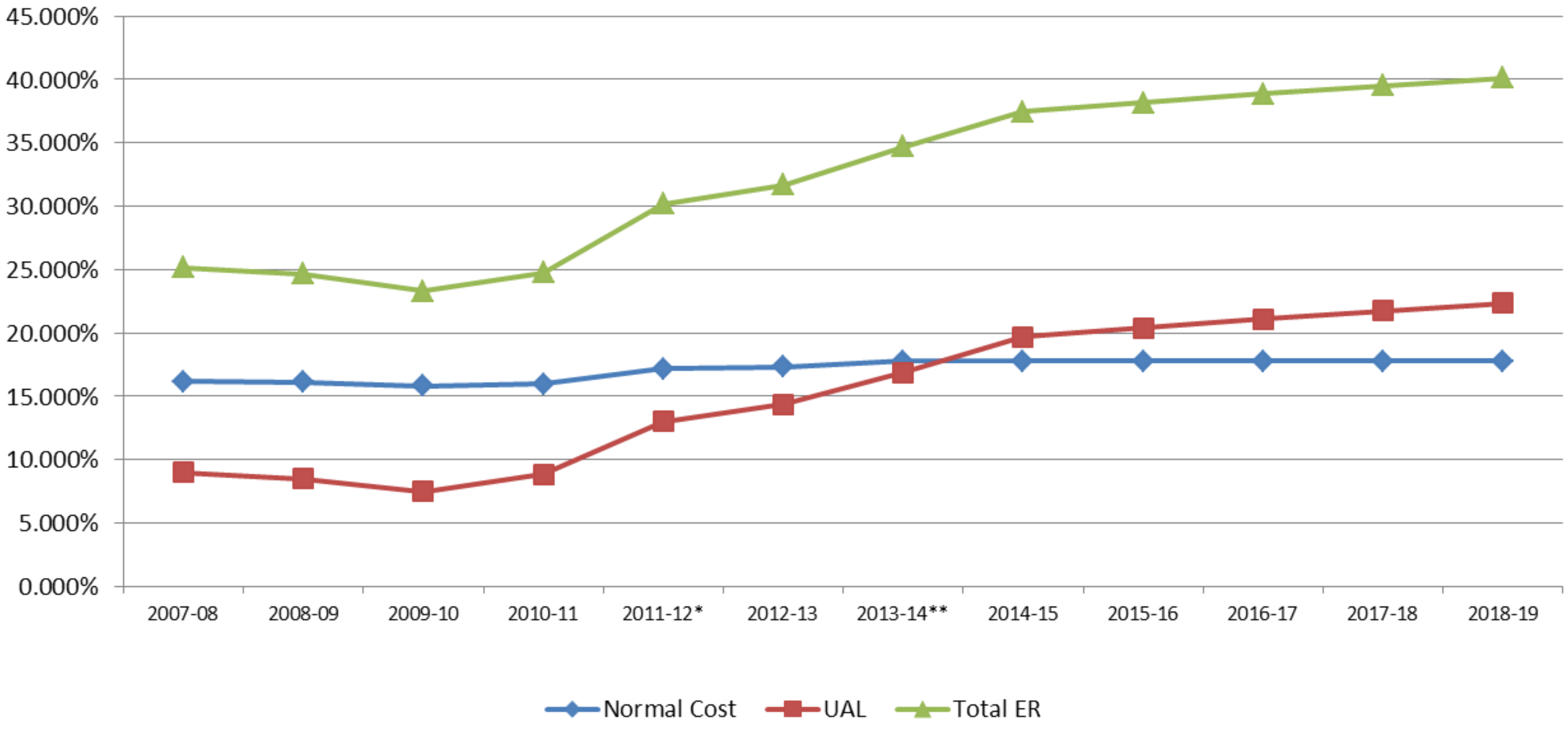
- This reflects an assumed 0% return for 2011-12

Typical Miscellaneous Rates



- This reflects a 0% return for 2011-12, 7.50% subsequently
- This assumes no future demographic gains or losses

Typical Safety Rates



- This reflects a 0% return for 2011-12, 7.50% subsequently
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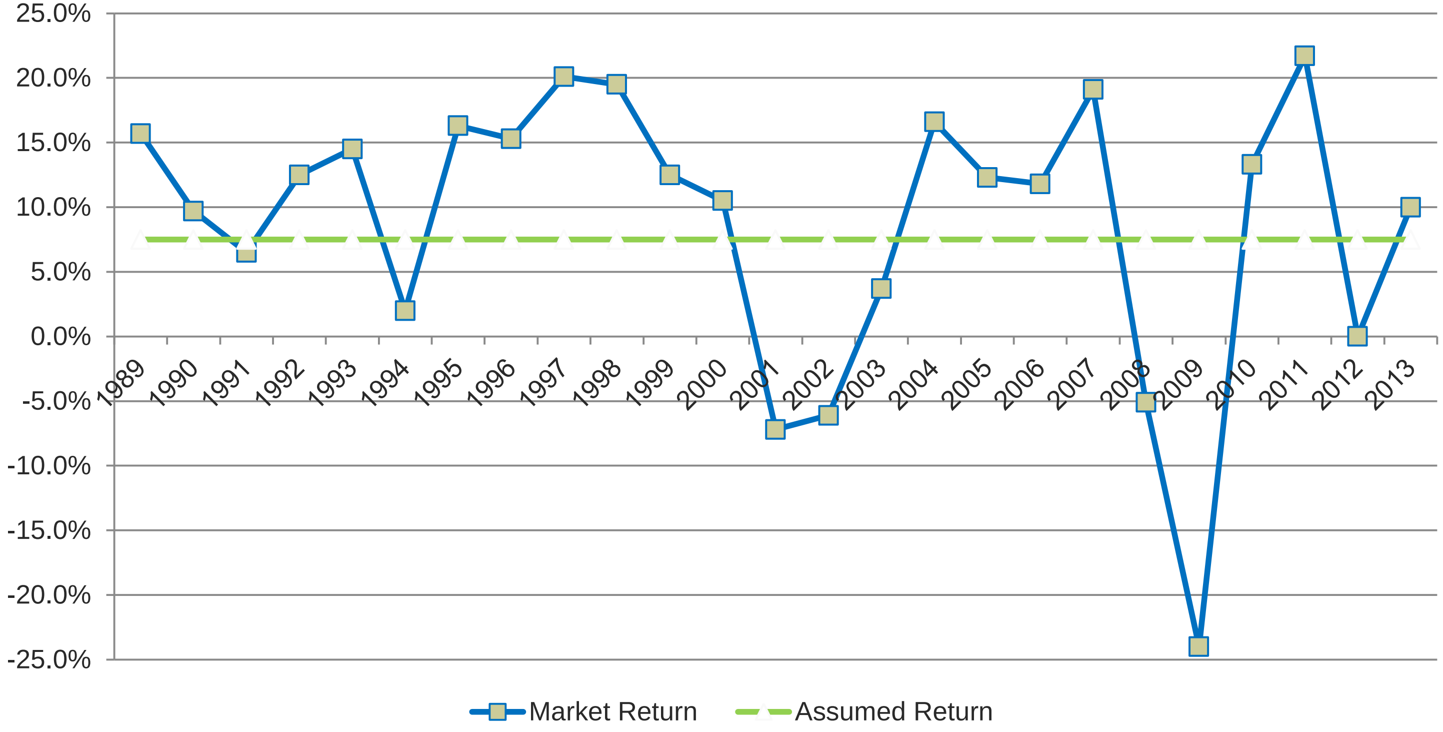
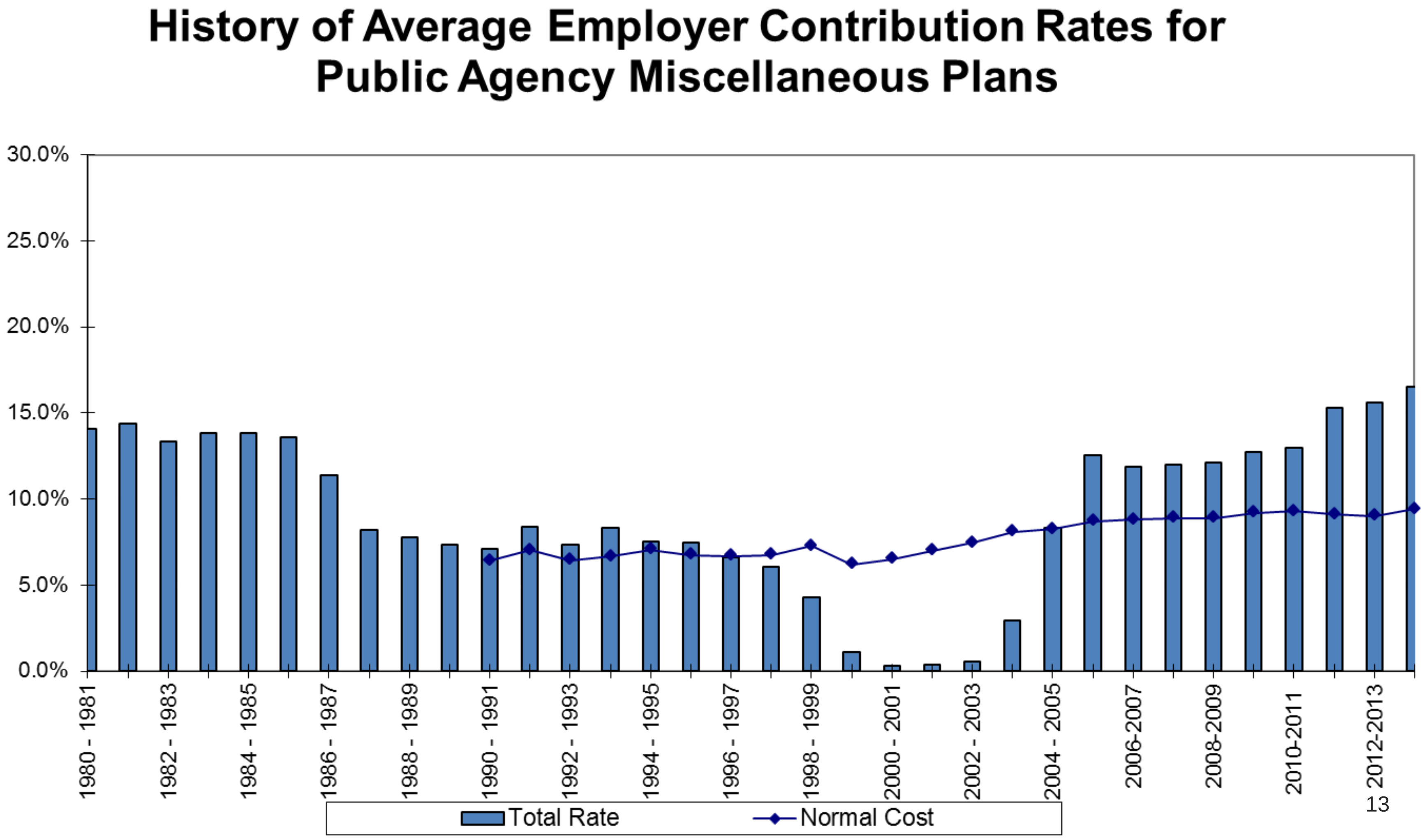
Why use an Actuarial Value of Assets?

Annual Returns on the PERF (1989-2013)

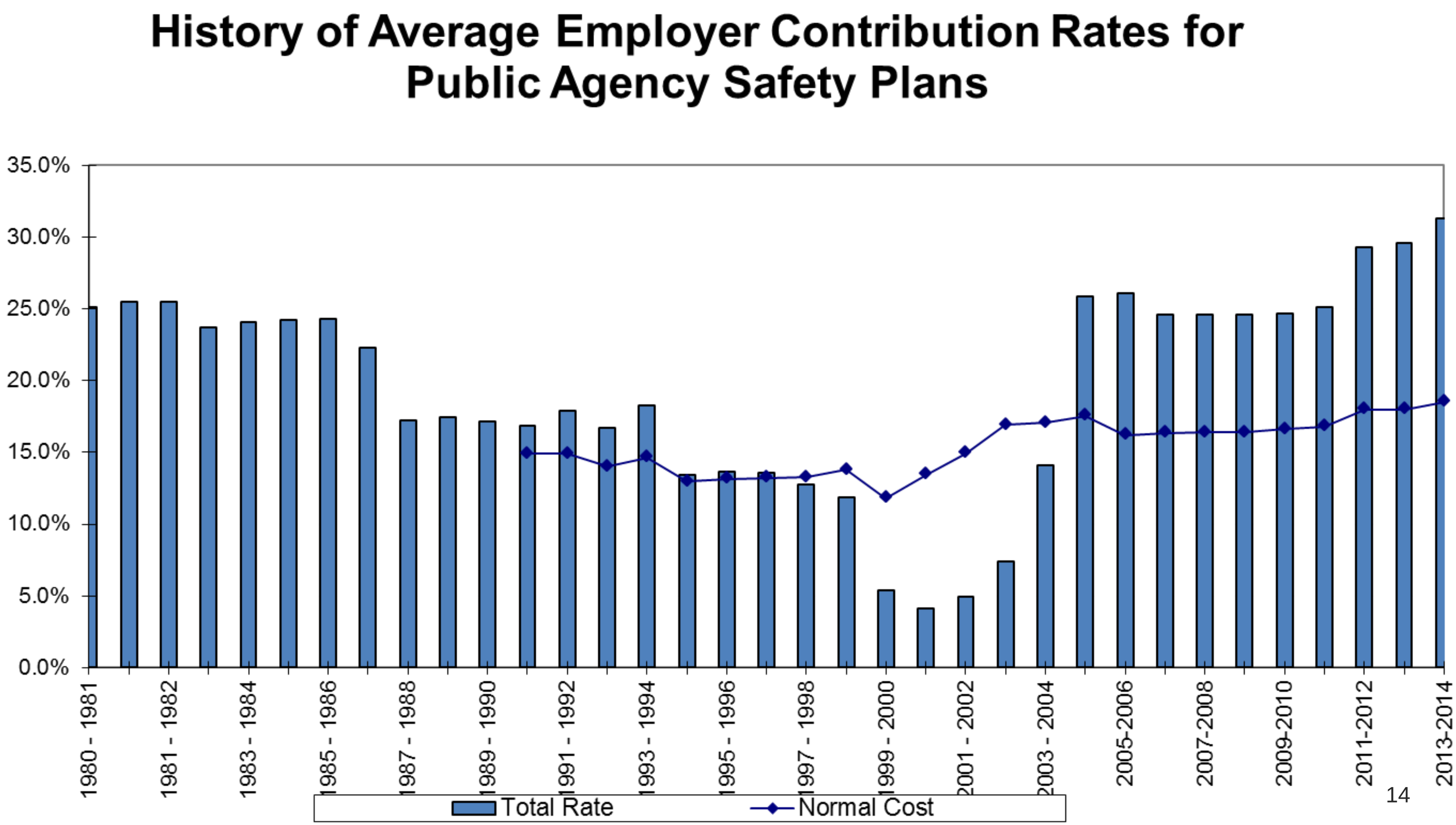


- Market returns are very volatile.
- Using MVA would result in volatile employer rates

Historical Funding Levels



Historical Funding Levels



Current Amortization Policy

- Experience gains/losses paid off over a 30 year rolling period
- Amendments paid off over a fixed 20 year period
- Change in assumptions paid off over a fixed 20 year period
- Assets are smoothed over a 15 year period
- Amortization policy is under review

Questions

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