COUNCIL AGENDA – MAY 7, 2013

INFORMATIONAL REPORT

SUBJECT: REPORT ON RECENT CALPERS BOARD ACTION

SOURCE: ADMINISTRATIVE SERVICES DEPARTMENT

COMMENT: On April 17th, the CalPERS Board adopted new actuarial methods as proposed by PERS Chief Actuary Alan Milligan. The adopted changes pertain to the amortization and smoothing methods utilized by PERS and were proposed in an effort to better anticipate the true long-term cost of benefits, and most significantly, to achieve fully-funded status within 30 years.

The adopted policy smooths employer rates directly rather than smoothing asset values, and reduces the smoothing period to five years from the current rolling 15-year period. As for the changes in amortization, the new policy eliminates the rolling 30-year amortization period of gains and losses, and replaces it with a fixed 25-year amortization period. These changes will become effective for local agency members in FY 2014-2015, and according to CalPERS, will equate to an approximate 7% to 10% increase in employer contribution rates over the next five years.

More changes with the likelihood of increased costs to member agencies are also on the horizon. One pertains to the discount rate. An economic assumptions study is being conducted with an estimated completion date in early 2014. Upon completion of the study, PERS Chief Actuary has indicated that the recommendation will likely be to drop the discount rate by .25% to 7.25%. It is estimated that this scenario would further increase employer contribution rates by at least an additional 2%.

The other likely increase to future employer contribution rates relates to projected life expectancies. Retirees are simply living longer, and therefore collecting their pensions longer. PERS Chief Actuary has indicated that mortality assumptions will likely be adjusted as early as FY 2015/2016, and that employers can further expect a roughly 2% to 4% increase in contribution rates, in addition to the aforementioned increases.

This update on CalPERS is being provided to you for informational purposes only.

RECOMMENDATION: Informational report only.

Report No II-5

Dir   MB Approp./ Funded   CM