

## CalPERS Assumption Changes Approved Increasing Rates

On February 18, 2014, CalPERS Board approved new demographic actuarial assumptions based on the 2013 study of recent experience.

- The largest impact, applying to all CalPERS groups, is a new 20-year mortality projection reflecting longer life expectancies and that longevity will continue to increase. Since retirement benefits will be paid out for more years, the cost of those benefits increases.
- Earlier assumed retirements for Police 3% @50, Fire 3% @55, and Miscellaneous 2.7% @55 and 3% @60 will increase costs for those groups.
- Higher projected pay increases for long-service Safety members will also increase Safety costs.

These changes are not the result of benefit increases. Rather, they are the actuary's attempt to better anticipate the true long-term cost of current benefits, and to fund for them in a balanced way that produces smooth contribution rates and does not defer costs to the future.

### Assumption Changes Impact on CalPERS Agencies

- Rates first increase in FY 2016/17 (based on the 6/30/14 valuation) with full impact in FY 2020/21.
- Phased in uses the recently adopted contribution policy: 20 year amortization with 5 year ramp up and 5 year ramp down.
- CalPERS provided sample rate increase ranges:

	<b>Year 1 Rate Increase FY 2016/17</b>	<b>Year 5 Rate Increase FY 2020/21</b>
Fire	1.2% to 1.9%	6.3% to 7.2%
Police	1.9% to 3.3%	5.3% to 9.3%
County Peace Officer	2.6% to 3.5%	7.1% to 8.7%
Misc 3.0% @60	1.2% to 1.9%	4.0% to 6.7%
Misc 2.7% @55	0.9% to 1.9%	3.1% to 6.5%
Misc 2.5% @55	0.6% to 1.3%	2.4% to 4.8%
Misc 2.0% @55	0.4% to 1.3%	1.3% to 5.1%
Misc 2.0% @60	0.4% to 1.0%	1.0% to 3.1%

- These rate increases are in addition to increases from contribution policy changes first effective in FY 2015/16. (See "CalPERS Rate Changes Approved and More Expected")
- Agencies have no options to mitigate or defer the impact but those wishing to pay more will be able to.
- Estimated increases will be illustrated in 6/30/13 valuation reports.

### Assumption Changes Impact on Member Contribution Rates

- PEPRAs Employees first hired after January 1, 2013 pay ½ of the Normal Cost for their benefits, but the rate only changes if the total normal cost changes by more than 1% of pay.
- Safety Member rates could increase by up to 0.75% of pay beginning in 2016/17.
- No change anticipated for Miscellaneous Member contribution rates.



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### No Change in Discount Rate

- No changes were made to economic assumptions and the discount rate is unchanged at 7.50% based on a new asset allocation.

### New Asset Allocation

- The Board approved a new asset allocation:

Asset Class Component	New Target	Prior Target
Global Equity	47%	50%
Global Fixed Income	19%	17%
Private Equity	12%	14%
Real Estate	11%	9%
Inflation Sensitive	6%	4%
Infrastructure & Forestland	3%	2%
Liquidity	2%	4%
Expected Return (1-10 years)	7.15%	7.25%
Blended Return (1-60 years)	7.56%	7.63%
Discount Rate	7.5%	7.5%

To discuss details of how these changes could affect a specific plan, contact [CalPERS-Issues@bartel-associates.com](mailto:CalPERS-Issues@bartel-associates.com).