ORANGE COUNTY DEPARTMENT OF EDUCATION
200 KALMUS DRIVE
P.O. BOX 9050
COSTA MESA, CA
92628-9050
(714) 966-4000
FAX (714) 432-1916
www.ocde.us

AL MIJARES, Ph.D.
County Superintendent
of Schools

To: Directors, Business
Directors, Human Resources

From: Gary Stine, MPA, Director, Support Services

Date: December 22, 2016

Subject: CalPERS Reduction in Assumed Rate of Return (Discount Rate) and Projected Employer Contribution Rates

On December 21, 2016, the CalPERS Board of Administration took action to reduce the assumed rate of return (discount rate) for pension plans to 7%. This reduction will be phased in over the next three years; however for school districts the first reduction to the discount rate will not take effect until July 1, 2018.

Timeline for Discount Rate Reduction:

Fiscal Year	2017-18	2018-19	2019-20	2020-21
Discount Rate	7.5%	7.375%	7.25%	7.0%

Reducing the discount rate will have a significant impact on the funding status of the pension plan, increase unfunded liabilities, and will raise the normal cost of benefits. This will ultimately lead to increased contribution rates for CalPERS employers and some members. A press release from CalPERS has been attached for your reference.

CalPERS provided the Association of California School Administrators (ACSA) with projected school employer contribution rates which incorporate the change in discount rates and other policy changes. It is important to remember that these rates are estimates and will be adjusted based on the actual experience of the retirement fund each year. The following rates are estimates based on information currently available to CalPERS:

Fiscal Year	2016-17	2017-18	2018-19	2019-20
Projected Employer Rate	13.888%	15.8%	18.7%	21.6%

Fiscal Year	2020-21	2021-22	2022-23	2023-24
Projected Employer Rate	24.9%	26.4%	27.4%	28.2%

Employees who entered into CalPERS membership after January 1, 2013 are subject to the Public Employees' Pension Reform Act (PEPRA). Under PEPRA these members are required to contribute 50% of the normal cost for pension benefits. As the normal cost of pension benefits increases in response to the reduced discount rate, these employees may see an increase in their CalPERS contribution rate (currently 6%). The impact of the change on PEPRA member contribution rates is contingent on the normal cost of pension benefits, which fluctuates each year. While we do not have estimates of the impact on these staff members, it is very likely that their contribution rates will increase to some degree.

In the coming months, our office will distribute additional information on this topic as it becomes available. If you have any questions or need further information regarding CalPERS employer rates, please contact Gary Stine at (714) 966-4253 or via email at gstine@ocde.us.

Enclosures

Cc: Assistant Superintendents, Business and Human Resources
Vice Chancellors, Business and Human Resources

CalPERS to Lower Discount Rate to Seven Percent Over the Next Three Years

December 21, 2016

Communications & Stakeholder Relations
(916) 795-3991
Brad W. Pacheco, Deputy Executive Officer
Wayne Davis, Chief, Office of Public Affairs
Contact: Megan White, Information Officer
newsroom@calpers.ca.gov

SACRAMENTO, CA – The California Public Employees' Retirement System (CalPERS) Board of Administration today voted to lower the discount rate from 7.5 percent to 7.0 percent over the next three years. This incremental lowering of the discount rate will give employers more time to prepare for the changes in contribution costs.

"This was a very difficult decision to make, but it is an important step to ensure the long-term sustainability of the Fund," said Rob Feckner, president of the CalPERS Board of Administration. "We know this will have an impact on the state, schools, and public agencies that partner with us, and we're committed to making sure the changes are implemented in a phased approach so our employers and affected members have time to plan their budgets responsibly."

The discount rate changes approved by the Board for the next three Fiscal Years (FY) are as follows:

- FY 2017-2018: 7.375%
- FY 2018-2019: 7.25%
- FY 2019-2020: 7.00%

In addition, the Board approved separate timelines for implementing the new rate for state, school, and public agencies. The new discount rate for the state would go into effect July 1, 2017. The new discount rate for the school districts and public agencies would take effect July 1, 2018. The difference allows schools and public agencies additional time to plan for rate increases.

Lowering the discount rate, also known as the assumed rate of return, means employers that contract with CalPERS to administer their pension plans will see increases in their normal costs and unfunded actuarial liabilities. Active members hired after January 1, 2013, under the Public Employees' Pension Reform Act will also see their contribution rates rise. Normal cost is the cost of pension benefits for one year.

"Employers have made commitments to their public servants to pay pensions and CalPERS is committed to fulfilling those commitments for generations to come," said Marcie Frost, CalPERS chief executive officer. "Today's action was a necessary step to ensure this happens."

The three-year reduction of the discount rate will result in average employer rate increases of about 1 percent to 3 percent of normal cost as a percent of payroll for most miscellaneous retirement plans, and a 2 percent to 5 percent increase for most safety plans.

Additionally, many CalPERS employers will see a 30 to 40 percent increase in their current unfunded accrued liability payments. These payments are made to amortize unfunded liabilities over 20 years to bring the Fund to a fully funded status over the long-term.

Beginning in 2017, the Board will start reviewing the Fund’s asset allocation mix during the next Asset Liability Management process. The process, which includes a review of the discount rate, will conclude in February 2018.

Today's decision was made after an extensive review by the Board on the current funding status of the Fund, projected investment return rates over the next decade, an overview of CalPERS assets and liabilities, and discussions with stakeholders. The CalPERS Board last lowered the discount rate, from 7.75 percent to 7.5 percent, in 2012.

Over the past several years, the CalPERS Board of Administration has taken several important steps to reduce risks to the Fund and ensure long-term stability:

- 2013: Changing amortization and smoothing policies that spread rate increases or decreases over a five-year period
- 2014: Adopting new demographic assumptions that show retirees are living longer
- 2015: Approving a new funding risk mitigation policy to incrementally lower the discount rate during good economic times

In making its decision, the Board reviewed recommendations from CalPERS staff, external pension and investment consultants, and input from employer and employee stakeholder groups.

For more than eight decades, CalPERS has built retirement and health security for state, school, and public agency members who invest their lifework in public service. Our pension fund serves more than 1.8 million members in the CalPERS retirement system and administers benefits for 1.4 million members and their families in our health program, making us the largest defined-benefit public pension in the U.S. CalPERS' total fund market value currently stands at approximately $303 billion.