CITY OF NEWPORT BEACH
FINANCE COMMITTEE AGENDA

Newport Coast Conference Room, Bay 2E
100 Civic Center Drive, Newport Beach
Monday, November 18, 2013 – 4:00 PM

Finance Committee Members:

Mike Henn, Council Member, Chair
Keith Curry, Mayor
Tony Petros, Council Member

Staff Members:

Dave Kiff, City Manager
Dan Matusiewicz, Finance Director
Steve Montano, Deputy Finance Director

1) CALL MEETING TO ORDER

2) ROLL CALL

3) PUBLIC COMMENTS

Public comments are invited on agenda and non-agenda items generally considered to be within the subject matter jurisdiction of the Finance Committee. Speakers must limit comments to 3 minutes. Before speaking, we invite, but do not require, you to state your name for the record. The Finance Committee has the discretion to extend or shorten the speakers' time limit on agenda or non-agenda items, provided the time limit adjustment is applied equally to all speakers. As a courtesy, please turn cell phones off or set them in the silent mode.

4) APPROVAL OF MINUTES

Approval of the October 15, 2013 Finance Committee meeting minutes.

5) CURRENT BUSINESS

A. Review of Public Employees Retirement System (PERS) Valuations: Staff will present the latest actuarial valuation changes to actuarial assumptions, a review of investment returns, and the potential impact of future rates. (Presentation only)

B. Quarterly Financial Review Q4 FY 2012-13 and Q1 FY 2013-14: In addition to the preliminary year-end closing results and Q4 financial results for FY 12-13, staff will present the Q1 FY 13-14 financial results prior to the publication of the Quarterly Business Report.

This Finance Committee is subject to the Ralph M. Brown Act. Among other things, the Brown Act requires that the Finance Committee's agenda be posted at least seventy-two (72) hours in advance of each regular meeting and that the public be allowed to comment on agenda items before the Finance Committee and items not on the agenda but are within the subject matter jurisdiction of the Finance Committee. The Finance Committee may limit public comments to a reasonable amount of time, generally three (3) minutes per person.

It is the intention of the City of Newport Beach to comply with the Americans with Disabilities Act ("ADA") in all respects. If, as an attendee or a participant at this meeting, you will need special assistance beyond what is normally provided, the City of Newport Beach will attempt to accommodate you in every reasonable manner. If requested, this agenda will be made available in appropriate alternative formats to persons with a disability, as required by Section 202 of the Americans with Disabilities Act of 1990 (42 U.S.C. Sec. 12132), and the federal rules and regulations adopted in implementation thereof. Please contact the City Clerk's Office at least forty-eight (48) hours prior to the meeting to inform us of your particular needs and to determine if accommodation is feasible at (949) 644-3005 or cityclerk@newportbeachca.gov.

C. Budget Process Strategy and Roadmap: Staff will seek guidance and input from the Committee regarding budget process strategies prior to the preparation of the FY 2014-15 annual budget. In consideration of current revenue performance trends and anticipated expenditures, staff will also provide the Committee with preliminary (high-level) budget assumptions for FY 2014-15.

6) FINANCE COMMITTEE ANNOUNCEMENTS OR MATTERS WHICH MEMBERS WOULD LIKE PLACED ON A FUTURE AGENDA FOR DISCUSSION, ACTION OR REPORT (NON-DISCUSSION ITEM)

7) ADJOURNMENT

CITY OF NEWPORT BEACH
CITY COUNCIL FINANCE COMMITTEE
OCTOBER 15, 2013 MEETING MINUTES

1. CALL TO ORDER

The meeting was called to order at 1:45 p.m. in the Newport Coast Conference Room, Bay 2E, 100 Civic Center Drive, Newport Beach, California 92660.

2. ROLL CALL

Present: Council Member Mike Henn (Chair), Mayor Keith Curry and Council Member Tony Petros

Staff present: City Manager Dave Kiff, Finance Director Dan Matusiewicz, Deputy Finance Director Steve Montano, City Attorney Aaron Harp and Budget Manager Susan Giangrande

Members of the public: Jim Mosher; Nicole Shine, OC Register; Robert Hawkins

3. PUBLIC COMMENTS

Mr. Jim Mosher stated his belief that all three members of the Finance Committee are good and honorable men doing their best to serve the city. Two scheduled meetings on August 29th and on September 23rd were both cancelled. When meetings are skipped with increasing frequency, it would lead a reasonable person to assume that the Finance Committee's work is being neglected or done in a non-public way.

Council Member Henn asserted that Mr. Mosher is a good and honorable man, yet his concerns are misplaced. Mr. Henn said that as Finance Committee Chair he has continued the tradition to set agendas with standard items; however the Committee's work plan is subject to adjustment based on facts and circumstances. He requested input from others including staff regarding any issues that have not been addressed by the Committee.

City Attorney Harp cautioned against a lengthy discussion on this item as it was not on the agenda.

City Manager Kiff said that a couple of things have recently gotten in the way of the Finance Committee agenda including the need for staff to focus on a detailed PERS audit and the initial meetings regarding the implementation of a new Enterprise Resources Program (ERP).

Finance Director Matusiewicz agreed that the work plan is a plan and that some unanticipated things, including the two weeks of ERP meetings in August, did require some leniency with the agenda, but that staff will resume work plan items in November.

Mayor Curry said that Mr. Henn has done a superlative job managing the Finance Committee and the City's finances have never been stronger.

4. APPROVAL OF MINUTES

Council Member Henn said he had no problem with the three minor changes to the draft minutes that Mr. Mosher submitted. Mayor Curry moved, Council Member Petros seconded to approve the minutes of the July 22, 2013, Finance Committee meeting with corrections. The Committee voted all ayes to approve the minutes.

5. CURRENT BUSINESS

A. Response to Ralph M. Brown Act Allegations Pursuant to California Government Code Section 54960.2(C)(1).

Council Member Henn requested input from the City Attorney.

City Attorney Harp reported that on September 17, 2013, Mr. Mosher submitted correspondence alleging a Brown Act violation based on an article in the newspaper executed by Mayor Curry and Council Member Henn. He noted the article regarding outsourcing trash pickup was written in their capacities as Council members. Mr. Harp stated that his office reviewed the allegation and determined this was not a violation of the Brown Act because Mayor Curry and Council Member Henn were not acting in their capacity as Finance Committee members; however in order to avoid litigation, Mr. Harp recommended execution of the proposed letter by the Finance Committee Chair that indicates that the Finance Committee, on a go forward basis, would not write joint articles for a newspaper.

Council Member Henn stated that he had no problem with the letter.

Mayor Curry commented that it was a waste of taxpayer time and effort to respond to this. He noted the Brown Act is to avoid secret meetings among the City Council. He further stated that the letter was submitted to the newspaper after the item had been discussed in the public forum.

Council Member Petros agreed with Mayor Curry's comments.

Mr. Mosher said that if nothing else, it is his hope that this agenda item would answer the question, "Does this committee allow members to discuss the City's financial affairs outside of publicly noticed meetings?" He had four additional comments: 1) if elected and appointed officials followed the rules, there would be no need to raise these concerns, 2) he doesn't raise all the concerns that come to mind, and hopes he would be shown respect for his restraint, 3) his phone number and email address were provided in his complaint letter so if staff felt his comments were frivolous they could have informed him, and 4) by issuing the proposed response letter which does not remotely respond to the issues as required by State law, the Committee is daring him to litigate and he questioned if that is a good use of taxpayer money.

Mr. Hawkins announced that he is an attorney, but was speaking as a resident, and does not represent Mr. Mosher. He feels that Mayor Curry has taken the opportunity to abuse Mr. Mosher in an unacceptable fashion. Brown Act violations extend further than the Finance Committee. In his view it was a problem at the September 10, 2013, Council meeting for the Mayor to point to a collective bargaining agreement that was not reported on until the entire hearing had been concluded, instead of after Closed Session. He urged the Finance Committee members not to write an editorial prior to hearing an issue as citizens are entitled to full and fair hearings.

Mayor Curry moved, Council Member Petros seconded approval of the proposed letter as drafted. Council Member Henn asked if the proposed letter was ok to sign given Mr. Mosher's statements that the response was insufficient. City Attorney Harp said in his legal judgment the proposed letter adequately addresses Mr. Mosher's concerns and satisfies the commitment required by the Brown Act. The Committee voted all ayes to approve the proposed letter.

6. FINANCE COMMITTEE ANNOUNCEMENTS OR MATTERS WHICH MEMBERS WOULD LIKE PLACED ON A FUTURE AGENDA FOR DISCUSSION, ACTION OR REPORT (NON-DISCUSSION ITEM)

There were no announcements or matters placed on a future agenda.

7. ADJOURNMENT

The Finance Committee adjourned at 2:04 p.m.

Filed with these minutes are copies of all material distributed at the meeting.

Attest:

______________________________ ______________________________

Mike Henn, Chair
Finance Committee Chair

Date

California Public Employees' Retirement System
Actuarial Office
P.O. Box 942701
Sacramento, CA 94229-2701
TTY: (916) 795-3240
(888) 225-7377 phone • (916) 795-2744 fax
www.calpers.ca.gov

October 2013

SAFETY PLAN OF THE CITY OF NEWPORT BEACH (CalPERS ID: 1545983430)
Annual Valuation Report as of June 30, 2012

Dear Employer,

As an attachment to this letter, you will find a copy of the June 30, 2012 actuarial valuation report of your pension plan. Your 2012 actuarial valuation report contains important actuarial information about your pension plan at CalPERS. Your CalPERS staff actuary, whose signature appears in the Actuarial Certification Section on page 1, is available to discuss the report with you after October 31, 2013.

Future Contribution Rates

The exhibit below displays the Minimum Employer Contribution Rate for fiscal year 2014-15 and a projected contribution rate for 2015-16, before any cost sharing. The projected rate for 2015-16 is based on the most recent information available, including an estimate of the investment return for fiscal year 2012-13, namely 12 percent, and the impact of the new smoothing methods adopted by the CalPERS Board in April 2013 that will impact employer rates for the first time in fiscal year 2015-16. For a projection of employer rates beyond 2015-16, please refer to the "Analysis of Future Investment Return Scenarios" in the "Risk Analysis" section, which includes rate projections through 2019-20 under a variety of investment return scenarios. Please disregard any projections that we may have provided you in the past.

Fiscal Year	Employer Contribution Rate
2014-15	44.522%
2015-16	46.7% (projected)

Member contributions other than cost sharing, (whether paid by the employer or the employee) are in addition to the above rates. **The employer contribution rates in this report do not reflect any cost sharing arrangement you may have with your employees.**

The estimate for 2015-16 also assumes that there are no future contract amendments and no liability gains or losses (such as larger than expected pay increases, more retirements than expected, etc.). This is a very important assumption because these gains and losses do occur and can have a significant impact on your contribution rate. Even for the largest plans, such gains and losses often cause a change in the employer's contribution rate of one or two percent of payroll and may be even larger in some less common instances. These gains and losses cannot be predicted in advance so the projected employer contribution rates are just estimates. Your actual rate for 2015-16 will be provided in next year's report.

Changes since the Prior Year's Valuation

On January 1, 2013, the Public Employees' Pension Reform Act of 2013 (PEPRA) took effect. The impact of most of the PEPRA changes will first show up in the rates and the benefit provision listings of the June 30, 2013 valuation for the 2015-16 rates. For more information on PEPRA, please refer to the CalPERS website.

On April 17, 2013, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization and rate smoothing policies. Beginning with the June 30, 2013 valuations that set the 2015-16 rates, CalPERS will no longer use an actuarial value of assets and will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period. The impact of this new actuarial methodology is reflected in the "Analysis of Future Investment Return Scenarios" subsection of the "Risk Analysis" section of your report.

A review of the preferred asset allocation mix for CalPERS investment portfolio will be performed in late 2013, which could influence future discount rates. In addition, CalPERS will review economic and demographic assumptions, including mortality rate improvements that are likely to increase employer contribution rates in future years. The "Analysis of Future Investment Return Scenarios" subsection does **not** reflect the impact of assumption changes that we expect will also impact future rates.

Besides the above noted changes, there may also be changes specific to your plan such as contract amendments and funding changes.

Further descriptions of general changes are included in the "Highlights and Executive Summary" section and in Appendix A, "Actuarial Methods and Assumptions." The effect of the changes on your rate is included in the "Reconciliation of Required Employer Contributions."

We understand that you might have a number of questions about these results. While we are very interested in discussing these results with your agency, in the interest of allowing us to give every public agency their results, we ask that you wait until after October 31 to contact us with actuarial questions. If you have other questions, you may call the Customer Contact Center at (888)-CalPERS or (**888-225-7377**).

Sincerely,

Alan Milligan

ALAN MILLIGAN
Chief Actuary

CalPERS

ACTUARIAL VALUATION

as of June 30, 2012

for the
SAFETY PLAN
of the
CITY OF NEWPORT BEACH

(CalPERS ID: 1545983430)

REQUIRED CONTRIBUTIONS
FOR FISCAL YEAR
July 1, 2014 – June 30, 2015

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ACTUARIAL CERTIFICATION

To the best of our knowledge, this report is complete and accurate and contains sufficient information to disclose, fully and fairly, the funded condition of the SAFETY PLAN OF THE CITY OF NEWPORT BEACH. This valuation is based on the member and financial data as of June 30, 2012 provided by the various CalPERS databases and the benefits under this plan with CalPERS as of the date this report was produced. It is our opinion that the valuation has been performed in accordance with generally accepted actuarial principles, in accordance with standards of practice prescribed by the Actuarial Standards Board, and that the assumptions and methods are internally consistent and reasonable for this plan, as prescribed by the CalPERS Board of Administration according to provisions set forth in the California Public Employees' Retirement Law.

The undersigned is an actuary for CalPERS, who is a member of the American Academy of Actuaries and the Society of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

KERRY J. WORGAN, MAAA, FSA, FCIA
Senior Pension Actuary, CalPERS

HIGHLIGHTS AND EXECUTIVE SUMMARY

Introduction

This report presents the results of the June 30, 2012 actuarial valuation of the SAFETY PLAN OF THE CITY OF NEWPORT BEACH of the California Public Employees' Retirement System (CalPERS). This actuarial valuation sets the fiscal year 2014-15 required employer contribution rates.

On January 1, 2013, the Public Employees' Pension Reform Act of 2013 (PEPRA) took effect. The impact of most of the PEPRA changes will first show up in the rates and the benefit provision listings of the June 30, 2013 valuation, which sets the 2015-16 contribution rates. For more information on PEPRA, please refer to the CalPERS website.

On April 17, 2013, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization and smoothing policies. Prior to this change, CalPERS employed an amortization and smoothing policy, which spread investment returns over a 15-year period while experience gains and losses were amortized over a rolling 30-year period. Effective with the June 30, 2013 valuations, CalPERS will no longer use an actuarial value of assets and will employ an amortization and smoothing policy that will spread rate increases or decreases over a 5-year period, and will amortize all experience gains and losses over a fixed 30-year period.

The new amortization and smoothing policy will be used for the first time in the June 30, 2013 actuarial valuations. These valuations will be performed in the fall of 2014 and will set employer contribution rates for the fiscal year 2015-16.

As stewards of the System, CalPERS must ensure that the pension fund is sustainable over multiple generations. Our strategic plan calls for us to take an integrated view of our assets and liabilities and to take steps designed to achieve a fully funded plan. A review of the preferred asset allocation mix for CalPERS investment portfolio will be performed in late 2013, which could influence future discount rates. In addition, CalPERS will review economic and demographic assumptions, including mortality rate improvements that are likely to increase employer contribution rates in future years.

Purpose of the Report

The actuarial valuation was prepared by the CalPERS Actuarial Office using data as of June 30, 2012. The purpose of the report is to:

- Set forth the actuarial assets and accrued liabilities of this plan as of June 30, 2012;
- Determine the required employer contribution rate for the fiscal year July 1, 2014 through June 30, 2015;
- Provide actuarial information as of June 30, 2012 to the CalPERS Board of Administration and other interested parties, and to;
- Provide pension information as of June 30, 2012 to be used in financial reports subject to Governmental Accounting Standards Board (GASB) Statement Number 27 for a Single Employer Defined Benefit Pension Plan.

California Actuarial Advisory Panel Recommendations

This report includes all the basic disclosure elements as described in the *Model Disclosure Elements for Actuarial Valuation Reports* recommended in 2011 by the California Actuarial Advisory Panel (CAAP), with the exception of including the original base amounts of the various components of the unfunded liability in the Schedule of Amortization Bases shown on page 19.

Additionally, this report includes the following "Enhanced Risk Disclosures" also recommended by the CAAP in the Model Disclosure Elements document:

- A "Deterministic Stress Test," projecting future results under different investment income scenarios
- A "Sensitivity Analysis," showing the impact on current valuation results using a 1% plus or minus change in the discount rate.

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.

Required Employer Contribution

		Fiscal Year 2013-14		Fiscal Year 2014-15
Actuarially Determined Employer Contributions				
1. Contribution in Projected Dollars				
a) Total Normal Cost	$	8,142,754	$	8,223,593
b) Employee Contribution[1]		2,834,344		2,796,929
c) Employer Normal Cost [(1a) – (1b)]		5,308,410		5,426,664
d) Unfunded Contribution		7,501,900		8,409,499
e) Required Employer Contribution [(1c) + (1d)]	$	12,810,310	$	13,836,163
Projected Annual Payroll for Contribution Year	$	31,492,708	$	31,076,988
2. Contribution as a Percentage of Payroll				
a) Total Normal Cost		25.856%		26.462%
b) Employee Contribution[1]		9.000%		9.000%
c) Employer Normal Cost [(2a) – (2b)]		16.856%		17.462%
d) Unfunded Rate		23.821%		27.060%
e) Required Employer Rate [(2c) + (2d)]		40.677%		44.522%
Minimum Employer Contribution Rate[2]		**40.677%**		**44.522%**
Annual Lump Sum Prepayment Option[3]	$	12,355,360	$	13,344,781

[1]This is the percentage specified in the Public Employees Retirement Law, net of any reduction from the use of a modified formula or other factors. Employee cost sharing is not shown in this report.

[2]The Minimum Employer Contribution Rate under PEPRA is the greater of the required employer rate or the employer normal cost.

[3]Payment must be received by CalPERS before the first payroll reported to CalPERS of the new fiscal year and after June 30. If there is contractual cost sharing or other change, this amount will change.

Plan's Funded Status

		June 30, 2011		June 30, 2012
1. Present Value of Projected Benefits	$	478,192,205	$	496,438,761
2. Entry Age Normal Accrued Liability		405,879,283		424,868,507
3. Actuarial Value of Assets (AVA)		295,075,720		302,365,698
4. Unfunded Liability (AVA Basis) [(2) – (3)]	$	110,803,563	$	122,502,809
5. Funded Ratio (AVA Basis) [(3) / (2)]		72.7%		71.2%
6. Market Value of Assets (MVA)	$	262,881,439	$	252,131,503
7. Unfunded Liability (MVA Basis) [(2) – (6)]	$	142,997,844	$	172,737,004
8. Funded Ratio (MVA Basis) [(6) / (2)]		64.8%		59.3%
Superfunded Status		No		No

Cost

Actuarial Cost Estimates in General

What will this pension plan cost? Unfortunately, there is no simple answer. There are two major reasons for the complexity of the answer. First, actuarial calculations, including the ones in this report, are based on a number of assumptions about the future. These assumptions can be divided into two categories.

- Demographic assumptions include the percentage of employees that will terminate, die, become disabled, and retire in each future year.
- Economic assumptions include future salary increases for each active employee, and the assumption with the greatest impact, future asset returns at CalPERS for each year into the future until the last dollar is paid to current members of your plan.

While CalPERS has set these assumptions to reflect our best estimate of the real future of your plan, it must be understood that these assumptions are very long-term predictors and will surely not be realized in any one year. For example, while the asset earnings at CalPERS have averaged more than the assumed return of 7.5 percent for the past twenty year period ending June 30, 2013, returns for each fiscal year ranged from negative -24 percent to +21.7 percent.

Second, the very nature of actuarial funding produces the answer to the question of plan cost as the sum of two separate pieces.

- The Normal Cost (i.e., the future annual premiums in the absence of surplus or unfunded liability) expressed as a percentage of total active payroll.
- The Past Service Cost or Accrued Liability (i.e., the current value of the benefit for all credited past service of current members) which is expressed as a lump sum dollar amount.

The cost is the sum of a percent of future pay and a lump sum dollar amount (the sum of an apple and an orange if you will). To communicate the total cost, either the Normal Cost (i.e., future percent of payroll) must be converted to a lump sum dollar amount (in which case the total cost is the present value of benefits), or the Past Service Cost (i.e., the lump sum) must be converted to a percent of payroll (in which case the total cost is expressed as the employer's rate, part of which is permanent and part temporary). Converting the Past Service Cost lump sum to a percent of payroll requires a specific amortization period, and the employer rate will vary depending on the amortization period chosen.

Changes since the Prior Year's Valuation

Benefits

The standard actuarial practice at CalPERS is to recognize mandated legislative benefit changes in the first annual valuation following the effective date of the legislation. Voluntary benefit changes by plan amendment are generally included in the first valuation that is prepared after the amendment becomes effective even if the valuation date is prior to the effective date of the amendment.

This valuation generally reflects plan changes by amendments effective before the date of the report. Please refer to Appendix B for a summary of the plan provisions used in this valuation. The effect of any mandated benefit changes or plan amendments on the unfunded liability is shown in the "(Gain)/Loss Analysis" and the effect on your employer contribution rate is shown in the "Reconciliation of Required Employer Contributions." It should be noted that no change in liability or rate is shown for any plan changes, which were already included in the prior year's valuation.

Public Employees' Pension Reform Act of 2013 (PEPRA)

On January 1, 2013, the Public Employees' Pension Reform Act of 2013 (PEPRA) took effect, requiring that a public employer's contribution to a defined benefit plan, in combination with employee contributions to that defined benefit plan, shall not be less than the normal cost rate. Beginning July 1, 2013, this means that some plans with surplus will be paying more than they otherwise would. For more information on PEPRA, please refer to the CalPERS website.

Subsequent Events

Actuarial Methods and Assumptions

On April 17, 2013, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization and smoothing policies. Beginning with the June 30, 2013 valuations that set the 2015-16 rates, CalPERS will no longer use an actuarial value of assets and will employ an amortization and rate smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period. The impact of this new actuarial methodology is reflected in the "Expected Rate Increases" subsection of the "Risk analysis" section of your report.

Not reflected in the "Expected Rate Increases" subsection of the "Risk analysis" section is the impact of assumption changes that we expect will also, impact future rates. A review of the preferred asset allocation mix for CalPERS investment portfolio will be performed in late 2013, which could influence future discount rates. In addition, CalPERS will review economic and demographic assumptions, including mortality rate improvements that are likely to increase employer contribution rates in future years.

ASSETS

- RECONCILIATION OF THE MARKET VALUE OF ASSETS
- DEVELOPMENT OF THE ACTUARIAL VALUE OF ASSETS
- ASSET ALLOCATION
- CALPERS HISTORY OF INVESTMENT RETURNS

Reconciliation of the Market Value of Assets

1.	Market Value of Assets as of 6/30/11 Including Receivables	$	262,881,439
2.	Receivables for Service Buybacks as of 6/30/11		559,217
3.	Market Value of Assets as of 6/30/11		262,322,222
4.	Employer Contributions		9,804,594
5.	Employee Contributions		2,737,505
6.	Benefit Payments to Retirees and Beneficiaries		(22,212,336)
7.	Refunds		(11,301)
8.	Lump Sum Payments		0
9.	Transfers and Miscellaneous Adjustments		(889,516)
10.	Investment Return		(580,191)
11.	Market Value of Assets as of 6/30/12	$	251,170,977
12.	Receivables for Service Buybacks as of 6/30/12		960,526
13.	Market Value of Assets as of 6/30/12 Including Receivables	$	252,131,503

Development of the Actuarial Value of Assets

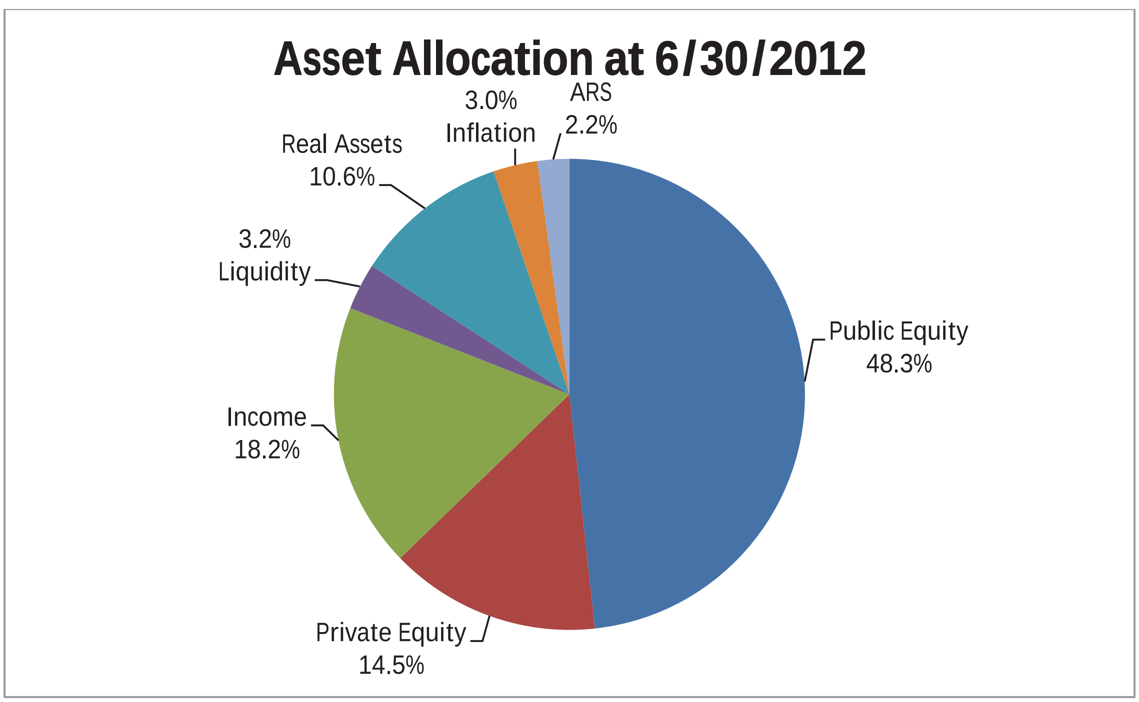
1.	Actuarial Value of Assets as of 6/30/11 Used For Rate Setting Purposes	$	295,075,720
2.	Receivables for Service Buybacks as of 6/30/11		559,217
3.	Actuarial Value of Assets as of 6/30/11		294,516,503
4.	Employer Contributions		9,804,594
5.	Employee Contributions		2,737,505
6.	Benefit Payments to Retirees and Beneficiaries		(22,212,336)
7.	Refunds		(11,301)
8.	Lump Sum Payments		0
9.	Transfers and Miscellaneous Adjustments		(889,516)
10.	Expected Investment Income at 7.5%		21,699,490
11.	Expected Actuarial Value of Assets	$	305,644,939
12.	Market Value of Assets as of 6/30/12	$	251,170,977
13.	Preliminary Actuarial Value of Assets [(11) + ((12) – (11)) / 15]		302,013,342
14.	Maximum Actuarial Value of Assets (120% of (12))		301,405,172
15.	Minimum Actuarial Value of Assets (80% of (12))		200,936,782
16.	Actuarial Value of Assets {Lesser of [(14), Greater of ((13), (15))]}		301,405,172
17.	Actuarial Value to Market Value Ratio		119.9%
18.	Receivables for Service Buybacks as of 6/30/12		960,526
19.	Actuarial Value of Assets as of 6/30/12 Used for Rate Setting Purposes	$	302,365,698

Asset Allocation

CalPERS adheres to an Asset Allocation Strategy which establishes asset class allocation policy targets and ranges, and manages those asset class allocations within their policy ranges. CalPERS recognizes that over 90 percent of the variation in investment returns of a well-diversified pool of assets can typically be attributed to asset allocation decisions. In December 2010 the Board approved the policy asset class targets and ranges listed below. These policy asset allocation targets and ranges are expressed as a percentage of total assets and were expected to be implemented over a period of one to two years beginning July 1, 2011 and reviewed again in December 2013.

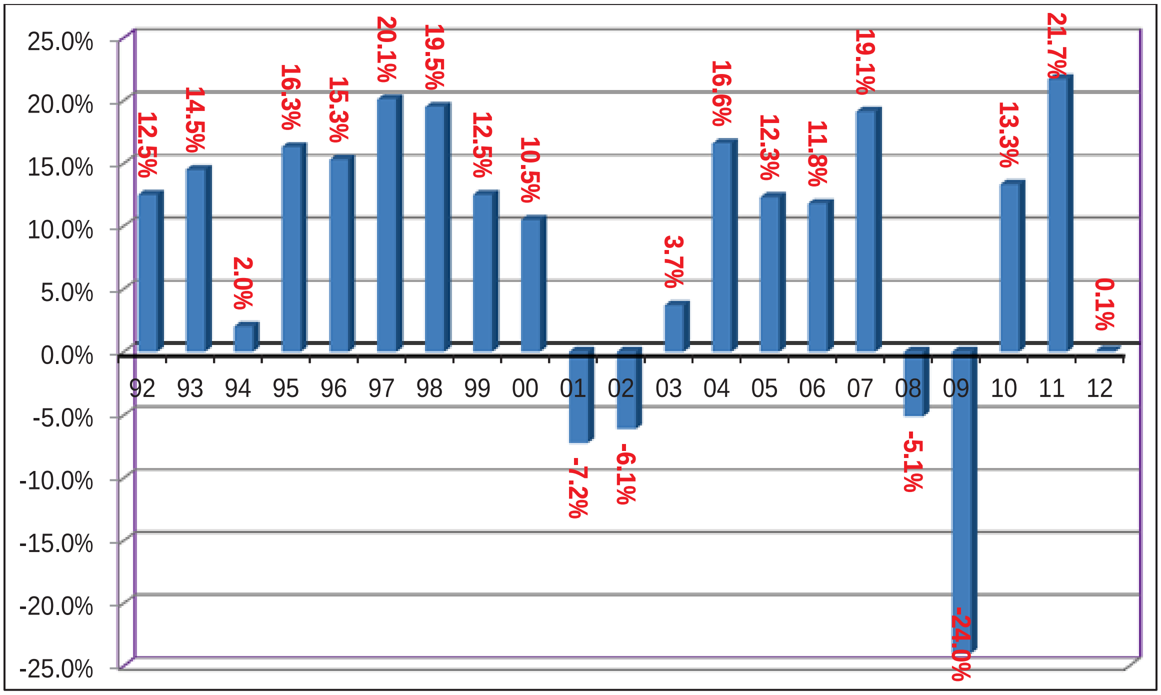
The asset allocation and market value of assets shown below reflect the values of the Public Employees Retirement Fund (PERF) in its entirety as of June 30, 2012. The assets for CITY OF NEWPORT BEACH SAFETY PLAN are part of the Public Employees Retirement Fund (PERF) and are invested accordingly.

(A) Asset Class	(B) Market Value ($ Billion)	(C) Policy Target Allocation	(D) Policy Target Range
1) Public Equity	113.0	50.0%	+/- 7%
2) Private Equity	33.9	14.0%	+/- 4%
3) Fixed Income	42.6	17.0%	+/- 5%
4) Cash Equivalents	7.5	4.0%	+/- 5%
5) Real Assets	24.8	11.0%	+/- 3%
6) Inflation Assets	7.0	4.0%	+/- 3%
7) Absolute Return Strategy (ARS)	5.1	0.0%	N/A
Total Fund	**$233.9**	**100.0%**	**N/A**



CalPERS History of Investment Returns

The following is a chart with historical annual returns of the Public Employees Retirement Fund for each fiscal year ending on June 30. Beginning in 2002, the figures are reported as gross of fees.



LIABILITIES AND RATES

- DEVELOPMENT OF ACCRUED AND UNFUNDED LIABILITIES
- (GAIN) / LOSS ANALYSIS 06/30/11 - 06/30/12
- SCHEDULE OF AMORTIZATION BASES
- RECONCILIATION OF REQUIRED EMPLOYER CONTRIBUTIONS
- EMPLOYER CONTRIBUTION RATE HISTORY
- FUNDING HISTORY

Development of Accrued and Unfunded Liabilities

1.	Present Value of Projected Benefits		
	a) Active Members	$	173,222,301
	b) Transferred Members		6,245,707
	c) Terminated Members		3,585,321
	d) Members and Beneficiaries Receiving Payments		313,385,432
	e) Total	$	496,438,761
2.	Present Value of Future Employer Normal Costs	$	46,429,185
3.	Present Value of Future Employee Contributions	$	25,141,069
4.	Entry Age Normal Accrued Liability		
	a) Active Members [(1a) - (2) - (3)]	$	101,652,047
	b) Transferred Members (1b)		6,245,707
	c) Terminated Members (1c)		3,585,321
	d) Members and Beneficiaries Receiving Payments (1d)		313,385,432
	e) Total	$	424,868,507
5.	Actuarial Value of Assets (AVA)	$	302,365,698
6.	Unfunded Accrued Liability (AVA Basis) [(4e) – (5)]	$	122,502,809
7.	Funded Ratio (AVA Basis) [(5) / (4e)]		71.2%
8.	Market Value of Assets (MVA)	$	252,131,503
9.	Unfunded Liability (MVA Basis) [(4e) - (8)]	$	172,737,004
10.	Funded Ratio (MVA Basis) [(8) / (4e)]		59.3%

(Gain) /Loss Analysis 6/30/11 – 6/30/12

To calculate the cost requirements of the plan, assumptions are made about future events that affect the amount and timing of benefits to be paid and assets to be accumulated. Each year actual experience is compared to the expected experience based on the actuarial assumptions. This results in actuarial gains or losses, as shown below.

A	**Total (Gain) / Loss for the Year**			
	1.	Unfunded Accrued Liability (UAL) as of 6/30/11	$	110,803,563
	2.	Expected Payment on the UAL during 2011/2012		5,394,340
	3.	Interest through 6/30/12 [.075 x (A1) - ((1.075)^{½} - 1) x (A2)]		8,111,636
	4.	Expected UAL before all other changes [(A1) - (A2) + (A3)]		113,520,859
	5.	Change due to plan changes		0
	6.	Change due to assumption change		0
	7.	Expected UAL after all other changes [(A4) + (A5) + (A6)]		113,520,859
	8.	Actual UAL as of 6/30/12		122,502,809
	9.	Total (Gain)/Loss for 2011/2012 [(A8) - (A7)]	$	8,981,950
B	**Contribution (Gain) / Loss for the Year**			
	1.	Expected Contribution (Employer and Employee)	$	13,069,667
	2.	Interest on Expected Contributions		481,252
	3.	Actual Contributions		12,542,099
	4.	Interest on Actual Contributions		461,826
	5.	Expected Contributions with Interest [(B1) + (B2)]		13,550,919
	6.	Actual Contributions with Interest [(B3) + (B4)]		13,003,925
	7.	Contribution (Gain)/Loss [(B5) - (B6)]	$	546,994
C	**Asset (Gain) / Loss for the Year**			
	1.	Actuarial Value of Assets as of 6/30/11 Including Receivables	$	295,075,720
	2.	Receivables as of 6/30/11		559,217
	3.	Actuarial Value of Assets as of 6/30/11		294,516,503
	4.	Contributions Received		12,542,099
	5.	Benefits and Refunds Paid		(22,223,637)
	6.	Transfers and miscellaneous adjustments		(889,516)
	7.	Expected Int. [.075 x (C3) + ((1.075)^{½} - 1) x ((C4) + (C5) + (C6))]		21,699,490
	8.	Expected Assets as of 6/30/12 [(C3) + (C4) + (C5) + (C6) + (C7)]		305,644,939
	9.	Receivables as of 6/30/12		960,526
	10.	Expected Assets Including Receivables		306,605,465
	11.	Actual Actuarial Value of Assets as of 6/30/12		302,365,698
	12.	Asset (Gain)/Loss [(C10) - (C11)]	$	4,239,767
D	**Liability (Gain) / Loss for the Year**			
	1.	Total (Gain)/Loss (A9)	$	8,981,950
	2.	Contribution (Gain)/Loss (B7)		546,994
	3.	Asset (Gain)/Loss (C12)		4,239,767
	4.	Liability (Gain)/Loss [(D1) - (D2) - (D3)]	$	4,195,189

Development of the (Gain) / Loss Balance as of 6 / 30 / 12

1.	(Gain)/Loss Balance as of 6/30/11	$	0
2.	Payment Made on the Balance during 2011/2012		0
3.	Interest through 6/30/12 [.075 x (1) - ((1.075)$^{1/2}$ - 1) x (2)]		0
4.	Scheduled (Gain)/Loss Balance as of 6/30/12 [(1) - (2) + (3)]	$	0
5.	(Gain)/Loss for Fiscal Year ending 6/30/12 [(A9) above]		8,981,950
6.	Final (Gain)/Loss Balance as of 6/30/12 [(4) + (5)]	$	8,981,950

Schedule of Amortization Bases

There is a two-year lag between the Valuation Date and the Contribution Fiscal Year.

- The assets, liabilities and funded status of the plan are measured as of the valuation date; June 30, 2012.
- The employer contribution rate determined by the valuation is for the fiscal year beginning two years after the valuation date; fiscal year 2014-15.

This two-year lag is necessary due to the amount of time needed to extract and test the membership and financial data, and due to the need to provide public agencies with their employer contribution rates well in advance of the start of the fiscal year.

The Unfunded Liability is used to determine the employer contribution and therefore must be rolled forward two years from the valuation date to the first day of the fiscal year for which the contribution is being determined. The Unfunded Liability is rolled forward each year by subtracting the expected Payment on the Unfunded Liability for the fiscal year and adjusting for interest. The Expected Payment on the Unfunded Liability for a fiscal year is equal to the Expected Employer Contribution for the fiscal year minus the Expected Normal Cost for the year. The Employer Contribution Rate for the first fiscal year is determined by the actuarial valuation two years ago and the rate for the second year is from the actuarial valuation one year ago. The Normal Cost Rate for each of the two fiscal years is assumed to be the same as the rate determined by the current valuation. All expected dollar amounts are determined by multiplying the rate by the expected payroll for the applicable fiscal year, based on payroll as of the valuation date.

							Amounts for Fiscal 2014-15		
Reason for Base	**Date Established**	**Amorti-zation Period**	**Balance 6/30/12**	**Expected Payment 2012-13**	**Balance 6/30/13**	**Expected Payment 2013-14**	**Balance 6/30/14**	**Scheduled Payment for 2014-15**	**Payment as Percent-age of Payroll**
FORCED FS OLD METHOD	06/30/11	25	$113,520,859	$5,833,183	$115,986,950	$7,501,900	$116,907,836	$7,726,957	24.864%
PAYMENT (GAIN)/LOSS	06/30/12	30	$0	$(422,172)	$437,717	$(497,509)	$986,374	$59,232	0.191%
(GAIN)/LOSS	06/30/12	30	$8,981,950	$0	$9,655,596	$0	$10,379,766	$623,310	2.006%
TOTAL			**$122,502,809**	**$5,411,011**	**$126,080,263**	**$7,004,391**	**$128,273,976**	**$8,409,499**	**27.060%**

The special (gain)/loss bases were established using the temporary modification recognized in the 2009, 2010 and 2011 annual valuations. Unlike the gain/loss occurring in previous and subsequent years, the gain/loss recognized in the 2009, 2010, and 2011 annual valuations will be amortized over fixed and declining 30-year periods so that these annual gain/losses will be fully paid off in 30 years. The gain/loss recognized in 2012 and later valuations will be combined with the gain/loss from 2008 and earlier valuations.

Reconciliation of Required Employer Contributions

	Percentage of Projected Payroll	Estimated $ Based on Projected Payroll
1. Contribution for 7/1/13 – 6/30/14	40.677%	$ 12,810,310
2. Effect of changes since the prior year annual valuation		
a) Effect of unexpected changes in demographics and financial results	3.845%	1,194,955
b) Effect of plan changes	0.000%	0
c) Effect of changes in Assumptions	0.000%	0
d) Effect of change in payroll	-	(169,102)
e) Effect of elimination of amortization base	0.000%	0
f) Effect of changes due to Fresh Start	0.000%	0
g) Net effect of the changes above [Sum of (a) through (f)]	3.845%	1,025,853
3. Contribution for 7/1/14 – 6/30/15 [(1)+(2g)]	44.522%	13,836,163

The contribution actually paid (item 1) may be different if a prepayment of unfunded actuarial liability is made or a plan change became effective after the prior year's actuarial valuation was performed.

Employer Contribution Rate History

The table below provides a recent history of the employer contribution rates for your plan, as determined by the annual actuarial valuation. It does not account for prepayments or benefit changes made in the middle of the year.

Required By Valuation

Fiscal Year	Employer Normal Cost	Unfunded Rate	Total Employer Contribution Rate
2010 - 2011	15.407%	14.795%	30.202%
2011 - 2012	16.461%	18.567%	35.028%
2012 - 2013	16.094%	19.840%	35.934%
2013 - 2014	16.856%	23.821%	40.677%
2014 - 2015	17.462%	27.060%	44.522%

Funding History

The Funding History below shows the recent history of the actuarial accrued liability, the market value of assets, the actuarial value of assets, funded ratios and the annual covered payroll. The Actuarial Value of Assets is used to establish funding requirements and the funded ratio on this basis represents the progress toward fully funding future benefits for current plan participants. The funded ratio based on the Market Value of Assets is an indicator of the short-term solvency of the plan.

Valuation Date	Accrued Liability	Actuarial Value of Assets (AVA)	Market Value of Assets (MVA)	Funded Ratio AVA	Funded Ratio MVA	Annual Covered Payroll
06/30/08	$ 336,060,918	$ 264,634,222	$ 272,104,409	78.7%	81.0%	$ 28,055,510
06/30/09	366,918,353	274,649,310	200,973,963	74.9%	54.8%	30,252,789
06/30/10	382,338,494	284,617,445	223,281,274	74.4%	58.4%	29,752,737
06/30/11	405,879,283	295,075,720	262,881,439	72.7%	64.8%	28,820,289
06/30/12	424,868,507	302,365,698	252,131,503	71.2%	59.3%	28,439,846

RISK ANALYSIS

- VOLATILITY RATIOS
- PROJECTED RATES
- ANALYSIS OF FUTURE INVESTMENT RETURN SCENARIOS
- ANALYSIS OF DISCOUNT RATE SENSITIVITY
- HYPOTHETICAL TERMINATION LIABILITY

Volatility Ratios

The actuarial calculations supplied in this communication are based on a number of assumptions about very long-term demographic and economic behavior. Unless these assumptions (terminations, deaths, disabilities, retirements, salary growth, and investment return) are exactly realized each year, there will be differences on a year-to-year basis. The year-to-year differences between actual experience and the assumptions are called actuarial gains and losses and serve to lower or raise the employer's rates from one year to the next. Therefore, the rates will inevitably fluctuate, especially due to the ups and downs of investment returns.

Asset Volatility Ratio (AVR)

Plans that have higher asset to payroll ratios produce more volatile employer rates due to investment return. For example, a plan with an asset to payroll ratio of 8 may experience twice the contribution volatility due to investment return volatility, than a plan with an asset to payroll ratio of 4. Below we have shown your asset volatility ratio, a measure of the plan's current rate volatility. It should be noted that this ratio is a measure of the current situation. It increases over time but generally tends to stabilize as the plan matures.

Liability Volatility Ratio

Plans that have higher liability to payroll ratios produce more volatile employer rates due to investment return and changes in liability. For example, a plan with a liability to payroll ratio of 8 is expected to have twice the contribution volatility of a plan with a liability to payroll ratio of 4. The liability volatility ratio is also included in the table below. It should be noted that this ratio indicates a longer-term potential for contribution volatility and the asset volatility ratio, described above, will tend to move closer to this ratio as the plan matures.

Rate Volatility		As of June 30, 2012
1. Market Value of Assets without Receivables	$	251,170,977
2. Payroll		28,439,846
3. Asset Volatility Ratio (AVR = 1. / 2.)		8.8
4. Accrued Liability	$	424,868,507
5. Liability Volatility Ratio (4. / 2.)		14.9

Projected Rates

On April 17, 2013, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization and smoothing policies. Beginning with the June 30, 2013 valuations that will set the 2015-16 rates, CalPERS will employ an amortization and rate smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period. The table below shows projected employer contribution rates (before cost sharing) for the next five Fiscal Years, ***assuming CalPERS earns 12% for fiscal year 2012-13 and 7.50 percent every fiscal year thereafter***, and assuming that all other actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur between now and the beginning of the fiscal year 2015-16. ***Consequently, these projections do not take into account potential rate increases from likely future assumption changes.*** Nor do they take into account the positive impact PEPRA is expected to gradually have on the normal cost.

	New Rate	Projected Future Employer Contribution Rates				
	2014-15	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**
Contribution Rates:	44.522%	46.7%	48.9%	51.1%	53.2%	55.4%

Analysis of Future Investment Return Scenarios

In July 2013, the investment return for fiscal year 2012-13 was announced to be 12.5 percent. Note that this return is before administrative expenses and also does not reflect final investment return information for real estate and private equities. The final return information for these two asset classes is expected to be available later in October. For purposes of projecting future employer rates, we are assuming a 12 percent investment return for fiscal year 2012-13.

The investment return realized during a fiscal year first affects the contribution rate for the fiscal year 2 years later. Specifically, the investment return for 2012-13 will first be reflected in the June 30, 2013 actuarial valuation that will be used to set the 2015-16 employer contribution rates, the 2013-14 investment return will first be reflected in the June 30, 2014 actuarial valuation that will be used to set the 2016-17 employer contribution rates and so forth.

Based on a 12 percent investment return for fiscal year 2012-13 **and the April 17, 2013 CalPERS Board-approved amortization and rate smoothing method change,** and assuming that all other actuarial assumptions will be realized, and that no further changes to assumptions, contributions, benefits, or funding will occur between now and the beginning of the fiscal year 2015-16, the effect on the 2015-16 Employer Rate is as follows: (Note that this estimated rate does not reflect additional assumption changes as discussed in the "Subsequent Events" section.)

Estimated 2015-16 Employer Rate	**Estimated Increase in Employer Rate between 2014-15 and 2015-16**
46.7%	2.2%

As part of this report, a sensitivity analysis was performed to determine the effects of various investment returns during fiscal years 2013-14, 2014-15 and 2015-16 on the 2016-17, 2017-18 and 2018-19 employer rates. Once again, the projected rate increases assume that all other actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur.

Five different investment return scenarios were selected.

- The first scenario is what one would expect if the markets were to give us a 5th percentile return from July 1, 2013 through June 30, 2016. The 5th percentile return corresponds to a -4.1 percent return for each of the 2013-14, 2014-15 and 2015-16 fiscal years.
- The second scenario is what one would expect if the markets were to give us a 25th percentile return from July 1, 2013 through June 30, 2016. The 25th percentile return corresponds to a 2.6 percent return for each of the 2013-14, 2014-15 and 2015-16 fiscal years.
- The third scenario assumed the return for 2013-14, 2014-15, 2015-16 would be our assumed 7.5 percent investment return which represents about a 49th percentile event.
- The fourth scenario is what one would expect if the markets were to give us a 75th percentile return from July 1, 2013 through June 30, 2016. The 75th percentile return corresponds to a 11.9 percent return for each of the 2013-14, 2014-15 and 2015-16 fiscal years.
- Finally, the last scenario is what one would expect if the markets were to give us a 95th percentile return from July 1, 2013 through June 30, 2016. The 95th percentile return corresponds to a 18.5 percent return for each of the 2013-14, 2014-15 and 2015-16 fiscal years.

The table below shows the estimated projected contribution rates and the estimated increases for your plan under the five different scenarios.

2013-16 Investment Return Scenario	Estimated Employer Rate			Estimated Change in Employer Rate between 2015-16 and 2018-19
	2016-17	2017-18	2018-19	
-4.1% (5th percentile)	50.4%	55.5%	61.8%	15.1%
2.6% (25th percentile)	49.5%	53.0%	57.0%	10.3%
7.5%	48.9%	51.1%	53.2%	6.5%
11.9%(75th percentile)	48.3%	49.3%	49.6%	2.9%
18.5%(95th percentile)	47.4%	46.5%	43.8%	-2.9%

Analysis of Discount Rate Sensitivity

The following analysis looks at the 2014-15 employer contribution rates under two different discount rate scenarios. Shown below are the employer contribution rates assuming discount rates that are 1 percent lower and 1 percent higher than the current valuation discount rate. This analysis gives an indication of the potential required employer contribution rates if the PERF were to realize investment returns of 6.50 percent or 8.50 percent over the long-term.

This type of analysis gives the reader a sense of the long-term risk to the employer contribution rates.

2014-15 Employer Contribution Rate			
As of June 30, 2012	6.50% Discount Rate (-1%)	7.50% Discount Rate (assumed rate)	8.50% Discount Rate (+1%)
Employer Normal Cost	23.983%	17.462%	12.447%
Unfunded Rate Payment	38.712%	27.060%	16.044%
Total	62.695%	44.522%	28.491%

Hypothetical Termination Liability

Below is an estimate of the financial position of your plan if you had terminated your contract with CalPERS as of June 30, 2012 using the discount rates shown below. Your plan liability on a termination basis is calculated differently compared to the plan's ongoing funding liability. In December 2012, the CalPERS Board adopted a more conservative investment policy and asset allocation strategy for the Terminated Agency Pool. Since the Terminated Agency Pool has limited funding sources, expected benefit payments are secured by risk-free assets. With this change, CalPERS increased benefit security for members while limiting its funding risk. This asset allocation has a lower expected rate of return than the PERF. Consequently, the lower discount rate for the Terminated Agency pool results in higher liabilities for terminated plans.

In order to terminate your plan, you must first contact our Retirement Services Contract Unit to initiate a Resolution of Intent to Terminate. The completed Resolution will allow your plan actuary to give you a preliminary termination valuation with a more up-to-date estimate of your plan liabilities. CalPERS advises you to consult with your plan actuary before beginning this process.

Valuation Date	Hypothetical Termination Liability[1]	Market Value of Assets (MVA)	Unfunded Termination Liability	Termination Funded Ratio	Termination Liability Discount Rate[2]
06/30/11	$ 600,452,456	$ 262,881,439	$ 337,571,017	43.8%	4.82%
06/30/12	799,680,164	252,131,503	547,548,661	31.5%	2.98%

[1] The hypothetical liabilities calculated above include a 7 percent mortality contingency load in accordance with Board policy. Other actuarial assumptions, such as wage and inflation assumptions, can be found in appendix A.

[2] The discount rate assumption used for termination valuations is a weighted average of the 10 and 30-year US Treasury yields in effect on the valuation date that equal the duration of the pension liabilities. For purposes of this hypothetical termination liability estimate, the discount rate used, 2.98 percent, is the yield on the 30-year US Treasury Separate Trading of Registered Interest and Principal of Securities (STRIPS) as of June 30, 2012. In last year's report the May 2012 rate of 2.87 percent was inadvertently shown rather than the June rate of 2.98 percent. Please note, as of June 30, 2013 the 30-year STRIPS yield was 3.72 percent.

GASB STATEMENT NO. 27

SAFETY PLAN of the CITY OF NEWPORT BEACH
Information for Compliance with GASB Statement No. 27

Disclosure under GASB 27 follows. However, note that effective for financial statements for fiscal years beginning after June 15, 2014, GASB 68 replaces GASB 27. GASB 68 will require additional reporting. CalPERS is planning to provide GASB 68 disclosure information upon request for an additional fee. We urge you to start discussions with your auditors on how to implement GASB 68.

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2013 to June 30, 2014 has been determined by an actuarial valuation of the plan as of June 30, 2012. The unadjusted GASB compliant contribution rate for the indicated period is 44.522 percent of payroll. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2014, this contribution rate, less any employee cost sharing, as modified by any amendments for the year, would be multiplied by the payroll of covered employees that was actually paid during the period July 1, 2013 to June 30, 2014. The employer and the employer's auditor are responsible for determining the NPO and the APC.

A summary of principal assumptions and methods used to determine the ARC is shown below.

	Retirement Program
Valuation Date	June 30, 2012
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	27 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions	
Discount Rate	7.50% (net of administrative expenses)
Projected Salary Increases	3.30% to 14.20% depending on Age, Service, and type of employment
Inflation	2.75%
Payroll Growth	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30-year rolling period, which results in an amortization of about 6 percent of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period. More detailed information on assumptions and methods is provided in Appendix A of this report. Appendix B contains a description of benefits included in the valuation.

The Schedule of Funding Progress below shows the recent history of the actuarial accrued liability, actuarial value of assets, their relationship and the relationship of the unfunded actuarial accrued liability to payroll.

Valuation Date	Accrued Liability (a)	Actuarial Value of Assets (AVA) (b)	Unfunded Liability (UL) (a)-(b)	Funded Ratios (AVA) (b)/(a)	Funded Ratios Market Value	Annual Covered Payroll (c)	UL As a % of Payroll [(a)-(b)]/(c)
06/30/08	$ 336,060,918	$ 264,634,222	$ 71,426,696	78.7%	81.0%	$ 28,055,510	254.6%
06/30/09	366,918,353	274,649,310	92,269,043	74.9%	54.8%	30,252,789	305.0%
06/30/10	382,338,494	284,617,445	97,721,049	74.4%	58.4%	29,752,737	328.4%
06/30/11	405,879,283	295,075,720	110,803,563	72.7%	64.8%	28,820,289	384.5%
06/30/12	424,868,507	302,365,698	122,502,809	71.2%	59.3%	28,439,846	430.7%

PLAN'S MAJOR BENEFIT PROVISIONS

Plan's Major Benefit Options

Shown below is a summary of the major optional benefits for which your agency has contracted. A description of principal standard and optional plan provisions is in the following section of this Appendix.

	Contract Package						
	Receiving	Receiving	Receiving	Active	Active	Active	Active
Benefit Provision							
Benefit Formula				3.0% @ 50	3.0% @ 50	3.0% @ 50	3.0% @ 55
Social Security Coverage				No	No	No	No
Full/Modified				Full	Full	Full	Full
Final Average Compensation Period				12 mos.	12 mos.	12 mos.	12 mos.
Sick Leave Credit				No	No	No	No
Non-Industrial Disability				Standard	Standard	Standard	Standard
Industrial Disability				Yes	Yes	Yes	Yes
Pre-Retirement Death Benefits							
Optional Settlement 2W				Yes	Yes	Yes	Yes
1959 Survivor Benefit Level				Level 4	Level 4	Level 4	Level 4
Special				Yes	Yes	Yes	Yes
Alternate (firefighters)				No	No	No	No
Post-Retirement Death Benefits							
Lump Sum	$500	$500	$500	$500	$500	$500	$500
Survivor Allowance (PRSA)	No	No	No	No	No	No	No
COLA	2%	2%	2%	2%	2%	2%	2%

APPENDICES

- APPENDIX A – ACTUARIAL METHODS AND ASSUMPTIONS
- APPENDIX B – PRINCIPAL PLAN PROVISIONS
- APPENDIX C – SUMMARY OF PARTICIPANT DATA
- APPENDIX D – GLOSSARY OF ACTUARIAL TERMS

APPENDIX A

ACTUARIAL METHODS AND ASSUMPTIONS

- ACTUARIAL DATA
- ACTUARIAL METHODS
- ACTUARIAL ASSUMPTIONS
- MISCELLANEOUS

Actuarial Data

As stated in the Actuarial Certification, the data, which serves as the basis of this valuation, has been obtained from the various CalPERS databases. We have reviewed the valuation data and believe that it is reasonable and appropriate in aggregate. We are unaware of any potential data issues that would have a material effect on the results of this valuation, except that data does not always contain the latest salary information for former members now in reciprocal systems and does not recognize the potential for unusually large salary deviation in certain cases such as elected officials. Therefore, salary information in these cases may not be accurate. These situations are relatively infrequent, however, and when they do occur, they generally do not have a material impact on the employer contribution rates.

Actuarial Methods

Funding Method

The actuarial funding method used for the Retirement Program is the Entry Age Normal Cost Method. Under this method, projected benefits are determined for all members and the associated liabilities are spread in a manner that produces level annual cost as a percent of pay in each year from the age of hire (entry age) to the assumed retirement age. The cost allocated to the current fiscal year is called the normal cost.

The actuarial accrued liability for active members is then calculated as the portion of the total cost of the plan allocated to prior years. The actuarial accrued liability for members currently receiving benefits, for active members beyond the assumed retirement age, and for members entitled to deferred benefits, is equal to the present value of the benefits expected to be paid. No normal costs are applicable for these participants.

The excess of the total actuarial accrued liability over the actuarial value of plan assets is called the unfunded actuarial accrued liability. Funding requirements are determined by adding the normal cost and an amortization of the unfunded liability as a level percentage of assumed future payrolls. All changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methodology are amortized separately over a 20-year period. All new gains or losses are tracked and amortized over a rolling 30-year period. If a plan's accrued liability exceeds the actuarial value of assets, the annual contribution with respect to the total unfunded liability may not be less than the amount produced by a 30-year amortization of the unfunded liability.

Additional contributions will be required for any plan or pool if their cash flows hamper adequate funding progress by preventing the expected funded status on a market value of assets basis to either:

- Increase by at least 15% by June 30, 2043; or
- Reach a level of 75% funded by June 30, 2043

The necessary additional contribution will be obtained by changing the amortization period of the gains and losses, except for those occurring in the fiscal years 2008-2009, 2009-2010, and 2010-2011 to a period, which will result in the satisfaction of the above criteria. CalPERS actuaries will reassess the criteria above when performing each future valuation to determine whether or not additional contributions are necessary.

An exception to the funding rules above is used whenever the application of such rules results in inconsistencies. In these cases, a "fresh start" approach is used. This simply means that the current unfunded actuarial liability is projected and amortized over a set number of years. As mentioned above, if the annual contribution on the total unfunded liability was less than the amount produced by a 30-year amortization of the unfunded liability, the plan actuary would implement a 30-year fresh start. However, in the case of a 30-year fresh start, just the unfunded liability not already in the (gain)/loss base (which is already amortized over 30 years), will go into the new fresh start base. In addition, a fresh start is needed in the following situations:

1) When a positive payment would be required on a negative unfunded actuarial liability (or conversely a negative payment on a positive unfunded actuarial liability); or

2) When there are excess assets, rather than an unfunded liability. In this situation, a 30-year fresh start is used, unless a longer fresh start is needed to avoid a negative total rate.

It should be noted that the actuary may choose to use a fresh start under other circumstances. In all cases, the fresh start period is set by the actuary at what is deemed appropriate; however, the period will not be less than five years, nor greater than 30 years.

Asset Valuation Method

In order to dampen the effect of short-term market value fluctuations on employer contribution rates, the following asset smoothing technique is used. First, an Expected Value of Assets is computed by bringing forward the prior year's Actuarial Value of Assets and the contributions received and benefits paid during the year at the assumed actuarial rate of return. The Actuarial Value of Assets is then computed as the Expected Value of Assets plus one-fifteenth of the difference between the actual Market Value of Assets and the Expected Value of Assets, as of the valuation date. However, in no case will the Actuarial Value of Assets be less than 80% or greater than 120% of the actual Market Value of Assets.

In June 2009, the CalPERS Board adopted changes to the asset smoothing method in order to phase in over a three-year period the impact of the negative -24 percent investment loss experienced by CalPERS in fiscal year 2008-2009. The following changes were adopted:

- Increase the corridor limits for the actuarial value of assets from 80 percent/120 percent of market value to 60 percent/140 percent of market value on June 30, 2009
- Reduce the corridor limits for the actuarial value of assets to 70 percent/130 percent of market value on June 30, 2010
- Return to the 80 percent/120 percent of market value corridor limits for the actuarial value of assets on June 30, 2011 and thereafter

On April 17, 2013, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization and rate smoothing policies. Beginning with the June 30, 2013 valuations that set the 2015-16 rates, CalPERS will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period. Details of the agenda item can be found on our website CalPERS On-Line:
http://www.calpers.ca.gov/index.jsp?bc=/about/committee-meetings/archives/pension-201304.xml

Actuarial Assumptions

Economic Assumptions

Discount Rate

7.5% compounded annually (net of expenses). This assumption is used for all plans.

Termination Liability Discount Rate

The discount rate used for termination valuation is a weighted average of the 10 and 30-year US Treasury yields in effect on the valuation date that equal the duration of the pension liabilities. For purposes of this hypothetical termination liability estimate, the discount rate used, 2.98 percent, is the yield on the 30-year US Treasury Separate Trading of Registered Interest and Principal of Securities (STRIPS) as of June 30, 2012. Please note, as of June 30, 2013 the 30-year STRIPS yield was 3.72 percent.

Salary Growth

Annual increases vary by category, entry age, and duration of service. A sample of assumed increases are shown below.

Public Agency Miscellaneous

Duration of Service	(Entry Age 20)	(Entry Age 30)	(Entry Age 40)
0	0.1420	0.1240	0.0980
1	0.1190	0.1050	0.0850
2	0.1010	0.0910	0.0750
3	0.0880	0.0800	0.0670
4	0.0780	0.0710	0.0610
5	0.0700	0.0650	0.0560
10	0.0480	0.0460	0.0410
15	0.0430	0.0410	0.0360
20	0.0390	0.0370	0.0330
25	0.0360	0.0360	0.0330
30	0.0360	0.0360	0.0330

Public Agency Fire

Duration of Service	(Entry Age 20)	(Entry Age 30)	(Entry Age 40)
0	0.1050	0.1050	0.1020
1	0.0950	0.0940	0.0850
2	0.0870	0.0830	0.0700
3	0.0800	0.0750	0.0600
4	0.0740	0.0680	0.0510
5	0.0690	0.0620	0.0450
10	0.0510	0.0460	0.0350
15	0.0410	0.0390	0.0340
20	0.0370	0.0360	0.0330
25	0.0350	0.0350	0.0330
30	0.0350	0.0350	0.0330

Salary Growth (continued)

Public Agency Police

Duration of Service	(Entry Age 20)	(Entry Age 30)	(Entry Age 40)
0	0.1090	0.1090	0.1090
1	0.0930	0.0930	0.0930
2	0.0810	0.0810	0.0780
3	0.0720	0.0700	0.0640
4	0.0650	0.0610	0.0550
5	0.0590	0.0550	0.0480
10	0.0450	0.0420	0.0340
15	0.0410	0.0390	0.0330
20	0.0370	0.0360	0.0330
25	0.0350	0.0340	0.0330
30	0.0350	0.0340	0.0330

Public Agency County Peace Officers

Duration of Service	(Entry Age 20)	(Entry Age 30)	(Entry Age 40)
0	0.1290	0.1290	0.1290
1	0.1090	0.1060	0.1030
2	0.0940	0.0890	0.0840
3	0.0820	0.0770	0.0710
4	0.0730	0.0670	0.0610
5	0.0660	0.0600	0.0530
10	0.0460	0.0420	0.0380
15	0.0410	0.0380	0.0360
20	0.0370	0.0360	0.0340
25	0.0350	0.0340	0.0330
30	0.0350	0.0340	0.0330

Schools

Duration of Service	(Entry Age 20)	(Entry Age 30)	(Entry Age 40)
0	0.1080	0.0960	0.0820
1	0.0940	0.0850	0.0740
2	0.0840	0.0770	0.0670
3	0.0750	0.0700	0.0620
4	0.0690	0.0640	0.0570
5	0.0630	0.0600	0.0530
10	0.0450	0.0440	0.0410
15	0.0390	0.0380	0.0350
20	0.0360	0.0350	0.0320
25	0.0340	0.0340	0.0320
30	0.0340	0.0340	0.0320

- The Miscellaneous salary scale is used for Local Prosecutors.
- The Police salary scale is used for Other Safety, Local Sheriff, and School Police.

Overall Payroll Growth

3.00 percent compounded annually (used in projecting the payroll over which the unfunded liability is amortized). This assumption is used for all plans.

Inflation

2.75 percent compounded annually. This assumption is used for all plans.

Non-valued Potential Additional Liabilities

The potential liability loss for a cost-of-living increase exceeding the 2.75 percent inflation assumption, and any potential liability loss from future member service purchases are not reflected in the valuation.

Miscellaneous Loading Factors

Credit for Unused Sick Leave

Total years of service is increased by 1 percent for those plans that have accepted the provision providing Credit for Unused Sick Leave.

Conversion of Employer Paid Member Contributions (EPMC)

Total years of service is increased by the Employee Contribution Rate for those plans with the provision providing for the Conversion of Employer Paid Member Contributions (EPMC) during the final compensation period.

Norris Decision (Best Factors)

Employees hired prior to July 1, 1982 have projected benefit amounts increased in order to reflect the use of "Best Factors" in the calculation of optional benefit forms. This is due to a 1983 Supreme Court decision, known as the Norris decision, which required males and females to be treated equally in the determination of benefit amounts. Consequently, anyone already employed at that time is given the best possible conversion factor when optional benefits are determined. No loading is necessary for employees hired after July 1, 1982.

Termination Liability

The termination liabilities include a 7 percent contingency load. This load is for unforeseen improvements in mortality.

Demographic Assumptions

Pre-Retirement Mortality

Non-Industrial Death Rates vary by age and gender. Industrial Death rates vary by age. See sample rates in table below. The non-industrial death rates are used for all plans. The industrial death rates are used for Safety Plans (except for Local Prosecutor safety members where the corresponding Miscellaneous Plan does not have the Industrial Death Benefit).

	Non-Industrial Death (Not Job-Related)		Industrial Death (Job-Related)
Age	Male	Female	Male and Female
20	0.00047	0.00016	0.00003
25	0.00050	0.00026	0.00007
30	0.00053	0.00036	0.00010
35	0.00067	0.00046	0.00012
40	0.00087	0.00065	0.00013
45	0.00120	0.00093	0.00014
50	0.00176	0.00126	0.00015
55	0.00260	0.00176	0.00016
60	0.00395	0.00266	0.00017
65	0.00608	0.00419	0.00018
70	0.00914	0.00649	0.00019
75	0.01220	0.00878	0.00020
80	0.01527	0.01108	0.00021

Miscellaneous Plans usually have Industrial Death rates set to zero unless the agency has specifically contracted for Industrial Death benefits. If so, each Non-Industrial Death rate shown above will be split into two components; 99 percent will become the Non-Industrial Death rate and 1 percent will become the Industrial Death rate.

Post-Retirement Mortality

Rates vary by age, type of retirement and gender. See sample rates in table below. These rates are used for all plans.

	Healthy Recipients		Non-Industrially Disabled (Not Job-Related)		Industrially Disabled (Job-Related)	
Age	Male	Female	Male	Female	Male	Female
50	0.00239	0.00125	0.01632	0.01245	0.00443	0.00356
55	0.00474	0.00243	0.01936	0.01580	0.00563	0.00546
60	0.00720	0.00431	0.02293	0.01628	0.00777	0.00798
65	0.01069	0.00775	0.03174	0.01969	0.01388	0.01184
70	0.01675	0.01244	0.03870	0.03019	0.02236	0.01716
75	0.03080	0.02071	0.06001	0.03915	0.03585	0.02665
80	0.05270	0.03749	0.08388	0.05555	0.06926	0.04528
85	0.09775	0.07005	0.14035	0.09577	0.11799	0.08017
90	0.16747	0.12404	0.21554	0.14949	0.16575	0.13775
95	0.25659	0.21556	0.31025	0.23055	0.26108	0.23331
100	0.34551	0.31876	0.45905	0.37662	0.40918	0.35165
105	0.58527	0.56093	0.67923	0.61523	0.64127	0.60135
110	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000

The mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board, first used in the June 30, 2009 valuation. For purposes of the post-retirement mortality rates, those revised rates include 5 years of projected on-going mortality improvement using Scale AA published by the Society of Actuaries until June 30, 2010. There is no margin for future mortality improvement beyond the valuation date. The mortality assumption will be reviewed with the next experience study expected to be completed for the June 30, 2013 valuation to determine an appropriate margin to be used.

Marital Status

For active members, a percentage who are married upon retirement is assumed according to member category as shown in the following table.

Member Category	Percent Married
Miscellaneous Member	85%
Local Police	90%
Local Fire	90%
Other Local Safety	90%
School Police	90%

Age of Spouse

It is assumed that female spouses are 3 years younger than male spouses are. This assumption is used for all plans.

Terminated Members

It is assumed that terminated members refund immediately if non-vested. Terminated members who are vested are assumed to follow the same service retirement pattern as active members but with a load to reflect the expected higher rates of retirement, especially at lower ages. The following table shows the load factors that are applied to the service retirement assumption for active members to obtain the service retirement pattern for separated vested members:

Age	Load Factor
50	450%
51	250%
52 through 56	200%
57 through 60	150%
61 through 64	125%
65 and above	100% (no change)

Termination with Refund

Rates vary by entry age and service for Miscellaneous Plans. Rates vary by service for Safety Plans. See sample rates in tables below.

Public Agency Miscellaneous

Duration of Service	Entry Age 20	Entry Age 25	Entry Age 30	Entry Age 35	Entry Age 40	Entry Age 45
0	0.1742	0.1674	0.1606	0.1537	0.1468	0.1400
1	0.1545	0.1477	0.1409	0.1339	0.1271	0.1203
2	0.1348	0.1280	0.1212	0.1142	0.1074	0.1006
3	0.1151	0.1083	0.1015	0.0945	0.0877	0.0809
4	0.0954	0.0886	0.0818	0.0748	0.0680	0.0612
5	0.0212	0.0193	0.0174	0.0155	0.0136	0.0116
10	0.0138	0.0121	0.0104	0.0088	0.0071	0.0055
15	0.0060	0.0051	0.0042	0.0032	0.0023	0.0014
20	0.0037	0.0029	0.0021	0.0013	0.0005	0.0001
25	0.0017	0.0011	0.0005	0.0001	0.0001	0.0001
30	0.0005	0.0001	0.0001	0.0001	0.0001	0.0001
35	0.0001	0.0001	0.0001	0.0001	0.0001	0.0001

Public Agency Safety

Duration of Service	Fire	Police	County Peace Officer
0	0.0710	0.1013	0.0997
1	0.0554	0.0636	0.0782
2	0.0398	0.0271	0.0566
3	0.0242	0.0258	0.0437
4	0.0218	0.0245	0.0414
5	0.0029	0.0086	0.0145
10	0.0009	0.0053	0.0089
15	0.0006	0.0027	0.0045
20	0.0005	0.0017	0.0020
25	0.0003	0.0012	0.0009
30	0.0003	0.0009	0.0006
35	0.0003	0.0009	0.0006

The Police Termination and Refund rates are also used for Public Agency Local Prosecutors, Other Safety, Local Sheriff and School Police.

Schools

Duration of Service	Entry Age 20	Entry Age 25	Entry Age 30	Entry Age 35	Entry Age 40	Entry Age 45
0	0.1730	0.1627	0.1525	0.1422	0.1319	0.1217
1	0.1585	0.1482	0.1379	0.1277	0.1174	0.1071
2	0.1440	0.1336	0.1234	0.1131	0.1028	0.0926
3	0.1295	0.1192	0.1089	0.0987	0.0884	0.0781
4	0.1149	0.1046	0.0944	0.0841	0.0738	0.0636
5	0.0278	0.0249	0.0221	0.0192	0.0164	0.0135
10	0.0172	0.0147	0.0122	0.0098	0.0074	0.0049
15	0.0115	0.0094	0.0074	0.0053	0.0032	0.0011
20	0.0073	0.0055	0.0038	0.0020	0.0002	0.0002
25	0.0037	0.0023	0.0010	0.0002	0.0002	0.0002
30	0.0015	0.0003	0.0002	0.0002	0.0002	0.0002
35	0.0002	0.0002	0.0002	0.0002	0.0002	0.0002

Termination with Vested Benefits

Rates vary by entry age and service for Miscellaneous Plans. Rates vary by service for Safety Plans. See sample rates in tables below.

Public Agency Miscellaneous

Duration of Service	Entry Age 20	Entry Age 25	Entry Age 30	Entry Age 35	Entry Age 40
5	0.0656	0.0597	0.0537	0.0477	0.0418
10	0.0530	0.0466	0.0403	0.0339	0.0000
15	0.0443	0.0373	0.0305	0.0000	0.0000
20	0.0333	0.0261	0.0000	0.0000	0.0000
25	0.0212	0.0000	0.0000	0.0000	0.0000
30	0.0000	0.0000	0.0000	0.0000	0.0000
35	0.0000	0.0000	0.0000	0.0000	0.0000

Public Agency Safety

Duration of Service	Fire	Police	County Peace Officer
5	0.0162	0.0163	0.0265
10	0.0061	0.0126	0.0204
15	0.0058	0.0082	0.0130
20	0.0053	0.0065	0.0074
25	0.0047	0.0058	0.0043
30	0.0045	0.0056	0.0030
35	0.0000	0.0000	0.0000

- When a member is eligible to retire, the termination with vested benefits probability is set to zero.
- After termination with vested benefits, a miscellaneous member is assumed to retire at age 59 and a safety member at age 54.
- The Police Termination with vested benefits rates are also used for Public Agency Local Prosecutors, Other Safety, Local Sheriff and School Police.

Schools

Duration of Service	Entry Age 20	Entry Age 25	Entry Age 30	Entry Age 35	Entry Age 40
5	0.0816	0.0733	0.0649	0.0566	0.0482
10	0.0629	0.0540	0.0450	0.0359	0.0000
15	0.0537	0.0440	0.0344	0.0000	0.0000
20	0.0420	0.0317	0.0000	0.0000	0.0000
25	0.0291	0.0000	0.0000	0.0000	0.0000
30	0.0000	0.0000	0.0000	0.0000	0.0000
35	0.0000	0.0000	0.0000	0.0000	0.0000

Non-Industrial (Not Job-Related) Disability

Rates vary by age and gender for Miscellaneous Plans. Rates vary by age and category for Safety Plans.

	Miscellaneous		Fire	Police	County Peace Officer	Schools	
Age	Male	Female	Male and Female	Male and Female	Male and Female	Male	Female
20	0.0001	0.0001	0.0001	0.0001	0.0001	0.0001	0.0001
25	0.0001	0.0001	0.0001	0.0001	0.0001	0.0001	0.0001
30	0.0002	0.0002	0.0001	0.0002	0.0001	0.0002	0.0001
35	0.0006	0.0009	0.0001	0.0003	0.0004	0.0006	0.0004
40	0.0015	0.0016	0.0001	0.0004	0.0007	0.0014	0.0009
45	0.0025	0.0024	0.0002	0.0005	0.0013	0.0028	0.0017
50	0.0033	0.0031	0.0005	0.0008	0.0018	0.0044	0.0030
55	0.0037	0.0031	0.0010	0.0013	0.0010	0.0049	0.0034
60	0.0038	0.0025	0.0015	0.0020	0.0006	0.0043	0.0024

- The Miscellaneous Non-Industrial Disability rates are used for Local Prosecutors.
- The Police Non-Industrial Disability rates are also used for Other Safety, Local Sheriff and School Police.

Industrial (Job-Related) Disability

Rates vary by age and category.

Age	Fire	Police	County Peace Officer
20	0.0002	0.0007	0.0003
25	0.0012	0.0032	0.0015
30	0.0025	0.0064	0.0031
35	0.0037	0.0097	0.0046
40	0.0049	0.0129	0.0063
45	0.0061	0.0161	0.0078
50	0.0074	0.0192	0.0101
55	0.0721	0.0668	0.0173
60	0.0721	0.0668	0.0173

- The Police Industrial Disability rates are also used for Local Sheriff and Other Safety.
- Fifty Percent of the Police Industrial Disability rates are used for School Police.
- One Percent of the Police Industrial Disability rates are used for Local Prosecutors.
- Normally, rates are zero for Miscellaneous Plans unless the agency has specifically contracted for Industrial Disability benefits. If so, each miscellaneous non-industrial disability rate will be split into two components: 50 percent will become the Non-Industrial Disability rate and 50 percent will become the Industrial Disability rate.

Service Retirement

Retirement rates vary by age, service, and formula, except for the safety ½ @ 55 and 2% @ 55 formulas, where retirement rates vary by age only.

Service Retirement

Public Agency Miscellaneous 1.5% @ 65

	Duration of Service					
Age	5 Years	10 Years	15 Years	20 Years	25 Years	30 Years
50	0.008	0.011	0.013	0.015	0.017	0.019
51	0.007	0.010	0.012	0.013	0.015	0.017
52	0.010	0.014	0.017	0.019	0.021	0.024
53	0.008	0.012	0.015	0.017	0.019	0.022
54	0.012	0.016	0.019	0.022	0.025	0.028
55	0.018	0.025	0.031	0.035	0.038	0.043
56	0.015	0.021	0.025	0.029	0.032	0.036
57	0.020	0.028	0.033	0.038	0.043	0.048
58	0.024	0.033	0.040	0.046	0.052	0.058
59	0.028	0.039	0.048	0.054	0.060	0.067
60	0.049	0.069	0.083	0.094	0.105	0.118
61	0.062	0.087	0.106	0.120	0.133	0.150
62	0.104	0.146	0.177	0.200	0.223	0.251
63	0.099	0.139	0.169	0.191	0.213	0.239
64	0.097	0.136	0.165	0.186	0.209	0.233
65	0.140	0.197	0.240	0.271	0.302	0.339
66	0.092	0.130	0.157	0.177	0.198	0.222
67	0.129	0.181	0.220	0.249	0.277	0.311
68	0.092	0.129	0.156	0.177	0.197	0.221
69	0.092	0.130	0.158	0.178	0.199	0.224
70	0.103	0.144	0.175	0.198	0.221	0.248

Public Agency Miscellaneous 2% @ 60

	Duration of Service					
Age	5 Years	10 Years	15 Years	20 Years	25 Years	30 Years
50	0.011	0.015	0.018	0.021	0.023	0.026
51	0.009	0.013	0.016	0.018	0.020	0.023
52	0.013	0.018	0.022	0.025	0.028	0.031
53	0.011	0.016	0.019	0.022	0.025	0.028
54	0.015	0.021	0.025	0.028	0.032	0.036
55	0.023	0.032	0.039	0.044	0.049	0.055
56	0.019	0.027	0.032	0.037	0.041	0.046
57	0.025	0.035	0.042	0.048	0.054	0.060
58	0.030	0.042	0.051	0.058	0.065	0.073
59	0.035	0.049	0.060	0.068	0.076	0.085
60	0.062	0.087	0.105	0.119	0.133	0.149
61	0.079	0.110	0.134	0.152	0.169	0.190
62	0.132	0.186	0.225	0.255	0.284	0.319
63	0.126	0.178	0.216	0.244	0.272	0.305
64	0.122	0.171	0.207	0.234	0.262	0.293
65	0.173	0.243	0.296	0.334	0.373	0.418
66	0.114	0.160	0.194	0.219	0.245	0.274
67	0.159	0.223	0.271	0.307	0.342	0.384
68	0.113	0.159	0.193	0.218	0.243	0.273
69	0.114	0.161	0.195	0.220	0.246	0.276
70	0.127	0.178	0.216	0.244	0.273	0.306

Service Retirement

Public Agency Miscellaneous 2% @ 55

	Duration of Service					
Age	5 Years	10 Years	15 Years	20 Years	25 Years	30 Years
50	0.015	0.020	0.024	0.029	0.033	0.039
51	0.013	0.016	0.020	0.024	0.027	0.033
52	0.014	0.018	0.022	0.027	0.030	0.036
53	0.017	0.022	0.027	0.032	0.037	0.043
54	0.027	0.034	0.041	0.049	0.056	0.067
55	0.050	0.064	0.078	0.094	0.107	0.127
56	0.045	0.057	0.069	0.083	0.095	0.113
57	0.048	0.061	0.074	0.090	0.102	0.122
58	0.052	0.066	0.080	0.097	0.110	0.131
59	0.060	0.076	0.092	0.111	0.127	0.151
60	0.072	0.092	0.112	0.134	0.153	0.182
61	0.089	0.113	0.137	0.165	0.188	0.224
62	0.128	0.162	0.197	0.237	0.270	0.322
63	0.129	0.164	0.199	0.239	0.273	0.325
64	0.116	0.148	0.180	0.216	0.247	0.294
65	0.174	0.221	0.269	0.323	0.369	0.439
66	0.135	0.171	0.208	0.250	0.285	0.340
67	0.133	0.169	0.206	0.247	0.282	0.336
68	0.118	0.150	0.182	0.219	0.250	0.297
69	0.116	0.147	0.179	0.215	0.246	0.293
70	0.138	0.176	0.214	0.257	0.293	0.349

Public Agency Miscellaneous 2.5% @ 55

	Duration of Service					
Age	5 Years	10 Years	15 Years	20 Years	25 Years	30 Years
50	0.026	0.033	0.040	0.048	0.055	0.062
51	0.021	0.026	0.032	0.038	0.043	0.049
52	0.021	0.026	0.032	0.038	0.043	0.049
53	0.026	0.033	0.040	0.048	0.055	0.062
54	0.043	0.054	0.066	0.078	0.089	0.101
55	0.088	0.112	0.136	0.160	0.184	0.208
56	0.055	0.070	0.085	0.100	0.115	0.130
57	0.061	0.077	0.094	0.110	0.127	0.143
58	0.072	0.091	0.111	0.130	0.150	0.169
59	0.083	0.105	0.128	0.150	0.173	0.195
60	0.088	0.112	0.136	0.160	0.184	0.208
61	0.083	0.105	0.128	0.150	0.173	0.195
62	0.121	0.154	0.187	0.220	0.253	0.286
63	0.105	0.133	0.162	0.190	0.219	0.247
64	0.105	0.133	0.162	0.190	0.219	0.247
65	0.143	0.182	0.221	0.260	0.299	0.338
66	0.105	0.133	0.162	0.190	0.219	0.247
67	0.105	0.133	0.162	0.190	0.219	0.247
68	0.105	0.133	0.162	0.190	0.219	0.247
69	0.105	0.133	0.162	0.190	0.219	0.247
70	0.125	0.160	0.194	0.228	0.262	0.296

Service Retirement

Public Agency Miscellaneous 2.7% @ 55

	Duration of Service					
Age	5 Years	10 Years	15 Years	20 Years	25 Years	30 Years
50	0.028	0.035	0.043	0.050	0.058	0.065
51	0.022	0.028	0.034	0.040	0.046	0.052
52	0.022	0.028	0.034	0.040	0.046	0.052
53	0.028	0.035	0.043	0.050	0.058	0.065
54	0.044	0.056	0.068	0.080	0.092	0.104
55	0.091	0.116	0.140	0.165	0.190	0.215
56	0.061	0.077	0.094	0.110	0.127	0.143
57	0.063	0.081	0.098	0.115	0.132	0.150
58	0.074	0.095	0.115	0.135	0.155	0.176
59	0.083	0.105	0.128	0.150	0.173	0.195
60	0.088	0.112	0.136	0.160	0.184	0.208
61	0.085	0.109	0.132	0.155	0.178	0.202
62	0.124	0.158	0.191	0.225	0.259	0.293
63	0.107	0.137	0.166	0.195	0.224	0.254
64	0.107	0.137	0.166	0.195	0.224	0.254
65	0.146	0.186	0.225	0.265	0.305	0.345
66	0.107	0.137	0.166	0.195	0.224	0.254
67	0.107	0.137	0.166	0.195	0.224	0.254
68	0.107	0.137	0.166	0.195	0.224	0.254
69	0.107	0.137	0.166	0.195	0.224	0.254
70	0.129	0.164	0.199	0.234	0.269	0.304

Public Agency Miscellaneous 3% @ 60

	Duration of Service					
Age	5 Years	10 Years	15 Years	20 Years	25 Years	30 Years
50	0.026	0.033	0.040	0.048	0.055	0.062
51	0.021	0.026	0.032	0.038	0.043	0.049
52	0.019	0.025	0.030	0.035	0.040	0.046
53	0.025	0.032	0.038	0.045	0.052	0.059
54	0.039	0.049	0.060	0.070	0.081	0.091
55	0.083	0.105	0.128	0.150	0.173	0.195
56	0.055	0.070	0.085	0.100	0.115	0.130
57	0.061	0.077	0.094	0.110	0.127	0.143
58	0.072	0.091	0.111	0.130	0.150	0.169
59	0.080	0.102	0.123	0.145	0.167	0.189
60	0.094	0.119	0.145	0.170	0.196	0.221
61	0.088	0.112	0.136	0.160	0.184	0.208
62	0.127	0.161	0.196	0.230	0.265	0.299
63	0.110	0.140	0.170	0.200	0.230	0.260
64	0.110	0.140	0.170	0.200	0.230	0.260
65	0.149	0.189	0.230	0.270	0.311	0.351
66	0.110	0.140	0.170	0.200	0.230	0.260
67	0.110	0.140	0.170	0.200	0.230	0.260
68	0.110	0.140	0.170	0.200	0.230	0.260
69	0.110	0.140	0.170	0.200	0.230	0.260
70	0.132	0.168	0.204	0.240	0.276	0.312

Service Retirement

Public Agency Fire ½ @ 55 and 2% @ 55

Age	Rate	Age	Rate
50	0.01588	56	0.11079
51	0.00000	57	0.00000
52	0.03442	58	0.09499
53	0.01990	59	0.04409
54	0.04132	60	1.00000
55	0.07513		

Public Agency Police ½ @ 55 and 2% @ 55

Age	Rate	Age	Rate
50	0.02552	56	0.06921
51	0.00000	57	0.05113
52	0.01637	58	0.07241
53	0.02717	59	0.07043
54	0.00949	60	1.00000
55	0.16674		

Public Agency Police 2%@ 50

	Duration of Service					
Age	5 Years	10 Years	15 Years	20 Years	25 Years	30 Years
50	0.014	0.014	0.014	0.014	0.025	0.045
51	0.012	0.012	0.012	0.012	0.023	0.040
52	0.026	0.026	0.026	0.026	0.048	0.086
53	0.052	0.052	0.052	0.052	0.096	0.171
54	0.070	0.070	0.070	0.070	0.128	0.227
55	0.090	0.090	0.090	0.090	0.165	0.293
56	0.064	0.064	0.064	0.064	0.117	0.208
57	0.071	0.071	0.071	0.071	0.130	0.232
58	0.063	0.063	0.063	0.063	0.115	0.205
59	0.140	0.140	0.140	0.140	0.174	0.254
60	0.140	0.140	0.140	0.140	0.172	0.251
61	0.140	0.140	0.140	0.140	0.172	0.251
62	0.140	0.140	0.140	0.140	0.172	0.251
63	0.140	0.140	0.140	0.140	0.172	0.251
64	0.140	0.140	0.140	0.140	0.172	0.251
65	1.000	1.000	1.000	1.000	1.000	1.000

- These rates also apply to Local Prosecutors, Local Sheriff, School Police and Other Safety.

Service Retirement

Public Agency Fire 2%@50

	Duration of Service					
Age	5 Years	10 Years	15 Years	20 Years	25 Years	30 Years
50	0.007	0.007	0.007	0.007	0.010	0.015
51	0.008	0.008	0.008	0.008	0.013	0.019
52	0.017	0.017	0.017	0.017	0.027	0.040
53	0.047	0.047	0.047	0.047	0.072	0.107
54	0.064	0.064	0.064	0.064	0.098	0.147
55	0.087	0.087	0.087	0.087	0.134	0.200
56	0.078	0.078	0.078	0.078	0.120	0.180
57	0.090	0.090	0.090	0.090	0.139	0.208
58	0.079	0.079	0.079	0.079	0.122	0.182
59	0.073	0.073	0.073	0.073	0.112	0.168
60	0.114	0.114	0.114	0.114	0.175	0.262
61	0.114	0.114	0.114	0.114	0.175	0.262
62	0.114	0.114	0.114	0.114	0.175	0.262
63	0.114	0.114	0.114	0.114	0.175	0.262
64	0.114	0.114	0.114	0.114	0.175	0.262
65	1.000	1.000	1.000	1.000	1.000	1.000

Public Agency Police 3%@ 55

	Duration of Service					
Age	5 Years	10 Years	15 Years	20 Years	25 Years	30 Years
50	0.019	0.019	0.019	0.019	0.040	0.060
51	0.024	0.024	0.024	0.024	0.049	0.074
52	0.024	0.024	0.024	0.024	0.051	0.077
53	0.059	0.059	0.059	0.059	0.121	0.183
54	0.069	0.069	0.069	0.069	0.142	0.215
55	0.116	0.116	0.116	0.116	0.240	0.363
56	0.076	0.076	0.076	0.076	0.156	0.236
57	0.058	0.058	0.058	0.058	0.120	0.181
58	0.076	0.076	0.076	0.076	0.157	0.237
59	0.094	0.094	0.094	0.094	0.193	0.292
60	0.141	0.141	0.141	0.141	0.290	0.438
61	0.094	0.094	0.094	0.094	0.193	0.292
62	0.118	0.118	0.118	0.118	0.241	0.365
63	0.094	0.094	0.094	0.094	0.193	0.292
64	0.094	0.094	0.094	0.094	0.193	0.292
65	1.000	1.000	1.000	1.000	1.000	1.000

- These rates also apply to Local Prosecutors, Local Sheriff, School Police and Other Safety.

Service Retirement

Public Agency Fire 3%@55

	Duration of Service					
Age	5 Years	10 Years	15 Years	20 Years	25 Years	30 Years
50	0.012	0.012	0.012	0.018	0.028	0.033
51	0.008	0.008	0.008	0.012	0.019	0.022
52	0.018	0.018	0.018	0.027	0.042	0.050
53	0.043	0.043	0.043	0.062	0.098	0.114
54	0.057	0.057	0.057	0.083	0.131	0.152
55	0.092	0.092	0.092	0.134	0.211	0.246
56	0.081	0.081	0.081	0.118	0.187	0.218
57	0.100	0.100	0.100	0.146	0.230	0.268
58	0.081	0.081	0.081	0.119	0.187	0.219
59	0.078	0.078	0.078	0.113	0.178	0.208
60	0.117	0.117	0.117	0.170	0.267	0.312
61	0.078	0.078	0.078	0.113	0.178	0.208
62	0.098	0.098	0.098	0.141	0.223	0.260
63	0.078	0.078	0.078	0.113	0.178	0.208
64	0.078	0.078	0.078	0.113	0.178	0.208
65	1.000	1.000	1.000	1.000	1.000	1.000

Public Agency Police 3%@ 50

	Duration of Service					
Age	5 Years	10 Years	15 Years	20 Years	25 Years	30 Years
50	0.070	0.070	0.070	0.131	0.193	0.249
51	0.050	0.050	0.050	0.095	0.139	0.180
52	0.061	0.061	0.061	0.116	0.171	0.220
53	0.069	0.069	0.069	0.130	0.192	0.247
54	0.071	0.071	0.071	0.134	0.197	0.255
55	0.090	0.090	0.090	0.170	0.250	0.322
56	0.069	0.069	0.069	0.130	0.191	0.247
57	0.080	0.080	0.080	0.152	0.223	0.288
58	0.087	0.087	0.087	0.164	0.242	0.312
59	0.090	0.090	0.090	0.170	0.251	0.323
60	0.135	0.135	0.135	0.255	0.377	0.485
61	0.090	0.090	0.090	0.170	0.251	0.323
62	0.113	0.113	0.113	0.213	0.314	0.404
63	0.090	0.090	0.090	0.170	0.251	0.323
64	0.090	0.090	0.090	0.170	0.251	0.323
65	1.000	1.000	1.000	1.000	1.000	1.000

- These rates also apply to Local Prosecutors, Local Sheriff, School Police and Other Safety.

Service Retirement

Public Agency Fire 3%@50

	Duration of Service					
Age	5 Years	10 Years	15 Years	20 Years	25 Years	30 Years
50	0.034	0.034	0.034	0.048	0.068	0.080
51	0.046	0.046	0.046	0.065	0.092	0.109
52	0.069	0.069	0.069	0.097	0.138	0.163
53	0.084	0.084	0.084	0.117	0.166	0.197
54	0.103	0.103	0.103	0.143	0.204	0.241
55	0.127	0.127	0.127	0.177	0.252	0.298
56	0.121	0.121	0.121	0.169	0.241	0.285
57	0.101	0.101	0.101	0.141	0.201	0.238
58	0.118	0.118	0.118	0.165	0.235	0.279
59	0.100	0.100	0.100	0.140	0.199	0.236
60	0.150	0.150	0.150	0.210	0.299	0.354
61	0.100	0.100	0.100	0.140	0.199	0.236
62	0.125	0.125	0.125	0.175	0.249	0.295
63	0.100	0.100	0.100	0.140	0.199	0.236
64	0.100	0.100	0.100	0.140	0.199	0.236
65	1.000	1.000	1.000	1.000	1.000	1.000

Schools 2%@ 55

	Duration of Service					
Age	5 Years	10 Years	15 Years	20 Years	25 Years	30 Years
50	0.005	0.009	0.013	0.015	0.016	0.018
51	0.005	0.010	0.014	0.017	0.019	0.021
52	0.006	0.012	0.017	0.020	0.022	0.025
53	0.007	0.014	0.019	0.023	0.026	0.029
54	0.012	0.024	0.033	0.039	0.044	0.049
55	0.024	0.048	0.067	0.079	0.088	0.099
56	0.020	0.039	0.055	0.065	0.072	0.081
57	0.021	0.042	0.059	0.070	0.078	0.087
58	0.025	0.050	0.070	0.083	0.092	0.103
59	0.029	0.057	0.080	0.095	0.105	0.118
60	0.037	0.073	0.102	0.121	0.134	0.150
61	0.046	0.090	0.126	0.149	0.166	0.186
62	0.076	0.151	0.212	0.250	0.278	0.311
63	0.069	0.136	0.191	0.225	0.251	0.281
64	0.067	0.133	0.185	0.219	0.244	0.273
65	0.091	0.180	0.251	0.297	0.331	0.370
66	0.072	0.143	0.200	0.237	0.264	0.295
67	0.067	0.132	0.185	0.218	0.243	0.272
68	0.060	0.118	0.165	0.195	0.217	0.243
69	0.067	0.133	0.187	0.220	0.246	0.275
70	0.066	0.131	0.183	0.216	0.241	0.270

Miscellaneous

Superfunded Status

Prior to enactment of the Public Employees' Pension Reform Act (PEPRA) that became effective January 1, 2013, a plan in superfunded status (actuarial value of assets exceeding present value of benefits) would normally pay a zero employer contribution rate while also being permitted to use its superfunded assets to pay its employees' normal member contributions.

However, Section 7522.52(a) of PEPRA states, "In any fiscal year a public employer's contribution to a defined benefit plan, in combination with employee contributions to that defined benefit plan, shall not be less than the total normal cost rate…" This means that not only must employers pay their employer normal cost regardless of plan surplus, but also, employers may no longer use superfunded assets to pay employee normal member contributions.

Internal Revenue Code Section 415

The limitations on benefits imposed by Internal Revenue Code Section 415 are taken into account in this valuation. Each year the impact of any changes in this limitation since the prior valuation is included and amortized as part of the actuarial gain or loss base. This results in lower contributions for those employers contributing to the Replacement Benefit Fund and protects CalPERS from prefunding expected benefits in excess of limits imposed by federal tax law.

Internal Revenue Code Section 401(a)(17)

The limitations on compensation imposed by Internal Revenue Code Section 401(a)(17) are taken into account in this valuation. Each year, the impact of any changes in the compensation limitation since the prior valuation is included and amortized as part of the actuarial gain or loss base.

PEPRA Assumptions

The Public Employees' Pension Reform Act of 2013 (PEPRA) mandated new benefit formulas and new member contributions for new members (as defined by PEPRA) hired after January 1, 2013. For non-pooled plans, these new members will first be reflected in the June 30, 2013 non-pooled plan valuations. New members in pooled plans will first be reflected in the new Miscellaneous and Safety risk pools created by the CalPERS Board in November 2012 in response to the passage of PEPRA, also beginning with the June 30, 2013 valuation. Different assumptions for these new PEPRA members will be disclosed in the 2013 valuation.

APPENDIX B

PRINCIPAL PLAN PROVISIONS

The following is a description of the principal plan provisions used in calculating costs and liabilities. We have indicated whether a plan provision is standard or optional. Standard benefits are applicable to all members while optional benefits vary among employers. Optional benefits that apply to a single period of time, such as Golden Handshakes, have not been included. Many of the statements in this summary are general in nature, and are intended to provide an easily understood summary of the complex Public Employees' Retirement Law. The law itself governs in all situations.

PEPRA Benefit Changes

The Public Employees' Pension Reform Act of 2013 (PEPRA) requires new benefits and member contributions for new members as defined by PEPRA, that are hired after January 1, 2013. For non-pooled plans, these members will first be reflected in June 30, 2013 non-pooled plan valuations. Members in pooled plans will be reflected in the new Miscellaneous and Safety risk pools created by the CalPERS Board in November 2012 in response to the passage of PEPRA, beginning with the June 30, 2013 valuation.

Service Retirement

Eligibility

A classic CalPERS member becomes eligible for Service Retirement upon attainment of age 50 with at least 5 years of credited service (total service across all CalPERS employers, and with certain other Retirement Systems with which CalPERS has reciprocity agreements). For employees hired into a plan with the 1.5% at 65 formula, eligibility for service retirement is age 55 with at least 5 years of service.

Benefit

The Service Retirement benefit is a monthly allowance equal to the product of the *benefit factor*, *years of service*, and *final compensation.*

- The *benefit factor* depends on the benefit formula specified in your agency's contract. The table below shows the factors for each of the available formulas. Factors vary by the member's age at retirement. Listed are the factors for retirement at whole year ages:

Miscellaneous Plan Formulas

Retirement Age	1.5% at 65	2% at 60	2% at 55	2.5% at 55	2.7% at 55	3% at 60
50	0.5000%	1.092%	1.426%	2.0%	2.0%	2.0%
51	0.5667%	1.156%	1.522%	2.1%	2.14%	2.1%
52	0.6334%	1.224%	1.628%	2.2%	2.28%	2.2%
53	0.7000%	1.296%	1.742%	2.3%	2.42%	2.3%
54	0.7667%	1.376%	1.866%	2.4%	2.56%	2.4%
55	0.8334%	1.460%	2.0%	2.5%	2.7%	2.5%
56	0.9000%	1.552%	2.052%	2.5%	2.7%	2.6%
57	0.9667%	1.650%	2.104%	2.5%	2.7%	2.7%
58	1.0334%	1.758%	2.156%	2.5%	2.7%	2.8%
59	1.1000%	1.874%	2.210%	2.5%	2.7%	2.9%
60	1.1667%	2.0%	2.262%	2.5%	2.7%	3.0%
61	1.2334%	2.134%	2.314%	2.5%	2.7%	3.0%
62	1.3000%	2.272%	2.366%	2.5%	2.7%	3.0%
63	1.3667%	2.418%	2.418%	2.5%	2.7%	3.0%
64	1.4334%	2.418%	2.418%	2.5%	2.7%	3.0%
65 & Up	1.5000%	2.418%	2.418%	2.5%	2.7%	3.0%

Safety Plan Formulas

Retirement Age	½ at 55 *	2% at 55	2% at 50	3% at 55	3% at 50
50	1.783%	1.426%	2.0%	2.40%	3.0%
51	1.903%	1.522%	2.14%	2.52%	3.0%
52	2.035%	1.628%	2.28%	2.64%	3.0%
53	2.178%	1.742%	2.42%	2.76%	3.0%
54	2.333%	1.866%	2.56%	2.88%	3.0%
55 & Up	2.5%	2.0%	2.7%	3.0%	3.0%

* For this formula, the benefit factor also varies by entry age. The factors shown are for members with an entry age of 35 or greater. If entry age is less than 35, then the age 55 benefit factor is 50% divided by the difference between age 55 and entry age. The benefit factor for ages prior to age 55 is the same proportion of the age 55 benefit factor as in the above table.

- The *years of service* is the amount credited by CalPERS to a member while he or she is employed in this group (or for other periods that are recognized under the employer's contract with CalPERS). For a member who has earned service with multiple CalPERS employers, the benefit from each employer is calculated separately according to each employer's contract, and then added together for the total allowance. An agency may contract for an optional benefit where any unused sick leave accumulated at the time of retirement will be converted to credited service at a rate of 0.004 years of service for each day of sick leave.

- The *final compensation* is the monthly average of the member's highest 36 or 12 consecutive months' full-time equivalent monthly pay (no matter which CalPERS employer paid this compensation). The standard benefit is 36 months. Employers have the option of providing a final compensation equal to the highest 12 consecutive months. Final compensation must be defined by the highest 36 consecutive months' pay under the 1.5% at 65 formula.

- Employees must be covered by Social Security with the 1.5% at 65 formula. Social Security is optional for all other benefit formulas. For employees covered by Social Security, the Modified formula is the standard benefit. Under this type of formula, the final compensation is offset by $133.33 (or by one third if the final compensation is less than $400). Employers may contract for the Full benefit with Social Security that will eliminate the offset applicable to the final compensation. For employees not covered by Social Security, the Full benefit is paid with no offsets. Auxiliary organizations of the CSUC system may elect reduced contribution rates, in which case the offset is $317 if members are not covered by Social Security or $513 if members are covered by Social Security.

- The Miscellaneous Service Retirement benefit is not capped. The Safety Service Retirement benefit is capped at 90 percent of final compensation.

Vested Deferred Retirement

Eligibility for Deferred Status

A CalPERS member becomes eligible for a deferred vested retirement benefit when he or she leaves employment, keeps his or her contribution account balance on deposit with CalPERS, **and** has earned at least 5 years of credited service (total service across all CalPERS employers, and with certain other Retirement Systems with which CalPERS has reciprocity agreements).

Eligibility to Start Receiving Benefits

The CalPERS member becomes eligible to receive the deferred retirement benefit upon satisfying the eligibility requirements for Deferred Status and upon attainment of age 50 (55 for employees hired into a 1.5% @ 65 plan).

Benefit

The vested deferred retirement benefit is the same as the Service Retirement benefit, where the benefit factor is based on the member's age at allowance commencement. For members who have earned service with multiple CalPERS employers, the benefit from each employer is calculated separately according to each employer's contract, and then added together for the total allowance.

Non-Industrial (Non-Job Related) Disability Retirement

Eligibility

A CalPERS member is eligible for Non-Industrial Disability Retirement if he or she becomes *disabled* and has at least 5 years of credited service (total service across all CalPERS employers, and with certain other Retirement Systems with which CalPERS has reciprocity agreements). There is no special age requirement. *Disabled* means the member is unable to perform his or her job because of an illness or injury, which is expected to be permanent or to last indefinitely. The illness or injury does not have to be job related. A CalPERS member must be actively employed by any CalPERS employer at the time of disability in order to be eligible for this benefit.

Standard Benefit

The standard Non-Industrial Disability Retirement benefit is a monthly allowance equal to 1.8 percent of final compensation, multiplied by *service*, which is determined as follows:

- *Service* is CalPERS credited service, for members with less than 10 years of service or greater than 18.518 years of service; or

- *Service* is CalPERS credited service plus the additional number of years that the member would have worked until age 60, for members with at least 10 years but not more than 18.518 years of service. The maximum benefit in this case is 33 1/3 percent of Final Compensation.

Improved Benefit

Employers have the option of providing the improved Non-Industrial Disability Retirement benefit. This benefit provides a monthly allowance equal to 30% of final compensation for the first 5 years of service, plus 1% for each additional year of service to a maximum of 50% of final compensation.

Members who are eligible for a larger service retirement benefit may choose to receive that benefit in lieu of a disability benefit. Members eligible to retire, and who have attained the normal retirement age determined by their service retirement benefit formula, will receive the same dollar amount for disability retirement as that payable for service retirement. For members who have earned service with multiple CalPERS employers, the benefit attributed to each employer is the total disability allowance multiplied by the ratio of service with a particular employer to the total CalPERS service.

Industrial (Job Related) Disability Retirement

All safety members have this benefit. For miscellaneous members, employers have the option of providing this benefit. An employer may choose to provide the Increased benefit option or the Improved benefit option.

Eligibility

An employee is eligible for Industrial Disability Retirement if he or she becomes disabled while working, where disabled means the member is unable to perform the duties of the job because of a work-related illness or injury, which is, expected to be permanent or to last indefinitely. A CalPERS member who has left active employment within this group is not eligible for this benefit, except to the extent described below.

Standard Benefit
The standard Industrial Disability Retirement benefit is a monthly allowance equal to 50 percent of final compensation.

Increased Benefit (75 percent of Final Compensation)
The increased Industrial Disability Retirement benefit is a monthly allowance equal to 75 percent final compensation for total disability.

Improved Benefit (50 percent to 90 percent of Final Compensation)
The improved Industrial Disability Retirement benefit is a monthly allowance equal to the Workman's Compensation Appeals Board permanent disability rate percentage (if 50 percent or greater, with a maximum of 90 percent) times the final compensation.

For a CalPERS member not actively employed in this group who became disabled while employed by some other CalPERS employer, the benefit is a return of accumulated member contributions with respect to employment in this group. With the standard or increased benefit, a member may also choose to receive the annuitization of the accumulated member contributions.

If a member is eligible for Service Retirement and if the Service Retirement benefit is more than the Industrial Disability Retirement benefit, the member may choose to receive the larger benefit.

Post-Retirement Death Benefit

Standard Lump Sum Payment
Upon the death of a retiree, a one-time lump sum payment of $500 will be made to the retiree's designated survivor(s), or to the retiree's estate.

Improved Lump Sum Payment
Employers have the option of providing an improved lump sum death benefit of $600, $2,000, $3,000, $4,000 or $5,000.

Form of Payment for Retirement Allowance

Standard Form of Payment
Generally, the retirement allowance is paid to the retiree in the form of an annuity for as long as he or she is alive. The retiree may choose to provide for a portion of his or her allowance to be paid to any designated beneficiary after the retiree's death. CalPERS provides for a variety of such benefit options, which the retiree pays for by taking a reduction in his or her retirement allowance. Such reduction takes into account the amount to be provided to the beneficiary and the probable duration of payments (based on the ages of the member and beneficiary) made subsequent to the member's death.

Improved Form of Payment (Post Retirement Survivor Allowance)
Employers have the option to contract for the post retirement survivor allowance.

For retirement allowances with respect to service subject to the modified formula, 25 percent of the retirement allowance will automatically be continued to certain statutory beneficiaries upon the death of the retiree, without a reduction in the retiree's allowance. For retirement allowances with respect to service subject to the full or supplemental formula, 50 percent of the retirement allowance will automatically be continued to certain statutory beneficiaries upon the death of the retiree, without a reduction in the retiree's allowance. This additional benefit is often referred to as post retirement survivor allowance (PRSA) or simply as survivor continuance.

In other words, 25 percent or 50 percent of the allowance, the continuance portion, is paid to the retiree for as long as he or she is alive, and that same amount is continued to the retiree's spouse (or if no eligible spouse, to unmarried children until they attain age 18; or, if no eligible children, to a qualifying dependent parent) for the rest of his or her lifetime. This benefit will not be discontinued in the event the spouse remarries.

The remaining 75 percent or 50 percent of the retirement allowance, which may be referred to as the option portion of the benefit, is paid to the retiree as an annuity for as long as he or she is alive. Or, the retiree may choose to provide for some of this option portion to be paid to any designated beneficiary after the retiree's death. Benefit options applicable to the option portion are the same as those offered with the standard form. The reduction is calculated in the same manner but is applied only to the option portion.

Pre-Retirement Death Benefits

Basic Death Benefit

This is a standard benefit.

Eligibility
An employee's beneficiary (or estate) may receive the Basic Death benefit if the member dies while actively employed. A CalPERS member must be actively employed with the CalPERS employer providing this benefit to be eligible for this benefit. A member's survivor who is eligible for any other pre-retirement death benefit may choose to receive that death benefit instead of this Basic Death benefit.

Benefit
The Basic Death Benefit is a lump sum in the amount of the member's accumulated contributions, where interest is currently credited at 7.5 percent per year, plus a lump sum in the amount of one month's salary for each completed year of current service, up to a maximum of six months' salary. For purposes of this benefit, one month's salary is defined as the member's average monthly full-time rate of compensation during the 12 months preceding death.

1957 Survivor Benefit

This is a standard benefit.

Eligibility
An employee's *eligible survivor(s)* may receive the 1957 Survivor benefit if the member dies while actively employed, has attained at least age 50, and has at least 5 years of credited service (total service across all CalPERS employers and with certain other Retirement Systems with which CalPERS has reciprocity agreements). A CalPERS member must be actively employed with the CalPERS employer providing this benefit to be eligible for this benefit. An eligible survivor means the surviving spouse to whom the member was married at least one year before death or, if there is no eligible spouse, to the member's unmarried children under age 18. A member's survivor who is eligible for any other pre-retirement death benefit may choose to receive that death benefit instead of this 1957 Survivor benefit.

Benefit
The 1957 Survivor benefit is a monthly allowance equal to one-half of the unmodified Service Retirement benefit that the member would have been entitled to receive if the member had retired on the date of his or her death. If the benefit is payable to the spouse, the benefit is discontinued upon the death of the spouse. If the benefit is payable to a dependent child, the benefit will be discontinued upon death or attainment of age 18, unless the child is disabled. The total amount paid will be at least equal to the Basic Death benefit.

Optional Settlement 2W Death Benefit

This is an optional benefit.

Eligibility
An employee's *eligible survivor* may receive the Optional Settlement 2W Death benefit if the member dies while actively employed, has attained at least age 50, and has at least 5 years of credited service (total service across all CalPERS employers and with certain other Retirement Systems with which CalPERS has reciprocity agreements). A CalPERS member who is no longer actively employed with **any** CalPERS employer is not eligible for this benefit. An *eligible survivor* means the surviving spouse to whom the member was married at least one year before death. A member's survivor who is eligible for any other pre-retirement death benefit may choose to receive that death benefit instead of this Optional Settlement 2W Death benefit.

Benefit
The Optional Settlement 2W Death benefit is a monthly allowance equal to the Service Retirement benefit that the member would have received had the member retired on the date of his or her death and elected Optional Settlement 2W. (A retiree who elects Optional Settlement 2W receives an allowance that has been reduced so that it will continue to be paid after his or her death to a surviving beneficiary.) The allowance is payable as long as the surviving spouse lives, at which time it is continued to any unmarried children under age 18, if applicable. The total amount paid will be at least equal to the Basic Death Benefit.

Special Death Benefit

This is a standard benefit for safety members. An employer may elect to provide this benefit for miscellaneous members.

Eligibility
An employee's *eligible survivor(s)* may receive the Special Death benefit if the member dies while actively employed and the death is job-related. A CalPERS member who is no longer actively employed with **any** CalPERS employer is not eligible for this benefit. An *eligible survivor* means the surviving spouse to whom the member was married prior to the onset of the injury or illness that resulted in death. If there is no eligible spouse, an eligible survivor means the member's unmarried children under age 22. An eligible survivor who chooses to receive this benefit will not receive any other death benefit.

Benefit
The Special Death benefit is a monthly allowance equal to 50% of final compensation, and will be increased whenever the compensation paid to active employees is increased but ceasing to increase when the member would have attained age 50. The allowance is payable to the surviving spouse until death at which time the allowance is continued to any unmarried children under age 22. There is a guarantee that the total amount paid will at least equal the Basic Death Benefit.

If the member's death is the result of an accident or injury caused by external violence or physical force incurred in the performance of the member's duty, and there are *eligible* surviving children (*eligible* means unmarried children under age 22) in addition to an eligible spouse, then an **additional monthly allowance** is paid equal to the following:

- if 1 eligible child: 12.5% of final compensation
- if 2 eligible children: 20.0% of final compensation
- if 3 or more eligible children: 25.0% of final compensation

Alternate Death Benefit for Local Fire Members

This is an optional benefit available only to local fire members.

Eligibility
An employee's *eligible survivor(s)* may receive the Alternate Death benefit in lieu of the Basic Death Benefit or the 1957 Survivor Benefit if the member dies while actively employed and has at least 20 years of total CalPERS service. A CalPERS member who is no longer actively employed with **any** CalPERS employer is not eligible for this benefit. An *eligible survivor* means the surviving spouse to whom the member was married prior to the onset of the injury or illness that resulted in death. If there is no eligible spouse, an eligible survivor means the member's unmarried children under age 18.

Benefit
The Alternate Death benefit is a monthly allowance equal to the Service Retirement benefit that the member would have received had the member retired on the date of his or her death and elected Optional Settlement 2W. (A retiree who elects Optional Settlement 2W receives an allowance that has been reduced so that it will continue to be paid after his or her death to a surviving beneficiary.) If the member has not yet attained age 50, the benefit is equal to that which would be payable if the member had retired at age 50, based on service credited at the time of death. The allowance is payable as long as the surviving spouse lives, at which time it is continued to any unmarried children under age 18, if applicable. The total amount paid will be at least equal to the Basic Death Benefit.

Cost-of-Living Adjustments (COLA)

Standard Benefit
Beginning the second calendar year after the year of retirement, retirement and survivor allowances will be annually adjusted on a compound basis by 2 percent.

Improved Benefit
Employers have the option of providing any of these improved cost-of-living adjustments by contracting for any one of these Class 1 optional benefits. An improved COLA is not available in conjunction with the 1.5% at 65 formula.

Beginning the second calendar year after the year of retirement, retirement and survivor allowances will be annually adjusted on a compound basis by either 3 percent, 4 percent or 5 percent. However, the cumulative adjustment may not be greater than the cumulative change in the Consumer Price Index since the date of retirement.

Purchasing Power Protection Allowance (PPPA)

Retirement and survivor allowances are protected against inflation by PPPA. PPPA benefits are cost-of-living adjustments that are intended to maintain an individual's allowance at 80 percent of the initial allowance at retirement adjusted for inflation since retirement. The PPPA benefit will be coordinated with other cost-of-living adjustments provided under the plan.

Employee Contributions

Each employee contributes toward his or her retirement based upon the retirement formula. The standard employee contribution is as described below.

- The percent contributed below the monthly compensation breakpoint is 0 percent.
- The monthly compensation breakpoint is $0 for full and supplemental formula members and $133.33 for employees covered by the modified formula.
- The percent contributed above the monthly compensation breakpoint depends upon the benefit formula, as shown in the table below.

Benefit Formula	Percent Contributed above the Breakpoint
Miscellaneous, 1.5% at 65	2%
Miscellaneous, 2% at 60	7%
Miscellaneous, 2% at 55	7%
Miscellaneous, 2.5% at 55	8%
Miscellaneous, 2.7% at 55	8%
Miscellaneous, 3% at 60	8%
Safety, 1/2 at 55	Varies by entry age
Safety, 2% at 55	7%
Safety, 2% at 50	9%
Safety, 3% at 55	9%
Safety, 3% at 50	9%

The employer may choose to “pick-up” these contributions for the employees (Employer Paid Member Contributions or EPMC). An employer may also include Employee Cost Sharing in the contract, where employees contribute an additional percentage of compensation based on any optional benefit for which a contract amendment was made on or after January 1, 1979.

Auxiliary organizations of the CSUC system may elect reduced contribution rates, in which case the offset is $317 and the contribution rate is 6 percent if members are not covered by Social Security. If members are covered by Social Security, the offset is $513 and the contribution rate is 5 percent.

Refund of Employee Contributions

If the member’s service with the employer ends, and if the member does not satisfy the eligibility conditions for any of the retirement benefits above, the member may elect to receive a refund of his or her employee contributions, which are credited annually with 6 percent interest.

1959 Survivor Benefit

This is a pre-retirement death benefit available only to members not covered by Social Security. Any agency joining CalPERS subsequent to 1993 was required to provide this benefit if the members were not covered by Social Security. The benefit is optional for agencies joining CalPERS prior to 1994. Levels 1, 2 and 3 are now closed. Any new agency or any agency wishing to add this benefit or increase the current level must choose the 4th or Indexed Level.

This benefit is not included in the results presented in this valuation. More information on this benefit is available on the CalPERS website at www.calpers.ca.gov.

APPENDIX C

PARTICIPANT DATA

- SUMMARY OF VALUATION DATA
- ACTIVE MEMBERS
- TRANSFERRED AND TERMINATED MEMBERS
- RETIRED MEMBERS AND BENEFICIARIES

Summary of Valuation Data

		June 30, 2011		June 30, 2012
1. **Active Members**				
a) Counts		257		255
b) Average Attained Age		38.20		38.36
c) Average Entry Age to Rate Plan		27.22		27.55
d) Average Years of Service		10.98		10.81
e) Average Annual Covered Pay	$	112,141	$	111,529
f) Annual Covered Payroll		28,820,289		28,439,846
g) Projected Annual Payroll for Contribution Year		31,492,708		31,076,988
h) Present Value of Future Payroll		284,363,454		279,360,915
2. **Transferred Members**				
a) Counts		45		46
b) Average Attained Age		42.44		43.11
c) Average Years of Service		3.40		4.23
d) Average Annual Covered Pay	$	98,185	$	92,275
3. **Terminated Members**				
a) Counts		32		36
b) Average Attained Age		41.38		41.52
c) Average Years of Service		2.91		4.11
d) Average Annual Covered Pay	$	64,727	$	74,732
4. **Retired Members and Beneficiaries**				
a) Counts		387		398
b) Average Attained Age		63.46		63.71
c) Average Annual Benefits	$	55,656	$	58,247
5. **Active to Retired Ratio** [(1a) / (4a)]		0.66		0.64

Counts of members included in the valuation are counts of the records processed by the valuation. Multiple records may exist for those who have service in more than one valuation group. This does not result in double counting of liabilities.

Active Members

Counts of members included in the valuation are counts of the records processed by the valuation. Multiple records may exist for those who have service in more than one valuation group. This does not result in double counting of liabilities.

Distribution of Active Members by Age and Service

Attained Age	Years of Service at Valuation Date 0-4	5-9	10-14	15-19	20-25	25+	Total
15-24	4	0	0	0	0	0	4
25-29	28	10	0	0	0	0	38
30-34	13	39	14	0	0	0	66
35-39	4	21	16	3	0	0	44
40-44	4	10	13	7	4	0	38
45-49	4	2	3	15	13	6	43
50-54	0	1	2	0	3	8	14
55-59	2	0	0	0	1	5	8
60-64	0	0	0	0	0	0	0
65 and over	0	0	0	0	0	0	0
All Ages	59	83	48	25	21	19	255

Distribution of Average Annual Salaries by Age and Service

Attained Age	Years of Service at Valuation Date 0-4	5-9	10-14	15-19	20-25	25+	Average
15-24	$62,801	$0	$0	$0	$0	$0	$62,801
25-29	77,235	98,295	0	0	0	0	82,777
30-34	84,356	106,896	119,801	0	0	0	105,194
35-39	101,771	108,993	122,017	125,672	0	0	114,209
40-44	51,333	108,289	128,784	128,026	133,804	0	115,627
45-49	137,397	95,425	120,192	115,398	131,531	149,368	126,467
50-54	0	89,428	135,266	0	161,405	157,624	150,369
55-59	173,631	0	0	0	145,039	129,147	142,254
60-64	0	0	0	0	0	0	0
65 and over	0	0	0	0	0	0	0
All Ages	$85,079	$106,071	$123,641	$120,167	$136,875	$147,523	$111,529

Transferred and Terminated Members

Distribution of Transfers to Other CalPERS Plans by Age and Service

	Years of Service at Valuation Date							
Attained Age	**0-4**	**5-9**	**10-14**	**15-19**	**20-25**	**25+**	**Total**	**Average Salary**
15-24	0	0	0	0	0	0	0	$0
25-29	1	0	0	0	0	0	1	89,015
30-34	6	0	0	0	0	0	6	73,153
35-39	10	1	0	0	0	0	11	103,350
40-44	7	1	1	1	0	0	10	91,419
45-49	7	1	1	1	0	0	10	89,647
50-54	2	2	0	0	0	1	5	114,363
55-59	2	0	0	0	0	0	2	78,709
60-64	1	0	0	0	0	0	1	40,000
65 and over	0	0	0	0	0	0	0	0
All Ages	36	5	2	2	0	1	46	92,275

Distribution of Terminated Participants with Funds on Deposit by Age and Service

	Years of Service at Valuation Date							
Attained Age	**0-4**	**5-9**	**10-14**	**15-19**	**20-25**	**25+**	**Total**	**Average Salary**
15-24	0	0	0	0	0	0	0	$0
25-29	3	0	0	0	0	0	3	63,734
30-34	8	0	1	0	0	0	9	70,798
35-39	4	1	1	0	0	0	6	95,213
40-44	3	0	1	0	1	0	5	103,224
45-49	3	3	0	0	1	0	7	69,600
50-54	1	0	0	0	0	0	1	25,438
55-59	2	0	1	0	0	0	3	30,444
60-64	1	1	0	0	0	0	2	85,302
65 and over	0	0	0	0	0	0	0	0
All Ages	25	5	4	0	2	0	36	74,732

Retired Members and Beneficiaries

Distribution of Retirees and Beneficiaries by Age and Retirement Type*

Attained Age	Service Retirement	Non-Industrial Disability	Industrial Disability	Non-Industrial Death	Industrial Death	Death After Retirement	Total
Under 30	0	0	0	0	0	0	0
30-34	0	0	1	0	0	0	1
35-39	0	0	1	0	0	0	1
40-44	0	0	4	0	0	0	4
45-49	0	0	10	0	1	1	12
50-54	29	0	7	0	1	1	38
55-59	63	0	25	0	1	1	90
60-64	63	0	25	0	0	2	90
65-69	48	0	21	0	0	7	76
70-74	23	1	13	0	0	4	41
75-79	14	0	10	0	0	1	25
80-84	6	0	1	0	0	5	12
85 and Over	1	0	1	0	0	6	8
All Ages	247	1	119	0	3	28	398

Distribution of Average Annual Amounts for Retirees and Beneficiaries by Age and Retirement Type*

Attained Age	Service Retirement	Non-Industrial Disability	Industrial Disability	Non-Industrial Death	Industrial Death	Death After Retirement	Average
Under 30	$0	$0	$0	$0	$0	$0	$0
30-34	0	0	48,514	0	0	0	48,514
35-39	0	0	46,066	0	0	0	46,066
40-44	0	0	46,702	0	0	0	46,702
45-49	0	0	40,479	0	74,619	36,471	42,990
50-54	87,067	0	57,672	0	57,848	3,025	78,671
55-59	83,620	0	54,246	0	86,074	81,234	75,461
60-64	75,034	0	42,880	0	0	14,916	64,766
65-69	57,821	0	34,077	0	0	23,163	48,068
70-74	54,853	14,478	31,331	0	0	48,047	45,746
75-79	42,777	0	28,092	0	0	11,497	35,652
80-84	14,850	0	24,789	0	0	24,168	19,561
85 and Over	28,334	0	36,154	0	0	9,302	15,037
All Ages	$69,933	$14,478	$41,872	$0	$72,847	$24,751	$58,247

Retired Members and Beneficiaries (continued)

Distribution of Retirees and Beneficiaries by Years Retired and Retirement Type*

Years Retired	Service Retirement	Non-Industrial Disability	Industrial Disability	Non-Industrial Death	Industrial Death	Death After Retirement	Total
Under 5 Yrs	70	0	15	0	0	9	94
5-9	94	0	29	0	1	11	135
10-14	38	0	15	0	1	1	55
15-19	26	0	20	0	1	4	51
20-24	10	1	13	0	0	2	26
25-29	5	0	10	0	0	1	16
30 and Over	4	0	17	0	0	0	21
All Years	247	1	119	0	3	28	398

Distribution of Average Annual Amounts for Retirees and Beneficiaries by Years Retired and Retirement Type*

Years Retired	Service Retirement	Non-Industrial Disability	Industrial Disability	Non-Industrial Death	Industrial Death	Death After Retirement	Average
Under 5 Yrs	$86,803	$0	$60,759	$0	$0	$21,669	$76,411
5-9	75,360	0	61,419	0	86,074	22,212	68,114
10-14	60,663	0	38,835	0	57,848	47,144	54,413
15-19	46,663	0	41,146	0	74,619	37,533	44,332
20-24	40,226	14,478	20,894	0	0	21,000	28,091
25-29	26,790	0	22,877	0	0	14,418	23,571
30 and Over	14,688	0	22,615	0	0	0	21,105
All Years	$69,933	$14,478	$41,872	$0	$72,847	$24,751	$58,247

* Counts of members do not include alternate payees receiving benefits while the member is still working. Therefore, the total counts may not match information on page 25 of the report. Multiple records may exist for those who have service in more than one coverage group. This does not result in double counting of liabilities.

APPENDIX D

GLOSSARY OF ACTUARIAL TERMS

Glossary of Actuarial Terms

Accrued Liability *(also called Actuarial Accrued Liability or Entry Age Normal Accrued Liability)*
The total dollars needed as of the valuation date to fund all benefits earned in the past for *current* members.

Actuarial Assumptions
Assumptions made about certain events that will affect pension costs. Assumptions generally can be broken down into two categories: demographic and economic. Demographic assumptions include such things as mortality, disability and retirement rates. Economic assumptions include discount rate, salary growth and inflation.

Actuarial Methods
Procedures employed by actuaries to achieve certain funding goals of a pension plan. Actuarial methods include funding method, setting the length of time to fund the Accrued Liability and determining the Actuarial Value of Assets.

Actuarial Valuation
The determination, as of a valuation date, of the Normal Cost, Accrued liability, Actuarial Value of Assets and related actuarial present values for a pension plan. These valuations are performed annually or when an employer is contemplating a change to their plan provisions.

Actuarial Value of Assets
The Actuarial Value of Assets used for funding purposes is obtained through an asset smoothing technique where investment gains and losses are partially recognized in the year they are incurred, with the remainder recognized in subsequent years.

This method helps to dampen large fluctuations in the employer contribution rate.

Amortization Bases
Separate payment schedules for different portions of the Unfunded Liability. The total Unfunded Liability of a Risk Pool or non-pooled plan can be segregated by "cause," creating “bases” and each such base will be separately amortized and paid for over a specific period of time. However, all bases are amortized using investment and payroll assumptions from the current valuation. This can be likened to a home having a first mortgage of 24 years remaining payments and a second mortgage that has 10 years remaining payments. Each base or each mortgage note has its own terms (payment period, principal, etc.)

Generally, in an actuarial valuation, the separate bases consist of changes in unfunded liability due to contract amendments, actuarial assumption changes, actuarial methodology changes, and or gains and losses. Payment periods are determined by Board policy and vary based on the cause of the change.

Amortization Period
The number of years required to pay off an Amortization Base.

Annual Required Contributions (ARC)
The employer's periodic required annual contributions to a defined benefit pension plan as set forth in GASB Statement No. 27, calculated in accordance with the plan assumptions. The ARC is determined by multiplying the employer contribution rate by the payroll reported to CalPERS for the applicable fiscal year. However, if this contribution is fully prepaid in a lump sum, then the dollar value of the ARC is equal to the Lump Sum Prepayment.

Classic Member (under PEPRA)
A classic member is a member who joined CalPERS prior to January, 1, 2013 and who is not defined as a new member under PEPRA. (See definition of new member below)

Discount Rate Assumption
The actuarial assumption that was called “investment return” in earlier CalPERS reports or “actuarial interest rate” in Section 20014 of the California Public Employees’ Retirement Law (PERL).

Entry Age

The earliest age at which a plan member begins to accrue benefits under a defined benefit pension plan. In most cases, this is the age of the member on their date of hire.

Entry Age Normal Cost Method

An actuarial cost method designed to fund a member's total plan benefit over the course of his or her career. This method is designed to yield a rate expressed as a level percentage of payroll.
(The assumed retirement age less the entry age is the amount of time required to fund a member’s total benefit. Generally, the older a member on the date of hire, the greater the entry age normal cost. This is mainly because there is less time to earn investment income to fund the future benefits.)

Fresh Start

A Fresh Start is when multiple amortization bases are collapsed to one base and amortized together over a new funding period.

Funded Status

A measure of how well funded, or how "on track" a plan or risk pool is with respect to assets verses accrued liabilities. A ratio greater than 100% means the plan or risk pool has more assets than liabilities and a ratio less than 100% means liabilities are greater than assets. A funded ratio based on the Actuarial Value of Assets indicates the progress toward fully funding the plan using the actuarial cost methods and assumptions. A funded ratio based on the Market Value of Assets indicates the short-term solvency of the plan.

GASB 27

Statement No. 27 of the Governmental Accounting Standards Board. The accounting standard governing a state or local governmental employer’s accounting for pensions.

GASB 68

Statement No. 68 of the Governmental Accounting Standards Board. The accounting standard governing a state or local governmental employer’s accounting and financial reporting for pensions. GASB 68 replaces GASB 27 effective the first fiscal year beginning after June 15, 2014.

New Member (under PEPRA)

A new member includes an individual who becomes a member of a public retirement system for the first time on or after January 1, 2013, and who was not a member of another public retirement system prior to that date, and who is not subject to reciprocity with another public retirement system.

Normal Cost

The annual cost of service accrual for the upcoming fiscal year for active employees. The normal cost should be viewed as the long term contribution rate.

Pension Actuary

A business professional that is authorized by the Society of Actuaries, and the American Academy of Actuaries to perform the calculations necessary to properly fund a pension plan.

PEPRA

The California **P**ublic **E**mployees’ **P**ension **R**eform **A**ct of 2013

Prepayment Contribution

A payment made by the employer to reduce or eliminate the year’s required employer contribution.

Present Value of Benefits (PVB)

The total dollars needed as of the valuation date to fund all benefits earned in the past or expected to be earned in the future for *current* members.

Rolling Amortization Period

An amortization period that remains the same each year, rather than declining.

Superfunded

A condition existing when a plan's Actuarial Value of Assets exceeds its Present Value of Benefits. Prior to the passage of PEPRA, when this condition existed on a given valuation date for a given plan, employee contributions for the rate year covered by that valuation could be waived.

Unfunded Liability

When a plan or pool's Actuarial Value of Assets is less than its Accrued Liability, the difference is the plan or pool's Unfunded Liability. If the Unfunded Liability is positive, the plan or pool will have to pay contributions exceeding the Normal Cost.

California Public Employees' Retirement System
Actuarial Office
P.O. Box 942701
Sacramento, CA 94229-2701
TTY: (916) 795-3240
(888) 225-7377 phone • (916) 795-2744 fax
www.calpers.ca.gov

October 2013

MISCELLANEOUS PLAN OF THE CITY OF NEWPORT BEACH (CalPERS ID: 1545983430)
Annual Valuation Report as of June 30, 2012

Dear Employer,

As an attachment to this letter, you will find a copy of the June 30, 2012 actuarial valuation report of your pension plan. Your 2012 actuarial valuation report contains important actuarial information about your pension plan at CalPERS. Your CalPERS staff actuary, whose signature appears in the Actuarial Certification Section on page 1, is available to discuss the report with you after October 31, 2013.

Future Contribution Rates

The exhibit below displays the Minimum Employer Contribution Rate for fiscal year 2014-15 and a projected contribution rate for 2015-16, before any cost sharing. The projected rate for 2015-16 is based on the most recent information available, including an estimate of the investment return for fiscal year 2012-13, namely 12 percent, and the impact of the new smoothing methods adopted by the CalPERS Board in April 2013 that will impact employer rates for the first time in fiscal year 2015-16. For a projection of employer rates beyond 2015-16, please refer to the "Analysis of Future Investment Return Scenarios" in the "Risk Analysis" section, which includes rate projections through 2019-20 under a variety of investment return scenarios. Please disregard any projections that we may have provided you in the past.

Fiscal Year	Employer Contribution Rate
2014-15	18.816%
2015-16	20.0% (projected)

Member contributions other than cost sharing, (whether paid by the employer or the employee) are in addition to the above rates. **The employer contribution rates in this report do not reflect any cost sharing arrangement you may have with your employees.**

The estimate for 2015-16 also assumes that there are no future contract amendments and no liability gains or losses (such as larger than expected pay increases, more retirements than expected, etc.). This is a very important assumption because these gains and losses do occur and can have a significant impact on your contribution rate. Even for the largest plans, such gains and losses often cause a change in the employer's contribution rate of one or two percent of payroll and may be even larger in some less common instances. These gains and losses cannot be predicted in advance so the projected employer contribution rates are just estimates. Your actual rate for 2015-16 will be provided in next year's report.

Changes since the Prior Year's Valuation

On January 1, 2013, the Public Employees' Pension Reform Act of 2013 (PEPRA) took effect. The impact of most of the PEPRA changes will first show up in the rates and the benefit provision listings of the June 30, 2013 valuation for the 2015-16 rates. For more information on PEPRA, please refer to the CalPERS website.

On April 17, 2013, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization and rate smoothing policies. Beginning with the June 30, 2013 valuations that set the 2015-16 rates, CalPERS will no longer use an actuarial value of assets and will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period. The impact of this new actuarial methodology is reflected in the "Analysis of Future Investment Return Scenarios" subsection of the "Risk Analysis" section of your report.

A review of the preferred asset allocation mix for CalPERS investment portfolio will be performed in late 2013, which could influence future discount rates. In addition, CalPERS will review economic and demographic assumptions, including mortality rate improvements that are likely to increase employer contribution rates in future years. The "Analysis of Future Investment Return Scenarios" subsection does **not** reflect the impact of assumption changes that we expect will also impact future rates.

Besides the above noted changes, there may also be changes specific to your plan such as contract amendments and funding changes.

Further descriptions of general changes are included in the "Highlights and Executive Summary" section and in Appendix A, "Actuarial Methods and Assumptions." The effect of the changes on your rate is included in the "Reconciliation of Required Employer Contributions."

We understand that you might have a number of questions about these results. While we are very interested in discussing these results with your agency, in the interest of allowing us to give every public agency their results, we ask that you wait until after October 31 to contact us with actuarial questions. If you have other questions, you may call the Customer Contact Center at (888)-CalPERS or (**888-225-7377**).

Sincerely,

Alan Milligan

ALAN MILLIGAN
Chief Actuary

CalPERS

ACTUARIAL VALUATION

as of June 30, 2012

for the MISCELLANEOUS PLAN of the CITY OF NEWPORT BEACH

(CalPERS ID: 1545983430)

REQUIRED CONTRIBUTIONS FOR FISCAL YEAR July 1, 2014 – June 30, 2015

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ACTUARIAL CERTIFICATION

To the best of our knowledge, this report is complete and accurate and contains sufficient information to disclose, fully and fairly, the funded condition of the MISCELLANEOUS PLAN OF THE CITY OF NEWPORT BEACH. This valuation is based on the member and financial data as of June 30, 2012 provided by the various CalPERS databases and the benefits under this plan with CalPERS as of the date this report was produced. It is our opinion that the valuation has been performed in accordance with generally accepted actuarial principles, in accordance with standards of practice prescribed by the Actuarial Standards Board, and that the assumptions and methods are internally consistent and reasonable for this plan, as prescribed by the CalPERS Board of Administration according to provisions set forth in the California Public Employees' Retirement Law.

The undersigned is an actuary for CalPERS, who is a member of the American Academy of Actuaries and the Society of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

KERRY J. WORGAN, MAAA, FSA, FCIA
Senior Pension Actuary, CalPERS

HIGHLIGHTS AND EXECUTIVE SUMMARY

Introduction

This report presents the results of the June 30, 2012 actuarial valuation of the MISCELLANEOUS PLAN OF THE CITY OF NEWPORT BEACH of the California Public Employees' Retirement System (CalPERS). This actuarial valuation sets the fiscal year 2014-15 required employer contribution rates.

On January 1, 2013, the Public Employees' Pension Reform Act of 2013 (PEPRA) took effect. The impact of most of the PEPRA changes will first show up in the rates and the benefit provision listings of the June 30, 2013 valuation, which sets the 2015-16 contribution rates. For more information on PEPRA, please refer to the CalPERS website.

On April 17, 2013, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization and smoothing policies. Prior to this change, CalPERS employed an amortization and smoothing policy, which spread investment returns over a 15-year period while experience gains and losses were amortized over a rolling 30-year period. Effective with the June 30, 2013 valuations, CalPERS will no longer use an actuarial value of assets and will employ an amortization and smoothing policy that will spread rate increases or decreases over a 5-year period, and will amortize all experience gains and losses over a fixed 30-year period.

The new amortization and smoothing policy will be used for the first time in the June 30, 2013 actuarial valuations. These valuations will be performed in the fall of 2014 and will set employer contribution rates for the fiscal year 2015-16.

As stewards of the System, CalPERS must ensure that the pension fund is sustainable over multiple generations. Our strategic plan calls for us to take an integrated view of our assets and liabilities and to take steps designed to achieve a fully funded plan. A review of the preferred asset allocation mix for CalPERS investment portfolio will be performed in late 2013, which could influence future discount rates. In addition, CalPERS will review economic and demographic assumptions, including mortality rate improvements that are likely to increase employer contribution rates in future years.

Purpose of the Report

The actuarial valuation was prepared by the CalPERS Actuarial Office using data as of June 30, 2012. The purpose of the report is to:

- Set forth the actuarial assets and accrued liabilities of this plan as of June 30, 2012;
- Determine the required employer contribution rate for the fiscal year July 1, 2014 through June 30, 2015;
- Provide actuarial information as of June 30, 2012 to the CalPERS Board of Administration and other interested parties, and to;
- Provide pension information as of June 30, 2012 to be used in financial reports subject to Governmental Accounting Standards Board (GASB) Statement Number 27 for a Single Employer Defined Benefit Pension Plan.

California Actuarial Advisory Panel Recommendations

This report includes all the basic disclosure elements as described in the *Model Disclosure Elements for Actuarial Valuation Reports* recommended in 2011 by the California Actuarial Advisory Panel (CAAP), with the exception of including the original base amounts of the various components of the unfunded liability in the Schedule of Amortization Bases shown on page 19.

Additionally, this report includes the following "Enhanced Risk Disclosures" also recommended by the CAAP in the Model Disclosure Elements document:

- A "Deterministic Stress Test," projecting future results under different investment income scenarios
- A "Sensitivity Analysis," showing the impact on current valuation results using a 1% plus or minus change in the discount rate.

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.

Required Employer Contribution

	Fiscal Year 2013-14	Fiscal Year 2014-15
Actuarially Determined Employer Contributions		
1. Contribution in Projected Dollars		
a) Total Normal Cost	$ 7,118,045	$ 6,901,728
b) Employee Contribution[1]	3,565,039	3,494,546
c) Employer Normal Cost [(1a) – (1b)]	3,553,006	3,407,182
d) Unfunded Contribution	4,433,469	4,811,881
e) Required Employer Contribution [(1c) + (1d)]	$ 7,986,475	$ 8,219,063
Projected Annual Payroll for Contribution Year	$ 44,568,564	$ 43,681,821
2. Contribution as a Percentage of Payroll		
a) Total Normal Cost	15.971%	15.800%
b) Employee Contribution[1]	7.999%	8.000%
c) Employer Normal Cost [(2a) – (2b)]	7.972%	7.800%
d) Unfunded Rate	9.948%	11.016%
e) Required Employer Rate [(2c) + (2d)]	17.920%	18.816%
Minimum Employer Contribution Rate[2]	**17.920%**	**18.816%**
Annual Lump Sum Prepayment Option[3]	$ 6,662,586	$ 7,927,168

[1]This is the percentage specified in the Public Employees Retirement Law, net of any reduction from the use of a modified formula or other factors. Employee cost sharing is not shown in this report.

[2]The Minimum Employer Contribution Rate under PEPRA is the greater of the required employer rate or the employer normal cost.

[3]Payment must be received by CalPERS before the first payroll reported to CalPERS of the new fiscal year and after June 30. If there is contractual cost sharing or other change, this amount will change.

Plan's Funded Status

	June 30, 2011	June 30, 2012
1. Present Value of Projected Benefits	$ 338,806,609	$ 351,642,097
2. Entry Age Normal Accrued Liability	287,108,575	302,006,850
3. Actuarial Value of Assets (AVA)	228,755,012	238,869,992
4. Unfunded Liability (AVA Basis) [(2) – (3)]	$ 58,353,563	$ 63,136,858
5. Funded Ratio (AVA Basis) [(3) / (2)]	79.7%	79.1%
6. Market Value of Assets (MVA)	$ 204,473,260	$ 200,149,332
7. Unfunded Liability (MVA Basis) [(2) – (6)]	$ 82,635,315	$ 101,857,518
8. Funded Ratio (MVA Basis) [(6) / (2)]	71.2%	66.3%
Superfunded Status	No	No

Cost

Actuarial Cost Estimates in General

What will this pension plan cost? Unfortunately, there is no simple answer. There are two major reasons for the complexity of the answer. First, actuarial calculations, including the ones in this report, are based on a number of assumptions about the future. These assumptions can be divided into two categories.

- Demographic assumptions include the percentage of employees that will terminate, die, become disabled, and retire in each future year.
- Economic assumptions include future salary increases for each active employee, and the assumption with the greatest impact, future asset returns at CalPERS for each year into the future until the last dollar is paid to current members of your plan.

While CalPERS has set these assumptions to reflect our best estimate of the real future of your plan, it must be understood that these assumptions are very long-term predictors and will surely not be realized in any one year. For example, while the asset earnings at CalPERS have averaged more than the assumed return of 7.5 percent for the past twenty year period ending June 30, 2013, returns for each fiscal year ranged from negative -24 percent to +21.7 percent.

Second, the very nature of actuarial funding produces the answer to the question of plan cost as the sum of two separate pieces.

- The Normal Cost (i.e., the future annual premiums in the absence of surplus or unfunded liability) expressed as a percentage of total active payroll.
- The Past Service Cost or Accrued Liability (i.e., the current value of the benefit for all credited past service of current members) which is expressed as a lump sum dollar amount.

The cost is the sum of a percent of future pay and a lump sum dollar amount (the sum of an apple and an orange if you will). To communicate the total cost, either the Normal Cost (i.e., future percent of payroll) must be converted to a lump sum dollar amount (in which case the total cost is the present value of benefits), or the Past Service Cost (i.e., the lump sum) must be converted to a percent of payroll (in which case the total cost is expressed as the employer's rate, part of which is permanent and part temporary). Converting the Past Service Cost lump sum to a percent of payroll requires a specific amortization period, and the employer rate will vary depending on the amortization period chosen.

Changes since the Prior Year's Valuation

Benefits

The standard actuarial practice at CalPERS is to recognize mandated legislative benefit changes in the first annual valuation following the effective date of the legislation. Voluntary benefit changes by plan amendment are generally included in the first valuation that is prepared after the amendment becomes effective even if the valuation date is prior to the effective date of the amendment.

This valuation generally reflects plan changes by amendments effective before the date of the report. Please refer to Appendix B for a summary of the plan provisions used in this valuation. The effect of any mandated benefit changes or plan amendments on the unfunded liability is shown in the "(Gain)/Loss Analysis" and the effect on your employer contribution rate is shown in the "Reconciliation of Required Employer Contributions." It should be noted that no change in liability or rate is shown for any plan changes, which were already included in the prior year's valuation.

Public Employees' Pension Reform Act of 2013 (PEPRA)

On January 1, 2013, the Public Employees' Pension Reform Act of 2013 (PEPRA) took effect, requiring that a public employer's contribution to a defined benefit plan, in combination with employee contributions to that defined benefit plan, shall not be less than the normal cost rate. Beginning July 1, 2013, this means that some plans with surplus will be paying more than they otherwise would. For more information on PEPRA, please refer to the CalPERS website.

Subsequent Events

Actuarial Methods and Assumptions

On April 17, 2013, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization and smoothing policies. Beginning with the June 30, 2013 valuations that set the 2015-16 rates, CalPERS will no longer use an actuarial value of assets and will employ an amortization and rate smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period. The impact of this new actuarial methodology is reflected in the "Expected Rate Increases" subsection of the "Risk analysis" section of your report.

Not reflected in the "Expected Rate Increases" subsection of the "Risk analysis" section is the impact of assumption changes that we expect will also, impact future rates. A review of the preferred asset allocation mix for CalPERS investment portfolio will be performed in late 2013, which could influence future discount rates. In addition, CalPERS will review economic and demographic assumptions, including mortality rate improvements that are likely to increase employer contribution rates in future years.

ASSETS

- RECONCILIATION OF THE MARKET VALUE OF ASSETS
- DEVELOPMENT OF THE ACTUARIAL VALUE OF ASSETS
- ASSET ALLOCATION
- CALPERS HISTORY OF INVESTMENT RETURNS

Reconciliation of the Market Value of Assets

1.	Market Value of Assets as of 6/30/11 Including Receivables	$	204,473,260
2.	Receivables for Service Buybacks as of 6/30/11		955,767
3.	Market Value of Assets as of 6/30/11		203,517,493
4.	Employer Contributions		4,658,727
5.	Employee Contributions		4,447,369
6.	Benefit Payments to Retirees and Beneficiaries		(12,847,745)
7.	Refunds		(178,521)
8.	Lump Sum Payments		0
9.	Transfers and Miscellaneous Adjustments		(887,965)
10.	Investment Return		(296,771)
11.	Market Value of Assets as of 6/30/12	$	198,412,587
12.	Receivables for Service Buybacks as of 6/30/12		1,736,745
13.	Market Value of Assets as of 6/30/12 Including Receivables	$	200,149,332

Development of the Actuarial Value of Assets

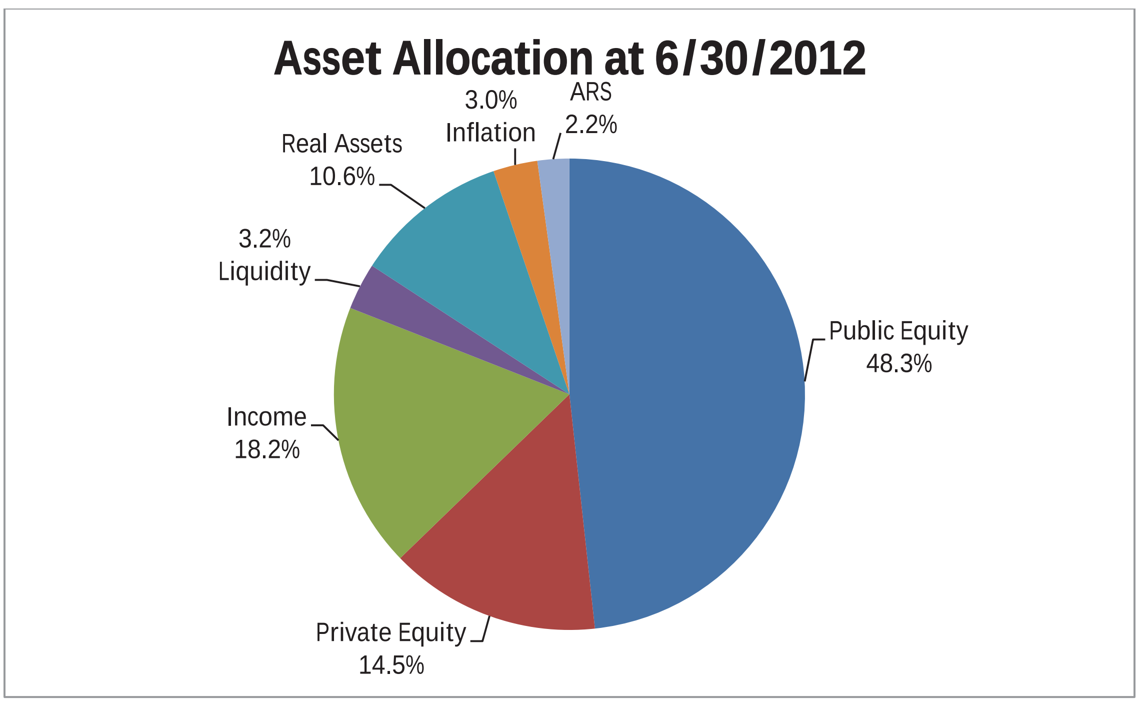
1.	Actuarial Value of Assets as of 6/30/11 Used For Rate Setting Purposes	$	228,755,012
2.	Receivables for Service Buybacks as of 6/30/11		955,767
3.	Actuarial Value of Assets as of 6/30/11		227,799,245
4.	Employer Contributions		4,658,727
5.	Employee Contributions		4,447,369
6.	Benefit Payments to Retirees and Beneficiaries		(12,847,745)
7.	Refunds		(178,521)
8.	Lump Sum Payments		0
9.	Transfers and Miscellaneous Adjustments		(887,965)
10.	Expected Investment Income at 7.5%		16,907,898
11.	Expected Actuarial Value of Assets	$	239,899,008
12.	Market Value of Assets as of 6/30/12	$	198,412,587
13.	Preliminary Actuarial Value of Assets [(11) + ((12) – (11)) / 15]		237,133,247
14.	Maximum Actuarial Value of Assets (120% of (12))		238,095,104
15.	Minimum Actuarial Value of Assets (80% of (12))		158,730,070
16.	Actuarial Value of Assets {Lesser of [(14), Greater of ((13), (15))]}		237,133,247
17.	Actuarial Value to Market Value Ratio		119.3%
18.	Receivables for Service Buybacks as of 6/30/12		1,736,745
19.	Actuarial Value of Assets as of 6/30/12 Used for Rate Setting Purposes	$	238,869,992

Asset Allocation

CalPERS adheres to an Asset Allocation Strategy which establishes asset class allocation policy targets and ranges, and manages those asset class allocations within their policy ranges. CalPERS recognizes that over 90 percent of the variation in investment returns of a well-diversified pool of assets can typically be attributed to asset allocation decisions. In December 2010 the Board approved the policy asset class targets and ranges listed below. These policy asset allocation targets and ranges are expressed as a percentage of total assets and were expected to be implemented over a period of one to two years beginning July 1, 2011 and reviewed again in December 2013.

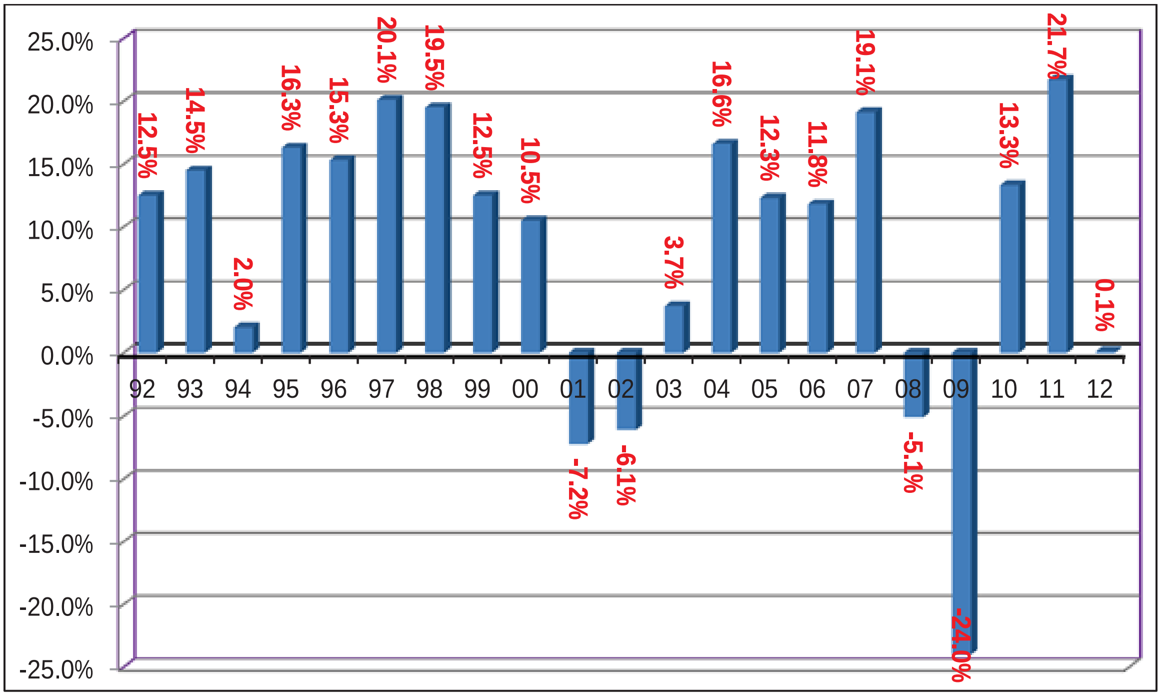
The asset allocation and market value of assets shown below reflect the values of the Public Employees Retirement Fund (PERF) in its entirety as of June 30, 2012. The assets for CITY OF NEWPORT BEACH MISCELLANEOUS PLAN are part of the Public Employees Retirement Fund (PERF) and are invested accordingly.

(A) Asset Class	(B) Market Value ($ Billion)	(C) Policy Target Allocation	(D) Policy Target Range
1) Public Equity	113.0	50.0%	+/- 7%
2) Private Equity	33.9	14.0%	+/- 4%
3) Fixed Income	42.6	17.0%	+/- 5%
4) Cash Equivalents	7.5	4.0%	+/- 5%
5) Real Assets	24.8	11.0%	+/- 3%
6) Inflation Assets	7.0	4.0%	+/- 3%
7) Absolute Return Strategy (ARS)	5.1	0.0%	N/A
Total Fund	**$233.9**	**100.0%**	**N/A**



CalPERS History of Investment Returns

The following is a chart with historical annual returns of the Public Employees Retirement Fund for each fiscal year ending on June 30. Beginning in 2002, the figures are reported as gross of fees.



LIABILITIES AND RATES

- DEVELOPMENT OF ACCRUED AND UNFUNDED LIABILITIES
- (GAIN) / LOSS ANALYSIS 06/30/11 - 06/30/12
- SCHEDULE OF AMORTIZATION BASES
- RECONCILIATION OF REQUIRED EMPLOYER CONTRIBUTIONS
- EMPLOYER CONTRIBUTION RATE HISTORY
- FUNDING HISTORY

Development of Accrued and Unfunded Liabilities

1.	Present Value of Projected Benefits		
	a) Active Members	$	175,508,818
	b) Transferred Members		10,398,144
	c) Terminated Members		10,616,278
	d) Members and Beneficiaries Receiving Payments		155,118,857
	e) Total	$	351,642,097
2.	Present Value of Future Employer Normal Costs	$	23,537,536
3.	Present Value of Future Employee Contributions	$	26,097,711
4.	Entry Age Normal Accrued Liability		
	a) Active Members [(1a) - (2) - (3)]	$	125,873,571
	b) Transferred Members (1b)		10,398,144
	c) Terminated Members (1c)		10,616,278
	d) Members and Beneficiaries Receiving Payments (1d)		155,118,857
	e) Total	$	302,006,850
5.	Actuarial Value of Assets (AVA)	$	238,869,992
6.	Unfunded Accrued Liability (AVA Basis) [(4e) – (5)]	$	63,136,858
7.	Funded Ratio (AVA Basis) [(5) / (4e)]		79.1%
8.	Market Value of Assets (MVA)	$	200,149,332
9.	Unfunded Liability (MVA Basis) [(4e) - (8)]	$	101,857,518
10.	Funded Ratio (MVA Basis) [(8) / (4e)]		66.3%

(Gain) /Loss Analysis 6/30/11 – 6/30/12

To calculate the cost requirements of the plan, assumptions are made about future events that affect the amount and timing of benefits to be paid and assets to be accumulated. Each year actual experience is compared to the expected experience based on the actuarial assumptions. This results in actuarial gains or losses, as shown below.

A	**Total (Gain) / Loss for the Year**		
1.	Unfunded Accrued Liability (UAL) as of 6/30/11	$	58,353,563
2.	Expected Payment on the UAL during 2011/2012		2,796,615
3.	Interest through 6/30/12 [.075 x (A1) - $((1.075)^{½}$ - 1) x (A2)]		4,273,540
4.	Expected UAL before all other changes [(A1) - (A2) + (A3)]		59,830,488
5.	Change due to plan changes		0
6.	Change due to assumption change		0
7.	Expected UAL after all other changes [(A4) + (A5) + (A6)]		59,830,488
8.	Actual UAL as of 6/30/12		63,136,858
9.	Total (Gain)/Loss for 2011/2012 [(A8) - (A7)]	$	3,306,370
B	**Contribution (Gain) / Loss for the Year**		
1.	Expected Contribution (Employer and Employee)	$	9,505,636
2.	Interest on Expected Contributions		350,017
3.	Actual Contributions		9,106,096
4.	Interest on Actual Contributions		335,305
5.	Expected Contributions with Interest [(B1) + (B2)]		9,855,653
6.	Actual Contributions with Interest [(B3) + (B4)]		9,441,401
7.	Contribution (Gain)/Loss [(B5) - (B6)]	$	414,252
C	**Asset (Gain) / Loss for the Year**		
1.	Actuarial Value of Assets as of 6/30/11 Including Receivables	$	228,755,012
2.	Receivables as of 6/30/11		955,767
3.	Actuarial Value of Assets as of 6/30/11		227,799,245
4.	Contributions Received		9,106,096
5.	Benefits and Refunds Paid		(13,026,266)
6.	Transfers and miscellaneous adjustments		(887,965)
7.	Expected Int. [.075 x (C3) + $((1.075)^{½}$ - 1) x ((C4) + (C5) + (C6))]		16,907,898
8.	Expected Assets as of 6/30/12 [(C3) + (C4) + (C5) + (C6) + (C7)]		239,899,008
9.	Receivables as of 6/30/12		1,736,745
10.	Expected Assets Including Receivables		241,635,753
11.	Actual Actuarial Value of Assets as of 6/30/12		238,869,992
12.	Asset (Gain)/Loss [(C10) - (C11)]	$	2,765,761
D	**Liability (Gain) / Loss for the Year**		
1.	Total (Gain)/Loss (A9)	$	3,306,370
2.	Contribution (Gain)/Loss (B7)		414,252
3.	Asset (Gain)/Loss (C12)		2,765,761
4.	Liability (Gain)/Loss [(D1) - (D2) - (D3)]	$	126,357

Development of the (Gain) / Loss Balance as of 6 / 30 / 12

1.	(Gain)/Loss Balance as of 6/30/11	$	0
2.	Payment Made on the Balance during 2011/2012		0
3.	Interest through 6/30/12 [.075 x (1) - $((1.075)^{1/2}$ - 1) x (2)]		0
4.	Scheduled (Gain)/Loss Balance as of 6/30/12 [(1) - (2) + (3)]	$	0
5.	(Gain)/Loss for Fiscal Year ending 6/30/12 [(A9) above]		3,306,370
6.	Final (Gain)/Loss Balance as of 6/30/12 [(4) + (5)]	$	3,306,370

Schedule of Amortization Bases

There is a two-year lag between the Valuation Date and the Contribution Fiscal Year.

- The assets, liabilities and funded status of the plan are measured as of the valuation date; June 30, 2012.
- The employer contribution rate determined by the valuation is for the fiscal year beginning two years after the valuation date; fiscal year 2014-15.

This two-year lag is necessary due to the amount of time needed to extract and test the membership and financial data, and due to the need to provide public agencies with their employer contribution rates well in advance of the start of the fiscal year.

The Unfunded Liability is used to determine the employer contribution and therefore must be rolled forward two years from the valuation date to the first day of the fiscal year for which the contribution is being determined. The Unfunded Liability is rolled forward each year by subtracting the expected Payment on the Unfunded Liability for the fiscal year and adjusting for interest. The Expected Payment on the Unfunded Liability for a fiscal year is equal to the Expected Employer Contribution for the fiscal year minus the Expected Normal Cost for the year. The Employer Contribution Rate for the first fiscal year is determined by the actuarial valuation two years ago and the rate for the second year is from the actuarial valuation one year ago. The Normal Cost Rate for each of the two fiscal years is assumed to be the same as the rate determined by the current valuation. All expected dollar amounts are determined by multiplying the rate by the expected payroll for the applicable fiscal year, based on payroll as of the valuation date.

							Amounts for Fiscal 2014-15		
Reason for Base	**Date Established**	**Amorti-zation Period**	**Balance 6/30/12**	**Expected Payment 2012-13**	**Balance 6/30/13**	**Expected Payment 2013-14**	**Balance 6/30/14**	**Scheduled Payment for 2014-15**	**Payment as Percent-age of Payroll**
FORCED FS OLD METHOD	06/30/11	20	$59,830,489	$3,648,132	$60,535,312	$4,433,469	$60,478,742	$4,566,473	10.454%
PAYMENT (GAIN)/LOSS	06/30/12	30	$0	$(106,318)	$110,233	$(142,048)	$265,779	$15,960	0.037%
(GAIN)/LOSS	06/30/12	30	$3,306,369	$0	$3,554,347	$0	$3,820,923	$229,448	0.525%
TOTAL			**$63,136,858**	**$3,541,814**	**$64,199,892**	**$4,291,421**	**$64,565,444**	**$4,811,881**	**11.016%**

The special (gain)/loss bases were established using the temporary modification recognized in the 2009, 2010 and 2011 annual valuations. Unlike the gain/loss occurring in previous and subsequent years, the gain/loss recognized in the 2009, 2010, and 2011 annual valuations will be amortized over fixed and declining 30-year periods so that these annual gain/losses will be fully paid off in 30 years. The gain/loss recognized in 2012 and later valuations will be combined with the gain/loss from 2008 and earlier valuations.

Reconciliation of Required Employer Contributions

	Percentage of Projected Payroll	Estimated $ Based on Projected Payroll
1. Contribution for 7/1/13 – 6/30/14	17.920%	$ 7,986,475
2. Effect of changes since the prior year annual valuation		
a) Effect of unexpected changes in demographics and financial results	0.896%	391,492
b) Effect of plan changes	0.000%	0
c) Effect of changes in Assumptions	0.000%	0
d) Effect of change in payroll	-	(158,904)
e) Effect of elimination of amortization base	0.000%	0
f) Effect of changes due to Fresh Start	0.000%	0
g) Net effect of the changes above [Sum of (a) through (f)]	0.896%	232,588
3. Contribution for 7/1/14 – 6/30/15 [(1)+(2g)]	18.816%	8,219,063

The contribution actually paid (item 1) may be different if a prepayment of unfunded actuarial liability is made or a plan change became effective after the prior year's actuarial valuation was performed.

Employer Contribution Rate History

The table below provides a recent history of the employer contribution rates for your plan, as determined by the annual actuarial valuation. It does not account for prepayments or benefit changes made in the middle of the year.

Required By Valuation

Fiscal Year	Employer Normal Cost	Unfunded Rate	Total Employer Contribution Rate
2010 - 2011	7.528%	3.298%	10.826%
2011 - 2012	7.747%	6.881%	14.628%
2012 - 2013	7.748%	8.655%	16.403%
2013 - 2014	7.972%	9.948%	17.920%
2014 - 2015	7.800%	11.016%	18.816%

Funding History

The Funding History below shows the recent history of the actuarial accrued liability, the market value of assets, the actuarial value of assets, funded ratios and the annual covered payroll. The Actuarial Value of Assets is used to establish funding requirements and the funded ratio on this basis represents the progress toward fully funding future benefits for current plan participants. The funded ratio based on the Market Value of Assets is an indicator of the short-term solvency of the plan.

Valuation Date	Accrued Liability	Actuarial Value of Assets (AVA)	Market Value of Assets (MVA)	Funded Ratio AVA	Funded Ratio MVA	Annual Covered Payroll
06/30/08	$ 217,377,776	$ 195,954,328	$ 199,721,639	90.1%	91.9%	$ 41,147,617
06/30/09	249,666,420	207,817,811	152,670,408	83.2%	61.1%	42,892,547
06/30/10	269,462,732	218,258,404	171,984,696	81.0%	63.8%	40,587,600
06/30/11	287,108,575	228,755,012	204,473,260	79.7%	71.2%	40,786,550
06/30/12	302,006,850	238,869,992	200,149,332	79.1%	66.3%	39,975,054

RISK ANALYSIS

- VOLATILITY RATIOS
- PROJECTED RATES
- ANALYSIS OF FUTURE INVESTMENT RETURN SCENARIOS
- ANALYSIS OF DISCOUNT RATE SENSITIVITY
- HYPOTHETICAL TERMINATION LIABILITY

Volatility Ratios

The actuarial calculations supplied in this communication are based on a number of assumptions about very long-term demographic and economic behavior. Unless these assumptions (terminations, deaths, disabilities, retirements, salary growth, and investment return) are exactly realized each year, there will be differences on a year-to-year basis. The year-to-year differences between actual experience and the assumptions are called actuarial gains and losses and serve to lower or raise the employer's rates from one year to the next. Therefore, the rates will inevitably fluctuate, especially due to the ups and downs of investment returns.

Asset Volatility Ratio (AVR)

Plans that have higher asset to payroll ratios produce more volatile employer rates due to investment return. For example, a plan with an asset to payroll ratio of 8 may experience twice the contribution volatility due to investment return volatility, than a plan with an asset to payroll ratio of 4. Below we have shown your asset volatility ratio, a measure of the plan's current rate volatility. It should be noted that this ratio is a measure of the current situation. It increases over time but generally tends to stabilize as the plan matures.

Liability Volatility Ratio

Plans that have higher liability to payroll ratios produce more volatile employer rates due to investment return and changes in liability. For example, a plan with a liability to payroll ratio of 8 is expected to have twice the contribution volatility of a plan with a liability to payroll ratio of 4. The liability volatility ratio is also included in the table below. It should be noted that this ratio indicates a longer-term potential for contribution volatility and the asset volatility ratio, described above, will tend to move closer to this ratio as the plan matures.

Rate Volatility		**As of June 30, 2012**
1. Market Value of Assets without Receivables	$	198,412,587
2. Payroll		39,975,054
3. Asset Volatility Ratio (AVR = 1. / 2.)		5.0
4. Accrued Liability	$	302,006,850
5. Liability Volatility Ratio (4. / 2.)		7.6

Projected Rates

On April 17, 2013, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization and smoothing policies. Beginning with the June 30, 2013 valuations that will set the 2015-16 rates, CalPERS will employ an amortization and rate smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period. The table below shows projected employer contribution rates (before cost sharing) for the next five Fiscal Years, ***assuming CalPERS earns 12% for fiscal year 2012-13 and 7.50 percent every fiscal year thereafter***, and assuming that all other actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur between now and the beginning of the fiscal year 2015-16. ***Consequently, these projections do not take into account potential rate increases from likely future assumption changes.*** Nor do they take into account the positive impact PEPRA is expected to gradually have on the normal cost.

	New Rate	Projected Future Employer Contribution Rates				
	2014-15	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**
Contribution Rates:	18.816%	20.0%	21.2%	22.4%	23.6%	24.7%

Analysis of Future Investment Return Scenarios

In July 2013, the investment return for fiscal year 2012-13 was announced to be 12.5 percent. Note that this return is before administrative expenses and also does not reflect final investment return information for real estate and private equities. The final return information for these two asset classes is expected to be available later in October. For purposes of projecting future employer rates, we are assuming a 12 percent investment return for fiscal year 2012-13.

The investment return realized during a fiscal year first affects the contribution rate for the fiscal year 2 years later. Specifically, the investment return for 2012-13 will first be reflected in the June 30, 2013 actuarial valuation that will be used to set the 2015-16 employer contribution rates, the 2013-14 investment return will first be reflected in the June 30, 2014 actuarial valuation that will be used to set the 2016-17 employer contribution rates and so forth.

Based on a 12 percent investment return for fiscal year 2012-13 **and the April 17, 2013 CalPERS Board-approved amortization and rate smoothing method change,** and assuming that all other actuarial assumptions will be realized, and that no further changes to assumptions, contributions, benefits, or funding will occur between now and the beginning of the fiscal year 2015-16, the effect on the 2015-16 Employer Rate is as follows: (Note that this estimated rate does not reflect additional assumption changes as discussed in the "Subsequent Events" section.)

Estimated 2015-16 Employer Rate	**Estimated Increase in Employer Rate between 2014-15 and 2015-16**
20.0%	1.2%

As part of this report, a sensitivity analysis was performed to determine the effects of various investment returns during fiscal years 2013-14, 2014-15 and 2015-16 on the 2016-17, 2017-18 and 2018-19 employer rates. Once again, the projected rate increases assume that all other actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur.

Five different investment return scenarios were selected.

- The first scenario is what one would expect if the markets were to give us a 5th percentile return from July 1, 2013 through June 30, 2016. The 5th percentile return corresponds to a -4.1 percent return for each of the 2013-14, 2014-15 and 2015-16 fiscal years.
- The second scenario is what one would expect if the markets were to give us a 25th percentile return from July 1, 2013 through June 30, 2016. The 25th percentile return corresponds to a 2.6 percent return for each of the 2013-14, 2014-15 and 2015-16 fiscal years.
- The third scenario assumed the return for 2013-14, 2014-15, 2015-16 would be our assumed 7.5 percent investment return which represents about a 49th percentile event.
- The fourth scenario is what one would expect if the markets were to give us a 75th percentile return from July 1, 2013 through June 30, 2016. The 75th percentile return corresponds to a 11.9 percent return for each of the 2013-14, 2014-15 and 2015-16 fiscal years.
- Finally, the last scenario is what one would expect if the markets were to give us a 95th percentile return from July 1, 2013 through June 30, 2016. The 95th percentile return corresponds to a 18.5 percent return for each of the 2013-14, 2014-15 and 2015-16 fiscal years.

The table below shows the estimated projected contribution rates and the estimated increases for your plan under the five different scenarios.

2013-16 Investment Return Scenario	**Estimated Employer Rate**			**Estimated Change in Employer Rate between 2015-16 and 2018-19**
	2016-17	**2017-18**	**2018-19**	
-4.1% (5th percentile)	22.1%	24.9%	28.6%	8.6%
2.6% (25th percentile)	21.6%	23.5%	25.8%	5.8%
7.5%	21.2%	22.4%	23.6%	3.6%
11.9%(75th percentile)	20.8%	21.3%	21.4%	1.4%
18.5%(95th percentile)	20.3%	19.7%	18.0%	-2.0%

Analysis of Discount Rate Sensitivity

The following analysis looks at the 2014-15 employer contribution rates under two different discount rate scenarios. Shown below are the employer contribution rates assuming discount rates that are 1 percent lower and 1 percent higher than the current valuation discount rate. This analysis gives an indication of the potential required employer contribution rates if the PERF were to realize investment returns of 6.50 percent or 8.50 percent over the long-term.

This type of analysis gives the reader a sense of the long-term risk to the employer contribution rates.

2014-15 Employer Contribution Rate			
As of June 30, 2012	**6.50% Discount Rate (-1%)**	**7.50% Discount Rate (assumed rate)**	**8.50% Discount Rate (+1%)**
Employer Normal Cost	11.759%	7.800%	4.799%
Unfunded Rate Payment	17.865%	11.016%	4.231%
Total	29.624%	18.816%	9.030%

Hypothetical Termination Liability

Below is an estimate of the financial position of your plan if you had terminated your contract with CalPERS as of June 30, 2012 using the discount rates shown below. Your plan liability on a termination basis is calculated differently compared to the plan's ongoing funding liability. In December 2012, the CalPERS Board adopted a more conservative investment policy and asset allocation strategy for the Terminated Agency Pool. Since the Terminated Agency Pool has limited funding sources, expected benefit payments are secured by risk-free assets. With this change, CalPERS increased benefit security for members while limiting its funding risk. This asset allocation has a lower expected rate of return than the PERF. Consequently, the lower discount rate for the Terminated Agency pool results in higher liabilities for terminated plans.

In order to terminate your plan, you must first contact our Retirement Services Contract Unit to initiate a Resolution of Intent to Terminate. The completed Resolution will allow your plan actuary to give you a preliminary termination valuation with a more up-to-date estimate of your plan liabilities. CalPERS advises you to consult with your plan actuary before beginning this process.

Valuation Date	Hypothetical Termination Liability[1]	Market Value of Assets (MVA)	Unfunded Termination Liability	Termination Funded Ratio	Termination Liability Discount Rate[2]
06/30/11	$ 404,197,103	$ 204,473,260	$ 199,723,843	50.6%	4.82%
06/30/12	545,690,864	200,149,332	345,541,532	36.7%	2.98%

[1] The hypothetical liabilities calculated above include a 7 percent mortality contingency load in accordance with Board policy. Other actuarial assumptions, such as wage and inflation assumptions, can be found in appendix A.

[2] The discount rate assumption used for termination valuations is a weighted average of the 10 and 30-year US Treasury yields in effect on the valuation date that equal the duration of the pension liabilities. For purposes of this hypothetical termination liability estimate, the discount rate used, 2.98 percent, is the yield on the 30-year US Treasury Separate Trading of Registered Interest and Principal of Securities (STRIPS) as of June 30, 2012. In last year's report the May 2012 rate of 2.87 percent was inadvertently shown rather than the June rate of 2.98 percent. Please note, as of June 30, 2013 the 30-year STRIPS yield was 3.72 percent.

GASB STATEMENT NO. 27

MISCELLANEOUS PLAN of the CITY OF NEWPORT BEACH
Information for Compliance with GASB Statement No. 27

Disclosure under GASB 27 follows. However, note that effective for financial statements for fiscal years beginning after June 15, 2014, GASB 68 replaces GASB 27. GASB 68 will require additional reporting. CalPERS is planning to provide GASB 68 disclosure information upon request for an additional fee. We urge you to start discussions with your auditors on how to implement GASB 68.

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2013 to June 30, 2014 has been determined by an actuarial valuation of the plan as of June 30, 2012. The unadjusted GASB compliant contribution rate for the indicated period is 18.816 percent of payroll. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2014, this contribution rate, less any employee cost sharing, as modified by any amendments for the year, would be multiplied by the payroll of covered employees that was actually paid during the period July 1, 2013 to June 30, 2014. The employer and the employer's auditor are responsible for determining the NPO and the APC.

A summary of principal assumptions and methods used to determine the ARC is shown below.

	Retirement Program
Valuation Date	June 30, 2012
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	22 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions	
Discount Rate	7.50% (net of administrative expenses)
Projected Salary Increases	3.30% to 14.20% depending on Age, Service, and type of employment
Inflation	2.75%
Payroll Growth	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30-year rolling period, which results in an amortization of about 6 percent of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period. More detailed information on assumptions and methods is provided in Appendix A of this report. Appendix B contains a description of benefits included in the valuation.

The Schedule of Funding Progress below shows the recent history of the actuarial accrued liability, actuarial value of assets, their relationship and the relationship of the unfunded actuarial accrued liability to payroll.

Valuation Date	Accrued Liability (a)	Actuarial Value of Assets (AVA) (b)	Unfunded Liability (UL) (a)-(b)	Funded Ratios (AVA) (b)/(a)	Funded Ratios Market Value	Annual Covered Payroll (c)	UL As a % of Payroll [(a)-(b)]/(c)
06/30/08	$ 217,377,776	$ 195,954,328	$ 21,423,448	90.1%	91.9%	$ 41,147,617	52.1%
06/30/09	249,666,420	207,817,811	41,848,609	83.2%	61.1%	42,892,547	97.6%
06/30/10	269,462,732	218,258,404	51,204,328	81.0%	63.8%	40,587,600	126.2%
06/30/11	287,108,575	228,755,012	58,353,563	79.7%	71.2%	40,786,550	143.1%
06/30/12	302,006,850	238,869,992	63,136,858	79.1%	66.3%	39,975,054	157.9%

PLAN'S MAJOR BENEFIT PROVISIONS

Plan's Major Benefit Options

Shown below is a summary of the major optional benefits for which your agency has contracted. A description of principal standard and optional plan provisions is in the following section of this Appendix.

	Contract Package			
	Receiving	Active	Active	
Benefit Provision				
Benefit Formula		2.0% @ 55	2.5% @ 55	
Social Security Coverage		No	No	
Full/Modified		Full	Full	
Final Average Compensation Period		12 mos.	12 mos.	
Sick Leave Credit		Yes	Yes	
Non-Industrial Disability		Standard	Standard	
Industrial Disability		No	No	
Pre-Retirement Death Benefits				
Optional Settlement 2W		Yes	Yes	
1959 Survivor Benefit Level		Level 4	Level 4	
Special		No	No	
Alternate (firefighters)		No	No	
Post-Retirement Death Benefits				
Lump Sum	$500	$500	$500	
Survivor Allowance (PRSA)	No	No	No	
COLA	2%	2%	2%	

APPENDICES

APPENDIX A

ACTUARIAL METHODS AND ASSUMPTIONS

- ACTUARIAL DATA
- ACTUARIAL METHODS
- ACTUARIAL ASSUMPTIONS
- MISCELLANEOUS

Actuarial Data

As stated in the Actuarial Certification, the data, which serves as the basis of this valuation, has been obtained from the various CalPERS databases. We have reviewed the valuation data and believe that it is reasonable and appropriate in aggregate. We are unaware of any potential data issues that would have a material effect on the results of this valuation, except that data does not always contain the latest salary information for former members now in reciprocal systems and does not recognize the potential for unusually large salary deviation in certain cases such as elected officials. Therefore, salary information in these cases may not be accurate. These situations are relatively infrequent, however, and when they do occur, they generally do not have a material impact on the employer contribution rates.

Actuarial Methods

Funding Method
The actuarial funding method used for the Retirement Program is the Entry Age Normal Cost Method. Under this method, projected benefits are determined for all members and the associated liabilities are spread in a manner that produces level annual cost as a percent of pay in each year from the age of hire (entry age) to the assumed retirement age. The cost allocated to the current fiscal year is called the normal cost.

The actuarial accrued liability for active members is then calculated as the portion of the total cost of the plan allocated to prior years. The actuarial accrued liability for members currently receiving benefits, for active members beyond the assumed retirement age, and for members entitled to deferred benefits, is equal to the present value of the benefits expected to be paid. No normal costs are applicable for these participants.

The excess of the total actuarial accrued liability over the actuarial value of plan assets is called the unfunded actuarial accrued liability. Funding requirements are determined by adding the normal cost and an amortization of the unfunded liability as a level percentage of assumed future payrolls. All changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methodology are amortized separately over a 20-year period. All new gains or losses are tracked and amortized over a rolling 30-year period. If a plan’s accrued liability exceeds the actuarial value of assets, the annual contribution with respect to the total unfunded liability may not be less than the amount produced by a 30-year amortization of the unfunded liability.

Additional contributions will be required for any plan or pool if their cash flows hamper adequate funding progress by preventing the expected funded status on a market value of assets basis to either:

- Increase by at least 15% by June 30, 2043; or
- Reach a level of 75% funded by June 30, 2043

The necessary additional contribution will be obtained by changing the amortization period of the gains and losses, except for those occurring in the fiscal years 2008-2009, 2009-2010, and 2010-2011 to a period, which will result in the satisfaction of the above criteria. CalPERS actuaries will reassess the criteria above when performing each future valuation to determine whether or not additional contributions are necessary.

An exception to the funding rules above is used whenever the application of such rules results in inconsistencies. In these cases, a “fresh start” approach is used. This simply means that the current unfunded actuarial liability is projected and amortized over a set number of years. As mentioned above, if the annual contribution on the total unfunded liability was less than the amount produced by a 30-year amortization of the unfunded liability, the plan actuary would implement a 30-year fresh start. However, in the case of a 30-year fresh start, just the unfunded liability not already in the (gain)/loss base (which is already amortized over 30 years), will go into the new fresh start base. In addition, a fresh start is needed in the following situations:

1) When a positive payment would be required on a negative unfunded actuarial liability (or conversely a negative payment on a positive unfunded actuarial liability); or

2) When there are excess assets, rather than an unfunded liability. In this situation, a 30-year fresh start is used, unless a longer fresh start is needed to avoid a negative total rate.

It should be noted that the actuary may choose to use a fresh start under other circumstances. In all cases, the fresh start period is set by the actuary at what is deemed appropriate; however, the period will not be less than five years, nor greater than 30 years.

Asset Valuation Method

In order to dampen the effect of short-term market value fluctuations on employer contribution rates, the following asset smoothing technique is used. First, an Expected Value of Assets is computed by bringing forward the prior year's Actuarial Value of Assets and the contributions received and benefits paid during the year at the assumed actuarial rate of return. The Actuarial Value of Assets is then computed as the Expected Value of Assets plus one-fifteenth of the difference between the actual Market Value of Assets and the Expected Value of Assets, as of the valuation date. However, in no case will the Actuarial Value of Assets be less than 80% or greater than 120% of the actual Market Value of Assets.

In June 2009, the CalPERS Board adopted changes to the asset smoothing method in order to phase in over a three-year period the impact of the negative -24 percent investment loss experienced by CalPERS in fiscal year 2008-2009. The following changes were adopted:

- Increase the corridor limits for the actuarial value of assets from 80 percent/120 percent of market value to 60 percent/140 percent of market value on June 30, 2009
- Reduce the corridor limits for the actuarial value of assets to 70 percent/130 percent of market value on June 30, 2010
- Return to the 80 percent/120 percent of market value corridor limits for the actuarial value of assets on June 30, 2011 and thereafter

On April 17, 2013, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization and rate smoothing policies. Beginning with the June 30, 2013 valuations that set the 2015-16 rates, CalPERS will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period. Details of the agenda item can be found on our website CalPERS On-Line:
http://www.calpers.ca.gov/index.jsp?bc=/about/committee-meetings/archives/pension-201304.xml

Actuarial Assumptions

Economic Assumptions

Discount Rate

7.5% compounded annually (net of expenses). This assumption is used for all plans.

Termination Liability Discount Rate

The discount rate used for termination valuation is a weighted average of the 10 and 30-year US Treasury yields in effect on the valuation date that equal the duration of the pension liabilities. For purposes of this hypothetical termination liability estimate, the discount rate used, 2.98 percent, is the yield on the 30-year US Treasury Separate Trading of Registered Interest and Principal of Securities (STRIPS) as of June 30, 2012. Please note, as of June 30, 2013 the 30-year STRIPS yield was 3.72 percent.

Salary Growth

Annual increases vary by category, entry age, and duration of service. A sample of assumed increases are shown below.

Public Agency Miscellaneous

Duration of Service	(Entry Age 20)	(Entry Age 30)	(Entry Age 40)
0	0.1420	0.1240	0.0980
1	0.1190	0.1050	0.0850
2	0.1010	0.0910	0.0750
3	0.0880	0.0800	0.0670
4	0.0780	0.0710	0.0610
5	0.0700	0.0650	0.0560
10	0.0480	0.0460	0.0410
15	0.0430	0.0410	0.0360
20	0.0390	0.0370	0.0330
25	0.0360	0.0360	0.0330
30	0.0360	0.0360	0.0330

Public Agency Fire

Duration of Service	(Entry Age 20)	(Entry Age 30)	(Entry Age 40)
0	0.1050	0.1050	0.1020
1	0.0950	0.0940	0.0850
2	0.0870	0.0830	0.0700
3	0.0800	0.0750	0.0600
4	0.0740	0.0680	0.0510
5	0.0690	0.0620	0.0450
10	0.0510	0.0460	0.0350
15	0.0410	0.0390	0.0340
20	0.0370	0.0360	0.0330
25	0.0350	0.0350	0.0330
30	0.0350	0.0350	0.0330

Salary Growth (continued)

Public Agency Police

Duration of Service	(Entry Age 20)	(Entry Age 30)	(Entry Age 40)
0	0.1090	0.1090	0.1090
1	0.0930	0.0930	0.0930
2	0.0810	0.0810	0.0780
3	0.0720	0.0700	0.0640
4	0.0650	0.0610	0.0550
5	0.0590	0.0550	0.0480
10	0.0450	0.0420	0.0340
15	0.0410	0.0390	0.0330
20	0.0370	0.0360	0.0330
25	0.0350	0.0340	0.0330
30	0.0350	0.0340	0.0330

Public Agency County Peace Officers

Duration of Service	(Entry Age 20)	(Entry Age 30)	(Entry Age 40)
0	0.1290	0.1290	0.1290
1	0.1090	0.1060	0.1030
2	0.0940	0.0890	0.0840
3	0.0820	0.0770	0.0710
4	0.0730	0.0670	0.0610
5	0.0660	0.0600	0.0530
10	0.0460	0.0420	0.0380
15	0.0410	0.0380	0.0360
20	0.0370	0.0360	0.0340
25	0.0350	0.0340	0.0330
30	0.0350	0.0340	0.0330

Schools

Duration of Service	(Entry Age 20)	(Entry Age 30)	(Entry Age 40)
0	0.1080	0.0960	0.0820
1	0.0940	0.0850	0.0740
2	0.0840	0.0770	0.0670
3	0.0750	0.0700	0.0620
4	0.0690	0.0640	0.0570
5	0.0630	0.0600	0.0530
10	0.0450	0.0440	0.0410
15	0.0390	0.0380	0.0350
20	0.0360	0.0350	0.0320
25	0.0340	0.0340	0.0320
30	0.0340	0.0340	0.0320

- The Miscellaneous salary scale is used for Local Prosecutors.
- The Police salary scale is used for Other Safety, Local Sheriff, and School Police.

Overall Payroll Growth

3.00 percent compounded annually (used in projecting the payroll over which the unfunded liability is amortized). This assumption is used for all plans.

Inflation

2.75 percent compounded annually. This assumption is used for all plans.

Non-valued Potential Additional Liabilities

The potential liability loss for a cost-of-living increase exceeding the 2.75 percent inflation assumption, and any potential liability loss from future member service purchases are not reflected in the valuation.

Miscellaneous Loading Factors

Credit for Unused Sick Leave

Total years of service is increased by 1 percent for those plans that have accepted the provision providing Credit for Unused Sick Leave.

Conversion of Employer Paid Member Contributions (EPMC)

Total years of service is increased by the Employee Contribution Rate for those plans with the provision providing for the Conversion of Employer Paid Member Contributions (EPMC) during the final compensation period.

Norris Decision (Best Factors)

Employees hired prior to July 1, 1982 have projected benefit amounts increased in order to reflect the use of "Best Factors" in the calculation of optional benefit forms. This is due to a 1983 Supreme Court decision, known as the Norris decision, which required males and females to be treated equally in the determination of benefit amounts. Consequently, anyone already employed at that time is given the best possible conversion factor when optional benefits are determined. No loading is necessary for employees hired after July 1, 1982.

Termination Liability

The termination liabilities include a 7 percent contingency load. This load is for unforeseen improvements in mortality.

Demographic Assumptions

Pre-Retirement Mortality

Non-Industrial Death Rates vary by age and gender. Industrial Death rates vary by age. See sample rates in table below. The non-industrial death rates are used for all plans. The industrial death rates are used for Safety Plans (except for Local Prosecutor safety members where the corresponding Miscellaneous Plan does not have the Industrial Death Benefit).

	Non-Industrial Death (Not Job-Related)		Industrial Death (Job-Related)
Age	Male	Female	Male and Female
20	0.00047	0.00016	0.00003
25	0.00050	0.00026	0.00007
30	0.00053	0.00036	0.00010
35	0.00067	0.00046	0.00012
40	0.00087	0.00065	0.00013
45	0.00120	0.00093	0.00014
50	0.00176	0.00126	0.00015
55	0.00260	0.00176	0.00016
60	0.00395	0.00266	0.00017
65	0.00608	0.00419	0.00018
70	0.00914	0.00649	0.00019
75	0.01220	0.00878	0.00020
80	0.01527	0.01108	0.00021

Miscellaneous Plans usually have Industrial Death rates set to zero unless the agency has specifically contracted for Industrial Death benefits. If so, each Non-Industrial Death rate shown above will be split into two components; 99 percent will become the Non-Industrial Death rate and 1 percent will become the Industrial Death rate.

Post-Retirement Mortality

Rates vary by age, type of retirement and gender. See sample rates in table below. These rates are used for all plans.

	Healthy Recipients		Non-Industrially Disabled (Not Job-Related)		Industrially Disabled (Job-Related)	
Age	Male	Female	Male	Female	Male	Female
50	0.00239	0.00125	0.01632	0.01245	0.00443	0.00356
55	0.00474	0.00243	0.01936	0.01580	0.00563	0.00546
60	0.00720	0.00431	0.02293	0.01628	0.00777	0.00798
65	0.01069	0.00775	0.03174	0.01969	0.01388	0.01184
70	0.01675	0.01244	0.03870	0.03019	0.02236	0.01716
75	0.03080	0.02071	0.06001	0.03915	0.03585	0.02665
80	0.05270	0.03749	0.08388	0.05555	0.06926	0.04528
85	0.09775	0.07005	0.14035	0.09577	0.11799	0.08017
90	0.16747	0.12404	0.21554	0.14949	0.16575	0.13775
95	0.25659	0.21556	0.31025	0.23055	0.26108	0.23331
100	0.34551	0.31876	0.45905	0.37662	0.40918	0.35165
105	0.58527	0.56093	0.67923	0.61523	0.64127	0.60135
110	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000

The mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board, first used in the June 30, 2009 valuation. For purposes of the post-retirement mortality rates, those revised rates include 5 years of projected on-going mortality improvement using Scale AA published by the Society of Actuaries until June 30, 2010. There is no margin for future mortality improvement beyond the valuation date. The mortality assumption will be reviewed with the next experience study expected to be completed for the June 30, 2013 valuation to determine an appropriate margin to be used.

Marital Status

For active members, a percentage who are married upon retirement is assumed according to member category as shown in the following table.

Member Category	Percent Married
Miscellaneous Member	85%
Local Police	90%
Local Fire	90%
Other Local Safety	90%
School Police	90%

Age of Spouse

It is assumed that female spouses are 3 years younger than male spouses are. This assumption is used for all plans.

Terminated Members

It is assumed that terminated members refund immediately if non-vested. Terminated members who are vested are assumed to follow the same service retirement pattern as active members but with a load to reflect the expected higher rates of retirement, especially at lower ages. The following table shows the load factors that are applied to the service retirement assumption for active members to obtain the service retirement pattern for separated vested members:

Age	Load Factor
50	450%
51	250%
52 through 56	200%
57 through 60	150%
61 through 64	125%
65 and above	100% (no change)

Termination with Refund

Rates vary by entry age and service for Miscellaneous Plans. Rates vary by service for Safety Plans. See sample rates in tables below.

Public Agency Miscellaneous

Duration of Service	Entry Age 20	Entry Age 25	Entry Age 30	Entry Age 35	Entry Age 40	Entry Age 45
0	0.1742	0.1674	0.1606	0.1537	0.1468	0.1400
1	0.1545	0.1477	0.1409	0.1339	0.1271	0.1203
2	0.1348	0.1280	0.1212	0.1142	0.1074	0.1006
3	0.1151	0.1083	0.1015	0.0945	0.0877	0.0809
4	0.0954	0.0886	0.0818	0.0748	0.0680	0.0612
5	0.0212	0.0193	0.0174	0.0155	0.0136	0.0116
10	0.0138	0.0121	0.0104	0.0088	0.0071	0.0055
15	0.0060	0.0051	0.0042	0.0032	0.0023	0.0014
20	0.0037	0.0029	0.0021	0.0013	0.0005	0.0001
25	0.0017	0.0011	0.0005	0.0001	0.0001	0.0001
30	0.0005	0.0001	0.0001	0.0001	0.0001	0.0001
35	0.0001	0.0001	0.0001	0.0001	0.0001	0.0001

Public Agency Safety

Duration of Service	Fire	Police	County Peace Officer
0	0.0710	0.1013	0.0997
1	0.0554	0.0636	0.0782
2	0.0398	0.0271	0.0566
3	0.0242	0.0258	0.0437
4	0.0218	0.0245	0.0414
5	0.0029	0.0086	0.0145
10	0.0009	0.0053	0.0089
15	0.0006	0.0027	0.0045
20	0.0005	0.0017	0.0020
25	0.0003	0.0012	0.0009
30	0.0003	0.0009	0.0006
35	0.0003	0.0009	0.0006

The Police Termination and Refund rates are also used for Public Agency Local Prosecutors, Other Safety, Local Sheriff and School Police.

Schools

Duration of Service	Entry Age 20	Entry Age 25	Entry Age 30	Entry Age 35	Entry Age 40	Entry Age 45
0	0.1730	0.1627	0.1525	0.1422	0.1319	0.1217
1	0.1585	0.1482	0.1379	0.1277	0.1174	0.1071
2	0.1440	0.1336	0.1234	0.1131	0.1028	0.0926
3	0.1295	0.1192	0.1089	0.0987	0.0884	0.0781
4	0.1149	0.1046	0.0944	0.0841	0.0738	0.0636
5	0.0278	0.0249	0.0221	0.0192	0.0164	0.0135
10	0.0172	0.0147	0.0122	0.0098	0.0074	0.0049
15	0.0115	0.0094	0.0074	0.0053	0.0032	0.0011
20	0.0073	0.0055	0.0038	0.0020	0.0002	0.0002
25	0.0037	0.0023	0.0010	0.0002	0.0002	0.0002
30	0.0015	0.0003	0.0002	0.0002	0.0002	0.0002
35	0.0002	0.0002	0.0002	0.0002	0.0002	0.0002

Termination with Vested Benefits

Rates vary by entry age and service for Miscellaneous Plans. Rates vary by service for Safety Plans. See sample rates in tables below.

Public Agency Miscellaneous

Duration of Service	Entry Age 20	Entry Age 25	Entry Age 30	Entry Age 35	Entry Age 40
5	0.0656	0.0597	0.0537	0.0477	0.0418
10	0.0530	0.0466	0.0403	0.0339	0.0000
15	0.0443	0.0373	0.0305	0.0000	0.0000
20	0.0333	0.0261	0.0000	0.0000	0.0000
25	0.0212	0.0000	0.0000	0.0000	0.0000
30	0.0000	0.0000	0.0000	0.0000	0.0000
35	0.0000	0.0000	0.0000	0.0000	0.0000

Public Agency Safety

Duration of Service	Fire	Police	County Peace Officer
5	0.0162	0.0163	0.0265
10	0.0061	0.0126	0.0204
15	0.0058	0.0082	0.0130
20	0.0053	0.0065	0.0074
25	0.0047	0.0058	0.0043
30	0.0045	0.0056	0.0030
35	0.0000	0.0000	0.0000

- When a member is eligible to retire, the termination with vested benefits probability is set to zero.
- After termination with vested benefits, a miscellaneous member is assumed to retire at age 59 and a safety member at age 54.
- The Police Termination with vested benefits rates are also used for Public Agency Local Prosecutors, Other Safety, Local Sheriff and School Police.

Schools

Duration of Service	Entry Age 20	Entry Age 25	Entry Age 30	Entry Age 35	Entry Age 40
5	0.0816	0.0733	0.0649	0.0566	0.0482
10	0.0629	0.0540	0.0450	0.0359	0.0000
15	0.0537	0.0440	0.0344	0.0000	0.0000
20	0.0420	0.0317	0.0000	0.0000	0.0000
25	0.0291	0.0000	0.0000	0.0000	0.0000
30	0.0000	0.0000	0.0000	0.0000	0.0000
35	0.0000	0.0000	0.0000	0.0000	0.0000

Non-Industrial (Not Job-Related) Disability

Rates vary by age and gender for Miscellaneous Plans. Rates vary by age and category for Safety Plans.

	Miscellaneous		Fire	Police	County Peace Officer	Schools	
Age	Male	Female	Male and Female	Male and Female	Male and Female	Male	Female
20	0.0001	0.0001	0.0001	0.0001	0.0001	0.0001	0.0001
25	0.0001	0.0001	0.0001	0.0001	0.0001	0.0001	0.0001
30	0.0002	0.0002	0.0001	0.0002	0.0001	0.0002	0.0001
35	0.0006	0.0009	0.0001	0.0003	0.0004	0.0006	0.0004
40	0.0015	0.0016	0.0001	0.0004	0.0007	0.0014	0.0009
45	0.0025	0.0024	0.0002	0.0005	0.0013	0.0028	0.0017
50	0.0033	0.0031	0.0005	0.0008	0.0018	0.0044	0.0030
55	0.0037	0.0031	0.0010	0.0013	0.0010	0.0049	0.0034
60	0.0038	0.0025	0.0015	0.0020	0.0006	0.0043	0.0024

- The Miscellaneous Non-Industrial Disability rates are used for Local Prosecutors.
- The Police Non-Industrial Disability rates are also used for Other Safety, Local Sheriff and School Police.

Industrial (Job-Related) Disability

Rates vary by age and category.

Age	Fire	Police	County Peace Officer
20	0.0002	0.0007	0.0003
25	0.0012	0.0032	0.0015
30	0.0025	0.0064	0.0031
35	0.0037	0.0097	0.0046
40	0.0049	0.0129	0.0063
45	0.0061	0.0161	0.0078
50	0.0074	0.0192	0.0101
55	0.0721	0.0668	0.0173
60	0.0721	0.0668	0.0173

- The Police Industrial Disability rates are also used for Local Sheriff and Other Safety.
- Fifty Percent of the Police Industrial Disability rates are used for School Police.
- One Percent of the Police Industrial Disability rates are used for Local Prosecutors.
- Normally, rates are zero for Miscellaneous Plans unless the agency has specifically contracted for Industrial Disability benefits. If so, each miscellaneous non-industrial disability rate will be split into two components: 50 percent will become the Non-Industrial Disability rate and 50 percent will become the Industrial Disability rate.

Service Retirement

Retirement rates vary by age, service, and formula, except for the safety ½ @ 55 and 2% @ 55 formulas, where retirement rates vary by age only.

Service Retirement

Public Agency Miscellaneous 1.5% @ 65

	Duration of Service					
Age	5 Years	10 Years	15 Years	20 Years	25 Years	30 Years
50	0.008	0.011	0.013	0.015	0.017	0.019
51	0.007	0.010	0.012	0.013	0.015	0.017
52	0.010	0.014	0.017	0.019	0.021	0.024
53	0.008	0.012	0.015	0.017	0.019	0.022
54	0.012	0.016	0.019	0.022	0.025	0.028
55	0.018	0.025	0.031	0.035	0.038	0.043
56	0.015	0.021	0.025	0.029	0.032	0.036
57	0.020	0.028	0.033	0.038	0.043	0.048
58	0.024	0.033	0.040	0.046	0.052	0.058
59	0.028	0.039	0.048	0.054	0.060	0.067
60	0.049	0.069	0.083	0.094	0.105	0.118
61	0.062	0.087	0.106	0.120	0.133	0.150
62	0.104	0.146	0.177	0.200	0.223	0.251
63	0.099	0.139	0.169	0.191	0.213	0.239
64	0.097	0.136	0.165	0.186	0.209	0.233
65	0.140	0.197	0.240	0.271	0.302	0.339
66	0.092	0.130	0.157	0.177	0.198	0.222
67	0.129	0.181	0.220	0.249	0.277	0.311
68	0.092	0.129	0.156	0.177	0.197	0.221
69	0.092	0.130	0.158	0.178	0.199	0.224
70	0.103	0.144	0.175	0.198	0.221	0.248

Public Agency Miscellaneous 2% @ 60

	Duration of Service					
Age	5 Years	10 Years	15 Years	20 Years	25 Years	30 Years
50	0.011	0.015	0.018	0.021	0.023	0.026
51	0.009	0.013	0.016	0.018	0.020	0.023
52	0.013	0.018	0.022	0.025	0.028	0.031
53	0.011	0.016	0.019	0.022	0.025	0.028
54	0.015	0.021	0.025	0.028	0.032	0.036
55	0.023	0.032	0.039	0.044	0.049	0.055
56	0.019	0.027	0.032	0.037	0.041	0.046
57	0.025	0.035	0.042	0.048	0.054	0.060
58	0.030	0.042	0.051	0.058	0.065	0.073
59	0.035	0.049	0.060	0.068	0.076	0.085
60	0.062	0.087	0.105	0.119	0.133	0.149
61	0.079	0.110	0.134	0.152	0.169	0.190
62	0.132	0.186	0.225	0.255	0.284	0.319
63	0.126	0.178	0.216	0.244	0.272	0.305
64	0.122	0.171	0.207	0.234	0.262	0.293
65	0.173	0.243	0.296	0.334	0.373	0.418
66	0.114	0.160	0.194	0.219	0.245	0.274
67	0.159	0.223	0.271	0.307	0.342	0.384
68	0.113	0.159	0.193	0.218	0.243	0.273
69	0.114	0.161	0.195	0.220	0.246	0.276
70	0.127	0.178	0.216	0.244	0.273	0.306

Service Retirement

Public Agency Miscellaneous 2% @ 55

Age	Duration of Service					
	5 Years	10 Years	15 Years	20 Years	25 Years	30 Years
50	0.015	0.020	0.024	0.029	0.033	0.039
51	0.013	0.016	0.020	0.024	0.027	0.033
52	0.014	0.018	0.022	0.027	0.030	0.036
53	0.017	0.022	0.027	0.032	0.037	0.043
54	0.027	0.034	0.041	0.049	0.056	0.067
55	0.050	0.064	0.078	0.094	0.107	0.127
56	0.045	0.057	0.069	0.083	0.095	0.113
57	0.048	0.061	0.074	0.090	0.102	0.122
58	0.052	0.066	0.080	0.097	0.110	0.131
59	0.060	0.076	0.092	0.111	0.127	0.151
60	0.072	0.092	0.112	0.134	0.153	0.182
61	0.089	0.113	0.137	0.165	0.188	0.224
62	0.128	0.162	0.197	0.237	0.270	0.322
63	0.129	0.164	0.199	0.239	0.273	0.325
64	0.116	0.148	0.180	0.216	0.247	0.294
65	0.174	0.221	0.269	0.323	0.369	0.439
66	0.135	0.171	0.208	0.250	0.285	0.340
67	0.133	0.169	0.206	0.247	0.282	0.336
68	0.118	0.150	0.182	0.219	0.250	0.297
69	0.116	0.147	0.179	0.215	0.246	0.293
70	0.138	0.176	0.214	0.257	0.293	0.349

Public Agency Miscellaneous 2.5% @ 55

Age	Duration of Service					
	5 Years	10 Years	15 Years	20 Years	25 Years	30 Years
50	0.026	0.033	0.040	0.048	0.055	0.062
51	0.021	0.026	0.032	0.038	0.043	0.049
52	0.021	0.026	0.032	0.038	0.043	0.049
53	0.026	0.033	0.040	0.048	0.055	0.062
54	0.043	0.054	0.066	0.078	0.089	0.101
55	0.088	0.112	0.136	0.160	0.184	0.208
56	0.055	0.070	0.085	0.100	0.115	0.130
57	0.061	0.077	0.094	0.110	0.127	0.143
58	0.072	0.091	0.111	0.130	0.150	0.169
59	0.083	0.105	0.128	0.150	0.173	0.195
60	0.088	0.112	0.136	0.160	0.184	0.208
61	0.083	0.105	0.128	0.150	0.173	0.195
62	0.121	0.154	0.187	0.220	0.253	0.286
63	0.105	0.133	0.162	0.190	0.219	0.247
64	0.105	0.133	0.162	0.190	0.219	0.247
65	0.143	0.182	0.221	0.260	0.299	0.338
66	0.105	0.133	0.162	0.190	0.219	0.247
67	0.105	0.133	0.162	0.190	0.219	0.247
68	0.105	0.133	0.162	0.190	0.219	0.247
69	0.105	0.133	0.162	0.190	0.219	0.247
70	0.125	0.160	0.194	0.228	0.262	0.296

Service Retirement

Public Agency Miscellaneous 2.7% @ 55

	Duration of Service					
Age	5 Years	10 Years	15 Years	20 Years	25 Years	30 Years
50	0.028	0.035	0.043	0.050	0.058	0.065
51	0.022	0.028	0.034	0.040	0.046	0.052
52	0.022	0.028	0.034	0.040	0.046	0.052
53	0.028	0.035	0.043	0.050	0.058	0.065
54	0.044	0.056	0.068	0.080	0.092	0.104
55	0.091	0.116	0.140	0.165	0.190	0.215
56	0.061	0.077	0.094	0.110	0.127	0.143
57	0.063	0.081	0.098	0.115	0.132	0.150
58	0.074	0.095	0.115	0.135	0.155	0.176
59	0.083	0.105	0.128	0.150	0.173	0.195
60	0.088	0.112	0.136	0.160	0.184	0.208
61	0.085	0.109	0.132	0.155	0.178	0.202
62	0.124	0.158	0.191	0.225	0.259	0.293
63	0.107	0.137	0.166	0.195	0.224	0.254
64	0.107	0.137	0.166	0.195	0.224	0.254
65	0.146	0.186	0.225	0.265	0.305	0.345
66	0.107	0.137	0.166	0.195	0.224	0.254
67	0.107	0.137	0.166	0.195	0.224	0.254
68	0.107	0.137	0.166	0.195	0.224	0.254
69	0.107	0.137	0.166	0.195	0.224	0.254
70	0.129	0.164	0.199	0.234	0.269	0.304

Public Agency Miscellaneous 3% @ 60

	Duration of Service					
Age	5 Years	10 Years	15 Years	20 Years	25 Years	30 Years
50	0.026	0.033	0.040	0.048	0.055	0.062
51	0.021	0.026	0.032	0.038	0.043	0.049
52	0.019	0.025	0.030	0.035	0.040	0.046
53	0.025	0.032	0.038	0.045	0.052	0.059
54	0.039	0.049	0.060	0.070	0.081	0.091
55	0.083	0.105	0.128	0.150	0.173	0.195
56	0.055	0.070	0.085	0.100	0.115	0.130
57	0.061	0.077	0.094	0.110	0.127	0.143
58	0.072	0.091	0.111	0.130	0.150	0.169
59	0.080	0.102	0.123	0.145	0.167	0.189
60	0.094	0.119	0.145	0.170	0.196	0.221
61	0.088	0.112	0.136	0.160	0.184	0.208
62	0.127	0.161	0.196	0.230	0.265	0.299
63	0.110	0.140	0.170	0.200	0.230	0.260
64	0.110	0.140	0.170	0.200	0.230	0.260
65	0.149	0.189	0.230	0.270	0.311	0.351
66	0.110	0.140	0.170	0.200	0.230	0.260
67	0.110	0.140	0.170	0.200	0.230	0.260
68	0.110	0.140	0.170	0.200	0.230	0.260
69	0.110	0.140	0.170	0.200	0.230	0.260
70	0.132	0.168	0.204	0.240	0.276	0.312

Service Retirement

Public Agency Fire ½ @ 55 and 2% @ 55

Age	Rate	Age	Rate
50	0.01588	56	0.11079
51	0.00000	57	0.00000
52	0.03442	58	0.09499
53	0.01990	59	0.04409
54	0.04132	60	1.00000
55	0.07513		

Public Agency Police ½ @ 55 and 2% @ 55

Age	Rate	Age	Rate
50	0.02552	56	0.06921
51	0.00000	57	0.05113
52	0.01637	58	0.07241
53	0.02717	59	0.07043
54	0.00949	60	1.00000
55	0.16674		

Public Agency Police 2%@ 50

	Duration of Service					
Age	5 Years	10 Years	15 Years	20 Years	25 Years	30 Years
50	0.014	0.014	0.014	0.014	0.025	0.045
51	0.012	0.012	0.012	0.012	0.023	0.040
52	0.026	0.026	0.026	0.026	0.048	0.086
53	0.052	0.052	0.052	0.052	0.096	0.171
54	0.070	0.070	0.070	0.070	0.128	0.227
55	0.090	0.090	0.090	0.090	0.165	0.293
56	0.064	0.064	0.064	0.064	0.117	0.208
57	0.071	0.071	0.071	0.071	0.130	0.232
58	0.063	0.063	0.063	0.063	0.115	0.205
59	0.140	0.140	0.140	0.140	0.174	0.254
60	0.140	0.140	0.140	0.140	0.172	0.251
61	0.140	0.140	0.140	0.140	0.172	0.251
62	0.140	0.140	0.140	0.140	0.172	0.251
63	0.140	0.140	0.140	0.140	0.172	0.251
64	0.140	0.140	0.140	0.140	0.172	0.251
65	1.000	1.000	1.000	1.000	1.000	1.000

- These rates also apply to Local Prosecutors, Local Sheriff, School Police and Other Safety.

Service Retirement

Public Agency Fire 2%@50

	Duration of Service					
Age	5 Years	10 Years	15 Years	20 Years	25 Years	30 Years
50	0.007	0.007	0.007	0.007	0.010	0.015
51	0.008	0.008	0.008	0.008	0.013	0.019
52	0.017	0.017	0.017	0.017	0.027	0.040
53	0.047	0.047	0.047	0.047	0.072	0.107
54	0.064	0.064	0.064	0.064	0.098	0.147
55	0.087	0.087	0.087	0.087	0.134	0.200
56	0.078	0.078	0.078	0.078	0.120	0.180
57	0.090	0.090	0.090	0.090	0.139	0.208
58	0.079	0.079	0.079	0.079	0.122	0.182
59	0.073	0.073	0.073	0.073	0.112	0.168
60	0.114	0.114	0.114	0.114	0.175	0.262
61	0.114	0.114	0.114	0.114	0.175	0.262
62	0.114	0.114	0.114	0.114	0.175	0.262
63	0.114	0.114	0.114	0.114	0.175	0.262
64	0.114	0.114	0.114	0.114	0.175	0.262
65	1.000	1.000	1.000	1.000	1.000	1.000

Public Agency Police 3%@ 55

	Duration of Service					
Age	5 Years	10 Years	15 Years	20 Years	25 Years	30 Years
50	0.019	0.019	0.019	0.019	0.040	0.060
51	0.024	0.024	0.024	0.024	0.049	0.074
52	0.024	0.024	0.024	0.024	0.051	0.077
53	0.059	0.059	0.059	0.059	0.121	0.183
54	0.069	0.069	0.069	0.069	0.142	0.215
55	0.116	0.116	0.116	0.116	0.240	0.363
56	0.076	0.076	0.076	0.076	0.156	0.236
57	0.058	0.058	0.058	0.058	0.120	0.181
58	0.076	0.076	0.076	0.076	0.157	0.237
59	0.094	0.094	0.094	0.094	0.193	0.292
60	0.141	0.141	0.141	0.141	0.290	0.438
61	0.094	0.094	0.094	0.094	0.193	0.292
62	0.118	0.118	0.118	0.118	0.241	0.365
63	0.094	0.094	0.094	0.094	0.193	0.292
64	0.094	0.094	0.094	0.094	0.193	0.292
65	1.000	1.000	1.000	1.000	1.000	1.000

- These rates also apply to Local Prosecutors, Local Sheriff, School Police and Other Safety.

Service Retirement

Public Agency Fire 3%@55

	Duration of Service					
Age	5 Years	10 Years	15 Years	20 Years	25 Years	30 Years
50	0.012	0.012	0.012	0.018	0.028	0.033
51	0.008	0.008	0.008	0.012	0.019	0.022
52	0.018	0.018	0.018	0.027	0.042	0.050
53	0.043	0.043	0.043	0.062	0.098	0.114
54	0.057	0.057	0.057	0.083	0.131	0.152
55	0.092	0.092	0.092	0.134	0.211	0.246
56	0.081	0.081	0.081	0.118	0.187	0.218
57	0.100	0.100	0.100	0.146	0.230	0.268
58	0.081	0.081	0.081	0.119	0.187	0.219
59	0.078	0.078	0.078	0.113	0.178	0.208
60	0.117	0.117	0.117	0.170	0.267	0.312
61	0.078	0.078	0.078	0.113	0.178	0.208
62	0.098	0.098	0.098	0.141	0.223	0.260
63	0.078	0.078	0.078	0.113	0.178	0.208
64	0.078	0.078	0.078	0.113	0.178	0.208
65	1.000	1.000	1.000	1.000	1.000	1.000

Public Agency Police 3%@ 50

	Duration of Service					
Age	5 Years	10 Years	15 Years	20 Years	25 Years	30 Years
50	0.070	0.070	0.070	0.131	0.193	0.249
51	0.050	0.050	0.050	0.095	0.139	0.180
52	0.061	0.061	0.061	0.116	0.171	0.220
53	0.069	0.069	0.069	0.130	0.192	0.247
54	0.071	0.071	0.071	0.134	0.197	0.255
55	0.090	0.090	0.090	0.170	0.250	0.322
56	0.069	0.069	0.069	0.130	0.191	0.247
57	0.080	0.080	0.080	0.152	0.223	0.288
58	0.087	0.087	0.087	0.164	0.242	0.312
59	0.090	0.090	0.090	0.170	0.251	0.323
60	0.135	0.135	0.135	0.255	0.377	0.485
61	0.090	0.090	0.090	0.170	0.251	0.323
62	0.113	0.113	0.113	0.213	0.314	0.404
63	0.090	0.090	0.090	0.170	0.251	0.323
64	0.090	0.090	0.090	0.170	0.251	0.323
65	1.000	1.000	1.000	1.000	1.000	1.000

- These rates also apply to Local Prosecutors, Local Sheriff, School Police and Other Safety.

Service Retirement

Public Agency Fire 3%@50

	Duration of Service					
Age	5 Years	10 Years	15 Years	20 Years	25 Years	30 Years
50	0.034	0.034	0.034	0.048	0.068	0.080
51	0.046	0.046	0.046	0.065	0.092	0.109
52	0.069	0.069	0.069	0.097	0.138	0.163
53	0.084	0.084	0.084	0.117	0.166	0.197
54	0.103	0.103	0.103	0.143	0.204	0.241
55	0.127	0.127	0.127	0.177	0.252	0.298
56	0.121	0.121	0.121	0.169	0.241	0.285
57	0.101	0.101	0.101	0.141	0.201	0.238
58	0.118	0.118	0.118	0.165	0.235	0.279
59	0.100	0.100	0.100	0.140	0.199	0.236
60	0.150	0.150	0.150	0.210	0.299	0.354
61	0.100	0.100	0.100	0.140	0.199	0.236
62	0.125	0.125	0.125	0.175	0.249	0.295
63	0.100	0.100	0.100	0.140	0.199	0.236
64	0.100	0.100	0.100	0.140	0.199	0.236
65	1.000	1.000	1.000	1.000	1.000	1.000

Schools 2%@ 55

	Duration of Service					
Age	5 Years	10 Years	15 Years	20 Years	25 Years	30 Years
50	0.005	0.009	0.013	0.015	0.016	0.018
51	0.005	0.010	0.014	0.017	0.019	0.021
52	0.006	0.012	0.017	0.020	0.022	0.025
53	0.007	0.014	0.019	0.023	0.026	0.029
54	0.012	0.024	0.033	0.039	0.044	0.049
55	0.024	0.048	0.067	0.079	0.088	0.099
56	0.020	0.039	0.055	0.065	0.072	0.081
57	0.021	0.042	0.059	0.070	0.078	0.087
58	0.025	0.050	0.070	0.083	0.092	0.103
59	0.029	0.057	0.080	0.095	0.105	0.118
60	0.037	0.073	0.102	0.121	0.134	0.150
61	0.046	0.090	0.126	0.149	0.166	0.186
62	0.076	0.151	0.212	0.250	0.278	0.311
63	0.069	0.136	0.191	0.225	0.251	0.281
64	0.067	0.133	0.185	0.219	0.244	0.273
65	0.091	0.180	0.251	0.297	0.331	0.370
66	0.072	0.143	0.200	0.237	0.264	0.295
67	0.067	0.132	0.185	0.218	0.243	0.272
68	0.060	0.118	0.165	0.195	0.217	0.243
69	0.067	0.133	0.187	0.220	0.246	0.275
70	0.066	0.131	0.183	0.216	0.241	0.270

Miscellaneous

Superfunded Status

Prior to enactment of the Public Employees' Pension Reform Act (PEPRA) that became effective January 1, 2013, a plan in superfunded status (actuarial value of assets exceeding present value of benefits) would normally pay a zero employer contribution rate while also being permitted to use its superfunded assets to pay its employees' normal member contributions.

However, Section 7522.52(a) of PEPRA states, "In any fiscal year a public employer's contribution to a defined benefit plan, in combination with employee contributions to that defined benefit plan, shall not be less than the total normal cost rate…" This means that not only must employers pay their employer normal cost regardless of plan surplus, but also, employers may no longer use superfunded assets to pay employee normal member contributions.

Internal Revenue Code Section 415

The limitations on benefits imposed by Internal Revenue Code Section 415 are taken into account in this valuation. Each year the impact of any changes in this limitation since the prior valuation is included and amortized as part of the actuarial gain or loss base. This results in lower contributions for those employers contributing to the Replacement Benefit Fund and protects CalPERS from prefunding expected benefits in excess of limits imposed by federal tax law.

Internal Revenue Code Section 401(a)(17)

The limitations on compensation imposed by Internal Revenue Code Section 401(a)(17) are taken into account in this valuation. Each year, the impact of any changes in the compensation limitation since the prior valuation is included and amortized as part of the actuarial gain or loss base.

PEPRA Assumptions

The Public Employees' Pension Reform Act of 2013 (PEPRA) mandated new benefit formulas and new member contributions for new members (as defined by PEPRA) hired after January 1, 2013. For non-pooled plans, these new members will first be reflected in the June 30, 2013 non-pooled plan valuations. New members in pooled plans will first be reflected in the new Miscellaneous and Safety risk pools created by the CalPERS Board in November 2012 in response to the passage of PEPRA, also beginning with the June 30, 2013 valuation. Different assumptions for these new PEPRA members will be disclosed in the 2013 valuation.

APPENDIX B

PRINCIPAL PLAN PROVISIONS

The following is a description of the principal plan provisions used in calculating costs and liabilities. We have indicated whether a plan provision is standard or optional. Standard benefits are applicable to all members while optional benefits vary among employers. Optional benefits that apply to a single period of time, such as Golden Handshakes, have not been included. Many of the statements in this summary are general in nature, and are intended to provide an easily understood summary of the complex Public Employees' Retirement Law. The law itself governs in all situations.

PEPRA Benefit Changes

The Public Employees' Pension Reform Act of 2013 (PEPRA) requires new benefits and member contributions for new members as defined by PEPRA, that are hired after January 1, 2013. For non-pooled plans, these members will first be reflected in June 30, 2013 non-pooled plan valuations. Members in pooled plans will be reflected in the new Miscellaneous and Safety risk pools created by the CalPERS Board in November 2012 in response to the passage of PEPRA, beginning with the June 30, 2013 valuation.

Service Retirement

Eligibility

A classic CalPERS member becomes eligible for Service Retirement upon attainment of age 50 with at least 5 years of credited service (total service across all CalPERS employers, and with certain other Retirement Systems with which CalPERS has reciprocity agreements). For employees hired into a plan with the 1.5% at 65 formula, eligibility for service retirement is age 55 with at least 5 years of service.

Benefit

The Service Retirement benefit is a monthly allowance equal to the product of the *benefit factor*, *years of service*, and *final compensation.*

- The *benefit factor* depends on the benefit formula specified in your agency's contract. The table below shows the factors for each of the available formulas. Factors vary by the member's age at retirement. Listed are the factors for retirement at whole year ages:

Miscellaneous Plan Formulas

Retirement Age	1.5% at 65	2% at 60	2% at 55	2.5% at 55	2.7% at 55	3% at 60
50	0.5000%	1.092%	1.426%	2.0%	2.0%	2.0%
51	0.5667%	1.156%	1.522%	2.1%	2.14%	2.1%
52	0.6334%	1.224%	1.628%	2.2%	2.28%	2.2%
53	0.7000%	1.296%	1.742%	2.3%	2.42%	2.3%
54	0.7667%	1.376%	1.866%	2.4%	2.56%	2.4%
55	0.8334%	1.460%	2.0%	2.5%	2.7%	2.5%
56	0.9000%	1.552%	2.052%	2.5%	2.7%	2.6%
57	0.9667%	1.650%	2.104%	2.5%	2.7%	2.7%
58	1.0334%	1.758%	2.156%	2.5%	2.7%	2.8%
59	1.1000%	1.874%	2.210%	2.5%	2.7%	2.9%
60	1.1667%	2.0%	2.262%	2.5%	2.7%	3.0%
61	1.2334%	2.134%	2.314%	2.5%	2.7%	3.0%
62	1.3000%	2.272%	2.366%	2.5%	2.7%	3.0%
63	1.3667%	2.418%	2.418%	2.5%	2.7%	3.0%
64	1.4334%	2.418%	2.418%	2.5%	2.7%	3.0%
65 & Up	1.5000%	2.418%	2.418%	2.5%	2.7%	3.0%

Safety Plan Formulas

Retirement Age	½ at 55 *	2% at 55	2% at 50	3% at 55	3% at 50
50	1.783%	1.426%	2.0%	2.40%	3.0%
51	1.903%	1.522%	2.14%	2.52%	3.0%
52	2.035%	1.628%	2.28%	2.64%	3.0%
53	2.178%	1.742%	2.42%	2.76%	3.0%
54	2.333%	1.866%	2.56%	2.88%	3.0%
55 & Up	2.5%	2.0%	2.7%	3.0%	3.0%

* For this formula, the benefit factor also varies by entry age. The factors shown are for members with an entry age of 35 or greater. If entry age is less than 35, then the age 55 benefit factor is 50% divided by the difference between age 55 and entry age. The benefit factor for ages prior to age 55 is the same proportion of the age 55 benefit factor as in the above table.

- The *years of service* is the amount credited by CalPERS to a member while he or she is employed in this group (or for other periods that are recognized under the employer's contract with CalPERS). For a member who has earned service with multiple CalPERS employers, the benefit from each employer is calculated separately according to each employer's contract, and then added together for the total allowance. An agency may contract for an optional benefit where any unused sick leave accumulated at the time of retirement will be converted to credited service at a rate of 0.004 years of service for each day of sick leave.

- The *final compensation* is the monthly average of the member's highest 36 or 12 consecutive months' full-time equivalent monthly pay (no matter which CalPERS employer paid this compensation). The standard benefit is 36 months. Employers have the option of providing a final compensation equal to the highest 12 consecutive months. Final compensation must be defined by the highest 36 consecutive months' pay under the 1.5% at 65 formula.

- Employees must be covered by Social Security with the 1.5% at 65 formula. Social Security is optional for all other benefit formulas. For employees covered by Social Security, the Modified formula is the standard benefit. Under this type of formula, the final compensation is offset by $133.33 (or by one third if the final compensation is less than $400). Employers may contract for the Full benefit with Social Security that will eliminate the offset applicable to the final compensation. For employees not covered by Social Security, the Full benefit is paid with no offsets. Auxiliary organizations of the CSUC system may elect reduced contribution rates, in which case the offset is $317 if members are not covered by Social Security or $513 if members are covered by Social Security.

- The Miscellaneous Service Retirement benefit is not capped. The Safety Service Retirement benefit is capped at 90 percent of final compensation.

Vested Deferred Retirement

Eligibility for Deferred Status

A CalPERS member becomes eligible for a deferred vested retirement benefit when he or she leaves employment, keeps his or her contribution account balance on deposit with CalPERS, **and** has earned at least 5 years of credited service (total service across all CalPERS employers, and with certain other Retirement Systems with which CalPERS has reciprocity agreements).

Eligibility to Start Receiving Benefits
The CalPERS member becomes eligible to receive the deferred retirement benefit upon satisfying the eligibility requirements for Deferred Status and upon attainment of age 50 (55 for employees hired into a 1.5% @ 65 plan).

Benefit
The vested deferred retirement benefit is the same as the Service Retirement benefit, where the benefit factor is based on the member's age at allowance commencement. For members who have earned service with multiple CalPERS employers, the benefit from each employer is calculated separately according to each employer's contract, and then added together for the total allowance.

Non-Industrial (Non-Job Related) Disability Retirement

Eligibility
A CalPERS member is eligible for Non-Industrial Disability Retirement if he or she becomes *disabled* and has at least 5 years of credited service (total service across all CalPERS employers, and with certain other Retirement Systems with which CalPERS has reciprocity agreements). There is no special age requirement. *Disabled* means the member is unable to perform his or her job because of an illness or injury, which is expected to be permanent or to last indefinitely. The illness or injury does not have to be job related. A CalPERS member must be actively employed by any CalPERS employer at the time of disability in order to be eligible for this benefit.

Standard Benefit
The standard Non-Industrial Disability Retirement benefit is a monthly allowance equal to 1.8 percent of final compensation, multiplied by *service*, which is determined as follows:

- *Service* is CalPERS credited service, for members with less than 10 years of service or greater than 18.518 years of service; or

- *Service* is CalPERS credited service plus the additional number of years that the member would have worked until age 60, for members with at least 10 years but not more than 18.518 years of service. The maximum benefit in this case is 33 1/3 percent of Final Compensation.

Improved Benefit
Employers have the option of providing the improved Non-Industrial Disability Retirement benefit. This benefit provides a monthly allowance equal to 30% of final compensation for the first 5 years of service, plus 1% for each additional year of service to a maximum of 50% of final compensation.

Members who are eligible for a larger service retirement benefit may choose to receive that benefit in lieu of a disability benefit. Members eligible to retire, and who have attained the normal retirement age determined by their service retirement benefit formula, will receive the same dollar amount for disability retirement as that payable for service retirement. For members who have earned service with multiple CalPERS employers, the benefit attributed to each employer is the total disability allowance multiplied by the ratio of service with a particular employer to the total CalPERS service.

Industrial (Job Related) Disability Retirement

All safety members have this benefit. For miscellaneous members, employers have the option of providing this benefit. An employer may choose to provide the Increased benefit option or the Improved benefit option.

Eligibility
An employee is eligible for Industrial Disability Retirement if he or she becomes disabled while working, where disabled means the member is unable to perform the duties of the job because of a work-related illness or injury, which is, expected to be permanent or to last indefinitely. A CalPERS member who has left active employment within this group is not eligible for this benefit, except to the extent described below.

Standard Benefit
The standard Industrial Disability Retirement benefit is a monthly allowance equal to 50 percent of final compensation.

Increased Benefit (75 percent of Final Compensation)
The increased Industrial Disability Retirement benefit is a monthly allowance equal to 75 percent final compensation for total disability.

Improved Benefit (50 percent to 90 percent of Final Compensation)
The improved Industrial Disability Retirement benefit is a monthly allowance equal to the Workman's Compensation Appeals Board permanent disability rate percentage (if 50 percent or greater, with a maximum of 90 percent) times the final compensation.

For a CalPERS member not actively employed in this group who became disabled while employed by some other CalPERS employer, the benefit is a return of accumulated member contributions with respect to employment in this group. With the standard or increased benefit, a member may also choose to receive the annuitization of the accumulated member contributions.

If a member is eligible for Service Retirement and if the Service Retirement benefit is more than the Industrial Disability Retirement benefit, the member may choose to receive the larger benefit.

Post-Retirement Death Benefit

Standard Lump Sum Payment
Upon the death of a retiree, a one-time lump sum payment of $500 will be made to the retiree's designated survivor(s), or to the retiree's estate.

Improved Lump Sum Payment
Employers have the option of providing an improved lump sum death benefit of $600, $2,000, $3,000, $4,000 or $5,000.

Form of Payment for Retirement Allowance

Standard Form of Payment
Generally, the retirement allowance is paid to the retiree in the form of an annuity for as long as he or she is alive. The retiree may choose to provide for a portion of his or her allowance to be paid to any designated beneficiary after the retiree's death. CalPERS provides for a variety of such benefit options, which the retiree pays for by taking a reduction in his or her retirement allowance. Such reduction takes into account the amount to be provided to the beneficiary and the probable duration of payments (based on the ages of the member and beneficiary) made subsequent to the member's death.

Improved Form of Payment (Post Retirement Survivor Allowance)
Employers have the option to contract for the post retirement survivor allowance.

For retirement allowances with respect to service subject to the modified formula, 25 percent of the retirement allowance will automatically be continued to certain statutory beneficiaries upon the death of the retiree, without a reduction in the retiree's allowance. For retirement allowances with respect to service subject to the full or supplemental formula, 50 percent of the retirement allowance will automatically be continued to certain statutory beneficiaries upon the death of the retiree, without a reduction in the retiree's allowance. This additional benefit is often referred to as post retirement survivor allowance (PRSA) or simply as survivor continuance.

In other words, 25 percent or 50 percent of the allowance, the continuance portion, is paid to the retiree for as long as he or she is alive, and that same amount is continued to the retiree's spouse (or if no eligible spouse, to unmarried children until they attain age 18; or, if no eligible children, to a qualifying dependent parent) for the rest of his or her lifetime. This benefit will not be discontinued in the event the spouse remarries.

The remaining 75 percent or 50 percent of the retirement allowance, which may be referred to as the option portion of the benefit, is paid to the retiree as an annuity for as long as he or she is alive. Or, the retiree may choose to provide for some of this option portion to be paid to any designated beneficiary after the retiree's death. Benefit options applicable to the option portion are the same as those offered with the standard form. The reduction is calculated in the same manner but is applied only to the option portion.

Pre-Retirement Death Benefits

Basic Death Benefit

This is a standard benefit.

Eligibility
An employee's beneficiary (or estate) may receive the Basic Death benefit if the member dies while actively employed. A CalPERS member must be actively employed with the CalPERS employer providing this benefit to be eligible for this benefit. A member's survivor who is eligible for any other pre-retirement death benefit may choose to receive that death benefit instead of this Basic Death benefit.

Benefit
The Basic Death Benefit is a lump sum in the amount of the member's accumulated contributions, where interest is currently credited at 7.5 percent per year, plus a lump sum in the amount of one month's salary for each completed year of current service, up to a maximum of six months' salary. For purposes of this benefit, one month's salary is defined as the member's average monthly full-time rate of compensation during the 12 months preceding death.

1957 Survivor Benefit

This is a standard benefit.

Eligibility
An employee's *eligible survivor(s)* may receive the 1957 Survivor benefit if the member dies while actively employed, has attained at least age 50, and has at least 5 years of credited service (total service across all CalPERS employers and with certain other Retirement Systems with which CalPERS has reciprocity agreements). A CalPERS member must be actively employed with the CalPERS employer providing this benefit to be eligible for this benefit. An eligible survivor means the surviving spouse to whom the member was married at least one year before death or, if there is no eligible spouse, to the member's unmarried children under age 18. A member's survivor who is eligible for any other pre-retirement death benefit may choose to receive that death benefit instead of this 1957 Survivor benefit.

Benefit
The 1957 Survivor benefit is a monthly allowance equal to one-half of the unmodified Service Retirement benefit that the member would have been entitled to receive if the member had retired on the date of his or her death. If the benefit is payable to the spouse, the benefit is discontinued upon the death of the spouse. If the benefit is payable to a dependent child, the benefit will be discontinued upon death or attainment of age 18, unless the child is disabled. The total amount paid will be at least equal to the Basic Death benefit.

Optional Settlement 2W Death Benefit

This is an optional benefit.

Eligibility
An employee's *eligible survivor* may receive the Optional Settlement 2W Death benefit if the member dies while actively employed, has attained at least age 50, and has at least 5 years of credited service (total service across all CalPERS employers and with certain other Retirement Systems with which CalPERS has reciprocity agreements). A CalPERS member who is no longer actively employed with **any** CalPERS employer is not eligible for this benefit. An *eligible survivor* means the surviving spouse to whom the member was married at least one year before death. A member's survivor who is eligible for any other pre-retirement death benefit may choose to receive that death benefit instead of this Optional Settlement 2W Death benefit.

Benefit
The Optional Settlement 2W Death benefit is a monthly allowance equal to the Service Retirement benefit that the member would have received had the member retired on the date of his or her death and elected Optional Settlement 2W. (A retiree who elects Optional Settlement 2W receives an allowance that has been reduced so that it will continue to be paid after his or her death to a surviving beneficiary.) The allowance is payable as long as the surviving spouse lives, at which time it is continued to any unmarried children under age 18, if applicable. The total amount paid will be at least equal to the Basic Death Benefit.

Special Death Benefit

This is a standard benefit for safety members. An employer may elect to provide this benefit for miscellaneous members.

Eligibility
An employee's *eligible survivor(s)* may receive the Special Death benefit if the member dies while actively employed and the death is job-related. A CalPERS member who is no longer actively employed with **any** CalPERS employer is not eligible for this benefit. An *eligible survivor* means the surviving spouse to whom the member was married prior to the onset of the injury or illness that resulted in death. If there is no eligible spouse, an eligible survivor means the member's unmarried children under age 22. An eligible survivor who chooses to receive this benefit will not receive any other death benefit.

Benefit
The Special Death benefit is a monthly allowance equal to 50% of final compensation, and will be increased whenever the compensation paid to active employees is increased but ceasing to increase when the member would have attained age 50. The allowance is payable to the surviving spouse until death at which time the allowance is continued to any unmarried children under age 22. There is a guarantee that the total amount paid will at least equal the Basic Death Benefit.

If the member's death is the result of an accident or injury caused by external violence or physical force incurred in the performance of the member's duty, and there are *eligible* surviving children (*eligible* means unmarried children under age 22) in addition to an eligible spouse, then an **additional monthly allowance** is paid equal to the following:

- if 1 eligible child: 12.5% of final compensation
- if 2 eligible children: 20.0% of final compensation
- if 3 or more eligible children: 25.0% of final compensation

Alternate Death Benefit for Local Fire Members

This is an optional benefit available only to local fire members.

Eligibility
An employee's *eligible survivor(s)* may receive the Alternate Death benefit in lieu of the Basic Death Benefit or the 1957 Survivor Benefit if the member dies while actively employed and has at least 20 years of total CalPERS service. A CalPERS member who is no longer actively employed with **any** CalPERS employer is not eligible for this benefit. An *eligible survivor* means the surviving spouse to whom the member was married prior to the onset of the injury or illness that resulted in death. If there is no eligible spouse, an eligible survivor means the member's unmarried children under age 18.

Benefit
The Alternate Death benefit is a monthly allowance equal to the Service Retirement benefit that the member would have received had the member retired on the date of his or her death and elected Optional Settlement 2W. (A retiree who elects Optional Settlement 2W receives an allowance that has been reduced so that it will continue to be paid after his or her death to a surviving beneficiary.) If the member has not yet attained age 50, the benefit is equal to that which would be payable if the member had retired at age 50, based on service credited at the time of death. The allowance is payable as long as the surviving spouse lives, at which time it is continued to any unmarried children under age 18, if applicable. The total amount paid will be at least equal to the Basic Death Benefit.

Cost-of-Living Adjustments (COLA)

Standard Benefit
Beginning the second calendar year after the year of retirement, retirement and survivor allowances will be annually adjusted on a compound basis by 2 percent.

Improved Benefit
Employers have the option of providing any of these improved cost-of-living adjustments by contracting for any one of these Class 1 optional benefits. An improved COLA is not available in conjunction with the 1.5% at 65 formula.

Beginning the second calendar year after the year of retirement, retirement and survivor allowances will be annually adjusted on a compound basis by either 3 percent, 4 percent or 5 percent. However, the cumulative adjustment may not be greater than the cumulative change in the Consumer Price Index since the date of retirement.

Purchasing Power Protection Allowance (PPPA)

Retirement and survivor allowances are protected against inflation by PPPA. PPPA benefits are cost-of-living adjustments that are intended to maintain an individual's allowance at 80 percent of the initial allowance at retirement adjusted for inflation since retirement. The PPPA benefit will be coordinated with other cost-of-living adjustments provided under the plan.

Employee Contributions

Each employee contributes toward his or her retirement based upon the retirement formula. The standard employee contribution is as described below.

- The percent contributed below the monthly compensation breakpoint is 0 percent.
- The monthly compensation breakpoint is $0 for full and supplemental formula members and $133.33 for employees covered by the modified formula.
- The percent contributed above the monthly compensation breakpoint depends upon the benefit formula, as shown in the table below.

Benefit Formula	Percent Contributed above the Breakpoint
Miscellaneous, 1.5% at 65	2%
Miscellaneous, 2% at 60	7%
Miscellaneous, 2% at 55	7%
Miscellaneous, 2.5% at 55	8%
Miscellaneous, 2.7% at 55	8%
Miscellaneous, 3% at 60	8%
Safety, 1/2 at 55	Varies by entry age
Safety, 2% at 55	7%
Safety, 2% at 50	9%
Safety, 3% at 55	9%
Safety, 3% at 50	9%

The employer may choose to "pick-up" these contributions for the employees (Employer Paid Member Contributions or EPMC). An employer may also include Employee Cost Sharing in the contract, where employees contribute an additional percentage of compensation based on any optional benefit for which a contract amendment was made on or after January 1, 1979.

Auxiliary organizations of the CSUC system may elect reduced contribution rates, in which case the offset is $317 and the contribution rate is 6 percent if members are not covered by Social Security. If members are covered by Social Security, the offset is $513 and the contribution rate is 5 percent.

Refund of Employee Contributions

If the member's service with the employer ends, and if the member does not satisfy the eligibility conditions for any of the retirement benefits above, the member may elect to receive a refund of his or her employee contributions, which are credited annually with 6 percent interest.

1959 Survivor Benefit

This is a pre-retirement death benefit available only to members not covered by Social Security. Any agency joining CalPERS subsequent to 1993 was required to provide this benefit if the members were not covered by Social Security. The benefit is optional for agencies joining CalPERS prior to 1994. Levels 1, 2 and 3 are now closed. Any new agency or any agency wishing to add this benefit or increase the current level must choose the 4th or Indexed Level.

This benefit is not included in the results presented in this valuation. More information on this benefit is available on the CalPERS website at www.calpers.ca.gov.

APPENDIX C

PARTICIPANT DATA

- SUMMARY OF VALUATION DATA
- ACTIVE MEMBERS
- TRANSFERRED AND TERMINATED MEMBERS
- RETIRED MEMBERS AND BENEFICIARIES

Summary of Valuation Data

		June 30, 2011		June 30, 2012
1. **Active Members**				
a) Counts		562		541
b) Average Attained Age		43.45		43.71
c) Average Entry Age to Rate Plan		31.98		31.79
d) Average Years of Service		11.47		11.92
e) Average Annual Covered Pay	$	72,574	$	73,891
f) Annual Covered Payroll		40,786,550		39,975,054
g) Projected Annual Payroll for Contribution Year		44,568,564		43,681,821
h) Present Value of Future Payroll		336,000,462		326,240,290
2. **Transferred Members**				
a) Counts		232		225
b) Average Attained Age		43.48		43.66
c) Average Years of Service		2.55		2.59
d) Average Annual Covered Pay	$	98,236	$	96,538
3. **Terminated Members**				
a) Counts		262		281
b) Average Attained Age		42.75		42.89
c) Average Years of Service		3.06		3.11
d) Average Annual Covered Pay	$	43,852	$	55,883
4. **Retired Members and Beneficiaries**				
a) Counts		497		523
b) Average Attained Age		68.56		68.53
c) Average Annual Benefits	$	24,741	$	25,368
5. **Active to Retired Ratio** [(1a) / (4a)]		1.13		1.03

Counts of members included in the valuation are counts of the records processed by the valuation. Multiple records may exist for those who have service in more than one valuation group. This does not result in double counting of liabilities.

Active Members

Counts of members included in the valuation are counts of the records processed by the valuation. Multiple records may exist for those who have service in more than one valuation group. This does not result in double counting of liabilities.

Distribution of Active Members by Age and Service

	Years of Service at Valuation Date						
Attained Age	**0-4**	**5-9**	**10-14**	**15-19**	**20-25**	**25+**	**Total**
15-24	19	0	0	0	0	0	19
25-29	38	21	0	0	0	0	59
30-34	29	34	13	0	0	0	76
35-39	6	21	17	2	2	0	48
40-44	14	16	20	7	11	1	69
45-49	11	21	17	15	25	7	96
50-54	11	16	10	15	17	19	88
55-59	7	10	10	6	6	13	52
60-64	4	3	4	3	6	4	24
65 and over	3	2	0	2	2	1	10
All Ages	142	144	91	50	69	45	541

Distribution of Average Annual Salaries by Age and Service

	Years of Service at Valuation Date						
Attained Age	**0-4**	**5-9**	**10-14**	**15-19**	**20-25**	**25+**	**Average**
15-24	$30,034	$0	$0	$0	$0	$0	$30,034
25-29	42,212	60,191	0	0	0	0	48,611
30-34	67,745	69,591	73,259	0	0	0	69,514
35-39	66,773	84,690	70,375	80,470	96,032	0	77,677
40-44	86,003	73,589	75,723	98,895	90,557	156,206	83,196
45-49	82,958	81,642	87,833	80,147	90,650	78,045	84,739
50-54	103,358	73,988	76,575	77,296	84,285	82,124	82,263
55-59	95,524	57,753	84,920	100,055	77,096	83,203	81,537
60-64	73,709	58,867	75,765	72,329	70,803	81,488	72,594
65 and over	16,722	26,999	0	55,834	51,632	108,844	42,794
All Ages	$62,022	$71,475	$77,741	$82,877	$85,187	$83,985	$73,891

Transferred and Terminated Members

Distribution of Transfers to Other CalPERS Plans by Age and Service

	Years of Service at Valuation Date							
Attained Age	**0-4**	**5-9**	**10-14**	**15-19**	**20-25**	**25+**	**Total**	**Average Salary**
15-24	4	0	0	0	0	0	4	$72,872
25-29	26	1	0	0	0	0	27	76,087
30-34	31	1	0	0	0	0	32	96,829
35-39	19	2	0	0	0	0	21	93,827
40-44	26	4	1	1	0	0	32	99,480
45-49	34	5	0	1	0	0	40	114,375
50-54	25	4	0	0	0	0	29	105,480
55-59	14	2	3	0	1	1	21	90,514
60-64	9	2	1	0	0	0	12	87,058
65 and over	4	1	2	0	0	0	7	77,637
All Ages	192	22	7	2	1	1	225	96,538

Distribution of Terminated Participants with Funds on Deposit by Age and Service

	Years of Service at Valuation Date							
Attained Age	**0-4**	**5-9**	**10-14**	**15-19**	**20-25**	**25+**	**Total**	**Average Salary**
15-24	5	0	0	0	0	0	5	$30,713
25-29	27	1	0	0	0	0	28	43,534
30-34	42	5	1	0	0	0	48	52,600
35-39	29	6	0	1	0	0	36	62,911
40-44	32	9	0	0	0	0	41	63,465
45-49	30	8	2	4	0	3	47	70,021
50-54	23	5	5	0	1	0	34	50,721
55-59	21	3	3	0	0	0	27	42,840
60-64	9	2	1	0	0	0	12	56,705
65 and over	3	0	0	0	0	0	3	28,769
All Ages	221	39	12	5	1	3	281	55,883

Retired Members and Beneficiaries

Distribution of Retirees and Beneficiaries by Age and Retirement Type*

Attained Age	Service Retirement	Non-Industrial Disability	Industrial Disability	Non-Industrial Death	Industrial Death	Death After Retirement	Total
Under 30	0	0	0	0	0	1	1
30-34	0	0	1	0	0	0	1
35-39	0	0	0	0	0	0	0
40-44	0	2	1	0	0	0	3
45-49	0	2	4	0	1	0	7
50-54	24	3	2	1	0	2	32
55-59	66	5	5	1	0	2	79
60-64	86	6	0	0	0	3	95
65-69	90	4	0	0	0	4	98
70-74	57	4	0	0	0	5	66
75-79	46	1	0	0	0	2	49
80-84	36	0	0	0	0	7	43
85 and Over	37	0	0	0	0	12	49
All Ages	442	27	13	2	1	38	523

Distribution of Average Annual Amounts for Retirees and Beneficiaries by Age and Retirement Type*

Attained Age	Service Retirement	Non-Industrial Disability	Industrial Disability	Non-Industrial Death	Industrial Death	Death After Retirement	Average
Under 30	$0	$0	$0	$0	$0	$3,836	$3,836
30-34	0	0	817	0	0	0	817
35-39	0	0	0	0	0	0	0
40-44	0	22,354	224	0	0	0	14,977
45-49	0	24,155	207	0	153	0	7,041
50-54	25,404	13,799	552	2,168	0	1,685	20,554
55-59	36,458	10,410	1,269	3,831	0	14,199	31,606
60-64	33,525	13,500	0	0	0	9,491	31,501
65-69	26,549	16,433	0	0	0	13,558	25,606
70-74	26,755	10,705	0	0	0	31,005	26,104
75-79	20,837	18,719	0	0	0	34,308	21,344
80-84	23,344	0	0	0	0	11,260	21,377
85 and Over	15,816	0	0	0	0	19,907	16,818
All Ages	$27,596	$14,620	$716	$3,000	$153	$17,359	$25,368

Retired Members and Beneficiaries (continued)

Distribution of Retirees and Beneficiaries by Years Retired and Retirement Type*

Years Retired	Service Retirement	Non-Industrial Disability	Industrial Disability	Non-Industrial Death	Industrial Death	Death After Retirement	Total
Under 5 Yrs	158	3	4	1	0	11	177
5-9	113	2	5	1	0	8	129
10-14	54	4	1	0	0	7	66
15-19	61	13	2	0	1	6	83
20-24	27	3	1	0	0	2	33
25-29	15	2	0	0	0	3	20
30 and Over	14	0	0	0	0	1	15
All Years	442	27	13	2	1	38	523

Distribution of Average Annual Amounts for Retirees and Beneficiaries by Years Retired and Retirement Type*

Years Retired	Service Retirement	Non-Industrial Disability	Industrial Disability	Non-Industrial Death	Industrial Death	Death After Retirement	Average
Under 5 Yrs	$37,084	$24,325	$1,585	$2,168	$0	$20,225	$34,821
5-9	25,494	18,780	440	3,831	0	24,637	24,198
10-14	25,764	13,457	158	0	0	15,329	23,523
15-19	22,500	11,897	120	0	153	11,060	19,204
20-24	18,934	17,699	374	0	0	17,766	18,188
25-29	5,441	11,305	0	0	0	7,260	6,300
30 and Over	7,207	0	0	0	0	9,109	7,334
All Years	$27,596	$14,620	$716	$3,000	$153	$17,359	$25,368

* Counts of members do not include alternate payees receiving benefits while the member is still working. Therefore, the total counts may not match information on page 25 of the report. Multiple records may exist for those who have service in more than one coverage group. This does not result in double counting of liabilities.

APPENDIX D

GLOSSARY OF ACTUARIAL TERMS

Glossary of Actuarial Terms

Accrued Liability *(also called Actuarial Accrued Liability or Entry Age Normal Accrued Liability)*

The total dollars needed as of the valuation date to fund all benefits earned in the past for *current* members.

Actuarial Assumptions

Assumptions made about certain events that will affect pension costs. Assumptions generally can be broken down into two categories: demographic and economic. Demographic assumptions include such things as mortality, disability and retirement rates. Economic assumptions include discount rate, salary growth and inflation.

Actuarial Methods

Procedures employed by actuaries to achieve certain funding goals of a pension plan. Actuarial methods include funding method, setting the length of time to fund the Accrued Liability and determining the Actuarial Value of Assets.

Actuarial Valuation

The determination, as of a valuation date, of the Normal Cost, Accrued liability, Actuarial Value of Assets and related actuarial present values for a pension plan. These valuations are performed annually or when an employer is contemplating a change to their plan provisions.

Actuarial Value of Assets

The Actuarial Value of Assets used for funding purposes is obtained through an asset smoothing technique where investment gains and losses are partially recognized in the year they are incurred, with the remainder recognized in subsequent years.

This method helps to dampen large fluctuations in the employer contribution rate.

Amortization Bases

Separate payment schedules for different portions of the Unfunded Liability. The total Unfunded Liability of a Risk Pool or non-pooled plan can be segregated by "cause," creating “bases” and each such base will be separately amortized and paid for over a specific period of time. However, all bases are amortized using investment and payroll assumptions from the current valuation. This can be likened to a home having a first mortgage of 24 years remaining payments and a second mortgage that has 10 years remaining payments. Each base or each mortgage note has its own terms (payment period, principal, etc.)

Generally, in an actuarial valuation, the separate bases consist of changes in unfunded liability due to contract amendments, actuarial assumption changes, actuarial methodology changes, and or gains and losses. Payment periods are determined by Board policy and vary based on the cause of the change.

Amortization Period

The number of years required to pay off an Amortization Base.

Annual Required Contributions (ARC)

The employer's periodic required annual contributions to a defined benefit pension plan as set forth in GASB Statement No. 27, calculated in accordance with the plan assumptions. The ARC is determined by multiplying the employer contribution rate by the payroll reported to CalPERS for the applicable fiscal year. However, if this contribution is fully prepaid in a lump sum, then the dollar value of the ARC is equal to the Lump Sum Prepayment.

Classic Member (under PEPRA)

A classic member is a member who joined CalPERS prior to January, 1, 2013 and who is not defined as a new member under PEPRA. (See definition of new member below)

Discount Rate Assumption

The actuarial assumption that was called “investment return” in earlier CalPERS reports or “actuarial interest rate” in Section 20014 of the California Public Employees’ Retirement Law (PERL).

Entry Age

The earliest age at which a plan member begins to accrue benefits under a defined benefit pension plan. In most cases, this is the age of the member on their date of hire.

Entry Age Normal Cost Method

An actuarial cost method designed to fund a member's total plan benefit over the course of his or her career. This method is designed to yield a rate expressed as a level percentage of payroll.
(The assumed retirement age less the entry age is the amount of time required to fund a member's total benefit. Generally, the older a member on the date of hire, the greater the entry age normal cost. This is mainly because there is less time to earn investment income to fund the future benefits.)

Fresh Start

A Fresh Start is when multiple amortization bases are collapsed to one base and amortized together over a new funding period.

Funded Status

A measure of how well funded, or how "on track" a plan or risk pool is with respect to assets verses accrued liabilities. A ratio greater than 100% means the plan or risk pool has more assets than liabilities and a ratio less than 100% means liabilities are greater than assets. A funded ratio based on the Actuarial Value of Assets indicates the progress toward fully funding the plan using the actuarial cost methods and assumptions. A funded ratio based on the Market Value of Assets indicates the short-term solvency of the plan.

GASB 27

Statement No. 27 of the Governmental Accounting Standards Board. The accounting standard governing a state or local governmental employer's accounting for pensions.

GASB 68

Statement No. 68 of the Governmental Accounting Standards Board. The accounting standard governing a state or local governmental employer's accounting and financial reporting for pensions. GASB 68 replaces GASB 27 effective the first fiscal year beginning after June 15, 2014.

New Member (under PEPRA)

A new member includes an individual who becomes a member of a public retirement system for the first time on or after January 1, 2013, and who was not a member of another public retirement system prior to that date, and who is not subject to reciprocity with another public retirement system.

Normal Cost

The annual cost of service accrual for the upcoming fiscal year for active employees. The normal cost should be viewed as the long term contribution rate.

Pension Actuary

A business professional that is authorized by the Society of Actuaries, and the American Academy of Actuaries to perform the calculations necessary to properly fund a pension plan.

PEPRA

The California **P**ublic **E**mployees' **P**ension **R**eform **A**ct of 2013

Prepayment Contribution

A payment made by the employer to reduce or eliminate the year's required employer contribution.

Present Value of Benefits (PVB)

The total dollars needed as of the valuation date to fund all benefits earned in the past or expected to be earned in the future for *current* members.

Rolling Amortization Period
An amortization period that remains the same each year, rather than declining.

Superfunded
A condition existing when a plan's Actuarial Value of Assets exceeds its Present Value of Benefits. Prior to the passage of PEPRA, when this condition existed on a given valuation date for a given plan, employee contributions for the rate year covered by that valuation could be waived.

Unfunded Liability
When a plan or pool's Actuarial Value of Assets is less than its Accrued Liability, the difference is the plan or pool's Unfunded Liability. If the Unfunded Liability is positive, the plan or pool will have to pay contributions exceeding the Normal Cost.

Quarterly
Financial Report

city of newport beach | finance department

newportbeachca.gov | 949.644.3127

quarter ending june 30, 2013

EXECUTIVE SUMMARY

Newport Beach continues to be a stable, prosperous, and financially secure municipality due to its strong underlying tax base, governance, and disciplined fiscal decisions. In FY 12/13, City management continued to focus on the City Council's priorities including responsible, yet difficult, spending decisions, adherence to a 15-Point Fiscal Sustainability Plan, and strong revenue monitoring, analysis, and reporting. As a result, the sum total of all available and discretionary reserves total over $130 million as of the end of FY 12/13.

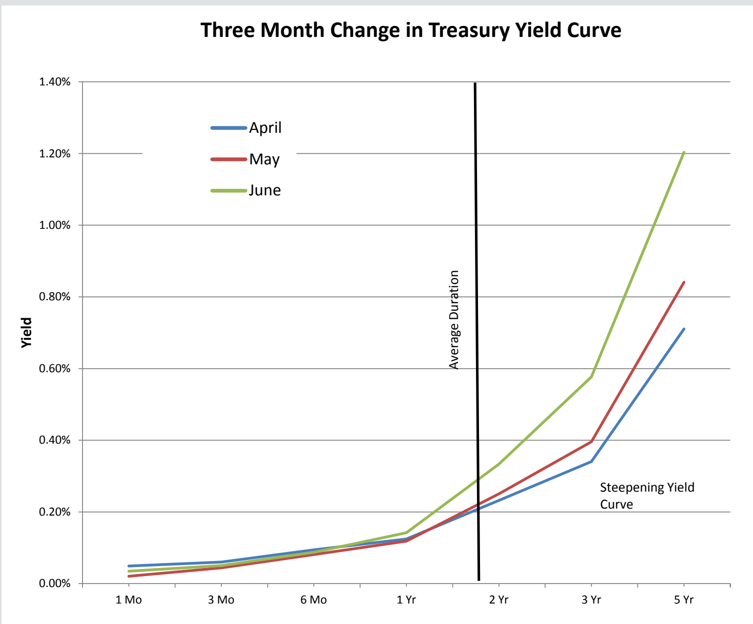
The City of Newport Beach Finance Department prepares quarterly financial reports for the City Council to review the status of revenues and expenditures for the City's most active funds. This report contains information for the fourth quarter of the fiscal year, which is the period between April 1, 2013, and June 30, 2013.

The City's major General Fund revenue categories performed above its projected levels for this year due to the improving economy and the receipt of certain one-time revenues. Expenditures performed within expected levels and ended the year with an unexpended balance. This report also provides a year-end status of some of the City's major reserves. The recovering economy and the Council's guidance in recent years provided the opportunity to maintain reserve levels that are in furtherance of the City's policies, goals, and priorities. The continued health of key reserves lays the groundwork for additional community infrastructure investment and a stronger City government.

Economic Overview

Throughout the fiscal year, the yield on two-year treasury notes remained under 0.35%. The policy of the Federal Reserve (Fed) has been to keep short-term rates at record lows until unemployment reaches 6.5% and inflation is under 2.0%. Comments from Fed Chairman Ben Bernanke at a congressional hearing in May indicated the Fed could begin reducing bond purchases in 2014. These statements, coupled with the recent market rally in equities, have made bonds lose its appeal to prospective bond buyers thereby driving yields up in recent months. This caused fixed income portfolios to decline in value during May and June as interest rates rose across the yield curve.

While the higher interest rate environment temporarily lowers the market value of the portfolio, it also signifies that new investments may result in higher yields than the previous fiscal year.



Consumer confidence increased in June for a third consecutive month. The Conference Board Consumer Confidence Index stood at 81.4 in June, up from 74.3 in May. According to Lynn Franco, Director of Economic Indicators at The Conference Board, consumer confidence is "now at its highest level since January 2008." Households' propensity to keep spending suggests the economy should strengthen later in 2013 after powering through strong headwinds. Consumer spending, which accounts for more than two-thirds of the total demand in the U.S., was the overwhelming driver of growth early this year.

California's economic picture is brighter than that of the national economy. This is due largely to the demand for California goods, such as computers and other technology, according to the recently released UCLA Anderson Forecast. California outperformed the U.S. in the rate of payroll jobs growth in the 12-month period that ended in April 2013. Only Utah has added jobs faster than California. California's job growth has been spread across several industries, including leisure and hospitality and white-collar jobs in the professional and business services sector. The UCLA forecast projects that California's unemployment rate will drop to 8.8% by the end of this year and fall to 7.7% by the end of 2014. The pace of job growth is expected to speed up to 2.2% in 2015, further pushing down the jobless rate to 6.8% by the end of that year.

Orange County's economy is expanding, and the near-term outlook "warrants growing optimism," according to the midyear update of the Los Angeles County Economic Development Corporation's (LAEDC) 2013-2014 Economic Forecast and Industry Outlook released in July. Over the first half of 2013, the county's economic expansion has continued to outpace that of both the nation and the state. The county's unemployment rate, which peaked at 9.5% in 2010, and fell as low as 5.5% in May, is one of the lowest rates in California as reported by the State Employment Development Department. The LAEDC predicts that this trend will continue, with the unemployment rate averaging 5.5% this year before falling to 5.2% in 2014. In addition, the Cal State Fullerton's Southern California Leading Indicator, which forecasts economic activity three to six months out, rose to 109.74 for the first quarter of the year, up 3.5% over the same time last year.

Note: As we prepare this QFR, we are cognizant of threats on the horizon outside of this 4th Quarter, These include the Sequester, the possibility of the federal government not passing a budget, and the approach of the federal government's debt ceiling limit. These issues may have significant impact on the local, state, and national economy.

Strong Underlying Tax Base

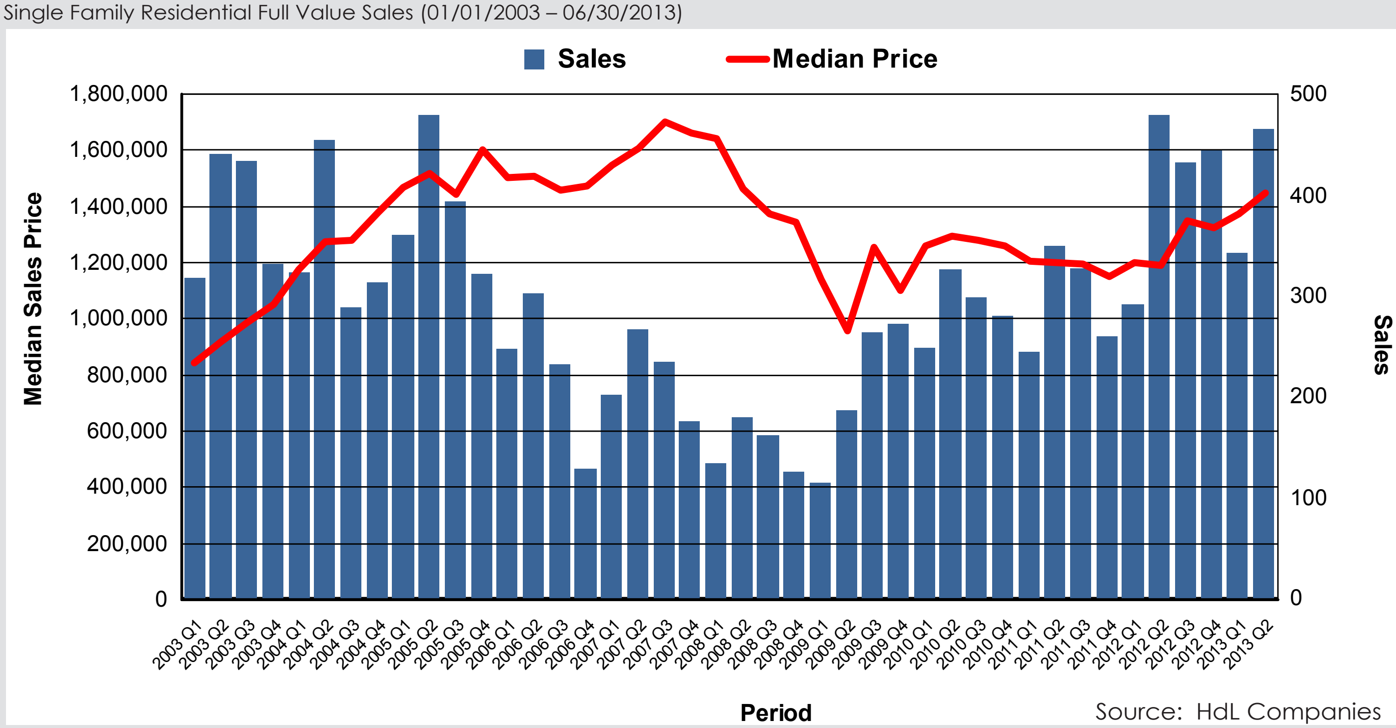
The General Fund's top three revenue sources (Property Tax, Sales Tax, and Transient Occupancy Taxes) account for approximately 73.4% of General Fund revenues and finished the fiscal year $5.4 million or 4.5% higher than projected and just under $13 million, or 11.5% higher than the previous year. This increase is largely due to a generally improving economy, higher property tax valuations within the City, and a greater level of travel and tourism within the region.

PROPERTY TAX

Property tax is the top source of revenue for the City of Newport Beach, representing almost half (48%) of all General Fund revenues. Sales data demonstrates the sustained climb in market values throughout the residential communities of Newport Beach. As the chart below indicates, the median sales price in Newport Beach has shown a rise between June Q2 2012 and June Q2 2013. The number of sales between the same periods has decreased slightly, but has increased sharply from the previous quarter. Local agents say the same factors that have propelled the market since the start of the year were at work in the last quarter: low mortgage interest rates, strong demand, stiff competition from cash-paying investors, and relatively few homes for sale.

City of Newport Beach Home Sales History

Single Family Residential Full Value Sales (01/01/2003 – 06/30/2013)



Property tax collections finished the fiscal year nearly $10.1 million or 14%, higher than the previous fiscal year. This is due to increases in assessed property values and a one-time $5.4 million payment resulting from the State's recent actions to dissolve redevelopment areas. Newport Beach posted Orange County's highest increase in assessed property values at 5.2% and came in second in total local assessed value at $42.3 billion for fiscal year FY13/14. Excluding the one-time $5.4 million payment, property tax collections finished the year $4.6 million higher than the previous fiscal year, yet remain below the median price peak realized in 2007.

Property Taxes

	Amended Budget 2012/13	YTD Actual 2012/13	Prior Year YTD Actual 2011/12	Inc/Dec from PY	Percent Realized Budget 2012/13
Secured	$61,424,455	$61,541,104	$58,551,933	5.11%	100%
Unsecured	2,266,203	2,291,127	2,457,246	-6.76%	101%
Prior Year Penalties & Interest	1,200,000	1,208,469	1,275,360	-5.24%	101%
Supplemental [1]	600,000	879,359	403,890	117.72%	147%
In Lieu of VLF	6,965,878	7,019,219	6,775,936	3.59%	101%
RDA Dissolution [2]	2,756,357	6,184,099	219,795	2713.57%	224%
All Other	1,846,545	2,486,275	1,862,088	33.52%	135%
TOTAL	**$77,059,438**	**$81,609,652**	**$71,546,249**	**14.07%**	**106%**

[1] During fiscal year 2011-2012 the County Assessors' Office was unable to deliver the Supplemental Roll information to the Treasurer Tax Collector as planned due to a system conversion. The shortfall was recovered in fiscal year 2012-2013 resulting in the 117.72% increase from the prior year.

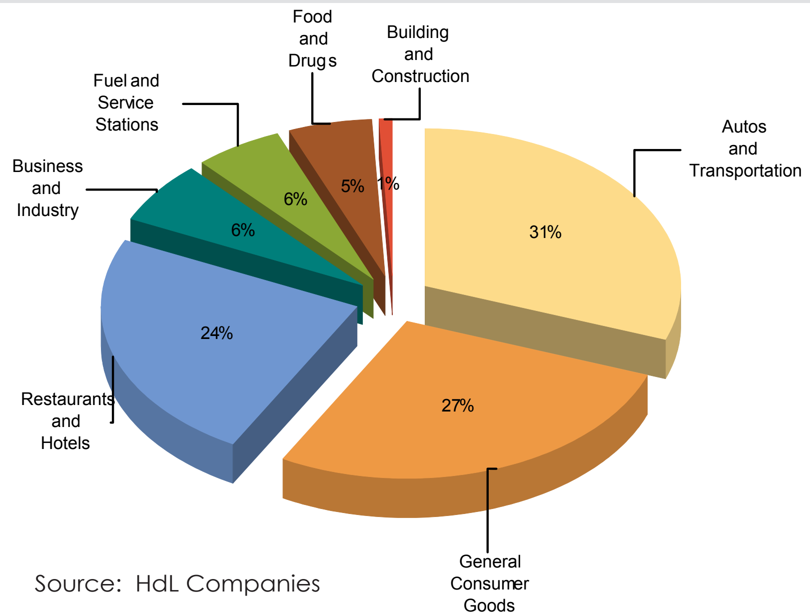
[2] 2012-13 actual includes a one-time $5.4 million receipt resulting from the State's dissolution of redevelopment areas.

SALES TAXES

Sales Tax revenue continues to trend upwards, finishing $1.2 million or 4.6% higher than the prior fiscal year.

While much improved, sales tax receipts remain approximately $328,000 below the pre-recession levels of FY 06/07. The City's sales tax base is generated from a relatively diverse business community and is not dependent on any one merchant or industry. The largest segment, "Autos and Transportation," accounts for approximately 31% of total sales tax; the next largest segment "General Consumer Goods" accounts for approximately 27% of total sales tax; and the third largest segment "Restaurants and Hotels" accounts for approximately 24% of total sales tax revenue. The Autos and Transportation, General Consumer Goods, and Restaurant and Hotels categories posted increases of 0.3%, 0.7%, and 5.7% respectively over the prior year.

Percent of Total for 2nd Quarter



Source: HdL Companies

Sales Taxes

	Amended Budget 2012/13	YTD Actual 2012/13	Prior Year YTD Actual 2011/12	Inc/Dec from PY	Percent Realized 2012/13
Sales and Use Tax	$21,102,543	$20,764,205	$20,107,596	3.27%	98%
Property Tax in Lieu of Sales Tax	7,078,517	7,078,517	6,523,492	8.51%	100%
TOTAL	**$28,181,060**	**$27,842,722**	**$26,631,088**	**4.55%**	**99%**

TRANSIENT OCCUPANCY TAXES

Transient Occupancy Tax (TOT) collections increased $1.7 million or 11.5% over the prior year. This is the net result of a $205,000 increase in residential transient tax collections and a $1.5 million increase in hotel transient tax collections. Of the City's larger hotels, the Pelican Hill Resort, all three Marriott branded accommodations, and the Fairmont Hotel generated the largest increases to transient tax collections. All but three of the City's 20 hotels and inns experienced an increase in TOT revenue over the prior year.

Excluding Pelican Hill Resort remittances, which opened at the height of the recession, TOT revenues have exceeded the pre-recession levels of FY 06/07 by $479,000.

Transient Occupancy Taxes

	Amended Budget 2012/13	YTD Actual 2012/13	Prior Year YTD Actual 2011/12	Inc/Dec from PY	Percent Realized 2012/13
Transient Occupancy Taxes	$15,311,500	$16,500,285	$14,798,191	11.50%	108%

Occupancy Rates Rising in Orange County Hotels

According to the industry research firm PKF Consulting, hotels in Orange County saw a surge in bookings this spring, with occupancy rates at 77.6 percent in April, up from 74.1 percent a year ago. Costa Mesa had the fewest rooms available, with an April occupancy rate of 81.1 percent, up from 74 percent in April 2012. Anaheim, which has seen a resurgence in visitors since Disney California Adventure's new Cars Land opened in June, was second with 79.2 percent of the city's hotel rooms occupied – an increase from 75.2 percent last year. Orange County's most expensive hotels were particularly busy in April, marking a comeback after suffering steep drops in visitors during the recession. Occupancy in hotels with rooms costing more than $200 a night jumped to 82.8 percent in April, from 71.3 percent a year ago.

Source: Orange County Register, June 25, 2013

City Reserves

A PRODUCT OF DISCIPLINED FISCAL POLICY AND A FINANCIALLY PROSPEROUS COMMUNITY

The City accumulates financial reserves to provide stability and flexibility to respond to unexpected adversity and/or opportunities. The recovering economy and the Council's guidance in recent years provide us with the opportunity to maintain reserve levels that are in furtherance of the City's policies, goals, and priorities. The continued health of the following key reserves lays the groundwork for even greater community infrastructure investment and a stronger City government.

GENERAL FUND COMPARATIVE INCOME STATEMENT

The City's General Fund is the primary fund used to account for the City's general purpose revenues such as sales, property, utility users, and transient occupancy taxes. General Fund revenues typically pay for citywide services such as public safety, community development, recreation, libraries, and parks. The General Fund is distinguished from Special Revenue Funds in that the latter are used to account for revenues that have restricted uses (e.g. gas tax funds that must be used for street maintenance or repair). The General Fund Comparative Income Statement presents information that allows readers to compare actual revenues and expenditures and any surplus or deficit for the fiscal years ending June 30, 2012, and June 30, 2013. The City Council establishes a balanced budget (expenditures must equal revenues) at the beginning of every fiscal year.

General Fund revenue receipts increased $14.4 million, or 9.2%, from the prior year and were $7.4 million, or 4.6%, higher than the FY 12/13 Amended Budget, due to growth in the City's top 3 revenue sources, particularly property tax revenue and the receipt of one-time revenues (see property tax discussion on previous page).

General Fund expenditures increased $7.6 million, or 5.8%, from the prior year and were $5 million, or 3.4%, less than the FY 12/13 Amended Budget. Increased expenditures from the prior year were the result of negotiated salary increases, increased benefit and pension costs, a greater level of spending on capital improvements, and higher maintenance and operation costs. Transfers out of the General Fund increased from the prior year largely as the result of dedicating over $13 million to the Facilities Financial Planning Reserve to provide for community serving facilities such as Marina Park, Sunset Ridge Park, Lifeguard Headquarters, and the Corona del Mar Fire Station. The remaining $11.6 million transferred out to other funds was in support of IT strategic investments, maintaining City equipment, tidelands, and other City operations.

The combination of actual revenues receipts being 4.6% higher and expenditures being 3.4% lower than the amended budget has resulted in a $2.6 million, or 3.2%, increase in General Fund Balance.

General Fund Comparative Income Statement

	2012	Preliminary & Unaudited 2013	$ Change	% Change
General Fund Revenues:				
Property Taxes	$ 71,546,249	$ 81,609,652	$ 10,063,403	14.07%
Sales Taxes	20,107,597	20,764,172	656,575	3.27%
Sales Taxes In Lieu	6,523,492	7,078,517	555,025	8.51%
TOT Taxes	14,798,191	16,500,284	1,702,093	11.50%
All other Revenues	43,124,928	44,562,319	1,437,391	3.33%
Total Revenues	**156,100,457**	**170,514,943**	**14,414,486**	**9.23%**
General Fund Expenditures:				
General Government	11,817,861	12,469,327	651,466	5.51%
Public Safety	67,415,971	72,528,459	5,112,488	7.58%
Public Works	25,953,473	27,593,393	1,639,920	6.32%
Community Development	8,798,193	8,789,710	(8,483)	-0.10%
Community Services	17,731,921	17,288,213	(443,708)	-2.50%
Capital outlay	3,827,132	5,208,775	1,381,643	36.10%
Debt Service	979,590	-	(979,590)	-100.00%
Total Expenditures	**136,524,141**	**143,877,876**	**7,353,735**	**5.80%**
Income before transfers & other sources	19,576,316	26,637,067	7,060,751	36.07%
Other Financing Sources (Uses)				
Transfers in	4,842,263	80,000	(4,762,263)	-98.35%
Transfers out	(7,395,066)	(24,130,021)	(16,734,955)	226.30%
Total other financing sources (uses)	(2,552,803)	(24,050,021)	(21,497,218)	121.74%
Net Change in Fund Balance	17,023,513	2,587,046	(14,436,467)	-84.80%
Fund Balance, beginning	62,768,845	79,792,358	17,023,513	27.12%
Fund Balance, ending	**$ 79,792,358**	**$ 82,379,404**	**$ 2,587,046**	**3.24%**

GENERAL FUND RESERVES

This section provides balances of the City's General Fund Reserves at the end of FY 12/13. This information is useful in assessing the City's net resources available for spending at the end of the fiscal year. Contributions to the reserve are established by prudent fiscal policies and as part of the annual budget process, or as conditions change. As of the end of the FY 12/13, the City's General Fund Reserves total $82.4 million. The non-spendable, restricted, and committed categories of fund balance are for resources that are not in spendable form or are legally or contractually required to remain intact. The assigned portion of fund balance includes amounts that are constrained by the City's intent to be used for specific purposes. The authority to modify or create new assignments is delegated to the City Manager, who has designated funds in furtherance of Council priorities to improve community serving facilities such as Marian Bergeson pool improvements, airport environmental impact report, Spyglass Park playground equipment, concrete alley replacements in Newport Heights, and other significant facility improvements. These are merely designations, and will require City Council consent and approval to expend the funds. Additionally, assignments are also designated for capital project reappropriations from the prior year in support of basic infrastructure projects throughout the City, technology enhancements to serve the community faster and with greater efficiency, and protecting the budget from potentially higher CalPERS pension contribution requirements. Finally, the City Manager has set-aside appropriations for Council priorities and for future strategic initiatives to enhance the long-term financial well-being of the City. These future appropriations will be subject to City Council consideration and approval as these initiatives are further developed in the coming year.

General Fund Reserves

	Audited 2012	Preliminary & Unaudited 2013	Change
Non-spendable	$ 7,706,708	$ 9,919,486	$ 2,212,778
Restricted	2,263,049	3,392,444	1,129,395
Committed			
Contingency Reserve	21,582,798	22,134,775	551,977
Recreation Reserves	521,447	618,680	97,233
Parking Reserves	297,612	363,043	65,431
Cable Franchise	1,514,574	300,039	(1,214,535)
Other Miscellaneous	5,904,672	4,954,874	(949,798)
Subtotal Committed	**29,821,103**	**28,371,411**	**(1,449,692)**
Assigned			
Capital Reappropriations	603,167	1,843,417	1,240,250
PERS Rate Reserve	5,000,000	5,000,000	-
Council Priorities	5,538,677	3,000,000	(2,538,677)
Additional Transfer to FFP	5,043,503	-	(5,043,503)
Strategic Technology Investments	3,000,000	1,000,000	(2,000,000)
Future Appropriations	-	9,282,613	9,282,613
Other	246,118	-	(246,118)
Subtotal Assigned	**19,431,465**	**20,126,030**	**694,565**
Unassigned (Appropriations Reserve)	20,570,033	20,570,033	-
General Fund Balance	**$ 79,792,358**	**$ 82,379,404**	**$ 2,587,046**

* Includes required annual General Fund transfer of $4,676,143 and a one time transfer of $8,543,503 from the General Fund

FACILITIES FINANCIAL PLANNING RESERVE

The City continued its financial commitment to the Facilities Financial Planning Reserve (FFPR) in FY 12/13 by allocating significant resources for the following projects that will begin in the coming year: Marina Park, Sunset Ridge Park, Lifeguard Headquarters and the Corona del Mar Fire Station. Council Policy F-23, Facilities Financial Planning Program (FFP), approved in August 2009, established a long-term facilities financing plan for the replacement of all General Fund-supported facilities. The City's FFPR was established to fund the replacement of critical City facilities such as, but not limited to, the Civic Center and Police Department buildings, fire stations, library branches, parks, community centers, and other facility improvement projects. The FFP provides a consistent, level funding plan to minimize negative impacts on the General Fund in any given year. Overall, the FFPR balance is decreasing $6.4 million from the prior fiscal year. This change is the net result of various increases and decreases to both revenues and expenditures. Revenues are decreasing due largely to a one-time developer contribution in FY 11/12 and a sustained drop in interest rates resulting from the low interest rate environment. These revenue decreases are largely offset with $10.2 million of transfers in from the General and Equipment Maintenance funds and a reclassification of Park-in-Lieu fees to the FFPR. Expenditures increased $13 million from the prior year due to costs associated with the final construction phase of the Civic Center and the acquisition of property at 1499 Monrovia in western Newport Beach.

Facilities Financial Planning Reserve

	Audited 2012	Preliminary & Unaudited 2013		Change
Beginning Balance July 1,	$ 25,625,644	$ 33,149,725		$ 7,524,081
Revenues				
Transfer In	5,057,585	15,219,646	*	10,162,061
Interest Income	343,797	50,608		(293,189)
Park in Lieu Fees	-	2,817,395		2,817,395
Developer Contributions	13,545,000	35,000		(13,510,000)
Total Revenues	18,946,382	18,122,649		(823,733)
Expenditures				-
2010 Civic Center COPs Debt Service Contribution	(8,191,020)	(6,757,506)		1,433,514
Civic Center Construction	(3,231,281)	(13,452,240)		(10,220,959)
Other Major Facilities	-	(4,310,374)		(4,310,374)
Total Expenditures	(11,422,301)	(24,520,120)		(13,097,819)
Ending Balance June 30,	**$ 33,149,725**	**$ 26,752,254**		**$ (6,397,471)**

* Includes required annual General Fund transfer of $4,676,143, and one time transfers of $8,543,503 from the General Fund and $2,000,000 from the Equipment fund.

OTHER STRATEGIC RESERVES

The City has set-aside strategic reserves to normalize departmental budgeting for programs that have life-cycles greater than one year, act as a strategic savings plan for long-term assets and liabilities, and enable appropriate distribution of city-wide costs to individual departments. Overall, these reserves are increasing $1.4 million from the prior fiscal year. This net change is the result of various increases and decreases. The City established a Facilities Maintenance Plan Reserve in FY 12/13 to cover the annual maintenance costs of the City's aging facilities. The Insurance Reserve is decreasing $2.4 million when compared to FY 11/12 to cover insurance claims and a shortfall in the Compensated Absences Fund (CAF). The balance in CAF is increasing to a level that will facilitate smoothing of the accumulated leave bank. The Equipment Maintenance Reserve (EMR) is decreasing $3.2 million largely due to transfers out to the IT Equipment and Facilities Financial Planning Reserve Funds. The EMR exceeded its targeted funding balance and therefore had sufficient surplus to transfer out. The IT Equipment Fund Reserve is increasing $5.4 million due to aforementioned transfer in from the EMR and the receipt of proceeds from the now defunct Airborne Law Enforcement program.

RESERVES SUMMARY

In summary, the City's ability to set aside resources for future projects, acquisitions, and other allowable purposes is the result of maintaining a focus on the City Council's priorities, including responsible, yet difficult, spending decisions, adherence to a 15 – Point Fiscal Sustainability Plan, strong revenue monitoring, analysis, and reporting. The City's reserve funds provide a mechanism for legally saving money to finance all or part of future infrastructure, equipment, and other requirements and provide a degree of financial stability. During both strong and uncertain economic times, reserve funds provide the City with a welcomed budgetary option that can help mitigate the need to cut services. At the end of FY 12/13, the sum total of all available and discretionary reserves total over $130 million.

*RESERVES SUMMARY**

	Preliminary & Unaudited 2013
General Fund	$ 69,067,474
Facilities	12,180,527
Other Strategic Reserves	48,881,712
Total Available	**$ 130,129,713**

*Excludes non-spendable and restricted reserve funds.

OTHER STRATEGIC RESERVES

	2012	Preliminary & Unaudited 2013	Change
Facilities Maintenance Plan	$ -	$ 995,156	$ 995,156
Insurance Reserve	23,419,321	21,062,647	(2,356,674)
Compensated Absences	1,723,667	2,242,118	518,451
Equipment Maintenance	21,652,397	18,431,462	(3,220,935)
IT Equipment Fund	1,707,008	7,145,485	5,438,477
Total	**$ 48,502,393**	**$ 49,876,868**	**$ 1,374,475**

Quarterly Financial Report (Q1 FY 2013-14 – July 1 – September 30, 2013) DRAFT

Executive Summary

The City of Newport Beach Finance Department prepares quarterly financial reports for the City Council to review the status of revenues and expenditures for the City's funds. This quarterly financial report contains information on resources and expenditures for the first quarter of the fiscal year, which is the period between July 1, 2013, and September 30, 2013. Revenue categories are likely to perform at their projected levels for this year. Economic growth is expected to increase at a slow but steady pace over the next few years. Newport Beach has several attributes that have historically supported strong economic growth and financial sustainability.

Overall, Newport Beach continues to be a stable, prosperous, and financially secure municipality through the first quarter of fiscal year (FY) 2013-14. This is due to its strong underlying tax base, governance, and disciplined fiscal decisions. Going forward these core strengths will provide a firm base for continuing expansion. In summary, we maintain a cautiously optimistic outlook for the near term and we will periodically reassess our assumptions as conditions change throughout the year.

This report concludes with a summary of where pension contribution rates are headed as the result of the recent CalPERS actuarial valuation. We anticipate that the improving economy, the City's ongoing efforts to reduce the size of the workforce, working collaboratively with employees to recalibrate the compensation structure and sharing in the costs of pension obligations, and enacting alternative pension tiers will lay the groundwork for a stronger City government in the coming years.

Economic Update

A recent report by the U.S. Commerce Department indicated that the economy slowed in the first quarter of the fiscal year (July-September 2013), even before the budget battles in Washington. Many forecasters now expect the economy will maintain a slow expansion at a pace of about 2% or less. The latest data could weigh on Federal Reserve policy makers, who have sought to spur business and consumer investment by purchasing $85 billion a month in bonds to lower interest rates. Fed officials are contemplating when to reduce the monthly purchases, but they're not expected to take action until later in 2014 at the earliest given the economy's recent disappointing performance. Economic growth of 2% per year has continued to leave resources—capital and labor—unused since the beginning of the recovery in the middle of 2009. This presents a classic "chicken-egg problem" in the U.S. economy where households don't want to spend until they see real gains in income and firms don't want to hire and invest until they see a pickup in spending. Economists predict that idle capital and labor won't be left unused forever and the economy will grow in the next few years. While the timing of the national economic recovery is uncertain, California's economy is expected to pick up gradually in 2014 and 2015, according to a recent forecast by Cal State Fullerton (CSUF) economists.

The CSUF economists found that Southern California's outlook are somewhat brighter than the nation as a whole. They predict a 1.6% average rise in payroll jobs in the six-county Southern California region this year, the same growth rate as the nation overall. During 2014 and 2015, they estimate, job growth will rise to 2.3% in Southern California and more than the projected 1.7% in the nation as a whole. Orange County's median single-family home price remains at least 15% below its 2006 peak, at the height of the real estate bubble. But the forecast concludes that a rapid price rise over the past year "bodes well for future consumer spending." The economists predict "a tempering in housing price appreciation" due to uncertainty over mortgage interest rates and the overall economy. But that will by no means amount to a reversal of the upward trend, they said. As with the national economy, many Orange County businesses are delaying hiring and i nvestment because of concerns about whether Congress and the administration can agree on a budget and how long the Federal Reserve will continue its bond-buying stimulus. "The fundamentals of the economy are getting stronger, but political uncertainty is putting households and businesses in a h olding pattern," economists added.

Top "3" Revenues

The General Fund's top three revenue sources (Property Tax, Sales Tax, and Transient Occupancy Taxes) account for 74.46% of General Fund revenues. Certain revenues lag during the first quarter as they are received in large part during December and April of each fiscal year. Therefore, first quarter results are not indicative of annual performance. With 25% of the year complete, General Fund revenues are at 12.54% of budget. Due to the tax remittance calendar, this is a normal trend for this time of year.

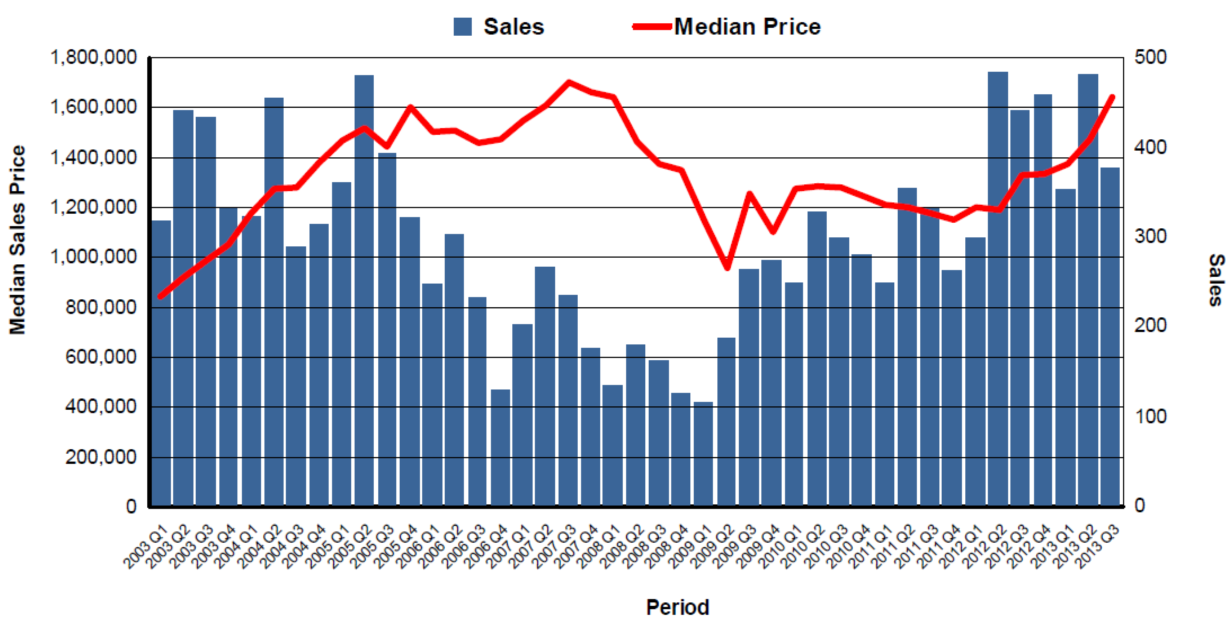
Property Tax

Overall, the City has received $2.4 million, or 3.12%, of its budgeted property taxes through the end of the first quarter. This is normal for this time of the year and first quarter results are not indicative of budget performance at year end. Secured property taxes are recorded as they are remitted, in large part, during December and April of each year. The City realized a 5.85% and 5.20% year-over-year increase in its property tax charge and assessed valuation, respectively, and will most likely meet its budget projections if delinquencies do not exceed 3.05%.

Property Taxes

	Amended Budget 2013/14	YTD Actual 2013/14	Percent Realized Budget 2013/14	Prior Year YTD Actual 2012/13	Inc/Dec from PY
Secured	$63,881,434	$0	0.00%	$0	**
Unsecured	2,266,203	1,590,010	70.16%	1,487,854	6.87%
Prior Year Penalties & Interest	1,200,000	272,457	22.70%	343,570	-20.70%
Supplemental	600,000	297,724	49.62%	95,383	212.14%
In Lieu of VLF	7,166,788	31,402	0.44%	10,995	185.60%
RDA Dissolution	600,000	-	0.00%	-	**
All Other	1,846,545	226,837	12.28%	144,953	56.49%
TOTAL	**$77,560,970**	**$2,418,430**	**3.12%**	**$2,082,756**	**16.12%**

Newport Beach posted Orange County's highest increase in assessed property values at 5.2% and came in second in total local assessed value at $42.3 billion for fiscal year FY 2013-14. The number of home sales in Newport Beach decreased in September due to less inventory and rising mortgage rates. However, there continues to be a sustained climb in the median home price, which is very close to the height of the market peak in 2007.



Sales Tax

Businesses collecting sales and use taxes periodically remit the amount collected to the State Board of Equalization (BOE). To compensate for the lag time between the sales period and the time the tax is remitted to the City, each quarter the BOE advances 90% of the net sales tax collections for the same quarter of the prior year. The City has received $1.6 million, or 5.15%, of its budgeted sales taxes through the end of the first quarter. The amount of sales realized in the first quarter represents one advance payment from the BOE. As with property taxes, first quarter sales tax results are not indicative of budget performance at year end.

Sales Taxes

	Amended Budget 2013/14	YTD Actual 2013/14	Percent Realized Budget 2013/14	Prior Year YTD Actual 2012/13	Inc/Dec from PY
Sales and Use Tax	$22,247,340	$1,553,600	6.98%	$1,455,000	6.78%
Property Tax in Lieu of Sales Tax	7,919,248	-	0.00%	-	**
TOTAL	**$30,166,588**	**$1,553,600**	**5.15%**	**$1,455,000**	**6.78%**

Transient Occupancy Taxes

The City has received $4.3 million, or 26.06%, of its budgeted Transient Occupancy Taxes (TOT) through the end of the first quarter. Transient Occupancy Taxes (TOT) collections have increased $643,261 or 17.76% year-over-year. This increase is due to increases in occupancy rates in 17 of the City's 20 hotels, motels, cottages, and resorts and a generally improving travel and tourism business sector.

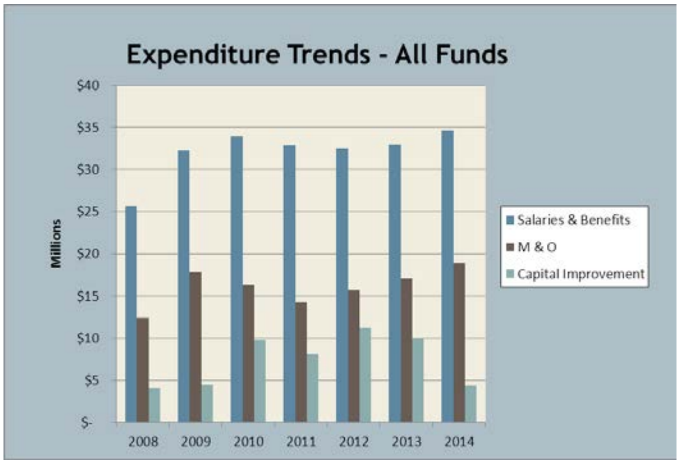
	Amended Budget 2013/14	YTD Actual 2013/14	Percent Realized Budget 2013/14	Prior Year YTD Actual 2012/13	Inc/Dec from PY
Transient Occupancy Taxes	$16,363,510	$4,264,418	26.06%	$3,621,157	17.76%

The three hotels (Resort at Pelican Hill, Marriot Hotel, and Island Hotel) with the highest TOT payments accounted for 50% of total TOT revenue. TOT receipts for these hotels increased 12.2, 12.3, and 14.6%, respectively, over the prior year. A good portion of the City's TOT growth in recent years is attributable to the Resort at Pelican Hill in the Newport Coast, which recently captured first place in the Conde Nast Traveler magazine's Reader's Choice list of 2013 Best Southern California Resort Hotels. The magazine's readers ranked the Montage Laguna Beach in second place.

Management and Expenditure Trends

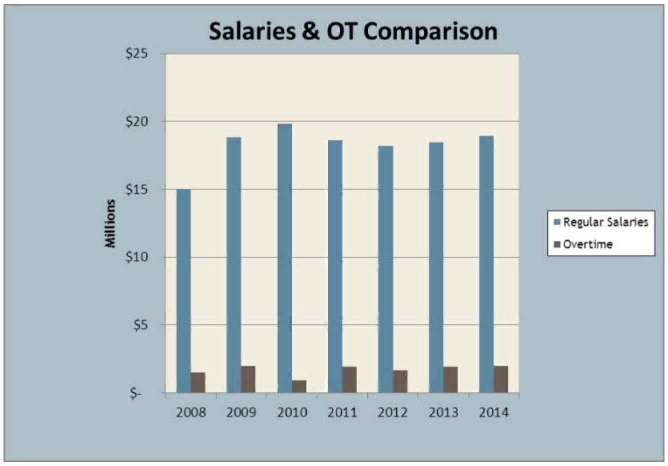
The charts below compare actual first quarter expenditures for all funds since fiscal year 2008.

Expenditure Trends – All Funds



The first quarter FY 2013-14 salaries and benefits expenditure category is slightly higher than the prior year due to expensing the cost of Other Post-Employment Benefits (OPEB) monthly beginning in FY 2013-14 as opposed to expensing the total cost at year-end. Expenditures for maintenance and operation are slightly higher than the prior year due to the escalating costs of supplies, materials, and c ontractual services. When compared to this same time last year, capital improvement expenditures are lower due to the varying nature of spend cycles for large construction projects from year-to-year.

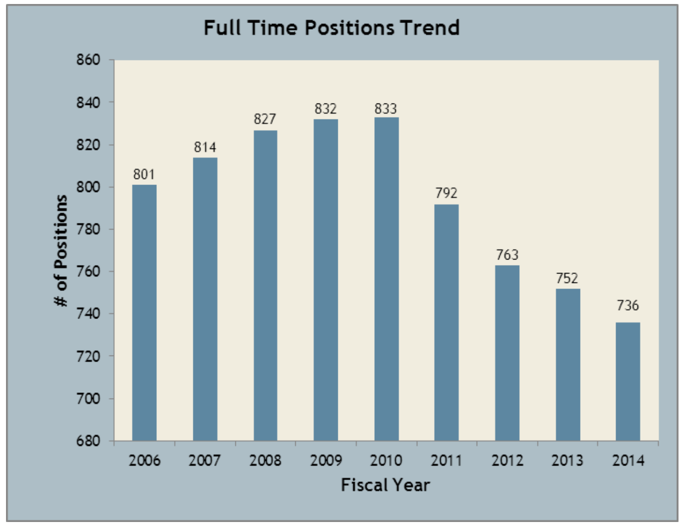
Salaries and Overtime Comparison



The chart to the left compares how first quarter salary and overtime expenditures have changed over time since FY 2007-08. FY 2013-14 expenditures are generally consistent with the prior year and slightly higher due to negotiated salary increases. Overtime expenditures have remained generally flat while full-time positions have declined since fiscal year 2009-10 (see chart below).

Full Time Positions Trend

The City has been proactive in restructuring and making strategic cuts in department operations, striving to evolve into a smarter, faster, smaller local government, even while adding police officers. The adopted FY 2013-14 balanced budget includes a net reduction of 16 full-time positions and 14 full-time equivalent (FTE) part-time positions. Many of the staff reductions were achieved via a Voluntary Separation Incentive Plan (VSIP). The chart to the right depicts the City's ongoing progress towards reducing full-time positions to mitigate the impact of rising pension costs.



Other Financial News – Where Are Future Pension Contribution Rates Headed?

Like other municipalities, the City of Newport Beach compensates employees for their service using three distinct elements, including salaries and wages, benefits provided during active service (for example, health care for active employees), and benefits provided following the completion of active service (retirement income and in some cases health care stipends). The City contributes to the California Public Employees Retirement System (CalPERS), a public employee defined benefit pension plan. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California and provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Local government pensions are pre-funded, as opposed to pay-as-you-go retirement systems like Social Security. In pay-as-you-go systems, contributions from current employees are used to pay benefits for current retirees. In pre-funded systems, the employer and employee make contributions into a pension trust each year, over the course of an employee's working life. That money is invested and earnings on these funds are re-invested. By the time the employee reaches retirement, the accumulated assets in the trust are available to pay benefits. CalPERS investment earnings have historically provided approximately 66% of all pension benefits.

Significant Changes in the Pension Playing Field

Recent months have seen significant changes in how Cal-PERS operates the pension system for the City's employees. These changes make year-to-year comparisons of rates, unfunded liability, and related data of very limited value. We will summarize some of the changes below, and a dvise the Council and others of this comparison challenge.

1 - Changes to PERS' Asset Smoothing Methodology

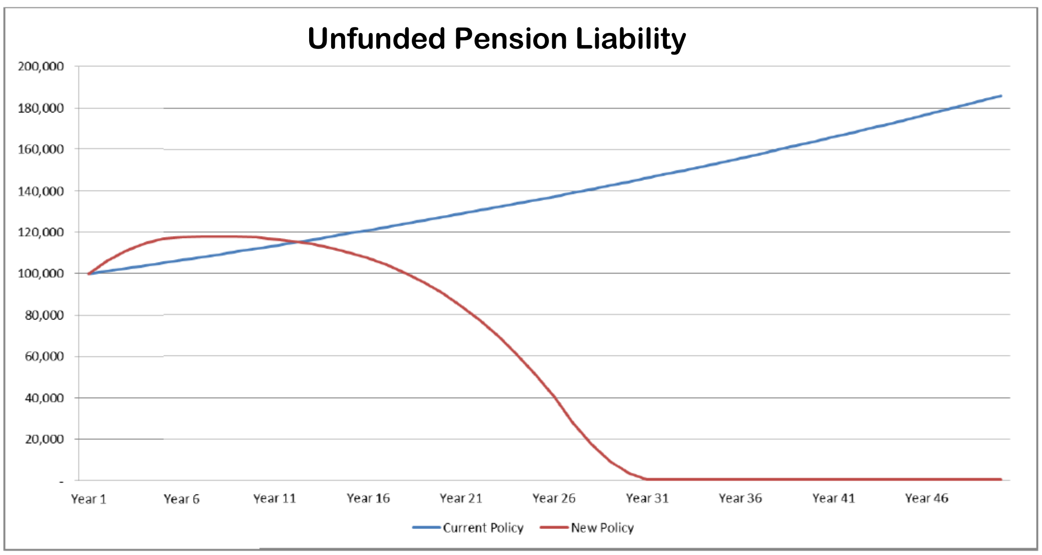
The objective of a retirement system is to accumulate sufficient assets during the active service life of the employee to pay the benefits over the remainder of the employee's life. To meet this objective, a pension plan should receive contributions in accordance with an actuarially based funding policy. The actuarially determined pension funding plan determines exactly how much the employer and employee should contribute each year to ensure that the benefits being earned will be securely funded in a systematic fashion.

Actuaries assign a market-related value to a plan's assets in order to determine contribution requirements. This value is called the "smoothed value" of assets. In order to minimize short term, year-to-year contribution rate fluctuations, actuarial policies typically require the plan's investment gains and losses to be spread, or "smoothed," over a period of time. The objectives of rate smoothing are to track the market value of assets over time and smooth out short-term fluctuations in market values.

On April 17, 2013, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization and smoothing policies. Prior to this change, CalPERS employed an amortization and smoothing policy that spread investment returns over a 15-year period while experience gains and losses (see explanation of the experience study below) were amortized over a rolling 30-year period. Effective with the June 30, 2013 valuations, CalPERS will no longer use an actuarial value of assets and will employ an amortization and smoothing policy that will spread rate increases or decreases over a 5-year period, and will amortize all experience gains and losses over a fixed 30-year period. The new amortization and smoothing policy will be used for the first time in the June 30, 2013 actuarial valuations. These valuations will be performed in the fall of 2014 and will set employer contribution rates for the fiscal year 2015-16.

The example chart below is for illustrative purposes only and is not reflective of the City's unfunded pension obligation. It demonstrates how the change in the rate smoothing methodology on a sample amortization base of $100,000 will result in higher employer contributions in the near term, but a faster plan funded status over the long run.

Current Method vs. New Method



Source: CalPERS

Over time, the new methodology is designed to improve funding levels and help reduce the overall funding level risk. The median employer contribution rate over the next four years is expected to be higher as well. But in the long-term, better funded levels should result in lower employer contributions.

2 - CalPERS Experience Study

Work is currently underway on the latest CalPERS experience study, which compares the actual experience within the retirement system (termination rates, morality rates, rates of salary increase, and discount rate) against current actuarial assumptions. This study is performed every four years and, given the current trends (i.e. people living longer), the study will likely suggest that higher contribution requirements will be necessary. The CalPERS board is scheduled to adopt potential new actuarial assumptions in February of 2014. If changes are made, the impact will be phased in beginning with the FY 2015-16 rates.

3 - Public Employees' Pension Reform Act of 2013 (PEPRA)

The State of California enacted the Public Employee Pension Reform Act of 2013 (PEPRA) that took effect on January 1, 2013, will create lower benefits for employees that are new to the CalPERS retirement system. This will be a third tier of benefits for some City employees, as the City already implemented a second tier pension plan that will ultimately result in lower pension benefits with a higher age at retirement and greater contributions from employees for their pension costs. Among the PEPRA provisions, the most significant pension reform measures impacting the City are: reduced retirement formula and increased retirement ages, a cost sharing of 50% annual "normal cost" by all members, anti-spiking provisions, and pensionable compensation and limitations. This provision is not required until January 2018 - yet the City's miscellaneous and safety units already exceed this requirement. The impact of most of the PEPRA changes will first show up in the rates and benefit provision listing of the June 30, 2013 actuarial valuation, which sets the FY 2015-16 contribution rates. The provisions of PEPRA will take many years to have a meaningful impact on the accrued pension liability.

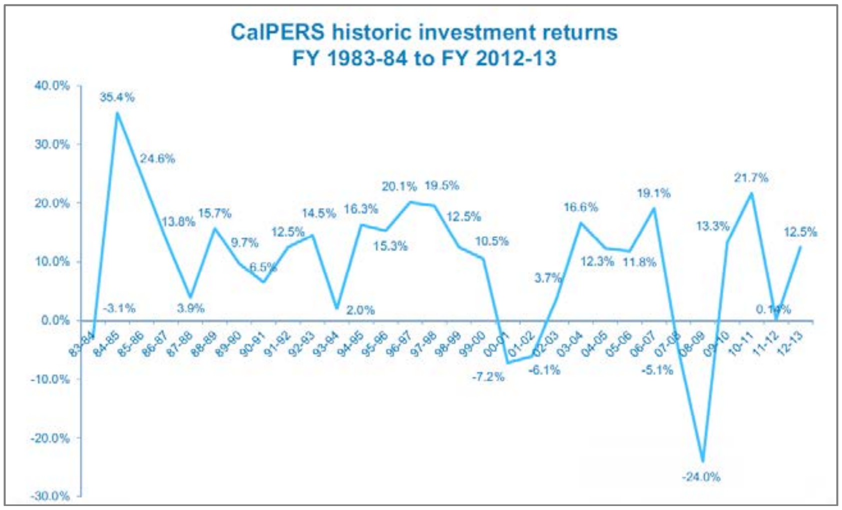
Latest CalPERS Actuarial Valuation

The primary purpose of a valuation is to enable decision makers to determine how much employers and employees should contribute to the plan during a single upcoming year. The "date of value" for an actuarial valuation reflects one date in time – and in our case, more than 16 months in arrears. Actions taken between the date of value and the valuation – such as additional pension contributions, limited cost-of-living adjustments, new pension tiers, outsourcing, and more – are not taken into account in the valuation.

Recall that public employees typically contribute a fixed percentage of their salaries to a defined benefit plan. Annual changes in contribution rates generally affect only the employer contribution. Usually there is a lag between the valuation date and the date new contribution rates begin. For example, the June 30, 2011 actuarial valuation was used to set contribution rates for the 2003-14 fiscal year, starting July 1, 2013. Based on the recent actuarial valuation (used to set contribution rates for 2014-15) the funded status of our pension plans on a market value basis was at 66.3% for the Miscellaneous Plan and 59.3% for the Safety Plan as of June 30, 2012.

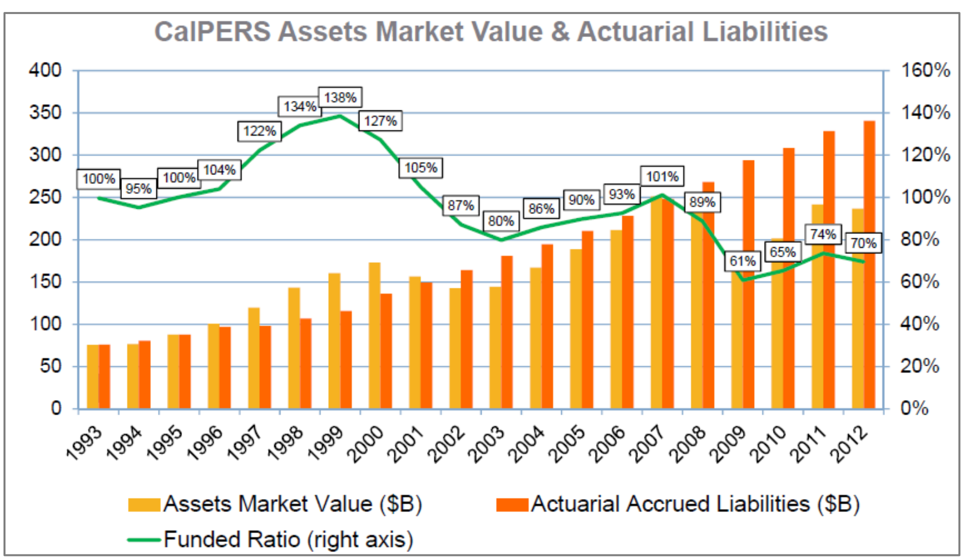
Also on June 30, 2012, the combined unfunded liability was approximately $275 million on a market value basis. This number, while relevant to rate setting for one year, is already well out of date. As we discuss, PERS' rate of return for the fiscal year ending June 30, 2012 was less than 1%. But six months later, by the end of Calendar Year 2012, it had earned 13.3%. And by June 30, 2013, PERS had earned 12.5% between the period of July 1, 2012 and June 30, 2013.

Investment earnings affect how much of future benefit payments can be funded by investment income rather than by contributions. If lower investment earnings occur, future contributions must increase to make up the expected difference. As can be seen from the chart below, the significant drop in the CalPERS investment returns from 21.7% to 0.14% between FY 2010-11 and FY 2011-12 means that current assets well underperformed during the actuarial period. The decrease in funded status is largely due to the 0.14% investment return booked from July 1, 2011 to June 30, 2012.



Source: CalPERS

Investment earning, payroll growth, changes in discount rate, demographics, and other financial results have caused a widening variance between the market value of PERS assets and the actuarial accrued liabilities. As can be seen from the chart below, the funded ratio of all CalPERS assets has decreased to 70% in 2012 from 74% in the year prior.



Source: CalPERS

What this Means for Newport Beach

The often-fluctuating unfunded liability (with a date of value of June 30, 2012) given to our City is important for rate setting, but isn't a full picture of the City's future or its recent actions on pension reform. As noted, the actuarial and the unfunded liability have yet to fully incorporate the City's efforts to:

- Reduce the City's overall position count through outsourcing and other means, going from 833 positions to 736, thus reducing liabilities.
- Increase employee contributions to pension payments, including having employees pay a portion of what is traditionally the "employer's share" of the cost.
- Eliminate the "Employer Paid Member Contribution" or "EPMC" which, when EPMC was included, had the effect of increasing pension costs; and
- Establishing 2nd and 3rd Tiers for new hires and transfers, with less-generous pension benefits, later retirement ages, and additional employee contributions.

The City recently won an award from the Orange County Taxpayers Association for its pension reform efforts as outlined above.

It is anticipated that the combined impact of changes to actuarial methodologies, forthcoming changes resulting from the latest experience study, and fluctuations in investment earnings will further increase our employer contribution rates in the near term. The table below projects the approximate future required employer contributions and year-over-year changes through FY 2019-20. These amounts are based on the most recent information available, including an estimate of the investment return for FY 2012-13, namely 12%, the impact of the new smoothing methods, an assumed discount rate of 7.5%, inflation rate of 2.75%, and an estimated payroll growth of 3% annually. Importantly, these amounts do not reflect any of the City's current or future potential cost sharing agreements with the various bargaining groups. Therefore, these projected contributions are primarily meant to provide the reader with an order of magnitude for the anticipated changes.

City of Newport Beach Estimated Employer CalPERS Contributions 2014-15 through 2019-20

Fiscal Year	Employer Contribution	Annual Change
FY 2014-15	$22,055,226	
FY 2015-16	23,946,797	1,891,571
FY 2016-17	25,946,636	1,999,839
FY 2017-18	28,044,914	2,098,277
FY 2018-19	30,210,758	2,165,845
FY 2019-20	32,466,701	2,255,942
Six-Year Total	**$162,671,032**	**$10,411,475**

There are Memorandums of Understanding (MOU) between the City and several bargaining units that will be expiring on June 30, 2014. Additionally, a classification and compensation study is expected to conclude soon. Both will impact the total payroll and the level of employee pension cost sharing. Staff will further refine the estimated employer CalPERS contributions over the next year and report back to the Finance Committee as new information becomes available.

Conclusion

The City has made significant progress over the past 24 months to address pension issues now rather than pushing the problem onto future generations. This hasn't always been popular, an example being recent decisions to outsource more City services.

Combined with outsourcing, the City has reached agreement with employee associations to reduce benefits creating a 2nd lower tier where employees contribute as much as 9% of their salary to the existing pension obligation. Additionally, in April 2013, the City Council adopted a plan to accelerate payments towards the unfunded liability thus paying it down over a fixed and shorter time period avoiding potentially $100 million of interest expense over the next 30 years. The FY 2013-14 balanced budget included a net reduction of 16 full-time positions and 14 full-time equivalent (FTE) part-time positions. Many of the staff reductions were achieved via a Voluntary Separation Incentive Plan (VSIP) in which 21 employees participated.

We anticipate that the improving economy and the City's ongoing efforts to strategically outsource as well as working collaboratively with employees to recalibrate the compensation structure and share in the costs of pension obligations will lay the groundwork for a stronger City government in the coming years.

CITY OF NEWPORT BEACH
FINANCE COMMITTEE STAFF REPORT

Agenda Item No. 5C
November 18, 2013

TO: HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

FROM: FINANCE DEPARTMENT
Dan Matusiewicz, Finance Director
(949) 644-3123 or DanM@NewportBeachCA.gov

SUBJECT: **BUDGET PROCESS STRATEGY AND ROADMAP**

SUMMARY:

Staff will seek guidance and input from the Committee regarding budget process strategies prior to the preparation of the FY 2014-15 annual budget. In consideration of current revenue performance trends and anticipated expenditures, staff will also provide the Committee with preliminary (high-level) budget assumptions for FY 2014-15.

DISCUSSION:

The Finance Department assists the City Manager by providing budget and fiscal planning, analysis and management services to enhance service delivery to City of Newport Beach residents, business owners, and visitors. The City's budget is the tool by which the organization translates its strategy into action. As the foundation for all strategic and management decisions, the Office of Management and Budget provides oversight and management of the City's budget with a focus on communication, accuracy and transparency.

New Budget Software

Staff is in the process of implementing new budget software which will bring more structure and efficiency to the budgeting process. The new software "CityVision" by PowerPlan Corporation is designed mostly for public sector clients and the benefits include:

- Role-based security across the organization controls the data with which each user can work
- Intuitive layout provides a user friendly environment, easy to navigate, with access to data essential for making informed decisions
- Reporting and trend analysis functions provide an efficient and informative tool for department and program management and include online access

- Detailed notes and itemized lists support budget entries and justification
- Automatic consolidation of details facilitates data review across the organization

Department training starts on Wednesday, November 20th.

Selection and implementation of a new Enterprise Resource Planning (ERP) program continues. As part of the implementation process, departments will be asked to inventory and define the programs that they provide. Program cost information will then be developed that will provide policymakers additional information to assist them in evaluating and strategizing the allocation of funds during budget development in future years.

Budget Calendar

We will be preparing a mid-fiscal-year 2013-14 budget update in January. The update may include recommended revenue budget adjustments. The target date for Council review of those recommendations is the February 25, 2014, Council meeting.

The Proposed Budget Calendar for FY 2014-15 is attached (Attachment A). We've moved up the budget development and production dates in order to provide the printed budget information to Council earlier than in prior years. Our target distribution is on Wednesday, April 23, 2014.

Citizen Engagement

The City currently invites citizen participation in the budget process when the proposed budget is presented to the Finance Committee and to City Council during designated Study Sessions annually each May. The community can apply for financial support by applying for special event sponsorship, and Arts Commission, Human Services, and Council Discretionary grants. The City Council is also receptive to community requests and needs for funding outside of the annual budget process. For example, when community members and cycling advocates initiated fund raising efforts last fall to augment the City's bicycle safety improvement projects, the City Council authorized a Bike Safety Improvement Fund.

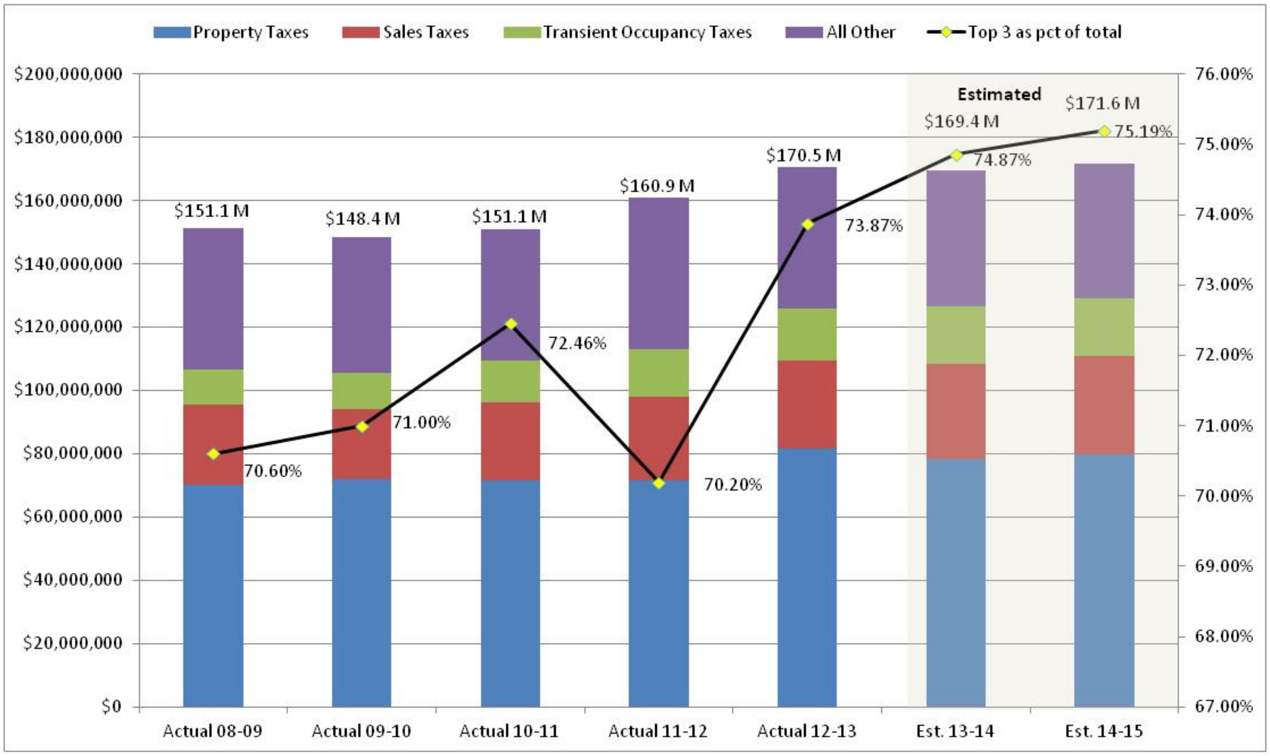
Other engagement tools are available to us as well, depending upon Council desires.

A First Look at Fiscal Year 2014-15

General Fund Revenue Estimates
General Fund revenues finished the year at $170.5 million in FY 2012-13, an increase of 5.94% over the prior year. The top three individual revenue sources, Property Taxes, Sales Taxes, and Transient Occupancy Tax (TOT), represent approximately 74% of all General Fund Revenues.

Property tax collections finished the year nearly $10.1 million or 14%, higher than the previous fiscal year. This is due to increases in assessed property values and a one-time $5.4 million payment resulting from the dissolution of redevelopment in the county. Newport Beach posted Orange County's highest increase in assessed property values at 5.2% and came in second in total local assessed value at $42.3 billion for fiscal year 2013-14. There is also a generally improving economy resulting in higher sales tax receipts and a greater level of travel and tourism within the region.

Chart 1: Historical and Projected Growth of General Fund Revenue FY 08-09 to FY 14-15

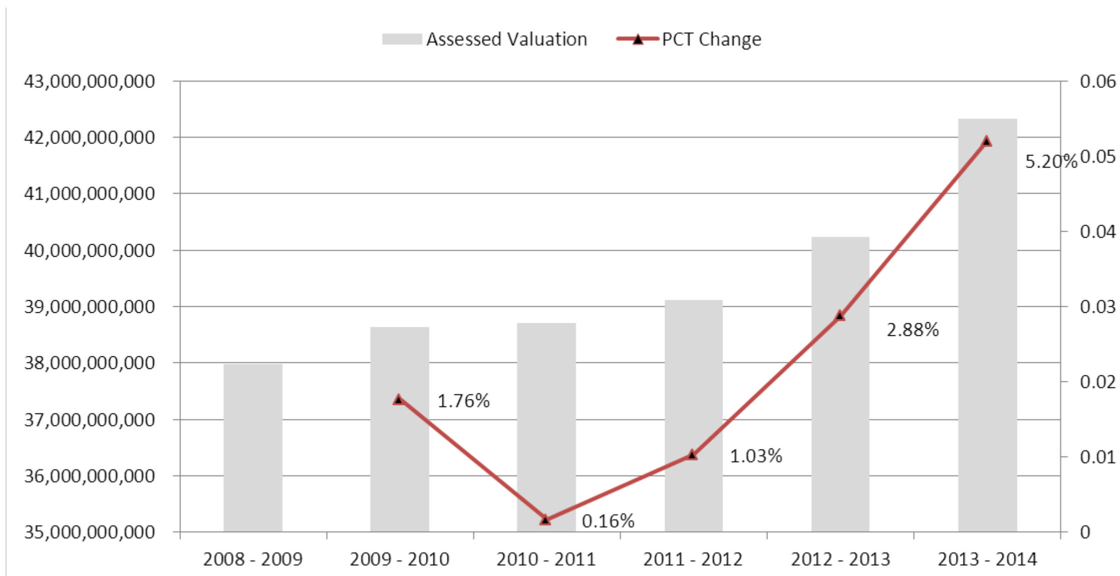


The General Fund's top three revenue sources are performing relatively better than all other General Fund revenue sources (see black line in Chart 1 above) and are expected to continue their climb into positive territory in FY 2014-15. Overall, we are projecting 2013-14 General Fund revenues at $169.4 million and 2014-15 revenues at $171.6 million.

Property Taxes

Property tax is the top source of revenue for the City of Newport Beach, representing almost half of all General Fund revenues. Consistent and vigorous demand for coastal property has allowed the City to enjoy long-term growth trends with its number one revenue source. In the six years since the great recession, assessed valuation increased an average of 2.21% percent. While property tax growth rates have fallen sharply during the Great Recession, the City has experienced positive AV growth during each of the past 16 years. This positive growth occurred while many other cities experienced large decreases in their AV during the depths of the recession.

Chart 2: Assessed Property Valuation in Newport Beach
FY 08-09 to FY 13-14



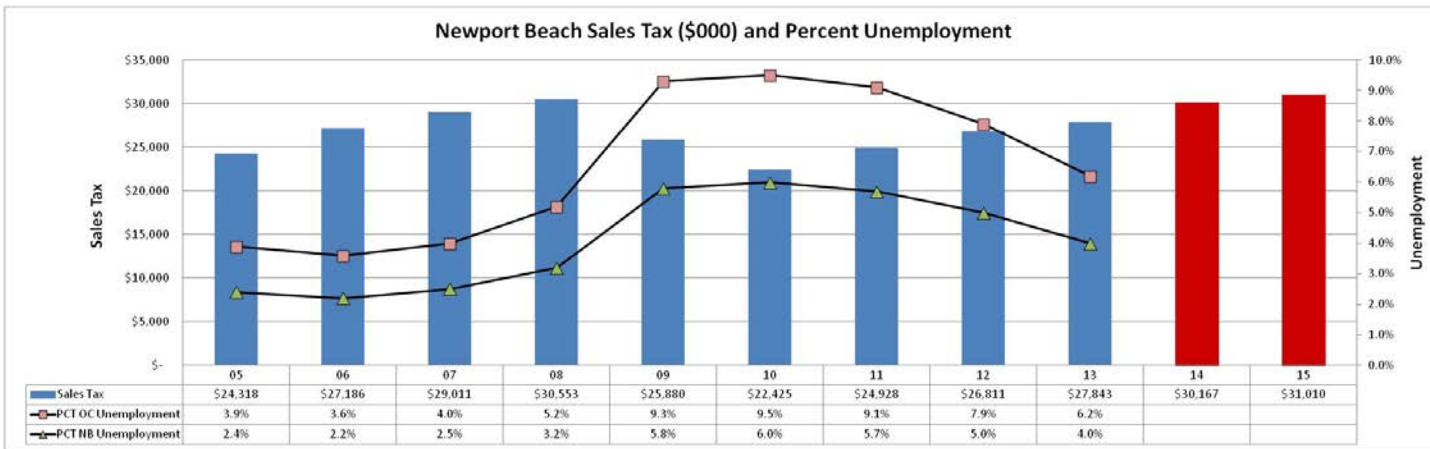
Housing demand within Orange County is increasing, as are housing prices, and new housing construction activity and commercial development are projected to continue growing in 2014-15. As can be seen from the blue shaded bars in Chart 1 above, we project property tax revenue of $78.4 million in 2013-14 and $79.8 million in 2014-15.

The City's secured and unsecured property tax receipts combined for 2013-14 is projected to be $66.18 million or 3.68% over 2012-13. This estimate was derived by the latest 2013-14 Newport Beach property tax ledger or "levy" obtained from the County with an assumed collection rate of 97%. Although the housing market continues to gradually improve, our projections remain conservative for 2014-15, estimating $67.5 million in secured and unsecured property tax.

Sales Tax

Consumer spending drives nearly 70 percent of economic activity and this is no less true in Newport Beach. Newport Beach features a well-diversified array of sales tax generating businesses. With over 14,000 businesses actively licensed in the city, increased employment is fueling increased spending activity. The chart below depicts the growth of sales tax revenue in Newport Beach since 2000-01. Since 2009-10, sales tax in Newport Beach has grown approximately 19.4%. Inversely, unemployment has decreased in Orange County from 9.5% to 6.2% during the same period. The inverse relationship between employment and sales tax is clearly evident throughout the thirteen year period.

Chart 3: Newport Beach Sales Tax ($000) and Percent Unemployment



The trend towards lower unemployment, greater income, and higher sales tax resulting from car and retail sales will most likely result in higher sales tax revenue for Newport Beach during the forecast period. The forecast conservatively predicts no change in sales tax from what was originally budgeted for 2013-14, $30.2 million, and only a slight increase for 2014-15.

Transient Occupancy Tax (TOT)

Newport Beach features two impressive five star hotels, excellent affordable hotels, numerous beach cottage rentals, world-class shopping, and restaurants that generated a combined $16.5 million in transient occupancy tax revenues in 2012-13. Tourism is an integral part of commerce in the City which has a summer population in excess of 100,000 compared to a permanent population of 86,436.

TOT revenue is estimated to continue increasing in FY 14 due largely to higher occupancy in city hotels, motels, cottages and resorts and a generally improving travel and tourism business sector. The City has received 18%, or $643,000, higher TOT in the first quarter of FY 13-14 quarter when compared to the same time last year. Based on the prior three-year collection trend through the first quarter of the fiscal year, we estimate TOT in the amount of $18.3 million in 2013-14. This will represent a 10.7% increase over the prior year. We conservatively estimate no change in 2014-15, as we are uncertain as to the whether and how long this trend will continue.

General Fund Expenditures

The Fiscal Year 2013-14 budget emphasized public safety, community serving facilities and basic infrastructure, reducing the cost of personnel through staff reduction and increased pension contributions from employees, and technology enhancements. In keeping with Council's past approach, in Fiscal Year 2014-15, the City Manager intends to continue to emphasize public safety, community serving facilities and basic infrastructure, and reducing personnel costs by continuing to identify internal efficiencies and services suitable for contracting.

Salary and Benefits

Salary and benefits are the largest component of the City's operating budget. Memorandums of Understanding (MOU) between the City and several bargaining units will or may expire at June 30, 2014: Firefighters Association, Fire Management Association, Police Association, Lifeguard Management Association, and the Association of Newport Beach Ocean Lifeguards (Part-time). It is unlikely that negotiations with these units will be completed in time to include funding in the Fiscal Year 2014-15 Proposed Budget.

The following MOUs include known increases that will be included in the Fiscal Year 2014-15 Proposed Budget:

Bargaining Unit	Cost of Living Adjustment (COLA)	Cafeteria Allowance	Pension Contribution
City Employees, Employees League, and Professional & Technical Association	1%-2% effective January 2015[1]	$100 per month effective January 2015	Additional 1.45% employee contribution effective June 30, 2014
Police Management	1%-2.5% effective July 2014[2]		

[1]Exact percentage of January 2015 COLA is tied to the October 2014 Consumer Price Index.
[2]Exact percentage of July 2014 COLA is tied to the March 2014 Consumer Price Index.

The City is currently in negotiations with the recently re-formed Part-time Employees Association of Newport Beach.

Another event that may impact the Fiscal Year 2014-15 budget is the implementation of the Classification and Compensation Study. Once Council approves the study, we will work hard to incorporate any necessary changes in the budget development process.

Pension

The Fiscal Year 2014-15 PERS Contribution rates were recently made available via the annual CalPERS Actuarial Valuation as indicated in the tables below.

Miscellaneous	**FY2013-14**	**FY 2014-15**	**FY 2015-16**
Total Contribution	25.920%	26.816%	28.0% projected
City Contribution[1]	15.550%	15.916%	16.65%
Employee Contribution	9.45%[2]	10.9%	12.35%

[1] Employer contribution rate net of employee cost sharing agreements

[2]. Police Miscellaneous employees are contributing 8%.

Safety	**FY2013-14**	**FY 2014-15**	**FY 2015-16**
Total Contribution	49.677%	53.522%	55.7% projected
City Contribution[1]	40.677%	44.522%	46.70%
Employee Contribution	9.0%[2]	9.0%[3]	9.0%[3]

[1] Employer contribution rate net of employee cost sharing agreements.

[2] Police Association employees are contributing 6.25%, Firefighters Association employees are contributing 7%, and Police Management employees are contributing 12.802%.

[3]Police Management will continue to contribute 12.802%.

The primary purpose of a valuation is to enable decision makers to determine how much employers and employees should contribute to the plan during the upcoming year. Public employees typically contribute a fixed percentage of their salaries to a defined benefit plan. Annual changes in contribution rates generally affect only the employer contribution. Usually there is a lag between the valuation date and the date new contribution rates begin. For example, the June 30, 2011 actuarial valuation was used to set contribution rates for the 2003-14 fiscal year, starting July 1, 2013. Based on our June 30, 2012, actuarial valuation (used to set contribution rates for 2014-15) the funded status of our pension plans on a market value basis has decreased from 71.2% to 66.3% for the Miscellaneous Plan and from 64.8% to 59.3% for the Safety Plan. The combined unfunded liability totals approximately $275 million on a market value basis. A new amortization basis, adopted by PERS, will increase rates sharply over the next five years to deal with the growing unfunded liability. The silver lining is that the plan will stabilize and become better funded over time.

The reasons for these increases are generally:

- Changes in the earnings assumptions by Cal-PERS for its investments;
- Changes in assumptions regarding retiree lifespan and health; and
- Changes in Cal-PERS rules regarding how long unfunded liability will be amortized.

By FY 2015-16, PERS projects that the retirement costs for each police officer, firefighter and lifeguard will be nearly 56 cents for every dollar in pensionable salary these individuals earn. Police officers, for example, may soon pay about 12 of those 56 cents, or about 21% of the total cost of their pensions. The City's goal for "pension cost pickup" in the past has been a full 50% of each position's pension cost, or 28 cents of every dollar in pensionable salary.

Conclusion

Newport Beach continues to be a stable, prosperous, and financially secure municipality due to its strong underlying tax base, governance, and disciplined fiscal decisions. The City's major General Fund revenue categories performed above their projected levels this past fiscal year due to the improving economy and the receipt of certain one-time revenues. Expenditures performed within expected levels and ended the year with an unexpended balance. The recovering economy and the Council's guidance in recent years provide us with the opportunity to maintain reserve levels that are in furtherance of the City's policies, goals, and priorities. The continued health of key reserves will lay the groundwork for additional community infrastructure investment and a stronger City government in FY 2014-15. We look forward to the Finance Committee's input regarding budget process strategies prior to the preparation of the FY 2014-15 annual budget.

Prepared by:

/s/Susan Giangrande
Susan Giangrande
Budget Manager

Submitted by:

/s/Dan Matusiewicz
Dan Matusiewicz
Finance Director

Attachments: Proposed Budget Calendar Fiscal Year 2014-15

Proposed Budget Calendar Fiscal Year 2014-15

November 20, 2013	*Finance*	Revenue budget training for departments.
December 13, 2013	*Departments*	FY 2014-15 Preliminary Revenue Estimates are due.
February 7, 2014	*Departments*	Expenditure budgets must be completed.
February 21, 2014	*Departments*	Submit final Performance Plan pages to Finance Department for assembly and publication.
March 3-7, 2014	*City Manager*	Budget conferences with Departments.
March 13, 2014	*Finance*	Meet with City Manager to discuss departmental budgets.
March 28, 2014	*City Manager*	Last day to make changes to Proposed Budget documents.
April 2014	*Finance* *Public Works*	Prepare and print Proposed Budget documents.
April 23, 2014	*City Manager*	Submit Proposed Budget to City Council.
April 28, 2014	*Council Finance Committee*	Review of Proposed Budget.
May 13, 2014	*City Council*	First budget review with staff at Study Session.
May 27, 2014	*City Council*	Second budget review with staff at Study Session. Set date for public hearing on budget.
June 10, 2014	*City Council*	Public Hearing and Adoption of FY 2014-15 Budget and GANN Limit.
July 1, 2014		Beginning of FY 2014-15.
August 7, 2014	*Finance*	Target distribution of final budget documents.