

# Yuba City

## Actuarial Information

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## Overview

- Actuarial concept review
- New smoothing and amortization policy
- Yuba City's pension profile
- Issues impacting future rates

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## Key Actuarial Concepts

- Present Value of Benefits
- Accrued Liability
- Plan Assets
- Normal Cost

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## Present Value of Benefits (PVB)

Total dollars needed on valuation date to fully fund all expected benefits for current members in the plan (both past and future service)

- Example:
  - Say an employee is half way through a career of 30 years
  - PVB is the amount of money needed to fully fund both the 15 years of service accrued to date and the expected 15 future years of service

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## Accrued Liability (AL)

The value of benefits earned on the valuation date by members currently in the plan (past service only)

- From our previous example:
  - AL is the present value of the benefit the employee has earned for the 15 years of service already worked

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## Assets

The amount of money invested as of the valuation date which supports the plan liabilities.

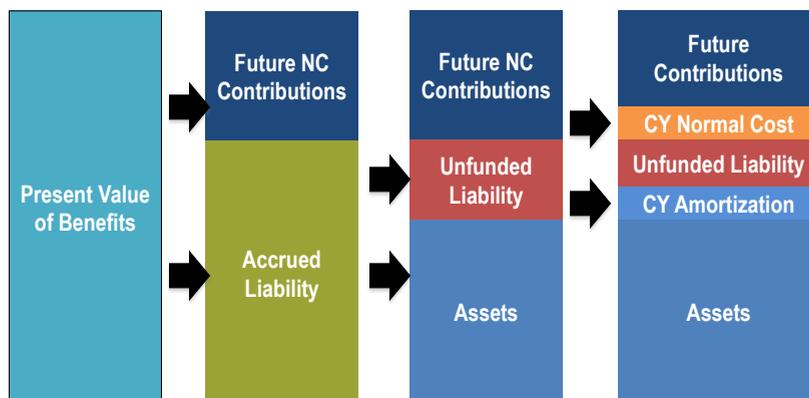
- Therefore whatever *difference* there is between the plan assets and the AL results in the **Unfunded Accrued Liability (UAL)** or Surplus
- The *ratio* of the AL and plan assets is the **Funded Status**

## Normal Cost (NC)

Annual cost associated with one year of service accrual

- Dependent on plan provisions and assumptions including expected investment return, average age members entered plan, and salary growth

## Putting it all together:



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## New Amortization and Smoothing Policy

- Background
- Changes
- Impact

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## Background: Assets

- In the past, assets were measured by market value and actuarial value
  - Market Value of Assets (MVA) measured the true dollar amount of actual investments
  - Actuarial Value of Assets (AVA) was used in the valuation to smooth rates, protecting from volatility in investment returns

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## Background: Amortization

- Previous valuations used the following smoothing techniques:
  - Investment returns: 15 years
  - Experience gains and losses: rolling 30 years

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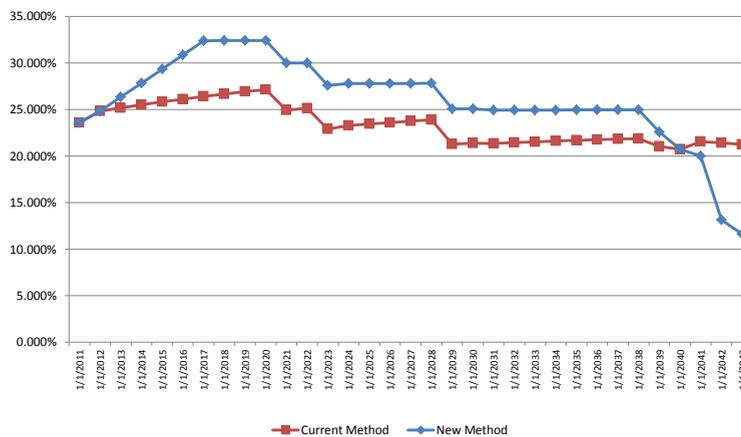
## Changes

- Starting in the June 30, 2013 valuation setting employer rates for 2015-2016:
  - There will no longer be AVA, only MVA
  - Instead of 15 year investment smoothing between AVA and MVA, there will be 5 year direct rate smoothing
  - Experience gains and losses will be amortized on a fixed or declining 30 year period instead of rolling
- The impact of these changes will be phased in over 5 years

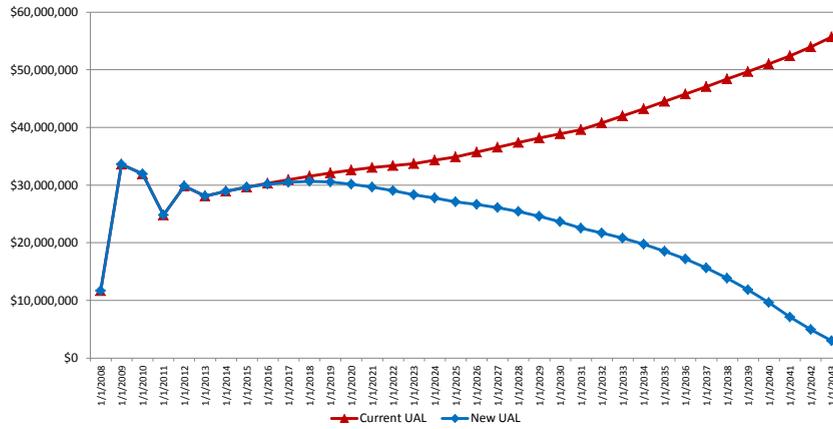
## Impact

- Results in higher employer contributions in the short term, but lower contributions ultimately as the UAL gets completely paid off
- Agencies now make significant progress towards being fully funded
- Eliminates confusion between two sets of asset values

## Impact: Yuba City Miscellaneous Employer Rates



### Impact: Yuba City Miscellaneous Unfunded Liability



### Yuba City: CalPERS profile

- Contribution Rates
- Funded Status

## Yuba City Employer Contribution Rates

	Miscellaneous	Safety T1	Safety T2
2013-2014	23.595%	30.068%	29.087%
2014-2015	24.815%	31.721%	30.753%
2015-2016*	26.3%	33.8%	32.8%
2016-2017*	27.8%	35.9%	34.9%
2017-2018*	29.3%	38.0%	37.0%
2018-2019*	30.8%	40.0%	39.0%
2019-2020*	32.4%	42.1%	41.1%

\*Projected

## Public Agency Employer Rate Comparison

	Miscellaneous		Safety		
	Yuba City	Average*	Yuba City T1	Yuba City T2	Average*
2013-2014	23.6%	15.3%	30.1%	29.1%	32.0%
2014-2015	24.8%	15.6%	31.7%	30.8%	31.8%

\*Includes all public agency benefit formulas in this category

## Public Agency Funded Status Comparison

	Miscellaneous		Safety		
	Yuba City	Average*	Yuba City T1	Yuba City T2	Average*
2013-2014	71.4%	74.8%	78.9%	78.9%	73.1%
2014-2015	67.3%	71.1%	73.7%	73.7%	70.0%

\*Includes all public agency benefit formulas in this category

## Items that could impact rates

- Experience Study Results
- New Proposed Pension Reform Bill
- Pooling changes

## Experience Study

- Going before the Board for approval in February
- Biggest impact is from higher projected life expectancy:
  - male longevity increased by 2.1 years
  - female longevity increased by 1.6 years
- Largest salary growth seen in County Peace Officers
- Impact to rates will be phased in over five years
- No anticipated change in discount rate

## Anticipated Rate Changes from Proposed Assumptions

	Normal Cost Increase	Total Rate Change (Year 1)	Total Rate Change (Year 5)
Safety Fire	0.0% to 0.5%	1.2% to 1.9%	6.3% to 7.2%
Safety Police	1.1% to 1.7%	1.9% to 3.3%	5.3% to 9.3%
Misc 2% at 55	0.2% to 0.3%	0.4% to 1.3%	1.3% to 5.1%
Misc 2.7% at 55	0.4% to 0.7%	0.9% to 1.9%	3.1% to 6.5%

## Pension Reform Bill

- Proposed by the mayor of San Jose
- Would allow employers to negotiate and change future pension and health benefit accruals for current employees
- Will be voted on in November 2014

## Upcoming pooling changes

- Resulting from PEPRA implementation, current pooled plans will have declining payroll
- But the UAL of each plan and pool is a dollar amount
  - The result of spreading a dollar amount over less payroll would be accelerated growth of contribution rates
- For example:

Expected Payroll Growth			Declining Payroll		
Payment	Payroll	Rate	Payment	Payroll	Rate
\$ 200,000	1,000,000	20%	\$ 200,000	1,000,000	20%
\$ 206,000	1,030,000	20%	\$ 206,000	900,000	23%

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## Upcoming pooling changes

- Therefore, in the 2013 valuation to set 2015-2016 rates, the plan is to join all pooled miscellaneous plans into a single pool and all pooled safety plans into a single pool
  - Surcharges will be applied based on benefit formulas and optional benefits
- Additionally, we are looking at allocating each pool's UAL on a plan specific basis
- All pooling changes are pending board approval (March or April)

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Questions?