CITY OF SANTA CRUZ
809 Center Street
Santa Cruz, California 95060

City Council Pension Reform Study Session
Tuesday, July 13, 2010
7:00 p.m. to 9:00 p.m.

Call To Order

1. Overview of Pension Reform Issues in California – Latest Developments – Assistant City Manager M. Bernal. (5 Minutes)

2. The City's Situation:

   a) Overview (Plans, Costs, Trends) – Finance Director J. Dilles (10 Minutes)
   b) June 2010 Actuarial Report (Projected Rates) – John E. Bartel, Actuary (10 Minutes)

3. Pension Plan Tier 2 Alternatives – John E. Bartel, Actuary. (10 Minutes)

4. City Council Questions and Answers. (30 Minutes)

5. Public Testimony/Comments. (30 Minutes)

   a) Labor Organizations
   b) Others

6. City Council Questions and Answers. (15 Minutes)

7. Next Steps. (10 Minutes)

Adjournment: The City Council will adjourn from the special meeting of July 13, 2010 to a special meeting on Tuesday, July 20, 2010 at 7:00 p.m., in City Council Chambers to consider a Rental Inspection Ordinance. The next regularly scheduled meeting will be on July 27, 2010 for a 1:30 p.m. Closed Litigation Session in the Courtyard Conference Room followed by 3 p.m. and 7 p.m. open sessions in Council Chambers.

CITY COUNCIL
AGENDA REPORT

DATE: July 7, 2010

AGENDA OF: Special City Council Meeting of July 13, 2010

DEPARTMENT: City Manager

SUBJECT: Study Session on Pension Reform. (CM)

RECOMMENDATION: Motion to provide direction to staff to prepare a resolution establishing a City Council Policy Statement on local government retirement benefits for new employees.

BACKGROUND: There is a growing consensus among city management professionals that the current PERS formulas throughout the State of California are not sustainable over time. This is due to escalating costs of retirees living longer, lower investment earnings, and higher benefit levels, among other factors. In response to this challenge, a number of the city manager associations around the State have developed policy papers on this topic to present ideas for solutions. Pension reform is an important issue that affects a multitude of parties: the City, its employees, the community, and residents. Without question, City employees who devote their careers to the City and the community have contributed greatly to the success of the City of Santa Cruz and should be fairly compensated. It is also unquestionable that the City cannot sustain the current formula, and that it, like many cities across California, needs to look at alternatives to reduce costs.

DISCUSSION: As opposed to "defined-contribution plans" and Social Security that are the dominant models in the private sector, local governments predominately use a "defined-benefit plan" as the primary retirement plan (most employees do not participate in Social Security). Under a defined-benefit plan, a retired employee receives a guaranteed annual fixed payment for life, based on retirement age, salary, and years of service.

Most cities in California participate in the California Public Employees Retirement System (CalPERS or PERS), which invests and administers the defined-benefit plan ***(Attachment A)***. The benefits paid out to retirees from these plans are funded from a combination of employee contributions, employer contributions, and PERS investment earnings. There have been peaks and valleys with PERS, but it experienced a significant increase in its investment returns during the late 1990s "dot-com boom" that led to the perception that its assets would significantly exceed its future payouts. This resulted in most local governments offering enhanced retirement benefits. It was unfortunately assumed that this positive trend would continue well into the future with little or no additional costs to PERS public agencies. In the wake of multiple stock market declines over the past decade, the PERS pension portfolio experienced significant losses in value, wiping out the surplus from prior years. PERS, which assumed a 7.75 percent investment return, suffered a 23 percent loss last fiscal year (the impacts of this loss are driving the rate increases projected for at least three years). This combination of investment losses, the enhanced benefits that have been enacted by many cities, and increased compensation expenditures will result in dramatic increases in costs.

Historically, 75 percent of pension benefits have been generated from investment earnings, with the remainder from employer and employee payments. Employees contribute (or their share is paid by the employer) toward the cost of their pensions. Unlike many cities that pay both the employer and employee share of PERS, Santa Cruz employees pay their share of the employee contribution. Miscellaneous employees pay 7 percent while public safety employees pay 9 percent. As part of their Phase 10 budget balancing concessions, fire employees agreed to pick up an additional 2 percent of the employer share for a total of 11 percent. This concession is set to expire in August of 2011.

The consideration of pension reform is an important and urgent matter. The City will face significant increases from PERS and chronic long-term budget deficits if corrective action is not taken to manage compensation growth ***(Attachment B)***. Given this, it is imperative that retirement benefits remain sustainable in the long term. Santa Cruz is not unique in this regard. A series of pension reform proposals have been developed across the State and region, which commonly broach a “two-tier” retirement system, which differentiates between existing and new employees, with the latter receiving adjusted benefits. A two-tier retirement system has no impact on current employees, as they are considered to have vested contractual rights, which cannot be reduced. Rather, it puts in place a more sustainable PERS benefit for future employees.

Attachment C is the Monterey Bay Area Managers’ Group pension reform white paper, and ***Attachment D*** is its guiding principles.

Attachment E provides a summary of pension reform proposals from around the State. In the counties of Santa Clara, Marin, San Diego, and San Joaquin, the city manager associations have developed regional proposals with the aim to keep a level field in competing for future employees.

Should cities and counties fail to address this issue, there is a possibility that action will be taken to adjust public employees retirement compensation through the Statewide initiative process or legislation (ballot measures have been circulated and legislation has been proposed). The Governor recently announced tentative agreements with several State unions to implement two-tier retirement plans ***(Attachment F)***.

The City has commissioned an actuarial report, prepared by John Bartel and Associates, which looks at the City’s projected long-term retirement costs as well as costs for two-tier alternatives ***(Attachment G)***. John Bartel will be present at the study session to present his findings and respond to questions.

In conclusion, there is clearly a need for the City to reduce unsustainable retirement costs. It is recommended that the City Council provide direction to staff to prepare a resolution establishing a City Council Policy Statement on local government retirement benefits for new employees, and that the policy statement be adopted at a future City Council meeting.

FISCAL IMPACT: Approval of the recommendation has no fiscal impact.

Submitted by:	Approved by:
Martin Bernal Assistant City Manager	Richard C. Wilson City Manager

Attachments: Attachment A
Attachment B
Attachment C
Attachment D
Attachment E
Attachment F
Attachment G

SUMMARY FACT SHEET: LOCAL GOVERNMENT RETIREMENT PLANS*

What Type Of Retirement Plan Do Local Governments Provide To Public Employees?

- Public employees who work in most local governments do not qualify for Social Security Retirement Benefits.

- The State of California and most local governments in California have a defined-benefit retirement plan managed by the California Public Employees' Retirement System (CalPERS).

- CalPERS retirement plans are intended to provide employees with retirement benefits and encourage employees to select and maintain a career in public service.

- The CalPERS retirement plan has one plan for public safety employees and a separate plan for miscellaneous (nonsafety) employees.

How Do CalPERS Defined-Benefit Plans Work?

- A defined-benefit plan provides a guaranteed annual retirement pension based on a formula that considers retirement age, years of service, and salary. The annual benefit is distributed in monthly payments. The payment amount is adjusted annually for inflation, subject to a cap on the allowed increase. For most jurisdictions, the cap on the increased payment is 2 percent.

- The retirement formula for nonsafety employees is negotiated between the local government agency and the employee union. The retirement formula can be 2.0 percent, 2.5 percent, or 2.7 percent of an employee's final annual salary at age 55. For example, a nonsafety employee who retires with a final annual salary of $70,000 after working 20 years at the benefit formula of 2.0 percent would earn an annual retirement benefit of $28,000 (20 years x 2.0 percent x $70,000). A 2.5 percent formula would yield an annual retirement of $35,000 and 2.7 percent would yield $37,800.

- The most common formula for a safety employee is 3 percent at age 50. For example, a police officer who retires with a final salary of $100,000 after working 20 years at this formula would receive an annual retirement benefit of $60,000.

How Are CalPERS Defined-Benefit Plans Funded?

- Defined-benefit plans are typically financed by employee and employer contributions, and from investment income on those contributions, as managed by CalPERS. Historically, interest earnings have funded about 70 percent to 75 percent of retirement benefits.

- Most employee contribution amounts are established at a fixed rate, averaging between 7 percent and 10 percent of their annual salary.

- Each city or county's CalPERS employer rate is adjusted every year based on an actuarial valuation, which takes into account the performance of the CalPERS investment portfolio and the expected pension obligation for the particular city or county. Employer rates have risen dramatically in the past five years and are expected to continue to rise in the next five years.

What Are The Current Issues Facing Public-Sector Pensions?

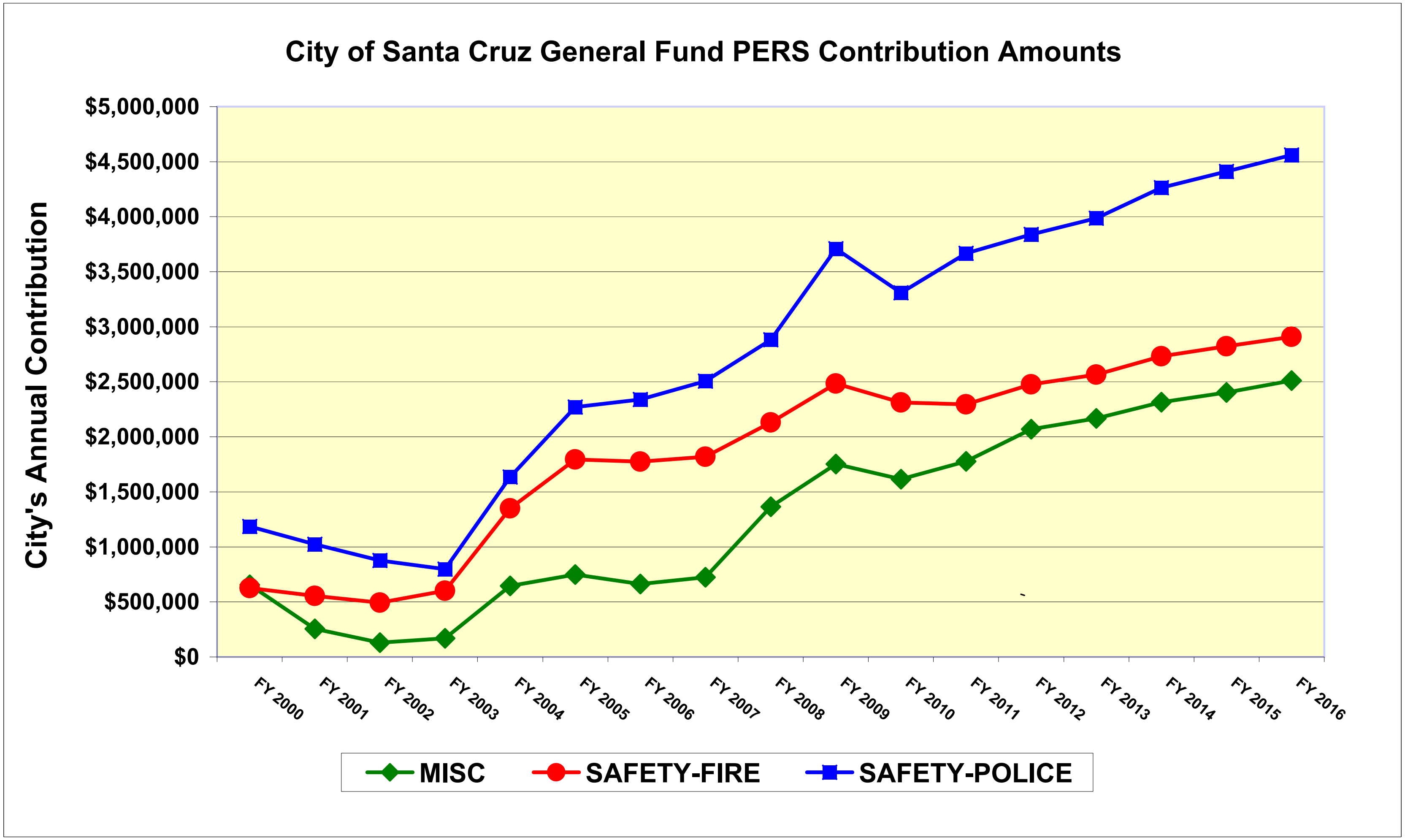
- Many public agencies enhanced their pension benefits during the stock market boom and the strong economy of the late 1990s. Local government agencies enhanced retirement benefits during this time in order to remain competitive after the State authorized enhanced benefits and because many CalPERS plans were not making any employer contributions at the time.

- Costs to public agencies have increased significantly due to enhanced benefits, and the economic recession that resulted in significant losses in investment returns will increase costs even more.

What Can Be Done To Control Public Retirement Benefit Costs?

- Many local governments have discussed and are committed to moving toward a modified-benefit plan that is more sustainable.

**** Source: Santa Clara and San Mateo Counties – Two-County Study***



City of Santa Cruz PERS Employer Contribution Rates

GROUP	FY 2000	FY 2001	FY 2002	FY 2003	'FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
													[--------------------	---Estimated---	------------	------------	-----]
Misc	0.055	0.020	0.008	0.009	0.050	0.105	0.093	0.128	0.134	0.132	0.128	0.134	0.140	0.144	0.151	0.154	0.158
Safety-Fire	0.198	0.160	0.128	0.146	0.295	0.393	0.382	0.388	0.397	0.410	0.411	0.398	0.408	0.415	0.434	0.440	0.445
Safety-Police	0.202	0.179	0.154	0.123	0.241	0.328	0.326	0.326	0.351	0.375	0.363	0.356	0.366	0.373	0.392	0.398	0.404

Note: The above graph does not include Employee cost share

Attachment C

MEMORANDUM **City of Seaside**

Office of the City Manager

Date: February 24, 2010

To: Monterey Bay Area Managers' Group

From: Ray Corpuz, City Manager

Subject: **Pension Reform Final Draft**

The following represents an overview of the Monterey Bay Area Managers' Group (MBAMG) position on State pension reform.

Please review and let me know of any final changes. I will then forward the final memorandum to the Monterey County Mayors' Association.

The MBAMG has spent time over the last year discussing the high costs of retirements for our respective cities. The Managers' conducted a survey on pensions for cities within Monterey County in October 2009. The following is a summary of the results.

- Most cities are at 3% @ 50 for Safety employees.
- Most cities are at 2% @ 55 for Miscellaneous employees.
- Most cities use the top year rather than the three year average.
- Most cities either pay all or a portion of the employee costs for both Safety and Miscellaneous.
- Only three of the responding cities ask their employees to cover all their costs.

For Non-Safety employees, CalPERS offers the following retirement formulas and the agency determines which it provides to its employees.

- 3.0% at 60
- 2.7% at 55
- 2.5% at 55
- 2.0% at 55
- 2.0% at 60
- 1.5% at 65

For Safety employees (Fire and Police), CalPERS offers the following retirement formulas.

- 3.0% at 50
- 3.0% at 55
- 2.0% at 50 (but it tops out at 2.7% at 55)
- 2.0% at 55

It is interesting to look at which formulas other agencies statewide are providing for their employees. The following table lists the formula and the percentage of members from agencies in CalPERS that receive that specific formula.

Non-Safety Formula	Percentage receiving that Formula
3.0% at 60	13%
2.7% at 55	25%
2.5% at 55	24%
2.0% at 55	34%
2.0% at 60	4%
1.5% at 65	0%
Safety Formula	Percentage receiving that Formula
3.0% at 50	81%
3.0% at 55	12%
2.0% at 50	6%
2.0% at 55	1%

You might recall that the standard formulas prior to 1999, when SB 400 went into effect, was 2.0% at 55 or 2.0% at 60 for Non-Safety employees and 2.0% at 50 or 2.0% at 55 for Safety employees. SB 400 was the state legislation that allowed CalPERS to offer enhanced benefit retirement plans.

Pensions for current employees are vested benefits. Government agencies cannot reduce pensions for current employees under current State law.

Pension formulas for future employees can be changed by:

- Forwarding legislation from the State that reduces the benefit;
- The voters passing a bill by ballot measure that reduces the benefit;
- Agreements with labor groups to reduce pension formulas; or
- Employees contributing to the employer's share of the PERS retirement contribution.

Because of the high and rising cost of retirement benefits, the Managers' Group prepared the attached guiding principles for regional pension reform. There is growing consensus among City Managers in the state that the ballooning costs of pensions represent a fiscal threat to our communities. This must be addressed.

Our obligation as City Managers is to educate our City Councils and communities about the escalating pension problem in California.. Statewide reform may not be possible. We cannot just sit and wait. Regional efforts and solutions should be pursued. Otherwise, cities may have to suffer the consequences. There are at least 18 counties where cities are active in discussions on regional pension reform, including San Diego, Santa Clara, San Mateo, and the Central Coast area.

The City Managers' Department Pension Reform Committee has updated the League's 2005 white paper on pension reform and presented it to the Employee Relations Policy Committee for consideration. However, the League will focus its efforts on its revenue protection measure.

Recent PERS losses will cause employer rates to increase significantly by 10-15% in the next two years and stay high for the next ten years.

Cities are concerned about the ability to attract and retain quality employees. Therefore, it is valuable to have all agencies in the County agree to the principles of pension reform and work together toward the goal of pension sustainability by reducing pension costs.

It is clear if we are supporting a second tier retirement formula, immediate savings will not be realized. However, the savings can be significant in the long term.

RC:bc

Attachment

Guiding Principles

- Provide fiscal policies that preserve local government's ability to meet community needs while attracting competent and motivated employees to public service.
- Provide adequate retirement benefits to attract and retain public employees. This continues to be an issue, as demographically, there are fewer young people entering the public sector.
- Current retirement benefit formulas are not fiscally sustainable. The costs are rising beyond our ability to fund them and diverting limited resources from direct service delivery to our communities. In addition, current pension benefits exceed what private sector employees receive and what is reasonably needed to attract public employees.
- Ideally, this situation would be addressed at a statewide level and there would be consistent standards for all. However; we cannot afford to wait for a statewide solution. Therefore, the cities of Monterey County support implementation of a reduced and sustainable level of retirement benefits for all new employees of cities in the County of Monterey.
- Each city has different histories, perspective, and fiscal conditions. All cities in the region compete for the same employees and should therefore move in the same direction to a lower-cost benefit.
- Each city has the legal duty to meet and confer in good faith with its recognized bargaining unit representatives concerning changes to existing terms and conditions of employment.
- Every city is committed to moving toward a two-tier system for all new contracts.
- Any new system or tier should be fair to employees, sustainable for taxpayers and employers, and based on objective actuarial data.

The Monterey Bay Area Managers' Group supports the guiding principles for a revised pension plan and their members pledge to work with their elected officials and labor groups to implement its philosophy.

Further, we pledge to work with other City Managers across the state and the League of California Cities to advocate for changes consistent for a revised pension system.

Attachment E

SUMMARY OF RETIREMENT REFORM PROPOSALS OFFERED BY STATE AND REGIONAL ORGANIZATIONS*

ORGANIZATION	PROPOSED RATES FOR SAFETY EMPLOYEES	PROPOSED RATES FOR MISCELLANEOUS EMPLOYEES	OTHER NOTES
League of California Cities City Managers Department	2% at 55 formula offset by 50% of the anticipated Social Security benefits for safety employees with Social Security coverage. Safety employees retain the current cap on retirement at 90% of final compensation	2% at 60 formula offset by 50% of the anticipated Social Security benefits for miscellaneous employees with Social Security coverage.	1. A three-year average for final compensation calculations. All highest final-year compensation calculations would be repeated for newly hired employees. 2. Current employees shall participate in the funding of pensions in all cities. 3. Eliminate options to purchase service credits for the time not spent in direct public service.
Santa Clara County/City Managers Association and the San Mateo City Managers Association	Recommended guiding principles for pension reform but no rate recommendation provided.	Recommended guiding principles for pension reform but no rate recommendation provided.	
Marin Managers Association	2% at 50 formula.	2% at 60 formula.	Utilizes average of highest three-years formula.

ORGANIZATION	PROPOSED RATES FOR SAFETY EMPLOYEES	PROPOSED RATES FOR MISCELLANEOUS EMPLOYEES	OTHER NOTES
San Diego City/County Managers Association	2% at 50 formula.	2% at 60 formula.	Utilizes average of highest three-years formula.
San Joaquin City Managers Group	2.5% at 55 formula offset by 50% of Social Security where it is provided.	2% at 60 formula offset by 50% of Social Security where it is provided.	1. Utilizes average of highest three-years formula. 2. Employees must contribute at least 5% of salary to pension. 3. Employer-paid member contribution (EPMC) prohibited as PERSable wages. 4. Maximum COLA is 3% of benefits paid to retirees.
Contra Costa and Alameda County Managers Association	For formulas for new-hire safety employees they utilized 2% at 50 formula.	For miscellaneous employees 2% at 60 formula.	Recommended that existing employees in all agencies should be required to contribute some portion to the PERS benefit.

**** Sources: Combined Survey from the City of Fairfield and League City Manager List Serve***

Attachment F

Office of the Governor   ARNOLD SCHWARZENEGGER
THE PEOPLE'S GOVERNOR

PRESS RELEASE

06/16/2010   GAAS:367:10   FOR IMMEDIATE RELEASE

Gov. Schwarzenegger Announces Contract Agreements with Four State Employee Unions

Significant Reforms Include Rolling Back 1999 Pension Increases and Requiring At Least 10 Percent Employee Pension Contributions

Governor Arnold Schwarzenegger today announced tentative contract agreements with four state employee unions that include significant first steps toward pension reform and reining in the state's growing pension costs. The agreements roll back the expansion of pension benefits adopted in SB 400 in 1999 and will move pension contributions for all employees in the four unions to a minimum of 10 percent, among the highest employee contribution levels in the nation.

"I am absolutely committed to getting pension reform done because we cannot continue down this unsustainable path that has taxpayers on the hook for $500 billion in debt," said Governor Schwarzenegger. "I applaud these four unions for stepping up and taking these first steps in helping to reform our state's out-of-balance pensions and I encourage other public employee unions to negotiate on behalf of their members and California taxpayers. I will continue to fight for taxpayers and work with any union that comes forward and is ready to negotiate reforms."

The four union agreements include a major step towards pension reform in rolling back retirement formulas used to calculate pension payments for new employees by:

· Requiring new employees to work additional years to receive full benefits
· Basing final retirement compensation on the highest three years of wages instead of the highest year, ending pension "spiking" in the last year of work
· Increasing the amount employees must contribute toward their retirement to a minimum of 10 percent

The current formulas, negotiated under the prior administration and enacted into law by the legislature in 1999, have been responsible for driving up the state's unfunded pension liability and creating unsustainable pension benefits. Just today, California Public Employees' Retirement System (CalPERS) voted to increase the state's required contributions towards pensions by an estimated $600 million in fiscal year 2010-11. .

In addition to the pension changes, unions agreed to the Governor's proposed employee compensation savings for next year in his January budget proposal. On top of agreeing to increased employee pension contributions, unions agreed to one day of unpaid personal leave per month during fiscal year (FY) 2010-11, the equivalent of just under a 5 percent pay cut. The Administration is already moving forward with the remaining five percent reduction in the cost of the state workforce payroll through Executive Order S-01-10, which requires all department directors to reduce their payrolls by 5 percent. These agreements are projected to save the state $72 million in FY 2010-11. If similar agreements are reached with the state's eight other employee unions, state savings in FY 2010-11 would total $2.2 billion, $1.2 billion General Fund.

The Governor's Administration will continue to negotiate in good faith with the unions on all aspects of the pension reform measures. However, Governor Schwarzenegger has indicated he will not sign a budget without four elements of pension reform that must be done legislatively separate and apart from any memorandums of understanding:

1. Roll back the expansion of pension benefits adopted in Senate Bill 400 (Chapter 555, Statutes of 1999) for all new hires upon adoption by the legislature.
2. Permanent five percent increase in employee pre-tax contribution toward retirement benefits.
3. Calculate the retirement rate based on the highest three years of wages during employment instead of the highest single year.
4. Require CalPERS's chief actuary to submit a report to the legislature describing how contributions would change if a lower investment return was assumed and the impact on future state budgets if CalPERS fails to achieve its assumed investment return, and have that report evaluated by a qualified third party.

The tentative agreements announced today cover 23,000 employees represented by the California Association of Highway Patrolmen (CAHP), California Department of Forestry Firefighters (CDFF), California Association of Psychiatric Technicians (CAPT) and American Federation of State, County and Municipal Employees (AFSCME).

All four agreements would require current and future employees to pay more of their own money into the pension plan, which reduces the state's costs. For the Miscellaneous category, employees' contribution would increase from 5 to 10 percent of pay; for the Safety category, it would increase from 6 to 11 percent; for the Firefighters, it would increase from 6 to 10 percent; and for the CHP officers, it would increase from 8 to 10 percent. In addition, the CHP officers agreed that in 2013 they will resume pre-funding their members' retiree health benefits in an amount equal to 2 percent of their pay. Their union was the first to begin pre-funding retiree health benefits in an amendment to their contract last year.

The CAHP agreement is for July 3, 2010 to July 3, 2013. The CDFF agreement is for July 1, 2010 to July 1, 2013. The agreements with CAPT and AFSCME would run from July 1, 2010 to June 30, 2012. The agreements are subject to ratification by union members and the legislature.

Attachment G

CITY OF SANTA CRUZ

City of Santa Cruz

BARTEL ASSOCIATES, LLC

CalPERS Actuarial Issues
6/30/08 Valuation

June 2010

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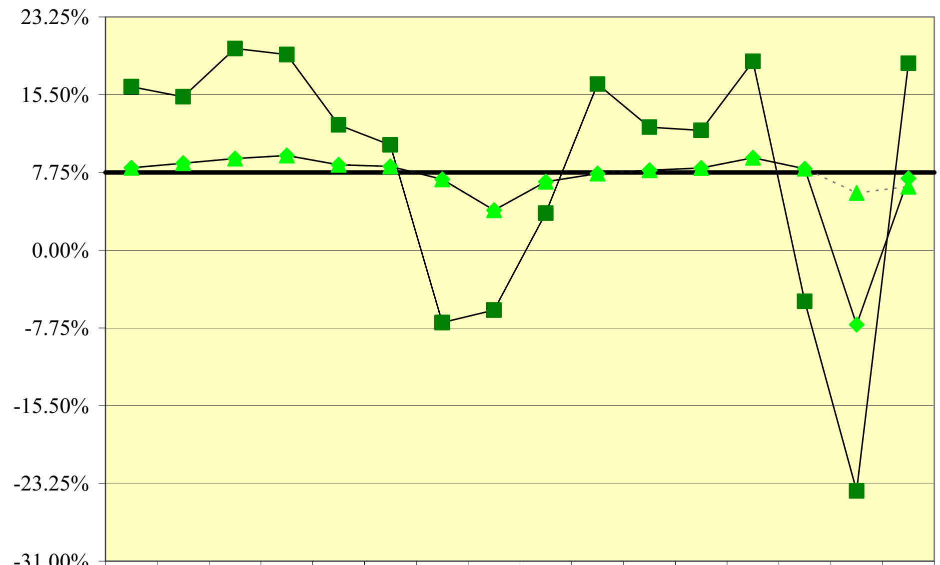
INTRODUCTION

The City of Santa Cruz retained Bartel Associates to provide actuarial consulting services. The following Executive Summary provides the City analysis of their CalPERS Safety and Miscellaneous pension plans. This analysis is designed to assist the City in evaluating their current funding situation.

It may be helpful to first review the summary of basic definitions starting on page 21.

CalPERS Historical Investment Return

The following chart illustrates CalPERS market and actuarial value investment returns over the past several years:



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
AVA Modified	8.2%	8.7%	9.1%	9.4%	8.5%	8.3%	7.1%	4.0%	6.8%	7.6%	8.0%	8.2%	9.2%	8.1%	5.7%	6.3%
MVA Rate	16.3%	15.3%	20.1%	19.5%	12.5%	10.5%	-7.2%	-6.0%	3.7%	16.6%	12.3%	11.9%	18.8%	-5.1%	-24.0	18.6%
AVA Unmodified	8.2%	8.7%	9.1%	9.4%	8.5%	8.3%	7.1%	4.0%	6.8%	7.6%	8.0%	8.2%	9.2%	8.1%	-7.4%	7.2%

The 2010 return shown is estimated based on CalPERS February 28, 2010 published rates of 12.0% and additional gain of 4.0% through March 31, 2010 and 7.75% to June 30, 2010. CalPERS' 10 year average annual return is 3.1%.

The chart shows three lines, AVA Modified (Actuarial Value of Assets with CalPERS recent smoothing modification), MVA (Market Value of Assets) Rate and AVA Unmodified (Actuarial Value of Assets based on CalPERS smoothing method prior to recent asset smoothing modification). The MVA Rate is the investment return CalPERS' assets actually earned during the respective fiscal year ends, while the AVA shows the investment return as a smoothed rate reflecting asset gains and losses over a period of time, rather than immediately. The actuarial value of asset investment return directly affects City contribution rates.

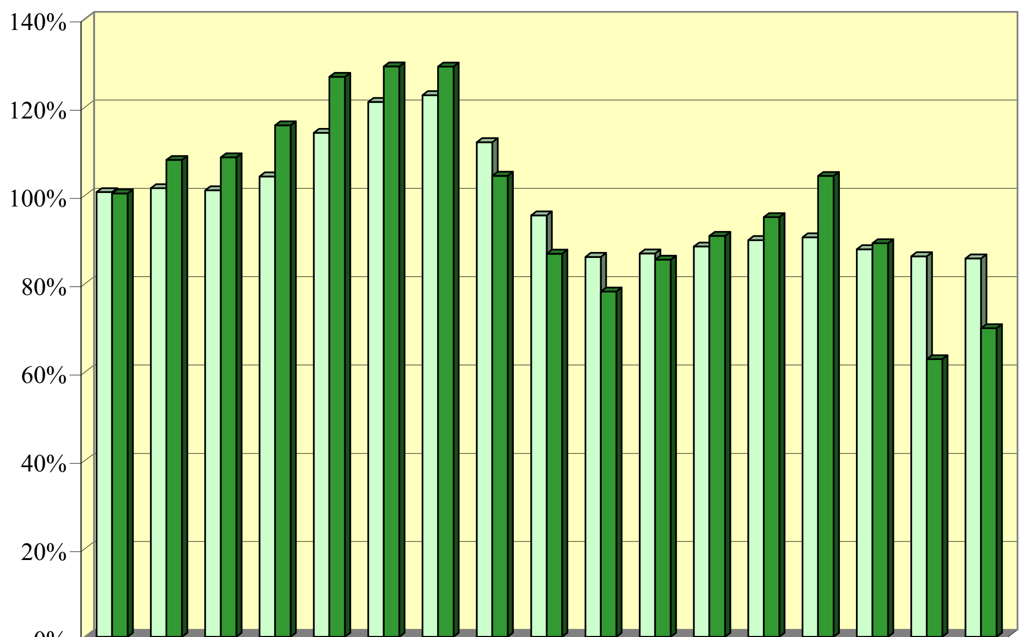
The chart indicates a -24.0% June 30, 2009 year end investment return. This compares to an expected return of +7.75%, for a net loss of 31.8%. This loss would have a significant impact on the City's 2011/12 Miscellaneous and Safety contribution rates. However, CalPERS smoothes asset gains and losses using a technique that generally recognizes one fifteenth of market asset gains or losses in a given year. In addition, the smoothing method does not allow the smoothed (actuarial) value to be less than 80% or more than 120% of the market value (the 80-120% corridor). To mitigate the economic impact of the June 30, 2009 market decline, on June 13, 2009, CalPERS' Board approved a modification to the corridor, increasing it to 140% for the June 30, 2009 valuation and to 130% for June 30, 2010 valuation. The corridor will return to 120% for the June 30, 2011 and subsequent valuations. Complicating matters a bit is that each CalPERS valuation determines agency contribution rates two years later (for example, the June 30, 2009 valuation determines fiscal year 2011/12 contribution rates. The anticipated impact of the smoothing modifications are discussed in the Miscellaneous and Safety sections below.

Miscellaneous Plan

The City provides CalPERS 2.0%@55 benefit formula for the Miscellaneous employees.

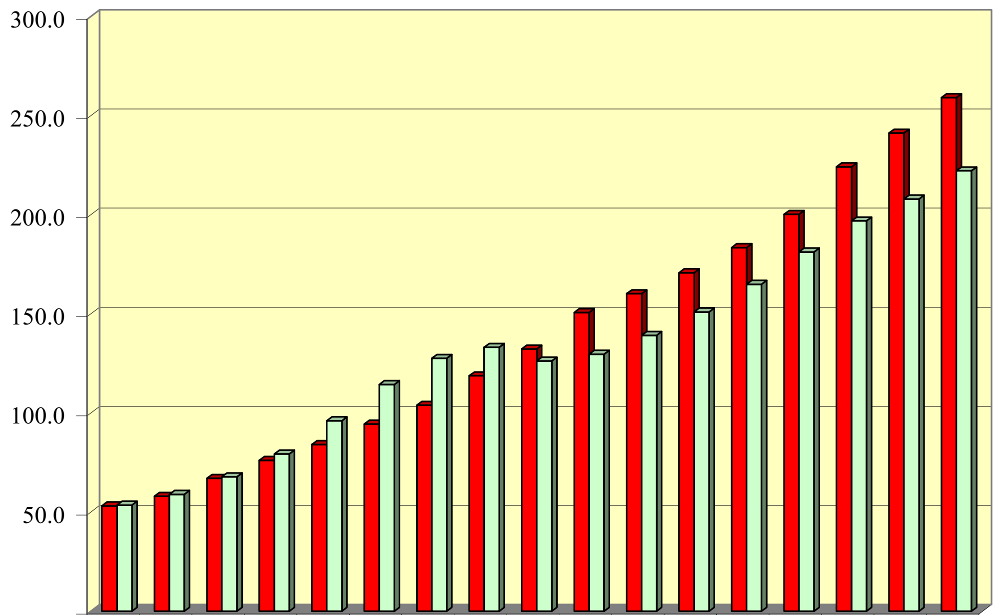
Funded Status

The following two charts show the City's Miscellaneous Plan's funded status. The first chart displays the funded status as a percentage of Actuarial Value of Assets and Market Value of Assets; the second chart compares the Actuarial Accrued Liability to the Actuarial Value of Assets (amount in millions). Note that the 6/30/09 and 6/30/10 asset values are estimated.



	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Funded Ratio - AVA	101%	102%	101%	104%	114%	121%	123%	112%	95%	86%	87%	88%	90%	91%	88%	86%	86%
Funded Ratio - MVA	100%	108%	109%	116%	127%	129%	129%	104%	87%	78%	85%	91%	95%	104%	89%	63%	70%

Having assets equal to Actuarial Liability should be viewed as a target. While this is an appropriate measuring stick, it is expected that assets will move above and sometimes below the actuarial liability. The funding percentage is subject to annual fluctuations based on numerous factors including asset and actuarial (non-asset) gains and losses, and will only become a concern if the plan is consistently under-funded or runs the risk of not being able to pay benefits.



	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Actuarial Liability	53.2	58.0	67.0	76.1	84.2	94.4	103.9	118.8	132.3	150.7	160.2	170.7	183.4	200.2	224.2	241.2	259.1
Actuarial Asset Value	53.6	59.0	67.8	79.4	96.1	114.4	127.5	133.2	126.3	129.7	139.1	151.0	164.9	181.2	196.9	207.9	222.1

The recent investment downturn will have significant impact on the plan's funded status. The following table shows the estimated market value investment losses for the Miscellaneous Plan from June 30, 2008 through June 30, 2010. The Actuarial asset "reserve" is the percent of market assets above actuarial value of assets. The market value of assets experienced a 31.8% loss from what is expected. This loss will be reflected in the June 30, 2009 funded status. Likewise, a projected 10.9% gain in assets for June 30, 2010. Summing these gains and losses together gives an estimated unrecognized loss.

■ Actuarial asset "reserve" at 6/30/08	1.5%
■ June 30, 2009 [-24.0% compared to 7.75%]	-31.8%
■ June 30, 2010 [18.6%compared to 7.75%]	10.9%
■ Total estimated % loss through June 30, 2010	-19.4%
■ Total estimated unrecognized loss [-19.4% x $200]	$-38.7 million

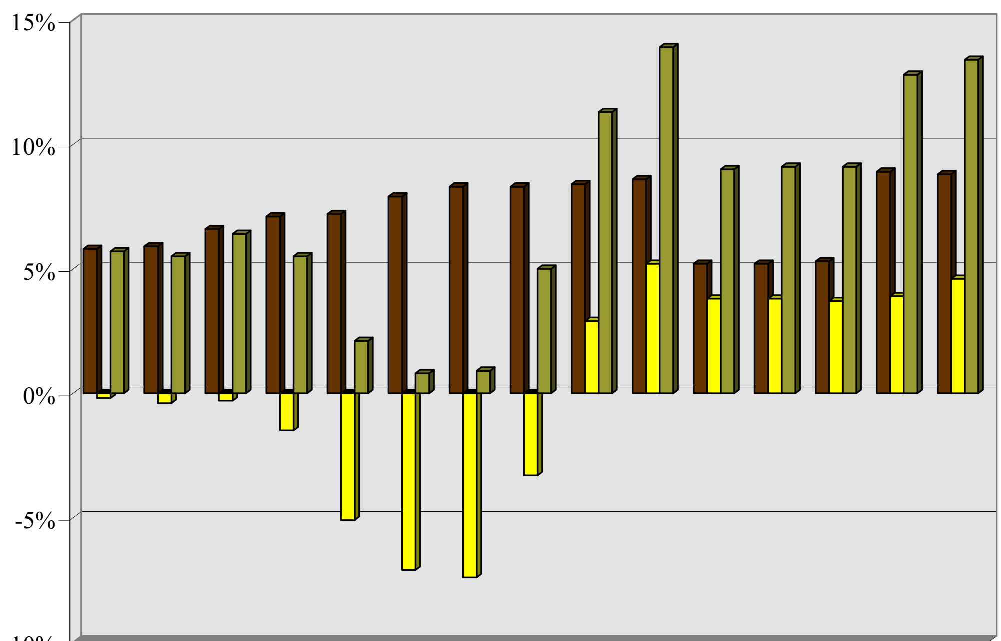
The estimated $38.7 million unrecognized loss will eventually increase the current unfunded actuarial liability (UAL). The following table shows the UAL at June 30, 2007 and

June 30, 2008, projected to June 30, 2010 and June 30, 2040 (in millions), using CalPERS gains/losses amortization method.

			Projected	
	6/30/07	6/30/08	6/30/10	6/30/40
■ UAL	$ 19.0	$ 27.3	$ 28.0	$ 27.3
■ Investment losses 08/09			60.5	78.7
■ Investment gain 09/10[1]			(21.8)	(28.3)
■ Total			66.7	77.7

Contribution Rates

The following chart shows historical contribution rates for the City's Miscellaneous Plan over the past several years:



	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Normal Cost	5.8%	5.9%	6.6%	7.1%	7.2%	7.9%	8.3%	8.3%	8.4%	8.6%	5.2%	5.2%	5.3%	8.9%	8.8%
UAL Amort	-0.2%	-0.4%	-0.3%	-1.5%	-5.1%	-7.1%	-7.4%	-3.3%	2.9%	5.2%	3.8%	3.8%	3.7%	3.9%	4.6%
Total	5.7%	5.5%	6.4%	5.5%	2.1%	0.8%	0.9%	5.0%	11.3%	13.9%	9.0%	9.1%	9.1%	12.8%	13.4%

[1] Ignores future gains & losses (after June 30, 2010) and asset smoothing, and assumes continuance of 30-year rolling amortization method.

The years in the above table reflect CalPERS valuation dates, which determine the City's contribution rates two years later. For example 2008 reflects CalPERS June 30, 2008 valuation which determines the City's 2010/11 contribution rates.

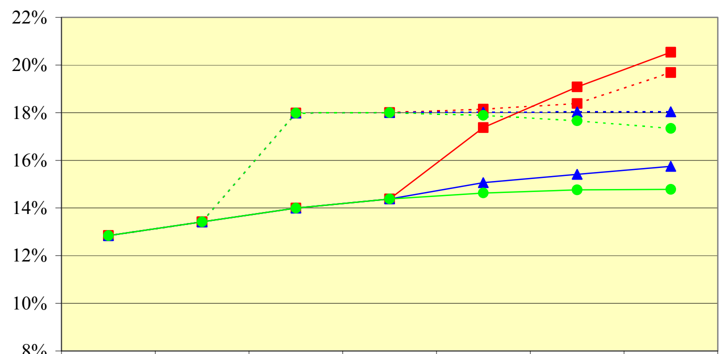
In October 2009, CalPERS completed its June 30, 2008 valuation cycle. The following table shows the contribution rates for the 2009/10 and 2010/11 fiscal years.

■ Valuation	**6/30/07**	**6/30/08**
■ Contribution Year	**2009/2010**	**2010/2011**
■ Normal cost	8.9%	8.8%
■ Amortization bases:		
● Method Change	-0.2%	-0.1%
● (Gain)/Losses	1.5%	2.3%
● Assumption Change	2.2%	2.0%
● Benefit Change	0.4%	0.4%
● Sub-total	3.9%	4.6%
■ Total	12.8%	13.4%

Projected Contribution Rates

CalPERS' actual investment return will significantly impact future City contribution rates. The following chart shows the City's projected contribution rates assuming future (6/30/10 and beyond) investment returns will average 0.4% - 4.3%, 7.75% and 11.8% - 15.3% (the 75th, 50th and 25th confidence limits[2]) respectively. The projections use an estimated 18.6%[3] return for June 30, 2010. This assumes no future benefit increases or Tier 2 implementation to the City's retirement plans.

Investment Return Varies



	09/10	10/11	11/12	12/13	13/14	14/15	15/16
Unmodified AVA - 75th	12.8%	13.4%	18.0%	18.0%	18.1%	18.4%	19.7%
Unmodified AVA - 50th	12.8%	13.4%	18.0%	18.0%	18.0%	18.0%	18.0%
Unmodified AVA - 25th	12.8%	13.4%	18.0%	18.0%	17.9%	17.7%	17.3%
Modified AVA - 75th	12.8%	13.4%	14.0%	14.4%	17.4%	19.1%	20.5%
Modified AVA - 50th	12.8%	13.4%	14.0%	14.4%	15.1%	15.4%	15.8%
Modified AVA - 25th	12.8%	13.4%	14.0%	14.4%	14.6%	14.8%	14.8%

The graph above projects future contribution rates under both CalPERS' modified and unmodified asset smoothing methods. As mentioned in Page 2 of this report, last year CalPERS' Board approved a modification to increase the corridor used in the actuarial value assets to 140% for the June 30, 2009 valuation and to 130% for the June 30, 2010 valuation. As illustrated above, the asset loss of fiscal year 2008/09 is deferred for several years under the modified asset smoothing method. This will give the economy time to recover while allowing the City proper time to plan for the increases contribution rates.

On April 21, 2010, CalPERS' Board of Administration adopted updated actuarial assumption based on a recently completed experience study. The above projections do not reflect the new assumption. The assumption changes will likely increase the above projections by 1%-2% beginning with 2011/12.

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2 Investment Return will exceed the confidence limit by the given probability

3 Based on CalPERS 2/28/10 published rate of return of 12.0%, an additional gain of 4.0% through 3/31/10 and 7.75% to 6/30/10.

Police Safety Plan

The City participates in CalPERS 3%@50 risk pool for Police Safety employees.

Contribution Rates

In October 2009, CalPERS completed its June 30, 2008 valuation cycle. The following table shows the Police Safety Plan's contribution rates for the 2009/10 and 2010/11 fiscal years. The Police Safety Plan belongs to the 3% @ 50 risk pool.

	6/30/07 2009/2010	6/30/08 2010/2011
■ Employer Contribution Required		
● Normal Cost		
➢ Pool Rate	15.6%	15.7%
➢ Surcharge for Class 1 Benefits	2.7%	2.7%
➢ Phase out of Normal Cost Difference	-0.2%	0.0%
➢ Subtotal	18.1%	18.4%
● Amortization Bases		
➢ Risk Pool's Payment on Bases	1.7%	2.5%
➢ Amortization of Side Fund	16.6%	14.7%
➢ Subtotal	18.3%	17.2%
● **Total Employer Contribution**	**36.3%**	**35.6%**

Side Funds

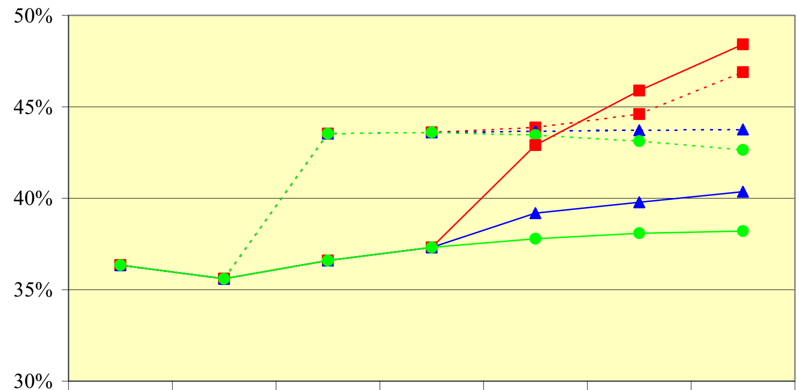
A side fund was set up when CalPERS implemented Risk Pools as part of the June 30, 2003 valuation to account for the City UAL plan's at that time. The side funds June 30, 2008 balance was $12,933,123 and the 2010/11 fiscal year payment will be $1,399,366. There are 12 years of payments remaining. Below is a table displaying future payments and Side Fund balance.

Contribution Year	Payment	Remaining Balance	Balance Date
2010/11	$1,399,366	$12,933,123	6/30/08
2011/12	$1,444,846	$12,482,860	6/30/09
2012/13	$1,491,803	$11,950,493	6/30/10
2013/14	$1,540,287	$11,328,124	6/30/11
2014/15	$1,590,346	$10,607,194	6/30/12
2015/16	$1,642,033	$9,778,429	6/30/13
2016/17	$1,695,399	$8,831,783	6/30/14
2017/18	$1,750,499	$7,756,377	6/30/15
2018/19	$1,807,390	$6,540,430	6/30/16
2019/20	$1,866,130	$5,171,194	6/30/17
2020/21	$1,926,780	$3,634,868	6/30/18
2021/22	$1,989,400	$1,916,521	6/30/19
2022/23	$0	$0	6/30/20

Projected Contribution Rates

CalPERS' actual investment return will significantly impact future City contribution rates. The following chart shows the City's projected contribution rates assuming future (6/30/10 and beyond) investment returns will average 0.4% - 4.3%, 7.75% and 11.8% - 15.3% (the 75th, 50th and 25th confidence limits[4]) respectively. The projections use an estimated 18.6%[5] return for June 30, 2010. This assumes no future benefit increases or Tier 2 implementation to the City's retirement plans.

Investment Return Varies



	09/10	10/11	11/12	12/13	13/14	14/15	15/16
Unmodified AVA - 75th	36.3%	35.6%	43.5%	43.6%	43.9%	44.6%	46.9%
Unmodified AVA - 50th	36.3%	35.6%	43.5%	43.6%	43.7%	43.7%	43.8%
Unmodified AVA - 25th	36.3%	35.6%	43.5%	43.6%	43.4%	43.1%	42.6%
Modified AVA - 75th	36.3%	35.6%	36.6%	37.3%	42.9%	45.9%	48.4%
Modified AVA - 50th	36.3%	35.6%	36.6%	37.3%	39.2%	39.8%	40.4%
Modified AVA - 25th	36.3%	35.6%	36.6%	37.3%	37.8%	38.1%	38.2%

The above graph projects future contribution rates under both CalPERS' modified and unmodified asset smoothing methods. As mentioned in Page 2 of this report, last year CalPERS' Board approved a modification to increase the corridor used in the actuarial value assets to 140% for the June 30, 2009 valuation and to 130% for the June 30, 2010 valuation. As illustrated above, the asset loss of fiscal year 2008/09 is deferred for several years under the modified asset smoothing method. This will give the economy time to recover while allowing the City proper time to plan for the increases contribution rates.

On April 21, 2010, CalPERS' Board of Administration adopted updated actuarial assumption based on a recently completed experience study. The above projection does not reflect the new assumption. The assumption charges will likely increase the above projections by 1-2 percentage points beginning with 2011/12 rates.

[4] Investment Return will exceed the confidence limit by the given probability

[5] Estimate based on CalPERS 2/28/10 published rate of return of 12.0%, an additional gain of 4.0% through 3/31/10 based on CalPERS market value from the website and 7.75% thereafter.

Fire Safety Plan

The City participates in CalPERS 3%@50 risk pool for Fire Safety employees.

Contribution Rates

In October 2009, CalPERS completed its June 30, 2008 valuation cycle. The following table shows the Fire Safety Plan's contribution rates for the 2009/10 and 2010/11 fiscal years. The Fire Safety Plan belongs to the 3% @ 50 rick pool.

	6/30/07 2009/2010	6/30/08 2010/2011
■ Employer Contribution Required		
● Normal Cost		
➢ Pool Rate	15.6%	15.7%
➢ Surcharge for Class 1 Benefits	2.7%	2.7%
➢ Phase out of Normal Cost Difference	-0.1%	0.0%
➢ Subtotal	18.2%	18.4%
● Amortization Bases		
➢ Risk Pool's Payment on Bases	1.7%	2.5%
➢ Amortization of Side Fund	21.2%	18.9%
➢ Subtotal	22.9%	21.4%
● **Total Employer Contribution**	**41.1%**	**39.8%**

Side Funds

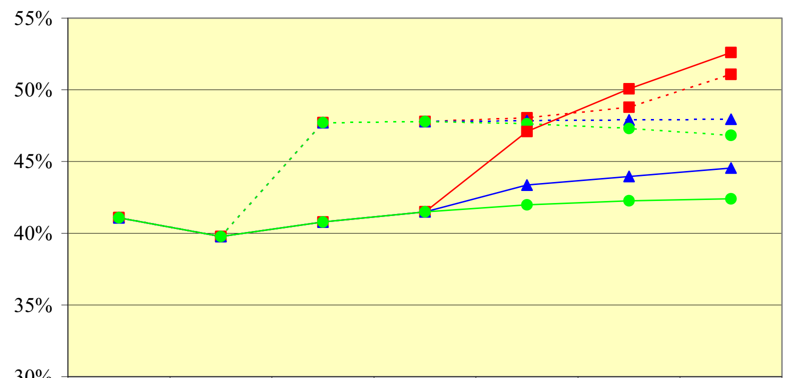
A side fund was set up when CalPERS implemented Risk Pools as part of the June 30, 2003 valuation to account for the City UAL plan's at that time. The side funds June 30, 2008 balance was $10,418,902 and the 2010/11 fiscal year payment will be $1,127,327. There are 12 years of payments remaining. Below is a table displaying future payments and Side Fund balance.

Contribution Year	Payment	Remaining Balance	Balance Date
2010/11	$1,127,327	$10,418,902	6/30/08
2011/12	$1,163,965	$10,056,171	6/30/09
2012/13	$1,201,794	$9,627,297	6/30/10
2013/14	$1,240,853	$9,125,917	6/30/11
2014/15	$1,281,180	$8,545,137	6/30/12
2015/16	$1,322,819	$7,877,486	6/30/13
2016/17	$1,365,810	$7,114,869	6/30/14
2017/18	$1,410,199	$6,248,524	6/30/15
2018/19	$1,456,031	$5,268,960	6/30/16
2019/20	$1,503,352	$4,165,905	6/30/17
2020/21	$1,552,210	$2,928,243	6/30/18
2021/22	$1,602,657	$1,543,946	6/30/19
2022/23	$0	$0	6/30/20

Projected Contribution Rates

CalPERS' actual investment return will significantly impact future City contribution rates. The following chart shows the City's projected contribution rates assuming future (6/30/10 and beyond) investment returns will average 0.4% - 4.3%, 7.75% and 11.8% - 15.3% (the 75th, 50th and 25th confidence limits[6]) respectively. The projections use an estimated 18.6%[7] return for June 30, 2010. This assumes no future benefit increases or Tier 2 implementation to the City's retirement plans.

Investment Return Varies



	09/10	10/11	11/12	12/13	13/14	14/15	15/16
Unmodified AVA - 75th	41.1%	39.8%	47.7%	47.8%	48.1%	48.8%	51.1%
Unmodified AVA - 50th	41.1%	39.8%	47.7%	47.8%	47.8%	47.9%	47.9%
Unmodified AVA - 25th	41.1%	39.8%	47.7%	47.8%	47.6%	47.3%	46.8%
Modified AVA - 75th	41.1%	39.8%	40.8%	41.5%	47.1%	50.1%	52.6%
Modified AVA - 50th	41.1%	39.8%	40.8%	41.5%	43.4%	44.0%	44.5%
Modified AVA - 25th	41.1%	39.8%	40.8%	41.5%	42.0%	42.3%	42.4%

The above graph projects future contribution rates under both CalPERS' modified and unmodified asset smoothing methods. As mentioned in Page 2 of this report, last year CalPERS' Board approved a modification to increase the corridor used in the actuarial value assets to 140% for the June 30, 2009 valuation and to 130% for the June 30, 2010 valuation. As illustrated above, the asset loss of fiscal year 2008/09 is deferred for several years under the modified asset smoothing method. This will give the economy time to recover while allowing the City proper time to plan for the increases contribution rates.

On April 21, 2010, CalPERS' Board of Administration adopted updated actuarial assumption based on a recently completed experience study. The above projection does not reflect the new assumption. The new assumption will likely increase the above projection by 1-2 percentage points beginning with 2011/12 rates.

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6 Investment Return will exceed the confidence limit by the given probability

7 Estimate based on CalPERS 2/28/10 published rate of return of 12.0%, an additional gain of 4.0% through 3/31/10 based on CalPERS market value from the website and 7.75% thereafter.

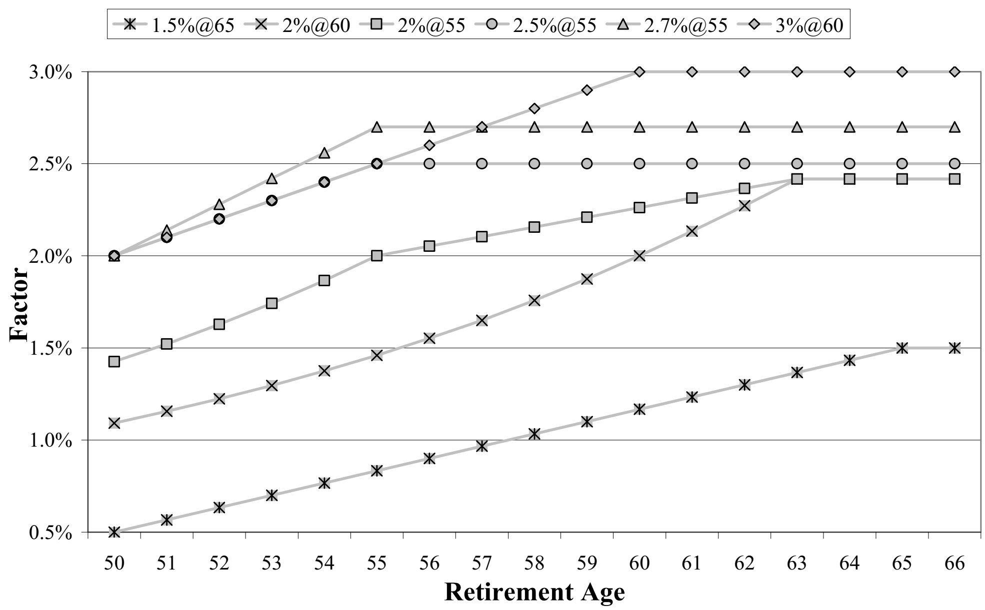
Implication of a Second Benefit Tier

For purposes of this report we have assumed employees hired on and after July 1, 2010 would be placed into a second tier (Tier 2) providing lower pension benefits. For current employees (Tier 1), benefits would remain the same. Contribution calculations would then be calculated on benefits depending on which tier they belong. However, it is important to note that moving new employees into a different benefit level has no impact on existing unfunded liabilities; it only impacts the level of benefit future employees would earn. This means that the amortization of any unfunded liability component of the contribution rate would remain the same for Tier 2 as it is for Tier 1, but the Normal Cost component of the contribution rate would be lower. As Tier 2 grows, and Tier 1 is closed, the cost for Tier 1 will decrease (as a dollar amount) and the replacement cost of the new Tier 2 participants would be less than if they had been in the current Tier 1 plan. This results in deceasing City contributions as a percent of payroll.

The following two pages show the CalPERS benefit factor comparison for Miscellaneous and Safety Plans.

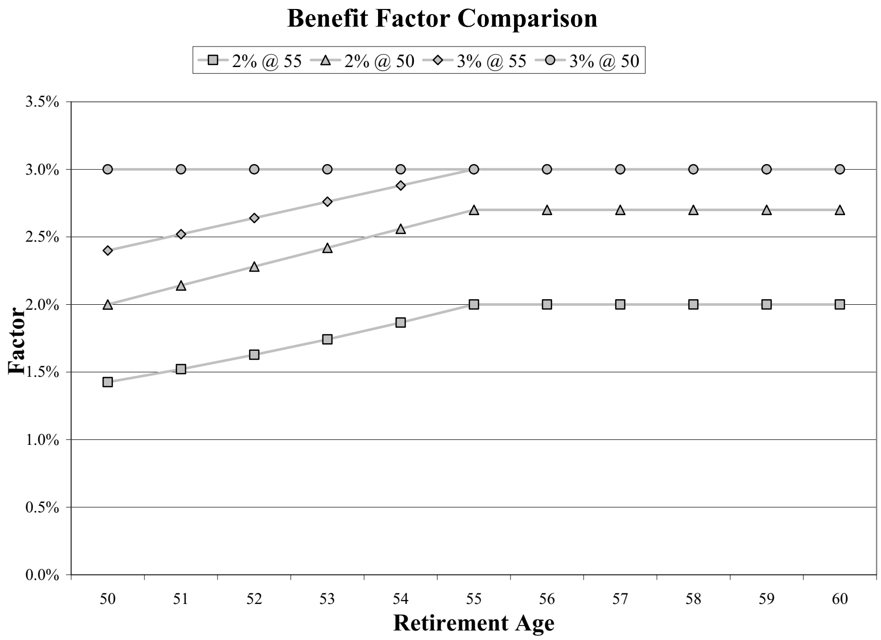
Miscellaneous

Benefit Factor Comparison



Age	1.5%@65	2%@60	2%@55	2.5%@55	2.7%@55	3%@60
50	0.500%	1.092%	1.426%	2.000%	2.000%	2.000%
51	0.567%	1.156%	1.522%	2.100%	2.140%	2.100%
52	0.633%	1.224%	1.628%	2.200%	2.280%	2.200%
53	0.700%	1.296%	1.742%	2.300%	2.420%	2.300%
54	0.767%	1.376%	1.866%	2.400%	2.560%	2.400%
55	0.833%	1.460%	2.000%	2.500%	2.700%	2.500%
56	0.900%	1.552%	2.052%	2.500%	2.700%	2.600%
57	0.967%	1.650%	2.104%	2.500%	2.700%	2.700%
58	1.033%	1.758%	2.156%	2.500%	2.700%	2.800%
59	1.100%	1.874%	2.210%	2.500%	2.700%	2.900%
60	1.167%	2.000%	2.262%	2.500%	2.700%	3.000%
61	1.233%	2.134%	2.314%	2.500%	2.700%	3.000%
62	1.300%	2.272%	2.366%	2.500%	2.700%	3.000%
63	1.367%	2.418%	2.418%	2.500%	2.700%	3.000%
64	1.433%	2.418%	2.418%	2.500%	2.700%	3.000%
65	1.500%	2.418%	2.418%	2.500%	2.700%	3.000%
			Member Contribution Rate			
	2%	7%	7%	8%	8%	8%

Safety



Age	2%@55	2%@50	3%@55	3%@50
50	1.426%	2.000%	2.400%	3.000%
51	1.522%	2.140%	2.520%	3.000%
52	1.628%	2.280%	2.640%	3.000%
53	1.742%	2.420%	2.760%	3.000%
54	1.866%	2.560%	2.880%	3.000%
55	2.000%	2.700%	3.000%	3.000%
56	2.000%	2.700%	3.000%	3.000%
57	2.000%	2.700%	3.000%	3.000%
58	2.000%	2.700%	3.000%	3.000%
59	2.000%	2.700%	3.000%	3.000%
60	2.000%	2.700%	3.000%	3.000%

Member Contribution Rate

	8%	9%	9%	9%

The City's current benefit formula and 2010/11 contribution rates are:

	Miscellaneous	Police Safety	Fire Safety
• Benefit Formula	2.0% @ 55	3% @ 50	3% @ 50
• FAE	One Year (FAE1)	One Year (FAE1)	One Year (FAE1)
• PRSA	Yes	Yes	Yes
• COLA	2%	2%	2%
• EPMC	None	None	None
• 10/11 ER Contr.			
➢ Normal Cost	8.8%	15.7%	15.7%
➢ FAE 1 & PRSA	0.0[8]	2.7	2.7
➢ Pool Amort.	0.0	2.5	2.5
➢ Amort/Side Fund[9]	4.6	14.7	18.9
➢ Subtotal	13.4	35.6	39.8
• EPMC	None	None	None

Miscellaneous Alternative Formulas
Miscellaneous alternative Tier 2 benefit is 2%@60[10]. This produces a cost savings for the City.

Miscellaneous Alternative Formulas	2%@60
• Normal Cost	7.0%
• FAE 1 & PRSA	0.5
• Total	7.5
• Savings from current formula	1.3%

8 Included in normal cost
9 Amortization Payments for Miscellaneous Plan and side fund payment for the pooled Safety Plans
10 We did not include 1.5%@65 because no agency has contracted this formula.

The following two tables show estimated cost savings (000s omitted) for the Miscellaneous Plan in dollar amounts.

Estimated Savings - Miscellaneous

Year	2% @ 60
2010/11	$ 33
2011/12	70
2012/13	104
2013/14	139
2014/15	177
2015/16	215
2016/17	257
2017/18	300
2018/19	344
2019/20	392
2020/21	439

The above savings are based on the following Miscellaneous payroll projections shown separately for current (Tier 1) participants and future (Tier 2) participants (000s omitted):

Payroll Projections - Miscellaneous

Year	Tier 1	Tier 2	Total
2010/11	$ 41,194	$ 2,542	$ 43,736
2011/12	39,741	5,416	45,157
2012/13	38,595	8,029	46,625
2013/14	37,386	10,754	48,140
2014/15	35,971	13,734	49,704
2015/16	34,698	16,622	51,320
2016/17	33,084	19,904	52,988
2017/18	31,473	23,237	54,710
2018/19	29,868	26,620	56,488
2019/20	27,966	30,358	58,324
2020/21	26,248	33,971	60,219

Total payroll is expected to grow annually at 3.25% each year. A slower payroll growth results in lower cost savings while a more rapid payroll growth results in greater cost savings.

Police Safety Alternative Formulas

Safety alternative Tier 2 benefits could be 3%@55, 2% @50 and 2%@55. Each of these produces a cost savings for the City. The table below shows the Employer rates and net savings for the reduced Tier 2 benefits.

Police Safety Alternative Formulas	3%@55	2%@50	2%@55
• Normal Cost	13.3%	11.5%	11.0%
• FAE 1 & PRSA	2.6	2.1	1.8
• Pool Amortization	2.3	2.0	0.6
• Total	18.2	15.6	13.4
• Savings from current formula	2.7%	5.3%	7.5%

The following two tables below show estimated cost savings (000s omitted) for the Safety Plan in dollar amounts. It is split between the three alternative benefit levels (3%@55, 2%@50, and 2%@55) for Tier 2 participants.

Estimated Savings – Police Safety

Year	3% @ 55	2% @ 50	2% @ 55
2010/11	$ 10	$ 20	$ 28
2011/12	21	41	58
2012/13	34	66	94
2013/14	48	95	135
2014/15	66	131	184
2015/16	83	163	230
2016/17	101	198	280
2017/18	119	235	332
2018/19	141	278	392
2019/20	163	321	453
2020/21	185	364	514

The above savings are based on the following Safety payroll projections shown separately for current (Tier 1) participants and future (Tier 2) participants (000s omitted):

Payroll Projections - Police Safety

Year	Tier 1	Tier 2	Total
2010/11	$ 9,139	$ 375	$ 9,514
2011/12	9,048	775	9,823
2012/13	8,895	1,247	10,142
2013/14	8,681	1,791	10,472
2014/15	8,361	2,451	10,812
2015/16	8,111	3,052	11,163
2016/17	7,810	3,717	11,526
2017/18	7,487	4,414	11,901
2018/19	7,076	5,212	12,288
2019/20	6,664	6,023	12,687
2020/21	6,272	6,827	13,099

Total payroll is expected to grow annually at 3.25% each year. A slower payroll growth results in lower cost savings while a more rapid payroll growth results in greater cost savings.

Fire Safety Alternative Formulas
Fire Safety alternative Tier 2 benefits could be 3%@55, 2% @50 and 2%@55. Each of these produces a cost savings for the City. The table below shows the Employer rates and net savings for the reduced Tier 2 benefits.

Fire Safety Alternative Formulas	3%@55	2%@50	2%@55
● Normal Cost	13.3%	11.5%	11.0%
● FAE 1 & PRSA	2.6	2.1	1.8
● Pool Amortization	2.3	2.0	0.6
● Total	18.2	15.6	13.4
● Savings from current formula	2.7%	5.3%	7.5%

The following two tables below show estimated cost savings (000s omitted) for the Fire Safety Plan in dollar amounts. It is split between the three alternative benefit levels (3%@55, 2%@50, and 2%@55) for Tier 2 participants.

Estimated Savings – Fire Safety

Year	3% @ 55	2% @ 50	2% @ 55
2010/11	$ 6	$ 13	$ 18
2011/12	13	26	37
2012/13	21	42	59
2013/14	30	60	85
2014/15	42	82	116
2015/16	52	102	144
2016/17	63	124	175
2017/18	75	147	208
2018/19	88	174	246
2019/20	102	201	284
2020/21	116	228	322

The above savings are based on the following Fire Safety payroll projections shown separately for current (Tier 1) participants and future (Tier 2) participants (000s omitted):

Payroll Projections – Fire Safety

Year	Tier 1	Tier 2	Total
2010/11	$ 5,732	$ 235	$ 5,966
2011/12	5,674	486	6,160
2012/13	5,579	782	6,361
2013/14	5,444	1,123	6,567
2014/15	5,244	1,537	6,781
2015/16	5,087	1,914	7,001
2016/17	4,898	2,331	7,229
2017/18	4,695	2,768	7,464
2018/19	4,438	3,268	7,706
2019/20	4,179	3,777	7,957
2020/21	3,933	4,282	8,215

Total payroll is expected to grow annually at 3.25% each year. A slower payroll growth results in lower cost savings while a more rapid payroll growth results in greater cost savings.

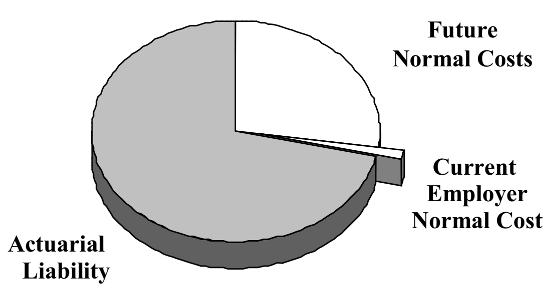
Understanding these terms makes it easier to understand the City's CalPERS actuarial information.

Present Value of Benefits: When CalPERS (or any actuary) prepares a pension valuation, they first gather participant data (including active employees, former employees not in payment status, participants and beneficiaries in payment status) at the valuation date (for example June 30, 2008). Using this data and some actuarial assumptions, they project future benefit payments. (The assumptions predict, among other things, when people will retire, terminate, die or become disabled, as well as what salary increases, inflation and investment return might be.) Those future benefit payments are discounted, using expected future investment return, back to the valuation date. This discounted present value is the plan's present value of benefits. It represents the amount the plan needs as of the valuation date to pay all future benefits – if all assumptions are met and no future contributions (employee or employer) are made.

Actuarial Liability: This represents the portion of the present value of benefits that participants have earned (on an actuarial, not actual, basis) through the valuation date.

Current Employer Normal Cost: The total normal cost represents the portion of the present value of benefits expected to be earned (on an actuarial, not actual, basis) in the coming year. The current employer normal cost represents the employer's portion of the total normal cost – that is, the total normal cost offset by employee contributions.

Present Value of Benefits



The above chart shows the Present Value of Benefits as the sum of Actuarial Liability, Current Normal Cost, and Future Normal Costs. Once these amounts are calculated, the actuary compares actuarial assets to the Actuarial Liability. When assets equal liabilities, a plan is considered on track for funding. When assets are greater than liabilities, the plan has excess assets; when assets are less than liabilities, the plan has an unfunded liability.

Contribution Rate: CalPERS does not require an agency to make up any shortfall (unfunded liability) immediately, nor do they allow an immediate credit for any excess assets. Instead, the difference is amortized over time. An agency's contribution rate is nothing more complicated than the current employer normal cost, plus the amortized unfunded liability or less the amortized excess assets. Simply put, this contribution is the value of employer benefits earned during the year plus something to move the plan toward being on track for funding. There is a two-year delay from the valuation date to the contribution effective date. For example, the June 30, 2008 valuation generates an agency's 2010/11 fiscal year contribution. CalPERS instituted this delay a few years ago to ensure public agencies would have contribution rates as they begin their budgeting process for each fiscal year.

Fresh Start: When CalPERS prepares a valuation and determines an agency's contribution rate, it's usually in layers, such as gains/losses or plan changes, with each layer (base) adding up to the contribution rate. But if that calculation results in a zero contribution rate, CalPERS combines it into one base and tells the agency it will have a zero contribution for a fixed period. That combination is called a "fresh start." An agency with a fresh start will know it; the actuarial report will show a single base (labeled *fresh start*).

Super-Funded: A plan is super-funded when actuarial assets are greater than the present value of benefits. Referring to the above circle chart a plan has excess assets when assets exceed the Actuarial Liability and a super-surplus when asset exceed the Present Value of Benefit. When a plan is Super-Funded, the super-surplus (actuarial assets over present value of benefits) may be used to pay employee contributions. However, any super-surplus use must occur in the fiscal year for which the valuation report's contribution rate was calculated. For example, a plan super-funded in the June 30, 2008 valuation can use super-surplus to pay 2010/11 fiscal year employee contributions.

Employer Paid Member Contribution (EPMC): Each employee contributes towards his or her retirement based on the retirement formula. If employer chooses to pick up a portion or entire contribution for employees, the portion of member contribution that paid by employer is called Employer Paid Member Contribution.

Final Average Earning (FAE): The final average earning is the monthly average of the member's highest 12 or 36 consecutive months' earning.

Post Retirement Survivor Allowance (PRSA): The portion of retirement allowance will automatically be continued to certain statutory beneficiaries upon the death of the retiree, without a reduction of the retiree's allowance.