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Attorneys for California Public Employees' Retirement System

UNITED STATES BANKRUPTCY COURT

EASTERN DISTRICT OF CALIFORNIA

SACRAMENTO DIVISION

In re

CITY OF STOCKTON, CALIFORNIA.,

Debtor.

Case No. 2012-32118

D.C. No. OHS-5

Chapter 9

CALPERS' COMPENDIUM OF TRIAL EXHIBITS, TRANSCRIPTS, AND LEGISLATIVE HISTORY RELIED UPON IN SUPPLEMENTAL BRIEFING RELATED TO PLAN CONFIRMATION

Date: October 1, 2014
Time: 10:00 a.m.
Place: Robert T. Matsui U.S. Courthouse, 501 I Street
Department C, Fl. 6, Courtroom 35
Sacramento, CA 95814
Judge: Hon. Christopher M. Klein

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Respectfully submitted,

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Dated: August 14, 2014

By: */s/ Michael J. Gearin*
Michael J. Gearin
Attorneys for California Public Employees' Retirement System

1 UNITED STATES BANKRUPTCY COURT
2 EASTERN DISTRICT OF CALIFORNIA
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6 HON. CHRISTOPHER M. KLEIN
COURTROOM THIRTY-FIVE
7 DEPARTMENT C
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In re: CITY OF STOCKTON, CALIFORNIA, Debtor.	Bankruptcy No. 12-32118-C-9
WELLS FARGO BANK NA, Plaintiff, v. CITY OF STOCKTON, CALIFORNIA, Defendant.	Adversary No. 13-2315

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REPORTER'S DAILY TRANSCRIPT OF PROCEEDINGS

held on

Tuesday, May 13, 2014

9:30 a.m.

24 Reported by: ERIC L. THRONE, CSR No. 7855, RPR, RMR, CRR
DEBBIE MAYER, CSR No. 9654, RPR, CRR, CRP, CLR
25

1 law on Chapter 11 and Chapter 13.
2 Now in Chapter 9, we have a different kind of
3 reorganization in the sense that the Court's powers are
4 considerably more limited in terms of the day-to-day
5 management of the case.
6 We went through that right at the outset of the case
7 where when the retirees wanted an injunction against the
8 City's unilateral imposition of reduction of retiree health
9 benefits.
10 And that leaves a situation in which there is somewhat
11 less for the adversary process to deal with in a
12 Chapter 9 case, and perhaps the great duty on the court at
13 the time of confirmation to scrutinize whether all of the
14 essential elements of confirmation have been satisfied, the
15 problem being that there's so many other people that are not
16 at the table.
17 Yes, we have retirees, we have representatives some
18 organized labor groups, we have bond holders. There's a
19 couple of hundred thousand citizens out there who are not in
20 the courtroom, and I'm not in a position to be able to
21 advance their positions.
22 And so with that, my sense is that the duty of the
23 Court to be independently persuaded of all essential elements
24 of confirmation actually is somewhat amplified in Chapter 9.
25 Something more importantly is Chapter 11.

1 In Chapter 11, when we have contests, it usually winds
2 up with a situation by the end of the confirmation hearing
3 that everybody is arm and arm, they have made a deal.
4 And when the judges review the plan they are doing so
5 in the context in which a piece is broken out, they do not
6 want to do anything to continue the war. And so judges are
7 perhaps somewhat less skeptical than they ought to be in
8 various plans. That's just a fact of life.
9 So here we are in the Chapter 9 context. And I am
10 persuaded that I do need to take a hard look at the plan
11 overall. I do have this one objection, although it seems to
12 be a little more of a nuance to them, a straight up challenge
13 to CalPERS.
14 But if I understand the evidence that came out in the
15 eligibility hearing, in which there was an enormous amount of
16 complaining by the capital market creditors that the largest
17 liability of the City was to CalPERS is not appropriate for
18 the City to tackle that. That record, that evidence is just
19 all over the record.
20 And there are references to numerous 6-digit pensions
21 out there, pensions pushing -- I don't remember -- $200,000,
22 and the practices of spiking and using not the average high
23 three years, but the high one year and allowing the accrual
24 of unlimited sick, accrued sick time and retirement or
25 vacation time to raise the final compensation on which

1 this is a contract, but you cannot reject this contract under
2 Section 365 of the Bankruptcy Code." And by the way, if you
3 do, we have a lien that's going to suddenly and magically
4 jump up." Those are pretty interesting questions to someone
5 who understands bankruptcy.
6 So, you know, I think we probably need to recognize
7 that we got a festering sore here and we have to get in there
8 and excise it and figure out what the story is. You know,
9 maybe CalPERS is correct, maybe not.
10 But then if I conclude that CalPERS is not really in
11 any different position than some other pension provider in
12 the marketplace, then the question would still, regarding
13 impairment, would still be regarding whether the decision not
14 to impair pensions in this case, assuming that the pension
15 provider is not CalPERS.
16 But it's whoever else provides private pensions,
17 whether that decision still makes sense, it perfectly well
18 might make sense, but I have to figure out that context.
19 So that's how my brain is thinking. It's thinking
20 about a series of hurdles that we have to get over. So it's
21 conceivable that I could conclude that the CalPERS contract
22 is a contract that could be impaired and the plan is not
23 confirmed because it should have taken that into account or
24 it might include that the CalPERS contract can be impaired,
25 but under the facts of this case the decision not to do so

1 made sense, or the third possibly I suppose is that the
2 CalPERS contract cannot be impaired because the structure of
3 California law.
4 So that's what's going on in my brain, so this is
5 going to be the opportunity to get to the bottom of it. So I
6 think the ball is the in CalPERS's court. And Mr. Gearin has
7 been telling me on multiple occasions that CalPERS is
8 constitutionally protected, and so on. And I did see I have
9 read his brief, so I've seen it; but, you know, I also don't
10 know enough of the details.
11 So Mr. Lamoureux really helped educate me greatly.
12 And I have lots of questions like, you know, what would be
13 the effect if the City terminated, what would CalPERS do?
14 I do see there's some testimony in there about
15 termination and what happens in termination, is there's a
16 term called "termination pool," something like that? And I
17 would presume that means that somehow the pensioners in that
18 category get walled off and in effect get told by CalPERS,
19 "Well, since the contributions we have on you are only 40
20 percent of what's needed to give you your pensions, you are
21 only getting 40 percent of the nominal hits."
22 Other questions are who defines the defined benefits?
23 Understand that CalPERS is probably two different things.
24 It's probably the State of California vis-à-vis employees of
25 the State of California, and with whom there's apparently no,

1 UNITED STATES BANKRUPTCY COURT

2 EASTERN DISTRICT OF CALIFORNIA

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20 **REPORTER'S DAILY TRANSCRIPT OF PROCEEDINGS**

21 **held on**

22 **Wednesday, May 14, 2014**

23 **9:30 a.m.**

24 Reported by: ERIC L. THRONE, CSR No. 7855, RPR, RMR, CRR
DEBBIE MAYER, CSR No. 9654, RPR, CRR, CRP, CLR

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1 But technically, the answer here, to be accurate, should be
2 probably changed to say less than 150.
3 **Q.** Would you do me a favor. Do you have a pen?
4 **A.** I don't right now.
5 **MR. RYAN:** Mr. Bocash will give you a pen.
6 **THE COURT:** What page and line again?
7 **MR. RYAN:** I'm sorry, it's Exhibit 4015. Page 4 of
8 that exhibit, paragraph 11, Your Honor.
9 **THE COURT:** Talking about line 23?
10 **THE WITNESS:** Or line 18.
11 **MR. RYAN:** Line 18, less than 100 item.
12 **A.** I will change it to say "less than 150 agencies."
13 BY **MR. RYAN:**
14 **Q.** And just briefly, again, can you describe how it is
15 you came to determine that there was a mistake or an
16 oversight in this paragraph?
17 **A.** I basically asked staff to get me a list of all the
18 agencies that terminated and their termination date. And we
19 actually had a new computer system at CalPERS a few years
20 ago, and it made it a little bit easier to track down some of
21 the information. So that's how we came across some of these
22 agencies.
23 **Q.** Now, is CalPERS governed by ERISA?
24 **A.** No.
25 **Q.** Is CalPERS covered by the PBGC?

1 **Q.** And you mentioned -- if I use the term "PERL," would
2 you understand that?
3 **A.** Yes.
4 **Q.** And I believe you have a copy of that with you?
5 **A.** Right here.
6 **Q.** And is this the most recent copy of the PERL?
7 **A.** Correct. That's the 2014 version.
8 **MR. RYAN:** Your Honor, yesterday we did provide a
9 courtesy copy to the Court of the PERL. I believe it was
10 actually still in the shrink wrap.
11 BY **MR. RYAN:**
12 **Q.** So does CalPERS administer benefits for state
13 employees?
14 **A.** Yes, we do.
15 **Q.** And again, we just looked at Exhibit 8, which is the
16 contract -- well, the document labeled "contract" with
17 Stockton. And does a similar document like that exist for
18 CalPERS' relationship with the state?
19 **A.** No, it does not. For the state, the contract per se
20 would be this little book here, the PERL. Basically the PERL
21 states, in the case of the State, all of the benefits that
22 apply to the State employees. So by law, the State employees
23 of the State of California participate in CalPERS, and the
24 PERL dictates what the benefits are.
25 When it comes to the local agencies, the PERL dictates

1 the menu of benefits that's available to them, and the
2 employers can select them.
3 **Q.** And how does the State determine how certain benefits
4 are given for various bargaining units or various groups of
5 actual State employees?
6 **A.** So the way it works usually is, in bargaining, the
7 State will agree to the bargaining unit as to the level of
8 benefit of contributions that apply to these members. And
9 then they have the Legislature ratify this agreement and put
10 it in the law. So over the years, if you look at the PERL,
11 as the State and bargaining units have agreed to different
12 benefits, they have changed the law accordingly.
13 **THE COURT:** That's talking about State employees,
14 right?
15 **THE WITNESS:** Yes.
16 BY **MR. RYAN:**
17 **Q.** And so it's the Legislature who enacts those specific
18 sections of the PERL to reflect what the collective
19 bargaining units have come up with?
20 **A.** Correct.
21 **Q.** And do State employees have the same menu of options
22 or menu of benefits that municipal employers have -- I'm
23 sorry, State employers have that same menu of options that
24 municipal employers have?
25 **A.** No, they don't. They're subject to what's been agreed

1 upon and put into the -- in the PERL.

2 **Q.** And does CalPERS administer the benefits for State

3 employees any differently than it does for municipal

4 employees?

5 **A.** No, we don't.

6 **Q.** Are the funds collected from the State and those

7 collected from non State member employers in separate pools?

8 **A.** No, they're in the same trust fund. They're all

9 commingled for investment purposes.

10 **Q.** Now, we've heard a lot about -- or there's been a lot

11 of discussion at least today about some actuarial terms. And

12 one of the things we've talked about was contribution rates.

13 Can you explain, in actuarial terms, what a contribution rate

14 is and how it's determined?

15 **A.** So first of all, just to get some background. When

16 you look at a pension plan, if you had a brand-new employer

17 contacting CalPERS today and say I would like to join

18 CalPERS, and they tell us we would like these members to be

19 subject to a certain benefit level, let's say it's what we

20 call the 2 percent at 60 formula, and they hire someone

21 that's age 25. As actuaries, our role is to try to set a

22 contribution schedule to help that employer make sure that

23 over the career of the individual, we put enough money in the

24 pension plan so that when that person retires, there's enough

25 funds to pay the benefits.

1 So to do so, we first have to make several actuarial
2 assumptions. At what age are members going to retire? How
3 long are they going to live so that we have an idea of how
4 many years we're going to have to pay a benefit. Since all
5 of the benefits at CalPERS are based on final compensation
6 either in the final year of retirement or the final three
7 years, we also have to make assumptions about salary
8 increases in the future.
9 We also have to make an assumption about what we're
10 going to do with the contributions we collect from both
11 employers and members. And so we have to make an assumption
12 about the expected investment return. It's what we call the
13 "discount rate" in our valuation reports.
14 So using these assumptions and the benefit levels
15 selected by the employer, we first calculate the annual
16 contribution requirement or what is needed to fund the
17 benefits that will be earned over the course of one year.
18 This is what we call in our valuation report the "normal
19 cost."
20 So the normal cost is simply the cost for the next
21 years benefits. So if you have one employee and we may tell
22 the employer, your normal cost is 14 percent of payroll for
23 your plan.
24 So if the member pays 7, we ask the employer to pay
25 the other half, which is 7. So that's the normal cost.

1 To the extent all the assumptions we make as actuaries
2 we realize every single year, the employer would always have
3 to pay only the normal cost of 14 percent. The reality is,
4 the assumptions we make as actuaries are long-term
5 assumptions; to give you an example, the investment return
6 assumption or discount rate, it's currently set at 7 and a
7 half.
8 If you look historically, I don't think there's a
9 single year where we've actually earned 7 and a half percent
10 at CalPERS. But in some years, we've earned more and some
11 years we've earned less. So when you earn either more than
12 expected, you can make the argument that you collected too
13 much, so you have a surplus on your hands. And in years when
14 you earn less than expected, you could have a non-funded
15 liability, which is why, when you look in our valuation
16 reports, you will see an unfunded liability.
17 **Q.** Now, you mentioned the term "unfunded liability." Can
18 you explain to me what unfunded accrued actuarial liability,
19 what that is?
20 **A.** Yes. It's really -- it's basically -- to look at it,
21 it's a snapshot of a point in time of where the plan is on
22 schedule or not.
23 The best analogy that we usually try to explain to
24 people, whether it is funding or a pension plan, imagine you
25 are in Berkeley in a boat and you are trying to go to

1 San Francisco. And all do you is say "I'm going to look at
2 the, you know, I'm going to look at the Golden Gate Bridge,
3 I'm going to aim for that bridge." And if all you do is you
4 set your course at the beginning and you never adjust, you
5 may have some wind, some current, some weight.
6 So basically to look at the unfunded liability, every
7 year when we do an actuarial evaluation. It's what we would
8 do as a sailor in a boat. You look to see "Am I still on
9 course, am I still on schedule?"
10 So the unfunded liabilities is for us a way to know
11 "Are we on schedule with our goal to ultimately fully fund
12 the benefits?" So there's some years where we say "Oh, we
13 have more money, we have assets that exceeds or liabilities,
14 therefore let's reduce the flow of money to account for
15 that," and vice versa.
16 If we have an unfunded liability, which is the case to
17 date, the assets in the City of Stockton's pension plan are
18 less than the liabilities. Therefore, today you have an
19 unfunded liability. So our course of action to get them back
20 on schedule is to collect contributions in excess of the
21 normal costs. So we refer to it in our evaluation report as
22 "payments toward the unfunded liability."
23 **Q.** And is the unfunded liability, is that presently due
24 and owing?
25 **A.** No, it's not. That's why it's really just a snapshot

1 one 75 percent, and the other one 95. So that's kind of we
2 express it in terms of that way.
3 **Q.** Are the assumptions you make as an actuary, are they
4 based on an assumption that payments will be timely made?
5 **A.** Yes. This is one of the critical part of any -- the
6 funding of any pension plan. It is based on the premise that
7 you will be able to collect the contributions from both the
8 employers and the members.
9 **Q.** If an employer does not make its contributions to
10 CalPERS, is CalPERS still obligated to administer the
11 benefits for that employer?
12 **A.** Yes. But at CalPERS, in an event where an employer is
13 not making their contributions, we have the ability and the
14 right to what we call it "terminate their contract."
15 **Q.** And could you tell me a little bit about termination,
16 or how can a contract or an arrangement with CalPERS be
17 terminated?
18 **A.** Okay. So there are really two ways that an
19 arrangement with CalPERS could be terminated. The first one
20 would be a voluntary termination on the part of the employer.
21 So that would first require an election by the governing body
22 of the employer to what we call an "intent to terminate."
23 So once CalPERS received the intent of termination, we
24 would then perform with what we call a "preliminary
25 termination actuarial evaluation," where we would provide the

1 employer with the amount that would be owed at termination
2 were they to terminate.
3 **THE COURT:** Is that what I see on page 185?
4 **THE WITNESS:** On page 185, I'll get to that right now
5 since you asked, Your Honor. On page 185, this is
6 information we started to provide two years ago. This is for
7 information purposes. It tells the City of Stockton "Had you
8 terminated your plan on June 30, 2012, this is the amount,
9 this is your termination liability and the amount owed on
10 that date." So this is for information purposes only.
11 Right now, where I was about to get to is when an
12 employer expressed their intent to terminate, once they have
13 signed that paper, the PERL states that the actual
14 termination date cannot be earlier than one year after that
15 document has been signed.
16 So let's say today an employer signed a document
17 providing it to CalPERS with their intent to terminate their
18 contract, the termination date could not be effective sooner
19 than May 15, 2015.
20 So a year when May 15, 2015 arrives, we would then
21 collect all of the member information for the members
22 governed under that plan to do a final calculation
23 determination, we would calculate what the termination
24 liability is on that date, compared on the assets we have on
25 hand on that date, and the difference between those two would

1 be called the "unfunded liability at termination."
2 And this is really the only time where the unfunded
3 liability would become owing and due at that time. When a
4 member terminates their contract, the unfunded liability is
5 due at that time.
6 **Q.** And does anything else occur at that time that you are
7 aware of in terms of when the unfunded liability amount comes
8 due, any other things you are arise at that time, once the
9 termination occurs?
10 **A.** So basically once the termination occurs and the
11 amount is due, we normally -- we ask the employer to pay it.
12 This is also by law. So once an employer terminates a
13 contract, they go into what we call a "CalPERS Terminated
14 Agency Pool." It is a pool that we administer for all of the
15 terminated agency.
16 The key to remember is when an agency terminates their
17 contract with CalPERS, CalPERS now becomes the guarantor of
18 the benefits, CalPERS is on the hook to pay the benefits.
19 Once termination is passed and -- let's say an
20 employer wanted to terminate and we estimated that -- we
21 calculated their liabilities were $12 million, we had
22 $11 million in assets and we told them you owe us $1 million,
23 once they pay us that $1 million we move them to the
24 terminated agency pool.
25 And from the employer's perspective they are done with

1 their plan, they no longer have any need to make any
2 payments, CalPERS is now responsible to pay for the
3 dependents, and CalPERS will pay the benefits.
4 An issue that could arise in this case is let's say 20
5 years later the assumptions didn't pan out as we expected
6 when we collected the money at termination. CalPERS has no
7 recourse but to go back to the employer afterward.
8 If we were in the situation where -- and hopefully we
9 never get there -- where there's not enough money in the
10 terminated agency pool to pay the benefits, we most likely
11 would have to take the money from the Public Employee
12 Retirement Fund where all the other assets are.
13 So you could make an argument that there could be a
14 situation where other employers participating in CalPERS may
15 have to chip in to help pay for the benefits of the members
16 in the terminated agency pool.
17 **THE COURT:** I want to see if I understand what you
18 just said. Let's say that hypothetically there's a
19 termination liability of $1,007,000,000, and the market value
20 of assets on hand is $431 million, leaving about $576 million
21 in unfunded termination liability.
22 If I understand what you said correctly the entity
23 could get a bill for $576 million and if that amount was paid
24 then CalPERS would, in effect, act as guarantor of complete
25 payments, they would pay the full pension plan and take the

1 risk, that longer term, investment returns, and that would be
2 adequate to cover it?
3 **THE WITNESS:** That's a correct statement. You have a
4 good understanding, which I would like to point out, which is
5 also one of the reason the matter in which the assets are
6 invested for the terminated agency pool, it's invested in a
7 much more conservative fashion than it is for some of the
8 other plans at CalPERS.
9 **THE COURT:** Now, let's change one fact. If the
10 terminating agency does not pay the $576 million, then what
11 happens?
12 **THE WITNESS:** So again in accordance with the PERL it
13 would require our chief actuary to bring a decision in front
14 of our board. The PERL basically provides authority to the
15 CalPERS Board to reduce the members benefits in an event when
16 an employer cannot fully fund the unfunded liability at
17 termination, so there's a decision that our board would have
18 to make.
19 So in this case, the board would be faced with the
20 decision to potentially reduce the benefits by an amount of
21 57.2 percent, and again that's a decision the board would
22 have to make.
23 **THE COURT:** So the accurate statement is in that
24 situation, if the termination liability is not paid, the
25 CalPERS board has the authority to reduce pension benefits, I

1 take it, across the board by a pro rata amount equally,
2 approximately equal to the amount that was not paid --
3 **THE WITNESS:** Correct.
4 **THE COURT:** -- or the proportions thereof.
5 Okay, go ahead.
6 **MR. RYAN:** Thank you.
7 **Q.** I wanted to talk to you a little bit about there's
8 another way that an employer can be terminated, other than
9 them opting out.
10 **A.** Correct, and that's the situation we were talking
11 about before. The law provides that if an employer does
12 not -- if you obey by the rules set out in the PERL, which is
13 one of them, once they agree to have CalPERS administer their
14 retirement benefits they are required to pay what we believe
15 is the necessary amount to fund the benefits.
16 So if an employer was unable to make the contribution
17 or refused to make the contributions, CalPERS would have the
18 ability to step in and tell the employer "As a result of you
19 not, you know, following the rules of your agreement with us,
20 we are terminating our agreement." And in such cases the
21 termination date would be effective 60 days after we have
22 informed them of our wish to terminate that agreement.
23 **Q.** And just real quick, since you mentioned it, I wanted
24 you to take a look at Exhibit 8 which is the Stockton
25 contract.

1 **THE COURT:** All right, just on the involuntary
2 termination, what is the consequence?
3 **THE WITNESS:** It's basically -- it will be the same
4 consequences of voluntary termination. The only difference
5 between the involuntary and voluntary is the effective date.
6 **THE COURT:** Sixty days?
7 **THE WITNESS:** Sixty days versus one year. Everything
8 else remains the same.
9 **MR. RYAN:**
10 **Q.** And is there a one-time opportunity to reduce
11 benefits?
12 **A.** Yes, also only one time, just before we moved that
13 plan to a terminated agency pool. So the board would only be
14 able to make that decision once.
15 **Q.** And what's the current status or make-up of the
16 terminated agency pool?
17 **A.** So the terminated agency pool right now, as I stated
18 in my declaration, has about 90 agencies in it. They're all
19 very, very small in nature. If I wanted the exact number I
20 have to open back my clarification, so I'll just go back
21 there.
22 But as of June 30, 2012, I'm referring again to my
23 declaration, page 4 of Exhibit 4015, paragraph 11, there were
24 90 agencies on June 30, 2012. And in total, there were about
25 178 million dollars in assets in that pool, and 89 million

1 dollars in pension obligations.
2 So as you can see, it's not very -- it's fairly small,
3 especially when you compare in size to like a plan, like the
4 City of Stockton. If you add up numbers for the City of
5 Stockton, they have about 6 billion dollars of pension
6 obligation at termination that would more than eat up the
7 entire pool of 170 -- of 89 million dollars of liabilities.
8 **Q.** Has there ever been a City the size of Stockton that's
9 terminated its relationship and gone into the terminated
10 agency pool?
11 **A.** No.
12 **Q.** So if a termination claim is not paid, and pensions
13 are reduced, where does the actuarial value shift, or the
14 actuarial risk shift?
15 **A.** So basically, at termination, basically the actuarial
16 risk shifts to CalPERS. And you could make the argument that
17 maybe it shifts to the other employers of CalPERS, because
18 you have to keep in mind that even though we have, I believe,
19 close to 280 billion dollars at CalPERS, it does not belong
20 to CalPERS. Its members -- it really belongs to the members
21 of CalPERS, the employers.
22 So to the extent at one point the termination agency
23 pool were to run out of money, or the actual risk runs out of
24 money, as I stated earlier, in order to pay those members'
25 benefits, the money would have to come from somewhere, most

1 contributions and employer contributions.
2 **THE WITNESS:** So currently, things have changed. But
3 generally, member contribution rates have been set by
4 statute. So if I -- just to give you an example, Your Honor,
5 when you look at the contract and you look at the two percent
6 at 50 formula, if you went to that statute you find out that
7 statute said a member subject to 2 percent at 50 formula will
8 contribute 90 percent toward retirement. So that was the
9 contribution.
10 What we do at CalPERS when we set the funding
11 requirement, we look at how much needs to go in the pension
12 plan. So let's say the answer says we need 20 percent. We
13 look how much we collect from members. If the answer is 9,
14 we turn around and ask the employer to pay 11.
15 And if you -- I believe it was Mr. Moore in his
16 previous testimony, if I recall properly, there was a
17 discussion about what would happen if the City and its
18 employees agreed to have the member pay more toward
19 retirement. If let's say they were to reach an agreement
20 that instead of paying nine they would pay 11, we still need
21 only 20. So that would mean we would collect 11 from members
22 and 9 from the employer.
23 So this is probably the most effective way to do for
24 an employer to obtain savings from their CalPERS contribution
25 rate is to have their member, their current employees, pay

1 more towards pension, because it provides them a -- if you
2 want a one-for-one saving in their contribution rate toward
3 CalPERS.
4 If you look in the statute, there's a different member
5 contribution rate that applies to a different formula.
6 Generally, the higher the benefit formula is, the higher the
7 member contribution rate set by statute will be.
8 **THE COURT:** Now, if the member contribution rate is
9 set by statute, does that require that the member actually
10 pay, or does that -- is the employer permitted to pay part of
11 the member's contribution?
12 **THE WITNESS:** The employer could certainly pay it.
13 But what it would do is if an employer paid on behalf of the
14 members, what that really means is that when the money comes
15 to CalPERS, we actually will take the 9 percent and deposit
16 it in what we call the member's account at CalPERS. We
17 actually keep track of the assets, separately member versus
18 employer.
19 So the member, even though they're not paying for it,
20 the money would still go into their accounts. And we are
21 aware that many employers, we know that many employers do pay
22 the member contribution rate. And we know it's been a
23 reversing trend lately as a result of the economy and other
24 factors.
25 **THE COURT:** So the employer can pay part or all of the

1 UNITED STATES BANKRUPTCY COURT
2 EASTERN DISTRICT OF CALIFORNIA
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4 ---o0o---
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6 HON. CHRISTOPHER M. KLEIN
COURTROOM THIRTY-FIVE
7 DEPARTMENT C
8
9
10 In re: CITY OF STOCKTON, CALIFORNIA,) Bankruptcy No. 12-32118-C-9
11
12 Debtor.)
13 WELLS FARGO BANK NA,
14 Plaintiff,) Adversary No. 13-2315
15 v.) **SECOND AMENDED TRANSCRIPT**
16 CITY OF STOCKTON, CALIFORNIA,
17 Defendant.)
18
19 ---o0o---
20 **REPORTER'S TRANSCRIPT OF PROCEEDINGS (EXPEDITED)**
21 **held on**
22 **Wednesday, June 4, 2014**
23 **9:30 a.m.**
24 Reported by: ERIC L. THRONE, CSR No. 7855, RPR, RMR, CRR
25

1 it's no skin off of Franklin's nose. We're the ones that
2 have to live with it, we're the ones that have to run the
3 City, we're the ones that have to provide benefits and
4 services for employees.
5 And if don't have employees because Franklin, goodness
6 knows, was wrong and Mr. Moore was wrong, you tell me how
7 safe the City is going to be. That's what the
8 decision-makers for the City have to confront when making
9 these decisions.
10 Mr. Johnston made it sound like the City chose not
11 to -- discriminated against Franklin by agreeing with the
12 retirees to a low number to preserve the pension benefits,
13 because that was the only way to get retirees.
14 The City's decision had something to do with retirees,
15 because you heard Mr. Deis' testimony in his declaration,
16 during the eligibility phase, that our retirees would go
17 below the poverty level if they lost their pension benefits.
18 And you heard Ms. Nicholl talk about the cut, the 60
19 percent cut, what that would do to a retiree who was making
20 $51,000 a year or whatever. So there is a human compassion
21 element that Franklin lacks and the City has.
22 But more importantly, the City's concern is about its
23 current employees and retaining its current employees and
24 retaining a City that people will want to live in.
25 Similarly, Franklin can say "Judge, you know, we don't

1 UNITED STATES BANKRUPTCY COURT
2 EASTERN DISTRICT OF CALIFORNIA
3 SACRAMENTO DIVISION
4 ---oOo---
5
6 In Re:
7 CITY OF STOCKTON, CALIFORNIA,
No. 12-32118-C-9
8 Debtor,
9 ____/
10
11
12 ---o0o---
13 REPORTER'S TRANSCRIPT OF PROCEEDINGS
14 Before the Honorable CHRISTOPHER M. KLEIN
15 Tuesday, July 8, 2014
16 ---o0o---
17
18
19 Reported by: PHYLLIS MANK, CSR No. 5093
20
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23
24
25

1 bonds, I want to move on to CalPERS. I'm not going to
2 make a specific ruling today, but I'm going to share with
3 you, in the context that would allow somebody who cared
4 to file a brief, to straighten me out on some points the
5 picture that I see emerging. So I assume that CalPERS
6 will be taking the most notes on it and then the
7 implications of what that picture starts looking like.
8 In particular, I've been looking through the
9 California Public Employees' Retirement law the parties
10 so kindly gave me a copy of. Looks like it's only
11 slightly smaller than the Internal Revenue Code. I'm not
12 sure if it's any less complex. Of course, I also have
13 the benefit of the very helpful testimony of David
14 Lamoureux, who was the Assistant Chief Actuary of
15 CalPERS, and that's helped me guide through it.
16 I'm looking at the retirement law kind of as if
17 it's a jigsaw puzzle and the pieces are the various
18 provisions of the law and I'm trying to assemble the
19 jigsaw puzzle; and when I do that, I get a picture, but
20 the jigsaw puzzle could be assembled a different way, and
21 I want to make sure I'm not getting off on a wrong track.
22 I don't want to make an important ruling without
23 being confident that the parties have a conferring view
24 and get a fair chance to say it. The picture is not
25 entirely the same as what's been coming out in the public

1 rhetoric. I'm going to cover several different aspects
2 of the situation.
3 The pieces of the puzzle that I'm looking at
4 start with -- primarily with the Public Employee
5 Retirement law section 20460, which I gather is the
6 California Government Code -- part of the California
7 Government Code. So it's California Government Code
8 20460 through 20593. Those are the pieces of the puzzle
9 I've been rooting around with.
10 It looks to me like the situation is this.
11 California Public Employee Retirement system is two
12 different pieces, two completely different natures. As
13 to the State of California and the employees of the State
14 of California, CalPERS is the retirement system period.
15 That's it. It's the only show in town. But that only
16 goes to the employees of the State of California.
17 When one gets to Chapter 5 of CalPERS, one moves
18 into a subject called contract members of the system and
19 that's the different aspect of CalPERS. As I understand
20 it, California municipality or, I guess, the public
21 employees' retirement law is the term public agency or,
22 as the Bankruptcy Code would use the term, municipality.
23 I think there's -- probably the meaning is essentially
24 the same thing. For our purposes, I'll just speak in
25 terms of City, but I could be speaking about other types

1 of public agencies as well as municipalities.
2 The City participates in CalPERS as a matter --
3 by virtue of contract and the City does not have to do
4 that. The City can join a county system. There are
5 county retirement systems authorized under California
6 law, as Mr. Lamoureux put it, the 1937 act, and pointed
7 to several counties that have their own county system.
8 And there can be just a local system. The City could
9 have its own system and the City can contract with a
10 private pension provider. Recalling back to
11 Mr. Lamoureux's testimony, he used as an example the City
12 of San Clemente, California has apparently a private
13 pension.
14 Well, in that aspect, it looks like CalPERS is
15 merely a pension provider like other pension providers
16 that is competing with the private sector to -- given the
17 fact that if you go to any private pension system. And
18 then there are other conjoined -- joined with the local
19 system or have its own system and can join a county
20 system.
21 And when I look at the various provisions here,
22 it looks like there's a number of situations that are
23 provided for whereby an entity, public agency,
24 municipality, a city can move from one to another, move
25 from a county system to a private, from a private to

1 Social Security system. It appears that it's
2 specifically contemplated that, if a California public
3 agency can also be subject to Social Security, its
4 employees subject to Social Security -- and it appears
5 that when I look back into the Stockton contracts,
6 Exhibit 8 to the Lamoureux declaration has various forms
7 of the City of Stockton's contracts with CalPERS through
8 the years, that there was at least a brief period of time
9 when Social Security did apply to City of Stockton
10 employees back in, I think, the 1950s -- the member
11 contribution is much higher if the employer is not
12 participating in federal Social Security.
13 In any event, the first source of resources of
14 funds are from the employer and the employee at the time
15 wages are paid. Then the seond source of funds is
16 earnings on the funds that CalPERS has collected by way
17 of its member contribution and employer contribution
18 funds.
19 And Mr. Lamoureux provided an exhibit showing
20 that the last 25 years rates of return have been
21 generally pretty attractive with one or two small
22 exceptions. But CalPERS, in an effort to be conservative
23 about its long-term projections of the financial needs on
24 an actuarial basis, has actually reduced the assumed rate
25 of return on something of the order of about seven

1 percent. So that's the basic CalPERS fund out there --
2 which is touted as the biggest pension fund in the world
3 or something -- that CalPERS is out there investing and
4 earning returns. So that's its next source of income.
5 Then its third source of income, and this is in
6 a way a source of a lot of misinformation just through
7 the general press and the general public, is what some
8 people might call under-funding.
9 And what happens is CalPERS on a regular basis
10 annually takes a look at the long-term needs, what it's
11 going to take to pay the pensions that it thinks it's
12 obligated to pay, takes into account all sorts of risks.
13 Like some things are kind of ghoulish in this
14 business, the risk of longevity. If they calculated the
15 need for an individual's pension to be -- on the
16 assumption that this individual will have passed away by
17 age 80 and the person lives to a hundred, great for that
18 person and really bad for CalPERS. That's longevity
19 risk.
20 But they take all those factors into account and
21 they look at what the member agency with the contract has
22 paid into the system and what its current projections are
23 of rates of return, that's just an estimate of how the
24 market is going to work out in the future, and then they
25 determine an amount of additional contribution that has

1 under-funding. 2077.5 provides a lesser consequence if
2 the board thinks that it will be able to go ahead and pay
3 the pensions without impairing the actuarial soundness of
4 the terminated agency pool.
5 Of course, that gets me back to the terminated
6 agency pool. I said the general funds of CalPERS appear
7 to be just part of the general investment pool and
8 that's -- Mr. Lamoureux testified that was about assuming
9 a return in the seven percent range, but he pointed out
10 that the terminated agency pool -- approximately 70
11 terminated agencies in the pool, all of which he said are
12 relatively small -- he said that pool fund is invested in
13 a much more conservative basis, so assume a return of
14 about three percent. That means that the shortfall is
15 even greater because that's what the actuarial analysis
16 of the need for additional contributions is at the time
17 of termination and that pool is a relatively small amount
18 of money.
19 So the standard solution appears to be that
20 CalPERS, to the extent it does not have accumulated
21 contributions, reduces pensions by that amount. That
22 leads to the interesting question of, well, what is
23 CalPERS then in relation to a case like this? Who is the
24 real creditor? It seems to me that, if you're going to
25 take an individual's pension or part of an individual's

1 pension, the individual employee is the creditor and
2 CalPERS is, in effect, kind of a servicing agency. Kind
3 of like in the mortgage world we have the owner of the
4 note and deed of trust and the mortgage servicer who
5 collects a very small fee for collecting the money and
6 passing it on to the owner of the note and deed of trust.
7 It looks to me like CalPERS does not bear the
8 financial risk of a shortfall in payments. Instead, the
9 structure of the Public Employee Retirement law places
10 that risk on the employee. So if I'm getting that wrong,
11 I need to know that as well. I do see under Section
12 20577.5 the board could elect to pay more than it's
13 obligated to pay but, again, subject to the limitation
14 that it would not impact the actuarial soundness of the
15 terminated agency pool.
16 If a large California city were to go into that
17 pool, the gravamen of Mr. Lamoureux's testimony would
18 lead to the inference that it might affect the actuarial
19 of the terminated agency pool. That's another puzzle
20 running around in my brain.
21 Another puzzle running around in my brain is
22 with respect to this lien on assets. Section 20574, it's
23 a pretty interesting provision, and this is the so-called
24 $1.5 billion lien. I mean, everybody has assumed this
25 lien is valid. I don't know if everybody has assumed it,

1 That was apparently a political deal that had been made
2 within congress to get that done. Well, a lot of people
3 didn't pay a lot of attention to Chapter 9. Took them a
4 year or two to figure it out. But all of a sudden, all
5 sorts of debt could be potentially discharged.
6 So it was no surprise that effective March 1,
7 1982 -- I'm not sure when the actual enactment occurred,
8 it might have been in 1981 -- this lien is created. And
9 you look at the legislative history that has been so
10 helpfully provided by CalPERS that says this lien only
11 applies in cases of insolvency and bankruptcy. Well,
12 that's really interesting.
13 There's a section of the Bankruptcy Code called
14 Section 545(a) says the trustee may avoid the fixing of
15 the statutory lien on property of the debtor to the
16 extent that such lien first becomes effective against the
17 debtor and there's a laundry list of six alternatives:
18 One of which is when the debtor becomes insolvent, one of
19 which is when the debtor's financial condition fails to
20 meet a specified standard, one of which is when an
21 insolvency proceedings other than under the Bankruptcy
22 Code is commenced, and another is a proceeding when a
23 proceeding under the Bankruptcy Code is commenced.
24 Well, if you look back and remember the outset
25 of this case, a peculiar thing about Chapter 9 in the

by vesting the authority to direct actuarial determinations solely with the CalPERS Board. Ex. 3 at 36 (relevant portions of official ballot pamphlet (Nov. 3, 1992)). By granting the CalPERS Board sole authority to administer the system, Proposition 162 prevented the legislative and executive branches from "raiding" pension funds to balance the State budget. *Id*. at 38.

9. The CalPERS Board is governed by the California Public Employees Retirement Law (the "PERL"), which imposes statutory obligations on the Board and employers such as the City of Stockton. Under the PERL, Stockton has certain obligations to CalPERS, and CalPERS in turn has obligations to the City of Stockton's current and former employees to provide retirement benefits in accordance with the provisions of PERL. These statutory obligations are not directly affected by the acceptance, rejection or modifications of the City's collective bargaining agreements.

10. For public employees serving municipalities in California, the legislature created a three-party structure under which CalPERS provides retirement benefits. First, each municipality elects a "contract" with CalPERS that triggers the applicability of statutes including the PERL and other laws, regulations and policies governing the provision of pension benefits through CalPERS. Second, each public servant has an employment contract with the municipality that includes pension benefits. Finally, CalPERS has a constitutionally defined responsibility to provide pension benefits to its members and retirees and to protect these benefits.

11. Less than one hundred agencies have terminated their relationship with CalPERS in the more than eighty years of the existence of the system. Virtually all of these terminating agencies are very small local districts or agencies and most employers have terminated because they are winding up their operations and ceasing business. No employer the size of the City of Stockton has ever terminated its relationship with CalPERS. CalPERS administers a terminated agency pool for agencies that terminate their relationship with CalPERS. As of June 30, 2012, there were 90 agencies that had terminated their contract with CalPERS for which CalPERS continues to administer benefits through the terminated agency pool. As of June 30, 2012, the terminated agency pool held about $178 million in assets and $89 million in pension obligations. These pension obligations covered 740 members and/or beneficiaries currently receiving a benefit and 349 members that have not yet retired

but are entitled to a deferred retirement benefit. By comparison, the termination liability for the Stockton plans alone would affect approximately 2,518 members that have not yet retired but are entitled to a deferred retirement benefit and 2,075 members and/or beneficiaries currently receiving a benefit, and would result in termination obligations exceeding $2.6 billion for both plans while the assets as of June 30, 2012 totaled about $1 billion.

12. Of the more than 1500 public agencies that contract for pension services with CalPERS, none of them (other than the bankrupt City of San Bernardino) were delinquent by an amount in excess of $150,000 as of March 31, 2013.

III. Pension Funding in California

13. The basic premise of a defined benefit pension plan is to defer compensation received during employees' peak earning years to their lowest earning years. The amounts of such deferred payments are determined based on actuarial assumptions and calculations, and the risk is pooled among the participants in the plan. For a homogeneous population, predictions for larger groups are more accurate than for smaller groups. Accordingly, as a pool is made smaller and smaller, the volatility of the cost per member increases because the risk is pooled among a smaller group.

14. The sources of funds used to provide the pension benefits are employee contributions, employer contributions and investment income. Employee contributions are set by statute and vary by benefit level. Under pension reform enacted by the California legislature in 2011, new employees must pay half of the "Normal Cost," which is the annual cost of service accrual for the upcoming fiscal year for active employees in the absence of any unfunded or overfunded liability to be amortized. Normal Cost is expressed as a percentage of the employer's covered payroll.

15. A city's contribution obligations to CalPERS are determined on an actuarial basis, taking into account investment returns, mortality rates, projected retirement pattern, projected compensation and other factors. All actuarial calculations are based on a number of assumptions about the future such as demographic assumptions including the percentage of employees that will terminate, die, become disabled and retire each future year and economic assumptions including

future salary increases for each active employee and future investment returns. The key role of the actuary is to spread this cost over time in a manageable way.

16. Investment income is based on actual performance but must be estimated in order to determine future employer contributions. Investment returns are obviously dependent on global financial circumstances and vary from year to year. The historical average annual return for CalPERS investments over the past 30 years is 9.5%. Ex. 4, (Depicting CalPERS' historical returns from fiscal year 1983-84 to fiscal year 2012-13). Presently CalPERS employs an estimated expected return rate of 7.5% in order to determine contributions, but as can be seen from the historical data, actual returns may vary significantly from that estimate. Assumptions about the investment return/discount rate are not based on investment targets or benchmarks but are instead driven by asset allocations. As asset allocations change, investment return assumptions are revised. The current investment return assumption is 7.5%, which is a combination of 2.75% for inflation and a real rate of return of 4.75% (net of investment and administration expenses).

17. The benefits under CalPERS are pre-funded. Instead of allocating money at or near the time that benefits become due, a pre-funded plan relies on an orderly schedule of contributions well in advance of benefit requirements. The willingness and ability of the sponsor of a defined benefit pension plan to maintain an orderly schedule is a major factor in the benefit security for retirees and in the maintenance of an actuarially sound plan.

18. The funded status is determined each year by comparing the assets in the plan to the liabilities of the plan. The assets are impacted by the contributions received and investment returns on those contributions while the liabilities are impacted by the benefits earned by its employees, which is based on an employee's years of service and age of retirement. If the City does not timely make its required payments, the actuarial soundness of the fund may be negatively impacted. The actuarial calculations are premised on the fact that contributions will be made when required and invested when made.

19. When contributions are delayed beyond the required date, the plan falls out of actuarial balance and actuarial soundness is put in jeopardy. By not making timely contributions, the

asset base is not being increased as projected while at the same time, the liabilities are continuing to increase as employees continue to earn service credit.

20. An employer's contribution requirement is annually calculated and is expressed as a percentage of payroll. This may change due to presently considered modifications by the CalPERS Board. The employer's contribution amounts are due and payable following each pay period. Contributions are due by the 15th day following the last day in the pay period to which they relate. However, payroll and contribution information are due by the 30th day following the last day in the pay period to which they relate. Given this lag between the two dates, once CalPERS receives the payroll and contribution information, if there is any discrepancy between the amount paid and the payroll and contribution information supplied by the employer, later periodic payment amounts are adjusted to account for discrepancies.

21. An actuarial valuation for each plan of a contracting agency is performed every year to determine the present value of future benefits (*i.e.*, the total amount of money needed to fully fund expected benefits for current members for both past and future service), the Normal Cost (which is the annual cost of one year of service accrual, as discussed above), the accrued liability (which is the value of benefits earned to date for past service only) and the current funded status (which is the market value of the assets as a percentage of the accrued liability).

22. Every year, the employer contribution rate is adjusted based on the funded status. If the plan is less than 100% funded, the employer must pay both the Normal Cost and a payment towards the unfunded accrued liability. If the plan is 100% (or more) funded, the employer must only pay the Normal Cost.

23. To minimize the effect of any short-term market value fluctuations on employer contribution rates, CalPERS uses an asset smoothing technique where investment gains and losses are spread or "smoothed" over a period of time. On April 17, 2013, the CalPERS Board approved a recommendation to change the CalPERS amortization and rate smoothing policies. Ex. 5, Board of Administration, Public Employees Retirement System, *Resolution - Actuarial Policies - Amortization and Smoothing Policies* (April 17, 2013). Beginning with the June 30, 2013 valuations that set the

event of termination, a terminated agency is required to make a payment to CalPERS in an amount determined by the CalPERS Board (based on actuarial information) to be sufficient to ensure payment of all vested pension rights of the terminated agency's employees accrued through the termination date ("Termination Payment"). The Termination Payment goes into the "Terminated Agency Pool." Once the Termination Payment is made, CalPERS has no further recourse to a terminating employer. If a terminated agency the size of the City fails to pay the Termination Payment, benefits may have to be reduced pro rata based on the amount of the Termination Payment that is not funded. Once the terminated agency's assets and liabilities have been merged into the Terminated Agency Pool, no further benefit adjustments are permitted under the PERL. As a result, the pool is subject to actuarial risk.

39. When determining the Termination Payment, CalPERS is subject to actuarial risks including longevity risk, investment risk, inflation and wage-growth risk associated with the future payment of the terminated agency's benefits. Ex. 10, (Dec. 2012 Agenda Item). Unlike in an ongoing plan, these risks cannot be addressed by adjusting contribution rates in future years. Because there is no mechanism for receiving additional payments should the actuarial assumptions not be met, the investments in the Terminated Agency Pool, and the assumptions to determine the Termination Payment, must be more conservative. To address the longevity risk, the Termination Payment calculation includes an increase to the liabilities to address mortality fluctuations. To address investment risk, inflation and wage-growth risk, the CalPERS Board has adopted a policy to determine the discount rate, inflation assumption and wage growth assumption for termination calculations. Ex. 11 (CalPERS Circular Letter No. 200-058-11 (August 19, 2011)); Ex. 12 (August 2011 Agenda Item). In addition, the CalPERS Board recently adopted a conservative asset allocation for the Terminated Agency Pool, providing that assets will be invested in treasury bonds. Ex. 10 (Dec. 2012 Agenda Item).

40. A primary driver in determining the amount of the Termination Payment is the setting of the discount rate, which is a reflection of the asset policy or how the assets are invested. Given the conservative nature of the investments in the Terminated Agency Pool, the discount rate related to a

Termination Payment is low when compared with the actuarial rate for the portfolio for ongoing participating agencies. The cumulative effect of these policies is that a terminated agency's actuarial liability upon termination is larger than the actuarial liability on an ongoing basis.[2]

41. Stockton's Annual Valuation Reports each provide a line item for "unfunded termination liability," which is an estimate of how much Stockton would owe to CalPERS if its contracts had been terminated as of *June 30, 2012*. The Miscellaneous Plan lists this unfunded termination liability at $575,931,065 and the Safety Plan lists this unfunded termination liability at $1,042,390,452, for a total of more than $1.6 billion. Exs. 6 & 7, Safety Valuation Report at 28 & Miscellaneous Valuation Report at 28. If a terminated agency fails to pay the Termination Payment, benefits to employees must be reduced pro rata based on the amount of the Termination Payment that is not funded.[3] Cal. Gov. Code § 20577. CalPERS may reduce the benefits payable under the terminated contract only once. *Id.* After the terminated agency's assets and liabilities have been merged into the Terminated Agency Pool account, the PERL permits no further benefit adjustments. *Id.* § 20578.

42. When a plan is terminated, the PERL imposes a lien in favor of CalPERS "on the assets of a terminated contracting agency, subject only to a prior lien for wages." Cal. Gov. Code § 20574. Legislative history confirms that this section immediately provides CalPERS with the rights of a senior secured creditor as a matter of law. The legislature expressly intended to "grant PERS a lien against the assets of public agencies who have terminated their membership in the system, usually as a result of agency dissolution and bankruptcy who have unfunded liabilities owed to PERS for vested employee benefits and have no ability to pay such liabilities." Ex. 13 at 35 (relevant portions of Legislative History of California Government Code § 20574).

[2] Furthermore, a terminating agency owes CalPERS the costs of collection, including attorneys' fees. Cal. Gov. Code § 20574.

[3] CalPERS may choose to make no reduction or a lesser reduction if the CalPERS Board has made reasonable efforts to the collect the payment and the CalPERS Board determines that failure to make a reduction will not impact the actuarial soundness of the Terminated Agency Pool account. Cal. Gov. Code § 20577.5.

California Public Employees' Retirement System
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October 2013

SAFETY PLAN OF THE CITY OF STOCKTON (CalPERS ID: 6373973665)
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	41.385%
2015-16	44.5% (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
Chief Actuary

ACTUARIAL VALUATION
as of June 30, 2012

for the SAFETY PLAN of the CITY OF STOCKTON
(CalPERS ID: 6373973665)

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 STOCKTON. 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.

KELLY STURM, ASA, MAAA
Senior Pension Actuary, CalPERS

HIGHLIGHTS AND EXECUTIVE SUMMARY

- **INTRODUCTION**
- **PURPOSE OF THE REPORT**
- **REQUIRED EMPLOYER CONTRIBUTION**
- **PLAN'S FUNDED STATUS**
- **COST**
- **CHANGES SINCE THE PRIOR YEAR'S VALUATION**
- **SUBSEQUENT EVENTS**

Introduction

This report presents the results of the June 30, 2012 actuarial valuation of the SAFETY PLAN OF THE CITY OF STOCKTON 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	$	16,760,403	$	14,336,846
b) Employee Contribution[1]		5,011,749		4,401,856
c) Employer Normal Cost [(1a) – (1b)]		11,748,654		9,934,990
d) Unfunded Contribution		7,521,294		10,306,453
e) Required Employer Contribution [(1c) + (1d)]	$	19,269,948	$	20,241,443
Projected Annual Payroll for Contribution Year	$	55,686,101	$	48,909,515
2. Contribution as a Percentage of Payroll				
a) Total Normal Cost		30.098%		29.313%
b) Employee Contribution[1]		9.000%		9.000%
c) Employer Normal Cost [(2a) – (2b)]		21.098%		20.313%
d) Unfunded Rate		13.507%		21.072%
e) Required Employer Rate [(2c) + (2d)]		34.605%		41.385%
Minimum Employer Contribution Rate[2]		**34.605%**		**41.385%**
Annual Lump Sum Prepayment Option[3]	$	18,585,588	$	19,522,581

[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	$	946,603,971	$	950,265,629
2. Entry Age Normal Accrued Liability		802,778,310		830,040,184
3. Actuarial Value of Assets (AVA)		685,732,778		685,764,728
4. Unfunded Liability (AVA Basis) [(2) – (3)]	$	117,045,532	$	144,275,456
5. Funded Ratio (AVA Basis) [(3) / (2)]		85.4%		82.6%
6. Market Value of Assets (MVA)	$	598,289,135	$	571,679,198
7. Unfunded Liability (MVA Basis) [(2) – (6)]	$	204,489,175	$	258,360,986
8. Funded Ratio (MVA Basis) [(6) / (2)]		74.5%		68.9%
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.

Bankruptcy

On June 28, 2012, the City of Stockton filed a petition for Chapter 9 bankruptcy protection with the United States Bankruptcy Court. That petition was approved by the Judge on April 1, 2013. The bankruptcy did not have an impact on the valuation or the determination of the required contributions for the 2014-15 fiscal year.

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	$	598,289,135
2.	Receivables for Service Buybacks as of 6/30/11		598,451
3.	Market Value of Assets as of 6/30/11		597,690,684
4.	Employer Contributions		13,384,977
5.	Employee Contributions		4,392,327
6.	Benefit Payments to Retirees and Beneficiaries		(42,339,890)
7.	Refunds		(69,339)
8.	Lump Sum Payments		0
9.	Transfers and Miscellaneous Adjustments		(1,283,259)
10.	Investment Return		(1,347,850)
11.	Market Value of Assets as of 6/30/12	$	570,427,650
12.	Receivables for Service Buybacks as of 6/30/12		1,251,548
13.	Market Value of Assets as of 6/30/12 Including Receivables	$	571,679,198

Development of the Actuarial Value of Assets

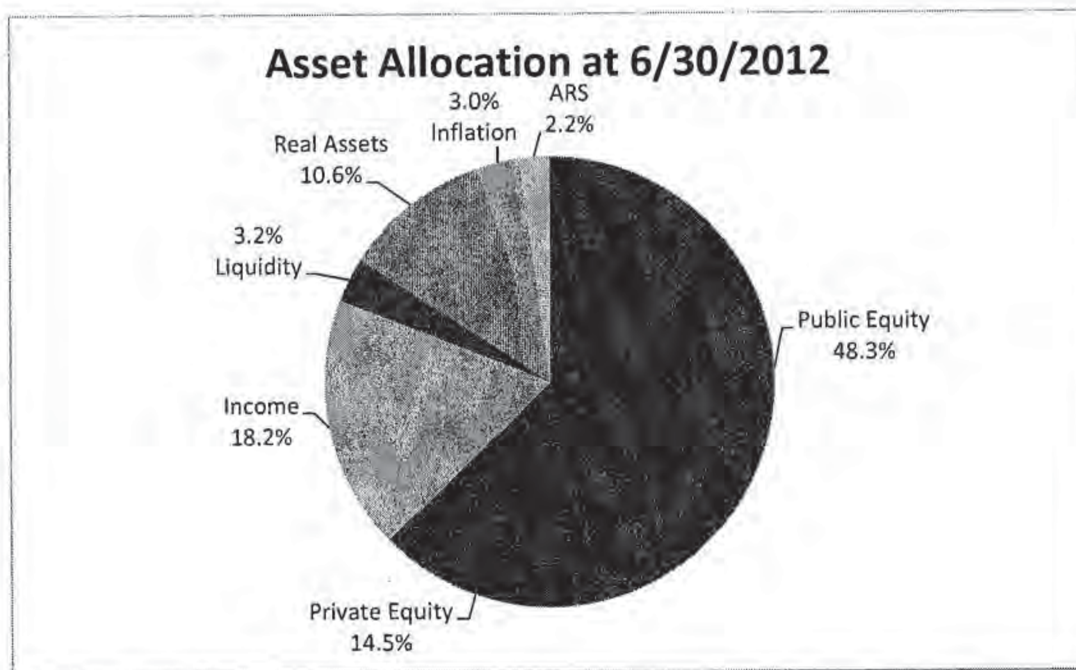
1.	Actuarial Value of Assets as of 6/30/11 Used For Rate Setting Purposes	$	685,732,778
2.	Receivables for Service Buybacks as of 6/30/11		598,451
3.	Actuarial Value of Assets as of 6/30/11		685,134,327
4.	Employer Contributions		13,384,977
5.	Employee Contributions		4,392,327
6.	Benefit Payments to Retirees and Beneficiaries		(42,339,890)
7.	Refunds		(69,339)
8.	Lump Sum Payments		0
9.	Transfers and Miscellaneous Adjustments		(1,283,259)
10.	Expected Investment Income at 7.5%		50,430,824
11.	Expected Actuarial Value of Assets	$	709,649,967
12.	Market Value of Assets as of 6/30/12	$	570,427,650
13.	Preliminary Actuarial Value of Assets [(11) + ((12) – (11)) / 15]		700,368,479
14.	Maximum Actuarial Value of Assets (120% of (12))		684,513,180
15.	Minimum Actuarial Value of Assets (80% of (12))		456,342,120
16.	Actuarial Value of Assets {Lesser of [(14), Greater of ((13), (15))]}		684,513,180
17.	Actuarial Value to Market Value Ratio		120.0%
18.	Receivables for Service Buybacks as of 6/30/12		1,251,548
19.	Actuarial Value of Assets as of 6/30/12 Used for Rate Setting Purposes	$	685,764,728

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 STOCKTON 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**



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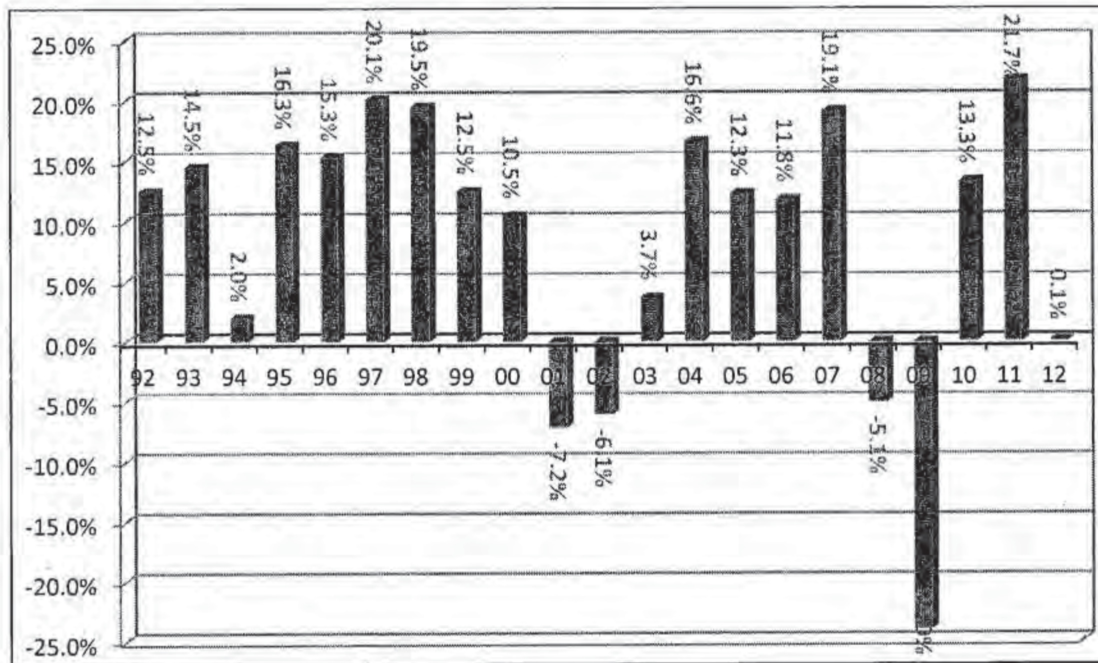
CalPERS History of Investment Returns

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	$	334,080,503
	b) Transferred Members		17,477,674
	c) Terminated Members		6,534,659
	d) Members and Beneficiaries Receiving Payments		592,172,793
	e) Total	$	950,265,629
2.	Present Value of Future Employer Normal Costs	$	82,997,783
3.	Present Value of Future Employee Contributions	$	37,227,662
4.	Entry Age Normal Accrued Liability		
	a) Active Members [(1a) - (2) - (3)]	$	213,855,058
	b) Transferred Members (1b)		17,477,674
	c) Terminated Members (1c)		6,534,659
	d) Members and Beneficiaries Receiving Payments (1d)		592,172,793
	e) Total	$	830,040,184
5.	Actuarial Value of Assets (AVA)	$	685,764,728
6.	Unfunded Accrued Liability (AVA Basis) [(4e) – (5)]	$	144,275,456
7.	Funded Ratio (AVA Basis) [(5) / (4e)]		82.6%
8.	Market Value of Assets (MVA)	$	571,679,198
9.	Unfunded Liability (MVA Basis) [(4e) - (8)]	$	258,360,986
10.	Funded Ratio (MVA Basis) [(8) / (4e)]		68.9%

(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	$	117,045,532
2.	Expected Payment on the UAL during 2011/2012		4,199,684
3.	Interest through 6/30/12 [.075 x (A1) - (($(1.075)^{1/2}$ - 1) x (A2)]		8,623,774
4.	Expected UAL before all other changes [(A1) - (A2) + (A3)]		121,469,622
5.	Change due to plan changes		0
6.	Change due to assumption change		0
7.	Expected UAL after all other changes [(A4) + (A5) + (A6)]		121,469,622
8.	Actual UAL as of 6/30/12		144,275,456
9.	Total (Gain)/Loss for 2011/2012 [(A8) - (A7)]	$	22,805,834
B	**Contribution (Gain)/Loss for the Year**		
1.	Expected Contribution (Employer and Employee)	$	19,997,971
2.	Interest on Expected Contributions		736,367
3.	Actual Contributions		17,777,304
4.	Interest on Actual Contributions		654,597
5.	Expected Contributions with Interest [(B1) + (B2)]		20,734,338
6.	Actual Contributions with Interest [(B3) + (B4)]		18,431,901
7.	Contribution (Gain)/Loss [(B5) - (B6)]	$	2,302,437
C	**Asset (Gain)/Loss for the Year**		
1.	Actuarial Value of Assets as of 6/30/11 Including Receivables	$	685,732,778
2.	Receivables as of 6/30/11		598,451
3.	Actuarial Value of Assets as of 6/30/11		685,134,327
4.	Contributions Received		17,777,304
5.	Benefits and Refunds Paid		(42,409,229)
6.	Transfers and miscellaneous adjustments		(1,283,259)
7.	Expected Int. [.075 x (C3) + (($(1.075)^{1/2}$ - 1) x ((C4) + (C5) + (C6))]		50,430,824
8.	Expected Assets as of 6/30/12 [(C3) + (C4) + (C5) + (C6) + (C7)]		709,649,967
9.	Receivables as of 6/30/12		1,251,548
10.	Expected Assets Including Receivables		710,901,515
11.	Actual Actuarial Value of Assets as of 6/30/12		685,764,728
12.	Asset (Gain)/Loss [(C10) - (C11)]	$	25,136,787
D	**Liability (Gain)/Loss for the Year**		
1.	Total (Gain)/Loss (A9)	$	22,805,834
2.	Contribution (Gain)/Loss (B7)		2,302,437
3.	Asset (Gain)/Loss (C12)		25,136,787
4.	Liability (Gain)/Loss [(D1) - (D2) - (D3)]	$	(4,633,390)

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

1.	(Gain)/Loss Balance as of 6/30/11	$	20,156,066
2.	Payment Made on the Balance during 2011/2012		1,210,391
3.	Interest through 6/30/12 [.075 x (1) - (($(1.075)^{1/2}$ - 1) x (2)]		1,467,136
4.	Scheduled (Gain)/Loss Balance as of 6/30/12 [(1) - (2) + (3)]	$	20,412,811
5.	(Gain)/Loss for Fiscal Year ending 6/30/12 [(A9) above]		22,805,834
6.	Final (Gain)/Loss Balance as of 6/30/12 [(4) + (5)]	$	43,218,645

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
FRESH START	06/30/06	24	$22,511,026	$1,459,677	$22,685,928	$1,499,414	$22,832,747	$1,544,396	3.158%
ASSUMPTION CHANGE	06/30/09	17	$16,572,337	$1,296,704	$16,470,811	$1,331,579	$16,325,511	$1,371,526	2.804%
SPECIAL (GAIN)/LOSS	06/30/09	27	$31,184,119	$1,909,179	$31,543,449	$1,961,378	$31,875,608	$2,020,219	4.131%
SPECIAL (GAIN)/LOSS	06/30/10	28	$12,604,205	$758,655	$12,762,930	$779,484	$12,911,964	$802,869	1.642%
GOLDEN HANDSHAKE	06/30/11	19	$3,310,801	$0	$3,559,111	$268,732	$3,547,417	$276,794	0.566%
ASSUMPTION CHANGE	06/30/11	19	$15,035,938	$(310,328)	$16,485,388	$414,912	$17,291,602	$1,349,211	2.759%
SPECIAL (GAIN)/LOSS	06/30/11	29	$(1,449,577)	$0	$(1,558,296)	$(93,576)	$(1,578,147)	$(96,384)	(0.197%)
PAYMENT (GAIN)/LOSS	06/30/12	30	$1,287,962	$(1,051,519)	$2,474,798	$(616,603)	$3,299,715	$198,149	0.405%
(GAIN)/LOSS	06/30/12	30	$43,218,645	$1,228,748	$45,186,051	$1,241,231	$47,288,069	$2,839,673	5.806%
TOTAL			**$144,275,456**	**$5,291,116**	**$149,610,170**	**$6,786,551**	**$153,794,486**	**$10,306,453**	**21.072%**

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	34.605%	$ 19,269,948
2. Effect of changes since the prior year annual valuation		
a) Effect of unexpected changes in demographics and financial results	6.780%	3,316,533
b) Effect of plan changes	0.000%	0
c) Effect of changes in Assumptions	0.000%	0
d) Effect of change in payroll	-	(2,345,038)
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)]	6.780%	971,495
3. Contribution for 7/1/14 – 6/30/15 [(1)+(2g)]	41.385%	20,241,443

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	19.193%	4.078%	23.271%
2011 - 2012	20.255%	8.844%	29.099%
2012 - 2013	20.675%	11.115%	31.790%
2013 - 2014	21.098%	13.507%	34.605%
2014 - 2015	20.313%	21.072%	41.385%

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	$ 664,028,434	$ 625,633,414	$ 630,768,567	94.2%	95.0%	$ 56,811,031
06/30/09	724,324,197	644,939,577	461,800,556	89.0%	63.8%	58,595,623
06/30/10	758,325,561	662,601,684	509,873,530	87.4%	67.2%	54,798,082
06/30/11	802,778,310	685,732,778	598,289,135	85.4%	74.5%	50,960,671
06/30/12	830,040,184	685,764,728	571,679,198	82.6%	68.9%	44,759,135

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	$	570,427,650
2. Payroll		44,759,135
3. Asset Volatility Ratio (AVR = 1. / 2.)		12.7
4. Accrued Liability	$	830,040,184
5. Liability Volatility Ratio (4. / 2.)		18.5

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:	41.385%	44.5%	47.7%	50.8%	54.0%	57.1%

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**
44.5%	3.1%

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)	49.9%	57.1%	66.2%	21.7%
2.6% (25th percentile)	48.6%	53.6%	59.4%	14.9%
7.5%	47.7%	50.8%	54.0%	9.5%
11.9%(75th percentile)	46.8%	48.3%	48.8%	4.3%
18.5%(95th percentile)	45.6%	44.4%	40.6%	-3.9%

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	28.173%	20.313%	14.374%
Unfunded Rate Payment	38.059%	21.072%	5.734%
Total	66.232%	41.385%	20.108%

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	$ 1,186,712,063	$ 598,289,135	$ 588,422,928	50.4%	4.82%
06/30/12	1,614,069,650	571,679,198	1,042,390,452	35.4%	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 STOCKTON

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, 2014 to June 30, 2015 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 41.385 percent of payroll. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2015, 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, 2014 to June 30, 2015. 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	26 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	$ 664,028,434	$ 625,633,414	$ 38,395,020	94.2%	95.0%	$ 56,811,031	67.6%
06/30/09	724,324,197	644,939,577	79,384,620	89.0%	63.8%	58,595,623	135.5%
06/30/10	758,325,561	662,601,684	95,723,877	87.4%	67.2%	54,798,082	174.7%
06/30/11	802,778,310	685,732,778	117,045,532	85.4%	74.5%	50,960,671	229.7%
06/30/12	830,040,184	685,764,728	144,275,456	82.6%	68.9%	44,759,135	322.3%

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					
Benefit Provision	Receiving	Receiving	Active	Active	Active	
Benefit Formula			3.0% @ 50	3.0% @ 50	2.0% @ 50	
Social Security Coverage			No	No	No	
Full/Modified			Full	Full	Full	
Final Average Compensation Period			12 mos.	12 mos.	12 mos.	
Sick Leave Credit			Yes	Yes	Yes	
Non-Industrial Disability			Standard	Standard	Standard	
Industrial Disability			Yes	Yes	Yes	
Pre-Retirement Death Benefits						
Optional Settlement 2W			No	No	No	
1959 Survivor Benefit Level			Level 4	Level 4	Level 4	
Special			Yes	Yes	Yes	
Alternate (firefighters)			No	No	No	
Post-Retirement Death Benefits						
Lump Sum	$500	$500	$500	$500	$500	
Survivor Allowance (PRSA)	Yes	Yes	Yes	Yes	Yes	
COLA	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

Age	Duration of Service					
	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

Age	Duration of Service					
	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

Age	Duration of Service					
	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

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	0.019	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

Age	Duration of Service					
	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

Age	Duration of Service					
	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.

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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		552		486
b) Average Attained Age		39.31		39.46
c) Average Entry Age to Rate Plan		27.20		27.13
d) Average Years of Service		12.11		12.33
e) Average Annual Covered Pay	$	92,320	$	92,097
f) Annual Covered Payroll		50,960,671		44,759,135
g) Projected Annual Payroll for Contribution Year		55,686,101		48,909,515
h) Present Value of Future Payroll		483,841,874		413,640,791
2. **Transferred Members**				
a) Counts		99		152
b) Average Attained Age		40.33		39.44
c) Average Years of Service		3.01		4.84
d) Average Annual Covered Pay	$	83,545	$	83,603
3. **Terminated Members**				
a) Counts		101		101
b) Average Attained Age		40.13		40.69
c) Average Years of Service		2.46		3.07
d) Average Annual Covered Pay	$	53,739	$	59,185
4. **Retired Members and Beneficiaries**				
a) Counts		718		746
b) Average Attained Age		64.62		64.58
c) Average Annual Benefits	$	57,110	$	59,398
5. **Active to Retired Ratio** [(1a) / (4a)]		0.77		0.65

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	10	0	0	0	0	0	10
25-29	25	14	1	0	0	0	40
30-34	17	58	18	0	0	0	93
35-39	7	31	40	12	0	0	90
40-44	8	28	36	44	24	0	140
45-49	0	3	14	29	39	13	98
50-54	0	1	1	7	4	1	14
55-59	0	0	0	1	0	0	1
60-64	0	0	0	0	0	0	0
65 and over	0	0	0	0	0	0	0
All Ages	67	135	110	93	67	14	486

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	$55,623	$0	$0	$0	$0	$0	$55,623
25-29	62,512	79,506	91,248	0	0	0	69,178
30-34	68,302	82,475	86,900	0	0	0	80,740
35-39	72,627	81,624	93,927	102,309	0	0	89,150
40-44	69,296	82,800	90,104	104,566	119,275	0	97,000
45-49	0	78,659	89,892	100,640	113,918	133,897	108,128
50-54	0	89,569	86,754	98,584	149,601	145,597	115,029
55-59	0	0	0	116,500	0	0	116,500
60-64	0	0	0	0	0	0	0
65 and over	0	0	0	0	0	0	0
All Ages	$64,820	$82,007	$90,923	$102,729	$117,968	$134,733	$92,097

Transferred and Terminated Members

Distribution of Transfers to Other CalPERS Plans by Age and Service

Attained Age	Years of Service at Valuation Date						Total	Average Salary
	0-4	5-9	10-14	15-19	20-25	25+		
15-24	0	0	0	0	0	0	0	$0
25-29	13	4	0	0	0	0	17	74,988
30-34	24	7	1	0	0	0	32	79,437
35-39	17	4	1	1	0	0	23	80,332
40-44	30	9	6	3	2	0	50	88,081
45-49	9	3	2	1	2	1	18	88,664
50-54	7	2	0	0	0	0	9	81,678
55-59	2	0	0	0	0	0	2	102,217
60-64	1	0	0	0	0	0	1	103,671
65 and over	0	0	0	0	0	0	0	0
All Ages	103	29	10	5	4	1	152	83,603

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

Attained Age	Years of Service at Valuation Date						Total	Average Salary
	0-4	5-9	10-14	15-19	20-25	25+		
15-24	0	0	0	0	0	0	0	$0
25-29	9	0	0	0	0	0	9	62,107
30-34	18	1	0	0	0	0	19	54,309
35-39	16	0	1	0	0	0	17	51,648
40-44	20	3	2	1	0	0	26	57,083
45-49	11	2	2	1	2	0	18	74,152
50-54	8	0	0	0	0	0	8	63,516
55-59	2	0	1	0	0	0	3	37,960
60-64	0	0	0	0	0	0	0	0
65 and over	1	0	0	0	0	0	1	67,929
All Ages	85	6	6	2	2	0	101	59,185

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	3	0	0	0	3
35-39	0	1	5	0	0	0	6
40-44	0	1	29	0	0	0	30
45-49	0	0	29	0	0	0	29
50-54	62	1	26	0	2	1	92
55-59	65	0	42	0	1	6	114
60-64	60	0	42	0	0	10	112
65-69	70	2	48	0	3	14	137
70-74	39	1	24	0	1	12	77
75-79	33	1	13	0	1	16	64
80-84	26	0	5	0	0	17	48
85 and Over	11	0	3	0	1	19	34
All Ages	366	7	269	0	9	95	746

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	37,653	0	0	0	37,653
35-39	0	25,061	42,476	0	0	0	39,573
40-44	0	9,825	41,542	0	0	0	40,485
45-49	0	0	41,841	0	0	0	41,841
50-54	94,046	13,005	44,632	0	72,030	53,315	78,279
55-59	84,658	0	69,269	0	77,421	52,357	77,225
60-64	78,676	0	67,229	0	0	33,654	70,364
65-69	67,119	44,295	58,580	0	29,920	34,289	59,625
70-74	56,529	34,991	54,680	0	30,646	40,864	52,896
75-79	45,419	24,738	57,273	0	35,445	32,046	44,004
80-84	39,341	0	44,876	0	0	19,620	32,933
85 and Over	42,034	0	36,550	0	25,684	21,581	29,640
All Ages	$70,878	$28,030	$55,166	$0	$44,780	$30,850	$59,398

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	110	1	55	0	0	28	194
5-9	71	1	68	0	0	27	167
10-14	77	1	48	0	0	12	138
15-19	35	2	37	0	1	9	84
20-24	35	0	35	0	4	10	84
25-29	29	0	14	0	2	4	49
30 and Over	9	2	12	0	2	5	30
All Years	366	7	269	0	9	95	746

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	$92,300	$25,061	$63,962	$0	$0	$36,689	$75,893
5-9	77,008	9,825	68,594	0	0	33,004	66,065
10-14	68,285	70,744	56,488	0	0	20,821	60,072
15-19	49,079	23,998	43,049	0	76,983	34,479	44,594
20-24	51,167	0	44,575	0	51,996	24,200	45,249
25-29	40,361	0	37,270	0	30,861	24,309	37,780
30 and Over	42,624	21,292	22,591	0	28,165	22,589	28,886
All Years	$70,878	$28,030	$55,166	$0	$44,780	$30,850	$59,398

* 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.

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October 2013

MISCELLANEOUS PLAN OF THE CITY OF STOCKTON (CalPERS ID: 6373973665)
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	20.090%
2015-16	22.2% (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
Chief Actuary

ACTUARIAL VALUATION

as of June 30, 2012

for the MISCELLANEOUS PLAN of the CITY OF STOCKTON

(CalPERS ID: 6373973665)

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 STOCKTON. 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.

KELLY STURM, ASA, MAAA
Senior Pension Actuary, CalPERS

HIGHLIGHTS AND EXECUTIVE SUMMARY

- **INTRODUCTION**
- **PURPOSE OF THE REPORT**
- **REQUIRED EMPLOYER CONTRIBUTION**
- **PLAN'S FUNDED STATUS**
- **COST**
- **CHANGES SINCE THE PRIOR YEAR'S VALUATION**
- **SUBSEQUENT EVENTS**

Case 12-32118 Filed 08/14/14 Doc 1675

Introduction

This report presents the results of the June 30, 2012 actuarial valuation of the MISCELLANEOUS PLAN OF THE CITY OF STOCKTON 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	$	10,319,364	$	9,534,932
b) Employee Contribution[1]		4,107,560		3,840,527
c) Employer Normal Cost [(1a) – (1b)]		6,211,804		5,694,405
d) Unfunded Contribution		4,314,437		5,327,732
e) Required Employer Contribution [(1c) + (1d)]	$	10,526,241	$	11,022,137
Projected Annual Payroll for Contribution Year	$	58,679,425	$	54,864,671
2. Contribution as a Percentage of Payroll				
a) Total Normal Cost		17.586%		17.379%
b) Employee Contribution[1]		7.000%		7.000%
c) Employer Normal Cost [(2a) – (2b)]		10.586%		10.379%
d) Unfunded Rate		7.353%		9.711%
e) Required Employer Rate [(2c) + (2d)]		17.939%		20.090%
Minimum Employer Contribution Rate[2]		**17.939%**		**20.090%**
Annual Lump Sum Prepayment Option[3]	$	10,152,408	$	10,630,693

[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	$	639,969,106	$	652,666,337
2. Entry Age Normal Accrued Liability		568,852,600		584,540,872
3. Actuarial Value of Assets (AVA)		513,963,229		517,244,333
4. Unfunded Liability (AVA Basis) [(2) – (3)]	$	54,889,371	$	67,296,539
5. Funded Ratio (AVA Basis) [(3) / (2)]		90.4%		88.5%
6. Market Value of Assets (MVA)	$	450,853,223	$	431,187,495
7. Unfunded Liability (MVA Basis) [(2) – (6)]	$	117,999,377	$	153,353,377
8. Funded Ratio (MVA Basis) [(6) / (2)]		79.3%		73.8%
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.

Bankruptcy

On June 28, 2012, the City of Stockton filed a petition for Chapter 9 bankruptcy protection with the United States Bankruptcy Court. That petition was approved by the Judge on April 1, 2013. The bankruptcy did not have an impact on the valuation or the determination of the required contributions for the 2014-15 fiscal year.

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	$	450,853,223
2.	Receivables for Service Buybacks as of 6/30/11		367,537
3.	Market Value of Assets as of 6/30/11		450,485,686
4.	Employer Contributions		8,203,945
5.	Employee Contributions		3,554,463
6.	Benefit Payments to Retirees and Beneficiaries		(30,219,557)
7.	Refunds		(188,037)
8.	Lump Sum Payments		0
9.	Transfers and Miscellaneous Adjustments		(565,132)
10.	Investment Return		(987,180)
11.	Market Value of Assets as of 6/30/12	$	430,284,188
12.	Receivables for Service Buybacks as of 6/30/12		903,307
13.	Market Value of Assets as of 6/30/12 Including Receivables	$	431,187,495

Development of the Actuarial Value of Assets

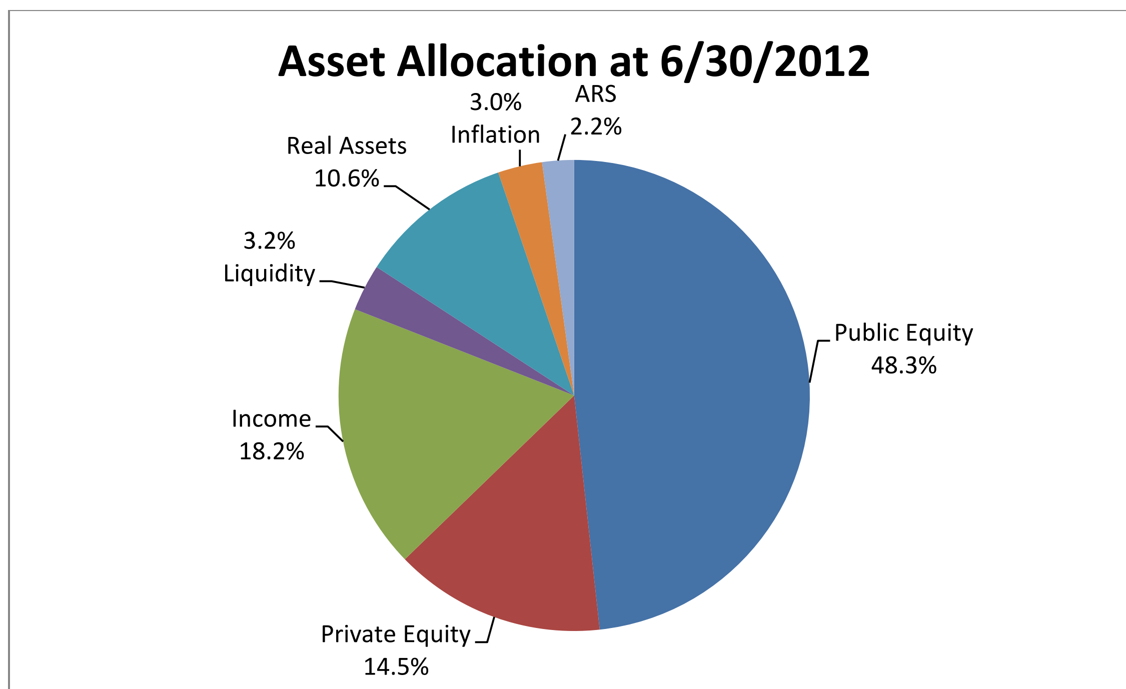
1.	Actuarial Value of Assets as of 6/30/11 Used For Rate Setting Purposes	$	513,963,229
2.	Receivables for Service Buybacks as of 6/30/11		367,537
3.	Actuarial Value of Assets as of 6/30/11		513,595,692
4.	Employer Contributions		8,203,945
5.	Employee Contributions		3,554,463
6.	Benefit Payments to Retirees and Beneficiaries		(30,219,557)
7.	Refunds		(188,037)
8.	Lump Sum Payments		0
9.	Transfers and Miscellaneous Adjustments		(565,132)
10.	Expected Investment Income at 7.5%		37,812,166
11.	Expected Actuarial Value of Assets	$	532,193,540
12.	Market Value of Assets as of 6/30/12	$	430,284,188
13.	Preliminary Actuarial Value of Assets [(11) + ((12) – (11)) / 15]		525,399,583
14.	Maximum Actuarial Value of Assets (120% of (12))		516,341,026
15.	Minimum Actuarial Value of Assets (80% of (12))		344,227,350
16.	Actuarial Value of Assets {Lesser of [(14), Greater of ((13), (15))]}		516,341,026
17.	Actuarial Value to Market Value Ratio		120.0%
18.	Receivables for Service Buybacks as of 6/30/12		903,307
19.	Actuarial Value of Assets as of 6/30/12 Used for Rate Setting Purposes	$	517,244,333

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.

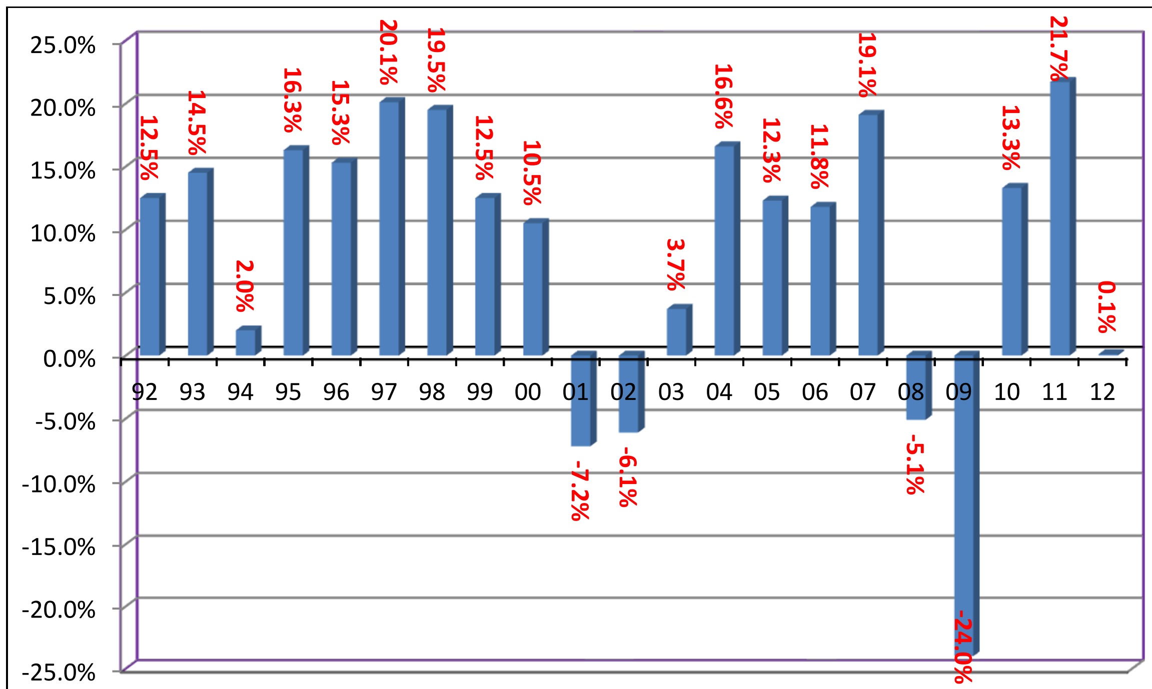
The asset allocation and market value of assets shown below reflect the values of the Public Employees Retirement Fund (PERF) in its entirety as of June 30, 2012. The assets for CITY OF STOCKTON MISCELLANEOUS PLAN are part of the Public Employees Retirement Fund (PERF) and are invested accordingly.

(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	$	221,184,776
	b) Transferred Members		22,083,865
	c) Terminated Members		9,760,119
	d) Members and Beneficiaries Receiving Payments		399,637,577
	e) Total	$	652,666,337
2.	Present Value of Future Employer Normal Costs	$	39,662,466
3.	Present Value of Future Employee Contributions	$	28,462,999
4.	Entry Age Normal Accrued Liability		
	a) Active Members [(1a) - (2) - (3)]	$	153,059,311
	b) Transferred Members (1b)		22,083,865
	c) Terminated Members (1c)		9,760,119
	d) Members and Beneficiaries Receiving Payments (1d)		399,637,577
	e) Total	$	584,540,872
5.	Actuarial Value of Assets (AVA)	$	517,244,333
6.	Unfunded Accrued Liability (AVA Basis) [(4e) – (5)]	$	67,296,539
7.	Funded Ratio (AVA Basis) [(5) / (4e)]		88.5%
8.	Market Value of Assets (MVA)	$	431,187,495
9.	Unfunded Liability (MVA Basis) [(4e) - (8)]	$	153,353,377
10.	Funded Ratio (MVA Basis) [(8) / (4e)]		73.8%

(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	$	54,889,371
2.	Expected Payment on the UAL during 2011/2012		3,515,013
3.	Interest through 6/30/12 [.075 x (A1) - $((1.075)^{½}$ - 1) x (A2)]		3,987,273
4.	Expected UAL before all other changes [(A1) - (A2) + (A3)]		55,361,631
5.	Change due to plan changes		0
6.	Change due to assumption change		0
7.	Expected UAL after all other changes [(A4) + (A5) + (A6)]		55,361,631
8.	Actual UAL as of 6/30/12		67,296,539
9.	Total (Gain)/Loss for 2011/2012 [(A8) - (A7)]	$	11,934,908
B	**Contribution (Gain)/Loss for the Year**		
1.	Expected Contribution (Employer and Employee)	$	13,242,003
2.	Interest on Expected Contributions		487,598
3.	Actual Contributions		11,758,408
4.	Interest on Actual Contributions		432,969
5.	Expected Contributions with Interest [(B1) + (B2)]		13,729,601
6.	Actual Contributions with Interest [(B3) + (B4)]		12,191,377
7.	Contribution (Gain)/Loss [(B5) - (B6)]	$	1,538,224
C	**Asset (Gain)/Loss for the Year**		
1.	Actuarial Value of Assets as of 6/30/11 Including Receivables	$	513,963,229
2.	Receivables as of 6/30/11		367,537
3.	Actuarial Value of Assets as of 6/30/11		513,595,692
4.	Contributions Received		11,758,408
5.	Benefits and Refunds Paid		(30,407,594)
6.	Transfers and miscellaneous adjustments		(565,132)
7.	Expected Int. [.075 x (C3) + $((1.075)^{½}$ - 1) x ((C4) + (C5) + (C6))]		37,812,166
8.	Expected Assets as of 6/30/12 [(C3) + (C4) + (C5) + (C6) + (C7)]		532,193,540
9.	Receivables as of 6/30/12		903,307
10.	Expected Assets Including Receivables		533,096,847
11.	Actual Actuarial Value of Assets as of 6/30/12		517,244,333
12.	Asset (Gain)/Loss [(C10) - (C11)]	$	15,852,514
D	**Liability (Gain)/Loss for the Year**		
1.	Total (Gain)/Loss (A9)	$	11,934,908
2.	Contribution (Gain)/Loss (B7)		1,538,224
3.	Asset (Gain)/Loss (C12)		15,852,514
4.	Liability (Gain)/Loss [(D1) - (D2) - (D3)]	$	(5,455,830)
	Development of the (Gain)/Loss Balance as of 6/30/12		
1.	(Gain)/Loss Balance as of 6/30/11	$	18,819,847
2.	Payment Made on the Balance during 2011/2012		1,130,150
3.	Interest through 6/30/12 [.075 x (1) - $((1.075)^{1/2}$ - 1) x (2)]		1,369,874
4.	Scheduled (Gain)/Loss Balance as of 6/30/12 [(1) - (2) + (3)]	$	19,059,571
5.	(Gain)/Loss for Fiscal Year ending 6/30/12 [(A9) above]		11,934,908
6.	Final (Gain)/Loss Balance as of 6/30/12 [(4) + (5)]	$	30,994,479

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**
FRESH START	06/30/06	11	$13,571,672	$1,385,492	$13,153,039	$1,422,229	$12,664,919	$1,464,896	2.670%
ASSUMPTION CHANGE	06/30/09	17	$12,568,357	$983,412	$12,491,361	$1,009,861	$12,381,167	$1,040,157	1.896%
SPECIAL (GAIN)/LOSS	06/30/09	27	$16,229,684	$993,626	$16,416,697	$1,020,794	$16,589,568	$1,051,417	1.916%
SPECIAL (GAIN)/LOSS	06/30/10	28	$(7,362,580)	$(443,158)	$(7,455,298)	$(455,325)	$(7,542,354)	$(468,985)	(0.855%)
GOLDEN HANDSHAKE	06/30/11	19	$4,335,945	$0	$4,661,141	$351,941	$4,645,826	$362,500	0.661%
ASSUMPTION CHANGE	06/30/11	19	$688,979	$(48,994)	$791,450	$19,920	$830,155	$64,774	0.118%
SPECIAL (GAIN)/LOSS	06/30/11	29	$(4,657,861)	$0	$(5,007,201)	$(300,685)	$(5,070,984)	$(309,706)	(0.564%)
PAYMENT (GAIN)/LOSS	06/30/12	30	$927,865	$(655,144)	$1,676,722	$(200,720)	$2,010,587	$120,737	0.220%
(GAIN)/LOSS	06/30/12	30	$30,994,478	$1,147,289	$32,129,529	$1,158,945	$33,337,624	$2,001,942	3.649%
TOTAL			**$67,296,539**	**$3,362,523**	**$68,857,440**	**$4,026,960**	**$69,846,508**	**$5,327,732**	**9.711%**

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	17.939%	$ 10,526,241
2. Effect of changes since the prior year annual valuation		
a) Effect of unexpected changes in demographics and financial results	2.151%	1,180,225
b) Effect of plan changes	0.000%	0
c) Effect of changes in Assumptions	0.000%	0
d) Effect of change in payroll	-	(684,329)
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)]	2.151%	495,896
3. Contribution for 7/1/14 – 6/30/15 [(1)+(2g)]	20.090%	11,022,137

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	10.844%	3.243%	14.087%
2011 - 2012	10.546%	6.395%	16.941%
2012 - 2013	10.268%	6.613%	16.881%
2013 - 2014	10.586%	7.353%	17.939%
2014 - 2015	10.379%	9.711%	20.090%

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	$ 491,467,308	$ 460,950,390	$ 467,269,585	93.8%	95.1%	$ 66,743,768
06/30/09	535,150,533	478,673,431	345,912,268	89.4%	64.6%	62,265,227
06/30/10	548,129,809	495,325,729	383,364,117	90.4%	69.9%	56,256,198
06/30/11	568,852,600	513,963,229	450,853,223	90.4%	79.3%	53,699,986
06/30/12	584,540,872	517,244,333	431,187,495	88.5%	73.8%	50,208,946

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	$	430,284,188
2. Payroll		50,208,946
3. Asset Volatility Ratio (AVR = 1. / 2.)		8.6
4. Accrued Liability	$	584,540,872
5. Liability Volatility Ratio (4. / 2.)		11.6

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:	20.090%	22.2%	24.3%	26.4%	28.6%	30.7%

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**
22.2%	2.1%

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)	25.8%	30.7%	36.7%	14.5%
2.6% (25th percentile)	24.9%	28.3%	32.2%	10.0%
7.5%	24.3%	26.4%	28.6%	6.4%
11.9%(75th percentile)	23.8%	24.7%	25.1%	2.9%
18.5%(95th percentile)	22.9%	22.1%	19.6%	-2.6%

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	14.717%	10.379%	7.086%
Unfunded Rate Payment	20.180%	9.711%	(0.744%)
Total	34.897%	20.090%	6.342%

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	$ 808,560,358	$ 450,853,223	$ 357,707,135	55.8%	4.82%
06/30/12	1,007,118,560	431,187,495	575,931,065	42.8%	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 STOCKTON
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, 2014 to June 30, 2015 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 20.090 percent of payroll. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2015, 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, 2014 to June 30, 2015. 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		Annual Covered Payroll (c)	UL As a % of Payroll [(a)-(b)]/(c)
				(AVA) (b)/(a)	Market Value		
06/30/08	$ 491,467,308	$ 460,950,390	$ 30,516,918	93.8%	95.1%	$ 66,743,768	45.7%
06/30/09	535,150,533	478,673,431	56,477,102	89.4%	64.6%	62,265,227	90.7%
06/30/10	548,129,809	495,325,729	52,804,080	90.4%	69.9%	56,256,198	93.9%
06/30/11	568,852,600	513,963,229	54,889,371	90.4%	79.3%	53,699,986	102.2%
06/30/12	584,540,872	517,244,333	67,296,539	88.5%	73.8%	50,208,946	134.0%

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				
Benefit Provision	Receiving	Active	Active	Receiving	
Benefit Formula		2.0% @ 55	2.0% @ 55		
Social Security Coverage		Yes	No		
Full/Modified		Modified	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		No	No		
1959 Survivor Benefit Level		No	Level 4		
Special		No	No		
Alternate (firefighters)		No	No		
Post-Retirement Death Benefits					
Lump Sum	$500	$500	$500	$500	
Survivor Allowance (PRSA)	Yes	Yes	Yes	No	
COLA	5%	5%	5%	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

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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)

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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.

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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

Age	Duration of Service					
	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

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	0.019	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

Age	Duration of Service					
	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

Age	Duration of Service					
	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.

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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

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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.

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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**

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Summary of Valuation Data

	June 30, 2011	June 30, 2012
1. **Active Members**		
a) Counts	850	811
b) Average Attained Age	47.17	46.47
c) Average Entry Age to Rate Plan	35.34	35.52
d) Average Years of Service	11.83	10.95
e) Average Annual Covered Pay	$ 63,176	$ 61,910
f) Annual Covered Payroll	53,699,986	50,208,946
g) Projected Annual Payroll for Contribution Year	58,679,425	54,864,671
h) Present Value of Future Payroll	422,189,114	406,614,317
2. **Transferred Members**		
a) Counts	469	463
b) Average Attained Age	42.73	43.17
c) Average Years of Service	2.61	2.65
d) Average Annual Covered Pay	$ 79,907	$ 77,029
3. **Terminated Members**		
a) Counts	495	505
b) Average Attained Age	44.54	45.08
c) Average Years of Service	2.63	2.68
d) Average Annual Covered Pay	$ 37,061	$ 37,674
4. **Retired Members and Beneficiaries**		
a) Counts	1,683	1,329
b) Average Attained Age	69.38	68.18
c) Average Annual Benefits	$ 16,541	$ 23,421
5. **Active to Retired Ratio** [(1a) / (4a)]	0.51	0.61

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	9	0	0	0	0	0	9
25-29	40	6	0	0	0	0	46
30-34	45	25	6	0	0	0	76
35-39	30	31	18	4	1	0	84
40-44	44	30	30	22	3	0	129
45-49	34	20	30	23	21	9	137
50-54	33	22	39	22	25	23	164
55-59	19	14	24	12	16	16	101
60-64	8	11	14	10	6	4	53
65 and over	3	3	6	0	0	0	12
All Ages	265	162	167	93	72	52	811

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	$40,453	$0	$0	$0	$0	$0	$40,453
25-29	49,735	46,636	0	0	0	0	49,331
30-34	48,936	56,597	71,655	0	0	0	53,249
35-39	51,372	60,290	62,331	70,428	75,460	0	58,206
40-44	50,415	62,179	65,528	64,635	55,282	0	59,204
45-49	59,211	72,058	67,494	71,220	74,266	74,654	68,238
50-54	61,776	67,097	66,743	82,055	62,794	64,839	66,976
55-59	72,124	68,092	62,266	61,045	66,912	70,890	66,885
60-64	45,126	69,870	59,422	61,602	76,597	73,130	62,823
65 and over	43,077	28,118	61,800	0	0	0	48,699
All Ages	$53,688	$62,670	$64,926	$69,844	$68,068	$69,037	$61,910

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	1	0	0	0	0	0	1	$29,939
25-29	38	0	0	0	0	0	38	65,443
30-34	93	2	0	0	0	0	95	75,599
35-39	63	4	2	0	0	0	69	77,265
40-44	60	7	2	0	0	0	69	78,574
45-49	38	15	0	1	1	0	55	76,073
50-54	36	12	9	4	0	0	61	87,526
55-59	36	9	1	2	0	0	48	73,820
60-64	18	4	0	1	1	0	24	85,812
65 and over	3	0	0	0	0	0	3	29,041
All Ages	386	53	14	8	2	0	463	77,029

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	2	0	0	0	0	0	2	$16,056
25-29	56	0	0	0	0	0	56	33,989
30-34	73	1	0	0	0	0	74	34,426
35-39	53	1	0	0	0	0	54	35,456
40-44	58	11	4	0	1	0	74	41,434
45-49	51	6	3	4	1	1	66	46,709
50-54	41	8	5	1	2	0	57	39,639
55-59	54	9	2	2	2	0	69	35,458
60-64	20	9	1	0	0	0	30	31,849
65 and over	18	3	2	0	0	0	23	35,532
All Ages	426	48	17	7	6	1	505	37,674

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	1	0	1	2
30-34	0	0	2	0	0	1	3
35-39	0	0	2	0	0	0	2
40-44	0	2	5	0	0	0	7
45-49	0	6	1	1	0	2	10
50-54	44	8	2	0	0	5	59
55-59	164	9	8	1	0	15	197
60-64	288	18	12	0	0	16	334
65-69	209	4	7	1	0	14	235
70-74	119	3	1	0	0	20	143
75-79	90	7	0	2	0	18	117
80-84	64	5	1	0	0	29	99
85 and Over	68	9	0	0	0	44	121
All Ages	1046	71	41	6	0	165	1,329

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	$4,016	$0	$4,450	$4,233
30-34	0	0	188	0	0	4,450	1,608
35-39	0	0	153	0	0	0	153
40-44	0	21,962	158	0	0	0	6,388
45-49	0	14,760	4,650	2,898	0	11,996	12,010
50-54	16,014	13,435	221	0	0	27,036	16,063
55-59	25,794	13,571	1,374	13,696	0	15,733	23,417
60-64	29,044	12,450	4,847	0	0	19,539	26,825
65-69	31,612	11,519	6,753	1,112	0	14,974	29,409
70-74	25,071	18,360	3,977	0	0	16,553	23,591
75-79	21,409	12,912	0	14,191	0	21,370	20,771
80-84	20,594	5,960	58	0	0	18,277	18,969
85 and Over	16,634	8,988	0	0	0	14,167	15,168
All Ages	$26,067	$12,513	$3,098	$8,351	$0	$16,942	$23,421

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	419	8	10	2	0	64	503
5-9	276	10	18	2	0	42	348
10-14	140	15	5	0	0	25	185
15-19	91	11	3	1	0	14	120
20-24	55	10	3	1	0	12	81
25-29	37	7	0	0	0	2	46
30 and Over	28	10	2	0	0	6	46
All Years	1046	71	41	6	0	165	1,329

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	$30,650	$19,431	$803	$2,005	$0	$19,844	$28,389
5-9	24,883	10,107	4,866	8,856	0	13,334	21,937
10-14	26,106	13,872	5,150	0	0	17,162	23,339
15-19	22,600	13,820	1,641	10,608	0	21,398	21,031
20-24	17,713	14,019	180	17,773	0	13,381	15,966
25-29	17,674	7,375	0	0	0	6,601	15,625
30 and Over	7,715	8,000	97	0	0	10,497	7,808
All Years	$26,067	$12,513	$3,098	$8,351	$0	$16,942	$23,421

* 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.

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Legislative History of

CALIFORNIA GOVERNMENT CODE § 20574

As Derived From
Former Government Code § 21600

As Added By
Statutes of 1982, Chapter 77, § 4
Assembly Bill 1648 – Chacon

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Authentication of the Records and Table of Contents

Legislative History Research Report Regarding:
CALIFORNIA GOVERNMENT CODE § 20574
As Derived From Former Government Code § 21600
As Added By Statutes of 1982, Chapter 77, § 4, AB 1648 – Chacon

I, Lisa Hampton, declare that this report includes:

- *Historical documents relating to the above legislation.* These documents were obtained by the staff of Legislative Research & Intent LLC and are true and correct copies of the originals obtained from the designated official, public sources in California unless another source is indicated, with the following exceptions: In some cases, pages may have been reduced in size to fit an 8 ½" x 11" sized paper. Or, for readability purposes, pages may have been enlarged or cleansed of black marks or spots. Lastly, paging and relevant identification have been inserted.

    Since 1983 LRI has specialized in the historical research surrounding the adoption, amendment and/or repeal of California statutes, regulations and constitutional provisions pursuant to California Code of Civil Procedure § 1859 which states in pertinent part: "In the construction of a statute the intention of the Legislature ... is to be pursued, if possible ...." Our research and expert witness services have assisted the courts in understanding and applying the underlying purpose of enactments in countless cases, such as *Redlands Community Hospital v. New England Mutual Life Insurance Co,* 23 Cal. App.4th 899 at 906 (1994). LRI also provides similar research for other states and at the federal level. (Formerly Legislative Research Institute and Legislative Research, Incorporated.)

- *A table of contents itemizing the documents.* This table of contents cites the sources of the documents.

I declare under penalty of perjury under the laws of the United States and the State of California that the foregoing is true and correct and that I could and would so testify in a court of law if called to be a witness.

Executed August 13, 2012, in Sacramento, California.

Lisa Hampton, Research Director

Volume 1

STATUTES OF CALIFORNIA

AND DIGESTS OF MEASURES

1982

Constitution of 1879 as Amended

Measures Submitted to Vote of Electors,
Primary Election, June 8, 1982
and General Election, November 2, 1982

General Laws, Amendments to the Codes, Resolutions,
and Constitutional Amendments passed by the
California Legislature

1981–82 Regular Session
1981–82 First Extraordinary Session

Compiled by
BION M. GREGORY
Legislative Counsel

Case 12-32118 Filed 08/14/14 Doc 1675

CHAPTER 77

An act to amend Sections 20205 and 20233 of, and to add Sections 20124.4 and 21600 to the Government Code, relating to the Public Employees' Retirement System, and declaring the urgency thereof, to take effect immediately.

[Approved by Governor March 1, 1982. Filed with Secretary of State March 1, 1982.]

The people of the State of California do enact as follows:

SECTION 1. Section 20124.4 is added to the Government Code, to read:

20124.4. Refusal by the system to admit liability pursuant to any provision of this part shall not be considered arbitrary or capricious action or conduct within the meaning of Section 800, or any other provision of law.

SEC. 2. Section 20205 of the Government Code is amended to read:

20205. The board may itself make any investment authorized by law or sell any security, obligation, or real property in which moneys in the fund are invested, by affirmative vote of at least six members of the board, or by such an affirmative vote may from time to time adopt an investment resolution which shall contain detailed guidelines by which to designate those securities and real property which are acceptable for purchase. While the resolution is in effect, securities and real property may be purchased for investment by an officer or employee of the board designated by it for such purpose, and sales of securities may be consummated by such officer or employee under the conditions prescribed. Purchases and sales of securities shall be reported to the board, on a monthly basis, at its next regular meeting.

SEC. 3. Section 20233 of the Government Code is amended to read:

20233. The board shall annually employ a certified public accountant or public accountant, who is not in public employment, to audit the financial statements of the Public Employees' Retirement System. The costs of such audit shall be paid from the income of the retirement fund. The audit shall be made annually commencing with the year ending June 30, 1974. The board shall file a copy of the audit report with the Governor, the Secretary of the Senate, and the Chief Clerk of the Assembly.

The board, for purposes of Section 7504, may file internally prepared financial statements with the Controller within six months of the end of the fiscal year, and shall file independently audited financial statements as soon as they are available.

Such audits shall not be duplicated by the Department of Finance or the Auditor General. The system shall be exempt from a pro rata

10 05

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Case 12-32118 Filed 08/14/14 Doc 1675

general administrative charge for auditing.

SEC. 4. Section 21600 is added to the Government Code, to read:

21600. The board shall have a lien on the assets of a terminated contracting agency, subject only to a prior lien for wages, in an amount equal to the actuarially determined deficit in funding for earned benefits of the employee members of such agency. Such assets shall also be available to pay actual costs, including attorney fees, necessarily expended for collection of such lien.

SEC. 5. This act is an urgency statute necessary for the immediate preservation of the public peace, health, or safety within the meaning of Article IV of the Constitution and shall go into immediate effect. The facts constituting the necessity are:

In the recent past, the Public Employees' Retirement System has experienced a number of contracting agency terminations and reformations. In order that the protections afforded by this act to related members and beneficiaries may take effect at the earliest possible time, it is necessary that this act take effect immediately.

CHAPTER 78

An act relating to courts, and declaring the urgency thereof, to take effect immediately.

[Approved by Governor March 1, 1982. Filed with Secretary of State March 1, 1982.]

The people of the State of California do enact as follows:

SECTION 1. The Legislature hereby finds and declares that:

(a) In providing for the establishment of the Placer Municipal Court District by Chapter 882 of the Statutes of 1981, it was the intent of the Legislature that there be an orderly transition from the superseded justice court districts to the new municipal court district, established by that act, through the normal election process for 1982 which is open to all persons eligible pursuant to the Constitution for the office of municipal court judge within that district.

(b) This act is declaratory of the intent of the Legislature in enacting Chapter 882 of the Statutes of 1981.

SEC. 2. (a) The new municipal court judges established by Chapter 882 of the Statutes of 1981 shall be elected at the June 1982 Primary Election in the manner provided by law.

(b) Any person may file for candidacy for these offices of municipal court judge in accordance with provisions of the Elections Code and the candidates shall not be limited to the judges of the previously existing judicial district court districts whose terms will have expired on the operative date of Chapter 882 of the Statutes of 1981.

(c) There shall be no further elections for positions within the

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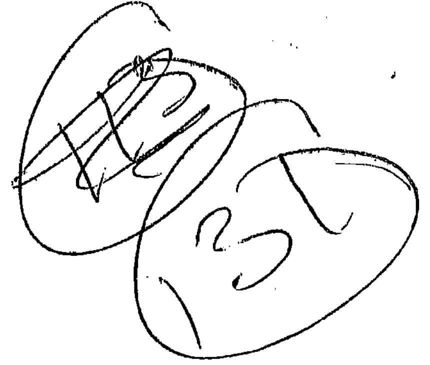

PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FLOOR STATEMENT
AB 1648

AB 1648 IS SPONSORED BY THE PUBLIC EMPLOYEES' RETIREMENT SYSTEM AND ENACTS MINOR POLICY AND TECHNICAL CHANGES TO THE RETIREMENT LAW.

THERE IS NO OPPOSITION TO THE BILL THAT I AM AWARE OF, AND IT IS SUPPORTED BY A NUMBER OF ORGANIZATIONS.

THE BILL HAS ONLY MINOR ADMINISTRATIVE COSTS ~~AND~~ I ASK FOR AN AYE VOTE.

CFC:JLC
7/7/81

BACK-UP INFORMATION
ON
AB 1648

SECTION 1. PROVIDES PERS WITH THE SAME PROTECTION GRANTED INSURANCE COMPANIES WHO ISSUE ANNUITY POLICIES IN THAT MERE REFUSAL TO PAY A BENEFIT SHALL NOT IN ITSELF BE CONSIDERED ARBUTARY OR CAPRICIOUS ACTION ENTITLING THE PLAINTIFF TO UP TO $1500 IN ATTORNEY'S FEES.

SECTION 2. REQUIRES SIX PERS BOARD MEMBERS (A MAJORITY OF THE 11 MEMBER BOARD) TO APPROVE INVESTMENT DECISIONS. CURRENT LAW REQUIRES FIVE.

SECTION 3. ALLOWS PERS TO FILE AN UNAUDITED FINANCIAL STATEMENT WITH THE STATE CONTROLLER WITHIN THE 6 MONTHS REPORTING REQUIREMENT OF THE GOVERNMENT CODE AND TO FILE AN AUDITED REPORT AS SOON AS IT IS AVAILABLE.

PERS, WITH SOME 1200 LOCAL EMPLOYERS AND 1100 SCHOOL DISTRICTS IS NOT ABLE TO COLLECT, PROCESS, RECONCILE AND BALANCE ITS ACCOUNTS AND SECURE AN OUTSIDE AUDIT OF SUCH ACCOUNTS WITHIN THE SIX MONTHS TIME FRAME OF EXISTING LAW. THIS BILL WOULD GIVE THE CONTROLLER 99% OF THE REQUIRED INFORMATION WITHIN THE TIME LIMIT. THE CHANGES TO THE STAFF REPORTS BY THE AUDITORS ARE GENERALLY VERY MINOR IN NATURE.

SECTION 4. REPEALS PERS SUBROGATION PROVISIONS WHICH REQUIRE THE RETIREMENT SYSTEM TO SEEK RECOVERY OF ANY BENEFITS PAID WITH RESPECT TO INJURY OR DEATH OF A MEMBER CAUSED BY A THIRD PARTY. AFTER THE IMPOSITION OF ATTORNEY'S FEES AND COURT COSTS AND ANY LIENS BY WORKMEN'S COMPENSATION, DISABILITY CARRIERS, ETC, THE REMAINING RECOVERY IS USUALLY DIMINISHED SUBSTANTIALLY AND PERS IS THEN REQUIRED TO, IN MOST CASES, DEMAND HALF

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OF WHAT IS LEFT. THIS CREATES BAD FEELINGS AMONG MANY MEMBERS AND OCCUPIES A GOOD DEAL OF PERS STAFF TIME.

SECTION 5. GRANTS PERS A LIEN AGAINST THE ASSETS OF PUBLIC AGENCIES WHO HAVE TERMINATED THEIR MEMBERSHIP IN THE SYSTEM, USUALLY AS A RESULT OF AGENCY DISSOLUTION AND BANKRUPTCY, AND WHO HAVE UNFUNDED LIABILITIES OWED TO PERS FOR VESTED EMPLOYEE BENEFITS AND HAVE NO ABILITY TO PAY SUCH LIABILITIES.

PERS IS CURRENTLY ONLY AN UNSECURED GENERAL CREDITOR.

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Room 2191
State Capitol

SENATE COMMITTEE ON PUBLIC EMPLOYMENT and RETIREMENT

8/5/81 Cmm

BILL ANALYSIS - BACKGROUND INFORMATION

To Assemblyman Chacon Date July 29, 1981

Room 5130 State Capitol

Sacramento, CA 95814

Your bill, number AB 1648 has been referred to our Committee. The Committee meets on the first and third Monday of each month at 1:30 p.m. in room 2040. Please indicate the next hearing date you would prefer your bill be set for 8/10/81. If you are not yet ready to set this bill you may call our Committee Secretary, Mary at 5-8958 when you are ready to do so.

In order that we may give your bill the best possible consideration I am asking that you (or the person sponsoring your bill) answer the following questions. I would very much appreciate your returning this form as soon as possible as I plan to prepare our analyses as soon as we receive each bill assigned to our Committee. Your cooperation will be a great help.

1. Source:

a. What group, organization, governmental agency, or other person, if any, requested the introduction of the bill?

Public Employees'Retirement System

b. Which groups, organizations, or governmental agencies have contacted you in support, of, or in opposition to, this bill?

California State Firemen's Association,Inc.
PERS

c. If a similar bill has been introduced at a previous session of the Legislature, what was its number and what year was it introduced?

d. Has there been an interim committee, task force, university, or other report on the bill? If so, please identify.

No

2. Purpose:

What problem or deficiency, under existing law, does this bill seek to remedy?

seeks to enact minor policy and techical changes to the retirement law

If you have any further background information or material relating to the bill, please enclose a copy of it or state where the information or material may be obtained. Thank you.

Robert C. Bissonnette
ROBERT C. BISSONNETTE

Section 4

Repeals PERS subrogation provisions.

Explanation

When PERS benefits are payable with respect to the injury or death of a member proximately caused by a third party other than the employer, the PERS Board may, on behalf of the System, receive from such part an amount equal to the lesser of either: (1) one-half of the actuarial equivalent of the benefits provided by the System, or (2) one-half of the remaining balance of the amount recovered after allowance of that amount which the employer or its insurance carrier has paid or become obligated to pay.

The pursuit of subrogation rights has been an expensive, complex, time-consuming process. Evolving case law is reducing the System's net recovery and making recovery more difficult.

Fiscal Effect

PERS expects to collect some $186,000 in fiscal year 1979/80 after administrative expenses.

Section 5

Amends the PERL to grant to the PERS Board of Administration a lien on the assets of insolvent terminating contracting agencies second only to wages.

-MORE-

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Explanation

A wide variety of fact situations have arisen in recent months involving the dissolution of member agencies, the transfer of functions or a portion of the workforce of member agencies, the consolidation or reformation of agencies, the transfer of state functions to local systmes, the possible transfer of state functions to private industry (the U.C. weapons labs), etc. In the even an agency is unable to provide for the payment of the vested retirement liabilities of its employees, PERS is in the position, essentially, of an unsecured creditor. Current retirement law does not provide any priority for retirement obligations. If we are unable to secure adequate financing, member benefits must be proportionately reduced, both for current and future employees. This bill would follow traditional wisdom that retirement contributions are, in reality, deferred compensation, by establishing a lien against agency assets second only to wages. The purpose is to secure the employees' retirement rights before the assets of the bankrupt agency are distributed to holders of materialmen and contractor's liens.

Fiscal Impact

Will depend on individual situations - expected to be nominal.

-MORE-

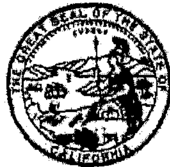
California
BALLOT PAMPHLET

General Election

November 3, 1992

CERTIFICATE OF CORRECTNESS

I, March Fong Eu, Secretary of State of the State of California, do hereby certify that the foregoing measures will be submitted to the electors of the State of California at the GENERAL ELECTION to be held throughout the State on November 3, 1992, and that this pamphlet has been correctly prepared in accordance with law.



Witness my hand and the Great Seal of the State in Sacramento, California, this 10th day of August 1992.

March Fong Eu

MARCH FONG EU
Secretary of State

Secretary of State

SACRAMENTO 95814

Dear Californians:

This is your California Ballot Pamphlet for the November 3, 1992, General Election. It contains the ballot title and a short summary provided by the Attorney General, the Legislative Analyst's analysis and an overview of the state bond debt, the pro and con arguments and rebuttals, and the complete texts for Propositions 155 through 167. It also contains the legislative votes cast for and against each measure proposed by the Legislature. Should any other measures be added to the ballot at a later date, materials relating to them will be sent in a supplemental ballot pamphlet. This election, at the suggestion of the California Commission on Campaign Financing, a private, non-profit organization, we are also including summary information regarding the measures. Statements from political parties about their philosophies and purposes are also included.

Many rights and responsibilities go along with citizenship. Voting is one of the most important, as it is the foundation on which our democratic system is built. Read carefully all of the measures and information about them contained in this pamphlet. Legislative propositions and citizen-sponsored initiatives are designed specifically to give you, the electorate, the opportunity to influence the laws which regulate us all.

Take advantage of this opportunity and exercise your rights by voting on November 3, 1992.

Please note that Proposition 155 is the first proposition for this election. To avoid confusion with past measures, the Legislature passed a law which requires propositions to be numbered consecutively starting with the next number after those used in the November 1982 General Election. This numbering scheme runs in twenty-year cycles.

162 Public Employees' Retirement Systems. Initiative Constitutional Amendment.

Official Title and Summary Prepared by the Attorney General

PUBLIC EMPLOYEES' RETIREMENT SYSTEMS. INITIATIVE CONSTITUTIONAL AMENDMENT.

- Grants the board of a public employee retirement system sole and exclusive authority over investment decisions and administration of the system.
- Requires board to administer system so as to assure prompt delivery of benefits to participants and beneficiaries.
- Provides that board's duty to participants and beneficiaries takes precedence over any other duty.
- Grants board sole and exclusive power to provide for actuarial services.
- Prohibits changing number, terms, and method of selection or removal of members of board without approval of voters of the jurisdiction in which participants of the retirement system are employed.

Summary of Legislative Analyst's Estimate of Net State and Local Government Fiscal Impact:

- Unknown fiscal effect from giving public pension boards complete authority over assets and administration of the systems.
- Potential costs to employers as a result of public pension system giving highest priority to providing benefits to members and their beneficiaries.
- Annual savings of $1 million to $3 million to the state's Public Employees' Retirement System for actuarial services.

Analysis by the Legislative Analyst

Background

Public pension systems in California provide retirement benefits to a wide range of state and local government employees—such as teachers, firefighters, and police officers. The largest of these pension systems are the state's Public Employees' Retirement System (PERS) and the State Teachers' Retirement System (STRS). In addition, there are over 100 other public retirement systems that serve counties, cities, special districts, and the University of California.

Funds for payment of retirement benefits under these public retirement systems come from assets held in trust by each system's governing board. These assets include contributions from employees and employers, plus income earned on the investment of these contributions. The members of many public retirement systems elect some members of their governing boards. The State Constitution requires each board to use fund assets to: (1) provide benefits to members of the system and their beneficiaries, (2) minimize employer contributions, and (3) pay reasonable administrative costs.

The Constitution specifies the general authority and responsibilities of public pension systems. Within these limits, the Legislature can change various administrative functions and activities of public pension systems. For example, recent legislation removed the actuarial function from the PERS Board and placed this function under a State Actuary appointed by the Governor and confirmed by the Legislature. (A primary function of the actuary is to determine the employer's annual contribution rate.) In addition, recent legislation also allowed the use of certain PERS assets to offset employer contribution costs.

Proposal

This measure makes several changes to constitutional provisions related to public retirement systems:

- It gives the board of each public pension system complete authority for administration of the system's assets and for the actuarial function. (This would have the effect of returning the PERS actuarial function to the PERS Board.)
- Each board must continue to provide benefits to members of the system and their beneficiaries, minimize employer contributions, and pay reasonable administrative costs. The measure, however, specifies that each board is to give *highest* priority to providing benefits to members and their beneficiaries.
- The measure specifies that the Legislature cannot change terms and conditions of board membership (for boards with elected employee members) unless a majority of the persons registered to vote in the jurisdiction of the retirement system approves the change. For example, a change in a county retirement system's board membership would require a countywide vote.

Fiscal Effect

The measure could have the following fiscal impacts on state and local governments.

Administration of Assets. Giving complete authority for administration of public retirement system assets to the governing boards could reduce oversight of these activities by state or local government. This would have an unknown effect on the costs of the systems.

Actuarial Responsibilities. The boards of most public retirement systems have the responsibility for the actuarial function. As noted above, the responsibility for this service for PERS was recently transferred to an actuary appointed by the Governor. By returning the function to PERS, this measure would have two fiscal effects. First, there would be annual savings in the range of $1 million to $3 million, as it appears that PERS can now perform the task at less cost than an outside actuary. These savings would be realized by all the public employers in the PERS system. Second, there would be an unknown effect on the cost of employer contributions resulting from potentially different assumptions by an actuary responsible to the PERS Board, rather than the Governor.

Board Responsibility to Pension Members. The requirement that pension system boards give highest priority to providing benefits to members and their beneficiaries could result in higher costs to employers. As discussed above, providing benefits is currently one of three basic, and equal, responsibilities of the pension boards. Placing benefits as the highest priority could result in higher costs to employers if board decisions increase benefits without equal consideration to the cost for those benefits. These potential costs are unknown, and are dependent on future decisions of pension system boards.

Vote on Legislative Changes. The provision requiring a vote within the jurisdiction of a pension system to approve legislative changes to the pension system board could result in increased election-related costs. The average annual costs for these elections, however, probably would not be significant.

For text of Proposition 162 see page 70

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162 Public Employees' Retirement Systems. Initiative Constitutional Amendment.

Argument in Favor of Proposition 162

Do you believe politicians should be able to raid the pension funds of retirees?

That's exactly what they have done—and will continue to do—unless we pass PROPOSITION 162.

A YES vote on PROPOSITION 162 will prevent politicians from raiding the pension funds of firefighters, police officers and other active and retired public employees.

It's not right to allow politicians to balance their budgets on the backs of seniors and retirees. For many retirees who have worked hard all of their lives, their only source of dignity and security is the pension they earned. They depend on those pensions to survive.

It is morally wrong and unfair to take that away from them. But politicians keep doing it.

And let's face it—if the politicians are allowed to raid public pension funds today, private pension funds will be next. The big difference is that taxpayers are ultimately responsible for public pensions. And that means taxpayers will be socked if huge future tax increases are needed to pay back *tomorrow* the funds politicians loot from public pension funds *today*.

That's why senior citizens, taxpayer groups and active and retired people throughout California are united in support of PROPOSITION 162.

Is it any wonder that more than 1.2 MILLION of our neighbors signed petitions to place PROPOSITION 162 on the ballot?

The politicians won't do the right thing, but we can! Vote YES on PROPOSITION 162.

CHARLES CARBONARO
Chairman, California State Legislative Committee
American Association of Retired Persons (AARP)

PETER J. KANELOS
Executive Director,
REsponsible VOters for Lower Taxes (REVOLT)

CLIFFORD F. HASKELL
Retired Firefighter

Rebuttal to Argument in Favor of Proposition 162

PROPOSITION 162 DOESN'T PROVIDE ADDITIONAL PROTECTION AGAINST PENSION RAIDS.

The California Constitution already protects public pensions. And the idea that only "politicians" raid pensions is ludicrous: State retirement boards took nearly a billion dollars out of state pension investments in the 1980s, to fund a special reserve account. Proposition 162 does nothing to stop these bureaucrats from conducting their own "raids."

PROPOSITION 162 IS TOO RISKY.

The state pension board has already been caught making bad investments: they have invested millions in junk bonds and speculated in risky real estate ventures. Proposition 162 would give these boards even more independence. That's a risk we are simply not prepared to take.

PROPOSITION 162 ENDS TAXPAYER OVERSIGHT.

Pension boards currently have to balance the interests of taxpayers with those of retirees. This is only fair, since nearly $5 billion a year in tax dollars go toward public pension funds. Proposition 162 destroys this balance, and instead requires pension boards to make increased benefits their number one priority, regardless of taxpayer cost. Next, Proposition 162 takes away nearly all authority of the executive and legislative branches to oversee pension board decisions. So taxpayers would have no way to keep these boards accountable for their actions.

REJECT THE SLICK CLAIMS BEHIND PROPOSITION 162. PROTECT PENSIONS AND TAXPAYERS BY VOTING NO ON 162.

RICHARD GANN
President, Paul Gann Citizens Committee

LARRY McCARTHY
President, California Taxpayers Association

 Arguments printed on this page are the opinions of the authors and have not been checked for accuracy by any official agency.

Public Employees' Retirement Systems. Initiative Constitutional Amendment. 162

Argument Against Proposition 162

Proposition 162 doesn't protect pensions, it protects the bureaucrats who have failed to curb rampant fraud and abuse in state and local government retirement systems.

Voting NO on Proposition 162 is the only way to PROTECT PENSIONS AND TAXPAYERS.

State auditors in 1990 found pension abuse in 75% of cities studied—including one case where a former city manager was collecting a $139,000 annual pension when his top salary was only $89,000. The Legislature quickly authorized state pension officials to hire six new auditors—but more than a year later, NOT ONE NEW AUDITOR HAD BEEN HIRED.

STATE RETIREMENT BOARD MEMBERS INVESTED IN JUNK BONDS, ACCEPTED TRAVEL JUNKETS AND WERE WINED AND DINED BY SPECIAL INTERESTS, AND FAILED TO SPOT OUTRAGEOUS FRAUD.

Proposition 162 would give the bureaucrats at the heart of this scandal more independence and more power—and make it harder for taxpayers to ensure these retirement funds are properly managed.

PROPOSITION 162 ENDS TAXPAYER OVERSIGHT OF STATE RETIREMENT BOARDS. Last year, in the middle of a recession and a budget crisis, the PERS board voted to pay its top bureaucrat $110,000 a year. The State Controller blocked this pay increase, but would have no authority to stop other outrageous salary hikes if Proposition 162 becomes law.

Proposition 162 would end the mandatory use of outside independent experts—called actuaries—to review the amount of money taxpayers pay into the state retirement system. Proposition 162 would take away this independent voice in determining taxpayer contributions to the nation's largest pension fund. THAT'S JUST TOO RISKY.

And Proposition 162 also dictates that retirement boards alone would have absolute authority to determine the amount of money taxpayers must contribute to state, school and local government retirement funds each year. Retirement boards would be able to demand from taxpayers excessive contributions when the retirement system is overfunded. And in future budget crises, retirement costs could soar while vital public services are cut to the bone.

BY TAKING MORE TAX DOLLARS THAN NECESSARY, RETIREMENT BOARDS COULD FORCE MORE TAX INCREASES ON CALIFORNIA.

The interests of taxpayers and state and local government retirees are balanced carefully under current law. But Proposition 162 upsets that balance, and the taxpayers end up losing.

Proposition 162 requires retirement boards to make providing or increasing benefits their number one priority, regardless of the costs to the taxpayers. A majority of contributions to the pension fund comes from the taxpayers each year. PROPOSITION 162 WOULD REQUIRE A PENSION BOARD TO DISREGARD THE INTERESTS OF TAXPAYERS.

Bureaucrats have long employed scare tactics to get more money from the taxpayers, and Proposition 162 is based upon a colossal and phony claim that public pension funds are at risk. They are not. State and local government pensions are already protected by California's Constitution. And this initiative does not change any existing constitutional protections of retirement funds.

Vote no on Proposition 162.

LARRY McCARTHY
President, California Taxpayers' Association

RICHARD L. GANN
President, Paul Gann's Citizens Committee

Rebuttal to Argument Against Proposition 162

Opponents of Proposition 162 are trying to mislead the voters.

The central purpose of this measure is to STOP POLITICIANS FROM USING PUBLIC PENSION FUNDS TO BAIL THEM OUT WHEN THEY FAIL TO KEEP GOVERNMENT SPENDING UNDER CONTROL. Pension funds should be used to provide promised benefits for retired workers, not as a slush fund for politicians.

Proposition 162 has nothing to do with auditors who investigate alleged pension abuse. In fact, state pension officials were unable to hire more auditors because the politicians delayed funding for the positions.

Nor does Proposition 162 have anything to do with retirement benefit levels. Only legislative bodies elected by voters and voters themselves have the power to set benefit levels.

PROPOSITION 162 does have something to do with taxes. It *prevents taxpayers from being gouged in the future to pay back pension money looted by politicians.*

Seniors and taxpayer groups who have carefully read Proposition 162 agree that *the real issues are protecting pension funds and taxpayer dollars.*

Pension fund security is crucial to retired workers who are struggling to pay for food, shelter and health care.

And ***preventing pension raids is crucial to all taxpayers to avoid future tax increases*** that would be needed to pay back the money taken by politicians.

Because politicians have repeatedly tried to loot hundreds of millions of dollars from public pension systems, Proposition 162 is needed to KEEP POLITICIANS' HANDS OUT OF THE TILL.

Vote Yes on Proposition 162.

DERRELL KELCH
President, California Seniors Coalition

PETER J. KANELOS
Executive Director, REsponsible VOter for Lower Taxes (REVOLT)

Case 12-32118 Filed 08/14/14 Doc 1675

Calendar No. 436

73d Congress, 2d Session } SENATE { Report No. 407

TO AMEND THE BANKRUPTCY ACT—MUNICIPAL INDEBTEDNESS

February 28 (calendar day, March 5), 1934.—Ordered to be printed

Mr. Neely, from the Committee on the Judiciary, submitted the following

REPORT

[To accompany H.R. 5950]

The Committee on the Judiciary, having had under consideration the bill (H.R. 5950) to amend an act entitled "An act to establish a uniform system of bankruptcy throughout the United States", approved July 1, 1898, and acts amendatory thereof and supplementary thereto, report the same favorably to the Senate and recommend that the bill do pass.

The purpose and effect of this legislation are set out in House Report 207, which accompanied this bill in the House of Representatives, and which is hereby adopted as the report of the Committee on the Judiciary of the Senate, as follows:

The controlling purposes of the bill are to provide a forum where distressed cities, counties, and minor political subdivisions, designated in the bill as "taxing districts", of their own volition, free from all coercion, may meet with their creditors under the necessary judicial control and assistance in an effort to effect an adjustment of their financial matters upon a plan deemed mutually advantageous. If a plan is agreed upon by the taxing district and its creditors holding two thirds in amount of the claims of each class of indebtedness, and if the court is satisfied that the plan is workable and equitable, it may confirm the plan, and the minority creditors are bound thereby.

The general plan of this bill, as may be seen from the foregoing, is substantially that of the bills amendatory of the Bankruptcy Act dealing with railroads and dealing with corporations, which have been approved by the House.

THE CONSTITUTIONAL POWERS AND DUTIES OF CONGRESS

The following quotation is taken from an opinion given by the Attorney General April 21, 1933:

"Approaching the question whether Congress may enact any form of bankruptcy legislation applicable to municipalities, it should be borne in mind that Congress alone can effectively act. The Constitution prohibits the States from enacting any law 'impairing the obligation of contracts', and this prohibition

Case 12-32118 Filed 08/14/14 Doc 1675

covers a law discharging insolvent debtors from liabilities incurred prior to its passage." (*Sturges* v. *Crowninshield*, 4 Wheat. 122.)

The committee concurs in this opinion, and is convinced that because of this limitation upon the power of the States contained in the Federal Constitution the States do not possess the power necessary effectively to deal with the situation which exists with regard to bankrupt taxing districts.

In the hearings before the committee it was disclosed that as of date March 25, 1933, there were scattered among 41 States, 805 cities, counties, taxing districts, etc., designated in this bill as "taxing districts," which were in actual default with the number now well above 1,000, with many others threatened with default.

The committee is also convinced that a large majority of holders of the obligations of these taxing districts desire the enactment of this proposed legislation.

The committee has also taken into consideration, and regards of great importance, the public necessity of making it possible for cities, by mutual and effective agreement with their creditors, so to adjust their existing indebtedness as to carry forward without too hurtful a diminution the discharge of their governmental duties of fire, police, and sanitary protection, and education, and meet the increased burden incident to caring for those who must seek public assistance in order to live.

THIS BILL DOES NOT EXTEND THE FEDERAL JURISDICTION OVER THE STATES OR OVER ANY OF THEIR SUBDIVISIONS

These defaulting taxing districts may now be sued by nonresidents in Federal courts as a private person may be sued for debt, and by mandamus may be compelled to levy the necessary tax to meet past due obligations, and their officers may be sent to jail for contempt if they refuse to proceed to the levy and collection of the necessary taxes.

This bill would suspend the exercise of that Federal power during the reasonable time provided by the bill while a new plan possible of being carried out is in process of formulation.

This bill does not permit a taxing district to be forced into court. Only upon its own initiative and petition can a taxing district become subject to the jurisdiction of the bankruptcy court under this bill.

The bill is not only temporary, made so by a specific limitation of 2 years, but it is also specifically provided that as soon as the final decree is entered in any case the Federal court before which the readjustment has been effected shall immediately cease all jurisdiction, leaving the parties to their present and ordinary remedies with reference to all matters connected with the plan which may later come into controversy. As a further limitation upon Federal power and in respect for the rights and responsibilities of the States, it is provided as follows:

"(l) Nothing contained in this chapter shall be construed to limit or impair the power of any State to control by legislation or otherwise any political subdivision thereof in the exercise of its political or governmental powers, including expenditures therefor and including the power to require the approval by any governmental agency of the State of the filing of any petition hereunder and of any plan of readjustment, and whenever there shall exist or shall hereafter be created under the law of any State any agency of such State authorized to exercise supervision or control over the fiscal affairs of all or any political subdivisions thereof, and whenever such agency has assumed such supervision or control over any political subdivision, then no petition of such political subdivision may be received hereunder unless accompanied by the written approval of such agency and no plan of readjustment shall be put into temporary effect or finally confirmed without the written approval of such agency of such plans."

This bill insofar as its coercive features are concerned is directed solely against the nonconsenting minority holding out, often, for its pound of flesh against the judgment of two thirds of the other creditors and against a taxing district unable to pay according to the present terms of its existing indebtedness, and in a sense holding out against the court of bankruptcy charged by the terms of the bill that before it may approve it, the judge must hear objections to the plan and find that the plan is fair and equitable.

The mechanics of the bill are substantially those of the two amendments to the Bankruptcy Act which are familiar to the House and which have been approved by the House.

MINORITY VIEWS

A minority of the Senate Judiciary Committee, to which was referred H.R. 5950, to amend the Bankruptcy Act of 1898, as amended and supplemented, feels that such bill ought to be rejected.

The recommendation that such bill be rejected is based upon two propositions: First, that said bill is unconstitutional; second, that the policy of enacting such legislation is ill-advised.

In support of the position taken by said majority of said subcommittee, it is respectfully submitted that the constitutionality of said bill has been the subject of prolonged and highly controversial discussion. It is the opinion of the undersigned that the weight of the authorities is to the effect that the bill is unconstitutional.

It is proposed by this legislation that any municipality or other political subdivision of any State, including any county, city, borough, village, parish, town, or township, unincorporated tax or special assessment district, and any school, drainage, irrigation, levee, sewer or paving, sanitary, port, improvement, or other districts may file petitions in courts of bankruptcy stating that the taxing district is insolvent or unable to meet its debts as they mature and that it is desirous of effecting a plan of readjustment of its debts upon the basis of its capacity to pay. Subject to numerous conditions contained in the bill, the judge of the United States district court may approve or disapprove the petition and the plan for refunding the debts of the petitioning municipality. If the plan be approved, the final decree of said court shall discharge the taxing district from those debts and liabilities dealt with in the plan and upon such confirmation the provisions of the plan and of the order of confirmation shall be binding upon (1) the taxing district, and (2) all creditors, secured or unsecured, whether or not affected by the plan, and whether or not their claims shall have been filed or evidenced, and if filed or evidenced, whether or not allowed, including creditors who have not, as well as those who have, accepted it. It is submitted that the grant of above powers to a court of bankruptcy is an interference with the powers, rights, and privileges of the sovereign States.

It is academic to suggest that the political units named in the bill are subdivisions of and agencies of the State. Such subdivisions and agencies are created by the State to carry out, in given localities, the business and functions of the State. Their authority is limited to the powers granted them under the constitution of the State, its statutes or by charter. Such powers must be exercised in strict compliance with such grants of power. Upon no other theory could the delegation of the power to tax, being a legislative function, be delegated to such political units.

By this bill, the Federal courts are empowered to revise and recast the debts and obligations of the subordinate governmental agencies of the States. They are empowered to alter and nullify the laws

theretofore enacted by the States and the ordinances of the States' subordinate governmental agencies exercising the power of taxation. It proposes to discharge the municipality and its officers from the duty imposed by State law to levy taxes to pay the debts and obligations of the municipality. These tax levies once fixed become liens which should not be interfered with nor nullified by Federal governmental action.

The opinion of the Attorney General's office rendered to the Judiciary Committee of the House attempts to draw a distinction between the proprietary and public capacities of a municipality and concludes as follows:

> In my opinion the private or proprietary capacity of a municipality is sufficiently distinct and definite to bring it within the purview of the bankruptcy power of Congress where the State, as the representative of the municipality's governmental functions, has given its consent.

It developed at the hearings that there is no recognized or uniform line of cleavage determining when a municipal unit is acting in a private or proprietary capacity and when it is functioning in a public or governmental capacity. Such distinction is purely of judicial origin to relieve the harsh rule denying recovery against municipalities for negligence of inferior officers and servants in the performance of duties connected with certain public activities. It has no application to the income, property, contracts, debts, bonds, appropriations, or tax levies for such public activities.

It is impossible to envisage a sovereign State as subject to bankruptcy courts. The power of the States and their subordinate governmental agencies to borrow money, incur obligations, and fix tax levies is essentially a function of the sovereign States, legislative in nature, and cannot be delegated to the judicial branches of the States, much less to the judicial branches of a foreign sovereignty.

In view of the above facts, the undersigned are of the opinion that the Federal Government is without power or authority to exercise jurisdiction over or interfere with the sovereign States or their subdivisions and agencies as provided in H.R. 5950.

THE POLICY OF THE BILL

After thorough public hearings and investigation, the undersigned are of the further opinion that, in the ground of policy as well as legality, the bill ought to be rejected.

As set out in the report of the committee on commercial law and bankruptcy of the American Bar Association, which report was unanimously adopted by the association at its annual meeting in 1933—

> The inevitable results of the operation of municipal bankruptcy must be to depress the market for municipal securities and seriously impair the credit of cities in sound financial position.

To this opinion we subscribe. Even proponents of this legislation have been candid enough to admit that the passage of either of the bills under discussion would affect the credit of solvent cities, would act as a drag on the sale of municipal securities and might demand a higher rate of interest on such securities. In all probability only a comparatively small percent of municipalities will take advantage of the provisions of the bills if enacted, yet the presence of the law on

the statute books would, in the opinion of the undersigned, cost investors and solvent municipalities millions of dollars.

Municipal securities have always been considered gilt edge investments. They have ranked second only to the obligations of the Federal and State Governments. Probate courts have for generations authorized and directed guardians, trustees and administrators to invest the trust funds under their control in municipal securities. The American Legion Endowment Fund Corporation now has approximately four and one-half million dollars invested in the bonds of municipalities and other political units. The capital of this corporation was contributed by public spirited citizens all over the United States for the purpose of creating an income which is expended solely for the rehabilitation and child welfare work in connection with the veterans of the World War. The officers of this fund are strongly opposed to the passage of this legislation. The funds of scores of fraternal insurance orders are similarly invested and such fraternal orders have gone on record as opposed to the bill.

The testimony taken at the hearings did not develop the fact that this legislation was necessary to avoid universal repudiation of municipal debts. While no witness seemed possessed of very accurate information on the subject, it was stated by the different witnesses that from 250,000 to 400,000 taxing districts would be potentially subject to this legislation. It is further safe to assume that approximately 2,000 of such units are in default in the payment of principal or interest or both on their obligations at this time. It is further agreed that there are outstanding approximately $20,000,000,000 of such municipal securities. In the face of such facts it surely cannot be argued that legislation of this character is universally demanded.

The most insistent demand for this legislation comes from cities which were overdeveloped during boom days when real-estate prices were pyramided and unreasonable and wholly unwarranted public improvements were projected upon such pyramided values. While it is palpable that such cities are at this time seriously involved, it is the duty of the State to come to the relief of such communities rather than to involve the faith and credit of the tens of thousands of solvent municipalities throughout the entire country by the passage of such Federal legislation as is here demanded. It is quite evident from the decision in the case of *Home Building & Loan Association* v. *Blaisdell*, rendered by the Supreme Court of the United States on January 8, 1934, that the State, through proper legislation, may declare such moritoria as may afford temporary relief to certain of its political subdivisions. It may also provide for direct relief to such municipalities and other political subdivisions. If this be true, we question the propriety of the Federal Government entering into the legislation contemplated by the bills under consideration.

Many reliable parties in interest have very frankly and fearlessly expressed themselves as opposed to this legislation. Among such opponents, may we cite the following:

1. American Bar Association.
2. American Bankers Association.
3. Chamber of Commerce of the United States.
4. National Fraternal Congress, representing fraternal societies with 8,000,000 members.
5. National Association of Credit Men, representing 20,000 manufacturing, wholesaling, and banking institutions.

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6. Pennsylvania Fraternal Congress.
7. Ohio Chamber of Commerce.
8. Tacoma Chamber of Commerce.
9. Pennsylvania Fraternal Congress, having a constituency of 36 fraternal societies.
10. Polish Association of America, Milwaukee.
11. Junior Order of American Mechanics, Philadelphia.
12. New England Fraternal Congress.
13. Maryland Fraternal Congress.
14. Wisconsin Fraternal Congress.
15. Western Catholic Union, Peoria, Ill.
16. Degree of Honor Protective Association, St. Paul.
17. Ben Hur Life Association, having $8,000,000 in municipal bonds, Crawfordsville, Ind.
18. Association of Indiana Legal Reserve Life Insurance Companies, having $27,000,000 invested in municipal securities.
19. Ancient Order of United Workmen, having $10,500,000 invested in municipal bonds, Newton, Kans.

As aforesaid, on the ground of policy as well as legality, the undersigned members of said Judiciary Committee feel that said bill ought to be rejected.

FREDERICK VAN NUYS.
DANIEL HASTINGS.
FELIX HEBERT.
PAT MCCARRAN.

interpret it as they have done in the past consistent with the purposes of Chapter IX and the powers of the court.

SECTION 83

The purpose of section 83, copied from present section 83(i), is the same as that of section 82(c). It is to prevent the statute or the court from interfering with the power constitutionally reserved to the State by the Tenth Amendment. This section makes it clear that the chapter may not be construed to limit or impair the power of the State to control, by legislation or otherwise, any municipality, political subdivision or public agency or instrumentality in the exercise of its governmental functions. Any State law that governs municipalities or regulates the way in which they may conduct their affairs controls in all cases. Likewise, any State agency that has been given control over any of the affairs of a municipality will continue to control the municipality in the same way, in spite of a Chapter IX petition.

The proviso in current section 83(i), retained here, prohibiting state composition procedures was enacted in response to, and overruled the holding of the Supreme Court in, *Faitoute Iron & Steel Co. v. City of Asbury Park*, 316 U.S. 502 (1942).[4] In that case, the court upheld a New Jersey statute that permitted a binding composition of a municipality's debts upon the acceptance of a plan by 85% of the municipality's creditors. The composition dealt only with unsecured obligations, and the state statute prohibited reduction in the principal amount of the outstanding obligations. The Court refused to go beyond the facts of the case, holding only that the Contracts Clause of the Constitution did not prohibit that particular composition.

The proviso is retained for the same reason it was enacted by Congress:

> State adjustment acts have been held to be valid, but a bankruptcy law under which the bondholders of a municipality are required to surrender or cancel their obligations should be uniform throughout the [United] States, as the bonds of almost every municipality are widely held. Only under a Federal law should a creditor be forced to accept such an adjustment without his consent. H.R. Rep. No. 2246, 79th Cong., 2d Sess. 4 (1946).

SECTION 84

Section 84 is derived in part from current section 81. It sets the eligibility requirements for relief under Chapter IX. The entity that files must be a political subdivision or public agency or public instrumen-

4. 62 S.Ct. 1129, 86 L.Ed. 1629.

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tality of a State. This is not meant to be limiting language, but rather is meant to be a description of general categories that cover all of the various entities now listed in section 81 of current law. The bill also omits any limiting reference to the manner by which the indebtness of the entity is payable. The intention of these two changes is to broaden the applicability of Chapter IX as much as possible. The entity must not be prohibited from filing by state law. The reference to a prohibition by state law recognizes a limitation frequently expressed in the

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In my judgment, the provisions of the statute as it is being amended, with reference to fair plans and the approval thereof, the participation of the SEC, the optional character of the appointment of an independent trustee, are far superior to the present Chapter X, to the present combination of Chapters X and XI, and to limited proposals by the SEC, which in my opinion, do not recognize the extent to which the insights of 40 years ago are not responsive to today's needs.

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CHAPTER 6. ADJUSTMENT OF DEBTS OF A MUNICIPALITY

I. Introduction

A procedure for the adjustment of the debts of a financially distressed municipality has been a permanent part of the Bankruptcy Act since 1937.[1] The troubles of the depression drove many municipal units to default on their obligations. Because existing laws did not provide a procedure for the relief of hard-pressed municipalities, Congress responded to their plight with the enactment of a Municipal Bankruptcy Act.[2] The original legislation was declared unconstitutional by the Supreme Court,[3] but a later enactment [4] was upheld,[5] and remained a part of the Bankruptcy Act, with minor amendments, until last year. In the 94th Congress, major amendments to the municipal bankruptcy laws were made [6] as a result of the deteriorating financial plight of several of the larger cities, most notably New York, Yonkers, and Detroit.[7] The amendments adopted last year went far to modernize then existing procedure, which was "hopelessly archaic and unworkable for all but the smallest entities." [8] The Committee Report that accompanied the bill enacted last year explained the need for a municipal bankruptcy procedure,[9] and it is not necessary to repeat those considerations here.

The municipal bankruptcy law passed last year was adopted while the reforms proposed by H.R. 8200 were under consideration. Thus, many of the provisions in last year's amendments are derived in large part from the work of the Commission on the Bankruptcy Laws and the Subcommittee on Civil and Constitutional Rights.[10] The need for substantive revision this year is not great, and H.R. 8200 carries over substantially intact many of the reforms adopted last year. The changes that have been made fall into two categories. First, the municipal debt adjustments chapter, chapter 9 of proposed title 11, is conformed generally with the revisions in reorganization law contained in the bill. Current chapter IX is based largely on current chapter X of the Bankruptcy Act. The new chapter 9 is brought into conformity with proposed chapter 11, governing reorganizations generally. The changes resulting from this include changes in the financial rules for confirmation of a plan, and changes in some procedures.

The second basis for change from the bill adopted last year is the recent decision of the Supreme Court in *National League Cities v.*

[1] Act of August 16, 1937, c.657, 50 Stat. 654.
[2] Act of May 24, 1934, c. 345, 48 Stat. 798.
[3] *Ashton v. Cameron County Water Improvement District No. 1*, 298 U.S. 513 [56 S.Ct. 892, 80 L.Ed. 1309] (1936).
[4] Act of August 16, 1937, c. 657, 50 Stat. 654.
[5] *Bekins v. United States*, 304 U.S. 27 (1938).
[6] Pub. L. No. 94-260, April 8, 1976.

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[7] See H.R. Rep. No. 94-686, 94th Cong., 1st Sess. 4 (1975).
[8] Id.
[9] Id.
[10] Id. at 5.

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Usery.[11] In that case, the Court enunciated a stronger policy of Federalism and States' rights than had been stated since the first Municipal Bankruptcy Act was held unconstitutional in 1936.[12] In deference to developing ideas of Federalism, this bill takes greater care to insure that there is no interference in the political or governmental functions of a municipality that is proceeding under chapter 9,[13] or of the State in its power to control its municipalities.[14]

II. General Description

Chapter 9 provides a workable procedure so that a municipality of any size that has encountered financial difficulty may work with its creditors to adjust its debts. Though the chapter is proposed as part of the bankruptcy code and is proposed under the bankruptcy power,[15] the term "bankruptcy" in its strict sense is really a misnomer for a chapter 9 case. Chapter 9 provides essentially for Federal court protection, and supervision of a settlement between the debtor municipality and a majority of its creditors. A municipal unit cannot liquidate its assets to satisfy its creditors totally and finally. Therefore, the primary purpose of chapter 9 is to allow the municipal unit to continue operating while it adjusts or refinances creditor claims with minimum (and in many cases, no) loss to its creditors.

The general policy underlying the municipal debt adjustments chapter is the same as that underlying the reorganization chapter: the chapter gives the debtor a breathing spell from debt collection efforts in order that it can work out a repayment plan with its creditors. There are two major differences from general reorganization law: first, the law must be sensitive to the issue of the sovereignty of the States; second, a municipality is generally not a business enterprise operating for profit, and there are no stockholders. These differences dictate some limitations on the court's powers in dealing with a municipal debt adjustment, and some modifications of the standards governing the proposal and confirmation of a plan.

Thus, the powers of the court are subject to a strict limitation—that no order or decree may in any way interfere with the political or governmental powers of the petitioner, the property or revenue of the petitioner, or any income-producing property. The purpose of this limitation derives from *Ashton* v. *Cameron Water Improvement District No. 1*,[16] which held the first Municipal Bankruptcy Act unconstitutional on the basis of infringement of State sovereignty. This limitation was included in the second Act, and was relied upon in *Bekins* v. *United States*,[17] which upheld the second municipal adjustments statute. The Court quoted extensively from the Committee Report on this point:[18]

> In *Ashton* v. *Cameron County District*, *supra*, the court considered that the provisions of Chapter IX authorizing the

[11] 426 U.S. 833 [96 S.Ct. 2465, 49 L.Ed.2d 245.] (1976). See Note, *Municipal Bankruptcy, the Tenth Amendment and the New Federalism*, 89 Harv. L. Rev. 1871 (1976).
[12] Ashton v. Cameron County Water Improvement District No. 1, 298 U.S. 513 [56 S.Ct. 892, 80 L.Ed. 1309.] (1936).

[33] H.R. 8200, 95th Cong., 1st Sess. § 101 (proposed 11 U.S.C. 904).
[34] *Id.* (proposed 11 U.S.C. 903).
[35] U.S. CONST. art. I, § 8, cl. 4.
[36] 298 U.S. 513 (1936).
[37] 304 U.S. 27 [58 S.Ct. 811, 82 L.Ed. 1137.] (1938).
[38] *Id.* at 49-51 (footnotes omitted).

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bankruptcy court to entertain proceedings for "readjustment of the debts" of "political subdivisions" of a State "might materially restrict its control over its fiscal affairs," and was therefore invalid; that if obligations of States or their political subdivisions might be subjected to the interference contemplated by Chapter IX, they would no longer be "free to manage their own affairs."

In enacting Chapter [IX] the Congress was especially solicitous to afford no ground for this objection. In the report of the Committee on the Judiciary of the House of Representatives, which was adopted by the Senate Committee on the Judiciary, in dealing with the bill proposing to enact Chapter [IX], the subject was carefully considered. The Committee said:

"...

"The Committee on the Judiciary is not unmindful of the sweeping character of the holding of the Supreme Court above referred to [in the *Ashton* case], and believes that H.R. 5969 is not invalid or contrary to the reasoning of the majority opinion . . .

"The bill here recommended for passage expressly avoids any restriction on the powers of the States or their arms of government in the exercise of their sovereign rights and duties. No interference with the fiscal or governmental affairs of a political subdivision is permitted. The taxing agency itself is the only instrumentality which can seek the benefits of the proposed legislation. No involuntary proceedings are allowable, and no control or jurisdiction over that property and those revenues of the petitioning agency necessary for essential governmental purposes is conferred by the bill. . . ."

We are of the opinion that the Committee's points are well taken and that Chapter [IX] is a valid enactment. The statute is carefully drawn so as not to impinge upon the sovereignty of the State. The State retains control of its fiscal affairs.

The Supreme Court and the Courts of Appeals have made it very clear that the jurisdiction of the court "is strictly limited to disapproving or to approving and carrying out a proposed composition."[39] The bill follows these holdings and retains the limitation on the court's power, especially in light of the more recent decision of the Supreme Court in *Usery* stressing the concept of non-interference by the Federal Government with State governmental powers.[40]

[39] Ledo Properties v. R. H. Crummer & Co., 128 F.2d 110, 113 (5th Cir. 1942).
[40] 426 U.S. 833 (1976).

The filing of the petition operates as an automatic stay of all actions, judicial or otherwise, and of the commencement or continuation of any action which seeks to enforce a lien against the petitioner, its property, its officers, or its inhabitants. This feature is new as well. It gives the petitioner the breathing spell it may need to get back on its feet financially, and the time it needs to negotiate and develop a plan of adjustment with its creditors.

The filing of a petition also makes unenforceable certain contractual provisions, such as those that terminate or modify, or permit a party to a contract other than the petitioner to terminate or modify, the contract for the reason that the petitioner is insolvent or has filed a petition for relief under the Bankruptcy Act. These clauses, known generally as ipso facto clauses, are often found in the commercial context. Their existence and enforceability may severely hamper a successful reorganization or arrangement proceeding under Chapter X or XI, so they are made unenforceable in those chapters. It is unknown how widespread such clauses are in the municipal context, because they are usually included only when there is some suspicion on the part of one contracting party that the other may become insolvent, and seldom is such an occurrence found in the municipal context. Nevertheless, it is felt that their existence could be detrimental to a successful municipal adjustment, and they are made unenforceable in Chapter IX in the same way as in Chapter X and XI—only if past defaults in performance are cured and adequate assurance of future performance is provided. This gives protection to the other contracting party, who may have entered into the contract relying on the petitioner's credit, which, after a filing, is markedly reduced.

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[13] S. REP. No. 2094, 85th Cong., 2d Sess., 3805 (1958); *see* 8 *Collier, Bankruptcy* 4.06[6], at 390 (14th rev. ed. 1975).

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After the filing of the petition, the court must give notice to the petitioner's creditors. The notice is by publication, and by mailing to those creditors whose addresses are known. Notice is also given to the Securities and Exchange Commission, and to the State in which the petitioner is located. The notice to the S.E.C. is designed to allow it to participate in an investor protection role. The municipal bond market is sufficiently interstate in character, involving investors in much the same way that the corporate bond market does, that it is felt that the S.E.C. may have an investor protection role to play in municipal adjustments the same as it does in corporate reorganizations.

The state is formally notified for two reasons. First, because the language of the eligibility section, section 84, allows an entity to file if the state has not prohibited it; and because withdrawal of State consent at any time will terminate the case, it is felt that the State should formally be put on notice so that it may object if it does not wish its subdivisions to proceed under a Chapter IX. Second, if the State does permit the municipality to proceed, the State is notified in order that it may participate with the municipality in formulating and implementing a plan of adjustment in a case in which the petitioner is unable to effect a feasible plan without the State's assistance. The intent is to make the proceeding a cooperative one with the State involved to the extent necessary to make the petitioner's plan successfull.

current chapter IX, there is no disclosure requirement. Incorporation of section 1125 will insure that creditors receive adequate information before they are required to vote on a plan.

1126(a), (b), (c), (e), (f), (g). Acceptance of plan. Section 1126 incorporates the current chapter IX acceptance requirement: two-thirds in amount and a majority in number, Bankruptcy Act § 92. Section 1125 permits exclusion of certain acceptances from the computation if the acceptances were obtained in bad faith or, unlike current law, if there is a conflict of interest motivating the acceptance.

1127(d). Modification of plan. This section governs the change of a creditor's vote on the plan after a modification is proposed. It is derived from current section 92(e).

1128. Hearing on confirmation. This section requires a hearing on the confirmation of the plan, and permits parties in interest to object. It is the same as Bankruptcy Act §§ 93 and 94(a), though the provision, comparable to section 206 of current chapter X, permitting a labor organization to appear and be heard on the economic soundness of the plan, has been deleted as more appropriate for the Rules.

1129(a)(2), (3), (8), (b)(1), (2). Confirmation of plan. This section provides the boiler-plate language that the plan be proposed in good faith and that it comply with the provisions of the chapter, and also provides the financial standard for confirmation, which replaces the fair and equitable rule. *See 1124, supra.*

1142(b). Execution of plan. Derived from Bankruptcy Act § 96(b), this section permits the court to order execution and delivery of instruments in order to execute the plan.

1143. Distribution. This section is the same in substance as section 96(d), which requires presentment or delivery of securities within five years, and bars creditors that do not act within that time.

1144. Revocation of order of confirmation. This section permits the court to revoke the order of confirmation and the discharge if the confirmation of the plan was procured by fraud. There is no comparable provision in current chapter IX.

§ 902. Definitions

There are only four definitions for use only in chapter 9. The first specifies that when the term "property of the estate" is used in a section in another chapter made applicable in chapter 9 cases, the term will mean "property of the debtor". Paragraphs (2) and (3) adopt the definition of "special taxpayer affected by the plan" that appears in current sections 81(10) and 81(11). Paragraphs (4) provides for "trustee" the same treatment as provided for "property of the estate", specifying that it means "debtor" when used in conjunction with chapter 9.

§ 903. Reservation of State power to control municipalities

Section 903 is derived, with stylistic changes, from section 83 of current chapter IX. It sets forth the primary authority of a State, through its constitution, laws, and other powers, over its municipalities. The proviso in section 83, prohibiting State composition proce-

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dures for municipalities, is deleted. In light of the recent Supreme Court case, *National League of Cities* v. *Usery*, 426 U.S. 833[83] (1976), maximum flexibility for the States in solving the debt problems of

their municipalities is advisable. In addition, a general policy of the bill is to encourage work-outs short of bankruptcy court. In view of the potential severe dislocation entailed in a chapter 9 case, and the danger for too much federal court intervention in the affairs of a municipality, the deletion of the proviso recognizes the power of the States to assist municipal work-outs short of bankruptcy court.

§ *904. Limitation of jurisdiction and powers of court*

This section adopts the policy of section 82(c) of current law. The *Usery* case underlines the need for this limitation on the court's powers. The only change in this section from section 82(c) is to conform the section to the style and cross-references of H.R. 8200. This section makes clear that the court may not interfere with the choices a municipality makes as to what services and benefits it will provide to its inhabitants.

SUBCHAPTER II—ADMINISTRATION

§ *921. Petition and proceedings relating to petition*

Subsection (a) is derived from section 85(a), second sentence, of current law. There is no substantive change in the law. The subsection permits a municipality that does not have its own officers to be moved into chapter 9 by the action of the body or board that has authority to levy taxes for the municipality.

Subsection (b) permits a party in interest to object to the filing of the petition not later than 15 days after notice. This provision tracks the third sentence of section 85(a), except that the provision for publication in section 85(a) is left to the Rules (*See* Rule 9-14), and therefore the determinative date is left less definite.

Subsection (c) permits the court to dismiss a petition not filed in good faith or not filed in compliance with the requirements of the chapter. This provision is the fourth sentence of section 85(a).

Subsection (d) directs the court to order relief on the petition if it does not dismiss the case under subsection (c).

Subsection (e) contains the fifth and sixth sentences of section 85(a).

§ *922. Automatic stay of enforcement of claims against the debtor*

The automatic stay provided under section 362 of title 11 is incomplete for a municipality, because there is the possibility of action by a creditor against an officer or inhabitant of the municipality to collect taxes due the municipality. Section 85(e)(1) of current chapter IX stays such actions. Section 922 carries over that protection into the proposed chapter 9. Subsection (b) applies the provisions for relief from the stay that apply generally in section 362 to the stay under section 922.

§ *923. Notice*

The notice provisions in section 923 are significantly more sparse than those provided under section 85(d) of chapter IX. The exact contours of the notice to be given under chapter 9 are left to the Rules.

89. 96 S.Ct. 2465, 49 L.Ed.2d 245.

1 when you get into exemptions, and the California
2 legislature has taken over exemptions in individual
3 bankruptcy cases, but that's specifically authorized by
4 the Bankruptcy Code.
5 I look at this and I just am in wonderment.
6 Does anybody think this is valid and why? So that's
7 another question that I need answered. Okay. So that's
8 from 50,000 feet my summary of the picture that's
9 emerging as I put the pieces in this puzzle together.
10 Now, one of the implications is that I might
11 very well conclude that, in fact, the CalPERS contract
12 could be rejected, that I might conclude that the $1.5
13 billion lien is not enforceable, and then -- but that
14 does not necessarily mean that this plan of adjustment
15 which is proposed without any adjustment -- without any
16 change to pensions is necessarily not confirmable. It
17 might be perfectly well be confirmable even if we accept
18 that this is the state of the California Public Employee
19 law.
20 So it might be helpful if the City provided
21 somewhat more focused analysis on why I should be
22 confirming this plan in its current form if one assumes
23 that what I've been hearing about CalPERS -- about the
24 viability of the CalPERS contract and the lien and all
25 that is actually not accurate.

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Authentication of the Records and Table of Contents

Legislative History Research Report Regarding:
CALIFORNIA GOVERNMENT CODE § 20487 (Formerly § 20486)
As Added By Statutes of 1996, Chapter 502, § 1, SB 1945 – Craven

I, Lisa Hampton, declare that this report includes:

- *Historical documents relating to the above legislation.* These documents were obtained by the staff of Legislative Research & Intent LLC and are true and correct copies of the originals obtained from the designated official, public sources in California unless another source is indicated, with the following exceptions: In some cases, pages may have been reduced in size to fit an 8 ½" x 11" sized paper. Or, for readability purposes, pages may have been enlarged or cleansed of black marks or spots. Lastly, paging and relevant identification have been inserted.

  Since 1983 LRI has specialized in the historical research surrounding the adoption, amendment and/or repeal of California statutes, regulations and constitutional provisions pursuant to California Code of Civil Procedure § 1859 which states in pertinent part: "In the construction of a statute the intention of the Legislature ... is to be pursued, if possible ...." Our research and expert witness services have assisted the courts in understanding and applying the underlying purpose of enactments in countless cases, such as *Redlands Community Hospital v. New England Mutual Life Insurance Co,* 23 Cal. App.4th 899 at 906 (1994). LRI also provides similar research for other states and at the federal level. (Formerly Legislative Research Institute and Legislative Research, Incorporated.)

- *A table of contents itemizing the documents.* This table of contents cites the sources of the documents.

I declare under penalty of perjury under the laws of the United States and the State of California that the foregoing is true and correct and that I could and would so testify in a court of law if called to be a witness.

Executed August 13, 2012, in Sacramento, California.

Lisa Hampton, Research Director

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NOTE: The Senate *fiscal committee* reported the bill out on a "Rule 28.8" (per the final calendar), signifying an insignificant impact on the State General Fund – eliminating the need for a fiscal hearing and vote. The bill is then moved on to the next stage of legislative deliberations – the Senate floor.

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(Source: State Archives: Author's File)

NOTE: The Senate reported the bill off the *floor* and to the Assembly on "Consent," signifying lack of controversy, no debate or discussion, with the roll-call substituting for the vote.

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(Source: State Archives: Assembly Republican Caucus)

Department of Finance

Amendment Date: July 10, 1996
(Source: State Archives: Office of Senate Floor Analyses)

Amendment Date: TBA August 5, 1996
(Source: State Archives: Assembly Committee on Appropriations)

NOTE: The Assembly reported the bill off the *floor* and to the Senate on "Consent," signifying lack of controversy, no debate or discussion, with the roll-call substituting for the vote.

Author's Assembly floor sponsor's statement and/or notes 47
(Source: State Archives: Author's File)

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Here there was concurrence.

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SENATE PUBLIC EMPLOYMENT & RETIREMENT COMMITTEE
Teresa Hughes, Chairwoman
SB 1945 (Craven), as introduced

BILL NO: SB 1945
Hearing date: 4/8/96
FISCAL: yes

PERS: BANKRUPTCY OF LOCAL CONTACTING AGENCIES

HISTORY:

Sponsor: PERS Board of Administration

Prior legislation: none

SUMMARY:

Would prohibit the debtor's trustee of a PERS contracting agency that has filed for Chapter 9 Bankruptcy from making an election to end -- by rejection, assignment, or assumption -- its contract with PERS.

BACKGROUND:

1) The committee is advised that the recent Orange County fiscal crisis has raised the possibility that a PERS' contracting agency could file a Chapter 9 Bankruptcy, and that the agency's trustee in bankruptcy might seek to reject its contract with PERS, thereby transferring the liability for its retirees' retirement allowances to PERS.

2) Existing PERS law contains the following sections relating to its relationship with local governmental agencies that enter into a contract with the system to provide retirement benefits to their employees:

a) Section 20450 authorizes any public agency to contract for all or part of its employees to become members of PERS,

b) Section 20450.1 permits the PERS Board to refuse to contract for any benefit provision not specifically authorized which would adversely affect the administration of the system,

c) Section 20499.5 provides that a contracting agency forced to reduce employee compensation because of a fiscal emergency cannot reduce retirement benefits below the level before the reduction,

d) Section 20531 permits PERS to assess costs for late contributions and section 20531.5 permits PERS to charge interest on unpaid contributions,

e) Section 20562 permits PERS to cancel a contracting agency's contract when that agency has failed to pay after 30 days from written demand by the PERS Board; it may also terminate the contract by resolution effective 60 days after mailing to an agency it decides no longer exists,

f) Section 20563 states that where the agency's accumulated contributions do not satisfy the actuarial equivalent set forth in section 20563, the agency must contribute the difference on terms fixed by the PERS Board; furthermore, the amount of the difference is subject to interest. And, if the agency fails to pay, the Board may declare a proportional reduction in benefits. However, section 20567 assures that the right to a retirement allowance of an annuitant is not affected by termination of the contract unless the contracting agency fails to make its required contributions, and

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g) Section 20757.2 declares that despite any other provision of the law, no employer may refuse to make its contributions to CalPERS.

3) Existing federal law, under Chapter 9 of the United States Bankruptcy Code, provides for reorganization of a municipality under strict parameters that include: insolvency; desire to adjust debts; agreement by creditors holding a majority of the outstanding amounts to be adjusted under the plan; and good faith negotiation with those creditors resulting in inability to succeed because of impracticability or the possibility of an unavoidable transfer under section 547 of the Bankruptcy Code.

U. S. Bankruptcy Code section 101(40) defines "municipality" to include any political subdivision or agency of the state. Section 901 provides many of the general provisions of the Bankruptcy Code including sections 362 (automatic stay), 365 (executory contracts and unexpired leases), 1129 (confirmation of plan), and 1142 (implementation of plan). But section 903 says that the power of a state to control the exercise of a municipality's governmental powers including expenditure for such an exercise is not limited.

And section 904 provides that without consent of the debtor or provision in the plan, the court may not interfere with the exercise of its governmental powers or use of its property and revenues. 28 U.S.C. § 959(b) says that the trustee shall manage the property like an owner or possessor would.

California Government Code sections 53760 and 53761 effectively consent to the provisions of the Bankruptcy Code for its governmental subdivisions and taxing agencies.

4) The committee is advised by PERS bankruptcy counsel that federal Bankruptcy Code also contains the following:

a) Section 922 provides additional authority to that set forth in section 362, to stay all entities that seek to enforce any claim against a debtor,

b) Section 941 requires the debtor agency to file a plan. Section 943(b) ordains that the court shall affirm the plan if: it complies with the Bankruptcy Code; contains no action prohibited by law; contains any regulatory or electoral approval necessary; and is both feasible and in the best interests of creditors,

c) Section 944 says the confirmed plan binds both the debtor and creditors even if they have not accepted the plan.

Under section 365 as applied to Chapter 9, any assumption, assignment, or rejection of a contract requires court approval. Contracts must be assumed or rejected as a whole, not in part. If assumed, all defaults and deficiencies must be cured. Clauses in a contract canceling it because of insolvency are invalid. Non-assignable contracts are also not subject to assumption or assignment.

While the purpose of the federal bankruptcy law is to permit the impairment of contracts to effect a reorganization of debt, Chapter 9 only provides relief in states which have consented to its application. Only 18 states, including California, have done so. Of those 18, a number have established conditions on the right to seek bankruptcy relief. An example is requiring approval by a state agency before a municipality can apply for Chapter 9 relief. New Jersey, Louisiana, Kentucky, Ohio, and Pennsylvania require such preapproval. Other states -- North Dakota, Montana, and Kentucky -- and Louisiana set forth specific procedures which must be followed.

ANALYSIS:

This bill would add language to the PERS law specifically prohibiting the debtor's trustee of a PERS local contracting agency that has filed for Chapter 9 Bankruptcy from making an election to end -- by rejection, assignment, or assumption -- its contract with PERS.

COMMENTS:

1) The committee is advised that, under existing PERS law, if a PERS local contracting public agency were to file for reorganization under Chapter 9, PERS' ability to terminate a contract could be abrogated by the automatic stay.

In that event, CalPERS might not be able to assess for deficient contributions but may still be liable to annuitants whose allowances are not fully funded.

2) **SUPPORT:**

California State Firefighters' Association
California Professional Firefighters
Service Employees International Union, California State Council

3) **OPPOSITION:**

none to date

David Felderstein
April 4, 1996

SB 1945

Analyst Name: Dave Christianson
Phone No.: 326-3612

STATE AND CONSUMER SERVICES AGENCY

ENROLLED BILL REPORT

Department	AUTHOR	BILL NUMBER
Public Employees' Retirement System	Craven	SB 1945

SUMMARY

This bill prohibits the debtor's trustee of a CalPERS contracting agency that has filed for Chapter 9 Bankruptcy from making an election to end -- by rejection, assignment, or assumption -- its contract with CalPERS. The recent Orange County fiscal crisis has raised the possibility that a CalPERS' contracting agency could file a Chapter 9 Bankruptcy and that the agency's trustee in bankruptcy might seek to reject its contract with CalPERS thereby transferring the liability for its retirees' retirement allowances to CalPERS.

The CalPERS deferred compensation program is made available to any California public agency regardless of whether it contracts with CalPERS for retirement coverage.

LEGISLATIVE HISTORY

Section 20450 of the California Public Employees Retirement Law authorizes any public agency to contract for all or part of its employees to become members of CalPERS. Section 20450.1 permits the CalPERS' Board to refuse to contract for any benefit provision not specifically authorized which would adversely affect the administration of the system. Section 20499.5 provides that a contracting agency forced to reduce employee compensation because of a fiscal emergency cannot reduce retirement benefits below the level before the reduction. Section 20531 permits CalPERS to assess costs for late contributions and section 20531.5 permits CalPERS to charge interest on unpaid contributions. Section 20562 permits CalPERS to cancel a contracting agency's contract when that agency has failed to pay after 30 days from written demand by the CalPERS Board; it may also terminate the contract by resolution effective 60 days after mailing to an agency it decides no longer exists. Section 20563 states that where the agency's accumulated contributions do not satisfy the actuarial equivalent set forth in section 20563, the agency must contribute the difference on terms fixed by the CalPERS Board; furthermore, the amount of the difference is subject to interest. And, if the agency fails to pay, the Board may declare a proportional reduction in benefits. However, section

Vote: Assembly	VOTE: Senate
Floor: Aye_77_ No_0_ Policy Committee: Aye_7_ No_0_ Fiscal Committee: Aye_20_ No_0_	Floor: Aye_39_ No_0_ Policy Committee: Aye_3_ No_0_ Fiscal Committee: Aye___ No___
RECOMMENDATION TO GOVERNOR: SIGN_X_ VETO	DEFER TO OTHER AGENCY________
DEPARTMENT DIRECTOR DATE: Susan G. Myers 8/26/96	AGENCY SECRETARY DATE: [signature] 8/27/96

20567 assures that the right to a retirement allowance of an annuitant is not affected by termination of the contract unless the contracting agency fails to make its required contributions. And section 20757.2 declares that despite any other provision of the law, no employer may refuse to make its contributions to CalPERS Chapter 9 of the United States Bankruptcy Code provides for reorganization of a municipality under strict parameters that include: insolvency; desire to adjust debts; agreement by creditors holding a majority of the outstanding amounts to be adjusted under the plan; and good faith negotiation with those creditors resulting in inability to succeed because of impracticability or the possibility of an unavoidable transfer under section 547 of the Bankruptcy Code. Section 101(40) defines "municipality" to include any political subdivision or agency of the state. Section 901 provides many of the general provisions of the Bankruptcy Code including sections 362 (automatic stay), 365 (executory contracts and unexpired leases), 1129 (confirmation of plan), and 1142 (implementation of plan). But section 903 says that the power of a state to control the exercise of a municipality's governmental powers including expenditure for such an exercise is not limited. And section 904 provides that without consent of the debtor or provision in the plan, the court may not interfere with the exercise of its governmental powers or use of its property and revenues. 28 U.S.C. § 959(b) says that the trustee shall manage the property like an owner or possessor would.

California Government Code sections 53760 and 53761 effectively consent to the provisions of the Bankruptcy Code for its governmental subdivisions and taxing agencies.

Chapter 1659, Statutes of 1990 established a CalPERS administered deferred compensation program for CalPERS members.

PROGRAM IMPACT

If a contracting public agency were to file for reorganization under Chapter 9, CalPERS' ability to terminate a contract could be abrogated by the automatic stay. In that event, CalPERS might not be able to assess for deficient contributions but may still be liable to annuitants whose allowances are not fully funded.

The deferred compensation program will be available to any California public agency. This will increase the number of eligible agencies and should result in wider participation.

SPECIFIC FINDINGS

1. Section 922 provides additional authority to that set forth in section 362, to stay all entities that seek to enforce any claim against a debtor.

2. Section 941 requires the debtor agency to file a plan.

3. Section 943(b) ordains that the court shall affirm the plan if: it complies with the Bankruptcy Code; contains no action prohibited by law; contains any regulatory or electoral approval necessary; and is both feasible and in the best interests of creditors. Section 944 says the confirmed plan binds both the debtor and creditors even if they have not accepted the plan.

4. Under section 365 as applied to Chapter 9, any assumption, assignment, or rejection of a contract requires court approval. Contracts must be assumed or rejected as a whole, not in part. If assumed, all defaults and deficiencies must be cured. Clauses in a contract canceling it because of insolvency are invalid. Non-assignable contracts are also not subject to assumption or assignment.

5. While the purpose of the federal bankruptcy law is to permit the impairment of contracts to effect a reorganization of debt, Chapter 9 only provides relief in states which have consented to its application. Only 18 states, including California, have done so. Of those 18, a number have established conditions on the right to seek bankruptcy relief. An example is requiring approval by a state agency before a municipality can apply for Chapter 9 relief. New Jersey, Louisiana, Kentucky, Ohio, and Pennsylvania require such preapproval. Other states -- North Dakota, Montana, and Kentucky -- and Louisiana set forth specific procedures which must be followed.

6. Any California agency may contract for the deferred compensation program.

7. The duration of an interagency agreement between the Department of Personnel Administration and CalPERS is subject to negotiation without a minimum duration.

PROS and CONS

PRO ARGUMENT

1. The State has the authority to protect its retirement system by requiring preconditions for filing a Chapter 9 bankruptcy.2. The State should protect its retirement system and its beneficiaries as a priority to prevent use of the Bankruptcy Code by a political subdivision or agency to avoid its obligations to its employees and annuitants.

2. There is no reason for the deferred compensation program to be restricted to public agencies that contract for retirement coverage as there is not direct relationship between the two programs.

CON ARGUMENT

A bankruptcy judge might refuse to recognize the power of the State to control the bankruptcy proceedings or to set conditions for using bankruptcy protection.

FISCAL IMPACT

This bill would protect the System and indirectly the General Fund from large potential fiscal cost associated with a public agency bankruptcy. This bill would help ensure that CalPERS would not be held liable for paying out benefits to the employees of a public agency that ceases to pay for those benefits because of bankruptcy.

By enabling CalPERS to offer a deferred compensation program to more public agencies it expands the choices available to public agencies interested is such programs. In those cases where the CalPERS program has a lower administrative cost than other programs, participating agencies will

realize the savings. It is not anticipated that increased agency participation will increase the administrative cost of the progra. Administrative costs are borne by plan participants and the contracting agency.

RECOMMENDATION

SIGN THE BILL

CalPERS Contact : Legislative Representative: Sue Myers 631-4123 (Home)
326-3678 (Work)
951-1853(Pager)
Legislative Analyst: Dave Christianson 441-7365 (Home)

Agency Contact: Traci Stevens: 653-3111 Office
782-8035 Home
819-0471 Pager
806-8136 Cellular

PUBLIC EMPLOYEES' RETIREMENT SYSTEM
1995-1996 REGULAR SESSION
BILL ANALYSIS

BILL NO: SB 1945
SPONSOR: California Public Employees' Retirement System

AUTHOR: Craven
VERSION: 2/23/96
POSITION: Sponsor

SUMMARY

Since the Orange County debacle, the specter of possibility of a CalPERS' contracting agency filing a Chapter 9 Bankruptcy has arisen. In particular, the concern is that such an agency's trustee in bankruptcy will choose to reject its contract with CalPERS thereby transferring the liability for its retirees' retirement allowances to CalPERS. This bill prohibits a CalPERS contracting agency debtor's trustee from making an election to end -- by rejection, assignment, or assumption -- its contract with CalPERS.

LEGISLATIVE HISTORY

Section 20460 (20450)* [cae1][cae2][cae3] of the California Public Employees Retirement Law authorizes any public agency to contract for all or part of its employees to become members of CalPERS. Section 20461 (20450.1) permits the CalPERS' Board to refuse to contract for any benefit provision not specifically authorized which would adversely affect the administration of the system. Section 20480 (20499.5) provides that a contracting agency forced to reduce employee compensation because of a fiscal emergency cannot reduce retirement benefits below the level before the reduction. Section 20536 (20531) permits CalPERS to assess costs for late contributions and Section 20537 (20531.5) permits CalPERS to charge interest on unpaid contributions. Section 20572 (20562) permits CalPERS to cancel a contracting agency's contract when that agency has failed to pay after 30 days from written demand by the CalPERS Board; it may also terminate the contract by resolution effective 60 days after mailing to an agency it decides no longer exists. Section 20576 (20563) states that where the agency's accumulated contributions do not satisfy the actuarial equivalent set forth in Section 20576 (20563), the agency must contribute the difference on terms fixed by the CalPERS' Board; furthermore, the amount of the difference is subject to interest. And, if the agency fails to pay, the Board may declare a proportional reduction in benefits. However, Section 20583 (20567) assures that the right to a retirement allowance of an annuitant is not affected by termination of the contract unless the contracting agency fails to make its required contributions. And Section 20831 (20757.2) declares that despite any other provision of the law, no employer may refuse to make its contributions to PERS.

* Parenthetical Code references refer to the identical section in the pre-1996 version of the PERL.

Chapter 9 of the United States Bankruptcy Code provides for reorganization of a municipality under strict parameters that include: insolvency; desire to adjust debts; agreement by creditors holding a majority of the outstanding amounts to be adjusted under the plan; and good faith negotiation with those creditors resulting in inability to succeed because of impracticability or the possibility of an unavoidable transfer under section 547 of the Bankruptcy Code. Section 101(40) defines "municipality" to include any political subdivision or agency of the state. Section 901 provides many of the general provisions of the Bankruptcy Code including sections 362 (automatic stay), 365 (executory contracts and unexpired leases), 1129 (confirmation of plan), and 1142 (implementation of plan). But section 903 says that the power of a state to control the exercise of a municipality's governmental powers including expenditure for such an exercise is not limited. And section 904 provides that without consent of the debtor or provision in the plan, the court may not interfere with the exercise of its governmental powers or use of its property and revenues. 28 U.S.C. section 959(b) says that the trustee shall manage the property like an owner or possessor would.

Section 922 provides additional authority to that set forth in section 362, to stay all entities that seek to enforce any claim against a debtor. Section 941 requires the debtor agency to file a plan. Section 943(b) ordains that the court shall affirm the plan if: it complies with the Bankruptcy Code; contains no action prohibited by law; contains any regulatory or electoral approval necessary; and is both feasible and in the best interests of creditors. Section 944 says the confirmed plan binds both the debtor and creditors even if they have not accepted the plan.

While the purpose of the federal bankruptcy law is to permit the impairment of contracts to effect a reorganization of debt, Chapter 9 only provides relief in states which have consented to its application. Only 18 states, including California, have done so. Of those 18, a number have established conditions on the right to seek bankruptcy relief. An example is requiring approval by a state agency before a municipality can apply for Chapter 9 relief. New Jersey, Louisiana, Kentucky, Ohio, and Pennsylvania require such preapproval. Other states -- North Dakota, Montana, and Kentucky -- and Louisiana set forth specific procedures which must be followed.

California Government Code sections 53760 and 53761 effectively consent to the provisions of the Bankruptcy Code for its governmental subdivisions and taxing agencies.

PROGRAM IMPACT

The concern is that if a contracting public agency were to file for reorganization under Chapter 9, CalPERS' ability to terminate a contract could be abrogated by the automatic stay. In that event, CalPERS might not be able to assess for deficient contributions but may still be liable to annuitants whose allowances are not fully funded.

SPECIFIC FINDINGS

This bill would add Section 20486 to the Public Employees' Retirement Law (PERL) that would prohibit a contracting agency or public agency seeking bankruptcy protection from rejecting any contract or agreement between the agency and the Board or, without prior consent of the Board, from assuming or assigning any contract or agreement between the agency and the Board, pursuant to Section 365 of Title 11 of the United States Code or similar provision of law.

Under Section 365 as applied to Chapter 9, any assumption, assignment, or rejection of a contract requires court approval. Contracts must be assumed or rejected as a whole, not in part. If assumed, all defaults and deficiencies must be cured. Clauses in a contract canceling it because of insolvency are invalid. Non-assignable contracts are also not subject to assumption or assignment.

PROS and CONS

Pro Argument

The State has the authority to protect its retirement system by requiring preconditions for filing a Chapter 9 bankruptcy.

The State should protect its retirement system and its beneficiaries as a priority to prevent use of the Bankruptcy Code by a political subdivision or agency to avoid its obligations to its employees and annuitants.

Con Argument

A bankruptcy judge might refuse to recognize the power of the State to control the bankruptcy proceedings or to set conditions for using bankruptcy protection.

FISCAL IMPACT

This program should save costs, but the amount of any savings would be speculative.

RECOMMENDATION

SUPPORT.

PROPONENTS/OPPONENTS

Unknown at this time.

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
1995-1996 REGULAR SESSION
BILL ANALYSIS

BILL NO:	SB 1945	AUTHOR:	Craven
SPONSOR:	CalPERS	VERSION:	As Introduced 2/23/96
		POSITION:	Sponsor

SUMMARY

This bill prohibits the debtor's trustee of a CalPERS contracting agency that has filed for Chapter 9 Bankruptcy from making an election to end -- by rejection, assignment, or assumption -- its contract with CalPERS. The recent Orange County fiscal crisis has raised the possibility that a CalPERS' contracting agency could file a Chapter 9 Bankruptcy and that the agency's trustee in bankruptcy might seek to reject its contract with CalPERS thereby transferring the liability for its retirees' retirement allowances to CalPERS.

LEGISLATIVE HISTORY

Section 20450 of the California Public Employees Retirement Law authorizes any public agency to contract for all or part of its employees to become members of CalPERS. Section 20450.1 permits the CalPERS' Board to refuse to contract for any benefit provision not specifically authorized which would adversely affect the administration of the system. Section 20499.5 provides that a contracting agency forced to reduce employee compensation because of a fiscal emergency cannot reduce retirement benefits below the level before the reduction. Section 20531 permits CalPERS to assess costs for late contributions and section 20531.5 permits CalPERS to charge interest on unpaid contributions. Section 20562 permits CalPERS to cancel a contracting agency's contract when that agency has failed to pay after 30 days from written demand by the CalPERS Board; it may also terminate the contract by resolution effective 60 days after mailing to an agency it decides no longer exists. Section 20563 states that where the agency's accumulated contributions do not satisfy the actuarial equivalent set forth in section 20563, the agency must contribute the difference on terms fixed by the CalPERS Board; furthermore, the amount of the difference is subject to interest. And, if the agency fails to pay, the Board may declare a proportional reduction in benefits. However, section 20567 assures that the right to a retirement allowance of an annuitant is not affected by termination of the contract unless the contracting agency fails to make its required contributions. And section 20757.2 declares that despite any other provision of the law, no employer may refuse to make its contributions to CalPERS.

Chapter 9 of the United States Bankruptcy Code provides for reorganization of a municipality under strict parameters that include: insolvency; desire to adjust debts; agreement by creditors holding a majority of the outstanding amounts to be adjusted under the plan; and good faith negotiation with those creditors resulting in inability to succeed because of impracticability or the

possibility of an unavoidable transfer under section 547 of the Bankruptcy Code. Section 101(40) defines "municipality" to include any political subdivision or agency of the state. Section 901 provides many of the general provisions of the Bankruptcy Code including sections 362 (automatic stay), 365 (executory contracts and unexpired leases), 1129 (confirmation of plan), and 1142 (implementation of plan). But section 903 says that the power of a state to control the exercise of a municipality's governmental powers including expenditure for such an exercise is not limited. And section 904 provides that without consent of the debtor or provision in the plan, the court may not interfere with the exercise of its governmental powers or use of its property and revenues. 28 U.S.C. § 959(b) says that the trustee shall manage the property like an owner or possessor would.

California Government Code sections 53760 and 53761 effectively consent to the provisions of the Bankruptcy Code for its governmental subdivisions and taxing agencies.

PROGRAM IMPACT

If a contracting public agency were to file for reorganization under Chapter 9, CalPERS' ability to terminate a contract could be abrogated by the automatic stay. In that event, CalPERS might not be able to assess for deficient contributions but may still be liable to annuitants whose allowances are not fully funded.

SPECIFIC FINDINGS

Section 922 provides additional authority to that set forth in section 362, to stay all entities that seek to enforce any claim against a debtor. Section 941 requires the debtor agency to file a plan. Section 943(b) ordains that the court shall affirm the plan if: it complies with the Bankruptcy Code; contains no action prohibited by law; contains any regulatory or electoral approval necessary; and is both feasible and in the best interests of creditors. Section 944 says the confirmed plan binds both the debtor and creditors even if they have not accepted the plan.

Under section 365 as applied to Chapter 9, any assumption, assignment, or rejection of a contract requires court approval. Contracts must be assumed or rejected as a whole, not in part. If assumed, all defaults and deficiencies must be cured. Clauses in a contract canceling it because of insolvency are invalid. Non-assignable contracts are also not subject to assumption or assignment.

While the purpose of the federal bankruptcy law is to permit the impairment of contracts to effect a reorganization of debt, Chapter 9 only provides relief in states which have consented to its application. Only 18 states, including California, have done so. Of those 18, a number have established conditions on the right to seek bankruptcy relief. An example is requiring approval by a state agency before a municipality can apply for Chapter 9 relief. New Jersey, Louisiana, Kentucky, Ohio, and Pennsylvania require such preapproval. Other states -- North Dakota, Montana, and Kentucky -- and Louisiana set forth specific procedures which must be followed.

PROS and CONS

PRO ARGUMENT

1. The State has the authority to protect its retirement system by requiring preconditions for filing a Chapter 9 bankruptcy.

2. The State should protect its retirement system and its beneficiaries as a priority to prevent use of the Bankruptcy Code by a political subdivision or agency to avoid its obligations to its employees and annuitants.

CON ARGUMENT

A bankruptcy judge might refuse to recognize the power of the State to control the bankruptcy proceedings or to set conditions for using bankruptcy protection.

FISCAL IMPACT

This program should save costs, but the amount of any savings would be speculative.

RECOMMENDATION

SUPPORT.

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
1995-1996 REGULAR SESSION
BILL ANALYSIS

BILL NO: SB 1945
SPONSOR: CalPERS

AUTHOR: Craven
VERSION: As amended, 7/10/96
POSITION: SUPPORT

SUMMARY

This bill prohibits the debtor's trustee of a CalPERS contracting agency that has filed for Chapter 9 Bankruptcy from making an election to end -- by rejection, assignment, or assumption -- its contract with CalPERS. The recent Orange County fiscal crisis has raised the possibility that a CalPERS' contracting agency could file a Chapter 9 Bankruptcy and that the agency's trustee in bankruptcy might seek to reject its contract with CalPERS thereby transferring the liability for its retirees' retirement allowances to CalPERS. The 6/26/96 amendment makes the CalPERS deferred compensation program available to any California public agency eligible to contract for retirement or social security coverage with CalPERS.

LEGISLATIVE HISTORY

Section 20450 of the California Public Employees Retirement Law authorizes any public agency to contract for all or part of its employees to become members of CalPERS. Section 20450.1 permits the CalPERS' Board to refuse to contract for any benefit provision not specifically authorized which would adversely affect the administration of the system. Section 20499.5 provides that a contracting agency forced to reduce employee compensation because of a fiscal emergency cannot reduce retirement benefits below the level before the reduction. Section 20531 permits CalPERS to assess costs for late contributions and section 20531.5 permits CalPERS to charge interest on unpaid contributions. Section 20562 permits CalPERS to cancel a contracting agency's contract when that agency has failed to pay after 30 days from written demand by the CalPERS Board; it may also terminate the contract by resolution effective 60 days after mailing to an agency it decides no longer exists. Section 20563 states that where the agency's accumulated contributions do not satisfy the actuarial equivalent set forth in section 20563, the agency must contribute the difference on terms fixed by the CalPERS Board; furthermore, the amount of the difference is subject to interest. And, if the agency fails to pay, the Board may declare a proportional reduction in benefits. However, section 20567 assures that the right to a retirement allowance of an annuitant is not affected by termination of the contract unless the contracting agency fails to make its required contributions. And section 20757.2 declares that despite any other provision of the law, no employer may refuse to make its contributions to CalPERS.

Chapter 9 of the United States Bankruptcy Code provides for reorganization of a municipality under strict parameters that include: insolvency; desire to adjust debts; agreement by creditors holding a majority of the outstanding amounts to be adjusted under the plan; and good faith negotiation with those creditors resulting in inability to succeed because of impracticability or the possibility of an unavoidable transfer under section 547 of the Bankruptcy Code. Section 101(40) defines "municipality" to include any political subdivision or agency of the state. Section 901 provides many of the general provisions of the Bankruptcy Code including sections 362 (automatic stay), 365 (executory contracts and unexpired leases), 1129 (confirmation of plan), and 1142 (implementation of plan). But section 903 says that the power of a state to control the exercise of a municipality's governmental powers including expenditure for such an exercise is not limited. And section 904 provides that without consent of the debtor or provision in the plan, the court may not interfere with the exercise of its governmental powers or use of its property and revenues. 28 U.S.C. § 959(b) says that the trustee shall manage the property like an owner or possessor would.

California Government Code sections 53760 and 53761 effectively consent to the provisions of the Bankruptcy Code for its governmental subdivisions and taxing agencies.

Chapter 1659, Statutes of 1990 established a CalPERS administered deferred compensation program for CalPERS members.

PROGRAM IMPACT

If a contracting public agency were to file for reorganization under Chapter 9, CalPERS' ability to terminate a contract could be abrogated by the automatic stay. In that event, CalPERS might not be able to assess for deficient contributions but may still be liable to annuitants whose allowances are not fully funded.

The deferred compensation program will be available to any public agency eligible to contract for retirement or social security coverage. This will increase the number of eligible agencies and should result in wider participation.

SPECIFIC FINDINGS

1. Section 922 provides additional authority to that set forth in section 362, to stay all entities that seek to enforce any claim against a debtor.

2. Section 941 requires the debtor agency to file a plan.

3. Section 943(b) ordains that the court shall affirm the plan if: it complies with the Bankruptcy Code; contains no action prohibited by law; contains any regulatory or electoral approval necessary; and is both feasible and in the best interests of creditors. Section 944 says the confirmed plan binds both the debtor and creditors even if they have not accepted the plan.

4. Under section 365 as applied to Chapter 9, any assumption, assignment, or rejection of a contract requires court approval. Contracts must be assumed or rejected as a whole, not in part. If assumed, all defaults and deficiencies must be cured. Clauses in a contract canceling it because of insolvency are invalid. Non-assignable contracts are also not subject to assumption or assignment.

5. While the purpose of the federal bankruptcy law is to permit the impairment of contracts to effect a reorganization of debt, Chapter 9 only provides relief in states which have consented to its application. Only 18 states, including California, have done so. Of those 18, a number have established conditions on the right to seek bankruptcy relief. An example is requiring approval by a state agency before a municipality can apply for Chapter 9 relief. New Jersey, Louisiana, Kentucky, Ohio, and Pennsylvania require such preapproval. Other states -- North Dakota, Montana, and Kentucky -- and Louisiana set forth specific procedures which must be followed.

6. The 6/26/96 amendment enables any California agency which is eligible to contract for retirement or health coverage to contract for the deferred compensation program. The term "school employer" is defined to mean the county superintendent of schools. Therefore, individual school districts will not be able to contract for this program unless the county superintendent limits its coverage to specific school districts. This was not intended and would be corrected by the suggested amendment language.

7. The 7/10/96 amendment makes a technical, non-substantive change to the duration of an interagency agreement between the Department of Personnel Administration and CalPERS. The change allows the two departments to negotiate the duration of the agreement without a set minimum.

PROS and CONS

PRO ARGUMENT

1. The State has the authority to protect its retirement system by requiring preconditions for filing a Chapter 9 bankruptcy.2. The State should protect its retirement system and its beneficiaries as a priority to prevent use of the Bankruptcy Code by a political subdivision or agency to avoid its obligations to its employees and annuitants.

3. There is no reason for the deferred compensation program to be restricted to public agencies that contract for retirement coverage as there is not direct relationship between the two programs.

CON ARGUMENT

A bankruptcy judge might refuse to recognize the power of the State to control the bankruptcy proceedings or to set conditions for using bankruptcy protection.

FISCAL IMPACT

This bill would protect the System and indirectly the General Fund from large potential fiscal cost associated with a public agency bankruptcy. This bill would help ensure that CalPERS would not be held liable for paying out benefits to the employees of a public agency that ceases to pay for those benefits because of bankruptcy. By enabling CalPERS to offer a deferred compensation program to more public agencies it expands the choices available to public agencies interested is such programs. In those cases where the CalPERS program has a lower administrative cost than other programs, participating agencies will realize the savings.

RECOMMENDATION

SUPPORT.

Suggested technical amendments (attached) will:

- Allow individual school districts and community college districts to contract for the deferred compensation program without going through the county superintendent of schools office;
- Allow a county superintendent of schools to contract for the program for his/her employees;

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- Make clear that the public agency definition being used is identical to that used for agencies wishing to participate in the CalPERS retirement program and not the social security program; and,

- Removes a technical conflict regarding schools as the retirement law does not permit individual school districts to contract for retirement coverage. They are mandatorilly covered through a master contract with each county superintendent of schools.

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1 bankruptcy law is that it's the only voluntary case that
2 can be filed only if the debtor is insolvent. That means
3 already insolvent. And one of the major determinations
4 that I had to make back at the eligibility determination
5 was that the City of Stockton was insolvent.
6 As against that, it really makes me wonder
7 whether the so-called lien is the kind of thing that
8 could be enforced in the face of -- in avoidance under
9 the Bankruptcy Code. And when I look around further in
10 the Bankruptcy Code, I see section 106(a) which says:
11 Notwithstanding an assertion of sovereign immunity,
12 sovereign immunity is abrogated as to a governmental
13 unit to the sense set forth in the section with respect
14 to the following, and there's a laundry list of
15 Bankruptcy Codes, one of which is Section 545, the
16 statutory lien section I just talked about, another of
17 which is Section 926. Section 926 is -- 926(a) provides
18 that if the debtor refuses to pursue a cause of action
19 under, and it names six sections, one of which is Section
20 545, the statutory lien of this title, then on request of
21 the creditor the court may appoint the trustee to pursue
22 such cause of action. It's the one case where you can
23 have a trustee in a Chapter 9 case.
24 And another item that is listed in Section
25 106(a)(1) is Section 944. Of course, 944 is the effect

1 of confirmation and includes the discharge, and the
2 conventional analysis is that the State of California by
3 authorizing filing the Chapter 9 invokes Section 106 on
4 itself. And then, of course, the City of Stockton, to
5 the extent it can avail itself of sovereign immunity,
6 invoked Section 106 on itself when it filed the case. So
7 I think I'm going to need some explanation of why I
8 should take that lien seriously in light of Section 545
9 and the various provisions I've talked about.
10 Then there's another provision that kind of
11 attracted my attention, too. Section 20487, that's a
12 section in the Public Employee Retirement law entitled
13 bankruptcy, it says: Notwithstanding any other provision
14 of the law, no contracting agency or public agency that
15 becomes subject of a case under the bankruptcy provisions
16 of Chapter 9, commencing with Section 901 of Title 11 of
17 the United States Code, shall reject any contract or
18 agreement between that agency and the board pursuant to
19 Section 365 of Title 11 of the United States Bankruptcy
20 Code or any similar provision of law, nor shall the
21 agency without prior written consent of the board assume
22 or assign any contract or agreement between that agency
23 and the board pursuant to Section 365 of Title 11 of the
24 United States Code or any similar provision of law.
25 Once again, that's -- and that was added by

a majority of the shares of the debtor or its parent or of a subsidiary; that the debtor prove that it is likely to be subject to substantial future asbestos claims, the number of which cannot be easily predicted; and that the trust is needed in order to deal equitably with present and future claims; and that a separate creditor class be established for those with present claims, which must vote by a 75 percent margin to approve the plan.

In order for future claimants to be bound by a trust/injunction, section 111 requires that the trust operate in a structure and manner necessary to give reasonable assurance that the trust will value, and be able to pay, similar present and future claims in substantially the same manner.

The asbestos trust/injunction mechanism established in the bill is available for use by any asbestos company facing a similarly overwhelming liability. It is written, however, so that Johns-Manville and UNR, both of which have met and surpassed the standards imposed in this section, will be able to take advantage of the certainty it provides without having to reopen their cases.

Section 112. Authority of bankruptcy judges to conduct Jury trials in civil proceedings.

This section would amend title 28 of the United States Code to clarify that bankruptcy judges may conduct jury trials and enter appropriate orders consistent with those trials if designated by the district court and with the express consent of all parties to the bankruptcy proceeding.

This amendment would clarify a recent Supreme Court decision and resolve conflicting opinions among the different circuits regarding this issue. The Supreme Court in *Granfinanciera, S.A.* v. *Nordberg*, 492 U.S. 33 (1989), held that in bankruptcy core proceedings, there is a constitutional right to a trial by jury.

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The *Granfinanciera* court had no finding on whether bankruptcy judges could conduct civil trials, and the circuits have reached contrary opinions regarding this issue. Five circuits have held that, in the absence of enabling legislation, bankruptcy judges could not hold jury trials.[9] The Second Circuit has been the lone circuit to hold that bankruptcy judges have implicit authority to conduct jury trials.[10]

Section 113. Sovereign immunity.

This section would effectively overrule two Supreme Court cases that have held that the States and Federal Government are not deemed to have waived their sovereign immunity by virtue of enacting section 106(c) of the Bankruptcy Code. In enacting section 106(c), Congress intended to make provisions of title 11 that encompassed the words "creditor," "entity," or "governmental unit" applicable to the States. Congress also intended to make the States subject to a money judgment. But the Supreme Court in *Hoffman* v. *Connecticut Department of Income Maintenance*, 492 U.S. 96 (1989), held that even if the State did not file a claim, the trustee in bankruptcy may not recover a money judgment from the State

notwithstanding section 106(c). This holding had the effect of providing that preferences could not be recovered from the States. In using such a narrow construction, the Court held that use of the "trigger words" would only bind the States, and not make them subject to a money judgment. The Court did not find in the text of the statute an "unmistakenly clear" intent of Congress to waive sovereign immunity in accordance with the language promulgated in *Atascadero State Hospital* v. *Scalon,* 473 U.S. 234, 242 (1985).

The Court applied this reasoning in *United States* v. *Nordic Village, Inc.*, 112 S. Ct. 1011 (1992), in not allowing a trustee to recover a postpetition payment by a chapter 11 debtor to the Internal Revenue Service. The Court found that there was no such waiver expressly provided within the text of the statute.

This amendment expressly provides for a waiver of sovereign immunity by governmental units with respect to monetary recoveries as well as declaratory and injunctive relief. It is the Committee's intent to make section 106 conform to the Congressional intent of the Bankruptcy Reform Act of 1978 waiving the sovereign immunity of the States and the Federal Government in this regard.

Section 114. Service of process in bankruptcy proceedings on an insured depository institution.

This section operates to amend bankruptcy rule 7004 to require that service of process to an insured depository institution be accomplished by certified mail in a contested matter or adversary proceeding. The rule that is presently in operation only requires that service be achieved by first class mail.

[9] See Official Committee of Unsecured Creditors v. Schwartzman (In re Stansbury Poplar Place, Inc.), 13 F.3d 122 (4th Cir. 1993); In re Grabill Corp., 987 F.2d 1153, reh'g en banc denied, 976 F.2d 1126 (7th Cir. 1992); Rafoth v. National Union Fire Insurance Co. (In re Baker & Getty Financial Services Inc., 954 F.2d 1169 (6th Cir. 1992); Kaiser Steel Corp. v. Frates (In re Kaiser Steel Corp., 911 F.2d 380 (10th Cir. 1990); In re United Missouri Bank of Kansas City, N.A., 901 F.2d 1449 (8th Cir. 1990).

[10] See In re Ben Cooper, Inc., 896 F.2d 1394 (2d Cir. 1990).

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Section 115. Meetings of creditors and equity security holders.

This section requires the U.S. Trustee to orally examine the debtor to ensure that he or she is informed about the effects of bankruptcy, both positive and negative. Its purpose is solely informational; it is not intended to be an interrogation to which the debtor must give any specific answers or which could be used against the debtor in some later proceeding. No separate record need be kept of the examination since it will be preserved along with the remainder of the record of the meeting, which normally is recorded on tape.

The trustee conducting the meeting of creditors is directed to orally inquire whether the debtor is aware of the consequences of bankruptcy, including protections such as those provided by the discharge and the automatic stay, as well as the fact that the bankruptcy filing will appear on the debtor's credit history. Since different creditors treat bankruptcy debtors differently, the trustee is not expected to predict whether the bankruptcy filing will make it