CalPERS

Actuarial Office
P.O. Box 1494
Sacramento, CA 95812-1494
TTY for Speech and Hearing Impaired - (916) 795-3240
(888) CalPERS (or **888**-225-7377) FAX (916) 795-3005

June 1, 2012

Employer Name: EL DORADO LOCAL AGENCY FORMATION COMMISSION
Rate Plan: MISCELLANEOUS PLAN

Dear Requestor:

A new agency cost analysis for the valuation(s) requested and related information is enclosed.

The change in the employer contribution rate, as of the effective date of the proposed new agency, is displayed on page 3.

If you are aware of others interested in this information (i.e., payroll staff, county court employees, port districts, etc.), please inform them. Sections 20463 (b) and (c) of the California Public Employees' Retirement Law require the governing body of a public agency which requests a contract amendment cost analysis to provide each affected employee organization with a copy within five days of receipt. Likewise if a cost analysis is requested by an employee organization, the employee organization is required to provide a copy of the analysis to the public agency within five days of receipt.

This cost analysis expires September 1, 2012. A Resolution of Intention (R of I) approved by the agency governing body to create the new agency must be received by this office on or before July 1, 2012 and the new agency effective date must be before July 1, 2012. If either of these two conditions is not met, an updated cost analysis is required to create the new agency. An updated cost analysis may be available as early as December 2012.

To complete the contract new agency process based on the enclosed analysis, you must do the following:

- Complete and return the enclosed Contract Amendment Request and Schedule of Agency Actions forms. Within 90 days, CalPERS staff will send your agency the R of I form for adoption.

- Complete and return the adopted R of I to CalPERS on or before July 1, 2012. Adoption of the Final Resolution/Ordinance by this date is not required.

Important Risk Disclosure

- **The Nature of Actuarial Work**: All actuarial calculations, including the ones in this cost estimate are based on numerous assumptions about the future. This includes demographic assumptions about the percentage of your employees that will terminate, die, become disabled, and retire in each future year, and economic assumptions about what salary increases each employee receives and the most important assumption, what the assets at CalPERS will earn for each year into the future until the last dollar is paid to current members of your plan. While CalPERS has set these assumptions as 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 each year as we go forward. **This means that your employer contribution retirement rate can vary dramatically with or without any benefit changes because short term experience does not conform to the long term actuarial assumptions.**

- Investment return is much more volatile than liability fluctuations and can cause employer rates to vary significantly. For example, for the past twenty year period ending June 30, 2010, returns for each fiscal year ranged from -24% to +20.1%. The impact of investment return on employer contribution rates varies significantly based on the plan's volatility index (the ratio of the market value of assets to the payroll).

- **Projected Volatility Index:** As is stated above, the cost estimates supplied in this communication are based on a number of assumptions about very long term demographic and economic behavior. Even if these assumptions (terminations, deaths, disabilities, retirements, salary growth, and investment return) are exactly realized, there will be differences on a year to year basis. This year to year difference between actual experience and the assumptions is called a gain or loss which serves to lower or raise the employer's rates from year to year, respectively. So, the rates will fluctuate, especially due to the ups and downs of investment returns.

  For all pools, the desired state is to be 100% funded (i.e., assets equal to accrued liability). Therefore, we disclose the ratio of accrued liability to payroll rather than assets to payroll as a measure of the pool's potential future rate volatility. The higher the ratio, the more volatile the future rate may be. The table below contains this measure of potential future rate volatility for the plan's current pool. It should be noted that this ratio increases over time but generally tends to stabilize as the plan matures.

As of June 30, 2010		
Pool's Accrued Liability	$	3,309,064,934
Pool's Payroll		748,401,352
Projected Volatility Index		4.4

Modified smoothing policy: As you no doubt are aware, the current financial market volatility has impacted the CalPERS trust fund and will impact future employer rates. The CalPERS Board has adopted a *temporary modification* to the smoothing policy which was implemented in the June 30, 2009 valuation. The modification did the following:

- Expanded the rate smoothing corridor from 80% to 120% of market value of assets (MVA) to 60% to 140% of MVA for June 30, 2009, to 70% to 130% for June 30, 2010, and back to 80% to 120% of MVA for June 30, 2011.
- Isolated and amortized gains and losses recognized on these three years using a fixed and declining 30-year period as opposed to the rolling 30-year amortization period.

If you have questions about the cost analysis, please call (888) CalPERS (225-7377). Please ask to speak to a contract analyst for questions about the timing of the contract amendment. Please ask to speak to me for questions about this cost analysis.

Shelly Chu

SHELLY CHU, ASA, MAAA
Associate Pension Actuary, CalPERS

Enclosures

CalPERS

Actuarial Office
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CONTRACT AMENDMENT REQUEST

To initiate an amendment to contract, complete and return this form to the address above. The necessary documents will be prepared and mailed to you within 90 days of the date this request is received in our office.

Employer Name: EL DORADO LOCAL AGENCY FORMATION COMMISSION

Employer Number: N/A

Rate Plan ID: N/A

Rate Plan: MISCELLANEOUS PLAN

Coverage Group(s) affected by the Amendment: ER# 4797218318

Description of Benefit Provisions and Section(s): To provide for a new agency with assets and liabilities as of 12/12/2003 moved from the County of El Dorado to new agency El Dorado Local Agency Formation Commission and to provide Section 21354 (2% @ 55 Full formula), Section 20042 (One-Year Final Compensation), Section 21020.5 (Public Service Credit for California Senate Fellows, Assembly Fellowship, Executive Fellowship, or Judicial Administration Fellowship Programs) and Section 20903 (Additional Service Credit 2 Years – Local Member) with 100% prior service for local miscellaneous members.

Please initiate the amendment to this employer's contract with CalPERS:

Name and Title: (Please Print): ______________________

Signature: ______________________ Date: ____________

Mailing Address: ______________________

Street Address: ______________________

City/State/Zip: ______________________

Telephone Number: ______________ Fax Number: ____________

E-mail Address: ______________________

Benefit Description: To provide for a new agency with assets and liabilities as of 12/12/2003 moved from the County of El Dorado to new agency El Dorado Local Agency Formation Commission and to provide Section 21354 (2% @ 55 Full formula), Section 20042 (One-Year Final Compensation), Section 21020.5 (Public Service Credit for California Senate Fellows, Assembly Fellowship, Executive Fellowship, or Judicial Administration Fellowship Programs) and Section 20903 (Additional Service Credit 2 Years – Local Member) with 100% prior service for local miscellaneous members.

Actuarial Cost Estimates in General

What will this new agency cost? Unfortunately, there is no simple answer. There are two major reasons for the complexity of the answer:

- The first was described in the risk disclosure and involves the nature of actuarial work based on demographic and economic assumptions.

- The second is the fact that the actuarial funding process produces the answer to the question of amendment cost as the sum of two separate pieces:
    1. The change in Normal Cost (i.e., the change in future annual premiums in the absence of surplus or unfunded liability) expressed as a percentage of total active payroll, and
    2. The Past Service Cost (i.e., Accrued Liability – representing the current value of the benefits for all past service of eligible members) which is expressed as a lump sum dollar amount.

To communicate the total cost, the Past Service Cost (i.e., the lump sum) is converted to a percent of payroll and added to the Normal Cost to set the employer rate required for the amendment. Converting the Past Service Cost lump sum to a percent of payroll requires a specific amortization period. For plans that merge, the amortization period is usually the weighted average of the two agencies merging.

Assets for Pooled Plans

Pooled plans at CalPERS share assets within the pool. Therefore, the concepts of a plan's assets and surplus/unfunded liability are no longer valid, with two exceptions. The first exception is the need to determine superfunded status and the second exception is the need to transfer assets between pools when a plan changes benefit formulas and must transfer from one pool to another. Replacing the concept of a plan's assets and a plan's surplus/unfunded liability are the pool's assets and surplus/unfunded liability and the concept of the plan's side fund. A side fund will be created for this particular proposed new agency.

- Plan's ongoing surcharge's normal costs will change only if you change your plan's benefit formula.

The potential change to each meaningful measurement for your plan due to this potential new agency will be disclosed in the remaining sections of this communication.

Changes in the Present Value of Benefits

The table below shows the change in the plan's total present value of benefits for the proposed new agency. The present value of benefits represents the total dollars needed today to fund all future benefits for *current* members of the plan (i.e., without regard to future employees). The change in this amount must be paid by increases in future employer and perhaps future employee contributions. As such, the change in the present value of benefits due to the new agency represents the total "cost" of the new agency. Some of this total cost may be covered by additional employee contributions and/or current side fund surplus.

	ER ID# 4797218318 (Before) As of 6/30/2010	**ER ID# 4797218318 (After) As of 6/30/2010**	**New Agency ER ID#3940256803 As of 6/30/2010**
Plan's Present Value of Benefits	$555,746,033	$555,260,138	$485,895

Benefit Description: To provide for a new agency with assets and liabilities as of 12/12/2003 moved from the County of El Dorado to new agency El Dorado Local Agency Formation Commission and to provide Section 21354 (2% @ 55 Full formula), Section 20042 (One-Year Final Compensation), Section 21020.5 (Public Service Credit for California Senate Fellows, Assembly Fellowship, Executive Fellowship, or Judicial Administration Fellowship Programs) and Section 20903 (Additional Service Credit 2 Years – Local Member) with 100% prior service for local miscellaneous members.

Change in Superfunded Status

A plan with actuarial value of assets (AVA) in excess of the total present value of benefits is called *superfunded*, and neither future employer nor employee contributions are required. Of course, events such as plan amendments and investment or demographic gains or losses can change a plan's condition from year to year. For example, a plan amendment could cause a plan to move from being superfunded to being in an unfunded position. It is CalPERS policy to retain a plan's superfunded status throughout a fiscal year based on the most recently completed actuarial valuation regardless of plan amendments. So, superfunded status would change only on the subsequent valuation date, for the 2013/2014 fiscal year. The projected superfunded status for fiscal 2013/2014 with and without this new agency is shown below.

	ER ID# 4797218318 (Before) Fiscal Year 2013/2014	**ER ID# 4797218318 (After) Fiscal Year 2013/2014**	**New Agency ID#3940256803 Fiscal Year 2013/2014**
Plan's Superfunded Status	**No**	**No**	**No**

Changes in Accrued Liability

The actuarial funding process calculates a regular contribution schedule of employee contributions and employer contributions (called normal costs) which are designed to accumulate with interest to equal the total present value of benefits by the time every member has left employment. As of each June 30, the actuary calculates this "desirable" level of funding as of that point in time. The *accrued liability* is equal to the present value of benefits less the present value of scheduled future employee contributions and future employer normal costs. That is, the present value of benefits represents the funding level needed if there are to be no future contributions and the accrued liability represents the funding level if there are to be future contributions (employee contributions and future employer normal costs). When a plan is "on schedule", only future employee contributions and future employer normal costs are needed. A plan that is "behind schedule" must temporarily increase contributions to get back on schedule and a plan that is "ahead of schedule" can temporarily reduce future contributions. If this new agency were included in the June 30, 2010 annual valuation, the resulting plan's accrued liability would change as shown below.

	ER ID# 4797218318 (Before) As of 6/30/2010	**ER ID# 4797218318 (After) As of 6/30/2010**	**New Agency ID#3940256803 As of 6/30/2010**
Plan's Accrued Liability	$463,646,274	$463,375,864	$270,410

New Agency Plan's Side Fund

A pooled plan's side fund is that portion of the plan's liability/surplus that is not to be shared with the pool. This new agency will apportion part of the unfunded accrued liability from the County of El Dorado into the side fund of the El Dorado Local Agency Formation Commission.

The side fund will be implemented as necessary as of the June 30, 2011 actuarial valuation date. Shown below is the projected new agency plan's side fund as of June 30, 2011.

Benefit Description: To provide for a new agency with assets and liabilities as of 12/12/2003 moved from the County of El Dorado to new agency El Dorado Local Agency Formation Commission and to provide Section 21354 (2% @ 55 Full formula), Section 20042 (One-Year Final Compensation), Section 21020.5 (Public Service Credit for California Senate Fellows, Assembly Fellowship, Executive Fellowship, or Judicial Administration Fellowship Programs) and Section 20903 (Additional Service Credit 2 Years – Local Member) with 100% prior service for local miscellaneous members.

Projected Amounts as of 06/30/2011	**ER ID# 4797218318 (Before)**	**ER ID# 4797218318 (After)**	**New Agency ID#3940256803**
Plan's projected side fund	N/A	N/A	$ (27,883)

Changes in the Initial Employer Contribution Rate

The following table shows the change in your plan's employer contribution rate for fiscal 2012/2013 due to the new agency. The information shown is the actual initial contribution rate that will apply during fiscal 2012/2013 if you adopt the new agency. The change in normal cost, if any, may be much more indicative of the long term change in the employer contribution rate due to the plan amendment. The plan's amortization of its side fund is the resulting side fund of the new agency.

	ER ID# 4797218318 (Before)	**ER ID# 4797218318 (After)**	**New Agency ID#3940256803**
2012/2013 Employer Rate			
Plan's Net Employer Normal Cost	8.533%	8.533%	N/A
Plan's Payment on the Unfunded Liability	6.073%	6.073%	N/A
Pool's Net Employer Normal Cost	N/A	N/A	7.720%
Pool's Payment on the Unfunded Liability	N/A	N/A	1.996%
Surcharge for Class 1 Benefits			
a) FAC 1	N/A	N/A	0.522%
Phase out of Normal Cost Difference	N/A	N/A	0.000%
Amortization of Side Fund	N/A	N/A	2.652%
Total Employer Rate (% of pay)	14.606%	14.606%	12.890%
Total Employer Rate ($)	$13,108,977	$13,085,325	$20,770
Side Fund Amortization Period (years)	N/A	N/A	10
2013/2014 Estimated Employer Rate	14.8%	14.8%	13.1%

In the above table, the Total Employer Rate is the actual initial contribution rate that will apply during fiscal year 2012/2013 if you adopt the amendment. The 2012/2013 rates do not incorporate the investment return for the fiscal year ending June 30, 2011. However, the 2013/2014 Estimated Employer Rate does incorporate this return, but assumes no demographic gains or losses.

Your employer contribution rate assumes a transfer of assets between your agency and the County of El Dorado upon the effective date. **This transfer assumes both your agency and the County of El Dorado accept the conditions of this transfer by CalPERS.** Your employer contribution rate can be reduced by making additional contributions; for each $10,000 of employer contributions made, the employer rate will be reduced by 0.77%. The extra contributions can be made and credited to your side fund until your side fund rate becomes 0%.

Benefit Description: To provide for a new agency with assets and liabilities as of 12/12/2003 moved from the County of El Dorado to new agency El Dorado Local Agency Formation Commission and to provide Section 21354 (2% @ 55 Full formula), Section 20042 (One-Year Final Compensation), Section 21020.5 (Public Service Credit for California Senate Fellows, Assembly Fellowship, Executive Fellowship, or Judicial Administration Fellowship Programs) and Section 20903 (Additional Service Credit 2 Years – Local Member) with 100% prior service for local miscellaneous members.

The table below shows the change in your plan's employee contribution rate (if any) for fiscal year 2012/2013 due to the new agency.

	ER ID# 4797218318 (Before)	ER ID# 4797218318 (After)	New Agency ID#3940256803
2012/2013 Employee Rate	7.000%	7.000%	7.000%

Additional Disclosure

If your agency is requesting cost information for two or more benefit changes, the cost of adopting more than one of these changes **may not** be obtained by adding the individual costs. Instead, a separate valuation must be done to provide a cost analysis for the combination of benefit changes.

Please note that the cost analysis provided in this document **may not** be relied upon after September 1, 2012. If you have not taken action to amend your contract by this date, you must contact our office for an updated cost analysis, based on the new annual valuation.

Descriptions of the actuarial methodologies, actuarial assumptions, and plan benefit provisions may be found in the appendices of the June 30, 2010 annual report. Please note that the results shown here are subject to change if any of the data or plan provisions differ from what was used in this study.

Certification

This actuarial valuation for the proposed plan amendment is based on the participant, benefits, and asset data used in the June 30, 2010 annual valuation, with the benefits modified if necessary to reflect what is currently provided under your contract with CalPERS, and further modified to reflect the proposed plan amendment. The valuation has been performed in accordance with standards of practice prescribed by the Actuarial Standards Board, and 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.

SHELLY CHU, ASA, MAAA
Associate Pension Actuary, CalPERS