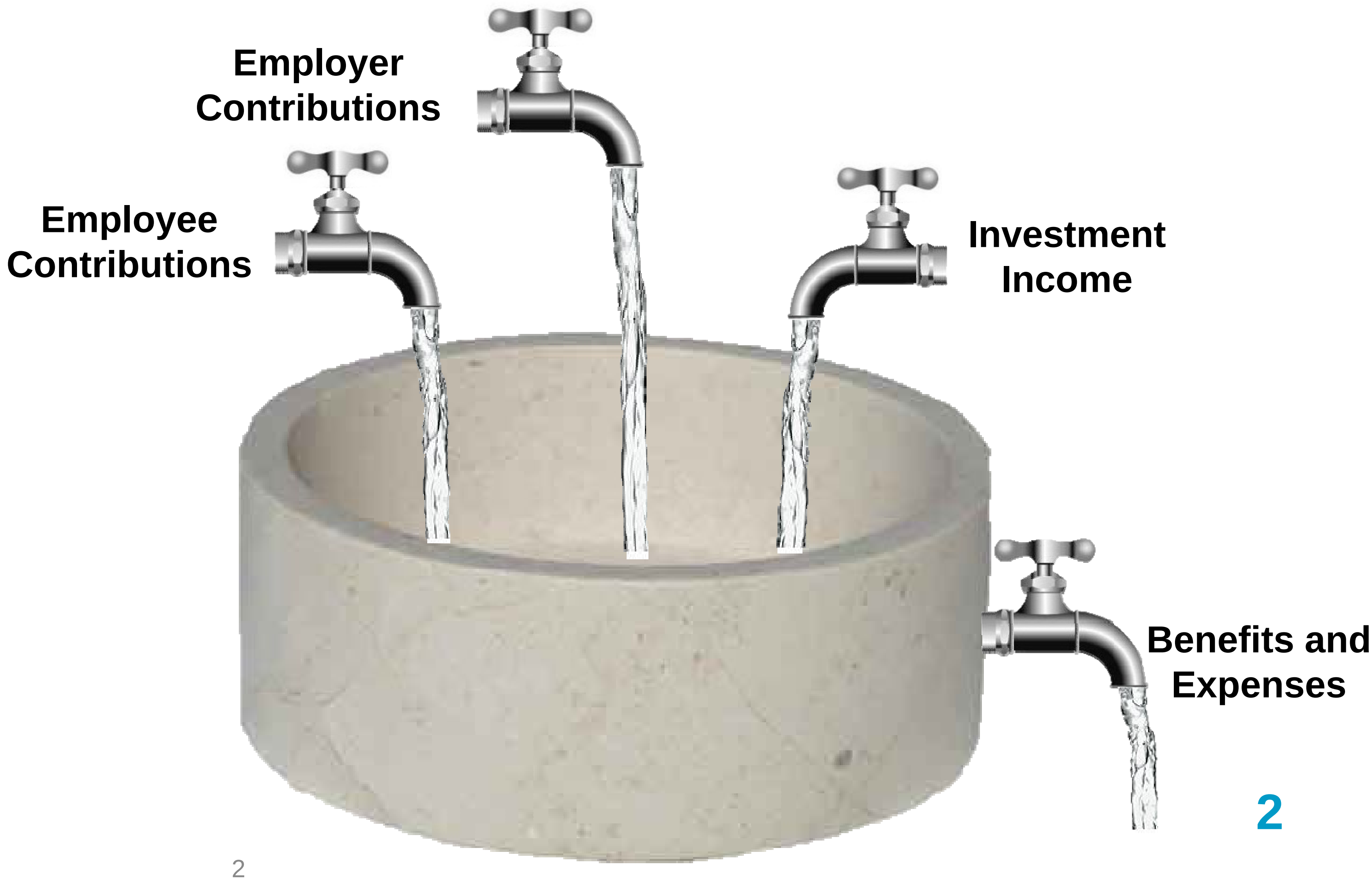
Annual Review of Cal PERS Actuarial Valuation
June 30, 2012 Valuation
Determining 2014-15 Contribution Rates

Pension Fundamentals



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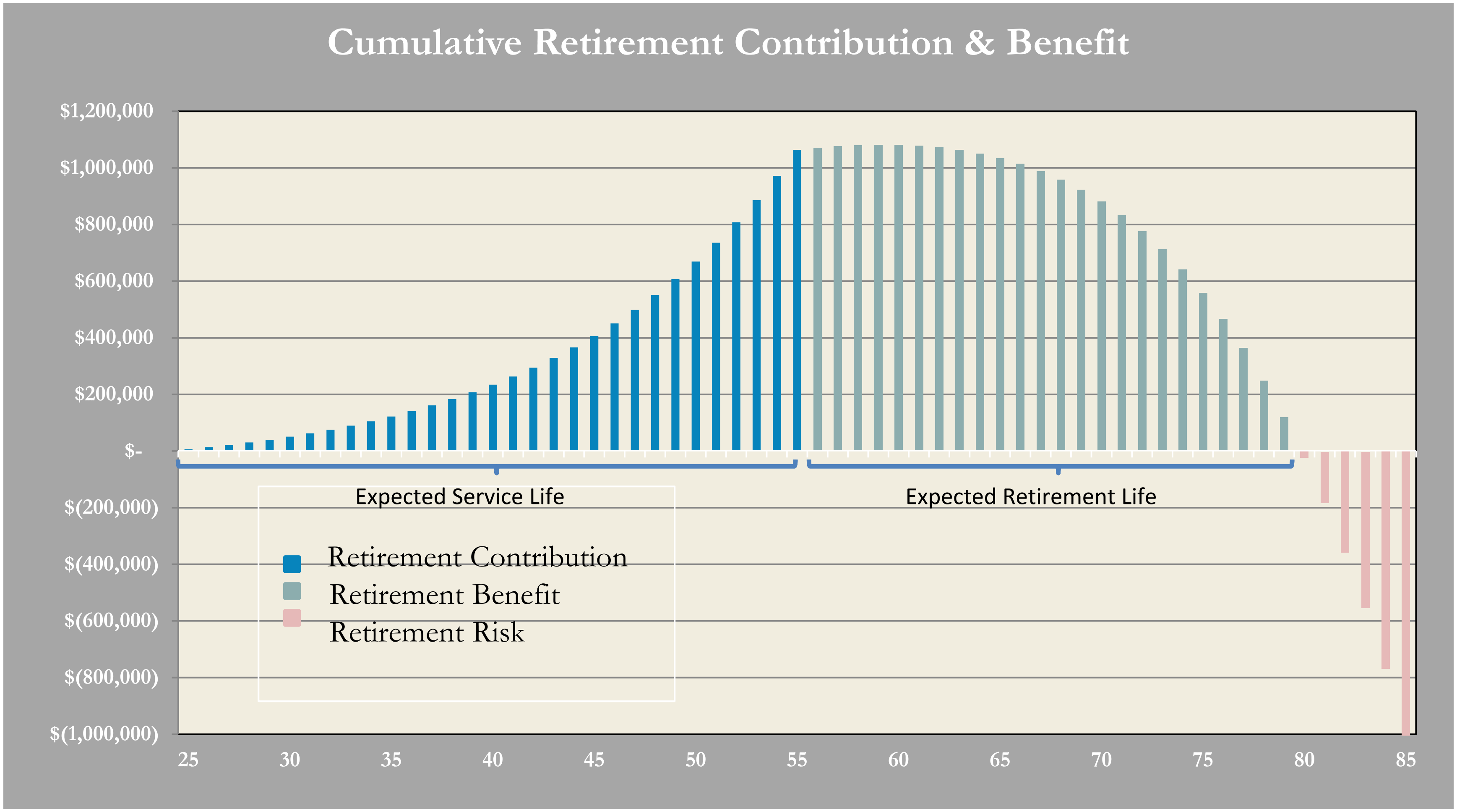
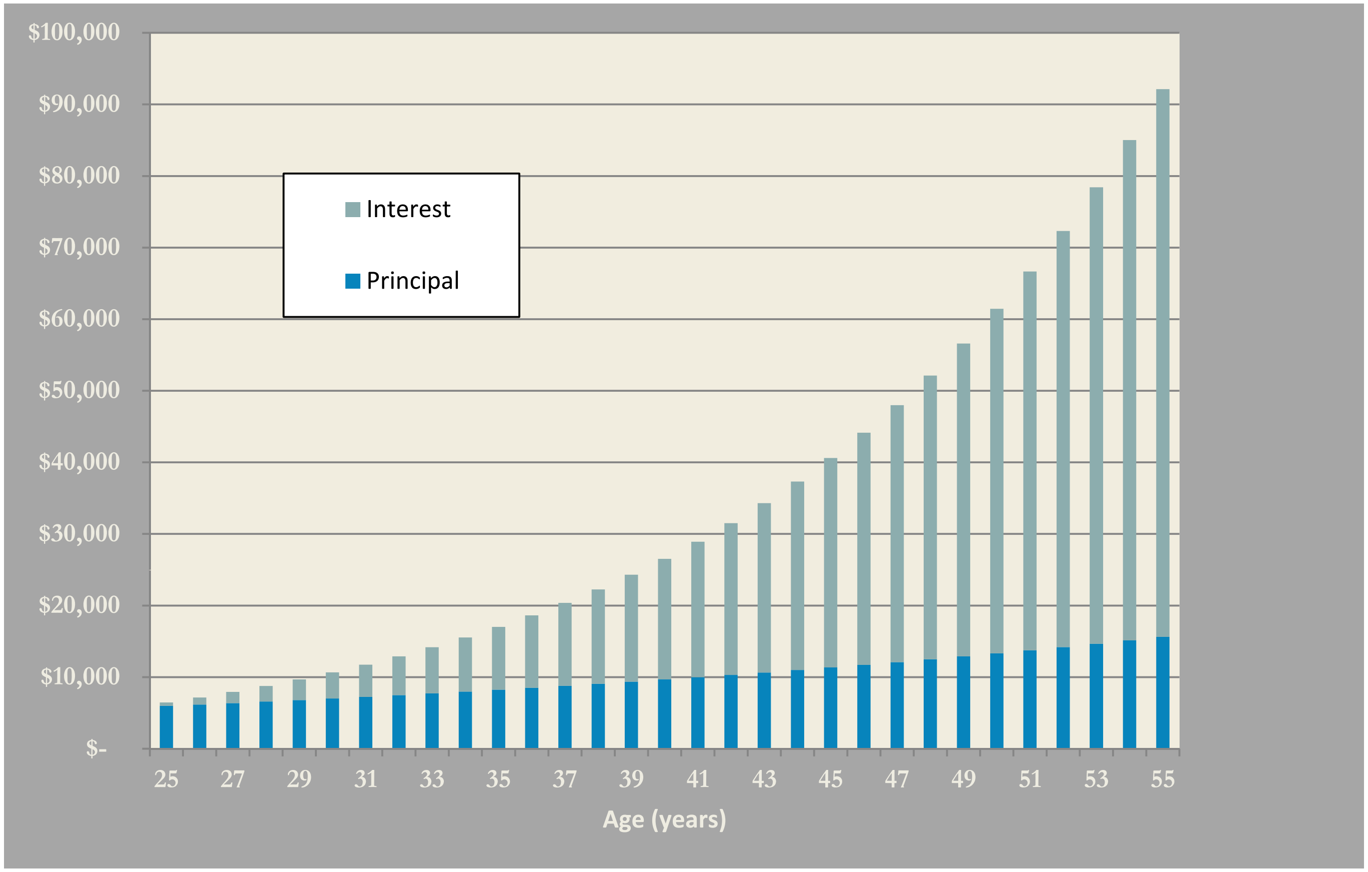
Pension Risk



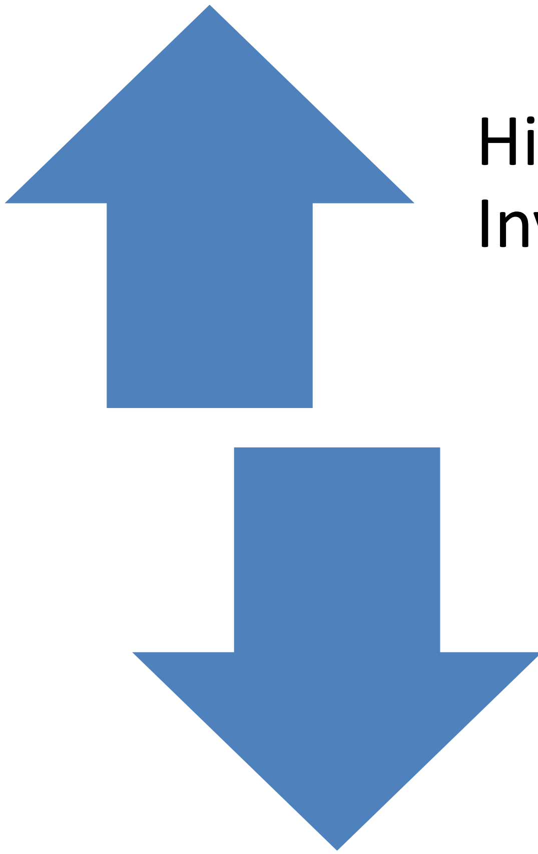
Retirement Contributions



***Based on an employee that begins service at age 25 with a salary of $38,300, and works for 30 years with their salary increasing 3.25% per year to a final salary of $100.000. Investment earnings represent 60-75% of retirement funding reducing pension funding costs.**

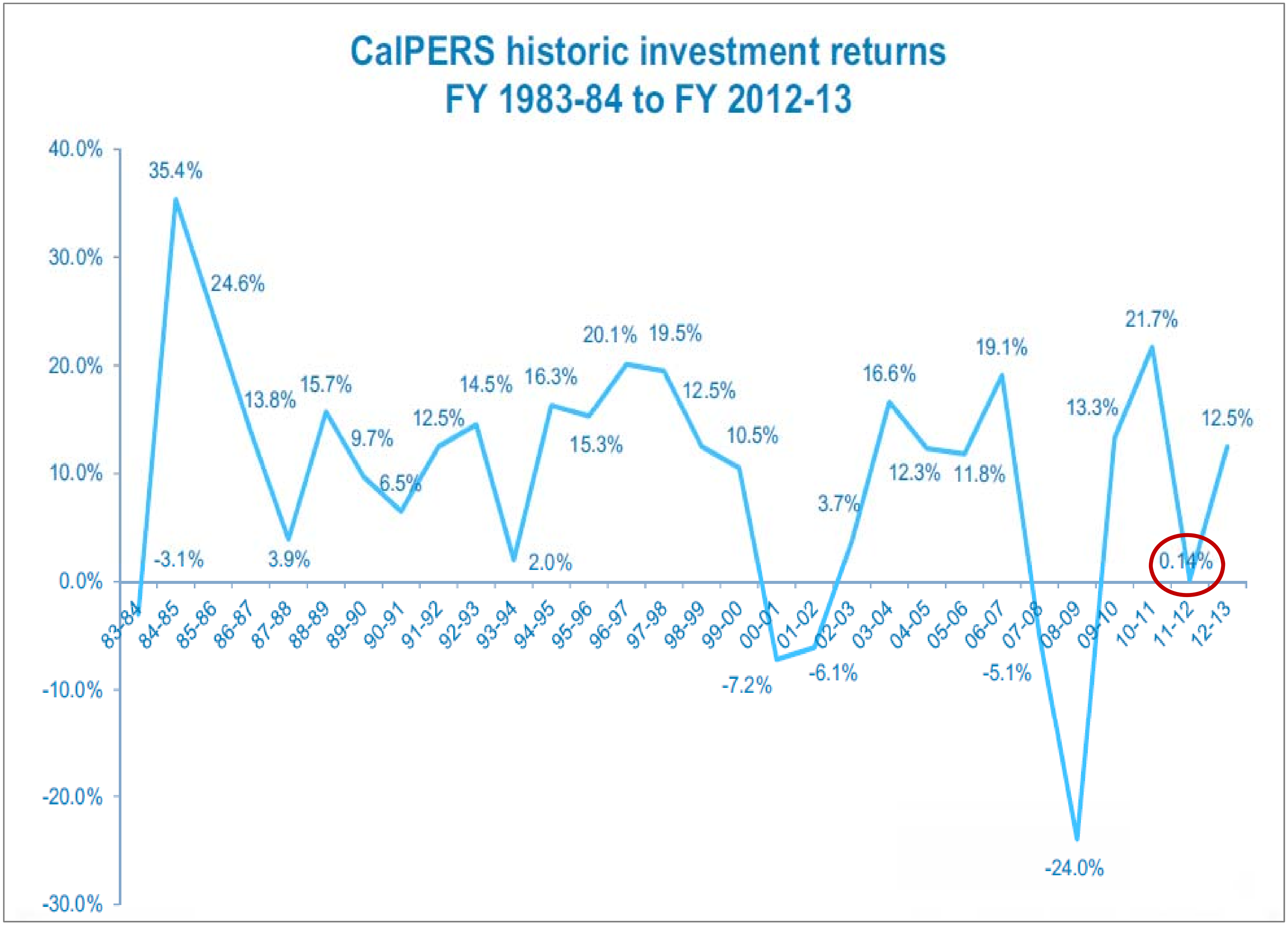
Historical Components of Pension Funding

Investment Return and Pension Cost Relationship



Higher the
Investment Return

The Lower the
Pension Cost and
Vice Versa



Disappointing 2012 investment returns impacted funded status for current valuation.

Plan Cost Variables

- Based on actual experience factors
  - Benefit Levels
  - Investment returns
  - Workforce Size
  - Payroll
  - Employment longevity
  - Early Retirements
  - Mortality
  - Industrial Disability Retirements

Actuarial Assumptions

Historical Decisions

March 2012 Discount Rate

- CalPERS sets discount rate at 7.5 percent, lowering the rate from 7.75 percent.
- Discount rate is calculated based on expected price inflation and real rate of return.
- Reflects CalPERS expectations of what the financial markets will deliver over time.
- Investment beliefs Stakeholder panel.

April 2013 – New Actuarial Policies

- CalPERS adopts new actuarial policies aimed at returning the pension fund to fully-funded status in 30 years.
- New policy changes rate-smoothing method with a 30-year fixed amortization period for gains and losses.
- Begins FY 2015-16 for our employers to plan and has five-year ramp-up period.
- Investment beliefs workshop.

May 2013

- CalPERS holds workshop (May) on the risks and returns of its asset classes and discusses advantages and disadvantages of investments in alternative asset classes.
- Also reviews its capital market assumptions.
- CalPERS begins a review that could lead to changes to its economic and demographic* assumptions (including the discount rate).

June 17, 2013

- Final recommendations and action on capital market assumptions.

July 15, 2013

- Final workshop on investment beliefs, CalPERS views on the capital markets and investor behavior that will guide its investment strategy and decisions.

September 16, 2013

- Final recommendations and action on investment beliefs.

October 15, 2013

- Review of mortality rate projections.

Actuarial Assumptions Continued

Future Reviews and Decisions

November 12-13, 2013

- Workshop on asset liability management that considers risk factors in CalPERS asset allocation and its impacts on employer contributions and funding of the system.
- Review will lead to the preferred asset allocation mix for CalPERS investment portfolio.

December 16, 2013

- Final recommendation and action on CalPERS asset allocation that will influence future discount rates.
- Preliminary recommendations for changes to its economic and demographic* assumptions (including the discount rate).

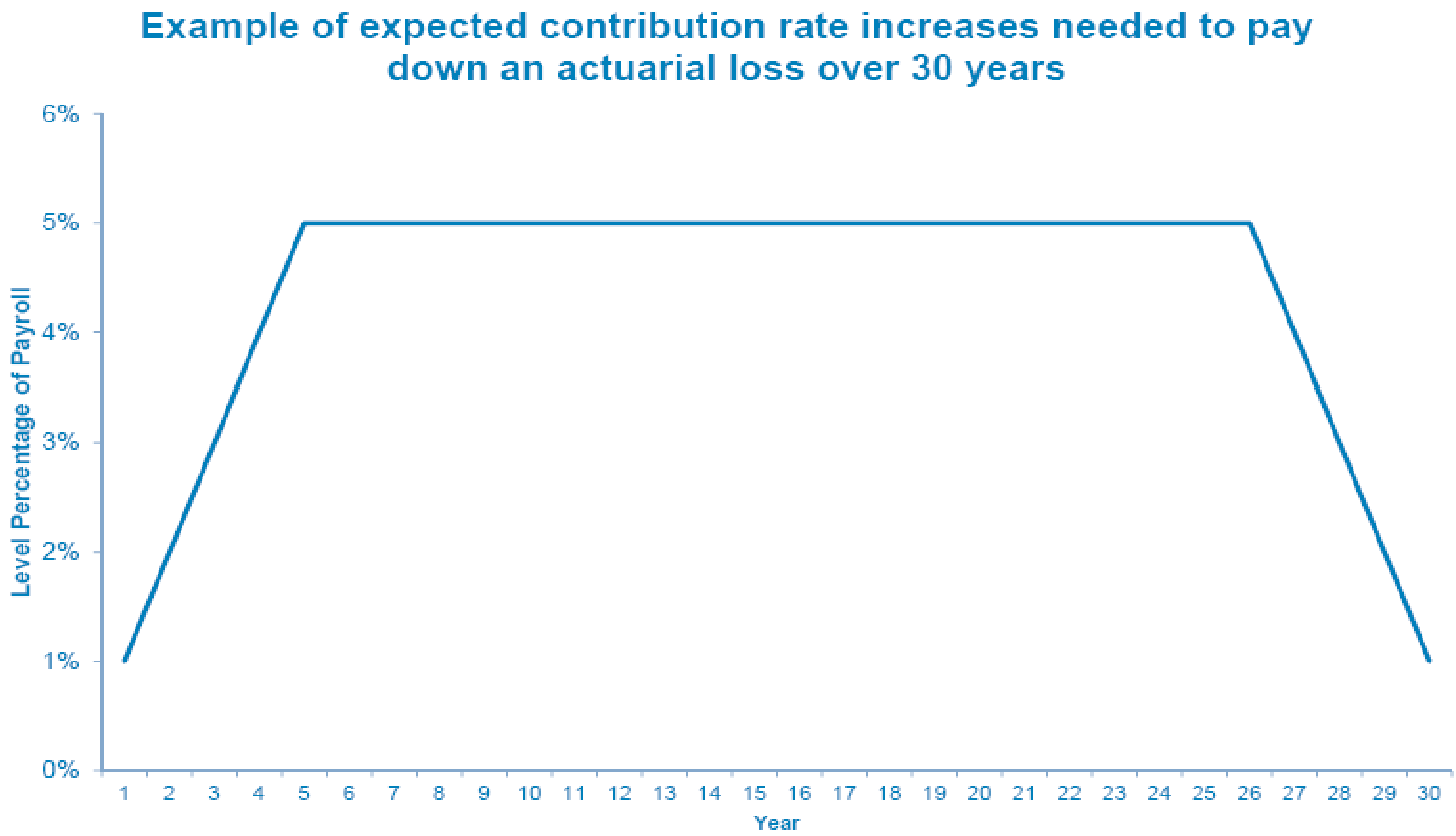
February 2014

- Final recommendations and action on changes to its economic and demographic* assumptions (including the discount rate).

Impacts New of Assets Smoothing Methodology

- Will impact employer contribution rates for the first time in FY 2015-16
- Higher contributions short term
- Lower contributions long term (25+ years)
- Better funded status long term
- No impact on normal cost
- Impacts payment toward unfunded liability

Asset Smoothing Methodology Impact on Rates



Change in Asset Smoothing Policy

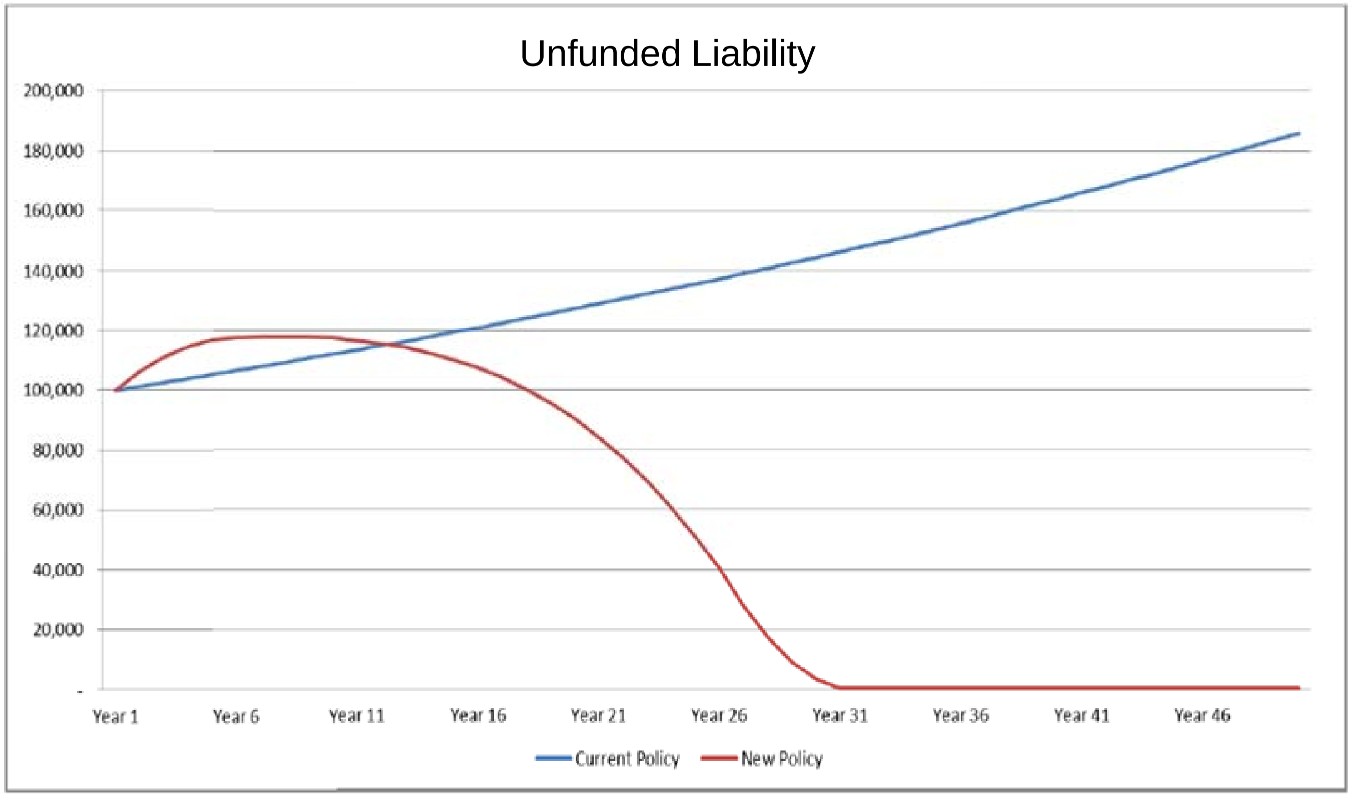
	Misc	Safety	Total
	June 30, 2012	**June 30, 2012**	**June 30, 2012**
Present Value of Projected Benefits	$ 351,642,097	$ 496,438,761	$ 848,080,858
Actuarial Value Basis*			
Entry Age Normal Accrued Liability	$ 302,006,850	$ 424,868,507	$ 726,875,357
Actuarial Value of Assets (AVA)	$ 238,869,992	$ 302,365,698	$ 541,235,690
Unfunded Liability (AVA Basis)	$ 63,136,858	$ 122,502,809	$ 185,639,667
Funded Ratio (AVA Basis)	79.1%	71.2%	74.5%
Market Value Basis			
Entry Age Normal Accrued Liability	$ 302,006,850	$ 424,868,507	$ 726,875,357
Market Value of Assets (MVA)	$ 200,149,332	$ 252,131,503	$ 452,280,835
Unfunded Liability (MVA Basis)	$ 101,857,518	$ 172,737,004	$ 274,594,522
	$ 98,291,814	$ 79,394,499	$ 177,686,313
Funded Ratio (MVA Basis)	66.3%	59.3%	62.2%
Difference Between AVA & MVA	$ 38,720,660	$ 50,234,195	$ 88,954,855

$88.9 Million*

* Effective 2014-15, the AVA will be eliminated due to a new asset smoothing methodology. The $88.9 million difference will be added to the unfunded liability and phased-into rates over 5 years and amortized over a fixed 30 Yr amortization period.

Changes to the CalPERS Asset Smoothing Methodology

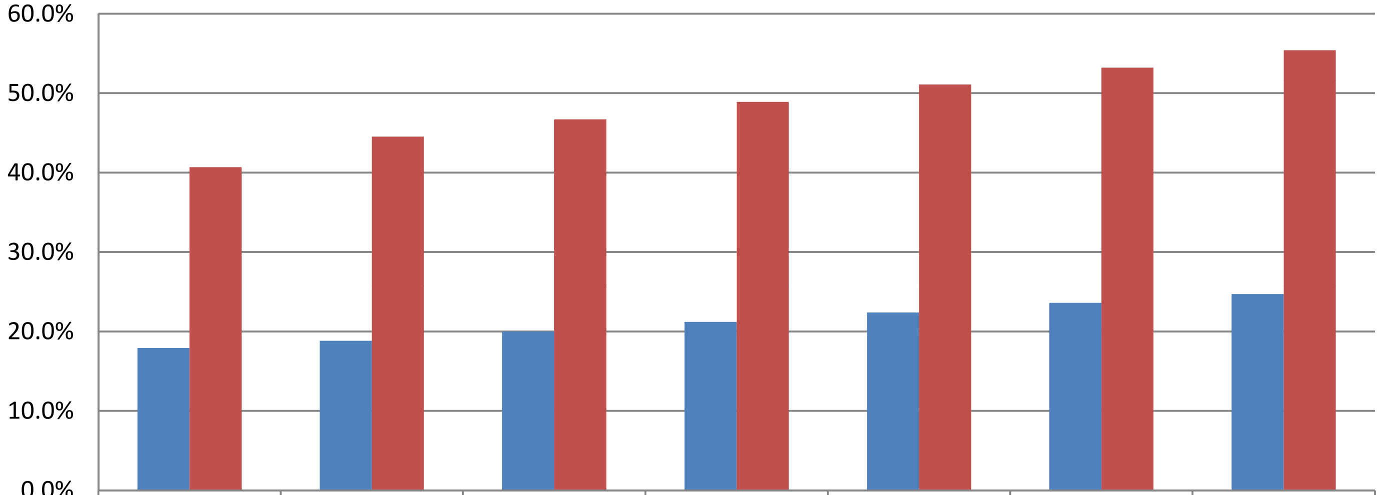
Current Method vs. New Method



The example chart is for illustrative purposes only and is not reflective of the City's unfunded pension obligation. It demonstrates how the change in the rate smoothing methodology on a sample amortization base of $100,000 will result in higher employer contributions in the near term, but a faster plan funded status over the long run. Over time, the new methodology is designed to improve funding levels and help reduce the overall funding level risk.

Projected Rate Increases

City of Newport Beach
Projected PERS Rates
Based on 6/30/2012 Actuarial Valuation



	2014	2015E	2016E*	2017E	2018E	2019E	2020E
Misc	17.9%	18.8%	20.0%	21.2%	22.4%	23.6%	24.7%
Safety	40.7%	44.5%	46.7%	48.9%	51.1%	53.2%	55.4%

* Effective 2015-16, the new asset smoothing policy takes effect.
** Rates do not include required employee contributions or employee cost sharing agreements.

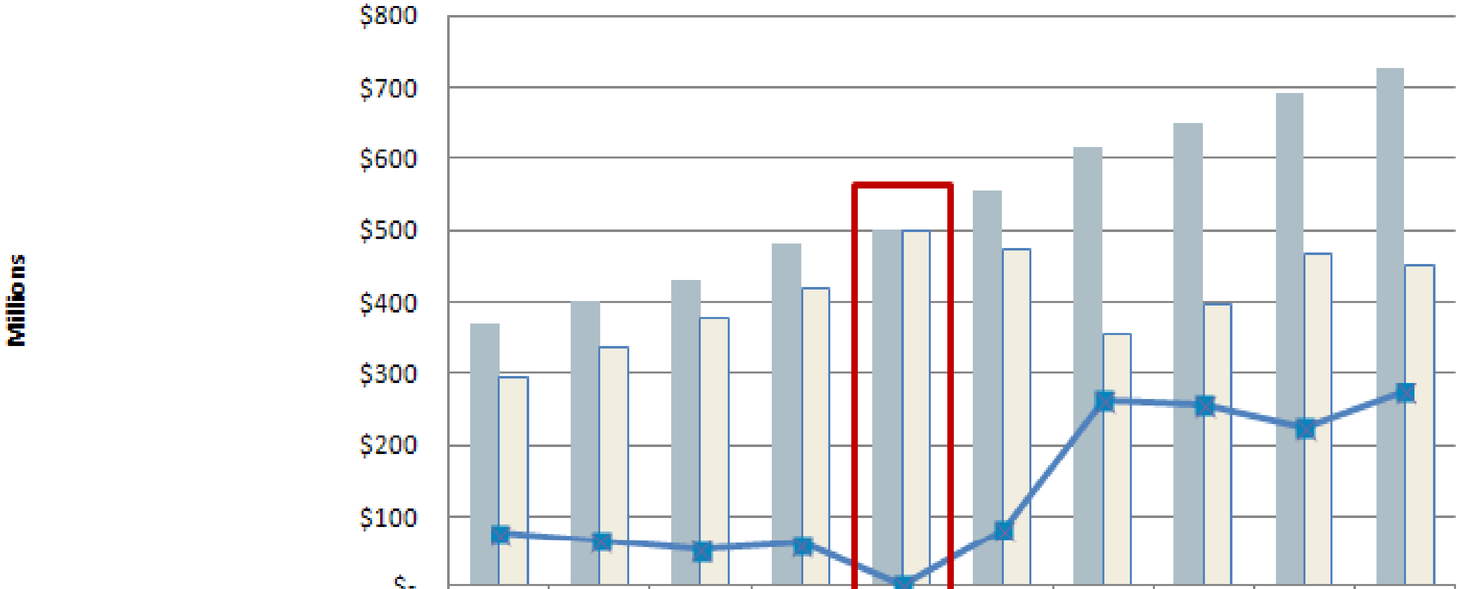
Projected Pension Cost Increases

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

* Gross expected employer contribution based on CalPERS estimate of payroll.

Does not reflect employee cost sharing arrangements.

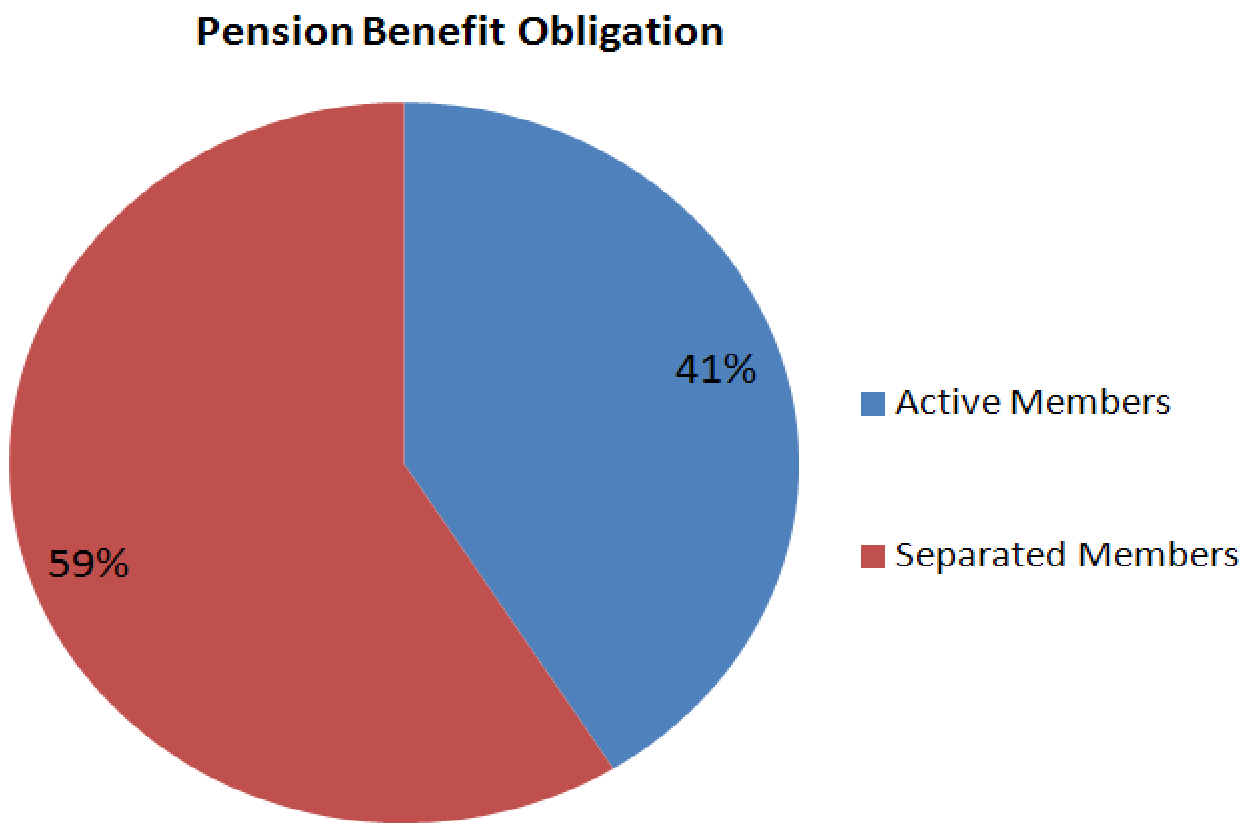
Unfunded Pension Liability at Market Value



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Accrued Pension Liability	$369	$402	$429	$480	$501	$553	$617	$652	$693	$727
Market Value of Assets	$293	$336	$377	$419	$499	$472	$354	$395	$467	$452
Unfunded Liab. At Market Value	$76	$66	$51	$61	$2	$82	$263	$257	$226	$275
Funded Status	79%	84%	88%	87%	100%	85%	57%	61%	67%	62%

While the unfunded status decreased from the 2011 Actuarial Val due to the disapporting .1% earnings in 2012, the 2013 earnings exceeded expectations at 12.5% thus the funded status should rebound some next year.

Analysis of Unfunded Liability



Of the $275 Million Unfunded Liability, 66% or $162 million is attributable to retirees and separated members.

On the Horizon

•More Actuarial Changes likely to impact 2015-16 Rates:

-New Experience Study may have further changes to mortality and disability retirement assumptions

-Discount Rate may be reduced by a .25% further - but it seems rather unlikely at this point.

•Investments Strategy to be reviewed soon

Changes to risk profile?

•GASB Statement No. 68 – Effective 2014-15

-Added layer of complexity that most won't understand
-Will impact City's Balance Sheet negatively but does not mandate additional funding.

City Pension Reform Efforts Not Fully Reflected in the Latest Actuarial Valuation

- Reduction of the City's overall position count through outsourcing and other means, going from 833 positions to 736, thus reducing liabilities.
- The increase of employee contributions to pension payments, including having employees pay a portion of what is traditionally the "employer's share" of the cost.
- Elimination of the "Employer Paid Member Contribution" or "EPMC" which, when EPMC was included, had the effect of increasing pension costs; and
- Establishment of 2nd and 3rd Tiers for new hires and transfers, with less-generous pension benefits, later retirement ages, and additional employee contributions.
- The City recently won an award from the OC Taxpayers Association for is pension award efforts as outlined above.

Recommendations

- Maintain reasonable employee contributions.
- Continue to seek opportunities to for staffing efficiencies, maintaining payroll in check.
- Continue to accelerate payments on unfunded liability – Consider use of well or over-funded reserves to improve funded status of pension plans. Target funding status at 75% or greater (Balanced approach to reserve funding and debt and investment portfolio). Reduce interest expense associated with unfunded liability.