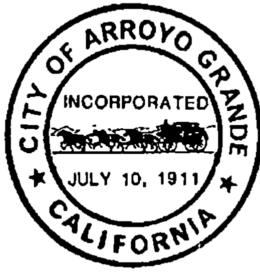

MEMORANDUM

TO: CITY COUNCIL

FROM: DEBBIE MALICOAT, DIRECTOR OF ADMINISTRATIVE SERVICES

SUBJECT: CONSIDERATION OF THE STATUS OF THE CITY'S CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CALPERS) PLANS

DATE: FEBRUARY 24, 2015

RECOMMENDATION:

It is recommended the City Council:

1. Receive and review information on the status of the City's retirement plans with the California Public Employees' Retirement System (CalPERS), and
2. Direct staff to engage Bartel Associates, LLC to provide actuarial analysis services.

IMPACT ON FINANCIAL AND PERSONNEL RESOURCES:

There is no direct financial impact to receive and review the status of the City's retirement plans. However, significant future impacts to the City's retirement costs are projected over the next few years based on information provided by CalPERS.

Engaging Bartel Associates, LLC to review the City's CalPERS plans and calculate anticipated impacts to costs for the next five years will cost approximately $7,000. Sufficient funding exists in the Non-Departmental budget to cover this cost.

BACKGROUND:

CalPERS is the State-wide Public Employees Retirement System, which provides retirement benefits for all State employees as well as local government agencies that choose to join. Each agency chooses benefit formulas from a list of those offered by CalPERS. However, for employees hired after January 1, 2013, the City does not have a choice; these employees are covered under the Public Employees' Pension Reform Act of 2013 (PEPRA), which will be discussed in more detail later in the report. CalPERS provides set monthly benefits that are guaranteed for the life of the retiree, which is also known as a defined benefit program.

CalPERS categorizes employees into one of three categories: Police Safety, Fire Safety or Miscellaneous. All non-sworn police or fire employees are grouped into the miscellaneous category, regardless of whether they are represented by a police or fire bargaining union.

CalPERS is funded by two contributions, an employee share and an employer share. Both are typically expressed as a percentage of the employee's earnings. The employee share is set by the legislature and varies depending on the benefit formula. For most of the City's employees, this is 9% for public safety employees and 7% or 8% for miscellaneous employees. PEPRA requires new employees to pay ½ of the Normal Cost for their benefits,

rather than a fixed 7%, 8% or 9%. The current PEPRA employee contribution is 6.25% for miscellaneous employees and 11.5% for safety employees. The employee share may be "picked up" by the employer, at the employer's option, for employees hired before 2013. PEPRA mandated that for all employees hired after 2013, employers were no longer allowed to "pick up" the employee share. In years past, the City paid some or all of the employee share of CalPERS; however, negotiations for employees to pay their own share of costs was undertaken in recent years and now all City employees pay the employee share. CalPERS would allow for additional cost-sharing to be negotiated, something that some cities around California have done. The decision to do this would need to be carefully evaluated in the context of the City's financial circumstances and is not the topic of this report.

The employer share is calculated annually by CalPERS actuaries and is the difference between the amount that must be contributed in order to pay benefits less the employee share. The employer must pay the required contribution and the contribution amount changes from year to year, depending upon a number of factors. This is usually what we are referring to when we talk about the City's "CalPERS rate" or "CalPERS costs."

The CalPERS benefits offered by the City of Arroyo Grande are summarized in the table below.

	Tier I	Tier II	Tier III (PEPRA)
Police - Sworn	3.0% @ 50	3.0% @ 55	2.7% @ 57
	Hired before Dec 9, 2011	Hired Dec 9, 2011 to Dec 31, 2012 or "Classic" members	Hired on or after Jan 1, 2013
	9% employee share	9% employee share	11.5% employee share
Miscellaneous	2.5% @ 55	2.0% @ 55	2.0% @ 62
	Hired before December 21, 2012	Hired Dec 21, 2012 to Dec 31, 2012 or "Classic" members	Hired on or after Jan 1, 2013
	8% employee share	7% employee share	6.25% employee share

A benefit formula of 2.5% @ 55 means that an employee receives 2.5% of their salary for each year of PERS-covered employment once they reach age 55.
For example, if an employee works 30 years and retires at 55 with a salary of $75,000 and a benefit formula of 2.5% at 55, their retirement benefit would be calculated as follows:

30 years x 2.5% = 75% benefit formula
$75,000 (salary) x 75% (benefit formula) = $56,250 annual retirement benefit

ANALYSIS OF ISSUES:

Calculating a plan's funding ratio is basically a comparison of how much money should be set aside in order to provide benefits versus how much money is actually set aside. The CalPERS actuaries determine the "Entry Age Normal Accrued Liability" which is the amount of money that should be set aside to provide benefits. They then compare it to the Market Value of the Plan's assets, the amount that is actually set aside. As of the most recent actuarial report, which looks at data from the year ended June 30, 2013, the City's CalPERS plans are approximately 70% funded, as detailed below. The City's estimated unfunded liability is approximately $17.2 million.

PERS Unfunded Liability Plan	At June 30, 2013	% Funded
Police (3%@ 50)	7,515,342	69.8%
Police 2nd tier (3% @ 55)	17,065	80.6%
Police PEPRA (2.7% @ 57)	(119)	146.7%
Miscellaneous (2.5% @ 55)	9,263,627	70.4%
Miscellaneous 2nd tier (2% @ 55)	11	79.6%
Miscellaneous PEPRA (2% @ 62)	(67)	134.2%
Subtotal	16,795,859	
Fire (3% @ 55)	933,017	74.6%
Estimated City share (45%)	419,858	
Total City unfunded liability	17,215,717	70.4%

Funding ratios can be helpful in determining how rates may need to change over time in order to provide the contracted benefits. However, the funding ratio can fluctuate because the formula uses the market value of the plan's assets. Many people remember in the early 2000's when plan assets exceeded the projected liabilities and CalPERS plans were "super funded". When this occurred, CalPERS employer required contribution rates were zero and most cities in this circumstance did not pay anything into CalPERS for a few years. That changed as CalPERS experienced significant investment losses and enhanced benefit formulas were negotiated with employees. Another provision of PEPRA is the elimination of any such employer "contribution holidays".

For comparison, the funding ratios in other nearby cities is provided below. As displayed, most cities in the area are approximately 70% funded on their first tier plans. Second tier and/or PEPRA plan funding status varies, primarily due to the number of employees in the plan. While this comparison illustrates that our neighboring cities have similar funding percentages as the City of Arroyo Grande, it does not tell the reader anything about the financial impact to the agency. Funding ratios do not indicate how many employees are in each plan or ultimately the amount of money that will need to be contributed. And they don't indicate how easy or difficult it will be for an individual agency to make their required contribution, the budgetary situation of the agency or the trade-offs that will be required in order to be fully funded. They are one mechanism for understanding the financial status of

the retirement plan, but should be viewed in the larger context of the overall actuarial report as well as the City's financial circumstances.

	Arroyo Grande	Atascadero	Grover Beach	Morro Bay	Paso Robles	Pismo Beach	San Luis Obispo	Santa Maria
Police first tier	69.8%	72.2%	75.4%	73.6%	72.3%	69.4%	65.2%	75.2%
Police second tier	80.6%	80.6%	N/A	80.6%	80.6%	80.6%	78.9%	99.9%
Police PEPRA	146.7%	146.8%	147.3%	N/A	146.8%	146.8%	N/A	146.8%
Misc first tier	70.4%	73.6%	74.0%	75.4%	64.3%	71.3%	62.3%	73.1%
Misc second tier	79.6%	N/A	N/A	84.3%	N/A	84.5%	N/A	N/A
Misc PEPRA	134.2%	134.2%	N/A	134.2%	N/A	134.2%	N/A	N/A

N/A indicates that the city has no employees in this tier.

New changes to risk pools, actuarial assumptions and the impacts on rates and funding:

CalPERS has implemented new changes to their contribution policy and actuarial assumptions that will impact employer contribution rates in the next few years. Understanding exactly how these changes will affect the City of Arroyo Grande is complex and although staff has a basic understanding, staff would recommend contracting with an independent actuarial firm, to provide the staff and Council with a greater understanding of this before identifying and developing appropriate mechanisms to mitigate the rate increases projected.

The CalPERS staff report from their Finance & Administration Committee meeting in May 2014 provides a good overview of the changes to risk pools that came about as a result of PEPRA and is attached to this report. As outlined in the CalPERS staff report, they are trying to address issues of funding, equity and employer contribution rate volatility. In order to address these issues, the CalPERS Board approved a series of changes to risk pools that will begin impacting the City's employer rate in FY 2015-16. Changes include: combining all risk pools into one Miscellaneous and one Safety pool; collecting payments as a fixed dollar amount, no longer a percentage of payroll; and changing the allocation of payments and unfunded liabilities to agencies based on their share of the pool's liability rather than on their share of the pool's payroll. This means that agencies that have higher liability compared to their share of the pool's payroll will see contribution increases and those that have lower liability compared to payroll share will see contribution decreases.

The agency's unfunded liability and payment is now going to be amortized and collected as a flat dollar amount. The payment of the normal cost will continue to be paid as a percentage of payroll, with formulas to adjust for ancillary benefits that an individual agency might be providing to their employees. If an agency has a side fund, which the City of Arroyo Grande does, there will not be changes to the current side fund balance or amortization schedule; however, the payments will be made as flat dollar amounts, rather than as a percentage of payroll.

In addition to these changes related to risk pooling, CalPERS is making changes to their contribution policy, the impacts of which will be seen by the City in FY 2015-16. These

changes will be phased in over a 5 year period. Future gains and losses from investments will be amortized over a 25 year period, with the 5 year ramp up, it will be a total of 30 years. Method and assumption changes will have a 15 year amortization period, plus the 5 year ramp up, for total of 20 years. There is no cap on rate increases each year.

And if that weren't complex enough, the CalPERS Board reviewed changes to their actuarial assumptions, which are reviewed every 3 years, and these impacts will be seen by the City in FY 2016-17. There are no changes to the economic assumptions, such as the rate of return on investments. However, there are impacts related to mortality, which anticipates that people in retirement are living longer. In addition, earlier retirements, particularly for those agencies that have the 2.7% @ 55 formula for Miscellaneous and all Safety plans, and higher salary increases for Safety near retirement, will increase employer contribution rates.

Options for the future and further consideration:
Given the complexities and the significant amount of money spent on retirement contributions, staff recommends contracting with an independent actuary to assist in projecting the City's costs in the next 5 years, which will assist in financial planning and sustainability efforts. This information will be useful in determining options that are available to assist the City in mitigating the cost increases projected, such as paying the unfunded liability through pension obligation bonds or other one-time funding sources.

ALTERNATIVES:
No alternatives are provided; the report is informational in nature. However, providing direction to staff regarding contracting with an independent actuary to assist in further analysis would be helpful.

ADVANTAGES:
Having a basic knowledge and understanding of CalPERS benefits, funding status and actuarial methods will assist the Council and public in making informed decisions related to CalPERS issues.

DISADVANTAGES:
There are no identified disadvantages to receiving this information.

ENVIROMENTAL REVIEW:
No environmental review is required for this item.

PUBLIC NOTIFICATION AND COMMENTS:
The Agenda was posted in front of City Hall on Thursday, February 19, 2015. The Agenda and report were posted on the City's website on Friday, February 20, 2015. No public comments were received.

Attachment:
CalPERS Finance & Administration Committee staff report from May 20, 2014

Finance & Administration Committee

California Public Employees' Retirement System

Agenda Item 5a

May 20, 2014

ITEM NAME: Changes to Pension Risk Pools as a Result of Pension Reform

PROGRAM: Actuarial Office

ITEM TYPE: Action

RECOMMENDATION

Staff recommends that the Board adopt changes to the risk pooling structure by adopting the following:

- Changes to Board resolution ACT-96-05E regarding amortization and smoothing policies
- Changes to Board resolution ACT-99-03 regarding employer contributions in excess of actuarially determined rate
- Changes to Board resolution 03-03-AESD regarding the list of available risk pools
- Changes to Board resolution 04-02-AESD regarding the phasing-out of normal cost for employers joining the risk pooling structure
- Changes to Board resolution 05-02-AESD regarding smoothing of employer rate and the minimum employer contribution rate for plans with a surplus
- Create new Board resolution ACT-14-01 regarding the allocation of pool's unfunded accrued liability

EXECUTIVE SUMMARY

Last month, staff brought an item to this Committee identifying some unintended consequences resulting from the interaction of the Public Employees' Pension Reform Act of 2013 (PEPRA) and existing Board policies on risk pools. Changes necessary to ensure the proper funding of these pools were identified in this agenda item. At that time, the Board was asked to delay by one month a vote to change the risk pooling structure to allow for additional stakeholder outreach.

The stakeholder outreach has shown that there is general support for the approach recommended by staff. It has also identified one area of possible concern as described in the section on outreach.

Staff is therefore recommending the *same changes* that were recommended last month. The following summarizes the key recommended changes:

1. Combine all active and inactive risk pools into two risk pools, one for all miscellaneous plans and one for all safety plans.
2. Allocate the pool's unfunded accrued liability proportionately to each individual plan based on each plan's total liability instead of plan payroll.

3. Collect employer contributions toward the unfunded accrued liability and Side Fund for plans participating in a risk pool as dollar amounts instead of contribution rates expressed as a percentage of payroll.
4. Change the way existing employers will see their rate phased into the pool's rate when first joining a risk pool.
5. Clarify how additional contributions sent by employers to pay down an unfunded accrued liability will be applied and toward which portion of their unfunded accrued liability these additional contributions will first be used.

The proposed changes preserve the essential pooling of risks needed to prevent demographic events from causing significant rate shocks for small plans. Although the proposed changes will not change the amount of contribution needed to properly fund the risk pools, the proposed changes in the cost allocation methods will result in some employers having to contribute more and some employers having to contribute less. Additional information is provided later in the agenda item and the attachments.

STRATEGIC PLAN

This agenda item is not part of our strategic plan but rather is a response to changes in the external environment that staff is responding to as part of the ongoing workload of the Actuarial Office.

BACKGROUND

Risk Pooling was implemented effective with the June 30, 2003 actuarial valuations to protect small employers (those with less than 100 active members) against large fluctuations in employer contribution rates caused by unexpected demographic events.

In June 2012, staff delivered a review report on risk pooling including all Board actuarial policies related to risk pooling, risk pooling practices, internal procedures, laws and regulations to assess what has worked and what can be improved. The review demonstrated that the key objective of risk pooling had been realized, i.e. risk pooling has protected small employers against large changes in employer contribution rates due to unexpected demographic events. In the report, it was noted that the pension reform proposals under consideration at the time could effectively close all existing risk pools and have a significant impact on the risk pools at CalPERS.

Pension reform legislation was enacted in 2012 through the passage of PEPRA. PEPRA effectively closed the existing pools at that time. Since the effective date of the legislation was after the effective date of the June 30, 2012 actuarial valuations, staff did not make any changes to those valuations. In November 2012, the Board approved adding two new risk pools due to the formulas created by PEPRA to be able to implement PEPRA on January 1, 2013.

It is now necessary to consider the appropriate treatment of the effective closure of the risk pools for the "Classic" formulas – those in existence prior to the passage of PEPRA.

ANALYSIS

In an open pension plan, a fundamental underlying assumption is there will be an ongoing influx of new employees to replace those employees that exit due to retirement, disability, turnover or death.

PEPRA has closed all existing active risk pools to new public employees hired on and after January 1, 2013 except for classic members. When a pension plan becomes closed to new entrants, attrition will begin; reducing the number of active employees toward ultimately having a pension plan with no active employees.

Several issues have arisen as a result of PEPRA for the risk pooling structure. These issues were discussed in detail in an agenda item to this Committee last December. These issues can be categorized as funding, equity and employer contribution rate volatility issues.

Funding issue

Contributions for pools are collected as a contribution rate expressed as a percentage of payroll. When setting the contribution rates, the Actuarial Office uses the payroll information from the data in the actuarial valuation. The payroll information is three years prior to the fiscal year when the contribution rate will apply. As a result, the payroll is projected forward for three years under the assumption it will grow by 3% per year, the current Board approved payroll growth assumption.

With the closing of the pools to new PEPRA hires in the near term, covered payroll is most likely going to increase at a rate lower than 3% or even decline. When a pool experiences smaller payroll growth than assumed, it can lead to an underfunding of the plan. Changes must be made to the current pooling structure to avoid this potential underfunding.

Equity issue

Under the current risk pooling structure, the existing unfunded accrued liability and future gains and losses are currently allocated to plans in each risk pool based on the payroll of the plan. This structure works well to the extent the payroll of each plan is expected to grow at about the same rate. With the closing of the pools to new hires, the payroll of plans will decline over time. Since every employer participating in risk pooling has different demographic characteristics, their active members will retire or exit the plan at different times leading to some plans experiencing a faster decline in payroll than others.

Since gains and losses of the entire pool are currently allocated based on payroll, plans with larger payroll will be asked to contribute more toward the pool's unfunded

accrued liability than plans with smaller payroll. As the number of active members decline in the pool, the payments toward the unfunded liability will disproportionally be shifted to those plans having the largest number of remaining active members resulting in an inequitable allocation of costs. To address this equity issue, changes are needed on how costs are allocated within each risk pool.

Employer Contribution Rate Volatility issue
When PEPRA was enacted, it closed all classic active pools to new PEPRA hires. The unfunded accrued liability for the classic pools remained unchanged. Under current Board policies, payments to the amortization of the unfunded accrued liabilities and side funds are expressed as a percentage of payroll. If the unfunded accrued liability decreases over time as employers pay down the unfunded accrued liability, employer contribution rate volatility will eventually increase to an alarming level. This is going to be difficult for employers to budget and could lead to severe hardship for some employers.

Possible Solutions
At the April 2014 Board meeting, staff presented to the CalPERS Board two alternatives for the future of risk pooling to address these issues without sacrificing the considerable benefit to contribution rate stability for smaller employers that risk pooling provides. The two alternatives are described in more details below.

Alternative 1
Alternative 1 includes keeping the current pooling structure of 9 closed active pools, 1 inactive pool and 2 open active PEPRA pools and modifying current funding and amortization methods to address the funding and equity issues with the least amount of change to our current pooling structure. Even though the payroll of employer is still open and can be expected to grow over time, the same is not true of the groups covered under the classic formula.

The changes proposed under alternative 1 will result in almost all pooled employers having to contribute more in the near term. We expect that about 90% of the Miscellaneous plans in the classic risk pools will experience employer rate increases between 0-3% of payroll and about 75% of the Safety plans will experience increases of 2-5% of payroll. In addition to the contribution increases, a change of the allocation of the pool's unfunded accrued liability will further increase or decrease individual employer contribution rates. Attachment 1 shows a distribution of the estimated impact of changes to risk pooling on employer rates for alternatives 1 and 2.

Under this alternative, we will need to monitor the funding of each risk pool carefully. It is possible that we may have to modify our funding approach to reflect the demographics of the closed groups which would further increase contributions.

Alternative 1 is not the preferred approach. More details on Alternative 1 can be found in agenda item 7b to this Committee last December.

Alternative 2
Staff reviewed another alternative which is combining all pools into two pools, one for all miscellaneous groups and one for all safety groups. This is the approach that staff is recommending and requires structural changes. By combining all pooled plans into two risk pools, the payroll of the risk pools and employers within the pools can be expected to increase at the assumed 3% annual growth, addressing some of the issues that resulted from having a declining active population in the pool. Therefore, we will be able to keep our current level percentage of pay amortization schedule to avoid the necessity of immediate increases to employer contributions.

In addition to combining all existing risk pools into two risk pools, staff is recommending that we start collecting employer contributions toward unfunded accrued liability and side fund as dollar amounts instead of contribution rates. Implementing this change will address the funding issue that would arise from the declining population under the classic formula. This will result in a major change in how contributions are collected from employers. Anecdotally, employers seem to be supportive of this approach. Several employers have approached CalPERS over the last several months proposing that we no longer collect contributions for the unfunded accrued liability as a percentage of payroll but rather invoice them for the amount needed each year to pay down the unfunded accrued liability. The normal cost contribution would continue to be expressed as a percentage of payroll.

Staff is also recommending changes to the method to allocate cost to plans in risk pools. Staff's recommendation is to allocate the pool's unfunded accrued liability to each individual plan within the pool based on the plan's total liability instead of based on the plan's payroll. This is a change for which many pooled employers have been requesting. Additionally, many pooled employers have been asking for the ability to pay down their share of the pool's unfunded accrued liability. This is not possible unless we allocate the unfunded accrued liability of the pool to each employer on an annual basis. Making this change will address the equity issue and allow employers to pay down their share of the pool's unfunded accrued liability. Although the recommended changes to the cost allocation method will not change the amount of contribution needed to properly fund the risk pools, the changes in the cost allocation methods will result in some employers having to contribute more and some employers having to contribute less. An analysis performed by staff showed that almost half of the plans will see a change – positive or negative of less than 1% of payroll. About 80% of employers will experience changes between -3% to +3% of payroll. However, there are a few plans with large retiree to active ratios that will experience increases in excess of 3% of payroll.

Attachment 1 shows a distribution of the estimated impact of changes to risk pooling on employer rates for alternatives 1 and 2. This comparison shows that under

alternative 2 most employers will see a smaller rate increase than under alternative 1. Attachment 2 shows a distribution of the difference in employer contributions rates between alternative 1 and alternative 2. Most employers will see a smaller increase in contribution rate under alternative 2 compared to alternative 1.

The solution for alternative 2 will require a significant effort to program and design the required database changes to our existing system. If adopted by the Board, these changes will be reflected in the June 30, 2013 actuarial valuations that will be performed later this summer and will be used to set the employer contribution rates for fiscal year 2015-16.

To implement these changes, modifications are necessary to five existing Board policies as is the creation of one new policy. The policies being modified or created are the following:

- Board resolution ACT-96-05E: modified to ensure amortization and smoothing policies properly reflect the proposed changes. See Attachment 3 for a copy of the final recommended version of the Board resolution. The proposed changes highlighted in the redline version was provided in the April agenda item.
- Board resolution ACT-99-03: modified to reflect employers with pooled plans will be asked to contribute both a rate and a dollar amount to fund their plans. See Attachment 4 for a copy of the final recommended version of the Board resolution. The proposed changes highlighted in the redline version was provided in the April agenda item.
- Board resolution 03-03-AESD: modified to combine existing pools and reflect that only two risk pools will be administered going forward for employers that contract with CalPERS. See Attachment 5 for a copy of the final recommended version of the Board resolution. The proposed changes highlighted in the redline version was provided in the April agenda item.
- Board resolution 04-02-AESD: modified to properly reflect that normal cost of plans will need to be taken into account when phasing in an existing plan joining a risk pool for the first time. See Attachment 6 for a copy of the final recommended version of the Board resolution. The proposed changes highlighted in the redline version was provided in the April agenda item.
- Board resolution 05-02-AESD: minor changes to ensure consistency with the proposed changes. See Attachment 7 for a copy of the final recommended version of the Board resolution. The proposed changes highlighted in the redline version was provided in the April agenda item.
- Board resolution ACT-14-01: new policy being created to establish the process used to allocate the pool's unfunded accrued liability to each plan on an annual basis. See Attachment 8 for a copy of the proposed new Board resolution.

Outreach

As reported to the Board last month, staff requested delaying Board action on this item in order to provide additional outreach to our public agency employers so they could fully understand the impact on their agencies. Staff made available an analysis of the estimated impact of the proposed changes to risk pools on each employer's contributions under the two alternative solutions. In addition CalPERS staff has participated in meetings with various employer organizations to provide information and answer questions. Furthermore, the Actuarial Office delivered a webinar hosted by the League of Cities on Wednesday April 30, 2014 that was made available to all pooled employers affected by the proposal. Over 250 employers signed in to listen to the webinar.

In addition to the webinar, the various employer organizations have reached out to their membership to survey them on the two alternatives being considered to address the issues identified in this agenda item. At the time of writing this agenda item, staff had not yet received a formal letter summarizing the results of the survey but based on discussions staff had with representatives of the League of Cities, the vast majority of the employers that responded to the survey were in favor of Alternative 2. Staff will provide additional detail at the Committee meeting if available. It has been brought to our attention that a small group of employer had concern over the proposal to start billing the payment required to pay down an unfunded liability as a dollar amount rather than as a percentage of payroll. The concern seems to be over the fact that in some instances, specific MOU language refers to the CalPERS contribution rate and there was a concern of the impact on these MOUs of setting a lower rate combined with a dollar amount for the unfunded portion of the rate. We have been in communications with employers on this subject and staff intends to continue provide in the valuation report for information purposes what the contribution rate would have been had we set a rate for the unfunded liability component of the contribution. Charging a specific dollar amount to pay down the unfunded liability is a change that is necessary to preserve equity and ensure fairness among the employers participating in risk pools. Continuing to bill as a contribution rate to pay down the unfunded liability would result in a shifting of cost anytime an employer's payroll does not increase at a rate of exactly 3% per year. Staff is working with the stakeholders to determine how much of an issue this will be and will provide additional information at the Committee meeting. Staff is working with the stakeholders to determine how much of an issue this will be and will provide additional information at the Committee meeting.

BUDGET AND FISCAL IMPACTS

This item was not anticipated in the strategic or business plan and has not been built into the budget. Given the time constraint to implement the changes outlined in this agenda item, it is anticipated that any work associated with the issues described herein will have to be completed with existing staff and absorbed within current

budgets although this may be revisited in a future agenda item. Unless action is taken, contributions from employers will have to be accelerated and impose additional strain on employers' budgets.

BENEFITS/RISKS

As stated earlier, several issues have arisen as a result of PEPRA for the risk pooling structure. These issues can be categorized as funding, equity and employer contribution rate volatility issues.

Staff is recommending changes to address some of these issues. If the Board were to not adopt changes to the risk pooling changes, the issues identified in this agenda item would remain in place and could have a drastic impact in a few years.

Staff presented two alternatives to address some of these risks. Alternative 1 has the benefit of being the easiest one to implement from a perspective of system and program changes needed. However, it still does not eliminate all of the issues identified. The risk in implementing alternative 1 is that first it would result in all pooled employers having to pay more at a time when budgets are already strained. In addition, is not likely to fully eliminate the funding, equity and employer contribution rate volatility issues we are facing. This alternative may necessitate future changes to our funding approach to reflect the demographics of the closed classic groups which would further increase employer contributions. As stated earlier, this is not the preferred alternative.

Alternative 2 is the solution recommended by staff to address the issues listed above. Alternative 2 preserves the essential pooling of risks needed to prevent demographic events from causing significant rate shocks for small plans. This alternative is more complicated to implement and will require significant changes to systems, policies and procedures. Under this alternative, there is no overall increase in employer contributions although some employers will have higher contributions and some lower. The risk of not implementing this approach would be that the funding, equity and employer contribution rate volatility issues would remain in place and would require some action in the future. The risk in implementing this change is some employers will see increases in contributions at a time when budgets are already strained.

Another option that was not considered as viable was the elimination of risk pools at CalPERS and returning each plan to a stand-alone basis. This path would reintroduce the risk of large increases in contribution rates caused by demographic events for small plans that was eliminated with the creation of risk pools. Dismantling risk pools would re-introduce risks that have been eliminated by their creation and would impact contribution rates in a similar fashion to how Alternative 2 is expected to impact rates.

ATTACHMENTS

Attachment 1 – Estimated Impact of Changes to Risk Pooling on Employer Contributions: Comparison of Alternative 1 to Alternative 2
Attachment 2 – Estimated Impact of Changes to Risk Pooling on Employer Contributions: Difference in Rate Between Alternative 1 and Alternative 2
Attachment 3 – Board Resolution ACT-96-05E - Final Recommendation
Attachment 4 – Board Resolution ACT-99-03 - Final Recommendation
Attachment 5 – Board Resolution 03-03-AESD - Final Recommendation
Attachment 6 – Board Resolution 04-02-AESD - Final Recommendation
Attachment 7 – Board Resolution 05-02-AESD - Final Recommendation
Attachment 8 – Board Resolution ACT-14-01 - Final Recommendation

DAVID LAMOUREUX
Deputy Chief Actuary
Actuarial Office

ALAN MILLIGAN
Chief Actuary

Estimated Impact of Changes to Risk Pooling

Alternative 1 Vs Alternative 2

Number of Employers

450
400
350
300
250
200
150
100
50
0

<-6%
-6 to -5%
-5 to -4%
-4 to -3%
-3 to -2%
-2 to -1%
-1 to 0%
0 to 1%
1 to 2%
2 to 3%
3 to 4%
4 to 5%
5 to 6%
6 to 7%
7 to 8%
8 to 9%
9 to 10%
>10%

Estimated Increase in Employer Rate

■ Alternative 1
■ Alternative 2

Estimated Impact of Changes to Risk Pooling

Difference Between Alternative 1 and Alternative 2

Number of Employers

250
200
150
100
50
0

<-6%
-6 to -5%
-5 to -4%
-4 to -3%
-3 to -2%
-2 to -1%
-1 to 0%
0 to 1%
1 to 2%
2 to 3%
3 to 4%
4 to 5%
5 to 6%
6 to 7%
7 to 8%
8 to 9%
9 to 10%
>10%

Difference Between Alternative 1 and 2 as a Percentage of Payroll

STATE OF CALIFORNIA
BOARD OF ADMINISTRATION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

RESOLUTION

No. ACT-96-05E (Rev.)

Subject: **Actuarial Policies - Amortization & Smoothing Policy**

WHEREAS, 1. In accordance with Government Code section 20120, the Board of Administration of the California Public Employees' Retirement System (the "Board") is vested with the management and control of the Public Employees' Retirement System (the "System").

WHEREAS, 2. Under Article XVI, Section 17 of the California Constitution (the "Constitution"), the Board has plenary authority and fiduciary responsibility for the investment of monies and administration of the System. The Constitution also vests the Board with the sole and exclusive power to provide for actuarial services in order to assure the competency of the System.

WHEREAS, 3. In furtherance of its sole and exclusive duty to make actuarial determinations under Section 17, the Board has hired a Chief Actuary to advise the Board and to direct the activities of the System's professional actuarial staff.

WHEREAS, 4. Also in furtherance of its sole and exclusive duty to make actuarial determinations, the Board has retained the services of an outside consulting actuarial firm, to review the work of the System's actuarial staff and to certify that such work satisfies actuarial standards of practice.

WHEREAS, 5. The Board's Chief Actuary has advised the Board to adopt specific written policies regarding the actuarial practices that are most prudent for the System.

NOW THEREFORE BE IT RESOLVED:

(A) It is the policy of the Board to use professionally accepted amortization methods to eliminate unfunded liabilities or surpluses in a manner that

maintains benefit security for the members of the System while minimizing substantial variations in employer contribution rates.

(B) To accomplish this goal, the Board hereby adopts an amortization method which amortizes different portions of the total unfunded liability or surplus over different periods of time, depending upon the type of event that created the particular portion of the unfunded liability or surplus, specifically as follows:

(1) For the June 30, 2012 valuation, the annual contribution amount with regard to gains and losses shall be determined as the dollar amount (increasing each year by the overall payroll increase assumption adopted by the Board) required to amortize the accumulated amount of unamortized gains and losses as of the valuation date over a period of thirty years.

The provisions of this paragraph (B)(1) will also be in effect for the June 30, 2013 actuarial valuation for the State & Schools plans.

(2) Commencing with the June 30, 2013 valuation, the annual contribution amount with regard to gains and losses recognized in that valuation shall be the dollar amount determined in accordance with the following schedule:

- Year 1: 20% of base payment
- Year 2: 40% of base payment
- Year 3: 60% of base payment
- Year 4: 80% of base payment
- Years 5 through 26: base payment
- Year 27: 80% of base payment
- Year 28: 60% of base payment
- Year 29: 40% of base payment
- Year 30: 20% of base payment

The base payment, for this paragraph (B)(2), shall be the annual amount (increasing each year by the overall payroll increase assumption adopted by the Board) necessary for the gains and losses to be fully amortized over a fixed 30 year period using the above schedule.

Notwithstanding the above, the provisions of this paragraph (B)(2) will commence with the June 30, 2014 actuarial valuation for the State & Schools plans.

(3) For the June 30, 2012 valuation, the annual contribution with regard to a change in unfunded liability due to a change in plan provisions,

or a change in actuarial assumptions, or a change in actuarial methods, shall be the dollar amount (increasing each year by the overall payroll increase assumption adopted by the Board) required to amortize that change in unfunded liability over a period of twenty years from the date of the actuarial valuation which first recognizes that change in unfunded liability.

The provisions of this paragraph (B)(3) will also be in effect for the June 30, 2013 actuarial valuation for the State & Schools plans.

(4) Commencing with the June 30, 2013 actuarial valuation, the annual contribution amount with regard to a change in unfunded liability due to a change in plan provisions (other than a Golden Handshake) shall be the dollar amount (increasing each year by the overall payroll increase assumption adopted by the Board) required to amortize that change in unfunded liability over a period of twenty years from the date of the actuarial valuation which first recognizes that change in unfunded liability.

Notwithstanding the above, the provisions of this paragraph (B)(4) will commence with the June 30, 2014 actuarial valuation for the State & Schools plans.

(5) Commencing with the June 30, 2013 actuarial valuation, the annual contribution amount with regard to a change in unfunded liability due to a Golden Handshake shall be the dollar amount (increasing each year by the overall payroll increase assumption adopted by the Board) required to amortize that change in unfunded liability over a period of five years from the date of the actuarial valuation which first recognizes that change in unfunded liability.

Notwithstanding the above, the provisions of this paragraph (B)(5) will commence with the June 30, 2014 actuarial valuation for the State & Schools plans.

(6) Commencing with the June 30, 2013 actuarial valuation, the annual contribution amount with regard to a change in unfunded liability due to a change in actuarial assumptions or actuarial methods shall be the dollar amount required to amortize that change in unfunded liability over a period of twenty years from the date of the actuarial valuation which first recognizes that change in unfunded liability in accordance with the following schedule:

- Year 1: 20% of base payment
- Year 2: 40% of base payment
- Year 3: 60% of base payment

- Year 4: 80% of base payment
- Years 5 through 16: base payment
- Year 17: 80% of base payment
- Year 18: 60% of base payment
- Year 19: 40% of base payment
- Year 20: 20% of base payment

The base payment, for this paragraph (B)(6), shall be the annual amount (increasing each year by the overall payroll increase assumption adopted by the Board) necessary for the change in unfunded liability to be fully amortized over a fixed 20 year period using the above schedule.

Notwithstanding the above, the provisions of this paragraph (B)(6) will commence with the June 30, 2014 actuarial valuation for the State & Schools plans.

(7) Any agency contracting with CalPERS for the first time shall have the initial unfunded liability amortized over a period equal to the smaller of twenty years or the average future working lifetime of that agency's active members with the annual contribution amount increasing each year by the overall payroll increase assumption adopted by the Board.

(8) Commencing with the June 30, 2012 actuarial valuation, notwithstanding the foregoing (1) through (7) and except as provided in (10) below, the annual contribution (increasing each year by the overall payroll increase assumption adopted by the Board) with regard to the total unfunded liability as of any valuation date shall not be less than the amount necessary to amortize the total unfunded liability over a period of thirty years from the date of that actuarial valuation.

(9) In certain cases, provide for a Fresh Start of the amortization bases. Under this policy, Fresh Start means combining multiple amortization bases into a single base.

(a) A Fresh Start may be used whenever application of policies as set forth in paragraphs (B)(1) through (B)(8) results in mathematical inconsistencies or a violation of the goals as stated in paragraph (A), including, without limitation, the following circumstances:

(1) a negative employer contribution rate; or
(2) a negative employer amortization payment on a positive

unfunded liability; or

(3) a positive employer amortization payment on a negative unfunded liability (i.e. an actuarial surplus); or

(4) the effect of adding multiple amortization base payments results in a net amortization payment that completely amortizes the total unfunded liability/surplus in a very short time period, which results in a large change in the employer contribution rate; or

(5) whenever application of the methods set forth in paragraph (B), in the professional judgment of the Chief Actuary, does not accomplish the goals as stated in paragraph (A).

(b) The amortization period of the Fresh Start base shall be determined by policies established by the Chief Actuary in a manner which best meets the goals stated in paragraph (A). The Chief Actuary will inform the Board of the policies so established, and the Board shall retain its right to instruct the Chief Actuary to change those policies.

(10) Commencing with the June 30, 2012 actuarial valuation, the annual contribution with regard to the side fund for agencies joining a risk pool for the first time shall be the dollar amount (increasing each year by the overall payroll increase assumption adopted by the Board) required to amortize the side fund using a Fresh Start. The Fresh Start shall be done over a period that would produce an amortization payment that would be as close as possible to the payment that all existing separate amortization bases would have generated had the plan not participated in a risk pool.

(11) Commencing with the June 30, 2013 actuarial valuation only, combine all existing amortization bases established on or before June 30, 2012 for the risk pools being combined as a result of changes made to Board Policy No. 03-03-AESD. The single amortization base for the risk pools will be amortized over a period that is the same or as close as possible to the period had the pools' amortization bases not been combined. Once combined and amortized, the amortization base will be allocated to each individual plan within the pool in accordance with Board policy ACT-14-01.

(12) Commencing with fiscal year 2015-16, for plans participating in a risk pool the plan's total payment towards the unfunded liability will no longer be billed as a percentage of payroll. It will be billed as a dollar amount instead.

(C) (1) In situations where the Chief Actuary expects a plan to have a decrease in payroll over time or to increase at a slower rate than the overall payroll increase assumption, the methods described in paragraph (B) can be changed to better accomplish the goals stated in paragraph (A) by calculating the dollar amount needed assuming the amount (or base payment) will remain the same each year instead of increasing each year by the overall payroll increase assumption adopted by the Board.

(2) In the case of inactive plans, the methods described in paragraph (B) will be applied except that annual contribution amounts will not increase each year by the overall payroll increase assumption adopted by the Board and instead all bases will be amortized as a level dollar.

(3) When an active plan changes status to an inactive plan, the amortization periods used to set the annual contribution towards the unfunded liability will be the greater of the current amortization period or 10 years (if requested by the employer) and amortized as a level dollar amount.

(D) Public agency employers for whom the policies provided in this Resolution produce severe financial hardship may petition the Chief Actuary, for an extension of the amortization period to no more than thirty years. Other employers for whom the policies provided in this Resolution produce severe financial hardship may petition the Board for an extension of the amortization period to no more than thirty years.

(E) This Resolution shall be effective immediately upon adoption.

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I hereby certify that on the 20th day of October, 1999 the Board of Administration of the California Public Employees' Retirement System, made and adopted the foregoing Resolution; and that this Resolution was amended on the 20th day of April, 2005; and that this Resolution was again amended on the 17th day of April 2013; and that this Resolution was further amended on the 21st of May 2014.

ROB FECKNER, PRESIDENT
BOARD OF ADMINISTRATION, PUBLIC
EMPLOYEES' RETIREMENT SYSTEM

STATE OF CALIFORNIA
BOARD OF ADMINISTRATION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

RESOLUTION

No. ACT-99-03 (Rev.)

Subject: **Actuarial Policies - Employer Contributions in Excess of Actuarially Determined Rate**

WHEREAS, 1. In accordance with Government Code Section 20120, the Board of Administration of the California Public Employees' Retirement System (the "Board") is vested with the management and control of the Public Employees' Retirement System (the "System").

WHEREAS, 2. Under Article XVI, Section 17 of the California Constitution, the Board has plenary authority and fiduciary responsibility for the investment of monies and administration of the System. The Constitution also vests the Board with the sole and exclusive power to provide for the actuarial services in order to assure the competency of the System.

WHEREAS, 3. In furtherance of its sole and exclusive duty to make actuarial determinations under Section 17, the Board has hired a Chief Actuary to advise the Board and to direct the activities of the Board's professional actuarial staff.

WHEREAS, 4. Also in furtherance of this sole and exclusive duty to make actuarial determinations, the Board has retained the services of an outside consulting actuarial firm to review the work of the Board's actuarial staff and to certify that such work satisfies actuarial standards of practice.

WHEREAS, 5. The Board's Chief Actuary has advised the Board to adopt specific written policies regarding the actuarial practices that are most prudent for the System.

WHEREAS, 6. The Board has exclusive authority to set employer contribution rates for public agencies that have elected to contract with CalPERS for retirement system coverage. From time to time, such public agencies wish to make employer contributions in excess of the normal rate determined by the Board. Acceptance of employer contributions in amounts exceeding the normal rate of contribution generally enhances the security of benefits that will be paid to participants and their beneficiaries.

NOW, THEREFORE, BE IT RESOLVED:

1. It is the policy of the CalPERS Board that employers participating in the CalPERS system may make employer contributions in excess of the employer contribution rate approved by the CalPERS Board, provided that: (a) acceptance of these contributions does not, under professionally accepted actuarial methods, increase the total amount of employer contributions that would otherwise be paid to CalPERS; and (b) the employer gives reasonable notice to its employees of its intention to make such contributions.

2. For employers participating in one of the risk pools, lump sum contributions in excess of the employer contribution rate and/or amount approved by the CalPERS Board shall be included in the assets of the pool but accounted for separately for purposes of setting individual employer contribution rates and/or amounts. Contributions in excess of the employer contribution rate and/or amount approved by the CalPERS Board shall first be used to eliminate the side fund, if applicable, and then the plan's share of the pool's unfunded accrued liability. Subsequent contributions that would create a surplus will be amortized over time in accordance with Board resolution ACT-96-05E and other applicable resolutions of the Board and will be credited with the actual investment earnings of the Public Employees' Retirement Fund.

3. The Chief Actuary of CalPERS shall have the authority to make the actuarial determinations necessary to implement this resolution.

This Resolution shall be effective immediately upon adoption.

I hereby certify that on the 17th day of November, 1999 the Board of Administration of the California Public Employees' Retirement System, made and adopted the foregoing Resolution; that this Resolution was amended on the December 14, 2011; and further amended on May 21st, 2014.

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ROB FECKNER, PRESIDENT
BOARD OF ADMINISTRATION
CALIFORNIA PUBLIC EMPLOYEES'
RETIREMENT SYSTEM

STATE OF CALIFORNIA
BOARD OF ADMINISTRATION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

RESOLUTION

No. 03-03-AESD (Rev.)

Subject: **Actuarial Policies - List of Available Risk Pools**

WHEREAS, 1. In accordance with Government Code section 20120, the Board of Administration of the California Public Employees' Retirement System (the "Board") is vested with the management and control of the Public Employees' Retirement System (the "System").

WHEREAS, 2. Under Article XVI, section 17 of the California Constitution, the Board has plenary authority and fiduciary responsibility for the investment of monies and administration of the System. The Constitution also vests the Board with the sole and exclusive power to provide for the actuarial services in order to assure the competency of the System.

WHEREAS, 3. In furtherance of its sole and exclusive duty to make actuarial determinations under Section 17, the Board has hired a Chief Actuary to advise the Board and to direct the activities of the Board's professional actuarial staff.

WHEREAS, 4. Also in furtherance of this sole and exclusive duty to make actuarial determinations, the Board has retained the services of an outside consulting actuarial firm, to review the work of the Board's actuarial staff and to certify that such work satisfies actuarial standards of practice.

WHEREAS, 5. The Board's Chief Actuary has advised the Board to adopt specific written policies regarding the actuarial practices that are most prudent for the System.

NOW, THEREFORE, BE IT RESOLVED:

Pursuant to section 20840 of the California Government Code, the Board has the authority to create, combine or eliminate risk pools for miscellaneous members and

safety members. Pursuant to this authority, the Board hereby combines all existing pools into two pools, one for all miscellaneous groups and one for all safety groups.

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I hereby certify that on the 18th day of June, 2003 the Board of Administration of the California Public Employees' Retirement System, made and adopted the foregoing Resolution; and that this Resolution was amended on the 16th day of June 2004; and further amended on the 15th day of November 2012 and further amended on the 21st day of May 2014.

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ROB FECKNER, PRESIDENT
BOARD OF ADMINISTRATION
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

STATE OF CALIFORNIA
BOARD OF ADMINISTRATION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

RESOLUTION

No. 04-02-AESD(Rev)

Subject: **Actuarial Policies - Phasing-Out the Difference Between the Pool's Normal Cost and the Individual Employer's Plan's Normal Cost Upon Joining the Risk Pooling Structure.**

WHEREAS, 1. In accordance with Government Code Section 20120, the Board of Administration of the California Public Employees' Retirement System (the "Board") is vested with the management and control of the Public Employees' Retirement System (the "System").

WHEREAS, 2. Under Article XVI, Section 17 of the California Constitution (the "Constitution"), the Board has plenary authority and fiduciary responsibility for the investment of monies and administration of the System. The Constitution also vests the Board with the sole and exclusive power to provide for the actuarial services in order to assure the competency of the System.

WHEREAS, 3. In furtherance of its sole and exclusive duty to make actuarial determinations under Section 17, the Board has hired a Chief Actuary to advise the Board and to direct the activities of the Board's professional actuarial staff.

WHEREAS, 4. Also in furtherance of this sole and exclusive duty to make actuarial determinations, the CalPERS Board has retained the services of an outside consulting actuarial firm, to review the work of the Board's actuarial staff and to certify that such work satisfies actuarial standards of practice.

WHEREAS, 5. The Board's Chief Actuary has advised the Board to adopt specific written policies regarding the actuarial practices that are most prudent for the Systems.

NOW, THEREFORE, BE IT RESOLVED:

The Chief Actuary shall establish a phase out of the difference between the pool's normal cost and the individual employer's plan's normal cost over a period of five years upon the time when an existing public agency rate plan joins the risk pool structure for the first time.

The five year phase-out of the difference in normal costs will be established only once (at the time of joining the risk pool structure). The phase-out shall begin with the actuarial valuation at the time of joining the pool. The phase-out of the difference shall not be affected by subsequent changes in benefits or changes in demographics.

When setting employer normal cost rates for existing public agency rate plans joining a risk pool, the five year phase-out shall be accomplished as follows:

- First full year and the initial partial year (if any), 100% of the difference is added(if the pool's normal cost is less than the individual employer's plan normal cost)) or subtracted (if the pool's normal cost is greater than the individual employer's plan normal cost) to the pool's rate to determine the employer's rate.
- Second full year, 80% of the difference is added/subtracted to the pool's normal cost rate to determine the employer's rate.
- Third full year, 60% of the difference is added/subtracted to the pool's normal cost rate to determine the employer's rate.
- Fourth full year, 40% of the difference is added/subtracted to the pool's normal cost rate to determine the employer's rate.
- Fifth full year, 20% of the difference is added/subtracted to the pool's normal cost rate to determine the employer's rate.
- Thereafter year, the phase-out is over and the rate plan is subject to the pool's normal cost rate.

New public agency rate plans as well as new rate plans for school districts joining risk pooling shall be subject to the normal cost of the pool they are joining without any phasing out.

This Resolution applies to all employers joining risk pooling for the first time for a member classification based on an actuarial valuation dated June 30, 2013 or later. Employers subject to the phasing-out established by the prior policy will no longer be subject to the rules set by the prior policy and instead be subject to this policy based on the normal cost difference in place at the time of joining the risk pool.

This Resolution shall be effective immediately upon adoption.

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I hereby certify that the foregoing Resolution was originally made and adopted on the 16th day of June, 2004, was amended on the 13th day of June 2012, and further amended on the 21st day of May 2014 by the Board of Administration of the California Public Employees' Retirement System.

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ROB FECKNER, PRESIDENT
BOARD OF ADMINISTRATION
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

STATE OF CALIFORNIA
BOARD OF ADMINISTRATION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

RESOLUTION

No. 05-02-AESD (Rev)

Subject: **Actuarial Policies - Smoothing Employer Contribution Rates**

WHEREAS, 1. In accordance with Government Code section 20120, the Board of Administration of the California Public Employees' Retirement System (the "Board") is vested with the management and control of the Public Employees' Retirement System (the "System").

WHEREAS, 2. Under Article XVI, section 17 of the California Constitution (the "Constitution"), the Board has plenary authority and fiduciary responsibility for the investment of monies and administration of the System. The Constitution also vests the Board with the sole and exclusive power to provide for actuarial services in order to assure the competency of the System.

WHEREAS, 3. In furtherance of its sole and exclusive duty to make actuarial determination, the Board has hired a Chief Actuary to advise the Board and to direct the activities of the System's professional actuarial staff.

WHEREAS, 4. Also in furtherance of its sole and exclusive duty to make actuarial determinations, the Board has retained the services of an outside consulting actuarial firm to review the work of the System's actuarial staff and to certify that such work satisfies actuarial standards of practice.

WHEREAS, 5. The Board's Chief Actuary has advised the Board to adopt specific written policies regarding the actuarial practices that are most prudent for the System.

NOW, THEREFORE, BE IT RESOLVED:

It is the policy of the Board to use professionally accepted actuarial methods to help reduce volatility and help stabilize employer contribution rates.

(Rev. April 2013)

That when the Board modifies amortization and smoothing methods, it shall consider all of the following:

- The impact on the preservation/advancement of funded status
- The impact on the estimated volatility of the annual change in employer contribution rates
- The impact on the estimated average employer contribution rate
- The likelihood of high level of employer contribution rates in any given year
- The likelihood of large changes in employer contribution rate in any given year

Beginning with the June 30, 2013 actuarial valuations the employer contribution rates will not be less than a rate equal to the employer normal cost minus the payment for a 30 year amortization of any surplus.

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I hereby certify that the foregoing Resolution was originally made and adopted on the 20th day of April, 2005, was amended on the 17th day of April, 2013, and was further amended on the 21st day of May, 2014 by the Board of Administration of the California Public Employees' Retirement System.

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ROB FECKNER, PRESIDENT
BOARD OF ADMINISTRATION
CALIFORNIA PUBLIC EMPLOYEES'
RETIREMENT SYSTEM

(Rev. April 2013)

STATE OF CALIFORNIA
BOARD OF ADMINISTRATION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

RESOLUTION

No. ACT-14-01

Subject: **Actuarial Policies – Allocation of Pool's Unfunded Accrued Liability**

WHEREAS, 1. In accordance with Government Code section 20120, the Board of Administration of the California Public Employees' Retirement System (the "Board") is vested with the management and control of the Public Employees' Retirement System (the "System").

WHEREAS, 2. Under Article XVI, Section 17 of the California Constitution (the "Constitution"), the Board has plenary authority and fiduciary responsibility for the investment of monies and administration of the System. The Constitution also vests the Board with the sole and exclusive power to provide for actuarial services in order to assure the competency of the System.

WHEREAS, 3. In furtherance of its sole and exclusive duty to make actuarial determinations under Section 17, the Board has hired a Chief Actuary to advise the Board and to direct the activities of the System's professional actuarial staff.

WHEREAS, 4. Also in furtherance of its sole and exclusive duty to make actuarial determinations, the Board has retained the services of an outside consulting actuarial firm, to review the work of the System's actuarial staff and to certify that such work satisfies actuarial standards of practice.

WHEREAS, 5. The Board's Chief Actuary has advised the Board to adopt specific written policies regarding the actuarial practices that are most prudent for the System.

NOW THEREFORE BE IT RESOLVED:

(A) It is the policy of the Board to ensure equity within the risk pools by allocating the pools unfunded accrued liability in a manner that treats each employer fairly and that maintains benefit security for the members of the

System while minimizing substantial variations in employer contribution rates.

(B) To accomplish this goal, the Board hereby adopts an Unfunded Accrued Liability allocation method specifically as follows:

(1) For the June 30, 2013 actuarial valuation only, individual plans within a risk pool will be allocated their share of the pool's unfunded accrued liability established on or before June 30, 2012 based on their share of the pool's liability, net of side fund.

(2) Commencing with the June 30, 2013 actuarial valuations, allocate the change in unfunded accrued liability for the pool due to benefit changes to individual plans within the pool based on the actual increase in liability for that plan that resulted from the benefit change. This section applies to benefit changes provided either on a voluntary basis by the employer or mandated by the California Legislature. The change in unfunded accrued liability from benefit changes assigned to each plan will be amortized as specified in the Board's Amortization and Smoothing Policy (ACT-96-05E). This provision does not apply to Class 3 benefits.

(3) Commencing with the June 30, 2013 actuarial valuation, allocate the change in unfunded accrued liability for the pool due to investment gains/losses to individual plans within the pool based on the plan's share of the pool's assets. The change in unfunded accrued liability due to investment gains/losses assigned to each plan will be amortized as specified in the Board's Amortization and Smoothing Policy (ACT-96-05E).

(4) Commencing with the June 30, 2013 actuarial valuation, allocate the change in unfunded accrued liability for the pool due to non-investment related gains/losses to individual plans within the pool based on the plan's share of the pool's liability. The change in unfunded accrued liability assigned to each plan due to non-investment gains/losses will be amortized as specified in the Board's Amortization and Smoothing Policy (ACT-96-05E).

(5) Commencing with the June 30, 2013 actuarial valuation, allocate the change in unfunded accrued liability for the pool due to changes in actuarial assumptions/methods to individual plans within the pool based on the plan's share of the pool's liability. The change in unfunded accrued liability assigned to each plan due to changes in

actuarial assumptions/methods will be amortized as specified in the Board's Amortization and Smoothing Policy (ACT-96-05E).

(C) This Resolution shall be effective immediately upon adoption.

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I hereby certify that on the 21st day of May, 2014 the Board of Administration of the California Public Employees' Retirement System, made and adopted the foregoing Resolution.

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ROB FECKNER, PRESIDENT
BOARD OF ADMINISTRATION, PUBLIC
EMPLOYEES' RETIREMENT SYSTEM