

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 ~~professional~~ actuarial standards of practice.
- WHEREAS, 5. ~~Both the~~ Board's Chief Actuary ~~and its consulting actuary~~ have 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 ~~(i.e. rolling thirty year fresh start)~~.

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

- (4) 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, ~~2012-2013~~ 2012-2013 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. ~~the annual contribution with regard to a change in side fund due to a change in plan provisions for employers participating in a risk pool shall be determined by doing a Fresh Start of the adjusted side fund. The Fresh Start shall be the dollar amount (increasing each year by the overall payroll increase assumption adopted by the Board) payable over the period that would produce a required contribution as close as possible to amortizing the change in side fund in accordance with paragraphs (B)(3) and B(10).~~

(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 ~~the inactive plans~~agency risk pool, 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. ~~with regard to the side fund shall be the dollar amount required to amortize the side fund calculated at the date of change in status. The amortization period shall be the greater of (i) ten years or (ii) the outstanding amortization period at the date of the change in status.~~

(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 16th of April 2014.

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