Finance & Administration Committee

California Public Employees' Retirement System

Agenda Item 9a

April 14, 2015

ITEM NAME: Annual Update on Amortization Extensions & Plan Terminations

PROGRAM: Actuarial Office

ITEM TYPE: Information

EXECUTIVE SUMMARY

The Board has delegated authority to staff to perform the following two functions:

1. Approve or deny requests by employers for contribution rate relief due to financial hardship. For approved cases, the amortization period for unfunded actuarial liabilities may be extended to a maximum of 30 years.
2. Allow a terminated plan estimated to have insufficient assets to pay all future member benefits, to merge into the Terminated Agency Pool without benefit reductions.

The Chief Actuary is required to report on the usage of this delegated authority. This agenda item contains such a report for the previous two fiscal years (7/1/2012 – 6/30/2014). In the future this information will be provided to the Board annually.

STRATEGIC PLAN

This agenda item supports the California Public Employees' Retirement System (CalPERS) Strategic Plan Goal A of improving long-term pension and health benefit sustainability.

BACKGROUND

Consistent with Government Code Section 20812, the Board policy on amortization periods contains a provision that allows employers facing financial hardship to request an extension of time, up to 30 years, to amortize their unfunded pension liability (Board Policy ACT-96-05E). The provision states that the employer can petition the Board "or its designee" to obtain such an extension. At its December 2002 meeting, the Board amended the policy to state that the employer can petition the Chief Actuary for such an extension. For the actual wording of that delegation, please refer to Section (D) of the Board Resolution which can be accessed with the following link:

http://www.calpers.ca.gov/eip-docs/about/board/actuarial-policies/amortization-smoothing.pdf

When a CalPERS plan terminates, members stop accruing benefits and the employer is required to fully fund all liabilities at the time of termination. Terminated CalPERS plans are typically placed into the CalPERS Terminated Agency Pool with other terminated plans once the employer has paid the amount owed at termination. Inability to fully pay the amount owed at termination can lead to benefit reduction.

Government Code Section 20577.5 permits the Board to merge a plan into the Terminated Agency Pool without benefit reduction if such event will not impact the actuarial soundness of the Terminated Agency Pool. The Board has delegated the authority to the Chief Actuary to make that determination through Board Resolution EXEC-11-01. Note that this Resolution is not currently available on the CalPERS website. A copy of this Resolution is attached to this agenda item.

ANALYSIS

Information regarding actions taken under the above mentioned delegated authority during the previous fiscal two years is presented below.

Amortization Extension

In the previous two fiscal years (July 1, 2012 – June 30, 2014), there has only been **one** formal request for an amortization extension. The request was denied because the plan failed to meet certain criteria specified in the formal extension policy. For additional details regarding this request, see Attachment 2.

One reason for the low number of requests, despite the weak economy the last two years, is that prior to submitting a formal request, most employers contact their assigned actuary to discuss the possibility and ultimately decide not to pursue an extension due to the very low likelihood of the request being approved. This is an issue that has been shared with the Board previously.

Plan Terminations with Insufficient Assets

In the previous two fiscal years (July 1, 2012 – June 30, 2014), **two** terminating plans with estimated benefit liabilities in excess of assets were allowed to join the Terminated Agency Pool with no reductions in member benefits despite not being able to make the necessary contributions. Attachment 3 provides additional details of these terminated plans.

In these two cases, the estimated excess in benefit value over plan assets was small relative to the over-funding that currently exists in the Terminated Agency Pool. It was the Chief Actuary's conclusion that admitting these plans into the Terminated Agency Pool would not impact the actuarial soundness of the pool.

BUDGET AND FISCAL IMPACTS
Not Applicable.

BENEFITS/RISKS
There are no identified risks associated with this informational item.

ATTACHMENTS
Attachment 1 – Copy of Board Resolution EXEC-11-01
Attachment 2 – Employers Requesting Contribution Rate Relief
Attachment 3 – Involuntary Plan Terminations with Insufficient Assets

DAVID LAMOUREUX
Deputy Chief Actuary

ALAN MILLIGAN
Chief Actuary