

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