Excessive Employer Actuarial Liability

Finance & Administration Committee
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Agenda

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Executive Summary

- G.C. Section 20791 requires the CalPERS Board to “define a significant increase in actuarial liability due to increased compensation paid to a nonrepresented employee”
- The law requires the system actuary to assess the increase to the employer that created it
- Implementation will have no impact on members’ total benefits

Research and Findings

Factors considered	Findings
In addition to setting a liability threshold should there also be a compensation related threshold(s)?	Yes - liability can significantly increase with average pay increases if long enough period passes
When should the thresholds be tested?	Adjustments should be made at the time of retirement or death
How should “impacted” agencies be compensated and “causative” agencies be charged?	A higher portion of the member’s benefit will be allocated to the “causative” agency and a lower portion to the “impacted” agency
Given the lack of detail in the law, should regulations be created?	Yes

Define Excessive Actuarial Liability

- The Actuarial Office (ACTO) proposed the threshold of significant increase in actuarial accrued liability (AAL) be set at $25,000 per year of service
- This threshold may be adjusted at the discretion of the Chief Actuary based upon changes in the Consumer Price Index

Proposed Regulation Criteria

An agency is impacted when:

1. A minimum of $25,000 liability increase per year of service with the impacted employer is caused by increased compensation; and
2. A minimum compensation increase of $65,000 between the highest annual compensation at the impacted employer and the highest annual compensation at the date of retirement or death; and
3. A minimum 10% compound average growth rate between the highest annual compensation at the impacted employer and the highest annual compensation at the date of retirement or death

- These criteria produced approximately 10 cases per year

Calculation Example

	Employer A	Employer B
Highest Annual Compensation at Agency	$49,284	$152,755
Final Compensation	$152,559	$152,559
Years of Service	14.407	11.076
Benefit Multiplier	2.70%	2.70%
Unadjusted Annual Benefit	$59,344	$45,623
Compensation Gap	$103,471	
Average Annual pay Increase	10.75%	
Compensation Threshold Tests Met?	Yes	

Calculation Example

	Employer A	Employer B
Compensation in Excess of Threshold	$67,953	
Benefit Due to "Increased" Compensation	$26,433	
Actuarial Liability for Benefit Due to Increased Compensation	$362,134	
Liability Threshold Test Met?	Yes ($25,136 / year of svc)	
Adjusted Annual Benefit	$32,911	$72,056

Results in roughly $362,000 actuarial loss to Employer B which translates to roughly $20,500/year annual contribution increase (based on 30-year amortization)

Calculation Example - Result

	Employer A	Employer B	Total Annual Benefit
Unadjusted Annual Benefit	$59,344	$45,623	$104,967
Adjusted Annual Benefit	$32,911	$72,056	$104,967
Annual Benefit Shift Due to "Increased" Compensation	($26,433)	$26,433	

- Member annual benefit amount of $104,967 remains the same
- Annual benefit amount allocated to each employer is adjusted due to meeting the excessive liability criteria thresholds