

Purpose

The Actuarial Amortization Policy establishes the amortization methods to eliminate positive or negative unfunded liabilities in a manner that maintains benefit security for the members of the System while minimizing substantial variations in employer contribution rates.

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Actuarial Amortization Policy

Background

nd This Policy uses a principled approach in the allocation of the cost of unfunded accrued liabilities in respect to retirement benefits - that is, to fairly allocate the costs of experience gains/losses, changes due to plan amendments, actuarial assumption changes, and actuarial methods in a manner than controls contribution volatility while promoting intergenerational equity to minimize employer cost volatility. This principled approach has evolved over time between Board, stakeholders, and the Actuarial Office.

Strategic Objective

This policy establishes amortization methods that are aimed at ensuring that future contributions and current plan assets will be sufficient to provide for all benefits expected to be paid to members and their beneficiaries returning the System to fully-funded status within 30 years consistent with the following considerationsprinciples:

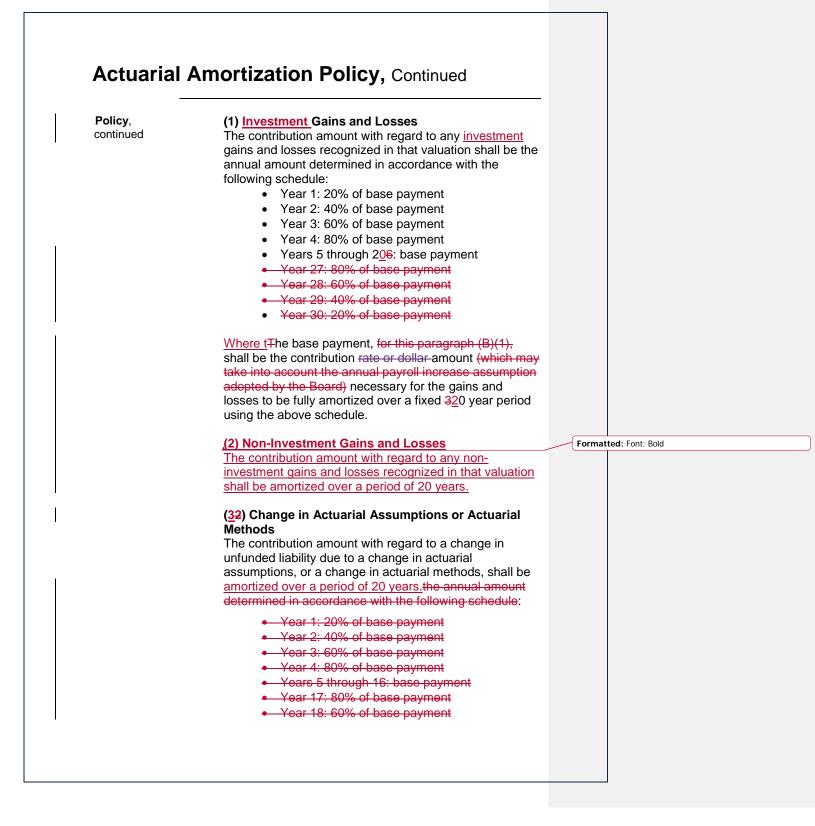
 Impact on the preservation/advancement of funded status
 Impact on the estimated volatility of the annual change in

- Impact on the estimated volatility of the annual change in employer contribution rates
- Impact on the estimated average employer contribution rate
- Likelihood of high levels of employer contribution rates in any given year
- Likelihood of large changes in employer contribution rates in any given year

Policy

(A) It is the policy of the Board to <u>CaIPERS shall</u> 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) It is also the policy of the Board to CalPERS shall amortize 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. For bases established on or after the effective date of this policy, the unfunded liability shall be amortized as a level dollar amount with the following specifications.



Year 19: 40% of base payment

• Year 20: 20% of base payment



Policy, continued

The base payment, for this paragraph (B)(2), shall be the contribution rate or dollar amount (which may take into account the annual 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.

(43) Change in Plan Provisions

The 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.

(54) Golden Handshakes

The annual contribution amount with regard to a change in unfunded liability due to a Golden Handshake shall be the contribution rate or dollar amount (which may take into account the annual 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.

(6) Inactive Agency

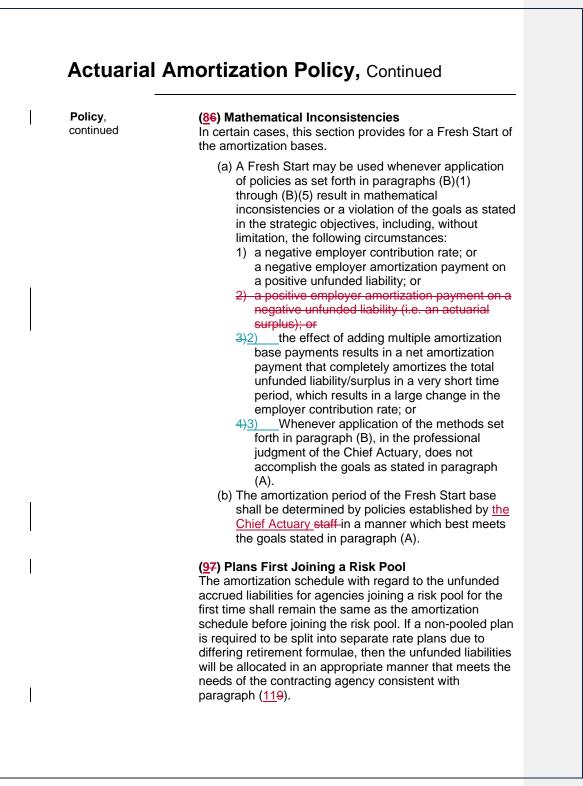
For a public agency with no active members in any plan, the unfunded liability shall be amortized over a closed amortization period of no more than 15 years at the discretion of the Chief Actuary

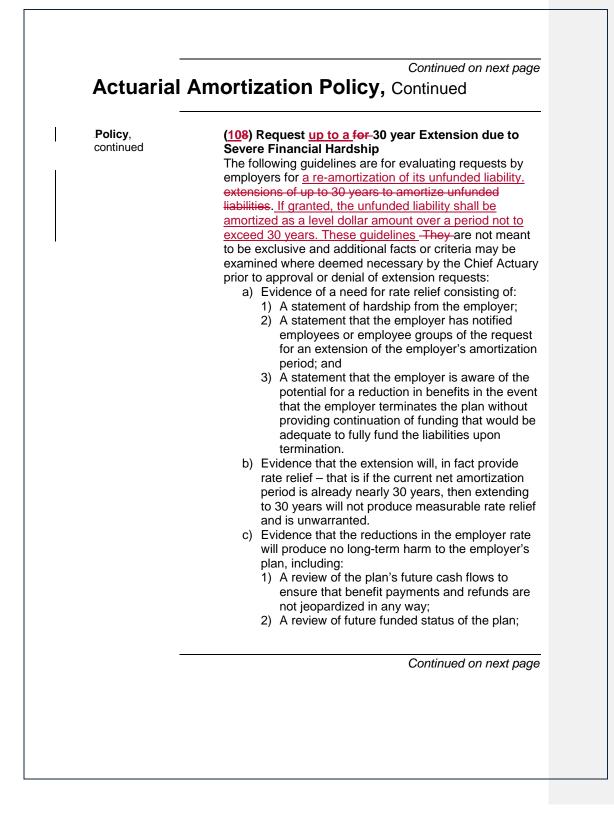
(75) New Contracting Agency

Any agency contracting with CalPERS for the first time shall have the initial unfunded liability amortized over a period equal to the smaller of <u>20</u> twenty years or the average future working lifetime of that agency's active members. with a contribution rate or dollar amount, which may take into account the annual payroll increase assumption adopted by the Board.

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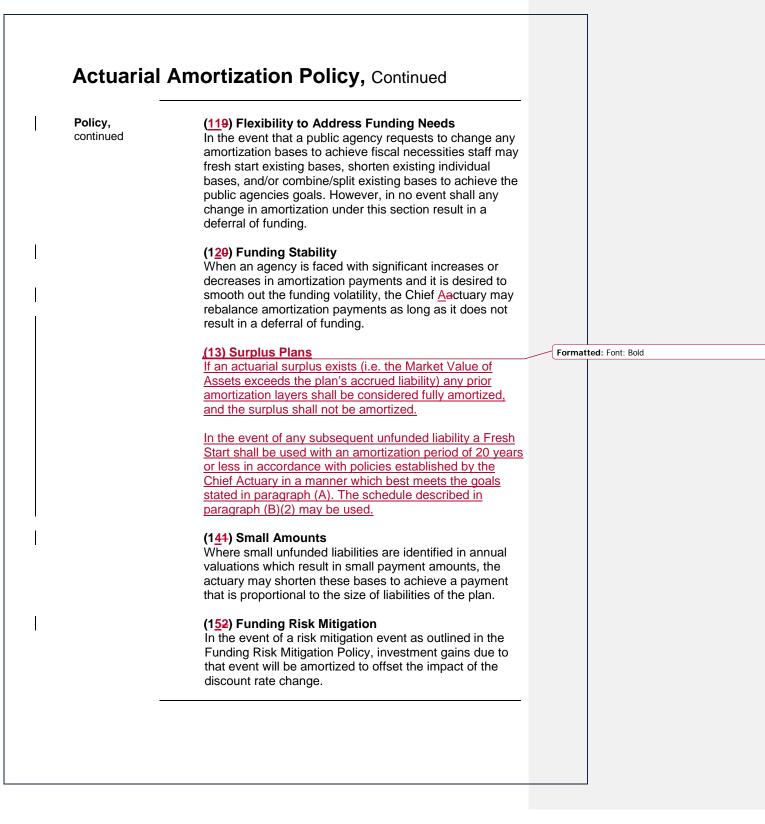




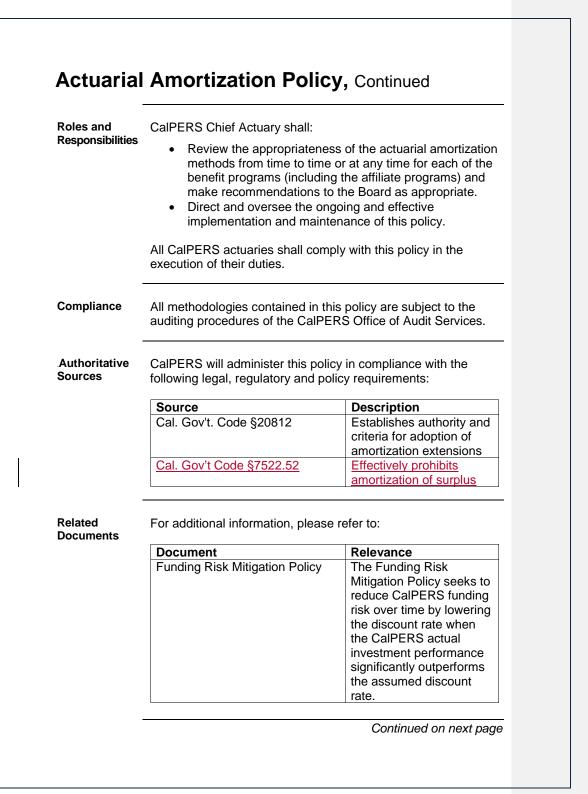
Actuarial Amortization Policy, Continued

Policy, continued

- 3) A review of the plan's funded status on a termination basis i.e. in the event that the employer terminates the plan (as current State law allows) to determine if the plan's assets will be sufficient in the future to cover all plan termination liabilities without any reduction in benefits. If the plan's assets will not be sufficient, other factors will be considered on a case by case basis based on the specific facts and circumstances of each request, including without limitation, the likelihood of the employer terminating its contract, the employer's ability to provide continuation of funding at termination, whether annual contributions continue to and are projected to continue to exceed benefits paid to retirees and beneficiaries, and/or whether the rate relief would have a material impact on the plan's funded status.
- d) A request for extension will be approved only if the Chief Actuary determines that approval would not constitute a breach of the Board's fiduciary duties or violate applicable tax laws.
- e) If it is known that employer contributions are expected to increase in the next few years, the Chief Actuary will ascertain how the agency plans to provide for such anticipated future rate increases.
- f) Any request for an extension shall be submitted to CalPERS on or before May 31st prior to the beginning of the fiscal year for which the employer contribution rate would be recalculated, and CalPERS shall grant or deny the request no later than June 30 prior to the beginning of the fiscal year for which the employer contribution rate would be recalculated.
- g) Additional facts or criteria may be examined where deemed necessary by the Chief Actuary.
- h) Annually, the Chief Actuary will report to the Board actions taken pursuant to these guidelines.



Key Terms / Definitions	Key Term	Definition
	Fresh Start	Combining multiple amortization bases into a single base



Actuarial Amortization Policy, Continued

Revision History The following revisions have been made to this policy:

Version	Effective Date	Summary of Changes		
1.0	4/20/2016	Combined and reformatted existing resolutions;		
		 This policy supersedes: ACT-96-05E (Rev.) Amortization and Smoothing Policy Resolution dated 5/21/14 05-02-AESD (Rev.) Smoothing Employer Contribution Rates dated 5/21/14 30 Year Amortization Extension Policy Guidelines (Rev 9-2010) Funding Stability Directive effective 1/1/2015 		
for the 6/30/2017 funding	6/30/2017	Shortened amortization period for gains and losses to 20 years	Format Indent a	ted: Bulleted + Level: 1 + Aligned at: 0.25' t: 0.5"
	<u>valuations</u>	Limited direct rate smoothing to the first five years for investment gains and losses		
		Established that the unfunded liability for inactive agencies be amortized over a closed period.		
		 Eliminated amortization of surplus 		