Contribution Allocation Policy

Purpose

This policy provides guidance to CalPERS actuaries of the timing and methods used in the allocation of employer contributions to each employer's plans.

Contents

Background

Under Article XVI, Section 17 of the California 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. This policy addresses how contributions will be allocated from employers to the employers' plans using actuarial methods described in this policy.

Strategic Objective

This policy supports the following strategic plan goals:

- Goal A – Actively manage and assess funding risk through an asset liability management framework to guide investment strategy and actuarial policy.
- Goal B – Cultivate a high-performing, risk-intelligent and innovative organization.

Policy

Actuarial Asset Valuation Method

(A) CalPERS will use a professionally accepted smoothing technique in an effort to minimize substantial variations in employer contribution rates that result from wide swings, upward and downward, in the market value of assets.

(B) The actuarial value of assets will be set equal to the market value of assets in actuarial valuations.

(C) Pursuant to (A) above, a direct rate smoothing technique will be used to determine employer contribution rates in accordance with the Board's Actuarial Amortization Policy.

Available Public Agency Risk Pools

The Board has established two risk pools for public agencies, one for all miscellaneous groups and one for all safety groups.

Allocation of Pool's Unfunded Accrued Liability

(A) CalPERS will ensure equity within the risk pools by allocating the pools unfunded accrued liability in a manner that treats each employer fairly and maintains benefit security for the members of the System while minimizing substantial variations in employer contribution rates. Pursuant to (A) above, a direct rate smoothing technique will be used to determine employer contribution rates in accordance with the Board's Actuarial Amortization Policy.

(B) To accomplish this goal, the Unfunded Accrued Liability will be allocated as follows:

a. **Change in Plan Provisions**
Allocate the change in unfunded accrued liability for the pool due to benefit changes to individual plans within the pool based on the actual increase in liability for that plan that resulted from the benefit change. This section applies to benefit changes provided either on a voluntary basis by the employer or mandated by the California Legislature. The change in unfunded accrued liability from benefit changes assigned to each plan will be amortized as specified in the Board's Actuarial Amortization Policy. This provision does not apply to Class 3 benefits.

b. **Investment Gains and Losses**
Allocate the change in unfunded accrued liability for the pool due to investment gains/losses to individual plans within the pool based on the plan's share of the pool's assets. The change in unfunded accrued liability due to investment gains/losses assigned to each plan will be amortized as specified in the Board's Actuarial Amortization Policy.

c. **Non-investment Gains and Losses**
Allocate the change in unfunded accrued liability for the pool due to non-investment related gains/losses to individual plans within the pool based on the plan's share of the pool's liability. The change in unfunded accrued liability assigned to each plan due to non-investment gains/losses will be amortized as specified in the Board's Actuarial Amortization Policy.

d. **Change in Actuarial Assumptions or Actuarial Methods**
Allocate the change in unfunded accrued liability for the pool due to changes in actuarial assumptions/methods to individual plans within the pool based on the plan's share of the pool's liability. The change in unfunded accrued liability assigned to each plan due to changes in actuarial assumptions/methods will be amortized as specified in the Board's Actuarial Amortization Policy

Phasing Out the Difference Between the Pool's Normal Cost and the Individual Employer's Plan's Normal Cost Upon Joining the Risk Pool Structure

Actuarial staff will 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 will begin with the actuarial valuation at the time of joining the pool. The phase-out of the difference will 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 will 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 will be subject to the normal cost of the pool they are joining without any phasing out.

Public Agency Unfunded Accrued Liabilities Billed as Dollar Amount

For public agencies, the plan's total payment towards the unfunded liability will be billed as a dollar amount. However, the Chief Actuary has the authority to set the contribution requirement as a rate in a case where there is a provision in an existing MOU that links member contributions to the employer contribution rate. In the event the Chief Actuary sets the contribution requirement as a rate for a plan participating in a risk pool, any contribution gains or losses attributable to this employer will be allocated back to that employer and will not be allocated to other employers.

Public Agency Employer Contributions in Excess Minimum Required Contribution

(A) CalPERS allows public agency employers participating in the CalPERS system to make employer contributions in excess of the employer contribution requirement approved by the Board, provided that acceptance of these contributions does not, under professionally accepted actuarial methods, increase the total amount of employer contributions that would otherwise be paid to CalPERS. The employer should give reasonable notice to its employees of its intention to make such contributions.

(B) For employers participating in one of the risk pools, contributions in excess of the employer contribution requirement will be included in the assets of the pool but accounted for separately for purposes of setting individual employer contribution requirements by reducing the outstanding balance of one or more positive amortization bases. For non-pooled plans the contributions in excess of the employer contribution requirement will either be used to reduce the outstanding balance of one or more positive amortization bases or be reflected as a contribution gain when calculating the annual gain or loss in the actuarial valuation following the receipt of the payment. Subsequent contributions that would create a surplus will be amortized over time in accordance with the Board's Actuarial Amortization Policy and will be credited with the actual investment earnings of the Public Employees' Retirement Fund

Recognition of Plan Design Changes for the State Plans

Changes to retirement benefits and member contribution rates will be reflected in the employer contribution rates for the State plans immediately upon adoption of the changes or as soon thereafter as can be accomplished given the Board's meeting schedule.

Roles and Responsibilities

CalPERS Chief Actuary will:

- Review the appropriateness of the allocation methods from time to time or at any time for each of the benefit programs (including the affiliate programs) and make recommendations to the Board as appropriate.
- Direct and oversee the ongoing and effective implementation and maintenance of this policy.

All CalPERS actuarial staff will comply with this policy in the execution of their duties.

Compliance

All methodologies contained in the policy are subject to the auditing procedures of the CalPERS Office of Audit Services.

Authoritative Sources

CalPERS will administer this document in compliance with the following legal, regulatory, and policy requirements:

Source	**Description**
Government Code Section 20120	Establishes that the CalPERS Board is vested with the management and control of the Public Employees' Retirement System.
Government Code Section 20840	Grants the Board authority to create, combine, or eliminate risk pools for miscellaneous members and safety members.
California Constitution Article XVI, Section 17	Grants the Board 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.

Related Documents

For additional information, please refer to:

Resource	**Relevance**
Actuarial Amortization Policy	This policy will help staff to implement the Contribution Allocation policy.

Revision History

This procedure has been approved as follows:

Version	Modification Date	Description of Changes
1	2/14/2017	This policy supersedes the following Board policies and resolutions: • 95-05C Actuarial Asset Valuation Method 4/17/13 • ACT-14-01 Allocation of Pool's Unfunded Accrued Liability 5/21/14 • ACT-99-03 Employer Contributions in Excess of Actuarially Determined Rate 5/21/14 • 04-02-AESD Phasing Out the Difference Between the Pool's Normal Cost and the Individual Employer's Plan's Normal Cost Upon Joining the Risk Structure 5/21/14 • 03-03-AESD List of Available Risk Pools 5/21/14
1.1	2/5/2019	Updated to CalPERS current Policy template. Made minor formatting edits.