CalPERS Public Agency Cost-Sharing Allocation Methodology Report – Measurement Period June 30, 2014

For Governmental Accounting Standards Board (GASB) Statement 68

Introduction

This report describes the allocation method for the net pension liability (NPL), deferred outflows of resources/deferred inflows of resources related to pensions and pension expense for the employers participating in the California Public Employees' Retirement System (CalPERS) Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan to fulfill Governmental Accounting Standards Board (GASB) reporting requirements. As described in CalPERS' audited financial statements, for accounting purposes, the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan is a separate entity, within the Public Employees' Retirement Fund (PERF), also referred to as PERF C.

Note that for purposes of the allocation methodology, the plans included in PERF C have been assigned to either a Miscellaneous or Safety pool (hereinafter referred to as "risk pools"). The methodology described herein applies to only public agency employers participating in either of these risk pools. It is not applicable for employers in PERF B (Schools Pool).

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History

The GASB approved Statements No. 67, *Financial Reporting for Pension Plans,* and No. 68, *Accounting and Financial Reporting for Pensions,* on June 25, 2012.

Statement 68 (Accounting and Financial Reporting for Pensions) contains requirements in Paragraphs 48 through 57 that address allocation requirements for net pension liability, pension expense and deferred outflows and deferred inflows of resources for public agency employers participating in the risk pools at CalPERS.

In determining the methodology for the allocation requirements, CalPERS applied paragraph 49 of Statement 68. CalPERS risk pools operate by assessing different contribution rates to employers based on separate relationships that constitute the collective net pension liability. Different contribution rates arise due to varying benefit levels within the risk pools. The approach described in this report reflects those separate relationships.

Assumptions and Methods

The basis for the liability and funding level calculations described below includes the most recent assumptions adopted by the CalPERS Board in February of 2014, the Entry Age Normal actuarial cost method and the Fair Value of Assets, all of which are consistent with Statement 68.

Timing

The first year of implementation of GASB 68 is the fiscal year beginning after June 15, 2014. For pension plans administered by CalPERS, the first year to report GASB 68 information is for the fiscal year beginning after June 15, 2014 and ended on or before June 30, 2015. As permitted under paragraph 48, a Measurement Date as of the end of the prior fiscal year will be used. For example, for the fiscal year ending June 30, 2015, the following dates will be used:

Reporting Date:	June 30, 2015
Measurement Date:	June 30, 2014
Valuation Date:	June 30, 2013 (most recent available)
Measurement Period: (for pension expense)	July 1, 2013 to June 30, 2014

Due to the availability of asset and liability information, the total pension liability for the risk pools as of the Valuation Date of June 30, 2013 were rolled forward to the Measurement Date of June 30, 2014 and compared to the fiduciary net position for the risk pools as of June 30, 2014 to determine the net pension liability (NPL) of the risk pools as of the Measurement Date.

The initial NPL to be reported as of the beginning of the first fiscal year under GASB 68, Measurement Period is determined as of July 1, 2013, the beginning of the Measurement Period ended June 30, 2014 (amounts as of the beginning of the Measurement Period (July 1, 2013) are considered to be equivalent to amounts measured as of the Valuation Date, June 30, 2013).

The NPL reported as of the last day of the fiscal year is the amount determined as of the Measurement Date of June 30, 2014.

CalPERS Cost-Sharing Allocation Method relating to Net Pension Liability

In determining an individual employer rate plan's proportionate share of the net pension liability (NPL), the total pension liability (TPL) using the output from the Actuarial Valuation System and the fiduciary net position (FNP) provided by CalPERS' Financial Office are first determined for the individual rate plans and the risk pool as a whole on the Valuation Date.

The first calculation uses the risk pool's TPL and FNP at the Valuation Date to determine the NPL at the Valuation Date. NPL = TPL – FNP.

Using standard actuarial roll forward methods, the risk pool's TPL is then computed at the Measurement Date. The FNP for the risk pool is then determined by the CalPERS' Financial Office at the Measurement Date. By subtracting the FNP, the NPL for the risk pool is computed at the Measurement Date.

Next, the individual employer rate plan's share of the TPL, FNP and NPL are calculated at the Valuation Date. Using the individual employer rate plan's share of the risk pool TPL and FNP, the proportionate shares of TPL and FNP at the Measurement Date are determined for each employer rate plan. For example, the rate plan's TPL at the Measurement Date is equal to the rate plan's individual TPL at the Valuation Date divided by risk pool's TPL at the Valuation Date, then multiplied by the risk pool's TPL at the Measurement Date, i.e., individual employer rate plan TPL = (Rate Plan TPL at Valuation Date/Risk Pool TPL at Valuation Date) * Risk Pool TPL at Measurement Date.

Note that Allocated FNP, the FNP at the Measurement Date that is allocated as described in the preceding paragraph, excludes all additional side fund or additional unfunded liability contributions made by all employers during the Measurement Period. These additional side fund contributions are added to the individual employer's Allocated FNP to get the rate plan's FNP at the Measurement Date.

Allocated employer contributions for each individual rate plan are based on an allocation of the risk pool contributions (excluding additional side fund contributions) using the individual rate plan's proportion of Allocated FNP, plus any additional side fund contributions made by the employer for that rate plan.

Example of CalPERS Cost-Sharing Allocation Method relating to Net Pension Liability

GASB 68 COST-SHARING EXAMPLE
DETERMINING THE RATE PLAN'S PROPORTIONS AND NET PENSION LIABILITY
MEASUREMENT DATE JUNE 30, 2014

Risk Pool Information

At the Valuation Date: 6/30/2013

1. Collective TPL	$12,374,543,647
2. Collective FNP	9,082,091,052
3. Collective NPL [(1)-(2)]	3,292,452,595

At the Measurement Date[1]: 6/30/2014

4. Collective TPL	$13,110,969,769
5. Collective FNP	10,639,480,864
6. Collective NPL [(4)-(5)]	2,471,488,905
7. Collective Additional Side Fund Payments[2] During Measurement Period	29,291,579
8. FNP Excluding Additional Side Fund Payments[2] [(5)-(7)]	10,610,189,285

Employer's Information

At the Valuation Date: 6/30/2013

9. Rate Plan TPL	$1,700,000
10. Rate Plan FNP	1,300,000
11. Rate Plan NPL [(9)-(10)]	**400,000**

TPL and FNP Proportions

12. Rate Plan TPL % [(9)/(1)]	0.01374%
13. Rate Plan FNP % [(10)/(2)]	0.01431%

NPL Proportionate Share and NPL%
At the Measurement Date: 6/30/2014

14. Rate Plan TPL [(12)X(4)]	$1,801,169
15. Rate Plan Additional Side Fund Payments[2] During Measurement Period	150,000
16. Rate Plan FNP [(13)X(8) + (15)]	1,668,730
17. Rate Plan NPL [(14)-(16)]	**132,439**
18. Rate Plan NPL% [(17)/(6)]	0.0054%

"Collective" is referred to as "Aggregate" or "Risk Pool" in the CalPERS GASB 68 accounting valuation reports.

[1] Liabilities are rolled forward from Valuation Date (VD) to Measurement Date (MD) using standard actuarial procedures.
[2] Also includes additional unfunded liability contributions.

CalPERS Cost-Sharing Allocation Method for Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions	Component	Calculation Origin and Expense Recognition
	Differences between expected and actual experience on the liabilities	In the year of GASB 68 implementation, a single actuarial valuation is used to generate the total pension liabilities. Due to the use of actuarial roll-forward procedures, there are no differences between expected and actual experience on liabilities. In subsequent years, the rate plan's share of the risk pool's liability gains/losses over the period from the prior Valuation Date and the current Valuation Date will be set equal to actual gain/loss for that plan based on the difference between the rate plan's share of the pool TPL on the Measurement Date calculated in the previous GASB 68 report and the rate plan's actual liabilities as of the current valuation date. Any amount of liability gain or loss being recognized will be reflected in pension expense over the expected average remaining service lifetime of the membership of both risk pools as of the Valuation Date, with the first portion recognized in pension expense in the year of measurement. The remainder will become part of deferred outflows and deferred inflows and recognized in pension expense for future periods.
	Changes of assumptions	There were no amounts related to assumptions changes to be recognized in the year of implementation. In years when a change in actuarial assumptions occurs, a rate plan's share of the impact of the change in assumption will be set equal to the rate plan's actual increase in accrued liability due to the change in assumptions. In subsequent years the amount of recognition will be reflected in pension expense over the expected average remaining service lifetime of the membership of both risk pools as of the Valuation Date, with the first portion recognized in pension expense in the year measured. The remainder will become part of deferred outflows and deferred inflows and recognized in pension expense for future periods.

Differences between projected and actual earnings on plan investments	The difference between projected and actual earnings on the risk pool's pension investments will be determined using the difference between the assumed investment return (using actual asset outflows and inflows) and actual earnings of the risk pool. The rate plan's proportional amount of this difference will be based on its portion of the collective risk pool's FNP determined as of the Valuation Date. These amounts will be recognized in pension expense over a fixed 5-year period, with the first portion recognized in pension expense in the year measured. The remainder will become part of deferred outflows and inflows and recognized in pension expense for future periods.
Adjustment due to differences in proportions	This item captures the changes in proportions that result from CalPERS' allocation methodology. Rather than a single proportionate share applied to all components of pension expense, the CalPERS' method applies different employer proportions to various pension-related items such as FNP and TPL. This adjustment reconciles the differences in proportions for these various items with the rate plan's change in NPL during the Measurement Period. The recognition of this item in the pension expense is reflected over the expected average remaining service lifetime of the membership of both risk pools as of the Valuation Date, with the first portion recognized in pension expense in the year measured. The remainder will become part of deferred outflows/deferred inflows and recognized in pension expense for future periods.
Actual employer contributions different than allocated employer contributions	Will be determined by employers for each rate plan. Each employer will determine the difference between its allocated contribution (see page 3) and its actual contributions during the Measurement Period. This difference will be reflected in pension expense over the expected average remaining service lifetime of the membership of both risk pools as of the Valuation Date, with the first portion

	recognized in pension expense in the year measured. The remainder will become part of deferred outflows and deferred inflows and recognized in pension expense for future periods. The employer will need to track and adjust for these amounts separately each year.
Contributions made after Measurement Date	CalPERS will not make any adjustments for contributions subsequent to the Measurement Date. Adequate treatment of any contributions made after the Measurement Date is the responsibility of the employer.

CalPERS Cost-Sharing Allocation Method Applying to Components of Pension Expense

Component	**Calculation Origin and Expense Recognition**
Service cost	The rate plan's normal cost (note that the word "normal cost" used with funding is now termed "service cost" under the new accounting standards) is based on the risk pool's net normal cost rate plus the rate plan's normal cost surcharges calculated using output from the Actuarial Valuation System. This normal cost rate, including surcharges, is applied to the employer's covered payroll (pensionable salaries) as of the Valuation Date and rolled forward to the Measurement Date using the risk pool's payroll growth assumption. The total amount is recognized immediately.
Interest on the total pension liability	The calculation of a full year's interest on the risk pool's TPL at the Valuation Date and a half year's interest on the risk pool's service cost and actual benefit payments. The rate plan's portion of this amount will be based on the rate plan's proportion of the collective risk pool's TPL determined as of the Valuation Date. The amount is recognized immediately in pension expense.

Differences between expected and actual experience on the liabilities	This reflects the rate plan's share of the risk pool's liability gains/losses over the period from the prior Valuation Date and the current Valuation Date. Due to the actuarial roll forward technique, there is no liability gain or loss in the first year of implementation. In subsequent years the amount of recognition will be reflected over the expected average remaining service lifetime of the membership of both risk pools as of the Valuation Date, with the first portion recognized in pension expense in the year measured.
Changes of assumptions	The rate plan's actual increase in accrued liability due to a change in assumptions will be measured as of the Valuation Date. There were no amounts related to assumptions changes to be recognized in the year of implementation. In subsequent years the amount of recognition will be reflected over the expected average remaining service lifetime of the membership of the risk pool as of the Valuation Date, with the first portion recognized in pension expense in the year measured.
Employee contributions	Actual employee contributions made during the Measurement Period will be immediately recognized in pension expense. Note that each rate plan in the risk pool will receive an allocation of any contributions made by employees participating in rate plans that were not included in the June 30, 2013 funding valuation. This allocation is based on each existing rate plan's proportion of the risk pool's total employee contributions (excluding employee contributions for the new rate plans).
Projected earnings on pension plan investments	The aggregate projected earnings are based on the assumed investment return of the risk pool's FNP, reflecting actual asset outflows and inflows. The individual rate plan is allocated a proportionate share of the aggregate project earnings based on its proportion of the FNP.

Differences between projected and actual earnings on plan investments	The rate plan's proportionate share of the difference between projected and actual earnings on the risk pool's pension investments. This is determined using the difference between the assumed investment return (using actual asset outflows and inflows) and actual earnings of the risk pool. The rate plan's proportional amount of this difference will be based on its portion of the collective risk pool's FNP determined as of the Valuation Date. Amounts will be recognized over a fixed 5 year period, with the first portion recognized in pension expense in the year measured.
Pension plan administrative expense	Since the expected investment return of 7.50 percent is net of administrative expenses, administrative expenses are excluded from the pension expense table, and implicitly included as part of investment earnings.
Adjustment due to differences in proportions	This item captures the changes in proportions that result from CalPERS' allocation methodology. Rather than a single proportionate share applied to all components of pension expense, the CalPERS' method applies different rate plan proportions to various pension-related items such as assets, liabilities and service cost. This adjustment reconciles the differences in proportions for these various items with the rate plan's change in NPL during the Measurement Period. The recognition of this item in the pension expense is reflected over the expected average remaining service lifetime of the membership of both risk pools as of the Valuation Date, with the first portion recognized in pension expense in the year measured.
Employer's share of pension expense	Total sum of the above items.
Changes of benefit terms	The rate plan's actual increase in accrued liability due to a change in benefits will be allocated entirely to that rate plan and will be recognized immediately in pension expense.

	Employer's recognized pension expense after benefit changes	The sum of the previous two items.
	Actual employer contributions different than allocated employer contributions	Employer will need to determine on their own the difference between the rate plan's allocated contribution (see page 3) and employer's actual contributions for the rate plan during the Measurement Period. This difference will need to be reflected over the expected average remaining service lifetime of the membership of both risk pools as of the Valuation Date, with the first portion recognized in pension expense in the year measured. The employer will need to track and adjust for these amounts separately each year.