

Actuarial Assumptions Policy

Purpose

The Actuarial Assumptions Policy establishes the process of developing actuarial assumptions in order to measure and manage the liabilities of the System.

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Background

Pension actuaries measure and manage risk in a pension system. Using models and assumptions, actuaries provide assessments of financial security systems. These assessments require actuaries to make both economic and demographic assumptions.

Actuarial assumptions that more closely reflect future experience will result in a fairer allocation of costs between employees providing the services to the generation of taxpayers who benefit from those services.

To ensure that actuarial assumptions used reflect expected future experience, it is best practice to periodically compare current assumptions to reality through an experience study.

Changes to assumptions should also be reflected in actuarial factors used in administering benefits to ensure benefits are administered as intended.

Strategic Objective

By providing for accurate projections of future costs, this policy establishes a sound basis for CalPERS to develop funding goals that support CalPERS ability to meet its benefit obligations, which will improve the long-term sustainability of CalPERS Pension Benefit Program.

Policy

It is the policy of CalPERS Board to recognize the long-term nature of actuarial assumptions, and to refrain from changing these assumptions unless a distinct pattern of gains or losses arises, or unless there is a reason to expect that future experience will be different from that currently assumed.

To enable the Board to determine whether circumstances warrant a change in actuarial assumptions, every four years the actuarial staff shall conduct an investigation and report its results to the Board. Such investigation shall include significant demographic factors, such as mortality and retirement rates, as well as significant economic factors, such as future wage and price inflation, applicable to CalPERS members and persons receiving benefits.

Whenever there is a recommendation to change the demographic or economic assumptions used for purposes of measuring pension liabilities, the CalPERS Board shall also review the appropriateness of the actuarial equivalent option factors, service credit purchase factors, and any other factors used in the administration of retirement benefits.

Policy Scope

Not Applicable

Primary Responsibility

CalPERS Chief Actuary shall:

- Review the appropriateness of all demographic and economic assumptions and any actuarial factors used in the calculation of required contributions or in the administration of retirement benefits and make recommendations to the Board as appropriate.
- Direct and oversee the ongoing and effective implementation and maintenance of this policy.

All CalPERS actuaries shall comply with this policy in the execution of their duties.

Roles and Responsibilities

Roles and Responsibilities are shown in the Policy section of this document.

Compliance

The 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 professional actuarial standards.

Consequences of Non-Compliance

Not Applicable

Authoritative Sources

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

| Source | Description |
|--|--|
| Cal. Gov't. Code §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"). |
| Cal. Gov't. Code §20132 | (a) Upon the basis of any investigation, valuation, or determination, or all of these, the board shall adopt mortality, service and other tables and annual and actuarial interest rates it deems necessary. (b) A change in interest rate adopted by the board shall not apply to any election of a member to deposit or redeposit contributions, including interest, filed prior to the date the change was placed into effect. |
| Cal. Gov't. Code §20133 | As of June 30, 1991, and thereafter at the end of periods not to exceed four years, the actuary shall make an actuarial investigation into the mortality, service, and compensation experience of members and persons receiving benefits and an actuarial valuation of the assets and liabilities of this system. From time to time, the actuary shall determine the rate of interest being earned on the retirement fund after deducting from earnings amounts applied to costs of administration of this system. |
| California Constitution, ART. XVI. §17 | 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. |

Revision History

The following revisions have been made to this policy:

| Version | Modification Date | Summary of Changes |
|---------|-------------------|--|
| 1.0 | 8/17/2016 | Combined and reformatted existing resolutions; no material change. This policy supersedes: <ul style="list-style-type: none">• Resolution No. 95-05D Actuarial Assumptions dated 12/14/11• Resolution No. 98-001 Adjustment of Actuarial Factors Used in the Administration of Benefits dated 12/14/11 |
| 1.1 | 1/17/2019 | Reformatted to CalPERS new policy template. No material changes made. |