

## Draft Revisions to the Board Governance Manual, Section 7F

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### F. ACTUARIAL VALUATIONS OF THE DEFINED BENEFIT PROGRAM

The board shall commission an actuarial valuation of the Defined Benefit (DB) Program annually, using the most recently adopted demographic and economic assumptions, including the period of time over which gains and losses that differ from assumed investment return are recognized and the actuarial cost method (different actuarial cost methods may be used depending on the purpose of the liability calculation). Such assumptions and methods shall be reviewed and adopted every four years, but assumptions and methods may be reevaluated more frequently if the board determines that events since the last adoption warrant an earlier review.

#### 1. Conducting Valuations

- a. Actuarial valuations shall be undertaken to determine the current and long-term fiscal status of the DB Program and establish state and employer contribution rates pursuant to Chapter 16 of Part 13 of Division 1 of the Education Code.
- b. The valuation shall be consistent with the Actuarial Standards of Practice and shall, among other indicators, identify the unfunded liability and the funded status of the DB Program.

#### 2. Determining State Contributions

- a. Pursuant to Section 22955.1 of the Education Code, the state's supplemental contribution rate shall be subject to adjustment annually, commencing in 2017-18, in an amount necessary to fully amortize the unfunded liability by June 30, 2046, associated with the benefit and contribution structure in effect as of July 1, 1990, except as provided in 2f.
- b. The assets associated with this unfunded liability will reflect the additional contributions due to the increases in the state supplemental contribution rate designated to amortize this unfunded liability.
- ~~c. The board shall reevaluate the target date for amortizing the unfunded liability in 2025.~~
- ~~d.c.~~ If an adjustment/increase in the state's supplemental contribution rate is required, the adjustment/increase shall not exceed 0.50%~~percent~~ of the creditable compensation upon which members' contributions to the DB Program are based during the fiscal year ending in the immediately preceding calendar year, as reported pursuant to Section 22955.5 of the Education Code.
- ~~e.d.~~ The contribution rate for the 1990 Benefit Structure, when combined with the employer supplemental contribution rate imposed pursuant to Section 22950.5, shall not exceed the contribution rate needed to amortize the unfunded liability for the total DB Program.
- ~~e.~~ Subject to the limitation in 2~~d~~c, after July 1, 2017, the state's supplemental contribution rate pursuant to Section 22955.1 shall not be less than 4.311%~~percent~~ of the creditable compensation upon which members' contributions to the DB Program are based if there is an unfunded liability associated with the benefit and contribution structure in effect as of July 1, 1990.
- f. Notwithstanding the limitations in 2c, if there is no longer an unfunded liability associated with the benefit and contribution structure in effect as of July 1, 1990, the state's

supplemental contribution rate pursuant to Section 22955.1 shall be eliminated and set to 0% of creditable compensation.

### 3. Determining Employer Contributions

- a. Pursuant to Section 22950.5 of the Education Code, the employer's supplemental contribution rate shall be subject to adjustment annually, commencing in 2021-22, in an amount necessary to fully amortize by June 30, 2046, the unfunded liability associated with the changes made in the benefit and contribution structure ~~on or~~ after July 1, 1990, associated with the service credited to members as of June 30, 2014.
- b. The assets associated with this unfunded liability will exclude future contributions equal to the Normal Cost for post-June 30, 2014 benefit accruals and will include a one-time adjustment equal to the difference between the June 30, 2014, actuarial obligation under the projected unit credit cost method and the actuarial obligation under the valuation cost method.
- c. If an adjustment in the employer's supplemental contribution rate is required after determination of the state supplemental contribution rate, the adjustment shall not exceed 1.00% ~~percent~~ of the creditable compensation upon which members' contributions to the DB Program are based, unless the unfunded liability has been eliminated.
- d. In no event shall the total contribution rate imposed pursuant to Section 22950.5 exceed 12.00% ~~percent~~ of the creditable compensation upon which members' contributions to the DB Program are based.
- e. If there is a surplus (i.e., a negative unfunded liability associated with the benefit and contribution structure in effect as of July 1, 1990 for service accrued prior to July 1, 2014, the employer supplemental contribution rate, when combined with the state's supplemental contribution rate imposed pursuant to Section 22955.1, shall not exceed the contribution rate needed to amortize the unfunded liability attributable to service accrued prior to July 1, 2014, subject to the limitations described in 3c and 3d.
- ~~f. The employer contribution rate, when combined with the state contribution rate imposed pursuant to Section 22955.1, shall not be less than the contribution rate needed to amortize the unfunded liability attributable to service accrued prior to July 1, 2014, subject to the limitations described in 3c and 3d.~~

### 4. Determining Member Contributions

- a. Member contributions shall be equal to the rates specified in Chapter 15 of Part 13 of Division 1 of the Education Code, and are not subject to adjustment by the board, except as provided in 4b.
- b. For members subject to the California Public Employees' Pension Reform Act of 2013, the member contribution rate shall be adjusted if the normal cost rate increases or decreases by more than 1.00% ~~percent~~ of the creditable compensation upon which members' contributions to the DB Program are based above or below the normal cost rate in effect at the time the percentage is first established or, if later, the normal cost rate in effect at the time of the last adjustment.