THE COMMUNITY COLLEGE UPDATE

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Proposed Changes to the CalPERS Amortization Policy

As we have previously reported in our *Community College Update* articles, contributions to the California Public Employees' Retirement System (CalPERS) are critical to the solvency of the basic retirement plans, but the return on investments is key as it impacts the funded status of the plan and will drive the employer contribution rates of the future.

Overview

Currently, the overall Public Employees' Retirement Fund (PERF) for schools is only 67.8% funded to pay for pension benefits to members of the system. The plans are not 100% funded due to several contributing factors that have led to the current funding status, such as: fluctuations in investment, hiring, retirement, economic outcomes (e.g., inflation), and ultimately the funding policy set by the CalPERS Board (Board).

Proposed Changes

The Finance and Administration Committee (Committee) of the Board is tasked with continually reviewing the policies to ensure that goals are being met to sustain the PERF. In reviewing the current policy, the Committee analyzed a typical public agency plan by looking at its valuation and amortization schedule, and concluded that with the current policy, if a significant market downturn occurs, the funded ratio would drop and could continue to decline for several years following a loss. In addressing this dilemma, the Committee will be proposing changes to the amortization policy at the Board meeting next month.

The main change to the policy that the Committee will bring forth to the Board is to shorten the amortization period from 30 years to 20 years applied prospectively. With this approach, annual amortization amounts will be higher, which means faster amortization of losses, faster amortization of gains, and increased employer contribution volatility. However, with the higher cost up front, total payments over the amortization period will be reduced, which means less interest will be paid over amortization for losses and less interest earned over amortization period for gains. CalPERS also cites this as improved intergenerational equity as the unfunded liability will be paid off more quickly and the gains and losses will be addressed much sooner.

For CalPERS employers, if this policy is adopted, there will be greater volatility in employer contributions, and the near-term trend will be higher contributions overall.

Amortization Policy Survey

The Committee is encouraging stakeholders to take the Amortization Policy Survey and submit their feedback no later than January 24, 2018, so the results can be analyzed and presented to the Board on February 13 for consideration.

Meanwhile, we soon expect an official release of revised estimated employer contribution rates based upon the June 20, 2017, actuarial study for the Schools Pool under the current amortization policy. Stay tuned . . .