Glossary of Actuarial Terms

Accrued Liability *(also called Actuarial Accrued Liability or Entry Age Normal Accrued Liability)*
The total dollars needed as of the valuation date to fund all benefits earned in the past for *current* members.

Actuarial Assumptions
Assumptions made about certain events that will affect pension costs. Assumptions generally can be broken down into two categories: demographic and economic. Demographic assumptions include mortality, disability and retirement rates. Economic assumptions include discount rate, salary growth and inflation.

Actuarial Methods
Procedures employed by actuaries to achieve certain funding goals of a pension plan. Actuarial methods include funding method, setting the length of time to fund the Accrued Liability and determining the Actuarial Value of Assets.

Actuarial Valuation
The determination, as of a valuation date, of the Normal Cost, Accrued liability, Actuarial Value of Assets and related actuarial present values for a pension plan. These valuations are performed annually or when an employer is contemplating a change to their plan provisions.

Actuarial Value of Assets
The Actuarial Value of Assets used for funding purposes is obtained through an asset smoothing technique where investment gains and losses are partially recognized in the year they are incurred, with the remainder recognized in subsequent years.

This method helps to dampen large fluctuations in the employer contribution rate.

Amortization Bases
Separate payment schedules for different portions of the Unfunded Liability. The total Unfunded Liability of a Risk Pool or non-pooled plan can be segregated by "cause", creating "bases" and each such base will be separately amortized and paid for over a specific period of time. This can be likened to a home mortgage that has 24 years of remaining payments and a second on that mortgage that has 10 years left. Each base or each mortgage note has its own terms (payment period, principal, etc.) but all bases are amortized using investment and payroll assumptions from the current valuation.

Generally in an actuarial valuation, the separate bases consist of changes in unfunded liabilities due to amendments, actuarial assumption changes, actuarial methodology changes, and gains and losses. Payment periods are determined by Board policy and vary based on the cause of the change.

Amortization Period
The number of years required to pay off an Amortization Base.

Annual Required Contributions (ARC)
The employer's periodic required annual contributions to a defined benefit pension plan, calculated in accordance with the plan assumptions. The ARC is determined by multiplying the employer contribution rate by the payroll reported to CalPERS for the applicable fiscal year. However, if this contribution is fully prepaid in a lump sum, then the dollar value of the ARC is equal to the Lump Sum Prepayment.

Class 1 Benefits
Class 1 benefits have been identified to be additional benefits which have a significant, ongoing effect on the total plan cost. In some cases, a Class 1 benefit may be an alternate benefit formula. These benefits vary by employer across the risk pool. Agencies contracting for a Class 1 benefit will be responsible for the past service liability associated with such benefit and will be required to pay a surcharge established by the actuary to cover the ongoing cost (normal cost) of the Class 1 benefit.

Normal Cost (also called Total Normal Cost)

The annual cost of service accrual for the upcoming fiscal year for active employees. The required employee contributions are part of the Total Normal Cost. The remaining portion, called the employer normal cost, includes surcharges for applicable class 1 benefits and should be viewed as the long term employer contribution rate.

Pension Actuary

A person who is responsible for the calculations necessary to properly fund a pension plan.

PEPRA

Public Employees' Pension Reform Act of 2013

Prepayment Contribution

A payment made by the employer to reduce or eliminate the year's required employer contribution.

Present Value of Benefits (PVB)

The total dollars needed as of the valuation date to fund all benefits earned in the past or expected to be earned in the future for *current* members.

Risk Pool

Using the benefit of the law of large numbers, a risk pool is a collection of employer plans for the purpose of sharing risk. If a pooled plan has active members at the time of valuation, it belongs to the risk pool composed of all other pooled plans with the same benefit formula. If a plan has no active members at the time of valuation, it belongs to the inactive pool.

Rolling Amortization Period

An amortization period that remains the same each year, rather than declining.

Side Fund

At the time a plan joined a risk pool, a Side Fund was created to account for the difference between the funded status of the pool and the funded status of the plan. The plan's Side Fund is amortized on an annual basis, with the discount rate net of, for active plans, the payroll growth rate assumption. The actuarial investment return assumption is currently 7.5%. A positive Side Fund cause the plan's required employer contribution rate to be reduced by the Amortization of Side Fund rate component shown in the Required Employer Contributions section. A negative Side Fund cause the plan's required employer contribution rate to be increased by the Amortization of Side Fund rate component. In the absence of subsequent contract amendments or funding changes, a plan's Side Fund will disappear at the end of the Amortization Period.

Superfunded

A condition existing when a plan's Actuarial Value of Assets exceeds its Present Value of Benefits. Prior to the passage of PEPRA, when this condition existed on a given valuation date for a given plan, employee contributions for the rate year covered by that valuation could be waived.

Unfunded Liability

When a plan or pool's Actuarial Value of Assets is less than its Accrued Liability, the difference is the plan or pool's Unfunded Liability of the Unfunded Liability is positive, the plan or pool will have to pay contributions exceeding the Normal Cost.