

## **CalPERS Glossary of Pension 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 such things as 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 Value of Assets.

### **Actuarial Valuation**

The determination, as of a valuation date of the Normal Cost, Accrued liability, 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.

### **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. However, all bases are amortized using investment and payroll assumptions from the current valuation. This can be likened to a home having a first mortgage of 24 years remaining payments and a second mortgage that has 10 years remaining payments. Each base or each mortgage note has its own terms (payment period, principal, etc.) Generally, in an actuarial valuation, the separate bases consist of changes in unfunded liability due to contract amendments, actuarial assumption changes, actuarial methodology changes, and/or 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.

### **Classic Member (under PEPR)**

A classic member is a member who joined CalPERS prior to January 1, 2013 and who is not defined as a new member under PEPR. (See definition of new member below)

### **Discount Rate Assumption**

The actuarial assumption that was called "investment return" in earlier CalPERS reports or "actuarial interest rate" in Section 20014 of the California Public Employees' Retirement Law (PERL).

### **Entry Age**

The earliest age at which a plan member begins to accrue benefits under a defined benefit pension plan. In most cases, this is the age of the member on their date of hire.

### **Entry Age Normal Cost Method**

An actuarial cost method designed to fund a member's total plan benefit over the course of his or her career. This method is designed to yield a rate expressed as a level percentage of payroll. (The assumed retirement age less the entry age is the amount of time required to fund a member's total benefit. Generally, the older a member on the date of hire, the greater the entry age normal cost. This is mainly because there is less time to earn investment income to fund the future benefits.)

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### **Fresh Start**

A Fresh Start is when multiple amortization bases are collapsed to one base and amortized together over a new funding period.

### **Funded Status**

A measure of how well funded, or how "on track" a plan or risk pool is with respect to assets versus accrued liabilities. A ratio greater than 100 percent means the plan or risk pool has more assets than liabilities and a ratio less than 100 percent means liabilities are greater than assets.

### **GASB 68**

Statement No. 68 of the Governmental Accounting Standards Board. The accounting standard governing a state or local governmental employer's accounting and financial reporting for pensions. GASB 68 replaces GASB 27 effective the first fiscal year beginning after June 15, 2014.

### **New Member (under PEPRA)**

A new member includes an individual who becomes a member of a public retirement system for the first time on or after January 1, 2013, and who was not a member of another public retirement system prior to that date, and who is not subject to reciprocity with another public retirement system.

### **Normal Cost**

The annual cost of service accrual for the upcoming fiscal year for active employees. The normal cost should be viewed as the long-term contribution rate.

### **Pension Actuary**

A business professional that is authorized by the Society of Actuaries, and the American Academy of Actuaries to perform the calculations necessary to properly fund a pension plan.

### **PEPRA**

The California 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 towards the UAL.

### **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.

### **Unfunded Accrued Liability (UAL)**

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