

Per California Code of Regulations, title 2, section 548.5, the following information will be posted to CalHR's Career Executive Assignment Action Proposals website for 30 calendar days when departments propose new CEA concepts or major revisions to existing CEA concepts. Presence of the department-submitted CEA Action Proposal information on CalHR's website does not indicate CalHR support for the proposal.

A. GENERAL INFORMATION

1. Date

6/9/2017

2. Department

California Public Employees Retirement System

3. Organizational Placement (Division/Branch/Office Name)

Actuarial Office

4. CEA Position Title

Deputy Chief Actuary, Valuation Systems

5. Summary of proposed position description and how it relates to the program's mission or purpose. (2-3 sentences)

CalPERS requests approval to modify an existing CEA position within the Actuarial Office (ACTO). The current CEA position, titled "Deputy Chief Actuary" is being proposed to be changed to Deputy Chief Actuary, Valuation Systems (DCAVS)." This change is necessary following the growth in responsibilities of the CalPERS Actuarial Office related to increased volume of mandated reporting and underlying workload. Currently the office is structured in a way that utilizes one CEA and one Staff Services Manager (SSM) III level staff to run operations within the office. Unfortunately, that structure is no longer working for the needs of the office due to the level of work taking place within the Actuarial classifications which are being overseen by a generalist manager. In addition, due to CalHR's efforts surrounding class consolidation, we need to restructure our office in anticipation of the new Actuarial Classifications, while maintaining appropriate reporting levels and reducing compaction issues. The CEA is senior-level position within ACTO. Under the direction of the Chief Actuary, the CEA will oversee and direct all of the CalPERS Actuarial Office Valuation and Administrative Services functions. The CEA will be responsible for the setting of contribution rates for all pension plans for all public agency, school district, and State of California plans and setting all policies that impact the setting of those rates.

6. Reports to: (Class Title/Level)

Chief Actuary

7. Relationship with Department Director (Select one)

- Member of department's Executive Management Team, and has frequent contact with director on a wide range of department-wide issues.
- Not a member of department's Executive Management Team but has frequent contact with the Executive Management Team on policy issues.

(Explain): The CEA works in coordination with the Chief Actuary of the Actuarial Office, who is a member of the CalPERS Executive Management Team.

8. Organizational Level (Select one)

- 1st
- 2nd
- 3rd
- 4th
- 5th (mega departments only - 17,001+ allocated positions)

B. SUMMARY OF REQUEST

9. What are the duties and responsibilities of the CEA position? Be specific and provide examples.

This CEA position is responsible for directing, managing, and overseeing all CalPERS Actuarial Office Valuation Services Units which are comprised of staff who make determinations based on member, benefit provision, and financial data extracted from the my|CalPERS database. We use actuarial assumptions and methods that meet the requirements established by the actuarial profession and approved by the CalPERS Board. Assumptions can typically 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. These assumptions are used in determining actuarial liabilities and required employer contributions and also represent the actuary's best estimate or anticipated future experience. This CEA will also have oversight of the GASB 68 accounting valuations projects for the State, School, Legislators, Judges, and Public Agencies. Additionally the CEA will manage the Administration units of the Actuarial Office.

The CEA will oversee and manage the actuarial staff and units that research, compile and prepare actuarial valuation reports. These reports determine, as of the valuation date, the normal cost, accrued liability, actuarial value of assets, and related actuarial present values for a pension or benefit plan. CalPERS' actuarial valuation reports are based on member financial data extracted from the my|CalPERS database. The actuaries use actuarial assumptions (conjectures made about certain events that will affect costs) and methods (including funding method, setting the length of time to fund the Accrued Liability, and determining the Actuarial Value of Assets) that meet the requirements established by the actuarial profession and approved by the CalPERS Board of Administration. The Actuarial Office Valuation Services provides California State and public agencies with an annual valuation which sets the required annual contributions for all employers and employees to prefund the member's retirement pensions. The program currently has over 1,500 participating employers with over \$300 billion assets under management in the trust fund.

The CEA will be responsible for making recommendations to the Chief Actuary regarding the interpretation of existing actuarial policies and the development and implementation of new actuarial policies within the areas of valuation services and administration. Provides oral and written advice on complex and sensitive issues related to actuarial or funding matters to the CalPERS Board of Administration and Executive and Senior Management Staff. Develops, recommends, and implements actuarial policies related to pension funding. These duties will include, but not be limited to, discussing the implications of any changes legislatively or administratively that could potentially affect the development of contribution rates and the funding of the pension plans. The CEA will address any and all problems or issues related to these policies.

The CEA will be responsible for designing and implementing Actuarial Office guidelines for the Valuation Services Unit regarding CalPERS mission and goals, Society of Actuaries policies and guidelines, the California Actuarial Advisory Panel (CAAP). The CEA will stay abreast of any and all changes related to calculations or required presentations in valuations and ensure that CalPERS remains at the forefront of professionalism and transparency in all interactions. The CEA will also participate in the development of the CalPERS Strategic and Business Plan, including business process reengineering, corporate modeling and change management. The CEA will also be expected to ensure that the long range plans for ACTO are aligned with the CalPERS Strategic Plan as well as remaining in compliance with professional standards as that the consequences for failing to do so could put the reputation of CalPERS in jeopardy.

The CEA will also be responsible for leading the Administrative Unit of ACTO which oversees the day-to-day administrative operations such as Personnel, Budgets, Procurement, and Space planning. The CEA will represent the Valuation Services Section or the Actuarial Office while at meetings, conferences or in contacts with employers or officials outside the department. The CEA will represent the interests of CalPERS as a whole and the Actuarial Office as a subordinate entity at the California Society of Municipal Finance Officers, The California League of Cities, and the many City Councils of California. Additionally, the CEA will represent CalPERS and ACTO while presenting and discussing the actuarial profession and evolving standards of the profession with the Society of Actuaries at Conferences and Committees and with the several other external organizations who influence the profession. The CEA will act as a liaison between the Actuarial Office and other divisions within the department and will prepare and manage the budget of the Office, including use of overtime, travel expenditures, software and equipment purchases. The CEA will develop all Formal Budget Requests for the office and will also be responsible for presenting the requests to both Executive Management and the Board.

B. SUMMARY OF REQUEST (continued)

10. How critical is the program's mission or purpose to the department's mission as a whole? Include a description of the degree to which the program is critical to the department's mission.

- Program is directly related to department's primary mission and is critical to achieving the department's goals.
- Program is indirectly related to department's primary mission.
- Program plays a supporting role in achieving department's mission (i.e., budget, personnel, other admin functions).

Description: The program is directly related to CalPERS primary mission and is critical to achieving the organizational goals. CalPERS' mission is to provide responsible and efficient stewardship to the System to deliver promised retirement benefits. In the Actuarial Office, we strive to be trusted business advisors and partners providing sound actuarial services with well-defined, sustainable operational capabilities. Our vision is to safeguard members' and employers' financial security through reasonable and professional setting of annual contribution rates. Actuarial valuations rely upon data extracted from central databases maintained by CalPERS. These databases are created from data supplied by the individual employers. The data is not audited by the actuarial staff, but is used in determining these valuations.

The CEA is instrumental in achieving the mission of CalPERS. Pension funding and participating employer financial hardship and insolvency are among the top 5 risks to CalPERS sustainability. Any mistake made in calculating the proper contribution rates for employers has the potential of leaving CalPERS underfunded and unable to pay for the benefits promised to our members. On a very large scale, it has the potential of negatively effecting hundreds of thousands of people across the state. With the rise in public agencies facing or filing for bankruptcy the Actuarial Office is essential to mitigating risk and ensuring the long-term sustainability of the system. If proactive steps are failed to be taken to prevent underfunding, reactive steps will become inevitable. In March 2017, the CalPERS Board directed that retiree benefits be cut over 60% when the hiring agency failed to pay its required contributions and no mitigation steps were followed. This could happen on a far larger scale if the risks to the plan are ignored or inadequately addressed. The CEA will oversee policies related to the setting of annual valuation contribution rates, compliance with GASB standards and conformity with all professional guidelines.

Additionally, the CEA will work closely with the integrated assurance risk team within Enterprise Risk Management Division (ERMD) and the Financial Office (FINO) ensuring that all information necessary to ensure the sustainability of the Fund is shared is disseminated throughout the Actuarial Office and CalPERS as a whole. The risk centers around cash flow projections based on the Asset Liability Model. If there is an insufficient volume of money flowing into the plan to offset the monthly payment of retiree benefits, assets have to be moved from longer-term holdings to shorter-term which has the detrimental effect of lowering the expected rate of return. This, in turn, would mandate lowering the discount rate which creates the need of raising the required contributions placing greater strain on our contracted employers. Thus, it is of critical importance that sufficient attention is paid by the Actuarial Office to the ongoing tracking of assets and cash flow by Investments and the Financial Office being tracked by Risk Management.

B. SUMMARY OF REQUEST (continued)

11. Describe what has changed that makes this request necessary. Explain how the change justifies the current request. Be specific and provide examples.

CalPERS is the largest public pension fund in the United States, with over \$300 billion in assets. CalPERS administers health and retirement benefits on behalf of over 1,500 public school, local agency and state employers. There are over 1.8 million members in the CalPERS retirement system.

CalPERS programs are extremely visible, sensitive and complex. In recent years, growing concerns about the management and oversight of public retirement systems such as CalPERS has been the subject of increasing media coverage. These concerns, in addition to the views and interests of CalPERS major stakeholders (i.e., the public, legislature, administration, covered members and employers), are of paramount interest to and have been a top priority of the CalPERS Board of Administration.

The CalPERS Actuarial Office is solely responsible for setting the annual contribution rates and calculating the outstanding liabilities and for calculating the Plan's funded status, a high level leadership is required to ensure proper oversight and administration. If an insufficient amount of focus and attention is dedicated to the setting of the annual contribution rates, the State of California, the many school districts across the State, and the many contracted Public Agencies could have their annual budgets decimated by having to respond to unpredictable contribution swings or having to inform retirees and beneficiaries that their contracted benefits upon which they rely will be cut, thus leaving them without options as they are at their most vulnerable to income fluctuations. Approval of these changes to this existing CEA will aid in equipping the organizational structure properly in ensuring that the appropriate leader has oversight of this critical work and will also contribute in providing a wider, more streamlined chain of control which will strengthen the goals of the Actuarial Office and CalPERS.

C. ROLE IN POLICY INFLUENCE

12. Provide 3-5 specific examples of policy areas over which the CEA position will be the principle policy maker. Each example should cite a policy that would have an identifiable impact. Include a description of the statewide impact of the assigned program.

The CEA will be responsible for developing, recommending, and implementing actuarial policies related to pension benefit funding to the Chief Actuary. The actuarial policies related to the funding of pension benefits are critical to CalPERS core mission of providing security in the financial benefits provided to the members. Without sound pension funding actuarial policies, there would be no assurance that sufficient funds would be available to pay pension benefits for over 1.8 million CalPERS members and the financial security of their retirements would be in question. In addition, actuarial pension funding policies have a significant impact on CalPERS employer budgets, including the employer and employee contribution rates. Pension fund issues and related actuarial funding policy have been central to resolving State budget impasses in prior years and will continue to play a significant role in future State budgets. When the Chief Actuary is called to provide testimony to the California State Legislature or to provide responses to inquiries from the Office of the Governor, the Chief Actuary must have instant access to the ability to answer any and all questions requested thoroughly and correctly without having to stop the proceedings for days or weeks at a time. Given the compressed time-frames and highly confidential nature of State budget negotiations, it is critical that the Chief Actuary have instant access to applicable and current policy advice from the CEA. While the resolution of the State budget is not critical to CalPERS core mission, it does have significant state-wide impact, in that inaccurate information regarding the required funding for State pension benefits could affect the allocations for required State of California employer contributions.

The CEA will also have an active role and be a member of the CalPERS Senior Management Team, which is responsible for all CalPERS program and policy direction and developing and implementing CalPERS Business and Strategic Plan. As part of this function, the CEA will lead the discussion regarding the asset mix, which employers may join the system and whether a reduction of benefits is applicable to the Terminated Agency Pool (TAP).

The CEA will develop pension and GASB compliant actuarial funding policies and advise the CalPERS Chief Actuary and Executive Staff on such policies and implementation efforts. The CEA will also appear regularly before the Finance and Administration Committee to present changes in, or implementation of policy and various critical issues affecting ACTO. In addition, the CEA will participate in the development of the CalPERS Board of Administration's asset/liability workshops, whereby the CalPERS Board of Administration determines the high-level investment policy that will best serve the interests of the members and employers.

Without appropriate pension funding actuarial policies, there would be no assurance that sufficient funds would be available to pay the pension benefits for CalPERS 1.8 million members. In addition, actuarial pension funding policies have a significant impact on CalPERS employer budgets, including any employer and employee contribution rates for pension benefits. Pension fund issues and related actuarial funding policy have also been central to resolving State budget issues in prior years and will continue to play a significant role in future State Budgets.

C. ROLE IN POLICY INFLUENCE (continued)

13. What is the CEA position's scope and nature of decision-making authority?

The CEA will have a direct role in the development and implementation of the policies that govern the funding of CalPERS retirement benefits. These policies are essential to CalPERS primary mission; to advance the financial security of all CalPERS members throughout the State. The CEA will have primary responsibility and oversight for implementing the funding policies for the retirement program through the actuarial rate setting process (the process whereby employer required contribution rates are set). The CEA will focus the attention necessary to ensure that all of the pertinent information is utilized which minimizes the possibility of miscalculating the contribution rates. Failure to establish and implement successful actuarial and funding policies will directly impact the financial security of our members and the budgets of the State and other employers.

The CEA will make day-to-day policy decisions for all valuation and administration programs within the Actuarial Office. The CEA must ensure contracting agencies qualify under the applicable rules and laws to contract for benefits. These policy decisions have significant impacts on both CalPERS and the prospective contracting entity as only qualified organizations may be eligible to contract for CalPERS benefits. If these decisions are not made accurately and appropriately, then CalPERS is exposed to the risk that it may be forced to reduce the benefits of retirees when they would be in a position with no recourse to address the negative financial impact. Additionally, this position will be responsible for implementing the necessary policy changes related to the above mentioned programs resulting in legislative changes. When legislation is enacted the CEA will need to make several programmatic policy decisions to ensure compliance and conformity with the law changes.

The CEA is a member of the CalPERS senior management team which is responsible for providing program and policy direction, carrying out the Strategic Plan and formulating and implementing department-wide policies related to Actuarial and CalPERS programs. The CEA is responsible for working with external employer and employee groups in the establishment of department policies, and for maintaining a high level of communication with employers regarding policy and program implementation, as well as issues affecting the funding of employer retirement plans.

14. Will the CEA position be developing and implementing new policy, or interpreting and implementing existing policy? How?

The CEA will research, develop and make recommendations regarding current statutes and regulations required to administer pension retirement. The CEA will be significantly involved and engaged in pension reform issues as it relates to policy impacts and recommendations for change, serving on high level work groups such as the Public Employee Compensation and Benefits Task Force, representing CalPERS in high level discussion with public officials, and making policy decisions based on analysis and recommendations by staff.

The CEA will oversee policy that is considered controversial, such as:

- What steps will be recommended to the CalPERS Board regarding employers that have failed to meet their financial obligations.
- Addressing pensionable compensation issues which directly impact retiree benefits and employer contribution rates.
- Develops and presents recommendations for non-voluntary terminations or non-voluntary reductions of benefits for approval to Executive staff and Board Members.
- Engages in ongoing interaction with other state agencies, constituents, labor and employer groups and other stakeholders regarding sensitive and complex pension policy issues.
- Developing the policy associated with excessive liabilities created by high compensation increases for Public Agencies. This policy is required by Section 20791 of the PERL (added by the Pension Reform Act of 2013).