

11.

Appendix

11.1-1 1937 Act (County Employees Retirement Law)

CERL in Full

This section contains the most recent version of the CERL.

As you have learned already from this handbook, the CERL changes through new legislation on a regular basis.

[CLICK HERE TO OPEN THE CERL](#)

The following terms are used throughout the retirement systems in the state of California

“Contribution Holiday”

In years when investment returns are sufficiently high, government employers may not be required to make pension contributions (i.e., to enjoy a “holiday” from contributions). (CALAPRS)

115 Trust Fund Account

See Voluntary Employees’ Beneficiary Association (VEBA)

1937 Act Counties

The 20 California counties which had their own county retirement systems established (separate from the PERS system) by the 1937 Act: Alameda, Contra Costa, Fresno, Imperial, Kern, Los Angeles, Marin, Mendocino, Merced, Orange, Sacramento, San Bernardino, San Diego, San Joaquin, San Mateo, Santa Barbara, Sonoma, Stanislaus, Tulare, and Ventura Counties. (CALAPRS)

401 (h) account

Section 401(h) of the IRS Code permits a pension or annuity plan to provide for payment of benefits for sickness, accident, hospitalization and medical expenses for retired employees, their spouses and dependents. Accordingly, the exclusive method for providing medical benefits in a pension plan (or money purchase plan) is by utilizing a section 401(h) account. (IRS)

419 (A) Plan

A welfare benefit plan funded through trusts to which many unrelated employers contribute. It is referred to as a multiple employer plan. These plans are often structured as nondiscriminatory VEBAs or taxable trusts and offer life insurance or severance benefits. (IFEBC)

Active Member

A member of a pension system who is accruing benefits through current service. (CALAPRS)

Active Member

An active member is a person who is working as a permanent employee for the plan sponsor or an outside district and earning service credit in a retirement plan. Active members also include members on authorized leave who are not earning service credit (CALAPRS)

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 investment return, salary growth and inflation. (IFEBC)

Actuarial Assumed Rate of Return:

The assumed rate of return of a retirement plan is one of the factors used by actuaries to estimate the cost of funding a defined benefit pension plan. (CALAPRS)

Actuarial Cost

A cost is characterized as actuarial if it is derived through the use of present values. An actuarial cost is often used to associate the costs of benefits under a retirement system with the approximate time the benefits are earned. (IFEBC)

Actuary

A person professionally trained in the technical and mathematical aspects of insurance, pensions and related fields. The actuary estimates how much money must be contributed to a pension fund each year in order to support the benefits that will become payable in the future. (Insurance) A person trained in the insurance field who determines policy rates, reserves and dividends, as well as conducts various other statistical studies. (IFEBC)

Actuarial Valuation

The procedure used to estimate the present value of benefits to be paid under a plan and to compute the amount of contributions required to cover the normal and unfunded costs of benefits. (CALAPRS)

Adverse Selection

The tendency of an individual to recognize his or her health status in selecting the option under a retirement system or insurance plan that tends to be most favorable to him or her (and more costly to the plan). In insurance usage, a person with an impaired health status or with expected medical care needs applies for insurance coverage financially favorable to himself or herself and detrimental to the insurance company. Also known as anti-selection. (IFEBC)

Annual Required Contribution (ARC)

The ARC is the actuarially determined level of employer contribution that would be required on a sustained, ongoing basis to systematically fund the normal cost and to amortize the Unfunded Actuarial Accrued Liability (UAAL) attributed to past service over a period not to exceed thirty years. It is the amount needed to pay benefits as they come due plus amortize the UAAL. The ARC has two components: Normal cost and amortization of the UAAL for both active employees and retirees. If an employer funds less (or more) than the ARC, the difference is a liability (or asset) known as the net obligation. (CALAPRS)

Automatic Enrollment

The practice of enrolling all eligible employees in a plan and beginning participant deferrals without requiring the employees to submit a request to participate. Plan design specifies how these automatic deferrals will be invested. Employees who do not want to make contributions to the plan must actively file a request to be excluded from the plan. Participants can generally change the amount of pay that is deferred and how it is invested. (IFEBC)

Best Practices

Superior performance by an organization in both management and operational processes. (IFEBC)

California Public Employees' Retirement System (CalPERS) (Formerly PERS)

The retirement system established under the Government Code of the State of California for State employees, classified (non-teaching) school employees, and employees in California public agencies that contract with CalPERS for retirement and/or health coverage. (CALAPRS)

California State Teachers' Retirement System (CalSTRS)

The retirement system founded in 1912 for teachers in the State of California. (CALAPRS)

Charter City

A city whose form of government is defined by a charter resulting from an establishment convention. (CALAPRS)

Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA)

A federal law that requires employers to offer health insurance coverage to certain employees and their dependents for a limited period of time when group health insurance coverage has terminated. (CALAPRS)

Contributions Employer

Employer contributions are monies contributed to the retirement fund by the sponsors of the plan for all plan participants. (CALAPRS)

Contributions Member

Member contributions are the retirement contributions made by plan members who participate in a contributory plan. The contribution amount is calculated by multiplying an age-based percentage rate by the member's compensation earnable. (CALAPRS)

Deferred Retirement Option Plan (DROP)

An arrangement under which an employee retires, but elects to continue to work for the employer and have his or her retirement allowance retained by the retirement fund. The retired member collects compensation from the employer but is not permitted to contribute to the retirement plan and no additional service or salary credit accrues. The monthly retirement allowance retained by the retirement system is credited to the retired member's DROP account. The account earns interest (either at a rate stated in the plan, or based on the earnings of the retirement fund). The retired member may continue to work for the employer for only a limited period of time (commonly 5 years). When the retired member leaves employment, the amount in the DROP account is paid to the retired member, including accrued interest. The retired member then begins to receive his or her monthly retirement allowance. (CALAPRS)

Defined Benefit Plan (DB)

A plan designed to provide eligible participants with a specified benefit at retirement based upon a formula which includes the following three factors: member's age at retirement, member's length of credited service and member's final compensation. (CALAPRS)

Defined Contribution Plan (DC)

A defined contribution plan is a retirement plan that provides an individual account for each participant and benefits that are based solely on (1) the amount contributed to the participant's account, plus (2) any income, expenses, gains/losses, and forfeitures that may be allocated to the participant's account. (CALAPRS)

Discount Rate

The rate at which the US Federal Reserve will lend short-term funds. (CALAPRS)

Early Retirement

A termination of employment involving the payment of a retirement allowance before a participant is eligible for normal retirement. The retirement allowance payable in the event of early retirement is often lower than the accrued portion of the normal retirement allowance (IFEBC)

Employee Contributions

The retirement contributions made by members who participate in a contributory plan. The contribution amount is either a flat percentage of salary or calculated by multiplying an age-based percentage rate by the member's compensation earnable. See contributions-member, contributions-nontaxable, contributions taxable. (CALAPRS)

Employer Pick Up

Pre-tax contributions to a pension system permitted by IRC §414(h)) which allows the members' contributions to be made "pre-tax" and acts like it reduces the participant's salary but are deemed to be employer contributions. (CALAPRS)

Fully Funded

A specific element of pension cost (for example, past service cost) is said to have been fully funded if the amount of the cost has been paid in full to a funding agency. A pension plan is said by some to be fully funded if regular payments are being made under the plan to a funding agency to cover the normal cost and reasonably rapid amortization of the past service cost. (IFEBC)

Funding Ratio

In asset/liability management, the market value of assets divided by the present value of present and future liabilities. If the ratio exceeds 100%, then the obligations are said to be overfunded. If the ratio is less than 100%, then the obligations are underfunded. (CALAPRS)

GASB Statement 43 and 45

Encourages adoption of professional standards in financial planning and accounting including clear publication of financial plans and other information according to uniform standards including: the cost of benefits in periods when the related services are received by the employer, information about the actuarial accrued liabilities for promised benefits associated with past services and whether and to what extent those benefits have been funded and information useful in assessing potential demands on the employer's future cash flows. (GASB)

General Law City

A city whose form of government is defined by the laws, rules and regulations of the state in which it resides. (CALAPRS)

Government Pension Offset (GPO)

A reduction in the spousal Social Security benefits to a person who receives a pension from a retirement system that is not coordinated with Social Security. The reduction may result in no Social Security benefit. Also known as the "spousal offset". (CALAPRS)

Governmental Accounting Standards Board (GASB)

GASB establishes and improves standards of state and local governmental accounting and financial reporting that will result in useful information for users of financial reports and guide and educate the public, including issuers, auditors, and users of those financial reports. (CALAPRS)

Health Insurance

Protection that provides payment of benefits for covered sickness or injury. Included under this heading are various types of insurance, such as accident insurance, disability income insurance, medical expense insurance, and accidental death and dismemberment insurance. (IFEBC)

Health Maintenance Organization (HMO)

A type of health care provider that offers to its members an agreed-upon set of basic and supplemental health services at specific facilities for a fixed prepaid premium. Usually there are no claim forms. (CALAPRS)

Health Reimbursement Account (HRA)

Health Reimbursement Accounts (HRAs) (or Health Reimbursement Arrangements) are partially self-funded medical and health insurance plans with special tax advantages.

Health Savings Account (HSA)

Health Savings Accounts (HSAs) are tax-advantaged health savings accounts available to those enrolled in a High Deductible Health Plan (HDHP) (CALAPRS)

Life Expectancy

Length of time a person of a given age is expected to live. The period is a statistical average, based on mortality tables showing rate of death at each age. It does not seek to predict the life span of any particular individual. (IFEBC)

Internal Revenue Code (IRC)

The body of law governing tax collection and financial organization provided for under Title 26 of the U.S. Code or the Internal Revenue Code. (IRS)

Matching Contributions

Made by an employer to a plan on an employee's behalf when the employee makes elective or non-elective contributions. (IFEBC)

Medical Inflation Rate

The rate of increase of medical costs based on time period comparisons of hypothetical consumer price indices designed to reflect the costs of medical goods and services. (CALAPRS)

Medicare - Part A

Medicare Part A is hospital insurance that covers inpatient care in a hospital or skilled nursing facility, and also hospice care. Medicare Part A insurance is automatic and free for eligible retirees who are fully insured under Social Security and have applied for Social Security benefits, or who have paid sufficient Medicare payroll tax. Members who are not fully insured pay premiums that are based on the number of Social Security credits they've earned. (CALAPRS)

Medicare - Part B

Medicare Part B is medical insurance that covers physician services, outpatient hospital care, lab and x-rays, ambulance charges, and some other services not covered by Medicare Part A. Medicare Part B coverage is voluntary and retirees do not have to be fully insured under Social Security to be eligible. Members 65 or older who are not eligible for Part A coverage may elect to pay a flat rate for Part B coverage. (CALAPRS)

Medical Reimbursement Plan

An employer plan that reimburses employees for medical expenses directly from employer funds, and not through a policy of health or accident insurance. (IFEBC)

Medical Savings Account

A savings account that can be used to pay medical expenses not covered by insurance for employees of small businesses or self-employed individuals who are covered under health plans with high deductibles. Employers with small group MSAs may make contributions on behalf of employees, or employees may make the entire contribution. (IFEBC)

Medicare - Supplement Plan

A Medicare supplement plan is an indemnity plan for individuals who are enrolled in both Part A and Part B of Medicare. The plan supplements Medicare coverage by: paying Medicare Part A deductibles and co-payments, as well as Medicare Part B deductibles and 20% of Medicare-approved amounts; providing coverage for certain items that Medicare does not cover, such as some prescription drugs and care while traveling outside the United States. (CALAPRS)

Medicare - HMO Plan

A Medicare HMO plan is a health plan offered by an HMO that has contracted with the federal government to provide health care services to individuals with Medicare Part A and Part B coverage. Plan participants agree to receive all services from plan providers — and Medicare, in turn, pays the HMO a monthly fee for each enrolled member. (CALAPRS)

Member Contributions

Member contributions are the retirement contributions made by members who participate in a contributory plan. The contribution amount is a flat rate or is calculated by multiplying a percentage rate by the member's compensation earnable. See also Contributions-taxable and Contributions Nontaxable. (CALAPRS)

National Health Insurance

Any system of socialized health insurance benefits, covering all or nearly all citizens, established by federal law, administered by the federal government and supported or subsidized by taxation. (IFEBC)

Nonqualified Plan

An employer-sponsored plan that does not meet the requirements of Section 401(a) of the 1986 Internal Revenue Code and that, as a result, suffers distinct disadvantages from a tax standpoint. (IFEBC)

Normal Cost

Computed differently under different funding methods, the employers' annual normal cost represents the present value of benefits that have accrued on behalf of the members during the valuation year. (CALAPRS)

Other Post-Employment Benefits (OPEB)

OPEB includes post-employment healthcare, as well as other forms of post-employment benefits (for example, life insurance) provided separately from a pension plan. (CALAPRS)

Pay-As-You-Go

A method of recognizing the costs of a retirement system only as benefits are paid. Also known as the current disbursement cost method. (CALAPRS)

Pension Benefit

A benefit payable as an annuity to a participant or beneficiary of a pension plan. (CALAPRS)

Postretirement Benefits

All forms of benefits, other than retirement income, provided by an employer to its retirees. (IFEBC)

Plan Sponsor

The agency or entities that establish pension plans, including: private businesses acting for their employees; state and local agencies operating on behalf of their employees; unions acting on behalf of their members; and individuals representing themselves. (CALAPRS)

Pre-Funding

A method of funding in which a reserve fund is accumulated in advance of paying benefits. This is the alternative to "pay-as-you-go" funding. (CALAPRS)

Public Employees' Medical and Hospital Care Act (PEMHCA)

California's Public Employees' Medical and Hospital Care Act directs the administration of the CalPERS Health Program. It is part of the California Government Code, Section 22751 et seq. (CALAPRS)

Qualified Plan

Commonly refers to plans established under Sections 401(k), 401(a) or 403(b) or any retirement plan that meets IRS criteria that allow employers to deduct pension costs as a business expense and defer current income tax on its earnings, and allow employees to defer income tax on the employer's contributions and savings (IFEBC)

Reciprocal Agreement

An agreement between two public retirement systems on coordination of benefit (IFEBC)

Safety Member

A safety member is a permanent employee of the plan sponsor agency working full time such as a firefighter or law enforcement officer. (CALAPRS)

Self-Funding

A fully noninsured or self-insured plan is one in which no insurance company or service plan collects premiums and assumes risk. In a sense, the employer is acting as an insurance company--paying claims with the money ordinarily earmarked for premiums. Regardless of the specific self-funding technique a firm chooses, it will need to either buy its administrative services (ASO) outside the company or develop them in-house. Hence, self-funded arrangements are referenced as ASO or self-administered. There are two standard self-funding techniques that companies interested in this approach usually evaluate for appropriateness to their own situation: 501(c)(9) trust and disbursed self-funded plan (IFEBC)

Service

Employment taken into consideration under a pension plan. Years of employment before the inception of a plan constitute an employee's past service; years thereafter are classified in relation to the particular actuarial valuation being made or discussed. Years of employment (including past service) prior to the date of a particular valuation constitute prior service; years of employment following the date of the valuation constitute future service; a year of employment adjacent to the date of the valuation, or in which such date falls, constitutes current service (included in future service). (CALAPRS)

Service Credit

Time, denominated in pay periods, months, or other measurement periods that is used in a DB plan benefit formula. (CALAPRS)

Social Security Offset/Windfall Penalty

In 1983 Congress passed legislation stating that if one were to work for a federal, state or local government where one did not pay social security taxes, then the government pension one receives from that agency may reduce a large portion of the Social Security benefits for which one would qualify. There has been some remediation of this issue in 2004. (CALAPRS)

Pension Spiking

The practice of increasing a member's retirement allowance (without a change in plan benefits) by increasing final compensation, or including various non-salary items (such as unused vacation pay, mileage pay, uniform allowance or other allowances) in the final compensation figure used in the member's retirement benefit calculations. (CALAPRS)

Super-Funded

A condition existing when the actuarial value of assets exceeds the present value of benefits. When this condition exists on a given valuation date for a given plan, employee contributions for the rate year covered by that valuation may be waived. (CALAPRS)

Third-Party Administrator

The party to an employee benefit plan that may collect premiums, pay claims and/or provide administrative services. Usually an out-of-house professional firm providing administrative services for employee benefit plans. (IFEBC)

Three-Legged Stool

Theory that a combination of an individual's savings, Social Security, and a private pension will provide secure retirement income. (IFEBC)

Unfunded Actuarial Accrued Liability (UAAL)

Unfunded Actuarial Accrued Liability is the portion of the actuarial Accrued liability not currently covered by plan assets. It is calculated by subtracting the Actuarial Value of Assets from the Actuarial Accrued Liability. (CALAPRS)

Under-Funded

If accrued liabilities exceed accrued assets (i.e., insufficient assets to pay all benefits that have accrued to participants) the plan has unfunded liabilities and is deemed under-funded. (CALAPRS)

Unfunded Actuarial Accrued Liability (UAAL)

The amount by which actuarial accrued liability exceeds the actuarial value of assets. The present value of benefits earned to date that is not covered by plan assets. (CALAPRS)

Vested Benefits (Vested)

Benefits to which an employee is entitled under a pension plan by satisfying age and/or service requirements. (CALAPRS)

Vesting

A benefit plan provision that a participant will, after meeting certain requirements, retain a right to the benefits he or she has accrued (or some portion of them) even if employment under that plan terminates before retirement, except if the member withdraws his or her contributions. Employee contributions are always fully vested. (CALAPRS)

Voluntary Employees' Beneficiary Association (VEBA)

As defined in Section 501(c)(9) of the IRC, a separate organization "providing for the payment of life, sickness, accident, or other benefits to the members... or their dependents or designated beneficiaries." Subject to specific rules and limitations, a company may establish a VEBA for employees, to which it makes tax-deductible contributions. The association invests and accumulates funds for the purpose of paying benefits on a tax-exempt basis. (CALAPRS)

Sources:

California Association of Public Retirement Systems (CALAPRS)

(Sometimes seen as: CalAPRS, CalAPRs)

CALAPRS Glossary, 2006

Governmental Accounting Standards Board (GASB)

GASB Summary, 2007

International Foundation for Education, Benefits, Compensation (IFEBC)

11th Edition

Website:

<http://www.ifebp.org/Resources/Glossary/>

11.3 GLOSSARY OF INVESTMENT TERMS

[CLICK HERE TO OPEN UP THE GLOSSARY OF INVESTMENT TERMS](#)

11.4 PROP 162

Prop 162 Text

CALIFORNIA CONSTITUTION

ARTICLE 16 PUBLIC FINANCE

(Note: This is California Proposition 162, a constitutional amendment known as the California Pension Protection Act, approved by voters in 1992. The amendment grants the board of the state's public employee retirement systems sole and exclusive authority over investment decisions and administration, and requires the board to administer the retirement system so as to assure prompt delivery of benefits to participants and beneficiaries. It also specifies that the delivery of benefits to participants and beneficiaries and the board's duty to participants and beneficiaries takes precedence over any other duty.)

SEC. 17. The State shall not in any manner loan its credit, nor shall it subscribe to, or be interested in the stock of any company, association, or corporation, except that the State and each political subdivision, district, municipality, and public agency thereof is hereby authorized to acquire and hold shares of the capital stock of any mutual water company or corporation when the stock is so acquired or held for the purpose of furnishing a supply of water for public, municipal or governmental purposes; and the holding of the stock shall entitle the holder thereof to all of the rights, powers and privileges, and shall subject the holder to the obligations and liabilities conferred or imposed by law upon other holders of stock in the mutual water company or corporation in which the stock is so held. Notwithstanding any other provisions of law or this Constitution to the contrary, the retirement board of a public pension or retirement system shall have plenary authority and fiduciary responsibility for investment of moneys and administration of the system, subject to all of the following: (a) The retirement board of a public pension or retirement system shall have the sole and exclusive fiduciary responsibility over the assets of the public pension or retirement system. The retirement board shall also have sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries. The assets of a public pension or retirement system are trust funds and shall be held for the exclusive purposes of providing benefits to participants in the pension or retirement system and their beneficiaries and defraying reasonable expenses of administering the system. (b) The members of the retirement board of a public pension or retirement system shall discharge their duties with respect to the system solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. A retirement board's duty to its participants and their beneficiaries shall take precedence over any other duty. (c) The members of the retirement board of a public pension or retirement system shall discharge their duties with respect to the system with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims. (d) The members of the retirement board of a public

pension or retirement system shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so. (e) The retirement board of a public pension or retirement system, consistent with the exclusive fiduciary responsibilities vested in it, shall have the sole and exclusive power to provide for actuarial services in order to assure the competency of the assets of the public pension or retirement system. (f) With regard to the retirement board of a public pension or retirement system which includes in its composition elected employee members, the number, terms, and method of selection or removal of members of the retirement board which were required by law or otherwise in effect on July 1, 1991, shall not be changed, amended, or modified by the Legislature unless the change, amendment, or modification enacted by the Legislature is ratified by a majority vote of the electors of the jurisdiction in which the participants of the system are or were, prior to retirement, employed. (g) The Legislature may by statute continue to prohibit certain investments by a retirement board where it is in the public interest to do so, and provided that the prohibition satisfies the standards of fiduciary care and loyalty required of a retirement board pursuant to this section. (h) As used in this section, the term "retirement board" shall mean the board of administration, board of trustees, board of directors, or other governing body or board of a public employees' pension or retirement system; provided, however, that the term "retirement board" shall not be interpreted to mean or include a governing body or board created after July 1, 1991 which does not administer pension or retirement benefits, or the elected legislative body of a jurisdiction which employs participants in a public employees' pension or retirement system.