

## **ADDENDUM TO THE INITIAL STATEMENT OF REASONS**

### **Proposed Amendment to add Article 1.5 to Subchapter 2 of Chapter 2 of Division 1 of Title 2 of the California Code of Regulations (CCR) and to adopt Section 592.1 under Article 1.5**

#### **State Social Security Administration (SSSA) Fees**

This Addendum to the Initial Statement of Reasons explains the purpose of the changes to the proposed regulation that are being made available after the 45-day comment period conducted from November 1, 2019 through December 17, 2019, and during the 15-day comment period conducted from February 27, 2020 to March 13, 2020.

#### **PURPOSE**

The purpose of the changes made to the proposed regulation is to adjust the methodology to calculate the annual fee to fund the SSSA program. Government Code (GC) Section 22551 allows CalPERS to charge fees to public agencies with employees covered under the State's Section 218 Agreement. The fees are to cover the cost to administer the SSSA program. However, to prevent excess fund reserves in the Old Age and Survivors' Insurance Revolving Fund (OASI Fund), GC Section 22600 requires the Board to annually review the OASI Fund balance and adjust the annual fees if the OASI Fund balance exceeds 100 percent of budgeted program expenditures.

The revised regulation stipulates that CalPERS will complete an annual review of the OASI Fund balance to meet the requirements of GC Section 22600. CalPERS will adjust the fees to maintain a fund balance of no less than 50 percent and no more than 100 percent of program expenditures authorized in the State Budget Act. Specifically, the changes made to the proposed regulation are as follows:

- Added language in Section 592.1(a) to specify that the fees collected will be deposited into the OASI Fund.
- Removed language in Sections 592.1(d)-592.1(d)(2) regarding the methodology for calculating the fee adjustment by using fluctuations in the *Consumer Price Index for All Urban Consumers: U.S. City Average (CPI-U)*.
- Added language in Sections 592.1(d)-592.1(d)(4) to establish a revised method to calculate the fee adjustment that includes annually reviewing the OASI Fund. If the fund balance is less than 50 percent or greater than 100 percent of one year's budgeted SSSA program expenditures, the fees established in Section 592.1(c)(3) will be adjusted to target a fund balance of 50 percent of budgeted SSSA program expenditures.

#### **NECESSITY**

Section 592.1, subsection (a):

Amending this subsection was necessary to clarify that CalPERS will deposit fees collected into the OASI Fund.

Section 592.1, subsection (d):

This subsection is necessary to specify and clarify the methodology CalPERS will use to determine when and how the fees in subsection (c)(3) will be adjusted. CalPERS will annually review the OASI Fund balance and will adjust the annual fees in subsection (c)(3) if the OASI Fund balance is less than 50 percent or greater than 100 percent of one year's SSSA program expenditures. The fund balance minimum of 50 percent of budgeted SSSA program expenditures is necessary to provide sufficient cash flow to cover program expenditures, whereas the 100 percent threshold is specified in statute. Subsections (d)(1) through (d)(4) specify and clarify the calculation methodology CalPERS will use to determine how the fees in subsection (c)(3) will be adjusted.

Section 592.1, subsection (d)(1):

This subsection is necessary to specify the calculation that CalPERS will use to set the 50 percent fund balance minimum threshold.

Section 592.1, subsection (d)(2):

This subsection is necessary to specify the calculation that CalPERS will use to estimate the revenue required to target a 50 percent OASI Fund balance.

Section 592.1, subsection (d)(2)(A):

This subsection is necessary to specify the calculation that CalPERS will use to estimate the revenue required to target a 50 percent OASI fund balance.

Section 592.1, subsection (d)(2)(B):

This subsection is necessary to specify the calculation that CalPERS will use to estimate the revenue required to target a 50 percent OASI fund balance.

Section 592.1, subsection (d)(3):

This subsection is necessary to specify the calculation that CalPERS will use to determine the proportionate fee increase if the estimated revenue calculated in subsection (d)(2) is greater than the anticipated revenue from the fees in subsection (c)(3).

Section 592.1, subsection (d)(4):

This subsection is necessary to specify the calculation that CalPERS will use to determine the proportionate fee decrease if the estimated revenue calculated in subsection (d)(2) is less than the anticipated revenue from the fees in subsection (c)(3).