



Finance and Administration Committee

Agenda Item 4e

February 13, 2023

Item Name: Legislators' Retirement System Actuarial Valuation Report and Employer and Employee Contribution Rates

Program: Actuarial Office

Item Type: Action Consent

Recommendation

- Approve the June 30, 2022 Legislators' Retirement System Actuarial Valuation report and the corresponding transmittal letter to the governor and Legislature.
- Adopt the employer contribution rate of 0.00% for the period of July 1, 2023 through June 30, 2024 for the Legislators' Retirement System.

Executive Summary

The following table summarizes key results from the valuation and provides a comparison to the prior year report.

	June 30, 2021	June 30, 2022
Present Value of Benefits	\$ 95,730,919	\$ 94,756,910
Accrued Liability	\$ 95,562,165	\$ 94,697,328
Market Value of Assets	\$ 123,525,223	\$ 103,991,312
Unfunded Liability/(Surplus)	\$ (27,963,058)	\$ (9,293,984)
Funded Status	129.3%	109.8%
Required Employer Contribution Rate	31.80%	0.00%

Due to all active members terminating in fiscal year 2022-23 and the plan being in a surplus position on the valuation date, there is no required contributions for fiscal year 2023-24.

Strategic Plan

This action item is being presented as part of the regular and ongoing workload of the Actuarial Office and supports the strategic plan goal of pension sustainability.

Background

The Legislators' Retirement System was established in 1947. The valuation report provides information regarding retirement and ancillary benefits for Senators and Members of the Assembly (first elected prior to November 7, 1990), Constitutional Officers (first elected prior to December 31, 2012), and Legislative Statutory Officers (first appointed prior to December 31, 2012).

The system was closed to newly elected Senators and Members of the Assembly by the Political Reform Act of 1990 (Proposition 140) but remained open to new Constitutional and Legislative Statutory Officers.

With the passage of Assembly Bill 340 (PEPRA) in 2012, the LRS was closed to all new potential members effective January 1, 2013.

Assembly Bill 340 also required public employer's contributions, in combination with employee contributions, cannot be less than the normal cost rate.

Analysis

In the June 30, 2021 Legislators' Actuarial Valuation, the plan was in a surplus position with a funded status of 129.3%. The board adopted an employer contribution rate of 31.80% consistent with Government Code section 7522.52 which requires plans in a surplus position to contribute at least the normal cost.

In the June 30, 2022 valuation, the plan continues to be in surplus position with a funded status of 109.8%.

Because the Legislators' plan will have no active members in fiscal year 2023-24, there is no required employer contribution.

Budget and Fiscal Impacts

Not Applicable

Benefits and Risks

One key risk measured in the June 30, 2022 funding valuation is the funded status of a plan. The funded status of a pension plan is defined as the ratio of assets to a plan's accrued liabilities. This measure, when below a certain level along with other risk measures, indicates whether a plan is at risk of not meeting future benefit obligations. The funded status of this plan has been and remains above the target level of 100%.

During the time period between the valuation date and the publication of this report, inflation has been significantly higher than the expected inflation of 2.3% per annum. Since inflation influences cost of living increases for retirees and beneficiaries and active member pay increases, higher inflation is likely to put at least some upward pressure on contribution requirements and downward pressure on the funded status in the June 30, 2023 valuation. The actual impact of higher inflation on future valuation results will depend on, among other things, how long higher inflation persists. At this time, we continue to believe the long-term inflation assumption of 2.3% is appropriate.

Attachments

Attachment 1 – Transmittal letter to the governor and Legislature

Attachment 2 – Legislators' Retirement System Actuarial Valuation report as of June 30, 2022

Alex Grunder
Actuary
Actuarial Office

Julian Robinson
Senior Actuary
Actuarial Office

Scott Terando
Chief Actuary