



# Finance and Administration Committee

## Agenda Item 4c

---

April 18, 2022

**Item Name:** Valuation Report for the 1959 Survivor Benefit Program

**Program:** Actuarial Office

**Item Type:** Action Consent

### Recommendation

1. Approve the 1959 Survivor Benefit Program Actuarial Valuation Report as of June 30, 2021 and the corresponding transmittal letter to the Governor and legislature.
2. Adopt the employer and employee monthly premiums for fiscal year 2022-23 as set forth in the table on Page 2 of this agenda item and included in the actuarial report as Attachment 2.

### Executive Summary

The following table summarizes key results of each pool level from the valuation:

Plan	Accrued Liability	Market Value of Assets (MVA)	Funded Ratio
State 5 <sup>th</sup> Level Pool	\$ 150,360,536	\$ 132,599,565	88.2%
Schools 5 <sup>th</sup> Level Pool	\$ 14,435,090	\$ 107,430,815	744.2%
PA 1 <sup>st</sup> Level Pool	\$ 2,840,806	\$ 70,811,352	2,492.7%
PA 2 <sup>nd</sup> Level Pool	\$ 2,244,801	\$ 16,284,692	725.4%
PA 3 <sup>rd</sup> Level Pool	\$ 30,817,673	\$ 155,368,176	504.2%
PA 4 <sup>th</sup> Level Pool	\$ 144,921,903	\$ 176,677,180	121.9%
PA Indexed Level Pool	\$ 20,196,279	\$ 32,409,114	160.5%
Total	\$ 365,817,088	\$ 691,580,894	189.1%

The investment return for the fiscal year ending June 30, 2021 was approximately 21.3%. This resulted in increased funded ratios for all plans.

The resulting fiscal year 2022-23 employer and employee premiums for each benefit level and a comparison with the premiums for the previous year are as follows:

Plan	2021-22 Premium			2022-23 Premium		
	Employer	Employee	Total	Employer	Employee	Total
State 5 <sup>th</sup> Level Pool*	\$5.85	\$5.85	\$11.70	\$5.60	\$5.60	\$11.20
Schools 5 <sup>th</sup> Level Pool*	\$0.00	\$2.00	\$2.00	\$0.00	\$2.00	\$2.00
PA 1 <sup>st</sup> Level Pool	\$0.00	\$2.00	\$2.00	\$0.00	\$2.00	\$2.00
PA 2 <sup>nd</sup> Level Pool	\$0.00	\$2.00	\$2.00	\$0.00	\$2.00	\$2.00
PA 3 <sup>rd</sup> Level Pool	\$0.00	\$2.00	\$2.00	\$0.00	\$2.00	\$2.00
PA 4 <sup>th</sup> Level Pool	\$4.70	\$2.00	\$6.70	\$2.40	\$2.00	\$4.40
PA Indexed Level Pool*	\$2.35	\$2.35	\$4.70	\$0.50	\$2.00	\$2.50

\* Section 21581 of the California Public Employees' Retirement Law requires mandatory cost sharing when the total premium exceeds \$4.00.

A mandatory premium of \$2.00 per member per month is required for each plan.

### 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 fund sustainability.

### Background

The 1959 Survivor Benefit program provides six different levels of survivor benefits for employees who die while actively employed and without Social Security coverage. The program is intended to serve as a replacement for the survivor benefits that would otherwise be provided by Social Security.

All levels of the 1959 Survivor Program are "pooled" benefits. For all levels other than the Indexed Level, participating employers contribute a monthly amount per member as determined by the Term Insurance Method. The use of this method is specified by State Statute Sections 21574.7(f), 21574(e), 21573(h), 21572(i), and 21571(g).

For the Public Agency Indexed Level of the 1959 Survivor benefit, participating employers contribute a monthly amount per member as determined by the Entry Age Normal Cost Method. The use of this method was determined by the board as specified by State Statute 21574.5(f). In all cases contributions are billed to employers apart from the employer's contribution rate for retirement and disability benefits. For those employers in each pool as of the valuation date, the employer Normal Cost is adjusted by an amortization of the surplus or unfunded liability.

### Analysis

On July 12, 2021, CalPERS reported a preliminary 21.3% net return on investments for fiscal year 2020-21. Since the return exceeded the 7.00% discount rate, the CalPERS Funding Risk Mitigation policy triggered a reduction in the discount rate of 0.20%, from 7.00% to 6.80%.

On November 17, 2021, the board adopted new actuarial assumptions based on the recommendations in the November 2021 CalPERS Experience Study and Review of Actuarial Assumptions. This study reviewed various assumptions including retirement rates, termination rates, mortality rates, rates of salary increase, and inflation. These new assumptions are incorporated in this actuarial valuation and will affect required contributions for fiscal year 2022-23. In addition, the board adopted a new strategic asset allocation as part of its Asset Liability Management process. The new asset allocation along with the new capital market assumptions and economic assumptions support a discount rate of 6.80% and a reduction in the price inflation assumption from 2.50% to 2.30%.

The reduction in discount rate resulted in an increase in liabilities. However, that increase was somewhat offset by the decrease in liabilities due to the other assumption changes.

Also, there has been an 11% decrease in the Reserve for Unclaimed Benefits, as CalPERS has worked to contact those who were missing any payments. These amounts can be seen in the table below.

#### Reserve for Unclaimed Benefits

Plan	June 30, 2021
State 5 <sup>th</sup> Level Pool	\$ 1,485,000
Schools 5 <sup>th</sup> Level Pool	\$ 918,000
PA 1 <sup>st</sup> Level Pool	\$ 118,800
PA 2 <sup>nd</sup> Level Pool	\$ 91,800
PA 3 <sup>rd</sup> Level Pool	\$ 537,600
PA 4 <sup>th</sup> Level Pool	\$ 2,211,600
PA Indexed Level Pool	\$ 9,096
<b>Total</b>	<b>\$ 5,371,896</b>

The next exhibit below shows a 4-year history of the funded status between valuation dates for each pool on a market value basis.

#### Market Value Funded Status 2018-2021

Plan	2018	2019	2020	2021
State 5 <sup>th</sup> Level Pool	73.9%	74.3%	74.2%	88.2%
Schools 5 <sup>th</sup> Level Pool	588.0%	553.6%	620.7%	744.2%
PA 1 <sup>st</sup> Level Pool	1,793.8%	1,827.6%	1,965.1%	2,492.7%
PA 2 <sup>nd</sup> Level Pool	506.7%	506.2%	556.6%	725.4%
PA 3 <sup>rd</sup> Level Pool	395.7%	396.9%	414.3%	504.2%
PA 4 <sup>th</sup> Level Pool	107.0%	105.3%	107.0%	121.9%
PA Indexed Level Pool	128.0%	134.7%	138.4%	160.5%
<b>Total</b>	<b>153.8%</b>	<b>155.1%</b>	<b>159.3%</b>	<b>189.1%</b>
<b>Fund Return</b>	<b>8.2%</b>	<b>6.3%</b>	<b>4.4%</b>	<b>21.3%</b>

All pools in the 1959 Survivor program realized a return of 21.3% plus or minus 1.5% for fiscal year 2020-21, which is above our assumed long-term rate of return on assets of 6.8%. With the provided funded statuses as of June 30, 2021, we would expect the pools other than State to continue to be adequately funded with the current level of employer and employee premiums.

### **Budget and Fiscal Impacts**

Not Applicable.

### **Benefits and Risks**

It is essential that all risk transfer/pooling systems, including both pension and insurance, be regularly reviewed and premium levels, contribution requirements and/or reserve levels be adjusted to ensure the ongoing financial soundness of the systems.

The 1<sup>st</sup>, 2<sup>nd</sup> 3<sup>rd</sup>, and Schools 5<sup>th</sup> Level are all extremely well-funded and hence there is a very low risk in those levels. Excess assets are large enough such that it is unlikely they would be needed to pay member benefits for years. This can also be said of future member contributions in these levels as well.

The 4<sup>th</sup> and Indexed Levels have a healthy level of assets but are subject to significant market risk and should continue to be monitored. The State 5<sup>th</sup> Level has an unfunded liability and hence is at greater risk than the other levels. The premiums are set at a level to address the unfunded liability and this level should also continue to be monitored in the future.

This report is required to be filed with the Governor and the Legislature.

### **Attachments**

Attachment 1 – Transmittal Letter to the Governor and Legislature

Attachment 2 – 1959 Survivor Benefit Program Actuarial Valuation as of June 30, 2021

---

Shelly Chu  
Senior Pension Actuary

---

Scott Terando  
Chief Actuary