



Risk and Audit Committee

Agenda Item 7c

February 17, 2021

Item Name: Final Actuarial Review Report

Program: Office of Audit Services

Item Type: Information

Executive Summary

The third-party actuarial firm, Buck Global, LLC (Buck), has completed their reviews of actuarial valuations for the various pension plans administered by CalPERS. The purpose of the reviews was to independently validate the actuarial valuations performed by CalPERS actuarial staff and to identify any potential problems or issues. The Report is the final deliverable of a five-year contract to perform parallel valuation and certification services. It provides a summary of reviews performed for the period of March 1, 2016 through October 31, 2020 and the results and comments from each review (Attachment 1). In general, the independent reviews found that actuarial valuations produced by CalPERS actuarial staff is thorough, complete, and complies with applicable Standards of Practice. Buck was able to closely replicate key valuation results, and differences generally were due to reasonable differences in valuation systems used by CalPERS and Buck.

Strategic Plan

This agenda item supports Strategic Plan Fund Sustainability Goal – Strengthen the long-term sustainability of the pension fund.

Background

Under the California Constitution, the CalPERS Board of Administration (Board) has plenary authority and fiduciary responsibility to provide for actuarial services. The CalPERS Chief Actuary advises the Board and directs the activities of the CalPERS actuarial staff. The Board also retains the services of an outside actuarial firm to review the work of the CalPERS actuarial staff and to certify that such work complies with actuarial professional standards. The Board's Delegation Resolution RA-20-01 includes the delegation to the Risk and Audit Committee to oversee key internal audit activities including parallel valuations.

In November 2015, the Board selected a third-party actuarial firm, Buck, to provide the parallel valuation and certification services to the Board. The engagement covered the following schedule of tasks, Task 1 through Task 6, as stated in Contract 2015-8123.

- Parallel Valuation and Certification of the Actuarial Valuations of the CalPERS Contracting Public Agency Plans as of June 30, 2014.
- Parallel Valuation and Certification of the Actuarial Valuations of the CalPERS State and Schools Plans as of June 30, 2015.
- Parallel Valuation and Certification of the Actuarial Valuations of the Judges' Retirement Systems (JRS), Judges' Retirement Systems II (JRS II), the Legislators' Retirement System (LRS), and the 1959 Survivor Benefit Program (1959 SBP) as of June 30, 2016.
- Parallel Valuation and Certification of the Actuarial Valuations of the CalPERS Contracting Public Agency Plans as of June 30, 2017.
- Parallel Valuation and Certification of the Actuarial Valuations of the CalPERS State and Schools Plans as of June 30, 2018.
- Parallel Valuation and Certification of the Actuarial Valuations of the JRS, JRS II, LRS, and 1959 SBP as of June 30, 2019.

Task 7 of Contract 2015-8123 requires Buck to prepare a final audit report for the period March 1, 2020 through October 31, 2020. The report contains a recap of issues found during each actuarial review, how issues were resolved, and what issues remain outstanding.

Analysis

The purpose of the periodic reviews was to independently validate the actuarial valuations performed by CalPERS actuarial staff and to identify any potential problems or issues. The independent actuarial firm, Buck, provided an overall opinion as follows:

“The results of the reviews completed by Buck pursuant to Contract 2015-8123 confirm that the actuarial process followed by CalPERS is thorough, complete, and complies with applicable Actuarial Standards of Practice. We have been able to closely replicate key valuation results, and differences generally were due to reasonable differences in valuation systems. The CalPERS Actuarial Office has addressed each of the outstanding issues noted in this report, and have indicated their intention to resolve them with the June 30, 2020 valuations.”

Budget and Fiscal Impacts

The fee for the parallel valuation and certification of the Final Actuarial Review Report is \$58,000. Funding is identified within existing budgetary resources.

Benefits and Risks

It is essential to periodically review contribution requirements and funding levels to ensure the ongoing financial soundness of a pension system. The Actuarial Office has divided the retirement plans at CalPERS into three categories: Public Agencies, State and Schools, and Affiliates (the JRS, JRS II, LRS, and the 1959 SBP). The Board's current independent actuarial firm, Buck performed one parallel valuation for each of the three categories on a rotating three-year cycle. These parallel valuations provide an additional “check and balance” that increases the financial security of the retirement system for its participating members by reducing the risk of undetected errors in actuarial calculations.

Attachment

Attachment 1 – Final Actuarial Review Report

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