Finance and Administration Committee

Agenda Item 5c

February 17, 2021

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

Program: Actuarial Office

Item Type: Action Consent

Recommendation

- Approve the Judges' Retirement System II Actuarial Valuation Report as of June 30, 2020 and the corresponding transmittal letter to the governor and Legislature.
- Adopt the employer contribution rate of 24.24% and a member contribution rate of 16% of salary for members subject to the Public Employees' Pension Reform Act of 2013 (PEPRA) for the period of July 1, 2021 through June 30, 2022 for the Judges' Retirement System II.

Executive Summary

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

Comparison of Current and Prior Year Results		
	June 30, 2019	**June 30, 2020**
Present Value of Benefits	$ 2,513,409,434	$2,681,671,589
Accrued Liability	1,725,877,206	1,913,087,688
Market Value of Assets	1,715,056,468	1,885,403,709
Unfunded Liability/(Surplus)	10,820,738	27,683,978
Funded Status	99.4%	98.6%
Required Employer Contribution Rate	24.40%	24.24%

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 fund sustainability.

Background

The Judges' Retirement System II (JRS II) began on November 9, 1994 to provide retirement and ancillary benefits to judges elected or appointed on or after that date. The employer contribution rate from the inception of the plan until June 30, 1996 was set by State statute. Subsequently, the employer contribution rate was determined through an actuarial valuation process. This actuarial valuation sets the employer contribution rate for fiscal year July 1, 2021 through June 30, 2022.

Analysis

As of June 30, 2020, JRS II has a funded status of 98.6%, having slightly decreased from 99.4% since the prior valuation. This decrease was driven mostly by investment losses. In FY 2019-20 the fund earned approximately 4.4%.

The Actuarial Office recommends the board adopt a contribution rate of 24.24% for FY 2021-22. This rate is comprised of 23.60% for the employer normal cost and 0.64% for the amortization of the unfunded liability.

With the enactment of the Public Employees' Pension Reform Act of 2013 (PEPRA), PEPRA members are required to contribute at least 50% of the total annual normal cost as determined by the actuary.

The following table illustrates a history of the normal cost of the PEPRA group and the resulting employee contribution rate. The employee contribution for the PEPRA group will change if the total normal cost for PEPRA group changes by 1% or more from the Base Total Normal Cost Rate. The Base Total Normal Cost Rate for PEPRA members is 32.10%. The new Total PEPRA Normal Cost is 32.62%. This results in no change to the PEPRA member contribution rate of 16% for fiscal year 2021-22.

Fiscal Year	Total PEPRA Normal Cost	Employee PEPRA Normal Cost
2016-17	30.727%	15.25%
2017-18	33.562%	16.75%
2018-19	32.104%*	16.00%
2019-20	32.760%	16.00%
2020-21	32.56%	16.00%
2021-22	32.62%	16.00%

* Base Total Normal Cost Rate for members subject to the PEPRA, until the actual PEPRA Total Normal Cost Rate changes by 1% or more.

Budget and Fiscal Impacts

Not Applicable

Benefits and Risks

One key risk measurement in the June 30, 2020 valuation report is the funded status of the plan. The funded status of a pension plan is defined as the ratio of assets to a plan's accrued liabilities. When below a certain level, this measure indicates whether a plan is at risk of meeting future benefit obligations. The funded status of this plan is 98.6% as of June 30, 2020. The target funded level is 100%.

Other Issues

In the case of Robert M. Mallano, et al. v. John Chiang, Controller of the State of California (SCO), the Judges' Retirement System (JRS), and the Judges' Retirement System II (JRS II), the judge issued a Statement of Decision which orders judicial salary increases to be given to the judges for the FY 2008-09, FY 2009-10, FY 2010-11, FY 2013-14, FY 2014-15 and FY 2015-16 plus 10 percent interest per year for each year that the judicial salaries were not increased. Based on the increased judicial salaries, adjustments to the defined benefit and lump sum payments have been calculated and paid. Any remaining payments will be reflected in future valuations as they are claimed and paid.

CalPERS will be completing an Asset Liability Management (ALM) process in November 2021 that will review the capital market assumptions and the strategic asset allocation and ascertain whether a change in the discount rate and other economic assumptions is warranted. As part of the ALM process the Actuarial Office will be completing an Experience Study to review the demographic experience of the retirement system and make recommendations to modify future assumptions where appropriate.

Attachments

Attachment 1 – Transmittal letter to the governor and Legislature

Attachment 2 – Judges' Retirement System II Actuarial Valuation as of June 30, 2020

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