Finance and Administration Committee

Agenda Item 4f

April 18, 2022

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, 2021 Legislators' Retirement System Actuarial Valuation Report and the corresponding transmittal letter to the governor and Legislature, including lowering the discount rate assumption from 5.00% to 4.50%, lowering the inflation assumption from 2.50% to 2.30% and changes to the assumed mortality rates as outlined below and in the valuation report.

- Adopt the employer contribution rate of 31.80% for the period of July 1, 2022 through June 30, 2023 for the Legislators' Retirement System.

- Adopt the use of the new demographic and economic assumptions including inflation and salary growth in all affected member calculations effective as follows:
    a. For service credit purchases under the "present value" method, the use of the new actuarial assumptions will apply to all applications received on or after April 21, 2022.
    b. For retirement applications, any application with a retirement date on or after April 21, 2022 will be subject to the new actuarial assumptions.

Executive Summary

Consistent with the decision made by the CalPERS Board of Administration for plans participating in the Public Employees' Retirement Fund (PERF), the actuarial office is recommending, as part of the adoption of the valuation report, the adoption of new actuarial assumptions. The new mortality table used in this valuation was developed from the 2021 experience study and was projected generationally for future years using 80% of the Society of Actuaries' Scale MP-2020. The inflation assumption was reduced from 2.5% to 2.3%. The individual salary and overall payroll increase assumptions were increased from 2.75% to 2.8%. In addition, the discount rate was lowered from 5.00% to 4.50% due to the changes in Capital Market Assumptions (CMAs) and updated asset allocation. The new assumptions have been incorporated in this valuation. The impact of this change will be reflected beginning with the contribution requirement for fiscal year (FY) 2022-23.

The following table summarizes key results from the valuation:

	June 30, 2020	June 30, 2021
Present Value of Benefits	$ 96,607,579	$ 95,730,919
Accrued Liability	$ 96,348,453	$ 95,562,165
Market Value of Assets	$ 115,538,308	$ 123,525,223
Unfunded Liability/(Surplus)	$ (19,189,855)	$ (27,963,058)
Funded Status	119.9%	129.3%
Required Employer Contribution Rate	29.38%	31.80%

On January 1, 2013, the Public Employees' Pension Reform Act of 2013 (PEPRA) took effect. Under PEPRA, an employer cannot contribute less than the normal cost. As a result, we are asking the board to adopt an employer contribution rate equal to the employer normal cost.

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 Legislators' Retirement System was established in 1947. This actuarial valuation report is presented in accordance with Section 9354.5 of the LRS Law. 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, 2020 Legislators' Actuarial Valuation, the plan was in a surplus position with a funded status of 119.9%. The Board adopted an employer contribution rate of 29.38% 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, 2021 valuation, the plan continues to be in surplus position with a funded status of 129.3%.

The Actuarial Office recommends an employer contribution rate of 31.80% for fiscal year 2022-23 consistent with Government Code Section 7522.52 which requires that plans in a surplus position to contribute at least the normal cost.

Budget and Fiscal Impacts

Not Applicable.

Benefits and Risks

One key risk measured in the June 30, 2021 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%. The plan is considered well-funded at this time.

Attachments

Attachment 1 – Transmittal letter to the governor and Legislature

Attachment 2 – Legislators' Retirement System Actuarial Valuation report as of June 30, 2021

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Alex Grunder
Associate Pension Actuary

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Scott Terando
Chief Actuary