CalPERS

Finance and Administration Committee

Agenda Item 4d

February 13, 2023

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, 2022 and the corresponding transmittal letter to the governor and Legislature.
- Adopt the employer contribution rate of 23.58% 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, 2023 through June 30, 2024 for the Judges' Retirement System II.

Executive Summary

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

Comparison of Current and Prior Year Results		
	June 30, 2021	**June 30, 2022**
Present Value of Benefits	$2,902,440,109	$3,090,505,511
Accrued Liability	1,964,843,572	2,157,506,377
Market Value of Assets	2,403,366,317	2,139,223,765
Unfunded Liability/(Surplus)	(438,522,745)	18,282,612
Funded Status	122.3%	99.2%
Required Employer Contribution Rate	23.23%	23.58%

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 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, 2023 through June 30, 2024.

Analysis

As of June 30, 2022, JRS II has a funded status of 99.2%, having decreased from 122.3% since the prior valuation. This decrease was driven mostly by investment losses. In FY 2021-22 the fund earned approximately negative 13.4%.

The actuarial office recommends the board adopt a contribution rate of 23.58% for FY 2023-24. This rate is comprised of 22.93% for the employer normal cost and 0.65% for the amortization of the unfunded accrued 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 32.36%. This results in no change to the current PEPRA member contribution rate of 16% for FY 2023-24.

Fiscal Year	Total PEPRA Normal Cost	Employee PEPRA Normal Cost
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%
2022-23	32.43%	16.00%
2023-24	32.36%	16.00%

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

Budget and Fiscal Impacts

Not Applicable

Benefits and Risks

A key risk measurement in the June 30, 2022 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 99.2% as of June 30, 2022. The target funded level is 100%.

Other risk measurements for the plan are the Asset Volatility Ratio and Liability Volatility Ratio (assets/payroll ratio, liability/payroll ratio). The Volatility Ratios for this plan are 5.8 and 5.9, respectively. Both numbers are displayed in the Risk Analysis section of the valuation report. The volatility ratios indicate this plan has a lower risk of large changes to employer rates when it comes to investment earnings and changes in liability when compared to most plans in the PERF.

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.

Other Issues

Effective January 1, 2024 until January 1, 2029, Assembly Bill No. 2443 added Section 75522.5. Section 75522 provides judges in JRS II the ability to retire and defer receipt of a monthly allowance subject to certain age and service requirements.

Attachments

Attachment 1 – Transmittal letter to the governor and Legislature

Attachment 2 – Judges' Retirement System II Actuarial Valuation as of June 30, 2022

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