



Agenda Item 6

May 15, 2012

ITEM NAME: 1959 Survivor Benefit Program Actuarial Valuation and Employer and Employee Contribution Rates

PROGRAM: Actuarial Office

ITEM TYPE: Action

RECOMMENDATION

Staff recommends that the Pension and Health Benefits Committee accept and recommend to the Board of Administration the approval of the June 30, 2011, Actuarial Valuation Report for the 1959 Survivor Program and the adoption of the employer and employee monthly premiums for fiscal year 2012-2013 as shown in the table in the Analysis section of this item, and acceptance of the attached transmittal letter for filing with the Governor and Legislature.

EXECUTIVE SUMMARY

Annual Valuations of the 1959 Survivor Benefit Program are required to determine the funding position and the level of Employer and Employee Premiums for each pool in the Program.

The Funded Status of each pool has improved since the last valuation at June 30, 2010, and all pools excluding the State Pool have assets exceeding the actuarial liabilities at June 30, 2011.

The 2012-13 Employer and Employee Premium levels are as follows:

Plan	2012-2013 Premium		
	Employer	Employee	Total
State 5 th Level Pool	\$5.45	\$5.45	\$10.90
Schools 5 th Level Pool	\$0.00	\$2.00	\$2.00
PA 1 st Level Pool	\$0.00	\$2.00	\$2.00
PA 2 nd Level Pool	\$0.00	\$2.00	\$2.00
PA 3 rd Level Pool	\$0.00	\$2.00	\$2.00
PA 4 th Level Pool	\$4.00	\$2.00	\$6.00
PA Indexed Level Pool	\$2.60	\$2.60	\$5.20

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 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.

Consistent with the Board's decision to change the economic assumptions, including lowering the discount rate from 7.75 percent to 7.50 percent, the valuation discount rate in this annual valuation was lowered from 7.75 percent to 7.50 percent. This change has not had a significant impact on the level of recommended employer and employee premiums for the 2012-2013 fiscal year. This is mainly due to the large surpluses in the Levels 1, 2, 3 and Schools pool and the new surpluses that have emerged in the Level 4 and Indexed pools due to good investment performance in 2010-2011.

ANALYSIS

The assumed rate of return to be earned by the Public Employees' Retirement Fund (PERF) was changed from 7.75 percent to 7.50 percent in March, 2012. As a result, the discount rate for the valuation of the 1959 Survivor Program liabilities was also decreased to 7.50 percent and resulted in the following increases in liabilities by pool.

Additional Liabilities due to the Change in Discount Rate

Pool	June 30, 2011
State	\$2,531,735
School	\$200,544
PA Level 1	\$49,332
PA Level 2	\$44,032
PA Level 3	\$508,135
PA Level 4	\$2,345,904
PA Indexed	\$291,646
Total Pools	\$5,971,328

All pools in the 1959 Survivor program realized a return of approximately 22.4 percent for fiscal year 2010-2011, which is above the previous assumed long-term rate of return on assets of 7.75 percent. With this positive return, the market value of assets now slightly exceeds the actuarial value of assets for all pools.

The next exhibit shows a four-year history of the funded status between valuation dates for each pool on a market value basis and reflects the new discount rate for 2011. The market value indicator provides a basis for comparison against past years, since the market value indicator is not influenced by changes in actuarial smoothing methods. Overall, it can be seen that the funded status of the pools has shown continued improvement since the investment losses in 2008-2009.

Market Value Funded Status 2008-2011

Pool	2008	2009	2010	2011
State	90.4%	62.7%	66.4%	75.2%
School	519.3%	366.0%	420.0%	499.5%
PA Level 1	1,439.6%	1,068.2%	1,218.5%	1,375.9%
PA Level 2	453.7%	312.6%	336.3%	397.0%
PA Level 3	377.2%	263.8%	293.9%	342.0%
PA Level 4	145.9%	100.2%	103.9%	114.9%
PA Indexed	152.8%	98.8%	98.0%	122.1%
Total Pools	166.9%	115.9%	124.2%	142.5%

Even with the reduction in the valuation discount rate, there has not been a significant change in the level of premiums required to pay for the expected level of benefits for 2012-2013. The following are the recommended employer and employee premiums for fiscal year 2012-2013. Also shown are 2011-2012 premiums for comparison.

Plan	2011-2012 Premium			2012-2013 Premium		
	Employer	Employee	Total	Employer	Employee	Total
State 5 th Level Pool*	\$5.45	\$5.45	\$10.90	\$5.45	\$5.45	\$10.90
Schools 5 th Level Pool*, **	\$0.00	\$2.00	\$2.00	\$0.00	\$2.00	\$2.00
PA 1 st Level Pool**	\$0.00	\$2.00	\$2.00	\$0.00	\$2.00	\$2.00
PA 2 nd Level Pool**	\$0.00	\$2.00	\$2.00	\$0.00	\$2.00	\$2.00
PA 3 rd Level Pool**	\$0.00	\$2.00	\$2.00	\$0.00	\$2.00	\$2.00
PA 4 th Level Pool**	\$3.90	\$2.00	\$5.90	\$4.00	\$2.00	\$6.00
PA Indexed Level Pool*	\$3.20	\$3.20	\$6.40	\$2.60	\$2.60	\$5.20

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

** Mandatory \$2.00 member monthly premium required

DISCOUNT RATE SENSITIVITY

One new item introduced into the valuation this year is the sensitivity analysis provided in Appendix A of the report, which reflects the premiums that would be required for 2012-2013 assuming a valuation discount rate of 1 percent lower (6.50 percent) and 1 percent higher (8.50 percent) than the assumed discount rate of 7.50 percent. This analysis gives an indication of the potential required contribution rates if the PERF was expected to achieve investment returns of 6.50 percent or 8.50 percent over the long term.

6.50% Discount Rate (-1%)			Increase in Rate	
	2012-2013 Employer Premium	2012-2013 Employee Premium	2012-2013 Employer Premium	2012-2013 Employee Premium
PA 1	\$0.00	\$2.00	\$0.00	\$0.00
PA 2	\$0.00	\$2.00	\$0.00	\$0.00
PA 3	\$0.00	\$2.00	\$0.00	\$0.00
PA 4	\$5.40	\$2.00	\$1.40	\$0.00
Indexed	\$3.15	\$3.15	\$0.55	\$0.55
State	\$5.90	\$5.90	\$0.45	\$0.45
School	\$0.00	\$2.00	\$0.00	\$0.00

8.50% Discount Rate (+1%)			Decrease in Rate	
	2012-2013 Employer Premium	2012-2013 Employee Premium	2012-2013 Employer Premium	2012-2013 Employee Premium
PA 1	\$0.00	\$2.00	\$0.00	\$0.00
PA 2	\$0.00	\$2.00	\$0.00	\$0.00
PA 3	\$0.00	\$2.00	\$0.00	\$0.00
PA 4	\$2.70	\$2.00	(\$1.30)	\$0.00
Indexed	\$2.05	\$2.05	(\$0.55)	(\$0.55)
State	\$5.10	\$5.10	(\$0.35)	(\$0.35)
School	\$0.00	\$2.00	\$0.00	\$0.00

BENEFIT/RISKS

This report is required to be filed with the Governor and the Legislature and CalPERS would not be in compliance with law if that is not done.

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

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changes indicate that there is a low level of risk to the financial soundness of the 1959 Survivor Program associated with not adopting the recommendation.

ATTACHMENTS

Transmittal letter to the Governor and Legislature
1959 Survivor Benefit Program Actuarial Valuation as of June 30, 2011

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