Agenda Item 8

May 15, 2012

ITEM NAME: Legislators' Retirement System 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 (Board) the following:

1. Approve the June 30, 2011, Legislators' Retirement System Actuarial Valuation Report along with the change in funding method and assumptions as outlined in the report, and the transmittal letter to the Governor and Legislature.

2. Adoption of an employer contribution rate of 5.380 percent for the period of July 1, 2012, to June 30, 2013.

3. The use of a 5.75 percent discount rate assumption in all affected member calculations effective as follows:

   a. For service credit purchases under the "present value" method, the use of the new discount rate will apply to all applications postmarked on or after May 17, 2012.

   b. For retirement applications, any application with a retirement date on or after May 17, 2012, will be subject to the new discount rate.

EXECUTIVE SUMMARY
This year's annual valuation is impacted by two major changes. The economic assumptions relating to assumed future inflation driving the plan's actuarial discount rate has changed. In addition, staff is recommending changing the actuarial funding method from the Aggregate method to the Entry Age Normal method. The impact of these two changes will require the employer contributions. This will in turn result in the resumption of member contributions.

BACKGROUND
This report is presented in accordance with Section 9354.5 of the Legislators' Retirement System Law. The information included provides information regarding

retirement and ancillary benefits for Senators and Members of the Assembly (first elected prior to November 7, 1990), Constitutional Officers, and Legislative Statutory Officers.

Under current law, when a plan is superfunded (actuarial value of assets exceeds the present value of benefits), and has surplus sufficient that the employer required contribution is zero, the Board may reduce the member contribution rate to zero. In February 2000, the Board moved to set the member contribution rate of this system to zero percent on an annual basis according to the superfunded status of this system. The employer and employee contribution rates have been zero percent since July 1, 2000.

The CalPERS Actuarial office conducted a study and hired an independent evaluator to assess current economic assumptions. Based on the information from both studies, the CalPERS Board has adopted updated economic assumptions to be used beginning with the June 30, 2011, valuation. In particular, the recommendation based on both studies was to lower the price inflation from 3.00 to 2.75 percent. Staff is recommending that this assumption change apply to the Legislators' Retirement System also.

Lowering the price inflation also has a direct impact on the discount rate and the overall payroll growth assumptions. The discount rate assumption is calculated as the sum of the price inflation and the real rate of return. The assumed real rate of return is 3.0 percent. When added to the new price inflation of 2.75 percent, the resulting discount rate is 5.75 percent. The overall payroll growth is calculated as the sum of the price inflation and real wage inflation. The assumed real wage inflation is 0.25 percent. When added to the new price inflation of 2.75 percent, the resulting overall payroll growth is 3.00 percent.

ANALYSIS

In this valuation, the actuarial funding method was changed from the Aggregate Funding Method to the Entry Age Normal Funding Method. This change is consistent with current Board policy on funding methods. This funding method change along with the Board's minimum contribution policy resulted in an employer contribution rate for the first time in many years.

In the report, the actuarially determined employer contribution rate is 5.380 percent for the fiscal year from July 1, 2012, to June 30, 2013.

Section 9358(b) under the Legislators' Retirement Law states "for any fiscal year during which the state's contribution rate is greater than 0 percent, the members of the system shall pay the applicable member contribution rates …" **Accordingly, the**

member contribution rates will be reinstated for the coming fiscal year of July 1, 2012, to June 30, 2013, if the Board approves staff's recommendation. The table below summarizes key results from the valuation:

	June 30, 2010	**June 30, 2011**
Present Value of Benefits	$ 115,950,719	$ 113,562,460
Accrued Liability	N/A	$ 108,976,845
Market Value of Assets	$ 114,104,852	$ 123,569,795
Funded Status (Market Value Basis)	N/A	113.4%
Recommended Employer Contribution Rate 2012-2013	0.0%	5.380%
Employee Contribution Rate 2012-2013	0.0%	8.00%[1]

BENEFITS/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.

ATTACHMENTS

Transmittal letter to the Governor and Legislature
Legislators' Retirement System Actuarial Valuation Report

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[1] Except for members elected into Office prior to March 4, 1972. Further details can be found on Page B-2 of the valuation report.