Pension & Health Benefits Committee

California Public Employees' Retirement System

Agenda Item 6

April 16, 2013

ITEM NAME: Judges' Retirement System Actuarial Valuation

PROGRAM: Actuarial Office

ITEM TYPE: Action

RECOMMENDATION

Approve the June 30, 2012, Judges' Retirement System (JRS) Actuarial Valuation Report and the corresponding transmittal letter to the Governor and Legislature.

Continue to encourage the California Legislature and Governor to adopt an employer contribution schedule that includes advanced funding of the JRS.

EXECUTIVE SUMMARY

The following table summarizes key results from the valuation:

	June 30, 2011	June 30, 2012
Present Value of Benefits	$ 3,386,349,277	$ 3,245,198,783
Accrued Liability	$ 3,296,537,803	$ 3,172,276,086
Market Value of Assets	$ 54,383,026	$ 72,693,177
Funded Status (Market Value Basis)	1.6%	2.3%
Estimated Pay-as-you-go (PAYG) Contribution	$ 212,005.561	$ 213,556,754

The State continues to pay for the JRS on a PAYG basis. We continue to encourage the State to contribute an amount higher than the PAYG cost in order to begin pre-funding the system.

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 A: Improve long-term pension and health benefit sustainability.

BACKGROUND

This report is presented in accordance with Section 75109.5 of the JRS Law. The information included provides information regarding retirement and ancillary benefits for judges elected or appointed prior to November 9, 1994.

One of the provisions of the Public Employees' Pension Reform Act of 2013 (PEPRA or Assembly Bill (AB) 340) which was passed last year, requires that a public

employer's contribution to a defined benefit plan, in combination with employee contributions to that defined benefit plan, shall not be less than the normal cost.

ANALYSIS

Attached is the actuarial valuation report as of June 30, 2012, for the JRS. Also attached is the transmittal letter to the Governor and Legislature. The results of the valuation are contained in the attached report and key results are included earlier in this agenda item.

As can be seen in the report, JRS continues to be unfunded. It is underfunded due to the PAYG contribution basis followed by the State. Page 5 of the valuation report displays a projection of expected benefit payouts from the System in the coming years. Appendix C of the report provides both a projection of expected statutory contributions and projected future benefit payouts for the next ten fiscal years beginning July 1, 2013.

The market value of assets (which is also the actuarial value of assets) for JRS as of June 30, 2012, is $72.693 million. This is less than the expected benefit payments in the year after the valuation date. If the only contributions to the system were those determined in accordance with statutory requirements, there would be insufficient assets to pay the benefits in the year after the valuation.

Progress in the funded status of JRS can be achieved if the State commences advance funding for its expected future benefit payouts. Below are various contribution alternatives that could be considered.

	PEPRA minimum	**PAYG**	**Funding, 20-year amortization**	**Annual Required Contribution (ARC)**
Normal Cost	$30,908,412		$30,908,412	$30,908,412
Amortization of Unfunded Actuarial Liability (UAL)	0		238,053,003	1,538,721,516
Total	$30,908,412	$213,556,754	$268,961,415	$1,569,629,928

- **PEPRA minimum**: This is the minimum payment under AB 340 (PEPRA). This is equal to the Normal Cost. Since the current Normal Cost is significantly less than the PAYG cost, this is not a realistic possibility, but has been included for comparison purposes.

- **PAYG:** This is the currently used PAYG amount where no prefunding of the benefits occurs and benefits are paid as they become due. PAYG contributions are not sufficient to prefund retirement benefits.
- **Funding, 20-year amortization:** This is a funding amount equal to the Normal Cost plus a 20-year, level dollar amortization of the UAL. Twenty years is approximately equal to the number of years until the amount of expected benefit payments is half of the peak amount. This is provided as an example of a reasonable schedule to properly fund the System.
- **ARC:** This is the employer's annual required contribution for the System, according to Statement No. 27 of the Governmental Accounting Standards Board (GASB 27), is determined under the entry age normal actuarial cost method, with the Unfunded Liability amortized on a level dollar basis over the average future service of the active members.

Staff believes it is important to properly prefund retirement benefits. CalPERS should continue to point out that the PAYG retirement contributions currently being made are insufficient for funding a retirement system and encourage the Governor and the Legislature to adopt a contribution schedule that includes advance funding of the System.

CalPERS staff would be happy to work with the Administration in establishing an acceptable advance-funding basis for the System's future benefit payments.

BENEFITS/RISKS

The Actuarial Office presented the Annual Review of Funding Levels and Risks ("Annual Review") to the Board in March of 2013. One of the risks identified in that report was the Volatility Index (assets/payroll ratio). Rate volatility is heavily influenced by the ratio of plan assets to active member payroll. The volatility index is exceptionally small for this plan. The volatility index for this plan is 1.26. The volatility ratio for this plan is extremely low as the plan has limited assets due to the PAYG funding. This ratio would normally indicate a very low level of contribution volatility, but that is not the case with this plan as it is not pre-funded.

Another risk measured 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 on a Market Value of Assets basis is 2.3 percent and again indicates that there are insufficient assets accumulated to pay future benefits.

Although it is unlikely that the State would fail to pay ongoing benefit payments as they are due, the lack of pre-funding means there is no benefit security for members of this plan. It also means that the total cost is higher to the State since there is no accumulation of assets and, consequently, little to no investment earnings that could be used to defray costs.

ATTACHMENTS

Attachment 1 - Transmittal letter to the Governor and Legislature
Attachment 2 - Judges' Retirement System Actuarial Valuation Report

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