Pension & Health Benefits Committee

California Public Employees' Retirement System

Agenda Item 7

April 16, 2013

ITEM NAME: Judges' Retirement System II Actuarial Valuation and Employer Contribution Rates

PROGRAM: Actuarial Office

ITEM TYPE: Action

RECOMMENDATION

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

Adopt the employer contribution rate of 22.687 percent for the period of July 1, 2013, through June 30, 2014, for the JRS II.

EXECUTIVE SUMMARY

The following table summarizes key results from the valuation:

	June 30, 2011	June 30, 2012
Present Value of Benefits	$1,173,657,436	$1,241,622,833
Accrued Liability	$ 609,562,110	$ 702,732,271
Market Value of Assets	$ 575,978,052	$ 655,383,900
Funded Status (Market Value Basis)	94.5%	93.3%
Recommended Employer Contribution Rate	22.837%	22.687%

There are no significant changes to this plan as a result of Assembly Bill 340 (AB 340). Plan provisions were not changed. Also, the recommended employer contribution rate is greater than that required by Government Code Section 7522.52 which requires 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 rate.

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 stability.

BACKGROUND

This is the eighteenth annual actuarial valuation of the JRS II. This system 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 forth the employer contribution rate for the plan for the fiscal year July 1, 2013, through June 30, 2014.

One of the provisions of AB 340, which was passed last year, requires 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 rate.

ANALYSIS

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

Reconciliation of Employer Contribution Rates

As can be seen in our report, JRS II is reasonably well funded with a funded status of 93.3 percent. The contribution requirement and the funded status have not changed significantly since the prior valuation.

The Actuarial Office has set assumptions about the future experience of the plan. Each year, we assess the actual experience. To the extent the actual experience differs from what we assumed, a gain or a loss is created for the plan. This year the contribution amounts and investment returns, after smoothing methods were applied, had little impact on the employer rate. The plan did experience a large liability gain. This was due to the zero percent salary increase given to the members during the 2011-2012 fiscal year. This liability gain was responsible for the slight drop in the unfunded liability rate.

Other Considerations

The requirement for employers to contribute, in combination with employee contributions, more than the normal cost rate does not apply to this system. This year the contribution rate recommended by staff is greater than this minimum requirement.

Staff is not aware of any reason that the Board of Administration (Board) would want to consider setting a contribution rate other than the rate shown in our recommendation.

BENEFITS/RISKS

Volatility Ratios

The Actuarial Office presented the Annual Review of Funding Levels and Risks to the Board in March of 2013. One of the risks identified in that report was the Volatility Ratios (assets/payroll ratio, liability/payroll ratio). The asset /payroll volatility ratio for this plan is 2.8 and the liability/payroll ratio is 3.0. 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.

Future Investment Return Risk

As of February 28, 2013, the fiscal year to date investment return was about 12.0 percent. This return would correspond to a projected employer contribution rate of 22.7 percent for 2014-2015.

The Actuarial Value of Assets used in the June 30, 2012, report is 101.9 percent of the Market Value of Assets (MVA). A portion of the corridor still exists which can be used to smooth the fiscal year 2014-2015 rates. This portion of the corridor available for smoothing is expected to keep employer contribution rates stable in 2014-2015. For more details on projected rates, see the Analysis of Future Investment Return Scenarios commencing on page 19 of the valuation report.

These projections are based on the current amortization and asset smoothing policy. In March of this year, the CalPERS Board approved a first reading in favor of a new smoothing policy. Final action will take place at the April Board meeting. If a new amortization and asset smoothing policy is adopted, these projections must be recalculated.

Funded Status

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 MVA basis is 93.3 percent as of June 30, 2012. This plan is not above the ideal level of 100 percent. However, a funded status over 100 percent is not required. The actuarial process will make sure the plan will meet its benefit obligations. By today's standards, the plan is well funded.

ATTACHMENTS
Attachment 1 - Transmittal letter to the Governor and Legislature
Attachment 2 - Judges' Retirement System II Actuarial Valuation Report as of June 30, 2012

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