



**Agenda Item 5a**

June 17, 2014

**ITEM NAME:** Actuarial Valuation Report for the 1959 Survivor Benefit Program

**PROGRAM:** Actuarial Office

**ITEM TYPE:** Action

**RECOMMENDATION**

Adopt the actuarial assumption changes and the asset method changes along with the employer and employee monthly premiums for Fiscal Year 2014-15 as set forth in the table on page 2 of this agenda item and in Attachment 2.

**EXECUTIVE SUMMARY**

The following table summarizes the key results from the valuation:

<u>Plan</u>	<u>Accrued Liability</u>	<u>Market Value of Assets (MVA)</u>	<u>Funded Ratio</u>
State 5 <sup>th</sup> Level Pool	\$ 140,626,666	\$ 102,751,222	73.1%
Schools 5 <sup>th</sup> Level Pool	\$ 13,699,453	\$ 61,870,390	451.6%
PA 1 <sup>st</sup> Level Pool	\$ 2,451,490	\$ 36,668,679	1,495.8%
PA 2 <sup>nd</sup> Level Pool	\$ 2,413,045	\$ 9,100,668	377.1%
PA 3 <sup>rd</sup> Level Pool	\$ 27,210,478	\$ 92,079,207	338.4%
PA 4 <sup>th</sup> Level Pool	\$ 123,288,733	\$ 133,865,159	108.6%
PA Indexed Level Pool	\$ 17,961,240	\$ 20,411,771	113.6%
<b>Total</b>	<b>\$ 327,651,105</b>	<b>\$ 456,747,096</b>	<b>139.4%</b>

The Funded status of most pools have increased modestly from the previous valuation due to an investment return for each of the pools of approximately 12.7% for the year ending June 30, 2013, offsetting slightly higher liabilities due to the change in mortality assumption and the asset losses due to the change in the asset valuation method.

The resulting 2014-15 Employer and Employee Premium levels and a comparison with the premiums for the previous year are as follows:

Plan	2013-14 Premium			2014-15 Premium		
	Employer	Employee	Total	Employer	Employee	Total
State 5 <sup>th</sup> Level Pool*	\$5.35	\$5.35	\$10.70	\$5.55	\$5.55	\$11.10
Schools 5 <sup>th</sup> Level Pool*	\$0.00	\$2.00	\$2.00	\$0.00	\$2.00	\$2.00
PA 1 <sup>st</sup> Level Pool**	\$0.00	\$2.00	\$2.00	\$0.00	\$2.00	\$2.00
PA 2 <sup>nd</sup> Level Pool**	\$0.00	\$2.00	\$2.00	\$0.00	\$2.00	\$2.00
PA 3 <sup>rd</sup> Level Pool**	\$0.00	\$2.00	\$2.00	\$0.00	\$2.00	\$2.00
PA 4 <sup>th</sup> Level Pool**	\$4.60	\$2.00	\$6.60	\$5.00	\$2.00	\$7.00
PA Indexed Level Pool*	\$2.60	\$2.60	\$5.20	\$3.35	\$3.35	\$6.70

\* 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

### 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

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.

On April 17, 2013, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization and smoothing policies. Prior to this change, CalPERS employed an amortization and smoothing policy, which spread investment returns over a 15-year period while experience gains and losses were amortized over a rolling 30-year period. Effective with the June 30, 2013 valuation, CalPERS will no longer use an actuarial value of assets and will amortize all experience gains and losses over a fixed 30-year period.

Consistent with the decision made by the CalPERS Board of Administration for plans participating in the Public Employees' Retirement Fund (PERF), the mortality assumption was changed in this valuation. The mortality table used in last year's valuation was developed from the 1997-2007 experience study and included 5 years of projected on-going mortality improvement using the Scale AA table published by the Society of Actuaries. The new mortality table used in this valuation was developed from the February 2014 experience study and includes 20 years of projected on-going mortality improvement using the Scale BB table published by the Society of Actuaries.

**ANALYSIS**

The exhibit below shows a 4-year history of the funded status between valuation dates for each pool on a market value basis. Overall, it can be seen that the recent investment gains positively impacted the funded status of the 1959 Survivor Program.

**Market Value Funded Status 2010-2013**

<b>Pool</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
State	66.4%	75.2%	71.6%	73.1%
School	420.0%	499.5%	467.2%	451.6%
PA Level 1	1,218.5%	1,375.9%	1,348.7%	1,495.8%
PA Level 2	336.3%	397.0%	368.0%	377.1%
PA Level 3	293.9%	342.0%	319.3%	338.4%
PA Level 4	103.9%	114.9%	104.2%	108.6%
PA Indexed	98.0%	122.1%	114.5%	113.6%
<b>Total Pools</b>	<b>124.2%</b>	<b>142.5%</b>	<b>134.2%</b>	<b>139.4%</b>
<b>Fund Return</b>	<b>15.0%</b>	<b>22.4%</b>	<b>-0.3%</b>	<b>12.7%</b>

All pools in the 1959 Survivor program realized a return of approximately 12.7% for Fiscal Year 2012-13, which is above our assumed long-term rate of return on assets of 7.50%. With the provided funded statuses at June 30, 2013 and considering the current fiscal year return of 14% through April 30, 2014, we would expect the pools other than State to continue to be very adequately funded with the current level of employer and employee premiums.

**BENEFITS/RISKS**

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

The 1<sup>st</sup>, 2<sup>nd</sup> 3<sup>rd</sup> and Schools 5<sup>th</sup> Level are all extremely well-funded and hence there is a very low risk in those levels. The 4<sup>th</sup> and Indexed Levels have a healthy level of assets but are subject to significant market risk and should continue to be monitored. The State 5<sup>th</sup> Level has an unfunded liability and hence is at greater risk than the other levels. The premiums are set at a level to address the unfunded liability but further action may be needed and this level should be closely monitored in the future.

An important risk is the risk that the PERF does not earn the assumed 7.50% return over the long term. A discount rate sensitivity analysis reflects the premiums that would be required for 2014-15 assuming a valuation discount rate of 1 percent lower (6.50%) and 1 percent higher (8.50%) than the assumed discount rate of 7.50%. This analysis gives an indication of the potential required contribution rates if the PERF was expected to achieve investment returns of 6.50% or 8.50% over the long term.

**6.50% Discount Rate (-1%)**

	<b>2014-15 Employer Premium</b>	<b>2014-15 Employee Premium</b>
PA 1	\$0.00	\$2.00
PA 2	\$0.00	\$2.00
PA 3	\$0.00	\$2.00
PA 4	\$6.50	\$2.00
Indexed	\$4.75	\$4.75
State	\$6.05	\$6.05
School	\$0.00	\$2.00

**Increase in Rate**

	<b>2014-15 Employer Premium</b>	<b>2014-15 Employee Premium</b>
	\$0.00	\$0.00
	\$0.00	\$0.00
	\$0.00	\$0.00
	\$1.50	\$0.00
	\$1.40	\$1.40
	\$0.50	\$0.50
	\$0.00	\$0.00

**8.50% Discount Rate (+1%)**

	<b>2014-15 Employer Premium</b>	<b>2014-15 Employee Premium</b>
PA 1	\$0.00	\$2.00
PA 2	\$0.00	\$2.00
PA 3	\$0.00	\$2.00
PA 4	\$3.50	\$2.00
Indexed	\$2.15	\$2.15
State	\$5.10	\$5.10
School	\$0.00	\$2.00

**Decrease in Rate**

	<b>2014-15 Employer Premium</b>	<b>2014-15 Employee Premium</b>
	\$0.00	\$0.00
	\$0.00	\$0.00
	\$0.00	\$0.00
	(\$1.50)	\$0.00
	(\$1.20)	(\$1.20)
	(\$0.45)	(\$0.45)
	\$0.00	\$0.00

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**

Attachment 1 – Transmittal letter to the Governor and Legislature

Attachment 2 – 1959 Survivor Benefit Program Actuarial Valuation as of June 30, 2013

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