Agenda Item 6b

February 18, 2015

ITEM NAME: Legislators' Retirement System Actuarial Valuation and Employer and Employee Contribution Rates

PROGRAM: Actuarial Office

ITEM TYPE: Action

RECOMMENDATION

Staff recommends that the Board take action on the following:

1. Approve the June 30, 2014 Legislators' Retirement System Actuarial Valuation Report along with the changes to the amortization and smoothing policy outlined in the report, and the corresponding transmittal letter to the Governor and Legislature.

2. Adopt the employer contribution rate of 42.265 percent for the period of July 1, 2015 through June 30, 2016 for the Legislators' Retirement System.

EXECUTIVE SUMMARY

The following table summarizes key results from the valuation:

	June 30, 2013	June 30, 2014
Present Value of Benefits	$ 118,668,074	$ 113,655,513
Accrued Liability	$ 115,805,781	$ 111,274,434
Market Value of Assets	$ 122,147,891	$ 130,353,307
Unfunded Accrued Actuarial Liability	$ (6,342,110)	$ (19,078,873)
Funded Status (Market Value Basis)	105.5%	117.1%
Actuarially Determined Employer Contribution Rate	17.166%	8.859%
Minimum Employer Contribution Rate	42.257%	42.265%

On January 1, 2013, the Public Employees' Pension Reform Act of 2013 (PEPRA) took effect. Under PEPRA, an employer cannot contribute less than the normal cost. As a result, we are asking the Board to adopt an employer contribution rate equal to the employer normal cost.

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 Legislators' Retirement System was established in 1947. This actuarial valuation report is presented in accordance with Section 9354.5 of the LRS Law. The valuation report provides information regarding retirement and ancillary benefits for Senators and Members of the Assembly (first elected prior to November 7, 1990), Constitutional Officers (first elected prior to December 31, 2012), and Legislative Statutory Officers (first appointed prior to December 31, 2012).

The system was closed to newly elected Senators and Members of the Assembly by the Political Reform Act of 1990 (Proposition 140) but remained open to new Constitutional and Legislative Statutory Officers.

With the passage of Assembly Bill 340 (PEPRA) in 2012, the LRS was closed to all potential new members, including Constitutional Officers and new Legislative Statutory Officers effective January 1, 2013.

Assembly Bill 340 also 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

In the June 30, 2013 Legislators' Actuarial Valuation, the plan was in surplus position with a funded status of 105.5 percent. As per Board amortization policy, plans in a surplus position are required to amortize the surplus over a minimum of 30 years. Applying this policy would have resulted in an employer contribution rate of 17.166 percent for fiscal year 2014-2015. However, the Board adopted an employer contribution rate of 42.257 percent to be consistent with Government Code Section 7522.52 which requires plans in a surplus position to contribute at least the normal cost.

In the June 30, 2014 valuation, the plan continues to be in surplus position with a funded status of 117.1 percent. Note that the main reason for the increase in funded status is due to the net investment income exceeding expectations.

Staff is recommending an employer contribution rate of 42.265 percent for the fiscal year 2015-2016 to be consistent with Government Code Section 7522.52 which requires that plans in a surplus position should contribute at least the normal cost. Applying Board amortization policies would have resulted in an employer contribution rate of 8.859 percent.

On April 17, 2013, the CalPERS Board of Administration approved a change to 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 this actuarial valuation, CalPERS no longer uses an actuarial value of assets and employs an amortization and smoothing policy that spreads rate increases or decreases over a 5-year period, and amortizes all experience gains and losses over a fixed 30-year period.

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

Attachment 1 is the transmittal letter to the Governor and Legislature. Also attached (as Attachment 2) is the actuarial valuation report as of June 30, 2014 for the Legislators' Retirement System (LRS). The full results of the valuation are contained in the attached report.

BENEFITS/RISKS

Volatility Ratios

The Actuarial Office presented the Annual Review of Funding Levels and Risks to the Board on November 18, 2014. One of the risks identified in that report was the Volatility Ratios (assets/payroll ratio, liability/payroll ratio). Rate volatility is heavily influenced by the ratio of plan assets to active member payroll. The asset /payroll volatility ratio for this plan is 86.9 and the liability/payroll ratio is 74.2. Both numbers are displayed in the Risk Analysis section of the valuation report. Both ratios are exceptionally large due to the closed nature of the plan. Normally this would indicate a very high level of contribution volatility, but that may not be the case with this plan due to the effect of the minimum contribution requirement pursuant to G.C. Section 7522.22.

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 has been and remains above the ideal level of 100 percent. The plan is considered well funded at this time.

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 – Legislators' Retirement System Actuarial Valuation Report as of June 30, 2014

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