



## Agenda Item 7c

March 17, 2015

**ITEM NAME:** Review of Final Parallel Actuarial Audit Report

**PROGRAM:** Audits

**ITEM TYPE:** Action

### **RECOMMENDATION**

Accept the Final Parallel Actuarial Audit Report (Report) on the independent reviews of actuarial valuations for the various pension plans administered by CalPERS.

### **EXECUTIVE SUMMARY**

The independent actuarial firms, Cheiron and EFI Actuaries, have completed their reviews of actuarial valuations for the various pension plans administered by CalPERS. The purpose of the reviews was to validate independently the actuarial valuations performed by CalPERS actuarial staff and to identify any potential problems or issues. The Report is the final deliverable of a five-year contract to perform parallel valuation and certification services. It provides a summary of reviews performed during the contract period from March 2010 to February 2015 and the review results and comments from each review (Attachment 1). In general, the independent reviews found that actuarial valuations produced by CalPERS actuarial staff were of consistently high quality.

### **STRATEGIC PLAN**

This item is not a specific product of the Strategic or Annual Plans but is part of the regular and ongoing workload of the Actuarial Office and the Office of Audit Services.

### **BACKGROUND**

Under Board Resolution ACT-95-05A (Actuarial Policies – General), the Board retains the services of an outside actuarial firm to review the work of the Board's actuarial staff and to certify that such work satisfies actuarial professional standards. The Risk and Audit Committee's Delegation Resolution includes the delegation to approve and oversee actuarial audits and reassurance activities.

The Board selected a third-party actuarial firm (EFI Actuaries, which later merged with the current firm Cheiron) to perform a series of parallel actuarial valuations and certify the results of the actuarial valuations produced by the Actuarial Office. The engagement covered the following schedule of tasks, representing tasks one to six of contract number 2009-5377.

- Parallel Valuation and Certification of the Actuarial Valuations of the CalPERS Contracting Public Agency Plans as of June 30, 2008.
- Parallel Valuation and Certification of the Actuarial Valuations of the CalPERS State and Schools Plans as of June 30, 2009.
- Parallel Valuation and Certification of the Actuarial Valuations of the Judges' Retirement Systems, Judges' Retirement Systems II, the Legislators' Retirement System, and the 1959 Survivor Benefit Program as of June 30, 2010.
- Parallel Valuation and Certification of the Actuarial Valuations of the CalPERS Contracting Public Agency Plans as of June 30, 2011.
- Parallel Valuation and Certification of the Actuarial Valuations of the CalPERS State and Schools Plans as of June 30, 2012.
- Parallel Valuation and Certification of the Actuarial Valuations of the Judges' Retirement Systems, Judges' Retirement Systems II, the Legislators' Retirement System, and the 1959 Survivor Benefit Program as of June 30, 2013.

Task seven of contract number 2009-5377 requires Cheiron to prepare a final audit report for the contract period, which ran originally from March 1, 2010 through November 30, 2014, but was extended to February 28, 2015.

#### **ANALYSIS**

The purpose of the periodic reviews was to validate independently the actuarial valuations performed by CalPERS actuarial staff and to identify any potential problems or issues. The independent actuarial firm, Cheiron, provided an overall opinion as follows:

“Overall, our independent replication of the actuarial valuations found very few material differences in the calculations of present value of future salaries, present value of future benefits, actuarial liability, normal cost rate, and employer contribution rates compared to the amounts calculated by the CalPERS Actuarial Office. In each report we pointed out some areas in which procedures and computations could be improved; however, the impact of such changes on liabilities and costs are generally not material.”

In addition, under General Comments section of the report, it states:

“In general, the work produced by the Actuarial Office achieves a high professional standard, and it continues to improve. During the term of the Contract, the actuarial valuations of the State, Schools, and public agency plans were of consistently high quality, as were the valuations of the Judges' and Legislators' plans and the 1959 Survivor Benefit Program.”

#### **BUDGET AND FISCAL IMPACTS**

The fee for this segment of the engagement was \$12,587. Funding was already identified within existing budgetary resources.

**BENEFITS/RISKS**

It is essential to periodically review contribution requirements and funding levels to ensure the ongoing financial soundness of a pension system. The Actuarial Office has divided the pension plans administered by CalPERS into three categories: Public agencies, State and Schools, and Judges Retirement System, Judges Retirement System II, Legislators' Retirement System, and the 1959 Survivor Benefit Program. The Board hires an independent actuarial firm to perform parallel valuations for each of the three categories on a rotating three-year cycle. These parallel valuations provide an additional "check and balance" that increases the financial security of the retirement system for its participating members. The risk of not having the parallel valuations limits the opportunity to timely detect and correct calculation errors, if any, in actuarial valuations.

**ATTACHMENTS**

Attachment 1 – Final Parallel Actuarial Audit Report

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