



**Agenda Item 8a**

April 14, 2015

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

**PROGRAM:** Actuarial Office

**ITEM TYPE:** Action

**RECOMMENDATION**

Staff recommends that the Board take action on the following:

1. Approve the 1959 Survivor Benefit Program Actuarial Valuation Report as of June 30, 2014 and the corresponding transmittal letter to the Governor and Legislature.
2. Adopt the employer and employee monthly premiums for Fiscal Year 2015-16 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 and funded status 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	\$ 139,400,186	\$ 113,878,478	81.7%
Schools 5 <sup>th</sup> Level Pool	\$ 12,599,127	\$ 71,331,499	566.2%
PA 1 <sup>st</sup> Level Pool	\$ 2,478,062	\$ 43,028,607	1,736.4%
PA 2 <sup>nd</sup> Level Pool	\$ 2,340,934	\$ 10,527,005	449.7%
PA 3 <sup>rd</sup> Level Pool	\$ 27,317,573	\$ 106,304,466	389.1%
PA 4 <sup>th</sup> Level Pool	\$ 125,014,115	\$ 149,327,096	119.4%
PA Indexed Level Pool	\$ 17,887,365	\$ 23,230,521	129.9%
<b>Total</b>	<b>\$ 327,037,362</b>	<b>\$ 517,627,672</b>	<b>158.3%</b>

The Funded status of all pools have increased significantly from the previous valuation due to investment returns for each of the pools of approximately 17.4% for the year ending June 30, 2014 in addition to good mortality experience for most of the plans.

The resulting 2015-16 Employer and Employee Premium levels and a comparison with the premiums for the previous year are as follows. :

Plan	2014-15 Premium			2015-16 Premium		
	Employer	Employee	Total	Employer	Employee	Total
State 5 <sup>th</sup> Level Pool*	\$5.55	\$5.55	\$11.10	\$5.20	\$5.20	\$10.40
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	\$5.00	\$2.00	\$7.00	\$3.50	\$2.00	\$5.50
PA Indexed Level Pool*	\$3.35	\$3.35	\$6.70	\$2.40	\$2.40	\$4.80

\* Section 21581 of the California Public Employees' Retirement Law requires mandatory cost sharing when the total premium exceeds \$4.00.

A Mandatory premium of \$2.00 per member per month is required for each plan.

### 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.

**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 2011-2014**

<b>Pool</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
State	75.2%	71.6%	73.1%	81.7%
School	499.5%	467.2%	451.6%	566.2%
PA Level 1	1,375.9%	1,348.7%	1,495.8%	1,736.4%
PA Level 2	397.0%	368.0%	377.1%	449.7%
PA Level 3	342.0%	319.3%	338.4%	389.1%
PA Level 4	114.9%	104.2%	108.6%	119.4%
PA Indexed	122.1%	114.5%	113.6%	129.9%
<b>Total Pools</b>	<b>142.5%</b>	<b>134.2%</b>	<b>139.4%</b>	<b>158.3%</b>
<b>Fund Return</b>	<b>22.4%</b>	<b>-0.3%</b>	<b>12.7%</b>	<b>17.4%</b>

All pools in the 1959 Survivor program realized a return of approximately 17.4% for Fiscal Year 2013-14, which is above our assumed long-term rate of return on assets of 7.50%. With the provided funded statuses at June 30, 2014 and even considering the current fiscal year return of -1% through January 31, 2015, 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 2015-16 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.

<b>6.50% Discount Rate (-1%)</b>			<b>Increase in Rate</b>	
	<b>2015-16 Employer Premium</b>	<b>2015-16 Employee Premium</b>	<b>2015-16 Employer Premium</b>	<b>2015-16 Employee Premium</b>
PA 1	\$0.00	\$2.00	\$0.00	\$0.00
PA 2	\$0.00	\$2.00	\$0.00	\$0.00
PA 3	\$0.00	\$2.00	\$0.00	\$0.00
PA 4	\$5.10	\$2.00	\$1.60	\$0.00
Indexed	\$3.95	\$3.95	\$1.55	\$1.55
State	\$5.95	\$5.95	\$0.75	\$0.75
School	\$0.00	\$2.00	\$0.00	\$0.00

  

<b>8.50% Discount Rate (+1%)</b>			<b>Decrease in Rate</b>	
	<b>2015-16 Employer Premium</b>	<b>2015-16 Employee Premium</b>	<b>2015-16 Employer Premium</b>	<b>2015-16 Employee Premium</b>
PA 1	\$0.00	\$2.00	\$0.00	\$0.00
PA 2	\$0.00	\$2.00	\$0.00	\$0.00
PA 3	\$0.00	\$2.00	\$0.00	\$0.00
PA 4	\$1.80	\$2.00	(\$1.70)	\$0.00
Indexed	\$0.40	\$2.00	(\$2.00)	(\$0.40)
State	\$4.60	\$4.60	(\$0.60)	(\$0.60)
School	\$0.00	\$2.00	\$0.00	\$0.00

The foregoing analysis reinforces the statement made above that the 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup> and Schools 5<sup>th</sup> Levels are low-risk for changes in premium levels due to asset returns differing from assumed while the 4<sup>th</sup>, Indexed and State 5<sup>th</sup> Levels are more sensitive to premium changes with varying asset returns.

The very high funded status of the 2<sup>nd</sup>, 3<sup>rd</sup> and Schools 5<sup>th</sup> Levels and most especially the excessive funded status of the 1<sup>st</sup> Level may result in a reputational risk. It would be reasonable for stakeholders and others to question the appropriateness of continuing contributions in these circumstances.

This report is required to be filed with the Governor and the Legislature and CalPERS would not be in compliance with law if not done.

**ATTACHMENTS**

Attachment 1 - Transmittal Letter to the Governor and Legislature

Attachment 2 - 1959 Survivor Benefit Program Actuarial Valuation as of June 30, 2014

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