



Finance & Administration Committee

California Public Employees' Retirement System

Agenda Item 5a

May 19, 2015

ITEM NAME: Annual Actuarial Valuation for the Terminated Agency Pool

PROGRAM: Actuarial Office

ITEM TYPE: Information

EXECUTIVE SUMMARY

This agenda item represents the first time an annual actuarial valuation report is presented to the Board for the Terminated Agency Pool Program. As of June 30, 2013, the Terminated Agency Pool is well-funded with a funded status of 248.6 percent.

The following table summarizes key results from the valuation:

<u>Comparison of Current and Prior Year Results</u>		
	<u>June 30, 2012</u>	<u>June 30, 2013</u>
Present Value of Benefits	\$ 84,521,429	\$ 78,123,425
Accrued Liability	\$ 84,521,429	\$ 78,123,425
Market Value of Assets	\$ 178,657,676	\$ 194,227,188
Funded Status	211.4%	248.6%

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 Terminated Agency Pool (TAP) Program exists to provide benefit payments to CalPERS members who are credited with service from terminated agencies. Agencies of the TAP Program do not pay regular contributions into the fund. Instead, each plan that terminates is required to have a funded status of 100 percent plus a 7 percent load for mortality fluctuation to enter the pool. The 7 percent load for mortality fluctuation is set by Board Resolution ACT-11-02 and was approved by the Board on June 15, 2011.

A copy of Board Resolution ACT-11-02 can be found on the CalPERS website at <https://www.calpers.ca.gov/eip-docs/about/board/actuarial-policies/load-mortality.pdf>.

Since regular contributions are not received for this Program, funding options for the TAP are limited. Employers that have a funded status at termination that exceeds 107 percent are provided a refund for the difference. Those with a funded status below 107 percent are required to make up the difference at the time of termination.

On December 2012, the Board approved an asset allocation change for the TAP Program that splits the TAP asset portfolio into two segments: the “immunization” segment and the “surplus” segment. The immunization segment of the portfolio consists of long-term U.S. Treasury bonds which are purchased to match liability cash flows and mitigate interest rate risk. The surplus segment is the surplus of the TAP assets and is invested in the Public Employees Retirement Fund (PERF) at the normal expected rate of return of 7.5 percent.

This agenda item represents the first time that an annual actuarial valuation for the TAP Program is presented to the Board. However, an actuarial valuation for the TAP Program is performed on an annual basis within the Actuarial Office for internal and financial reporting purposes.

ANALYSIS

As of June 30, 2013, the TAP Program is overfunded with a funded status of 248.6 percent. The funded status has improved since the prior valuation. On June 30, 2012, the funded status was 211.4 percent. This improvement is due mostly to the gains the plan experienced during Fiscal Year 2012-13 and the reactivation of an agency with a large liability, which is discussed below. Specifically, the surplus of the fund earned 12 percent on the plan assets. This event created a gain in excess of \$3 million.

The pool liability has decreased significantly since the last valuation. This is due to the reactivation of a single agency with a large amount of liability. This agency had an accrued liability in excess of \$8 million which was effectively removed from the TAP upon reactivation. This contributed to the increase in the funded status although it had no impact on the amount of surplus.

The discount rate used for the determination of the actuarial liabilities was 3.72 percent. This rate is the 30-year U.S. Treasury Separate Trading of Registered Interest and Principal of Securities (STRIPS) yield as of June 30, 2013.

BUDGET AND FISCAL IMPACTS

This section is not applicable to this agenda item.

RISKS

Demographic Risk – Mortality Rate Sensitivity Analysis

Interest rate risk or investment volatility is typically the greatest risk that a pension plan faces for funding purposes. However, because a significant portion of the TAP is immunized, the pool is not subject to a large amount of interest rate risk. Therefore, the greatest risk to the pool is mortality risk, assuming no changes in current pool

membership. A sensitivity analysis was performed on the TAP to evaluate the volatility of the funded status due to a change in mortality rates over the long-term. The following table summarizes the analysis:

Sensitivity of the Funded Status to a Change in Mortality Rates			
As of June 30, 2013	Current Mortality Rates	-10% Mortality Rates	+10% Mortality Rates
Funded Ratio	248.6%	240.1%	256.8%

A 10 percent decrease in mortality rates over the long-term would decrease the funded status of the TAP by 8 percentage points. A 10 percent increase in mortality rates over the long-term would increase the funded status of the TAP by 8 percentage points.

Funded Ratio Dilution Risk

Another significant risk posing the TAP Program is the dilution of the pool funded status due to the termination of a plan with a large liability. For example, as of June 30, 2013 at a funded status of 248.6 percent, a termination of a \$50 million liability plan would decrease the funded status of the TAP by about 50 percentage points. However, assuming that each plan entering the TAP has a funded status of at least 107 percent as required by Board Resolution ACT-11-02, the pool funded status will never fall below this level, assuming no losses due to other risks.

Inflation Risk

The U.S. Treasury securities purchased for the TAP portfolio are expected to cover projected benefit payments growing over a range of conservative inflation forecasts ranging from 2 percent to 6 percent. Therefore, inflation risk at this time is minimal.

ATTACHMENTS

Attachment 1 – Terminated Agency Pool Program Actuarial Valuation Report as of June 30, 2013

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