



Finance and Administration Committee
Agenda Item 3c

April 19, 2016

Item Name: Actuarial Valuation Report for the 1959 Survivor Benefit Program

Program: Actuarial Reporting

Item Type: Action Consent

Recommendation

1. Approve the 1959 Survivor Benefit Program Actuarial Valuation Report as of June 30, 2015 and the corresponding transmittal letter to the Governor and Legislature.
2. Adopt the employer and employee monthly premiums for Fiscal Year 2016-17 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 th Level Pool	\$ 142,864,757	\$ 109,619,378	76.7%
Schools 5 th Level Pool	\$ 13,498,624	\$ 71,525,517	529.9%
PA 1 st Level Pool	\$ 2,585,287	\$ 43,637,106	1,687.9%
PA 2 nd Level Pool	\$ 2,474,187	\$ 10,589,764	428.0%
PA 3 rd Level Pool	\$ 27,969,382	\$ 106,293,464	380.0%
PA 4 th Level Pool	\$ 128,491,218	\$ 145,999,937	113.6%
PA Indexed Level Pool	\$ 18,279,091	\$ 23,270,090	127.3%
Total	\$ 336,162,546	\$ 510,935,256	152.0%

The Funded status of all pools have decreased slightly from the previous valuation predominantly due to net investment returns of approximately 2.0% for the year ending June 30, 2015 being less than the assumed 7.50% return.

The resulting 2016-17 Employer and Employee Premium levels and a comparison with the premiums for the previous year are as follows. :

Plan	2015-16 Premium			2016-17 Premium		
	Employer	Employee	Total	Employer	Employee	Total
State 5 th Level Pool*	\$5.20	\$5.20	\$10.40	\$5.15	\$5.15	\$10.30
Schools 5 th Level Pool*	\$0.00	\$2.00	\$2.00	\$0.00	\$2.00	\$2.00
PA 1 st Level Pool	\$0.00	\$2.00	\$2.00	\$0.00	\$2.00	\$2.00
PA 2 nd Level Pool	\$0.00	\$2.00	\$2.00	\$0.00	\$2.00	\$2.00
PA 3 rd Level Pool	\$0.00	\$2.00	\$2.00	\$0.00	\$2.00	\$2.00
PA 4 th Level Pool	\$3.50	\$2.00	\$5.50	\$4.30	\$2.00	\$6.30
PA Indexed Level Pool*	\$2.40	\$2.40	\$4.80	\$2.75	\$2.75	\$5.50

* *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 2012-2015

Pool	2012	2013	2014	2015
State	71.6%	73.1%	81.7%	76.7%
School	467.2%	451.6%	566.2%	529.9%
PA Level 1	1,348.7%	1,495.8%	1,736.4%	1,687.9%
PA Level 2	368.0%	377.1%	449.7%	428.0%
PA Level 3	319.3%	338.4%	389.1%	380.0%
PA Level 4	104.2%	108.6%	119.4%	113.6%
PA Indexed	114.5%	113.6%	129.9%	127.3%
Total Pools	134.2%	139.4%	158.3%	152.0%
Fund Return	-0.3%	12.7%	17.4%	2.0%

All pools in the 1959 Survivor program realized a return of approximately 2.0% for Fiscal Year 2014-15, which is below our assumed long-term rate of return on assets of 7.50%. With the provided funded statuses at June 30, 2015 and even considering the current fiscal year return of -6% through January 31, 2016, 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 and 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 1st, 2nd 3rd and Schools 5th Level are all extremely well-funded and hence there is a very low risk in those levels. The 4th and Indexed Levels have a healthy level of assets but are subject to significant market risk and should continue to be monitored. The State 5th 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 premiums that would be required for 2016-17 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%)		Increase in Premium	
	2016-17 Employer Premium	2016-17 Employee Premium	2016-17 Employer Premium	2016-17 Employee Premium
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	\$6.00	\$2.00	\$1.70	\$0.00
Indexed	\$4.05	\$4.05	\$1.30	\$1.30
State	\$5.80	\$5.80	\$0.65	\$0.65
School	\$0.00	\$2.00	\$0.00	\$0.00



8.50% Discount Rate (+1%)

	2016-17 Employer Premium	2016-17 Employee Premium
PA 1	\$0.00	\$2.00
PA 2	\$0.00	\$2.00
PA 3	\$0.00	\$2.00
PA 4	\$2.80	\$2.00
Indexed	\$1.00	\$2.00
State	\$4.45	\$4.45
School	\$0.00	\$2.00

Decrease in Premium

2016-17 Employer Premium	2016-17 Employee Premium
\$0.00	\$0.00
\$0.00	\$0.00
\$0.00	\$0.00
(\$1.50)	\$0.00
(\$1.75)	(\$0.75)
(\$0.70)	(\$0.70)
\$0.00	\$0.00

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

The very high funded status of the 2nd, 3rd and Schools 5th Levels and most especially the excessive funded status of the 1st 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, 2015

Kerry Worgan
Senior Pension Actuary

Alan Milligan
Chief Actuary