



Finance and Administration Committee Agenda Item 3d

April 18, 2017

Item Name: Judges' Retirement System II Actuarial Valuation Report and Employer and Employee Contribution Rates

Program: Actuarial Office

Item Type: Action Consent

Recommendation

1. Approve the June 30, 2016 Judges' Retirement System II Actuarial Valuation Report along with the change in discount rate assumption of 6.5 percent, and the corresponding transmittal letter to the Governor and Legislature.
2. Adopt the employer contribution rate of 26.409 percent and a member contribution rate of 16.75 percent of salary for the new members subject to the Public Employees' Pension Reform Act of 2013 (PEPRA) for the period of July 1, 2017 through June 30, 2018 for the Judges' Retirement System II.
3. Adopt the use of the new discount rate in all affected member calculations effective as follows:
 - a. For service credit purchases under the "present value" method, the use of the new discount rate will apply to all applications received on or after April 20, 2017.
 - b. For retirement applications, any application with a retirement date on or after April 20, 2017 will be subject to the new discount rate.

Executive Summary

The following table summarizes key results from the valuation:

<u>Comparison of Current and Prior Year Results</u>		
	<u>June 30, 2015</u>	<u>June 30, 2016</u>
Present Value of Benefits	\$ 1,709,083,961	\$ 1,972,774,938
Accrued Liability	\$ 1,081,824,423	\$ 1,272,750,990
Market Value of Assets	\$ 1,084,141,932	\$ 1,172,952,527
Unfunded Liability/(Surplus)	\$ (2,317,510)	\$ 99,798,463
Funded Status	100.2%	92.2%
Actuarially Determined Employer Contribution	23.142%	26.409%
Minimum Employer Contribution Rate	23.185%	26.409%

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 Judges' Retirement System II (JRS II) began on November 9, 1994 to provide retirement and ancillary benefits to judges elected or appointed on or after that date. The employer contribution rate from the inception of the plan until June 30, 1996 was set by State statute. Subsequently, the employer contribution rate was determined through an actuarial valuation process. This actuarial valuation sets forth the employer contribution rate for the plan for Fiscal Year July 1, 2017 through June 30, 2018.

Analysis

As of June 30, 2016, JRS II had a funded status of 92.2 percent. The funded status has declined since the prior valuation. On June 30, 2015, the funded status was 100.2 percent. This decline is driven mostly by the investment losses and change in the discount rate assumption. The fund earned approximately 1.8 percent for the year ending June 30, 2016.

We recommend that the Board adopt a contribution rate of 26.409 percent for Fiscal Year 2017-18. This rate represents the total contributions of 25.822 percent for the employer normal cost and 0.587 percent for the unfunded accrual liability payment.

With the enactment of the Public Employees' Pension Reform Act of 2013 (PEPRA), new PEPRA members are required to contribute at least 50 percent of the total annual normal cost of their pension benefit as determined by the actuary.

The following table illustrates a history of the normal cost of the PEPRA group and the resulting employee contribution rate. The employee contribution for the PEPRA group will change if the total normal cost for PEPRA group changes by 1 percent or more from the Base Total Normal Cost Rate. The Base Total Normal Cost Rate for PEPRA members was 30.727 percent. The new Total PEPRA Normal Cost is 33.562 percent. This results in the new PEPRA member contribution of 16.75 percent for Fiscal Year 2017-18.

Fiscal Year	Total PEPRA Normal Cost	Employee PEPRA Normal Cost
2013-14	28.674%	14.250%
2014-15	30.702%	15.250%
2015-16	30.652%	15.250%
2016-17	30.727%	15.250%
2017-18	33.562%*	16.750%

*This becomes the new Base total Normal Cost Rate for members subject to the PEPRA.

Budget and Fiscal Impacts

Not applicable.



Benefits and Risks

One risk measurement is the Volatility Ratios (assets/payroll ratio, liability/payroll ratio). The asset/payroll volatility ratio for this plan is 4.2 and the liability/payroll ratio is 4.5. Both numbers are displayed in the Risk Analysis section of the valuation report. The volatility ratios indicate this plan has a lower risk of large changes to employer rates when it comes to investment earnings and changes in liability when compared to most plans in the PERF.

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. When below a certain level, this measure indicates whether a plan is at risk of meeting future benefit obligations. The funded status of this plan is 92.2 percent as of June 30, 2016. The ideal funded level is 100 percent, though not required. The actuarial process will make sure the plan will meet its benefit obligations. The plan is still considered well funded.

OTHER ISSUES

Subsequent Events

In the case of Robert M. Mallano, et al. v. John Chiang, Controller of the State of California (SCO), the Judges' Retirement System, and the JRS II, the judge issued a Statement of Decision which orders judicial salary increases to be given to the judges for the fiscal years 2008-09, 2009-10, 2010-11 and 2013-14 plus 10% interest per annum for each year that the judicial salaries were not increased within those fiscal years. The increases and amounts owed have not been calculated yet. We anticipate that the impact of this lawsuit will be reflected in the June 30, 2017 valuation.

Attachments

Attachment 1 - Transmittal letter to the Governor and Legislature.

Attachment 2 - Actuarial valuation report as of June 30, 2016 for JRS II.

Jean Fannjiang

Senior Pension Actuary

Scott Terando

Chief Actuary

