CalPERS

Finance and Administration Committee

Agenda Item 3e

April 18, 2017

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

Program: Actuarial Office

Item Type: Action Consent

Recommendation

1. Approve the June 30, 2016 Legislators' Retirement System Actuarial Valuation Report and the transmittal letter to the Governor and Legislature, including lowering the discount rate from 5.75 percent to 5 percent.

2. Adopt the employer contribution rate of 41.696 percent for the period of July 1, 2017 through June 30, 2018 for the Legislators' Retirement System.

3. Adopt the use of a 5 percent discount rate assumption 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 postmarked 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:

	June 30, 2015	June 30, 2016
Present Value of Benefits	$ 107,404,268	$ 108,950,519
Accrued Liability	$ 105,746,107	$ 106,974,655
Market Value of Assets	$ 121,468,928	$ 119,049,997
Unfunded Accrued Actuarial Liability	$ (15,722,821)	$ (12,075,342)
Funded Status (Market Value Basis)	114.9%	111.3%
Actuarially Determined Employer Contribution Rate	0.000%	1.457%
Minimum Employer Contribution Rate	40.659%	41.696%

On January 1, 2013, the Public Employees' Pension Reform Act of 2013 (PEPRA) took effect. Under PEPRA, an employer cannot contribute less than the normal cost. As a result, we are asking the Board to adopt an employer contribution rate equal to the employer normal cost.

Strategic Plan
This action item is 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 Legislators' Retirement System was established in 1947. This actuarial valuation report is presented in accordance with Section 9354.5 of the LRS Law. The valuation report provides information regarding retirement and ancillary benefits for Senators and Members of the Assembly (first elected prior to November 7, 1990), Constitutional Officers (first elected prior to December 31, 2012), and Legislative Statutory Officers (first appointed prior to December 31, 2012).

The system was closed to newly elected Senators and Members of the Assembly by the Political Reform Act of 1990 (Proposition 140) but remained open to new Constitutional and Legislative Statutory Officers.

With the passage of Assembly Bill 340 (PEPRA) in 2012, the LRS was closed to all potential new members, including Constitutional Officers and new Legislative Statutory Officers effective January 1, 2013.

Assembly Bill 340 also requires a public employer's contribution to a defined benefit plan, in combination with employee contributions to that defined benefit plan, shall not be less than the normal cost rate.

Analysis
In the June 30, 2015 Legislators' Actuarial Valuation, the plan was in surplus position with a funded status of 114.9 percent. Applying the board amortization policy would have resulted in an employer contribution rate of 0.000 percent for fiscal year 2016-17. However, the Board adopted an employer contribution rate of 40.659 percent to be consistent with Government Code Section 7522.52 which requires plans in a surplus position to contribute at least the normal cost.

In the June 30, 2016 valuation, the plan continues to be in surplus position with a funded status of 111.3 percent.

An employer contribution rate of 41.696 percent for Fiscal Year 2017-18 is consistent with Government Code Section 7522.52, which requires that plans in a surplus position to contribute at least the normal cost. A 30 year fresh start amortization of the surplus results in a required employer contribution rate of 1.457 percent, consistent with the California Actuarial Advisory Panel's paper on level cost allocation model and the Conference of Consulting Actuaries white paper on Actuarial Funding Policies and Practices for Public Pension Plans. Applying Board amortization policies would have resulted in an employer contribution rate of 14.120 percent.

Attachment 1 is the transmittal letter to the Governor and Legislature. Also attached (as Attachment 2) is the actuarial valuation report as of June 30, 2016 for the Legislators' Retirement System (LRS). The full results of the valuation are contained in the attached report.

In December, the CalPERS Board reduced the investment return assumption for the PERF due to the changes in the Capital Market assumptions. Due to changes in the Capital Market assumptions, the discount rate assumption was lowered from 5.75 percent to 5 percent in the June 30, 2016 annual actuarial valuation. The investment risk associated with the asset allocation for the LRF is relatively low.

Budget and Fiscal Impacts
N/A

Benefits and Risks
The LRS is closed to new entrants therefore the active population is declining. Risks associated with such a plan are identified by the Volatility Ratios (assets/payroll ratio, liability/payroll ratio). Rate volatility is heavily influenced by the ratio of plan assets to active member payroll. The asset /payroll volatility ratio for this plan is 90.1 and the liability/payroll ratio is 81.0. Both numbers are displayed in the Risk Analysis section of the valuation report. Both ratios are exceptionally large due to the closed nature of the plan. Normally this would indicate a very high level of contribution volatility, but that may not be the case with this plan due to the effect of the minimum contribution requirement pursuant to G.C. Section 7522.22.

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. This measure, when below a certain level along with other risk measures, indicates whether a plan is at risk of not meeting future benefit obligations. The funded status of this plan on a MVA basis has been and remains above the ideal level of 100 percent. The plan is considered well-funded at this time.

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

Attachments
Attachment 1 – Transmittal letter to the Governor and Legislature
Attachment 2 – Legislators' Retirement System Actuarial Valuation Report as of June 30, 2016

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