CalPERS

Finance and Administration Committee

Agenda Item 9a

April 18, 2017

Item Name: Annual Actuarial Valuation for the Terminated Agency Pool

Program: Actuarial Office

Item Type: Information

Executive Summary

This agenda item represents the third time an annual actuarial valuation report is presented to the Board for the Terminated Agency Pool Program. As of June 30, 2015, the Terminated Agency Pool is well-funded with a funded status of 248.3 percent.

The following table summarizes key results from the valuation:

Comparison of Current and Prior Year Results		
	June 30, 2014	**June 30, 2015**
Present Value of Benefits	$ 82,254,488	$ 88,473,668
Accrued Liability	$ 82,254,488	$ 88,473,668
Market Value of Assets	$ 215,414,591	$ 219,694,509
Funded Status	261.9%	248.3%

Strategic Plan

This item is presented as part of the regular ongoing workload of the Actuarial Office and supports the Strategic Plan Goal A of improving 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.

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 third actuarial valuation presented to the Board.

Analysis
As of June 30, 2015, the TAP Program is overfunded with a funded status of 248.3 percent. The funded ratio has reduced since the prior valuation. As of June 30, 2014, the funded status was 261.9 percent. This decrease is due mostly to the change in the discount rate and asset loss the plan experienced during Fiscal Year 2014-15.

The discount rate used for the determination of the actuarial liabilities was 3.26 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, 2015. The discount rate used in the June 30, 2014 valuation was 3.64 percent.

Budget and Fiscal Impacts
This section is not applicable to this agenda item.

Benefits and Risks
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, 2015	**Current Mortality Rates**	**-10% Mortality Rates**	**+10% Mortality Rates**
Funded Ratio	248.3%	239.6%	256.6%

A 10 percent decrease in mortality rates over the long-term would decrease the funded status of the TAP by 9 percentage points. A 10 percent increase in mortality rates over the long-term would increase the funded status of the TAP by 9 percentage points.

Funded Ratio Dilution Risk
Another significant risk for the TAP Program is the dilution of the pools funded status due to the termination of a plan with a large liability. For example, as of June 30, 2015 at a funded status of 248.3 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 pools 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 Risk Pool Actuarial Valuation as of June 30, 2015

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