CalPERS

Finance and Administration Committee

Agenda Item 4c

February 13, 2018

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, 2017 Judges' Retirement System II Actuarial Valuation Report along with the change in assumptions as outlined in the report, and the corresponding transmittal letter to the Governor and Legislature.

2. Adopt the employer contribution rate of 24.660 percent and a member contribution rate of 16.00 percent of salary for the new members subject to the Public Employees' Pension Reform Act of 2013 (PEPRA) for the period of July 1, 2018 through June 30, 2019 for the Judges' Retirement System II.

3. Adopt the use of the new mortality and economic assumptions including inflation and salary growth in all affected member calculations effective as follows:
    a. For service credit purchases under the "present value" method, the use of the new actuarial assumptions will apply to all applications received on or after February 14, 2018.
    b. For retirement applications, any application with a retirement date on or after February 14, 2018 will be subject to the new actuarial assumptions.

Executive Summary

Consistent with the decision made by the CalPERS Board of Administration for plans participating in the Public Employees' Retirement Fund (PERF), staff is recommending, as part of the adoption of the valuation report, the adoption of new actuarial assumptions. The new mortality table used in this valuation was developed from the December 2017 experience study and includes 15 years of projected on-going mortality improvement using 90 percent of Scale MP 2016 published by the Society of Actuaries. The inflation assumption was reduced from 2.75 percent to 2.5 percent. The individual salary and overall payroll increase assumptions were reduced from 3.0 percent to 2.75 percent. The new assumptions have been incorporated in this valuation. The cost impact of this change will be reflected beginning with the contribution requirement for fiscal year 2018-19.

The following table summarizes key results from the valuation:

Comparison of Current and Prior Year Results		
	June 30, 2016	**June 30, 2017**
Present Value of Benefits	$ 1,972,774,938	$ 2,027,435,645
Accrued Liability	1,272,750,990	1,365,862,092
Market Value of Assets	1,172,952,527	1,356,099,297
Unfunded Liability/(Surplus)	99,798,463	9,762,795
Funded Status	92.2%	99.3%
Actuarially Determined Employer Contribution	26.409%	24.660%
Minimum Employer Contribution Rate	26.409%	24.660%

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, 2018 through June 30, 2019.

Analysis
As of June 30, 2017, JRS II had a funded status of 99.3 percent. The funded status has increased since the prior valuation. On June 30, 2016, the funded status was 92.2 percent. This increase is driven mostly by the investment gains and liability gains from the changes of the actuarial assumptions. The fund earned approximately 9.4 percent for the year ending June 30, 2017.

We recommend that the Board adopt a contribution rate of 24.660 percent for Fiscal Year 2018-19. This rate represents the total contributions of 24.034 percent for the employer normal cost and 0.626 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 33.562 percent. The new Total PEPRA Normal Cost is 32.104 percent. This results in the new PEPRA member contribution of 16.00 percent for Fiscal Year 2018-19.

Fiscal Year	Total PEPRA Normal Cost	Employee PEPRA Normal Cost
2014-15	30.702%	15.250%
2015-16	30.652%	15.250%
2016-17	30.727%	15.250%
2017-18	33.562%	16.750%
2018-19	***32.104%****	***16.000%***

*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 Volatility Ratios for this plan are about 4.7. 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 99.3 percent as of June 30, 2017. The target funded level is 100 percent, though not required.

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 percent 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 to be reflected in the valuation following the decision.

Attachments
Attachment 1 - Transmittal letter to the Governor and Legislature.
Attachment 2 – Actuarial valuation report as of June 30, 2017 for JRS II

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