



Finance and Administration Committee  
Agenda Item 4d

February 13, 2018

**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, 2017 Legislators' Retirement System 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 38.145 percent for the period of July 1, 2018 through June 30, 2019 for the Legislators' Retirement System.
3. Adopt the use of 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 mortality assumptions will apply to all applications postmarked 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 mortality assumptions.

**Executive Summary**

The following table summarizes key results from the valuation:

	June 30, 2016	June 30, 2017
Present Value of Benefits	\$ 108,950,519	\$ 102,175,579
Accrued Liability	\$ 106,974,655	\$ 100,844,514
Market Value of Assets	\$ 119,049,997	\$ 116,883,856
Unfunded Accrued Actuarial Liability	\$ (12,075,342)	\$ (16,039,342)
Funded Status (Market Value Basis)	111.3%	115.9%

	FY 2017-18	FY 2018-19
Actuarially Determined Employer Contribution Rate	1.457%	0.000%
Minimum Employer Contribution Rate	41.696%	38.145%

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 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 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**

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, 2017 for the Legislators' Retirement System (LRS). The full results of the valuation are contained in the attached report.

In the June 30, 2016 Legislators' Actuarial Valuation, the plan was in surplus position with a funded status of 111.3 percent. Applying the board amortization policy would have resulted in an employer contribution rate of 1.457 percent for fiscal year 2017-2018. However, the Board adopted an employer contribution rate of 41.696 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, 2017 valuation, the plan continues to be in surplus position with a funded status of 115.9 percent.

The Actuarial Team is recommending an employer contribution rate of 38.145 percent for the fiscal year 2018-19 to be consistent with Government Code Section 7522.52 which requires that



plans in a surplus position should contribute at least the normal cost. Applying Board amortization policies would have resulted in an employer contribution rate of 0.000 percent.

The Actuarial Team is not aware of any reason that the Board would want to consider setting a contribution rate other than the rate shown in our recommendation.

### **Budget and Fiscal Impacts**

This action item is part of the regular and ongoing workload of the Actuarial Office.

### **Benefits and Risks**

One risk measurement is 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 96.7 and the liability/payroll ratio is 83.4. 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, 2017

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