



Finance and Administration Committee
Agenda Item 3c

April 17, 2018

Item Name: Valuation Report for the 1959 Survivor Benefit Program

Program: Actuarial Office

Item Type: Action Consent

Recommendation

1. Approve the 1959 Survivor Benefit Program Actuarial Valuation Report as of June 30, 2017 and the corresponding transmittal letter to the Governor and Legislature.
2. Adopt the employer and employee monthly premiums for fiscal year 2018-19 as set forth in the table on Page 2 of this agenda item and in the valuation report as attachment 2.

Executive Summary

The following table summarizes the key results and funded status from the valuation:

<u>Plan</u>	<u>Accrued Liability</u>	<u>Market Value of Assets (MVA)</u>	<u>Funded Ratio</u>
State 5 th Level Pool	\$ 148,606,323	\$ 107,536,929	72.4%
Schools 5 th Level Pool	\$ 12,859,562	\$ 76,938,556	598.3%
PA 1 st Level Pool	\$ 2,822,582	\$ 48,304,912	1,711.4%
PA 2 nd Level Pool	\$ 2,388,895	\$ 11,477,764	480.5%
PA 3 rd Level Pool	\$ 29,473,240	\$ 113,940,781	386.6%
PA 4 th Level Pool	\$ 134,547,904	\$ 145,771,600	108.3%
PA Indexed Level Pool	\$ 19,330,537	\$ 24,443,312	126.4%
Total	\$ 350,029,043	\$ 528,413,854	151.0%

The funded status of all pools has increased from the previous valuation predominantly due to net investment returns of approximately 10% for the year ending June 30, 2017 being greater than the assumed 7.375% return.

The resulting 2018-19 Employer and Employee Premium levels and a comparison with the premiums for the previous year are as follows:

Plan	2017-18 Premium			2018-19 Premium		
	Employer	Employee	Total	Employer	Employee	Total
State 5 th Level Pool*	\$5.20	\$5.20	\$10.40	\$5.35	\$5.35	\$10.70
Schools 5 th Level Pool*	\$0.00	\$2.00	\$2.00	\$0.00	\$2.00	\$2.00
PA 1 st Level Pool	\$0.00	\$2.00	\$2.00	\$0.00	\$2.00	\$2.00
PA 2 nd Level Pool	\$0.00	\$2.00	\$2.00	\$0.00	\$2.00	\$2.00
PA 3 rd Level Pool	\$0.00	\$2.00	\$2.00	\$0.00	\$2.00	\$2.00
PA 4 th Level Pool	\$5.20	\$2.00	\$7.20	\$4.70	\$2.00	\$6.70
PA Indexed Level Pool*	\$3.50	\$3.50	\$7.00	\$2.10	\$2.10	\$4.20

* Section 21581 of the California Public Employees' Retirement Law requires mandatory cost sharing when the total premium exceeds \$4.00.

A Mandatory premium of \$2.00 per member per month is required for each plan.

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 1959 Survivor Benefit program provides six different levels of survivor benefits for employees who die while actively employed and without Social Security coverage. The program is intended to serve as a replacement for the survivor benefits that would otherwise be provided by Social Security.

All levels of the 1959 Survivor Program are "pooled" benefits. For all levels other than the Indexed Level, participating employers contribute a monthly amount per member as determined by the Term Insurance Method. The use of this method is specified by State Statute Sections 21574.7(f), 21574(e), 21573(h), 21572(i), and 21571(g).

For the Public Agency Indexed Level of the 1959 Survivor benefit, participating employers contribute a monthly amount per member as determined by the Entry Age Normal Method. The use of this method was determined by the Board as specified by State Statute 21574.5(f). In all cases contributions are billed to employers apart from the employer's contribution rate for retirement and disability benefits. For those employers in each pool as of the valuation date, the employer Normal Cost is adjusted by an amortization of the surplus or unfunded liability.

Consistent with the Board's decision to lower the discount rate from 7.50 percent to 7.00 percent using a three-year phase-in beginning with the June 30, 2016 actuarial valuations, the discount rate in this annual valuation was lowered from 7.375 percent to 7.25 percent. This change has not had a significant impact on the level of recommended employer and employee premiums for the fiscal year 2018-19. This is mainly due to the large surpluses in the various pools.

Analysis

On December 21, 2016, the CalPERS Board of Administration lowered the discount rate from 7.50 percent to 7.00 percent using a three-year phase-in beginning with the June 30, 2016 actuarial valuations. As a result, the discount rate for this valuation was decreased to 7.25 percent. In addition, on December 19, 2017, the CalPERS Board adopted new actuarial assumptions including a change to mortality rates. The resulting changes are shown in the table below.

Additional Liabilities - Change in Discount Rate and Demographic Assumptions

Pool	June 30, 2017
State 5 th Level Pool	\$ 1,597,568
Schools 5 th Level Pool	\$ 110,024
PA 1 st Level Pool	\$ 30,693
PA 2 nd Level Pool	\$ 22,914
PA 3 rd Level Pool	\$ 299,667
PA 4 th Level Pool	\$ 1,380,757
PA Indexed Level Pool	\$ (623,233)
Total	\$ 2,818,390

The next exhibit below shows a 4-year history of the funded status between valuation dates for each pool on a market value basis.

Market Value Funded Status 2014-2017

Pool	2014	2015	2016	2017
State 5 th Level Pool	81.7%	76.7%	71.3%	72.4%
Schools 5 th Level Pool	566.2%	529.9%	548.7%	598.3%
PA 1 st Level Pool	1,736.4%	1,687.9%	1,603.0%	1,711.4%
PA 2 nd Level Pool	449.7%	428.0%	421.9%	480.5%
PA 3 rd Level Pool	389.1%	380.0%	366.6%	386.6%
PA 4 th Level Pool	119.4%	113.6%	106.6%	108.3%
PA Indexed Level Pool	129.9%	127.3%	117.7%	126.4%
Total	158.3%	152.0%	144.7%	151.0%
Fund Return	17.4%	2.0%	0.3%	10.2%

All pools in the 1959 Survivor program realized a return of approximately 10 percent for fiscal year 2016-17, which is above our assumed long-term rate of return on assets of 7.25 percent. Based on the funded status as of June 30, 2017, we expect the pools other than the State to continue to be adequately funded with the current level of employer and employee premiums, even with the reduction in the discount rate.

Budget and Fiscal Impacts

Not applicable.



Benefits and Risks

It is essential that all risk transfer/pooling systems, including both pension and insurance, be regularly reviewed and premium levels, contribution requirements and/or reserve levels be adjusted to ensure the ongoing financial soundness of the systems.

The 1st, 2nd 3rd and Schools 5th Level are all extremely well-funded and hence there is a very low risk in those levels. The 4th and Indexed Levels each have a small surplus but are subject to significant market risk and should continue to be monitored. The State 5th Level has an unfunded liability and hence is at greater risk than the other levels. The premiums are set to address the unfunded liability but further action may be needed and this level should be closely monitored in the future.

Attachments

Attachment 1 – Transmittal Letter to the Governor and Legislature

Attachment 2 – 1959 Survivor Benefit Program Actuarial Valuation as of June 30, 2017

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