



Finance and Administration Committee

Agenda Item 5b

February 21, 2019

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

Program: Actuarial Office

Item Type: Action Consent

Recommendation

1. Approve the June 30, 2018 Judges' Retirement System Actuarial Valuation Report and the corresponding transmittal letter to the Governor and Legislature.
2. Continue to encourage the Governor and Legislature to adopt an employer contribution schedule that includes advanced funding of the Judges' Retirement System.

Executive Summary

The funded status, as well as other key results of the valuation, are shown in the table below:

Comparison of Current and Prior Year Results

	June 30, 2017	June 30, 2018
Present Value of Benefits	\$ 3,416,716,154	\$ 3,411,517,939
Accrued Liability	3,315,731,052	3,320,530,020
Market Value of Assets	48,274,516	44,491,530
Funded Status (Market Value Basis)	1.5%	1.3%
Annual Estimated Pay-as-you-go Contribution	\$ 207,313,847	\$ 210,045,751

Over the last year, the State elected to continue funding the Judges' Retirement System on a pay-as-you-go basis. This means that there is no build-up of assets to secure the benefits for members, as shown by the funded status in the table above. Similarly, the lack of assets means that this system is failing to take advantage of any expected investment income that would offset the cost of the benefits.

It is not within the Board's authority to require the State to fund this system. Accordingly, CalPERS cannot adopt a required contribution rate that will remedy the funding situation. As in the past, we recommend that the Board encourage the administration to institute proper funding of the plan.

Strategic Plan

This item is being presented as part of the regular and ongoing workload of the Actuarial Office and supports the Strategic Plan goal of Fund Sustainability.

Background

The actuarial valuation report for the Judges' Retirement System is presented in accordance with Government Code Section 75109.5 of the Judges' Retirement System Law. Information includes retirement and ancillary benefits for judges elected or appointed prior to November 9, 1994.

Analysis

As shown in the report, the Judges' Retirement System continues to be unfunded due to the pay-as-you-go contribution basis followed by the State. Projections of expected statutory contributions and projected future benefit payouts are shown on page 12 of the valuation report.

The market value of assets for JRS as of June 30, 2018, is \$44.5 million. This is significantly less than the expected benefit payments in the year after the valuation date. If the only contributions to the system were those determined in accordance with statutory requirements, there would be insufficient assets to pay the benefits in the year after the valuation.

Benefits and Risks

One risk measurement 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, indicates whether a plan is at risk of not meeting future benefit obligations. The funded status of this plan on a Market Value of Assets basis is 1.3 percent and indicates that there are insufficient assets accumulated to pay future benefits.

Although it is unlikely the State would fail to pay ongoing benefit payments when they are due, the lack of pre-funding means there is significantly less benefit security for members of this plan. It also means the total cost is higher to the State since there is no accumulation of assets and, consequently, little to no investment earnings can be used to defray costs.

Other Issues

In the case of Robert M. Mallano, et al. v. John Chiang, Controller of the State of California (SCO), the Judges' Retirement System (JRS), and the Judges' Retirement System II (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% 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 the impact of this lawsuit to be reflected in the June 30, 2019 valuation report.

Attachments

Attachment 1 – Transmittal letter to the Governor and Legislature

Attachment 2 – Judges' Retirement System Actuarial Valuation Report as of June 30, 2018

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