Finance and Administration Committee

Agenda Item 5c

February 21, 2019

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 Judges' Retirement System II Actuarial Valuation Report as of June 30, 2018 and the corresponding transmittal letter to the Governor and Legislature.

2. Adopt the employer contribution rate of 24.964 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, 2019 through June 30, 2020 for the Judges' Retirement System II.

Executive Summary

The following table summarizes key results from the valuation:

Comparison of Current and Prior Year Results

	June 30, 2017	June 30, 2018
Present Value of Benefits	$ 2,027,435,645	$ 2,254,830,891
Accrued Liability	1,365,862,092	1,554,347,674
Market Value of Assets	1,356,099,297	1,531,542,896
Unfunded Liability/(Surplus)	9,762,795	22,804,778
Funded Status	99.3%	98.5%
Required Employer Contribution	24.660%	24.964%

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 of Fund Sustainability.

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, 2019 through June 30, 2020.

Analysis

As of June 30, 2018, JRS II had a funded status of 98.5 percent. The funded status has decreased slightly since the prior valuation. On June 30, 2017, the funded status was 99.3 percent. This decrease is driven mostly by the investment gains offset by a liability loss and the impact of adopting a new actuarial valuation system. The fund earned approximately 7.2 percent for the year ending June 30, 2018.

We recommend that the Board adopt a contribution rate of 24.964 percent for fiscal year 2019-20. This rate represents the total contributions of 24.232 percent for the employer normal cost and 0.732 percent for the amortization of the unfunded accrual liability.

With the enactment of the Public Employees' Pension Reform Act of 2013 (PEPRA), PEPRA members are required to contribute at least 50 percent of the total annual normal cost 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 is 32.104 percent. The new Total PEPRA Normal Cost is 32.760 percent. This results in no change to the PEPRA member contribution rate of 16.00 percent for fiscal year 2019-20.

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%
2019-20	***32.760%***	***16.000%***

* Base Total Normal Cost Rate for members subject to the PEPRA, until the actual PEPRA Total Normal Cost Rate changes by 1 percent or more.

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 4.9 and 5.0 respectively. 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 98.5 percent as of June 30, 2018. The target funded level is 100 percent.

A sensitivity analysis was performed to evaluate the volatility of the funded status due to a change in discount rate, mortality rates and inflation rates over the long-term. The following tables summarizes the analysis:

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 the impact of this lawsuit to be reflected in the June 30, 2019 valuation.

Attachments

Attachment 1 - Transmittal letter to the Governor and Legislature.

Attachment 2 - Judges' Retirement System II Actuarial Valuation as of June 30, 2018

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