



Finance and Administration Committee

Agenda Item 5d

February 21, 2019

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, 2018 Legislators' Retirement System Actuarial Valuation Report and the corresponding transmittal letter to the Governor and Legislature.
2. Adopt the employer contribution rate of 35.272 percent for the period of July 1, 2019 through June 30, 2020 for the Legislators' Retirement System.

Executive Summary

The following table summarizes key results from the valuation and compares current and prior year results.

	June 30, 2017	June 30, 2018
Present Value of Benefits	\$ 102,175,579	\$ 99,556,131
Accrued Liability	100,844,514	98,926,634
Market Value of Assets	116,883,856	115,484,165
Unfunded Accrued Actuarial Liability	(16,039,342)	(16,557,531)
Funded Status (Market Value Basis)	115.9%	116.7%
	FY 2018-19	FY 2019-20
Required Employer Contribution Rate	38.145%	35.272%

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 of Fund Sustainability.

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, shall not be less than the normal cost.

Analysis

In the June 30, 2017 Legislators' Actuarial Valuation, the plan was in a surplus position with a funded status of 115.9 percent. The Board adopted an employer contribution rate of 38.145 percent 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, 2018 valuation, the plan continues to be in a surplus position with a funded status of 116.7 percent. The Actuarial office recommends an employer contribution rate of 35.272 percent for the fiscal year 2019-20 to be consistent with Government Code Section 7522.52 which requires that plans in a surplus position should contribute at least the normal cost.

Budget and Fiscal Impacts

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

Benefits and Risks

One of the risks identified in that report was the 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 105.2 and the liability/payroll ratio is 90.1. 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 and the surplus position of the plan.

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 MVB basis has been and remains above the ideal level of 100 percent. The plan is considered well funded at this time.

Attachments

Attachment 1 – Transmittal letter to the Governor and Legislature

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

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