



Finance and Administration Committee

Agenda Item 4c

April 16, 2019

Item Name: Valuation Report for the 1959 Survivor Benefit Program

Program: Actuarial Office

Item Type: Action Consent

Recommendation

Approve the 1959 Survivor Benefit Program Actuarial Valuation Report as of June 30, 2018 and the corresponding transmittal letter to the Governor and Legislature.

Adopt the employer and employee monthly premiums for fiscal year 2019-20 as set forth in the table on Page 2 of this agenda item and in 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	\$ 149,571,393	\$110,568,331	73.9%
Schools 5 th Level Pool	\$ 13,952,547	\$ 82,038,098	588.0%
PA 1 st Level Pool	\$ 2,908,667	\$ 52,177,082	1,793.8%
PA 2 nd Level Pool	\$ 2,428,704	\$ 12,307,348	506.7%
PA 3 rd Level Pool	\$ 30,510,650	\$ 120,740,841	395.7%
PA 4 th Level Pool	\$ 141,358,235	\$ 151,267,552	107.0%
PA Indexed Level Pool	\$ 20,261,829	\$ 25,933,332	128.0%
Total	\$ 360,992,025	\$ 555,032,585	153.8%

The funded status of most of the pools has increased from the previous valuation primarily due to net investment returns of approximately 8 percent for the year ending June 30, 2018 being greater than the assumed 7.25 percent return.

The resulting 2019-20 Employer and Employee Premium levels and a comparison with the premiums for the previous year are as follows:

Plan	2018-19 Premium			2019-20 Premium		
Plan	Employer	Employee	Total	Employer	Employee	Total
State 5 th Level Pool*	\$5.35	\$5.35	\$10.70	\$5.40	\$5.40	\$10.80
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	\$4.70	\$2.00	\$6.70	\$4.80	\$2.00	\$6.80
PA Indexed Level Pool*	\$2.10	\$2.10	\$4.20	\$2.90	\$2.90	\$5.80

* 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 valuation discount rate in this annual valuation was lowered from 7.25 percent to 7.00 percent. This change has not had a significant impact on the level of recommended employer and employee premiums for the Fiscal Year 2019-20. 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 the valuation of the 1959 Survivor Program liabilities was also decreased to 7.00 percent. The resulting changes are shown in the table below.

Additional Liabilities due to the Change in Discount Rate and Method Change

<u>Pool</u>	<u>June 30, 2018</u>
State 5 th Level Pool	\$ 3,048,505
Schools 5 th Level Pool	\$ 265,235
PA 1 st Level Pool	\$ 59,888
PA 2 nd Level Pool	\$ 48,865
PA 3 rd Level Pool	\$ 637,284
PA 4 th Level Pool	\$ 2,935,246
PA Indexed Level Pool	\$ 640,227
Total	\$ 7,635,250

The next exhibit below shows a 4-year history of the funded status between valuation dates for each pool on a market value basis. Overall, it can be seen that the recent investment losses negatively impacted the funded status of the 1959 Survivor Program.

Market Value Funded Status 2015-2018

<u>Pool</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
State 5 th Level Pool	76.7%	71.3%	72.4%	73.9%
Schools 5 th Level Pool	529.9%	548.7%	598.3%	588.0%
PA 1 st Level Pool	1,687.9%	1,603.0%	1,711.4%	1,793.8%
PA 2 nd Level Pool	428.0%	421.9%	480.5%	506.7%
PA 3 rd Level Pool	380.0%	366.6%	386.6%	395.7%
PA 4 th Level Pool	113.6%	106.6%	108.3%	107.0%
PA Indexed Level Pool	127.3%	117.7%	126.4%	128.0%
Total	152.0%	144.7%	151.0%	153.8%
Fund Return	2.0%	0.3%	10.2%	8.2%

All pools in the 1959 Survivor program realized a return of 8.15 percent plus or minus 0.2 percent for Fiscal Year 2017-18, which is above our assumed long-term rate of return on assets of 7 percent. With the provided funded statuses at June 30, 2018, we would expect the pools other than State to continue to be very adequately funded with the current level of employer and employee premiums, even with the reduction in the valuation 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 have a healthy level of assets 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 at a level 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, 2018

Daniel Miller
Associate Pension Actuary

Scott Terando
Chief Actuary