



# Finance and Administration Committee

## Agenda Item 5b

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February 18, 2020

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

**Program:** Actuarial Office

**Item Type:** Action Consent

### Recommendation

- Approve the June 30, 2019 Judges' Retirement System Actuarial Valuation report and the corresponding transmittal letter to the governor and Legislature.
- Encourage the governor and Legislature to adopt an employer contribution schedule that includes advanced funding of the Judges' Retirement System (JRS).

### Executive Summary

The following table summarizes key results from the valuation.

Comparison of Current and Prior Year Results		
	June 30, 2018	June 30, 2019
Present Value of Benefits	\$ 3,411,517,939	\$ 3,252,357,421
Accrued Liability	3,320,530,020	3,173,229,040
Market Value of Assets	44,491,530	14,080,882
Funded Status	1.3%	0.4%
Annual Estimated Pay-as-you-go Contribution	\$ 210,045,751	\$ 209,344,866

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 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**

This report is presented in accordance with Government Code section 75109.5 of the Judges' Retirement System Law. Included is information regarding retirement and ancillary benefits for judges elected or appointed prior to November 9, 1994.

### **Analysis**

As seen in the report, JRS 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 13 of the valuation report.

The market value of assets for JRS as of June 30, 2019, is \$14.1 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.

### **Budget and Fiscal Impacts**

Not Applicable

### **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 0.4% and indicates 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 no 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 year for each year that the judicial salaries were not increased. Based on the increased judicial salaries, adjustments to the defined benefit and lump sum payments are currently being calculated and paid. Some of these adjustments have been made and are reflected in this valuation. It is anticipated that the remaining adjustments pursuant to this lawsuit will be reflected in the June 30, 2020 valuation.

## **Attachments**

Attachment 1 – Transmittal letter to the Governor and Legislature

Attachment 2 – Judges' Retirement System Actuarial Valuation report as of June 30, 2019

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