



Risk and Audit Committee

Agenda Item 8a

February 18, 2020

Item Name: Third-Party Valuation and Certification of the State and Schools Pension Plans as of June 30, 2018

Program: Office of Audit Services

Item Type: Information

Executive Summary

The third-party actuarial firm, Buck Global, LLC (Buck), completed its independent review of the actuarial valuations of the State and Schools Pension Plans as of June 30, 2018. Overall, Buck found the actuarial process followed by CalPERS actuarial staff is thorough, complete, and complies with applicable Actuarial Standards of Practice (ASOP). The report summarizing the review and including findings and recommendations is attached as Attachment 1 of this agenda item.

Strategic Plan

This agenda item supports Strategic Plan Fund Sustainability Goal – Strengthen the long-term sustainability of the pension plan.

Background

Under the California Constitution, the CalPERS Board of Administration (Board) has plenary authority and fiduciary responsibility to provide for actuarial services. The CalPERS Chief Actuary advises the Board and directs the activities of the CalPERS actuarial staff. The Board also retains the services of an outside actuarial firm to review the work of the CalPERS actuarial staff and to certify that such work complies with actuarial professional standards. The Board's Delegation Resolution RA-17-01 includes the delegation to the Risk and Audit Committee to oversee key internal auditor activities including parallel valuations.

In November 2015, the Board selected a third-party actuarial firm, Buck, to provide the parallel valuation and certification services to the Board. Buck has completed the parallel valuation and certification services for the State and Schools Plans as of June 30, 2018. This activity represents the completion of Task 5 of Contract 2015-8123.

The State Plan provides retirement benefits to members employed by the State of California and consists of the following separate plans: State Miscellaneous Tier 1, State Miscellaneous Tier 2, State Industrial, State Safety, State Peace Officers and Firefighters (SPOFF), and the California Highway Patrol (CHP).

The Schools Plan provides retirement benefits to members employed by school districts and community college districts in California. It does not cover teachers as they are covered by the California State Teachers' Retirement System.

Analysis

Buck reviewed the actuarial assumptions and methods used in the State and School valuations and concluded that the assumptions used are reasonable and the methodology used to select these assumptions is appropriate and consistent with the guidance provided in ASOP 27 and 35. ASOP 27 discusses the selection of economic assumptions for the measurement of pension liabilities, and ASOP 35 discusses the selection of demographic assumptions for the measurement of pension liabilities.

Buck also completed parallel actuarial valuations for the State and Schools pension plans and compared their key results to those produced by CalPERS actuarial staff on an aggregate and individual basis in order to uncover potential discrepancies that offset each other, producing aggregate results that fall within the 5 percent tolerance level. Based on this testing, Buck reported that for all plans, all their calculations for these key results differed by less than 5% from the corresponding results reported by CalPERS.

During the parallel valuation and review of the State and Schools valuations, Buck provided two recommendations to CalPERS:

1. Clarify valuation methodology for group term life insurance benefits within report.
2. Distinguish (where appropriate) between phasing in the impacts of economic assumption changes and phasing in of assumption changes themselves and identify margins for adverse deviations.

In addition, Buck provided an update to their previous parallel valuation and certification report recommendations for the state and schools pension plans as of June 30, 2015. Below is a summary of the updates:

1. Add information to the reports to meet new ASOP 4: The June 30, 2018 valuation reports addressed this recommendation.
2. Consider revising the calculation of projected accumulated employee contributions for Tier 2 participants:
 - a) Prior special employee contribution amounts for certain separated employees are not reflected in the total contributions: This issue appears to have been fixed for a limited number of participants.
 - b) The calculation for special accumulated employee contributions should be adjusted to accumulate balances with interest for participants separated from active employment: The June 30, 2018 valuation reports appear to address this recommendation.

- c) The different approaches in the treatment of special employee contributions in the development of entry age normal costs led to differences between CalPERS and Buck's respective valuation results for active Tier 2 members. This discrepancy remains due to a difference in valuation systems and no change is proposed.
3. Consider reflecting pre-retirement mortality for all separated participants. The June 30, 2018 valuation reports addressed this recommendation.

Budget and Fiscal Impacts

The fee for the parallel valuation and certification of the 2018 annual valuations of the State and Schools Plans is \$53,000. Funding is identified within existing budgetary resources.

Benefits and Risks

It is essential to periodically review contribution requirements and funding levels to ensure the ongoing financial soundness of a pension system. The Actuarial Office has divided the retirement plans at CalPERS into three categories: Public Agencies, State and Schools, and Affiliates (Legislators' Retirement System, Judges Retirement System, Judges Retirement System II, and the 1959 Survivor Benefit Program). The Board's current independent actuarial firm, Buck performs one parallel valuation for each of the three categories on a rotating three year cycle. These parallel valuations provide an additional "check and balance" that increases the financial security of the retirement system for its participating members by reducing the risk of undetected errors in actuarial calculations.

Attachments

Attachment 1 – Parallel Valuation and Certification Report State and Schools Valuations as of June 30, 2018.

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