



## Finance and Administration Committee

# Agenda Item 4d

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**April 18, 2022**

**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, 2021 Judges' Retirement System Actuarial Valuation report and the corresponding transmittal letter to the governor and Legislature including lowering the inflation assumption from 2.50% to 2.30% and changes to the assumed mortality and retirement rates as outlined below and in the valuation report.
- Adopt the use of the new demographic and economic assumptions including inflation and salary growth in all affected member calculations. The discount rate for benefit calculations and service credit purchases is the same as that used for the Judges Retirement II System, namely, 6.00%. These changes are effective as follows:
  - a. For service credit purchases under the "present value" method, the use of the new actuarial assumptions will apply to all applications received on or after April 21, 2022.
  - b. For retirement applications, any application with a retirement date on or after April 21, 2022 will be subject to the new actuarial assumptions.
- Encourage the governor and Legislature to adopt an employer contribution schedule that includes advanced funding of the Judges' Retirement System (JRS).

### **Executive Summary**

Consistent with the decision made by the CalPERS Board of Administration for plans participating in the Public Employees' Retirement Fund (PERF), the actuarial office is recommending, as part of the adoption of the valuation report, the adoption of new actuarial assumptions. The new service retirement assumption used in this valuation was developed based on six years of recent actual retirement experience. The new mortality table used in this valuation was developed from the 2021 experience study and was projected generationally for future years using 80% of the Society of Actuaries' Scale MP-2020. The inflation assumption was reduced from 2.5% to 2.3%. The individual salary and overall payroll increase assumptions were increased from 2.75 % to 2.8%. The new assumptions have been incorporated in this

valuation. The impact of this change will be reflected beginning with the contribution requirement for fiscal year 2022-23.

The following table summarizes key results from the valuation.

<b>Comparison of Current and Prior Year Results</b>		
	<b>June 30, 2020</b>	<b>June 30, 2021</b>
Present Value of Benefits	\$3,175,841,005	\$2,889,125,579
Accrued Liability	3,105,001,091	2,803,229,924
Market Value of Assets	48,020,033	65,882,450
Funded Status	1.5%	2.4%
Annual Estimated Pay-as-you-go Contribution	\$210,757,479	\$198,557,517

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, 2021, is \$65.9 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 key risk measurement in the June 30, 2021 report is the funded status of the 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 2.4% 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. Any remaining payments will be reflected in future valuations as they are claimed and paid.

## **Attachments**

Attachment 1 – Transmittal letter to the Governor and Legislature

Attachment 2 – Judges' Retirement System Actuarial Valuation report as of June 30, 2021

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Stuart Bennett  
Senior Pension Actuary

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Scott Terando  
Chief Actuary