



Risk & Audit Committee

Agenda Item 6b

February 13, 2023

Item Name: Third Party Valuation and Certification of the 2021 CalPERS Annual Valuations of the State and Schools Pension Plans

Program: Actuarial Office

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, 2021. Overall, Buck confirmed the actuarial process followed by CalPERS Actuarial Office conformed to applicable Actuarial Standards of Practice (ASOPs). The full report summarizing their review which includes findings and recommendations are in Attachment 1 of this agenda item.

Strategic Plan

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

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 team. The Board also retains the services of an outside actuarial firm to review the work of the CalPERS Actuarial Office 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 June 2021, 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 valuations of the state and schools pension plans as of June 30, 2021. This activity represents the completion of Task 2 of Contract 2021-9096.

Analysis

Buck reviewed the State and Schools valuations for assumptions, methods and procedures used by the Actuarial Office and confirmed that they conform to applicable Actuarial Standards

of Practice. For all State and Schools plans key calculations of Buck matched those prepared by CalPERS staff within 5%, which was the target tolerance level specified by CalPERS. The differences that were evident were deemed not material.

In addition, Buck completed a review of our Actuarial Assumptions and Methods. They agreed with the methods and assumptions used. See Section II of the attached report for a summary of their findings.

Buck's review of CalPERS's calculations identified one area of our report where the footnote needs refinement as well as one area of refinement of the valuation calculations. The Actuarial Office has made the change in both cases to the 2022 valuation.

Please see Schedule B in the attached report for a summary comparison of Buck's results to CalPERS' results.

Budget and Fiscal Impacts

Funding for the third-party valuation and certification of the 2021 CalPERS Annual Valuations of the State and School pension plans is already 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 (LRS, JRS, JRS II, and the 1959 SBP). 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 increase 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 - CalPERS State and Schools Valuations (Task #2)

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