



Pension & Health Benefits Committee

California Public Employees' Retirement System

Consent

Agenda Item 3b

November 14, 2012

ITEM NAME: Long Term Care Program Annual Valuation

PROGRAM: Long-Term Care

ITEM TYPE: Action Consent

RECOMMENDATION

Approve the Long-Term Care (LTC) Program 2012 Valuation Report.

EXECUTIVE SUMMARY

This agenda item provides the Pension and Health Benefits Committee (PHBC) with the results of the CalPERS LTC Program annual valuation provided by United Health Actuarial Services, Inc. (UHAS) for the fiscal year ending June 30, 2012. This valuation provides a projection of future cash flows and evaluates the current assets and premiums based on those cash flows. The valuation utilizes the 5.75 percent discount rate that reflects the A(1) Base Case scenario adopted by the Board of Administration (Board) in September 2012 and reflects the revised investment mix approved by the Investment Committee in April 2012.

STRATEGIC PLAN

This item relates to Strategic Goal A, Business Plan Objective 1.4: Stabilize and sustain the Long-Term Care Program.

BACKGROUND

The current Program has 150,330 members. Since inception, the CalPERS LTC Program has paid claims for over 15,000 members totaling more than \$1 billion dollars in paid claims through June 2012. The current LTC Fund balance is just under \$3.5 billion dollars as of June 2012, and is comprised of member premiums and investment income. This fund balance compares less favorably to the corresponding projected fund balance from the 2011 Annual Valuation. The major source of this negative result is the actual investment income, which was nearly half (55%) of the projected investment income at 6.25%. Excluding the investment income, all other cash flows combined for this twelve month period are within 1% of projected values.

The CalPERS LTC Program and similar LTC insurance providers have experienced:

- Worse-than-expected morbidity;
- Higher-than-expected claims; and,
- Lower-than-expected investment income.

In an effort to stabilize the LTC Fund, CalPERS implemented corrective actions, including premium increases, in 2003, 2007 and 2010. In addition, starting in 2011, all LTC1 policies with lifetime coverage and inflation protection receive an on-going annual 5 percent premium increase. At the October 17, 2012 Board meeting, the Board approved a premium increase in 2015 that addresses the projected deficit and includes stopping the ongoing premium increases in 2014. The October actions are not included in this valuation.

ANALYSIS

A valuation of current assets and premium levels was conducted by UHAS as well as an update of the projection of future cash flows base on rates in place on June 2012. The results of this annual valuation are based on the inforce data and fund balance as of June 30, 2012. The results are expressed as a percentage of the present value of future net liabilities compared to future premiums.

The 2012 A (1) Base Case scenario, assumes a discount rate of 5.75 percent that was adopted by the Board in September 2012. Provided in the table below is a comparison of the current discount rate to the 2011 A (1) Base Case scenario discount rate and the resulting margins.

Valuation Date	Margin/(Deficit)	Investment/Discount Rate
6/30/2011	23.14%	6.25% years 1-10; 7.60% years 11+
6/30/2012	(4.66)%	5.75%

It is important to note that the June 30, 2011, valuation margin of 23.14 percent was developed using the Board approved discount rate of 6.25 percent for the first 10 years, and 7.60 percent for years 11 onward. The June 30, 2012, valuation deficit of (4.66) percent was developed using the 5.75 percent discount rate, that reflects revised discount rate adopted by the Board in September 2012.

RISKS

If the recommendation to accept the 2012 valuation is not approved, LTC Fund reporting will not reflect the A (1) Base Case scenario adopted by the Board in September 2012. Also, there is a risk of market fluctuations that could result in not achieving the new projected 5.75 percent investment return for Fiscal Year 2012-13.

ATTACHMENT

Attachment 1 – Actuarial Valuation of the CalPERS Long-Term Care Program as of June 30, 2012.

KATHY DONNISON, Chief
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