



Finance and Administration Committee

Agenda Item 3d

April 17, 2023

Item Name: Valuation Report for the 1959 Survivor Benefit Program

Program: Actuarial Office

Item Type: Action Consent

Recommendation

1. Approve the 1959 Survivor Benefit Program Actuarial Valuation Report as of June 30, 2022 and the corresponding transmittal letter to the Governor and legislature.
2. Adopt the employer and employee monthly premiums for fiscal year 2023-24 as set forth in the table on Page 2 of this agenda item and included in the actuarial report as Attachment 2.

Executive Summary

The following table summarizes key results of each pool level from the valuation:

Plan	Accrued Liability	Market Value of Assets (MVA)	Funded Ratio
State 5 th Level Pool	\$ 154,319,353	\$ 118,493,561	76.8%
Schools 5 th Level Pool	\$ 14,198,856	\$ 98,145,312	691.2%
PA 1 st Level Pool	\$ 2,731,767	\$ 65,355,742	2,392.4%
PA 2 nd Level Pool	\$ 2,217,975	\$ 14,938,427	673.5%
PA 3 rd Level Pool	\$ 30,753,269	\$ 141,922,852	461.5%
PA 4 th Level Pool	\$ 148,619,003	\$ 157,027,464	105.7%
PA Indexed Level Pool	\$ 20,822,002	\$ 29,314,086	140.8%
Total	\$ 373,662,225	\$ 625,197,444	167.3%

From the Basic Financial Statements issued on November 15, 2022, CalPERS reported a return on investments of -7.5% (before recognition of administrative expenses) for FY 2021-22 compared to an expected return of 6.8%. (Note, the time weighted return for FY 2021-22 of -6.1% reported prior to the issuance of the Financial Statements reflected information for private equity investments and real assets as of March 31, 2021.) This resulted in decreased funded ratios for all plans.

The resulting fiscal year 2023-24 employer and employee premiums for each benefit level and a comparison with the premiums for the previous year are as follows:

Plan	2022-23 Premium			2023-24 Premium		
	Employer	Employee	Total	Employer	Employee	Total
State 5 th Level Pool*	\$5.60	\$5.60	\$11.20	\$6.35	\$6.35	\$12.70
Schools 5 th Level Pool*	\$0.00	\$2.00	\$2.00	\$0.00	\$2.00	\$2.00
PA 1 st Level Pool	\$0.00	\$2.00	\$2.00	\$0.00	\$2.00	\$2.00
PA 2 nd Level Pool	\$0.00	\$2.00	\$2.00	\$0.00	\$2.00	\$2.00
PA 3 rd Level Pool	\$0.00	\$2.00	\$2.00	\$0.00	\$2.00	\$2.00
PA 4 th Level Pool	\$2.40	\$2.00	\$4.40	\$5.20	\$2.00	\$7.20
PA Indexed Level Pool*	\$0.50	\$2.00	\$2.50	\$2.75	\$2.75	\$5.50

* Section 21581 of the California Public Employees' Retirement Law requires mandatory cost sharing when the total premium exceeds \$4.00.

A mandatory premium of \$2.00 per member per month is required for each plan.

Strategic Plan

This action item is being presented as part of the regular and ongoing workload of the Actuarial Office and supports the Pension Sustainability goal of the Strategic Plan: Strengthen the long-term sustainability of the pension fund.

Background

The 1959 Survivor Benefit program provides six different levels of survivor benefits for employees who die while actively employed and without Social Security coverage. The program is intended to serve as a replacement for the survivor benefits that would otherwise be provided by Social Security.

All levels of the 1959 Survivor Program are "pooled" benefits. For all levels other than the Indexed Level, participating employers contribute a monthly amount per member as determined by the Term Insurance Method. The use of this method is specified by State Statute Sections 21574.7(f), 21574(e), 21573(h), 21572(i), and 21571(g).

For the Public Agency Indexed Level of the 1959 Survivor benefit, participating employers contribute a monthly amount per member as determined by the Entry Age Normal Cost Method. The use of this method was determined by the board as specified by State Statute 21574.5(f). In all cases contributions are billed to employers apart from the employer's contribution rate for retirement and disability benefits. For those employers in each pool as of the valuation date, the employer Normal Cost is adjusted by an amortization of the surplus or unfunded liability.

Analysis

The exhibit below shows a 4-year history of the funded status between valuation dates for each pool on a market value basis.

Market Value Funded Status 2019-2022

Plan	2019	2020	2021	2022
State 5 th Level Pool	74.3%	74.2%	88.2%	76.8%
Schools 5 th Level Pool	553.6%	620.7%	744.2%	691.2%
PA 1 st Level Pool	1,827.6%	1,965.1%	2,492.7%	2,392.4%
PA 2 nd Level Pool	506.2%	556.6%	725.4%	673.5%
PA 3 rd Level Pool	396.9%	414.3%	504.2%	461.5%
PA 4 th Level Pool	105.3%	107.0%	121.9%	105.7%
PA Indexed Level Pool	134.7%	138.4%	160.5%	140.8%
Total	155.1%	159.3%	189.1%	167.3%

With the provided funded statuses as of June 30, 2022, we would expect the pools other than State to continue to be adequately funded with the current level of employer and employee premiums.

Also, there has been a 7% increase in the Reserve for Unclaimed Benefits. These amounts can be seen in the table below.

Reserve for Unclaimed Benefits

Plan	June 30, 2022
State 5 th Level Pool	\$ 2,277,000
Schools 5 th Level Pool	\$ 378,000
PA 1 st Level Pool	\$ 54,000
PA 2 nd Level Pool	\$ 99,900
PA 3 rd Level Pool	\$ 583,800
PA 4 th Level Pool	\$ 2,359,800
PA Indexed Level Pool	\$ 18,552
Total	\$ 5,771,052

Budget and Fiscal Impacts

Not Applicable.

Benefits and Risks

It is essential that all risk transfer/pooling systems, including both pension and insurance, be regularly reviewed and premium levels, contribution requirements and/or reserve levels be adjusted to ensure the ongoing financial soundness of the systems.

The 1st, 2nd 3rd, and Schools 5th Level are all extremely well-funded and hence there is a very low risk in those levels. The 4th and Indexed Levels have a healthy level of assets but are subject to significant market risk and should continue to be monitored. The State 5th Level has an unfunded liability and hence is at greater risk than the other levels. The premiums are set at a level to address the unfunded liability and this level should also continue to be monitored in the future.

Attachments

Attachment 1 – Transmittal Letter to the Governor and Legislature

Attachment 2 – 1959 Survivor Benefit Program Actuarial Valuation as of June 30, 2022

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