

# Joint Hearing Senate P E & R and Assembly P E, R & SS Committees

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January 30, 2013

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Member California Actuarial Advisory Panel

January 30, 2013

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Joint Committee Hearing

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# CAAP

- Panel was established with enactment of SB 1123.
- Pursuant to Government Code section 7507.2(a):
  - ...the panel shall provide impartial and independent information on pensions, other postemployment benefits, and best practices to public agencies...
- Legislation to create Panel was recommended by Public Employee Post-Employment Benefits Commission in January 2008 report to Governor Schwarzenegger.
- Housed in the State Controller's Office.
- First meeting June 2010.

## CAAP Accomplishments

- Responded to GASB Preliminary Views regarding pension accounting and financial disclosure for employers;
- Adopted and published *Model Disclosure Elements for Actuarial Valuation Reports on Public Retirement Systems in California*;
- Offered assistance to Governor and Legislature concerning pension and OPEB issues related to:
  - budget and
  - pension/OPEB reform
- Pending release of *Actuarial Funding Policies and Practices for Public Pension and OPEB Plans and Level Cost Allocation Model*
- Responded to inquiries from public entities;

## Government Code §20229

- Requires CalPERS Board provide annual report which includes certain information for State employees
  - Requirement met with publication of State & Schools June 30, 2011 Actuarial Valuation Report
  - <http://www.calpers.ca.gov/eip-docs/about/pubs/employer/2011-st-body.pdf>
- Requires CAAP Chair (or designee) present information to this joint legislative hearing:
  - Explain the role played by the investment return assumption and amortization period in the calculation of contribution rates.
  - Describe the consequences to future State budgets if the investment return assumptions are not realized.
  - Report whether the Board's amortization period exceeds the estimated average remaining service periods of employees covered by the contributions.

## Main Valuation Results

- State sponsors six different retirement plans:
  - State Miscellaneous
    - Tier 1
    - Tier 2
  - State Industrial
  - State Safety
  - State Peace Officers and Firefighters
  - California Highway patrol
- CalPERS also administers :
  - Non certificated school employees plan and
  - Public agency plans

## Main Valuation Results

- CalSTRS: certificated school employees
- UCRS: UC employees
- State OPEB not prefunded
  - Separate report prepared for the State Controller's Office

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## Total State Valuation Results (Millions)

■ Actuarial Accrued Liability	\$129,648
■ Unfunded Actuarial Accrued Liability (Market Value Basis)	38,489
● Funded Ratio	70%
■ Total Normal Cost	18.370%
● Member Normal Cost	7.536%
● Employer Normal Cost	10.834%
■ 2012/13 Required Employer Contribution Rate	22.538%

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## Role Played By Investment Return

- Liability reflects only portion of benefits paid by contributions (cash)
  - Does not reflect benefits paid by investment return
  - The higher investment return the less cash is needed
  - The lower investment return the more cash is needed
- Actual returns are unknown so must use an assumption
  - If actual returns are lower than assumed future contributions must be higher
  - If actual returns are higher than assumed future contributions must be lower
- Valuation Report Appendix C

## Role Played By Amortization Periods

- Goal is to get to assets - AAL
  - 100% funding
  - No Unfunded Liability
  - Target not a certainty
- Time to get to goal is amortization period
- Shorter period
  - higher contribution rates
  - Current tax payers pay for current unfunded liability
- Longer period
  - Lower contribution rates
  - Future tax payers pay for current unfunded liability

## Role Played By Amortization Periods

	<b>Average Amortization Period</b>	<b>Estimated Average Remaining Service Period</b>
■ State Miscellaneous	20	10
■ State Industrial	19	11
■ State Safety	22	10
■ State Peace Officers & Firefighters	24	12
■ CHP	24	14