Report from the California Actuarial Advisory Panel on the State Actuarial Valuation

Joint Information Hearing on California Public Retirement Systems

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California Actuarial Advisory Panel (CAAP)

- Established in 2008 (SB 1123)
- 8-member panel
- Housed in the State Controller's Office
- 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…

Appointing Entities

- Governor (2)
- Speaker of the Assembly
- Senate Committee on Rules
- CalSTRS
- CalPERS
- UC Board of Regent
- State Association of County Retirement Systems

SCO | California Actuarial Advisory Panel Members

CAAP Issued Guidance

- Guidance on Funding Policies for Pension Plans and OPEB
- Guidance on Disclosure Elements for Valuation Reports
- Guidance on Funding Policies for Benefit Changes
- Guidance on Evaluating Public Sector Actuarial Services

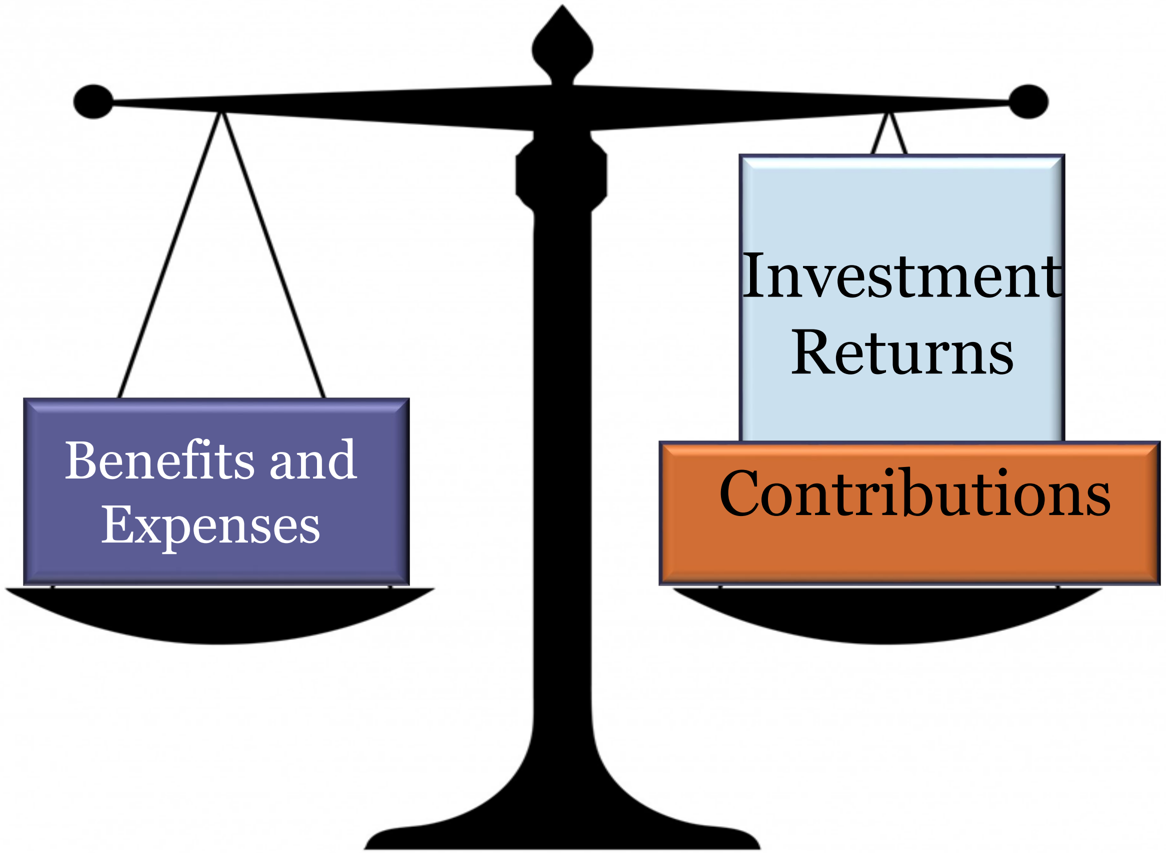
Government Code §20229

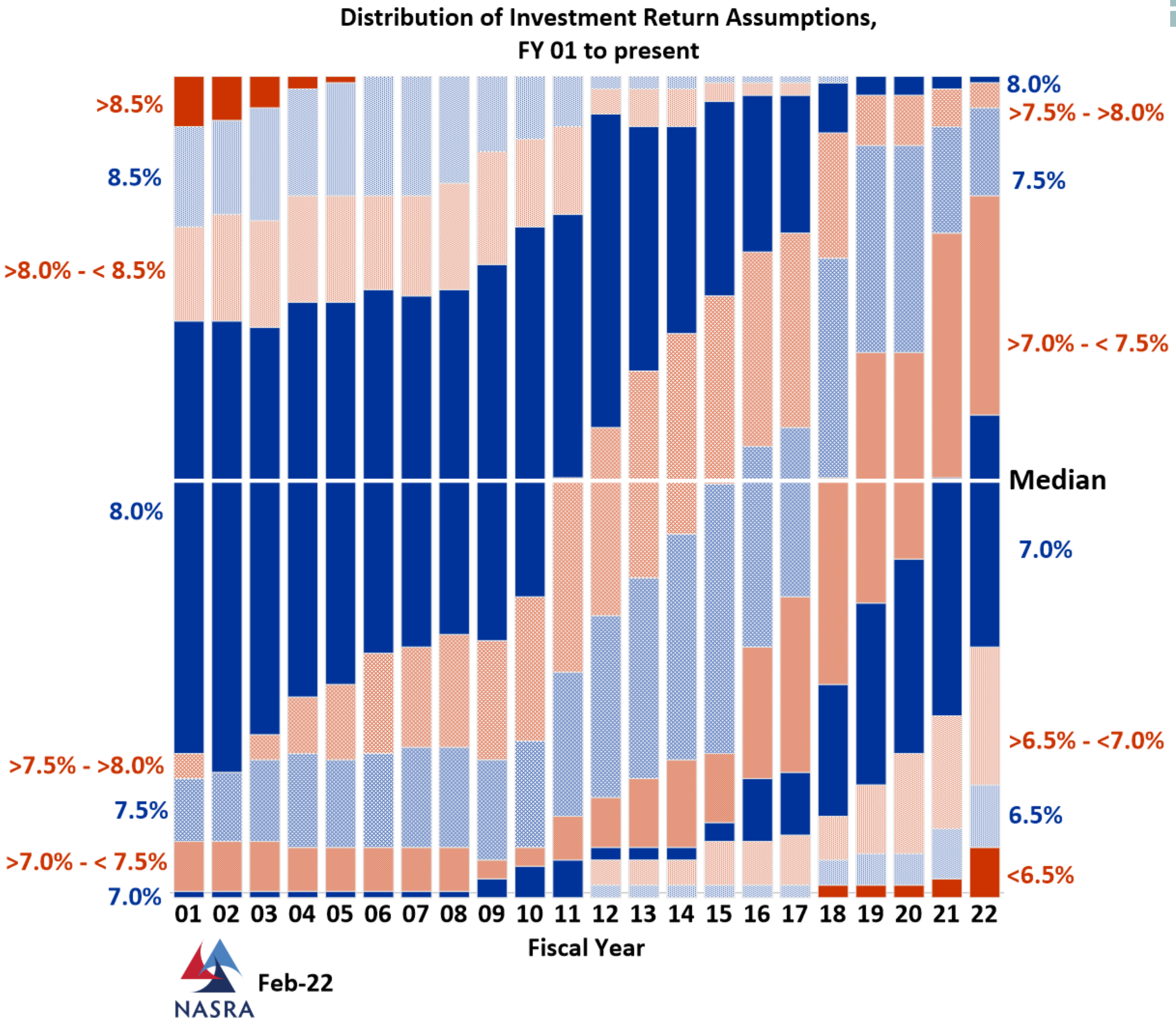
- Requires CalPERS to annually provide certain information related to pension cost for State employees:
  - Liabilities and contribution rates using an investment return assumption that is 2% higher and 2% lower than assumed
  - Contribution rates calculated by paying down unfunded liability over the average remaining service period of State employees

Government Code §20229

- Requires a representative from the CAAP 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 assumption is not realized.
  - Report whether the Board's amortization period exceeds the average remaining service periods of employees covered by the contributions.

Role Played By Investment Return





Distribution of Investment Return Assumptions,
FY 01 to present
>8.5%
8.5%
>8.0% - < 8.5%
8.0%
>7.5% - >8.0%
7.5%
>7.0% - < 7.5%
7.0%
8.0%
>7.5% - >8.0%
7.5%
>7.0% - < 7.5%
Median
7.0%
>6.5% - <7.0%
6.5%
<6.5%
01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18 19 20 21 22
Fiscal Year
NASRA
Feb-22

Role Played By Investment Return

- In November 2021, CalPERS board lowered the assumed investment return assumption from 7% to 6.8%

- Future Returns < 6.8% → Future Contributions ↑

- Future Returns > 6.8% → Future Contributions ↓

Role Played by the Amortization Period

- CalPERS uses a 20—year amortization period for "new" unfunded liability
  - Change became effective in 2020-21
  - Old method was a 30-year amortization period
- Shorter period
  - Higher contribution rates but lower total costs long-term
  - Current tax-payers pay more toward current unfunded liability
- Longer period
  - Lower contribution rates but higher total costs long-term
  - Future tax-payers pay more toward current unfunded liability

Role Played by the Amortization Period

- Government Code §20229
  - CAAP representative must report if the CalPERS amortization period exceeds the average remaining service periods of employees covered by the contributions.

- Average remaining service period for state plans is between 11 and 12 years.

- Current amortization period exceeds the average remaining service period for all state plans.
  - CAAP guidance on Funding Policies: 15-20 years is model practice

Most Recent CalPERS Valuation Report

- State Actuarial Valuation as of June 30, 2020
  - Based on a 7% investment return assumption
  - See pages 46-56
- Report covers five different retirement plans:
  - State Miscellaneous (Tier 1 and Tier 2)
  - State Industrial
  - State Safety
  - State Peace Officers and Firefighters
  - California Highway patrol

Questions?