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

Joint Information Hearing on California Public Retirement Systems

May 29, 2024

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California Actuarial Advisory Panel (CAAP)

- Established in 2008
- 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…

- CAAP issued guidance

(available at: https://www.sco.ca.gov/Actuarial_Products_Guidance.html)

Appointing Entities

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

Full listing available here:
https://www.sco.ca.gov/caap_members.html

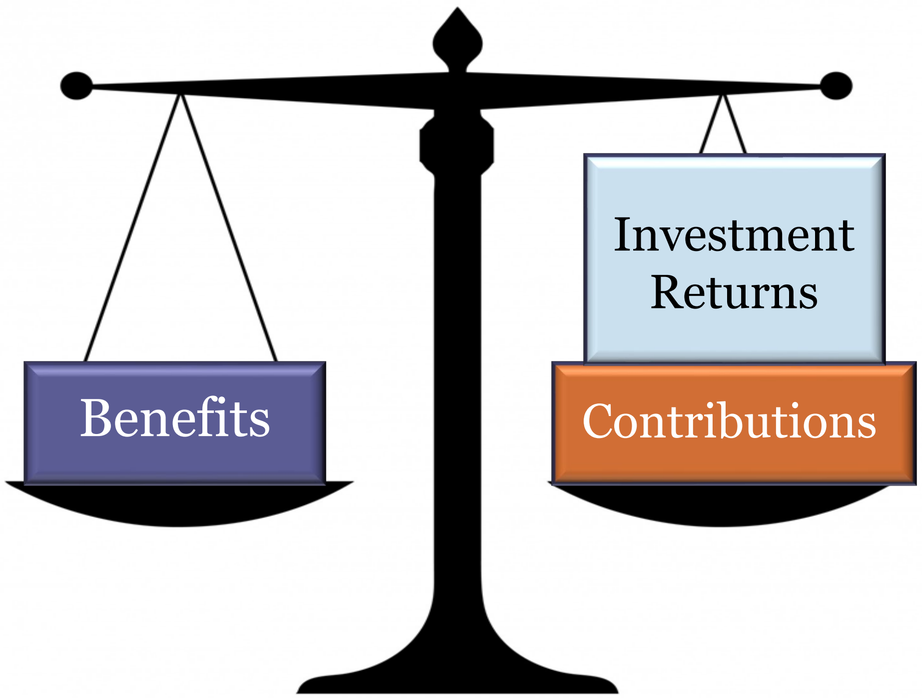
Government Code §20229

- 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 the Investment Return



- CalPERS investment return assumption is 6.8%
- If future returns are lower than 6.8%, future state contribution rates will have to increase.
- If future returns are higher than 6.8%, future state contribution rates could be lowered.

Role Played by the Amortization Period

- CalPERS uses a 20—year amortization period for "new" unfunded liability
  - CAAP guidance on Funding Policies: 15-20 years is model practice
- 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.

Meeting Government Code 20229

- State Actuarial Valuation Report as of June 30, 2022
  - Released by CalPERS in October 2023
  - (https://www.calpers.ca.gov/docs/forms-publications/2022-state-valuation.pdf)
  - Pages 45-55 provide the information required as per GC 20229

- 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