CalPERS

Finance and Administration Committee

Agenda Item 4c

February 13, 2023

Item Name: Judges' Retirement System Actuarial Valuation Report and Employer and Employee Contribution Rates

Program: Actuarial Office

Item Type: Action Consent

Recommendation

- Approve the June 30, 2022 Judges' Retirement System Actuarial Valuation report and the corresponding transmittal letter to the governor and Legislature.

- Encourage the governor and Legislature to adopt an employer contribution schedule that includes advanced funding of the Judges' Retirement System (JRS).

Executive Summary

The following table summarizes key results from the valuation and provides a comparison to the prior year report.

Comparison of Current and Prior Year Results		
	June 30, 2021	**June 30, 2022**
Present Value of Benefits	$2,889,125,579	$2,885,084,886
Accrued Liability	2,803,229,924	2,805,415,585
Market Value of Assets	65,882,450	52,709,366
Funded Status	2.4%	1.9%
Annual Estimated Pay-as-you-go Contribution	$198,557,517	$204,705,398

Over the last year, the state elected to continue funding the Judges' Retirement System on a pay-as-you-go basis. This means that there is no build-up of assets to secure the benefits for members, as shown by the funded status in the table above. Similarly, the lack of assets means that this system is failing to take advantage of any expected investment income that would offset the cost of the benefits.

It is not within the board's authority to require the state to fund this system. Accordingly, CalPERS cannot adopt a required contribution rate that will remedy the funding situation. As in the past, we recommend that the board encourage the administration to institute proper funding of the plan.

Strategic Plan

This action item is being presented as part of the regular and ongoing workload of the Actuarial Office and supports the strategic plan goal of pension sustainability.

Background

The Judges' Retirement System provides retirement and ancillary benefits for judges elected or appointed prior to November 9, 1994. This plan is closed to new entrants.

Analysis

As seen in the report, JRS continues to have significant unfunded accrued liability due to the pay-as-you-go contribution basis followed by the state. Projections of expected statutory contributions and projected future benefit payouts are shown on page 13 of the valuation report.

The market value of assets for JRS as of June 30, 2022, is $52.7 million. This is significantly less than the expected benefit payments in the year after the valuation date. If the only contributions to the system were those determined in accordance with statutory requirements, there would be insufficient assets to pay the benefits in the year after the valuation.

Budget and Fiscal Impacts

Not Applicable

Benefits and Risks

One key risk measurement in the June 30, 2022 report is the funded status of the plan. The funded status of a pension plan is defined as the ratio of assets to a plan's accrued liabilities. This measure, when below a certain level, indicates whether a plan is at risk of not meeting future benefit obligations. The funded status of this plan on a market value of assets basis is 1.9% and indicates there are insufficient assets accumulated to pay future benefits.

Although it is unlikely the state would fail to pay ongoing benefit payments when they are due, the lack of pre-funding means there is less benefit security for members of this plan. It also means the total cost of plan benefits is higher to the state since there is no accumulation of assets and, consequently, little to no investment earnings can be used to defray costs.

During the time period between the valuation date and the publication of this report, inflation has been significantly higher than the expected inflation of 2.3% per annum. Since inflation influences cost of living increases for retirees and beneficiaries and active member pay increases, higher inflation is likely to put at least some upward pressure on contribution requirements and downward pressure on the funded status in the June 30, 2023 valuation. The actual impact of higher inflation on future valuation results will depend on, among other things, how long higher inflation persists. At this time, we continue to believe the long-term inflation assumption of 2.3% is appropriate.

Attachments

Attachment 1 – Transmittal letter to the governor and Legislature

Attachment 2 – Judges' Retirement System Actuarial Valuation report as of June 30, 2022

May Yu
Senior Pension Actuary
Actuarial Office

Tony Cuny
Senior Actuary
Actuarial Office

Scott Terando
Chief Actuary