



Risk & Audit Committee

Agenda Item 6b

February 20, 2024

Item Name: Third Party Valuation and Certification of the 2022 CalPERS Annual Valuations of the Judges, Judges II, Legislators and 59 Survivor Pension Plans

Program: Actuarial Office

Item Type: Information

Executive Summary

The third-party actuarial firm, Buck Global, LLC (Buck), completed its independent review of the actuarial valuations of the Judges I, Judges II, Legislators and 59 Survivor Pension Plans as of June 30, 2022. Overall, Buck confirmed the actuarial process followed by the CalPERS Actuarial Office conformed to applicable Actuarial Standards of Practice (ASOPs). The full reports summarizing their review, which include findings and recommendations, are in Attachments 1 thru 4 of this agenda item.

Strategic Plan

This agenda item supports the Strategic Plan Fund Sustainability Goal – Strengthen the long-term sustainability of the pension fund.

Background

Under the California Constitution, the CalPERS Board of Administration (Board) has plenary authority and fiduciary responsibility to provide for actuarial services. The CalPERS Chief Actuary advises the Board and directs the activities of the CalPERS actuarial team. The Board also retains the services of an outside actuarial firm to review the work of the CalPERS Actuarial Office and to certify that such work complies with actuarial professional standards. The Board's Delegation Resolution RA-17-01 includes the delegation to the Risk and Audit Committee to oversee key internal auditor activities, including parallel valuations.

In June 2021, the board selected a third-party actuarial firm, Buck, to provide the parallel valuation and certification services to the Board. Buck has completed the parallel valuation and certification services for valuations of the Judges, Judges II, Legislators and 59 Survivor Pension Plans as of June 30, 2022. This activity represents the completion of Task 3 of Contract 2021-9096.

Analysis

Buck reviewed the Judges, Judges II, Legislators and 59 Survivor valuations for assumptions, methods and procedures used by the Actuarial Office and confirmed that they conform to applicable Actuarial Standards of Practice. For all plans key calculations of Buck matched those prepared by CalPERS staff within 5%, which was the target tolerance level specified by CalPERS. The differences that were evident were deemed not material.

In addition, Buck completed a review of our Actuarial Assumptions and Methods. They agreed with the methods and assumptions used. See Section II of the attached reports for a summary of their findings.

Buck's review of the CalPERS's reports offered a few areas in our reports where the descriptions of calculation or assumptions could use refinement. The Actuarial Office has made the suggested changes in all cases to the 2023 valuation reports. Additionally, Buck found an error in the calculation of the prefunding contribution of the Judges report. The Actuarial office has corrected the issue for the 2023 valuation. However, all parties acknowledge this contribution value is hypothetical due to the pay-as-you-go nature of the funding of the Judges plan.

Please see Schedule B in the attached reports for a summary comparison of Buck's results to CalPERS' results.

Budget and Fiscal Impacts

Funding for the third-party valuation and certification of the 2022 CalPERS Annual Valuations of the Judges, Judges II, Legislators and 59 Survivor Pension Plans is already identified within existing budgetary resources.

Benefits and Risks

It is essential to periodically review contribution requirements and funding levels to ensure the ongoing financial soundness of a pension system. The Actuarial Office has divided the retirement plans at CalPERS into three categories: Public Agencies, State and Schools, and Affiliates (LRS, JRS, JRS II, and the 1959 SBP). The Board's current independent actuarial firm, Buck, performs one parallel valuation for each of the three categories on a rotating three-year cycle. These parallel valuations provide an additional "check and balance" that increases the financial security of the retirement system for its participating members by reducing the risk of undetected errors in actuarial calculations.

Attachments

Attachment 1 – Parallel Valuation and Certification Report - CalPERS Judges Retirement System valuation (Task #3)

Attachment 2 – Parallel Valuation and Certification Report - CalPERS Judges II Retirement System valuation (Task #3)

Attachment 3– Parallel Valuation and Certification Report - CalPERS Legislators Retirement System valuation (Task #3)

Attachment 4 – Parallel Valuation and Certification Report - CalPERS 59 Survivor valuation
(Task #3)

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