



Risk and Audit Committee

Agenda Item 6b

June 12, 2024

Item Name: Final Actuarial Review Report

Program: Actuarial Office

Item Type: Information

Executive Summary

The third-party actuarial firm, Buck Global, LLC (Buck), has completed their reviews of actuarial valuations for CalPERS' various pension plans. The purpose of the reviews was to independently validate the actuarial valuations performed by CalPERS actuarial staff and identify any potential problems or issues. The Final Actuarial Review Report (Report) is the final deliverable of a two-year contract to perform parallel valuation and certification services. It provides a summary of reviews performed for the period of September 1, 2021 through October 1, 2023 and the results and comments from each review (Attachment 1). In general, the independent reviews found that actuarial valuations produced by CalPERS actuarial staff are thorough, complete, and comply with applicable Standards of Practice. Buck was able to closely replicate key valuation results, and differences were generally due to reasonable differences in CalPERS and Buck's valuation systems.

Strategic Plan

This agenda item supports the Strategic Plan Pension 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 staff. The Board also retains the services of an outside actuarial firm to review the work of the CalPERS actuarial staff and certify that such work complies with actuarial professional standards. The Board's Delegation Resolution RA-20-01 includes the delegation to the Risk and Audit Committee to oversee key internal audit activities, including parallel valuations.

In September 2021, the Board selected a third-party actuarial firm, Buck, to provide the parallel valuation and certification services to the Board. The engagement covered the following schedule of tasks, Task 1 through Task 4, as stated in Contract 2021-9096.

1. Parallel Valuation and Certification of the Actuarial Valuations of the CalPERS Contracting Public Agency Plans as of June 30, 2020.
2. Parallel Valuation and Certification of the Actuarial Valuations of the CalPERS State and Schools Plans as of June 30, 2021.
3. Parallel Valuation and Certification of the Actuarial Valuations of the Judges' Retirement Systems (JRS), Judges' Retirement Systems II (JRS II), the Legislators' Retirement System (LRS), and the 1959 Survivor Benefit Program (1959 SBP) as of June 30, 2022.

Task 4 of Contract 2021-9096 requires Buck to prepare a final audit report for the period September 1, 2021 through October 1, 2023. The report contains a recap of issues found during each actuarial review, how issues were resolved, and what issues remain outstanding.

Analysis

The purpose of the periodic reviews was to independently validate the actuarial valuations performed by CalPERS actuarial staff and to identify any potential problems or issues. The independent actuarial firm, Buck, provided an overall opinion as follows:

“The results of our reviews completed as part of Contract 2021-9096 confirm that the actuarial process followed by CalPERS is thorough, complete, and complies with applicable Actuarial Standards of Practice. We have been able to closely replicate key valuation results, and differences generally were due to reasonable differences in valuation systems.

The CalPERS Actuarial Office has addressed each of the outstanding issues noted in this report, and have indicated their intention to resolve them in a reasonable period of time.”

Budget and Fiscal Impacts

The fee for all of the parallel valuations and certification of the Final Actuarial Review Report is \$210,325. Funding is identified within existing budgetary resources.

Benefits and Risks

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

Attachment

Attachment 1 – Final Actuarial Review Report

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