TEACHERS' RETIREMENT BOARD

REGULAR MEETING Item Number: 5

SUBJECT: Amendment to the Defined Benefit Program Actuarial Valuation Policy

CONSENT: __ ATTACHMENT(S): 1

ACTION: X DATE OF MEETING: November 5, 2015 */ 15 mins.*

INFORMATION: ___ PRESENTER: Rick Reed and David Lamoureux

PURPOSE

The purpose of this item is to adopt minor revisions to the existing Defined Benefit (DB) Program actuarial valuation policy.

SUMMARY

At the February 2015 regular meeting, the board adopted a policy for completing actuarial valuations of the DB Program. It was developed based on board actuarial practices in place at the time and new requirements based on Assembly Bill 1469—Bonta (Chapter 47, Statutes of 2014). This policy sets the frequency of actuarial valuations and experience studies, the determination of actuarial assumptions, actuarial funding policy, and methods to determine employer and state contributions.

Under the policy, employer and state contribution amounts are determined for three areas of the DB Program; the 1990 benefit structure; service up to June 30, 2014 (pre-2014 benefits) and the DB Program as a whole. Key implications of the existing policy are:

1. The state is solely responsible for the Unfunded Actuarial Obligation (UAO) of the 1990 benefit structure. Therefore, employer contribution rates will not increase as a direct result of an increase in the UAO of the 1990 benefit structure;
2. If a surplus develops for the 1990 benefit structure and a UAO for the pre-2014 benefits, the employer will contribute on the combined amount instead of on the UAO for the pre-2014 benefits alone; and
3. Investment gains in excess of the actuarial assumed investment return will reduce the UAO based on the 1990 benefit structure but increase the UAO of the pre-2014 benefits while investment returns below the actuarial assumed investment return will increase the UAO based on the 1990 benefit structure but decrease the UAO of the pre-2014 benefits.

The June 30, 2014 actuarial valuation of the DB Program was the first valuation to use this new policy. Following the completion of the 2014 actuarial valuation of the DB Program, Milliman performed an analysis on the impact of alternative investment experience on the funded ratio of and future state and employer contributions to the DB Program. The results of that analysis were presented at the June 2015 regular meeting.

As a result of this analysis, minor changes were identified that should be made to the existing policy to eliminate potential situations where the employers could be contributing less than needed to amortize the unfunded liability attributable to pre-2014 service. Situations were identified where investment returns below the actuarial assumed investment return could lead to employer contributions, when combined with the state contributions, not being sufficient to amortize the unfunded liability attributable to pre-2014 service. Changes should be made to the existing policy to rectify this situation. The existing policy already covered situations where the employers could be contributing more than needed.

A draft revised policy is attached and includes the changes needed to address the above issue as well as changes needed for additional technical clarifications.

Draft Revisions to the Teachers' Retirement Board Policy Manual—Section 800

F. ACTUARIAL VALUATIONS OF THE DEFINED BENEFIT PROGRAM

The board shall commission and adopt an actuarial valuation of the Defined Benefit (DB) Program annually, using the most recently adopted demographic and economic assumptions, including the period of time over which gains and losses that differ from assumed investment return are recognized and the actuarial cost method (different actuarial cost methods may be used depending on the purpose of the liability calculation). Such assumptions and methods shall be reviewed and adopted every four years, but assumptions and methods may be reevaluated more frequently if the board determines that events since the last adoption warrant an earlier review.

1. Conducting Valuations

a. Actuarial valuations shall be undertaken to determine the current and long term fiscal status of the DB Program and establish state and employer contribution rates pursuant to Chapter 16 of Part 13 of Division 1 of the Education Code.
b. The valuation shall be consistent with the Actuarial Standards of Practice and shall, among other indicators, identify the unfunded liability and the funded status of the DB Program.

2. Determining State Contributions

a. Pursuant to Section 22955.1 of the Education Code, the state's contribution rate shall be subject to adjustment annually, commencing in 2017-18, in an amount necessary to fully amortize the unfunded liability by June 30, 2046, associated with the benefit and contribution structure in effect as of July 1, 1990.
b. The assets associated with this unfunded liability will reflect the additional contributions due to the increases in the state contribution rate designated to amortize this unfunded liability.
c. The board shall reevaluate the target date for amortizing the unfunded liability in 2025.
d. If an increase in the state's contribution rate is required, the increase shall not exceed 0.50 percent of the creditable compensation of the fiscal year ending in the immediately preceding calendar year upon which members' contributions to the DB Program are based, as reported pursuant to Section 22955.5 of the Education Code.
e. The contribution rate for the 1990 Benefit Structure, when combined with the ~~state~~ employer contribution rate imposed pursuant to Section 22950.5, shall not exceed the contribution rate needed to amortize the unfunded liability for the total DB Program.

3. Determining Employer Contributions

a. Pursuant to Section 22950.5 of the Education Code, the employer's contribution rate shall be subject to adjustment annually, commencing in 2021-22, in an amount necessary to fully amortize the unfunded liability by June 30, 2046, of the unfunded liability associated with the changes made in the benefit and contribution structure on or after July 1, 1990, associated with the service credited to members as of June 30, 2014.

b. The assets associated with this unfunded liability will exclude future contributions equal to the Normal Cost for post-June 30, 2014 benefit accruals and will include a one-time adjustment equal to the difference between the June 30, 2014 actuarial obligation under the projected unit credit cost method and the actuarial obligation under the valuation cost method.

c. If an adjustment in the employer's contribution rate is required after determination of the state contribution rate, the adjustment shall not exceed 1.00 percent of the creditable compensation upon which members' contributions to the DB Program are based, unless the unfunded liability has been eliminated.

d. In no event shall the total contribution rate imposed pursuant to Section 22950.5 exceed 12.00 percent of the creditable compensation upon which members' contributions to the DB Program are based.

e. If there is a surplus (i.e. a negative unfunded liability) associated with the benefit and contribution structure in effect as of July 1, 1990 for pre-2014 service, ~~T~~the employer contribution rate, when combined with the state~~employer~~ contribution rate imposed pursuant to Section 22955.1, shall not exceed the contribution rate needed to amortize the unfunded liability attributable to pre-2014 service, subject to the limitations described in 3c and 3d.~~for the total DB Program.~~

~~e.~~f. The employer contribution rate, when combined with the state contribution rate imposed pursuant to Section 22955.1, shall not be less than the contribution rate needed to amortize the unfunded liability attributable to pre-2014 service, subject to the limitations described in 3c and 3d.

4. Determining Member Contributions

a. Member contributions shall be equal to the rates specified in Chapter 15 of Part 13 of Division 1 of the Education Code, and are not subject to adjustment by the board.