

Schools Pool Valuation and Employer/Employee Contribution Rates

Finance & Administration Committee
April 18, 2022

Overview

- Actuarial valuation date: **June 30, 2021**
 - Determines required employer/employee contributions for **fiscal year 2022-23**
- All participating school employers pay the same employer contribution rate based on total results of the Schools Pool

Significant Events Since Prior Valuation (1 of 2)

- Preliminary investment return of 21.3% for fiscal year 2020-21 triggered a Risk Mitigation event
 - Discount rate reduced by 0.20%, from 7.00% to 6.80%
 - Portion of investment gain was used to fully offset increase in UAL resulting from discount rate change
 - Remaining (net) investment gain will reduce employer rate by 1.27% in 2022-23 [increases to 5.7% by 2026-27 due to ramp]
- In Asset Liability Management process (Nov 2021), Board retained 6.80% discount rate

Significant Events Since Prior Valuation (2 of 2)

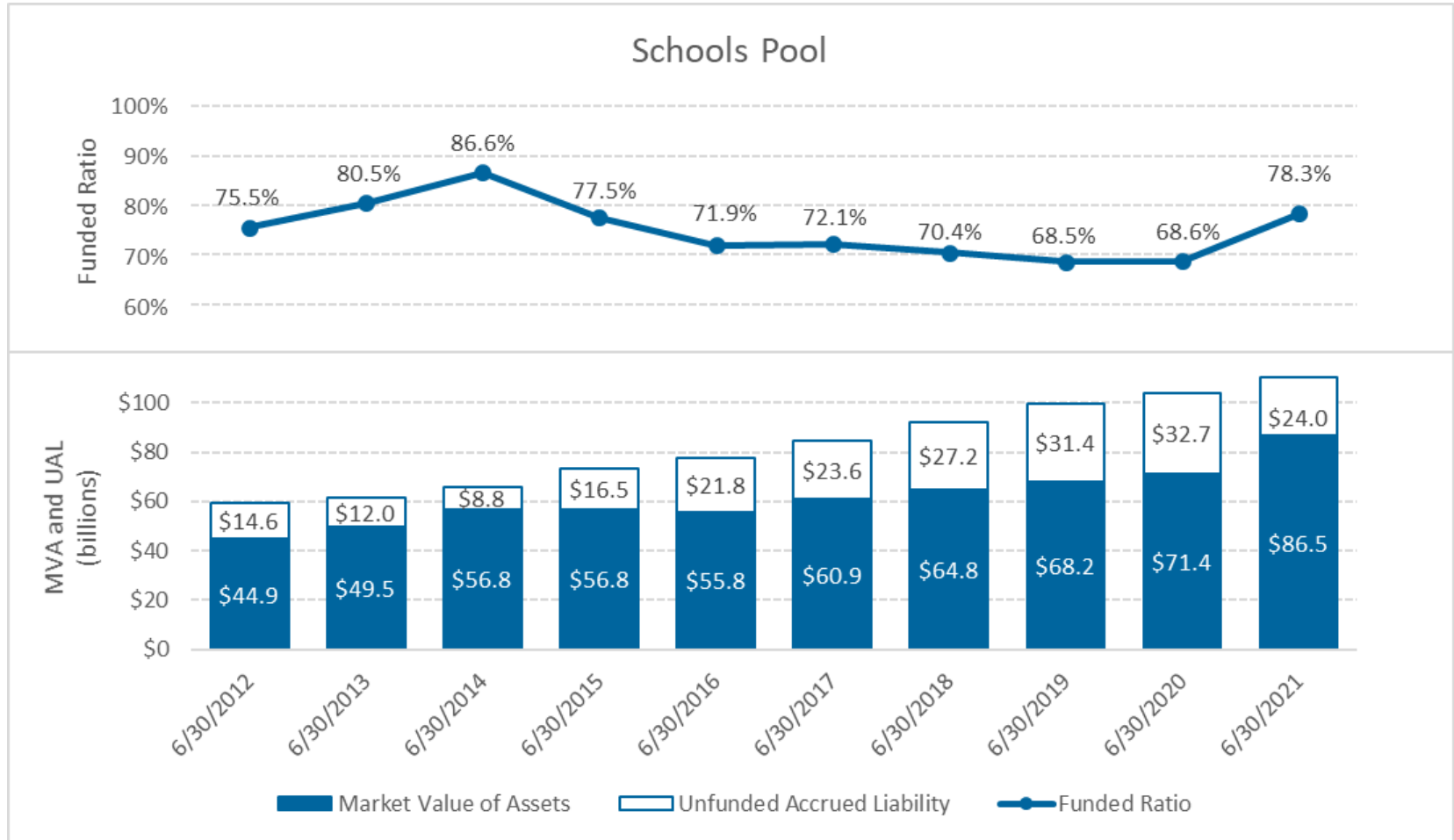
- New demographic and other economic assumptions adopted by Board in November 2021 based on results of experience study conducted every four years
- State's supplanting payments under Government Code section 20825.2 expire at the end of fiscal year 2021-22
 - School employer rate in 2022-23 will increase by 2.16% relative to 2021-22 as a result

Key Results (\$ in millions)

	June 30, 2020	June 30, 2021
Market Value of Assets	\$ 71,400	\$ 86,519
Accrued Liability	\$ 104,062	\$ 110,507
Unfunded Accrued Liability	\$ 32,662	\$ 23,988
Funded Ratio	68.6%	78.3%
	Fiscal Year 2021-22	Fiscal Year 2022-23
Employer Contribution Rate	22.91% *	25.37%
PEPRA Member Contribution Rate	7.00%	8.00%

* Reflects a reduction of 2.16% due to the supplanting payment associated with the State's supplemental contribution in July 2019 (§ 20825.2)

Funded Status Recent History



Employer Contributions (\$ in millions)

	Fiscal Year 2021-22	Fiscal Year 2022-23	
Employer Contribution Rate (%)		<i>[estimated¹]</i>	[actual]
Employer Normal Cost	9.32%	9.9%	9.82%
Unfunded Liability Rate ²	15.75%	15.5%	15.55%
State Supplanting Payment (Section 20825.2) ²	<u>(2.16%)</u>	<u>—</u>	<u>—</u>
Required Employer Rate	22.91%	25.4%	25.37%
Projected Payroll in Contribution Year	\$ 15,295		\$ 15,181
Expected Employer Contribution (\$)	\$ 3,503		\$ 3,852

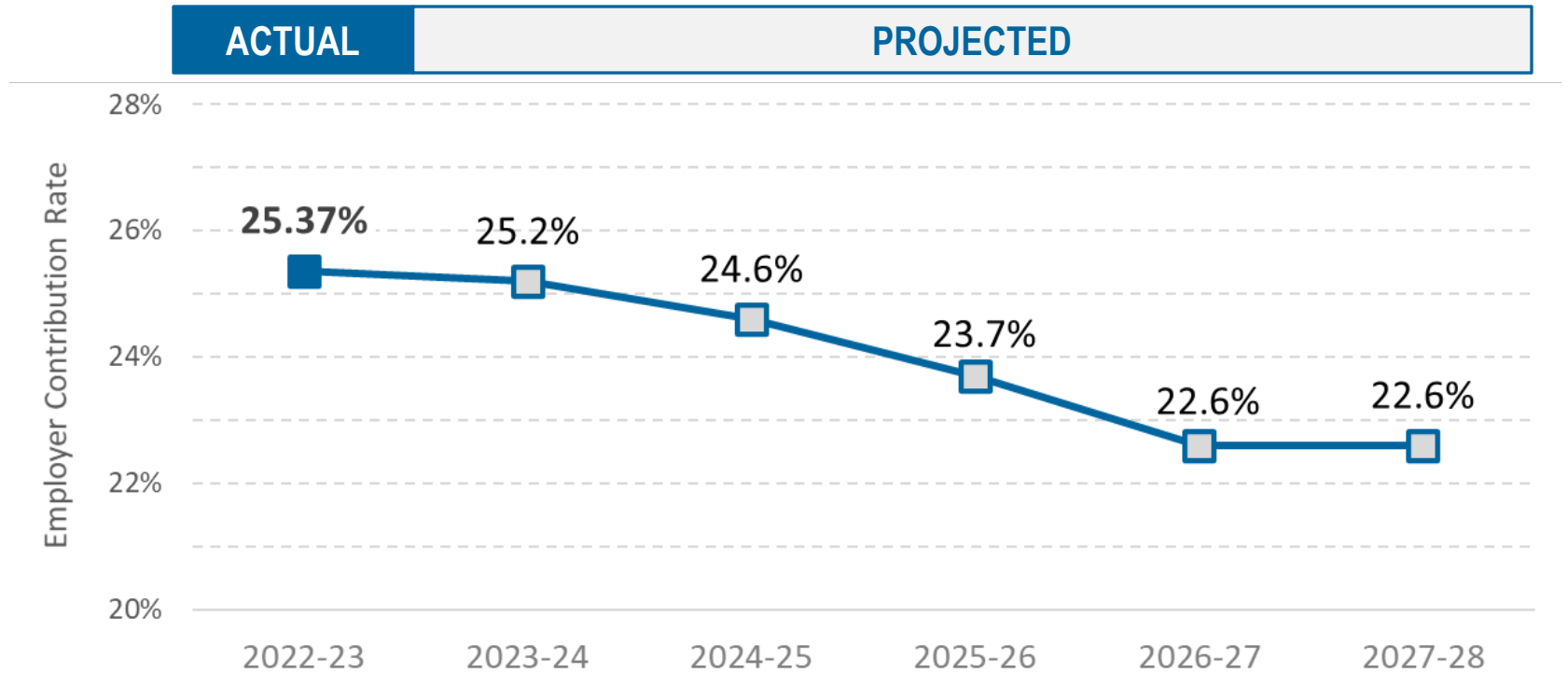
¹ As projected in the June 30, 2020 actuarial valuation report addendum

² For FY 2021-22, the State's \$330 million supplanting payment (§ 20825.2) was directly incorporated in the Unfunded Liability Rate but is separated here for purposes of illustration

PEPRA Member Contributions

- PEPRA members in the Schools Pool are required to contribute 50% of normal cost
- Member contribution rate will increase from 7.00% to **8.00%** effective July 1, 2022
 - Change driven by a combination of the discount rate reduction, other assumption changes, and experience prior to June 30, 2021
- Payroll of PEPRA members is 42% of pool total
 - PEPRA's lower normal cost and member cost sharing currently saves employers about 1.4% of payroll

Projected Employer Contribution Rate



Projected rates assume 6.8% investment return in FY 2021-22 and thereafter with no changes to benefits, assumptions, or methods during the projection period. Normal cost is expected to continue to gradually decline over time as new employees enter the PEPRA benefit tier. All other demographic experience is assumed to match the actuarial assumptions.