Segal Consulting

## University of California Retirement Plan

# Highlights of Actuarial Experience Study for the period July 1, 2014 through June 30, 2018

## UCRS Advisory Board

## June 21, 2019

*Completed by Segal Consulting, San Francisco*

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# Purpose of the Study

- Review all economic and demographic assumptions based on recent experience and future expectations
  - Actuarial best practice
  - Must be performed every 3 to 5 years under Plan terms
- Recommends economic and demographic assumptions for
  - Annual UCRP actuarial valuation
  - Asset / liability forecasts
  - Many assumptions are also used in Retiree Health valuation
- Categories of assumptions:
  - Demographic
    - Major assumptions: mortality, retirement, termination, disability
  - Economic
    - Inflation, investment rate of return, salary increases

# Major Recommendations

**Economic**

- Reduce inflation assumption from 3.00% to 2.75%
- Reduce investment earnings assumption from 7.25% to 7.00%
  - Due to reduction in inflation assumption
  - Relative “confidence level” reduced from 55% to 54%
  - 7.00% return assumption is very common in California
    - CalPERS and CalSTRS use 7.00% return assumption
- Slight reduction in overall salary increase assumption

**Demographic**

- Decrease mortality rates (i.e., longer life expectancies)
  - Recommending new “Generational” benefit-weighted mortality tables, published by Society of Actuaries
  - Increases life expectancy for a 60-year-old healthy retiree in 2019 by about three years for Faculty members and about two years for Staff members
- Other changes to rates of retirement, termination, disability incidence, etc. that are relatively small

# Anticipated Impacts

- Impact of the assumption changes are modeled as of July 1, 2018 for illustration for the campus and medical center segment of UCRP
- Impact of <u>All</u> Assumption Changes:
  - Normal Cost: +$262 million
    - Increase from 17.9% to 19.7% of payroll
  - Actuarial Accrued Liability: +$4.1 billion (6% increase)
    - Decrease in funded ratio from 85% to 80%
  - Total Funding Policy Contribution Rate ("actuarially determined contribution")
    - Increase from 26.33% to 30.95% of payroll
  - Increases driven by change to investment return and mortality assumptions
- Changes to UCRP's actuarial equivalence basis have also been recommended
  - In general, increases the annuity option factors and Lump Sum Cashout (LSC) factors
    - Resulting in a larger benefit to future retirees who elect a modified option or choose an LSC