PUBLIC RETIREMENT SYSTEMS' ACTUARIAL COMMITTEE

Wednesday, June 20, 2012
10:00 a.m.
Senate Committee Room E
State Capitol
Baton Rouge, Louisiana

MINUTES

1. Call to Order

Committee Chairman, Senator Elbert Guillory called the meeting to order at 2:33 PM

2. Roll Call

Members Present: Treasurer Kennedy, Dr. Procopio for Commissioner Rainwater, Rep. Kevin Pearson for Speaker Kleckley, Mr. Gary Curran, Mr. Charles Hall, and Mr. Daryl Purpera.

Also Present: Ms. Clarissa Moore, Secretary; Mr. Paul Richmond, Manager of Actuarial Services, Office of Legislative Auditor; and Ms. Shelley Johnson, LASERS and Stuart Cagle, Deputy Director at Teacher's Retirement Systems

3. Approval of Minutes

Chairman Guillory called for a motion to approve the minutes from the meeting of March 30, 2012. Dr. Procopio moved that minutes be adopted, there was no objection and the minutes were approved.

4. Discussion:
   Review the revised evaluation of the system prepared as provided in R.S. 11:102 pursuant to HB1131.

Stuart Cagle, Deputy Director at Teacher's Retirement Systems introduced Ms. Shelly Johnson, Actuary for LASERS, to explain the amendment to the actuary evaluation. Ms Johnson handed out a letter, which was distributed to the committee for review, which was prepared for the retirement system that complies with the requirements of Act 716, which was originated as HB 1131 from the 2012 Regular Session. Act 716 requires that the employer rate, beginning with fiscal year 2012-13 be individually determined for each plan and each plan as defined within the Act. She also reminded the committee that at the March meeting, the PRSAC committee approved the employer rate for 2013FY to be 24.5% and the Act 716 requires that that rate be split into the applicable plan as follows: Grades K-12 teachers:24.5%, Higher Ed: 24.4%, Lunch Plan A: 30.0%, Lunch Plan B: 26.6%. This would remain the originally approved rate of 24.5%. Ms Johnson explained that the majority of the members are in the Grade K-12 Teachers group. That rate did not change. When the evaluation was previously approved back in March, the normal employee cost rate was also approved and is the rate that's paid into the members that also participate in ORP. The amount that the employer contributes into the ORP accounts is 5.8055% and for members employed as K-12 Teachers their rate would be 5.7977%, for Higher Ed their rate would be 5.6852%, which would all put us in compliance with the Act.

Treasurer Kennedy asked how would these new numbers compare to what was done the previous year before the statute was passed.

Ms Johnson also explained that all employers would have paid the composite, 24.5% which was the rate it has always have been for teachers. The evaluation is usually done for every plan within teachers. They then composite all information and take the total to come up with one average employer rate. What is done now is separating the rate to vary by plan but is intended to bring in the exact same dollars.

Treasurer Kennedy questioned who does Lunch Plan A cover.

Ms. Johnson stated that the Lunch Plans are divided by parishes of employers within the retirement system that employs members of the food service workers. Some parishes have A and some have Lunch Plan B. It is her understanding that Lunch Plan B members are in parishes that also participate in social security, which is a different benefit plan from Lunch Plan A members. Lunch Plan A is now closed to new members, but the original benefits for members remains and new members are now included into the new K-12 teachers plan. The Lunch Plan A members are older employees who are also funded through a method called "projected unit credit".

Treasurer Kennedy asked if the food service workers pay more based on this older plan still being in existence, to which Ms. Johnson stated that the employers will pay more for those members in Lunch Plan A, and the members will not be affected by the Act. More money will be coming into the system for those members. The only rate that will be decreasing by unbundling the rate is the Higher rate, which means that Higher Ed employers are going to pay slightly less and the K-12 (majority) rate is unchanged, The employers of Lunch Plan workers will pay more.

Treasurer Kennedy asked to explain why Lunch Plan workers employers are paying more.

Ms. Johnson explained that the benefit design is different for the lunch plans and the demographics of the membership are also a factor. Mr. Cagle interject that the lunch plan group is an older group, which is a more expensive group. They also have a three percent benefit factor. This group is very small group with no more members going in and as the members retire, the numbers decrease. At the moment there are only 79 total active members in Lunch Plan A. Ms Johnson stated that there are actually 156 members included. Total membership is 86,742 to give a perspective on how many members are involved.

Treasurer Kennedy stated that sub-groups are being treated differently based on total employer contribution rates. He wanted to know the impact and why this is being done.

Ms. Johnson answered that the impact this year K-12 teachers' employer rate is unchanged. The Higher Ed rate is decreasing. Treasurer Kennedy asked if we would pay more for K-12. Ms Johnson confirmed that yes we would pay more for K-12, less for Higher Ed and more for the Lunch Plans. The practical impact is that the subsidy between employers for Plan is now ending and each group is now paying the particular cost of their own members. Treasurer Kennedy stated that the colleges and universities will pay less and the school boards will pay more, to which Mr. Cagle agreed was the bottom line.

Treasurer Kennedy asked why this was done to end up with this bottom line. Mr. Cagle stated that it is his understanding is that the bills that were passed was to allow the universities to pay less and these rates were split so that the universities could harvest some of their savings as opposed to spreading those savings among all of their employers.

Dr. Procopio stated that if there was any other legislation passed to get the cost lower for Higher Ed to pay less as opposed to spreading savings to K-12. Treasurer Kennedy asked what would be a reason to state to the school boards for them paying more. Ms. Johnson stated that she was not sure that the policy was even explained to the retirement system. They did not testify on HB1131 and they were probably not asked their opinion. Ms. Johnson also stated that in her opinion LASERS did something similar with the idea would be to have the employer cost representative of the benefit differences by plan so that certain groups that had richer benefits would pay more for them and the members who had less benefits employers would pay less. Teachers are different due to K-12 teachers and Higher Ed have exactly the same benefit plan, their cost differs due to the membership demographics (ages etc.). She also stated that there was proposed benefit changes during session that would have changed the outcome of the rate had any of those bills passed. The rate is not only affected by benefit differences but also affected by the members within the group. Under the funding method for the system, plans that have older members that are closer to retirement, it would costs more to fund them even if the benefit package was the same.

Treasurer Kennedy asked for an explanation to give to the school board for this increase. Representative Pearson interjected to say that the school board may look at the fact that last year they were paying 23.7% for K-12 teachers, this year they are paying 24.5%, which is a considerable increase amount. This increase was going happen. He also stated that 95-98% of K-12 teachers are still at the same level of 24.5%. The biggest impact of the retirement costs increasing would be due to what. After much debate back and forth it was determined that there was no real answer to give.

Ms Johnson stated that there are two questions being asked, one why is the rate going up from one fiscal year to the next, and the other question is: the rate that was approved by PRSAC was 24.5% why is that rate changing from what was previously approved. Mr. Cagle offered his opinion and Representative Pearson asked if it would be due to a law being passed? Mr. Cagle expressed his opinion that he would state that it's not necessarily due to a bill but just the way the systems work.

Treasurer Kennedy asked Representative Pearson if there were a lot of people in the lunch plans to which Representative Pearson responded that both had approximately 1200 members of 80 thousand total.

Treasurer Kennedy questioned if their benefits are richer, to which Ms. Johnson stated that Lunch Plan A is richer, but not the reason for the difference but that the members are on a cost method that allow younger members to cost less than older members and there are mostly older members in the lunch plans. It removes the difference in the contribution rate due to the age differences of the members. In the future we may be able to get the method changed to entry-age normal in the statue will help with this difference.

Treasurer Kennedy asked for Ms. Johnson to state why the composite rate increases. Ms Johnson stated that the composite rate went up from FY2011-12 to FY2012-13 from 23.7% to 24.5% was due to the larger reasons being the backload payment schedule on the UAL are set to increase 5-6%. The expected known increase in the payment schedule was expected and it will continue to happen another 5-6 years if payroll does not keep up with the increase with the UAL payments, then it requires a larger percentage of payroll to make those payments.

Treasurer Kennedy questioned if the biggest increase in the 30% and 26% affect a smaller number of people. Ms. Johnson stated that it doesn’t affect the employer of that many people. The employee rate will go unchanged.

Representative Pearson stated that going forward implementing the cash balance plan, this could be something to look at in the future. You are paying the cost of your benefits not subsidizing. The purpose is to subsidizing one group with another group. He questioned Ms Johnson if this is possibly the last year the peak in these numbers and that maybe next year this number would go down.

Ms Johnson stated that it would depend on many things whether or not the rate would decrease by next year. Its not possible for her to predict anything now, one of the larger contributors would be the actuarial rate of return for the year which we won’t know what that is yet. The gain in the last two fiscal years is expected to offset the losses in 2008 that are going roll in. If by chance that those do offset, the impact of the return for the last fiscal year would have the majority of the impact in terms of how the investment affects the return.

Mr. Purpera requested for Mr. Richmond to give his opinion of the numbers given.
Paul Richmond, an Actuary, from the Legislative Auditors Office, came forward. He stated that the Auditors office made an independent calculation of the contribution rate at the sub-plan level and came up with rates that were identical to those that were presented by Ms. Johnson.

Dr. Procopio stated that during a prior PRSAC meeting, LASERS rate of return was changed with the intention that the teachers would come back with a plan. Ms Johnson stated that the Teachers Retirement Systems did adopt an eight percent rate of return beginning July 1, 2013. It does not affect FY2012-13, but when the evaluation for June will make a projection on the

FY2013-14 rate that will be based on the eight percent. It will also decrease future investment losses.

Dr. Procopio questioned if the move from 8.25% to 8% the move or a part of a plan over the next several years to go lower.

Ms Johnson explained that the board approved a move from 8.25% to 8%. Her recommendation was to move to 7.75% to the board as the ultimate goal pending the condition of the system and moving beyond the increasing UAL payment schedule.

Treasurer Kennedy questioned the average rate of return in teachers over a twenty-five year period. Ms Johnson stated that the average is 8.06%.

Mr. Richmond interjected that that number fail to include administrative expenses or net of COLAS that were paid, nor does it reflect money diverted due to cost of living adjustments. The net administrative expenses are 7.8%. COLAS were first instituted in the early 1990s.

Mr. Cagle stated that the hurdle will be higher to put money in the experience account than what was there before.

Mr. Richmond stated that it is a number that need to be watched. It is safe to say that the rate is debatable but 6.75-7.25% would be a sage range.

Treasurer Kennedy questioned if the divisions actuary has looked at the numbers. Dr. Procopio stated that only in the bill the Division of Administration could bring forth an alternative but it was later decided that it was not necessary.

Mr. Hall commented that it cost smaller amounts for younger employees and larger amounts in older employees, which nets out at 26.6%. The Higher Eds younger employees averaged with the older equals to 24.4%. In Lunch Plan A, you only have older employees. Younger employees are being funneled to K-12. There is nothing to offset the cost for Lunch Plan A because it is mostly older employees. The legislation was probably to segregate the cost for employers so that representative of the different plan structures under the employers would pay the appropriate cost for the different plan structure. The school boards that have the older plan structure appears to be significantly penalized due to the younger members that would have normally offset this cost, are being shuffle into K-12 paying the same rate that they would have paid for them in Lunch Plan A. They are going to pay an extra 4.5% for these people. He believes it is a flaw in the legislation, even though it passed, they should proceed with the recommendations that they have made. Hopefully it can be fixed for next year.

Mr. Hall also made a motion, when appropriate, to accept the letter received from Ms. Johnson as an amendment to the valuation and adopt the rate that are contained within the letter. Chairman Guillory asked if there was any objection to the motion, to which there was none and the motion was adopted.

6. Consideration of any other Business

Treasurer Kennedy wanted to make a suggestion to find out the causes of our unfunded accrued liability in our state systems. He also asked the legislative auditor to put together a report, on past work done, to address the issue of the causes of the systems being in the state that they are in today. Have a future meeting to understand what is going on once this information is gathered.

Mr. Purpera stated that much of the information is probably already included in the 2011 actuarial report. He said that they should be able to provide needed information from that report that would answer these questions.

Representative Pearson also agreed with the request of Treasurer Kennedy and added that he would like to request looking into alternatives for the state school systems as opposed to paying the 8.25% or the 8% on that initial unfunded liability. If there are additional options that we could possibly consider.

Representative Sam Jones joined the committee and requested that the legislative auditor would also include the systems that have not only been problematic but also those that are successful and what was done to make them successful.

8. Adjourn

Motion to adjourn by Representative Pearson, to which there was no objection and the meeting as adjourned at 3:19 PM.

Approved by PRSAC: **December 11, 2012**

Date