LOUISIANA LEGISLATURE

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PUBLIC RETIREMENT SYSTEMS' ACTUARIAL COMMITTEE [PRSAC]

MINUTES
February 8, 2023

APPROVED

I. CALL TO ORDER

A meeting of the Public Retirement Systems' Actuarial Committee [PRSAC] was held on February 08, 2023 in the John J. Hainkel, Jr. Room at the State Capitol in Baton Rouge, Louisiana. The chairman, Senator Edward J. Price called the meeting to order at 9:09 A.M.

II. ROLL CALL

The secretary called the roll and the following was noted:

MEMBERS PRESENT:
Senator Edward "Ed" Price - PRSAC Chair
Representative John Illg for Rep. Phillip DeVillier | PRSAC Vice Chair
Greg Curran | Curran Actuarial Consulting
John Broussard | Louisiana Department of Treasury
Michael J. Waguespack | Louisiana Legislative Auditor
Shelley Johnson | Foster & Foster Actuaries & Consultants
Rick McGimsey for Barbara Goodson | Louisiana Division of Administration

LEGISLATIVE STAFF PRESENT:
Michelle Johnson | Secretary
Alana Perrin | Attorney
Laura Gail Sullivan | Senate Counsel

Kenneth Herbold | Louisiana Legislative Auditor - Director of Actuarial Services
John Rodgers, Jr. | Senate Sgt. at Arms
Edna Buchanan | Senate Sgt. at Arms

III. APPROVAL OF MINUTES

Chairman Price stated the PRSAC minutes from the December 15, 2022 meeting will be submitted for approval at the forthcoming PRSAC meeting.

IV. DISCUSSIONS

DISCUSSION AND APPROVAL OF THE 2022 ANNUAL ACTUARIAL VALUATIONS AND THE REQUIRED CONTRIBUTIONS AND DEDICATION OF REVENUE CONTAINED THEREIN FOR THE FIREFIGHTERS RETIREMENT SYSTEM OF LOUISIANA [FRS]

Mr. Curran provided the following summary of the FRS Valuation:
Integral to maintaining consistent valuations with a stable membership, it yields the most dependable data. A coherent demographic group facilitates the acquisition of precise measurements. Despite a marginal decrease in FRS members, declining from 4,450 to 4,394 in the preceding year, this decline is not deemed to be of considerable significance. The focal point has instead shifted toward the payroll, which exhibited growth from $249 million to $253 million. Concurrently, benefits and disbursements also increased to nearing $114 million. The population of retirees continued upward. Members terminated or exited may be entitled to prospective benefits. In the aftermath of the COVID-19 pandemic, there was a notable rise in member exits and withdrawals. The accrued liability designates the sum that FRS would hold if the actuarial value were to mirror the actual funds available; this currently stands at $2.8 billion. In contrast, the actuarial value amounts to $2.2 billion, results in a ratio of 80.41%. The FRS funding ratio increased due to state statute change transition to a spread-gain method that refrains from incorporating gains and losses into the unfunded actuarial accrued liability. This new method dispenses with the inclusion of gains and losses within the unfunded actuarial accrued liability (UAL), which remains fixed and is legally stipulated to be repaid as per a predetermined schedule. As payments are progressively made, this obligation will diminish. Recently, it decreased from $524 million to $491 million, due to a substantial mandatory payment. Provided the payment schedule adheres to the outlined plan, the UAL should be completely retired in an estimated 12-year span. A return rate of -10.9% was accomplished based on market performance. After smoothing procedures, this figure adjusted to a 5.7% return. This value was subsequently compared to the assumed rate of return within the FRS, set at 6.9%, and resulting in a negative impact on the plan's investments for this year. Concomitantly, the employer normal cost saw an increase from its previous level of $46.9 million, while there was a reduction in the amortization payment on the UAL. Administrative costs remained consistent within the range of $2.1 million, depicting only a marginal increment from the preceding year. During the past year, the FRS received an inflow of more than $30 million from insurance premium taxes. In light of this, employers are anticipated to contribute a total of $84.8 million, in accordance with state law. This contribution, calculated based on the projected payroll, was rounded to 33.25%. It's notable that the UAL remains static, its alterations being solely attributable to payments and accrued interest. The

normal cost, meanwhile, encompasses all gains and losses inherent to the plan. Notably, the solitary loss incurred in the current year of 2023 emanated from asset experience, resulting in a dip below the assumed rate of return and thereby contributing to a cost increase of nine-tenths of a percent. Efforts to curtail costs were partly facilitated by the experience of the FRS, leading to a reduction of 0.43%. Additionally, judicious timing of contributions yielded savings of 0.06, while new plan members incurred slightly lower expenses compared to the existing members, leading to a saving of 0.08%. Over a decade-long retrospective analysis, which is applicable to most retirement systems, insurance premium taxes exhibited an incremental increase of nearly 0.5%, reaching 11.5%. This increase contributes to the sustenance of the plan and the reduction of overall costs. In response to high plan costs challenges, legislative measures have been undertaken, culminating in an approved payment of $63.7 million. This strategic maneuver is expected to considerably alleviate employer expenses over 12 years.

Mr. Herbold provided the following summary of the FRS LLA Review:
Subsequent to LLA conducting a limited review, adhering to actuarial standards of practice, no discrepancies were identified. This review of the FRS plan focused on cost of living adjustments (COLA) and the assumed rate of return on assets. The FRS possesses statutory provisions that permit ad hoc COLAs when costs reach elevated levels. Even though the statutory framework allows for COLAs, the FRS may choose not to implement. This is supported by the continual rise in FRS costs since the last COLA authorization in the year 2015. To that end, LLA recommends projections into the assessment of a potential COLA, accompanied by a comprehensive evaluation of associated cost escalations. Regarding investment return assumptions, LLA prefers an approach that encompasses temporal trends, as opposed to relying on a singular point in time. While maintaining the historical practice of using a solitary number benchmark for comparison against the investment return, certain median-term capital market assumptions increased subsequent to recent market disturbances. Inflation projections have shown an increase, consequently inflating the benchmark assumption. This computation is founded on median-term rates, which bear more weight than long-term rates employed by the actuary. The marginal uptick in volatility stems from the oscillation of median-term rates, surpassing that of long-term rates. While abstaining from suggesting a specific rate for application, the LLA advocates for the incorporation of a conservative stance into the assumption process, coupled with a thorough exploration of the reasonable range. Ultimately, the LLA endorses a preference for targeting the lower end of this range, aiming to enhance the prospects of achieving an optimal outcome.

Mr. Curran stated with the adoption of a 2022 House Resolution, calling for a comprehensive study of COLAs, could potentially pave the way for FRS-related COLA legislation during the subsequent 2023 session. Following thorough deliberations on this, the FRS board devised a viable approach for transitioning from the current ad hoc COLA practice to pre-funded COLAs . This strategic shift is intended to be an ongoing subject of evaluation. Notably, the FRS board concurs with the LLA viewpoint that pre-funding COLAs represents the most advantageous course of action and has consequently established it as a definitive objective.

Chairman Price affirmed the continuation of ongoing dialogue regarding HR136 by Rep. Firment and ratified in 2022. This resolution urges the FRS to explore alternative approaches to financing COLAs. The significance of this endeavor is underscored by the necessity to prevent FRS retirees from enduring another prolonged 12-year interval before the next COLA is bestowed.

Mr. Curran offered a motion, seconded by Rep. Illg, to approve the annual actuarial valuation for the Firefighters Retirement System. This includes the assumed rate of return to remain at 6.9%, and the minimum directed employer contribution rate for FY2024 to be set at 32.5% with all proposed insurance premium taxes dedicated to the fund to be received. **Without objection, the motion was approved.**

DISCUSSION AND APPROVAL OF THE 2022 ANNUAL ACTUARIAL VALUATIONS AND THE REQUIRED CONTRIBUTIONS AND DEDICATION OF REVENUE CONTAINED THEREIN FOR THE LOUISIANA CLERKS' OF COURT RETIREMENT AND RELIEF FUND [COCRF]

Mr. Curran provided the following summary of the COCRF Valuation:
The COCRF currently operates with a 6.55% rate of return, representing the upper limit that the system can manage without necessitating an increase to the employer contribution rate. Although the COCRF board initially intended to reduce this rate in 2021, the reduction did not occur. A minor decrease in active membership was observed. Like other pension systems, the retired population increased to 1,570. Simultaneously, there has been an increase in the number of individuals eligible for refunds. Over the past few years, a trend of heightened withdrawals became apparent. The COCRF payroll expanded modestly while maintaining stability at $99.9 million, an approximate increment of $800,000. In tandem, benefits and payments continue to grow, integrated into the valuation and reflecting an augmentation of $47.3 million. Much like the FRS, the funding mechanism of COCRF is based on the spread-gain method. The plan features a frozen UAL totaling $54 million. This liability dates back to 1989 when the state of Louisiana implemented constitutional amendments mandating actuarial funding for retirement plans. The remaining portion of this liability should be fully settled by 2029 in accordance with statutory provisions. The actuarial accrued liability, valued at $919 million, is utilized to determine the unfunded ratio. The actuarial value of assets increased to $745 million from the previous year, resulted in a funded ratio of 81%, marking an increase from the previous year. Similar to the LLA, the trend analysis for most plans adhering to actuarial funding principles underscores a collective effort to elevate the funded ratio. The funding deposit account has grown from $6.2 million to $7.6 million. This account is widespread across various systems and is not factored into the determination of employer rates. It functions as a reserve accessible to COCRF, intended for offsetting employer costs or pre-funding COLAs. The actuarial value of assets surpasses the market value due to the conclusion of 2022 having a negative return of -9.8%, in contrast to the 27.2% return for 2021. The actuarial rate of return, calculated through a five-year smoothing is 4.9%. The employer normal cost experienced a marginal increase, attributed to gains and losses within COCRF. Conversely, the amortization cost remains consistent at a preestablished level, aligning with the figure from the prior year. Administrative costs are outlined and incorporated into the calculations. COCRF obtains funding

from ad valorem taxes and revenue-sharing funds; both categories exhibit negative values, as they contribute to the reduction of overall employer costs. The projected net direct dollar contribution required for the upcoming year totals $22.2 million. Dividing this figure by the estimated payroll for the subsequent year yields a minimum net direct contribution rate of 21.75%, indicating an increase from the previous year's rate of 21.25%. Unlike state systems, the normal cost for COCRF is affected by gains and losses rather than the UAL. Various factors contribute to normal cost, including negative asset experience. Notably, COCRF's cost experienced a 1.2% increase attributed to investment returns for the year after implementing smoothing techniques. Disparities between assumptions and actual occurrence, termed liability experience, resulted in a slight negative impact, contributing to a 0.10% of payroll cost increment. Legislative reforms and shifts in membership led to savings of nearly 0.97%. The inclusion of new members at fewer expensive tiers, compared to current members, played a role in reducing expenses. However, this resulted in a minor increase in the employer contribution rate. While COCRF granted a COLA un the two preceding fiscal years, the plan currently did not meet the criteria for granting another COLA based on rules established by the funded ratio. This criterion accounts for the recency of prior COLAs. In this context, a COLA was granted within the two most recent fiscal years. COCRF allocated $998,000 to its funding deposit account. The COCRF board chose to maintain rates at 22.25%, exceeding the minimum requirement. This decision enhances the probability of future COLAs being adequately funded.

Chairman Price requested clarification on the funding deposit account relating to the statewide retirement systems.

Mr. Curran answered that after PRSAC approves of a valuation that includes a minimum contribution rate, statewide retirement systems with funding deposit accounts have the authority to determine the contribution rate, which often exceeds the prescribed minimum. When collections exceed the mandated minimum, the surplus is retained. This involves employers submitting payments that surpass the obligatory amount, with the intention of using the surplus as a contingency reserve to offset future employer contributions. Additionally, this reserve can be allocated toward fully pre-funding COLAs, a strategy that is favored by most systems.

Mr. Herbold provided the following summary of the COCRF LLA Review:
There are significant differences between COCRF and FRS regarding COLAs. The funded deposit accounts available to COCRF serve as a distinct fund where COLAs are effectively pre-funded. Over the past nine years, COCRF has a history of intermittently granting COLAs. Notably, despite being eligible to distribute a COLA, a previous COCRF decision was to fund COLAs from the funded deposit account. These assets are not used in determining the minimum preferred contribution, a perspective endorsed by the LLA. The LLA concurs with the approach by COCRF in not factoring COLAs into the valuation. The investment rate of return for COCRF remains steady at 6%; around 55 basis points below the upper limit of the acceptable range. Modifying the assumed rate of return could potentially lead to an immediate effect on the employer contribution rate; however, it does not inherently change the overall cost of the plan. LLA assesses the plan's cost based on the benefits distributed. While employers view these contributions as costs, the act of reducing contributions at

present by lowering the assumed rate of return should ultimately result in reduced contributions over the long term.

Mr. Curran offered a motion, seconded by Ms. Johnson, to approve the annual actuarial valuation for the Clerks' of Court Retirement and Relief Fund. This includes the minimum directed employer contribution rate for FY2024 to be set at 21.75%, and recognize all proposed ad valorem taxes and revenue sharing funds allocated to the plan be received. **Without objection, the motion was approved.**

DISCUSSION AND APPROVAL OF THE 2022 ANNUAL ACTUARIAL VALUATIONS AND THE REQUIRED CONTRIBUTIONS AND DEDICATION OF REVENUE CONTAINED THEREIN FOR THE DISTRICT ATTORNEYS' RETIREMENT SYSTEM [DARS]:

Chairman Price read aloud the February 6, 2023 memorandum, authored by Kristi Spinosa, Director and General Counsel of DARS. Due to Director Spinosa's absence at this PRSAC meeting, her memo confirmed that the DARS board formally approved the fiscal year 2022 Valuation prepared by Curran Actuarial Consulting.

Mr. Curran provided the following summary of the DARS Valuation:
Consistent with previous years, DARS membership decreased slightly from 726 to 719. A minor increase in retirees, was accompanied by a larger segment of terminated members who may be due added funds. DARS total payroll is $63.9 million. This increase in payroll helps to offset the percentage of pay cost. The annual benefits and payments total $25 million. The accrued liability is valued at $587 million, whereas the actuarial value of assets is recorded at $511 million, resulting in a funded ratio of 87.12%. Despite this ratio being higher than FRS and COCRF, it is relatively lower due to the larger growth in liabilities compared to assets. The investment returns experienced a -10% market rate of return following a 23% return in the previous year. After smoothing, the actuarial rate of return is 5.6%. This contrasts with the DARS assumed rate of return at 6.1%, reflecting the conservative portfolio approach and emphasis by the DARS Board to maintain a conservative stance within a reasonable range. The 6.1% assumed rate of return is compared to the 5.6% actuarial rate of return for the year, which determines gains and losses of the plan. The cost analysis is founded on a spread-gain method, with the cost not impacting the UAL. DARS does not have a UAL. During the 1989 assessment, the plan was not underfunded and thus did not entail a frozen UAL. Consequently, all costs are attributed to normal and administrative expenses. The normal cost experienced a slight increase over the previous year, reaching $16.9 million, while administrative costs remained just under $700,000. Similar to COCRF, the allocation of taxes contributes to the offset of costs, with a total offset of approximately $10.5 million between ad valorem taxes and revenue sharing. The net contribution required from employers for the upcoming year amounts to just over $7 million. When divided by the projected payroll and rounded in accordance with legislative requirements, this results in a minimum employer contribution rate of 11%, marking an increase from the previous rate of 8.5%. Smaller plans often exhibit more volatility, which is why a lower assumed rate of return is set. The size of the plan affects the ability to spread gains and losses. One of the major factors influencing costs is the provision regarding

COLAs; requiring an ad hoc COLA. However, because it was not a pre-funded COLA, it contributes to an increase in future plan costs. DARS operates under a unique plan structure. Although a funding deposit account exists, it has not been feasible to allocate funds into it. An unusual aspect of state law specifies to establish funds for the funding deposit account, a board must set the contribution rate above the minimum. Moreover, this must be accompanied by a contribution gain in that specific year. A safeguard within the law implies that if costs significantly increase after setting the rate above the minimum, there may be no gain, thus no funds set aside. Despite the absence of funds set aside, the DARS Board maintains the goal of pre-funding future COLAs. The overall increase cost is 1.1%, effectively offsetting each other if not for the cost associated with the COLA; a new level of cost distributed over future working lifetimes. Since the last COLA was granted a substantial amount of time ago, the recent decision to provide one has had an impact. By comparing the actual decision-making and the assumptions made, factors such as retirement patterns, withdrawals, disabilities, deaths, and salary increases proved to be costlier than initially predicted, resulting in an approximate increase of half a percent. The negative asset experience, characterized by the actuarial return falling below the assumed rate of return, contributed to a 0.4% increase in costs. An advantageous factor was the entry of new members, who are less costly on average versus current members, resulting in a decrease of 0.6%. Additionally, a timing gain of 0.06% was achieved from contribution timing. Considering all these factors, the minimum contribution rate is trending upward. Notably, the funding deposit account displayed on page 25 of the DARS Valuation contains all zeros. However, it's important to note that the account does exist and might potentially hold funds in the future.

Mr. Herbold provided the following summary of the DARS LLA Review:
Because DARS currently holds a funding deposit account with a zero balance, it is unlikely COLAs will be granted from this account in the near future. The consideration of whether COLAs should be factored into the present value of benefits is the point where funding for COLAs is expected to originate, necessitating an increase in employer contributions. The likelihood of COLAs being paid is taken into account once this increase occurs. Given that COLAs represent a unique benefit feature, the LLA generally refrains from valuing a potential future benefit increase that may or may not occur. Instead, past patterns are examined. Since the state statute imposes certain restrictions preventing COLA payments, it becomes crucial to model when COLAs may become feasible based on the statute's conditions, the projected amount, and to factor some of that into employer contributions. This strategy aims to result in gains in the years when COLAs are not granted, and offset those losses in years when COLAs are paid, thus attempting to balance the impact over time. With DARS, although a COLA was granted in July 2022, there is no consistent pattern of COLA grants despite being permitted. Over the span of nine years, DARS granted a COLA just once out of the four times it was permissible. The investment return benchmark experienced a slight uptick of 20 basis points, marking the lower end of the actuarial range. Emphasizing conservatism in the assumption is recommended. DARS is advised to closely monitor historical returns with the comparison to the assumed rates and to assess the potential impact over the past decade.

Mr. Curran offered a motion, seconded by Mr. McGimsey to approve the annual actuarial valuation for the District Attorney's Retirement System. This includes the minimum net direct employer contribution rate for FY2024 to be set at 11%, and recognize that the system is due all ad valorem taxes and revenue sharing funds allocated to the plan be received. **Without objection, the motion was approved.**

DISCUSSION AND APPROVAL OF THE 2022 ANNUAL ACTUARIAL VALUATIONS AND THE REQUIRED CONTRIBUTIONS AND DEDICATION OF REVENUE CONTAINED THEREIN FOR THE MUNICIPAL EMPLOYEES RETIREMENT SYSTEM [MERS]

Mr. Curran provided the following summary of Plan A MERS Valuation:
MERS comprises two plans, Plan A and Plan B. Plan A is designed primarily for cities that *do not* contribute to Social Security, whereas Plan B is tailored for cities that *do* contribute to Social Security, resulting in a more streamlined benefit and cost structure. For Plan A, the assumed rate remains unchanged at 6.85%. The largest employer of Plan A, Lafayette Consolidated Government (LCG) received legislative authorization to direct new hires to the Parochial Employees' Retirement System (PERS) rather than MERS Plan A. Consequently, MERS Plan A will experience a reduction in size, while PERS Plan A will see growth as a result. In this transition, the law mandated that LCG pay a portion of the MERS UAL to mitigate costs. Despite this arrangement, it is anticipated that there will likely be an increase in costs due to a significant loss in membership. Up to this point, MERS has received limited funds from these new entries. Membership in MERS Plan A decreased from 4,611 to 4,513. While this reduction might seem modest, over time its impact could be substantial. The increase in retirees in Plan A has primarily originated from LCG, underscoring that MERS is still obligated to provide benefits to retirees despite the change in membership source. Interestingly, despite membership decreases, MERS payroll experienced growth. This is significant as the plan's cost is a percentage of payroll, and a larger payroll helps offset cost escalations. Additionally, benefits and payments escalated to $76.3 million. For Plan A to achieve a fully funded status with a 100% funding ratio, an accrued liability of $1.28 billion is required. Current assets stand at $946 million. The funded ratio currently stands at 74.09%. The historical UAL from 1989 mandates annual payments by employers to fully eliminate this liability by 2029. The balance of the funding deposit account decreased from $10.7 million to slightly over $8 million. The MERS Board granted a COLA, with the payment sourced from this account. Despite the actuarial value of assets exceeding market value due to smoothing, the negative rate of return at -10.1% highlights the significance of actuarial smoothing. This is one of the worst rates of return observed in over 30 years, further emphasizing the value of smoothing. Anticipated cost increases in the next four years stem from the absence of investment gains. For example, a 23.8% rate of return might appear favorable, but it is measured against the 6.85% assumption, with the difference originating from the gain in 2022. While -10.1% does not represent the actual loss on an actuarial basis, many systems experienced larger dollar losses in 2022 than gains in 2021. Given these dynamics, and without another gain in the near future, cost increases are likely. The employer normal cost decreased, fortunately offset by slight payroll growth. MERS presents an interesting case because of its unique circumstances, with payroll at $187 million and projected payroll at $185 million. This variation is

reflective of the effects from the departures from LCG. Normally, projected payroll would surpass the previous year's payroll, but this anomaly is accounted for in rate setting. Legislation from 1989 established an amortization payment schedule that increases annually as a percentage of payroll. LCG departures has not contributed to its improvement. The UAL payment of $8.5 million is not the most substantial portion of Plan A's cost. Addressing this challenge within a limited time frame remains a pending concern. Administrative cost is a standard component of every retirement plan. The MERS reduction is typically achieved through contributions from ad valorem and revenue sharing funds. The current rate of Plan A decreased to 27.75% from the previous year's 29.5%, which the MERS Board maintained above the minimum for several years. The difference between the minimum and the actual rate contributes funds to the funding deposit account, serving as support for future COLAs or acting as a contingency reserve. Various factors within Plan A lead to increases or decreases in normal costs, which actually decreased as a percentage of pay. Asset experience, resulting in a loss, led to a .95% cost increase. Liability experience had a negligible impact at .01%. Although COLAs are referenced, they do not affect normal cost due to the utilization of the funded deposit account. Transparency is upheld by displaying their impact to increasing and decreasing normal cost, even though they do not inherently influence it. A noteworthy aspect of Plan A is the influx of new members. Past legislative changes and the presence of a less expensive member population have helped offset cost increases and actually contributed to cost reduction. Nonetheless, anticipated cost increases are ahead, with new members playing a pivotal role in aligning the plan's cost trend with the newer tier's normal cost. The funding deposit account exhibit highlights a relatively rare occurrence: a contribution and a withdrawal. Typically, these accounts grow with interest and rarely remain constant. Contributions are made by keeping employer rates above the minimum, prompting employers to pay more and adding $7.3 million. Conversely, the account withdrawal was due to the granted COLA, amounting to $10.8 million. In total, there is a reduction in the outstanding balance of this account. The MERS Board have persistent efforts toward pre-funding COLAs. This is evident with the timely utilization of monies set aside for COLAs after the 2021 valuation.

Mr. Herbold provided the following summary to Plan A MERS LLA Review:
MERS is one of the few retirement systems where the LLA has altered its stance from the previous year regarding COLAs. Because MERS has not paid a COLA since July 1, 2022, there was no historical pattern to review. The board recently adopted a policy expressing the intent to fund future COLAs from the funding deposit account. Although this policy does not bind future boards to follow suit, it does signify the current board's intentions. Hence, LLA concurs with the decision not to factor in future COLAs in the current calculations. MERS remains the farthest from the benchmark assumption of all systems reviewed. Last year's assumption was 1.35%, and MERS did not revise its assumed rate. The benchmark increased by 25 basis points or 1.1%. Although MERS has progressively lowered its assumed rate of return since 2018, from 7.275% to 6.85% for 2021 and 2022, it seems reasonable for this rate to continue decreasing over time.

Mr. Curran provided the following summary of the Plan B MERS Valuation.
Membership of MERS Plan B witnessed a slight increase, and the number of retired members demonstrated growth. Plan B payroll increased by $4 million, reaching a total of $79 million, which

is beneficial for the percentage of pay cost calculation. Benefits and payments have risen from $13.5 million to $14.6 million. The funding ratio improved to 76.19 from the previous year's 74.54. This ratio is derived from the actuarial accrued liability of $284 million and is higher than the prior year. The actuarial value of assets exceeding the market value is attributed to smoothing techniques. Plan B, similar to Plan A, experienced losses with a -96% market rate of return and a 5.2% actuarial rate of return compared to the assumed 6.85%. Losses were incorporated into normal costs, resulting in a slight decline in normal dollar costs. Unlike Plan A, there is no frozen UAL or required employer payments since the board utilized the funding deposit account to pay off the UAL. This decision aligns with the intended use of a funded deposit account. MERS Plan B is one of the few plans that adopted this approach. The final minimum rate for FY24 is 13.25%, down from the previous year's 14.5%. The asset experience was negative, leading to a cost increase of 0.6%. A COLA was approved for Plan B and funded from the funding deposit account. The plan's liability experienced a marginal gain of 0.06%. The demographics of new members have contributed to lowering plan costs. The funding deposit account has both contributions from holding the rate above the minimum and withdrawals due to the COLA payment. The total in the account: $1.5 million, which is slightly less than the cost of the one COLA granted in 2022. Rebuilding the funding deposit account will be essential to sustain consistent COLA grants in the future.

Chairman Price questioned the legacy costs paid by LCG.

Mr. Curran answered that Curran Actuarial Consultants certified the number of LCG members who are either terminated or retired, along with the corresponding numbers owed by LCG. While LCG made some payments, there remains a disagreement regarding the interpretation of the new law. Curran & Associates are continuing to work on behalf of the board. Another aspect of this situation involves the transfer of information from LCG to MERS. To fully comply with the law and make accurate calculations, more information is needed than what LCG provided. Additionally, information about the replacements for the members leaving MERS and entering the PERS is absolutely necessary. The date of this transition determines which UAL calculation is applicable. As of now, MERS has not received all the funds that Curran & Associates have certified are due.

Mr. Herbold provided the following summary to Plan B MERS LLA Review:
LLA updated its review of COLAs for MERS Plan B from 2022 to 2023. Historically, COLAs have not been granted until July 2022, where no consistent pattern was observed. The MERS board has adopted recent policy indicating an intent to fund future COLAs from the funding deposit account. While this policy does not legally bind future boards, it does outline an intended approach. As a result, LLA agrees with not incorporating future COLAs into the current calculations. The investment return assumption benchmarks increased, but MERS remains the farthest from the benchmark assumption compared to all retirement systems. In 2022, the difference was 1.35%. Despite benchmark assumptions increasing by 25 basis points from 2021 to 2022, MERS did not lower its rate, which remained at 1.1%. Although the assumed rate of return for the plan has decreased from 7.25% in 2018 to 6.85% in 2021 and 2022, the considerable difference between MERS' rate and the benchmark suggests that further reductions in the assumed rate of return may be reasonable in the future.

Mr. Waguespack questioned whether the ad valorem tax decreasing by half is a trend.

Mr. Curran answered that there is a lawsuit involving The Baton Rouge Recreation & Park Commission (BREC) and the Baton Rouge Sheriff's office regarding the ad valorem tax. The lawsuit aims to prevent the Sheriff's office from passing on ad valorem tax revenue to the retirement systems from BREC's portion of the tax. Although this situation has not, as yet, impacted the actuarial projection, it could have potential implications. The projections made by Curran Actuarial Consulting are done with a focus on the future, giving more weight to recent years in order to project future rates.

Any potential disruptions may arise because ad valorem taxes are derived from property tax, especially if interest rates continue to experience fluctuations. Currently, there is not enough information to make definitive changes based on this lawsuit.

Mr. Curran offered a motion, seconded by Mr. Broussard, to approve the annual actuarial valuation for the Municipal Employees Retirement System. For Plan A, a minimum net direct employer contribution rate as 27.75% for FY2024, and 13.25% for Plan B with a minimum net direct employer contribution rate for FY2024. This includes recognition of all ad valorem taxes and revenue sharing funds allocated by law to the plan be received. **Without objection, the motion was approved.**

DISCUSSION AND APPROVAL OF THE 2022 ANNUAL ACTUARIAL VALUATIONS AND THE REQUIRED CONTRIBUTIONS AND DEDICATION OF REVENUE CONTAINED THEREIN FOR THE MUNICIPAL POLICE EMPLOYEES' RETIREMENT SYSTEM [MPERS]

Mr. Curran provided the following summary of the MPERS Valuation.
There has been a slight decline in membership from 5,414 in 2022 to the current 5,269 active members. The population of retired members increased to over 5,000, while the number of Deferred Retirement Option Plan (DROP) and terminated members remained stable. The payroll has grown due to changes enacted by the legislature requiring employers to contribute during DROP. However, not every DROP participant is currently eligible for employer contributions. Payroll is an important factor in the valuation and is based on contributions made, excluding DROP participants who joined prior to July 1, 2021 . As more participants are fully incorporated into the plan in the next one or two years, all active participants will reflect contributions. Benefits have increased to approximately $175 million annually. The funded ratio experienced a slight decrease after a negative return year, now standing at 77.14%. This is calculated from an actuarial accrued liability of $3.4 billion compared to the actuarial value of assets of $2.6 billion. MPERS is the only statewide system funded under the entry age normal method, which calculates employer retirement rates based on entry age normal funding. Gains and losses do not affect the normal cost, but rather impact the UAL. The UAL has been affected by a -10.4% market rate of return, resulting in a 5.6% actuarial rate of return that falls below the 6.75% assumed rate of return. The UAL is influenced by these investment losses. The dollar normal cost has slightly increased due to demographic changes but is not related to the investment return issue. The amortization cost, which is the payment required to offset the UAL, has risen from $85 million to $95 million, affecting overall costs. Administrative

costs increased slightly to approximately $3 million. While there are no ad valorem or revenue sharing additions to the plan, MPERS receives insurance premium tax funds, amounting to about $24 million, which is an increase from 2022 . This tax is a fraction of insurance premiums and is likely to continue as insurance premiums are not expected to decrease. The expectation is that not every retiree and terminated member will be replaced by a new active member. However, payroll projections include contributions from new cohorts of DROP members. Payroll is projected to increase to $311 million. The final rate significantly increased to a minimum recommended net direct employer contribution rate of 33.5%, up from 31.25%. Some of this increase is related to the COLA. MPERS is an entry age normal plan. The normal cost rate has increased slightly from 10.3% in 2022 to 10.4%. UAL payments in 2022 were 28.09% of payroll. Due to no gains in the plan, the asset experience loss has increased the UAL to 1.02%. Liability experience resulted in a slight loss at 0.27%. The granted COLA increased costs, and the insurance premium tax helped to offset some of these cost increases. The MPERS Board requested the legislature to pass a law requiring COLAs are only granted through pre-funding, which involves adding employer contributions above the minimum. This law allowed the employer rate to be set at 0.85% above the minimum. There is potential for legislation to enact the portion of law that was not signed by the governor. Without this law being re-enacted, ad hoc COLAs would be the only methodology available. The MPERS board approved the last COLA with the understanding that it would be the final one of its kind. While funding a COLA would require more money, it would also take more time for funding to occur. After this valuation, no further COLAs can be granted. Currently, no other funding has been set aside for future COLAs. Administrative costs increased slightly by approximately $3 million. While there are no ad valorem or revenue sharing additions to the plan, MPERS does receive insurance premium tax funds, amounting to about $24 million; an increase from 2022. This tax is a fraction of insurance premiums and is likely to continue as insurance premiums are not expected to decrease. The insurance premium taxes are received by the four public safety retirement systems, and some of these taxes will gradually decrease as firefighter merger payments are completed. The total funds needed by the system have increased from $97 million to nearly $107 million. Fortunately, payroll has grown. The projection of payroll considers the current membership and does not assume full replacement. The expectation is that not every retiree and terminated member will be replaced by a new active member. However, payroll projections include contributions from new cohorts of DROP members. Payroll is projected to increase to $311 million. The final rate has significantly increased to a minimum recommended net direct employer contribution rate of 33.5%, up from 31.25%. This increase is partly related to the COLA. MPERS is an entry age normal plan. The normal cost rate for MPERS increased slightly from 10.3% in 2022 to 10.4%. UAL payments in 2022 were 28.09% of payroll. Due to no gains in the plan, the asset experience loss has increased the employer rate to 1.02%. Liability experience resulted in a slight loss at 0.27%. The granted COLA increased costs, and the insurance premium tax helped offset some of these cost increases. The MPERS board requested the legislature to pass a law requiring COLAs to be granted only through pre-funding, which involves adding employer contributions above the minimum. This law allowed the employer rate to be set at 0.85% above the minimum. There is potential for legislation to enact the part of this law not signed by the governor. Without this law , ad hoc COLAs would be the only methodology available. The MPERS board approved the last COLA with the understanding it would be the final one of its kind. While funding a COLA would require more money, it would

also take more time for funding to occur. After this valuation, no further COLAs can be granted unless they are pre-funded.

Rep. Illg questioned whether the MPERS UAL is scheduled to be satisfied in 2029 and how much of the employee decrease will effect the plan.

Mr. Curran answered by explaining the intricate interconnections between changes in employee membership and the scheduled payment of the UAL within MPERS. The complexities inherent in managing plan costs and addressing the financial ramifications of membership reductions across municipalities can vary; especially with varied size. Although a decrease in employee membership could prompt adjustments in overall plan costs, the slated 2029 payment of the UAL is anticipated to yield favorable outcomes for employer costs. The strategic allocation of a substantial portion of the UAL's payment over a condensed time frame can yield long-term cost efficiencies. Legislative considerations and challenges are inherent when devising suitable solutions for municipalities of diverse sizes. A dissolution loss plan could be possible to alleviate adverse effects of membership reductions, particularly for smaller cities. However, the efficacy of such plans can vary contingent upon the municipality's size and circumstances. It is imperative to navigate these intricate issues with utmost care. The overarching goal is to safeguard the financial stability of the retirement system while considering a wide spectrum of municipalities with distinctive challenges. When the legislature created MPERS, departments with two officers were glued with departments of 1,000 officers; there are a few large and medium departments but most are small. Any law to address each of them will be challenging. Attempts have been made with a bifurcated law addresses the difference in dealing with the large from the small, but does not necessarily address the needs of the mid-size departments. Further attempts must be made to protect small departments. Smaller departments are not paying to fix issues with larger departments; doing so would bankrupt small city departments. Present law attempted to avoid this. Curran Consultants has done a lot of modeling to review membership changes by employers over the past decade. The hope is to present draft legislation in the next few years showing the complexity of this process, while protecting employers from each other. When a department like New Orleans loses 300 officers, MPERS must still pay for those who retire.

Mr. Herbold provided the following summary of the MPERS LLA Review:
A law was enacted to remove the option of using a COLA from any source other than the funding deposit account. Although there may be concerns about the process by which these laws were approved, the LLA finds no justification for assessing them in the present obligation. There was a slight increase in the benchmark for the assumed rate of return. However, the assumed rate of return itself remained unchanged. The LLA suggests ongoing vigilance, and as the assumed rates of return are reviewed; the lower limit should be adjusted to align with the current range specified by the actuary.

Mr. Curran offered a motion, seconded by Ms. Johnson to approve the annual actuarial valuation for the Municipal Police Employees' Retirement System, including the minimum recommended net direct employer contribution rate as 33.5% for FY2024, and recognize all insurance premiums allocated by law to the plan be received. **Without objection, the motion was approved**.

DISCUSSION AND APPROVAL OF THE 2022 ANNUAL ACTUARIAL VALUATIONS AND THE REQUIRED CONTRIBUTIONS AND DEDICATION OF REVENUE CONTAINED THEREIN FOR THE REGISTRAR OF VOTERS EMPLOYEES' RETIREMENT SYSTEM [ROVERS]

Mr. Curran provided the following summary of the ROVERS Valuation.
ROVERS is one of the smaller retirement systems, with a current active membership of 242 , having gained three new members over the year. The number of retirees increased from 175 to 185. Interestingly in some cases, a system's growth in membership can be accompanied by payroll reductions, and this growth might be tied to the earnings of the members themselves. Payroll amounted to $14.2 million; a decrease from the previous year. However, benefits and payments increased due to a rise in the number of retirees. Despite these dynamics, the system's funded ratio is 90.55. This is based on a comparison between the accrued liability of $137 million and the actuarial value of assets of $124 million. Notably, the actuarial value of assets exceeded the market value, which is a reversal from the previous year. The rate of return for the year was -12.7%, following a significantly higher return of 26.0% in the prior year. When smoothing and past gains, the rate of return is 6.1%, which is slightly below the assumed rate of return of 6.25%. While this variation from the assumption is relatively minor, the board is advised to remain mindful of potential future losses. In 1989, ROVERS had no UAL and thus had no UAL payments. Normal cost, which currently amounts to $4.2 million, has decreased from the previous $4.5 million. This reduction is largely attributed to payroll decreases, a trend that often emerges when substantial pay raises are *not* implemented. Administrative costs experienced a slight increase. Funding sources for ROV ERS from ad valorem taxes and revenue sharing funds, had a slight decrease. This aligns with patterns seen from plans like MPERS. After dividing by a lower projected payroll, a recommended rate of 10% has been calculated, down from the previous 11%. This new rate is significantly below the 18% recently collected. The experience of the assets had a slight negative impact, contributing an additional 0.14% to the costs. Due to reform legislation and demographic factors, new member cost is lower than that of the average current member, resulting in a cost reduction of 1.06%, which is quite meaningful. Regarding liability, ROVERS experienced a gain, yielding a 0.2% reduction in costs. However, lower costs may not continue, as market losses could affect the upcoming five-year smoothing period. ROVERS contributed $830,000 to their funding deposit account, bringing the total to $4.3 million with no withdrawals. ROVERS did not meet the requirements to grant COLA, despite having granted one within the last two fiscal years. Emphasis on maintaining cost savings is ongoing, and the board is expected to sustain a rate higher than the minimum, as the board has done so in previous years.

Mr. Herbold provided the following summary of the ROVERS LLA Review:
Page five of the ROVERS LLA Review provides a compilation of COLA regulations dating back to the 2014 Valuation. Historically, ROVERS has approved COLAs from the funding deposit account. The LLA acknowledges this practice and does not suggest incorporating it into the current valuation assessment. The assumed rate of return was reduced from 6.5% in 2018 to 6.25% in 2021. Throughout this time frame, the benchmark has remained closely aligned with this adjustment. Concurrently, the gap between the assumed rate of return and the benchmark has been gradually narrowing. The LLA's recommendation is to uphold vigilant observation, focus on conservatism, and when implementing adjustments, a cautious approach should be maintained.

Mr. Curran offered a motion, seconded by Rep. Illg, to approve the annual actuarial valuation for the Registrars of Voters Employees' Retirement System, including the recommended net direct employer contribution rate of 10% for FY2024, and recognize all ad valorem taxes allocated by law to the plan be received. **Without objection, the motion was approved**.

DISCUSSION AND APPROVAL OF THE 2022 ANNUAL ACTUARIAL VALUATIONS AND THE REQUIRED CONTRIBUTIONS AND DEDICATION OF REVENUE CONTAINED THEREIN FOR THE LOUISIANA SHERIFFS PENSION AND RELIEF FUND [LSPRF]

Mr. Curran provided the following summary of the LSPRF Valuation.
The LSPRF experienced a decrease in membership, decreasing from 14,000 to 13,700. Payroll increased from $712 million to $726 million. The retired population is currently 6,738 members. A larger proportion of terminated members resulted in a group potentially eligible for future refunds. Benefits and payments increased to almost $219 million annually. The funded ratio reduced slightly but remains at a high level of 90.87%. The established ratio and accrued liability, even though not funded on an individual basis, are utilized to determine the most appropriate funded ratio. The accrued liability under the entry age normal method was slightly over $5 billion, while the actuarial value of assets stood at $4.6 billion. The plan continues to strive for 100% funding level for decades and is projected to maintain this goal. The frozen UAL for LSPRF has decreased from $14 million to $4 million. The upcoming valuation will indicate a zero balance. Following the 1989 change in legislation, a frozen UAL was established with a designated payoff date of 2029. Prior to having a funding deposit account, LSPRF gathered additional funds from employers, which were used to reduce the UAL. Page 16 of the LSPRF Valuation provides a chart illustrating the original UAL payoff in 2029. However, due to the 2008 initiative of requesting employers to contribute more than the minimum, the remaining payment schedule underwent significant changes in terms of trajectory and endpoint. LSPRF is nearing the conclusion of these payments. The LSPRF board was informed that their funding deposit account had sufficient funds to cover the UAL for several years. This account provided the board with flexibility that paying off the UAL directly would not have allowed. Hence, the decision was to allow it to diminish on its own. Next year's valuation will reflect additional savings as the payment decreases from $4 million to zero. Subsequently, no UAL will remain. Gains and losses will remain however, they will continue effecting normal cost. The size of the funding deposit account is material, as the board remains consistent in putting monies

aside for future COLAs or a rainy day fund. LSPRF is the only system having used the funding deposit account in times of stress to offset employer contributions. The actuarial value of assets coincides with the market value of assets, a result of the returns achieved. Following the 26.6% return from the prior year, LSPRF encountered a -11.3% return in this assessment. After smoothing, this figure levels at 5.9%, which is then contrasted against the assumed rate of return. LSPRF continues the gradual process of decreasing the assumed rate of return, leading to a reduction to 6.9% from the previous 6.85%. This valuation incorporates a reduction from the prior 6.85% rate. The board introduced a 10-year strategy to annually diminish the rate by five points, with a 6.5% target. Leveraging the opportunity presented by the 26.6% return in 2021, the board decided to accelerate its original plan, placing LSPRF well ahead. The present year exhibits a decrease in the assumed rate of return, contributing to an increase in costs; however, a reduction in the UAL payment will lead to cost reduction. With growing membership and increased payroll, normal cost escalated to $118 million. The amortization cost decreased from 10.4 to four, attributing to the final payment. Estimated administrative costs decreased, aligned with revised projection routines. LSPRF draws funds from three sources, serving to offset employer costs: ad valorem taxes, revenue sharing, and insurance premium taxes. The dollar cost rose from $71.2 million to $75.8 million. Payroll projections are on an upward trajectory. Collectively, these factors contribute to conservative projections in membership growth. The increase in average pay will influence payroll projections. The recommended minimum rate for FY2024 is10.25%, a rise from the previous 9.75%. The normal cost, previously at 15.2%, increased to 16.7%, primarily impacting the employer rate. Changes in assumptions, accounting for 0.6%, have contributed to the increased cost. Asset experience has introduced an additional cost of 0.65%, while liability experience impacted negatively by retirements and salary increases exceeding projected levels – a challenge shared with other systems contending with employee retention issues and a surge in retirements. The inherent stress of police work can also impact the plan. A savings of 0.47% for new members can be attributed to legislative changes that place members in cheaper tiers. LSPRF meets the plan requirements for a COLA, and the board must determine whether to grant a COLA before next year's valuation. Contributions to the funding deposit account amounted to $20 million this year, culminating in a total of $118 million. The board consistently maintains its preference to utilize the funding deposit account for COLAs.

Mr. Herbold provided the following summary of the LSPRF LLA Review:
LSPRF has consistently approved COLAs from the funding deposit account. The last opportunity for them to explore an alternative approach was around 2017 or 2018. Given this established pattern, and considering the robust balance in the funding account, it is likely that this trend will persist. Notably, LSPRF is one of the few systems that continued to reduce investment rate assumptions. Simultaneously, the LLA benchmark has risen by 10 basis points. Although this difference of 75 basis points tends to be on the higher end, considering the ongoing plan to move in a downward trajectory, it is advisable to maintain this prudent course of action.

Mr. Waguespack expressed congratulations to LSPRF Executive Osey "Skip" McGee and his team for successfully eliminating the UAL of LSPRF, a feat that sets them apart from many other systems in Louisiana.

Chairman Price added his commendation to Mr. McGee and extended gratitude for the exceptional management of the LSPRF.

Mr. Curran offered a motion, seconded by Ms. Johnson, to approve the annual actuarial valuation for the Louisiana Sheriffs Pension and Relief Fund, including the recommended net direct employer contribution rate of 10.25% for FY2024, and recognize all ad valorem taxes, revenue sharing, and insurance premium taxes allocated by law to the plan be received. **Without objection, the motion was approved**.

V. CONSIDERATION OF ANY MATTERS THAT MAY COME BEFORE THE COMMITTEE

No other matters were presented.

VI. ADJOURNMENT

Ms. Johnson offered a motion to adjourn, seconded by Mr. Broussard. **Without objection, the motion was approved.** The PRSAC Committee meeting adjourned at 10:54 A.M.

MINUTES PROVIDED ON BEHALF OF: Senator Edward J. "Ed" Price | PRSAC CHAIRMAN *EP*

DATE APPROVED: 22 August 2023