PUBLIC RETIREMENT SYSTEMS' ACTUARIAL COMMITTEE

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Public Retirement Systems' Actuarial Committee

APPROVED
Minutes of Meeting
FEBRUARY 22, 2018

I. CALL TO ORDER

Senator Peacock, Chairman of the committee, called the meeting to order in Senate Committee Room A at the State Capitol in Baton Rouge, Louisiana, at 9:00 A.M. The secretary called the roll.

II. ROLL CALL

MEMBERS PRESENT

Senator Barrow Peacock, Designee for Senate President John Alario
Representative Kevin Pearson, Designee for House Speaker Taylor Barras
Mr. Daryl Purpera, Louisiana Legislative Auditor (LLA)
Rick McGimsey proxy for Ms. Barbara Goodson, Designee for Commissioner Jay Dardenne
Mr. John Broussard, Designee for Treasurer Ron Henson
Mr. Gary S. Curran, Actuary
Ms. Shelley R. Johnson, Actuary

STAFF MEMBERS PRESENT

Margaret Corley, Senate Attorney
Laur'en M Cimino, Senate Secretary

WITNESSES PRESENT- INFORMATION ONLY

Warren Ponder, Director, Municipal Employees' Retirement System
Christopher Saik, Chief Investment Officer, Municipal Employees' Retirement System
Steven Stockstill, Director, Firefighters' Retirement System of Louisiana
James J. Rizzo, Louisiana Legislative Auditor
Paul Richmond, Louisiana Legislative Auditor

III. APPROVAL OF MINUTES

Rick McGimsey moved that the minutes of the January 9, 2018, meeting be approved. There being no objection, the minutes were approved.

IV. PUBLIC COMMENT

Senator Peacock opened the meeting to public comments. There being no comments, he moved on to the next item of business.

V. DISCUSSION ITEM

Senator Peacock moved on to the discussion and approval of Actuarial Liability Pay-off related to Act 740 of the 2008 Regular Session. He explained that the state treasurer requested that this committee determine if the actuarial accrued liability balance owed from the Department of Revenue Alcohol and Tobacco Control Officers Fund has been fully satisfied so they can transfer the funds to the proper account and proceed to abolish the Dept. of Revenue Alcohol and Tobacco Control Officers Fund.

Paul Richmond explained the letter submitted by the Legislative Auditor which certifies that the balance in the ATC Fund is now $0 and is paid off.

Daryl Purpera moved to approve that the Department of Revenue Alcohol and Tobacco Control Officers Fund has been fully satisfied so they can transfer the funds to the proper account and proceed to abolish the Department of Revenue Alcohol and Tobacco Control Officers Fund.

VI. DISCUSSION ITEM

(1) Clerks of Court Retirement System

Gary Curran presented the valuation for the system and explained it in depth.

Senator Peacock asked in a year when you have the funding at 17.25 and they are actually contributing 19, when you do your valuation the next year and the required payment needs to be higher, do you just transfer the money from the funding deposit account or do you just raise the recommendation the next year?

Mr. Curran referred to page 18 of the valuation which shows the mechanics of this. He explained that credit account and that balance is segregated off from assets. When you start trying to calculate the normal cost of the plan, you start with the present value of future benefits and then add the funding deposit account credit balance. That is effectively subtracting it from assets whether you add it to liabilities or subtract from the assets. It is added in so when you subtract the asset out, that amount is a reduction of assets. When you calculate next year's contribution rate, it is as if you do not have that money. In other words, intentionally, you are setting it aside for some future use.

Representative Pearson referred to the geometric average market rates of return on page 8. He stated that he realizes that the system has the assumed rate of return of 7%. He doesn't want to go with the ten year average of 4.4% because that was right before 2008 with a significant market drop starting at the beginning of that period. Also he believes the five year average of 8.6% would be wrong to use as it would be, in his opinion, the rebound from that considerable drop. And the fifteen year might include some of that volatility. Once he looks between the twenty year average of 6.2% and the twenty-five year average of 7.0%, he wonders if there is any sentiment on this board that 7% may not be the level they need to maintain and any discussion about recognizing we may be better safe than sorry.

Mr. Curran stated that while we can't ignore the past, he does not believe it should dictate what we do in the future. He explained that the problem with looking backwards is that if you go back in that twenty-five year period, there is probably a substantial amount of time where the system was vested almost exclusively in bonds. Therefore, the rates of returns would have been significantly lower. A lot of these statewide systems were moving into equities into the early 90's at a fairly slow pace. The percentage of equity in the portfolio would have been significantly less than in a modern portfolio– the systems were not as diversified. He believes in lower rates for smaller systems also, but thinks they are good with the 7.0% for now.

Senator Peacock asked why they did not show all the way back to the thirty year average.

Mr. Curran explained they went back as far as their records allowed.

Paul Richmond explained the Legislative Auditor's Brief Actuarial Review of the 2017 Actuarial Valuation for Clerks of Courts which recommends PRSAC to accept the valuation with reservations.

Mr. Curran moved that the committee adopt the actuarial valuation as submitted by G.S. Curran & Company for the Louisiana Clerks of Court Retirement and Relief Fund with the contribution rates set forward for 2019 at 17.25% for the employer rate with full payment of statutory liable, ad valorem, and revenue sharing funds. Mr. Broussard seconded the motion. **With no objections, the motion is carried.**

(2) District Attorney's Retirement System (DARS)

Mr. Curran presented the valuation for the system and explained it in depth.

Mr. Purpera asked if he was reading correctly that they have reduced the assumed rate of return from 7% to 6.75%.

Mr. Curran responded yes, that is correct.

Mr. Purpera reiterated that it has gone down by twenty-five basis points. Then noted that they have also added an employer contribution rate of 1.25% when there was not one the year before.

Mr. Curran said that was correct and the sole reason for that was this reduction in valuation interest rate.

Mr. Purpera noted that he is encouraged that this board has taken those actions.

Mr. Richmond explained the Legislative Auditor's Brief Actuarial Review of the 2017 Valuation which recommends that PRSAC accepts the DARS' funding valuation with reservations.

Mr. Curran moved that the committee adopt the actuarial valuation as submitted by G.S. Curran & Company for the District Attorneys' Retirement System with the contribution rates set forward for 2019 at 1.25% for the employer rate with full payment of statutory liable, ad valorem, and revenue sharing funds. Ms. Johnson seconded the motion. **With no objections, the motion is carried**.

(3) Firefighters' Retirement System

Mr. Curran presented the valuation for the system and explained it in depth.

Representative Pearson explained that he is wondering if going forward, they should air on the side of caution as opposed to just assuming going with that targeted rate of 7%. He asked if he was right in saying the employer contribution rate is going down just a tad.

Mr. Curran stated the minimum rate is going down a quarter percent if indeed they do decide to collect the minimum. They have the ability now to establish one of these funding deposit accounts. It is up to the board to decide whether to maintain that or not. They have a target of 7% and they will arrive at that in three years. They will have to reevaluate the situation at that time.

Mr. Purpera asked how the board got to 7%.

Mr. Curran explained that they laid out that target in a memo they sent to them based on their asset allocation and information from consultants– they took a lot of things into account. At the time, they laid out a slightly different path than what the board adopted, but the differences there were not that material. They probably would have recommended a different way of getting there, but the objective of getting to 7% was determined based on the information they had related to their asset allocation and the expectations of the consultants.

Mr. Purpera asked if we had solid support that we believe we will achieve better than 7% over midterm or longterm.

Mr. Curran explained we do have solid support and the 7% assumption was taken as a longterm assumption.

Mr. Purpera noted that he is encouraged that the board has decided to move down, but maybe we are not being aggressive enough with getting there.

Senator Peacock asked Mr. Purpera to explain the controls they have in place to make sure there is no overlap in their audit of the system and how they maintain true independence.

Mr. Purpera explained that it is separate sections within his office. The actual financial audits are being done by his financial audit section which does all of the state agencies. Mr. Richmond is in a completely different section. They both do report ultimately to Nicole Edminson, so they are under one assistant legislative auditor. There is communication between Mr. Richmond and his audit team. There is also considerable communication with Mr. Curran.

Senator Peacock asked Mr. Richmond if he felt there was any conflict with the legislative auditor auditing the system while he also does the actuarial valuation of the system.

Mr. Richmond responded no, he does not feel there is a conflict with that. He believes it is his job to make the calculations and report on what is reasonable and correct and then it is the auditor's job to then say how much value do I place on the information that has been provided and decide accordingly.

Mr. Purpera clarified that Mr. Richmond was correct and that in certain situations, the actuarial team may have different recommendations than what the audit teams did. The auditors are looking at it with a very specific purpose such as are the financial statements fairly stated within their materiality levels. In their footnotes, they also disclose what the differences would be, say, in the actuarial liability going one percent this way or that way– they give a range. But to answer the question, they put safeguards in place within the office to make sure the independence is there.

Steven Stockstill, Executive Director of the Firefighters' Retirement System, testified that the board voluntarily chose to engage the legislative auditor to do the financial audit for the retirement system because the contract with the previous auditor was up and they needed to decide if they were going to go with that auditor again or go with another audit firm.

Mr. Broussard noted that his personal experience was not that the outside auditors don't do a good job– they do a good job– it is just that the legislative auditor does a very thorough job. And there is a difference. And the board wanted a very thorough look at the financials just for reassurance purposes too. He asked Mr. Stockstill how many times in the last year the legislative auditor's office has attended a board meeting.

Mr. Stockstill responded that they have attended several times to actively observe the decisions that are being made. He added that the 7.5% to 7.4% was not the final plan, it was just the plan in place for now. When the level gets down to 7%, he fully expects that the board would revisit it with the possibility of going even lower. But they needed a plan in place right now. Additionally, if they have years that would allow the system to more aggressively attack the reduction then it still within the board's prevue to accelerate that process as well.

Representative Pearson noted that he is concerned about the potential liabilities that could be created that will have to be paid off at some point in time. He also wishes that somehow Gary or the Legislative Auditor could present their case to the board from an alternative perspective other than one valuation.

Mr. Stockstill responded that he will commit when the next valuation cycle rolls through, they will extend an invitation for the legislative auditor's office to present the legislative actuary's valuation along with Gary submitting his. Also, with the respect to the rate going lower, his recommendation to the board will be to keep it at the current rate so they keep building up those surplus funds and those funds, by law, cannot be used to grant a COLA.

Mr Richmond presented the Comprehensive Actuarial Review of the 2017 Valuation by the Legislative Auditor's office which recommends that PRSAC does not accept the FRS funding valuation and that they request FRS to revise its valuation report to include a significantly lower return assumption. They believe that the ideal rate is closer to 6%.

Senator Peacock stated that they have to accept one valuation or the other by law by the date and he believes that the 6% in his valuation is not doable at this time.

Mr. Purpera noted he is encouraged that the rate has been moved down. He asked if the committee could have a commitment from Mr. Stockstill to go to the board and have them consider next year making it a more aggressive plan.

Mr. Stockstill responded that they could absolutely take that into consideration and they will every year.

Jim Rizzo, Actuary with the Legislative Auditor's Office, noted that they are not actually presenting a whole valuation to be considered. They only do that for LASERS and Teachers. PRSAC does not have the decision to accept Mr. Curran's valuation or the LLA's valuation because they are not actually preparing one. They are providing a complete evaluation of the major assumptions that are in the valuation. As he understands it, PRSAC's decision is either to accept the valuation or reject it and give instructions to the board to redo a valuation at another interest rate or some other alternative.

Senator Peacock noted that they can unanimously vote to make a recommendation, but they have never done this in the past. They have only made strong suggestions as a committee.

Mr. Rizzo went on to explain the C.A.R. further in depth.

Mr. Curran moved that the committee adopt the actuarial valuation as submitted by G.S. Curran & Company for the Louisiana Firefighters' Retirement System with the contribution rates set forward for 2019 at 26.25% for the employer rate and that the system should receive insurance premium taxes as statutory defined. Mr. McGimsey seconded the motion. Representative Pearson offered a substitute motion to table this today and to ask Firefighters' to re-review and come back with a new valuation.

Mr. Stockstill suggested that perhaps they should hold a joint board meeting between Firefighters, Municipal Police, and Municipal Employees and let them receive the same testimony from the legislative actuaries regarding the methodology and see if they are in a position to be able to adopt any of those recommendation. This would give the boards the opportunity to do that. That way they wouldn't have to stall the valuation for this year.

Senator Peacock read in the statute where it stated this had to be determined by next Monday.

Representative Pearson withdrew his substitute motion.

Mr. Purpera asked in light of what we just found out, it's almost like the committee doesn't have a choice, but to approve the valuation. Therefore, we need to change our process for the next year somehow.

Mr. McGimsey seconded the motion. Representative Pearson objected. **The roll was called and the motion passed with 4 yeas and 2 nays.**

(4) Municipal Employees' Retirement System (MERS)

Mr. Curran presented the valuation for the system and explained it in depth.

Senator Peacock referred to the 4.6% market returns with write-offs and asked for a ballpark on what those market returns would be without the write-offs.

Christopher Saik, Chief Investment Officer at Municipal Employees' Retirement System, testified that he did not have the exact figures, but as he recalls, the hypothetical figures came out to around 10.1% for the last fiscal year and there were around $45 million in write-offs.

Mr. Richmond presented the Comprehensive Actuarial Review of the 2017 Actuarial Valuation for the system which recommends that PRSAC not accept the funding valuation. Instead, they recommend that PRSAC requests MERS to revise its actuarial valuation report including a significantly lower return assumption.

Mr. Rizzo referred to page 13 of the CAR which shows the asset allocation is significantly different than the one they just looked at. The asset allocation as they derived from the investment policy statement that the board adopts has 65% in risk oriented assets, whereas FRS had 77% in risk oriented assets. As a result of that (on page 15), instead of 6.1% being the consensus opinion of the experts for the ten year compound average, its gone even further down to 5.65% because it is more conservative. There is this general sense that when you are in more risk oriented assets, you should expect more reward for that risk. Whereas in more conservative assets, you should expect less return.

Mr. Broussard referred to geometric returns for these systems and commented that most of the systems have not met their actuarial required rates of returns in their long-term return averages. He asked if the history tells us that they haven't been doing it, is lowering the rate the logical path.

Mr. Richmond responded that we should not look at the past to predict what will happen in the future. The best people we should look at to determine future returns are the universal professional consultants.

Mr. Broussard noted that them actually hitting the number is more luck than anything.

Mr. Curran moved that the committee adopt the actuarial valuation as submitted by G.S. Curran & Company for the Municipal Employees' Retirement System with the contribution rates set forward for 2019 Plan A set at 26% together with all statutory available revenue sharing and ad valorem funds and Plan B set at 14% with all available statutory available revenue sharing and ad valorem funds. Mr. McGimsey seconded the motion. Representative Pearson objected to the motion. **The roll was called and the motion passed with 4 yeas and 2 nays.**

(5) Municipal Police Employees' Retirement System (MPERS)

Mr. Curran presented the valuation for the system and explained it in depth.

Mr. Richmond presented the Comprehensive Actuarial Review of the 2017 Actuarial Valuation of the System which recommends that PRSAC not accept the MPERS' funding valuation. Instead they recommend that PRSAC request MPERS to revise its actuarial valuation report including a significantly lower return assumption.

Mr. Curran moved that the committee adopt the actuarial valuation as submitted by G.S. Curran & Company for the Municipal Police Employees' Retirement System with the employer contribution rates set forward for 2019 at 32.25% for members of the hazardous and non-hazardous plan, as well as those hired prior to January 1, 2013, with the caveat that members whose earnings are less than the DHS poverty guidelines have their rate set 2% higher. Ms. Johnson seconded the motion. Representative Pearson objected to the motion. **The roll was called and the motion passed with 4 yeas and 2 nays.**

(6) Registrars of Voters Employees' Retirement System (ROVERS)

Mr. Curran presented the valuation for the system and explained it in depth.

Senator Peacock referred to page 9 where it states for 2017, they have maintained their employer contribution rate at 22.5% and asked why is that different from what is stated on page 1.

Mr. Curran responded that must have been a typographical error because that was the rate in the prior year for 2016– that should really be 20%.

Mr. Richmond presented the Comprehensive Actuarial Review of the 2017 Actuarial Valuation of the system which recommends that PRSAC not accept the ROVERS' funding valuation. Instead, they recommend that PRSAC request ROVERS to revise its actuarial valuation report including a significantly lower return assumption.

Mr. Curran moved that the committee adopt the actuarial valuation as submitted by G.S. Curran & Company for the Registrars of Voters Employees' Retirement System with the employer contribution rates set forward for 2019, at 14.25%. In addition, the system should receive the full amount of statutory available ad valorem and revenue sharing funds. Ms. Johnson seconded the motion. Mr. Cole objected. **The roll was called and the motion passed with 4 yeas and 2 nays.**

(7) Sheriffs' Pension and Relief Fund (SPRF)

Mr. Curran presented the valuation for the system and explained it in depth.

Mr. Richmond presented the Comprehensive Actuarial Review of the 2017 Actuarial Valuation of the system which recommends that PRSAC not accept the SPRF funding valuation. Instead, they recommend that PRSAC request SPRF to revise its actuarial valuation report including a significantly lower return assumption.

Senator Peacock commented that we should give them a lot of credit. He referred to page 33 and 34 of the valuation where it shows they have gone from being 73% funded in 2009, to 88% funded today. He stated that they have made progress every year and that trend can be seen for most systems.

Mr. Richmond stated that this is a false strength because of the discount rate. If they were using a discount rate that was lower, their liabilities would be higher.

Mr. Curran noted that they are not cutting this rate at five basis points a year. They have a schedule to get it down to 7.25% quite rapidly and will revisit this when they reach that point to determine whether they keep going or not.

Mr. Rizzo noted that these are not really he and Mr. Richmond's opinions of the forecasts of the future. He referred to page 15 and 16 of the CAR, which lists the eight firms who predict the forecasts. He noted that the consensus is that the plan only has a 33% chance of exceeding 7.4% as a compound return over the ten year period (midterm horizon). He stated this is a serious shortfall in expectations compared to the mainstream of the investment consultants themselves.

Representative Pearson referred to the 2013 valuation of the system when it was funded at 97.22%. Then a change was made to entry age normal and the system was funded at 77.22%. He wonders what were we being told back then that the system was in great shape and the next year it went down so much.

Mr. Curran answered that the dislocation in the funding ratio was completely due to the change in the Governmental Accounting Standards Board (GASB) roles. Prior to GASB 25, they had Gatsby 5 which had a more logical ratio setup. This distorted things.

Representative Pearson asked if Mr. Curran could show us the other numbers that they look at some point in time.

Mr. Curran responded that he could.

Ms. Johnson noted that it is disturbing when comments are made that imply that the system's actuary, the boards, and this committee are simply saying they don't like that number and are throwing their hands up saying any other number will do. She stated she knows from discussions with the actuaries that they do look at other investment consultants along with the system's investment consultants and they happen to come up with a different number. This makes her wonder if they are using a different approach. She stated they know that one full percentage is different because of the inflation assumption (about a half a percentage difference) and then because of the difference in the time horizon (another half a percent). The other half percent could very well be a difference in the approaches they are using to determine the average assumption. She stated that she does not believe it is a consensus, its an average. They are looking at a lot of the same investment consultants and coming up with a different answer. She stated that she is not saying what either one is doing is not correct.

Representative Pearson noted that he appreciated her comments and would be interested in seeing more of the differences. He then asked what if a system came to her as an actuary and said the board has decided to increase the assumed rate of return 20 basis points next year. He asked how that would work.

Ms. Johnson explained that she had never been in a situation where a board has recommended something, but actuarial standards of practice require them to comment on the reasonableness of their assumptions. It is their professional responsibility.

Mr. Curran agreed. He explained that there is a range of comfortableness and if a board were to ask him to go outside of that range he would request that they get a new actuary because he would not want to put his name on it. He noted that this point may be different for each actuary.

Mr. Richmond commented that even though they provide one single rate in their reports, that is not to say that they would reject a valuation done at a higher rate than their ideal rate. They questioned whether to present a range or a single rate. They decided that if they presented a range and all the systems need to come down, a system might look at the higher end of the range as the target, rather than the lower range.

Mr. Curran moved that the committee adopt the actuarial valuation as submitted by G.S. Curran & Company for the Sheriffs' Pension and Relief Fund with the employer contribution rates set forward for 2019 at 9.5% along with the full authorized amounts of ad valorem and revenue sharing and insurance premium taxes. Mr. McGimsey seconded the motion. Mr. Cole objected to the motion. **The roll was called and the motion passed with 5 yeas and 1 nay.**

VII. CONSIDERATION OF ANY OTHER MATTERS THAT MAY COME BEFORE THE COMMITTEE

Senator Peacock noted that a joint board meeting with the three systems would be a proactive move and asked that he and Representative Pearson be notified of that meeting.

Representative Pearson noted that we should consider having another meeting regarding this matter before the next valuation reports are due for these systems.

VIII. ADJOURNMENT

Mr. Broussard moved the meeting to adjourn to which Mr. Curran seconded. There being no objection, the meeting was adjourned.

APPROVED

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Senator Barrow Peacock, Chairman

Date: ______________________________