PUBLIC RETIREMENT SYSTEMS' ACTUARIAL COMMITTEE

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Public Retirement Systems' Actuarial Committee

APPROVED
Minutes of Meeting
SEPTEMBER 26, 2017

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 1:00 P.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)
Ms. Barbara Goodson, Designee for Commissioner Jay Dardenne
Mr. John Broussard, Designee for Treasurer Ron Henson
Mr. Gary S. Curran, Actuary
Shelley R. Johnson, Actuary

STAFF MEMBERS PRESENT

Margaret Corley, Senate Attorney
Kelsey Rome, PRSAC Secretary
Annie Smith, House Attorney

WITNESSES PRESENT- INFORMATION ONLY

Dainna Tully, Parochial Employees' Retirement System
Paul T. Richmond, LLA
Nicole Edmonson, LLA

III. APPROVAL OF MINUTES

Representative Pearson moved that the minutes of the February 13, 2017 meeting be approved to which Barbara Goodson seconded. There being no objection, the minutes were approved.

IV. DISCUSSION ITEM

Senator Peacock asked Mr. Gary Curran to walk us through the valuation dated December 31, 2016 for the Parochial Employees' Retirement System.

Mr. Curran explained that this system has two different sub plans with two separate trust funds. He then explained that most of the members in Plan A do not participate in social security so the benefits are a little larger than the members in Plan B who do participate in social security. The system has a funding deposit account which is credited with any contributions above the required contributions in a case where the board makes a decision to pay more than the recommended rate, which is up significantly. Now have almost 69 million in that account. These funds can be used in the future if contributions were to increase substantially due to experience. There is an offset against that. But can also be used to pay COLAS. These are not a part of the general funding of the system. If the COLAS are drawn from a side account, there is less pressure on the general fund. The actuarial value of assets and market value are both up and the ratio of the actuarial value to the accrued liability is 99.2. For Plan A, they are recommending 9.25 as a minimum for 2018 which is a reduction from the current minimum payment of 10.5. For Plan B, they are recommending 6.75 as a minimum for 2018.

Senator Peacock asked if there was a limit to how large the funding deposit account could grow.

Mr. Curran said from a practical standpoint, what is going to happen is they are probably going to get into some rough patch on investments or experience and they will draw on that account to help offset it or there will probably be some draw down on that account for COLAS. Their position is that they are encouraging clients to move away, where possible, to draw COLAS from that funding deposit account. This takes that off the table as a funding issue because those are separate funds. In effect what you are doing is pre-funding the COLAS.

Senator Peacock asked if that money was included as part of their valuation.

Mr. Curran said the money is subtracted and pointed to exhibit 1 on page 25. The typical algorithm starts off with the present value of benefits then subtract the assets from that. Then you would subtract the employee contributions. Then you'd subtract the normal cost for employers. Then you'd divide that by present value of future salaries and get a rate. What is different in these systems with this funding deposit account is they are adding back in that credit balance on that account so its an offset and from a standpoint of funding the system, you are not counting those assets. So when they arrive at a rate, they are not relying on those assets to produce that rate. He believes it is a good budgeting model as it gives a kind of cushion between what you need to contribute to the plan.

Senator Peacock refers to page 13 which refers to cost of living and asked if they have approved a COLA starting January 1, 2018.

Mr. Curran says that they have and those funds will be debited out of the funding deposit account so it won't have any effect on the future cost of the plan.

Senator Peacock noted that the minimum required employer contribution is 9.25– they've been doing 12.5. Then asked if he knew what their intentions are to keep it at 12.5 this year as this committee is not going to reccomend a higher ammount.

Mr. Curran said the intention is to draw down some and referred to Dainna Tulley to explain further.

Dainna Tulley, administrative director of Parochial Employees' Retirement System, stated that Plan A's rate has been set at 11.5% and Plan B has been set at 7.5%.

Mr. Purpera asked where the assumptions for return value of the assets and assumption for discount rates were in the valuation.

Mr. Curran said they start on page 64.

Mr. Purpera asked if those numbers are the same for these plans.

Mr. Curran said yes, both plans are the same at 7%. The general assumptions for the plans are almost identical.

Mr. Purpera asked how the administrative costs are paid for.

Mr. Curran explained that the administrative costs are separately itemized for all statewide systems so there is no offset against anything else.

Senator Peacock referred to exhibits 7 and 8 on page 31 regarding pension benefit obligations and entry age normal accrued liabilities. And asked why are they calculating it both ways when in the state systems they have made the change to entry age normal.

Mr. Curran says they have to have both according to the statute.

Senator Peacock referred to pages 40 and 41 which says they can go with the employer rate of 11.5% which it the lowest it's been in 10 years.

Mr. Curran says that is correct and that the system is in excellent condition.

Paul Richmond, actuary for the Legislative Auditor's Office explained that their comprehensive actuarial review only pertains to the funding valuation and the determination of the contribution requirements. When they looked at the major assumptions used by the PERS actuary, they picked those that they felt were the most important or had the most significant impact on results: the net expected rate of return assumption, the mortality assumption, how COLAS were recognized, the withdrawal assumption and the drop entry assumption. They believe the net expected rate of return should be reduced from the 7% that was used for the December 31, 2016 valuation. They are recommending that the PERS board strongly consider reducing that rate for the December 31, 2017 to a lower value. The primary reason for that is the allocation of assets to the various asset classes. The mortality assumptions are acceptable. A liability for the COLA program should be recognized– something is better than nothing. Withdrawal assumptions and drop entry assumptions are reasonable.

Senator Peacock asked if they have done a calculation on what the funding would be say if it were at 6.5% or 5.63%.

Mr. Richmond said no, they don't do valuations for this plan because of time and resource limitations which is why they developed the process they use now. He then asked if Mr. Curran had any insight.

Mr. Curran said as far as the funded ratio– no. They do a sensitivity test in terms of contribution rate shift and said if they cut one full percent down from 7 to 6, without adjusting anything else, their employer contribution rate would go up about 10.25% for Plan A and 5.85% for Plan B– almost double. This is shown on page 8 of the report.

Senator Peacock asked what is their analysis on using a midterm versus a long-term.

Jim Rizzo with Gabriel, Rotor, Smith & Co. (on contract as LLA Actuarial Staff), explained that there is a lot of discussion in the actuarial world regarding long-term and midterm horizons and whether the return assumption should be aiming at a long-term or a midterm. Most forecasters have a sense that the longer term will produce a higher average rate of return over a long period. They use 10 year as midterm and 20- 25 as long term. It is more appropriate to peg the return assumption at a midterm horizon in their opinion because there may be a decade of lower pension plan returns while waiting for the following decades to bail out the pension funds in order to achieve the higher longer term expectation. Aiming and hoping for the higher returns in the long term while regularly suffering the under performance in the mid term is not sustainable. "Well in the long run it's going to work out right" is not helpful in the meanwhile. Another reason is 30 year forecasts are not as reliable as 10 year forecasts– which is a general principle in any forecasting.

Senator Peacock asked if there is a 30 year period historically where they can go back and say the long term plan did not work.

Mr. Rizzo said the challenge with looking at the past is that we live in a different world now than the years that produced those returns. For example, we didn't have a federal reserve board doing what they are doing now. The forecasters all agree with that because they are not forecasting the same kind of returns. They have had wonderful 30 year periods, but the only time that the past is a good predictor of the future is if the environment that the future is going to have is the same environment that the past had. The experts are saying we're not going to see those 11% returns over a 30 year period like we have sometimes in the past.

Mr. Broussard referred to page 8– asset experience on Plan A which said 6 out of 10 years exceeded 7%. He noted that this seems to indicate that their 7% rate of return is not unrealistic.

Mr. Richmond noted that this was not a criticism of their board or decision making process. What this is saying is based upon the decision making process of those who are experts in making forecasts of inflation and rates of return for the various asset classes.

Mr. Broussard asked Dainna Tulley if their investment consultant does an asset allocation study annually and if part of that is a risk based assumption of what the likely returns on the makeup and if that tends to indicate that 7% was reasonable.

Ms. Tulley replied that they do an asset allocation study annually and part of that is a risk based assumption. The last study that they did indicated that 7% was a reasonable assumption.

Mr. Broussard asked Mr. Richmond if they were saying that there is a chance that other outside professionals would deem the 7% too aggressive.

Mr. Richmond said yes and that part of their process is to take and use a survey of 10 well regarded investment consultants and using averages of their capital market assumptions to come up with a model.

Representative Pearson asked how they selected the consultants used.

Mr. Rizzo said that the size and influence of the firm had a great deal to do with who they asked. There are others that they wanted to have that didn't want to participate and publish their results even though they do not identify who is who in their results.

Representative Pearson noted that it is a little concerning that none of them came out with the 7% with a 50 percentile so it is valid that they brought it up.

Mr. Curran noted that his firm believes it is best to take it slowly because the consequences are pretty high and also believes the process that Mr. Richmond has done is very worthwhile.

Mr. Richmond said that the second issue is what is the right way to treat COLAS in the funding valuation. He noted that the statewide systems are all a bit different, but are all basically based on a percentage of the benefit with certain caps and limitations on the maximum amount of COLA that can be granted as a percentage of the benefit. The issue is when we value a plan, should we consider a liability and a cost associated with that. Their recommendation is that the annual valuation should consider the cost of COLA benefits because some type of measurement is better than no measurement. In summary, the LLA has not prepared an independent actuarial valuation as of December 31, 2016. If they had done so, they would have used a net rate of return assumption that would not have exceeded 6.5% and they would have recognized COLAS. They generally support the single valuation presented to PRSAC and recommend they adopt the valuation.

Mr. Curran motioned that the committee adopt the valuation report for Parochial Employees' with the minimum recommended employer contribution rate at 9.25% for Plan A and 6.75% for Plan B, in addition the plan receive the full statutory amount of ad valorem and revenue sharing funds. Ms. Goodson seconded. There being no objection, the December 31, 2016 valuation for Parochial Employees' Retirement System was approved.

Mr. Purpera noted that the law states that this committee can make recommendations, subject to unanimous approval of the committee to the retirement system.

Mr. Purpera motions that the committee recommend to the board, that they consider developing a plan to reduce their rate from the 7% to the 6.5% that Mr. Richmond has recommended.

Mr. Curran commented that he is not quite comfortable with that, but would be comfortable to make a motion that the board review the rate conveyed to the board.

Senator Peacock asked if Mr. Purpera wanted to revise his motion given Mr. Curran's comments.

Mr. Purpera noted that it is the practice of this committee to always approve the valuation of the system and when they even get close to not approving, there are comments that it is too late. He wants to make sure they don't repeat the problems of the past. With that stated moves onto revise his motion.

Mr. Purpera makes a revised motion that the committee urges and requests the board to consider reducing their rate.

Ms. Goodson states that it is probably best to recommend that the board evaluate the current rate. They should come to the conclusion on their own.

Mr. Purpera makes a revised motion that the committee requests that the board consider re-evaluating their rate to which Representative Pearson seconded.

Senator Peacock asks that the secretary take a roll call vote on the revised motion.

The revised motion passes unanimously, with 7 yeas.

V. EDUCATIONAL PRESENTATION BY THE LEGISLATIVE AUDITOR'S OFFICE REGARDING POST- RETIREMENT BENEFIT INCREASES FOR LARGE PUBLIC RETIREMENT SYSTEMS

Mr. Richmond stated that as a general rule they will discover that all large public systems having a COLA feature are struggling with this aspect of their retirement program primarily because of the cost of these programs. He noted that throughout his presentation he will use the term "PBI" which means Permanent Benefit Increases, instead of COLAS– for the point of today's briefing, they will be treated as being identical.

The presentation discussed the PBI's for large state retirement systems across the country, the PBI's that are offered by Louisiana Public Retirement Systems, as well as PBI's that rely on gain sharing– which the Louisiana State Plans rely on. The presentation was based on information provided by the three organizations that collect information about large public retirement systems are the National Education Association, the National Association of State Retirement Administrators, and the Wisconsin Legislative Council which all give similar information. They focused on the Wisconsin Legislative Council as they offered the most information on COLA's.

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

Senator Peacock noted that we will have a meeting for Teachers and LASERS as soon as we get the information.

VII. ADJOURNMENT

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

APPROVED

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Senator Barrow Peacock, Chairman

Date: ________________________________