PUBLIC RETIREMENT SYSTEMS' ACTUARIAL COMMITTEE

Tuesday, March 18, 2014
8:00 a.m.
House Committee Room 2
State Capitol
Baton Rouge, Louisiana

MINUTES

1. Call to Order

The meeting was called to order by Chairman Daryl Purpera at 8:05 AM

2. Roll Call

Members Present:
Mr. Daryl Purpera, Chairman, Louisiana Legislative Auditor (LLA)
Mr. Benjamin Huxen, Vice Chairman, Designee for Commissioner Kristy Nichols,
Senator Elbert Guillory, Designee for Senate President John Alario
Representative Kevin Pearson, Designee for House Speaker Charles Kleckley
Mr. Jim Napper, Proxy for Treasurer John Kennedy
Mr. Gary Curran, FCA, MAAA, ASA, EA
Mr. Charles Hall, FCA, MAAA, ASA, EA

Also attending:
Mr. Paul Richmond, EA, ASA, MAAA, FCA, Manager of Actuarial Services, LLA
Ms. Shelley Johnson, MAAA, ASA, FCA, Actuary for LASERS and TRSL
Ms. Cindy Rougeou, Executive Director, LASERS
Ms. Maureen Westgard, Director, TRSL
Ms. Liz Martin, Secretary

3. Approval of Minutes

Senator Guillory moved to approve the minutes prepared by Senate secretary Clarissa Moore for the December 11, 2012, and March 7, 2013, meetings. Mr. Huxen seconded the motion, and with no objection, the motion was approved.

4. Discussion and approval of June 30, 2013, annual actuarial valuations and the required contributions and dedication of revenues contained therein for the following State Retirement Systems:

(1) Louisiana State Employees' Retirement System (LASERS)

Chairman Purpera explained that additional information had been requested in the previous meeting. Mr. Richmond presented his revised actuarial valuation report for LASERS, which included additional clarifying information. He pointed out on page 2 a contribution rate of 39.8%, using a 7.75% discount rate, and the same methodology as used by Foster & Foster (F&F), to allocate the change in ERISA

(Employee Retirement Income Security Act of 1974) valuation methods. He allocated those to investment gains as done by F&F that was effective 2013 valuation results, so Mr. Richmond's results match F&F's results for 2013. Where they differ is the projected contribution for fiscal year ending (FYE) 2015 – LLA's rate is 39.8% and F&F's rate is 37.4%. He pointed out page 93 for the summary of the valuation reports showing the breakdown of the differences between methodologies, and the component pieces of those changes. Mr. Richmond further explained their differences in the gain sharing method of indirect versus direct.

Ms. Johnson explained that her calculated projected contribution rate for fiscal year 2014-2015 is 37.4%, and the difference in their rates is in the discount rate and their handling of the gain sharing provisions. She detailed why she relied on LASERS investment consulting firm NEPC's capital market assumptions. Ms. Johnson provided a recap of the results of her valuation, the aggregate projected contribution rate for fiscal year 2014-2015 is 37.4%. The rate breakdown by plan: traditional rank and file - 37.0%; judges and court officers - 41.5%; legislators - 41.2%; corrections primary - 39.9%; corrections secondary - 40.8%; wildlife - 46.9%; peace officer - 41.5%; alcohol tobacco control - 44.8%; bridge police - 35.3%; judges (Act 992) hired after January 2011 - 36.2%; hazardous duty - 35.6%. This results in the aggregate of 37.4%. Ms. Johnson commented that one of the main differences in her and Mr. Richmond's valuations is the inflation assumption.

Mr. Hall made a motion that the actuarial valuation prepared by Ms. Johnson for LASERS be adopted with all the employer contribution rates contained therein. Mr. Purpera restated the motion to adopt the F&F valuations for LASERS, and the composite rate of 37.4%. Ms. Johnson said the DROP rate on page 2 of the report is 13.55%. Mr. Huxen seconded the motion. Mr. Purpera asked if any discussion or any public comment.

Mr. Curran said, according to the law, PRSAC shall adopt a valuation, and two valuations were presented to choose from. There are good elements of both valuations as any actuary will have issues with either one or both because professional judgment differs, but that does not mean that either valuation is wrong.

Senator Guillory said that two rigorously prepared valuations were presented and PRSAC must choose to adopt only one, considering the issues of time and impact. The Legislative Auditor's calculations were presented as quickly as possible, and those issues raised in his valuations merit very close scrutiny by this body. The state agencies and the school boards have already prepared their budgets for the upcoming year and they prepared their budgets relying on the only valuations that they had as well as contribution rates.

Senator Guillory seconded the motion to pass F&F's valuation. He also asked that the auditors work together with the systems to present to the committee by October 1st a reasonable actuarially sound plan for attaining two goals by June 30: first, a 7.5% valuation interest rate; and second, an amortization period shorter than 30 years.

Mr. Purpera referred to the motion by Mr. Hall and seconded by Senator Guillory asking if any objection. No objections were made. Mr. Purpera commented that he has to opine on the state's financial statements. The liability number will appear on the state's financial statement current year period in the notes. In the future it will appear on the face of the financial statements. Over the last two years, when he opined on the state's financial statements, he included an emphasis of a matter because he had a concern about the discount rate. He recognized the duty of this committee and believes that PRSAC is compelled to provide a consistent strategy for ensuring that our systems are actuarially sound and properly funded. But he realizes that the timing of the valuations is a problem for making changes. The budgets have been prepared and are moving through our legislative process. Mr. Purpera agreed to the motion, so the motion passed with no objection.

Mr. Purpera said he would call a meeting in the next six months to lay groundwork for performing their necessary tasks in a more timely fashion in the future. Mr. Napper said the Treasurer believes they need to continue to work to lower the discount rate in the valuations but on an incremental basis.

(2) Teachers' Retirement System of Louisiana (TRSL)

Mr. Richmond summarized his actuarial valuation report on TRSL and directed the committee to the summary on page 95 which showed the reconciliation between the valuation report prepared by F&F and the report prepared by the LLA. F&F's report had a rate of 27.7%, and the LLA had a rate of 30.1%

Ms. Johnson said the aggregate projected contribution rate is increasing from 26.1% to 27.7%. The breakdown by group: regular teachers - 28.0%; higher education - 26.4%; lunch plan A - 33.1%; lunch plan B - 30.1%; and the aggregate of those rates is the 27.7%. The employer normal cost rate is significant for the ORP plans for regular teachers the employer normal cost rate is 5.2545%; higher education - 3.6658%; lunch plan A - 10.4157%; lunch plan B - 7.4148; with an aggregate rate of 5.0371%.

Ms. Maureen Westgard, TRSL Director said she asked Ms. Johnson to do modeling and brought three different scenarios to the board so they could see what the impact would be if at 7.5%, 7.75%, and 7.90%. They also discussed the other legislation that would be appearing during this session which could also have an impact on the employer contribution rate. The other thing she would like to see is a movement toward entry age normal.

Mr. Hall made a motion with all the caveats and statements that were made previously relative to LASERS, but now for TRSL. He proposed that Ms. Johnson's valuation be adopted, all the employer contribution rates and DROP rate contained therein. Mr. Purpera restated the motion that the F&F valuation for TRSL be approved with all the rates and valuations within. Senator Guillory seconded the motion. With no objection, the motion passed.

5. Discuss Senate Bill No. 26 by Senator Guillory

Mr. Hall said the actuaries for the state systems and the legislative actuary discussed Senate Bill 26 and how to handle administrative expenses in a DB plan.

Ms. Johnson explained the proposal in Senate Bill 26 is to change the way state retirement systems fund administrative expenses. Currently, Louisiana statutes define the funding mechanism for the statewide systems differently from the state systems for administrative expenses. In the statewide systems, the administrative expenses are funded directly up front through the employer contributions, so in other words, an estimate is made for administrative expenses and that is built directly into the contribution rate and funded up front. For the state systems, administrative expenses are specifically not included in the list of what is provided in the normal cost contribution – the direct up front contribution of employers. So because there is not direct funding mechanism, every year these administrative expenses are treated as a loss.

The administrative expenses are being amortized over 30 years. The proposal to fund the expenses directly through the employer contribution would result in an immediate increase in the contribution rate but also result in significant interest savings long term. The law is in conflict with actuarial standards and law takes precedence over standards of practice, thus the reason for SB 26.

Mr. Huxen said that Commissioner Nichols also believes that the committee needs to study lowering the discount rate over time. He said it is important to regroup after the legislative session and see what happens with this bill and entry age entry normal, and to look at the effects of lowering the discount rate.

Mr. Purpera asked if any public comments or further discussion. Representative Pearson made a motion that PRSAC support SB26. Mr. Hall seconded the motion. Mr. Purpera said with no objection, the committee unanimously approved the motion.

6. Other Business

No other business was discussed.

7. Adjournment

Vice Chairman Huxen moved to adjourn and with no objection, the meeting was adjourned at 9:14 AM.

Approved by PRSAC: **July 10, 2014**
Date