LOUISIANA LEGISLATURE

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Louisiana Legislative Auditor

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PUBLIC RETIREMENT SYSTEMS' ACTUARIAL COMMITTEE [PRSAC]

MINUTES
December 15, 2022

APPROVED

I. CALL TO ORDER

A meeting of the Public Retirement Systems' Actuarial Committee [PRSAC] was held on December 15, 2022 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 9:08 A.M.

II. ROLL CALL

The secretary called the roll and the following was noted:

MEMBERS PRESENT:
Senator Edward "Ed" Price | PRSAC Chair
Representative Phillip DeVillier | PRSAC Vice-Chair
John Broussard | Louisiana Department of Treasury
Michael J. Waguespack | Louisiana Legislative Auditor
Greg Curran | System Actuary | Curran Actuarial Consulting
Shelley Johnson | System Actuary | 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 | Director of Actuarial Services, Louisiana Legislative Auditor
John Rodgers, Jr.| Senate Sgt. at Arms
Edna Buchanan | Senate Sgt. at Arms

Chairman Price called for a moment of silence for all Louisiana storm victims and expressed the need for prayers to support those affected. Louisiana families endured significant hardships due to destructive storms that ravaged both the northern and southern parishes on December 14, 2022.

III. APPROVAL OF MINUTES

Mr. Broussard offered a motion, seconded by Mr. Curran, to approve the minutes from 17 August 2022. **Without objection, the motion passed to approve said minutes.**

IV. DISCUSSIONS

DISCUSSION AND APPROVAL OF THE 2022 ANNUAL ACTUARIAL VALUATIONS AND THE REQUIRED CONTRIBUTIONS AND DEDICATION OF REVENUE CONTAINED THEREIN FOR THE LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM [LASERS]

Ms. Johnson provided the following summary of the LASERS Valuation:
The number of retirees increased. The preceding year concluded at 49,535; by June 2022, the count was 49,747. Active membership reduced by 3% from 38,572 to 37,358 and those entering DROP were only able to contribute to the self-directed account and do not participate in the full actuarial return of the system. DROP membership decreased to approximately 1,200. The counts of terminated-vested members have consistently increased; currently there are 3,868. The annual benefits showed a typical increase of approximately 2.3%. These were no benefits paid in the prior year. This represents annualized benefits effective 30 June 2022. The current payable benefits totaled $1.4 billion. Payroll remained roughly remained flat at $2 billion in 2022; slightly above 2021. The aggregate increase was approximately 3%; offset by the reduced number of active members which impacts the contribution rate. The market value of assets decreased with a return on total plan assets of 7.02%. The valuation assets represent the actuarial value of assets; a smooth value less the EA side fund. The EA decreased from $85M to $23M. The ending balance had no allocation to the EA from investment earnings. The $68M benefit disbursement was due to the one-time supplemental pay cost approved by the legislature in 2021. The accredited interest was $6M; earned from an $85M balance. The $23 million EA balance is insufficient to meet COLA payment requirements. The actuarial return on total plan assets was -7.02%. Due to significant 2021 investment gains, the actuarial value return was 7.05%. The prior year market value gains were 33.03% with gains still being recognized helping to offset this year's losses. The old DROP accounts were credited with actuarial returns, less half a percent, accounting for administrative expenses. DROP accounts will be credited at 6.55%.

The valuation for LASERS illustrated is with smoothing explanations for expectations of future years; deferred and recognized gradually. The total normal cost of payroll increased from $218.2M or 10.89% to $225M or 11.2% of payroll; due to the decrease of the discounted rate from 7.4% to 7.25%. This can increase normal cost and the UAL. The normal cost increase anticipated in 2021 was incorporated into the employer contribution rate. Employers pay 3.11%; very low cost for accruing benefits. There was an increase to the UAL from $6.87M to $6.9M resulting in an increase to the funding percentage. In 10 years, the funded ratio increased from 55% to 73.8% despite the discount rate and funding method. This is a significant impact to LASERS due to legislative changes requiring more gains to pay down the UAL. As of June 20, 2021, the UAL balance was $6.87 billion. Detailed listings are provided in the valuation report illustrating what was paid on the principal balance and interest totaling $509 million. $21.8 million in surplus funds were received due to constitutional requirements; used to pay down the UAL. The one-time supplemental payment was $68 million; completely offset by the release of funds from the EA. The employer contribution surplus total was $14 million; reducing the UAL and applied to the EA amortization base. The discount rate changed from 7.4% to 7.25%; producing the largest UAL increase by $274 million. The current balance is $6.97 billion. This valuation illustrates a projected contribution rate for FY2024. Employee contributions increased to 8.1%; representing 8% and 7.5% currently paid by rank and file members. Due to the impact of hazardous duty plans, the average rate normally runs higher than 8%. The 2021 employer contribution approved rate of 41% is for FY 2023 in aggregate. The 2022 year resulted in a restated employer contribution approved rate: 41.9% indicates a potential contribution deficit.

Mr. Herbold provided the following summary of the LASERS LLA Review:
The LLA conducted two focused reviews of LASERS, concentrating on specific areas. The examination encompassed a comparison in methodology along with an exploration of potential violations of actuarial practice standards. In general, Louisiana exhibits a robust governance structure across all retirement plans. These systems were put in place to ascertain actuarial contributions accurately. By employing multiple standards to demonstrate effective management and value for each plan, the result has been maintenance to strong funding levels. Assumptions are becoming progressively more conservative, contributing to higher funding ratios. These efforts ensure the sustained actuarial soundness of the plans. LASERS employs specific assumptions when COLAs are considered with benchmark calculations serving as a reference for assumptions. The comparison of benchmarks to the assumed rate of return over time yields a more valuable perspective compared to assessing individual years in isolation. The final decision to lower the assumed rate of return resulted in increased costs. The bulk of liability is expected in benefits payments; disbursed within the next 10-15 years. This approach aligns expected returns with benefits paid, contrasting with the use of long-term assumptions; a distinct but reasonable method. The auditor's benchmark return increased by 25 basis points since 2021, primarily due to medium-term market projections and an increase in inflation forecasts. The discount rate stands at 7.25%, while an actual assumption of 7.6% must be realized to meet the funding requirements of the EA. Implementing targeted conservatism can provide an additional buffer without altering the cost of the plan; especially true because the plan is not fully funded.

Vice Chairman DeVillier stated that the majority of legislators are mostly focused on COLA payments and growth of the UAL. Although the UAL experienced an increase from 2021 to 2022, the expectation is ongoing reductions in the future.

Mr. Herbold agreed, stating that market fluctuation is a consistent factor in each valuation, encompassing long-term and general projections. Stable expectations should not be anticipated, and adjustments are necessary. With the existing structure combined with long-term calculations, the UAL is expected to decrease over time.

Chairman Price concurred stating that transparency regarding direct and indirect aspects of COLA payments can be complex. The systems have consistently shown efforts to enhance communication and provide clearer options; keeping members well-informed on the timing and possibility of receiving a COLA.

Ms. Johnson confirmed that LASERS adopts a discount rate and adheres to actuarial standards of practice. In cases where provisions are challenging to quantify, such as gain sharing, adjustments to assumptions are recommended. Efforts are being discussed to formulate simpler COLA provisions that could reduce confusion, enhance predictability, provide greater legislative oversight, and align the perspectives of actuaries.

Ms. Johnson offered a motion, seconded by Mr. Curran, to approve the contributions, dedication of revenue, and contribution DROP rates contained therein for the Louisiana State Employees' Retirement System [LASERS]. **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 TEACHERS' RETIREMENT SYSTEM OF LOUISIANA [TRSL]

Ms. Johnson provided the following summary of the TRSL Valuation:
The payroll for TRSL increased primarily due to growth in active membership. However, market values decreased to -7.45%. The actuarial basis return of 8.96% resulted in an augmentation of actuarial assets and a DROP rate of 8.46% for old DROP accounts. The EA account decreased; largely attributed to the disbursement of a 2% COLA. The balance from 2021, started at $369 million, was influenced by the 8.96% actuarial rate surpassing the 2021 discount rate, leading to an EA allocation of $30.5 million. The cost of the 2% paid COLA was $353 million; coupled with a $33 million deposit, yielded a balance of $79 million. Increases to normal cost were partly due to rising active membership and payroll, alongside a discount rate reduction from 7.4% to 7.25%. The valuation was conducted based on the 7.25% discount rate. The UAL decreased from $9.3 billion to $9.1 billion. A $48 million surplus allocation was the highest received by TRSL, directly applied to decrease the overfunded accumulated benefit/underfunded accrued liability (OAB/IUAL). The substantial $144 million contribution variance surplus is noteworthy. The investment experience gain, resulting from the 8.96% actuarial return, was primarily due to a reduction of $350 million, whereas the experience loss amounted to $140.8 million. The increase in benefit/COLA costs totaled

$350 million; directly offset by EA disbursements. This cost is not incurred when the COLA is granted but rather when funds are deposited into the EA. The shift in the discount rate from 7.4% to 7.25% led to an increase in the UAL by $498 million. The aggregate contribution rate for 2021 was 24.7%; covered by employers in FY2023. This was subsequently reduced to 24% primarily due to the investment experience gain and a payroll increase. For FY2024, the projected aggregate rate stood at 24.0% for regular teachers and higher education. The rate for K-12 and lunch employers were 24.1%, while the higher education rate was 23.3%. Over the past decade, the current funded ratio increased from 55% to the current assumptions and cost methods, which now stands at 73.7%. Further reductions are expected to the UAL balance. UAL payments are projected to remain stable, gradually decreasing as scheduled payments are fulfilled. The OAB pay off is expected by 2029, if not earlier.

Mr. Herbold provided the following summary of the TRSL LLA Review:
Assumptions, methodologies, and recommendations provided by the LLA align closely with those of LASERS and TRSL. Adopting direct approaches to annual COLA assumptions, rather than assuming a rate of reduction, could lead to a more pronounced rate of return. The current methods can be challenging to quantify, particularly when systems are influenced by market volatility. Each chosen method is suitable and acceptable, with a direct assumption potentially offering clearer insights. Benchmark assumptions increased the assumed rate of return by 25 basis points, while the discount rate decreased.

Ms. Johnson offered a motion, seconded by Chairman Price, to approve the contributions and dedication of revenue and DROP rates contained therein for the Teachers' Retirement System of Louisiana [TRSL]**. Without objection, the motion was approved.**

<u>DISCUSSION AND APPROVAL OF THE 2022 ANNUAL ACTUARIAL VALUATIONS AND THE REQUIRED CONTRIBUTIONS AND DEDICATION OF REVENUE CONTAINED THEREIN FOR THE LOUISIANA SCHOOL EMPLOYEES' RETIREMENT SYSTEM [LSERS]</u>

Mr. Curran provided the following summary of the LSERS Valuation:
Active membership for LSERS decreased alongside an unfunded liability, and payments as a percentage of payroll showed fluctuations. Payroll is pivotal in determining the employer contribution rate. Although payroll increased, it had a negative impact on normal cost. As member benefits grew due to pay raises, percentages could contribute to a decrease in overall pay costs. Retired membership experienced a slight increase as anticipated, despite a reduction in DROP participation. The entry window to DROP for state systems, coupled with new tier rules starting at age 62, could lead to fewer individuals entering DROP eligibility. Terminated members may be due to deferred benefits or refunds; the number of vested members increased compared to 2021. Benefits and payments increased due to retirement population growth; pay-outs reaching $188 million annually. The actuarial accrued liability reached $2.8 billion; an increase from 2021. However, this figure did not factor in the membership which contributes toward the future liability amount. The funded ratio, which stood at 75% of the accrued liability, experienced a slight decline from 2021. The UAL holds significant importance for the calculation of the employer rate, which increased from $660 million to $687 million. The EA was mostly depleted, primarily due to legislation which

introduced a permanent benefit increase. The EA fund balance was insufficient to provide a maximum COLA; 1.4% was utilized. Because of rounding rules that do not mandate the expenditure of all dollars, a $600,000 balance can be applied to future COLAs. The actuarial value of assets, after 5-year smoothing, amounted to $2.1 billion; slightly below the market value of assets. The market rate of return was -.64% loss, excluding funds in the money market DROP account. Compared to other systems, this loss was small. The actuarial rate of return at 7.57% was a gain, whereas other systems faced losses. The non-money market was half a percent below the actuarial rate of return, which allows for earnings. The net employer normal cost increased slightly to $23.6 million; this differs from the total normal cost which includes employee contributions. The amortization cost formed the largest portion due to historical UAL. The UAL payment increased from $60 million in 2021 to $62 million in 2022. After adjusting for projected administrative costs, the required employer contributions for FY2023 amount to $90.8 million, equating to a 28% required contribution rate. Complying with state statutes and applying the rounding rule to the nearest tenth of a percent, the plan settled at a 27.6% rate for FY2024 ;on par with FY2023. The assumed rate of return for 2021 was 6.9%. The initial valuation suggested a decrease in the employer contribution rate, yet final decisions led to a reduction in the valuation interest rate to 6.8%, resulting in increased costs due to the higher assumed rate of return for 2022. Despite analysis indicating a valuation interest rate of 6.9% remained reasonable, the decision was made to reduce it. It is worth considering whether future reductions might be put on hold. The impact of demographics and experience resulted in variations in plan cost outcomes compared to the initial assumptions over a single year. Unfavorable net liability experience was observed when contrasted with the assumptions. The focal point of concern is with the funding of COLAs and the management of the EA account. As per a state statute, the EA is automatically replenished when market conditions are met, but its expenditure necessitates legislative action. The 2021 COLA led to a decreased EA balance of $600,000; introducing a new liability to refill the EA to its maximum capacity. The normal plan cost for 2021 was 7.36% of pay; a reduction attributed to the growth in payroll as a percentage. However, when the assumed rate of return was lowered, the normal cost increased by a quarter point. By year-end, there was a slight decline compared to 2021 in terms of the percentage of pay, but it was higher on a dollar basis. UAL payments commenced at 19.26% of pay, reaching almost $60 million. Although the change in the valuation interest rate had a negative impact, it resulted in a new UAL. This, in turn, led to a minor reduction in existing UAL payments. Contribution gains and losses, distributed over a 5-year period, led to the UAL payment lowered by 0.22%. The assumption lost was a result of the lowering of the assumed rate of return. Negative liability experience was a consequence of plan costs, while contributions compared to projections yielded a gain. In terms of payment requirements, the combined normal cost and amortization totaled 28.04%. Reform legislation led to a reduction to the allocation of investment gains to fund COLA costs. This resulted in an overall decrease in payment requirements for 2024, culminating in a 27.6% payment. Additionally, to expedite UAL payments and address priority amounts and their impact on the oldest basis, tracking is provided in the valuation exhibits.

Mr. Herbold provided the following summary of the LSERS LLA Review:
The approach to COLAs for LSERS differs from LASERS and TRSL. Future COLA increases should be recognized because there are no assumptions for COLAs beyond what is payable in the EA; other than refilling the EA, it does not occur. The projected outcome indicates there will be

further losses in the future. When the legislature grants a COLA, the amounts can be measured within a probable time frame. Failing to do so results in future liability losses, as evidenced by the higher-than-anticipated losses experienced in 2022. These losses are transferred entirely into the employer contribution, which consequently shifts the burden of paying for current COLAs onto future taxpayers. The primary advantage of pre-funding a defined benefit plan is the close alignment of service cost with the time it is actually received. This approach is considered more conservative and helps in managing the financial stability of the plan.

Mr. Curran offered a motion, seconded by Chairman Price, to approve the valuation report and the contribution rate contained therein for the Louisiana School Employees' Retirement System [LSERS]. **Without objection, the motion was approved**.

<u>DISCUSSION AND APPROVAL OF THE 2022 ANNUAL ACTUARIAL VALUATIONS AND THE REQUIRED CONTRIBUTIONS AND DEDICATION OF REVENUE CONTAINED THEREIN FOR THE LOUISIANA STATE POLICE RETIREMENT SYSTEM [LSPRS]</u>

Mr. Curran provided the following summary of the LSPRS Valuation:
Active LSPRS membership reduced from 951 members to 914. There was minimal membership reduction with a class of police cadets. Two classes per year are needed to remain level. The reduction in membership was followed by a reduction in plan payroll. It is helpful to spread historical UAL payments over payroll for this plan. Because legislative approval is required to hold cadet classes, the volatility of the plan continues to increase. The plan is one of the least stable due to membership. Retired membership increased, as with all police plans. The assumed rate of return was 6.95%. The plan benefits and payments increased due to the 2022 COLA and added retirees. The accrued liability was $1.37 billion, compared to the actuarial value of assets to determine the funded ratio. The actuarial value of assets was just over $1 billion. The plan was 78% funded level; a slight increase. The reductions in plan payroll caused a drastic increase in the percentage of pay costs. The UAL increased from $295 million to $303 million. The EA was emptied per state statute. Both the supplemental and base COLA amounts were paid. The actuarial value of assets increased above the market value of assets, spreading more losses than gains. A lowered value of assets were produced in 2022 due to investment losses. The rate of return for 2021 was 32.1%, while the plan experienced a loss of 12.37% in 2022. The five-year smoothing value was 6.76%, resulting in a nominal loss and a nominal increase to costs. Amortization cost increased to $33 million. Administrative expenses were just under $1.3 million. The small allocation of $1.5 million in insurance premium taxes lowers annual costs. However, this level dollar amount becomes less useful as costs and payroll increase. Projected payroll decreased from $75.5 million to $71.9 million, leading to an increase in required contribution from 2021 of almost 7%. With increasing rates and a time lag in setting them, contribution shortfalls need to be accounted for in future years. These shortfalls would be spread over a five-year period, resulting in a material impact. The minimum employer contribution rate ended at 70.4% for FY2024, up from 62.9%. Overall, the methods are not well suited to a plan with this payroll type, even with conservative projections to prevent unexpected losses. The long-term plan impact is heavily dependent on the ebbs and flows of payroll. The liability comparison is no different from LSERS. According to state statutes, triggers indicate when a 75% funded level is reached, the COLA amount changes from 2% to 2.5%; this plan

triggers this change. Adjusting methods for funding COLAs is welcomed. Decisions to pre-fund COLAs or fund them when granted correlate to which taxpayer will cover the cost. If assumptions were changed to account for future COLAs without changes to COLA-related state statutes, today's taxpayers would pay huge sums. The normal employer cost withstood at 21.19% of pay; with changes, it decreased to 21.09%. UAL payments began at almost $30 million; 39.7% of payroll from 2021. The loss of a sizable contribution gain added 3.14% in plan cost; 5-year amortization gains and losses on contributions make contribution volatility slightly higher. Asset experience loss had a minimal increase of another 2.44%. The reduction in payroll, the elimination of the contribution gain from five years ago, and the liability experience loss were pivotal factors.

Mr. Herbold stated that the methodology for LSERS and LSPRS are the same or similar, including COLA assumptions and assumed rates of return.

Mr. Curran offered a motion, seconded by Chairman Price, to approve the valuation report and to report the contributions, dedication of revenue, and the non-money market rate of return contained therein for the Louisiana State Police Retirement System**. Without objection, the motion was approved.**

Chairman Price announced that due to PRSAC being comprised of non-legislative members, each agenda item discussed requires a second motion. Reconsideration of the vote was taken on each agenda item, and each second motion was duly noted as referenced above.

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 10:35 A.M.

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

DATE APPROVED: 22 August 2023