PUBLIC RETIREMENT SYSTEMS' ACTUARIAL COMMITTEE

Post Office Box 94183
Baton Rouge, LA 70804

Telephone: (225) 342-8827
E-mail: sret@legis.la.gov

Public Retirement Systems' Actuarial Committee

APPROVED
Minutes of Meeting
JANUARY 9, 2019

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 9:07 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
Kelsey Rome, Senate Secretary
Laura Gail Sullivan, Senate Counsel
Tyler Bosworth, House Attorney
Jennifer Watson, House Secretary

WITNESSES PRESENT- INFORMATION ONLY
Piotr Krekora, GRS/LLA
Jeff Amrose, GRS/LLA
Nicolas Vahaye, GRS/LLA
Nicole Edminson, LLA
Dannie Garrett, Louisiana School Boards Association
Charles Bujol, Louisiana School Employees' Retirement System
Matthew Freedman, Louisiana School Employees' Retirement System
Chenfei Zhou, Louisiana School Employees' Retirement System

III. APPROVAL OF MINUTES

Rick McGimsey moved that the minutes of the September 6, 2018 meeting be approved. Daryl Purpera seconded the motion. **There being no objection, the minutes were approved.**

IV. PUBLIC COMMENT

Senator Peacock opened the meeting to public comments.

Dannie Garrett with Louisiana School Boards Association testified that they have worked actively over the last number of years to try to implement structural improvements to LSERS and TRSL to ultimately keep the UAL from getting it worse and get it paid off. They hope that the committee keeps in mind when they are looking at setting the employer contribution rate– particularly the UAL– that they take that good faith effort into account. And also understand that with the flat MFP over the last decade, they have been meeting the UAL costs essentially on their own with local taxes. He knows that there is a Senate Resolution 248 that is attempting to get B.E.S.E. to come up with a number– how much of that MFP is actually the state's. He noted that it will be interesting to see what they come up with because they have never been able to figure it out because there is no line item in the MFP that says this is the money that we are putting up for the state's UAL contribution. So please keep in mind that every dollar they have to put up towards that employer contribution is another dollar that they do not have to put in the classroom.

Senator Peacock thanked him for his testimony and moved on to the next item of business.

V. DISCUSSION ITEM

(1) Louisiana School Employees' Retirement System

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

Senator Peacock recognized Treasurer John Schroder and thanked him for coming to the meeting.

Nicole Edminson from the Louisiana Legislative Auditor's office noted that they have hired Lowell Good as the actuary to replace Paul Richmond and will be starting on January 30th. GRS is serving as actuary in the interim.

Piotr Krekora presented the Legislative Auditor's valuation report for the system and explained it in depth.

Senator Peacock noted that although there are differences in valuations in their valuations, progress is being made and they are getting closer to the same number and assumptions.

Mr. Krekora stated that was correct, there are small steps being made, but they would recommend a longer stride.

Senator Peacock asked if that longer stride would basically be an additional $18.2 million.

Mr. Krekora stated that was correct.

Mr. Broussard commented that he likes their methodology and transparency. He does not like the size of their sampling and lack of diversity in sampling. The inflation numbers are heavily weighted towards government sources and the federal reserve bank system– there is almost no diversity in that manner. The expected return horizons are heavily weighted towards consultants. He would like to see more robust and more diverse sampling in their methodology. It would be a more representative sampling of what practitioners think inflation will be. He thinks the same is true for the return horizon.

Mr. Krekora thanked Mr. Broussard for his comments and noted that they always strive to get more reliable and diverse sources, but they do not always get permission to use the data that is available.

Mr. Curran commented that they have spent the last several months working with GRS and they have had a good experience working with them back and forth trying to solve these problems. He does not believe anything they have presented to be unreasonable. He thinks the main impediment to them in seeing that those future COLAs should be valued is the requirement that the legislature actually enact a bill. This puts them in a position of speculating what legislative action may be. If they go down that road, then why not speculate in other arenas. If you look at legislative activity over the last 10-15 years, there have been a number of COLAs passed, true. There have been a number of measures that have reduced benefits over that same period of time, should he add that into his calculus in terms of speculating on future legislative activity. To him, this represents a problem getting over that hurdle. In addition, if they in effect fund these COLAs before the legislature makes the decision whether to grant them and we are somehow interposing themselves in front of the legislature in the funding formula– that gives him some concern. He believes the actuaries are put in a very unfortunate position because of this issue. Having said that, he believes there is certainly some probability that future COLAs will be paid out from the fund. His preference would be that the legislature to solve this problem and set forth specifically when these COLAs should be paid and then let us fund them under that directive.

Mr. Purpera asked what would be the cost of the COLA, if he were to predict that the legislature would grant a COLA every time one is available.

Mr. Curran stated that he did not think it would be substantially different from what GRS has calculated.

Mr. Curran moved that the actuarial funding valuation report for the Louisiana Schools Employees' Retirement System dated June 30, 2018, as presented by G. S. Curran & Company, Ltd., shall be adopted as the official valuation for the Louisiana School Employees' Retirement System, and that, as specified in the report, the minimum net direct recommended employer contribution rate for fiscal 2020 shall be set at 29.4%.

Mr. McGimsey seconded the motion**. There being no objections, the motion is carried.**

(2) Louisiana State Police Retirement System

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

Mr. Krekora presented the Legislative Auditor's valuation report for the system and explained it in depth.

Mr. Curran moved that the actuarial funding valuation report for the Louisiana State Police dated June 30, 2018, as presented by G. S. Curran & Company, Ltd., shall be adopted as the official valuation for the Louisiana State Police Retirement System , and that, as specified in the report, the minimum net direct recommended employer contribution rate for fiscal 2020 shall be set at 49.1%, In addition, the system shall receive $1,500,000 from the Insurance Premium Tax fund as authorized by law for fiscal 2020.

Mr. Broussard seconded the motion. **There being no objections, the motion is carried.**

(3) Louisiana State Employees Retirement System

Ms. Johnson presented the valuation for the system and explained it in depth.

Mr. Purpera asked if the discount rate was going to be 7.65.

Ms. Johnson said that was correct.

Mr. Purpera asked if the assumed rate of return was going to be 8.05.

Ms. Johnson said that was correct.

Mr. Purpera noted that the difference was the 40 basis points for the COLA. LASERS is actually recognizing the cost of continuously funding the COLAs which is a bit different than we have seen with the other systems.

Ms. Johnson said that was correct.

Mr. Purpera noted that 8.05 was quite a bit north of the 10 and 20 year rates in the past. We are expecting that the unfunded accrued liability will be paid off by 2039 if all assumptions are realized. But have all assumptions been realized in the past? What is our real expectation that all assumptions will be realized.

Ms. Johnson responded that their expectation is that assumptions will not be realized. They know that every assumption is their best estimate and that there is going to be a gain or loss. The goal is that their gains and losses over time, sum to zero, because they know there will be some volatility from year to year. They expect that if their assumptions are reasonable, the gains and losses will offset over time. If their assumptions are too conservative and they are over funding the plan, then they will have gains and will return those gains to the employer through the amortization of those gains. If they have losses, if their assumptions are not realized and they earn less than they expect or pay out benefits more than they expect– those losses are recouped by amortizing the losses and the employers repay those losses back in. So over time, they expect the gains and losses to wash.

Mr. Purpera asked if they have in the past.

Ms. Johnson pointed to the 7.95% (30 year). That is their assumed return for the 30 year period would have been higher than that. So this is saying they earned a little bit less than they expected.

Mr. Purpera noted that this was his concern. Our assumed rate of return that we are going to use today is greater than what we have earned with a geometric mean over the last 30 years.

Ms. Johnson stated that is correct.

Mr. Purpera noted that there are roughly 126 major public systems and we are at the top of the list as far as assumed rate of return.

Ms. Johnson stated that was correct and that is why the system is working towards gradually reducing the discount rate.

Mr. Purpera asked if for transparency, for next year could we also have, in addition to the discount rate, the assumed rate of return.

Ms. Johnson noted she would discuss that with the board if they would like for her to add that to the valuation. She noted that this is also discussed in great detail in the appendix. She added that they are building gain sharing because they know that COLAs are not guaranteed, but what is guaranteed is that when there are gains, the system has to share them with the experience account.

Whether the COLAs are granted or not, that they don't know, but they are conservatively assuming that all COLAs will be granted and they have modeled that out to show that they expect about 40 basis points of their earnings to be shared with the experience account. Ms. Johnson explained that in order for all future COLAs to be actuarially taken into account in the valuation, they need to achieve long term return of 8.05%. It is that expected return, not the discount rate, that they use as their basis to comparing what they expect the system to earn going forward. In order for her to sign off on the valuation, she compares the 8.05% expected return to the return forecast from the system's investment consultants and from external investment consultants and what she found is that the 8.05%, although is higher than the national average, it is still appropriate and actually less than the expected earnings of what any PC and other consensus averages are showing. For LASERS the expected return was around 8.4% in the long term. Ms. Johnson stated that she thinks the reason why it is higher for LASERS is because of the portfolio allocation. In the past they had to achieve 8.25% and that was their expected rate of return and did not even take COLAs into account. The board was aware that if they were going to have to fund COLAs and not have losses to the plan they knew they had to achieve something north of 8.25%. The investment portfolio was built to try to achieve those returns.

Representative Pearson asked if the liquidity needs are similar in LASERS and TRSL.

Ms. Johnson explained that is not something that she has recently looked at. The investment consultant looks at their liquidity needs when they prepare the asset allocation study for the boards. She would expect that they would be, for the most part, pretty similar because they are both very mature plans. The liquidity becomes an issue when you look at a closed plan and you have no new entrance where you are going to be at a point soon where you may not have contributions and you are making high levels of benefit payout. But TRSL and LASERS are similar because they are both at similar points in their maturity.

Mr. Krekora presented the Legislative Auditor's valuation report for the system and explained it in depth.

Senator Peacock asked if they were using rate of return, not discount rate. The rate of return should be 7.5.

Mr. Krekora explained that often times, we use the phrases interchangeably, but with these two systems we have to be very careful and make a distinction between the two. The rate of return, the expected rate of return– what the investments are expected to bring in. They are expecting 7.5 based on the blended approach, which will pay for the core benefits plus the gain sharing.

Senator Peacock noted when they say 7.5 and we are at 7.6 in the discount rate, you are not 10 basis points.

Mr. Krekora explained they are still looking at 8.05 vs 7.5 so it is 50-55 points off.

Ms. Edminson noted that is the confusion. For them, the discount rate and the assumed rate of return are the same number. So for 11 of the 13 systems you are talking about the same thing.

Mr. Krekora explained that this confusion is why they are recommending strongly to change the gain sharing recognition method to be a bit more explicit so they can remove that ambiguity between discount rate and rate of return.

Senator Peacock noted that they would ask LASERS and their board to discuss that with their actuary so this can be more clear in the future.

Jeff Amrose with GRS explained the role that the assumptions play in their valuation in depth.

Mr. Broussard made an observation about the different allocation studies and expected return horizons that are out there.

Ms. Johnson commented that she is glad to see that the numbers are coming closer together than they have previously. She asked if GRS, in general, uses the same capital market assumptions for all plans.

Mr. Krekora explained that there are some dynamics to it. He further explained that the library is being updated periodically as soon as the forecast comes out. Sometimes, the consultant is not always up to speed on the latest and greatest. Generally, what they do is take the same forecast and map it out on a given client asset allocation. And they repeat that process for all 12 investment forecasts that they have, and in the end, try and blend them together.

Ms. Johnson explained she asked because she has seen some experience studies that GRS and other consultants have prepared for other clients (in Texas) which showed the expected returns by asset class, which is very helpful. If she takes those expected returns by asset class and models it against the LASERS and TRSL portfolio, she comes up with numbers that are closer to their numbers (8%), rather than 7%. She wondered if they might be using different assumptions for different clients. She suspected that part of the difference is how they are allocating. She found it encouraging that once you dig into things, you find that they are actually not far off from each other.

Ms. Johnson moved that the committee adopt the valuation for Louisiana State Employees' Retirement System as presented by Foster & Foster with the rates stated therein.

Mr. McGimsey seconded the motion. **There being no objection, the motion is carried.**

(4) Teachers' Retirement System of Louisiana

Ms. Johnson presented the valuation for the system and explained it in depth.

Mr. Krekora presented the Legislative Auditor's valuation report for the system and explained it in depth.

Ms. Johnson moved that the committee adopt the valuation for Teachers' Retirement System of Louisiana as presented by Foster & Foster with the rates stated therein.

Mr. McGimsey seconded the motion. **There being no objection, the motion is carried.**

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

Mr. Broussard mentioned that perhaps we ought to consider creating a PRSAC report that has a certain standard layout of certain information that they could see uniform– comparing apples to apples– across all of these systems, in addendum to the normal actuarial report that the actuaries supply. This will help to more easily discern the similarities and differences between the systems.

Senator Peacock noted this could be something we could look into further.

Mr. Curran commented that would not be a problem for them.

VIII. ADJOURNMENT

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

____

Senator Barrow Peacock, Chairman

Date: ________________________________