

PUBLIC RETIREMENT SYSTEMS' ACTUARIAL COMMITTEE

**Friday, March 30, 2012
10:00 a.m.
Senate Committee Room E
State Capitol
Baton Rouge, Louisiana**

MINUTES

1. Call to Order

State Treasurer Kennedy called the meeting to order at 10:20 AM

2. Roll Call

Members Present: Treasurer Kennedy, Dr. Procopio for Commissioner Rainwater, Rep. Kevin Pearson for Speaker Kleckley, Mr. Gary Curran, Mr. Charles Hall, and Mr. Daryl Purpera.

Also Present: Ms. Clarissa Moore, Secretary; Mr. Paul Richmond, Manager of Actuarial Services, Office of Legislative Auditor; and Ms. Shelley Johnson, LASERS

3. Approval of Minutes

Treasurer Kennedy called for a motion to approve the minutes from the meeting of March 8, 2012.

Mr. Purpera moved that minutes be adopted. Rep. Pearson second that motion. There was no objection and the minutes were approved.

4. Discussion and approval of the 6/30/2011 actuarial report, contributions, and applicable Insurance Premium Tax Fund (IPTF) allocations for the Louisiana State Employees' Retirement System

Ms. Shelly Johnson, Actuary for LASERS, explained that the valuation was adopted at the previous PRSAC meeting and was approved with the exception of the projected rate, which is what she has presented at today's meeting. The revised rate was distributed to the members for them to be able to view. Ms. Johnson explained what her recommendation was at the last LASERS board of trustees meeting, which her recommendation of a discounted rate of eight percent with the effective date of July 1, 2012. For the projected rate for the fiscal year ending in

the year of 2013, she has revised the recommendation based on the eight percent. The composite for all employer rates is 29.4 percent. This is an increase from her previous recommendation by one point two percent of payroll. Page two of her handout she shows the projected rate for each plan.

Treasurer asked if Ms Johnson's recommendation would allow the state to contribute more money to which Ms Johnson replied that it would.

Ms Johnson also explained that the projected employer normal cost rate for rank-and-file members, used for the ORP, is recommended to be 6.9517 percent.

Mr. Curran questioned if Ms. Johnson used an eight percent valuation to arrive at the projected rate for the 2013 year.

Ms. Johnson explained that the valuation was only done at eight percent only to determine her recommendation.

Mr. Curran questioned if the board adopted the eight percent rate to be effective 2012, to which Ms. Johnson answered yes.

Dr. Procopio questioned the state's contribution to the 1.2 percent difference of payroll. Ms Johnson explained that in dollar amount, on page 2 the total required if the UAL payments are netted out, the required contribution 750.2 million dollars which does include UAL but does not include the small ACT 4:14 appropriations of 311 thousand dollars and the Act 7:40 appropriation of 81 thousands dollars which are separate payments that are not paid through employee payroll by the employer, but are paid to the system, which after netting those payments out, the projected amount paid through the payroll by the employer would be 750.2 million which is an increase from the previous projection of 718.9 million.

Treasurer Kennedy asked for clarification that this year's budget will include \$32 million more as a state contribution. Ms. Johnson explained that her projected amount would mean that the increase would be paid to the system. Treasurer Kennedy questioned if the recommendation is adopted today would the state's contribution would be \$32 million more than this year. Ms Johnson clarified that the prior projection for 2013 would increase. In the report there is an expectation of what the state will pay in 2012 which so far has already increase by 62 million but the final amount wont be known until the end of the fiscal year.

Treasurer Kennedy asked Mr. Procopio if the funds are in the budget, to which Mr. Procopio answered that the money will get paid. The actual budget distribution will be determined by the legislature, but in the executive budget it is there in the retirement adjustment, which should be provided in the budget.

Ms Johnson also pointed out that her recommendation to LASERS was an assumed rate eight percent, but also recommended that the actuarial method be changed to the enter age method because they are independently in the best interest of the retirement system. The enter age would reduce the employer contribution for fiscal year 2012/13 by about \$40 million. If the legislature

agrees and decides to change the statues and pass the bill with the enter-age method, it would help account for most of the expected increase.

Treasurer Kennedy asked Dr. Procopio to get with Ms. Rougeou to distribute the information so that there is no confusion as to where the money allocated for the increase is exactly in the budget.

Dr. Procopio explained that it is in the budget and he can provide that information to the committee members.

Representative Pearson asked Ms Johnson if the increase from last is due to the move from 8% rate increase or is most of that from the growth in the IUAL payment from last year. Ms Johnson explained that it is actually a combination of several different things: assumed rate of return changed, UAL payment difference, the expected contribution shortfall difference, and most of it is based on a change in the UAL payments.

Mr. Paul Richmond, actuary with the Legislative Auditors Office appeared and explained that he was asked to produce an independent valuation and also produced numbers that would show what the contribution rate would be at 7.5 percent. He further explained that he also used an eight percent discount rate that did not include a cost associated with gain sharing and the cost associated with the experience account. He report shows similar rate of 1.3% increase but there are some things that causes his rate to be slightly higher than that of Ms Johnson's report. The 3-page handout shows what the contribution rate would be at 7.5 percent. Although he did not use the 7.5 percent discount rate in his valuation, he still recommends that it is used instead of the 8.25 percent due to the economic assumptions being consistent. However, he does think that it is appropriate to move from 8.25 percent to 8 percent without adjusting salary scale but to go lower would mean a closer look at the salary increase assumption. Mr. Richmond questioned the gain-sharing provisions of the law in Section 542 of the code. Gain-sharing cost money and it's constructed to produce losses. Whenever there is a gain that exceeds \$100 million, 50percent of that gain is moved out of the regular flow of assets and moved into an experience account, which would later cost. Adjusting discount rate could account for the difference or add it to the contribution requirement or pre-fund the costs. In terms of COLA, essentially that would support a one percent COLA a year, which would result in a 5.8 percent of pay increase in our contribution requirement for LASERS.

Representative Pearson questioned the effectiveness of the experience account and would 18.2 billion possibly change to \$2.5 billion. Mr. Richmond verified that \$2.5 billion of the difference is attributed to COLAs that have been granted through the experience process in the past.

Dr. Procopio wanted clarity on whether there was a real cost to gain-sharing, but because of the methods and assumptions used in valuations if is really recognized. Mr. Richmond explained that it is recognized when the money actually goes over, that it is then recognized as a lost and then it is amortized over 30 years, but it is a systematic process, it doesn't require approval because of how it is set up in the law.

Dr. Procopio asked if the additional money that the state would have to pay or the LASERS system would receive is an additional \$98 million, to which Mr. Richmond agreed.

Dr. Procopio asked Ms. Johnson if she would concur to the systematic cost to COLAs. Ms. Johnson confirmed that there is a cost and that you would not be able to increase anyone's benefits without there being a cost to it. She stated that in her opinion she did not think that there was a systematic or hidden in any form, it's provided for in the law. The way that COLAs are financed is when the gain-sharing occurs. She further explained her opinion on how the money was financed. Half of the investment gain is used to over time, reduced future employer contribution and the other half is set aside to pay for COLAs. Although it's not explicitly spelled out but it's not hidden either. Ms. Johnson explained that in her valuation she has taken into account some of the fact the some of the investment gains will be used to be pay COLAs, that amount is unknown. The estimate she has is how much gains are going to be shared to pay COLAs and that is what she used in her valuation in determining her recommendation for eight percent. If the state preferred method for financing COLAs in the future changes, then her recommended discount rate to be used for valuation purposes.

Mr. Richmond stated that his eight percent reflects only that COLAs are being paid for as it occurs, not with the anticipation of any future money being spent. His recommendation does not recognize the future gain-sharing decisions.

Dr. Procopio questioned if the LASERS board looked at the difference between 7.5 percent and 8 percent. Ms. Johnson explained that they asked for her recommendation, which was 8 percent, so the 7.5 was never discussed, it was not the board's request.

Mr. Richmond stated that in his opinion funding should be looked at in advance. The process is set up for systematic losses and if there are any, the process is not actuary sound.

Mr. Curran questioned if there are any call back on losses to pull money back out of that account.

Mr. Richmond explained that there was something in place for losses before but not now.

Ms. Johnson stated that the money can be taken back and has been recently taken back and used to reduce the UAL and to not pay COLAs. When the gains are shared, the COLAs are not determined at that time.

Mr. Richmond also stated that there is no automatic process under the law for the money to go back. Money has gone back from the experience account back to the regular pool only through legislative action. Ms. Johnson stated that there is a cap that can go into the experience account. Only the cost of two COLAs can go into the experience account. The provisions for paying COLAs has tightened. According to current statues, the appropriate way to fund the COLAs is to take into the account the expected gain-sharing and the actuarial assumed rate of return should be what's needed to earn to fund the accrued benefits. If we are going to be sharing some of the gain then we need to reduce the assumed rate of return so all of the investment gain wouldn't be used to fund accrued benefits. If COLAs are taken into account then her recommendation of 8

percent may seem high, but the analysis takes into account LASERS specific investment portfolio.

Mr. Curran asked to clarify what's automatic to grant COLA. Ms. Johnson explained that the gain-sharing is automatic; the granting of the COLA is not automatic. The gain-sharing can be reversed by future change in statue. The COLA can be granted unless the money is there and the board makes the request and then the legislature has to agree to it.

Treasurer Kennedy questioned the conclusion that both Mr. Richmond and Ms. Johnson for different reason agree to the 8 percent to which both parties concurred. The money is in the budget as per Dr. Procopio.

With no further questions, Mr. Hall made a motion to accept the letter and recommendation as received by Ms. Johnson as an amendment to the valuation and the contribution rates contained therein, using the an effective discount rate of 8% that would be effective July 1, 2012 reflecting the composite projected employer rate of 29.4 % and the different individualized rate for the different categories of employees, all be adopted. This motion was second by Dr. Procopio. There was no objection and the motion was adopted.

6. Consideration of any other Business

There was no other business.

8. Adjourn

Motion to adjourn by Mr. Purpera, which was second by Representative Pearson. No objection and the meeting was adjourned at 11:09 AM.

Approved by PRSAC: June 20, 2012
Date