PUBLIC RETIREMENT SYSTEMS' ACTUARIAL COMMITTEE

Tuesday, October 11, 2011
10:00 AM
House Committee Room 2
State Capitol
Baton Rouge, Louisiana

MINUTES

1. Call to Order

   Chairperson Steven Procopio called the meeting to order at 10:09 AM.

2. Roll Call

   Ms. Sue Israel called the roll.

   Members Present: Chairman Procopio for Commissioner Rainwater, Mr. Henson for Treasurer Kennedy, Mr. Curran, Sen. Gautreaux for President Chaisson, Mr. Hall, and Mr. Purpera.

   Absent: Rep. Pearson for Speaker Tucker.

   Also Present: Sue Israel – Secretary; Laura Gail Sullivan – Senate Counsel; Matt Tessier – Attorney for the House Retirement Committee; Patrick Goldsmith – Director of Performance Audit and Actuarial Services, Office of Legislative Auditor; and Bruce Binzel, Actuary, Office of Legislative Auditor.

3. Approval of Minutes

   A motion was made by Sen. Gautreaux to approve the minutes from the June 28, 2011, committee meeting. The motion was seconded by Mr. Purpera. There were no objections, and the motion passed unanimously.

4. Discussion and approval of the 12/31/10 actuarial report, contributions, and tax sharing allocations for the **Parochial Employees' Retirement System (Plan A and Plan B)**:

Mr. Gary Curran presented the actuarial report for the system, to include Plan A and Plan B, with Plan A being for people who are not in Social Security and Plan B for people who do participate in Social Security. Thus, Plan A has a richer set of benefits because of that.

For Plan A, Mr. Curran explained that the population of the plan had remained fairly stable while there has been some increase in payroll and benefit payments, but there had also been a healthy increase in the market value of assets. There was also a decrease in the unfunded liability, which is being paid off fairly rapidly due to the minimum employer contribution rate having been frozen some years back. They anticipate that the unfunded liability will be fully liquidated within three or four years, and the plan will defacto convert to the aggregate funding method with no unfunded liability at that time.

The actuarially required net direct employer contribution rate for Plan A is 15.50%, which is up from 13.45% in the prior year. The plan is actually paying a net direct rate of 15.75%. They had set a rate higher than the minimum contribution rate and have maintained that for a number of years, and that is the excess that is used to pay off the unfunded liability. Although the minimum rate was 13.46% for 2011, he said they are recommending 15.50% this year, which is still below the amount they are currently paying.

Mr. Curran explained that virtually all of the increase in cost is in normal cost rather unfunded liability because of the way the plan is funded. Factors increasing the normal cost included a COLA loss and a rather large assumption loss, with a majority of that coming from a change in mortality assumptions. There was also asset loss from recognizing the liquidation of market losses that occurred in 2008. There were factors that offset the cost increase as well, including gains from the plan liability experience (due to pay increases smaller than expected and the slowing of the economy), new members that come in at a lower cost, and contribution gains due to contributions being more than anticipated. Those are the elements that move the costs around on the plan.

Regarding Plan B, Mr. Curran explained that this plan also has a fairly stable population, had some increase in payroll, and had a healthy increase in benefit payments as more people retired; and the market value of assets is up substantially. There is no unfunded liability in the plan. It is funded on an aggregate basis, which provides that everything go through normal cost on this plan.

Employer contributions are more than required on this plan as well. In this case, collecting an overage does not reduce the unfunded liability since there is none, but it does reduce future normal cost. The employer contribution is currently 10.00% of pay. Minimum required contribution was at 8.60% in 2009 and has now risen to 9.07%.

There was a small increase in the normal cost. Again, asset experience loss was due to the phase-in of the previous market losses. Also, the assumption loss was due to change in assumptions, mainly mortality. There were also gains with this system of plan liability experience, new members, and contribution gain. There were no COLA costs because the statutes did not allow for being able to provide a COLA for this plan.

Mr. Patrick Goldsmith, Director of Performance Audit and Actuarial Services for the Louisiana Legislative Auditor's Office, testified that the report had been thoroughly reviewed by their Actuarial Manager, Mr. Paul Richmond, and was found to be reliable.

Dr. Procopio noted that the COLA, the assumption loss, and the asset experience are put into the normal cost of this system rather than the unfunded accrued liability. He asked if this were atypical of what is done with most state systems, as it is his understanding that most of these costs are typically put in with the unfunded liability.

Mr. Bruce Binzel, an actuary with the Legislative Auditor's Actuarial Services section, explained that the COLA is expensed when it occurs, and that is consistent with all the other plans. Certainly in the large state plans, it becomes part of the plan experience as a loss. It would not be an expected part of the actuarial assumptions and so it would increase the plan liability. That would normally be set up as a loss for the year and amortized as part of the unfunded liability.

Dr. Procopio asked if this plan is set up so that everything else gets thrown into the normal cost because of the system's frozen unfunded liability. Mr. Binzel answered yes and stated that Mr. Curran works with some other statewide plans for which he uses similar cost methods.

Mr. Curran explained that most of the statewide plans are funded in a similar manner, with the exception of Firefighters Retirement System (FRS) and Municipal Police Employees' Retirement System (MPERS). Other than those two, virtually all of the statewide plans are funded on what's referred to as "an aggregate funding method." One of the aggregate funding methods is *the* aggregate funding method, and the other is the frozen attained age normal. So they all fall into one of those two categories whereby all of the experience of the plan—or gains, losses, etc.—flows into normal cost as opposed to flowing into any unfunded liability. In the case of Firefighters and Municipal Police, which are funded on entry age normal, all the experience flows into the unfunded accrued liability.

Mr. Binzel added that the four state plans are on projected unit credit, so they would be like FRS and MPERS.

To clarify, Ms. Sullivan stated that Dr. Procopio's question really was "Is this unusual for COLAs and experience to be dumped into the normal cost instead of creating an unfunded liability?" and Mr. Curran's answer to the question was no. She added that, of the nine statewide plans, seven of those systems dump everything into the normal cost, which is why you can give all the benefits you want and it will not create an unfunded liability for those systems.

Mr. Curran stated that the only unusual thing might be that in some cases, even with the frozen approaches, some actuaries might put those items into the unfunded accrued liability, but historically they have always put those into normal cost, which simply reflects a shorter funding horizon.

Dr. Procopio called for a motion to adopt the actuarial valuation as presented by Mr. Curran for the Parochial Employees' Retirement System (Plan A and Plan B) and the employer contribution rates and tax sharing allocations contained therein. Mr. Henson made the motion, which was seconded by Mr. Purpera and passed with no objection.

Mr. Curran made a motion to clarify the committee's adoption of the report: In conformity with the valuations, to set the minimum direct employer contribution rate at 15.50% for Plan A and all available revenue sharing and ad valorem taxes; and to set the minimum direct employer contribution rate at 9.00% for Plan B with all available revenue sharing and ad valorem taxes. Mr. Henson seconded the motion, which passed with no objection.

5. Other Business

There was no other business.

6. Adjournment

With no other business to discuss before the committee, Sen. Gautreaux made a motion to adjourn, second by Mr. Hall, to which there was no objection. The meeting was adjourned at 10:30 AM.

Approved by PRSAC: February 29, 2012
Date