LOUISIANA LEGISLATURE

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PUBLIC RETIREMENT SYSTEMS' ACTUARIAL COMMITTEE [PRSAC]
MINUTES
August 17, 2022

APPROVED

I. CALL TO ORDER

Chairman Edward "Ed" Price called the meeting of the Public Retirement Systems' Actuarial Committee (PRSAC) to order on August 17, 2022 at 9:07 A.M.

II. ROLL CALL

MEMBERS PRESENT:
Senator Edward Price
Representative John R. Illg for Representative Phillip DeVillier
John Broussard
Greg Curran
Shelly R. Johnson
Michael Waguespack
Rick McGimsey for Barbara Goodson

STAFF PRESENT:
Michelle Broussard |Secretary
Alana Perrin | Attorney
Laura Gail Sullivan | Senate Counsel
Kenneth Herbold |Director of Actuarial Services, Louisiana Legislative Auditor (LLA)
Fate Mitchell | Senate Sergeant at Arms
Danny Leming | House Sergeant at Arms

III. APPROVAL OF MINUTES

Mr. Curran offered a motion, seconded by Ms. Shelley Johnson, referencing a letter sent to each PRSAC member, to approve the minutes of the February 23, 2022 PRSAC meeting with the *following correction*. With said correction and **without objection, the motion passed to approve said minutes.**

On February 23, 2022, G.S. Curran & Company (GSCC) presented the Minimum Net Direct Employer Contribution Rate for Municipal Employees Retirement System (MERS) Plan B. GSCC provided a letter addressed to PRSAC members, indicating a discrepancy between the verbal statement and the original transcribed minutes. The letter confirmed the accuracy of the original transcribed minutes in comparison to the verbal presentation. The report summary initially stated a rate of 14.25%, but the accurate rate for FY2023 should have been presented as 14.50%.

IV. DISCUSSIONS

DISCUSSION AND APPROVAL OF THE 2021 ANNUAL ACTUARIAL VALUATION, REQUIRED CONTRIBUTIONS, AND DEDICATIONS OF REVENUES CONTAINED THERE IN FOR THE LOUISIANA ASSESSORS' RETIREMENT FUND [LARF]

Mr. Curran provided the following summary of the LARF Valuation:

Active LARF membership remained steady, with a marginal decrease of seven members, totaling 742. As anticipated, the retired population continued to grow, with certain members expected to receive benefits or refunds. Although payroll experienced a slight decline, it remains stable. The annual benefit amount is $24.5 million. Given the scale of the plan, the funding deposit account holds significance at $45.5 million. The board predominantly utilized these funds for COLA payments and to offset employer expenses. The strategic utilization of these funds underscores a proactive approach to support retirees and effectively manage the financial aspects of the plan.

LARF eliminated the remaining balance of the frozen unfunded liability from 1989. The current accrued liability is $507 million, by comparison to the smoothed actual asset value over more than five years, totaling $487.5 million. This results in a commendable-funded ratio of 96.16%, indicating a well-funded plan. As of September 30, 2021, the market value of assets reached $539 million, surpassing the accrued liability. Utilizing smoothing techniques, a 96% funded ratio was acknowledged. Returns for the same period, with smoothing, were an impressive 18.3%, surpassing both the actuarial rate of 9.7% and the adjusted assumed rate of return, which was lowered from 5.75% to 5.5%. This positive financial performance demonstrates effective management and prudent decision-making, contributing to strong funding status. This is the lowest rate among the four statewide retirement systems, consistently placing LARF on the low end of the regional range. In the absence of an unfunded liability, all positive and negative expenditures are allocated to normal costs, covering all expenses except for administrative. The current normal annual cost is $16.1 million, and administrative expenses are just under $300,000. Significant tax dollars are designated to offset most costs, resulting in a net of $994,000. This ultimately aligns with the recommended minimum rate of 2% after rounding. In 2022, the employers' contribution rate was 5%, reflecting the board's conservative approach in setting aside funds to address potential adverse future events. This demonstrates a proactive financial strategy to ensure the stability and resilience of the fund.

Mr. Herbold provided the following summary of LLA Review for LARF:
LLA conducted a limited-scope review, while focusing on general actuarial practices. This review focused on COLAs and assumptions related to investment returns, considering their substantial impact on reviewed costs. Historically, LARF selects a single point of comparison when assessing assumed rates of return. Notably, this deliberately selected rate of return was five basis points lower than the benchmarked assumed rate of return, showcasing a commitment to continuous monitoring and a conservative approach in managing this particular assumption. By targeting the low end of the reasonable range provided by the actuaries, these efforts aim to enhance the likelihood of achieving the assumed rates of return.

Mr. Curran offered a motion, seconded by Mr. Broussard, to accept the actuarial valuation for LARF from GSCC containing a minimum recommended and net directed employer contribution rate for FY2023 beginning October 1, 2022 of 2%. This recognizes all ad valorem and revenue sharing taxes allocated to this fund, necessary for 2023. **Without objection, the motion was approved.**

DISCUSSION AND APPROVAL OF THE 2021 ANNUAL ACTUARIAL VALUATION, REQUIRED CONTRIBUTIONS, AND DEDICATIONS OF REVENUES CONTAINED THERE IN FOR THE **PAROCHIAL EMPLOYEES' RETIREMENT SYSTEM** [**PERS**]

Mr. Curran provided the following summary of the PERS Valuation:
PERS Plan A is designed for employers not covered by Social Security, and offers a more substantial level of benefits to members. In contrast, PERS Plan B is tailored for individuals covered by Social Security, and provides comparatively smaller benefit levels. Plan B members receive payments from two entities, showcasing a unique plan structure. The distinctions in coverage and benefits between Plan A and Plan B cater to the diverse needs and circumstances of their respective members.
Plan A had a slight reduction in active members, despite a change in legislation allowing Lafayette Consolidated Government (LCG) to transition new members into the Municipal Employees Retirement System of Louisiana (MERS), effectively ending LCG contributions to PERS. A statutory provision permits this move and requires LCG to pay MERS. Although this transition did not lead to membership growth, it did help counteract a decline that might have otherwise occurred. As expected, there was an increase in retirement membership in Plan A, along with a rise in the number of former members eligible for refunds or future deferred benefits. Despite fewer members, Plan A's payroll increased from $666 million to $672 million. The total benefits and payments amounted to approximately $211 million. Notably, there is no remaining UAL. In the absence of a UAL, all expenses are distributed through normal costs, determined by plan populations and assumptions. This financial structure ensures a clear and transparent allocation of expenses based on the plan's demographics and financial assumptions. The UAL remains unfunded under the GSCC spread-gain method and fails to generate sufficient accrued liability. The accrued liability currently stands at $4.4 billion. The actuarial value of assets is $4.568 billion. This indicates the presence of additional assets, after smoothing and surpassing the plan's accumulated liability. As a result, the funded ratio exceeds 100% as of the year 2021. Market downturns in 2021 introduced uncertainty regarding the sustainability of a favorable funding ratio into the year 2023. The market value of Plan A assets is $4.9 billion, and despite the market downturns, gains from the past are spread.

The market rate of return for this December year-end plan was 11.2%, remaining at 10.6% after smoothing. The December year-end review highlights that 4 out of 5 smoothing periods yielded double-digit returns, and showcases robust investments. The 10.6% actuarial rate significantly exceeds the assumed rate of return, which is 6.4% for Plan A and Plan B, marking a decrease from the highest assumed rate of 8% in the past. Plan A operates under a spread-gain funding method, where only normal costs are generated, and no gains or losses are allocated to a UAL. All costs are derived from the $55.3 million normal cost, with plan administration expenses divided between Plan A [$1.9 million] and Plan B. The PERS plan benefits from ad valorem taxes and a small portion of revenue sharing allocations, effectively alleviating the direct financial burden on employers. The net amount owed by employers stands at $48.8 million. When divided by the projected total planned payroll, it equates to a minimum recommended employer rate, rounded to 7%. Notably, the PERS Board consistently collects contributions exceeding the minimum required. In 2022, the actual net employers' contribution reached 11.5%. The board has the authority to set a minimum contribution rate within a range of 7% to 11.5%. Furthermore, the board is actively involved in building reserves by depositing funds into the funding deposit account, which currently holds nearly $70 million. This fund has been utilized to support pre-funded COLAs, showing an increase from $55 million to almost $70 million in 2021. These contributions are acknowledged through extra collections.
Plan B differs from Plan A in several aspects, featuring a more modest benefit structure, reduced costs, and synchronization with Social Security contributions. Despite a decrease of 20 members, Plan B sustains a consistent membership of 2,367. Retired benefits are on the rise, accompanied by forthcoming refunds. Plan B's payroll increased, notwithstanding the reduction in members, and remains stable. The cumulative benefits and payments approach nearly $14.4 million. With a $388 million target, Plan B strives for 100% full funding. After smoothing, Plan B surpassed accrued liability, with a funded ratio of 106.4%, rendering it more robust than Plan A. The market value of assets is $449 million, indicating deferred gain. PRSAC may witness other retirement systems flipping with higher actuarial values in 2023. The market rate of return for Plan B is 11.2%, slightly surpassing the actuarial rate of 10.5%. The normal cost of Plan B, encompassing plan administration expenses, nets out to 5% after smoothing. In 2022, employers, under the actual net direct contribution rate, are contributing at a 7.5% rate. A sum of $5.2 million resides in the funding deposit account, earmarked for financing future COLAs.

Mr. Waguespack affirmed the valuation is in good order, and clarified the projection for ad valorem tax contributions and revenue sharing should be regarded as an offset of costs due to income. PRSAC members are advised not to be misled, as the total in the exhibit is presented in brackets.
Mr. Curran confirmed the exhibit, which illustrates the actual calculation, incorporates a formula that deducts positive line numbers. Corrections have been made to improve clarity for future PRSAC meeting presentations, ensuring accurate communication of information.

Chairman Price questioned the minimal difference since the law passed allowing LCG to add new employees to MERS.
Mr. Curran answered that the inclusion of new hires to MERS may trigger future discussions regarding the collection of payments to MERS. The decision to integrate new hires into MERS were not driven by payment considerations. Similar to shifts in LCG membership, there are other employers who have reduced membership without resulting in overall increases.

This suggests that all plans are grappling with moderated membership levels, primarily influenced by cost factors. Some plans witness membership declines, in spite of member reductions, while others maintain comparable levels with stabilization or maturation. Regardless of the underlying reasons, continuous monitoring of membership remains a critical aspect of plan management and valuation.

Mr. Herbold provided the following summary of the PERS LLA Review:
The PERS and LARF plans are well-funded, with PERS achieving 100% funding. The two most recent COLAs were financed from respective deposit accounts. The PERS investment return assumption is 90 basis points higher than the LLA benchmark. This variance is ascribed to a gradual reduction in capital market assumptions over time. Although PERS decreased from 6.4% to 6.5% in 2021, it has not adjusted in alignment with the evolving capital market assumptions. There exists a divergence in the methodology used by GSCC to calculate the assumed rate of return and the benchmark assumed rate of returns produced by LLA. The LLA recommends exercising continued caution and strive for a target closer to the lower end of the range, while maintaining vigilant monitoring.

Chairman Price requested the percentage of the recommended conservatism goal.
Mr. Herbold answered 60%.
Mr. Curran stated acceptable returns of success fall within a range of 40% to 60%. The LLA advocates for a cautious approach, although it does not propose altering GSCC methodology. When a plan progresses smoothly, downward adjustments to assumptions can be executed seamlessly. In situations where probabilities are favorable, such adjustments can be implemented with minimal to no adverse impact to the employer rate. By targeting the low end of this range, the probability of success is augmented.
Sen. Price questioned whether GSCC considered the 60% conservatism.
Mr. Curran answered that review of the assumed rate of return is conducted annually, relying on long-term capital market assumptions, which have resulted in higher anticipated returns compared to the blended approach favored by the LLA. GSCC, in collaboration with PERS, adopts a conservative stance by focusing on the cautious end, with a 60% chance of achieving the target and a minimum adjustment threshold of 40%. PERS falls within this range, with the board adhering to conservatism for several years. The upcoming year will reveal differences in methodology. Midyear capital market assumptions are sourced from two consultants, indicating returns higher than initially anticipated. These data points will prove significant in future analyses. Due to stock market downturns from June 30, 2022, some experts heightened expectations for both short and long-term returns.

Mr. Curran offered a motion, seconded by Mr. Broussard, to accept the actuarial valuations for PERS Plan A. This recognizes a minimum net directed employer contribution of 7% for FY2023; effective from January 1, 2023. This also recognizes all ad valorem revenue sharing tax allocations to PERS Plan A are required for that year. In addition, to accept the actuarial valuations for PERS Plan B. This recognizes a minimum net directed employer contribution for PERS Plan B of 5% for FY2023, encompassing all taxes dedicated to the plan allocations. **Without objection, the motion was approved.**

IV. CONSIDERATION OF ANY MATTERS THAT MAY COME BEFORE THE COMMITTEE

No other matters presented.

V. ADJOURNMENT

Mrs. Johnson offered a motion to adjourn, seconded by Chairman Price. **Without objection, the motion was approved.** The PRSAC Committee meeting adjourned at 9:38 A.M.

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

***DATE APPROVED*: 14 DECEMBER 2023:**