LOUISIANA LEGISLATURE

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PUBLIC RETIREMENT SYSTEMS' ACTUARIAL COMMITTEE [PRSAC]

MINUTES
August 22, 2023

APPROVED

I. CALL TO ORDER

A meeting of the Public Retirement Systems' Actuarial Committee [PRSAC] was held August 22, 2023 in Committee Room A at the State Capitol in Baton Rouge, Louisiana. The chairman, Senator Edward J. Price called the meeting to order at 9:07 A.M.

II. ROLL CALL

The secretary called the roll and the following was noted:

MEMBERS PRESENT:
Senator Edward "Ed" Price
Representative Phillip DeVillier
Greg Curran
John Broussard
Michael J. Waguespack
Shelley Johnson
Rick McGimsey for Barbara Goodson

LEGISLATIVE STAFF PRESENT:
Michelle Johnson | Secretary
Alana Perrin | Attorney
Mike Bell | Chief Legislative Researcher

Kenneth Herbold | Louisiana Legislative Auditor | Director of Actuarial Services
Theresa Charles | Senate Sergeant at Arms

III. APPROVAL OF MINUTES

Mr. DeVillier offered a motion, seconded by Mr. McGimsey, to respectively approve the minutes from December 15, 2022 and from February 8, 2023. **Without objection, the motion passed to approve said minutes**.

Mr. Curran noted that the Louisiana State Police Retirement System (LSPRS), the Sheriffs' Pension and Relief Fund (SPRF), the Municipal Police Employees' Retirement System of Louisiana (MPERS), and the Firefighters' Retirement Systems (FRS) are recipients of from insurance premium tax allocations. Following the completion of the 2022 valuations for these retirement systems, Curran Actuarial Consulting (CAC) received a notification from the Louisiana Department of Insurance (LDI) indicating that the allocated amount was lower than the initially provided figure. In October 2022, CAC was informed the allocated amount was $79.5 million; however, the 2023 LDI notification corrected the figure as $76.9 million. Subsequently, the adjusted amount was discussed with Chairman Price.

It is not unusual for actuaries to estimate tax funds received by retirement systems, but in the case of insurance premium taxes, allocations for each system are predetermined. The valuations as of June 30, 2023 will integrate the indicated reduction. LSPRS will continue to receive the unaltered amount of $1.5 million. SPRF, MPERS, and FRS, which typically share the remaining funds, will experience a slight decrease in the upcoming valuation.

IV. DISCUSSIONS

<u>DISCUSSION AND APPROVAL OF THE 2022 ANNUAL ACTUARIAL VALUATIONS AND THE REQUIRED CONTRIBUTIONS AND DEDICATION OF REVENUE CONTAINED THEREIN FOR THE LOUISIANA ASSESSORS' RETIREMENT FUND [LARF]</u>

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

LARF had the unique experience with a level population and level membership for the year. A marginal increase was shown in the number of terminated members, including those needing benefits or refunds. Payroll and benefits had a minor increase. The current and future benefit obligation amount was $682 million, representing the necessary funds to fulfill future obligations without the need for contributions or reductions in member benefits. The estimate of accrued liability is $20 million, aligning with the actuarial value of assets required for 100% funding. After smoothing, the actuarial value of assets reached $503 million, resulting in a funded ratio of 96.73%; a slight improvement from the previous year. In compliance with Louisiana statutes, the funding deposit account is conventionally employed subsequent to employers contributing beyond the stipulated minimum requirement. This acts as a safeguard against unfavorable investment markets, heightened costs, or a means to counterbalance a forthcoming cost-of-living adjustments (COLA). Currently, LARF has availed this fund for COLAs, augmenting their funding deposit account balance to $49 million, marking an increase compared to the preceding year. As the sole September plan, LARF experienced a prosperous year in 2021 but faced challenges in 2022. Up to September 2021, the market saw an 18.3% increase, whereas 2022 recorded a decrease of (-15%). After smoothing, the actuarial rate of return settled at 4.3%, slightly below the typical 5.5%. The calculation of the employer contribution rate encompasses the normal cost with no Unfunded Actuarial Liability (UAL); leading to an increase in system costs of $16.4 million from the previous year's $16.1 million. Administrative costs had a marginal decrease compared to the prior year. Ad valorem and revenue sharing taxes contributed to the plan, albeit slightly lower than the previous year. For the year 2023, the LARF board adopted a 3.5% actuarial rate, and recommended a contribution rate exceeding the minimum. The board continually makes contributions to their funding deposit account; $998,000 was deposited with no expenditures incurred. A COLA is scheduled for October 1, 2024.

Mr. Herbold provided the following summary of the LLA Review of LARF:
LLA conducted a limited scope review of LARF, entailing a thorough assessment of methods and assumptions used by the actuaries and approved by the board. The purpose was to identify areas for enhancement while examining specific assumptions for reasonableness. The primary emphasis was on assumptions, with particular attention given to COLA analysis and the discounted or assumed rate of return. LARF is the sole plan with an assumed rate of return that falls below the benchmark set by the LLA. Typically, the LLA adopts a more conservative time horizon compared to the actuary, acknowledging the prudent investment strategy of LARF's portfolio. LARF does sustain one of the most well-funded retirement systems in the state, despite not incorporating the normal entry age liability into the determination of funding contributions. Given the considerable funding deposit account balance, it is unnecessary to factor in anticipated COLAs when determining contribution requirements. As a result, the LLA concurs with the existing actuarial methodology.

Mr. Curran offered a motion, seconded by Ms. Johnson, to approve the annual actuarial valuation for the Louisiana Assessors' Retirement Fund (LARF) for September 30, 2022. This includes the minimum directed employer contribution rate for FY2024 to be set at 3%, and recognize all proposed ad valorem taxes and revenue sharing funds allocated to the plan be received. **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 PAROCHIAL EMPLOYEES' RETIREMENT SYSTEM [PERS]

Mr. Curran provided the following summary of the PERS Valuation:
PERS offers two plans, Plan A and Plan B. Despite legal provisions for Plan C, there are no participants currently enrolled. Plan A is tailored for members without Social Security coverage and incur higher costs compared to Plan B. Plan B was established for individuals unable to opt out of Social Security, leading to moderate benefits supplemented by Social Security benefits. Notably, Plan B exhibits a robust funding status, boasting a funded ratio that exceeds 100%.
Plan A, the larger of the two plans, in the past year experienced a marginal decline in active membership, a slight increase in retirees, and a rise in terminated members due to refunds or deferred benefits. The overall payroll for the year increased, proving advantageous in a percentage of a pay plan. The benefits and payments totaled $225 million, showing an uptick from the previous year's $211 million. To cease collecting contributions, Plan A would require $5.7 billion. The accrued

liability, representing commitments already made to members, is approximately $4.6 billion. Despite a slight dip from the previous year due to market returns, the actuarial value of assets after smoothing surpasses this amount at $4.7 billion. Consequently, Plan A remains impressively funded at 102.19%, demonstrating resilience and solid financial standing for the foreseeable future. Plan A operates with a funded deposit account, with a current balance of $65.2 million. Despite maintaining rates above the minimum for several years, there has been a slight reduction in the balance, which is attributed to a COLA payment. Plan A adheres to a December year-end schedule for market returns, distinguishing it from other plans that follow June year-ends. In 2021, a positive return of 11.25% was recorded, contrasting with (-12.1%) return in 2022. Over the past five years, Plan A historically achieved double-digit positive returns in four out of five years, a commendable performance on a December basis. The smooth rate of return over five years is 4.8%, falling short of the assumed rate of return of 6.4%, resulting in a loss. Despite this, Plan A successfully eliminated its UAL from the 1980s, accounting for all gains and losses. The employer's normal costs increased from $55 million to nearly $60 million. Administrative plan costs slightly rose to more than $2 million, offset by ad valorem and revenue sharing contributions, totaling approximately $9.8 million. Regarding collections from employers, $51.7 million was received from a $691 million payroll, resulting in a 7.5% minimum employer rate after rounding. However, in 2023, the board decided to mandate employers pay 11.5%, surpassing the minimum requirement. These funds are deposited into the funding deposit account, which are meticulously tracked. The funding deposit account, with an initial balance of $69 million, held a deposit of $31.2 million. This nearly offset the $40.4 million withdrawal to cover the COLA, leaving a balance of $65.2 million. Plan A's explicit use of the funding deposit account for the pre-funded COLAs reflects a prudent financial strategy.

Plan B, the smaller of the two PERS plans, caters to employers without agreements to stay within the Social Security system. Active membership saw a slight decrease, while retired membership slightly increased to 1,074. Benefits and refunds showed a slight uptick. Despite these fluctuations, payroll demonstrated resilience by increasing to $117 million, with $16 million allocated for benefits. The funded ratio for Plan B experienced a minor decline from the previous year at 104.71%; based on the accrued liability measure and the actuarial value of assets. Market returns for the year were (-12.1%), with the actuarial rate of return at 4.8%, falling short of the assumed 6.4%. This discrepancy led to increased costs. Increases are evident in the employer normal cost, which rose from $6.9 million to $7.7 million. Administrative costs, shared between Plans A and B, include an estimated $352,000 allocated for Plan B. Similar to Plan A, Plan B benefits from revenue sharing and ad valorem tax allocations, contributing to its financial sustainability. Despite the challenges, the plan remains well-funded with a funded ratio above 100%. The minimum employer rate for Plan B increased to 5.25%, up from 5% the previous year. Historically, the board has collected 7.5%, providing a margin for savings into the funded deposit account, with a current balance of $5.7 million. In alignment with Plan A, members of Plan B were granted a COLA of approximately $3 million. The funding deposit account of Plan B experienced growth over the past year, showcasing prudent financial management and sustained fiscal health. This positive trajectory contributes to the overall resilience and stability of Plan B's financial standing.

Mr. Herbold provided the following summary of the LLA Review of PERS:
LLA performed a limited scope review, primarily focusing on COLA assumptions and the assumed rate of return. The assumed rate of return is 6.4%, with a benchmark return of 5.65%. The primary distinction lies in the time frame for the assumed rate of return and the duration for which assets are invested. PERS maintains a fully funded status at 100%, effectively alleviating concerns that could arise from inadequate funding. Despite the generally conservative nature of auditors, the paramount goal is to ensure that assumptions align with the plan's financial reality. With a substantial funding deposit account and the practice of pre-funding COLAs, PERS is in a robust financial position which contributes to a heightened level of confidence in the plan's overall fiscal health.

Mr. Curran emphasized that the PERS Board has maintained the 6.4% without making adjustments. This decision was based on the recommendations provided by CAC, which conducts an annual evaluation of interest rates. Holding great respect for the Legislative Auditors Office, there exists a difference of opinion regarding the methodology for determining the percentage. CAC proposed a reasonable range assumption, suggesting 6.22% on the low end and 7.34% on the high end. Consequently, the benchmark study at 6.4% was determined to have a 57% chance of being met. In light of numerous changes in capital market assumptions, CAC advises clients to allow at least one year to gauge the guidance of investment professionals before making adjustments to the percentage. This approach ensures a thorough and informed decision-making process.

Mr. Curran offered a motion, seconded by Ms. Johnson, to approve the annual actuarial valuation for the Parochial Employees' Retirement Fund for Plan A ending 2022. This includes the minimum directed employer contribution rate of 7.5%, and recognize all proposed ad valorem taxes and revenue sharing funds allocated to the plan be received. In addition, for the Parochial Employees' Retirement Fund for Plan B with a employer contribution rate of 5.25% and recognize all proposed ad valorem taxes and revenue sharing funds allocated to the plan be received. **Without objection, the motion was approved.**

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 10:58 A.M.

MINUTES PROVIDED ON BEHALF OF: Senator Edward Price | PRSAC CHAIRMAN *EP*

DATE APPROVED: 14 DEC 2023