PUBLIC RETIREMENT SYSTEMS' ACTUARIAL COMMITTEE

Wednesday, February 29, 2012
9:30 a.m.
House Committee Room 1
State Capitol
Baton Rouge, Louisiana

MINUTES

1. Call to Order

   Chairman Steven Procopio called the meeting to order at 9:41 a.m.

2. Roll Call

   Members Present: Dr. Procopio for Commissioner Rainwater, Mr. Henson for Treasurer Kennedy, Rep. Pearson for Speaker Kleckley, Sen. Guillory for President Alario, Mr. Curran, Mr. Hall, and Mr. Paul Pendas, designee of Mr. Daryl Purpera, Legislative Auditor.

   Also Present: Ms. Sue Israel, Secretary; Mr. Paul Richmond, Manager of Actuarial Services, Office of Legislative Auditor; and Ms. Sharon Betsill, House Sgt. at Arms.

3. Approval of Minutes

   Dr. Procopio called for a motion to approve the minutes from the meeting of October 11, 2011. Mr. Pendas made the motion, which was seconded by Mr. Henson. The motion passed without objection.

4. Discussion and approval of the 6/30/2011 actuarial report, contributions, and tax sharing allocations for the following statewide systems – **Clerks of Court Retirement and Relief Fund, District Attorneys' Retirement System, Municipal Employees' Retirement System (Plans A and B), and Registrars of Voters Employees Retirement System:**

   - **Clerks of Court Retirement and Relief Fund (CCRRF)**

   Mr. Gary Curran of G.S. Curran & Company, Ltd., presented the actuarial report for the system.

   Rep. Pearson arrived.

Mr. Paul Richmond, Manager of Actuarial Services for the Louisiana Legislative Auditor, stated that his office has carefully reviewed the valuation prepared by the actuary for the retirement system. This review included a review of the calculations within the valuation report and a comparison of the current-year information with the information contained in the valuation report for the prior year. While they did not perform an independent valuation for this system, based on their review, they believe the valuation presented by the system actuary is a fair representation of the financial status of the retirement system and reflects the contributions that are needed to maintain the retirement system on an actuarially sound basis, and they are recommending it for approval.

Rep. Pearson said he was reviewing the valuation and was trying to calculate an actual cost of the benefit for the employer. He said his estimate for this system is 25.5% and asked Mr. Curran if this is correct.

Mr. Curran referred to page 15 of the report and explained how the calculation would be made. Mr. Richmond offered that he had made that calculation and confirmed that the result is 25.56%.

Dr. Procopio asked Mr. Curran if, using the method that the system used (frozen attained age normal actuarial cost method), and considering that GASB is putting out some potential new requirements in terms of what is needed for the financial statements, if the method they are using now is one of the acceptable methods.

Mr. Curran said they are going to completely change the way they are dealing with these frozen methods. They are moving closer to what's done for the aggregate method. He said he had never thought the funding ratios on the frozen attained age method are very useful. They just don't convey very much information and can be misleading, so he is in one sense glad to see them get away from that method and move to something that makes more sense. However, these changes are still subject to comment, with the comment period open until July.

Mr. Richmond said he believes the GASB standards will change effective with plan years ending 2014. He said the most significant impact will probably be the means by which they will require the costs to be allocated to the participating employers, and the extent to which the participating employers in a plan such as this will have to report the unfunded position on their balance sheets.

Dr. Procopio asked if plans using the frozen method, if they do keep this method for funding, will have to have one valuation prepared for PRSAC and another valuation for their financial statement.

Mr. Richmond said yes, they would have to have two separate calculations.

Mr. Curran said he expected they would just replace those calculations with the new GASB calculations and would not have to issue separate reports.

Mr. Richmond added that the actuaries would be required to do much more extensive work because the actuaries will be charged with allocating the costs and liabilities among the respective participating employers so the systems can convey that information to the employers.

Mr. Curran made a motion to set the FY 13 minimum net direct employer contribution rate to 16.25%, to allocate the full statutorily available revenue sharing and ad valorem taxes available to the system, and adopt the FY 11 valuation report as the official report for PRSAC for the Clerks of Court Retirement and Relief Fund. The motion was seconded by Mr. Henson. There were no objections, and the motion passed unanimously.

- **<u>District Attorneys' Retirement System (DARS)</u>**

Mr. Curran presented the actuarial report for the system. This system has no unfunded liability.

Mr. Richmond stated he would accept Mr. Curran's report as provided. He also advised that the contribution rate as a percentage of pay is 21.86%.

Mr. Curran made a motion to set the recommended minimum net direct employer contribution rate for FY 13 to 10.25%, to allocate the full statutorily available revenue sharing and ad valorem taxes to the system, and to adopt the FY 11 valuation report as the official PRSAC report for the District Attorneys' Retirement System. The motion was seconded by Mr. Pendas. There were no objections, and the motion passed unanimously.

- **<u>Municipal Employees' Retirement System, Plans A & B (MERS)</u>**

Mr. Curran presented the actuarial report for the system. MERS is composed of two separate systems with two separate trust funds and two separate sets of benefits. The larger of the two, Plan A, is for those who are not enrolled in Social Security, while Plan B is primarily for those who are enrolled in Social Security.

Mr. Richmond said there appears to have been a flattening of the increases in the contribution requirements. In this particular plan, he said there appears to have been a phenomenon where current rates are very similar to where they were in 2003-2005, following the downturn of the market at the beginning of the century. He asked if Mr. Curran thought they would begin having some of those gains that have occurred in the last couple of years flow through the actuarial value of assets where he sees contribution rates going.

Mr. Curran said he believes there will be about two more years of increases. The increases seem to be getting moderated quite a bit by liability gains, which is helping substantially. They would expect for most of these systems to see continued losses of assets, and they are generalizing greatly, of around 2%. By then they will have fully phased in all the losses. But going along with those 2% losses, they will probably see liability gains almost at that level or slightly below that. That's presuming no jarring effects such as major market downturns. He said right now it appears that things did not evolve to be as bad as what might have been expected in a worst case scenario, and they are getting a little more normalcy in terms of cost increases.

Rep. Pearson asked Mr. Curran if in his report he is comfortable with the valuation of the assets, considering that there is no ability to actually collect or that some are tied up in considerable litigation.

Mr. Curran said that in the case of the assets, they rely totally upon the independent auditors hired by the system as their source of information and have to rely on their judgment of the assets. The auditors have various standards that they are required to meet and have to be comfortable with the numbers in order to satisfy the audit standards. He and his staff do not feel they have the expertise to go in and second guess what the auditors have put on the balance sheet for the fund. In fact, they include citations in their valuations stating their reliance on the auditors for their asset and income and expense numbers.

Mr. Richmond said his office recommends approval.

Mr. Curran made a motion to set the FY 13 minimum recommended net direct employer contribution rate to 17.00% for Plan A of MERS; to set the FY 13 minimum recommended net direct employer contribution rate to 8.00% for Plan B of MERS; to allocate full ad valorem taxes and revenue sharing funds for both Plan A and Plan B; and to adopt the FY 11 valuation report as the official valuation for PRSAC. The motion was seconded by Sen. Guillory. There were no objections, and the motion passed unanimously.

- **Registrar of Voters Employees' Retirement System (ROVERS)**

Mr. Curran presented the actuarial report for the system. This is another system funded on the aggregate method and has no unfunded liability.

Mr. Richmond stated that his office recommends approval of the report.

Rep. Pearson said he noticed that this system has 248 members and asked if there is some point where it might be determined that there is too much risk for a defined benefit plan.

Mr. Curran said he does not think 200 is an unreasonable number, but when you start drifting down to the number of 100 or less, you will have more significant problems. While 200 active participants is about at the lower boundary of the level he thinks a standalone plan should be, he does not think that to be an unreasonable size.

Rep. Pearson asked if Mr. Curran would agree that a plan with 400 members costs more to administer per member than a plan with 4,000 members.

Mr. Curran agreed that there would be some economies of scale on administration. It's just a function of the way the administration is done.

Rep. Pearson said the plans Mr. Curran had presented before had an actual cost of the benefit for the employer in the range of 21% to 25%, but this one appears to be about 35%. Looking at funding by ad valorem and revenue sharing, he noticed that MERS gets about $1,000 per employee, but this plan receives about $85,016 per active employee. He asked if this was because of the small plan or because the benefit costs that much more.

Mr. Curran said looking at the whole picture of ad valorem and revenue sharing, looking back to the historical roots, back to the early 1950s when most of these plans were set up, he thinks with most of these plans conceptually the idea was for some employee contributions, but the plan would be funded by ad valorem taxes and revenue sharing. In a lot of these plans, they were designed not to have any employer contributions. With time, it became increasingly clear that that was not going to be sufficient to fund the plans, and the employer contributions became in various plans more and more important. This plan gets 1/16 of 1% of the ad valorem taxes collectible. MERS, Clerks, and so forth get 1/4 of 1%. But with so few employees, that 1/16 just amounts to per capita a lot more money.

Mr. Curran made a motion to set the FY 13 minimum recommended net direct employer contribution rate to 19.75%, to allocate to the plan the full ad valorem and revenue sharing funds, and to adopt the valuation report presented as the official report for ROVERS for FY 11. The motion was seconded by Mr. Henson. There were no objections, and the motion passed unanimously.

5. Discussion and approval of the 9/30/2011 actuarial report, contributions, and tax sharing allocations for the **Louisiana Assessors' Retirement Fund**.

Mr. Curran presented the actuarial report for the system. He noted that this plan has been over contributing for a number of years in order to strengthen their financial position, and they will pay off their unfunded liability 10 years ahead of schedule if not sooner, which will result in a fairly substantial reduction in the cost structure of the plan. He said they are recommending reducing the minimum direct rate from 9.75% to 9.5%, although the board may elect to continue funding at the higher level.

Rep. Pearson asked Mr. Curran to clarify the point he made that this system gets a percentage of ad valorem taxes that are not actually collected. He noticed that they get 1/4% like MERS gets, but MERS gets $8 million per year while this system gets about $11.3 million in ad valorem taxes, which is considerably more, even though they both get the same 1/4%.

Mr. Curran said one reason for the difference is that with the 1/4% being paid to MERS, they aren't getting any funds from New Orleans and Assessors is. MERS is getting very little from East Baton Rouge Parish because the only members of MERS in East Baton Rouge Parish are the Baker and Zachary people. About 95% of the people in East Baton Rouge in terms of municipal are going to the East Baton Rouge system. In addition to that is the tax base itself, whereas in the case of MERS they are getting what's called the "taxpayer tax," and the Assessors are getting what's referred to as the "total tax." That's 1/4% of the total tax. All of those elements result in that dollar value difference being as great as it is.

Rep. Pearson asked if getting 1/4% of ad valorem taxes that are not actually being collected was unique.

Mr. Curran said it is unique to them. He thinks there is some historical reason that exists, but it predates his association with the system.

Rep. Pearson said he isn't sure which figure to use for the actual cost of the benefit, but his calculation of the actual cost is either 37.5% or 39% based on their ad valorem taxes, whereas MERS is getting about $15,000 ad valorem taxes per active member to fund their system, which it seems is basically why this system is so well funded.

Mr. Richmond said his office is recommending approval.

Mr. Curran made a motion to set the minimum net direct employer contribution rate for FY 13 to 9.50%, to allocate to the system the full amount of ad valorem taxes and revenue sharing available under the statute, and to adopt the FY 11 valuation report as the official report of PRSAC for the Louisiana Assessors' Retirement Fund. The motion was seconded by Mr. Henson. There were no objections, and the motion passed unanimously.

6. Discussion and approval of the 6/30/2010 actuarial report, contributions, tax sharing allocations, and applicable Insurance Premium Tax Fund (IPTF) allocations for the following statewide retirement systems – **Firefighters' Retirement System, Municipal Police Employees' Retirement System, and Sheriffs' Pension and Relief Fund**:

- **Sheriffs' Pension and Relief Fund (SPRF)**

At Mr. Curran's request, he presented the Sheriff's Pension and Relief Fund valuation first since its funding is the same as the other systems he had already presented.

Mr. Richmond said the total contribution from public sources as a percentage of pay is about 18.75%. All the plans are fairly rich with 3.0% to 3.33% accrual rates, but a lot of variability is seen in the total amount that's required to contribute to the plans. He asked what Mr. Curran attributed to this plan being significantly lower.

Mr. Curran said a lot of the differential is attributable to demography. Sheriffs have a higher turnover rate, whereas assessors' employees tend to hire in when they are young and stay on the job for 20 or 30 years, so the Sheriffs' plan sees more forfeitures. Another thing that has helped the Sheriffs demographically is they have had a pretty big expansion of population. They have continually added new employees over the last 10 or so years, due to adding new prisons, etc., which has been very healthy for them. The present value of future benefits increases as you keep adding people to the plan.

Rep. Pearson asked about the effect of employees leaving the system.

Mr. Curran explained that they withdraw and thus forfeit the employer contributions, which remain with the system.

Rep. Pearson said he believes that there was a law passed in 1999 that allowed clerks and assessors to contribute 100% of both the employer and employee portions to the systems. He asked if in those cases, when the employee withdraws from the system and leaves early, if they are still refunded the employee portion of the contributions since they were actually paid by the employer.

Mr. Curran said the employee contributions, even though paid by the employer, are still deemed employee contributions, and so they are refundable to the employee.

Mr. Richmond said his office recommends approval of the report.

Mr. Curran made a motion to set the minimum net direct employer contribution rate for FY 2013 to 13.75% for the Sheriffs' Pension and Relief Fund, to allocate the full amount of ad valorem and revenue sharing taxes to the fund, to allocate $15,637,701 of insurance premium taxes to the fund, and to adopt the FY 11 valuation as PRSAC's official report. The motion was seconded by Sen. Guillory. There were no objections, and the motion passed unanimously.

- **<u>Firefighters' Retirement System (FRS)</u>**

Mr. Curran presented the actuarial report for the system. He pointed out that this system, as well as MPERS, is funded in a totally different way from the previous systems discussed. They are funded under the Entry Age Normal method, meaning that all gains or losses flow through directly to the unfunded liability. They are not on fixed amortization schedules. While each piece of the unfunded liability is on a fixed schedule, you keep adding or subtracting to that schedule each year depending on the experience of the plan. He also pointed out that these two systems used to have fixed employee contribution rates, but that rate now floats based on where the employee's income is in relation to the HHS poverty level. Thus a split rate will be recommended for the employer based on the employee's particular case.

Mr. Richmond asked if Mr. Curran had any information on the number of firefighters that might be availing themselves to the lower contribution rate due to the level of income, as provided in the law last year.

Mr. Curran said he did not have any figures on that. It's his understanding that it is a very small number, and not a significant part of the population at that level that are hitting that threshold.

Mr. Richmond stated that his office recommends approval of the report.

Mr. Curran made a motion to set the FY 13 employer contribution rate at 26.00% for employees with earnings below poverty level and to 24.00% for employees with earnings above the poverty level, to allocate $21,858,158 in insurance premium taxes to the system for 2012, and to adopt the FY 11 valuation report as the official PRSAC valuation for the system. The motion was seconded by Rep. Henson. There were no objections, and the motion passed unanimously.

- **<u>Municipal Police Employees' Retirement System (MPERS)</u>**

Mr. Curran presented the actuarial report for the system. He explained that there was not a good comparative in some of the numbers because of a change in actuaries since last year and thus a change of valuation approach. Mr. Hall was previously the actuary for this system, and some of the values in his report were presented in a different way, so they weren't able to do a direct one-to-one comparison on that in terms of some of the dollars.

Mr. Richmond noted that there have been rising contributions in all the plans, but there seem to be different patterns in this one. He asked what is different about this plan.

Mr. Curran explained that it has a different funding approach in terms of how the unfunded liabilities are being handled. They have a 30-year amortization, which is longer than the other plans. There has also been a different shape in terms of the way the change in cost has evolved. One thing that strikes him as very different about this plan is the amount of leverage it has with regard to the other statewide plans. The ratio of retired to active members is very heavy, which has an effect on the cost structure and the volatility of the plan. If you have an asset loss, the only way to extract that loss is through the active members.

Mr. Hall explained that the amortization schedule shows that amortization credits will be falling off over the next five years, which will cause the contribution rate to increase. These are expected increases that they have testified to over the last three or four years, along with losses in terms of market values that will be coming off the books probably in the next couple of years.

Mr. Richmond said this plan has resulted in a lot of pressure on the municipalities because of the cost. With the amortization credits falling off in the amount of some $10 million in coming years, that pressure will only increase. At the same time, they will still be working through asset losses that will add more charges. He asked if Mr. Curran agreed that this will indeed be a plan under pressure and might be in need of some remedial legislation to assist with that.

Mr. Curran said he thinks the whole outstanding unfunded liability and the structure of that unfunded liability and payment schedules probably need to be reviewed. The problem is they are already in a position where, in his opinion, these payments are too back-loaded, stretching out over a 30-year timeframe that's beyond the current generation, and that gives him some concern. The plan is definitely going to need some attention, but he is not in a position to make any recommendations yet. But he believes it will need some study to try to determine how best to mitigate the problem.

Rep. Pearson said three systems—MPERS, Firefighters, and Assessors—have the discount rate of 7.5%, and the other systems have the discount rate of 8%. He asked what the justification is for these differing rates among these systems.

Mr. Curran said he does think there is some justification, but that doesn't mean that they aren't looking at that as an item. In his mind, the systems with an 8% rate are sort of on the watch list as something they need to be concerned about. They believe they will probably move a few of those 8% plans down to 7.5% in the next few years. It's really an element of risk. At the end of the day, no one knows what that rate should be because they don't have a crystal ball. The higher that rate is, the greater risk. The lower the rate is, the greater the immediate cost. If it's too high, you run the risk of having the plan continuously hemorrhaging. If it's too low, you're going to put the employers through unnecessarily high contributions. It's a constant balancing act to try to deal with both of those items. He said he thinks the bias at this point would be to try to bring some of those rates down from 8% to 7.5% on a somewhat opportunistic basis. On a national level, there's been a pretty substantial move to reduce these rates, but he thinks it is prudent to do so slowly and carefully.

Mr. Richmond said his office recommends approval of the report.

Mr. Curran made a motion to set the FY 13 direct employer contribution rate for MPERS to 33.50% for employees with earnings below poverty level and to 31.00% for employees with earnings above the poverty level, to allocate $15,637,701 of insurance premium taxes, and to adopt the FY 11 valuation report. The motion was seconded by Rep. Henson. There were no objections, and the motion passed unanimously.

7. Other Business

Dr. Procopio announced that election of officers will take place at the next meeting. He also said that PRSAC expects to hold another meeting within the next two weeks to review the valuations for the four State retirement systems.

8. Adjournment

With no other business to discuss before the committee, Dr. Procopio asked for a motion to adjourn. Rep. Pearson made the motion, which was seconded by Mr. Henson. The meeting was adjourned at 11:12 a.m.

Approved by PRSAC: **3/08/2012**

Date