PUBLIC RETIREMENT SYSTEMS' ACTUARIAL COMMITTEE

Thursday, March 8, 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 9:36 AM

2. Roll Call

Members Present: Dr. Procopio for Commissioner Rainwater, Treasurer Kennedy, Rep. Pearson for Speaker Kleckley, Sen. Guillory for President Alario, Mr. Curran, Mr. Hall, and Mr. Purpera.

Also Present: Ms. Allyson Cunningham for Secretary Sue Israel; First Assistant Treasurer Henson; Mr. Paul Richmond, Manager of Actuarial Services, Office of Legislative Auditor; Ms. Maureen Westgard, Director, Teachers Retirement System; and Ms. Cindy Rougeou, Executive Director, LASERS

3. Approval of Minutes

Dr. Procopio called for a motion to approve the minutes from the meeting of February 29, 2012.

Mr. Curran asked for two corrections:

> Page 5, paragraph 2, line 5: change to employer contributions (rather than employee contributions)
>
> Page 8, paragraph 3, line 5: ratio of retired to actives (rather than actives to retired).

Then Mr. Curran moved that minutes be adopted as changed. The motion was seconded by Sen. Guillory. The minutes were approved as amended.

4. Discussion and approval of recommendation to reduce the insurance premium tax allocation to the **<u>Sheriffs' Pension and Relief Fund, Firefighters' Retirement System, and the Municipal Police Employees' Retirement System</u>**.

Mr. Curran explained that a change to the allocation is a result of an insurance refund after the numbers were provided to PRSAC. He recommended that the allocation to each of the three systems be reduced by $9,495. This does not affect the $1.5 million statutory amount for the Louisiana State Police Retirement System.

The allocations approved at the last meeting were:

Firefighters	$21,858,159
Municipal	$15,637,701
Sheriffs	$15,637,701
State Police	$1,500,000 – statutory amount

Mr. Curran stated that this change will have no impact on contribution rates.

Dr. Procopio explained that the Treasurers' Office noticed the error, and the directors of all three systems were notified and said they had no problem with the change.

Mr. Curran made a motion to amend the insurance premium tax allocations adopted at the last meeting for Firefighters' Retirement System, Municipal Police Employees' Retirement System, and Sheriffs' Pension and Relief fund to reduce each allocation by $9,495 in order to allocate the insurance premium tax equally among the three systems. Mr. Henson seconded the motion, which passed without objection.

5. Discussion and approval of the 6/30/2011 actuarial report, contributions, and applicable Insurance Premium Tax Fund (IPTF) allocations for the following state retirement systems: **<u>Louisiana School Employees' Retirement System, Louisiana State Police Retirement System, Louisiana State Employees' Retirement System, and the Teachers' Retirement System of Louisiana.</u>**

- **<u>Louisiana School Employees' Retirement System</u>**

Mr. Charles Hall of Hall Actuarial Associates reviewed pages 2, 3, and 35 of the valuation presented. These pages contain the basic summary of the information that is more pertinent to committee discussion.

The membership census shows a slight increase in the number of retirees, and the active population has continued to decrease as it has for the last two years. This decline in active population created a decline in payroll. The system is still facing rather substantial losses that occurred two years ago. This is reflected in the yield to actuarial value. This plan has a 4-year market value average. The system will begin to see those losses fall off and begin to start realizing the gains that have been posted in the last two years, and hopefully again this year. The experience account has only been in effect for three years. Since the account has never earned excess interest earnings over the 7.5%, no deposit has been made to the experience account.

The unfunded actuarial accrued liability increased. Amortization payments were not sufficient to pay the interest on the unfunded liability. In the amortization schedule on page 35, there are a number of lines that indicate the change in unfunded accrued liability and how they are amortizing those changes. Most of the changes are amortized as a level dollar amount over a fixed period of time. There are three changes in 2001, 2002, and 2003 that are being amortized as an increasing payment schedule, which means it is back loaded. Payments because of backload are still not sufficient to pay all of the interest, let alone any of the principal. These are carry-overs from the old amortization schedule. There was remedial legislation to correct what was going on prospectively, and all were changed to level except these three. These three have the largest outstanding balances of all in the $250 M range.

The employee contribution rate through June 30 remains at 7.5%. As a result of losses incurred combined with the fact that the payroll is decreasing, and when you have an increasing payment schedule with decreasing payroll, the percentage of payroll is going to increase. The system is spreading that cost over a smaller base. Mr. Hall calculated that the rate should have been 30.1% for this year, while the rate that is being paid is 28.6% that was projected last year, so another shortfall charge can be expected. Taking into consideration the shortfall charge along with the decrease in the payroll, he said he is recommending the contribution rate for the July 2012-June 2013 fiscal year of 30.8%.

Rep. Pearson asked that Mr. Hall review page 35 again to explain how the increased liability in 2001, 2002, and 2003 came about. He said every other number could be contributed to perhaps market conditions, but these are substantial numbers.

Mr. Hall replied that in the year 2000, this retirement system actually had a surplus of assets and came under a lot of scrutiny because, at same time, they increased the accrual rate for active members from 2.5% to 3.33%. The change in liability in the year 2000 was covered by the surplus, and so after they paid for that 3.33% accrual rate, they still had a surplus. However, this coincided with 9/11, and as the markets fell, so did assets. He added that what you see is a reflection of the decrease in the value of assets over that 3-year period until they began to recover. So these losses were being booked for this 3-year period. The same occurred in 2008-2009. The difference is that back in 2004, under Act 588, they had changed all of the amortization schedules with the exception of 2001, 2002, and 2003 from an increasing amortization schedule to a level amortization schedule. That act left those three years as an increasing amortization schedule.

Rep. Pearson indicated he was aware of market losses in 2000-2001. You could compare the market conditions in 2001-2003—three years together—to market conditions in 2009 where you had a large 1-year liability as opposed to three consecutive years in excess of $250M. It seems like the market was perhaps more difficult even in 2008, but perhaps not. He said he would look a little more. Mr. Hall said he would look at details of what happened in 2001, 2002, and 2003, but he is pretty sure the majority is related to market loss, but that was over 10 years ago. They agreed to discuss this more later.

Mr Purpera noted that page 3 of the valuation shows an investment loss of $41M, but on page 2 is shown an investment yield of 23.28%. Mr. Hall explained that the investment loss is relative to the yield to actuarial value. On an actuarial basis, there was a rate of return of 4.35%, and on an actuarial basis they had a discount rate of 7.5%. Any deviation from 7.5% is either a loss or gain. Since it was less than 7.5%, that is what was reflected, the difference between 7.5% and 4.35% is the $41M.

Mr. Purpera noted that page 2 shows a valuation of assets at $1.4B and $1.3B, and page 9 shows market value at $1.2B, $1.3B, and $1.5B. He asked if he was seeing correctly that the system has an actuarial value of assets at $1.3B but a market value of assets at some $2M above that now. Mr. Hall said that the smoothing process works so that when the market goes down, it tends to not let the value of assets fall as quickly as the market value falls. When the market value rebounds, it does not let the value of assets rebound as quickly. As can be seen on page 9, the next year they started dropping off the last phase-in of that loss, and started phasing in the gain. This is the difference between actuarial value and market value, so there are substantial gains that are going to be phased in.

Mr. Purpera commented that if the market stays even as of 6/30/11, then he would expect to see the actuarial valuation of assets increase as of the end of next year, and that should have an impact on contribution rates. Mr. Hall replied that if the market stays level, 7.5% in this system, the actuarial value would revert back to market value. This is the lag factor.

Mr. Paul Richmond, Manager of Actuarial Services for the Louisiana Legislative Auditor, said his office had reviewed the valuation prepared by the actuary for the retirement system. Their review included a review of calculations within the valuation report and a comparison of current-year and information contained in the report for the prior-year. While no independent valuation was performed by their office, they believe the valuation presented by the system actuary is a fair representation of the status of the system and reflects the contributions that are needed to maintain the retirement system on an actuarially sound basis.

Dr. Procopio asked Mr. Hall what method was used for this valuation. Mr. Hall indicated that the actuarial cost method used for the School Employees' Retirement System, as required by statute, is entry age normal.

With no further questions, Mr. Hall made a motion to set the employer contribution rate for the fiscal year beginning July 1, 2012, and ending June 30, 2013, at a rate of 30.8% and to adopt the valuation report as the official valuation. Second by Rep. Pearson. The motion passed with no objection.

- **<u>Louisiana State Police Retirement System</u>**

Mr. Charles Hall of Hall Actuarial Associates reviewed pages 2, 3, and 35 of the valuation presented. These pages contain the basic summary of information that is more pertinent to committee discussion.

This system is unlike the other retirement systems in the state in that it does not have a continuous inflow and outflow of active membership through the hiring and firing process. The State Police system only has new members when there is a new academy. What you are seeing is the lack of a new academy the past two years.

DROP has decreased to practically nothing due to the implementation of a back-DROP program a couple of years ago. What you see is the members that were in DROP when the new program was implemented and they are now just finishing out their DROP participation. For all new participants that are eligible, there is no specific accounting for them since it is done as they are walking out the door.

The discount rate for this system is 7.5%. The funding method for this plan is the entry age normal cost method. All of the amortization schedules are level, so every payment is paying at least a part of principal and all of the interest.

Mr. Hall said he is recommending the employer contribution rate for the fiscal year beginning July 1, 2012, and ending June 30, 2013, be set at 68.6% of payroll along and the allocation of $1.5M from the insurance premium tax fund.

Mr Purpera asked if the back-DROP was actuarially neutral. Mr Hall replied that the way back-DROP was priced during the legislative process was such that back-DROP has a cost associated with it as opposed to normal DROP, and to cover that cost, the employees agreed to increase their contributions to cover the cost, realizing that not all of them were participating. Since the cost is being covered, then it is fair to say it is actuarially neutral.

Mr. Purpera asked if the increase in the employee contribution rate was included in 9.5% and 8.5%. Mr. Hall replied that employee contribution rate increased from 8.0% to 8.5%.

Mr. Purpera noted the normal cost for State Police is 26.7%, and the normal cost in the previous system was 18.11%. He asked, if both are on the entry age normal, what caused one system to be so much greater than the other and what the difference was. Mr. Hall indicated there are a number of factors that cause the difference. Both systems share the same cost method and discount rate, but they do not share similar benefit formulas and similar demographics. New hires in the School Employees system get a 2.5 % accrual rate, with older members grandfathered in at a rate of 3.33%. The older members receiving 3.33% are a diminishing population. School employees tend to have a longer work life. State Police have an accrual rate of 3.33%, so they will max out after 30 years of service. Consequently, they tend to leave with between 25 and 30 years of service. They also have different survivor and disability benefits. Benefits for State Police are much better than what you would find in the School Employees' system, particularly with regard to in-line service death and disability. For State Police, those benefits are more expensive and consequently paid out sooner in life, and the payout is over a longer period of time. All of these reasons contribute to an increase in cost.

Mr. Purpera referred to page 35 and asked about the variance in amortization times from 10 to 30 years. He asked how the amortization period is chosen and if there is an acceptable or normal or actuarially sound amortization period. Mr. Hall indicated that amortization periods are prescribed in statute, and he has no latitude whatsoever. If there is a change in liability due to a benefit change, that liability would be amortized over 10 years, as reflected in 2009. That liability being amortized is probably a result in the change due to back-DROP. Changes with regard to experience gains or losses are amortized over 30 years, again as prescribed by statute. The other 20-year and 24-year amortization changes relate to some type of change in statute where they had to revalue the base. But on a go-forward basis, he said they had basically two amortization schedules for the School Employees' system. Changes in benefits are amortized over 10 years; changes of actuarial assumptions, experience gains, or losses are amortized over a 30-year period.

Mr. Purpera asked why in 1993 the initial liability period was 16 years, and if that had been statutorily determined. Mr. Hall indicated this was the remaining period at that time and reflected the remaining change from the change in the discount rate. This liability was paid off a number of years ago with the Texaco settlement Fund account. There is no initial unfunded liability at this time in regard to this system.

Rep. Pearson asked if this was the only system with a 100% survivor benefit for a majority of the members. Mr. Hall said it was 75% and that he was not aware that it had changed to a 100% survivor benefit.

Mr. Richmond indicated that his office had reviewed the valuation, that he agrees with the valuation methodology, and supports the valuation.

Mr. Hall made a motion to set the employer contribution rate for the Louisiana State Police Retirement System for the fiscal year beginning July 1, 2012, and ending June 30, 2013, at 68.6% of payroll, that the system receive their full allocation from the insurance premium tax of $1,500,000, and that the report be accepted as the official valuation of the system. The motion was seconded by Sen. Guillory. Seeing no objection, the motion was adopted.

- **<u>Louisiana State Employees' Retirement System</u>**

Ms. Shelley Johnson of SJ Actuarial Associates presented the valuation. She stated that this should be the last valuation where the actuarial value of return is significantly less than the market value return because of the 2008 losses. She expects they will have one more valuation where the interest payment will exceed principal, so for the first time, no increase is expected on the unfunded actuarial liability. She pointed out on Page 7 that plans (b) through (i) are now closed plans. All new members hired today go into either rank-and-file, judges, or hazardous duty. The projected unit cost method is used to calculate the funding requirements as required by statute.

The employer contribution restated for fiscal year 2011-2012 last year was projected at 25.9%; however, the actual rate for the last fiscal year should be 27.7%. The projected employer contribution for fiscal year 2012-2013 net of peace officers and alcohol and tobacco control appropriations that are paid separately is an aggregate 28.2%.

Mr. Purpera inquired about differences on page 2, which shows valuation of assets from $8.2B up to $8.7B in 2011, and on page 12, which indicates market value has risen from $7.1B to $9.7B, so today we find ourselves with an actuarial valuation of $8.7B but a $9.7B market value, which leaves a $1B gap between market and actuarial value. He asked if all of that was about the smoothing. Ms. Johnson said this is why she mentioned that the system was going to have more gains rolling in than losses. Page 12 gives an explanation for the smoothing process and shows how the system will go from $9.7B market value of assets to $8.7B. We are not at a point where the gains are going to exceed the losses.

Mr. Purpera noted on page 2 that the normal cost for LASERS is 15.3%, but for State Police it was 26.7%, which is a considerable difference. He asked if the differences in valuation methodology accounted for the major difference. Ms. Johnson indicated that LASERS has a different benefit. Most of the employees are rank and file with a 2.5% benefit accrual. For most of the members, all of the rank and file, their normal form of benefit is a life annuity where the employee can choose to leave a portion of their benefit to a spouse or beneficiary, but they will have to take a reduction in their benefit. LASERS also has different demographics, differences in behavior, retirement patterns, and disability. So, even if they were on the same cost method, it would be a less expensive benefit.

Mr. Purpera asked about the 40-year amortization of the IUAL. He asked if 40 years is a proper amortization period. Ms. Johnson said she was not sure what the standard was at that time, but now, for GASB purposes, amortization schedules are suggested to not be longer than 30 years. Mr. Purpera inquired as to the impact of a 30-40 year amortization. Ms. Johnson indicated it would depend on the discount rate. The IUAL is re-amortized for a shorter period, but the final payoff amount remains the same as constitutionally required. The valuation on page 56 shows the IUAL is part of the schedule under OAB. The IUAL is not separated, but has an amortization period of 19 years because this was the number of years left in the initial 40-year period when the schedule was re-amortized.

Rep. Pearson noted that normal cost for School Employees is 18.1% and normal cost for LASERS is 14.1% for rank and file. He asked if both systems were paying 16% on average, what the difference would be in normal cost percentage with the 8.25% discount rate versus 7.5%. He also asked if the normal cost wouldn't be higher with the lower discount rate. Ms. Johnson said that, with all of the assumptions the same, the decreased discount rate would increase the normal cost.

Rep. Pearson noted that the interest rate due on the UAL seems to be 8.25% and asked if this was the rate Ms. Johnson used on calculations for the UAL. Ms. Johnson replied that she discounted all liabilities with 8.25%.

Rep. Pearson also inquired about gain sharing and, if it has additional cost, would the system need to make more, maybe 9%? Ms. Johnson explained that when the 8.25% rate was set, the experience account had not been created, so they did not take into account the gain share. Her understanding of when the experience account legislation was passed was that it was passed with the intent of the state paying for COLAs at the same time there were investment gains. And to pay for COLAs, rather than realizing the full decrease in the employer contribution rate as a result of investment gains, they would realize only one-half of the reduction in the employer rate due to the gain. So every time a deposit was made into the experience account for COLAs, at the same time there would be a reduction in the employer rate. The 8.25% was not set based on that being the expectation.

Rep. Pearson stated that the 8.25% was set before they even had gain share. Ms. Johnson added that it may have been more of a political versus an actual analysis. Rep Pearson said the legislature is trying to get away from political acts and is seeking to act more responsibly. He then asked if Ms. Johnson could go to her board and say the discount rate should be 8.25% with the inclusion of gain sharing. He also asked if there are any other pension systems in the nation with that high of an expectation because he has never seen or found any. Ms. Johnson indicated she had told LASERS that 8.25% was never a rate she would have recommended. However, experience studies conducted a few years ago indicated the long-term experience of the system had exceeded 8.25%, and a capital market overview study analysis indicated that going forward the system could expect a rate in excess of the 8.25%. Based on these studies, she did not recommend they lower the rate, but again indicated that it was not a rate she would have recommended.

Rep Pearson then asked if it was possible to calculate the cost of gain share. Ms. Johnson said she could only estimate because gain share is not based on all investment gains but on a portion of gain over the actuarial rate. Gain share depends on the spike in experience and the size in investment gains over 8.25%, and they do not consider the negative spikes, which adds to the volatility. Rep. Pearson said the system will never achieve 8.25% since the gain share only works in spiking years and that he has a problem accepting a valuation in a rate when they have never achieved this rate.

Ms. Johnson indicated that through 2009, LASERS' long-term investment actuarial rate exceeded 8.25% over the past 25 to 30 years, but Rep. Pearson said he did not see the system working that way. He said you could say that over 30 years, but not for the employee that had worked 5 or 10 years. That employee was accruing benefits and collecting benefits also, but the system will not come close to achieving the expected rate of return. Benefits need the returns to be manageable and achievable over reasonable 5-year periods of time. Ms. Johnson indicated that benefits are funded over the working career and paid out over the remainder of the employee's lifetime, and they expect those to be a period longer than 5 years.

Rep. Pearson also pointed out that even though the unfunded liability was going down due to investment losses and they are seeing a comeback in the value of the account, it has gone from $8.7B to $9.7B; however, a mere 10% pullback in the market tomorrow would erase that gain. And there is still an assumed 8.25% discount rate plus gain share.

Ms. Johnson said the gain would not erase since all numbers in the valuation are based on smoothing that has occurred through 2011. The long-term returns on page 5 do not have the advantage of the recovery of the market that has already taken place and that will be rolled into these numbers. The discount rate should reflect how you actually expect your assets to perform going forward long term, not short term. The benefit is funded over the employee's working career and paid out over the remainder of their lifetime. She said they expect this period to be longer than 5 years. That is why the actuarial process looks at the returns on an annual basis to evaluate and determine if they are using a reasonable range, even if the rate is not what she would have recommended.

Rep Pearson had issues with the system living on extremely high assumptions that other systems address with a 7.5% current system of gain sharing. He questioned how that could be sustained at 8.25%.

Treasurer Kennedy asked how the problem could be solved and be fair to taxpayers as well as current and now-retired employees. He asked Ms. Johnson if they were starting from scratch, if she would recommend the 8.25% discount rate or what else she would recommend if not that.

Ms. Johnson indicated that both boards have recently asked for her recommendation, and that she gave her recommendation to the Teachers Retirement System board at their February meeting for their information purposes only. She has not studied or made a recommendation to LASERS yet. She started with the investment consultant's analysis. They did a capital market study. This study recommended changes in the portfolio to reduce risk, and they did long-term projections of what the result would be from this change. She took this portfolio recommendation, noting what is paid by that return before benefits are paid. The study expected there to be a long-term return of 8.9%. Administrative expenses are paid from the investment earnings. Also, investment expenses come out of the investment earnings. And then gain sharing, which depends on how the state funds COLAs, but you need to take into account some expectation for gain share. This resulted in a range of 7.6% to 8.0%, with ultimately 7.75% as target, but to get there incrementally as the funding ratio of the system improves, starting at 8%. She could not project how long the process would take to reach 7.75%. She said it is difficult to say, since it would depend on future studies and how the system performed on an investment basis. But it would be tied to the funding ratio.

Treasurer Kennedy asked why she thought LASERS had an unfunded accrued liability today. Ms. Johnson said the largest reason is because of the system's back-loaded payment schedule. The state was very prudent by constitutionally requiring that the contributions be actuarially determined, which was a step in the right direction. Until 1988, the state was not required to make the actuarially determined contributions. The state was making contributions but not always the actuarially required contributions, so they did not put in enough money, but employees were contributing. Also, when the system was created, benefits were granted immediately.

In 1989, the legislature agreed that the state had to begin paying off the unfunded accrued liability, but they set up a back-loaded payment schedule with increasing payments. Now, in 2012, we are just getting to the point where payments are beginning to pay down the principal. She said she does not think the legislature was totally remiss. There was a reason. Part was that they liked the way the payments looked at the time. The increasing payment schedule was set at 4.5% with the expectation that payroll would increase at 4.5% annually, so both income and payment would be the same percentage and the payments would remain level. The problem is that the payroll did not keep up.

Treasurer Kennedy said something must be done and a recommendation is needed from the people who understand this problem. He said they know the 8.25% rate is unrealistic, and if we lower the discount rate to 7.5%, the unfunded accrued liability will go up. That means that the UAL just got bigger, but that it is probably more realistic in terms of what it actually is. So 7.5% is more realistic, but that would increase the state's contribution.

Ms. Johnson said she considers 7.5% a lower rate than what she thinks reasonable for Teachers. It is really easy to look at a situation and say this is what it should be, but a lot of people would not be looking at the specific asset allocation of the retirement systems. Boards take this seriously, but they were never asked what level of risk was needed to make the 8.25% rate. By PRSAC mandating years ago that the 8.25% be achieved, they required systems to take on more risk than they may have wanted to. The problem boils down to the investment risk, not the employee benefits. These members do not participate in Social Security, so this is their retirement benefit.

Treasurer Kennedy indicated there were only a few ways to fix this problem: to have the state pay more money, to have the employee pay more money, to have extraordinary investment returns, or to reduce the benefits. But in doing all of this, he said they need to keep in mind the taxpayer and at the same time be fair to employees who rely on promises that have been made to them. He said he is asking Ms. Johnson and others to make their recommendation. He said if she thinks they should go to 7.75%, he wants her to say so. This means the state will have to put up more money, but it is more realistic than 8.25%. He asked if they went to 7.75%, why she would recommend that this be done over time as opposed to quickly. Ms. Johnson said it is because if they go to 8.0%, that is the range of reasonableness that should be considered. She said she is not comfortable picking one particular rate and saying this is what it should be. She said the boards had asked for her recommendation, and her recommendation to Teachers is a range. A range is reasonable because there is a lot more to consider other than one particular number.

Treasurer Kennedy asked why a system would not want to reduce a rate if it meant the state would pay more money, and he said he would like the systems to comment. He said the main problem for LASERS is that the employer (the state) has not put up their share. He said to both systems that, whether they agree or disagree with legislation, he hopes they will come forward and tell PRSAC what they feel will work best for their system.

Maureen Westgard, Director of the Teachers Retirement System of Louisiana, said there are states that have lowered their actuarial rate of return. Washington is at 8.0% and is looking at lowering 10 basis points per year over a 10-year period to get to 7.5%. They hope they see the market recover but also reduce volatility at same time. No system in the USA has dropped by .75% immediately. The Teachers board has been looking at this issue for a long time. The retirement system faces trying to balance and trying to achieve the right actuarial rate of return and collect contributions from the employer. She said they needed to recognize the normal cost, but also the UAL. This is a difficult time for schools. Costs are increasing, and she does not want to cause them any additional stress. The MFP has not increased in several years. Schools are trying to deliver education services. This is a cost factor for them, and you do not want to drive any employer to a point where they cannot make their payment.

Ms. Westgard said, as a state employee, it is not her place nor is she allowed to give her opinion. But the TRSL board is going to obtain data from their actuary, look at what is happening in the legislature, ask for a reevaluation, and hope that the board will take some action and come to PRSAC to adopt a protocol that would start reduction. The board needs to look at this very closely and understand all of the parts. They need to adopt a protocol that will start a reduction—data driven, not politically driven. She agrees it should go down, but incrementally.

Cindy Rougeou, Executive Director of LASERS, indicated that their board has asked their actuary for a recommendation on what the assumed rate should be and how change to entry age normal will affect this system if this change passes the legislature. Then they planned to come back to PRSAC before the end of June with their recommendation.

Sen. Guillory thanked the systems and expressed his appreciation for the boards' fiscal responsibility in addressing these matters. He said in the next few months an adjustment must be made, but it will be done together.

Dr. Procopio asked Mr. Richmond for his input on rates of return for the retirement systems. Mr. Richmond provided a handout to the committee and explained that the rules under which he does his work differ from Ms. Johnson's. He said his principal is the Legislative Auditor, and Ms. Johnson's principal is the board of directors for the retirement systems. He said he is only asked to issue statements of actuarial opinion and prepare an independent valuation. His work is not subject to the pressure of the board of directors; the legislative auditor has given him more freedom. He said this presentation is not an official valuation but is for information purposes only. They have the same reasonable benchmark as the system actuary. Their valuations match. He said they have adjusted their valuation to the actuary's base and agree in principle with the calculations in the actuary's valuation. Two areas of concern are the discount rate and gain sharing. They have aggressive assumptions that are not very well funded. Their actuaries do not compare to what others are doing or look at the past. Two other studies expect an 8.25% rate of return, but they may have been using more aggressive capital market assumptions. He thinks that rate needs to be lowered somewhere in the range of 7.75 to 8.0%— probably 50-75 basis points. How to get there can be either a quick or a gradual process. His preference is to get there more rapidly, but he also understands the need to get there gradually.

Treasurer Kennedy asked Mr. Richmond what rate of return he would recommend for LASERS. Mr. Richmond said he would recommend that LASERS go to a 7.75% discount rate, starting at 8.0% for one year. Then he would like them to reassess going back into the market place to see what the investment community is telling us. If markets remain the same, then he would recommend that LASERS reduce the rate to 7.75% for another year, then reassess and, if possible, go to a 7.5% discount rate.

Sen. Guillory asked to what extent in making their forecast are the outside consultants taking into account oil disruption and the affect it would have on the international markets. Mr. Richmond indicated that this would have been included in the forecast, but he does not know how they looked at this particular problem and they would have to factor in the reality of the international market.

Mr. Richmond continued his report and said if he would take recommendations from Gabriel Roeder Smith, they would need to evaluate the gain share on an annual basis. The cost associated with gain share is real and needs to be recognized by the plan, as it will ultimately cost the employees 5% to 7% of their pay.

Mr. Hall made a motion to accept the valuation presented by the actuary for LASERS except for the employer contribution rates and to meet again in two weeks to reevaluate the employer contribution rate projected in the valuation.

Discussion followed as to how they could address the discount rate and the UAL and if it would be appropriate to reduce the discount rate and/or change the schedule of how they are paying the UAL. Dr. Procopio informed the committee that the payment schedule is set by statute and may not be something PRSAC can change as opposed to the valuation rate. He said they could make a policy recommendation to have the legislature look at this, but there is nothing PRSAC can affect.

Mr. Curran said the valuation interest rate is a problem not only for this plan. It is a general problem that a lot of systems are dealing with. He said if his understanding of the way this committee works is correct, they should adopt a valuation and that should be chosen from among the valuations presented by the retirement system, endorsed by the board, prepared by the actuary, and potentially another prepared for the Legislative Auditor. While he is not big fan of cutting a valuation into two pieces, for expediency purposes, it may be something to look at. He added that he has a real concern with PRSAC not sticking with what should be done—that is, to adopt a valuation. He said they have some political input even now. While the motives are good, the process may not be working out in the best possible way.

Dr. Procopio said the statutes do not anticipate how PRSAC should proceed if they cannot vote for one of the proposals in front of them. Mr. Curran says if they rush the process through by piecemeal, selection of a valuation interest rate is not an isolated item on its own. There are certain economic factors that go into the selection of that rate, and they may dictate some review of some other factors in other aspects of the report.

Treasurer Kennedy said Mr. Curran made very valid points, but he has heard today from people who know more then he does that the rate is unrealistically high and there seems to be a consensus that the rate needs to be lowered. To him, this is a good thing, an unusual thing that the administration and legislature are willing to say they want to be more realistic. A rate of 8.25% is unrealistic. A rate of 7.75% or 7.50% is much more realistic, and we are willing to put more money into the system to make it more stable. He said he wants to follow procedure and thinks they should work toward doing that. Over the last 30 years, the trend has been that the state has been trying to figure out how it can get out of paying what it owes. Now, they seem to be saying they want to own up to the debt and put more money into it.

Ms. Johnson explained that no one has said this is a bad thing, but that it is just a matter of how they will vary from past protocol in terms of which valuation to adopt. She said she thought Mr. Hall's suggestion of adopting the valuation report for everything except the employer rate was a good one. It is within the committee's authority, as they have in the past, to mandate assumptions. It does not mean that you should throw out the entire valuation. No one has said let's not lower the return rate, but they are just questioning how best to go forward. She said she agrees with both Mr. Hall and Mr. Curran, although those may not be the only two options on the table.

Treasurer Kennedy seconded Mr. Hall's motion.

Dr Procopio summarized Mr. Hall's motion to adopt the valuation except for the part pertaining to the employer contribution rate and to meet again in approximately two weeks to discuss a revision to the valuation and the contribution rate portion that may be changed based upon a lower discount rate.

Treasurer Kennedy requested that Mr. Richmond along with Ms. Johnson and others at Teachers and LASERS guide the committee through this and provide pros and cons along with hopefully a recommendation.

Mr. Hall said he has indicated before and that the legislature and this committee had on many occasions, once legislation had passed, reconvened PRSAC to reset projected rates, so that precedent has been established. He said if it would help everyone to understand, he would not mind changing his motion to say to adopt the valuation in its entirety and furthermore to reconvene to reevaluate the projected rate based upon the report presented to the committee relative to a different rate. He said the valuation does contain a projected rate, so if you adopt the valuation in its entirety, you would be adopting these projected rates that currently exist in the report, whereas the first motion excluded projected contribution rates. The second motion was to adopt the valuation in its entirety but also require that PRSAC meet again to consider the possibility of changing the projected rate.

Mr. Purpera offered a substitute motion to accept the entire valuation report with the understanding that PRSAC would come back and look at the employer contribution rate at another time. This would provide for a valuation and a contribution rate and planning can be done based on that, but there would also be the understanding that they are trying to take care of business and come back and look at some other potential rates. If no consensus rate is reached at some future date, they could have a contribution rate based on Ms. Johnson's valuation.

Mr. Curran seconded the substitution and Dr. Procopio objected.

Treasurer Kennedy disagreed with Mr. Purpera because he said he has heard two people whose judgment he trusts say that the rate is too high and unrealistic. He said that tells him they should change, and although he doesn't think they want to go too fast, they need to do something. He said he was concerned that they will not do anything if the valuation were adopted today with expectations of coming back at a future time. He said they have been saying for 30 years that they were going to come back in the future and do something. They need to do something with the input of the retirement systems, as indicated in Mr. Hall's original motion.

The substitute motion failed with votes cast as follows. Yea: Curran, Hall, and Purpera. Nay: Guillory, Kennedy, Pearson, and Procopio.

A vote was then taken on Mr Hall's original motion to adopt the valuation except for the FY13 employer contribution rate and to meet again in approximately two weeks to discuss a revision to that valuation. The motion passed with votes cast as follows. Yea: Guillory, Hall, Kennedy, Pearson, Procopio, and Purpera. Nay: Curran.

- **<u>Teachers Retirement System of Louisiana</u>**

Ms. Shelly Johnson with SJ Actuarial Associates presented the valuation with a review of pages 2 and 3. For this system also, investment losses are almost completely accounted for, and they expect to see gains in the future.

The restated employer contribution rate for the current fiscal year 2012 was originally projected to be 23.7%, but they are currently paying restated at 24.0%. She said her projected recommended rate for fiscal year 2013 is 24.5% with an ORP employer normal cost recommendation of 5.8055%.

Mr. Richmond indicated that his staff had reviewed the valuation and matched closely the numbers the system actuary has derived and therefore accept the valuation, although they are not subscribing necessarily to the assumptions.

Mr. Hall moved to adopt the valuation as presented to the committee by Ms. Johnson as the official valuation with the rates contained therein. Rep. Guillory seconded the motion.

Mr. Richmond asked if this motion is different than the motion that was made for LASERS. Dr. Procopio said this is a motion to adopt the entire report, so PRSAC would not have to come back and review this valuation again. Mr. Hall said his intent was to adopt the rates contained in the valuation as it stands with the understanding that PRSAC can come back and reevaluate.

Sen. Guillory withdrew his second, and the motion failed for lack of a second.

Sen. Guillory made a motion that this matter be handled in the exact same way that LASERS had been handled, to not adopt the employer contribution rate, and PRSAC would come back to review the rate at a later date. Mr. Purpera seconded the motion.

Dr. Procopio said that this system seems slightly different, and he thinks that what Ms. Westgard was saying is that you have to look at the balance between getting the contributions. That is one thing if the state is willing to do it, but that's not necessarily true for other localities. That is not to say we can come back, but they are substantially different entities.

Mr. Hall and Mr. Curran objected. The motion failed with votes cast as follows. Yea: Guillory, Kennedy, and Purpera. Nay: Curran, Hall, Pearson, and Procopio.

Mr. Hall said he wanted to explain why he made the original motion. When Ms. Westgard made her presentation, she explained that the budgeting and funding for the school system is significantly different from the budgetary process for the state system. This will require a lot more consideration than what can be given in the next two weeks. The Teachers Retirement System already has a process in place in conjunction with proposed legislation so that if this proposed legislation is successful, PRSAC will be reconvened before the end of June to reconsider that proposed prospective employer contribution.

Dr. Procopio suggested that PRSAC may need a motion to adopt the valuation as is and then a separate motion for the Teachers Retirement System to come back before the end of the fiscal year to present their plan for dealing with the discount rate. He said it is the intent of the committee that we need to see this study and have something to move forward on. He thinks they all understand that Teachers is different from LASERS and that PRSAC can go ahead and adopt the valuation, but that they have a plan, not just in general in the future, but that they will do something before the end of the fiscal year after all legislation has been passed.

Mr. Hall moved that the committee accept the valuation provided to the committee by Ms. Johnson as the official valuation and the rates contained therein. The motion was seconded by Sen Guillory.

Mr. Purpera asked how PRSAC can go forth with a rate on Teachers where they are supporting an 8.25% rate, but they are not willing to support 8.25% on LASERS.

Dr. Procopio said that it is his understanding that they are different in that both know that the 8.25% rate is probably wrong, but for one system the employer is ready to do something and the other is not. As Ms. Westgard pointed out, that has to be part of the analysis and it is not all just about the actuary. We have to be able to see what the employer is able to do. We will still get in a separate motion in terms that we want them to come back with a plan by the end of the fiscal year.

Treasurer Kennedy noted that the legislature and the administration are ready to put up the money if PRSAC makes a change for LASERS, but that the employer for Teachers, which would be the schools, are perhaps not ready; we don’t know. That is the difference, but at some point PRSAC must look at all of them.

With no further discussion or objections, the motion to accept the valuation with all rates contained therein passed.

Rep. Pearson made a policy motion that would ask Teachers Retirement System to come back to a meeting before the end of the fiscal year to present a plan of what they think their investment return rate should be and how they would get there. Sen. Guillory seconded. The motion passed with no objection.

6. Election of Officers

Dr. Procopio advised that, according to the statutes, the Commissioner of Administration or his designee cannot serve as chairman for another term.

Rep. Pearson moved to select Sen. Guillory as chairman of PRSAC; second by Dr. Procopio. With no objection, the motion passed.

Assuming that the statutes would allow Treasurer Kennedy to continue serving as vice chair, Rep. Pearson motioned accordingly. Dr. Procopio seconded the motion, which passed with no objection. Dr. Procopio said they will presumptively assume they are doing the correct thing, and if any changes need to be made, they can take care of that at the next meeting.

7. Other Business

There was no other business.

8. Adjourn

The meeting was adjourned at 1:50 PM.