

PUBLIC RETIREMENT SYSTEMS' ACTUARIAL COMMITTEE

Monday, December 1, 2015
1:30 p.m.
House Committee Room 6
State Capitol
Baton Rouge, Louisiana

MINUTES

1. Call to Order

The meeting was called to order by Chairman Daryl Purpera at 1:35 p.m.

2. Roll Call

Members Present: Mr. Daryl Purpera, Chairman, Louisiana Legislative Auditor (LLA)
Mr. Afranie Adomako, Vice Chairman, Designee for Commissioner Stafford O. Palmieri
Senator Elbert Guillory, Designee for Senate President John Alario
Representative Kevin Pearson, Designee for House Speaker Charles Kleckley
Mr. Ron Henson, Designee for Treasurer John Kennedy
Mr. Gary Curran, FCA, MAAA, ASA, EA
Mr. Charles Hall, FCA, MAAA, ASA, EA

Also Present: Mr. Paul Richmond, MAAA, ASA, EA, Manager of Actuarial Services, LLA
Mr. Daniel Arbid, FCA, MAAA, ASA, Senior Actuary, LLA
Ms. Liz Martin, Secretary

3. Approval of Minutes

Mr. Curran made one correction to the minutes for the September 28, 2015, meeting. Mr. Adomako moved to approve the minutes as corrected, and Mr. Henson seconded the motion, and with no objection, the motion was approved.

4. Discussion and approval of June 30, 2015, annual actuarial valuations and the required contributions and dedication of revenues contained therein for the following State Retirement Systems:

(1) Louisiana School Employees' Retirement System (LSERS)

Mr. Curran presented the actuarial valuation for LSERS, highlighting the changes from the previous year. Mr. Purpera asked for the gross assumed rate of return. Mr. Curran said the gross assumed rate of return on assets is 7.25% and assume .25% offsets for administrative expenses, which leaves 7% discount rate. The standard practice for the Society of Actuaries states there are two basic approaches for administrative expenses: 1) explicitly by having a line item on costs, or 2) implicitly as a charge off against investment returns.

Representative Pearson asked how gain sharing for the experience account goes into the equation. Mr. Curran responded there is no explicit recognition of that in this report and further explained the reasoning.

Mr. Curran offered the motion that the actuarial funding valuation report dated June 30, 2015, as presented by G. S. Curran & Company, Ltd., shall be adopted as the official valuation for the Louisiana School Employees' Retirement System, and that, as specified in the report, the minimum net direct recommended employer contribution rate for fiscal 2017 shall be set at 27.3%,

Mr. Arbid stated on behalf of Mr. Richmond that he had reviewed and recommended approval of the valuation report as presented. Mr. Henson seconded the motion and with no objection, the motion was approved.

(2) Louisiana State Police Retirement System (LSPRS)

Mr. Hall presented the actuarial valuation for LSPERS, highlighting the changes from the previous year including the graduation of new officers, pay increase for the troopers, and the requirements as per Act 399.

Representative Pearson inquired about the effects of the pay increase. Mr. Hall said the projected retirement benefits increased for all members and explained his reasoning and assumptions in his calculations.

Mr. Arbid stated on behalf of Mr. Richmond that he had reviewed and recommended approval of the valuation report as presented.

Mr. Hall offered a motion that the PRSAC Committee adopt and approve the June 30, 2015, actuarial valuation as the official valuation for the LSPRS; that the employer's contribution rate for the July 1, 2016 - June 30, 2017 fiscal year be set at 51.2% plus a 1.5 million dollar allocation from the Insurance Premium Tax Fund and that existing DROP accounts established prior to July 1, 2003, be credited with 10.16% interest. Senator Guillory seconded the motion and with no objection, the motion was approved.

5. Discussion and approval of June 30, 2015, annual actuarial valuations and the required contributions and dedication of revenues contained therein for the following Statewide Retirement Systems:

(1) Clerks of Court Retirement & Relief Fund

Mr. Curran presented the actuarial valuation for Clerks of Court Retirement system, highlighting the changes from the previous year and explaining how the administrative expenses are noted in the report.

Mr. Curran offered a motion that the actuarial funding valuation report dated June 30, 2015, as presented by G. S. Curran & Company, Ltd., shall be adopted as the official valuation for the Clerks of Court Retirement and Relief Fund, and that, as specified in the report, the minimum recommended net direct employer contribution rate for fiscal 2017 shall be set at 14.25%, and further that the fund shall receive the maximum allocated amount of ad valorem and revenue sharing funds provided for by law for fiscal 2017.

Mr. Arbid stated on behalf of Mr. Richmond that he had reviewed and recommended approval of the valuation report as presented. Representative Pearson seconded the motion and with no objection, the motion was approved.

(2) District Attorneys' Retirement System

Mr. Curran presented the actuarial valuation for District Attorneys' Retirement System, highlighting the changes from the previous year. He pointed out the cyclical changes due to elections and the increase in number of retirees in one year for this small system. This system has no unfunded actuarial accrued liability because funded on the aggregate funding method so all gains, losses, changes and assumptions are factored in strictly normal cost since the inception of actuarial funding for this system. But this does not mean it is 100% funded but just not paying amortization of the normal cost. Investment performance has been good for several years, so cost has been reduced. He explained other factors affecting the employer costs and how administrative expenses are shown.

Mr. Curran offered a motion that the actuarial funding valuation report dated June 30, 2015, as presented by G. S. Curran & Company, Ltd., shall be adopted as the official valuation for the District Attorneys' Retirement System, and that, as specified in the report, the minimum recommended net direct employer contribution rate for fiscal 2017 shall be set at 0.00%, and that the system shall receive .1817% of ad valorem taxes shown to be collectible and revenue sharing funds as provided by law for fiscal 2017.

Mr. Arbid stated on behalf of Mr. Richmond that he had reviewed and recommended approval of the valuation report as presented. Senator Guillory seconded the motion and with no objection, the motion was approved.

(3) Firefighters' Retirement System of Louisiana

Mr. Curran presented the highlights of the actuarial valuation for this very small system which had an asset loss, small loss of assumptions and a COLA granted. The reduction in the UAL payment was because of a payroll expansion. He explained that the funding method is calculated differently than GASB for unfunded accrued liability because there are no employer contributions during DROP.

Mr. Curran pointed out that he is more comfortable with a lower rate for a smaller retirement system, because of investment risk and the board's parameters for risk. There is no one right place to be for rates. The higher the valuation interest rate means the higher the level of risk. Then the indirect effect is that if the rate is set too high, it can drive the investment decisions. Any decrease in rate means an immediate increase in short term cost to the employer, which is a factor to the boards.

Mr. Richmond said that there are two types of rates: the assumed rate of return on investment, and the rate that the liabilities are discounted. Those rates may be the same or different. For the statewide systems, these rates are the same but that is not true for the state systems.

Mr. Curran offered a motion that the actuarial funding valuation report dated June 30, 2015, as presented by G. S. Curran & Company, Ltd., shall be adopted as the official valuation for the Firefighters' Retirement System, and that as specified in the report the minimum net direct recommended employer contribution rate for fiscal 2017 shall be set at 27.25 %, (for members earning below the Department of HHS poverty guidelines) and 25.25 %, (for members earning above the Department of HHS poverty guidelines) and that the system shall receive insurance premium taxes of \$ 24,825,521 with accrued interest thereon for fiscal 2016. Senator Guillory seconded the motion and with no objection, the motion was approved.

6. Other Business

Mr. Hall said that the committee had discussed two years prior the handling of administrative expenses as related to the state (not statewide) systems. In 1987, when legislation was being drafted, the statewide retirement systems were allowed to include administrative expenses directly in their funding, and state systems were not permitted to do this. By default, the administrative expenses then had to be amortized every year, adding a new layer every year. The committee agreed two years ago that this was not an appropriate way to fund the administrative expenses and had asked the legislature to address this issue, and legislation was introduced but did not pass. He asked if the committee would be willing to endorse legislation to support the recommendation for the funding of administrative expenses for the state systems directly similar to what is done for the statewide systems.

Mr. Richmond said he believes the bills failed because of the fiscal cost on the actuarial notes. He understands from the actuaries for LASERS, TRSL, and LSERS that there will be no cost because they are reducing their assumed investment return by a few basis points to account for administrative expenses, so it has been built in. This change makes it more direct rather than indirect. Therefore any actuarial note associated with this legislation for the three largest state systems would show no cost. But for LSPRS, there would still be a cost because assume it is creating an unfunded liability. It would be ideal if he could say there is no cost to get this streamlined and codified and in compliance with actuarial standards of practice.

Mr. Curran agreed with Mr. Hall's recommendation and said he believed this is better for transparency and urged the committee to recommend this change to the legislature. Mr. Pearson said he already asked staff to draft a bill and would appreciate the committee's assistance. Mr. Henson said the concept is laudable and sounds logical on its face but cannot recommend it to the Treasurer without seeing it in writing. He said Mr. Kennedy would appreciate studying any legislation before endorsing it.

Mr. Purpera suggested including this on the agenda at the next meeting in January when more clarification is available. He read from LSA-R.S. 11:127A, "...It shall make recommendations, subject to the unanimous approval of the committee..."

Mr. Purpera thanked Senator Guillory for his service to PRSAC and the State as this was his final meeting.

7. Public Comments

No public comments were presented.

8. Adjournment

Senator Guillory moved to adjourn, and Mr. Adomako seconded the motion. With no objection, the meeting was adjourned at 2:55 p.m.

Approved by PRSAC: _____ **January 21, 2016**
Date

The video recording of this meeting is in House of Representatives Broadcast Archives:
http://house.louisiana.gov/H_Video/VideoArchivePlayer.aspx?v=house/2015/Dec/1201_15_PRSAC