

# **PUBLIC RETIREMENT SYSTEMS' ACTUARIAL COMMITTEE**

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## **Public Retirement Systems' Actuarial Committee**

### **APPROVED Minutes of Meeting February 13, 2017**

#### **I. CALL TO ORDER**

Senator Peacock, Chairman of the committee, called the meeting to order in Senate Committee Room A at the State Capitol in Baton Rouge, Louisiana, at 2:00 p.m. The secretary called the roll.

#### **II. ROLL CALL**

##### **MEMBERS PRESENT**

Senator Barrow Peacock, Designee for Senate President John Alario  
Representative Kevin Pearson, Designee for House Speaker Taylor Barras  
Mr. Daryl Purpera, Louisiana Legislative Auditor (LLA)  
Ms. Rick McGimsey, Designee for Commissioner Jay Dardenne  
Mr. John Broussard, Designee for Treasurer Ron Henson  
Mr. Gary S. Curran, FCA, MAAA, ASA, EA  
Shelley R. Johnson, ASA, MAAA, Actuary, Foster & Foster Actuaries & Consultant

##### **STAFF MEMBERS PRESENT**

Margaret Corley, Senate Attorney  
Debbie Odom, Senate Administrative Secretary  
Joshua Marcelle - Sergeant at Arms - Louisiana State Senate  
Annie Smith, House Attorney  
Linda Hopkins, House Secretary

#### **III. APPROVAL OF MINUTES**

Mr. Darryl Purpera moved the minutes of the November 30, 2016 meeting be adopted to which Representative Pearson seconded. There being no objection, the minutes were adopted.

#### **IV. DISCUSSION ITEM**

Senator Peacock stated the meeting would be to discuss the June 30, 2016 annual actuarial valuations and the required contributions and dedication of revenues contained therein for nine state retirement systems. The nine systems are the Louisiana State Police Retirement System, the Assessors' Retirement System, the Clerks of Court Retirement System, the District Attorneys' Retirement System, the Firefighters' Retirement System, the Municipal Employees' Retirement System, the Municipal Police Employees' Retirement System, the Registrar of Voters Employees' Retirement System and the Sheriffs' Pension and Relief Fund.

Senator Peacock started the order with the Louisiana State Police System and requested Mr. Charles Hall, the actuary for the Louisiana State Police, to explain the system valuation.

Mr. Hall indicated that there have been very few retirees in the last two years therefore, the annual benefits did not increase much. He added that this system is different in that there is not a continuous flow of employees in and out of the system. They are dependent on new hires coming from the academy. He highlighted the payroll increase due to the graduating class from the academy being added into the system as well as the troopers receiving a substantial raise. He went on to explain that the normal cost of the plan continues to drop and that is affected by two different plans.

Senator Peacock asked if that was due to the employee/employer contribution rate to which Mr. Hall replied, no.

Mr. Purpera asked if there will continue to be an increase of the funded percentage to which Mr. Hall said, yes, it should, but it is largely dependent on the market.

Ms. Johnson asked about how the discount rate of 7% was developed.

Mr. Hall indicated the discount rate is developed in conjunction with the experience study for the plan which was done in 2012. At the time, the capital market assumptions along with their asset allocation that are in place gives the expected rate of return going forward.

Mr Paul Richmond, actuary with the Legislative Auditor, appeared before the committee and gave a brief overview of their process of compliance with PRSAC law. Going forward, the Louisiana Legislative Auditor will do two complete actuarial valuations. One for LASERS and one for TRSL. For the other two state systems, LSERS and LSPRS, a comprehensive actuarial review will be done annually.

Pertaining to LSPRS valuation, Mr. Jim Rizzo, actuary with Gabriel, Rotor, Smith and Company, appeared before the committee to help explain the methods of valuations.

Mr. Broussard moved to approve the valuation which Mr. Purpera seconded. There being no objection, the Louisiana State Police Retirement System valuation was approved.

Senator Peacock indicated the Clerks of Court Retirement and Relief Fund valuation would be considered and requested Mr. Gary Curran of G.S. Curran and Company, Ltd. explain the valuation.

Mr. Curran gave a brief review of the report. He recommends increase in the contribution rate from 14.25 to 17.5.

Mr. Rizzo appeared before the committee to help further explain the methods of valuations in the Legislative Auditor's Report

Mr. Richmond recommends the approval of the valuation.

Mr. Curran moved the valuation be approved to which Mr. Purpera seconded. There being no objection, the valuation of the Clerks of Court Retirement and Relief fund was approved.

Senator Peacock stated the next valuation to be considered would be the Firefighters' Retirement System and requested Mr. Gary Curran of G.S. Curran and Company, Ltd., to give a brief overview of the report.

Mr. Curran commented that normal cost of the plan is up slightly from last year. He recommends increase in contribution rate from 25.25 to 26.5. He further explained that a two percent increase will offset the reduction and cost for employees. Page 9 of the report notes a recap of the cost factors that push the plan one direction or the other. The increase reflects new hires. An asset loss will be amortized over a 15-year time frame.

Senator Peacock asked about the funding ratio dropping and is concerned as the goal is to increase this ratio.

Mr. Curran explained all factors involved. He said there is no magic number and feels the 7.5% is at the very top and is comfortable with it.

Senator Peacock then asked what that will do to the employer contribution rate.

Mr. Curran referred to page 6 and said it is possible that some factors is that a salary increase might offset this. He did caution that other factors in play could have an effect on it. He added, assumptions that are consistent are quite important and that the board has adopted a plan to reduce the rate from 7.5% to 7% in 0.1% intervals over the next five years.

Mr. Jim Rizzo appeared before the committee to further explain the Legislative Auditor's report which showed the 50<sup>th</sup> percentile expectation at 6.7. They took the Firefighters' asset allocation guidelines and applied them to eight firms. There is a higher allocation and reveals higher risk which

generally shows a higher return expectation. The 7.5 assumption is in line and the advice is to move faster and farther toward the 50<sup>th</sup> percentile geometric mean, which the report reflects.

Senator Peacock commented if they don't hit this mark then they are sensitive to the municipalities contribution rate increasing. The potential has a 40% chance of meeting the assumption to which Mr. Rizzo agreed.

Mr. Richmond recommend adoption of the valuation with some reservations because it is quite aggressive. The 7.5 discount rate is of concern.

Mr. Steven Stockstill, Executive Director of the Firefighters' Retirement System, appeared before the committee and pointed out that the two mayors who are appointed to their board made the motion to adopt the plan that was adopted. The returns to the system are measured every quarter and he does not feel they are out of line with the portfolio or asset allocation.

Mr. Curran moved to adopt the valuation presented to PRSAC and Mr. Broussard seconded. Senator Peacock mentioned he feels PRSAC needs to be diligent watching this plan and asked Mr. Stockstill to mention the concerns voiced to the board.

Representative Pearson objected to approval and the secretary called the roll. By a vote of 5-1, the Firefighters' Retirement System valuation was approved.

Senator Peacock directed the Municipal Police Employees' Retirement System valuation be discussed.

Mr. Gary Curran of G.S. Curran and Company, Ltd., indicated there were slight increases in the active and retired population and some increase in the payroll. He added this plan's rates are a little more complex because it is a dual plan structure which creates a different benefit structure. There is a hazardous duty sub-plan and a non-hazardous sub-plan. He referred to page 9 for written explanation and added that prior to 2013 everybody was in the same plan. The recommended contribution rate for employees with both the hazardous and non-hazardous sub-plans is 30.75% of pay (2.5% higher for employers).

Mr. Rizzo appeared before the committee on behalf of the Legislative Auditor and explained their report pertaining to the Municipal Police Employees' Retirement System. He explained that it is better use a midterm horizon than to lean on a long term horizon.

Senator Peacock asked Mr. Curran if reduction of the rate had been discussed with the board to which he replied this will probably be on the agenda within the next two meetings with the board. In reply to a question from Representative Pearson, Mr. Curran indicated when the interest rate is changed there are different factors in the liability and it depends on the sensitivity.

In reference to COLAs, Mr. Rizzo stated some amount of the cost of living will be granted and the magnitude of the size of this plan justifies the experience study.

Mr. Curran recognized the COLA dilemma regarding actuaries and asked what does the legislature want to do about paying for COLAs. The question posed is— is it appropriate for actuaries to build into the cost of the plan for an action you might or might not take?

Senator Peacock offered to meet during the upcoming session to discuss the COLA concern Mr. Curran spoke to.

Mr. Richmond, actuary with the Legislative Auditor, appeared before the committee and added for this valuation approval is recommended with a very strong caveat. He mentioned the need for the discount rate to be decreased and added if this scenario is the same next year, he would not recommend approval.

Mr. Curran then moved the valuation for the Police Employee's Retirement System be approved. Mr. Broussard recused himself. Ms. Johnson seconded and Representative Pearson objected. By a 4-1 vote, the Police Employee's Retirement System valuation was approved.

Mr. Purpera added these are hard votes because they have watched the rates struggle over the last few years and they do not want to see the can continue to be kicked down the road. He then emphasized if this continues, the Louisiana Legislative Auditor, would not be able to recommend approval and asked this message be taken to the prospective retirement systems' boards.

Senator Peacock stated that the next valuation to be brought before the committee is the District Attorneys' Retirement System.

Mr. Curran of G.S Curran & Company, Ltd., explained that this a smaller plan than the others. There is no unfunded accrued liability in this system, small increase in payroll, the valuation rate is 7% and there is very little change in this system. He commented in terms of thinking about the function and importance of the valuation rate to remind all that there are other elements of risk, and other underlying elements, etc.

Mr. Rizzo, on behalf of the Legislative Auditor, appeared and said this is the best funded plan presently being reviewed.

Mr. Richmond recommended approval.

Mr. Curran moved the District Attorneys' Retirement Fund valuation be approved to which Mr. Broussard seconded. There being no objection, said retirement fund valuation was approved.

Senator Peacock brought forward the Assessors' Retirement Fund valuation for consideration.

Mr. Curran of G.S. Curran & Company, Ltd., referred to the summary page of the report and explained there was little change in plan population and there is a frozen unfunded liability, but pointed out there was more than sufficient money in the plan to fund the unfunded liability. He commented that this plan is a great success story and has made progress in getting to be a very healthy plan.

Mr. Richmond recommended the valuation for the Assessors' Retirement Fund be approved.

Mr. Curran moved the valuation be approved to which Ms. Johnson seconded. There being no objection, the Assessors' Retirement Fund valuation dated September 30, 2016 was approved.

Senator Peacock then called upon the Municipal Employees' Retirement System to be brought forward for consideration.

Mr. Curran of G.S. Curran & Company, Ltd., explained this is a system with 2 plans, 2 separate trust funds and 2 sets of benefits. One plan participates in social security and the other does not.

Senator Peacock asked about the rate of return over time to which Mr. Curran referred to page 9 and provided further explanation. The assumed rate is 7.5 and they have been talking with the board on a quantitative basis and reducing that.

Mr. Warren Ponder, Director, of MERS noted that they have made a number of changes in administration and investment programs within the last two years.

Mr. Purpera asked if the future shows meeting the 7.5.

Mr. Curran indicated the restructure would assist the portfolio. There is concern and the board will meet within two weeks and will discuss setting a more realistic rate of return.

Mr. Ponder noted that their next board meeting agenda reveals Mr. Curran's presentation of education of getting a reasonable rate of return and asset allocation. They have made great strides and are moving more in line with public retirement systems. Mr. Ponder feels they are being aggressive getting their allocation where it should be.

Representative Pearson asked the cost of payroll to which Mr. Curran and Mr. Ponder referred him to page 8.

Mr. Richmond recommended this retirement system be approved, but pointed out that a more comprehensive review would have been indicative of being stretched.. If this is presented next year without undergoing a comprehensive review, the LLA would be unlikely to endorse.

Mr. Curran moved the valuation of MERS be adopted to which Mr. Broussard seconded. There being no objection, the valuation for the Municipal Employees' Retirement System was approved.

Senator Peacock brought forward the Registrars of Voters Employees' Retirement System valuation for review.

Mr. Curran of G.S. Curran & Company, Ltd., summarized the report. The cost shift had to do more with payroll and referred to page 9 of the written report. The payment structure is ad valorem taxes and based on that— they recommend a cut

Mr. Richmond stated that based on the information of this report, he recommends adoption of the valuation. He did mention that because this system is so small, it cannot afford substantial volatility.

Mr. Curran moved the valuation of the Registrar of Voters Employees' Retirement System be adopted to which Mr. Purpera seconded. There being no objection, the valuation for the Registrar of Voters Employees' Retirement System was approved.

Senator Peacock moved to the final presentation, the Sheriffs' Pension and Relief Fund.

Mr. Curran of G.S. Curran & Company, Ltd., explained the report showing little change in plan population. The assume rate of return is 7.5 and he feels there will be a review of the board to determine if that rate will be continued or reduced. Further, the plan has contributed more than the minimum and as a result they have a balance that can be used to pay down or perhaps consider a COLA.

Mr. Richmond recommends adoption of the report. Mr. Curran moved the valuation be adopted to which Mr. McGimsey seconded. There being no objection, the valuation for the Sheriffs' Pension and Relief Fund was approved.

Mr. McGimsey moved the meeting adjourn to which Mr. Broussard seconded. There being no objection, the meeting was adjourned.

## **APPROVED**

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Senator Barrow Peacock,                      Chairman

Date: \_\_\_\_\_