PUBLIC RETIREMENT SYSTEMS' ACTUARIAL COMMITTEE

Thursday, January 21, 2016
1:30 p.m.
House Committee Room 5
State Capitol
Baton Rouge, Louisiana

MINUTES

1. Call to Order

The meeting was called to order by Chairman Daryl Purpera at 1:40 p.m.

2. Roll Call

Members Present:	Mr. Daryl Purpera, Chairman, Louisiana Legislative Auditor (LLA) Ms. Barbara Goodson, Vice Chairman, Designee for Commissioner Jay Dardenne Senator Barrow Peacock, Designee for Senate President John Alario Representative Taylor F. Barras, Speaker of the House of Representatives Mr. Jim Napper, Designee for Treasurer John Kennedy Mr. Gary Curran, FCA, MAAA, ASA, EA Mr. Charles Hall, FCA, MAAA, ASA, EA
Also Present:	Representative Kevin Pearson, Designee for House Speaker Taylor Barras (upon his absence from the meeting) Representative Sam Jones Representative Barry Ivey Senator Mack "Bodi" White, Jr. Mr. Paul Richmond, MAAA, ASA, EA, Manager of Actuarial Services, LLA Ms. Shelley R. Johnson, ASA, MAAA, Actuary, Foster & Foster Actuaries and Consultant Ms. Liz Martin, Secretary

3. Approval of Minutes

Mr. Hall moved to approve the minutes of the December 1, 2015, Public Retirement Systems' Actuarial Committee (Committee) meeting. Mr. Napper seconded the motion, and with no objection, the motion was approved.

Mr. Purpera read from Louisiana Revised Statutes (R.S.) 11:121.B. regarding the creation and purpose of the Committee, and from R.S. 11:127 regarding the duties of the Committee. He said normally the systems' actuaries and the legislative auditor's actuary have worked together and agreed on the valuations. Four of the six systems' valuations being presented are in agreement. However, for two of the systems' valuations there is a disagreement, so valuations will be presented by those systems' actuary as well as valuations by the legislative auditor's actuary.

Mr. Purpera asked the actuaries to discuss the actuarial rates of return in the perspective of the rate of return needed to pay for the benefits and for administrative costs and gain sharing so it will provide a clearer understanding.

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 State Employees' Retirement System (LASERS)

Ms. Shelley Johnson, actuary for LASERS, introduced Brad Heinrichs, President of Foster & Foster Inc. Ms. Johnson presented the highlights and various factors effecting the actuarial valuation, including the impact of previous legislation, increased number of retirees, and for the first time in many years the active membership remained flat. Ms. Johnson explained that LASERS has seen an increase in the payroll number which is significant because as the payroll changes it impacts the employer contribution rate. If payroll is decreasing, even if the contribution rate remains level, it will require a higher percentage of payroll to make that contribution. So the fact that there is a small increase in the total payroll serves to reduce slightly the employer contribution rate. Valuation assets increased significantly from $10.6B to $11.3B, based on the actuarial rate of return, which is a smooth level of assets where they gradually recognize the gains and losses over a five year period.

Ms. Johnson said that this current year LASERS has investment losses relative to the assumed 7.75% and only recognized 20% of those losses in this valuation. The remaining 80% of losses will be recognized in 20% increments over the next four years. Similarly, they are recognizing gains from prior years in 20 year increments because it allows gains and losses to largely offset one another and results in a smoother impact to the employer contribution rate.

The experience account increased slightly from $117M to $123.579M because the account is capped at the cost of one 1.5% cost of living adjustment (COLA) based on the system's funded ratio today. There were more investment gains that could have been contributed but LASERS was allowed to contribute the gains to the experience account because it already met the cap at $123M. The gains not allowed to be credited to the cap were reverted back to the regular system assets to pay regular plan benefits.

The total market value return is 1.34% if exclude the self-directed Deferred Retirement Option Plan (DROP) in the Optional Retirement Plan (ORP) accounts meaning some of the system's assets belong to members who were in DROP or ORP accounts. They choose the investments that those accounts are invested in, so do not want that reflected in the system market returns. By pulling those out, the system market return was 1.3%. This means that these accounts over the last year earned a little more than the 1.34%.

Actuarial value, the smoothed value previously referred to, left the system with a return on an actuarial basis of 10.64%. The statute says that for DROP accounts, members who are eligible before 2004 receive interest on their DROP accounts of .5% less than actuarial rate of return. So with an actuarial return of 10.64%, this leaves a DROP interest credit of 10.14%. If this committee adopts this valuation report today, then that is the interest rate that the systems will credit those accounts with.

Ms. Johnson explained that the normal cost is the cost of the benefits accruing today or the cost that is allocated to the current year of the benefits currently accruing. Last year, LASERS was at $208.9M, this year it is $222M, which is fairly level due to the change to the entry age normal cost method that the Legislature passed through legislation in 2014. The idea was to spread cost more evenly over members' career and part of the reason for a level normal cost from the prior year.
As a percentage of payroll, the total normal cost increased from 11.52% to 11.97%, and after subtracting what the employee pays, which on average for LASERS members is about 8% and it varies depending on which plan they are in. That leaves a total employer normal cost of approximately 4%.

The unfunded accrued liability (UAL) decreased from $7.27B to roughly $6.9B, mainly due to the actuarial return exceeding 7.75% which is the assumed rate of return that will be credited to regular plan benefits. Anything above that is considered an actuarial investment gain and either reduces the UAL or is transferred to the experience account, but they were very limited on transferring to the experience account because already at the cap.

Ms. Johnson pointed out on page 7 of LASERS valuation report the changes in the UAL over the course of the year. They received amoritization payments of $652M which results in a net decrease of $90M to the UAL. This is important because for many years prior to 2012 when the valuation was presented, every year the UAL increased. Even when there were investment gains or experience gains, it was possible for the UAL to increase because the statutorily defined UAL payments were not sufficient to pay the interest so every year that interest becomes part of the UAL. Since 2012, the payments are more than sufficient to pay the interest and to begin to pay down the principal. Now it operates more like a typical mortgage because every year they are paying down the principal.

Act 55 sponsored by Representative Pearson a few years before dedicated a certain percentage of non-recurring revenues to the UAL. The system received $4.5M for that. There is an employer shortfall surplus of $25.7M, which is essentially a contribution variance credit where the system received $25.7M more in contributions than were actuarially needed, so that reduces the UAL.

LASERS has a net investment experience gain of $281M, which is a direct result of the actuarial return of 10.64% exceeding the actuarial return of 7.75%, so that difference becomes an investment experience gain that is used to reduce the UAL if it is not allocated to other sources such as the experience account.

Many assumptions are made when valuations are being prepared, including when people will retire, what their salary increases will be, and how long they expect members to live. So to the extent that those actuarial assumptions do not match the actuarial assumption, then gains or losses will occur. The experience loss of $27.5M on the total accrued liability of $28B is very small. But because of the loss, it increases the UAL to the tune of $27M. As a summary, there is a total UAL reduction of $373M which leaves a total UAL of $6.898B.

Ms. Johnson referred to page 2 of the valuation showing the funded percentage, also called the funded ratio, is calculated as the actuarial value of assets divided by the total accrued liabilities which results in a funded ratio of 62.1%. This is an increase over the prior year of 59.3% due to the actuarial value of assets increasing at a higher percentage than the change in the total liabilities. Because the active membership has remained fairly level so employees' contributions are a total of approximately $150M based upon the average employee rate of about 7.97%. The report shows what the system's actuarially required contribution was for the fiscal year 2015-2016. What employers are contributing today is based on what the Committee approved the previous year based on the 2014-2015 valuation. They always have to project the contribution rate because of the logistics of things, because employers need time to plan for it, and valuations are not presented to the boards until September for LASERS, so there is no way they can begin to pay that contribution back in June of the same fiscal year. So they must project the contribution rate in June of the same fiscal year, and then recalculate what it should have been the following year and any difference becomes part of that contribution variance credit. So the 2015 valuation is restating the contribution requirement for fiscal year 2015-2016 to be a required $691.9M, or 36.7% of pay. This compares to the adopted contribution requirement of $697M or 37% of pay in the 2014 column. So employers are paying 37%, and this valuation is stating that an updated estimate shows that employers should have been paying

36.7%, so they expect to see in the following year's valuation a contribution credit of .3% which will be credited to one of the UAL schedules to reduce that schedule early.

This 2015 valuation also produces a projected aggregate contribution rate for the 2016-2017 of 35.8%, which is the average for all the plans shown individually on page 3 of the LASERS valuation. Ms. Johnson proceeded to read each plan and employer contribution percentage: Rank & File – Traditional DB 35.8%; Judges and Court Officers (Prior to Act 992) 38.0%; Legislators 39.1%; Special Legislative 41.1%; Corrections-Primary 31.1%; Corrections-Secondary 35.3%; Wildlife 44.8%; Peace Officers 34.3%; Alcohol Tobacco Control 30.7%; Bridge Police 34.2%; Judges (Act 992) 36.7%; Hazardous Duty (Act 992) 36.1%; Harbor Police Plan 4.0%. She explained that the Harbor Police Plan is significantly less because there are only about 40 members and the employers are not paying the UAL payment through their employer contribution but through a direct payment based on the UAL that LASERS acquired when Harbor Police Retirement Plan was acquired by LASERS. The contribution rate only reflects the normal cost of the Harbor Police Plan.

Ms. Johnson pointed out that Act 852 of 2014 requires that the Adult Probation and Parole Officers Retirement Fund specifically contribute to the plan. The normal cost for the additional benefits that the act granted certain members and also a portion of the UAL payment, so this valuation is showing that she calculated the normal cost midyear to be $57,980 (low because only a few members). The UAL payment midyear to offset the increase in the UAL from the cost of the additional benefits granted to these members resulted in a UAL payment of $721,309. Add the normal cost to that to get a total payment of $779,000 as of December 2015, and if adjust with interest as the law requires to April 1, 2016, the total contribution required is $793,876.

Ms. Johnson commented on the changes in format of this valuation report. Page 4 addresses the funding policy which she included for several reasons including that actuarial standards of practice are changing and require in valuations that the funding policy is disclosed. Even if not required, she believes it should be included because funding requirements are becoming so complex, and unless dealt with every day it is impossible to keep up with the policies regarding the funding of the system. She attempted to put into simple terms for lay persons to understand where the contributions are going and how it is funding the retirement system.

Ms. Johnson explained the small chart on page 5 which described the statutory increasing UAL payments that are finally getting to a point where it is going to become more level in the future. Many have discussed the balloon payment in the future but it is a misconception that it still exists because it does not. LASERS UAL payments are in large part level, but there are a few schedules that have statutorily scheduled payment increases. They are close to the end of those increasing schedules. The original amortization base which is the base that includes the initial unfunded accrued liability (IUAL) and the UAL as it existed in 1989 plus some other schedules that were combined with that one to actually reduce the IUAL. The act required the IUAL and other schedules with negative balances to be combined in one and have that reduced balance paid off by 2029. The new schedule called the original amortization base (OAB) was created so that the payments would increase annually and what is left on that increasing schedule is for fiscal year 2015-2016. That schedule will have an increased payment of 5.5%. Then in 2016-2017, which is the year that this valuation is projecting the contribution for, the payment will increase by 5% and for one more year after that. Thereafter, until that schedule is paid off, those payments will only increase at 2% per year. So if total aggregate payroll increases by a percentage greater than 2% - which they expect that it will but depends on layoffs, merit increases, inflation and other factors - then they expect the percentage of payroll to make this schedule payment to decrease annually going out until that schedule is paid off.

The other UAL schedule called the experience account amortization base (EAAB) is similar to the previous description; however, when reach 2018-2019 and calculating the projected payments in next year's valuations, those payments will be level until paid off. In aggregate, all other schedules have level payments until those schedules are paid off. Ms. Johnson directed the Committee to Exhibit 7-C on page 62 of the valuation report to see what the total aggregate UAL payments look like going forward. She pointed out the schedule does not take into account any future actuarial gains and losses because expect those to be zero. If their actuarial assumptions are correct then on average the gains and losses will average out in the long term. She said the OAB will be paid off one year early in 2028 rather than the constitutionally required payoff date of 2029.

She further explained how Act 497 of 2009 and Act 399 of 2014 greatly affect the funding of the retirement system as shown on page 6 of the valuation report under section: Accelerated Reduction of OAB and EAAB. The impact of this legislation is that it requires significantly more dollars to go to the UAL than previously required which results in the schedules being paid off earlier. Rather than using the gains to reduce the employer contribution rate, the gains are used to pay off the UAL sooner.

Based on these additional hurdle funds, an extra $100M is applied each year to the debt resulting in this schedule expected to be paid off in 2038, two years ahead of the statutorily required 2040 date. Therefore, the legislation is working but not seen in employer contribution reductions by design so that the investment gains result in smaller credits to the employer contribution and larger credits to the UAL to pay the schedules off earlier.

Ms. Johnson said page 8 of the valuation better disclosures how the investment experience gains are being allocated because the prior valuations were not as obvious to someone who did not understand it. The investment experience gain (the gains above the 7.75% return needed) resulted in $50M applied to the OAB and $50M to EAAB and no allocation was applied to the experience account. The experience account was only credited with the interest that the balance of that account earned based on funds already in the account, and no additional investment experience gains credited to the account. This resulted in only $181M being amortized and used to reduce the employer rate whereas prior to Act 497 of 2009, half of the $281M ($140M) would have been credited to the experience account and $140M would have been used to reduce the UAL.

The historical geometric average rates of return is based on the smoothed actuarial returns not the market returns. The chart of page 8 of the report shows the actuarial rate of return for the past five years and also the geometric average long term. These are net of investment expenses but not net of any other use of investment gains meaning that these are not net gains credited to the experience account or used to offset the cost of administrative expenses.

Ms. Johnson said she received the legislative auditor's valuation report with 7.4% discount rate which compares to LASERS' 7.75% discount rate but otherwise closely parallels each other in methodology. Previously they used different methodologies to develop the discount rate but getting closer in using similar methodologies but coming up with a different answer.

Previously they thought of the discount rate as the assumed rate of return, but in 2012 when she was first asked to develop a recommendation to the retirement systems for what she believed the discount rate should be, she saw that as an opportunity to take some things into account that had not been previously considered in the valuations.

She was not criticizing how the valuations were previously prepared but explained it to be an evolving process. When PRSAC mandated that the retirement systems use a discount rate of 8.25% in 1992, it represented the expected rate of return used to fund regular plan benefits and nothing else. She would not have described the discount rate of 8.25% as net of anything else. Everyone understands that there was not direct funding of administrative funding at the time and it was expected and she understood from Mr. Hall, the prior actuary, that it was be design. By having no direct funding it defaults to a loss, and the law states that losses are amortized over a 30 year period. It was intentional by design that administrative expenses would be recorded as a loss and amortized over 30 years, which means they do ultimately get funded, just with a 30 year mortgage by the employer.

Ms. Johnson said the other element of the plan that had no funding by design and intentional was COLAs. Her understanding of history prior to when she became the actuary for the systems, based on many discussions, is that the legislature wanted to be able to go and seek funds outside of the system to fund COLAs, so the concept of the experience account was created. It was known and accepted that by diverting some of the investment earnings to the experience account and not using them to reduce employer contributions, then employers would be paying for COLAs in that way. The systems would essentially be forfeiting their credits through the investment gains of the system to fund COLAs. It was by design, expected and understood that resulted in a loss that the employers would pay. So the 8.25% discount rate mandated to both TRSL and LASERS was with the expectation that there would be additional losses not directly funded. Both were funded indirectly over time by the employers.

So when the systems went to Ms. Johnson in 2012 and began to get a sense from PRSAC that it would entertain using a different discount rate for the retirement systems other than 8.25%, she saw that as an opportunity to take the losses into account. The way she did that was to review the expected return because a lot of the funding for the systems comes from the expected earnings. Ms. Johnson said the expected earnings from the systems' investment consultants were well above the 8.25%. Whether believed or not, this was very reputable investment consultants that expected the systems to earn 8.7% and 8.9% long term, 30 year expected returns at the time. She took that information into account and developed a recommended discount rate of 8%, recognizing that the assumption of achievement of sufficient investment returns to fund the regular plan benefits.

Ms. Johnson said they have some additional margin, even if they do not actually expect to earn the 8.7% or 8.9%, which she believes they will. She took a conservative approach and started with something lower and netted out with what she expected at the time to be credited to the experience account which at the time was 50 basis points and for the retirement systems around 1.5% to offset administrative expenses. She felt that was a step in the right direction towards lowering the discount rate which brings in additional funds to the retirement system because when you lower the discount rate, it increases the UAL even though nothing's changed. She explained that that she essentially recognized that the system is expecting less investment earnings to fund the regular plan benefits. It reduced the UAL and it increased the contribution requirements to the systems which were positive and at the time it was what PRSAC was looking for – better funding of the retirement systems through a lower discount rate.

The boards for both systems agreed and adopted an 8% discount rate. That was a change from the prior concept behind the discount rate that had ever been used before. This theoretical concept of a margin to find other expected losses had never been discussed and she saw it as an opportunity to address it and she began to implement it. That was explained at the 2012 PRSAC meeting. Since then there have been many changes. The external investment consultant companies expected returns have decreased somewhat, not nearly what is seen when using a shorter term expectation of 7-15 years, but using a 30 year horizon. The laws that govern how much funds are to be diverted to the experience account has changed significantly. COLAs are now limited to 1.5% based on the funded ratio and can only put enough money into the experience account to fund one 1.5% COLA. The cap on experience accounts have been greatly reduced from essentially a 6% COLA to 3% COLA to 1.5% COLA and can only grant a COLA at most every other year.

Ms. Johnson did some deterministic modeling based on the past and on some specific returns scenarios for the future. She determined that based on the changes in the law, she only expect 25 basis points of the investment earnings to be credited to the experience account and administrative expenses for TRSL to be 10 basis points to offset administrative expenses and LASERS to be .15% because LASERS is a smaller system with similar expenses.

Prior to 2012 the discount rate and the expected earnings on the system were generally one and the same. After 2012, the concept of the discount rate which represents what she expects investment returns to pay on regular plan benefits, and that is the discount rate used to discount regular plan benefits. They also have an expectation that there is going to be additional returns of 25 basis points to offset the investment earnings that are credited to the experience account and also the 10 basis points for administrative expenses for TRSL and 15 basis points for LASERS. That results in a discount rate of 7.75% but a total investment return expectation inherent in the valuation of 8.1% for TRSL and 8.15% for LASERS. She actually expects something more than that for LASERS based on her analysis of what the return expectation should be. No matter how she looks at it, she concludes that about 8.1% or 8.15% is a reasonable long term 30-year expected return for TRSL and LASERS. But they are using a discount rate without the margin of 7.75% to discount regular plan benefits. She believes going forward it will be important to make that distinction so no misunderstanding.

Ms. Johnson pointed out on page 8 of the valuation report that the average return is not net of the administrative expenses or gain sharing. So this compares to LASERS 8.15% long term expected rate of return – a prospective number, for a comparison to what was earned in the past, that would be an apples to apples comparison. So their five year average return at 9.69% does not really give any indication of what the system's going to earn long term. It's completely irrelevant of a comparison looking at 30 years. LASERS' 30 year return looking back is 8.35%. There is certainly not sufficient justification to expect that going forward, but actuarial standards of practice tells actuaries to look at what return has been achieved historically. LASERS has achieved more than 8.15% expected return historically, and TRSL has achieved 8.35%. In summary, with LASERS' discount rate at 7.75%, and a total expected return of 8.15%, if they actually achieve that over 30 years, they will fund their regular plan benefits, administrative expenses and COLAs, assuming that their assumption of 25 basis points for COLAs is correct. Ms. Johnson stated that this explanation was the basis for her valuation and if necessary could give more details to justify her 8.1%.

Mr. Purpera asked for clarity if it takes 8.15% if no losses. Mr. Purpera referred to page 8 and said for the 25, 20 or 10 year basis, they have not achieved that return and asked if her judgment is that moving forward, the system will achieve it. Ms. Johnson agreed. Mr. Purpera asked what the geometric average means. Ms. Johnson explained that it is looking at the compounding effects of the returns, so if looking at five year returns and achieved 1.1% in each of those years, then multiply 1.1% each year compounding and at the end of five years, they have achieved more than a 50% gain because that is compounded. Ms. Johnson said it is not a straight average. Mr. Purpera asked if 8.15% is compounded or straight. Ms. Johnson answered it is a geometric compounded return for an apples to apples comparison.

Mr. Purpera asked if since 1989, a little over $1.1B in experience account allocations have been added to the UAL because not paying the expenses with current revenues and financing over a 30 year period. Ms. Johnson responded that those amounts were amortized and the employers forfeiting the gains were beginning to pay the expenses immediately but agreed that is the correct sum total impact to the UAL for COLAs not being prefunded. She explained that today, the assumption recognizes that they expect to earn additional earnings to offset these losses. Mr. Purpera concluded that the system would have to achieve 8.15% to not have additional losses. Ms. Johnson agreed, but said that the amortization of that is similar to how handled in the past but now have the expectation of losses from COLAs that is offset by the expectation of investment gains that are not recognized in the discount rate.

Mr. Purpera said he is troubled because the system must have 8.15% returns to not add more losses and looking at the 10-20 year historical returns compared to expected future returns gives him heartburn. Ms. Johnson reiterated the importance of looking at a long term expected return because if look at shorter periods of time there will be volatility which is true for 15, 20 or even 30 years, but the horizon of these retirement systems is actually much longer than 30 years – even 80 years for some members. So the questions is do they expect to earn that over a significantly long term period over time. The systems' investment consultants suggest using a 30 year horizon to avoid the impact of market volatility.

Mr. Purpera referred to page 2 of the report showing the percent funded as June 30, 2015, and the actuarial value of assets as of that date. Ms. Johnson said there is additional smoothing to be recognized because the valuation was prepared as of June 30, 2015. Mr. Purpera commented that this does not reflect the 9% drop in the market value of assets since June 30, 2015. Ms. Johnson agreed it did not include anything after that date. She explained the beauty of actuarial funding is that there are two ways to take into account the volatility - one is the smoothing, and the other is the 30 year amortization – all by design to recognize that these plans are ongoing, long term and if there is any short term significant drop or gain in the market, the funding of this system should not automatically be changed to fully recognize that.

Mr. Purpera asked if 60% of the plan is retirees or non-actives and if there is sufficient funding for the actives. Ms. Johnson said if the system were to close today and no additional funds brought in, then funding would not be sufficient, but that is a big "if" that does not exist. It is an ongoing plan with a UAL not expected to be paid off by today because the legislature chose to not have the UAL paid off by 2016. The expectation is that it will be paid off in a reasonable amount of time and actually reaching the goal ahead of schedule because of responsible decisions that this legislature has made. The retirees will have less COLAs but it is shoring up the retirement system and increasing this funded ratio over time.

Mr. Hall commented that if the systems were treated like corporations they would pay their administrative expenses. If the systems earned only 7.75%, they could cover all the costs. Ms. Johnson agreed. Mr. Hall said changes in the actuarial standards encourage actuaries to make margins. In this case the state has chosen not to include administrative expenses and the appropriation of COLAs directly into the funding of the plans. Ms. Johnson agreed.

Representative Sam Jones asked about the LASERS schedule showing the final payment in 2039. Ms. Johnson explained that there is more than one schedule. The IUAL, the debt that existed as of 1988, was first amortized in 1989, was required by the constitution to be paid off over a 40 year period, so by 2029. That remains in the constitution and that schedule has to be paid off by 2029. The other UAL schedules are created each additional year as either a positive balance that has to be paid off or a credit that will credit the employer for the next 30 years. The numbers past 2040 is due to the additional UAL schedules that are created every year. By 2040, theoretically the system should be fully funded and the other newly created schedules have a 30 year payoff. These new schedules are outside of the constitutional amendment.

Representative Jones commented the new schedules are very small compared to the IUAL, so hopefully in the future the new UAL schedules can be wiped out fairly quickly. Ms. Johnson said if the board was to adopt a lower discount rate, it would increase the UAL which would be amortized over a 30 year period and they would see positive numbers added through 2045 because it would take 30 years to pay off the increase in the UAL.

Mr. Purpera said in 1989 LASERS started at $1.8B UAL, and had the back loaded payment system that caused the UAL to increase. He asked why the $1.127B for investment losses is added to the UAL. Ms. Johnson said it is a loss relative to the discount rate essentially, so through 2008 LASERS investment gains and losses had pretty much offset. If calculated that number through 2008 it would be a pretty low number. Since 2008 because of the market decline, those losses have not been fully recovered. Mr. Purpera asked if that is a result of LASERS not hitting the expected return. Ms. Johnson concurred and said the discount rate is currently 7.75%. Ms. Johnson clarified that since 2008, LASERS has had significantly more gains than losses but has just not completely offset the losses that occurred in 2008 which is to be expected because it was a sizable decline.

Representative Ivey asked is the system is underfunded today excluding the IAUL debt Ms. Johnson agreed and explained that because the payment schedule 30 years ago was not sufficient to pay off that debt and adding to it was by design. She did not have the information with her at that time but could provide the breakdown. Representative Ivey said looking back 30 years and taking into consideration of the impact of the IAUL and the back loaded payments on the increase on the UAL, the system would still be underfunded. Ms. Johnson agreed and explained that they have added UAL for multiple reasons - part of that was the decision to roll the experience account balance into the UAL. Ms. Johnson said she would provide the breakdown to Representative Ivey.

Mr. Richmond presented the LLA's 2015 Actuarial Valuation Report on LASERS pointing out the purposes as shown on page 1 of this valuation report: 1. To provide PRSAC with assurance that actuarial, mathematics, benefit formulas and actuarial assumptions for the June 30, 2015, valuation were applied correctly; and 2. To provide PRSAC with a second opinion in regard to the assumptions and methods used to value assets, liabilities, employer contribution requirements, and the funded ratio. He confirmed that he did review and confirm LASERS valuation and the difference was only $50,000 from Ms. Johnson's report. If he concurs with the system's actuarial assessment then he does not provide a separate valuation report. This year he was unable to agree on the assumed rate of return on the actuarial value of the assets. At the August 13, 2015, PRSAC meeting he presented his conclusions that the retirement systems cannot invest their way out of the UAL hole. The employer contributions to the UAL may be larger than current levels because of market volatility, and assumptions and methods must be continually monitored to keep additional UAL from developing.

Mr. Richmond's presentation at the prior meeting, "The Sustainability of the Retirement Systems" concluded that the retirement systems were going to be sustainable if certain things were done including an examination of the assumptions to be made, and particular emphasis on the discount rate. He did a lot of analysis on the discount rate and the assumed rate of return on the actuarial value of assets. His stochastic analysis included measuring the cost of the experience account, the gain sharing COLA program of the state, as well as to determine what risk the state bears in not realizing the assumed rate of return on the actuarial value of assets. The next 10 years is very vital to the funded levels and the ability to pay the benefits because the taxpayer is who ultimately pays. After his analysis, he cannot endorse the economic assumptions used by Ms. Johnson.

Mr. Richmond referred to the chart on page 2 of his report comparing the assumption set recommended and used by LLA's actuary compared to the assumption set used by the LASERS' actuary. The major difference is the inflation assumption. He pointed out that he was not making any judgment of LASERS' actuary because two actuaries can look at the same issue and have a difference of opinions but does not mean that either of them is incorrect. It is the responsibility of PRSAC to decide which valuation is more compelling.

Appendix B on page 99 of the report explains the basis for the economic assumptions. The Actuarial Standard of Practice (ASOP) No. 27 is devoted to the "Selection of Economic Assumptions for Measuring Pension Obligations." Over one half of the document pertains to the extensive amount of data an actuary must examine before selecting an assumed rate of return. Mr. Richmond pointed out the listed key requirements which include reviewing recent and long-term historical economic data, considering the views of experts, recognizing the uncertain nature of the assumption selected. In conclusion, the selection of the investment return assumption should reflect the actuary's professional judgment.

Mr. Richmond said based on his analysis, the rate of return assumption should range from 6.50% to 7.80%. He is presenting to PRSAC and the legislature what he believes to be appropriate for discounting and the preparation of liabilities and contribution requirements. He considered the historical rates of return on investments which have averaged 8.02% since 1989, the beginning point of actuarial funding for LASERS.

Assumed rates have averaged 8.77% over the same period when calculated using these conditions: not treating the administrative expenses as an actuarial loss, and instead treating gain sharing contributions to the experience account as an actuarial loss, and taking the debt directly out of the return on assets. Based on historical experience, LASERS has failed to realize the assumed rate of return on investments over a 27 year period as shown on the chart on page 100. During the early part of the gain sharing program it was not 25 basis points, but about 50 basis points before the cut back that occurred in 2014.

As an actuary using his best professional judgment and based on all the information from the many sources, he prepared his recommendations. Mr. Richmond explained the historical rates of return on the actuarial value of investments pointed out the very significant erratic volatile rates of return since 2001. He discussed the instability for the past 15 years and concerns because LASERS has failed to achieve its assumed rate of return on the actuarial value of assets over the past 25 years. The average shortfall is about 100 basis points. LASERS' investment return assumption is currently 8.15%. If historical patterns hold into the future, LASERS should lower its assumed rate of return to a more appropriate rate of 7.15%. The discount rate would be 40 basis points less, or 6.75%. He used an investment return assumption of 7.80% and a discount rate of 7.40% to determine contribution requirements for FYE 2017. He used the 7.80% instead of 7.15% because the look at the past is not very reliable because of where the world was 27 years ago, so he looked into the future when considering expectations.

Mr. Richmond said that Chart B shows the benefit payment stream for the existing membership, reaching a peak in about 2033 of $1.6B, and the last benefit will be paid somewhere around 2098. A useful measure is the duration of the system liabilities which for LASERS is 11.5 years and the typical duration for public sector plans are 15 years. The shorter duration, the more risk born by the retirement system, so less risk should be taken in the investment policy. This is the reason why he looks at the shorter horizon. The investment community also forecasts lower rates over the next decade. At the LAPERS meeting in September 2015, almost every investment consultant forecasted rates of 5-6% in the 0-10 year period. If the systems earn 5-6%, then they have to earn at least 9.5% in the last 20 years if looking at a 30 year time horizon to make up for the shortfalls expected to realize over the next decade. Thus he believes in being more prudent to look at shorter horizon.

Actuarial consultants Gabriel, Roeder, Smith (GRS) have recommended an appropriate discount rate of 6.75% based upon the average of eight leading investment firms. Mr. Richmond said the two primary differences between GRS and LASERS & TRSL is the time horizon and the effect of using the average of eight firms rather than relying on a single firm.

Mr. Richmond concluded that the ideal assumed rate of return on investments is 7.15% and GRS's analysis supports this conclusion. The 7.80% assumption is the very top end of his reasonableness range. On page 106-107 of the valuation report shows the opinions of other public sector professionals. The National Association of State Retirement System Administrators (NASRA) publishes an annual issue brief on the investment return assumption used by 126 public retirement systems. Its brief, published in May 2015, provides the following information: 1. The average return assumption has fallen 42 basis points since 2001; 2. The LASERS' 8.15% rate of return assumption is greater than the average rate in 2015.

From Mr. Richmond's research of investment programs, none are anywhere near as complex as Louisiana's gain sharing program. Retirement systems in the south have been slower to reduce their investment return assumptions than systems in other regions of the country. The retirement community in general is now acknowledging that the assumed rate of return must be reduced. Senator Peacock asked if gain sharing means cost of living adjustments. Mr. Richmond concurred.

Mr. Richmond said that Louisiana is mentioned in reports comparing retirement systems as the lowest funded system and based on the body of evidence examined, he concluded that the systems need to contribute more and liabilities are larger than shown, so he recommends a 7.75% rate of return assumption, and 7.4% discount rate. The financial effect of the assumption change for LASERS is shown on page 5 of his report. He suggested PRSAC consider when the systems are properly funded whether to keep the contribution rate high or let it decline.

Mr. Napper asked Mr. Richmond if he calculated the effect on the UAL from his valuation as opposed to the system's valuation. Mr. Richmond said he can determine that by comparing Ms. Johnson's report on page 61 to his report on page 29. His projection shows the UAL to be $7.4B and LASERS projection shows $6.8B.

Representative Jones said this discussion has been fascinating and asked if it is fair to discount the history of the world's resilience and just assume doom and gloom in the future. Mr. Richmond said no one knows what will happen in the future but the risk is if investment rates of return are lower than 7.75%, then losses will be created each year and have ultrahigh contributions. That risk is a 10 year risk until the systems pay off some debt and currently expect to see new UALs created each year. It's better to be conservative on the discount rate and hopefully mitigate against creating those future UALs.

Representative Jones said he voted for the drop in the discount rate and asked if there is a standard or should one be adopted on what period of time to use in calculations. Mr. Richmond said it is in accordance with ASOP's guidance on determining the investment return assumption which is a principle based process and not formula based, which is why it differs between actuaries. That is the reason for researching what other actuarial community in general is determining. In the private sector, multi-employer plans' discount rate is typically far less than 7.4%, and investment return assumptions are far less than 7.4%.

Representative Jones said he agrees may need to go lower, but based on the state's budget circumstances and impact of changing the discount rates, this may not be the right time. Mr. Richmond responded that the retirement systems are supposed to be attained and maintained on an actuarial sound basis. He struggles with that when looking at the retirement plans' funding levels and amount of assets available for active members which is essentially zero, and the amount of assets for retired or inactive members which is only 85 cents on the dollar. Mr. Richmond said this is not a huge crisis mode but compares it to running on the edge of a cliff. Representative Jones said the other side of the debate is to see that the world keeps moving and being innovative and the glass is half full.

Ms. Johnson commented that Mr. Richmond's report shows the actual rates of return on the actuarial value of assets have averaged 8.02% since 1989, and not sure why that date was chosen, but LASERS calculates over a 30 year period, the average return was 8.35%. Ms. Johnson said at that time the expected return of 8.25% had no margin, so an apples to apples comparison would be a 30 year historical return of 8.35% to 8.15%. She said today LASERS expects to earn 8.15% over 30 years and looking over the past 30 years LASERS earned 8.35%.

Mr. Purpera said that is true as long as willing to finance the other costs. Ms. Johnson said she is only looking at what has been earned over 30 years, even forgetting about financing anything else. Anything else is just details that complicate it and willing to discuss, but trying to simplify the comparison. Mr. Richmond disagreed.

Senator White said current federal law allows that if a retirement system shows it will go bust within 10 years and become insolvent, that the system can cut the rate of retirement payments. Ms. Johnson responded that LASERS has done a projection of the next 30 years based on expected investment returns and Mr. Richmond did a similar analysis with similar results. Assuming that the system makes the investment return assumption of dedicating 7.75% to benefits, it will not go bust but in fact after 30 years the system will be fully funded as expected when the UAL will be fully paid off. She said that Mr. Richmond's analysis went further looking at the probability that the system achieve more or less but the middle of the road shows fully funded. There is a chance that the system will not get there and the market may actually not do this and leave a remaining UAL but even if that happens, the system will be 90% funded at that point which everyone agrees is a good place to be. Or they could do better and be 110% funded at that time. She said it is good to look both ways – risks of doing worse and risks of doing better. Mr. Richmond said there is a 25% chance according to his analysis that the funded ratio would be less than what it is now.

Senator White asked if the system is actuarially sound for current employees who hope to retire, and if there is money in the bank for them now. Ms. Johnson responded that the system does not have the money now, but the funding mechanism of the retirement system is designed so that by the time employees retire, their benefit will be fully funded. She explained that it is not a "pay as you go plan" where new people have to come in to pay for current members. The current workers are paying for their own retirement benefits plus what their employers are contributing to their own retirement benefits. The system is not relying on contributions for future members to pay for current members' benefits. Except that the UAL has to be paid in the future and that is a requirement in order for all the benefits of the current members to be funded.

Mr. Richmond said if the system's investments earn 8.15%, 30 years from now only the normal cost will remain and no UAL. If the system earns less than 8.15% over that 30 year period, there will still be a very large UAL and have the normal cost. He said that is the magnitude of the risk of expecting this investment return and the highest he can assume is 7.75% and after subtracting the 25 basis points, this discount rate is 7.40%. He said reducing the assumed rate of return by 35 or 40 basis points for all Louisiana's pension will not solve the problem. This plan needs contributions, bottom line. The legislative process has resulted in underfunding of this plan since 1989 when it was declared to get actuarially sound. Then in 1990 legislation was passed with back loaded payments so not even paying the interest on the debt. Senator White commented that a business could not be run like this.

Mr. Hall said he reviewed both valuations which were very thorough and professionally prepared. The only difference between the valuations is the projected rate. Mr. Hall said the ASOP does not require actuaries to evaluate the employer's ability to pay the recommended contribution but in the same respect, it does not require actuaries to ignore the impact of their recommendations on those employer contributions. He does not think LASERS or TRSL are opposed to lowering the discount rate and studying that. It is his understanding that both systems are planning on a review that will take place within the next six months with a report coming out in July or August. Mr. Hall said the boards are studying the reduction of the discount rate from 8.25% to 7.75%. The board of trustees for the systems would prefer to lower the discount rate on a phased in approach to minimize the impact and sure they will make those recommendations once the studies are completed. He said it is unfortunate that the two actuaries could not come to a consensus on the projected rate or the discount rate and understands the complexities. He said that Mr. Richmond's recommendations did not fall on deaf ears.

Mr. Hall made a motion that the committee adopt the system's actuarial valuation for LASERS as of June 30, 2015, as reported by Ms. Johnson, and the projected rate included therein along with the drop interest rate and rates itemized for each of the sub-plans within LASERS.

Chairman Purpera asked Mr. Hall if he would amend his motion to include that PRSAC reconvene by mid-June to hear LASERS' plans going forward. Mr. Hall said he would be willing to amend it to allow them to do that near the end of the legislative session because what most people do not understand about these retirement systems is that changing the rates may seem simple, but there is much more involved from the administration of the retirement systems than meets the eye. Systems are giving retirement benefit estimates that include option factors, and giving estimates for purchases of service to members that extend 6-7 months into the future. It takes time just like any corporation to regear their data processing systems, and websites to make these types of changes. So he said it is more responsible to allow more time for the systems to make whatever changes or to take recommendations into consideration. He believes near the end of the regular legislative session would be more appropriate because most of their time will be occupied with all going on during session. The studies are in process and the systems are not against the change but want to do it in a systematic approach.

Chairman Purpera restated Mr. Hall's motion that the committee adopt the system's actuarial valuation for LASERS as of June 30, 2015, as reported, which includes a DROP interest rate of 10.14%, an aggregate employer contribution rate of 35.8%, the entire employer contribution rate schedule contained on page three of the report, an aggregate employer normal cost rate of 3.9955% and a projected rank and file normal cost rate of 3.9615%. Chairman Purpera further amended the motion requiring PRSAC to reconvene before the end of the 2016 Regular Legislative Session to hear from LASERS regarding its plan for future funding of the system. Mr. Hall agreed with the amendment and Ms. Goodson seconded the amended motion.

Mr. Curran commented that after being on this committee for 27 years, this was the first time to receive a report in such depth from the legislative auditor's office and commended Mr. Richmond. He is sympathetic to Mr. Richmond's point of view and concerns but does not agree on all points. Looking more to the future than the past, there are many concerns that the investment environment is less favorably than would like. He said lowering the valuation interest rates is just a matter of reducing risk and investment returns is the biggest risk that the systems face. It is not a question of right or wrong, both actuaries have professional judgments. He agreed with the motion but asked to go on record that he is concerned about the rates and urged the systems to look further into these arguments. He suggested trimming back a bit and trying to remove some risk from the process.

Mr. Napper said this is a good discussion and could argue about what future returns will be forever. He talked to many people the past three months about this issue but not one person said they were against lowering the discount rate in principle, but just a matter of time and how to facilitate it. This is a good motion to settle it today and try to work on it further in the future.

Chairman Purpera asked for public comments.

Mr. Robert Travis Scott, President of for Public Affairs Research (PAR) and Steven Procopio, Policy Director for PAR and prior chair of PRSAC for two years, provided public comments. Mr. Scott said it was not a matter that one view is right and the other is wrong, but two different views that are a matter of judgment call of which way to go. He recommended phasing in a lower discount rate but not on a really long schedule. A key milestone is Ms. Johnson's presentation is that the UAL is getting paid off and the bills are being paid. But decisions of the past have created this situation and do not want to make the situation any worse. He had reviewed the legislative auditor's report and believes it is a more unvarnished truth. Mr. Scott commended the new administration that wants more transparency and faces the facts as they really are, and hopes to see that continue. He encouraged the systems to pay administrative expenses as they go and not financed and could provide some suggestions for doing that to relieve the pressure off this actuarial concern. He suggested the legislature should look at it further.

Mr. Scott said that Mr. Richmond's report is very optimistic and people in other countries would look at this conversation as a great luxury. Sooner or later they will have to pay, and the point is to make the odds better and not have to pay more in the future.

Mr. Procopio said a phased in approach makes a lot of sense but suggests a 3-5 year period, because 10 years would really have no point. First is to get to the right assumptions and then figure out the budget issues after. This is the importance of PRSAC to determine those rates. He suggested having the discount rate the same as the expected rate of return and separately account for the administrative expenses. PAR would like to see that paid for on an annual basis. The cost of gain sharing or COLAs should be separated out and not rolled into the expected rate of return and turn it into the discount rate. PAR would like to additionally see that the systems prefund COLAs as much as possible because in the long term it will save money. Even with the policy changes, it would be more clear and transparent for policy makers and citizens and groups like PAR that are trying to figure it out. It is complicated enough already and in terms of transparency better to separate those things out. Mr. Procopio commented that he hoped the legislators are listening because some actions are beyond the scope of PRSAC.

Chairman Purpera asked if the Committee had any objections to the motion as stated and seconded. With no objection, the motion was approved.

(2) Teachers' Retirement System of Louisiana (TRSL)

Ms. Johnson stated that most of her comments for LASERS are applicable to TRSL. She presented the highlights and main points from TRSL's valuation report as shown on page 2 of the report. TRSL had an increase in the number of active members and retirees which is good for the system. They are at the current cap of 1.5% COLA and not able to credit any investment gains instead the balance was capped by just the interest credit of the balance of this account. There are enough funds available to pay a 1.5% COLA. The consumer price index (CPI) did not increase by 1.5%, so according to current law the COLA does not fit within the current statutes. The total normal cost increased slightly, and as a percentage of payroll remains fairly level. Ms. Johnson went over the breakdown of what affected the decrease in the UAL as shown on page 4 of the valuation report.

Ms. Johnson read the recommended employer rate for fiscal year 2016-17 from page 3 of the valuation report for each plan with TRSL, as well as the employer normal cost rate for each plan.

Senator Peacock asked if there would be an increase for every school board if the discount rate is reduced. He asked what the total savings that the school boards will realize for the change in the employer contribution from 26.2% to 25.4%. Ms. Johnson said the total savings is $20M. Senator Peacock asked if she had that broken down for every school board. Ms. Johnson said it could be prepared but would be proportionate, and could be estimated from the projected payroll. She said she would estimate the value for just K-12 and provide to Senator Peacock.

Ms. Johnson said the investment experience gain as a result of the actuarial return exceeding the 7.75% was $539M of which $100M is allocated as per statute to the OAB, and the next $100M of gains to the EAAB, and nothing allocated to the experience account because already at its cap and this resulted in a net investment gain to be amortized of $339M. The geometric long term average rates of return that are actual rates of returns net of investment expenses but not net of gain sharing and not net of administrative expenses. This is equivalent to an expected return assumption of 8.1% for the 5 year it was 9.81%, and 10 year average was 6.87%, and 20 year average was 7.77%, etc. These are not comparable to the 7.75% but comparable to the 8.1% long term expected return. She outlined the funded policy, accelerated reduction of OAB and EAAB, funding status and funding of administrative and investment expenses as shown on pages 6-8 of the report. The graph on page 57 is of the outstanding balance of the UAL which is based on the current schedules and has no recognition of future gains and losses which are expected to net to zero.

Mr. Purpera asked if the UAL payment schedule assumes the system will earn 8.10% on average between now and 2029. Ms. Johnson agreed.

Mr. Richmond said had he used the same assumptions as Ms. Johnson he would have come to the same numbers. Based on the presumption that the same motion will be made for TRSL as for LASERS for the study to be done, he deferred from further comments.

Senator Peacock asked why the rate of inflation was 2.5% in TRSL's report, but 3% in LASERS' report. Ms. Johnson explained the various reasons why the inflation rate differed for TRSL from LASERS including that the reports were done at different points of time and presented to different boards. She looks at each client individually and takes into account many factors including the opinions of different investment consultants and results of each system's experience studies. She is considering bringing the inflation rate to something in the middle like 2.75% but will have to discuss with each respective board and may not come to the same conclusion.

Mr. Purpera asked if Ms. Johnson or the board sets the assumptions for the systems. Ms. Johnson responded that she makes recommendations but cannot tell the board what assumptions they have to adopt and it is their responsibility to adopt them. Mr. Purpera asked if the board is setting the inflation assumption and the assumed rate of return. Ms. Johnson said when she brings an experience study she makes a recommendation and usually the board adopts what is suggested but not necessarily. Ms. Johnson said she does not have the authority to change the assumption without the board adopting them. Mr. Purpera said that Ms. Johnson has previously indicated that she would be more comfortable with a lower assumption rate of return. Ms. Johnson explained that she has different hats to wear but as an actuary it may be different than her personal opinion but following the ASOP her recommendations should not be biased or an element of conservativism. Her personal opinion, as well as most actuaries, is generally fiscally conservative. She commented that more conservative is better and everyone seems to agree that more conservative assumptions will have more gains down the road. But when she discusses this with the board she has to make sure that they are aware of the consequences of their decisions.

Ms. Johnson read from the Blue Ribbon Panel of the Society of Actuaries, "Plans should be using rates of return that they believe can be achieved over the next 20-30 year period with a 50% probability. The panel does not believe the rate should be aggressively conservative as doing so may lead to a surplus." She said that these comments cannot be taken in a vacuum and take everything into account and it is good for the board to hear different perspectives.

Further discussion continued regarding NASRA's study, expected rates of return, and proper funding for TRSL. Mr. Purpera said he would like to see the systems be more conservative, and be properly funded. Ms. Johnson said if nothing else is accomplished today, she believes they made progress at looking into lowering the discount rate and hopefully also made some progress in making the committee more comfortable that the current rate in the valuation is not unreasonable and not necessarily wrong. The expected investment return as per the investment consultants are higher than what currently using and does not take into account certain things like active management that are supposed to increase the return but already reflected in their assumptions. She did not believe that it is the top of the range but would not recommend raising it. She said that she does not feel like they are about to fall off the cliff and in the interest in time would not explain further.

Mr. Hall said his previous comments apply to this valuation. He made the motion that the Committee approve the system's actuarial valuation for TRSL as of June 30, 2015, as reported by Ms. Johnson with the same understanding that the retirement system has expressed the desire to review and study it and perhaps have something available by this summer. The approval of the valuation incorporates the contribution rates as provided by Ms. Johnson as well as the drop interest rate.

Mr. Napper seconded the motion.

Chairman Purpera restated Mr. Hall's motion that the committee adopt the system's actuarial valuation for TRSL as of June 30, 2015, as reported, which includes a DROP interest rate of 10.76%, an aggregate total projected employer contribution rate of 25.4% for Fiscal Year 2016/2017, and the following projected employer normal cost rates (shown on page 3 of the report): K-12, 4.3127%; Higher Education, 3.2272%; Lunch Plan A, 9.5044%; Lunch Plan B, 6.9670%; and an aggregate employer normal cost rate of 4.1724%.

Chairman Purpera amended the motion that the Committee will meet by the end of the legislative session to hear plans from this board as to how it will move forward to properly fund this system. Senator Peacock clarified the end of the *regular* legislative session.

Chairman Purpera asked if anyone would want to testify or speak, and no one responded. Chairman Purpera asked if any objection to the motion as amended 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) Municipal Employees' Retirement System of Louisiana (MERS)

Mr. Curran presented an overview of the MERS valuation which contains Plans A & B, stating that very little changed from the previous year. He pointed that this system does not add additional UAL if they experience gains or losses because that goes into normal cost. The UAL is frozen and set on when paid off. He explained why the actuarial value of assets is being assessed with the market value. Mr. Curran said there is a five year smoothing period for losses and gains.

Representative Jones asked about the Fletcher investments and if there were other additional bad investments. Mr. Curran answered that there were other write offs beyond Fletcher, and suggested looking at the audit report for more information.

Mr. Richmond said he reviewed the report and his only concern is that the 7.5% discount rate is too large based on the history of this retirement system's investments. MERS has one of the lower rates of return of the 13 public retirement systems over a long period of time. He cautioned MERS board to reduce the discount rate.

Mr. Curran made the motion to approve the valuation. Chairman Purpera stated the motion that the committee resolve 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 Municipal Employees' Retirement System, and that as specified in the report that the minimum recommended employer contribution rate for fiscal 2017 shall be set at 23.25 %, for Plan A and that the minimum recommended employer contribution rate for fiscal 2017 shall be set at 11.25 %, for Plan B, and that the system shall receive the maximum allocated amount of ad valorem taxes and revenue sharing funds provided for by law for fiscal 2017. Chairman Purpera allowed for any public comments but none was offered. Ms. Goodson seconded the motion, and with no objection, the motion was approved.

(2) Municipal Police Employees' Retirement System of Louisiana (MPERS)

Mr. Curran presented an overview of the main points of the MPERS valuation which contains Schedules A, B and C. He highlighted the changes in the plan provisions, demographics and liability experience, funding analysis and recommendations and cost of living increases. He explained that the administrative expenses are separately accounted for and paid so not generating losses.

Mr. Richmond commented that for the statewide systems the assumed rate of return and discount rate are one and the same because already incorporated in the law to pay for administrative expenses. The gain sharing or COLA program is truly an ad hoc and the board has a fair amount of discretion on it. The board exercised their discretion and has not given a COLA at many different times when they could have given, unlike LASERS and TRSL which has given a COLA almost every time that it was provided for. He encouraged this Committee to recommend to the boards to lower their discount rate.

Mr. Curran made the motion to approve the valuation. Chairman Purpera stated the motion to resolve 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 Municipal Police Employees' Retirement System, and that as specified in the report the minimum recommended employer contribution rate for fiscal 2017 shall be set at 34.25 %, (for members earning below the Department of HHS poverty guidelines) and 31.75 %, (for members earning above the Department of HHS poverty guidelines) and 33.75%, (for all members of the non-hazardous sub plan) and that the system shall receive insurance premium taxes of $ 18,605,064 with accrued interest thereon for fiscal 2016.

The motion was seconded by Representative Pearson and with no objection, the motion was approved.

(3) Registrar of Voters Employees' Retirement System (ROVERS)

Mr. Curran presented an overview of the ROVERS valuation which contains Plans A & B and only has 231 active members and 156 retirees. He said that this system has no UAL and all costs are paid through normal costs so any gains or losses flow through normal cost as shown on page 6 of the valuation report.

Mr. Richmond said he endorsed the valuation and agreed with the 7% discount rate. Mr. Curran said one small element of the discount rate is that this is a very small system and lowered the discount rate because less ability to withstand events than a larger plan.

Mr. Curran moved to approve this valuation. Chairman Purpera stated the motion to resolve 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 Registrars of Voters Employees' Retirement System, and that as specified in the report, the minimum recommended employer contribution rate for fiscal 2017 shall be set at 14.75 %, and that the system shall receive the maximum allocated amount of ad valorem taxes and revenue sharing funds provided for by law for fiscal year 2017.

Senator Peacock seconded the motion and with no objection, the motion was approved. Mr. Curran pointed out a typographical error on Exhibit 1 on page 14, that number 18 should state "Fiscal 2017".

(4) Sheriffs' Pension and Relief Fund (Sheriffs)

Mr. Curran provided highlights of the Sheriffs valuation report and said that the UAL is frozen and should be paid off about six years ahead of schedule because some advance payments were made. After then it will only be normal cost to pay. His detailed the actuarial methods and assumptions, and changes in plan provisions, and the effect of COLA granted.

Mr. Richmond endorsed the valuation and encouraged the board to consider reducing the discount rate beyond 7.5%. Mr. Curran said the board will discuss that further.

Mr. Curran moved to approve this valuation. Chairman Purpera stated the motion to resolve 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 Sheriffs' Pension and Relief Fund and that as specified in the report, the minimum recommended employer contribution rate for fiscal 2017 shall be set at 9.5 %, and that the fund shall receive the maximum allocated amount of ad valorem taxes and revenue sharing funds provided for by law for fiscal 2017. In addition the Fund shall receive $ 18,605,064 with accrued interest thereon in insurance premium taxes for fiscal 2016.

Senator Peacock seconded the motion and with no objection, the motion was approved.

6. Discussion of Legislation

Representative Pearson said based on discussion of the administrative expenses for LASERS and TRSL being amortized over a long period of time, he had filed House Bill 15 (HB15).

Mr. Richmond said essentially the actuaries have figured out a way to pay the administrative expenses on an annual basis. HB15 codifies that and helps to avoid having to use actuarial gains to pay the administrative expenses. He said there is no cost to HB15 except for maybe the state police retirement system. Because it is already in the cost, the 8.1%, they would not be taking off the 15 basis points so they claim that their discount rate should go up by 15 basis points. He agrees with this legislation without doubt but the factor that goes into play relative to the discount rate analysis.

Ms. Westgard said she took offense at that comment because there has been no discussion with the board about that nor has the board ever said that they want to raise the rate again. In fact that is what they do not want to do. TRSL amortizes over a 30 year period but ASOP has changed their approach from 28 years ago and the board wants to move forward in this direction. She felt the need to be on the record that she stated months ago that TRSL was willing to study the discount rate. Nothing new came out of today's meeting. TRSL has had a very long term plan for asset allocation and did a similar asset liability study that was extremely thorough that Mr. Richmond and Ms. Johnson both agreed with. TRSL's investment consultant was up for renewal which is done every five year. They went into contract negotiations with the consultant and got that secured by December. TRSL has had training with the board. Ms. Westgard said on the record that there has been a plan at TRSL and are moving forward with that plan and will be glad to work with PRSAC. She also offered to meet regarding the administrative expenses. Her board does not typically support bills that have a cost. TRSL is one of the cheapest in the country but they are not playing some game and plan to raise the assumed rate of return. She stated that she wanted to be on record that that is not their intent at all.

Mr. Hall clarified that these legislative bills will make administrative expenses more transparent and obvious and save the state money because right now they are paying interest on it. HB15 covers all four of the state systems because he saw an advertisement for state police. House Bill 16 (HB16) is a separate bill for school employees, so if HB15 goes forward, then really do not need HB16.

Chairman Purpera said as discussed at the previous meeting that this legislation was presented by a different author several years ago and this Committee voted to support that bill or recommend to the Senate and House retirement committees that this Committee was in favor of the bills. That was voted a few years ago but the bills were rejected. As per the law to make such a recommendation it has to be a unanimous vote of this Committee.

Mr. Hall made the recommendation that this Committee support HB15 and HB16. Chairman Purpera restated the motion by Mr. Hall to recommend to the House and Senate retirement committees that this committee is in favor of the two bills. Mr. Curran seconded the motion, and with no objection, the motion was approved.

7. Other Business

No other business was discussed.

8. Adjournment

Representative Pearson moved to adjourn, and with no objection, the meeting was adjourned at 5:30 p.m.

Approved by PRSAC: **June 7, 2016**
Date

The video recording of this meeting is available in the House of Representatives' Video on Demand
http://house.louisiana.gov/H_Video/VideoArchivePlayer.aspx?v=house/2016/Jan/0121_16_PRSAC