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 1:00 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. Tom Cole, Designee for Mr. Daryl Purpera, Louisiana Legislative Auditor (LLA)
Ms. Barbara Goodson, Designee for Commissioner Jay Dardenne
Mr. Ron Henson, Designee for Treasurer John Kennedy
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
III. APPROVAL OF MINUTES

Ms. Barbara Goodson moved the minutes of the October 19, 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 three state retirement systems. The three systems are the Louisiana State Employees' Retirement System, the Teachers' Retirement System of Louisiana, and the Louisiana School Employees' Retirement System.

Senator Peacock started the order with the Louisiana School Employees' Retirement System (LSERS) and requested Mr. Curran explain the system valuation.

Senator Peacock asked about the amortization conversion account and asked about the mechanics of how the funds got into the account. Mr. Curran indicated it was a one-time statutory dedication that was set up in the account. Senator Peacock then asked about the side accounts and why they are not used in valuation. Mr. Curran replied it would be double counting.

Mr. Paul Richmond, actuary, Louisiana Legislative Auditor (LLA), at the request of Senator Peacock appeared before the committee and stated that presently, the LLA does endorse and recommend adoption of the valuation presented for LSERS by Mr. Gary Curran of the G.S. Curran & Company, Ltd.

Ms. Shelly Johnson, actuary with Foster & Foster, asked about the handling of COLA's. Mr. Richmond responded Curran is handling COLA's by assuming they are ad hoc. Senator Peacock then asked what is meant by "ad hoc." Mr. Richmond indicated that ad hoc is not a routine prescribed formula - only granted on a periodic basis and has no regularity. Mr. Richmond added the one dynamic is the discount rate and because the Curran report discount rate is lower there is enough margin to account for the ad hoc determination. Mr. Curran replied forecasting COLA's is difficult and complex and there are a lot of issues surrounding them. It is a judgment call and the Curran opinion is it doesn't rise to the level to be substantively automatic. If they are not substantively automatic, they treat them on an ad hoc basis. Mr. Richmond clarified, he is not comfortable with the ad hoc methodology, but is ok with it in regard to this report for this retirement system.

Mr. Ron Henson asked if COLA's are being handled within the provision of the law to which Mr. Richmond responded they are not valuing a portion of the benefit structure. Mr. Henson then asked if there had been any audit finding on this issue to which Mr. Richmond stated not to his knowledge.
Representative Pearson then moved to adopt the valuation report prepared by G.S. Curran and Company, LTD and adopted by the LSERS Board of Trustees with the projected rate included therein and drop interest rate to which Ms. Goodson seconded. There being no objection, the Louisiana School Employees' Retirement System valuation was approved.

Senator Peacock called Ms. Shelley Johnson, actuary with Foster and Foster Actuaries and Consultants, to explain and start discussion of the Teachers' Retirement System of Louisiana (TRSL).

Ms. Johnson gave a overview and referred the committee to page 2. Ms Johnson reminded the committee about the 1.5% COLA that was granted by the legislature last summer and referenced the corresponding decrease in the COLA account.

Ms. Johnson explained that the account does not have sufficient funds to pay a COLA, anyway, because it was paid the year before.

Ms. Johnson stated that as a percentage of payroll, the total normal cost has decreased because new hires are coming into the plan that have delayed retired eligibility. New hires cannot retire until age 62. As new members come you will continue to see the benefit of law that has been enacted over the past decade. Expectations are that the normal cost will reduce over the next 10-15 years.

Ms. Johnson referenced page 4 and explained the UAL has decreased. She stated that the system has paid more to debt and principal.

There was a contribution variance gain for TSRL and LASERS, when there is a contribution credit, funds are used to reduce the UAL schedule and not impact the payment which is a requirement of ACT 497. The credit is used to pay down debt. Senator Peacock commented that, for the last 4 years, payments had been made toward the principle.

Returning to page 2, Ms. Johnson continued explaining the valuation and stated that she feels the system has recovered substantially in a short period of time. After continued discussion and explanation, it was emphasized that the employer normal cost rate is 4.3642%.

Ms. Johnson referred the committee to the chart on page 58 which shows a visual of the UAL payments and balance going forward, as of June 30, 2016, and includes the contribution variance expected in 2017. The payment percentage change for FY 2016 is built in this valuation. Senator Peacock commented that legislation has been enacted that will address the 2019 jump.

Mr. Paul Richmond, actuary for the LLA, appeared before the committee and brought forward a valuation. He explained when using the actuarial assumptions and methods Ms. Johnson used, the results were the same. He stated these are not assumptions and methods he was comfortable
with. Because of the level of discomfort he had using these methods, he prepared a separate valuation.

Mr. Richmond stated that he has issues with the following: the changes of mortality tables, treatment of new administrative expenses, gain-sharing, and investment return assumption.

Mr. Jim Risso, Gabriel, Rotor, Smith and Company, who assisted Mr. Richmond in preparing actuarial reports, appeared before the committee. Mr. Risso referred to Appendix B-4 of the report and addressed the mortality rate.

Ms. Johnson voiced concern about the mortality table. Ms. Johnson said looking at this someone might think this is inadequate. She suggests this is not apple to apples to which Mr. Risso indicated further explanation of was available on page B.5.

Mr. Richmond indicated they were going to discuss treatment of administrative expenses. Senator Peacock commented that legislation has been enacted to address this issues, and as a state, this problem has been recognized and the legislature has made the adjustments going forward.

In reference to mortality tables, Senator Peacock asked which table was used the most around the nation. Mr. Risso expressed that the usage of a particular table was used is not that important. Mr. Risso added what matters most is it reflects your experience.

Senator Peacock reminded the committee that the LLA valuation had not been available until Monday evening; thus, the committee had very little opportunity to review the report and establish the methodology and assumptions, etc.

Mr. Richmond explained the treatment of administrative expense. The LLA wanted to use a methodology in recognizing the administrative expenses that was transparent.

Senator Peacock emphasized legislation is now in place to address this and these adjustments are being made going forward.

Ms. Johnson stated that she was grateful to hear the explanation to LLA methodology; however, she does feel the LLA report will be misleading standing alone. Ms. Johnson stated that her report discloses how the systems are handling administrative expenses and how it will change in the future because of the enacted law. Senator Peacock said the LLA report was not received until after hours Monday evening, and as a courtesy, LLA needs to give everybody ample time to review.

Nicole Edmonson, Assistant Legislative Auditor, appeared before the committee and added it is recognized one day for review is not enough time to absorb all the information.

Ms. Goodson stated that the need for the meeting at this point of time was the budget and the current benefits play a big role in the budget. Ms. Goodson added that perhaps there needs to be a little more discussion before it gets to the level in a public hearing. Ms. Edmonson indicated the
feeling is that the law is set up that way. Ms. Edmonson stated they do need to do their valuations independently and stated that there is there differences of opinions for some time. Ms. Goodson said there is a 10% variation in what LLA wants and what TRSL adopted and that is significant. Ms. Goodson emphasized that to bring it forward at this time is irresponsible and added these issues cannot be implemented in a one-year time frame, but have to be dealt with, strategically.

Mr. Richmond indicated this difference has been coming up since 2011 and was discussed with PRSAC in August 2015. These are not issues that are brand new but have been ongoing and will continue to be reported on until they are fixed. Mr. Richmond stated that it would be irresponsible for the LLA not to report these concerns and issues. Ms. Goodson stated she is not comfortable doing this at this time and this should be done during the year, not wait until the committee is trying to adopt something for next year's budget. She added these matters cannot be handled quickly.

Senator Peacock mentioned having legislation in place to address some of the issues; changes are being made and the report needs to credit the state of Louisiana for implementing these changes going forward. He emphasized the state of Louisiana has a plan in place to address our UAL and get us in a situation where we do not have a cloud of unfunded liability over our heads. Senator Peacock stated this is a public document and it does not show the things that have been put in place.

Mr. Tom Cole, LLA, indicated the need for the administration and legislature to get the information quickly is an understood, but LLA has a responsibility to express their opinion. Mr. Cole added that many times the LLA is in conflict with current opinions but they are committed to working with all the actuaries and getting to a point that information can be received quickly and accurately.

Ms. Johnson stated that actuarial standards tell us what to do if we disagree with assumptions. It is also specifically allows an actuary to prepare a valuation in accordance with current law.

Mr. Pearson recognized the differences of opinion and appreciate the work of all actuaries.

Mr. Richmond said there is no other state that has gain sharing that is as complicated as Louisiana. Senator Peacock asked what other states do to simplify discount cost. Mr. Jim Risso spoke to the discount rate and indicated they are more attempts to be more explicit in the measurement of the cost than be and not be. Mr. Risso explained the LLA's choice to use a mid-term horizon for estimating the investment rate of return.

Ms. Johnson commented on the use of long term horizon. She stated that the long term horizon is used because it is a more appropriate match for the benefits that are being funded. She stated that the concern she would have with the shorter period is a very much more volatile market.
Ms. Goodson asked if the LAA is presenting this report to this committee to adopt this valuation or give another viewpoint. Mr. Richmond indicated it is another opinion the LLA. Mr. Richmond added he deliberately did not make a recommendation to adopt the LLA valuation, though he thinks it should be adopted. Mr. Richmond thinks this valuation is an accurate reflection of what is needed to keep this plan actuarially sound and funded in an actuarially sound manner.

Ms. Nicole Edminston indicated the LLA cannot do the valuation before Foster and Foster does theirs because Mr. Richmond determines if he agrees with it by review.

Ms. Maureen Westguard, Director of the TRSL appeared before the committee and said she wanted to address each of the assumptions. She stated that there were 50 years prior to 1989, of under funding and Louisiana has been recognized by Pew Trust as one of the top five states in taking on these issues and devising a long-term solution. Further, she feels there was no acknowledgment in the LLA report that LASERS and TRSL have reduced the discount rate through a plan approved last year by PRSAC. She continued by adding the handling of administrative expense rate was changed by legislature and tremendous changes have to made to gain-sharing (COLA). Ms. Westguard takes exception to the tone of the LLA report.

Ms. Goodson moved to approve the valuation prepared by Foster and Foster and adopted by TRSL Board of Trustees includes the projected rate, the drop interest and the itemized rates within each of the subplans with the the TRSL, be adopted to which Representative Pearson seconds. Mr. Cole objects to the motion. By a 5-1 vote, the TRSL valuation prepared by Foster & Foster dated June 30, 2016 was adopted.

Senator Peacock called on Ms. Johnson to explain and start discussion on the valuation for LASERS valuation dated June 30, 2016. Ms. Johnson gave a overview referring the committee to page 2. Again, Ms. Johnson reminded the committee about the 1.5% COLA that was granted by the legislature last summer.

Ms. Johnson explained LASERS administers the plan for Harbor Police and has assumed the liability for that retirement system. She added that LASERS received a $6M payment from Harbor Police and receives quarterly payments.

Ms. Goodson asked for clarification about the contribution being employer or employee rate. Ms. Johnson stated that it was the employer contribution rate.

Upon completion of her explanation, Senator Peacock called on Mr. Paul Richmond and Mr. Jim Risso to explain the LLA valuation for LASERS.

Mr. Risso gave an overview and referred the committee to page C4 which included different kinds of volatility risks and history of the asset allocations. He stated this the history of how the fund has increased its level of volatility risks and that the driving force is the higher risk and higher reward.
Ms. Cindy Rougeou, Executive Director of LASERS, appeared before the committee and stated she understands that reasonable people can reach different conclusions. Ms. Rougeou is concerned about the level of inflation and this is a topic of discussion we will be having with our board and will focus on it in the January workshop. Ms. Rougeou stated she has every faith in the work that Ms. Johnson completed at the request of the board including the agreement which the board made with PRSAC to reduce the discount rate.

Ms. Goodson moved to adopt the valuation for LASERS dated June 30, 2016 and prepared by Foster and Foster for LASERS and adopted by the LASERS Board of Trustees, the projected rate therein; itemized rate; to which Representative Pearson seconds. Mr. Cole objects. The secretary called the roll and by a vote 5-1, the LASERS Actuarial Valuation dated June 30, 2015 and prepared by Foster and Foster has been adopted.

Senator Peacock moved to adjourn the meeting to which there was no objection.

APPROVED

Senator Barrow Peacock, Chairman

Date: _______________________________

To view the meeting in its entirety see the link below: