PUBLIC RETIREMENT SYSTEMS' ACTUARIAL COMMITTEE

Wednesday, December 9, 2009
10:00 am – 11:00 am
House Committee Room 2
State Capitol
Baton Rouge, Louisiana

MINUTES

1. Call to Order

Vice Chairman Ron Henson called the meeting to order at 10:07 am.

2. Roll Call

Ms. LeAnne Laviolette called the roll.

Members Present: Deputy Commissioner Goodson for Commissioner Davis, Mr. Henson for Treasurer Kennedy, Senator Gautreaux, Representative Robideaux, Mr. Curran, Mr. Hall, and Mr. Purpera.

Members Absent: None.

Also Present: Cindy Rougeau, Maureen Westguard, Lauren Bailey, Laura Gail Sullivan, Matt Tessier, Paul Richmond, David Greer, Dainna Tully, and Roland Dartez.

3. Approval of Minutes

Representative Robideaux moved to approve the minutes from the **September 25, 2009** meeting of the committee. Deputy Commissioner Goodson seconded the motion, and there were no objections and the motion passed unanimously by a vote of 7 yeas and 0 nays.

4. **<u>Educational Item: Explanation and discussion of corridor limitations and changes.</u>**

Mr. Curran explained that actuarial funding is a device used to allocate costs in a rational way. Asset smoothing is the process by which the volatility associated with investment earnings is moderated. Smoothing parameters include the period over which the smoothing takes place, constraints if any which are applied, as well as a definition of the earnings which are to be smoothed. The choice of smoothing methodology should also be related to the period applied to amortize the asset gains or losses. Longer amortization periods may call for caution in setting the smoothing period to be used, whereas shorter amortization periods allow for somewhat less strict conditions to be applied to smoothing. Any deferral of a gain or a loss means that the gain or loss will be absorbed in future years.

In the case of the Parochial Employees' Retirement System, all investment earnings above or below those indicated by the valuation interest rate are smoothed; and such asset gains and losses are amortized over the future working lifetime of current active participants through inclusion in the present value of future normal costs. This represents an assignment of the costs to the current cohort of active plan participants.

In the prior year's valuation for the Parochial Retirement System the smoothing period was set equal to five years, and the constraints were set as a corridor of 90% to 110% of the market value of assets. With the unusual losses experienced by the plan in the fiscal year that ended December 31, 2008, the application of this corridor to the smoothed results would have virtually eliminated most of the smoothing since the smoothed asset value was well beyond the 110% limit set by the corridor. A study was conducted to determine if a change in the smoothing parameters could be accomplished which would balance the dual objectives of reducing contribution volatility while at the same time recognizing the need to add to plan assets rapidly enough to address solvency issues. Any deferral of contributions carries with it a cost such that lower contributions now will lead to higher contributions in the future.

After trials involving various approaches to smoothing under a variety of scenarios, a determination was made that the 2008 valuation would be performed by maintaining the five year smoothing period but altering the corridor such that it would be widened from 90% - 110% to 85% - 115% and modified such that if the initial smoothing produced values outside the corridor, the final values would be determined by averaging the initial smoothed value with the appropriate corridor limit. Tests of the approach under a variety of conditions showed it to be fairly robust. Hence, the change is not viewed as an *ad hoc* solution to current market conditions but rather an approach which will work on a long-term basis and be used for the foreseeable future.

Representative Robideaux asked why the corridor limit was originally set at 90% - 110%.

Gary Curran replied that PERS moved to a five-year smoothing to reduce volatility. When this proposal was forwarded to the legislative auditor's office, it did not include any reference to a corridor. The legislative actuary, Mr. Rice, felt a corridor should be included, and 90-110 was his preferred corridor. At the time it had no impact on the PERS valuation. Mr. Curran indicated that his preference would have been a wider corridor; however, he was faced with a deadlock if he insisted on something wider. Absent the catastrophic market, the parochial system probably could have lived with the more narrow corridor.

Mr. Henson asked if there was any further comment on this agenda item.

Roland Dartez, executive director of the Police Jury Association, appeared before the commission. He testified that his members are aware of the increase in employer contributions and the reasons for the increase. He indicated that the retirement system had provided information to his association, and that he had made sure the information was passed on to his members and to the parish administrators.

Mr. Henson asked if there was any other information related to this agenda item.

Laura Gail Sullivan, Senate Counsel, appeared before the commission. She testified that legislative staff thought it was important to make a record showing that the employers are fully aware of the implications of the corridor change; that the employers understand not only about the increase this year, but that when the market begins to go up, the employers will not see decreases in the contribution rate as quickly as they previously would have; that they have alerted their members that this change in corridor will affect DROP interest and the awarding of cost-of-living adjustments or permanent benefit increases.

Miss Sullivan indicated the importance of recording the employers' understanding that the gains will be recognized more slowly, and the implication that those things that are viewed as positive like decreases in contribution rates, DROP interest, and cost-of-living adjustments or permanent benefit increases will occur more slowly, and when they do occur it will be at a moderated rate.

Mr. Dartez stated that the association has made its members aware of that as well – that it's more likely than not that the employers will see an increase again the following year.

5. <u>Discussion and approval of the 12/31/2008 actuarial report, contributions and tax sharing allocations for PERS Plan A.</u>

Mr. Curran presented the actuarial report.

Mr. Curran moved to set the Plan A FY 09/10 employer contribution rate at 15.75% to allow full amount of revenue sharing and ad valorem taxes, and to approve the report for the system. Mr. Purpera seconded the motion. There were no objections and the motion passed unanimously by a vote of 7 yeas and 0 nays.

6. <u>Discussion and approval of the 12/31/2008 actuarial report, contributions and tax sharing allocations for PERS Plan B.</u>

Mr. Curran presented the actuarial report.

Mr. Curran moved to set the Plan B FY 09/10 employer contribution rate at 10.00% to allow full amount of revenue sharing and ad valorem taxes, and to approve the report for the system. Deputy Commissioner Goodson seconded the motion. There were no objections and the motion passed unanimously by a vote of 7 yeas and 0 nays.

7. <u>Other Business</u>

There was no other business brought before the committee. Mr. Purpera moved to adjourn the meeting. The motion was seconded by Deputy Commissioner Goodson. There were no objections and the motion passed unanimously by a vote of 7 yeas and 0 nays.

Meeting adjourned at 10:55 am.

APPROVED BY PRSAC COMMITTEE: ***<u>January 12, 2010</u>***