

ACTUARIAL REVIEW OF THE  
2018 ACTUARIAL VALUATION OF THE  
CLERKS' OF COURT RETIREMENT AND RELIEF FUND



ACTUARIAL SERVICES  
PRESENTED TO THE PUBLIC RETIREMENT SYSTEMS' ACTUARIAL COMMITTEE  
FEBRUARY 25, 2019



LOUISIANA LEGISLATIVE AUDITOR  
DARYL G. PURPERA, CPA, CFE

February 5, 2019

Ms. Debbie D. Hudnall  
Executive Director  
Clerks' of Court Retirement and Relief Fund  
10202 Jefferson Highway, Building A  
Baton Rouge, Louisiana 70809

**Re: Actuarial Review of the 2018 Actuarial Valuation**

Dear Ms. Hudnall:

To fulfill the requirements of R.S. 11:127(C) to the Public Retirement Systems' Actuarial Committee (PRSAC) for 2018, the Louisiana Legislative Auditor (LLA) has arranged for an Actuarial Review for the Louisiana Clerks' of Court Retirement and Relief Fund (CCRRF).

In lieu of a Comprehensive Actuarial Review or a Brief Actuarial Review as we have prepared for statewide retirement systems in the past, we are submitting herein an Actuarial Review (AR) for PRSAC's consideration. The scope of this Actuarial Review is less robust than a Comprehensive Actuarial Review, but provides more specific opinions and recommendations than previous Brief Actuarial Reviews.

The remainder of this letter contains the results of our Actuarial Review of your June 30, 2018 actuarial valuation (prepared by G.S. Curran & Company and dated October 19, 2018). More specifically, we have evaluated for appropriateness the actuarial assumptions and methods employed by the System and its actuary.

I would like to thank you, your staff and the board's actuary for your cooperation and assistance with this review.

Sincerely,

Daryl G. Purpera, CPA, CFE  
Legislative Auditor

DGP:JJR:ch

cc: G.S. Curran & Company

2018 ACTUARIAL REVIEW FOR CCRRF

## Scope of Review

The 2018 actuarial valuation report for the Clerks' of Court Retirement and Relief Fund (CCRRF) for funding purposes was prepared by G.S. Curran & Company, and dated October 19, 2018.

This Actuarial Review of that report was prepared by the actuary for the Louisiana Legislative Auditor, Gabriel, Roeder, Smith & Company (under the supervision of Mr. James J. Rizzo), and includes evaluations for appropriateness of key actuarial assumptions and methods.

This Actuarial Review presents opinions concerning various assumptions and methods employed by the board and its actuary in the 2018 funding valuation. However, a full actuarial valuation replicating the actuary's results was not performed; nor was a full actuarial valuation performed using recommended assumptions and methods.

This Actuarial Review is limited to discussion of (1) appropriate actuarial treatment of CCRRF's COLA benefits, (2) appropriate investment return assumption, (3) the actuary's use of acceptable mortality tables and (4) the rates of withdrawal.

## Summary of Findings

### 1. Cost-of-Living Adjustments (COLAs).

The cost of future COLAs is currently not included in the 2018 funding valuation. Future COLAs are currently treated by the board and its actuary on a pay-as-you-go basis, recognizing them in the calculations of costs and liabilities only after they are granted.

With rare exceptions, pay-as-you-go funding is not generally acceptable actuarial practice. The board and its actuary recognize all other future benefits promised by the plan using their respective likelihoods of eligibility and their projected amounts. But the board and its actuary do not recognize any future expected COLA benefits until after they occur.

"Gain-sharing COLAs" are allowed when the actual investment earnings exceed the valuation rate, effectively sharing the better-than-assumed gains with the eligible members. The authority for the CCRRF board to pay gain-sharing COLAs is also subject to various timing and other conditions and restrictions. Practically speaking, there are two types of gain-sharing COLAs outlined in statutes for CCRRF.

- R.S. 11:1549 describes COLAs (called "*supplemental*" for this purpose) and
- R.S. 11:246 describes "*additional*" cost-of-living adjustments.

The likelihood of future gain-sharing COLAs being allowed is actuarially predictable when standing alone. The statutory provisions that give rise to allowing CCRRF gain-sharing COLAs operate under something akin to auto-pilot. The rules are set forth in statutes. However, when a gain-sharing COLA is allowed to be paid, the CCRRF board has discretionary authority to grant, or not to grant, a gain-sharing COLA to increase eligible members' benefits.

In addition, "Funding Deposit COLAs" are allowed for CCRRF when there is a balance in the Funding Deposit Account (FDA). For example, a Funding Deposit COLA was granted as of January 1, 2018. Again, the authority for the CCRRF board to pay FDA COLAs is subject to various timing and other conditions and restrictions.

- R.S. 11:107.1(D)(4)(a) and R.S. 11:243(G)

While the workings of the gain-sharing statutory template and the board’s likelihood to pay gain-sharing COLAs are fairly simple to model (actuarially speaking), the inclusion of the FDA as an optional source for paying a COLA complicates the discretionary aspects of the ultimate end-game of granting a COLA and which type and, therefore, complicates the actuarial model.

Recommendation -- For CCRRF, the actuary for the LLA cannot unequivocally recommend recognizing COLAs in the measurement of CCRRF’s total benefit cost and liabilities. However, we do recommend that the CCRRF board engage its actuary to (a) undertake a quantitative actuarial analysis of the operation of the gain-sharing provisions alone and (b) overlay at least a qualitative analysis of the interaction of the possibilities of paying a Funding Deposit Account COLA and how that might affect the system’s costs and liabilities determined under the gain-sharing-only analysis in (a) above.

The actuary for the LLA created an actuarial model for measuring the likelihood of another statewide system’s board (Firefighters’ Retirement System; FRS) being allowed to grant a gain-sharing-only COLA and the maximum amounts allowed during each of the next 30 years, based on those statutory rules<sup>1</sup>. FRS’ gain-sharing-only COLAs were found to be expected frequently and found to be material.

The following table presents the summary results of that actuarial analysis for FRS, under R.S. 11:246 (*additional* COLAs) and R.S. 11:2260(A)(7) (*supplemental* COLAs):

<b>Summary of Results (30-year Averages) for FRS</b>			
	<i>Supplemental</i> COLA <sup>a</sup>	<i>Additional</i> COLA <sup>b</sup>	Total COLA <sup>b</sup>
Annual Probability of COLA allowed and granted	25.5%	20.0%	20.0%
COLA rate, given COLA is allowed and granted	2.3%	1.8%	4.1%
Single equivalent fixed annual COLA rate	0.62%	0.34%	0.96%

<sup>a</sup> For all eligible retirees

<sup>b</sup> For all eligible retirees over age 65

While CCRRF assets, liabilities and demographics are not the same as FRS and while CCRRF also allows for FDA COLAs, whereas FRS is limited to gain-sharing-only COLAs, it is nevertheless instructive for the CCRRF board to see how likely it is for FRS’ board to be allowed to grant gain-sharing COLAs from excess interest earnings. Given the similarities between CCRRF’s and FRS’ gain-sharing COLA provisions, consideration of FRS’ results may give CCRRF’s board sufficient reason to engage its actuary to undertake a similar study, specifically for CCRRF (with and without incorporating FDA COLAs).

The cost and liability for future expected COLA benefits can be approximated with this model and recognized in the regular annual valuation to improve the board’s public representation of the system’s costs and liabilities.

<sup>1</sup> For results of the actuarial study prepared by the actuary for the LLA concerning the likelihood and amount of gain-sharing COLAs being paid by the Firefighters’ Retirement System (FRS), please refer to the LLA’s website for the Actuarial Review of the June 30, 2018 funding valuation for FRS.

## 2. Overly Optimistic Return Assumption

For this Actuarial Review, a detailed analysis of independent experts' current forecasts for CCRRF's portfolio was not undertaken. The last time such a detailed analysis was undertaken by the actuary for the LLA was for the 2016 valuation report (presented in a Comprehensive Actuarial Review dated February 3, 2017).

The CCRRF's 2016 valuation report used a 7.0% return assumption. The Comprehensive Actuarial Review suggested 6.42% for the 2016 return assumption, based on a consensus average of independent national investment forecasters.

The CCRRF board and actuary did not lower its return assumption for the 2017 valuation, retaining the same 7.0% rate. But for the 2018 valuation, the CCRRF's board and actuary did lower the return assumption to 6.75%.

However, the trend among professional investment forecasters since 2016 has generally been to lower their forecasts at a faster rate than CCRRF's return assumption was lowered. Since 2016, CCRRF's return assumption was lowered only 0.25%, while the experts' forecasts applied to other retirement systems has been shown to lower their expectations by significantly more than that. There is no reason the same would not be true of CCRRF's fund as well.

Recommendation -- In the absence of conducting a detailed analysis using CCRRF's own asset allocation and its own expected cash flow, the actuary for the LLA recommends that the CCRRF retirement board and actuary consider lowering the return assumption to be somewhere within a range from 5.50% to 6.50%, with the top end of that range being the most aggressive (not conservative) assumption. It is recommend that the CCRRF board lower its return assumption again for the 2019 valuation, in order to (a) bring it into the mainstream of professional forecasters and (b) produce a more appropriate representation of the system's costs and liabilities.

## 3. Mortality Assumption

The 2018 Actuarial Valuation (page 40) states that the mortality assumption for annuitant and beneficiary mortality is the "RP 2000 Healthy Annuitants Table set forward 1 year and projected to 2030 using Scale AA for males and projected to 2030 using scale AA for females."

To evaluate the reasonableness of the mortality assumption, we reviewed the base mortality (RP2000) separately from the projection scale (Scale AA). We believe the use of the RP2000 as the base mortality table to be reasonable. Therefore, we find the base table (before projection for future mortality) to be fully appropriate for the 2018 Actuarial Valuation.

Once the base table was found to be reasonable, we then reviewed the projection scale used in the mortality assumption (projection Scale AA). We believe the actuary's use of Scale AA projected to 2030 is not unreasonable.

Recommendation -- A more current approach to estimating mortality rates for valuation purposes would be to use either: (a) RP2000 projected generationally by Scale BB, or (b) RP2014 loaded with 120% (for CDC data) and adjusted for partially credible plan-specific experience, then projecting generationally using MP2017 or MP 2018. While either of these two approaches would be more current and preferable methodologies, we do not find the mortality tables used in the CCRRF 2018 actuarial funding valuation report to be unreasonable.

#### 4. Rates of Withdrawal

The 2018 Actuarial Valuation (page 4) for funding states that “the current year actuarial assumptions utilized for this report are based on the results of an actuarial experience study for the period July 1, 2009 to June 30, 2014.”

The withdrawal rates in the experience study report cited above (prepared by the board’s actuary, dated December 1, 2015) were reviewed, and compared to the withdrawal rates disclosed in the 2018 funding valuation report. It was noted that the withdrawal rates are slightly different (shifted by one year) in the valuation report compared to the experience study report.

Two questions arise with the actuary for the LLA:

- Which set of rates should be the right one to use?
- Did the actual calculations in the valuation use the rates from the experience study or the rates as disclosed in the valuation report?

Recommendation -- It is recommended that the two sets of rates be examined by the board’s actuary and the two questions resolved.

## Actuarial Certification

This report is considered to be a Statement of Actuarial Opinion. We therefore make the following certification:

This report has been prepared by actuaries who have substantial experience valuing public employee retirement systems. All calculations have been made in conformity with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board.

We, James J. Rizzo and Piotr Krekora, are Consultants and Actuaries with Gabriel, Roeder, Smith & Company, the current actuary for the Louisiana Legislative Auditor. We are members of the American Academy of Actuaries, Associates in the Society of Actuaries, and Enrolled Actuaries, and we meet the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinions contained herein.



James J. Rizzo, ASA, MAAA

February 4, 2019  
Date



Piotr Krekora, ASA, MAAA, PhD

February 4, 2019  
Date