

ACTUARIAL REVIEW OF THE
REGISTRARS OF VOTERS EMPLOYEES'
RETIREMENT SYSTEM'S
2019 ACTUARIAL VALUATION



ACTUARIAL SERVICES
PRESENTED TO THE PUBLIC RETIREMENT SYSTEMS' ACTUARIAL COMMITTEE
FEBRUARY 12, 2020



LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

January 14, 2020

Ms. Kathy Bourque, Director
Registrars of Voters Employees' Retirement System
Post Office Box 1959
Gonzales, Louisiana 70707

Re: Actuarial Review of the 2019 Actuarial Valuation

Dear Ms. Bourque:

To fulfill the requirements of R.S. 11:127(C) to the Public Retirement Systems' Actuarial Committee for 2019, the Louisiana Legislative Auditor has conducted an Actuarial Review for the Registrars of Voters Employees' Retirement System (System).

The remainder of this letter contains the results of our Actuarial Review of your June 30, 2019 actuarial valuation (prepared by G.S. Curran & Company and dated November 1, 2019). More specifically, we have evaluated for appropriateness certain 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

LLA'S ACTUARIAL REVIEW OF ROVERS' 2019 ACTUARIAL VALUATION

Scope of Review

The 2019 actuarial valuation report for the Registrars of Voters Employees' Retirement System (ROVERS) for funding purposes was prepared by G.S. Curran & Company, and dated November 1, 2019.

This Actuarial Review of that report was prepared jointly by James J. Rizzo, Senior Consultant and Actuary employed by Gabriel, Roeder, Smith and Company (GRS), and by Piotr Krekora, Consultant and Actuary also employed by GRS. GRS serves as staff for the LLA Actuarial Services section. 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 includes evaluations for appropriateness of certain actuarial assumptions and methods, based in part on research conducted a couple years ago.

This Actuarial Review is limited to discussion of (1) appropriate treatment of ROVERS' gain-sharing COLA benefits, (2) appropriate investment return assumption, and (3) the actuary's use of acceptable mortality tables.

Summary of Findings

1. Gain-sharing Cost-of-Living Adjustments (COLAs).

The cost of future COLAs is currently not included in the actuary's funding valuations. Future COLAs are currently recognized in the calculations of costs and liabilities only after they are granted.

The board of trustees 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 actuarial investment earnings exceed the valuation rate, effectively sharing the better-than-assumed gains with the eligible members. The authority for the ROVERS 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 ROVERS.

- R.S. 11:2073 describes a plan-specific COLA, and
- R.S. 11:246 describes "*additional*" cost-of-living adjustments.

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

In addition to gain-sharing COLAs, “Funding Deposit COLAs” are allowed for ROVERS 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 ROVERS 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.

Refer to the Appendix for the recent history of when and how much ROVERS COLAs were permitted to be granted, and for when and how much COLA was actually granted.

Conclusion -- For ROVERS, the LLA cannot unequivocally recommend recognizing COLAs in the measurement of ROVERS’ total benefit cost and liabilities. This conclusion is based on the following observations from the six years set forth in the Appendix table:

- A. In the first year of the six-year period shown, a gain-sharing COLA was permitted, but none was adopted by the board of trustees;
- B. As of the valuation dates in the subsequent five years, there was insufficient actuarial return to permit a gain-sharing COLA;
- C. However, based on the 6/30/18 valuation and the FDA balance at that time, the board of trustees adopted an FDA COLA of 2.0% to all eligible retirees; and
- D. The balance in the FDA continues to be sufficient to pay COLAs if desired.

It is not known whether the board of trustees would opt for a gain-sharing COLA in a year when that becomes permitted, or focus more on FDA COLAs in the future. However, there appears to be preference and opportunity to pay FDA COLAs rather than gain-sharing COLAs. Granting FDA COLAs in lieu of gain-sharing COLAs has no immediate impact on the contribution requirement, while granting gain-sharing COLAs do increase the contribution (although the extra contribution could be financed with the FDA balance in that same year).

In summary, at this time, we do not find compelling reasons to recommend the recognition of gain-sharing COLAs in the System’s annual actuarial valuations. That may not be true of our opinions in the future for ROVERS and is not necessarily true of other systems.

However, we do recommend that the ROVERS 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.

2. Overly Optimistic Return Assumption

For this Actuarial Review, a detailed analysis of independent experts' current forecasts for ROVERS' portfolio was not undertaken. The last time such a detailed analysis was undertaken by the LLA was for the 2017 valuation report (presented in a Comprehensive Actuarial Review dated February 5, 2018).

The ROVERS' 2017 valuation report used a 6.75% return assumption. The Comprehensive Actuarial Review suggested 5.60% for the 2017 return assumption based on a consensus average of independent national investment forecasters.

The ROVERS board of trustees and actuary lowered the return assumption for the 2018 valuation to 6.50%. However, the ROVERS board of trustees and actuary did not lower its return assumption for the 2019 valuation, retaining the same 6.50% rate.

The trend among professional investment forecasters since 2017 has generally been to lower their forecasts further. Since 2017, ROVERS' return assumption was lowered only 0.25%, while the experts' forecasts applied to other retirement systems has been shown to lower their return expectations as well. There is no reason the same would not be true of ROVERS' portfolio as well.

ROVERS' portfolio and asset allocation are conservative, and, therefore, it is expected not to earn as much as other portfolios. Nevertheless, the trend among professional investment forecasters since 2017 has generally been to lower their forecasts below the 5.60% (applicable to ROVERS's asset allocation) for 2017.

An overly optimistic return assumption, applied repeatedly, creates underfunding in a retirement system and undermines the actuarial promise to career public servants.

Furthermore, a return assumption that is an outlier compared the mainstream of professional forecasters is not a "best estimate" and obscures the fair representation of future costs and liabilities in public disclosures.

The appropriateness of a retirement system's investment return assumption for any given year's pension valuation is assessed as follows:

- In terms of the expected future inflation rates and future capital market assumptions for relevant asset classes;
- As forecasted by several reputable and independent professional forecasters, and applied to the pension fund's own asset allocation targets;
- Net of the pension fund's own expected investment-related expenses -- both in-house or external, for passive management fees, for custodial and trade-execution fees, and for external investment consulting; and
- Adjusted for the pension plan's duration calculation (a proxy for adjustments due to projected benefit cash flows).

Professional investment forecasters are often more pessimistic about the next 10 years' returns. This is mostly driven by currently high stock price valuations and currently low yields and interest rates. They are not expecting the next 10 years' investment returns to be nearly as high levels as we have seen in many prior periods.

While experts' forecasts are not certain or guaranteed, in our opinion they are the best sources for decision-makers to rely on - a consensus average of the collective expectations of independent subject matter experts applied to the System's own characteristics.

Conclusion -- In the absence of conducting a detailed analysis using updated 2019 or 2020 expert forecasts and in the absence of applying them to ROVERS' own asset allocation and expected cash flow, the LLA recommends that the ROVERS retirement board and actuary consider lowering the return assumption to be somewhere within a range from 5.25% to 6.0%, with the top end of that range being an aggressive (not conservative) assumption.

A current 2019 return assumption of 6.50% (or 6.25%) might appear conservative compared to other pension funds, but compared to expert professional forecasters' 2019 expectations it is likely to be overly optimistic.

3. Mortality Assumption

The 2019 Actuarial Valuation (page 37) states that the mortality assumption for annuitant and beneficiary mortality is the "RP 2000 Healthy Annuitant Tables 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).

Additionally, we note that the Pub-2010 Mortality Tables, the most recently developed broad-based mortality tables, were issued by the Retirement Plans Experience Committee of the Society of Actuaries (SOA) and published in January 2019. These tables constitute the most recent and reliable standard reference tables available for purposes of national estimates of mortality for public pension plans and include tables reflecting variations in mortality due to above- or below-median income levels.

Conclusion -- A more current approach to estimating mortality rates for valuation purposes would be to use PubG-2010(B) adjusted for partially credible plan-specific experience, then projecting generationally using MP2018 or MP 2019. We recommend the General Employee subset (G), and the below-median rates (referred to as Table B by the SOA) is suggested in lieu of a geographic adjustment.

Actuarial Certification

This Actuarial Review report constitutes a Statement of Actuarial Opinion. It has been prepared by actuaries who have substantial experience valuing public employee retirement systems. To the best of our knowledge the information contained in this report is accurate and fairly presents information it is purported to present. 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.

James J. Rizzo and Piotr Krekora are members of the American Academy of Actuaries. These actuaries meet the Academy's Qualification Standards to render the actuarial opinions contained herein.

The signing actuaries are independent of the Registrars of Voters Employees' Retirement System.



James J. Rizzo, ASA, EA, MAAA
Senior Consultant and Actuary
Gabriel, Roeder, Smith & Company

January 9, 2020

Date



Piotr Krekora, ASA, EA, MAAA, PhD
Consultant and Actuary
Gabriel, Roeder, Smith & Company

January 9, 2020

Date

Appendix

COLA History for the Registrars of Voters Employees' Retirement System

Actuarial Measurement Date	Statutory Conditions for Gain-Sharing COLA Under:		Authorizing COLA Statute Pct and Recipients ¹		Authorizing Funding Deposit Account COLAs		Amount Granted by Board	Date Approved by Board	Effective Date of COLA	Comments
	The Window Rule ²	The Sufficient Actuarial Return Rule ³	R.S. 11:2073 COLA [Up to 3%, to All Elg]	R.S. 11:246 COLA [2% or Nothing, to Elg Over 65]	Balance in the FDA	FDA Balance Spent?				
6/30/2019	Not Satisfied (For YE 2020)	Not Satisfied (4.8% vs. 6.5%)	None Permitted [To All Eligibles]	None Permitted [To Elg Over 65]	\$2,801,029	No	NA	NA	NA	None permitted for failure to satisfy both Rules
6/30/2018	Not Satisfied (For YE 2019)	Not Satisfied (5.5% vs. 6.75%)	None Permitted [To All Eligibles]	None Permitted [To Elg Over 65]	\$2,630,074	No	NA	NA	NA	None permitted for failure to satisfy both Rules
6/30/2017	Satisfied (For YE 2018)	Not Satisfied (5.7% vs. 7.0%)	None Permitted [To All Eligibles]	None Permitted [To Elg Over 65]	\$2,920,894	Yes, to grant a 2.0% COLA	2.0% Granted [To All Eligibles]	12/2017	1/1/2018	COLA granted from Funding Deposit Account
6/30/2016	Satisfied (For YE 2017)	Not Satisfied (3.0% vs. 7.0%)	None Permitted [To All Eligibles]	None Permitted [To Elg Over 65]	\$2,068,558	No	NA	NA	NA	None permitted for failure of Sufficient Investment Return
6/30/2015	Satisfied (For YE 2016)	Not Satisfied (6.1% vs. 7.0%)	None Permitted [To All Eligibles]	None Permitted [To Elg Over 65]	\$882,567	No	NA	NA	NA	None permitted for failure of Sufficient Investment Return
6/30/2014 ⁴	Satisfied (For YE 2015)	Satisfied (7.9% vs. 7.5%)	≤3% Permitted [To All Eligibles]	None Permitted [To Elg Over 65]	\$0	No	NA	NA	NA	Partial 2073 COLA allowed but none granted

¹ Per R.S. 11:2073, the Board is authorized to provide a supplemental COLA of up to 3% of the original benefit to all eligible pensioners. Additionally, per R.S. 11:246, the Board is authorized to provide an additional COLA of 2% to eligible pensioners over age 65. No COLA may be provided during any fiscal year until the lapse of at least one-half of the fiscal year.

² Per R.S. 11:243, the Board may grant a benefit increase if any of the following apply: (1) the system has a funded ratio of at least 70% and has not granted a benefit increase to retirees, survivors, or beneficiaries in any of the three most recent fiscal years, (2) the system has a funded ratio of at least 80% and has not granted such an increase in any of the two most recent fiscal years, or (3) the system has a funded ratio of at least 90% and has not granted a benefit increase to retirees, survivors, or beneficiaries in the most recent fiscal year. The funded ratio as of any fiscal year is the ratio of the actuarial value of assets to the actuarial accrued liability under the funding method prescribed by the office of the legislative auditor.

³ Per R.S. 11:2073, the Board is authorized to use interest earnings on investments of the system in excess of normal requirements to provide a supplemental COLA of up to 3% of the original benefit to all eligible pensioners. Additionally, per R.S. 11:246, the Board has the authority to provide an additional COLA of 2% to eligible pensioners over age 65 if there is sufficient excess interest earnings to fund the entire 2% additional COLA.

⁴ The 6/30/14 valuation date marks the first year that Act 170 applies, after the trustees elected to be covered under R.S. 11:243 by 12/31/13.