

March 8, 1991
546 State Office Building

1st Meeting



ACTUARIAL SERVICES SUBCOMMITTEE

LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

MINUTES

Senator Gene Waldorf, Chair of the Actuarial Services Subcommittee, called the meeting to order at 10:15 A.M.

Subcommittee members present:

Representatives Gerald Knickerbocker and Leo Reding
Senators Steven Morse and Gene Waldorf

Initial Consideration of the Provision of Actuarial Services Issue.

Sen. Waldorf requested that Lawrence A. Martin, LCPR Executive Director, identify the key issues involved in this topic. Mr. Martin stated that the main issue is who is responsible for the major thrust of pension actuarial work, the Commission or the pension funds. Mr. Martin further stated that beyond that issue are issues regarding what is needed as far as actuarial work, how should the Commission-retained actuary's cost be allocated, and how and by what timetable is the Commission actuary selected.

Mr. Martin stated that in 1984, possibly due to the quality, accuracy, or consistency of the work product the Commission was receiving, the Commission was charged with the responsibility for retaining and paying for an actuary to perform the primary services required. In 1987, the cost of the Commission retained actuary was allocated to the pension funds. This cost allocation precipitated questions about the cost of the Commission actuary and the level of services performed.

Rep. Leo Reding questioned The Wyatt Company contract time period. Mr. Martin responded that the initial contract period was for three years from 1984-1987, was extended for two years from 1988-1990 and then extended for one year from 1990-1991.

Rep. Knickerbocker stated that the previous Actuarial Services Subcommittee reviewed existing statutes and, without changing statutes, made the changes that could be made due to the Commission's changing requirements to reduce the level of services performed by the Commission actuary. He asked what other things would the Subcommittee need to address statutorily in addition to the previous modifications. Mr. Martin responded that the changes made by the previous Subcommittee are still valid and in addition, statutory changes will be necessary to reduce costs and downsize the actuarial valuation.

Rep. Knickerbocker asked what the dollar impact might be if the statutory changes were implemented to downsize the actuarial work. Mr. Martin responded that if all the statutory changes suggested by the Commission actuary were implemented, the cost savings would be about \$100,000. Rep. Knickerbocker stated that the fundamental question is who pays for the Commission actuary's service.

Sen. Waldorf agreed that who pays for the service is a key issue. He also noted that it is necessary to identify the basic oversight function required to protect the state's interest. Discussion followed.

Rep. Reding stated that if an audit of the pension funds, such as that done by the State Auditor, doesn't show problems such as MERF has had, what is the point of having the audits and actuarial work performed.

Elton Erdahl, TRA Executive Director, stated that the acceleration in the cost for the Commission-retained actuary first raised the issue of whose responsibility it was to conduct

the valuation for the pension funds. TRA believes that it is the TRA Board's fiduciary responsibility to have a valuation performed according to the statutory Standards for Actuarial work. After TRA's actuary performs the valuation, the Commission-retained actuary could audit TRA's actuarial valuation. TRA's allocated cost for the Commission actuary's services was \$110,000 in 1989 and \$89,000 in 1990 and the Commission actuary is not accountable to TRA. As a result of a competitive bid process, TRA has a contract with their actuary for \$55,000 to \$58,000 for full actuarial services and the actuary is accountable to TRA. Rep. Reding questioned Mr. Erdahl's use of the word accountable. Mr. Erdahl stated that TRA does not hire or fire the Commission actuary, whereas with their own actuary they do the hiring and give the assignments. Sen. Waldorf questioned whether TRA would rely on the Commission actuary's cost estimates for benefit proposals. Mr. Erdahl stated that he would rely on the Commission actuary's cost estimates but the Commission actuary would probably do a cost estimate after a benefit proposal had been introduced, whereas TRA would have had their actuary do a cost estimate when the proposal originated. Discussion followed.

Sen. Waldorf questioned whether TRA has a problem with the timetable set by The Wyatt Company in performing actuarial valuations. Mr. Erdahl's response was that TRA does not have a problem with the timetable for actuarial valuations. Rep. Knickerbocker stated that he recalled a discussion from previous meetings regarding the different ways in which the pension funds report data to the Commission actuary and that possibly a standardized format utilized by all the funds to report to the Commission actuary might reduce problems and thereby costs for the valuations. Discussion followed.

Sen. Waldorf questioned whether TRA considers performance of an actuarial valuation an oversight function. Mr. Erdahl responded that the Commission actuary's valuation is a duplication of the pension funds primary responsibility. The Commission actuary should review, audit and verify the pension funds actuarial valuation.

Laurie Hacking, PERA Executive Director, testified that according to The Wyatt Company's figures, \$2.5 million has been spent over the last five years. Ms. Hacking further stated that a savings of \$88,000 out of \$350,000 is not enough. She questioned whether it was necessary for the Commission actuary to do a valuation for every fund every year. She also stated that the pension funds have a client/advisor relationship with their own actuary that they do not have with the Commission actuary. PERA paid \$55,000-\$60,000 for full actuarial services from their actuary and paid the Commission actuary \$130,000. She suggested that the Commission actuary continue to cost out benefit proposals. Discussion followed.

Eugene Waschbusch, SPTRFA Secretary Treasurer, testified that SPTRFA is the only fund that does not have their own actuary. SPTRFA has a problem getting a cost estimate from The Wyatt Company due to the language in the contract with the Commission actuary. SPTRFA will soon be hiring their own actuary and they agree with the other pension funds that the fund's actuary should perform valuations and the Commission's actuary should audit those valuations. Sen. Morse questioned whether it would be possible for SPTRFA's actuary to use The Wyatt Company valuation to cost out benefit proposals. Mr. Waschbusch responded that it was his understanding that the actuary costing out benefit proposals needed to have the full data base in order to cost out benefit proposals. Mr. Martin concurred with the response. Discussion followed.

James Hacking, MERF Executive Director, testified that state law assigns pension fund boards the role of fiduciary and the Commission the role of oversight. Mr. Hacking suggested that the Commission actuary perform a full valuation on the major three funds once every three years at the rate of one per year and maintain and update annually a full database on all the funds. Sen. Morse questioned the difference between doing an update and a full valuation. Mr. Hacking responded that an update involved inputting annually the changing data from each of the pension funds and a valuation involved running all that data to generate a valuation report. Mr. Hacking suggested that the Commission hire a staff actuary. He further suggested a clear division of duties between the pension funds' actuary and the Commission's actuary. Discussion followed.

Jerry Bridgeman, Minneapolis Police Relief Association, testified that his experience with the thirteenth check actuarial work showed a significance difference between the police actuarial work and the city's actuarial work. He supports the Legislature dictating exactly what procedure should be followed to produce actuarial reports. Discussion followed.

Elton Erdahl, in response to Sen. Morse's question about the difference in the cost between updating data and a full valuation, stated that TRA had in the past paid \$26,000 for a cost estimate and \$29,000 for a valuation.

Sen. Waldorf stated that the information provided was helpful but the components of what is necessary for oversight and an allocation method still need to be discussed.

The meeting adjourned at 11:55 A.M.


Jean Lieb Gott, Secretary