



March 18, 1991
400 South State Office Building

2nd 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 10:10 A.M.

Subcommittee members present:

Representatives Bob Johnson and Gerald Knickerbocker
Senators Steven Morse and Gene Waldorf

Further Consideration of the Provision of Actuarial Services Issue.

Sen. Waldorf described the key questions that he would like to have the Subcommittee respond to. His questions were as follows:

Whether or not the Commission needs to have its own actuary?

If the Commission needs an actuary, what should the actuary's duties be?

How should the cost be allocated?

Rep. Johnson introduced his revised actuarial services bill and provided copies of the bill and summary for members. He stated that the changes in his revised bill came out of conversations he had with the fund directors since the last Subcommittee meeting. Rep. Johnson further stated that the Commission should have its own actuary but under his bill the Commission actuary would review and audit the valuations performed by the pension fund actuaries.

Sen. Waldorf started the discussion by stating that at the last Subcommittee meeting the question raised was whether it was necessary to perform a valuation in order to cost out benefit changes. Rep. Johnson stated that in his bill the Commission actuary would continue to maintain a database on all of the funds. Sen. Morse questioned how much the actual savings would be if the Commission actuary went from performing an annual valuation on each fund to performing only one-third of the valuations.

Laurie Hacking, PERA Executive Director, responded to Sen. Morse's question. She stated that in 1989 The Wyatt Company did an estimate of savings for Rep. Johnson's previous bill. The estimate showed fees of \$77,000 to \$145,000 for four valuations per year and biennial experience studies as compared to the \$302,000 amount billed to the funds in that year for 13 valuations and annual experience studies. Rep. Johnson's current bill calls for the Commission actuary to perform two valuations per year and the pension fund actuaries to perform biennial experience studies to be audited by the Commission actuary. Rep. Johnson stated that from 1986 to 1991, \$2.48 million dollars have been spent by the Commission and the pension funds on actuaries. Sen. Morse questioned how much asset money was being overseen by the actuaries. The response was between \$11 billion and \$14 billion in assets.

Ms. Hacking also responded to the earlier question regarding whether a benefit cost estimate could be made without the actuary performing the valuation. She stated that TRA's actuary did benefit cost estimates without having done the valuation but did have an updated data base. Sen. Waldorf questioned which cost estimate would be suspect if the cost estimates came out differently as they did for the Rule of 85 cost estimates. Discussion followed. Rep. Johnson stated that the Rule of 85 cost estimate variances occurred prior to the Standards for Actuarial Services. Sen. Waldorf stated that the advice the Commission receives must be accurate and performance of the valuation gives credibility to the data. Ms. Hacking stated that as fiduciaries the pension funds cannot be in a situation where an actuary that they do not hire or fire or call upon for services does the valuations and assessments for their funds. Discussion followed.

Rep. Johnson stated that the Commission actuary looks at the big picture whereas the pension funds need an actuary to provide day-to-day responses to their questions. Ms. Hacking stated that PERA's actuary advised PERA that a change was needed in PERA's joint and survivor tables and also their mortality tables. The Commission actuary possibly did not feel that it was his role to provide this advice to PERA.

Sen. Morse stated that he believes the Commission has a higher responsibility than the funds' fiduciary responsibility.

Paul Groschen, MSRS Executive Director, stated that the Commission actuary performs duties for an oversight function not for an administrative function. He spoke in support of the funds having their own actuaries. Discussion followed.

Elton Erdahl, TRA Executive Director, stated that if the Commission actuary was responsible for the review and audit of the pension funds' valuations, the charge should be no more than \$25,000 and probably closer to \$15,000 to \$20,000. The MSRS and PERA directors agreed with that estimate. Discussion followed.

Sen. Waldorf stated that the Commission role is more than regulatory and the key question seems to be whether an actuary can provide reliable benefit cost estimates without having performed the actuarial valuation. Discussion followed.

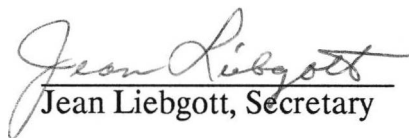
Rep. Knickerbocker suggested that if Rep. Johnson's bill was passed, it should be amended to permit benefit changes for a pension plan only in the year immediately after the Commission actuary performed a valuation for that plan. Discussion followed.

Rep. Johnson stated that key points seem to be: are the Standards working; and can reliable benefit cost estimates be provided without having performed a valuation.

Ms. Hacking referred members to an October, 1989 letter to Senator Donald Moe from Robert Perkins of The Wyatt Company, in which Mr. Perkins seemed to envision providing benefit cost estimates without performing the valuations. Sen. Waldorf stated that the issue of the reliability of those cost estimates still remains.

Sen. Waldorf further stated that if the method of cost allocation were changed to a different allocation method, the actuarial issue may be resolved.

The meeting adjourned at 11:30 A.M.


Jean Lieb Gott, Secretary