

March 25, 1991
400 South State Office Building

3rd 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 stated that he hoped the actuaries present at this meeting would provide answers to the key questions the Subcommittee has raised. He invited the three actuaries, Robert Perkins of The Wyatt Company, Dan Peterson of Gabriel, Roeder, Smith & Co., and James Verlautz of Deloitte Touche, to come forward to testify. Sen. Waldorf began with the list of questions he requested Lawrence Martin, LCPR Executive Director, to prepare for this meeting.

Sen. Waldorf asked the first segment of questions regarding the qualifications, education and background of the actuaries present.

Mr. Verlautz responded that he has a B.S. in Business Administration majoring in Actuarial Science from Drake University, became a Fellow in the Society of Actuaries in 1985 and an Enrolled Actuary in 1983. He is a member of the American Academy of Actuaries, a member of their committee on pensions and a member of a working group on public sector plans. Mr. Verlautz stated that he has been employed at Deloitte Touche and their predecessor company, Touche Ross, since 1978, he performs approximately 100 valuations per year and at least 100 cost estimates per year, he has primarily private sector clients but his public sector clients are larger than his private sector clients, and MSRS is his largest public sector client.

Mr. Perkins responded that he received his B.A. in Mathematics at the University of Kansas in 1962 and an M.A. in Actuarial Science at the University of Michigan in 1964. He became an A.S.A in 1964 and an F.S.A. in 1967. He is an enrolled actuary under ERISA and a member of the American Academy of Actuaries. He has been employed as an actuary since 1966, is presently employed by The Wyatt Company, he has performed thousands of valuations and cost estimates, he has more private clients that public, and PERA is the largest public sector pension plan for which he performs valuations.

Mr. Peterson responded that he received his B.A. in Actuarial Mathematics at the University of Michigan in 1963. He became an A.S.A. in 1964 and an F.S.A. in 1968. He is an enrolled actuary since 1976. He has been employed as an actuary since 1963, is presently employed by Gabriel, Roeder, Smith, has performed two to three thousand valuations and cost estimates, 95% of his work is in the public sector, and PERA is the largest pension plan for which he performs valuations.

Sen. Waldorf asked the second segment of questions regarding valuations and benefit cost estimates.

Mr. Verlautz stated that Deloitte Touche does not have a given regular procedure, it depends on the benefit change proposed and the precision required. Rep. Knickerbocker asked how old a valuation could be to be an adequate reference to cost a benefit increase. Mr. Verlautz responded that it could be two to three years old depending on the stability of the pension

fund. Rep. Johnson asked whether it was necessary for Mr. Verlautz to have performed the valuation to cost a benefit increase based on that valuation. Mr. Verlautz responded that he does not have to have performed the valuation but the valuation has to still be representative of the pension fund. Sen. Morse asked how Mr. Verlautz would incorporate Mr. Perkins valuation into the Deloitte Touche database to provide a cost estimate based on a valuation performed by Mr. Perkins. Mr. Verlautz stated that in order to do a cost estimate for a Rule of 85 benefit it would be necessary to have the database and arrive at an accrued liability figure before and after the benefit change but it would not be necessary to perform a full valuation to get that information.

Mr. Perkins stated that The Wyatt Company would also need to have the database to determine a before basis and an after basis. If a valuation had already been performed, the before basis would already exist. If they had not performed a valuation, they would set up the database programmed exactly as they would if they were going to perform a valuation to enable them to determine the before basis and the after basis and the cost impact of the benefit change.

Mr. Peterson stated that he agreed with the previous speakers regarding the standard primary way of costing a benefit. Discussion followed. Sen. Morse concluded from the discussion that a reliable benefit analysis could not be achieved without the actuary performing the analysis having access to a valuation.

Rep. Johnson stated that his legislation provided that the Commission actuary would perform an audit and verification function and he questioned what information would be necessary for him to provide that function.


Mr. Verlautz responded that an auditor does not reproduce all the numbers, they compare the current report with the last report and analyze whether the current trends make sense. If it is necessary to actually put the employee data on the system, it is substantially a bigger project and is close to a duplication. Discussion followed.

Rep. Johnson questioned Mr. Peterson on whether, in his opinion, a system could be developed that could verify and audit an actuarial valuation for the Commission without the Commission retained actuary performing the valuation. Mr. Peterson stated that he believed that was possible.

Mr. Perkins responded to the question of costing out a Rule of 85 benefit without having performed the valuation. He stated that the fastest turn-around time would be achieved if the actuary had worked with all the data and was comfortable with it, had all the benchmarks, had changed the computer program as necessary for the benefit increase, processed the information, and analyzed the before and the after basis. If a valuation was not performed, an approach may be to use a sampling of the data to arrive at the before and after basis and then analyze the results. If the results differed among the actuaries, it might take time to determine why these differences occurred and if this occurred during the legislative session, the time might not be available. Discussion followed.

Gary Findlay, Gabriel, Roeder, Smith & Co., spoke in support of the Commission actuary doing an audit but not duplicating the valuations performed by the pension funds' actuaries. Discussion followed.

The meeting adjourned at 12:20 P.M.


Jean Lieb Gott, Secretary