State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
ACTUARIAL COMMITTEE MEETING

Downtown Marriott Hotel – Prudhoe Bay Room
820 West 7th Avenue
Anchorage, Alaska

December 7, 2016

ATTENDANCE

Committee Present:	Kristin Erchinger, *chair* Tom Brice Gayle Harbo Rob Johnson Norman West Bob Williams
Committee Absent:	Commissioner Sheldon Fisher

Department of Revenue Staff Present:
Gary Bader (chief investment officer)
Pamela Leary (Treasury Division director)
Judy Hall (board liaison officer)

Department of Administration Staff Present:
Ryan Mitchell-Colgan (deputy commissioner)
Kevin Worley (chief financial officer, Department of Retirement & Benefits)

Others Present:
Larry Langer (Buck Consultants, actuary)
Todd Kanaster (Buck Consultants, actuary)
David Kershner (Buck Consultants, actuary)
Leslie Thompson (Gabriel Roeder Smith, review actuary)

I. CALL TO ORDER

CHAIR ERCHINGER called the meeting to order at 10:30 a.m.

II. ROLL CALL

Six committee members were present to form a quorum.

III. PUBLIC MEETING NOTICE

MS. HALL confirmed that public meeting notice had been met.

IV. APPROVAL OF AGENDA

MR. BRICE moved to approve the agenda. MS. HARBO seconded. The motion passed without objection.

V. PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS AND APPEARANCES

There were no public or member comments. MS. HALL said she had received no communications for the committee.

VI. APPROVAL OF MINUTES – September 28, 2016

MR. BRICE moved to approve the minutes of the September 28, 2016 meeting. MS. HARBO seconded. The minutes were approved as presented.

VII.

A. Proposed Actuarial Committee Best Practices Manual

CHAIR ERCHINGER thanked Leslie Thompson of Gabriel Roeder Smith for having done a lot of work on the proposed Actuarial Committee Best Practices Manual that will form a good basis for the committee in the future. She said this was a first effort, so the committee would be deciding later how to format the manual, what to include, and what to put in appendices instead of the body of the manual, etc. She invited Ms. Thompson to review the draft manual.

MS. THOMPSON told the committee that she had someone in her firm read the draft manual, who is familiar with pensions but not with this committee. One of their comments was to include an organization chart of the relationship of the Division of Retirement & Benefits (DRB) to the Department of Administration, and the relationship to the Alaska Retirement Management Board (ARMB), etc. She said she could do that if the committee thought it would be valuable. She had originally planned to put in links to documents but found that Judy Hall, the ARMB liaison, does a lot of that through the ARMB website.

MS. THOMPSON stated that an unexpected consequence of doing the manual was that looking at all the plans at the same time revealed some things that are inconsistent between plans. That raised questions about why that is, and she would bring those up during this review.

MS. THOMPSON said she added a section called Items for Future Discussion in an appendix, rather than have that in the body of the manual, because those will likely become agenda topics, if the committee agrees, and change some things going forward.

She started with the table of contents, pointing out that she organized it by groups of retirement plans. She asked if there were any questions on Section A: Introduction to the Actuarial Committee, which explained the role of the committee, and its powers, duties and authority.

MR. JOHNSON said the second paragraph suggests that the committee is the operative entity that coordinates with the retirement system, plan administrator, and so on. Those are the statutory obligations of the ARMB. He said his comments applied to a couple of other paragraphs. He suggested wording that "this committee assists the ARMB in the coordination with the retirement system…" He said he had heard that as this committee was establishing a charter there were disagreements about the role that seemed to be suggested for the committee as distinct from the Board, so there needs to be some sensitivity on that distinction.

MR. JOHNSON referred to the sentences "All actuarial assumptions and methods,….will be documented in this Manual," and "Findings from the audit will be documented in this Manual," and Changes affecting the valuation process will be documented in this Manual." He said that sounded like perpetually building up this thing because those are events that could occur with each valuation process. He thought it should be just broad strokes in the manual that the committee is working on, without necessarily attaching particular items that occur from year to year. He was concerned about trying to plug into the manual all the details that seem to happen from year to year to year. He said he looked at the actuarial issues that the committee is supposed to take into account for each of the different types of retirement systems and was learning as he goes, so that was terrific.

CHAIR ERCHINGER said she had a similar thought about the bulk of the manual growing over time. But she liked having the historical documentation of what the assumptions were and what those have been changed to. She thought Ms. Thompson was proposing that the appendices would provide that historical material. Presumably, a person could have a copy of the manual with possibly the last year's summary, without the bulky appendices of historical documentation over time.

MR. JOHNSON said the first paragraph on page 2 should be inserted as the second paragraph on page 1, because it actually describes the committee and is a good introduction. The second paragraph on page 2 is a good, succinct description of what the manual is all about.

CHAIR ERCHINGER suggested a footnote that says that anywhere in the manual that states that "the committee reviews," "the committee adopts," etc., it is with the understanding that those actions will be ratified by the full Board.

MR. JOHNSON wondered if any statement in the manual that says the committee has direct access to the State's actuary and review actuary runs into an institutional issue.

CHAIR ERCHINGER stated that the committee has a charter, and there were some proposed amendments in order to adopt that charter. Discussions in the process of fleshing out those proposed amendments caused the committee to put it aside for the time being and keep doing its work. One particular issue was around this committee's access to the actuaries. It is fair to say that the committee (through the Board) has the legal authority to contract the actuaries directly, separate from the Division of Retirement & Benefits or the

Department of Administration contracting the actuaries. Everyone is looking for information from the actuaries, and there is no reason that she can see that the ARMB has to separately contract with the actuaries just to talk to them and give information. To the extent that the administration ever felt that the Board was doing or saying or participating in something that it disagreed with or did not want to be part of, then the Board would have to decide whether it should have a separate contract with the actuaries that would give it the direct access, aside from the administration. She thought everyone had agreed that was not in anybody's best interest. This committee has said to the administration that the goal is to be open and transparent and not have conversations with the actuaries without staff there.

MR. JOHNSON said that if he were a lawyer looking over all of this, his opinion would be that the committee is simply part of the actuarial process. So, if there is an actuary that is part of the actuarial process, the committee should have the opportunity to engage with, and have discussions with the actuary, to the extent necessary.

CHAIR ERCHINGER indicated she agreed with that. She added that the proposed manual does a great job of pulling out some specific verbiage from statute, which is important. What she had tried to do in the Actuarial Committee charter initially was to state the statute in layman's language. However, certain people pointed out that maybe she was changing the intent of the statute by stating it in her own words, which was a good point because that was not the intention.

CHAIR ERCHINGER referred to the third paragraph of the manual's introduction, which stated that "The Actuarial Committee reviews actuarial assumptions…." She said one of the most important things the committee does is look at the assumptions and decide whether they need to be changed. The committee takes Buck's recommendations into consideration, takes into account the review actuary's recommendations, and then decides to recommend a change to an assumption. The committee takes action to forward that recommendation to the full Board, and the Board votes on that. She wanted that process articulated in the manual. That clarification is important, because at one point a comment was made that the Board has no role in actuarial assumptions, and that the actuary simply presented the assumptions used in the actuarial review. The way the statute is written, one could interpret it to say that the actuaries set the assumptions and that the ARMB does not have a role to play. She did not think that stood up to the reasonableness test, because that is what the Board is charged with doing. Describing the specific process in the manual might help future people understand how the process really flows.

MR. JOHNSON mentioned that the second paragraph on page 3, under Funding Policy, seemed to suggest that the Board will adopt whatever methods and assumptions the actuary tells it to adopt. He wanted the role of the Board clarified there as well. There is no question that when the Board ultimately certifies the contribution rates it needs to have the advice and backup for its determinations – and the experts are the actuaries. He suggested that that concept be imbedded at various points in the manual to clarify the committee's role.

Division of Retirement & Benefits chief financial officer KEVIN WORLEY commented that this discussion was very timely, considering that Buck Consultants will do the experience study next year, which involves reviewing many of the actuarial assumptions. The committee will be examining the actuary's assumptions and making its recommendations to the Board.

CHAIR ERCHINGER referred again to paragraph 3 on page 1 of the Introduction section, and specifically "…the results of all actuarial assumption analyses…shall be reviewed and certified by a second member of the American Academy of Actuaries before presentation to the board." The question to the Board legal counsel had been whether that prohibits the committee from actually seeing that work before it is finalized, or could the committee be part of that process, see the drafts, and have input at that stage, prior to the actuarial results going before the full Board. Legal counsel Stuart Goering had said that a reasonable part of the committee's job is to work with the actuaries within that process, prior to presentation to the Board, and the committee is not prohibited from working with the actuaries at that stage. So while the statement she highlighted above is true, the manual may want to state that prior to the presentation to the Board, the committee is fully involved in doing its work to ensure that its input is part of the process.

MR. JOHNSON added that the Board may not spend a great deal of time on record discussing the actuarial assumptions because the committee, which is almost a committee of the whole, presents its recommendation to the Board and ideally makes reference that the committee discussion can be found in the minutes and records of the committee.

MR. WEST said that hopefully the actuary is an active participant with the committee in discussing the potential ramifications of various changes and alternatives. He said he was amazed that the ARMB goes four years before doing an aging experience requirement, when there is a dead retirement plan (PERS and TRS). Demographics are changing all the time because that group goes away and there is not a new group participating. The committee needs to get recommendations from the actuaries as to what the ARMB might do to (a) conform to what is really happening, and (b) deal with the markets and the type of structure that exists. It is a mathematical guess, based on assumptions and inputs, that the retirement systems are funded enough money so that at the right point in time the plans can pay the benefits, and go home with zero in the bank account when the last participant has died. He hoped the actuary was not just giving the committee a report but was engaging in a regular conversation about where the plans are being steered and what they might have missed. Things can look a great deal different than what the actuaries might have thought the last time, because that happens, especially in a political environment where there are workforce cutbacks because of funding issues, etc. The demographics can change rapidly in four years. He wanted the actuary to be working with the committee to make sure that it hits the target and understands what assumptions are in play that are material and how they affect that target. Simply looking at an actuarial report would be severely undervaluing the use of an actuary. Many times, actuaries know and observe things that are going on when they are doing the numbers that, if they do not bring those things to the committee's attention, the committee will not understand them until the decisions do not hit the mark.

CHAIR ERCHINGER said those were great comments, adding that the actuaries have brought forward recommended changes on an ongoing basis. Every year, there may be a recommendation for an assumption change, so the ARMB is not waiting for four years until an experience study. She explained the value that the Actuarial Committee is bringing, and that in the past most of those conversations have been more between the actuaries and the Department of Administration. The Board had so many other matters of business before it that it did not spend enough time on the actuarial assumptions and issues, and that is why the committee was formed.

MR. WEST commented that the Department of Administration is an employer and is interested in managing the costs and the administration of the retirement systems, but they do not necessarily represent the participants, which is what the ARMB is all about in a sense. His seat on the Board represents the public, or the payer in this case, versus the administrator versus the participants versus the various groups. He referred to the third paragraph of the manual introduction that states, "The committee reviews actuarial assumptions…and conducts experience analyses of the retirement systems…" He asked if the committee actually conducts the analysis or reviews the analysis and gets the feedback on what it means. The committee can then go to the Board that has the authority to represent everybody and make the changes they think should be made to hit the goal with the full realization of both the participants and the providers who are paying into it. It is all about an ongoing conversation that does not go up to the full Board. As far as the review of the experience analysis, he said that in his 30 years, by the time the actuarial reports were printed, there was almost nothing in there that he had not expected.

MS. HARBO said what Mr. West brought up was very good, and it applies pretty much to the defined contribution plans. As far as the Tier I and Tier II of the Teachers' Retirement System (TRS) and the three tiers of the Public Employee's Retirement System (PERS) – the closed plans – once those people are vested, they mostly stick around, and there is not the change in demographics that would occur under the defined contribution plans.

MR. WEST responded that it might be true for TRS but might not be true for certain levels of state employees that, because of a change of administration or a change of direction, find they no longer desire to be in that line of work. He has found that demographics change fairly rapidly now, despite people being in jobs for 10 or 20 years, compared to how demographics changed a decade ago.

MS. THOMPSON made reference to the language of paragraph 5 of the Introduction, which had to do with the committee's work on the annual audit findings from the review actuary. She asked if the recommendations on the closure of each audit finding go to the full Board.

CHAIR ERCHINGER confirmed that they do, adding that the committee does maintain the checklist of audit findings. MS. THOMPSON said she would fix the language in paragraph 5.

MR. BADER stated that it may be overlooked that the committee can review the actuarial assumptions, but unless a person knows the universe of assumptions that the actuary was choosing from, they really don't know what they don't know. For example, if the actuary has presented a mortality table that might have a more aggressive or more conservative point of view on mortality. Having direct dialogue with the actuary is where the committee can really add value or a different perspective, in terms of how the assumptions are being built. He wondered if looking at alternatives should be part of that discussion.

CHAIR ERCHINGER agreed, adding that in the past she has wondered what the alternatives are to entry age normal, when the Board has approved that assumption. That is why she liked keeping the history in the appendix of what the assumptions have changed from and what the assumptions have changed to. It records that the committee has delved into each of the assumptions and asked what other mortality tables the ARMB could be looking at.

MR. JOHNSON said Ms. Thompson has presented lists, such as the ARMB funding policy list. Regarding what Mr. Bader said, he thought the committee's review can include, but is not limited to, the following, so that there could be other items to follow up on.

Referring to the options for each of the assumptions, MR. WORLEY asked if the committee thought this was something that Buck and GRS should be working together on outside of the committee meetings so they are on the same page.

CHAIR ERCHINGER stated that because the committee was new and trying to find a productive way of moving forward, it was saying that in the event either the primary actuary or the review actuary was recommending that the ARMB consider a change in an assumption, that that discussion would take place at a committee meeting, with input from both of the actuaries, before a change was made.

MS. HARBO said one assumption that the boards have had ongoing concern with, first with a previous actuary (Mercer) and then Buck Consultants early on, was whether the plans are using the most current mortality table. That assumption strongly affects how long the plans are paying out benefits. Buck has assured the ARMB that it is using the best mortality table, but maybe other committee members are interested in looking at how the mortality tables work and if they think the ARMB is using the best table.

MS. THOMPSON said she was hearing a process question about the collaborative review of assumptions. As Mr. Worley mentioned, the experience study is coming up, and GRS needs to get in front of it before Buck starts making decisions. The experience study timeline is on the agenda for the June meeting, and that can be a place where GRS talks with Buck about what the choices are, before Buck makes their final recommendation.

MS. THOMPSON, referring to Mr. Bader's earlier comment, said the role of the actuary is to help the committee get past not knowing what it doesn't know.

CHAIR ERCHINGER asked if it was possible, where the list of assumptions the ARMB is using occurs, to include a paragraph or so that says these are the main assumption drivers that drive the majority of the change in contribution rates. The committee has talked about the mortality table and the asset allocation as important ones. These should be reviewed more often by the committee so it remains vigilant on the assumptions that have the most impact on the contribution rates. For example, if the Board or committee had been looking at such a list in the past, it might have recommended the change to a different mortality table a lot earlier than Buck recommended the change.

MR. JOHNSON remarked that the committee did not want to be presumptuous in telling the primary actuary and review actuary, who are the experts, how to go about their business. He felt that when the experts present something to the committee, and it is reviewed, and there is commentary going back and forth about it, the committee wants to be careful about the degree to which it is inserting some control over what the actuaries are doing.

CHAIR ERCHINGER explained that the committee has waited for the actuary to recommend a change in assumption, or for the review actuary to say that the committee should at least have a discussion about why, for example, the ARMB is using a certain mortality table.

MR. BRICE mentioned that the actuaries are bringing in national data, but there are also some potentially significant impacts to local data – like the employment numbers that Mr. West brought up earlier, and the fiscal outlook of what is going on in the state. He said one purpose of this committee is to add that flavor to the assumptions so that all aspects are considered.

MR. WEST stated that in the last couple of years he has seen a change in the discount rate for figuring out the present value of the actuarial liabilities. A 1% change there is a big change. It has been a low-income environment for ten years, and there were much different assumptions used ten years ago than are used today. Yet, many trustees do not seem to know that is going on. Because Alaska has a frozen plan that is not taking any new participants, it should be using a different discount rate than a plan that still has people who will not retire for 30 years, after which they will receive potentially another 20 years' worth of benefits. That is the kind of information the actuary has to feed back to the committee, and the committee needs to discuss.

MR. WILLIAMS said he saw the actuaries as the experts and the committee as a filter to interpret if everything makes sense. For example, when the actuary was using proxy pension data to develop a healthcare assumption, there was a difference of opinion between the primary actuary and the review actuary about whether proxy data was suitable. This committee pushed for data that makes sense, and it made a difference in the overall valuation.

CHAIR ERCHINGER referred to Mr. Brice's comment about local knowledge, saying that the actuaries were recommending their typical 3% payroll growth, and the committee recommended a zero-growth assumption in the payroll base. The committee knows what is going on in Alaska and that the number of employees in the payroll base is likely to not just stay zero but go negative. The actuary may not have thought that through, in terms of Alaska's population.

MR. WORLEY clarified that while the defined benefit plans are closed, the actuaries look at the defined benefit plan and defined contribution plan contribution rate that is 22% for PERS, and a portion of that is still funding the defined benefit plan. So it is not dealing with a closed plan totally. The contributions from the increasing number of defined contribution plan employees are going into the defined benefit plan to pay that liability too.

MS. THOMPSON remarked that the proposed manual documents that as well. She moved on to Section B, page 3, which talks about the funding policy of the closed PERS and TRS plans. The policy for developing the recommended contribution rates is a core issue because the ARMB is approving, in a sense, the funding method, the assumptions, how the actuarially determined contribution is done, the normal cost, the amortization payment, the employer/member contribution rate and state assistance, and the two-year roll-forward approach to eliminate the interest expense on the lag. It is within the experience study presentations where discussions should take place about whether entry-age normal cost method is the best method or what other things the ARMB could choose from.

MS. HARBO referred to the first line under paragraph e on page 4 of the manual, noting that the Board does not make a recommendation about the member contribution rate.

MR. JOHNSON stated that the Board makes a recommendation on the overall contribution rate, and then Buck assesses that on a member/employer basis.

CHAIR ERCHINGER asked if the beginning of the funding policy section could include that the State legislature has made changes to statute that take away the ability of the Board to set some of the most important assumptions regarding funding, and that the legislature itself determines whether or not to fund. She thought it was important to specifically state that the legislature has made the decision to use a 25-year closed plan, and they have repeatedly changed the start date on that 25-year plan. The legislature has determined the use of the level percentage of pay, despite objection from the Board. The legislature has determined the amortization period, despite objection from the Board. The way the manual is written, it almost sounds like the Board established those policies and recommends them. She wanted the manual to be clear that this is the funding policy as determined by the legislature, and not as determined by the Board.

MR. BRICE suggested referencing the pieces of legislation that established the legislature's policies. He agreed with the Chair that it was factual to state that the Board had established certain policies and parameters for the funding policy, and that the legislature went counter to that – however, the legislature had that authority. For that reason, he did not want the context to be that the Board said this and the legislature did that.

CHAIR ERCHINGER said she thought it was critical to somehow communicate that certain constraints were placed upon the ARMB, even over its objections.

MS. THOMPSON said she would work on the language, because it could come back to bite the ARMB if it is perceived that the Board not approved everything in the funding policy and the legislature was not aware of it.

MR. WILLIAMS commented that the committee probably does not want statements in the manual that portray animosity. Some things, however, could be worded in a way to show that not everything that is in place is something the Board reviewed and completely endorsed, and that there is a tension sometimes between how policy rolls out, and the way it happens, and what this Board wants.

MS. THOMPSON drew attention to the ARMB Funding Policy chart on page 5 of the manual, saying that she would add something under the Amortization of Unfunded Accrued Liability to indicate this was a legislative constraint (level percent of pay over 25 years, etc.).

MR. BRICE reminded about using a footnote to indicate HB385 as the source of that legislative action.

MS. HALL stated that referencing the specific statute would be preferable because house bill numbers are restarted at 1 every legislative session, and there will be another HB385 in the future.

MR. BRICE added that bills include written policy intent and uncodified statements that do not make it into statute, but people can go back and do the legislative research if they want.

CHAIR ERCHINGER said the other item of funding policy on page 5 that needs identified as legislative constraint is Asset Smoothing. However, the statute says that the ARMB will eliminate asset smoothing as legislative intent. Under Assumed Rate of Return, she asked for a breakdown to say 3.12% inflation assumption and a net real return of 4.88%.

MS. THOMPSON moved on to page 6, Actuarial Best Practices for Closed Plans. She said she had tried to convey that this committee and the ARMB have spent a lot of time talking about how what is legislated and in practice is not necessarily the best practice for these closed plans. She said there is no actuarial bible that says what to do in a closed plan, so what the chart on page 6 shows is her opinion of what is a best practice. She looks at the actuarial standards of practice and the accounting standards to come up with those best practices. She added that since the plans are built on the faith and trust of the State to make the payments, she did know that it was even important to know what the best practice is. Her practice over the years has shown her that one thing closed plans lose year after year is political capital. Ten or 15 years down the road, if there is a tight budget situation, a closed plan can have a loss of political capital in terms of its funding. That is why boards work so hard to get the funding done upfront.

MS. THOMPSON stated that what could come out of the Best Practices section of the manual, if the committee so desired, would be a "best practice communication" around issues of the closed plans – how much of the unfunded liability is getting paid off, and is this the optimal way to fund these plans.

MR. JOHNSON ventured the notion of not calling this section "Best Practices" because any feature that shows what the ARMB is doing as something other than best practice invites the reviewer to think the ARMB is not doing something properly. He suggested "approaches to be taken" or "considerations for review."

CHAIR ERCHINGER said an alternative would be to include an asterisk that says this is an actuary's recommendation for best practice and it is debatable.

MR. WEST agreed with Mr. Johnson to call them something other than best practices for closed plans, because what is considered a best practice could change in three to five years, and the manual would have to be updated to reflect that change. He suggested "current practices" or "current industry views."

CHAIR ERCHINGER proposed "GFOA practices for closed plans," if that was what Ms. Thompson was listing in the manual. She added that this was another area where she felt that it was this committee's and the Board's job to make sure that the closed plans are fully funded. The legislature has taken the decision-making out of the Board's hands for certain assumptions that are key to making sure the plans are fully funded. The Actuarial Committee's manual should say something about that, and maybe it could be written in a positive way somehow. In the second paragraph on page 6, regarding the best practice for the amortization method, she said "the ARMB has expressed a preference for the level dollar amortization, due in part to its overall lower cost, fixed costs, and, therefore, budgetable costs." At the part about accelerating the approach to full funding, she proposed, "In addition, accelerating contributions allows a much larger proportion of ultimate benefit payments to come from investment earnings rather than required larger employer contributions." She said the ARMB trustees are the fiduciaries of the retirement plans, not the legislature. They make legislative decisions, and the ARMB is trying to make fiduciary decisions that do not always comport. So, it is important for the manual to say that, as fiduciaries, the Board has expressed a preference for one practice over another.

MR. JOHNSON stated that one of the best practice requirements is to follow the rules of the trust that a board is administering. In this case, the trust instrument is effectively the statutes. The trust is what it is, and the Board's best practice is to comply with what the trust instrument is.

MS. THOMPSON turned to page 7 of the proposed manual, the Data Used in Valuation Process. Item a. is the new task of reconciling the payroll used in the valuation to the Division of Retirement & Benefits payroll. Buck has agreed to put that reconciliation in the valuation reports. She understood that the difference between the rate and valuation payrolls had to do with how the pay for permanent part-time members was being handled.

Responding to the Chair, MS. THOMPSON said she would research if there was any other factor besides the part-time members that accounted for the difference between the two sets of payroll numbers.

MS. THOMPSON remarked that the proxy data issue was a great success of this committee. She reported having heard from Buck about State of Alaska plan employees married to other employees and who have dual healthcare coverage, and Buck is defining that in the data as well. They found 1,800 people who were in the valuation who should not have been, and now they have uncovered the dual coverage. It will mean some in-depth discussion about the data in the next valuation to understand what the use of the real data actually did for the valuation.

On page 8, MS. THOMPSON mentioned the section on the normal cost and the actuarial funding method, which she said could be reviewed at the experience study.

The section on the amortization of the unfunded accrued liability has a discussion of the statute, and she intended to strengthen that language, per the earlier discussion.

CHAIR ERCHINGER asked that the section include mention of when the 25-year amortization period of the unfunded liability was restarted.

Further on page 8, MS. THOMPSON said the contribution recommendations put forth by the committee come from the valuations and are based on those actuarial methods and assumptions. She said the annual review of the status of the unfunded accrued liability is a new emphasis for the committee. There has been discussion in the past about negative amortization, where no principal is being paid off. She included in the manual the concept that the committee will review every year the amount of the unfunded liability that is paid off so the committee and the Board know what is happening with the unfunded liability.

CHAIR ERCHINGER asked that a sentence be inserted on page 8 under item 4 that says it (pushing contributions out into the future) also results in foregoing significant interest earnings, which could accrue on the earlier contributions.

MS. THOMPSON moved to page 9, Smoothing Asset Returns, saying that was recently changed.

CHAIR ERCHINGER asked if it was a GFOA or American Academy of Actuaries best practice to do the five-year smoothing.

MS. THOMPSON said yes. CHAIR ERCHINGER requested that it be noted in that section. She also favored including a statement on the impact of smoothing, and the benefits and down side of smoothing.
MR. BRICE remarked that the Board had a substantial conversation and debate on the use of smoothing, and the legislative intent was not ignored.

MR. WEST wondered if the use of "industry accepted standard" would be preferable to saying "best practice," because best practice would be to have no smoothing, depending on whether you were the participant and wanted to see a fully funded plan.

MS. THOMPSON referred to the first full sentence on page 9, stating that there was a lot of discussion at the September meeting about the one plan (occupational death & disability) that had no recommended contribution. That is because the policy being implemented by Buck in the valuation process is that if there is a surplus they actually amortize that surplus and count it as a credit against the normal cost. As the review actuary, she recommended that the committee review that entire process and consider the notion of at least contributing the normal cost of a plan.

CHAIR ERCHINGER said it could go in the appendix as a future education topic.

MS. THOMPSON added that the retiree medical could also get thrown into full funding fairly quickly too. It could have applications sooner than people think.

Under 6. Actuarial Assumptions on page 9, MS. THOMPSON said she would add a chart with the key levers that were recommended.

CHAIR ERCHINGER asked for rewording of the first sentence to read: "Assumptions are approved by the Board after taking into consideration the recommendations of the primary actuary, the review actuary, and the results of the regular experience studies."

Referring to the paragraph headed "Interest rate assumption-use of GEMS and the "traditional" model," MS. THOMPSON remarked that one of the most upsetting things that has happened in the ARMB's history was the GEMS model. It was upsetting because it could not be explained, and it was a change in process without explanation. A group was formed that came back and recommended that Buck do the traditional model with the GEMS model when making a recommendation on the interest rate assumption.

CHAIR ERCHINGER said she wanted to add language at the end of that paragraph to say that the assumptions for long-term investment return and inflation take into account recommendations from the Board's investment advisors (Callan, the Investment Advisory Council, and the chief investment officer). She said it is not just Buck doing their work: they also rely heavily on the work that has been done by the rest of the Board.

Regarding retiree healthcare assumptions, MS. THOMPSON said those follow the Getzen model, which is industry standard and best practice. She also noted that the committee wanted the Cadillac tax quantified at each annual valuation of the retiree medical liabilities.

MS. THOMPSON moved on to the section on the annual review of the trend assumptions on page 10 of the manual. Her concern was whether the language comported with statute. She thought the statute required an annual review of the (healthcare) trend assumptions. The trend also includes the differential between the DCR and PERS/TRS closed plans. The 12% cost differential is that the retiree medical plan for DCR members costs 12% less because it is designed to be that way. It is something that has to be looked at with each experience study.

MS. THOMPSON said the annual review of gains or losses by source is the annual experience study, where the 5-year experience study is measured on the basis of head-count. So, the ARMB does look at experience every year.

MR. JOHNSON remarked that, while the list was great, he would like to see flex language that says "actuarial assumptions can include the following:" He did not want the committee to be bound, where it would be in error if it deviated from the list.

MS. THOMPSON said it was a great point and made note. She moved on to the Annual Contribution Requirement section on page 10 of the manual, and the Special Calculations and Allocations section that followed. She paid tribute to former trustee Martin Pihl, who had made good points about looking at all the special calculations and allocations that occur in the retirement plans. She said the draft wording might not be right because she had thought the allocation of state assistance was going to be 100% in the pension plan and zero in the retiree medical. The committee minutes, however, indicate the committee will review that at the March meeting before making a final recommendation, because Buck has cautioned that costs could go up greatly in retiree medical. This is another case where, if retiree medical is fully funded, she thought the Board would want to get at least the normal cost funded.

Under the Special Calculations and Allocations section at the bottom of page 10, MS. THOMPSON stated that Buck gets the allocation of expenses between plans from the Division of Retirement & Benefits (DRB). She noted, for example, that Chair Erchinger had pointed out at the last meeting that the Naval Militia National Guard Retirement System seemed to have a high expense allocation, and wondered how that was done. Neither Buck nor GRS has that information; it comes from DRB.

CHAIR ERCHINGER said she preferred that the section include a description of how the expenses are allocated. MR. WORLEY said the division has an internal cost allocation plan and could develop a description for the manual.

MS. THOMPSON said that an allocation occurs on assets between the peace officer/firefighter and Other in the PERS valuation. That allocation is done on the basis of the accrued liability, with the intent to maintain similar funded ratios between those plans.

MR. WORLEY stated that those allocations are accounted for separately, but they are lumped together in the financial statement. There is a separate trust fund for the assets of the peace officer/firefighter plan, and all Other is in another trust fund.

CHAIR ERCHINGER asked if it was the division's intent to maintain similar funded ratios between those plans, or if it was coincidental right now.

MR. WORLEY said the latter might be the case.

MS. THOMPSON remarked that the section would need some illumination to make it correct.

MR. WORLEY stated that PERS has a valuation for occupational death and disability as a whole, but DRB looks at them independently – all other versus peace officer/firefighter – because of the difference in years of service. The resolutions show that, too.

MS. THOMPSON moved on to the Reporting and Communications section, which addresses the reporting out that the committee does.

CHAIR ERCHINGER reminded her that the language needed to be tweaked to say, "The committee will…review, adjudicate and resolve the audit findings, with recommendations to the full Board for final approval."

MS. THOMPSON referred to the appendices that were lists of items that have been adjudicated and approved by the Board. Appendix B was data processing issues. Appendix C was on amortization (and she would amend the language regarding legislation). Appendix D was on smoothing (she would amend the language on actuarial intent). Appendix E was items that have been adjudicated over the last few years on methods and assumptions.

MS. HARBO mentioned the retiree drug subsidy for the DCR on page 17 of the manual. She asked Mr. Worley how the DCR people get a retiree drug subsidy, because they are on a health reimbursement account.

MR. WORLEY indicated he was not sure on that, because the DCR people would be paying for it on their own.

MS. HARBO said she had questions on a number of things. The people in the defined contribution plans, when they retire, will get a bucket of money from which to pay their healthcare premiums. When that bucket of money is gone, it is gone, and then the premiums come out of their own pocket. They will not get anything for pharmacy.

MS. THOMPSON said she would check the valuations to see if the manual was actually talking about the same thing that Ms. Harbo described.

MR. JOHNSON questioned whether Appendix E was necessary, because it looked like it was basically the same material contained in part 6. on page 9 of the manual.

MS. THOMPSON made a note to review that.

CHAIR ERCHINGER suggested that Appendix E could be a history of changes, such as going from one assumption to another assumption and why.

MS. THOMPSON stated that Section F. Future Actions (page 31) was a list of items she wanted to hear from the committee on about what topics they wished to see on future agendas. She mentioned that the committee will want to take up what the funding policy will be when there is a surplus. She suggested getting ahead of that before the valuation reports recommend a zero contribution on some of the plans.

Regarding the rehire assumption, MS. THOMPSON stated that Buck will do a stop-gap assumption based on averaging liabilities, which she thought was fine. Buck will look more deeply during the experience study at how to set a rehire assumption. That will be something the committee will want to talk about when doing the preliminary meeting on the experience study. It will not be a small impact.

MS. THOMPSON admitted that she did not yet know how or where to handle the declining population projections for public sector employees in Alaska. It is the local flavor of what is going on in Alaska, the declining population and payroll. The valuation is amortizing payroll assuming a 3% payroll growth, but committee members have expressed doubt that there will be a 3% payroll growth. That ought to be discussed with the experience study because that is where the growth estimate can be changed.

The 12% cost differential between DCR and the PERS/TRS closed plans should be an experience study review.

MS. THOMPSON noted that Ms. Harbo has brought up regularly whether or not the 100% participation rate in healthcare is a valid assumption. Buck has gone to real data only recently.

The committee may want to consider whether to put together a method to deal with the extraordinary gains (or losses) due to medical claims.

MS. THOMPSON stated that the allocation of assets between peace officer/firefighter and Other in the PERS valuation was just resolved by Mr. Worley. The committee may want something from Mr. Worley that shows how the division allocates those assets.

Annual review of the status of the unfunded actuarial liability is something MS. THOMPSON thought the committee should look at every year.

She said she added two items to the list: the role of the committee with respect to GASB reporting, and the role of the committee with respect to legislative communications, because she did not know what the committee's role or preference was.

CHAIR ERCHINGER proposed adding to the list of Future Actions the issue of addressing the closed plans. The two pieces she was interested in were (1) when the Board would be having a discussion about changing the asset allocation for a closed plan; and (2) the ongoing discussion about what moving from long-term investments to shorter-term, lower-return investments does to liquidity in a closed plan.

MS. HARBO remarked that Mr. Bader has been covering that topic fairly regularly, and even did a presentation on liquidity.

MR. BADER mentioned that this year the executive branch, the legislative branch, and the judicial branch all decided to have furlough days for their employees, which will reduce the payroll and reduce contributions to the plans. He wondered if there should be some mention of this in the manual or not, because he did not know the impact that perhaps an 8/10ths of a percent reduction in payroll would have. That is not taking into account that employees may not get raises (and raises would be a 3% increase in payroll).

CHAIR ERCHINGER suggested adding that point to #3 on page 31.

MR. WILLIAMS said he would find it helpful if the history of employer contribution rates over the years was included in an appendix.

CHAIR ERCHINGER said maybe the investment earnings history, as well.

MS. THOMPSON stated that she had noticed that expenses are an explicit assumption added to normal cost in the National Guard Naval Militia Retirement System, but that treatment occurs nowhere else. She thought the reason behind that was a worthy discussion to have with Buck. The discussion might even be expanded to "should expenses be in the normal cost for all plans?" The assumption is an 8% investment return, but if expenses have to come out of that, then the plan needs to earn 8.1% or whatever the expense number is to cover that expense. Maybe the ARMB has agreed that that is really what it wants to do. But maybe the Board has not had the opportunity to review that issue and say it does not want to have a gain or a loss on an expense that is being amortized over 25 years, and it should just be a normal cost and the annual cost of doing business.

CHAIR ERCHINGER said that was a great idea. She added that the draft manual was a great start, and also a body of work that will require a lot of updating. She encouraged everyone to continue reviewing the manual and pass any additional comments to Judy Hall to be forwarded to Ms. Thompson.

Regarding the next step, MS. THOMPSON said she would update the manual to incorporate today's editing and input. She needed direction beyond that point.

CHAIR ERCHINGER said that instead of having another discussion on the body of work once updated, perhaps the committee could pick out the next steps piece, because that will help roll the committee into the valuation process that will be starting in the new year. Once the valuation process has the committee's input and is kicked off, then the committee could get back to work on the body of the manual again.

A couple of committee members mentioned March or April as a likely time to review the draft manual again.

MS. THOMPSON remarked that there were quite a few items in the manual that the committee wants to get ahead of in the experience study. She offered to pull those items together and give them to Judy Hall so the committee could decide if it wanted to alert Buck.

CHAIR ERCHINGER clarified that that was what she meant about anything that is needed in preparation for the valuation. The experience study becomes the next step for the committee in its use of the manual, before taking on the manual as a whole. That could happen at the next committee meeting.

MR. JOHNSON commented that the committee charter should be blended into the manual and made consistent.

CHAIR ERCHINGER thanked Ms. Thompson for all her work. She noted that the committee had nothing to recommend to the Board at this point.

B. Updates/Follow-Up

CHAIR ERCHINGER said she had intended a discussion on the outstanding items on the list, but that could be done another time. The list has been whittled down considerably, and most of the outstanding items will be coming up for the next valuation, as well as for the experience study.

VIII. FUTURE MEETINGS

A. Calendar Review

The schedule of meetings for 2016-2017 was included in the packet. Pulling out the pertinent items for the upcoming valuation and the upcoming experience study was added to the March meeting.

B. Agenda Items

CHAIR ERCHINGER said there was space on the April agenda for an education topic. She said Ms. Thompson provided some great ideas for potential education topics, and she offered to work with Ms. Thompson and Ms. Hall to select the most time-sensitive topics to consider.

C. Requests/Follow-Up

There were none.

IX. Adjournment

The meeting adjourned at 12:15 p.m., on a motion made by Ms. Harbo and seconded by Mr. Johnson.

Note: An outside contractor prepared the summary minutes from staff's recording of the meeting. For in-depth discussion and presentation details, please refer to the recording, staff reports, and written presentation materials on file at the ARMB office.

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Karen Pearce Brown