

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
ACTUARIAL COMMITTEE MEETING

Location:

Alaska State Museum, Lecture Hall
395 Whittier Street
Juneau, Alaska

January 11, 2019

ATTENDANCE

Committee Present: Kristin Erchinger, *chair*
Commissioner John Quick
Commissioner Bruce Tangeman
Tom Brice
Gayle Harbo
Robert Johnson
Gail Schubert, *via telephone at 10:04 a.m.*
Norm West
Bob Williams

Committee Absent: None

Department of Revenue Staff Present:

Bob Mitchell (chief investment officer)
Pamela Leary (director, Treasury Division)
Zach Hanna (deputy chief investment officer)
Stephanie Alexander (board liaison)
Coltin Lanz (office assistant II)

Department of Administration Staff Present:

Ajay Desai (director, Division of Retirement & Benefits)
Christina Maiquis (chief financial officer, Division of Retirement & Benefits) *via telephone*

Others Present:

Stuart Goering (assistant attorney general, Department of Law) *via telephone*
David Kershner (Buck) *via telephone*
Scott Young (Buck) *via telephone*
Leslie Thompson (Gabriel Roeder Smith (GRS)) *via telephone*
Paul Wood (GRS) *via telephone*

I. CALL TO ORDER

CHAIR KRISTIN ERCHINGER called the meeting to order at 10:00 a.m.

II. ROLL CALL

Eight committee members were present at roll call to form a quorum.

III. PUBLIC MEETING NOTICE

Board liaison STEPHANIE ALEXANDER confirmed public meeting notice had been met.

IV. PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS, AND APPEARANCES

There was no one present at the meeting or listening by telephone who wished to speak to the committee. There were no written communications for the committee.

V. 2017 EXPERIENCE STUDY

1. Action: Relating to Acceptance of Experience Study Actuarial Assumptions Resolution 2018-19

CHAIR ERCHINGER informed the purpose of today's meeting is to approve Resolution 2018-19, accepting the experience analyses prepared by Buck, as well as the assumption and method changes recommended therein. Members were provided a packet of information containing all relevant information. CHAIR ERCHINGER noted Buck's analysis does not recommend a particular set of assumptions. The Committee will decide on which set of assumptions to utilize. The document entitled "Summary of Current and Proposed Assumptions/Methods from 2017 Experience Study" is the information to be adopted in Resolution 2018-19. Any amendments to Resolution 2018-19 will be explicit to this document. Also included in the member packet is a schedule of the impacts of the proposed changes.

CHAIR ERCHINGER summarized Scenario #1 is the outcome of the assumption changes as currently adopted as of June 20, 2017. Scenario #2 was summarized as the outcome of the assumption changes discussed in the packed entitled "Summary of Current and Proposed Assumptions/Methods from 2017 Experience Study," without the inclusion of a new 25-year period of amortization layering for each subsequent year's unfunded liability. Scenario #3 was summarized as the outcome of the assumption changes discussed in the packed entitled "Summary of Current and Proposed Assumptions/Methods from 2017 Experience Study," with the inclusion of a new 25-year period of amortization layering for each subsequent year's unfunded liability.

MR. JOHNSON requested clarification regarding the attachment that is mentioned in Resolution 2018-19. CHAIR ERCHINGER explained the attachment document is the "Summary of Current and Proposed Assumptions/Methods from 2017 Experience Study,"

CHAIR ERCHINGER opened the floor for discussion regarding each of the scenarios. MR. WEST feels layering is the right decision, but the 25-year period is the wrong period of time because the plan is closed. MR. WEST supports adopting the layering approach, even if the 25-year period has to be implemented, until such time a legal or legislative clarification can be sought to move away from the 25-year period to a period based on recommended best actuarial practices for a closed plan.

MR. WEST moved to accept Scenario #3 that utilizes a new 25-year amortization layering schedule for each year's unfunded liability. MR. JOHNSON seconded the motion.

MR. WEST requested comments from attending ARMB consultants regarding layering the new actuarial gains and losses over a 25-year period. DAVID KERSHNER, Buck, first explained the projections for the three scenarios have been revised since the December meeting, at the request of BOB MITCHELL, Chief Investment Officer, to reflect the impact of adopting Employer Group Waiver Program (EGWP). The healthcare administrative expense load has also been revised since the December meeting. MR. KERSHNER wanted to ensure the members have the updated projections. CHAIR ERCHINGER informed the updated projections will be distributed to members today during each item's discussion.

MR. KERSHNER explained the level percentage of pay versus level dollar is not related to the amortization of the unfunded liability. The amortization of the unfunded liability is currently on a level percentage of pay basis and is proposed to remain as level percentage of pay. MR. KERSHNER discussed the closed plan still has a significant number of years for projected pay-outs. Buck supports a 25-year amortization period because it decreases the potential volatility of the additional State contributions. As the plan evolves after the next 15 to 20 years to a point where there are fewer active members and more inactive members, a decision could be addressed to shorten the amortization period to reflect the wind-down phase for the plan.

MR. WILLIAMS agreed with MR. WEST's comments. MR. WILLIAMS supports layering, but does not support the excessive 25-year period; and therefore, cannot vote yes for layered amortization if the period must remain at 25 years.

CHAIR ERCHINGER noted her understanding from the December meeting was the 25-year period was not typical for a closed plan. PAUL WOOD, GRS, advised actuarial best practices for layering by the Conference of Consulting Actuaries (CCA) suggests a 15 to 20-year amortization period. The 25-year layering period is derived from the legislative intent of maintaining previous practice. MR. WOOD recommended the current process remain until a legislative agreement in statute can be made to utilize the actuarially best practice of a 15 to 20-year layered amortization period.

COMMISSIONER TANGEMAN advised the budget discussions in the next month are going to be brutal and proposals will be made that have not occurred previously. This is not the year to increase the budget substantially. He feels the inflation assumption rate change and the layering method are both reasonable and beneficial. COMMISSIONER TANGEMAN does not feel the 25-year period should be addressed this year.

CHAIR ERCHINGER distributed Buck's updated projection schedule, which includes the EGWP roll-in and the shift of healthcare administrative costs out of this schedule and into the normal cost schedule. CHAIR ERCHINGER discussed the additional State contribution for PERS and TRS under Scenario 2 and Scenario 3.

MRS. SCHUBERT inquired if the motion to adopt layering is a recommendation from the Committee to be brought before the full Board. MR. JOHNSON agreed and acknowledged each assumption will be adopted by the full Board.

COMMISSIONER QUICK requested additional time to contemplate layering and believes COMMISSIONER TANGEMAN would appreciate further discussion, as well. COMMISSIONER QUICK was grateful to have the month extension to review the change in the inflation rate and he is comfortable with the inflation rate change.

An at-ease was requested.

CHAIR ERCHINGER recessed the meeting from 10:39 a.m. to 10:51 a.m.

COMMISSIONER QUICK informed he was able to clarify questions during recess. He believes Scenario #3, which recommends a 25-year amortization layering schedule, is acceptable to the Administration. His requested postponement of the motion is unnecessary.

A roll call vote was taken, and the motion passed unanimously.

CHAIR ERCHINGER invited SCOTT YOUNG of Buck and PAUL WOOD of GRS to discuss the revised document including the impacts of the EGWP roll-in. MR. YOUNG described the revised scenarios use the average savings from the estimates received from Siegel and Aetna in early 2018. An additional revision is anticipated as new information is released.

MR. JOHNSON asked if implementing EGWP and including estimates of savings at this time is consistent with sound actuarial practice. MR. YOUNG agreed. MR. WOOD agreed to the inclusion of EGWP because it was implemented January 1, 2019. Had EGWP not been implemented, it would not have been recognized in the valuations. MR. WOOD agreed Buck's estimation approach is reasonable.

CHAIR ERCHINGER requested AJAY DESAI, Director, Division of Retirement & Benefits, to verify whether or not EGWP has been implemented. MR. DESAI confirmed EGWP became effective the beginning of January 2019. The process was difficult and many obstacles were overcome. CHAIR ERCHINGER suggested it would be prudent to include a footnote in future valuations describing the potential impact of losing EGWP.

CHAIR ERCHINGER requested discussion regarding the shift of healthcare administrative costs out of this schedule and into the normal cost schedule. MR. YOUNG explained the revised version takes some administrative fees that were previously in the normal cost load and removes them because they are administrative service fees that are charged by the carriers for administering the benefits. The cost for those fees are built into the per capita cost used to calculate the liabilities and should not be double counted. This refinement was unknown at the initial time of the projections. The effect was it lowered the normal cost rate and therefore, lowered other results, without adding to the past liability.

MR. WEST noted MR. WOOD had given negative feedback at a previous meeting regarding the precision of the estimated investment return of 7.38%. MR. WEST informed the prior investment return was composed of 4.88% real return and 3.12% inflation to equal an even 8%. MR. WEST asked if MR. WOOD feels the inflation rate should be changed to 2.52% from the proposed 2.5% in order to equate a total investment return of 7.4%. MR. WOOD emphasized there are many moving pieces in an actuarial valuation. He understands the clear rationale for setting the assumption at 7.38%. GRS supports using round numbers, such as 7.4%, 7.5%, or 7.25% for assumptions. Pinpointing assumptions to a single basis point may imply a precision that does not exist. If there were to be a change, GRS would suggest moving the real return to 4.9% and leaving the inflation rate at 2.5%, because of the inflation rate has greater impacts to salary increases, payroll growth assumption, and other costs.

CHAIR ERCHINGER asked Buck if there are any issues outstanding to be addressed before action can be taken on Resolution 2018-19, accepting all of the proposed assumption changes within the Buck provided document entitled “State of Alaska, Summary of Current and Proposed Assumptions/Methods from 2017 Experience Study, Prepared by Buck for the December 12, 2108 Actuarial Committee Meeting.” MR. KERSHNER noted there are no outstanding issues before action can be taken. He informed a revised estimate reflecting EGWP in the 6/30/18 valuation is underway, but does not affect decisions of this Committee.

CHAIR ERCHINGER reiterated Resolution 2018-19 is a recommendation that will go before the full Board. She read; “Now therefore be it resolved by the Alaska Retirement Management Board, that the Public Employees' Retirement System's, Teachers' Retirement System's, Judicial Retirement System's, and Alaska National Guard and Naval Militia Retirement System's Actuarial Experience Analysis as of June 30, 2017, as well as the assumption and method changes recommended therein, prepared by Buck be approved.”

MS. HARBO moved to accept Resolution 2018-19. MR. WILLIAMS seconded the motion.

MR. JOHNSON moved to amend the language in Resolution 2018-19 as follows: Now therefore be it resolved by the Alaska Retirement Management Board, that the Public Employees' Retirement System's, Teachers' Retirement System's, Judicial Retirement System's, and Alaska National Guard and Naval Militia Retirement System's Actuarial Experience Analysis as of June 30, 2017, as well as the assumption and method changes recommended therein and attached as Exhibit A, right-hand column, prepared by Buck be approved.” MR. WILLIAMS seconded the motion.

There was no objection to the motion to amend.

A roll call vote was taken, and the motion to accept Resolution 2018-19, as amended, passed unanimously.

VI. FUTURE MEETINGS

A. Calendar Review

CHAIR ERCHINGER noted the February 11, 2019 meeting is no longer necessary and has been removed. There was no objection.

B. Agenda Items - None.

C. Requests / Follow-Ups - None

VII. ADJOURNMENT

MS. HARBO moved to adjourn the meeting. MR. WEST seconded the motion. The motion passed without objection.

The meeting was adjourned at 11:16 a.m.

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