MINUTES OF THE
WV CONSOLIDATED PUBLIC RETIREMENT BOARD
ACTUARIAL ASSUMPTIONS REVIEW COMMITTEE
MEETING OF MARCH 7, 2017

A meeting of the West Virginia Consolidated Public Retirement Board's Actuarial Assumptions Review Committee was held in the Legal Conference Room, located at 4101 MacCorkle Avenue, SE, Charleston, West Virginia, on March 7, 2017. Chairman Pizatella called the meeting to order at 10:02 a.m.

Roll Call

Committee Members present were:
Jason Pizatella, Chairman
Joe Bunn, Esquire
Mike McKown
Jeffrey Vallet

No Committee Members were absent.

Others present were:
Jeff Fleck, CPRB Executive Director
Candi Kinslow, CPRB Executive Assistant
Melody Bailey, CPRB Actuarial Analyst
Heather Drake, CPRB Administrative Assistant
Diana Stout, Esquire
David Driscoll, Buck Consultants, *via telephone*
Troy Jaros, Buck Consultants, *via telephone*

A quorum was present.

Due Notice was published.

Item #1: Approval of October 6, 2016 Minutes

Mr. Vallet made a motion to approve the October 6, 2016 meeting minutes. The motion was seconded by Mr. McKown. The motion carried unanimously.

Item #2: TRS Asset Smoothing

Troy Jaros of Buck Consultants reviewed with the Committee the proposed four-year Asset Smoothing in the Teachers' Retirement System (TRS).

Mr. Jaros announced the Teachers' Retirement System would use the same four-year asset smoothing method now used by the Public Employees' Retirement System. Under this method, differences between the expected returns on the System's assets and actual returns are recognized gradually over four years in the asset value used for funding.

- 75% of the difference is deferred for later recognition in the first year.
- 50% of the difference is deferred for later recognition in the second year.
- 25% of the difference is deferred for later recognition in the third year.
- There is no further deferral in the fourth and subsequent years.

He announced the introduction of the method would begin with 75% deferred recognition of the excess of expected returns over actual returns in FY 2016. Full implementation would take four years.

Mr. Jaros announced the introduction of asset smoothing in the July 1, 2016, actuarial valuation of TRS would have the following effects:

- The value of assets used to determine funding in FY 2018 will be raised by approximately $393.2 million.
- The unfunded liability of the System as of July 1, 2016, would be reduced by the same amount.
- The actuarially determined contribution for FY 2018 would be reduced by approximately $43.2 million.

Mr. Jaros announced the percentage would increase from 61.7% to 65.4%, if the four-year asset smoothing method is implemented.

Mr. Jaros reviewed with the Committee, things to know about the proposed method:

- Asset smoothing is widely used by large public retirement systems to dampen volatility in contribution requirements.
- The proposed method is more conservative than the smoothing methods used by many other public retirement systems, which generally use smoothing periods of five to ten years.
- The proposed method seems to conform well to guidance issued within the actuarial profession regarding the selection of asset valuation methods.
- It is important to remember that "the smoothing method giveth, and the smoothing method taketh away" – in other words, while the smoothing method currently produces a value that exceeds the market value of assets, it is likely to produce values below market value in other years.

Mr. Jaros asked the Committee if there were any questions regarding the presentation on the four-year asset smoothing method for TRS.

Ms. Stout asked the Actuaries of Buck Consultants if they recommended the Actuarial Assumption Review Committee adopt the proposed method for asset smoothing in TRS.

Mr. Jaros responded, yes, we recommend the Actuarial Assumption Review Committee adopt the proposal for asset smoothing in TRS. He stated, this is a very common method used for public plans throughout the country. He informed the Committee, it reduces volatility from year-to-year and would give more stability in the required contribution amount.

Mr. McKown asked the Actuaries of Buck Consultants if the method of asset smoothing would affect the normal cost or the unfunded liability.

Mr. Jaros announced the asset smoothing method proposed for TRS would affect the unfunded liability amount and would not have any effect on the normal cost.

Chairman Pizatella asked if there was a motion from the Committee regarding the proposal for asset smoothing in TRS.

Mr. Vallet made a motion the Actuarial Assumption Review Committee adopt the proposal for asset smoothing in TRS to be effective for the July 1, 2016 valuations which affects the FY2018, required contribution and to make a recommendation to the full Board for its adoption. Mr. McKown seconded the motion. The motion carried unanimously.

Item #3: Other Business – TRS Reamortization House Bill – Actuarial Cost Impact

Chairman Pizatella asked the Actuarial Assumptions Review Committee if there was any other business to bring before the Committee.

Executive Director Fleck reviewed the proposed legislation of House Bill 2817, which would refinance the unfunded liability in TRS for 30 years with the Committee. He announced a summary from Buck Consultants of the proposed changes are as follows:

1. The bill provides that the unfunded actuarial accrued liability (UAAL) amortization period will restart at 30 years as of July 1, 2016. It further adds the requirement that for fiscal year 2018, the allowance for the reduction of any UAAL of TRS is $330,768,000. (Section 18-9A-6a)
2. The bill adds the requirement that beginning in fiscal year 2021 and each year thereafter, the first $20,000,000 transferred in to the State Debt Reduction Fund shall be transferred to TRS. The amount transferred is not to be considered by the actuary in determining allowance for reduction of the UAAL, but is to be an additional payment to accelerate the reduction of the UAAL. (Section 18-9A-6a)

Executive Director Fleck announced this proposed legislation would become effective July 1, 2016. In the actuarial valuations completed as of July 1, 2016, the UAAL for TRS was determined to be $4,061,191,979. Under present statutes, as of July 1, 2016, there was 18 years remaining in the amortization period for UAAL of TRS. The immediate financial impact of restarting the amortization period at 30 years as of July 1, 2016, would be to reduce the calculated state contribution amounts for fiscal 2018 by lowering the amortization payments associated with the unfunded liabilities. The amortization payment in fiscal 2018 for TRS if restarting the amortization period at 30 years would be reduced from $410,084,000 to $330,768,000, for a savings of $79,316,000.

The long-term financial impact of refinancing the UAAL would be to increase the total cost to pay down the unfunded amount for TRS. The annual payments will be lower due to the change, but are paid over a longer period of time. The total cost to pay off the UAAL for TRS if restarting the amortization payment at 30 years and making an additional $20,000,000 annual payment beginning in fiscal 2021 would increase from $7,313,442,000 to $9,121,602,000 for a cost increase of $1,808,160,000.

The non-financial impact of refinancing the UAAL is the slower and later attainment of full funding due to the longer pay off period. If all expectations were met, the expected dates of full funding with these proposed changes for TRS would be delayed from June 30, 2034 to June 30, 2043.

Executive Director Fleck announced the estimates provided by Buck Consultants are based upon assumptions regarding future events, which may or may not materialize. Specifically, the plan provisions and assumptions used are summarized in the July 1, 2015 actuarial valuation report, which were subsequently modified by plan amendments enacted and assumptions which were revised and adopted by the Board on October 6, 2016, which were all summarized in the presentation to the Board on January 25, 2017.

Future actuarial measurements may differ significantly from current measurements due to plan experience differing from that anticipated by the economic and demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law. An analysis of the potential range of such differences is beyond the scope of this report.

Chairman Pizatella asked the Actuarial Assumptions Review Committee if there was any other business to bring before the Committee. None was heard.

Mr. McKown made a motion to adjourn the meeting of the Actuarial Assumptions Review Committee. The motion was seconded by Mr. Vallet. The motion carried unanimously.

Chairman Pizatella adjourned the West Virginia Consolidated Public Retirement Board's March 7, 2017 Actuarial Assumptions Review Committee meeting at 10:20 a.m.

Respectfully submitted,

Ann Urling

Ann Urling, Chairman

Jeffrey E. Fleck

Jeffrey E. Fleck, Executive Director