

**MINUTES OF THE
WV CONSOLIDATED PUBLIC RETIREMENT BOARD
ACTUARIAL ASSUMPTIONS REVIEW COMMITTEE
MEETING OF AUGUST 25, 2020**

A meeting of the West Virginia Consolidated Public Retirement Board's Actuarial Assumptions Review Committee was held on Tuesday, August 25, 2020. Due to the COVID 19 Pandemic, the meeting was conducted via conference call. The call-in information for the meeting was included on the Committee meeting agenda, the CPRB website and on the West Virginia Secretary of State's meetings page. The meeting was called to order by Chair Mike Hall at 2:36 p.m.

Due Notice had been published.

Roll Call:

Committee Members present:

Mike Hall, Chair, *representing Governor Jim Justice (via telephone)*
Joseph Bunn *(via telephone)*
Michael Corsaro *(via telephone)*
Mike McKown
Jeff Vallet *(via telephone)*

Committee Members absent:

None

A quorum was present.

Others present:

Jeff Fleck, CPRB Executive Director
Terasa Miller, Deputy Director
Nancy Butcher, CPRB Executive Assistant
Ken Woodson, CPRB Actuary
Tanner Mann, CPRB Actuarial Analyst *(via telephone)*
John Galloway, CPRB Chief Financial Officer
Craig Slaughter, WVIMB *(via telephone)*
Dave Driscoll, Buck Consultants *(via telephone)*

Item #1: Approval of October 1, 2019 Minutes

Mr. Corsaro made a motion to approve the October 1, 2019 meeting minutes. The motion was seconded by Mr. McKown. The motion was adopted.

Item #2: Annual Interest Rate Review for All Plans

Ken Woodson, CPRB Actuary, reviewed the 2020 Annual Actuarial Interest Rate Review for all the CPRB Plans with the Committee.

2020 Interest Rate Review

Mr. Woodson informed the Committee, as directed by the Board, the actuarial valuation interest rate assumption was reviewed annually. This includes an experience review of the interest return for the PERS trust fund, expected returns based upon projections by investment professionals and national public plan practices.

He stated that the 2020 TRS Experience Study report summarizes the interest rate review results and the assumption being recommended effective with the July 1, 2020 actuarial valuations applicable to each of the eight defined benefit plans administered by the Board. The review was completed by Board staff and reviewed by the CPRB Actuary. Preliminary investment experience for FY2020 was reported by the Investment Management Board (WVIMB) for each plan. Future return projections were completed by WVIMB and Buck Global, LLC based on June 30, 2020 assets. National practice averages were summarized by the Boston College Public Plans Data as of August 2020.

All defined benefit plans' trust fund assets were invested similarly by the WVIMB. Therefore, a single interest rate was applied to all eight plans administered by the Board. Historical analysis focuses on the results for PERS as the "flagship" plan for West Virginia public employers.

Mr. Woodson stated that the PERS estimated annual rate of return (after investment and administrative expenses) for FY2020 was 2.11% and the PERS 20-year historical average (after investment and administrative expense) was 6.83%. He added that WVIMB projected a 10-year expected return of 7.56% after addition of management alpha and adjustment for administrative expense and Buck Global, LLC projected a 10-year expected return of 6.28% and a 30-year expected return of 7.96%, both after adjustment for administrative expense.

He said that based on data from the Boston College Center for Retirement Research, the average interest rate assumption for the nation's largest state and local pension plans was 7.19% and the weighted averaging of the five factors, plus inclusion of a stability factor, results in an interest rate of 7.50% for all eight defined. He added that for the actuarial valuations of the defined benefit plans administered by the Board, the current inflation rate is set at 3.0%, which according to some of the sources may be

high, however, based on the unprecedented fiscal response by the U.S. to reduce the financial impact on the U. S. economy from COVID-19 and the Federal Reserve's recent indication that it would be slower to tighten policy when it sees inflation rising, it appears that inflation will increase in the future and as a result he recommended continuing the inflation rate of 3.0% for the July 1, 2020 actuarial valuations for all eight plans administered by the CPRB. In the future, the inflation rate assumption of 3.0% would be monitored closely.

Mr. Woodson recommended the Actuarial Assumption Review Committee approve and recommend to the Board the approval to continue the 7.50% interest return rate and discount assumption for the eight defined benefit plans, effective with the July 1, 2020 actuarial valuations and to continue the 3.00% annual inflation rate assumption for the eight defined benefit plans effective with the July 1, 2020 actuarial valuations.

Mr. Corsaro made a motion the Committee accept the recommendation of the Actuary and to recommend to the Board the continued use of the 7.50% interest return rate and discount assumption for the eight defined benefit plans, effective with the July 1, 2020 actuarial valuations and to continue the 3.00% annual inflation rate assumption for the eight defined benefit plans effective with the July 1, 2020 actuarial valuations. The motion was seconded by Mr. Bunn. The motion was adopted.

Item #3: 2020 TRS Experience Study.

Ken Woodson, CPRB Actuary, reviewed the 2020 TRS Experience Study. He informed the Committee that Buck Global, LLC had reviewed the post-retirement mortality experience of TRS from July 1, 2014 to June 30, 2019. The analysis was based on a comparison of expected deaths and actual deaths, as well as a comparison of the liabilities expected to be extinguished to those actually extinguished by post-retirement deaths. He went on to say that on a headcount basis, more deaths than were expected under the current mortality assumptions were observed among both healthy and disabled pensioners over the five-year experience period. He added that on a liability-weighted basis, liabilities released by actual post-retirement deaths exceeded releases forecast on the basis of the current assumptions and based on those results

and the requirements of ASOP 35, an update to the mortality assumptions was recommended.

Mr. Woodson went on to say that although the PUB-2010 study developed a unique set of mortality tables for teachers, the tables developed for general employees were a closer fit with recent TRS experience, and the headcount-weighted version of those tables fit that experience more closely than the amount-weighted version, therefore the Society of Actuaries public sector mortality tables, Pub-2010 General, median and headcount weighted, PubG.H-2010 were selected as the underlying base tables. He recommended the mortality tables listed in the 2020 TRS Experience Study Report.

Mr. Woodson reviewed the 2020 TRS Experience Study – Salary Scales. He stated that for TRS Teachers, the new salary scale assumption, with the 3.0% annual inflation assumptions, ranges from 6.155% at age 20 down to 3.00% at age 70. For ages, 20 to 56, the recommended salary increase rate is about 0.15% higher than the current assumed salary increase rate. For Teachers age 56 to 70, the difference between the recommended salary increase rate and the current assumed salary increase rate grades down from 0.15% to 0.00%.

He added that for TRS Non-Teachers, the new salary scale assumption with 3.0% annual inflation assumption, ranges from 6.760% at age 20 down to 3.0% at age 70. For ages 20-65, the recommended salary increase rate is about 0.25% higher than the current assumed salary increase rate. For Non-teacher age 65 to 70, the difference between the recommended salary increase rate and the current assumed salary increase rate grades down from 0.25% to 0.00% as shown in the 2020 TRS Experience Study Report.

He also stated that analyzing the cost impact as of July 1, 2019, implementing the new salary scales should increase TRS AAL by about \$20 million and increase the annual TRS employer contribution by approximately \$6.6 million or 0.42% of total payroll.

Mr. Woodson also reviewed the Withdrawal from Service in the 2020 TRS Experience Study. He reported that for TRS, the new withdrawal rates were determined separately for Teachers and Non-teachers. Within each of these groups, the withdrawal rates were displayed by age, gender, and length of service, where the service selection period was 5 years. He said that as seen the TRS Experience Study, we see that the

across most classifications, Teacher and Non-teacher, select service period and gender, withdrawal rates have increased significantly since the 2016 TRS Experience Study. He also said that analyzing the cost impact as of July 1, 2019, implementing the new withdrawal rates should decrease TRS AAL by about \$22 million and decrease the annual TRS employer contribution by approximately \$16.46 million or 1.05% of total payroll.

Mr. Woodson also reviewed the Disablement Rates stating that for the TRS, the new disablement rates were determined separately by age and gender and analyzing the cost impact as of July 1, 2019, implementing the new disablement rates should decrease TRS AAL by about \$1 million and decrease the annual TRS employer contributions by approximately \$300,000 or 0.02% of total payroll.

Mr. Woodson explained the Family Composition and Accrual of Future Service. He stated that there is no change in the current assumption for family composition, adding that it is assumed that 85% of males and 80% of females are married, with husbands 3 years older than wives. He also stated that remarriage rates were not used. He went on to say that there is no change in the current assumption for the accrual of future service. He said that it is assumed that active members will accrue 1 year of service for each future year of employment.

Mr. Woodson reviewed the Retirement Rates. He said that the experience results were broken down by Teachers and Non-teachers and then by males and females within the job classification. The experience was generally consistent with the current retirement rates assumption, indicating that major changes to the current assumption were not required. Adjustments at key ages were made to continue refining the retirement rates based on the ongoing experience, as shown in the report. He added that analyzing the cost impact as of July 1, 2019, implementing the new retirement rates should decrease TRS AAL by about \$18 million and decrease the annual TRS employer contribution by approximately \$3 million or 0.19% of total payroll.

Mr. Woodson explained the Noncontributory Service Loadings. He stated that for Males, Teacher and Non-teacher, the military service loading percentage experience during the study period decreased compared to the TRS 2016 Experience Study. The decline in experienced military service supports the reduction in the number of "Draft" service members still eligible to retire in future years. However, recent experience is still somewhat greater than the current assumption, through the experience is expected to

shift greatly over the next five years. He also said that the military service loading remained unchanged at 0.50%. He added that for Females, Teachers and Non-teachers, the military service loading percentage experience during the study period showed very low usage in all years. He said that the 2020 results show that military service conversion for females is not significant with a rate under 1/10th of one percent. He added that for valuation purposes 0.000% is continued as the appropriate assumption for the 2020 Study.

Mr. Woodson discussed the unused leave Noncontributory Service Loadings. He stated that for Male Teachers, the unused leave service loading percentage experience during the study period was 6.914%. This was a slight decrease from the 7.586% for unused leave conversion in the 2016 TRS Experience Study period. The unused leave Noncontributory Service Loading assumption for Male Teachers was decreased to 7.00%, compared to the prior assumption of 7.250%. For Female Teachers, the unused leave service loading percentage experience during the study period was 4.656%. This was a decrease from the 4.719% for unused leave conversion in the 2016 TRS Experience Study period. The unused leave Noncontributory Service Loading assumption for Female Teachers was increased to 4.600%, compared to the prior assumption of 4.500%. He stated that for Male Non-teachers, the unused leave service loading percentage experience during the study period was 6.239%. This was an increase from the 5.171% for unused leave conversion in the 2016 TRS Experience Study period. The unused leave Noncontributory Service Loading assumption for Male Non-teachers was increased to 5.500%, compared to the prior assumption of 4.000%. He stated that for Female Non-teachers, the unused leave service loading percentage experience during the study period was 4.320%. This was an increase from the 3.872% for unused leave conversion in the 2016 TRS Experience Study period. The unused leave Noncontributory Service Loading assumption for Female Non-teachers was increased to 4.000%, compared to the prior assumption of 3.250%.

Mr. Woodson went on to say that there is no change in the current assumption for the timing of contribution deposits into the TRS Trust Fund with the WVIMB and that plan contributions for both member and employer are assumed to be paid in the middle of the fiscal year, January 1.

Mr. Woodson recommended the Actuarial Assumption Review Committee approve and recommend to the Board their approval of all the new TRS assumptions

outlined in the 2020 TRS Experience Study Report, effective June 30, 2020 for TRS financial disclosure purposes and effective July 1, 2020 for the TRS actuarial valuation for funding.

Mr. Vallet made a motion to accept the recommendations of the Board Actuary and to recommend to the Board that they adopt all of the new TRS assumptions outlined in the 2020 TRS Experience Study Report, effective June 30, 2020 for TRS financial disclosure purposes and effective July 1, 2020 for the TRS actuarial valuation for funding. Mr. McKown seconded the motion. The motion was adopted.

Item #4: Other Business

The Chair asked if there was any other business to come before the committee. None was heard.

Adjournment

There being no further business to come before the committee, the meeting adjourned at 3:42 p.m.

Respectfully submitted,



Mike Hall, Chair



Jeffrey E. Fleck, Executive Director