

**MINUTES OF THE
WV CONSOLIDATED PUBLIC RETIREMENT BOARD
ACTUARIAL ASSUMPTIONS REVIEW COMMITTEE
MEETING OF OCTOBER 1, 2019**

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 Tuesday, October 1, 2019. Acting Chair Dave Hardy called the meeting to order at 10:00 a.m.

Due Notice had been published

Roll Call

Committee Members present:

Dave Hardy, Acting Chair
Captain Michael Corsaro
Mike McKown
Jeff Vallet

Committee Members absent:

Joe Bunn, Esquire

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
John Galloway, CPRB Chief Financial Officer
Patricia Bowgren, CPRB IT Staff
Tom Sauvageot, WVIMB

Item #1: Approval of October 1, 2018 Minutes

Captain Corsaro made a motion to approve the October 1, 2018 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 2019 Annual Actuarial Interest Rate Review for all the CPRB Plans with the Committee.

2019 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 this report summarizes the interest rate review results and the assumption being recommended effective with the July 1, 2019 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 FY2019 was reported by the Investment Management Board (WVIMB) for each plan. Future return projections were completed by WVIMB and Buck based on June 30, 2019 assets. National practice averages were summarized by the Boston College Public Plans Data as of September 2019.

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. Some differences in actual returns between the plans were a result of the timing of deposits and the level of benefit payments which impact cash flow. Historical analysis focuses on the results for PERS as the "flagship" plan for West Virginia public employers.

Mr. Woodson stated that the PERS experience (after administrative expense) for FY2019 was 5.26% and the PERS 20-year historical average (after administrative expense) was 7.08%. He added that WVIMB projected a 10-year expected return of 7.49% after addition of management alpha and adjustment for administrative expense and Buck projected a 10-year expected return of 8.38% and a 30-year expected return of 9.36%, 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 7.25% and the weighted averaging of the five factors, plus inclusion of a stability factor, results in an interest rate of 7.50%.

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, 2019 actuarial valuations.

Mr. McKown 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, 2019 actuarial valuations. The motion was seconded by Mr. Vallet. The motion was adopted.

Item #3: 2019 PERS Experience Study.

Ken Woodson, CPRB Actuary, reviewed the 2019 PERS Experience Study. He informed the Committee that Buck had reviewed the post-retirement mortality experience of PERS from July 1, 2013 to June 20, 2018. 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 reviewed the 2019 PERS Experience Study – Salary Scales. He stated that for PERS State employers, the new salary scale assumption ranges from 5.30% at age 20 down to 3.10% at age 60. For all ages, the new State salary scale was higher than the current assumption. He also reported that for Non-State employers, the new salary scale assumption ranges from 6.5% at age 20 down to 3.35% at age 60. For most ages, the new Non-State salary scale was the same as the current assumption, except for ages below 30 where the new assumption was greater than the current assumption. He added that analyzing the cost impact as of July 1, 2018, implementing the new salary scales should increase PERS AAL by about \$38 million and increase the annual PERS employer contribution by approximately \$10 million or .73% of total payroll.

Mr. Woodson also reviewed the Withdrawal from Service in the 2019 PERS Experience Study. He reported that for PERS, the new withdrawal rates were determined separately for State and Non-State employers. 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 generally, for both State and Non-State employers the new withdrawal rates were higher than the current assumption. However, there were Non-State withdrawal rates for certain service levels that have not changed. He also said that analyzing the cost impact as of July 1, 2018, implementing the new withdrawal rates should decrease PERS AAL by about \$3 million and decrease the annual PERS employer contribution by approximately \$6 million or .44% of total payroll.

Mr. Woodson also reviewed the Disablement Rates stating that for the PERS, the new disablement rates were determined separately by age and gender and analyzing the cost impact as of July 1, 2018, implementing the new disablement rates should decrease PERS AAL by about \$1 million and decrease the annual PERS employer contributions by approximately \$250,000 or 0.01% of total payroll.

Mr. Woodson explained the Retirement Rates. He stated that new PERS retirement rates increased at age 55 from 0.25 to 0.30, age 56 from 0.15 to 0.18, age 62 from 0.25 to 0.22, age 63 from 0.18 to 0.15 and at age 65 from 0.22 to 0.25. He also stated that analyzing the cost impact as of July 1, 2018, implementing the new retirement rates should increase PERS AAL by about \$5 million and increase the annual PERS employer contribution by approximately \$700,000 or 0.05% of total payroll.

Mr. Woodson also explained the Noncontributory Service Loadings and the Plan Contributions. On Noncontributory Service Loadings he stated that a Tier 1 PERS member, defined as a member hired prior to July 1, 2015, may elect to convert unused sick leave at retirement to additional service credit and Tier 1 PERS member who was in the military may receive credit for up to 5 years of military service. The additional service was included in the actuarial assumptions as a percentage load on the regular contributory service credits at retirement. He went on to say that the general trends for PERS has been an increase in sick leave service loads and a decline in military service loads, but some groups have experienced the opposite effect. He added that analyzing the cost impact as of July 1, 2018, implementing the new noncontributory service loadings should decrease PERS AAL by about \$4 million and decrease the annual PERS employer contribution by approximately \$1,200,000 or 0.09% of total payroll.

Mr. Woodson went on to say that there was no change in the current assumption for the timing of contribution deposits into the PERS Trust Fund with the WVIMB. He

also said that plan contributions for both member and employer were 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 PERS assumptions outlined in the 2019 PERS Experience Study Report, effective June 30, 2019 for PERS financial disclosure purposes and effective July 1, 2019 for the PERS actuarial valuation for funding.

Captain Corsara made a motion to accept the recommendations of the Board Actuary and to recommend to the Board that they adopt the new PERS assumptions outline in the 2019 PERS Experience Study Report, effective June 30, 2019 for PERS financial disclosure purposes and effective July 1, 2019 for the PERS actuarial valuation for funding. Mr. Vallet 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

Mr. Vallet made a motion that the meeting be adjourned. Captain Corsaro seconded the motion. The motion carried. The meeting adjourned at 11:10 a.m.

Respectfully submitted,



Mike Hall, Chair


Jeffrey E. Fleck, Executive Director