

**MINUTES OF THE
WV CONSOLIDATED PUBLIC RETIREMENT BOARD
ACTUARIAL ASSUMPTIONS REVIEW COMMITTEE
MEETING OF AUGUST 16, 2022**

A meeting of the West Virginia Consolidated Public Retirement Board's Actuarial Assumptions Review Committee was held on Tuesday, August 16, 2022. The meeting was called to order by Mike McKown, Chair, at 10:01 a.m.

Due Notice had been published.

Item #1: Roll Call

Committee Members present:

Mike McKown, Chair (*in person*)
Garner Marks, Esquire, *representing Governor Jim Justice (via telephone)*
Michelle Storage, Esquire, *representing State Treasurer Riley Moore (via telephone)*
Bill Barker (*via telephone*)
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
Haley Perry, CPRB Actuarial Assistant
Tom Sauvageot, WVIMB Investment Officer
David Driscoll, Buck Consulting (*via telephone*)
Elizabeth Wiley, Buck Consulting (*via telephone*)

Item #2 Approval of January 25, 2022 Minutes

Chairman McKown stated that he would entertain a motion to approve the minutes of the January 25, 2022 Actuarial Assumptions Committee meeting.

Mr. Barker made a motion to approve the January 25, 2022 meeting minutes. The motion was seconded by Mr. Vallet. The motion was adopted.

**Item #3 Annual Review – Interest Rate Assumption & Inflation Rate Assumption
– All Plans**

Chairman McKown recognized Ken Woodson, CPRB Actuary, to present the Annual Review of the Interest Rate Assumption and the Inflation Rate Assumption for all plans. Mr. Woodson stated that the Interest Rate is the expected rate of investment growth for trust fund assets. He added that since all plans pay benefits directly from their trust fund, the investment return rate is also the discount rate applied to the valuation of future expected benefit payments and this rate is then applied to determine the actuarial present value of those benefits. He went on to say that the Interest Rate Assumption can be developed as either a gross return rate before expenses or a net rate after expenses.

Mr. Woodson recommended that the Committee recommend to the Board that the current 7.25 percent interest rate assumption be continued for the July 1, 2022 actuarial valuations for all nine plans and the current 2.75 percent inflation rate assumptions be continued for the July 1, 2022 actuarial valuations for all nine plans.

Chairman McKown stated that he would entertain a motion to adopt the recommendation of the Mr. Woodson, the Board Actuary with regard to the interest rate assumption and the inflation rate assumption.

Mr. Barker made a motion to recommend to the Board the continuance of the current 7.25 percent interest rate assumption for the July 1, 2022 actuarial valuations for all nine plans and the continuation of the current 2.75 percent inflation rate assumption for the July 1, 2022 actuarial valuation for all nine plans. Mr. Marks seconded the motion. The motion was adopted.

Item #4: Review of the UAAL Amortization Policy for DSRS, EMSRS and MPFRS

Chairman McKown recognized Ken Woodson, the Board Actuary, to review the Unfunded Actuarial Accrued Liability (UAAL) Amortization Policy for the Deputy Sheriffs' Retirement System (DSRS), the Emergency Medical Services Retirement System (EMSRS) and the Municipal Police and Firefighter Retirement System (MPFRS).

Mr. Woodson stated that historically, these three plans have used a single base to amortize the UAAL which includes gains or losses, assumption changes, and plan provision changes all combined and amortized over the period from the valuation date

to a fixed point in the future. He added that the fixed point in the future was set equal to 30 years from the inception of the plan, which was selected to amortize the initial UAAL of the plan over the first 30 years of the plan's existence. He said that under the current amortization policy for these plans, when the plan funded status equals or exceeds 100 percent, the outstanding UAAL amortization base is deemed to be fully amortized and the amortization amount for that valuation year is set to zero. He also said that in future years, if the plan returns to a funded status below 100 percent, the amortization period of the total UAAL is reset to 10 years, starting in the year the plan first dropped below a funded status of 100 percent. He went on to say that using a fixed period level dollar amortization of the UAAL is a very conservative approach to eliminating the UAAL by a fixed point in the future, however, as the plan approaches this fixed point in time, the employer contribution rate may increase dramatically if there is a large asset or liability loss near the end of the amortization period where there are only a few years remaining in the amortization period to fund the loss.

Mr. Woodson also said that to avoid the increase in the employer (ER) actuarially recommended contribution (ARC) volatility near the end of the UAAL amortization fixed period and to provide a more detailed breakdown of the UAAL, he recommended changes to the UAAL amortization policy for DSRS, EMSRS, and MPFRS. He added that as of July 1, 2022, if the plan funded status is below 100 percent, amortize the total UAAL over a 7-year period for DSRS (10-year period for EMSRS and MPFRS), on a level dollar basis and going forward, each gain or loss and assumption change after July 1, 2022 would have a separate amortization (layer) to be amortized over a 15-year period. He also said that when the primary UAAL becomes negative, the outstanding UAAL base, gain or loss bases, and the assumption change bases would be deemed to be fully amortized and these bases would be eliminated.

Mr. Woodson recommended that the Committee adopt and recommend that the Board adopt the proposed DSRS UAAL Amortization Policy, effective for the July 1, 2022 funding valuation for DSRS, as outlined on page 3 of his presentation, Proposed UAAL Amortization Policy for DSRS, EMSRS, and MPFRS, which is attached and made a part of these minutes.

Chairman McKown stated that he would entertain a motion that the Committee adopt and recommend that the Board adopt the proposed DSRS UAAL Amortization

Policy, effective for the July 1, 2022 funding valuation for DSRS, as outlined on page 3 of the Board Actuary's presentation.

Mr. Barker made a motion to adopt and recommend that the Board adopt the proposed DSRS UAAL Amortization Policy, effective for the July 1, 2022 funding valuation for DSRS, as outlined on page 3 of the Board Actuary's presentation. Mr. Marks seconded the motion. The motion was adopted.

Mr. Woodson recommended that the Committee adopt and recommend that the Board adopt the proposed EMSRS UAAL Amortization Policy, effective for the July 1, 2022 funding valuation for EMSRS, as outlined on page 10 of his presentation, Proposed UAAL Amortization Policy for DSRS, EMSRS, and MPFRS, which is attached and made a part of these minutes.

Chairman McKown stated that he would entertain a motion that the Committee adopt and recommend that the Board adopt the proposed EMSRS UAAL Amortization Policy, effective for the July 1, 2022 funding valuation for EMSRS, as outlined on page 10 of the Board Actuary's presentation.

Mr. Barker made a motion to adopt and recommend that the Board adopt the proposed EMSRS UAAL Amortization Policy, effective for the July 1, 2022 funding valuation for EMSRS, as outlined on page 10 of the Board Actuary's presentation. Mr. Marks seconded the motion. The motion was adopted.

Mr. Woodson recommended that the Committee adopt and recommend that the Board adopt the proposed MPFRS UAAL Amortization Policy, effective for the July 1, 2022 funding valuation for MPFRS, as outlined on page 17 of his presentation, Proposed UAAL Amortization Policy for DSRS, EMSRS, and MPFRS, which is attached and made a part of these minutes.

Chairman McKown stated that he would entertain a motion that the Committee adopt and recommend that the Board adopt the proposed MPFRS UAAL Amortization Policy, effective for the July 1, 2022 funding valuation for MPFRS, as outlined on page 17 of the Board Actuary's presentation.

Mr. Barker made a motion to adopt and recommend that the Board adopt the proposed MPFRS UAAL Amortization Policy, effective for the July 1, 2022 funding valuation for MPFRS, as outlined on page 17 of the Board Actuary's presentation. Mr. Marks seconded the motion. The motion was adopted.

Item #5: Old Business

Mr. McKown inquired as to old business to come before the committee. None was heard.

Item #6: New Business

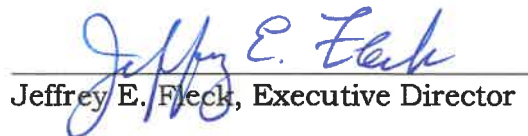
Mr. McKown inquired as to new business to come before the committee. None was heard.

Adjournment

There being no further business to come before the committee, the meeting adjourned at 11:20 a.m.

Respectfully submitted,


Mike McKown, Chair


Jeffrey E. Fleck, Executive Director

DSRS UAAL Amortization Policy

As mentioned above, the end of the UAAL amortization period is fast approaching, June 30, 2029 and we are beginning to see volatility in the ER ARC for DSRS. Therefore, now is the appropriate time to address this volatility.

Current DSRS UAAL Amortization Policy:

Use a single base to amortize the DSRS UAAL which includes gains or losses, assumption changes, and plan provision changes all combined and amortized over the period from the valuation date to June 30, 2029. When the plan funded status equals or exceeds 100% the outstanding UAAL amortization base is deemed to be fully amortized and the amortization amount for that valuation year is set to zero.

*** Proposed DSRS UAAL Amortization Policy:**

Amortization of UAAL as of July 1, 2022 - The UAAL as of July 1, 2022 is amortized over 7-years based on a fixed period and level dollar amortization amount.

Amortization of Gains or Losses after July 1, 2022 - Each gain or loss, determined annually as of June 30th, has a separate amortization base to be amortized over a 15-year period based on a level dollar amortization amount.

Amortization of assumption changes after July 1, 2022 - Each assumption change has a separate amortization base to be amortized over a 15-year period based on a level dollar amortization amount.

Plan Provision changes after July 1, 2022 - Each active or vested termination benefit provision change has a separate amortization base to be amortized over a 10-year period based on a level dollar amortization amount. Each in pay benefit provision change has a separate amortization base to be amortized over a 6-year period based on a level dollar amortization amount.

Bases deemed fully amortized – The outstanding base for the UAAL as of July 1, 2022, Gain or Loss bases and assumption change bases are deemed to be fully amortized as of a valuation date if the Primary UAAL as of the valuation date is negative. Plan provision changes are not deemed to be fully amortized, even if the Primary UAAL is negative. A plan provision base is fully amortized only when the amortizing period expires.

Total amortization of all bases as of the valuation date - If the total amortization as of the valuation date is negative, then the amortization is set to 0. This ensures that the recommended employer contribution equals or exceeds the employer normal cost. Note, in this instance if the funded status is less than 100% the bases continue and are not deemed to be fully amortized.

EMSRS UAAL Amortization Policy

As mentioned previously, the plan is expected to be fully funded as of July 1, 2022, therefore, no amortization base is expected to be established as of July 1, 2022.

Current EMSRS UAAL Amortization Policy:

Use a single base to amortize the EMSRS UAAL which includes gains or losses, assumption changes, and plan provision changes all combined. When the plan funded status equals or exceeds 100% the outstanding UAAL amortization base is deemed to be fully amortized and the amortization amount for that valuation year is set to zero. Note the funded status of EMSRS as of July 1, 2021 was greater than 100%, therefore the UAAL amortization was set to zero as of July 1, 2021. Going forward, in the first year the plan funded status drops below 100%, then reset the UAAL amortization period to 10-years beginning with that year.

*** Proposed EMSRS UAAL Amortization Policy:**

Amortization of UAAL as of July 1, 2022 - The UAAL as of July 1, 2022 is amortized over 10-years based on a fixed period and level dollar amortization amount. As mentioned above, the plan is expected to be fully funded as of July 1, 2022, therefore, no amortization base is expected to be established as of July 1, 2022.

Amortization of Gains or Losses after July 1, 2022 - Each gain or loss, determined annually as of June 30th, has a separate amortization base to be amortized over a 15-year period based on a level dollar amortization amount.

Amortization of assumption changes after July 1, 2022 - Each assumption change has a separate amortization base to be amortized over a 15-year period based on a level dollar amortization amount.

Plan Provision changes after July 1, 2022 - Each active or vested termination benefit provision change has a separate amortization base to be amortized over a 10-year period based on a level dollar amortization amount. Each in pay benefit provision change has a separate amortization base to be amortized over a 6-year period based on a level dollar amortization amount.

Bases deemed fully amortized - The outstanding base for the UAAL as of July 1, 2022, Gain or Loss bases and assumption change bases are deemed to be fully amortized as of a valuation date if the Primary UAAL as of the valuation date is negative. Plan provision changes are not deemed to be fully amortized, even if the Primary UAAL is negative. A plan provision base is fully amortized only when the amortizing period expires.

Total amortization of all bases as of the valuation date - If the total amortization as of the valuation date is negative, then the amortization is set to 0. This ensures that the recommended employer contribution equals or exceeds the employer normal cost. Note, in this instance if the funded status is less than 100% the bases continue and are not deemed to be fully amortized.

MPFRS UAAL Amortization Policy

As mentioned previously, the plan is expected to be fully funded as of July 1, 2022, therefore, no amortization base is expected to be established as of July 1, 2022.

Current MPFRS UAAL Amortization Policy:

Use a single base to amortize the MPFRS UAAL which includes gains or losses, assumption changes, and plan provision changes all combined. When the plan funded status equals or exceeds 100% the outstanding UAAL amortization base is deemed to be fully amortized and the amortization amount for that valuation year is set to zero. The plan is expected to be fully funded for the foreseeable future.

*** Proposed MPFRS UAAL Amortization Policy:**

Amortization of UAAL as of July 1, 2022 - The UAAL as of July 1, 2022 is amortized over 10-years based on a fixed period and level dollar amortization amount. As mentioned above, the plan is expected to be fully funded as of July 1, 2022, therefore, no amortization base is expected to be established as of July 1, 2022.

Amortization of Gains or Losses after July 1, 2022 - Each gain or loss, determined annually as of June 30th, has a separate amortization base to be amortized over a 15-year period based on a level dollar amortization amount.

Amortization of assumption changes after July 1, 2022 - Each assumption change has a separate amortization base to be amortized over a 15-year period based on a level dollar amortization amount.

Plan Provision changes after July 1, 2022 - Each active or vested termination benefit provision change has a separate amortization base to be amortized over a 10-year period based on a level dollar amortization amount. Each in pay benefit provision change has a separate amortization base to be amortized over a 6-year period based on a level dollar amortization amount.

Bases deemed fully amortized - The outstanding base for the UAAL as of July 1, 2022, Gain or Loss bases and assumption change bases are deemed to be fully amortized as of a valuation date if the Primary UAAL as of the valuation date is negative. Plan provision changes are not deemed to be fully amortized, even if the Primary UAAL is negative. A plan provision base is fully amortized only when the amortizing period expires.

Total amortization of all bases as of the valuation date - If the total amortization as of the valuation date is negative, then the amortization is set to 0. This ensures that the recommended employer contribution equals or exceeds the employer normal cost. Note, in this instance if the funded status is less than 100% the bases continue and are not deemed to be fully amortized.