VIA ACTUARIAL SOLUTIONS

February 12, 2024

LCPR Actuarial Update



Presented to: Legislative Commission on Pensions and Retirement

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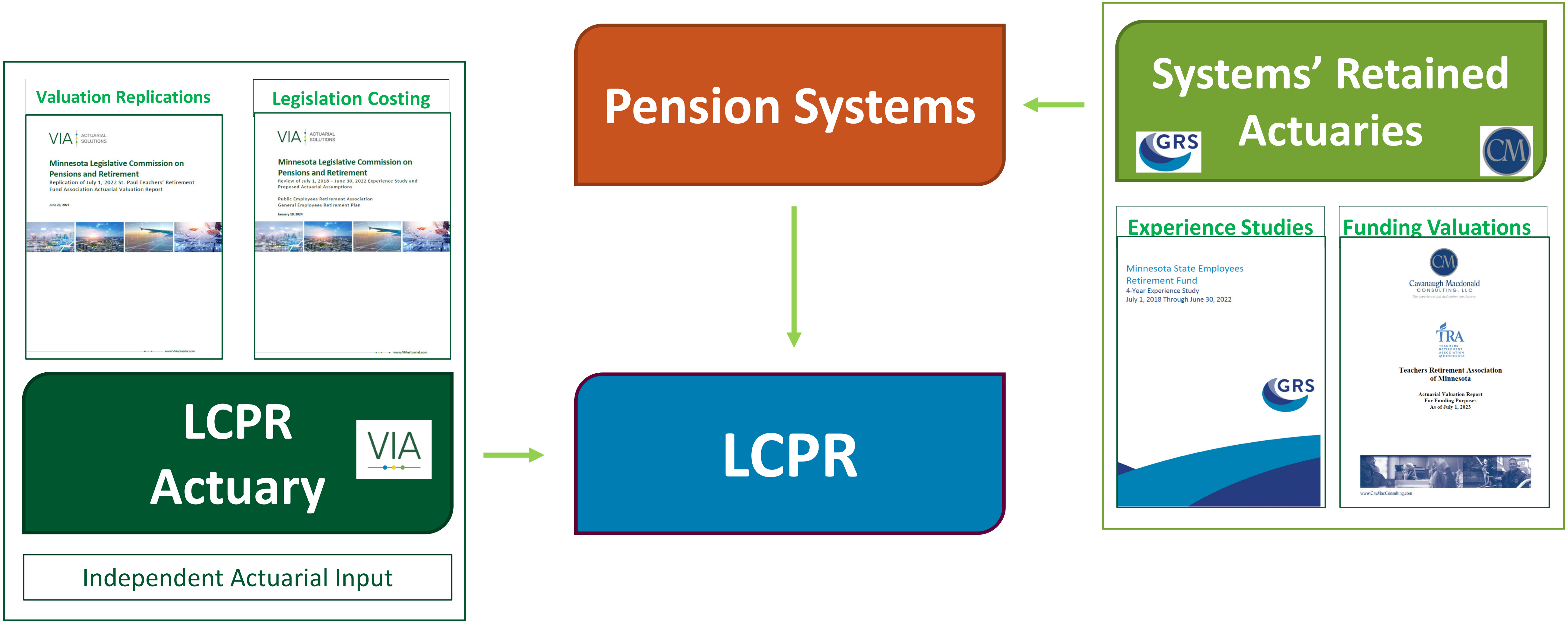
2023 and 2024 Actuarial Projects

Actuarial Overview



2023 Completed Projects

Projects	Plans	Result
Replicate 7/1/2022 valuations	St. Paul Teachers PERA Local Correctional MSRS Correctional	Confirmed actuarial calculations with high degree of accuracy
Expert testimony e.g., investment return assumption	All	Legislation reduced investment return assumption from 7.5% to 7.0%
Actuarial costs estimates of proposed legislation	TRA	Various proposals e.g., age 65 NRA
Summary of actuary notes from LCPR meetings	All	Follow-up notes to LCPR staff r.e. topics discussed during Commission meetings

2024 Projects

Projects	Plans	Result
Review actuarial experience studies	PERA General MSRS General TRA	Completed reports summarizing our review; **We recommend the LCPR approve the requested assumption updates**
Replicate 7/1/2023 valuations	PERA Police and Fire MSRS State Patrol	In process; to be completed by end of session
Actuarial cost estimates of proposed legislation	Various	Prepare as-needed
Expert testimony on actuarial topics	Various	Testify as-needed

2024 Actuarial Topics

Assumption and Method Updates

Other actuarial assumption and method considerations
Retained actuaries encourage systems to consider other methods for amortizing the unfunded liabilities
To provide more stability in the future, VIA recommends that the SBI prepare a new asset liability study since the prior one hasn’t been updated since 2016.
VIA recommends that the LCPR coordinate an updated review of the Combined Service Annuity assumption (this was last completed in 2016)

ASOP 4

- Actuarial Standard of Practice No. 4 (ASOP 4)
- Most prominent changes:
  - Measurement of Low-Default Risk Obligation Measure (LDROM)
  - Assessment of current funding policy
  - Disclosure of Reasonable Actuarially Determined Contribution (RADC)
- LDROM provides alternative view of pension liabilities
  - Uses "low-risk" interest rates (e.g., corporate bond rates) as the discount rate instead of the investment return assumption
  - Substantial flexibility in determining LDROM methods and assumptions, so they can be difficult to compare

Actuarial Contribution Rates

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<u>MN statutory “required” rates</u>

Normal Cost

+

Amortization of UAAL

Long-term goal is to eliminate the UAAL so only contributing the Normal Cost

Definitions

Amortization: process for methodically paying down a debt or liability (e.g., like a mortgage payment). Based on an interest rate and paydown period.

Fixed rate plan: pension plans where contributions are based on fixed rates set by law (e.g., MN statewide pension plans) instead of actuarially-determined on an annual basis.

“Required” contribution rates: actuarially-determined contribution rate that is annually compared to the statutory fixed rates to determine whether they are “sufficient” (i.e., like guardrails for the fixed rates)

UAAL: Unfunded Actuarial Accrued Liability = Assets – Actuarial Accrued Liability

Normal Cost: Amount of new active member liability accruing during the current plan year.

Actuarial Contribution Rates

- Statutory "required" rates have typically used a 30-year amortization period
  - Example: in 2018 the entire UAAL was re-amortized over a 30-year period ending in 2048.
  - Each subsequent year, the entire unfunded liability (including any new unexpected changes) is re-amortized over the remaining period.
- MN statute 356.215 Subd. 11(c) requires re-calculating the amortization period if there are assumption or plan changes that increase the UAAL
  - New period is based on blend of current remaining period and proportional effect of amortizing new changes over additional 30 years
  - Affected several statewide plans in 2023 because of discount rate change from 7.5% to 7.0%

Potential Amortization Issues

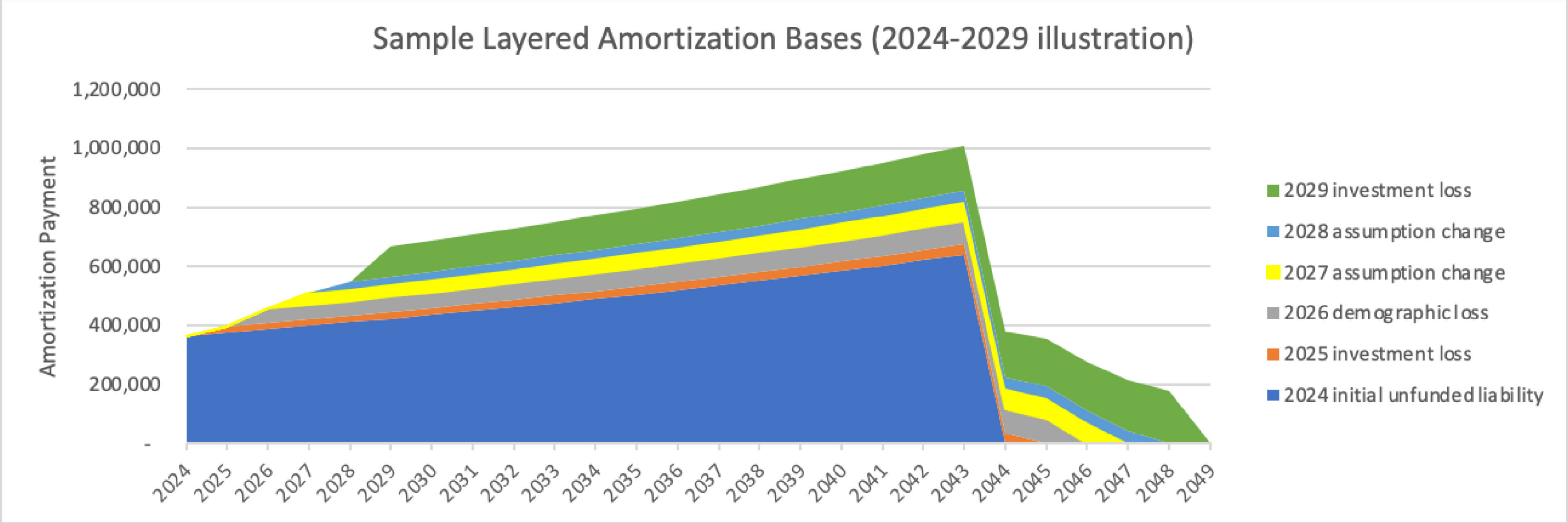
Intergenerational equity: Are liabilities being paid down by employees and employers who receive the benefits/services that are the source of the UAAL?

Negative amortization: When the annual interest accrual on the outstanding debt (unfunded liability) is greater than the annual amortization payment, resulting in growth of the unfunded liability.

Meaningful progress: Recent guidance sources "point to an increased focus on developing amortization policies that are designed to pay down the UAAL in a meaningful way over a reasonable period of time."

Actuarial Contribution Rates

- Purpose of statutory “required” contributions is to validate fixed contribution rates. Are they meeting this objective?
- Consider options for updating the “required” amortizations
  - Shorter amortization periods (e.g., 20 years)
  - Layered amortization bases



Actuarial Contribution Rates

Next steps and considerations:

- Should “required” contribution rate amortizations be updated?
- What are the options?
- How to balance oversight, individual systems’ needs, and consistency?

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