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MERCER

Mr. Bill Hogan
Milliman
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October 17, 2011

Subject: Decrement Timing Assumptions for Minnesota State Retirement System (MSRS) and Public Employees Retirement Association (PERA) valuations

Dear Bill:

As we have discussed, we are requesting direction from Milliman and the LCPR regarding acceptable decrement timing assumptions for the 2011 valuations for MSRS and PERA.

Actuarial Standards Section II.C.(4) states:

The preferred timing for the assumed occurrence of demographic assumptions is the middle of the valuation year (i.e. – six months after the valuation date), but for actuarial valuations in 2010, end of valuation year timing is an acceptable alternative. After the 2010 valuations, end of year timing may be acceptable, but such determination shall be made after the Commission's Actuary has had adequate time to perform their analysis to determine the impact of end of year versus middle of year decrement timing. The Actuary must disclose the assumed timing for the occurrence of demographic assumptions and provide a statement indicating the reasonableness of the assumption. For example, it may be more appropriate to assume retirements in teacher plans will occur at the end of the school year. Therefore, it is more appropriate for the timing of retirements for the teacher plans (Teachers Retirement Fund, the St. Paul Teachers Retirement Fund and the Duluth Teachers Retirement Fund) to be the valuation date nearest or next following the attainment of the retirement age or service requirement.

Mercer's valuation system uses beginning of year decrement timing. Last year, for purposes of the 2010 MSRS, PERA, and Teachers Retirement Association (TRA) valuations, the LCPR approved a one-year modification to the Standards to allow beginning of year decrement timing. The modification allowed for consistency and comparability. We disclosed the assumed timing and provided a statement indicating the reasonableness of the assumption.

Milliman performed replication 2010 valuations for MSRS and PERA. The replication process gave Milliman an opportunity to quantify the difference in results due to changes in decrement timing assumptions. The comparison indicated that mid-year decrement timing generally results in lower actuarial accrued liability and higher normal cost. The impact on required contribution was mixed – for PERA, the required contribution was lower assuming mid-year decrements, and for MSRS, the required contribution was higher.

It should be noted that this year, Mercer will prepare valuations for MSRS and PERA for the last time. The valuation work will transition to a different actuarial consulting firm before summer 2012. In the interest of consistency and comparability, we propose that Mercer continue to use beginning of year decrement timing for the 2011 valuations.

Please let us know if beginning of year decrement timing (with disclosure) is acceptable for the 2011 MSRS and PERA valuations, or if another approach is preferred. Thanks.

Sincerely,

Bonnie Wurst

Bonita J. Wurst, ASA

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