March 10, 1998 1st Meeting
Room 125 Capitol

Actuarial Services Subcommittee

of the Legislative Commission on Pensions and Retirement

MINUTES

Senator Steven Morse, Chair of the Actuarial Services Subcommittee, called the meeting to order at 3:15 P.M.

Subcommittee members present:

Representatives Phyllis Kahn and Harry Mares
Senators Don Betzold and Steven Morse

Sen. Morse thanked the members of the Subcommittee for agreeing to take on the additional duty of serving on the Actuarial Services Subcommittee.

1. **Review of the Request For Proposal For Actuarial Consulting Services for the Legislative Commission on Pensions and Retirement**

Edward Burek, LCPR Deputy Executive Director, stated that the primary objective for today's meeting was to review and revise the Request For Proposal document before sending it out. He first referred members to the staff memo from Lawrence A. Martin, LCPR Executive Director, which provided the steps involved in the process of selecting a new Commission actuary. Mr. Burek briefly reviewed the 12 steps in this process.

Sen. Morse asked when Milliman & Robertson, Inc. first was selected to be the Commission actuary? Mr. Martin responded that Milliman & Robertson, Inc. was first selected in 1991 and was selected again in 1995. Prior to that, The Wyatt Company was the Commission actuary from 1984 to 1991. Discussion followed.

Rep. Mares asked what the differences were between this RFP and the previous RFP and how the contract with the actuary addressed issues that might come up that were not covered by the contract?

Mr. Martin stated that the primary difference between this RFP and the prior RFP dealt with quadrennial projection valuations. He stated that Commission staff is waiting for responses from the major funds on their recommendations for what should be included in a quadrennial projection valuation. He stated that there is a budget amount of $50,000 for the quadrennial projection valuations but the details of what should be included in the valuations will need to be determined. Mr. Martin also noted that the RFP stated that the content and form requirements for the quadrennial projection valuations will need to be formulated. The Commission will also need to deal with the Standards for Actuarial Work with the recommendations of the Commission actuary. In addition to those issues, the data on pages 7 and 8 of the RFP has been updated. Mr. Martin stated that the Commission actuary is required to provide whatever information is needed to comply with changes in GASB standards and generally accepted accounting principles. He noted that the contract term is two years with two one year extensions and the RFP asks for bids that would include the full four year period.

Sen. Morse asked where the language was in the RFP relative to the term of the contract? Mr. Martin referred members to page 13, item XI. 1). Sen. Morse asked what kind of response the Commission has had to past RFP's? Mr. Martin stated that in 1991, the Commission sent the RFP to 27 firms and had six bidders, in 1995, the Commission sent the RFP to 34 firms and had two bidders. This year the Commission will send to 36 firms. Sen. Morse asked what is the total value of the contract? Mr. Martin stated that the value of the contract is $225,000 per year plus cost estimates required for pension legislation.

Sen. Betzold asked why there were so few bidders in 1995? Mr. Martin stated that in 1991, there was some controversy about the prior consultant's work and compensation and in 1995 that was not the case. He also stated that the bid that Milliman & Robertson, Inc. provided was very competitive. and they were the low bidder in 1991 and 1995.

Rep. Kahn asked if there was any advantage in changing the Commission actuary just because the current actuary may have become too familiar with the pension fund directors? She suggested possibly rotating actuaries. Sen. Morse stated that he would be concerned that rotating actuaries might produce a disincentive.

Sen. Morse asked if the Commission actuary got any ancillary business through its position as the Commission actuary? Mr. Martin stated that at first, the Commission did not permit the Commission actuary to do any work for other State plans but in recent years, the funds have had the Commission actuary cost out benefit improvements to provide more consistent numbers.

Sen. Betzold stated that the two year term might reduce the number of firms that respond to the Commission's RFP and he recommended changing the term to four years. Mr. Martin stated that to change the term from two years to four years would require a change in statutes. Discussion followed. Rep. Kahn requested that an amendment be prepared to change the contract term to four years so that it could be acted upon by the House Ways and Means Committee. Sen. Morse agreed but, as a courtesy, also wanted it provided to other Commission members.

David Bergstrom, MSRS Executive Director, testified that MSRS has had the same actuary since 1992. He supported changing the contract term to four years and including a 30 day termination clause. He also suggested that the Commission consider having actuarial valuations for the Legislators Retirement Plan, the Elective State Officers Retirement Plan, and some other small funds done every two years rather than on an annual basis. Discussion followed.

Phil Kapler, Department of Finance, testified that the Department of Finance has proposed a technical amendment that dealt with the quadrennial projection valuations. He testified that current law required the provision of quadrennial projection valuations for three plans with an option to perform valuations for additional plans if requested. After discussions during the interim with the Commission actuary, he was advised that the $50,000 budget appropriated for projection valuations would allow a considerable variety of projections for one major plan but only superficial projections if all three major plans were included. Mr. Kapler stated that projection valuations are an analytical tool. He stated that he and the Commissioner of Finance do not feel strongly about having quadrennial projection valuations done for three plans. He suggested doing a projection valuation for one plan.

Mr. Martin stated that he was uncomfortable with the language passed last session requiring projection valuations on a quadrennial basis and with the fact that there was no specification for what a projection valuation would include. He stated that until the Commission had a better sense of what a quadrennial projection valuation was and what it might look like, he was not comfortable with having the Pension Commission pay for something that may be useful to the Department of Finance or a third party but may not be useful to the Commission. He further stated that the size and cost of quadrennial projection valuations was unknown and he was uncomfortable with the current statutory requirement. He stated that the Commission could use this as an opportunity to perfect a projection valuation or use this as a demonstration model on one fund rather than do three funds in a superficial way. Sen. Morse asked what was the statutory requirement. Mr. Martin stated that current law required quadrennial projection valuations for the three major plans. Rep. Kahn asked for Mr. Martin's opinion of the amendment provided by Mr. Kapler. Mr. Martin responded that if the Commission agreed to go ahead with the projection valuations, the amendment Rep. Kahn referred to provided more flexibility and allowed the Commission to select one fund for a projection valuation, however, the Commission would still be buying something that they would not necessarily know what use they would make of it, what it would look like, or what it would cost. Discussion followed as to the origin of the statutory provision. Mr. Martin stated that the Department of Finance was the primary originator and requester of the projection valuation. He recommended that the Department of Finance be responsible for the content of the projection valuation, use the Commission actuary, and pay for the projection valuations. Mr. Kapler stated that it would be acceptable to the Department of Finance to have the program structured that way. Sen. Morse suggested that the Commission go ahead with a projection valuation for one fund to see if it might have value. He asked how this would affect the RFP Commission staff was preparing to send out. Mr. Martin stated that if the Commission passed this amendment, he would add a number six to Section XI, and request that the projection valuation be bid as a separate item. Discussion followed.

Rep. Mares moved to change the statutory language to adopt a four year contract and require a projection valuation for only one fund. **MOTION PREVAILED.**

Sen. Morse recommended providing all Commission members with the amendment passed by the Subcommittee for their information.

The meeting adjourned at 4:15 P.M.

Jean Liebgott

Jean Liebgott, Secretary