

May 28, 1998
Room 15 Capitol

2nd Meeting



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 2:09 A.M.

Subcommittee members present:

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

1. Review of the Proposals For Actuarial Consulting Services Received by the Legislative Commission on Pensions and Retirement

Sen. Morse began the meeting by stating that the job of the Subcommittee at this meeting was to hear presentations by respondents to the Commission's RFP. and that one presentation was scheduled. He asked if staff had any comments prior to beginning the presentation. Mr. Lawrence A. Martin, LCPR Executive Director, commented that there were two potential bidders to the Commission's RFP but only one submitted a proposal. Sen. Morse stated that after hearing the presentation, the Subcommittee would have two options. One would be to recommend the firm that responded to the Commission's RFP and the other would be to reissue the RFP.

Mr. Thomas Custis from the Milliman & Robertson, Inc. firm began his presentation. Mr. Custis stated that he was not going to summarize the proposal Milliman & Robertson, Inc. had provided to Subcommittee members but he would answer any questions members might have. He introduced Bill Hogan, his assistant and back-up, from the Milwaukee office and Marty Medley, who is Lance Burma's assistant, out of the Minneapolis office. Mr. Custis noted that Milliman & Robertson, Inc. has been the Commission's actuary for the past seven years. He provided an overview of the qualities they provide to the Commission. He stated that their workproduct has been accurate and timely and, if errors have been discovered, they are quickly corrected at no cost to the Commission. He noted that Milliman & Robertson, Inc. has committed seven employees between the Milwaukee and Minneapolis offices to provide first priority service to Commission staff requests. He went on to state that Milliman & Robertson, Inc. has worked over the past seven years to establish an atmosphere of cooperation between their staff, Commission members, the Commission staff, and the various fund directors. In addition, they have cooperated in answering questions for many city comptrollers, city managers, city treasurers, and union representatives. They have done this without taking an advocacy position or recommending policy. Milliman & Robertson, Inc. has tried to improve the way they communicate complex issues in an understandable way by increasing their graphic and visual presentations to the Commission. They provide continuity, the same team that began with the Commission seven years ago has made the commitment to continue dealing with the Commission. They propose to continue to improve and see areas where their role could grow without becoming advocates for a particular issue. They believe they can be of assistance in designing a model for the projection valuations required by statute and they also believe they could be of assistance to the Commission in dealing with the maturing of closed funds.

Sen. Morse questioned Mr. Custis's meaning when he spoke about the transition from the traditional role of technical advisor to policy advisor. Mr. Custis stated that he did not consider this to be a transition but rather providing an opportunity to use the experience Milliman & Robertson, Inc. has gained over seven years that might enable them to be more helpful in solving Minnesota pension fund problems. Sen. Morse stated that during discussions about the new method of calculating purchases of service, he felt that the Commission actuary may have moved toward an advocacy role. Mr. Custis agreed that Milliman & Robertson, Inc. did work with the fund directors and their actuaries on this issue but did not believe that he took an advocacy role. He characterized his role as participating in solving a problem by helping to create an equitable and appropriate method for calculating purchases of prior service. Discussion continued.

Rep. Kahn questioned projection models that dealt with retiree health insurance requirements. Mr. Custis agreed to follow-up with general information on that issue when he returned to his office.

Bill Hogan provided a demonstration of a computer model that could show the long term results of changing certain assumptions. He stated that one of the values of this tool was that it could provide the results of certain changes at a clients location rather than waiting for a new valuation.

Mr. Martin stated that the LCPR did not initiate the projection valuation requirement legislation and asked what could be learned from a projection valuation other than that if certain things were changed the results would change. He also asked what other states have learned from having projection valuations performed. Mr. Custis responded that it is important for the people who will use the model to clarify when they design it what questions and issues they wish the model to address to make it valuable. The first step in designing the model will be to find out what the people who will use it want to gain from it. Mr. Martin asked how many public pension plans use projection valuations. Mr. Custis responded that probably 50% to 60% of the public plans Milliman & Robertson, Inc. deals with have done one or more projection valuations.

Rep. Mares questioned how user-friendly the projection valuation model would be. Mr. Custis responded that the projection valuation model can be an effective educational tool in understanding actuarial valuations and other issues. Mr. Custis further noted that the annual actuarial valuations the LCPR receives provide a snapshot of the current funded status of a pension plan but a projection valuation could show the long term results of particular actions. Discussion followed.

Sen. Betzold asked if the model would be able to show the result of a particular action for only one plan or would it also be able to show the result of the same action for another plan as well. Mr. Custis stated that it would be more complicated to build a two way model that would deal with more than one plan and that would be an issue to be addressed while designing the model.

Sen. Morse asked why the increase in the fees for actuarial valuations over the next several year period was higher than the increase for some other services. Mr. Custis noted that from 1992 - 1995 the fees increased by \$18,000 and then the fee was reduced to \$140,000 again. He also noted that Milliman & Robertson, Inc. has billed for less than the maximum amount specified in the contract in the past.

Sen. Betzold asked if Milliman & Robertson, Inc. had the capacity to handle their client workload in light of the many new clients they have added with the loss of only a few. Mr. Custis stated that the list of new clients is a firm wide list and that the Minneapolis and Milwaukee offices of Milliman & Robertson, Inc. are fully capable of handling the Pension Commission work-load.

Sen. Morse asked when the full Commission was scheduled to meet again. Mr. Martin stated that Sen. Morse had provided three tentative dates, June 15, 16, or 17th and that it would be appropriate to take action on the contract at that meeting to assure no interruption in performance of the actuarial valuations. Sen. Morse asked if there were any decisions the Commission needed to make on the contract. Mr. Martin stated that the projection valuation and other actuarial work does fit within the Pension Commission budget. He suggested that the contract state the projection valuation should be billed on an hourly rate with a specified maximum. He also noted that Statute requires that the structure and scope of the projection valuation be established by the Commissioners of Finance and Employee Relations, the State Economist and Demographer, as well as the Pension Commission and pension fund directors.

Sen. Betzold moved that the Subcommittee recommend to the Legislative Commission on Pensions and Retirement that the bid of Milliman & Robertson, Inc. be accepted for performance of actuarial work subject to the further negotiation of the rates and caps mentioned by Mr. Martin. **MOTION PREVAILED.**

Sen. Morse thanked Milliman & Robertson, Inc. for their presentation and members of the Subcommittee for their willingness to attend these extra meetings.

The meeting adjourned at 3:13 P.M.

Jean Liebgott, Secretary