

Public Employees' Retirement Board
April 10, 2014

**Topic: Actuary Assumption – Administrative Expense
Change beginning with fiscal year 2014 valuation**

Recommended Board Motion:

To accept the proposed administrative expense assumption.

The approval of this assumption will have the following impacts:

- Normal cost for each plan will increase by the amount of the administrative expense percentage (or amount for VFCA)
- Amortization periods will increase since the portion of the contribution allocated to the UAL payment will decrease.

Under GASB 67, administrative expenses are not to be considered net against investment returns, but must be recognized as a separate item. MPERA should develop a separate administrative expense assumption for each system.

- Prior investment return assumption assumed that administrative expenses were to be deducted in determining the investment return assumption
- Recommend a specific assumption for administrative expenses as an addition to normal cost based upon three year averages
- Under GASB 67, rate of return is assumed net of investment expenses, but not administrative expenses (See GASB paragraph 44)

GASB paragraph 44. For each future period, if the amount of the pension plan's fiduciary net position is projected to be greater than or equal to the benefit payments that are projected to be made in that period and pension plan assets up to that point are expected to be invested using a strategy to achieve the long-term expected rate of return, the actuarial present value of benefit payments projected to be made in the period should be determined using the long-term expected rate of return on those investments. The long-term expected rate of return should be based on the nature and mix of current and expected pension plan investments over a period representative of the expected length of time between (a) the point at which a plan member begins to provide service to the employer and (b) the point at which all benefits to the plan member have been paid. **For this purpose, the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense.** The municipal bond rate discussed in paragraph 40 should be used to calculate the actuarial present value of all other benefit payments. [bold added]

Cheiron prepared the attached letter on the administrative expense assumptions for each of the PERB administered plans. All plans would utilize a percent of covered payroll percentage that would be part of the normal cost calculation for the respective plan. VFCA is the exception to a percent of cost method and will utilize a set dollar value.

The administrative expense assumptions were prepared on a three year average and exclude the cost of the MPERAtiv project.

Board Motion

Accept Cheiron's recommendation to change the actuary assumption for the Administrative Expenses effective beginning with the valuation performed for fiscal year 2014. This would fulfill the GASB requirements and keep a consistent Rate of Return for the PERB administered plans

Other:

Moved by

Seconded by

Vote



March 11, 2014

VIA ELECTRONIC MAIL

Ms. Barbara Quinn
Fiscal Services Bureau Chief
Public Employee Retirement Administration
100 North Park, Suite 200
Helena, Montana 59620

Re: Proposed Administrative Expense Assumption Changes

Dear Barb:

As part of the Economic Experience Study which we presented to the Board in September of 2013, we had recommended that administrative expenses be recognized directly as an addition to normal cost, rather than being netted against the assumed investment return, for valuations after June 30, 2013. One reason for the recommendation was to bring the actuarial assumptions for funding into line with those required for future financial disclosures under GASB Statement No. 67.

At the September meeting, we had presented to the Board administrative expense rates as a percentage of covered payroll, which had been based upon average levels of administrative expense incurred by each system. Since the administrative expenses included substantial expense of a non-recurring nature related to your software project, we were asked to provide revised recommendations based only on recurring administrative expenses. The following are the average recurring administrative expenses as a percentage of covered payroll over the last three years:

PERS	0.27%
JRS	0.15%
HPORS	0.23%
SRS	0.17%
GWPORS	0.17%
MPORS	0.20%
FURS	0.19%

For VFCA the average dollar amount of recurring expenses over the last three years was \$61,000, adjusted for the inflation assumption. These percentages (and the dollar amount for VFCA) would be added to the normal cost if the Board were to approve these for actuarial valuation purposes.

To the best of my knowledge, this letter and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as a credentialed actuary, I meet the Qualification Standards of the American Academy of Actuaries to render the



Ms. Barbara Quinn
March 11, 2014
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opinion contained in this letter. This letter does not address any contractual or legal issues. I am not an attorney and our firm does not provide any legal services or advice.

This letter was prepared exclusively for the Montana Public Employees' Retirement Board for the purposes as stated above. This study is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

If you have any questions or need additional information, please feel free to contact me.

Sincerely,
Cheiron



Stephen T. McElhane, FCA, FSA
Principal Consulting Actuary

cc: Roxanne Minnehan
Margaret Tempkin, FSA
Alison Chafin, ASA