

# **Public Employees' Retirement Board**

## **May 8, 2014**

### **Topic: 2014 Actuary Valuation Rate for the Official and the Supplemental Valuations**

Our actuary, Steve McElhaney, has asked for direction on the GABA rate he should use for PERS members hired before July 1, 2007 for the PERS FY2014 official and supplemental valuations. The possible rates are 1.5% or 3%, the current and previous GABA rates in PERS statute. Last year the Board chose to have the official valuation performed at the rate of 1.5% A supplemental valuation used the 3% rate.

Provided below are the staff compiled pro's and con's for choosing either the 1.5% or the 3% rate. The official rate will also be used for the GASB disclosures required by the implementation of the new standards.

Included in the board material is a letter from Cheiron outlining the disclosures that Steve McElhaney felt were necessary for the Board to consider.

### **Pro's and Con's of choosing 1.5% or 3% for the PERB official valuation**

The rate of 1.5%:

- Was used for the FY2013 official valuation, prior to the injunction.
- Was the rate mandated to be used in the Board's the temporary rule, which was subsequently repealed
- Provides consistency from FY2013 to FY2014.
- Is the rate as stated in the 2013 MCA.
- If used for the official valuation, the employer and employee additional contributions will cease on January 1, 2015.
- Causes a lesser increase in the amount of pension benefits payable.
- If used for the official valuation, the Unfunded Actuarial Liabilities will be less.
- If used for the official valuation and in accordance with the new GASB requirements, the result will be a lesser amount of pension expense reported on the balance sheet for employers.

The rate of 3%:

- Was used for the FY2013 supplemental valuation.
- Is the rate required by the injunction.
- Is the rate currently being used by MPERA when determining actuarial equivalent factors
- Is the current GABA rate being paid due to the injunction in the lawsuit.
- If used for the official valuation, the employer and employee additional contributions are expected to continue beyond January 1, 2015.
- Increases the amount of pension benefits payable.
- If used for the official valuation, the Unfunded Actuarial Liabilities will be more.
- If used for the official valuation and in accordance with the new GASB requirements, the result will be increased pension expense reported on the balance sheet for employers.

April 15, 2014

**VIA ELECTRONIC MAIL**

Public Employees' Retirement Board  
 100 North Park, Suite 200  
 Helena, Montana 59620

**Re: PERS June 30, 2014 Actuarial Valuation**

Dear Members of the Board:

In 2013, we prepared two valuation reports for the Public Employees' Retirement System:

- The "regular" actuarial valuation report, which fully reflected all statutory provisions of PERS as amended by 2013 House Bill No. 454 (HB 454).
- A supplemental actuarial valuation report which followed the same actuarial methods, assumptions and plan provisions as the regular report, except that it assumed that future GABA increases would be based upon Montana Code as it existed prior to enactment of HB 454.

At the time that the valuations were prepared, there had been no formal legal challenge to the GABA provisions in HB 454. However, since it was expected that there would be a legal challenge, the Board requested the supplemental report in order to see what the effect would be if the GABA provisions as specified in the Code prior to HB 454 were reinstated.

After the 2013 actuarial valuation results had been communicated, a lawsuit was filed requesting that the GABA provisions contained in HB 454 be invalidated and that the prior GABA provisions be reinstated. On December 20, 2013, a preliminary injunction was issued by District Court Judge James P. Reynolds. His order in part stated: "The State is preliminarily enjoined from enforcing the amendments to Mont. Code Ann. § 19-3-1605 reducing the GABA due PERS retirees. The State shall pay all eligible PERS retirees the 3 percent or 1.5 percent GABA for which they qualified prior to the passage of HB 454". The order is to remain in effect until the Court can issue further rulings on the case. It is our understanding that further proceedings on this case are postponed until at least February 2015.

Under the Code as modified by HB 454, the results of the 2013 actuarial valuation (i.e., the "regular valuation") were used not only for financial disclosures, but also for the following determinations:

*GABA increase at January 1, 2014:* Based upon the funded ratio of 80% assuming all future GABAs would be 1.5%, the Board approved a GABA increase of 1.0% at January 1, 2014. (This increase amount was subsequently voided by the preliminary injunction and actual GABA increases were granted based upon the law in effect prior to HB 454.)



*Temporary contributions:* The temporary contributions from employers and members cease if the amortization period would be less than 25 years based upon the discontinuance of such contributions. The 2013 valuation determined that this amortization threshold would not be reached and temporary contributions would continue for the 2014 calendar year.

For the 2014 valuation, we would expect the following based upon a projection of the 2013 "regular" results:

*GABA increase at January 1, 2015:* Regardless of which valuation is used, it would appear that the GABA increase at January 1, 2015 would have to follow prior law because of the injunction, unless the injunction is lifted before that time. We had projected an estimated 1.2% GABA increase at January 1, 2015 from the 2013 valuation which would be updated based upon 2014 valuation results, if the GABA provisions of HB 454 are recognized.

*Temporary contributions:* Based upon the "regular" 2013 valuation results, the test utilizing 1.5% GABA for all years projects that the 25-year amortization threshold would be met at the 2014 valuation, which would cause the temporary contributions to cease at January 1, 2015. However, if for this test, we assume that all future GABAs are in accordance with law prior to HB 454, the temporary contributions would be expected to continue past January 1, 2015.

The Board should consider the following in its determination of which GABA provisions should be used for the PERS 2014 regular actuarial valuation:

- Court injunction: How broadly should the injunction be interpreted? Does this mean that the Board should ignore the GABA provisions for all purposes, or is it narrowly applied only to the next year's GABA increase?
- Actuarial Standards of Practice (ASOPs): ASOP No. 4 requires the actuary to take into account all plan provisions that have been adopted "unless contrary to applicable law." The GABA provisions of HB 454 were adopted during the 2013 legislative session, but would the injunction constitute "applicable law" and require us to put them aside when doing an actuarial valuation?
- Accounting standards: Which GABA provisions should be used for the GASB disclosures at June 30, 2014? Whatever provisions are used will be subject to the auditor's opinion.
- Temporary contribution trigger: What happens if the temporary contributions are discontinued but then the court ultimately rules that the GABA provisions should revert to law prior to HB 454?

Regardless of which GABA provisions are incorporated in the regular 2014 actuarial valuation, we believe that Actuarial Standards of Practice requires us to provide comments regarding the effects that the GABA lawsuit might have if the decision on GABA provisions is other than what was used in the actuarial valuation.

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

Sincerely,  
Cheiron

Stephen T. McElhaney, FCA, FSA  
Principal Consulting Actuary

cc: Margaret Tempkin, FSA  
Roxanne Minnehan  
Barbara Quinn  
Melanie Symons

DRAFT