

Public Pension Financial Forum
Oct 27 to Oct 29, 2014

Members of the Board, I would like to thank you for allowing me to attend this conference. This conference provides up to date training on the latest issues affecting retirement, is a great opportunity to network with peers and offers the ability to ask questions about matters specific to MPERA.

The Future of Retirement

Cathie Eitelberg *Senior Vice President, National Director*

Rocky Joyner ASA, MAAA, FCA, EA *Vice President and Actuary*

Pew is public pension reform and education reform. Their message is that reforms are necessary. Reform is defined as a reduction in future benefit. We need to look not only at the expenditure side but also the economic impact. Defined benefit plans are still here and in as good of shape as before the downturn.

If we don't have a plan then we don't know where we are going. Setting a path – the three legged stool. Everything has been sacrificed to the budget. 100 years ago there were no pensions. In the private sector the idea of pensions is almost non existent

Alignment – a retirement system should align stakeholder roles with their skills

Governance – good governance provides a balance framework for making and implementing good decisions

Efficiency – systems should maximize retirement income while avoiding excessive risk

Sustainability – the system should be designed to support retirement income over all generations of participants while being able to withstand financial shocks such as recession or prolonged inflation.

Pension plans do cost money like gas in your car or paying for the doctor. Is it worth it? Defined benefit plans have stood the test of time. Defined benefit plans are a REAL economic stimulus plan because of the amount of money they put into the economy. It has been determined by economists that without social security we would have had a second great depression.

- Retirement Challenges – participants start to question the guaranteed benefits
- The news has everyone worrying about the security of the retirement plans
- Reforms that include Hybrid reform are not going to stand the test of time
- A good defined benefit plan is not created with only 6% contributions

GFOA Actuarial Section Checklist

Background, Judging Process, Comprehensive checklist highlights, Tools. The certificate program was established in 1945. GFOAs judging process on our CAFRs; Compliance with GAAP and program policy; Current checklist is 40 pages.

The new requirements will make a more confusing CAFR

ACTUARIAL CHECKLIST (VERY CONFUSING) watch for the different symbols in the checklists.

Actuarial certification letter - Based on funding valuation; State assumptions and methods to meet ASOPs; Include list of supporting schedules included in section; all schedules moving from 6 year to 10 year; Roll forward

OPEB may be delayed because there are items still changing

Statistical Section - GASB stmt 44 – change from old.

Questions: Will there be confusion on having funding information in the introductory section?
ADC in the MD&A?

CEM Understanding the Benchmarking Process

Bruce Hopkins

- Benchmarking started 14-15 years ago
- Larger funds that administer in house are more expensive than others

Roll Call of the States

Each pension administration provided a brief overview of current activities, challenges or successes. This is a great opportunity to hear what other pensions doing and identify possibilities for networking.

Leadership 2020

Always be open to learning; We learn when we are open to learn; Connect with people to give them slack; When something happens that makes you mad it can take 72 hours to recover because we must go through the grief cycle; Negativity is contagious; BUT our job is to lead and inspire others; What is motivating me to help the people around me rather than push the people around me? What am I known for? If I don't know then I am too busy doing work that I am not taking time to think about it; What do I want to be known for? Call out what I want to be known for; When was the last time I pushed someone in my organization because of what they are known for? How do I know I am good at something? Feedback, fulfillment, passionate, in the zone, people ask to be taught; What do I need to change? How do I supply the tools to others? I have no ability to change if I cannot identify what needs to change; Spend time helping people create an identity; Am I someone that people want to follow? Create a culture where people can be what they want to be; The characteristics of a new leader; Visionary, charismatic, risk takers, can change quickly, they don't need to retain information, speed with which they do things, change now, global understanding, acceptance of other cultures, fast communicator, not bound by how things have always been done (non-acceptance of historical context), build a good story from the positive perspective. Change is constant, suffering is optional; Spend time documenting traits instead of developing them; Help people identify (even small) defining moments

What Great Leaders Do

- Lead and inspire others
- Create an environment that promotes inclusion and innovation
- Role model for setting higher standards of behavioral accountability

Bias and Filters can be demotivating for others or motivating; How do I manage myself? Am I positive or negative about situations? I need to be positive.

GASB 67 Implementation Panel

Four plans talked about implementation, an agent plan, an early implementer, and a small plan that did not implement early. How the information was presented and how education is presented. Education is viewed as a year round need.

Approaches to Assisting ERs in Implementing GASB 68 for Cost Sharing

A primary govt and its component units are considered one ER. This analysis is necessary in order to have the actuary appropriately calculate the proportionate share. Colorado will use a roll forward. New guidance requires a lot of footnoting in the CAFR. New York is using the ER portal to supply all the information they need for GASB reporting. NY is using a long term contribution rate to determine the NPL allocation.

OPEB Exposure Drafts

Some potential issues with these exposure drafts. Overriding comments say standards are not written clearly and a very fast track to implementation. A new liability – NET OPEB LIABILITY. Only changes to govt statements and full accrual statements; not many changes to the modified accrual statements. Three criteria for meeting an OPEB trusts 1) Irrevocable; 2) Dedicated to providing OPEB; 3) Legally protected. Problem – if there are new benefit changes or other significant changes, a new actuarial valuation may be required (for assets not in a trust). Contributions Receivables – only those due pursuant to legal requirements. Sensitivity analysis – 3 calculations for pensions; 9 calculations for OPEB. Triennial valuations are no longer allowed

Fair Value Measurement and Application

This standard asks accountants to make judgment calls on how fair value is determined and the methods used to value. Similar to FASB, replaces guidance from 13 different standards. Defn of Fair Value has not had significant change. Market based as an exit price

The Future of DC Plans

Goal used to be change from DB to DC. Now the goal is to figure out how to make DC more like DB. DC participants are not saving enough. Auto enroll. ER matching. Use of target date funds. Auto escalation. Goal is to obtain a 10% savings level. 14% of all DC assets are in Target Date Funds. How can target date funds be enhanced. Inflation can cause losses in a 60/40 stock portfolio.

GASB Update

Three new board members. Issued Concept statement 6 on measurement.

Measurement approaches and measurement attributes. Recognition is stickier. Project currently on hold

Asset Retirement Obligations (AROs). Board deliberation scheduled 11/2014.

Economic Condition Reporting: Financial Projections. Project on hold

Fair Value Measurement and Application; Exposure Draft May 2014; comments ended Aug 2014; currently board deliberation; Final planned for spring 2015. Guidance tries to pull together the scope of the guidance, Make it easier to understand.

Fiduciary Responsibilities, Included in statement 14 paragraph 19, Is an entity a CU of a primary unit, Statement 32 covers some fiduciary responsibility (basis of conclusion), Trust funds, custodial funds

Leases, Many different areas of guidance to be brought together, Blending requirements for Certain Business-Type Activities, Guidance on component units, Board deliberations Nov 2014 GAAP Hierarchy, Changes to two levels of authoritative and one level of non-authoritative, Exposure Draft Dec 2013, Comment period through Dec 2014
Irrevocable Charitable Trusts, Tax Abatement Disclosures, Debt Extinguishments, External Investment Pools, Financial Reporting Model, GASB Website

Generational Workforce Management Strategy

G. I. immigrants	1901 - 1926	88+
Silent	1927 - 1945	69 to 87
Boomer	1946 - 1964	50 to 68
GenX	1965 - 1981	33 to 49
Millennials	1982 - 1996	18 to 32

Discussion of the strengths and challenges to each generation, the major historical happenings that formed the particular generation and how each can benefit today's workforce.

GASB 68 Implementation Communication with ER

Website has a place that focuses on GASB, They have online chat room for Employers not monitored by OPERS, Ability for OPERS to answer questions, They have compliance program for census data, Two tracks for the ER education – Executive and Operations
ER don't know what plan their employees have elected, They are providing summary information, ER website will be used to push out the information to employers, Not providing ER name but will provide information by the unique employer ID, Compliance audits for census data, Included many stakeholders often than ERs because communication would take pressure off of the ERs, Ask for help within your organization, Worked collaboratively with other retirement systems, Start focusing the detail work so we know how to provide data, Copy of the questionnaire is on the website, Timeline of data available, Valuation done at the same time as year-end, Measurement date will cause a roll forward for ER

The benefits of strategic planning for the smaller public pension plan

Have to fit into our schedule – daily work and planning for the future, Consider the board and staff time as an asset of the plan just like we would the budget resources, Strategic planning crosses years, Mission sets the tone of the organization, both internal and external, Vision three to five years into the future, communicates why we work so hard. Core values: how do we do business here, guide behaviors; Goals what do we want to achieve (SWOT); All the above are board approved and don't change much; Objectives are measureable steps. Also board approved but may change over time with the introduction of new information; Strategies: set the budgets for all resources; Action items: who is responsible and what are the resources and deadlines
Performance measures

MS Excel – Pivot Tables and other tips

Rounding

is in file>advanced>set precision

Or Control>Shift>Enter

Ethics and Fraud

80% of all fraud happens with collusion with someone on the inside

It is about people and training

Funding Policy

Procedure to set in place the funding of the plan. Is it GASB based? We are seeing shorter amortization periods, 15-20 years. Negative amortization, not recommended, migrate away.

Employer must contribute ARC or ADC. DAMP – Data Assumptions Method Provision

See Consulting Actuaries (CCA) document for guidance.

Asset Cost Method must be Entry Age Normal Cost.

Asset Valuation and Smoothing period, Asset corridor – more important with longer smoothing periods.

Amortization Method – goal stable contributions, Open vs. closed, Form of payment – level dollar or level % of payroll, Funding target, Layering amortization, Level % of pay over 30 years will increase unfunded liability (if payroll is growing then might have decrease) will never pay off and will grow.

Funding policy does link to valuation, once assets depleted than a different discount rate applies. New funding policy helps to manage discount rate. Recommend to close the amortization period. Closing works in the short term. Pick the number of years. New gain (loss) amortize over x years. Every new gain (loss) over same 4 years. Think about in advance Write the policy. What happens when plans are over funded – put in policy now

Steps to developing, Form a committee, Educate on actuarial matters, Current policy, Actuarial Determined Basis (benchmark), Help when going to legislature, Buy in, Valuations manage the plans to the funding policy, Articulates objectives, Demonstrates sound financial management Does guiding literature speak of actuarial standards? Actuarial Standards Board – sets standards.

Legislative update

Neil Snell

Danger for pensions ahead - Offsets to pay for other matters; Tax reforms; Must do legislation.

Pensions as revenue offsets, Pre tax money, Cap on pension savings, SAFE Plans, Social Security Govt Pension offset – Neil S does not feel this is going anywhere.

Social Security master file – we are eligible for access but only the redacted database; Nothing new; In the end it will cost

Regulatory Side- Normal Age Replacement, Several years out but will be major; ANPRM – Defn of Government Plan, Who to define, who will be in the system. Has to do with Govt Plan – ERISA not if the plan is qualified; Election and pick up rules, New tiers and need a mandate to choose. Can't allow for a change in take home pay by election to new tier. Danger impacts systems ability to be innovative or creative. Unions don't want this to change.

PEW Foundation – DANGER, \$1.4 Billion in assets, owned by 2 billionaires, they have an agenda and expect a return on their investment, they say defined benefit is bad, there have always been opponents but not one to match PEW and Arnold, they have built a database knowing nothing about retirement, RFP for national media campaign, implemented April 2015, the same time that employers will get GASB information.

Actuarial Roll-forward Issues

Measurement date, valuation date, reporting date, ER fiscal year end, Map it all out with a whiteboard because the big issue is timing and having information available, GASB 67 the measurement date = plans fiscal year end; GASB 68 there is more flexibility for the measurement date; Get Actuaries, ER, plan sponsors, auditors all together to talk about the timing; Annual valuations are best; Just because a CAFR has not been issued in the past does not mean GASB 67 does not need to be implemented; Much bigger burden on the cost sharing plans; Plan auditors to disseminate information to the ER auditors; Communicate with actuary – roll forward or actual; Roll forwards are faster to perform than valuations; Roll forward is going to look different than the finalized valuation, this could lead to confusion; GASB numbers in general are going to lead to confusion; The message is that there is now 2 sets of numbers and don't expect them to match; Assets come first in the roll forward, actuary needs this information; Need the contributions that came in and the payments that go out, Need to know ER FYE now; this will determine the information they use, ER with 9/15 year end will have to use the 6/15 actuary numbers; Think ahead about how they will use the numbers; What happens in the roll forward if assets are rolled forward one year, start with NPL and add interest to it; Benefits are accruing for current members (service costs), Liability at beginning of year that is released all through the year, Change in assumptions over the year, Does the plan have a cross over date (use of the blended rate), Actuary looks at the bond rate from the beginning of the year to the end of the year and the actuary will look at this change as an assumption change, TPL is impacted by the bond rate at the applicable time of year Determination of single discount rate (SDR), Changes could change the date of the cross over GASB requires disclosure of the roll forward, Use of last years data, Using assumption and document any assumption changes, Don't assume new entrants in the roll forward GASB says to look at the history but they don't dictate. They leave it to the actuarial professional, If the employer takes a contribution holiday then they will see a higher liability on the employers balance sheet, Roll forwards are almost mandatory because the auditors simply cannot audit the data if no roll forward is not used