MINUTES
of the
SIXTH MEETING
of the
RETIREMENT SYSTEMS SOLVENCY TASK FORCE

November 12, 2010
Room 307, State Capitol
Santa Fe

The sixth meeting of the Retirement Systems Solvency Task Force (RSSTF) was called to order by Representative Mimi Stewart, co-chair, on November 12, 2010 at 9:15 a.m.

Present
Rep. Mimi Stewart, Co-Chair
Mr. Tito Chavez, Co-Chair
Mr. Diego Arencon
Mr. Oscar Arevalo
Mr. Charles Bowyer
Sen. Pete Campos
Mr. Bill Fulginiti
Mr. H. Russell Goff
Ms. Jan Goodwin
Rep. John A. Heaton
Mr. David Heshley
Ms. Emily Kane
Ms. Alexis Lotero
Mr. Andrew Padilla
Mr. Wayne Propst
Mr. Terry Slattery
Sen. John Arthur Smith
Rep. Thomas C. Taylor
Ms. Christine Trujillo
Rep. Luciano "Lucky" Varela
Mr. Jeff Varela

Absent
Sen. Phil A. Griego
Ms. Michelle Lewis
Sen. Steven P. Neville
Mr. Ronald Sanchez

Staff
Raúl E. Burciaga, Director, Legislative Council Service (LCS)
Tom Pollard, LCS
Doris Faust, LCS
Claudia Armijo, LCS
Michelle Aubel, Legislative Finance Committee (LFC)

Guests

The guest list is located in the meeting file.

Handouts

Handouts and other written testimony are in the meeting file.

Friday, November 12

Educational Retirement Board (ERB) Solvency Proposals

Ms. Goodwin, executive director for the ERB, reported on the current ERB budget. Referring to the handout dated November 12, 2010, Ms. Goodwin told the members that the purpose of the ERB is to provide secure retirement benefits to active and retired members so that those members can have a secure monthly benefit when their careers are finished. Ms. Goodwin then highlighted some of the ERB performance measures for FY 2010. She noted that the ERB came close to meeting most of its performance measures.

Next, Ms. Goodwin advised the members regarding the performance of the Educational Retirement Fund. She noted that for the fiscal year ending June 30, 2010, the fund returned 18.2%, outperforming its policy index by 5.9% and ranking in the top second percentile of public funds valued at greater than $1 billion. She further added that for the quarter ending September 30, 2010, the fund returned 8.4%.

Over the past 12 months, the Educational Retirement Fund experienced gross investment gains of $1.3 billion, which includes a gross investment loss of $333 million experienced during the second quarter. The fund's total assets decreased from $8.6 billion at the beginning of the quarter to $8.2 billion on June 30, 2010, with $38.9 million in net distributions. She added that as of September 30, 2010, the Educational Retirement Fund balance is $8.8 billion.

Ms. Goodwin said that over the past five years, the fund returned 4.0% per annum, outperforming its policy index by 0.8% and ranking in the top tenth percentile of the Independent Consultant Cooperative's Public Funds valued greater than $1 billion Universe. For the quarter, the fund posted a -3.9% return, outperforming its policy index by 0.6% and ranking in the top thirty-second percentile of public funds valued at greater than $1 billion. Lastly, she noted that all of the fund's asset classes were within their respective policy ranges on June 30, 2010.

Ms. Goodwin provided a comparison of the ERB's operating budget requests, comparing the FY 2010 request to that of the requests for FY 2011 and FY 2012. She told the members that for FY 2012, the ERB would be requesting a 0.5% increase over the FY 2011 operating budget. The increase can be attributed to a continual increase in retiree payroll. She noted that the number of retirees has increased from 21,186 in 2000 to 33,749 in 2010, an increase of 59.30%. She further noted that active members have increased 5.34% from 60,090 in 2000 to 63,297 in 2010. The ERB FY 2011 operating budget is $26,908.3 million, and the ERB is asking for a 2012 operating budget of $43,883.0 million.

Ms. Goodwin also noted that budget expenses for investment managers and custody fees have also increased due to complex investment strategies and changes in manager compensation. Due to ongoing litigation, the ERB has experienced increased expenditures for attorney fees and employee liability insurance.

Next, Ms. Goodwin explained that the ERB would be making a special appropriation request in the amount of $3.5 million for a two-year project to upgrade the ERB Integrated Retirement Information System (IRIS). The money would be used to pay for an upgrade to the most current IRIS available. The IRIS is the software application used to calculate such things as: monthly benefit payroll, member funds information and employer contribution reports. It is also used for document imaging and other critical ERB agency tasks. Ms. Goodwin explained that the update will add functionality to the IRIS that is not available under the current application. Additionally, she said the upgrade would allow the agency to create a web-friendly application, enabling members to perform tasks online, such as applying for refunds and retirement benefits. The funding requested by the ERB will be used to pay the vendor to upgrade the code from Powerbuilder to Java and will also be used for independent validation and verification.

Ms. Goodwin noted that two term information technology (IT) business analysts will be hired to assist in the upgrade.

Lastly, Ms. Goodwin told the task force members that the ERB would be making a capital request for $9.7 million to acquire land, plan, design and construct or renovate a building for the purpose of a new ERB headquarters in Santa Fe County. She told the members that the current ERB facility does not meet the privacy needs of members who come to the agency, and she added that the current facility lacks the space needed for membership and staffing growth.

Ms. Goodwin reminded the task force members that in 2009 there was an appropriation of $2.5 million for the planning and site acquisition for the building project. She said that the programming phase for the project has been completed, and based on preliminary documents, the ERB anticipates reducing the capital request from $9.7 million to $8.0 million. Ms. Goodwin also explained that the current ERB headquarters was appraised at approximately $3.5 million in June 2007. Prior to closing her presentation, she noted that the project has been placed on hold pending legislative and executive support.

A discussion ensued regarding the merits of the proposed capital request, particularly during the current stressed economic times for the state. Additionally, members inquired as to what percentage of the ERB's budget is targeted for salaries and benefits, and whether it includes the IT salaries for the IRIS upgrade. Ms. Goodwin responded that the IT salaries are included in the supplemental request, not in the ERB proposed operating budget.

Members returned to the capital request for the new ERB facility. Some members inquired as to whether it would be better to relocate to Albuquerque. Ms. Goodwin responded that the ERB has locations in Albuquerque and needs to serve the needs of members in the northern section of the state. When asked if the current ERB building is for sale, Ms. Goodwin said that it is not for sale because the ERB does not know if the legislature will sanction the acquisition of a new facility.

Public Employees Retirement Association (PERA) Budget

Mr. Slattery, executive director of the PERA, presented the PERA's FY 2012 budget proposal. Referring to the handout, Mr. Slattery began by telling the members that the total FY 2012 budget request for the PERA is $30,504.0 million. This amount is down $2,080,300, or 6.4%, from the PERA FY 2011 operating budget of $32,584.3 million. He noted that the requested budget for salaries and benefits decreased by 6.3% in the amount of $376,700, and there is a decrease of 6.7% in the amount of $1,703,600 for contractual expenses. All other requested budgetary expenses remain flat.

Mr. Slattery reminded the task force members that the PERA budget is not funded with a general fund appropriation. Rather, operating revenues are generated from fund balances that revert back each year to the fund members' and employers' contributions and investment income. He advised the members that in FY 2010, the PERA returned approximately $10 million of its operating budget back to the fund. Mr. Slattery also reminded the members that, although all of the PERA's expenses are paid from the fund, appropriations made to the PERA must first be approved by the legislature and the governor.

Pursuant to statute, the PERA is granted the authority to increase its operating budget for the safety and security needs of the PERA building, which it owns. Mr. Slattery noted that the PERA moved into a new building about a year and a half ago. That new building has received numerous awards for its "green construction". For example, the PERA facility uses reclaimed water for its irrigation needs. Additionally, the facility has received energy awards. The PERA also has the authority to increase its operating budget to compensate investment fund managers for amounts they have earned while managing the fund's investment portfolios.

Mr. Slattery told the members that the PERA's annual administrative expenses are low, averaging only 27 basis points, or 0.27% of the total market value of the investment portfolio. He noted that for the FY 2012 budget request, the PERA is requesting funding for salaries for 76 employees, versus 88 for FY 2011. He noted that on June 30, 2011, 12 term employee positions will expire. He further noted that in FY 2010, the PERA operated with a vacancy rate as high as 10.5%. However, the PERA's historic average vacancy rate is 3.5%.

Members inquired as to how many fund managers the PERA uses in managing the fund. Mr. Slattery replied that there are about 80 fund managers. He added that the PERA limits the amount of exposure to any one management group to between $15 million and $20 million. Members requested a list of the largest fund managers, and Mr. Slattery agreed to provide the information.

ERB Plan Solvency Proposals

Ms. Goodwin presented the ERB's plan for changes to the ERB. She referred to the handout dated November 12, 2010 as she spoke. First, she directed the members' attention to a graph depicting the increase to the unfunded liability of the Educational Retirement Fund between 2000 and 2010. She noted that according to the Governmental Accounting Standards Board (GASB) recommendations, the funding period, also known as the amortization period, for a public retirement fund should not exceed 30 years. As of June 30, 2010, the ERB's current funding period is 67 years. The funding ratio, the ratio of the actual value of the fund's assets to the actuarial accrued liability, stands at 64.2% in 2010. Five years ago, the ratio was 75.4%. In 2001, the ratio hit an all-time high of 91.9%. However, it then began to decrease as the negative investment returns were experienced between fiscal years 2001 and 2003, and those returns were phased into the actuarial value of the assets. Ms. Goodwin opined that if no changes are made to the ERB plan, the funding ratio of the fund will never meet the GASB recommended status of 80%.

Ms. Goodwin told the members that the ERB's proposed plan changes were designed with the goals of:

1) sustainable retirement benefits for its members;
2) maintaining equity among all ERB members with varying start dates;
3) sharing the burden with both current and future members (which helps maintain equity);
4) placing the fund on a path to actuarial soundness (which includes achieving an 80% funding ratio and an unfunded liability amortized within 30 years); and
5) not reducing benefits for current retirees.

Ms. Goodwin noted that current ERB retirees retired before salary increases went into effect, and the retirees have only a modest cost-of-living adjustment (COLA) for which they must be 65 years of age to receive.

Next, Ms. Goodwin reminded the members that the ERB hired the Albuquerque-based polling firm, Research & Polling, Inc. (Research & Polling) to conduct a survey of ERB members. The purpose of the survey was to find out what, if any, support polled members might have for certain changes to the ERB plan. The survey was conducted in the week beginning October 30, 2010. The ERB staff provided Research & Polling with contact numbers for 400 randomly selected active ERB members. Of those polled, 35% were higher education employees and 65% percent were K-12 employees. Ms. Goodwin noted that those percentages reflect the breakdown of the current ERB active membership. Task force members requested and received copies of the questions posed to the polled ERB active members. Copies of the questionnaire can be located on the ERB web site and in the RSSTF meeting file.

Those polled were asked a total of 14 questions, based on the initial stated premise:

"As you know, the amount of money in the Educational Retirement Fund that covers your retirement benefits is not keeping pace with anticipated needs. As a result, the ERB and the Legislature are considering various options to improve the fund's financial soundness for the long-term future. Generally, there are two basic methods to increase the soundness of the ERB fund. One method is to increase the money flowing <u>into the fund</u> by increasing member contribution rates, while the other way is to reduce the amount of payments that are dispersed <u>from the fund</u> to retirees. Holding all things equal regarding the financial impact on the fund, would you prefer the Board recommend to the Legislature increasing member contribution rates or reducing member benefits at the time of retirement; or would you prefer the Legislature select a combination of the two options?".

After listening to the above statement and question, the polled members responded. The questions in the poll related to the potential ERB plan changes currently under consideration by the board and include the following proposals:

1) increasing member contribution rates;
2) increasing the final average salary (FAS) calculation from five years to seven years;
3) implementing a minimum age for unreduced benefits (members were asked if there should be a minimum age, and if so, what should that age be?);
4) reducing the COLA for current workers; and
5) changing the multiplier, which is currently 2.35% (potential changes asked about included decreasing it and adding incentives for longer employment terms).

Ms. Goodwin next shared the results of the poll. She highlighted the results, telling the task force members that all of the survey results can be found on the ERB web site. She noted that 35% of those polled approved an increase in member contributions, while only 5% approved a decrease in retirement benefit payments for current employees. She said that 12% asked did not approve such changes and 4% did not know or declined to respond. Three percent of those polled responded "It depends". According to Ms. Goodwin, 41% of those polled approved a combination of increased member contributions and decreased retiree benefits for current employees for the purpose of providing solvency to the Educational Retirement Fund.

In a separate summary handout provided to the task force, Research & Polling provided some of the reasons respondents to the poll gave for preferring certain options presented by the pollsters. Those reasons were:

1) it is better to pay more now while I am working than to have less at retirement;
2) doing both (combining increased member contributions and decreased retiree benefits) will reduce the impact or spread the impact;
3) doing both is fairer to everyone;
4) I will be retiring soon;
5) I can't afford to take more out (the proposed increase to member contributions); I need money now; and
6) I don't know or won't say.

In the summary, Research & Polling determined that the preferred option to increase the soundness of the fund as a result of paired statements from the survey reflects the following:

1) 14% approve reducing the multiplier from 2.35% to 2.0%;
2) 71% approve calculating the FAS on seven years of FAS versus the current five years of FAS;
3) 10% approve neither of the above options; and
4) 4% do not know or won't say.

Those with inquiries concerning the survey may contact Brian Sanderoff at Research & Polling.

In her conclusion regarding the survey results, Ms. Goodwin said that members are willing to:

1) increase current member contributions by 0.5%;
2) change the FAS used to calculate benefits from five years to seven years;
3) implement a minimum retirement age of 60 years for unreduced benefits;
4) implement increased multipliers with continuing additional years of service; and
5) implement a minimum retirement age of 60 years for members to receive ANY retirement benefits.

Ms. Goodwin said that members polled are divided on the issues of increasing current members' contributions by 1.0%. She also noted that members polled are not willing to reduce the multiplier for future service, nor are they willing to reduce the COLA for current workers upon their retirement.

Ms. Goodwin shared the board's recommendation, explaining that the proposed changes would apply to all active members, meaning that, as of the effective date of the changes, there would no longer be a two-tiered system for the ERB members. Currently, there are Tier 1 and Tier 2 ERB members, with varying requirements and benefits between the two tiers.

The changes proposed by the ERB are as follows:

1) the multiplier would remain at 2.35%;
2) the member contributions would be 8.4% for members earning a salary of $20,000 or less and 9.9% for members earning more than $20,000;
3) the FAS would be based on the highest seven consecutive years of a member's salary;
4) the years of service requirement for retirement with no benefit reduction would be 35 years;
5) the age plus service requirement would be 60 years plus 30 years of earned service credits (no benefits with less than 30 years). The benefit reduction for retirees below age 60 plus 30 years service requirement would be 0.6% each quarter year for a retiree under age 60. There is no provision for retirement before age 60 with fewer than 30 years of earned service credit;
6) 67 years of age plus five years of earned service credit;
7) there would be a "safe harbor" for active members who have 22 years of earned service credit as of the effective date of the plan changes; they would be grandfathered to the Tier 1 current requirements; and
8) the employer contribution rate would be increased to 13.9% (the amount currently in statute at Section 22-11-21 NMSA 1978).

According to the ERB actuarial results, the proposed changes to the ERB plan would result in a funding ratio of 101.5% in the year 2040. The actuarial analysis was based on a targeted investment return assumption of 7.75%.

Members asked several questions regarding the various plan changes contemplated by the ERB. Some members asked for a breakdown of the impact on the fund of each proposed change in isolation from the other changes. Many members asked if the actuary could determine less drastic changes that could be made to the plan that would result in the plan attaining a funding ratio of 80% in the recommended 30-year period, instead of the projected 101.5% funding ratio anticipated by the board's proposed changes.

Final Report on Audits of Actuarial Valuation

Michelle DeLange, director and retirement actuary, and David Slishinsky, principal and consulting actuary, both of Buck Consultants, spoke to the members regarding Buck Consultants' findings after auditing both the PERA and the ERB actuarial reports. Mr. Slishinsky contributed to the discussion via teleconferencing. Ms. DeLange began by referring to the handout dated November 12, 2010. She explained that Buck Consultants asked for additional information from the Gabriel Roeder Smith and Company (GRS), the PERA's previous actuary. She said that the information received from the GRS was incomplete, and as a consequence, Buck Consultants was not able to fully evaluate and confirm results for the PERA 2009 report. She then explained the purpose of the review was to:

1) provide another actuary's opinion on the actuarial soundness of the PERA and ERB;
2) confirm that the actuary's calculations are right;
3) get ideas on how to do things differently/better;
4) exercise fiduciary obligation and recommend that an independent review be completed periodically (once every four to five years); and
5) confirm funded status and contribution rates.

Ms. DeLange reminded the members that the scope of Buck Consultants' actuarial review was to review the work of the PERA and ERB actuaries, GRS. She said that a limited scope of review was performed. Ms. DeLange said that the technical scope of the review includes a review of the following:

1) membership data;
2) sample member calculations;
3) sample benefit calculations;
4) recent experience analysis; and
5) actuarial valuation results.

Ms. DeLange further noted that Buck Consultants also reviewed the 2009 reports to:

1) assess completeness and validity of membership data;
2) comment on the reasonableness of actuarial assumptions, methods and procedures;
3) determine whether valuation procedures were technically sound;
4) determine if generally accepted actuarial standards were being followed;
5) review actuaries' reports; and
6) review experience analysis reports.

Regarding the PERA, Ms. DeLange told the members that Buck Consultants recommends changing the smoothing period of assets to include expected returns on the fund's market value of assets. In Buck Consultants' projection of the PERA fund to 2029 depicted on page 6 of the handout, it applied its calculations retroactively to determine what the future debt for the fund would be. (See the chart entitled "Comparison of Current and Recommended Asset Method Projected to 2029".) Using Buck Consultants' smoothing method recommendations and applying the asset method retroactively to 2005, Buck Consultants observed the following:

1) the difference between the current and recommended method is not material in 2009, but is expected to become more significant as recent investment losses are recognized;

2) the funded ratio and funding period is not materially different in 2009 based on the recommended asset method, but it is expected to become more significant in 2010 to 2012;

3) the method includes an actual return of 15.02% for FY 2010 and an assumed return thereafter; and

4) the method includes updated cash flows based on open group population provided by the GRS.

Regarding the other valuation issues, sample member calculations were reviewed from the actuary's valuation system to determine if benefits are valued accurately and correct assumptions are used. Buck Consultants reviewed sample calculations from the June 30, 2009 actuarial valuation for the PERA that the GRS provided. Ms. DeLange told the task force members that Buck Consultants was unable to get responses from the GRS to questions regarding the sample calculations in an effort to confirm Buck Consultants' findings. She added that with the information received from the GRS, Buck Consultants was able to match all inactive members except for those in the judicial plan. She said that regarding the judicial plan:

1) the summary of liability did not match the detailed calculation for the retired member. In the detailed calculation, it appears the COLA was being applied on the valuation date instead of being delayed for two calendar years; and

2) the summary of liability did not match the liability for terminated vested members. It appears the COLA was delayed too long.

Regarding Buck Consultants' review of other valuation issues of sample calculations for active members, Ms. DeLange said that sample calculations were not complete for active members. She said that Buck Consultants received calculations by decrement for different members, but not one complete calculation for a single member. Some sample member calculations were not provided with a social security number, so Buck Consultants was unable to match the information with the data that the PERA provided to the GRS. She said that Buck Consultants found several differences between its results and the GRS' results for active members, and she said Buck Consultants was unable to confirm why there are differences.

Ms. DeLange offered Buck Consultants' determination of issues that need further review as follows:

1) whether the disability and death benefits valued are non-duty as stated in the report;

2) the report states that the retirement decrement is assumed to occur at the beginning of the year, but it appears that the retirement benefit is being calculated in the middle of the year;

3) also for municipal fire members, the death benefit was valued as the minimum of 50% (instead of 30%) of pay and the accrued benefit. The report says all death benefits are non-duty related;

4) for state general employees, there was a similar issue as for the municipal fire members regarding different service amounts for the same age as described above. The exception is that this applied to every sample member in state general employees;

5) the disability benefit appears to be valued as the minimum of 35% of pay and the accrued benefit. The report does not describe the minimum of 35% of pay and only describes the accrued benefit;

6) for municipal police and fire members, the disability benefit appears to be valued as the minimum of 40% of pay and the accrued benefit. It is possible the benefit was valued as a duty disability and used projected service;

7) for municipal general members, the disability benefit appears to be valued as the minimum of 65% of pay and the accrued benefit;

8) for magistrate members, there is a similar issue as for the municipal fire members regarding different service amounts for the same age as described above. The exception is that this was for the death benefit only; and

9) for state police members, it does not appear that the enhanced service credit (1.2 years of credited service per year) is included for eligibility purposes. The death benefit appears to have the same issue as municipal fire. The disability benefit appears to have the same issue as municipal general.

Ms. DeLange told the members that a full replication is currently being done by the new actuary. She advised that Buck Consultants recommends that the results of the new actuary's replication be reviewed to see if additional auditing should be done on the PERA. She also recommended that the PERA consider an increase in the audit scope to include the new actuary's replication of the 2009 valuation of the PERA. Lastly, Ms. DeLange concluded that based on the limited information Buck Consultants received from the GRS, Ms. DeLange and Mr. Slishinsky are unable to render an opinion on the accuracy of the 2009 valuation results for the PERA.

Ms. DeLange spoke to the members regarding determining solvency for the PERA fund and the Educational Retirement Fund. She began by noting that when analyzing the graphs contained in the handout, it is important to note whether the graph depicts information related to "open" or "closed" groups. Open groups means current members plus new hires, and closed groups means current members only. Ms. DeLange explained the graph on page 13 of the handout. The graph depicts a projection of the PERA's market value of assets and actuarial value of assets. The projection is solely based on a closed group. Additionally, the projections were based on a 4.5% payroll growth and include:

1) the unfunded liability payment on new entrant payroll and new benefit structure for new hires after June 30, 2010;

2) an actual return on assets of 15.02% for FY 2010 and 8% thereafter;

3) an employee contribution rate of 10.99% for FY 2010 and FY 2011, then 10.25% thereafter; and

4) an employer contribution rate of 13.97% for FY 2010 and FY 2011, then 14.71% thereafter.

According to the projections, the PERA would have no assets in the year 2034.

Members expressed concern over why Buck Consultants chose to make projections based on a closed group because it is not realistic to estimate no growth in the state employee work force. Additionally, some members inquired as to whether the projections reflect the PERA board's "ideal plan", and Ms. DeLange responded that it did not reflect the ideal plan, but it does include the current statutory changes.

Next, Ms. DeLange provided the same projection information for the ERB. The projections were again based on a closed group with information provided by the GRS and applying a 3.75% payroll growth. The projections also include:

1) the unfunded liability payment on new entrant payroll and new benefit structure for new hires after June 30, 2010;

2) actual return on assets of 18.6% for FY 2010 and 8% thereafter;

3) employee contributions: 9.40% for FY 2010 and FY 2011 and 7.90% thereafter; and

4) employer contributions: 10.90% for FY 2010 and FY 2011, 13.15% for FY 2012 and 13.90% thereafter.

According to the projection, the Educational Retirement Fund would have zero actuarial assets in 2039. Again, members questioned the validity of projections using closed group assumptions.

Continuing the discussion on solvency for both the PERA and the ERB, Ms. DeLange provided Buck Consultants' projection of market value of assets and actuarial value of assets using open groups. For the PERA projection, the assumption applied was an open group with no population growth and was based on data received from the GRS. The projections include:

1) the PERA new benefit structure for new hires after June 30, 2010;

2) an actual return on assets of 15.02% for FY 2010 and 8% thereafter;

3) employee contribution rates of 10.99% for FY 2010 and FY 2011, then 10.25% thereafter; and

4) employer contribution rates of 13.97% for FY 2010 and FY 2011, then 14.71% thereafter.

The analysis results in a projection of the PERA having zero assets in 2057.

When developing the projections for the ERB based on an open group, Buck Consultants used a 1.5% population growth (although the 1.5% population growth was used for the projection, it was based on the information supplied by the GRS. Buck Consultants does not find it to be a reasonable estimated growth rate.). The projection also includes:

1) the new benefit structure for new hires after June 30, 2010;

2) an actual return on assets of 18.6% for FY 2010 and 8% thereafter;

3) employee contribution rates of 40% for FY 2010 and FY 2011, then 7.90% thereafter; and

4) employer contribution rates of 10.90% for FY 2010 and FY 2011, 13.15% for FY 2012 and 13.90% thereafter.

Next, Ms. DeLange discussed how the timing involved in making changes to the plans will impact the plans. She noted that Buck Consultants analyzed changes made to the plans now versus changes implemented in three years. The graphs depicting the changes and projections are contained in the handout on pages 19 through 22. She told the members that both plans could expect an immediate 10% reduction in normal costs if changes to the plans are implemented in FY 2012 for new hire employees. The projections for the PERA plan for changes implemented for FY 2012 are based on a closed group and a 4.5% payroll growth. The projections also include:

1) the unfunded liability payment on new entrant payroll and new benefit structure for new hires after June 30, 2010;

2) an actual return on assets of 15.02% for FY 2010 and 8% thereafter;

3) employee contribution rates of 10.99% for FY 2010 and FY 2011, then 10.25% thereafter;

4) employer contribution rates of 13.97% for FY 2010 and FY 2011, then 14.71% thereafter; and

5) an additional change that impacts benefits by 10% for new hires in FY 2012 and later.

According to the projections, the PERA's assets would reach zero one year later than if no changes are made to the plan. Notably, if the changes to the plan are implemented in

FY 2015 instead of FY 2012, there is no difference in the time frame before the PERA has zero assets.

Next, Ms. DeLange provided the same projections for the ERB. The projections are based on changes to the ERB plan made in FY 2012 and based on a closed group with a 3.75% payroll growth. Additional assumptions used for the projections include:

1) the unfunded liability payment on new entrant payroll and new benefit structure for new hires after June 30, 2010;
2) an actual return on assets of 18.6% for FY 2010 and 8% thereafter;
3) employee contribution rates of 9.40% for FY 2010 and FY 2011, then 7.90% thereafter;
4) employer contribution rates of 10.90% for FY 2010 and FY 2011, 13.15% for FY 2012 and 13.90% thereafter; and
5) an additional change that impacts benefits by 10% for new hires in FY 2012 and later.

If the plan changes are implemented in FY 2012, Ms. DeLange said Buck Consultants projects the Educational Retirement Fund to reach zero in assets in 2044, about five years later than if no changes are made. Additionally, if the changes are implemented in FY 2015, the projections show the fund having zero assets in FY 2043, about four years later than if no changes are made.

There was a lengthy discussion about the problems associated with the projections provided by Buck Consultants because the GRS had supplied inadequate information. Staff told the task force members that the GRS had been asked to supply the current and complete information but simply had not fully responded to the requests. Mr. Slattery noted that the PERA's new actuary has already completed a review of the 2009 PERA report and has reached results that are reasonably the same as those in the report. Members noted also that some of the errors, although troublesome, are errors in calculating "test case" benefits, not actual benefits calculations. Ms. Goodwin followed by noting that the ERB's actuary will be reviewing the 1.5% growth rate that had been questioned by Buck Consultants.

Members inquired as to whether Buck Consultants would be providing a summary of its work for the task force. Ms. DeLange responded that the summary is already being written and is presently in draft form. She added that it should be finalized in a few weeks.

Next, there was a motion to approve the minutes from the task force meeting held on October 12 and 13, 2010. The motion was seconded and unanimously passed.

Proposed Legislation for Task Force Recommendation

Next, the members held discussions regarding potential legislation the task force would consider for endorsement and referral to the Investments Oversight Committee (IOC).

The first proposed legislative initiative considered by the task force is discussion draft number .183068.1, which would delay employer contribution increases to the ERB required in legislation passed in 2005 and in 2009. The draft provides that the state's contribution rates into the Educational Retirement Fund would be increased by .5% per year for six years, beginning July 1, 2011. The contribution rates would go from 10.9% to 11.4% in FY 2012 and incrementally increase yearly, resulting in a rate of 13.9% beginning in FY 2017 and continuing thereafter. A motion in support of endorsing the proposed legislation was seconded, and it passed without opposition.

The next proposed legislative initiative considered by the task force is discussion draft number .183087.2, which would capture a portion of the docket and jury fees and deposit it in the state general fund. Additionally, the draft provides that judicial and magistrate retirement benefits would be paid from the general fund. Members expressed concern about the provisions of the draft because the court docket and jury fees fluctuate. Some members expressed a concern regarding drafting legislation that could provide an incentive for the courts to raise fees. After further discussion, there was a motion in support of endorsing the proposed legislation, which was seconded and passed without opposition.

The next proposed legislative initiative considered by the task force is discussion draft number .183080.2, which would amend the Public Employees Retirement Act to allow retired members to return to work for a state entity on a part-time basis without suspending their retirement benefits, provided they do not earn more than $15,000 annually. There was discussion among the members who had concerns that this proposed legislation would effectively "undo" the double-dipping legislation that had been passed in the 2010 legislative session. Some members asserted that the proposed $15,000 cap is too high, while others expressed concern that it might be too low. Members of the PERA board noted that they were unwilling to support an amount higher than the proposed $15,000 cap. There was a motion in support of endorsing the proposed legislation, which was seconded and passed without opposition.

The next proposed legislative initiative considered by the task force is discussion draft number .183084.3, which provides the statutory framework for the PERA's ideal plan. The ideal plan would change the Public Employees Retirement Act significantly. The provisions of the proposed ideal plan can be found on the PERA web site and in the handouts from previous RSSTF meetings when the plan was explained in detail to the task force.

A lengthy discussion ensued regarding the merits of the PERA ideal plan. Of significant concern were the provisions of the plan that would require uniform members, particularly firefighters, to work 25 years for unreduced retirement benefits. Members noted that uniform members work in jobs that see enhanced burnout issues. Some members agreed with provisions that would increase the employees' contribution rates, but not the provision lengthening the required years of service. Other members pointed out that because most municipalities have contracts with provisions allowing the municipality to pay up to 75% of an employee's contribution, raising the employee contribution rates will most likely negatively impact the municipalities at a time when they are financially strapped already. Other members pointed out that the length of service required for retirement of uniform members is a huge recruitment tool. Some task force members expressed the view that the ideal plan is overreaching.

There was discussion regarding a motion to amend the proposed PERA ideal plan legislation. However, the members could not come to consensus regarding how to amend it. Because the members could not reach agreement regarding the proposed legislation that would implement the PERA ideal plan, the co-chair suggested that the task force send the legislative initiative to the IOC for its review, and the task force members agreed.

Representative Stewart thanked the members for their efforts and hard work. With no other task force business, the meeting was adjourned at 3:15 p.m.