"RE-BUILDING THE CITY'S WATER SYSTEMS FOR THE 21ST CENTURY"

EMPLOYEES' RETIREMENT SYSTEM OF THE
Sewerage & Water Board OF NEW ORLEANS

LaToya Cantrell, President

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June 13, 2018

The Pension Committee met on Wednesday, June 13, 2018 in the Board Room, 625 St. Joseph Street, New Orleans, LA. The meeting convened at 8:30 A.M.

Present:

Mr. Joseph Peychaud, Chairman
Mr. Christopher Bergeron
Ms. Eileen Gleason
Mr. Ralph Johnson
Ms. Chante' Powell
Mr. Marvin Russell
Mr. Lynes Sloss
Mr. John Wilson

Also in attendance: Mr. Octave Francis III and Mr. Stephen Daste of FFC Investment Advisors of Raymond James; Ms. Jade Brown-Russell, Acting Executive Director of the Employees' Retirement System (ERS) and Sewerage and Water Board (S&WB); and the following S&WB staff –Mr. James Thompson, Office of Special Counsel; Ms. Sharon Judkins, Deputy Director of Administration; Ms. Veronica Washington, Employee Relations; Ms. Sonji Skipper, Personnel; Dr. Tim Viezer, Chief Investment Officer; and Ms. Candice Newell, Board Relations Manager.

ACTION ITEMS:

1. None

EXECUTIVE SESSION:

2. Pursuant to LA R.S. 42:17.A.1., to consider an employee disability application.

PRESENTATION ITEMS:

3. Chief Investment Officer's Presentation

Chairman Joseph Peychaud began the meeting by asking Ms. Eileen Gleason to read the Employees' Retirement System mission statement into the record: "to prudently manage an actuarially sound pension fund solely in the interest of participants and beneficiaries in a cost-effective manner."

Chairman Peychaud then asked for a motion to move into executive session to consider a disability retirement application. Mr. John Wilson moved to enter into executive session and Mr. Lynes Sloss seconded the motion. The motion carried and the Committee entered executive session. The Committee re-entered regular session by a motion by Ms. Gleason, this was seconded by Mr. Sloss, and carried by vote. Chairman Peychaud called for a motion and Mr. Sloss made a motion to approve the matter discussed in executive session. Ms. Chante Powell seconded and the motion carried.

Dr. Tim Viezer began his presentation on a proposed funding policy by noting the purpose of an actuarial valuation is to determine the total contribution payment. The topic of a funding policy was first introduced in March 2018. The essential change from current practice was to draft a written policy, use a 15-year closed amortization rather than a 30-year open amortization, and to explicitly require an experience study every five years to precede an asset-liability study every five years. Dr. Viezer summarized the rationale for the proposal: (1) it followed industry best practice, (2) in the best case could save at least $109 million dollars with a net present value of $7 million today, (3) the proposed employer contribution would be lower than the average Louisiana public pension employer contribution, and (4) the extra employer contribution amounted to less than 0.7% of the total operating budget. Moreover, Dr. Viezer presented a study of studies that documented that converting the plan to a defined contribution plan would not save the Sewerage & Water Board (S&WB) money; it would not eliminate the unfunded liability, that running two plans is more expensive, and that public employees prefer defined contribution plans.

The Pension Committee was very engaged and asked many questions. Ms. Powell asked why a 7-year asset smoothing was proposed; (to reduce the volatility of employer contributions). Mr. Sloss and Mr. Bergeron clarified how a 15-year closed amortization would work. Mr. Ralph Johnson clarified that the funded ratio would be 100% at the end of the 15-year amortization (in the expected case). Ms. Powell asked whether we would use a level dollar or level percentage of payroll amortization; (Mr. Conefry later answered that it was level dollar). Mr. Chris Bergeron asked for clarification on whether the cost savings analysis assumed a 5% or 6% employee contribution; (it used 5%). Mr. Bergeron noted that if the 6% employee contribution was used rather than the 5%, the extra employer contribution fell to $1.6 million. Mr. Johnson and Mr. Sloss noted that to be able to save money over 30 years required having an extra $1.6 million to $2.1 million today. Dr. Viezer noted that, if approved, the proposal would go into effect on January 1, 2019. Mr. Sloss asked what the average employer contribution was among LAPERS; (35.1%). Mr. Sloss noted that $15 million had been cut from the budget figure cited in the presentation. Dr. Viezer answered Ms. Gleason by noting Human Resources did not have a forecast of projected hiring. Chairman Peychaud asked Ms. Jade Brown-Russell for insights on the budgeted number of positions. Ms. Brown-Russell said the Chief Investment Officer "was spot on" and some of the 1,814 positions were not 100% funded but budgeted at 1% to hold a position for succession planning.

Finally, under "Old Business" Dr. Viezer followed up on 4 items from the May Pension Committee meeting. Dr. Viezer noted that Ms. Valerie Rivers, Deputy Director of Logistics, would update the Pension Committee on her review of the draft Employees' Retirement System (ERS) professional services procurement policy. Mr. Peychaud confirmed that was the plan. Looking ahead, Dr. Viezer said that Callan's asset-liability study would require two hours in July and a revised draft Investment Policy Statement would be issued and discussed in August. Ms. Brown-Russell said that Board Relations would work with the Committee to set a convenient date/time for the July meeting.

4. Conefry & Company LLC, Actuarial Valuation Report, May 21, 2018

Mr. Mike Conefry began his presentation by complimenting Mr. Bergeron on his insights. Mr. Conefry provided some historical background to the amortization methods used for ERS. He noted in the 1990s ERS used a ten-year closed amortization. Around the year 2000, ERS was fully funded. However, the next three years were difficult; benefits were raised and the dot-com stock market crash hurt returns. Eventually, a 10-year closed amortization of the unfunded liability became very costly and ERS moved to the 30-year open amortization. Mr. Conefry continued with a summary of the valuation report. The number of active participants rose from 998 to 1,083; total active payroll rose from $35.4 million to $41.8 million and the actuarial value of plan assets rose from $238.2 million to $241.4 million. However, the unfunded actuarial liability also rose from $64.6 million to $74.5 million. As a result, the funded ratio fell from 81.3% to 79.4%. Mr. Conefry noted that a funded ratio of 80% was "not uncomfortable," but 100% funding meant that the amount of assets would take care of all inactive and that proportion of active accrued to date liabilities. He noted very few pensions were 100% or even 80% funded. Dr. Viezer noted that the informational article showed that nationally public pension funding fell to 71.4% and pointed out the comparison of Louisiana Association of Public Employees' Retirement Systems statistics.

Mr. Conefry also presented the potential employer contributions under three amortizations periods based upon R-248-2014 which set the employee contribution at 6% but calculated the employer contribution as if the employee contribution remained at 5% of payroll. The employer contribution using 10 years last year would have been 31.175%; using 15 years this year would be 25.216%, and using 30 years this year would be 20.170%.

Mr. Conefry then began a more detailed discussion of the valuation report focusing on: (a) the calculation of the unfunded liability, (b) calculation of the contribution rates, (c) ratio of unfunded accrued liability to payroll and funded ratio, and (d) net external cash flows. Mr. Johnson asked for a clarification on the Projected Benefit Obligation on page 24 of the report and actuarial present value of expected benefits on page 7. Mr. Bergeron asked for the reason that large increase total benefit payments in 2017. Mr. Conefry said he would give a precise answer next month. Mr. Peychaud asked that Human Resources also investigate the increase.

There was a request for public comment by an active participant (employee), Mr. Dexter Joseph. Mr. Joseph first asked to clarify what was the employee contribution rate. He then noted that S&WB has increased its hiring of higher-paid unclassified employees and questioned what was the impact upon the pension. Mr. Joseph also questioned the fairness that a high-paid employee working enough years to vest could earn a larger pension than a lower-paid employee who works 30 years.

The public question and comment generated a discussion among the Pension Committee members. Mr. Peychaud asked whether the impact of higher paid employees could be analyzed. Ms. Brown Russell mentioned that an experience study might discern whether S&WB's actual demographics were different from the actuarial assumptions. Ms. Powell wondered whether a ten-year vesting period would address the fairness issue. Mr. Sloss responded that a ten-year vesting would make recruitment more difficult. Mr. Bergeron suggested that vesting could increase over time. Mr. Marvin Russell noted that whether an employee was classified or unclassified, both are "full participants" in the pension plan and there is no difference between classified and unclassified employees from the viewpoint of the pension plan.

Mr. Conefry responded to Mr. Joseph's question by first noting that a pension benefit accrued and vested after five years is not necessarily payable after five years; there are age restrictions. Mr. Conefry did not have information on the number of unclassified employees but did note that there were 62 employees whose salary was $75,000/year or more. 40 of those employees have less than five years of service, 22 have less than one year of service, and they range in age from early 30's to late 60's. Mr. Conefry then mentioned the concept of the "benefit value curve" in defined benefit pension plans. The accumulated value of employee contributions exceeds the actuarial value of the deferred benefit until a member reaches about 15-17 years of retirement age. Although everyone accrues the same proportion, younger workers do not accrue much between the ages of 25-45. Mr. Conefry noted these were general comments but committed to doing a more thorough analysis of the question raised by Mr. Joseph.

INFORMATION ITEMS:

Information item(s) 5 through 9 were received.

ANY OTHER MATTERS:

The following questions and requests were raised for follow-up:

1. Ms. Powell asked whether we would use a level dollar or level percentage of payroll amortization; (Mr. Conefry later answered that it was level dollar).
2. Dr. Viezer suggested that the reciprocity agreement between ERS and NOMERS be reviewed after the asset-liability study is complete.
3. Ms. Brown-Russell said that Board Relations would work with the Committee to set a convenient date/time for the July meeting which will be two hours long.
4. Chairman Peychaud reaffirmed that Ms. Valerie Rivers, Deputy Director of Logistics, would review the discussion draft that incorporated the Pension Committee's desired changes into the S&WB Professional Services Procurement Policy #95 and report back to the Pension Committee with her thoughts and suggestions.
5. Mr. Bergeron asked for the reason that large increase total benefit payments in 2017. Mr. Peychaud asked that Human Resources also investigate the increase.

6. Ms. Brown-Russell supports an experience study to investigate changes in S&WB's actual demographic experience relative to actuarial assumptions.
7. Mr. Conefry will conduct a more thorough analysis of the impact upon the pension plan of a larger percentage of the workforce being higher paid. Mr. Peychaud asked that Mr. Joseph collaborate with Mr. Conefry on the study.

ADJOURNMENT:

There being no further business to come before the Pension Committee, Chairman Peychaud called for a motion and Mr. Sloss made a motion to adjourn. Ms. Gleason seconded and the motion carried. The meeting adjourned at approximately 10:00 A.M.

Respectfully submitted,

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Joseph Peychaud, Pension Committee Chair