AD HOC COMMITTEE ON ACTUARIAL ECONOMIC ASSUMPTIONS MEETING MINUTES
BOARD OF TRUSTEES
MARYLAND STATE RETIREMENT AND PENSION SYSTEM

July 9, 2019

The Ad Hoc Committee on Actuarial Economic Assumptions for the Maryland State Retirement and Pension System convened, via conference call, at the Board Room of the SunTrust Building, 120 East Baltimore Street, 16th Floor Board Room, Baltimore, Maryland beginning at 4:08 p.m.

The Committee Members participating included:

Eric Brotman, Chairman, presiding
Michael Barry
David Brinkley
Linda Herman
F. Patrick Hughes (in person)
Douglas Prouty
Michael Stafford

Agency Staff members attending included: R. Dean Kenderdine, Executive Director/Board Secretary

Anne Gawthrop
Michael Golden
Angie Jenkins (via phone)
Andrew Palmer
Janet Sirkis

Assistant Attorneys General present included: Rachel Cohen

Other attendees included: Treasurer Nancy Kopp, Brad Armstrong and Jeff Tebeau of GRS, and Frank Benham of Meketa (via phone).

Minutes

On a motion made by Mr. Prouty and seconded by Mr. Hughes, the Ad Hoc Committee approved the June 17, 2019 open session meeting minutes.

Presentation by Gabriel Roeder Smith & Company on the Assumed Rate of Investment Return

The Committee was provided with a document presented by Brad Armstrong from Gabriel Roeder Smith & Company (GRS), which responded to the committee's June 17, 2019 request, to provide estimated projections of the June 30, 2019 MSRPS-State actuarial valuation results under the following three different scenarios:

	Assumed Investment Return	Assumed Price Inflation
Baseline (current 2018)	7.45%	2.60%
Alternative 1	7.40%	2.60%
Alternative 2	7.30%	2.50%

Mr. Armstrong reported that there is a slight increase in the projected funded ratio moving from the current assumed investment return and price inflation to either of the alternative assumptions. Projected employer contributions increase under both alternatives. Mr. Armstrong reported that the projections are also determined by changes to the Board's current demographic assumptions that GRS will be recommending to the Board of Trustees with the finalized experience study.

($ Millions)

State Combined Systems				
		2019 Valuation (Estimated)		
	2018 Valuation	Current Assumptions	Alternative 1 Assumptions	Alternative 2 Assumptions
Funded Ratio	71.6%	71.3%	71.7%	71.7%
Illustrated Employer Contribution*	$ 1,991	$ 2,111	$ 2,069	$ 2,076

Mr. Armstrong reported that in developing these projections, an estimated FY2019 investment return of five percent was used. Mr. Armstrong also reported that the employer normal cost would decrease for all plans except for the Teachers' Combined System (TCS), which would increase under both alternative 1, by 6 basis points, and alternative 2, by 15 basis points.

Discussion

Mr. Brotman commented that, based on the information provided by GRS, it appears that both alternatives improve the funded ratio over the current assumptions.

Mr. Prouty commented that, in light of the difference in employer normal cost between alternatives 1 and 2, while both resulted in the same projected funding level, he preferred alternative 1.

Mr. Brotman agreed with Mr. Prouty.

Mr. Kenderdine stated that it has not been past practice of the Board to adopt funding policies that result in fewer funds coming into the System.

Ms. Cohen asked Mr. Kenderdine to confirm that the assumed rate of return for the System has usually been at, or below the national average for public plans. Mr. Kenderdine confirmed that to be the case until recently as more plans have lowered their return assumptions.

Secretary Brinkley pointed out that under both options, more contributions will be paid into the System. Mr. Kenderdine stated that he was comparing the alternatives' outcomes to what would be expected under the current assumptions.

Mr. Kenderdine asked Mr. Armstrong what the impact would be in dollars as a result of the increased normal cost under alternative 1 and 2 for the TCS.

Mr. Armstrong responded that in alternative 1 where the increase is 6 basis points, the dollar amount equals approximately $4M annually, and in alternative 2 where the increase is 15 basis points, the dollar amount equals approximately $10M annually.

Mr. Kenderdine commented that the minutes of the committee's meeting, as well as its report to the Board should reflect a clear and complete justification for selection of the inflation number as well as the assumed rate of return.

Ms. Herman asked whether we were above the median funded rate of public plans. Mr. Kenderdine responded that as of the most recent survey, the System was close to the median funded status.

Mr. Brotman commented that there is not a great benefit to alternative 2. Alternative 1 results in an increase in the funded ratio, and using the higher social security inflation rate makes our assumption more conservative. The higher inflation assumption increases the liability as well as the return, so the System benefits from lower than expected inflation but is prepared for higher inflation.

Mr. Stafford commented that the cost of funding the plan should not be a consideration when determining the actuarial rate of return. He would support 7.30% as being more in line with peers and expressed concerns about projected returns over the next ten years as the tailwind fades from the longest economic expansion on record.

Secretary Brinkley asked what the probability of hitting the target is with either the 7.3% or 7.4%.

Mr. Armstrong responded that with both alternative 1 and 2, the probability of hitting the target is 48.5% over a 10-year time horizon.

Mr. Benham further responded that, from Meketa's perspective, looking at the probability numbers at a 10-year horizon, the difference is small, with alternative 1 probability being 52.1% and for alternative 2 the probability being 53.1%

After further discussion, and citing (1) the probability of achieving the required return close to or above 50% over a 10-year time horizon with little difference in the options, (2) the fact that a higher inflation expectation than peers is the main source of difference, (3) the higher than peer inflation assumption has small impact on contribution rates but may be viewed as more conservative, and (4) the improved funded status under the recommendation, the Committee voted to recommend Alternative 1, reducing the assumed rate of return to 7.40% and keeping current inflation rate of 2.60%, for recommendation to the Board of Trustees. The motion was made by Mr. Hughes and seconded by Mr. Prouty. Mr. Stafford opposed the motion.

Adjournment

There being no further business before the Committee, on a motion made by Mr. Prouty and seconded by Mr. Hughes, the meeting adjourned at 5:00 p.m.

Respectfully submitted,

R. Dean Kenderdine
Secretary to the Board