August 31, 2018

Submitted via email to: kubackik@michigan.gov

The Honorable Nick Khouri
State Treasurer
State of Michigan
Department of Treasury
Lansing, MI 48909

Re: Comments on Public Act 202: Selection of the Uniform Assumptions

Dear Treasurer Khouri:

The National Conference on Public Employee Retirement Systems (NCPERS) is the largest trade association for public sector pension funds, representing approximately 500 funds throughout the United States and Canada. It is a unique non-profit network of public pension trustees, administrators, elected officials, and investment, actuarial and legal professionals who collectively manage more than $3.7 trillion in pension assets. Founded in 1941, NCPERS is the principal trade association working to promote and protect pensions by focusing on advocacy, research and education for the benefit of public sector pension stakeholders.

Of the 500 funds, we are proud to count 35 Michigan public pensions as NCPERS members. NCPERS is pleased to submit comments to the draft actuarial assumptions for pension and retiree health plans.

While we have concerns in a few areas, we will limit this comment letter to focus specifically on the proposed discount rate of 7 percent and the proposed mortality table.

Regarding the proposed discount rate, NCPERS has grave concerns about this proposal for two reasons.

- First, the uniform assumptions draft states that “[the 7 percent discount rate] reflects the 50th percentile of expected investment returns using the average asset allocation amongst most major pension systems”. The document sites the Public Plans Database at publicplansdata.org as the source for this figure. However, the draft calculation is not correct. When you calculate the average discount rate of all the plans in the Public Plans Database the average is 7.5 percent.
Our calculations is validated by our annual Public Retirement Systems Study (https://www.ncpers.org/surveys). The 2017 NCPERS Public Retirement Systems Study includes responses from 164 state and local government pension funds with more than 15.5 million active and retired members and assets exceeding $1.77 trillion in actuarial assets and $1.80 trillion in market assets. The majority – 62 percent – were local pension funds, while 38 percent were state-wide pension funds. The 2017 Study shows the average discount rate of the 164 plans is 7.5 percent.

The 50 basis points difference between the proposal and the actual 50th percentile in both the NCPERS Public Retirement Systems Study and the Public Plans Database is significant and needed to corrected.

- Second, and possibly most importantly, NCPERS believes that the discount assumption must be a reasonable narrow range, not an absolute number. According to the U.S. Census Bureau, there are 147 public retirement systems in Michigan and each one is unique and different from its brethren. The one-size-fits-all approach does not acknowledge the differences among the 147 funds and is likely to cause considerable difficulties of many.

Therefore, NCPERS suggests a narrow range of reasonable economic assumptions to allow for the differences in investment policy, asset allocation and AUM. For the near-term economic and financial environment, we think investment return assumption range of 7.25 to 7.75 percent is reasonable.

Regarding the proposed mortality table, NCPERS has grave concerns about this proposal because requiring the 2017 improvement table is unrealistic as many Michigan plans may not warrant that scale and/or are in the midst of an experience schedule cycle.

As such, NCPERS recommends instead that the plans be permitted to rely on the most recent experience study for the demographic assumptions. By doing this, plans are relying on the actual demographics such as mortality, disability, retirement age, etc. The ASOPs require that the actuaries sign off on the assumptions as being a reasonable representation of actual and expected experience. This should be a reliable proxy for the individual experience of the plans with actuary sign-off.

We appreciate the opportunity to provide comments on uniform assumptions draft. Should you have any questions please let us know at your convenience. Thank you.

Sincerely,

Hank H. Kim, Esq.
Executive Director & Counsel