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Fiduciary Considerations in Determining Actuarial Assumptions

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Chuck Campbell
Jackson Walker LLP

Jack Evatt
AndCo Consulting

Brad Heinrichs
Foster & Foster

Overview

- Review of Fiduciary Duties and Actuarial Assumptions
- Focus on Rate of Return Assumption
- Process for Developing the Rate of Return Assumption
- Current Issues and Recommendations

Actuarial Assumptions

- What are actuarial assumptions?
- Why do actuarial assumptions matter?
- How does your actuary develop recommendations for your assumptions?
- What is the rate of return assumption?

Fiduciary Duties and Actuarial Assumptions

- What is the role of trustees with respect to actuarial assumptions?
- What are your applicable duties?
    - Duty of Loyalty
    - Duty of Prudence

The Focus on Rate of Return Assumption

- Rate of return assumptions are changing:
  - Public Fund survey found that 75% of public pension plans have lowered investment rate of return assumption since 2010 with average assumption going from 7.91% to 7.36% with median at 7.5%.
  - *NASRA Issue Brief: Public Pension Plan Investment Return Assumptions Updated February 2018*

- Why the changes?

- What “external” factors might be pressuring the change?

Process and Rate of Return Assumption

- Setting rate of return assumption should be process-driven
- Key Building Blocks in the Process:
  - Investment Objectives
  - Asset Allocation
  - Capital Market Assumptions

Current issues

- External pressures and your fiduciary duties
- Time frame of capital market assumptions
- Chicken and the Egg Dilemma

Recommendations

- Understand your key actuarial assumptions and review regularly
- Understand your asset allocation process and review your allocation regularly
- Be disciplined and have a long-term perspective as to investments
- Prioritize and adhere to your process