

AGENDA ITEM DETAILS

Subject: *Consideration of 2024 Pension Experience Study Process and Recommendations - (Action)

RECOMMENDED ACTION:

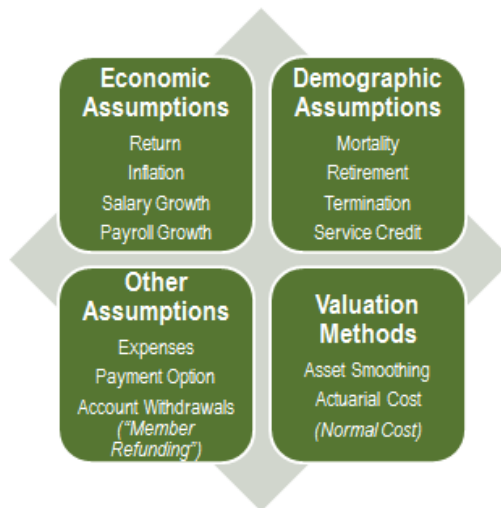
Move that the Board adopt new actuarial assumptions and methods as recommended in the report of the 2024 Actuarial Experience Study presented by Gabriel, Roeder, Smith & Company, ERS' consulting pension actuary.

Background:

Texas Government Code 815.206 and 840.204 require the system's pension actuary to complete a pension experience study at least every four years. An experience study reviews mortality, service, and compensation experience for the members and beneficiaries of the pre-funded state retirement plans administered by ERS. This requirement changed from the previous requirement of at least every five years as part of the Sunset Commission review for ERS in 2017.

A pension experience study also examines a variety of assumptions, including economic, demographic, and other items, such as administrative expenses. In addition, an experience study provides the opportunity to review current key valuation methodologies, such as the actuarial cost method. The actuarial cost method prescribes how the cost of retirement benefits are allocated between benefits already earned and future service. It also reviews the asset smoothing method. The graphic below provides an overview of key items reviewed by an experience study.

Actuarial Valuation Assumptions and Methodologies in a Pension Experience Study



The most recent pension experience study was completed in 2020. At that time, the ERS Board chose to perform an experience study in 2020 rather than 2021 (which would have been the statutory four-year period) to better align the four-year cycle of experience studies with the biennial legislative sessions.

The ERS consulting pension actuaries, Gabriel, Roeder, Smith and Company (GRS), will give an overview of the process, followed by an explanation of their recommendations resulting from the 2024 Pension Experience Study. In the two prior experience studies, the ERS Board took meaningful action to adopt assumptions that better aligned with current data and reasonable expectations. Due to those efforts and actions by the Board, the actuaries have determined that the vast majority of the current assumptions remain valid and reasonable and recommend no or minimal changes in the 2024 Experience Study.

Key Recommendations

- No change to the nominal investment return of 7.00%
- No change to the inflation assumption of 2.30%
- No change to the salary increase patterns for individuals
- No change to overall payroll growth assumption of 2.70% for ERS and LECOS and 2.30% for JRS2
- Recommend updating administrative expense assumptions
- Recommend increased longevity expectation for JRS2
- Recommend generally lowering disability patterns based on experience
- Recommend generally lowering retirement patterns based on experience
- Recommend generally increasing turnover patterns based on experience for LECOS and slightly decreasing turnover patterns for regular employees hired after the age of 35
- No change to the actuarial cost method or the asset smoothing method

The goal is for the Board to adopt the 2024 Pension Experience Study results in a time frame that would allow ERS staff to utilize updated information and assumptions in preparing the 89th Legislative Session LAR, generally due in early August.

Staff recommendation:

Staff recommends that the Board adopt the Experience Study and assumptions as recommended by Gabriel, Roeder and Smith, ERS' consulting pension actuary.

ATTACHMENTS:

1. Exhibit A – ERS Actuarial Experience Study Report
2. Slides – 2024 Pension Experience Study Process and Recommendations