

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

May 10, 2019

Mr. Stafford asked what the median was for the past two years.

Mr. Armstrong responded that for 2018 the median rate was 7.38% and for 2019 the median rate is 7.25%.

Ms. Herman asked how GRS has arrived at the conclusion that the markets have not been cumulatively unfavorable since 2000.

Mr. Palmer responded that from 2001-2017 the S&P 500 was at 7.15%, when the System was assuming a higher return during that time.

Ms. Herman commented that she was concerned about making statements like that without stating what factors GRS used to arrive at that conclusion.

Mr. Stafford asked if wage growth being higher and inflation lower, hurts or helps the System.

Jeff Tebeau from GRS responded that salary increases result in higher liability, but gains on returns result in lower unfunded liabilities and possible higher cost-of-living increases.

Mr. Prouty asked if GRS factors in wage changes due to legislation, such as the State's increase of the minimum wage as well as compensation increases to teachers and other school personnel approved by local jurisdictions.

Mr. Armstrong responded yes. Mr. Armstrong further commented that GRS will take all such information under advisement.

Mr. Brotman asked that GRS provide the Committee with a set of matrices of possible scenarios for projected funded status, employer contributions and contributions rates, similar to what had been provided for the previous ad hoc committee on the assumed rate of return.

Presentation by
Meketa
Investment Group
on Capital Markets
Expectations

The Committee was provided a copy of a PowerPoint document presented by Frank Benham from Meketa Investment Group, which provided information on capital market expectations, setting long-term expectations for a variety of asset classes and building a 10-year forecast in order to move from 10-year to a 20-year forecast.

Mr. Benham reported that the fund expected return is 50 basis points higher due to the 4th quarter of 2018 and is at a 61.25% chance of hitting its target over the 20-year horizon.

Ms. Herman asked what the expected return was.

Mr. Benham responded 7.73%.

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Presentation by
the Chief
Investment Officer
on Inflation

The Committee was provided a copy of the PowerPoint document on inflation assumptions, which was presented by Andrew Palmer, Chief Investment Officer. Mr. Palmer made a preliminary comment that the large portion of benefits paid over the next 15 years has shifted GRS to looking at intermediate term rates of return instead of the 30 year return horizon the Board has historically employed. Most consultants, Meketa included, have lower intermediate expected returns than long term.

Referring to the presentation, Mr. Palmer reported that inflation impacts the assumptions for both the liabilities and the assets and that the System uses an inflation assumption equal to that used by the Social Security Administration of 2.6%. Mr. Palmer indicated that Social Security lowered their long term assumption to 2.6% from 2.7%, back in 2015.

Mr. Palmer reported that several factors, including, but not limited to, the Federal Reserve delaying monetary tightening; the European Central Bank (ECB) lowering growth and inflation forecasts, and the Bank of Japan (BOJ) extending the target date for achieving inflation targets, are recent indications of lower inflation expectations.

Mr. Stafford asked why the committee's recommendation to the Board would be anything other than the median rate of return.

Mr. Benham responded that the Committee should look at where the trend has been in recent years and include its anticipation of how that trend will continue in the future in setting its rate with the goal of staying within a reasonable range of peers going forward.

Discussion

Mr. Brotman asked the Committee if there was anything that was not discussed that the Committee would like to discuss with any of the presenters at the next meeting.

Ms. Herman responded that she would like to see a reasonable consensus for the acceptable range of assumed rates from GRS and Meketa. Ms. Herman also requested that Meketa provide the Committee with a "what if" scenario that addresses the paradox of Meketa's return assumptions going higher while it is recommending a reduction in the assumed rate of return.

Mr. Armstrong reminded the committee that the Board would also be considering changes to the System's demographic assumptions as well as the economic assumptions.

Mr. Kenderdine reported that under the current schedule of Board meetings, the Investment Committee, with Meketa advice, will be considering the System's current asset allocation for possible recommendations for adjustments to the Board at its meeting on May 21. However, the report from GRS on the Experience Study currently underway will not be presented to the Board until the June meeting.

Ms. Herman asked if any reduction in investment return assumptions will result in increased contributions.

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Mr. Armstrong responded yes.

Mr. Brotman recommended that the Board's May agenda include a GRS presentation of their preliminary Experience Study results. The presentation should run no longer than a half hour. This will better inform the Investment Committee's consideration of any change to asset allocation.

Adjournment

There being no further business before the Committee, on a motion made by Mr. Brinkley and seconded by Mr. Hughes, the meeting adjourned at 1:53 p.m.

Respectfully submitted,

R. Dean Kenderdine
Secretary to the Board