

Key Updates and Changes from the Experience Study – Panel Discussion

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Funding Policy Goals & Priorities

- Adequacy
- Intergenerational Equity & Transparency
- Contribution Stability

Summary of Key Changes

- Funding Policy Changes
 - Amortization Policy
 - 5 year smoothing
- Economic Assumptions
 - Investment Return Assumption– moved from 8% to 7.75%
- Mortality Tables
 - Updated rates to reflect longer life expectancies
- Overall, changes will result in higher contributions for all groups

National Trends

- Other Systems are implementing similar changes
- Largest public practice actuarial firms advising clients to make these changes



Core Elements of a Pension Funding Policy

Government Finance Officers Association – 2013 Best Practices

- Use fixed (closed) amortization periods
- Balance equitable allocation of cost among generations with volatility management
- Never exceed 25 years, but ideally fall in the 15-20 year range
- Use a layer approach for the various components to be amortized

Recent Trends

- **Downward trend assumptions about long-term expected rates of return**
 - Public Fund Survey:
 - 126 plans measured
 - More than half have reduced their investment return assumptions since FY 2008
 - Median return assumption is now 7.75, down from 8.0
 - As of 12/31/2014, according to NASRA, average plan return's assumption was 7.69% (down from 8% as of 2008)
 - Pension & Investments: “Public pension funds taking a new look at return assumptions” (August 2015)

Funding Defined Benefit Plans



Fixed vs. Rolling Amortization

- Since 2005, MERS has been gradually reducing the amortization period
- MERS will continue to reduce this down, by one year, every year until the UAL is completely paid off
- Beginning in 2023, future liability gains/losses will be spread over a 15 year fixed period for open divisions

GASB 68: A Conversation Starter

- Governments now recognize and acknowledge this unfunded liability
- Projections of plan net position versus projected benefit payments has opened eyes
 - How do you ensure no crossover point exists? (Plan sustainability)
 - One way: Funding policy changes
 - Moving from open to closed amortization

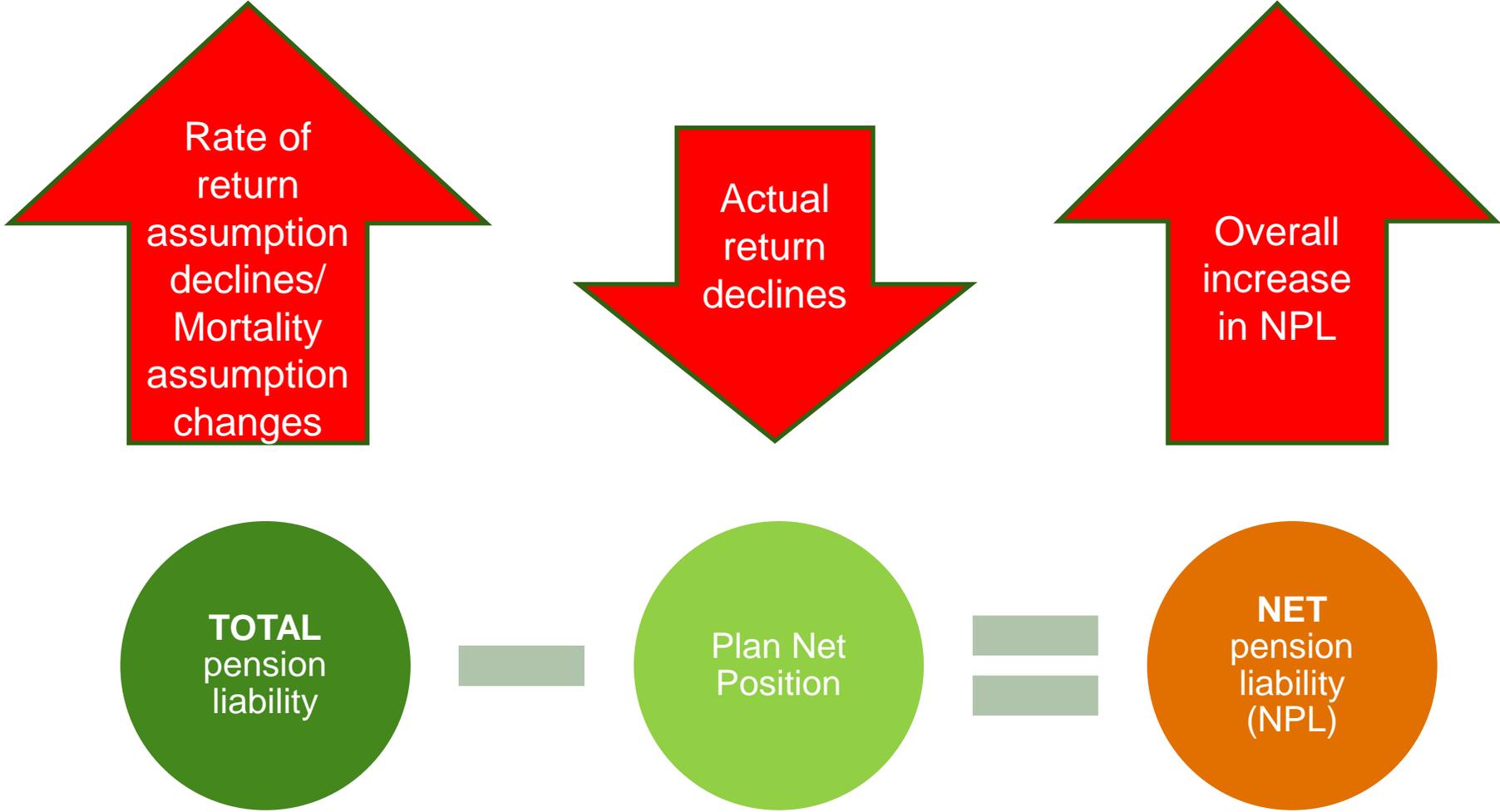
Layered Amortization Example



GASB 68: Net Pension Liability Recorded (full accrual only)



Impact of Assumption Changes



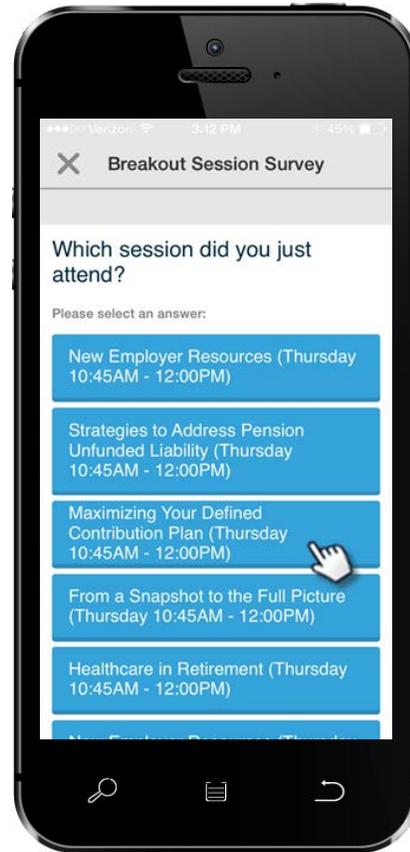
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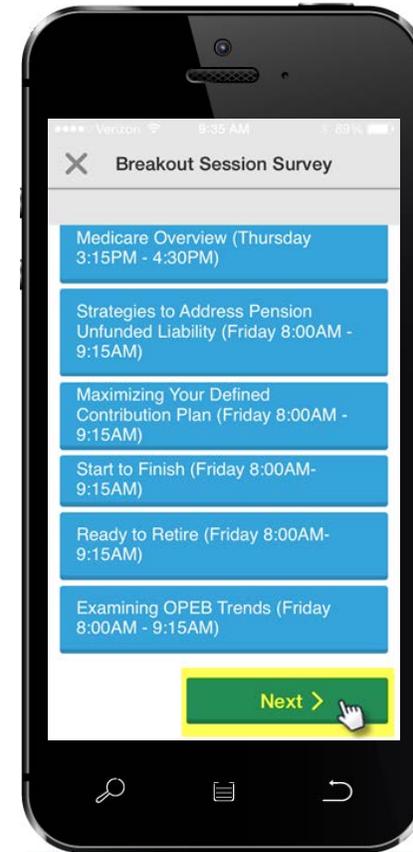
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