

Emerging Issues Forum September 15, 2010

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Funding Schedule Extension

- July, 2009 - PERAC Actuarial Advisory Committee recommendations
- Proposed long term funding solution for Massachusetts systems
- 2008 investment return the impetus
- Discussions on extending 2028 began over 5 years ago

Extend schedule to 2040 (under 22F)

- Increasing annual amortization 4.0% maximum
- Appropriation in any fiscal year at least as great as prior year (until fully funded)
- If appropriation would increase more than 8%, it may be adjusted

Funding strategies

- Maintain the Budget!
- 2009 valuations
- 2010 valuations

Stay within 2030 rules

- Preferred by many systems
- Is it feasible? 30% - 50% increases using same schedule
- Many systems must extend beyond 2030

Extend beyond 2030

- Can't extend to 2040 unless necessary
- Alternatives
 - Shorten schedule
 - Lower annual amortization increase

Short-term implications

- 2008 investment losses not fully recognized (actuarial value)
- 1/1/10 valuations- 3 more years to recognize
- Things will get worse before they get better
 - Generally 15%- 20% returns required (short term) to maintain position
 - 1/1/12 valuation may need to extend further to maintain appropriation

2009 valuations (34)

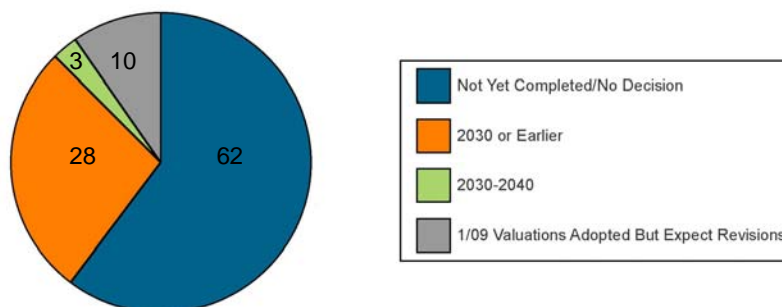
- Extending to 2030
- Significant increases using same schedule (30% - 50% +)
- Several adopted to help schedule extension pass
- Without 2040 option many systems looking at 20% + increases

2010 valuations

- Situation slightly improved
 - Investment gains
 - Liability gains (usually)
- 2030 schedules possible (for about 30% of plans)
- 2040 schedules work for most

Funding Schedules Adopted

2009 and 2010 Valuations



When 2040 doesn't work

- Example:
 - FY12 under current schedule \$1,000
 - FY12 based on 1/1/10 valuation \$1,200

Phase-in schedule

- To get systems back on track
- Schedule ramps up over 3-5 years
- Used for a number of systems under 2028 rules
- 8% annual increases serve as a phase-in

Phase-in funding schedule example

	<i>1/10 valuation</i>	<i>with phase-in</i>
FY12	1,200	1,000
FY13	1,250	1,125
FY14	1,300	1,250
FY15	1,350	1,375
FY16	1,400	1,500

- Any future schedule cannot be less than phase-in column through FY16.

Phase-in funding schedule example

	<i>1/10 valuation</i>	<i>with phase-in</i>	<i>8% increase</i>
FY12	1,200	1,000	1,000
FY13	1,250	1,125	1,080
FY14	1,300	1,250	1,166
FY15	1,350	1,375	1,260
FY16	1,400	1,500	1,360

- Any future schedule cannot be less than phase-in column through FY16.

COLA provisions

- May increase base amount in increments of \$1,000
- Subject to approval by legislative body

Cost impact (approximate)

	<i>Current base</i> (\$12,000)	<i>\$16,000</i> <i>base</i>	<i>% Increase</i>
1. Total normal cost	1,000	1,020	2.0%
2. Expected employee contributions	<u>750</u>	<u>750</u>	
3. Net normal cost	250	270	8.0%

Cost impact (approximate)

	<i>Current base (\$12,000)</i>	<i>\$16,000 base</i>	<i>% Increase</i>
4. Actuarial Liability (active)	25,000	25,450	1.8%
5. Actuarial Liability (retired)	<u>25,000</u>	<u>25,600</u>	2.4%
6. Total	50,000	51,050	2.1%
7. Assets	<u>30,000</u>	<u>30,000</u>	
8. Unfunded Liability (6)-(7)	20,000	21,050	5.3%

Cost impact (approximate)

	<i>Current base (\$12,000)</i>	<i>\$16,000 base</i>	<i>% Increase</i>
9. Amortization of UAL (4.0% increasing to 2040)	1,093	1,150	5.2%
10. Normal cost (item 3)	<u>250</u>	<u>270</u>	8.0%
11. Total FY11	1,343	1,420	5.7%
12. Increase		77	

- Total reflects figures as of valuation date and does not reflect any interest adjustment.

“Cost” of the COLA

- Increase in actuarial liability (\$1,050) plus annual increase in normal cost (\$20)
- FY11 cost of COLA (funding schedule) is \$77
- Increases 4.0% per year until 2040

Funding recommendation

- Be cognizant that the COLA increases plan cost
- Increase appropriation to reflect the added cost