

2007 Emerging Issues Forum

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Panel One: The National Pension Crisis

Maintain the Budget

Maintain The Budget

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PERAC Emerging Issues Forum
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Why Maintain The Budget?

- Allow systems to weather storms
- Flexibility
- Always harder to increase (than decrease) the budget

Optimism - 1999

"We are going to earn
15% every year."

Optimism – Early 2002

"Well, we have had two bad years
in a row, we can't have a third."

Impact of 2000-2002 Investment Returns

Many boards extended schedules

- Flexibility

Some boards could not extend

- Already on minimum schedule
- Appropriation increased – some significantly

Effect of 2000-2002 investment losses now complete

Minimum Funding Schedule

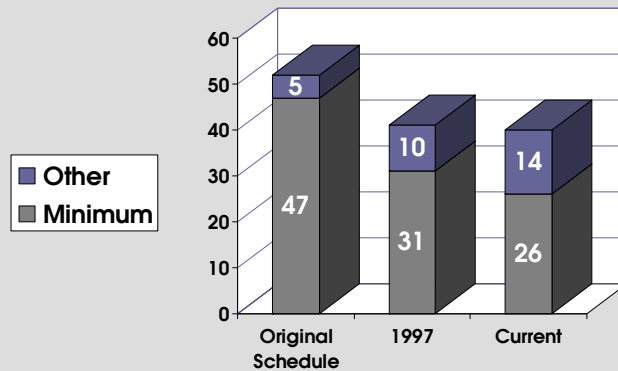
4.5% annual increasing amortization of Unfunded Liability to 2028

8 boards always adopted minimum

12 boards essentially adopted minimum*

* 3.5% increasing schedule or greater
2026 or later

Number of Funding Schedules to 2028



Getting Into Trouble *Quabbin Retirement System*

| Fiscal Year | Actual Appropriation | |
|---|----------------------|--|
| 1997 | 295 | |
| 1998 | 305 | |
| 1999 COLA Change | 290 | |
| 2000 | 265 | |
| 2001 | 275 | |
| 2002 Investment Losses First Recognized | 315 | |
| 2003 | 330 | |
| 2004 | 350 | |
| 2005 | 380 | |
| 2006 | 400 | |
| 2007 | 415 | |

Getting Into Trouble

Quabbin Retirement System

| Fiscal Year | Actual Appropriation | Appropriation If Budget Maintained |
|---|----------------------|------------------------------------|
| 1997 | 295 | 295 |
| 1998 | 305 | 305 |
| 1999 COLA Change | 290 | 320 |
| 2000 | 265 | 335 |
| 2001 | 275 | 350 |
| 2002 Investment Losses First Recognized | 315 | 370 |
| 2003 | 330 | 385 |
| 2004 | 350 | 405 |
| 2005 | 380 | 425 |
| 2006 | 400 | 445 |
| 2007 | 415 | 465 |

Getting Into Trouble

Quabbin Retirement System

| Fiscal Year | Additional Appropriation | Cumulative |
|---|--------------------------|------------|
| 1997 | 0 | 0 |
| 1998 | 0 | 0 |
| 1999 COLA Change | 30 | 30 |
| 2000 | 70 | 100 |
| 2001 | 75 | 175 |
| 2002 Investment Losses First Recognized | 55 | 230 |
| 2003 | 55 | 285 |
| 2004 | 55 | 340 |
| 2005 | 45 | 385 |
| 2006 | 45 | 430 |
| 2007 | 50 | 480 |

Quabbin Retirement System

Estimated Valuation Results

January 1, 2007

| | Actual | If Budget Maintained |
|--------------------|--------|----------------------|
| Unfunded Liability | 6,050 | 5,400 |
| Funded Ratio | 60% | 73% |

CAN'T EMPHASIZE ENOUGH...

Maintain The Budget
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Notes

Notes

