

Update on Long-Term Funding

Presentation to the IPERS Benefit Advisory Committee

Presented by:
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October 5, 2009



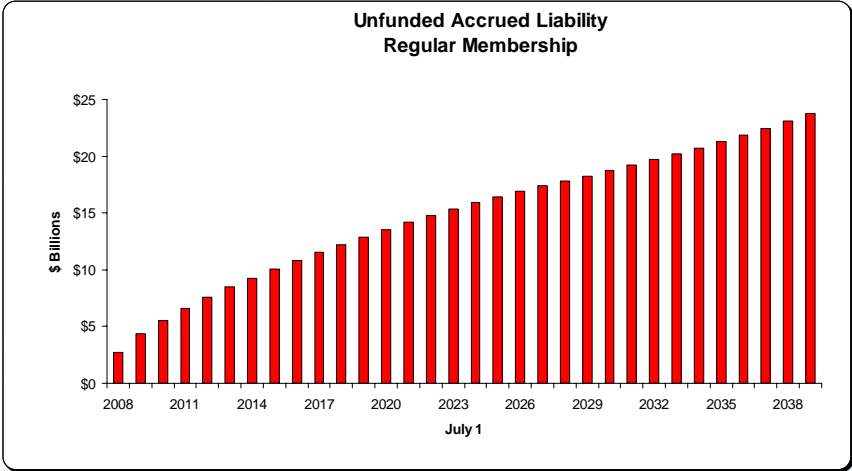
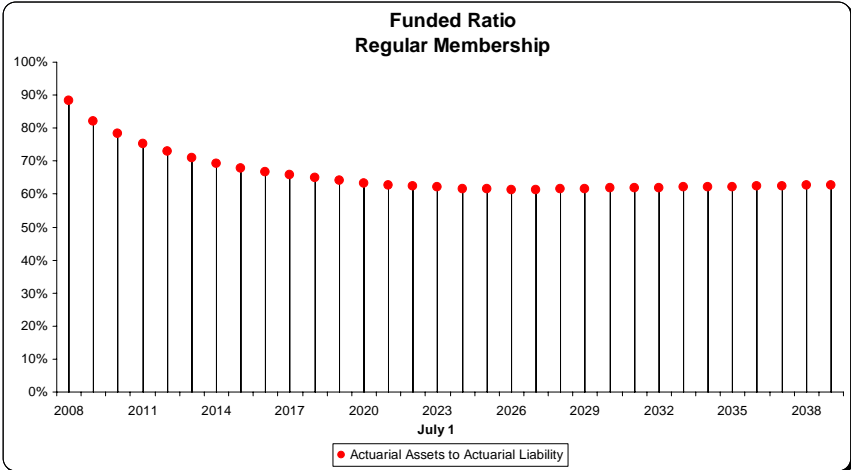
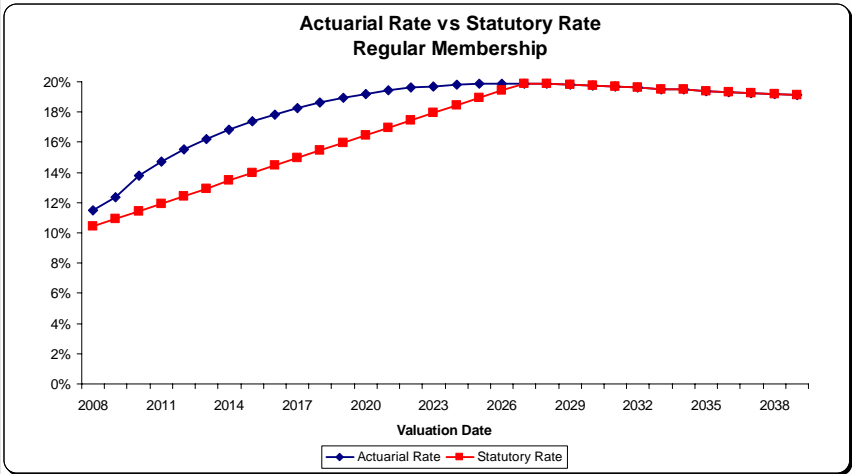
Discussion Topics

- Update/review of information in prior study
 - Added graph of unfunded actuarial liability
 - Added table of numerical results
 - Revised Study 16A and 16B
- New Studies: Contribution rates
 - Increase to 13.45% on 7/1/2011 with 1.0% limit on increases
 - 30 year open amortization
 - 30 year closed amortization
 - Change limit on increases from 0.50% to 1.0% on 7/1/2011
 - 30 year open amortization
 - 30 year closed amortization

Summary of Studies (Last meeting)

- Current benefit structure and contribution provisions (30 year open)
- 14% maximum contribution (30 year closed)
 - Plan design 14A
 - Plan design 14B
- 16% maximum contribution (30 year closed)
 - Plan design 16A (revised)
 - Plan design 16B (revised)

Baseline – Current Benefits and Contributions



Year	Contribution Rate	Funded Ratio	UAL (\$B)
2009	10.95%	82%	\$4.4
2014	13.45%	70%	9.3
2019	15.95%	64%	12.9
2024	18.45%	62%	15.9
2029	19.79%	62%	18.3
2034	19.47%	62%	20.8
2039	19.14%	63%	23.8

Contribution rate 14% (member and employer)

See slides 19-23 for glossary and transition rules

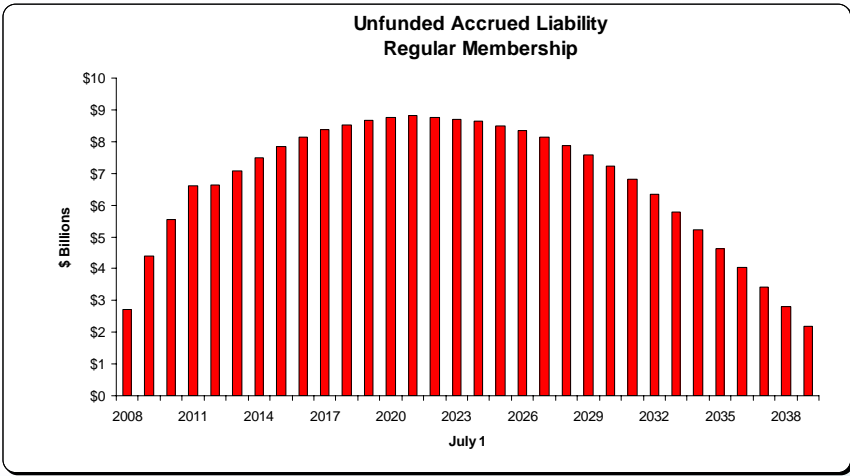
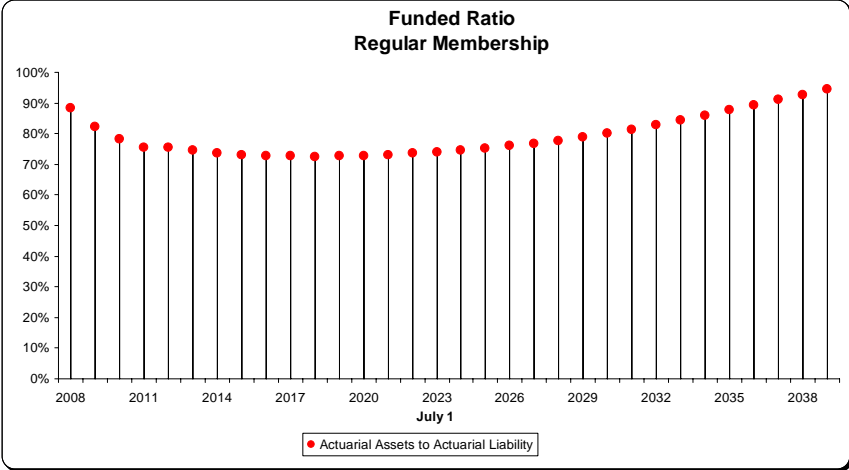
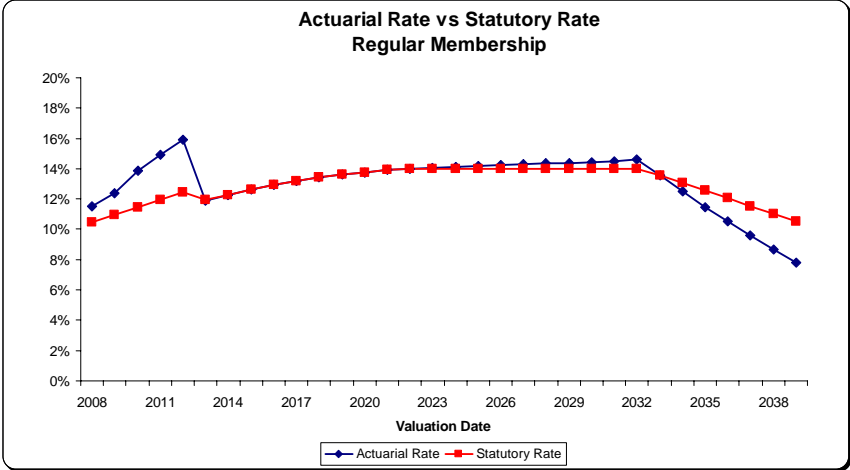
Plan Design 14–A

- All: Lower multiplier; FAS 5
- New: Age 65; Vest 5; ERF 6%

Plan Design 14–B

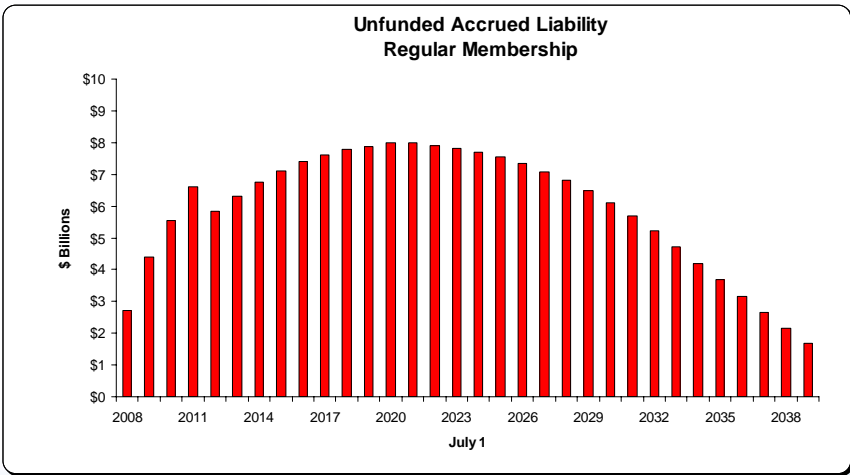
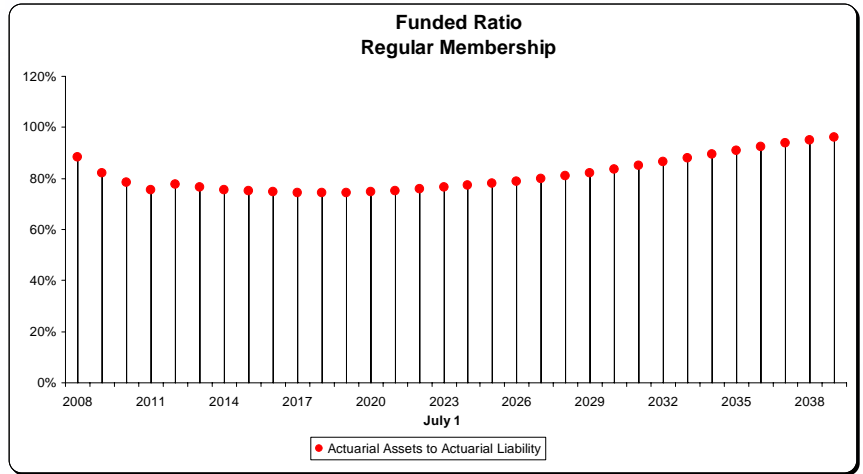
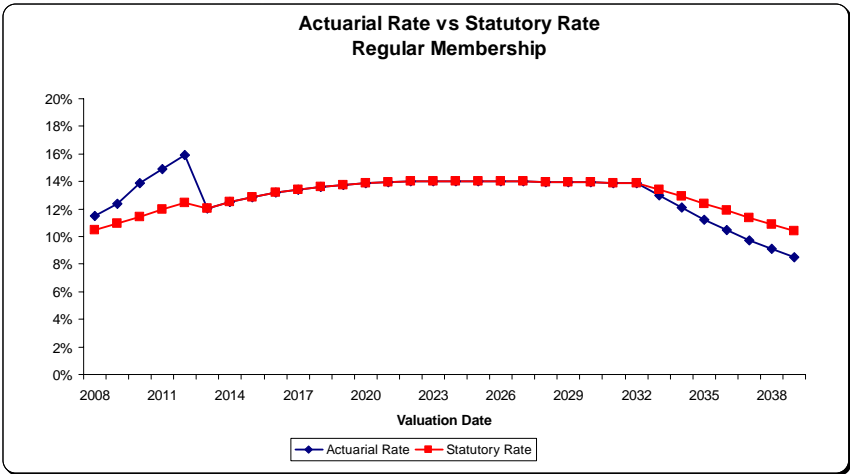
- All: Lower multiplier; FAS 5
- New and current under age 55 with less than 20 years of services: same as new in 14–A
- Current under age 55 with 20 years of service: transition to later normal retirement.
- Current age 55 and older: no changes other than multiplier and FAS

Design 14-A: 1.2% Multiplier



Year	Contribution Rate	Funded Ratio	UAL (\$B)
2009	10.95%	82%	\$4.4
2014	12.27%	74%	7.5
2019	13.60%	73%	8.7
2024	14.00%	75%	8.6
2029	14.00%	79%	7.6
2034	13.05%	86%	5.2
2039	10.55%	94%	2.2

Design 14-B: 1.6% Multiplier



Year	Contribution Rate	Funded Ratio	UAL (\$B)
2009	10.95%	82%	\$4.4
2014	12.49%	76%	6.8
2019	13.73%	75%	7.9
2024	14.00%	77%	7.7
2029	13.94%	82%	6.5
2034	12.89%	90%	4.2
2039	10.39%	96%	1.7



Contribution rate 16% (member and employer)

See slides 19-23 for glossary and transition rules

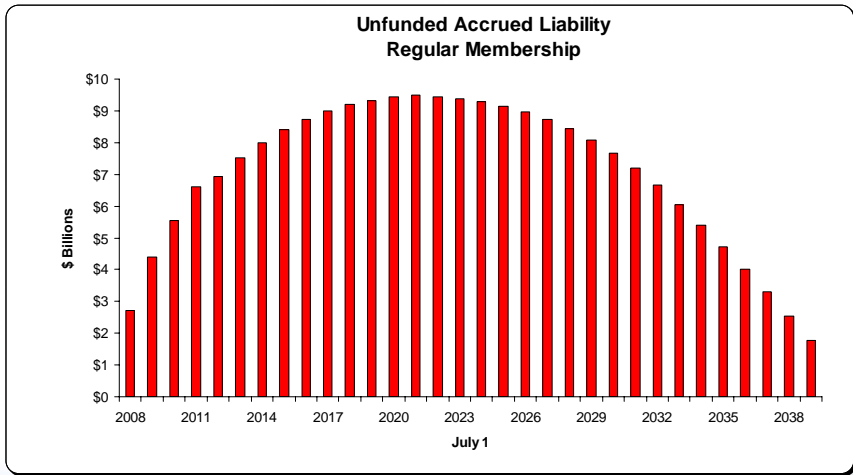
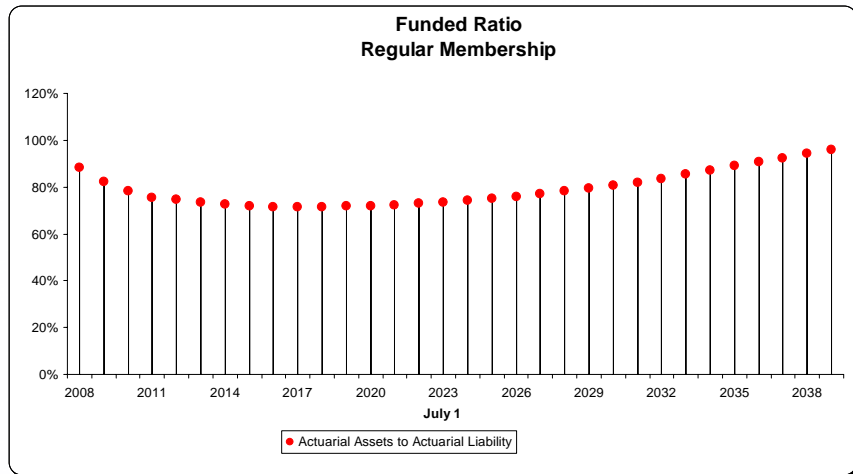
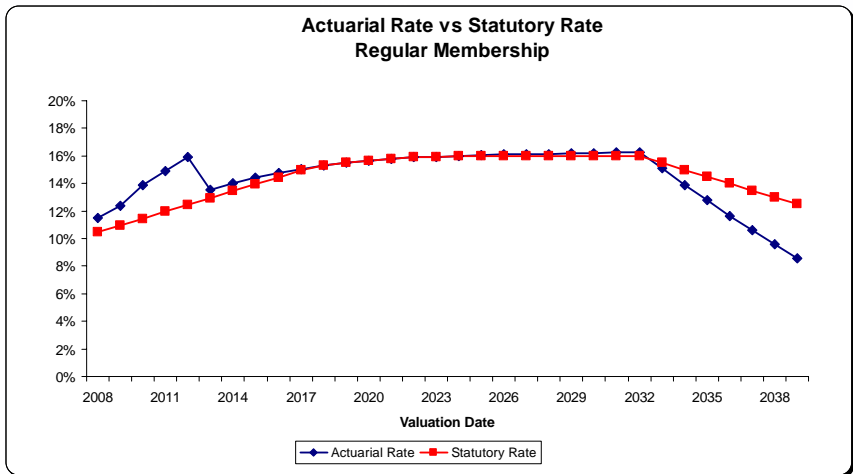
Plan Design 16–A

- All: Lower multiplier; FAS 5
- New: Age 65; Vest 5; ERF 6%

Plan Design 16–B

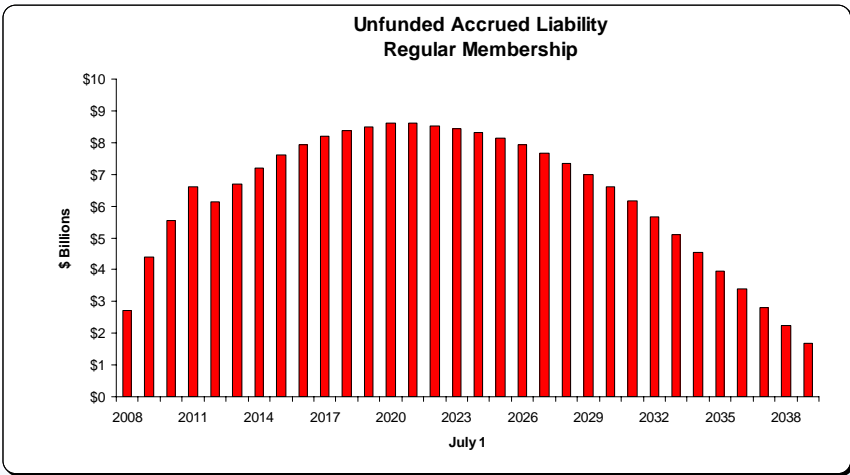
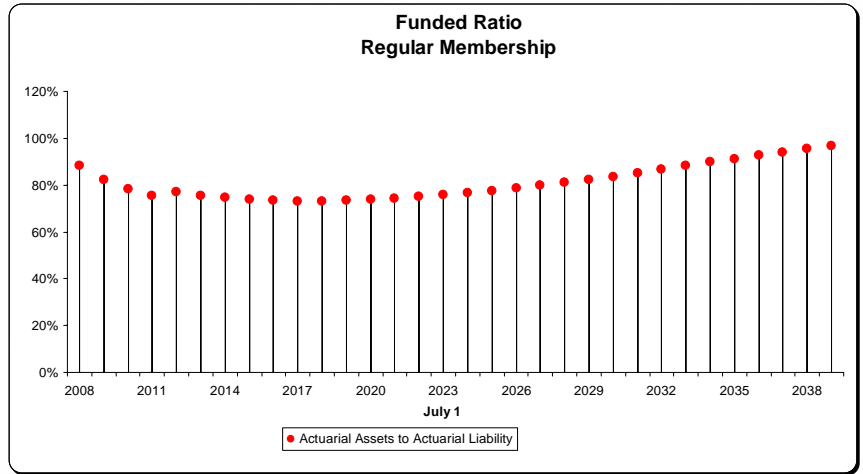
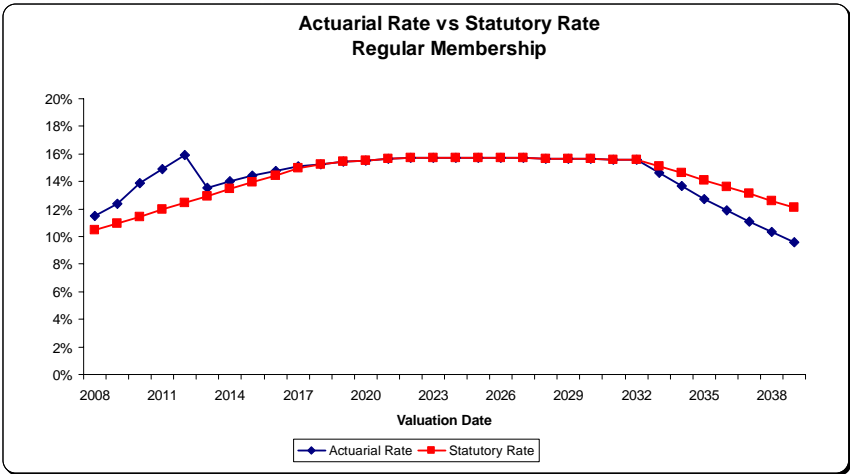
- All: Lower multiplier; FAS 5
- New and current under age 55 with less than 20 years of services: same as new in 16–A
- Current under age 55 with 20 years of service: transition to later normal retirement
- Current age 55 and older: no changes other than multiplier and FAS

Design 16-A: 1.5% Multiplier



Year	Contribution Rate	Funded Ratio	UAL (\$B)
2009	10.95%	82%	\$4.4
2014	13.45%	72%	8.0
2019	15.48%	72%	9.3
2024	16.00%	74%	9.3
2029	16.00%	79%	8.1
2034	15.00%	87%	5.4
2039	12.50%	96%	1.8

Design 16-B: 1.9% Multiplier

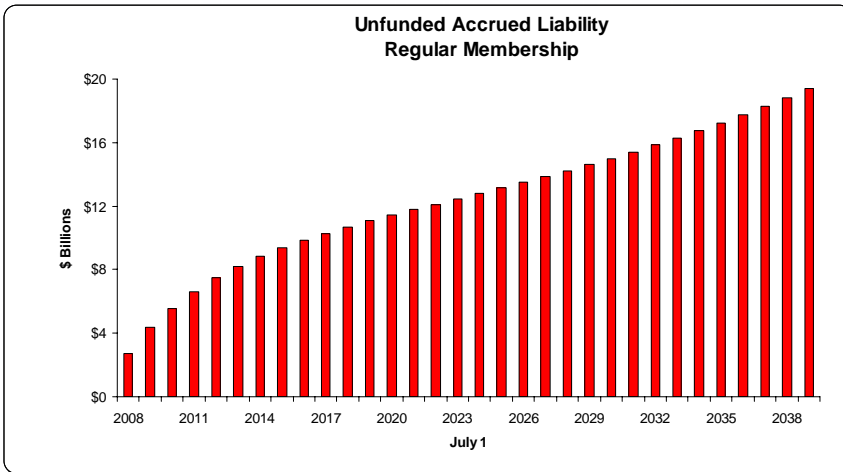
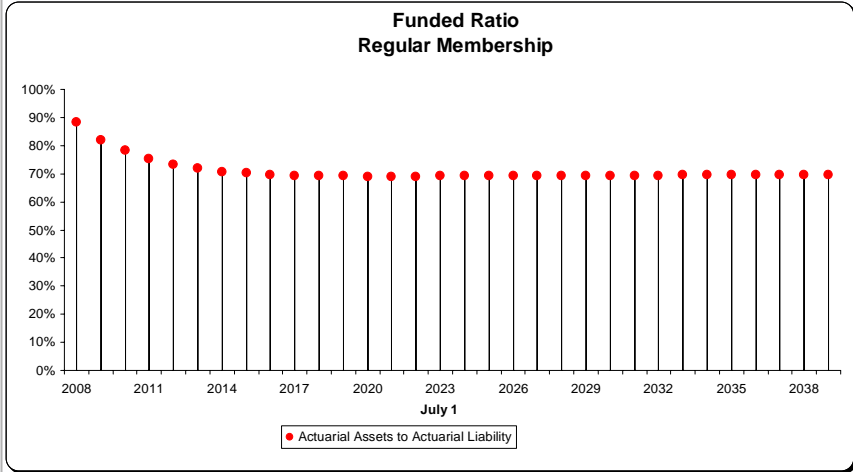
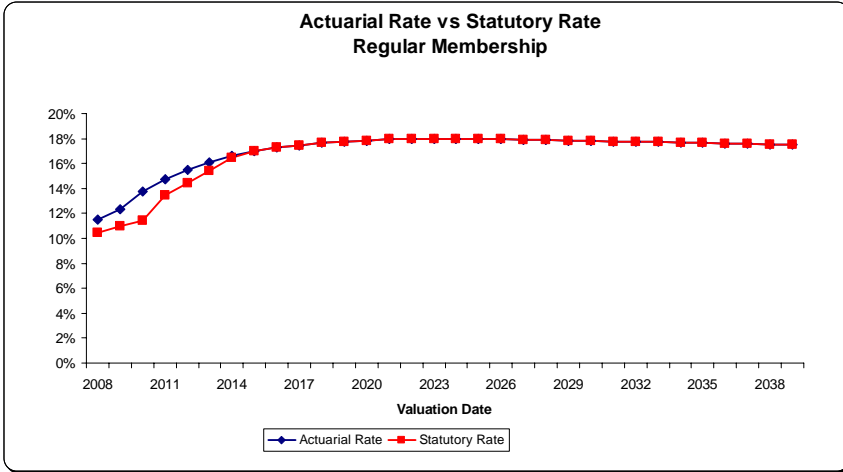


Year	Contribution Rate	Funded Ratio	UAL (\$B)
2009	10.95%	82%	\$4.4
2014	13.45%	75%	7.2
2019	15.42%	74%	8.5
2024	15.71%	77%	8.3
2029	15.64%	82%	7.0
2034	14.60%	90%	4.5
2039	12.10%	97%	1.7

New Studies

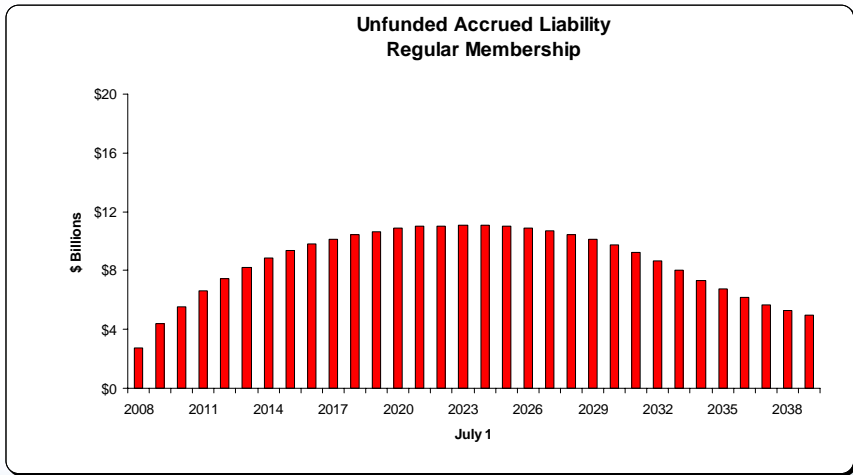
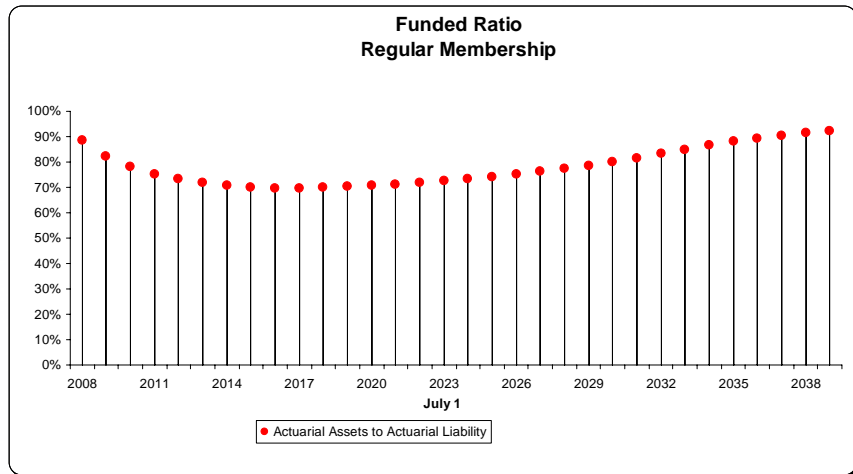
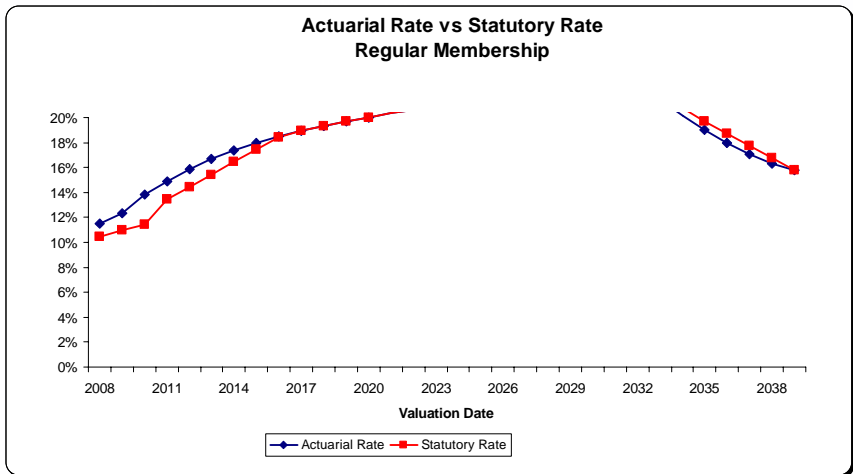
- 13.45% contribution rate effective 7/1/2011 with 1.0% limit on increases in contribution rate. Current benefit provisions.
 - 30 year open amortization
 - 30 year closed amortization
- Change limit on contribution increases to 1.0% effective 7/1/2011. Current benefit provisions.
 - 30 year open amortization
 - 30 year closed amortization

Current Benefits, 13.45% Contribution, 1% Cap, Open



Year	Contribution Rate	Funded Ratio	UAL (\$B)
2009	10.95%	82%	\$4.4
2014	16.45%	71%	8.8
2019	17.75%	69%	11.1
2024	17.97%	69%	12.8
2029	17.85%	69%	14.6
2034	17.68%	69%	16.8
2039	17.50%	70%	19.4

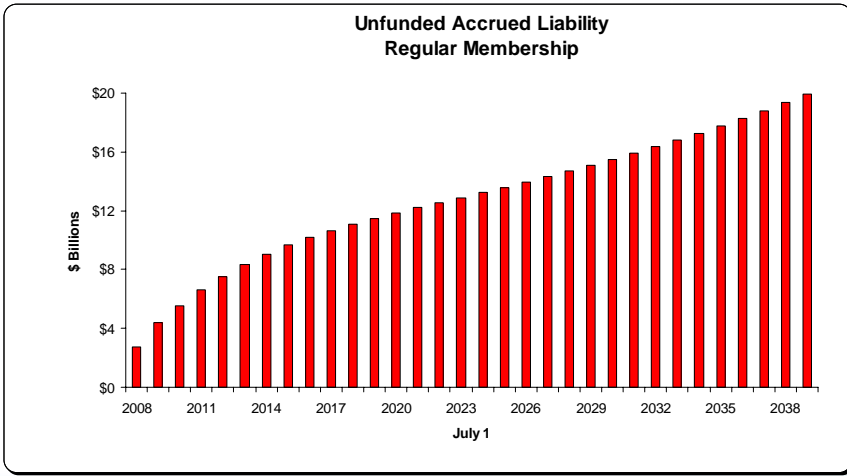
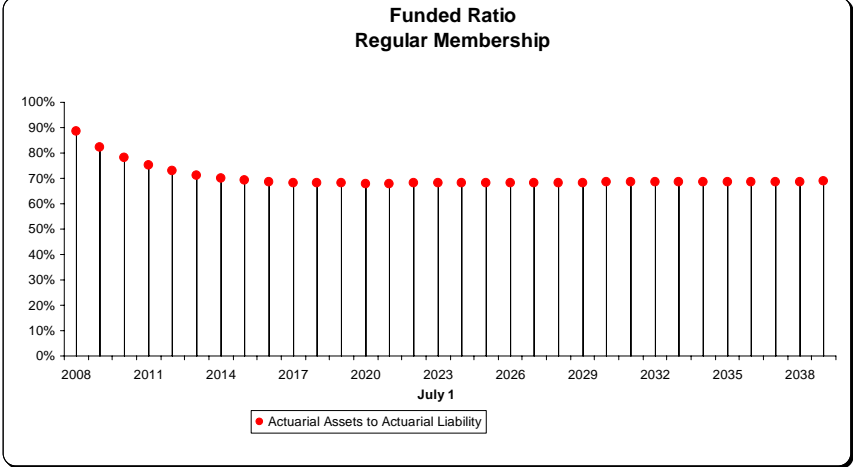
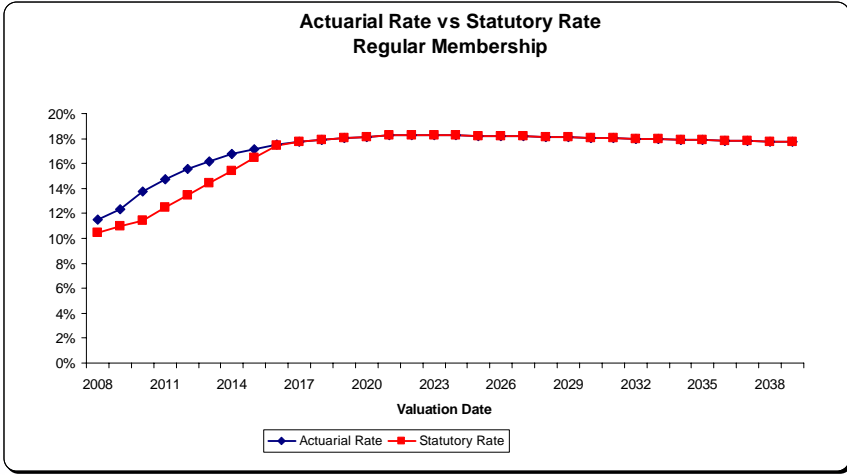
Current Benefits, 13.45% Contribution, 1% Cap, Closed



Year	Contribution Rate	Funded Ratio	UAL (\$B)
2009	10.95%	82%	\$4.4
2014	16.45%	71%	8.8
2019	19.70%	70%	10.7
2024	21.02%	73%	11.1
2029	22.05%	79%	10.1
2034	20.73%	87%	7.4
2039	15.75%	92%	4.9

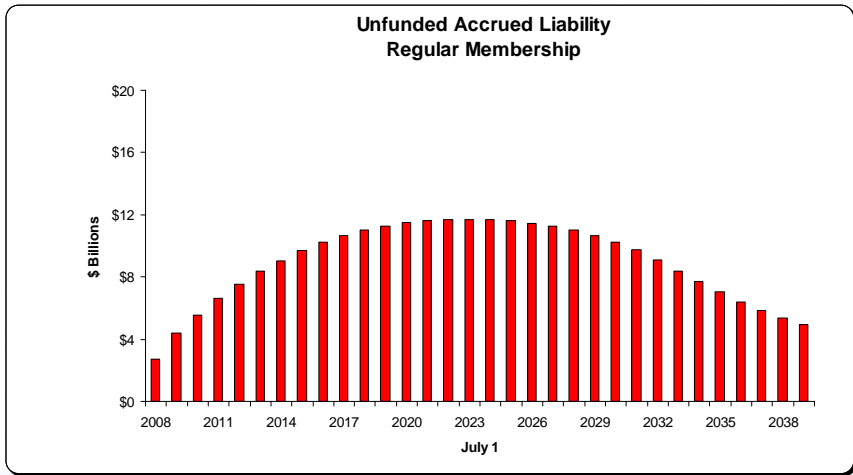
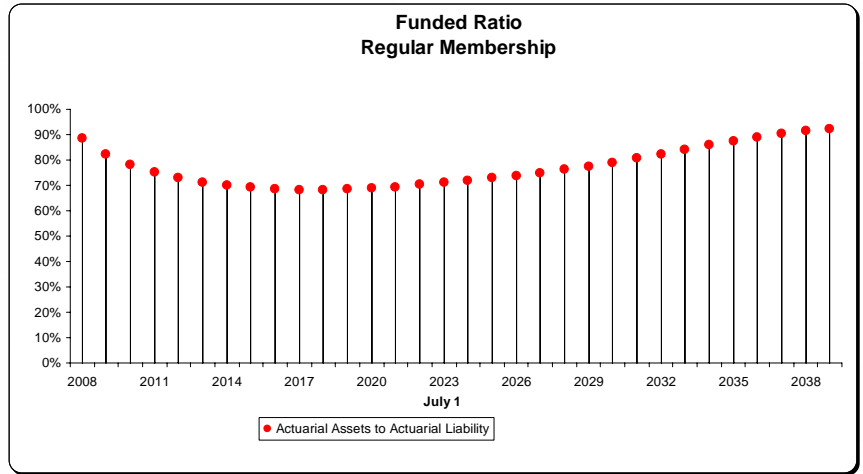
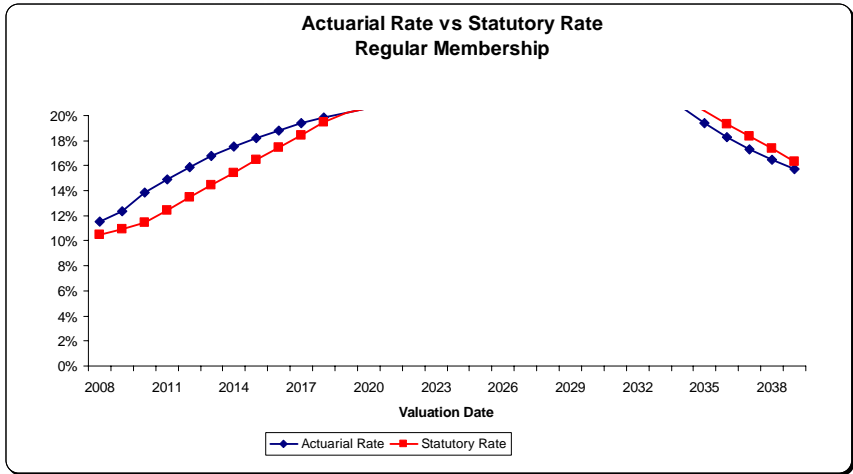


Current Benefits, 1% Cap, Open



Year	Contribution Rate	Funded Ratio	UAL (\$B)
2009	10.95%	82%	\$4.4
2014	15.45%	70%	9.1
2019	18.04%	68%	11.5
2024	18.24%	68%	13.2
2029	18.11%	68%	15.1
2034	17.91%	69%	17.3
2039	17.71%	69%	20.0

Current Benefits, 1% Cap, Closed



Year	Contribution Rate	Funded Ratio	UAL (\$B)
2009	10.95%	82%	\$4.4
2014	15.45%	70%	9.1
2019	20.25%	69%	11.3
2024	21.63%	72%	11.7
2029	22.67%	78%	10.7
2034	21.31%	86%	7.7
2039	16.36%	92%	4.9

Considerations

Increase contributions

- More money sooner = lower future contribution rates
- Recognize practical limit on future contribution rates

Reduce future benefits

- Key cost factors
 - How much will be paid (multiplier)
 - When will benefits be paid (retirement eligibility)
- Trend toward later “normal retirement”
 - People living longer
 - Retirement period extended

Considerations

Applying benefit changes to current members

- Adds complexity

Applying benefit changes to only new members

- Creates inequities in the workplace
- Delays cost impact

Next Steps

- Current studies are simplified in that they assume 7.5% rate of return is met each year
 - Investment returns vary from year to year
 - Need to perform “stress testing”
 - More robust approach to translate investment return volatility into probable cost outcomes
- Select no more than two options to be studied further
- Report back at next meeting with those results

Appendix – Glossary and Transition Rules for Alternative Plan Designs

- **Normal Retirement (NRA)**

Point at which eligible for unreduced monthly benefit

- **Early Retirement (ERA)**

Point at which eligible for monthly benefit reduced by ERF

- **Early Retirement Factor (ERF)**

Benefit Reduction per year retired prior to attaining NRA

- **Final Average Salary (FAS)**

Used in benefit formula

Change in Benefit Multiplier

- Most straightforward and easiest to handle
- Applies to all members, including those protected
- Years before 6/30/2012 at current level
(2% first 30 years and 1% next 5 years)
- Lower multiplier outlined in new plan design for all years of service earned after 6/30/2012

Change in Vesting

- If vested on 6/30/12, remain vested
- If not vested under current rules on 6/30/12, must meet new vesting schedule of 5 years

Change in Final Average Salary

Current member gets greater of:

- 1) High 3 final average salary computed at 6/30/12
- 2) High 5 final average salary computed at retirement/termination

Transition Normal Retirement Age

Plan B Transitional Retirement Protection

- New provision (NRA = 65) applies to all *except*:
 - Members age 55 or older have current NRA
 - Members under age 55 with 20 YOS *have*
 - Rule 88 or 62/20 based on YOS at 6/30/2012
 - Service frozen; may “grow” into age requirement
 - Retain 3% ERF if benefits start before NRA

Impact of Retirement Provision Protection-Examples Transition in Normal Retirement Age (Plan Design B)

	Ex 1	Ex 2	Ex 3	Ex 4
Age at 6/30/12	50	55	50	45
YOS at 6/30/12	30	29	21	10
NRA (old+add YOS)	55	57	59	62
NRA (service frozen)	58	57	62	65

Service frozen at 30 yrs Age into Rule of 88 at age 58	No change since age 55 on 6/30/2012	Service frozen at 21 yrs Age into Rule of 62/20
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