



Board of Trustees Meeting Ad Hoc Benefit Enhancement Policy

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Action Item:

1. Amortization policy for future ad hoc benefit enhancements



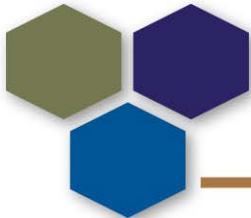
Ad hoc Benefit Enhancements

- ◆ Definition: Additional, one time enhancements granted which impact *past accruals only*
 - ▶ COLAs and Updated Service Credits
 - ▶ These benefits were not accrued while services were received, therefore, were not advance funded for

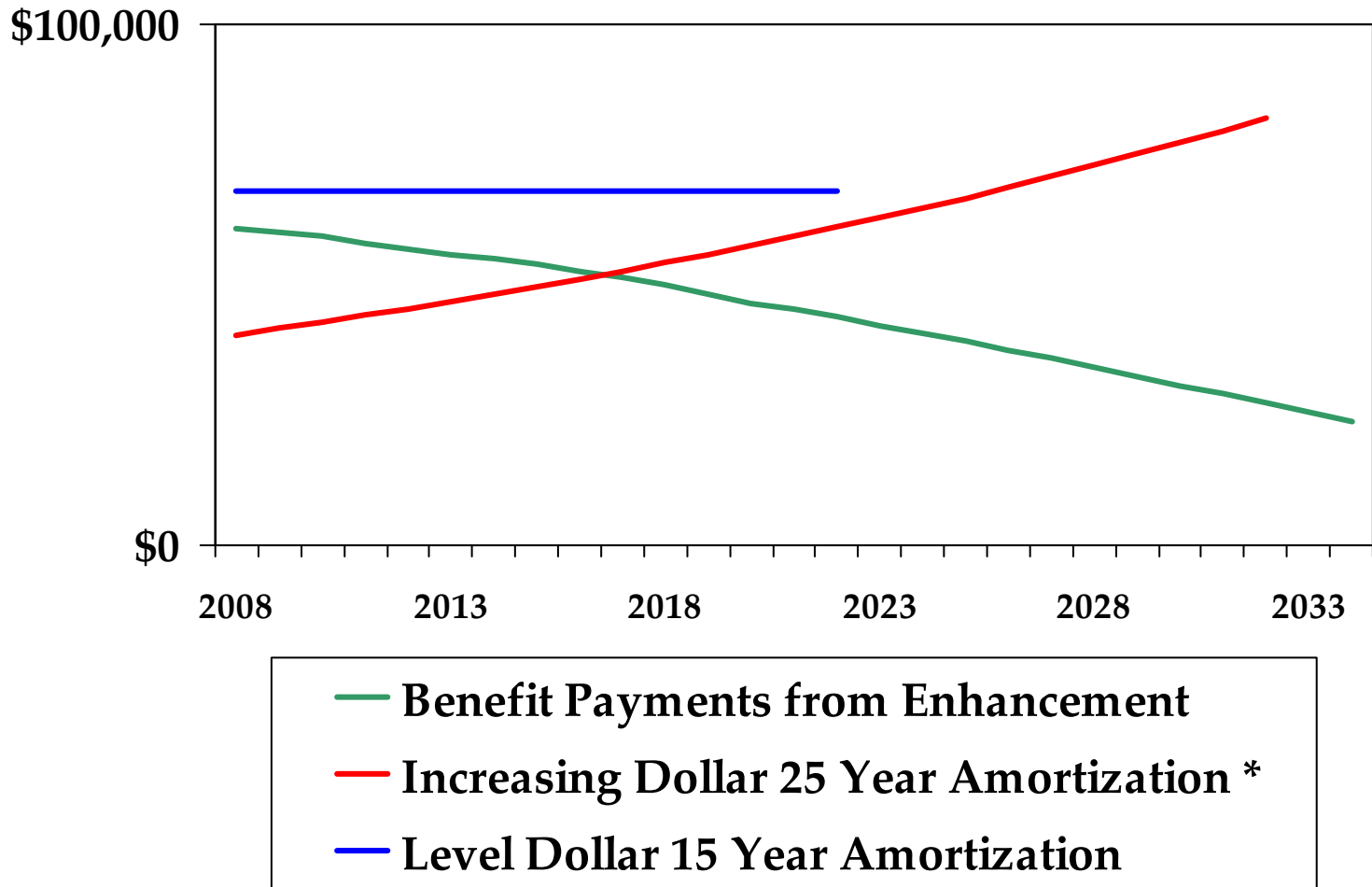


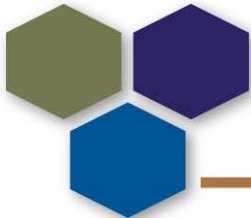
GRS' Recommendation

- ◆ Actuarial Standards of Practice (ASOP) recommend plan amendments be funded so that contributions are scheduled to occur to produce adequate assets to make benefit payments when they become due [ASOP No. 4, 3.13(c.)]
 - ▶ *Interpretation:* Should be financed as a stand-alone financial arrangement
 - ▶ Sufficient level of contributions should be received before the benefits are paid out
 - ▶ This financial model should never be “underwater”
 - ▶ GRS recommends all future ad hoc benefit enhancements be amortized over a 15 year period with a level dollar payment schedule

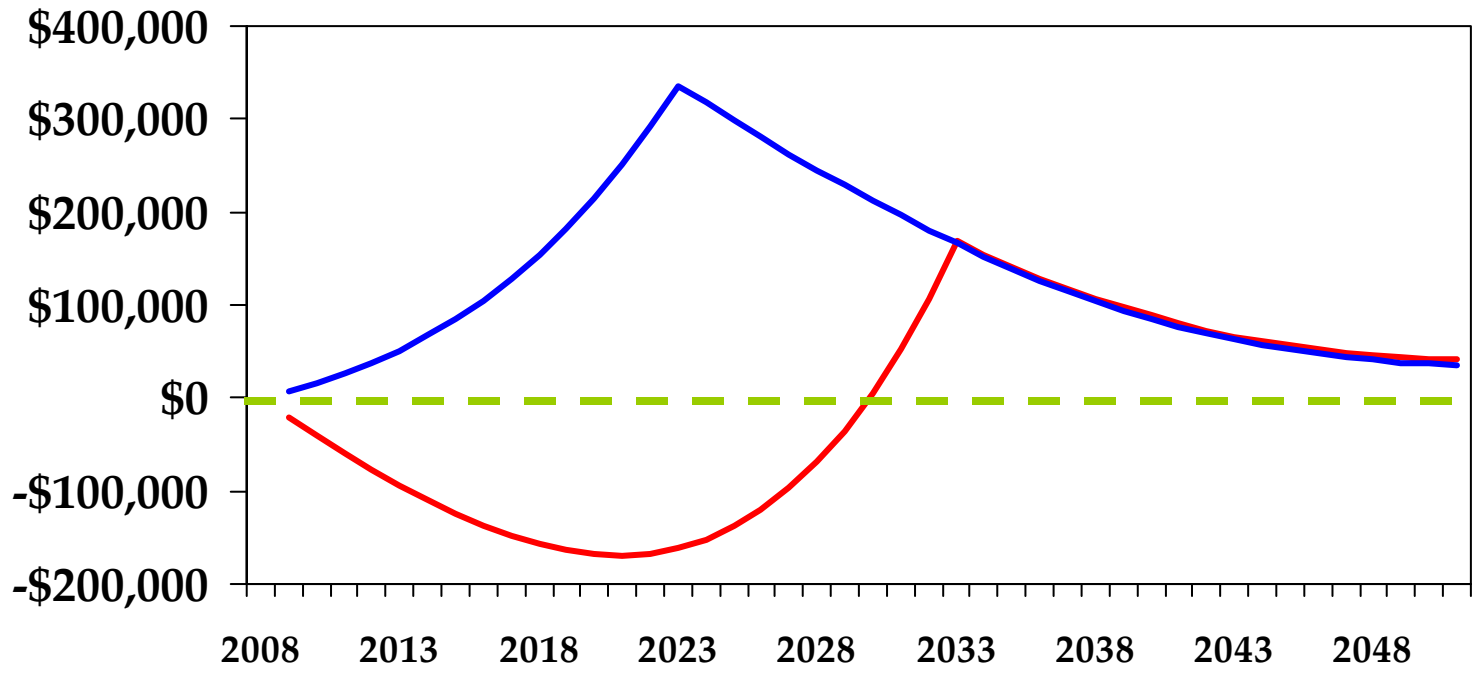


Stand-alone financial arrangement: Contributions vs. Benefits





Stand-alone financial arrangement: Balance (Net Cash In Less Cash Out)



— Increasing Dollar 25 Year Amortization*
— Level Dollar 15 Year Amortization



Cost Impact of Change

Sample City	Current Rate	Current Ad Hoc Policy 25/30 year level percent of payroll	Proposed Ad Hoc Policy 15 year level dollar
A	8.58%	8.77% (0.19%) <i>+2.2% increase</i>	8.88% (0.30%) <i>+3.5% increase</i>
B	12.59%	13.07% (0.48%) <i>+3.8% increase</i>	13.31% (0.72%) <i>+5.7% increase</i>
C	4.28%	4.49% (0.21%) <i>+4.9% increase</i>	4.56% (0.28%) <i>+6.5% increase</i>



GRS' Recommendation

- ◆ GRS recommends all future ad hoc benefit enhancements be amortized over a 15 year period with a level dollar payment schedule
 - ▶ Consistent with ASOP#4 and TMRS statutes which both require funding *on an actuarially sound basis such that sufficient assets are to pay benefits as they become due*