



Joint Meeting Review of Recent Actuarial Changes

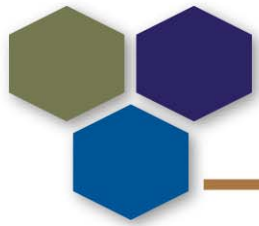
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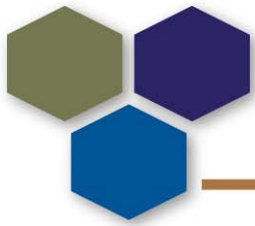
August 21, 2009

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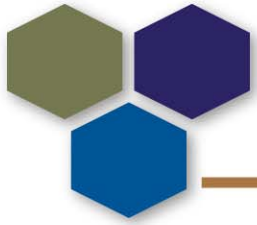
Projected Unit Credit Cost Method

- ◆ In 2007, the Board approved changing to the Projected Unit Credit (PUC) actuarial funding method
 - ▶ Change was needed to improve funded ratios long term and to pre-fund annually repeating changes



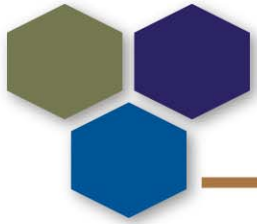
Assumption Changes

- ◆ This past December, the Board approved the following changes to the actuarial assumption package implemented with the December 31, 2008 actuarial valuation:
 1. Salary scale assumption be applied immediately instead of a one year delay
 2. Explicitly recognize the COLA associated with the annuitization of the Employee Savings Fund (ESF) balances at retirement
 3. Set the Municipality Accumulation Fund (MAF) discount rate at 7.50% to reflect the expectation of a future reserving policy for the TMRS Fund



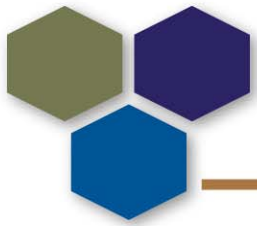
A review of “Lag” and Phase-In

- ◆ The “Lag” refers to the time delay between the actuarial valuation date and the date the contribution rate becomes effective
- ◆ For TMRS member cities, the “Lag” is one year
 - ▶ Actuarial Valuation as of December 31, 2007 set the rate effective for Calendar Year 2009
- ◆ Similar issue for Phase-In contributions
 - ▶ Less put in today likely means more is needed tomorrow



Board actions taken in June:

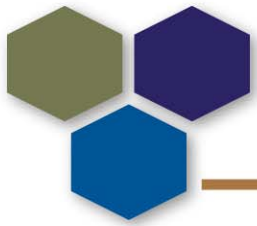
1. Amortization policy for closed TMRS plans
2. Amortization policy for future ad hoc benefit enhancements



Summary of Board action taken in June

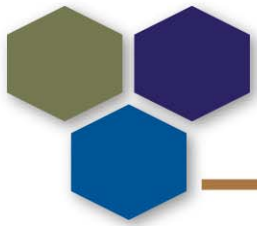
◆ For Closed Plans:

- ▶ Level dollar amortization – current level % of payroll was not GASB compliant
- ▶ Standard 20 year closed amortization period unless a shorter period is recommended by the Actuary based on cash flow projections and approved by the Board – amortization period to be reviewed annually
- ▶ City may request an extended amortization period up to 30 years subject to Actuary's recommendation based on cash flow projections and approved by the Board – amortization period to be reviewed annually
- ▶ Phase In contribution schedule was eliminated, if applicable
- ▶ New rate effective as of the plan closing date
- ▶ Adoption of benefit enhancements after plan closing subject to more stringent funding requirements and Board approval



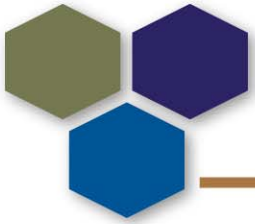
Ad hoc Benefit Enhancements

- ◆ 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

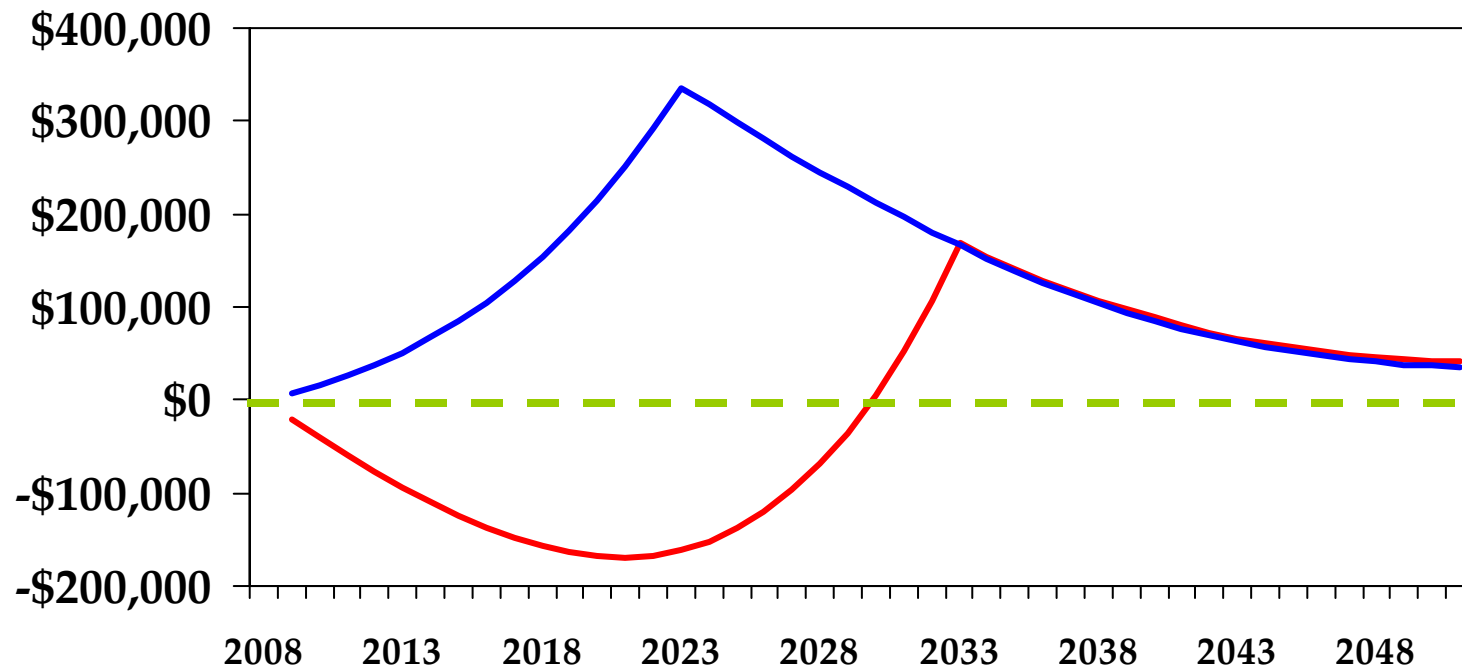


GRS' Recommendation

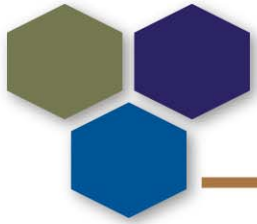
- ◆ Actuarial Standards of Practice (ASOP) recommend plan amendments be funded so that contributions are scheduled to occur to produce adequate assets to make benefit payments when they become due [ASOP No. 4, 3.13(c.)]
 - ▶ *Interpretation:* Should be financed as a stand-alone financial arrangement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



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



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



Board action taken in June

- ◆ Board approved that all future ad hoc benefit enhancements be amortized over a 15 year period with a level dollar payment schedule