Possible Actuarial Review Areas Based on

Preliminary Areas of Review Under Consideration by the Benefit Study Commission

PENSION BENEFITS

DRAFT

The following areas of review, as noted by annotations, have been discussed with the state's consulting actuaries to determine a method of review and obtaining quotes for service. Prior to initiating a full review and obligating funds, it seems prudent to determine what alternatives may realistically be pursued based on three criteria: 1) the advice received from Ice Miller, as to the extent that the proposed changes could apply to all active participants or only future new participants; 2) the potential for impact on costs to the system based on discussions with the actuaries; and 3) the extent that the Commission determines that such areas of review may ultimately lead to recommended changes consistent with the goals and objectives of the retirement system.

1) Raising retirement age – similar to Social Security structure

   - Estimate of Financial Impact: HIGH IMPACT. This would consist of raising the retirement eligibility requirement to the earlier of age 65 with 5 years of service and satisfaction of the "Rule of 90," or a similar rule developed by the Commission. It is potentially applicable to VSERS Groups F and D and VSTRS Group C. Cannot do a preliminary estimate as it is specific to each system.

2) Early retirement

   - Age eligibility restrictions

      i. Estimate of Financial Impact: HIGH IMPACT. This would consist of possibility of requiring attainment of a higher age, 58 or even age 60, for receipt of early retirement benefits under VSERS Groups F and D and VSTRS Group C.

   - Application of penalty based on actuarial cost

i. Estimate of Financial Impact: <u>MEDIUM IMPACT</u>. This would also depend on the number of early retirements in a given year. Exploration of this option indicates that it would have a significant impact at certain ages at which early retirement is now available, given recent changes that have been made in the basis for actuarial equivalence used by the systems. Determination needed if would apply to VSERS Groups F and D and VSTRS Group C. A quick calculation example was completed using factors under the current system. For example, factor at age 58 is 76%; new basis of actuarial equivalent is 66%; for age 55, the factor would change from 58% to 49%.

2B * Increasing employee rates for all groups and review of appropriate contribution rates for different groups or plans.

- Estimate of Financial Impact: <u>HIGH IMPACT,</u> depending on how aggressive. Prior to any estimate, the Commission would need to define parameters. This would impact the present value of benefits; however, there would be a partial offset impact on refunds that would cut the other way. Under the "Funding" section of this document is additional information concerning the concept of "risk sharing" for employer and employee contribution rates.

3) Define types of income eligible for calculation of average final compensation (AFC)

- Estimate of Financial Impact: <u>No estimate</u> can be made without detailed analysis of the types of income to be excluded and the frequency to which it is currently included in AFC. Impact would be assessed by reviewing the benefits of recent retirees, determining what they would be if they had been computed using whatever restrictions on compensation are proposed, and calculating the impact on the contributions required to the system.

- Did complete an initial assessment on an individual's retirement: Assume $50,000 salary reduced by 10% or $5,000 for group C. This would have an impact of $75,000 on the present value.

4) Impact of going from a three-year to five-year salary calculation for AFC
   - Estimate of Financial Impact: MEDIUM- MEDIUM HIGH. Assuming this would apply to would apply to VSERS Group F and VSTRS Group C. If salaries are flat over the next few years, impact would not be immediate. Current actuarial assumption is 4.5% over long-term.
5) Review/impact of COLA changes and review definition of CPI
   - Estimate of Financial Impact: LOW IMPACT. No major impact with current experience; perhaps down the road if hyperinflation occurred.
6) Review potential of limiting allowable earnings after retirement
   - Not reviewed by actuary pending further definition.
7) Review of State benefits compared to private sector benefits
   - Not reviewed with actuary
8) Review multiplier used to calculate benefits for all groups and plans
   - Assumed for the initial review, this would consist of lowering the percentage of final average salary accrued per year of service from 1.67% to 1.5% for VSERS Group F and VSTRS Group C. Estimate of Financial Impact: If applied to all existing active members, HIGH IMPACT. If applied to only

future service for existing staff (i.e., benefits to date are "accrued"), LOW to MEDIUM impact.

9) Review vesting period – possible increase from five years to ten years

   - Initial determination: LOW IMPACT

10) Tie employee contributions to salary or age

   - Requires further definition prior to any review.

FUNDING

1) Review of actuarial assumptions for
   - Salary rate
   - Cost of Living assumption
   - Interest rate of return
   - Review other factors with significant impact
     - Lengthen period of actuarial smoothing from 5 years to 10 years
     - Lengthen amortization period of unfunded liabilities from 30 years to 40 years
     - Consider one-time revision of date for annual actuarial valuation.
   - Estimate of Financial Impact: HIGH IMPACT but assumptions are determined based on experience study. The actuary is preparing estimates of impact of inflation and interest rate of return assumption and these will be reviewed at the next Commission meeting.

2) Risk sharing for contribution levels based on true-up of investment results

- A variant of employee contributions with shared "gain sharing" and "pain sharing" based on system experience and investment performance. This will need further review and design prior to any estimate by the actuary.

3) Assessing local education agencies – Federal grants for pension overhead

   - Outside scope of actuarial review.

DESIGN

1) Review DC and hybrid (including Cash Balance) options

   - Cash Balance
   - Federal Plan
   - This could apply to VSERS Group F and VSTRS Group C, and the cash-balance benefit would be structured along the lines of the one offered by the Nebraska Public Employees' Retirement System. This could be implemented for new participants only, or it could be offered as an option for current active participants as well. Details of the transition to the cash-balance system would have to be posited before estimates could be made.

2) Review options for implementation

   - Voluntary vs. mandatory
   - New members vs. existing members
   - Details of the transition to the cash-balance system would have to be posited before estimates could be made.

3) Review transition issues for various models

- Details of the transition to the cash-balance system would have to be posited before estimates could be made.

HEALTH CARE/OPEBS

1) Funding for teacher health plan
2) Review how to pay for teacher retiree health care and possible transition to new funding sources
3) Impact of health insurance premiums paid by local education agencies
   - Pay-as-you-go for new or existing employees
   - Prefund new or existing employees and establish trust fund
   - Board of Trustee governance representation based on above
4) Review current tiered health care for new State hires and consideration of tiered health care for existing members
   - Estimate of Financial Impact: HIGH IMPACT. The actuary made a preliminary estimate based of the prior Group F study, now applying it to existing members. The analysis is attached as well as the forecast of funding and GASB expense from the FY2008 OPEB valuation report. The valuation stated a 2009 normal cost of $15,528,227. It would go down $5,474,501 to approximately $10 million. The ARC would go down $6,964,324 from the current level of $36,744,848. The current analysis utilizes the "prefunded" model. Impact for the teachers' system would be less because of lack of spousal coverage.
5) Pooling of health care -- i.e., Catamount
6) Eligibility requirements for health care. Possible examples:

- Raising the minimum age for receipt of retiree medical benefits. Estimate of Financial Impact: HIGH IMPACT as highest cost is in pre-Medicare years. This would presumably be implemented in conjunction with the increase in the minimum age for receipt of retirement income benefits.
- Elimination of dependent eligibility for retiree medical benefits in VSERS. Estimate of Financial Impact: HIGH IMPACT.

7) Potential transition to Medicare Plan and/or Medicare D
    - No preliminary estimate at this time. Retirement Division will review with HR who provides oversight of current state health care provider.
8) Create Health Care Savings Account
9) No health insurance for new hires
10) Create catastrophic discretionary account
11) Increase co-pays/deductibles
12) Eligibility of dependents (State)
13) Contributions tied to salary or age

VSERS

Apply Tier OPEB plan to current Actives

Decrease in PBO	29,737,766
Decrease in NC	5,474,501
Decrease in ARC	6,964,324

Year	**Reduction in Pay-Go**
2008	371,050
2009	1,118,900
2010	1,989,764
2011	2,859,110
2012	3,753,490
2013	4,678,924
2014	5,526,243
2015	6,103,735
2016	6,621,438
2017	7,049,940
2018	7,148,615
2019	7,302,252
2020	7,302,347
2021	7,331,627
2022	7,281,350
2023	7,148,117
2024	7,073,230
2025	6,951,980
2026	6,881,311
2027	6,741,718
2028	6,560,291
2029	6,427,288
2030	6,281,801
2031	6,154,044
2032	6,040,585
2033	5,911,482
2034	5,775,810
2035	5,607,559
2036	5,417,938
2037	5,204,927
2038	4,968,308
2039	4,694,254

SECTION V — FORECASTS

FORECAST OF FUNDING AND GASB EXPENSE UNDER A DISCOUNT RATE OF 8.25%

Fiscal Year Ending in	Normal Cost	Amortization of the Unfunded Actuarial Liability	Total State ARC	Pay-as-you-go	Difference
2009	15,528,227	21,216,621	36,744,848	23,053,284	13,691,56
2010	15,590,545	22,277,452	37,867,997	25,956,794	11,911,203
2011	15,606,508	23,391;325	38,997,833	29,089,988	9,907,841
2012	15,416,833	24,560,891	39,977,724	31,770,568	8,207,151
2013	15,245,616	25.788,936	41,034,552	34,224,827	6,809,72
2014	15,123,459	27,078,382	42,201,841	36,395,216	5,806,62
2015	15,006,242	28,432,302	43,438,544	38,555,435	4,883,10
2016	15,005,378	29,853,917	44,859,295	40,341,136	4,518,15
2017	15,046,019	31,346,613	46,392,632	42,118,518	4,274,11
2018	15,320,536	32,913,943	48,234,47S	44,055,736	4,178,743
2019	15,948,821	34,559,640	50,508,461	45,425,300	5,083,161
2020	16,614,290	36,287,622	52,901,912	47,268,914	5,632,99
2021	17,318,957	38,102,003	55,420,960	49,016,947	6,404,01
2022	18,193,233	40,007,104	58,200,337	51,078,792	7,121,54
2023	19,229,638	42,007,459	61,237,097	52,885,690	8,351,40
2024	20,220,112	44,107,832	64,327,944	54,697,683	9,630,261
2025	21,218,497	46,313,223	67,531,720	56,865,727	10,665,993
2026	22,207,033	48,628,884	70,835,917	59,077,057	11,758,861
2027	23,320,949	51,060,329	74,381,278	61,652,497	12,728,781
2028	24,468,533	53,613,345	78,081,878	64,301,100	13,780,77
2029	25,805,340	56,294,012	82,099,352	66,455,434	15,643,91
2030	27,130,941	59,108,713	86,239,654	68,921,821	17,317,833
2031	28,415,851	62,064,149	90,480,00C	71,693,782	18,786,21
2032	29,801,579	65,167,356	94,968,935	74,517,660	20.451,27
2033	31,248,657	68,425,724	99,674,381	77,316,538	22,357,843
2034	32,764,691	71,847,010	104,611,701	80,284,752	24,326,94
2035	34,411,127	75,439,361	109,850,488	83,327,713	26,522,77
2036	36,072,531	79,211,329	115,283,86C	85,644,266	29,639,59
2037	37,811,229	83,171,895	120,983,124	88,843,890	32,139,23
2038	39,619,535	87,330,490	126,950,025	92,280,005	34,670,02
2039	41,514,322	0	41,514,322	95,959,614	-54,445,29