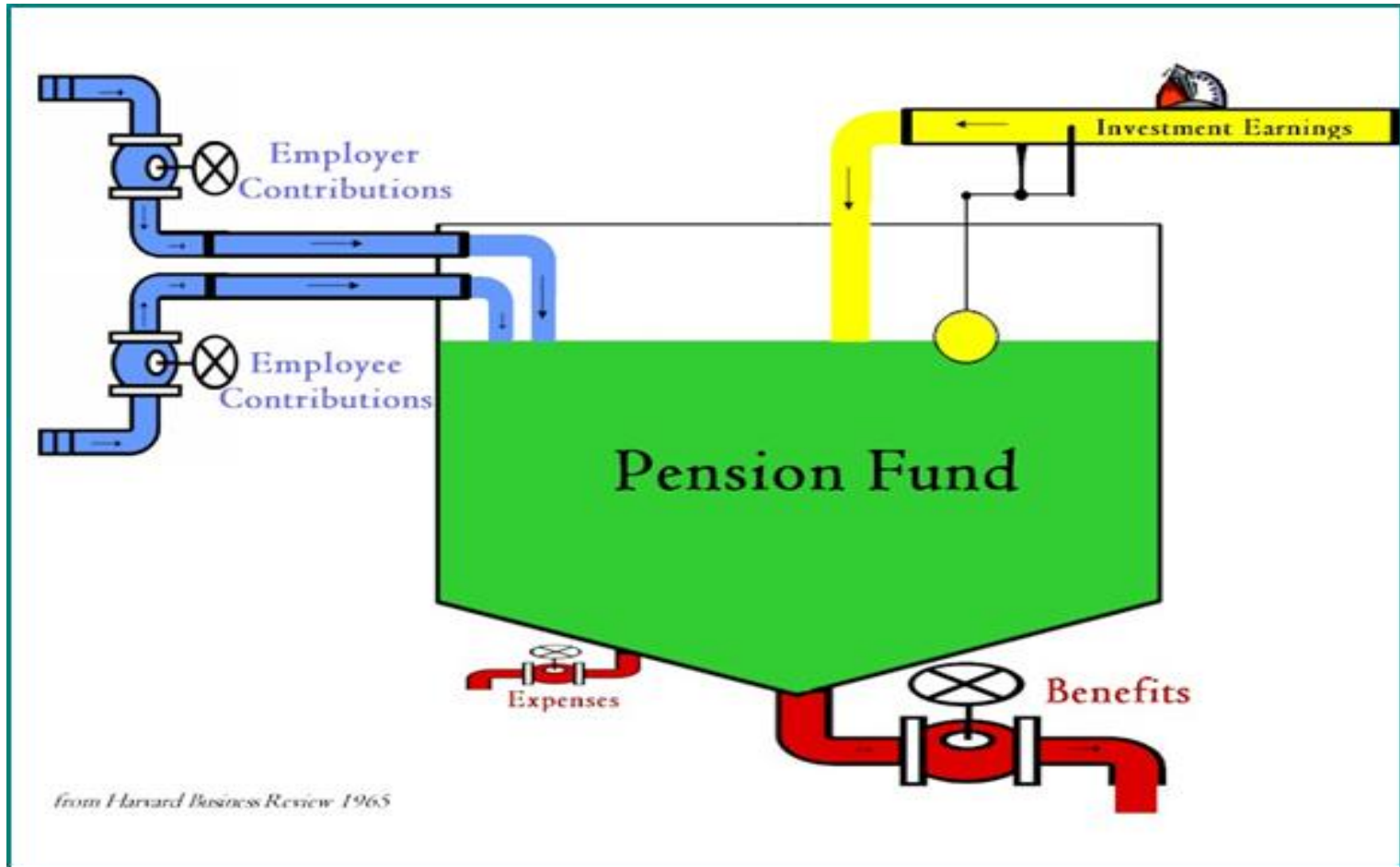


PAPERS – 10th Annual Forum

The Implications of the Detroit
Bankruptcy on Public Pensions in PA –
May 29, 2014

James E. Holland, Chief Research Actuary,
Cheiron, Inc.

Measures of Liability



Measures of Liability

- Ongoing Funding Basis – used for budgeting target for the accumulation of assets to provide benefits (which would look at projected benefits)
- Market-Consistent Basis – used to estimate a market price or settlement cost for pensions (which would only consider benefits earned to date)

Measures of Liability

- In either situation, the actuary is estimating the benefit payout stream and discounting the payments to make the measurement
- Over the life of the plan, contributions plus interest will equal benefit payments plus expenses, or
 - $C+I=B+E$ or (as in GRS reports),
 - $B=C+I-E$

Measures of Liability

- Actuary used Entry Age Normal Method with smoothed asset values for the plans
- For June 30, 2013, valuation, actuary used 8% interest rate
- Produced unfunded accrued liabilities of
 - 1,084.2 million (Police and Fire plan)
 - 415.6 million (General Retirement system)

Measures of Liability

- Based on Actuarial Accrued Liability of
 - 3,890.1 million (Police & Fire plan)
 - 3,609.1 million (General Retirement system)
- Smoothed Asset Values of
 - 3,474.5 million (Police & Fire plan)
 - 2,524.9 million (General Retirement system)

Measures of Liability

- Market Value of Assets 6-30-2013
 - 3,034.6 million (Police & Fire plan)
 - 2,099.0 million (General Retirement system)
- Benefit Payments for year end 6-30-2013
 - 315.5 million (Police & Fire plan)
 - 246.6 million (General Retirement system)

Measures of Liability

- Why smoothed assets and expected return?
 - Idea is to budget over a long period
 - Market swings can/will even out over time
 - Trying to avoid volatility in cash flow in plan sponsor budget
 - Do not want funding levels to have large swings just because of market gyrates on one date

Measures of Liability

- When will money run out
 - If no more employer contributions
 - Perhaps 19-25 years if assets earn 8%
 - Perhaps 12-13 years if assets earn 4%
 - Perhaps 8-9 years if assets earn 0%
 - In contrast, appears no run out over next 40 years if assets earn 12%
 - Assumes constant benefit payments, expenses, etc. at 6-30-2013 levels

IRS Qualification Rules

- Exclusive Benefit Rule – pre-dates ERISA
 - Cannot use or divert assets other than for the exclusive benefit of employees and beneficiaries
 - “includes all objects and aims not solely designed for the proper satisfaction of all liabilities to employees or their beneficiaries covered by the trust”

IRS Qualification Rules

- Plan Operation –
 - A plan must be operated pursuant to its terms
 - Puts onus on trustees and administrators to know and apply plan terms
 - IRS audits increasingly focus on internal controls
 - If want to change terms of plan, need amendment
- Note that one must consider what constitutes the plan document

Questions?