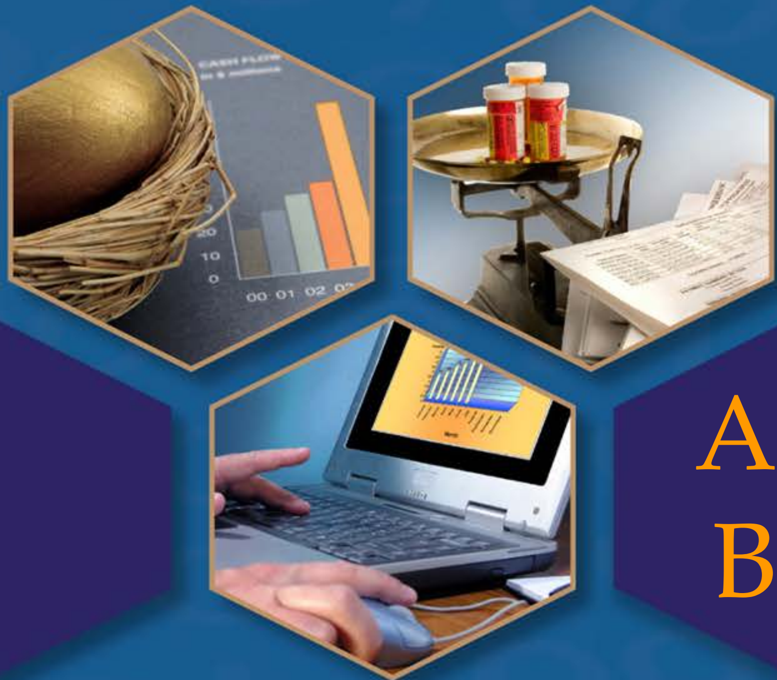

Advisory Committee on Benefit Design Meeting

August 18, 2016

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Agenda

- Recap of previous meeting
  - RTW provisions
  - COLA provisions

Return to Work (RTW) Policies

- Managing policies that apply to employees who have retired and then choose to return to work (RTW) for the former employer creates challenges for all public employee retirement systems

TMRS current provisions

- Currently, if a member retires from one city and then returns to work for that same city:
  - The member's current annuity is suspended until he re-retires (the member forfeits the benefit payments that would have occurred during the suspension)
  - A new member account is created to which the member and employer contribute (with interest granted) and the balance is annuitized at the second retirement

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TMRS current provisions

- There is a special provision for members who are separated from their employer for a period of more than 8 years before they return to work. Those members are eligible to receive as a lump sum the accumulation of their suspended benefit payments when they re-retire (without interest)

TMRS current provisions

- When a member returns to another TMRS city, the member's annuity is not suspended and they can simultaneously receive their annuity from the previous city and salary from their new city
- A new member account is created to which the member and employer make contributions like any other member (with interest granted) and the balance is annuitized at the second retirement

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Length of separation

- There are IRS requirements addressing a "bona fide" break in service and no pre-arrangement for re-hire
- While there are no specified definitions, general opinions are that at least a 6-month separation is needed, with 1 year being safer
- The 1 year requirement is less likely to cause a change in behavior than a shorter requirement
  - Makes it harder for an employer to guarantee position
- We have estimated that if new provisions were enacted that increased retirement behavior by 20%, the average increase in employer rates would be from 0.03% to 0.13%

Who should new provisions apply to?

- Just future retirees?
  - Low to no cost, loss of future gain
- Current retirees who have yet to return to work?
  - Low to no cost, loss of future gain
- Retirees who have returned to work but have not re-retired?
  - Provide prospective only or include retro payments?
  - On a prospective basis: low cost, loss of future gain
  - Providing retrospective payments will have a cost, with a wide distribution based on the utilization at the given City
  - Some cities may have previously benefited from actuarial gains
- If retrospective payments are provided, what about the retirees who have previously returned to work but have already subsequently retired?

Basic Considerations

- In all scenarios, recommend no change to the current treatment for new accruals
  - Member contributes into a new account
  - Employer provides a match
  - Earns interest just as any other member
  - Any USC calculation is only based the new employment period
  - Balance is annuitized at second retirement based on age at second retirement. Any option is available.
  - No change to original annuity, except for perhaps COLAs granted during the reemployment

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Options for Original Annuity during re-employment

- Option 1: Treat RTW retirees at previous city after a 1-year break in service just like a member who returns to a different city
  - No suspension, continue to receive annuity
  - By far the least administrative burden compared to current policy
  - Puts previous employer in same position as another employer

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Options

- Option 2: Decrease the 8 year requirement to 1 year
  - Annuity is suspended, but accumulated suspended payments are paid to the retiree at the subsequent retirement without interest
  - The second least administrative burden compared to current policy
  - Attempts to make the member whole compared to value before second employment
  - Ensures that a member who retires and returns to work does not receive an enhanced benefit compared to the member who never retired

Options

- Variants of Option 2: Decrease the 8 year requirement to 1 year
  - Could provide interest on suspended payments
    - Provides even greater incentive to return to work
    - Could lead to more pronounced impact on retirement behavior with potential significant costs
  - Could annuitize accumulated balance (with or without interest) of suspended payments
    - Annuitized based on age at second retirement using same option as the original annuity
    - Added to the original annuity
    - Member would ultimately receive total of:
      - Original Annuity (at original option, with COLAs)
      - Annuity of Suspended Payments (at original option based on current age)
      - Annuity for new employment (any option based on current age)

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Example

- Member retires at age 55 with a $40,000 annual benefit ($3,333 per month)
- Returns to work at age 56 and works for 5 years, retiring a second time at age 61
  - Receives $422 per month in additional annuity based on second 5 year employment
- Based on current provisions, the $3,333 would recommence at the second retirement with any COLAs granted during the suspension period
- In all scenarios, the member receives their salary from their employer

Example

- Under option 1 (no suspension), the member would receive their annuity and their salary during the re-employment period and then have the $422 added to their annuity at the second retirement
- Under option 2 (suspension but accumulation of missed payments), there are the following alternatives at second retirement (plus the $422 increased annuity)

	Lump Sum	Increased Monthly Annuity
Without interest	$200,000	$1,212
With 5% interest	$226,551	$1,373

Under the with interest scenario, the member would receive $3,333 plus $422 plus $1,373 = $5,128 monthly

Current COLA Options

- 30%, 50% or 70% of CPI-U
- Repeating COLAs are advance funded over each active employee's working career
- Ad-hoc COLAs are funded when granted over 15 years with level dollar amortization

COLAs are Retroactive

- Increases are calculated as if COLA had always been in effect since date of retirement
  - Typically referred to as "catch up" provision
- Initial COLA or an increase in CPI percent results in large benefit increases for the year adopted; longer retired, higher the increase
- Reduction in CPI percent results in lower or no increase until cumulative increase at lower percent exceeds current benefit; longer retired, longer until another increase will be granted
- Two alternatives have been proposed that would eliminate the retroactive or catch up feature:
  - Current CPI based COLA without retroactive feature
  - Flat rate COLA of a specified percentage increase

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Ad hoc Comparative Analysis 1 – COLA last adopted January 2010

	Baseline * (No COLA)	70% CPI Ad hoc with Catch-up (6.67%)	70% CPI Ad hoc without Catch-up (0.51%)	Flat 2.5% Ad hoc
UAAL	$60,062,834	$72,868,402	$61,104,951	$65,161,254
Funded Ratio	86.3%	83.9%	86.1%	85.3%
ER Current Service %	7.23%	7.23%	7.23%	7.23%
Prior Service %	5.17%	6.81%	5.30%	5.82%
Full Rate	12.40%	14.04%	12.53%	13.05%
Estimated Contribution	$10,399,826	$11,775,287	$10,508,856	$10,944,978
Annual Cost to Provide COLA		$1,375,461	$109,030	$545,152
Projected CY2017 Benefit Payments	$20,946,533	$22,343,091	$21,053,570	$21,470,196
Increase Due to COLA		$1,396,558	$107,037	$523,663

* City last adopted a COLA on January 1, 2010

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Repeating Comparative Analysis 1– COLA last adopted January 2010

	Baseline * (No COLA)	70% CPI** Repeating with Catch-up (6.67%)	70% CPI** Repeating without Catch-up (0.51%)	Flat 2.50% Repeating COLA
UAAL	$60,062,834	$146,419,293	$132,699,102	$167,458,448
Funded Ratio	86.3%	72.1%	74.1%	69.3%
ER Current Service %	7.23%	9.34%	9.34%	10.24%
Prior Service %	5.17%	11.68%	10.64%	13.27%
Full Rate	12.40%	21.02%	19.98%	23.51%
Estimated Contribution	$10,399,826	$17,629,382	$16,757,138	$19,717,734
Annual Cost to Provide COLA		$7,229,556	$6,357,312	$9,317,908
Projected CY2017 Benefit Payments	$20,946,533	$22,343,091	$21,053,570	$21,470,196
Increase Due to COLA		$1,396,558	$107,037	$523,663

* City last adopted a COLA on January 1, 2010

**Assumes CPI will increase 2.5% annually

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Ad hoc Comparative Analysis 2– COLA never adopted

	Baseline * (No COLA)	70% CPI Ad hoc with Catch-up (10.32%)	70% CPI Ad hoc without Catch-up (0.51%)	Flat 2.5% Ad hoc
UAAL	$21,413,900	$27,155,999	$21,767,835	$23,145,480
Funded Ratio	91.0%	88.8%	90.9%	90.3%
ER Current Service %	4.90%	4.90%	4.90%	4.90%
Prior Service %	3.00%	3.88%	3.05%	3.27%
Full Rate	7.90%	8.78%	7.95%	8.17%
Estimated Contribution	$5,545,153	$6,162,841	$5,580,249	$5,734,671
Annual Cost to Provide COLA		$617,688	$35,096	$189,518
Projected CY2017 Benefit Payments	$6,601,287	$7,282,614	$6,635,019	$6,766,319
Increase Due to COLA		$681,327	$33,732	$165,032

* City has never adopted a COLA

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Repeating Comparative Analysis 2 – COLA never adopted

	Baseline * (No COLA)	70% CPI ** Repeating with Catch-up (10.32%)	70% CPI** Repeating without Catch-up (0.51%)	Flat 2.50% Repeating COLA
UAAL	$21,413,900	$69,574,123	$63,328,054	$82,437,140
Funded Ratio	91.0%	75.7%	77.3%	72.4%
ER Current Service %	4.90%	6.60%	6.60%	7.32%
Prior Service %	3.00%	7.33%	6.77%	8.49%
Full Rate	7.90%	13.93%	13.37%	15.81%
Estimated Contribution	$5,545,153	$9,777,720	$9,384,646	$11,097,326
Annual Cost to Provide COLA		$4,232,567	$3,839,493	$5,552,173
Projected CY2017 Benefit Payments	$6,601,287	$7,282,614	$6,635,019	$6,766,319
Increase Due to COLA		$681,327	$33,732	$165,032

* City has never adopted a COLA

**Assumes CPI will increase 2.5% annually

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