Final Recommendations

The 2015 Actuarial Experience Study

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2015 Experience Study

- The full report was presented to the Board in September
- An audit was performed of the work and discussed in October
  - Clean audit with no material findings and no changes to the recommended assumptions
  - Final report reflects minor language modifications from audit suggestions
- Options to allow Cities flexibility on how to deal with new contribution rate increases due to the experience study was also discussed in October
- Final report with new recommended assumptions has been provided to the Board for adoption.

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Impact from Material Recommendations

	Current Assumption	Proposed Assumption	Impact on Liabilities/Costs
Inflation	3.00%	2.50%	
Nominal Investment Return	7.00%	6.75%	Increase +++
General Wage Growth	3.00%	3.00%	None
Long-Service Salary Scale	4.08%	3.50%	Decrease ++
Post-Retirement Benefit Increases (Shown for 70% of CPI)	2.10%	1.86%	Decrease ++
Rates of Termination (A/E Ratio)	95%/93%	101%/102%	Increase +
City Termination Load		As much as +/- 5%	
Percentage taking Refund (A/E Ratio)	92%	101%	Increase +
Population Decline	NA	50% of recent experience	Increase where applicable

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Summary of Recommendations

- Recent TMRS Board of Trustees actions
  - Board has recently adopted a lower investment return assumption of 6.75% per annum
  - Board recently adopted new mortality assumptions with generational methodologies and the entry age normal actuarial cost method
- Material New Recommendations
  - Decrease the inflation assumption from 3.00% to 2.50% per annum
  - Decrease COLA assumptions consistent with new inflation assumption
  - Decrease termination probabilities, especially at early career
  - Decrease percentage of vested members assumed to choose a refund in lieu of a deferred benefit
  - Introduce an assumption for future active population declines, as appropriate in determining the payroll growth assumption

Summary of Recommendations

- Minor/Immaterial New Recommendations
  - Increase the annual real wage growth assumption from 0.00% to 0.50%
  - Restructure the assumption for individual salary increases for members with more than 10 years of service, lowering merit and promotion
    - Net impact of these two plus inflation is a salary growth assumption approximately 0.61% less per year over the career of the member
  - Change the pre-retirement and post-retirement disabled mortality assumptions to have a generational methodology and to match recent experience (valuation purposes only)
  - Assume fewer members become disabled
  - Assume members who become disabled choose a 50% J&S option
  - Reduce amortization period for new future (post January 1, 2016) gains, losses, or benefit enhancements to a maximum of 25 years
  - Set a maximum amortization period for ad hoc benefit enhancements equal to the life expectancy of the impacted group if this is less than the current 15 year period
  - Add a provision to the asset valuation smoothing technique to ensure that the gain or loss from an individual year is fully recognized within 10 years

Alternatives

- The Board has four options to address the short term rate increases
  - Let the increases occur without phase-in or re-amortization
  - Allow phase-in to the higher rates at 0.50% annually
  - Re-amortize the current UAAL to the extent possible and necessary to offset increase in rate
  - A combination of phase in or re-amortization

- Under options 1 and 2 above, the Board may authorize cities to instruct TMRS to re-amortize the current UAAL to the extent possible and necessary to offset the increase in rate

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GRS Recommendation

- GRS recommends the Board adopt the new assumptions as presented
- If the Board desired to allow Cities options to manage any potential increase in cost due to the new assumptions, we recommend the phase-in approach
  - Provides maximum flexibility to Cities as they have the ability to phase-in, keep current period or request re-amortization
  - It is less complicated
  - Keeps on the current funding timeframe
  - Reduces negative amortization
  - Most of the impact from the new assumptions is in the normal cost (not impacted by amortization period), not the UAAL.