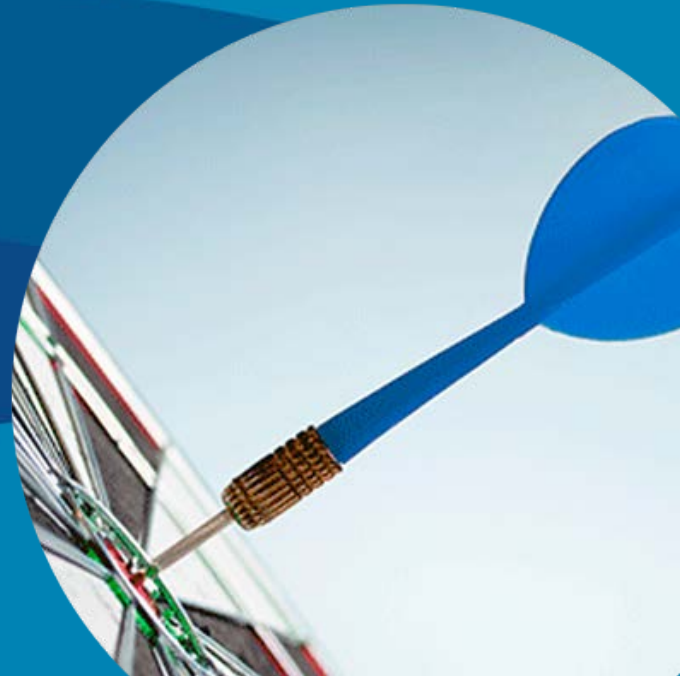


# Benefit Accumulation Fund Interest Rate Credit Recommendation for 2019

Leslee Hardy  
Joe Newton  
Janie Shaw  
March 24-25, 2020

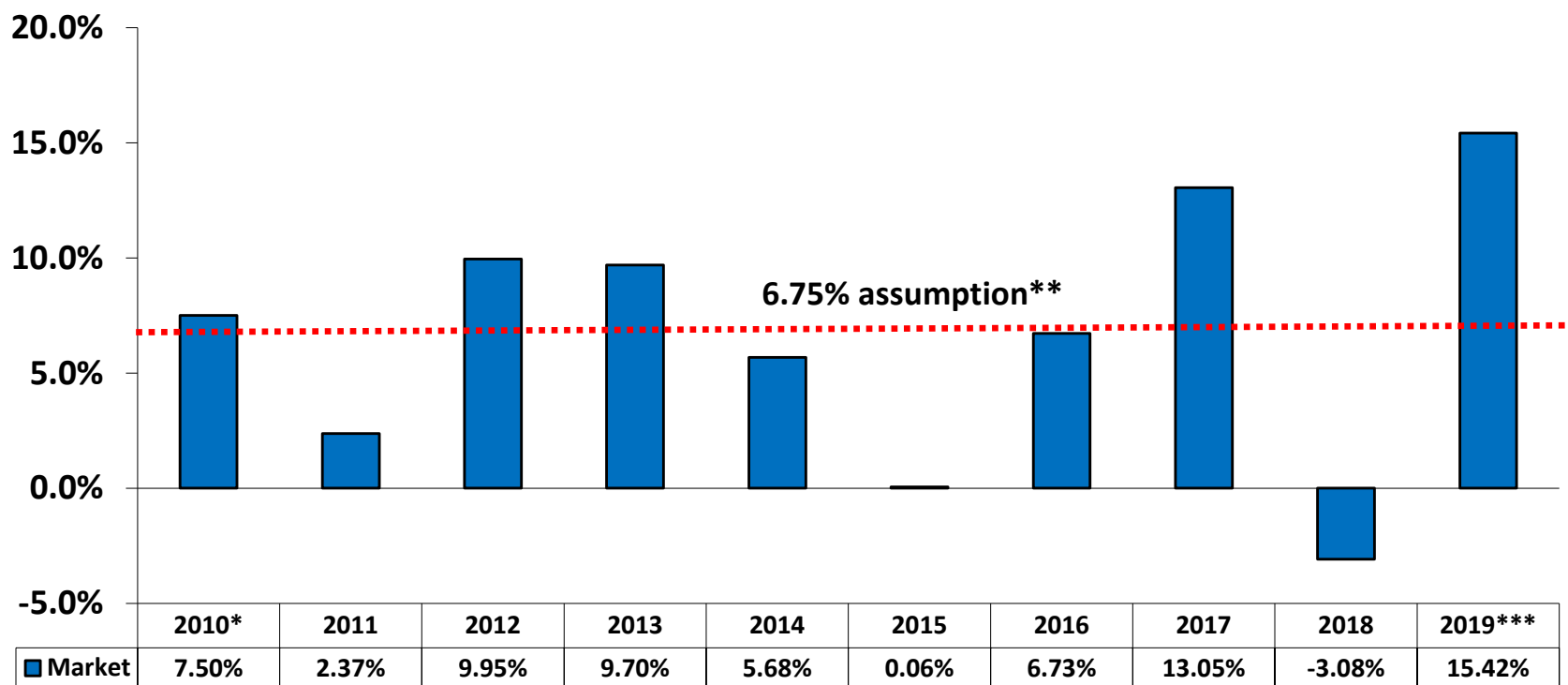


# Overall Fund Return for 2019

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- GRS recommends crediting the Benefit Accumulation Fund (BAF) interest equal to approximately 15.42%
- This will be credited based on the beginning of year market value BAF balance for each city
- This amount was determined after all administrative and investment expenses have been paid and the statutory requirements have been fulfilled
- This will increase the initial Interest Reserve Account from \$290M to \$310M (approximately 1% of the December 31, 2019 lagged investment portfolio) to allow for unanticipated changes in the market values as all investments are finalized

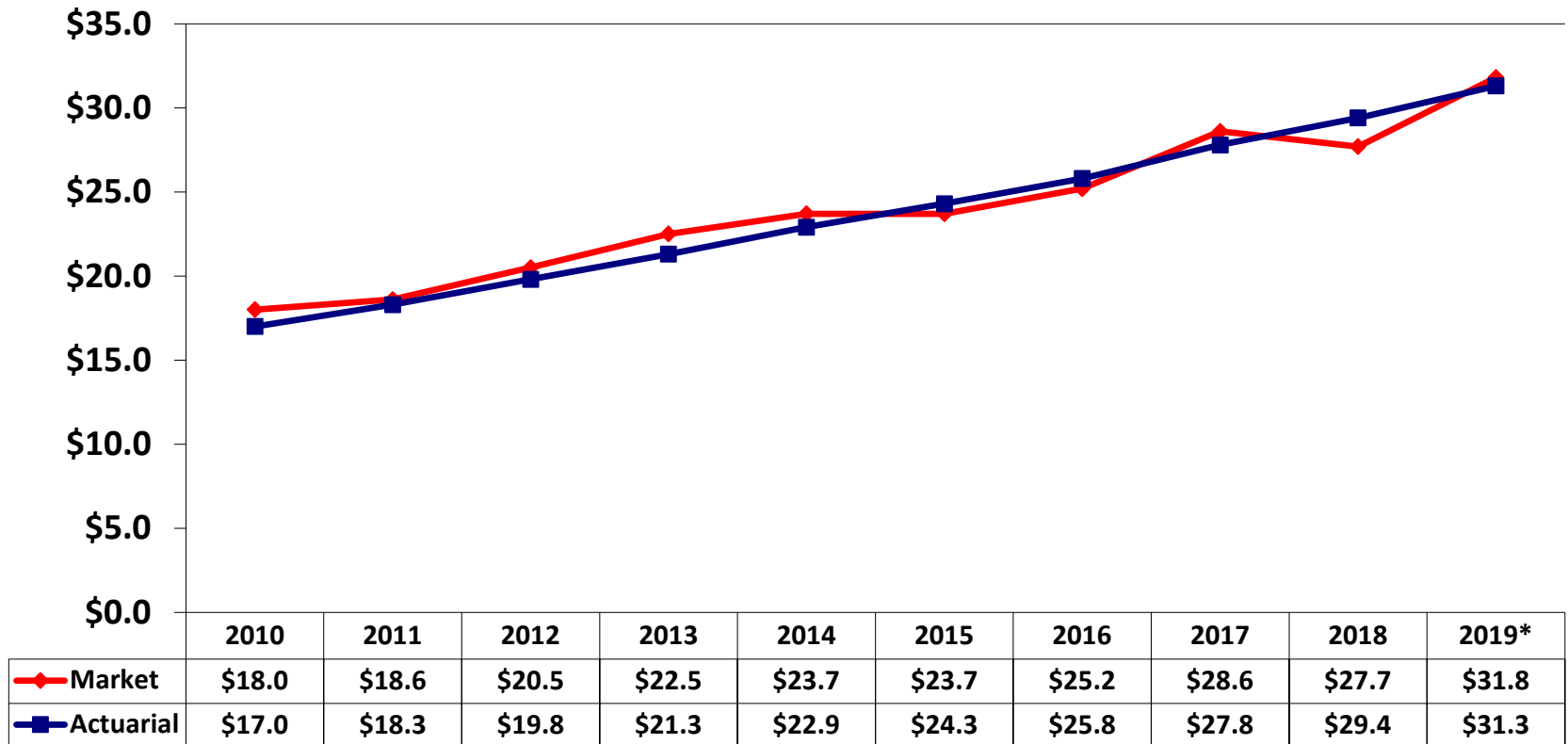
# Historical BAF Interest Credits



6.60% average compound credit over last 10 years

- \* Credit to City MAF accounts (pre-restructuring)
- \*\* Assumption was 7% from 2011 – 2015, 7.50% for 2010.
- \*\*\* Proposed

# Market and Actuarial Values of Assets



\* Estimated

AVA is currently 98.4% of MVA, was 106.1% last year

# Current Smoothing and Amortization Policy

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- Annually, the difference between actual and expected credits at 6.75% is smoothed over a 10 year period to determine the amount of the excess/shortfall to recognize in a given valuation.
- The recognized excess/shortfall is then amortized over a new amortization base as an actuarial gain or loss.
  - 25 Years for losses
  - Equal to largest loss base for gains
- This process provides substantial dampening in year to year volatility and prevents overreacting to performance in any one year

# “Smoothed” 2019 Rate of Return

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- The excess allocation above 6.75% first offsets the \$1,701.5 million in deferred shortfall as of December 31, 2018
- Of the remaining excess, approximately \$55.5 million will be recognized in the 2019 valuation and \$500 million will be deferred for future valuations (roughly 1.6% of Fund)
- The recognition of the \$55.5 million will produce a decrease in contribution rates of approximately 0.05% for 2021 from investment performance (will vary by city)

# GRS' 2019 BAF Interest Credit Recommendation

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- GRS recommends crediting the BAF with an interest credit of approximately 15.42% which represents the investment income remaining after all administrative and investment expenses have been paid and the statutory requirements have been fulfilled, includes any estimated 4th quarter private investment fund valuation adjustments and increases the Interest Reserve Account balance from \$290M to \$310M (approximately 1% of the lagged valuation of the December 31, 2019 investment portfolio)