

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

96TH GENERAL ASSEMBLY

BILL NO: **SB 0415 - HA #2, HA #3, HA #4**

July 2, 2009

SPONSOR (S): Schoenberg – Harmon (McCarthy – Ryg, et al.)

SYSTEM(S): All State Systems (SERS, TRS, SURS, GARS, JRS)

FISCAL IMPACT: SB 0415, as amended by HA #2, HA #3 and HA #4, will implement an “asset smoothing” process which will spread out any unexpected investment results over a 5-year period. The actuary’s projections on asset smoothing are outlined on Page 3 of this impact note. As shown on that page, the actuary expects State contributions to the retirement systems to be the same as with the current straight market value used for the actuarial value of assets. The reason for this is that under the current funding plan, state contributions, as a level percent of payroll, are the amount(s) needed to have the actuarial value of assets by 2045 be equal to 90% of the total actuarial liability. With 5-year asset smoothing, the investment losses incurred in FY 2009 are fully recognized over 5 years. Therefore, the projected assets by 2045 are the same with 5-year asset smoothing as with straight market value. In sum, the State contribution needed to get to a 90% funded ratio are the same with 5-year asset smoothing as with straight market value.

SUBJECT MATTER: SB 0415, as amended by HA #2, HA #3 and HA #4, amends the General Obligation Bond Act to authorize the issuance of new pension bonds totaling \$2.23 Billion. In addition, the exact actual state contributions to each state pension system for FY 2010 are specified. Finally, SB 0415, as amended by HA #2, HA #3 and HA #4, establishes an “Asset Smoothing” process to spread out over a 5 year period all deviations from the standard 8.5% actuarially assumed return on invested assets.

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equal to 90% of the total actuarial liability. With 5-year asset smoothing, the investment losses incurred in FY 2009 are fully recognized over 5 years. Therefore, the projected assets by 2045 are the same with 5-year asset smoothing as with straight market value. In sum, the State contribution needed to get to a 90% funded ratio are the same with 5-year asset smoothing as with straight market value.

COMMENTS: SB 0415, as amended by HA #2, HA #3 and HA #4, mandates the issuance of new pension bonds totaling \$2.23 Billion. The gross proceeds of this bond sale will be split among the 5 state retirement systems as follows: (1) TRS - \$1,339,791,000, (2) SERS - \$434,026,000, (3) SURS - \$406,910,000, (4) JRS - \$40,907,000, (5) GARS - \$7,654,000. All of the bond sales expenses will be deducted from these amounts in a proportional manner.

SB 0415, as amended by HA #2, HA #3 and HA #4, establishes the FY2010 state pension contributions as follows: (1) TRS - \$749,477,000, (2) SERS - \$289,677,100, (3) SURS - \$295,604,000, (4) JRS - \$37,925,000, (5) GARS - \$2,800,000. The FY 2010 total inflows into each of the 5 systems from all sources will be equal to the certified amounts for each system. In the event a portion of the bonds cannot be sold, the state contributions will be increased by an amount necessary to offset the unsold bond amount.

SB 0415, as amended by HA #2, HA #3 and HA #4, also establishes that as of June 30, 2008, the actuarial value of each system's assets will be equal to their market value. In determining the actuarial value of the systems' assets for fiscal years after June 30, 2008, any unexpected gains or losses from investment returns incurred in a fiscal year will be recognized in equal annual amounts over the 5 year period following that fiscal year. An unexpected gain or loss will be defined as any deviation from the forecasted 8.5% return on invested assets. The effect this "Asset Smoothing" process will have upon required state contributions is detailed in the chart on the following page. As shown therein, required total state contributions during this 35 year period will not be reduced due to this accounting process. The reason for this is that under the current funding plan, state contributions, as a level percentage of payroll will be the amount needed to have the actuarial value of assets by FY 2045 be equal to 90% of the total actuarial liability. With 5 year asset smoothing, the investment losses incurred in FY 2009 will be fully recognized after 5 years. Therefore, the projected assets by FY 2045 will be the same with 5 year asset smoothing as with straight market value. As a result, the State contribution needed to get to a 90% funded ratio will be the same with a 5 year asset smoothing plan as with straight market value.

SB 0415, as amended by HA #2, HA #3 and HA #4, specifies the legislative intent that all of the operating funds freed up by the bond sale should be used to fund programs and services provided by community-based human services providers to ensure the State continues assisting the most vulnerable citizens.

State Retirement SystemsSB 0415 HA #2, HA #3, HA #4
All Dollar Amounts in Millions

| <u>Fiscal Year</u> | <u>State Contribution</u> | <u>State Contribution as Percent of Payroll</u> | <u>Actuarial Liability</u> | <u>Assets</u> | <u>Unfunded Liability</u> | <u>Funded Ratio</u> | <u>Reduction in State Contribution due to Asset Smoothing</u> |
|--------------------|---------------------------|---|----------------------------|---------------|---------------------------|---------------------|---|
| 2008 | | | \$119,084.4 | \$64,673.7 | \$54,410.8 | 54.3% | |
| 2009 | \$2,759.6 | 16.81% | 125,208.0 | 63,298.6 | 61,909.5 | 50.6% | \$0.0 |
| 2010 | 3,976.7 | 23.24% | 131,554.9 | 61,290.4 | 70,264.4 | 46.6% | 0.0 |
| 2011 | 5,353.5 | 29.99% | 138,105.3 | 60,547.8 | 77,557.5 | 43.8% | 0.0 |
| 2012 | 5,558.0 | 29.86% | 144,842.6 | 59,914.3 | 84,928.4 | 41.4% | 0.0 |
| 2013 | 5,821.4 | 30.01% | 151,758.6 | 59,435.8 | 92,322.8 | 39.2% | 0.0 |
| 2014 | 6,093.2 | 30.13% | 158,846.0 | 63,329.7 | 95,516.4 | 39.9% | 0.0 |
| 2015 | 6,375.2 | 30.25% | 166,105.3 | 67,368.2 | 98,737.1 | 40.6% | 0.0 |
| 2016 | 6,670.6 | 30.35% | 173,546.6 | 71,579.1 | 101,967.5 | 41.2% | 0.0 |
| 2017 | 6,958.8 | 30.37% | 181,185.5 | 75,963.2 | 105,222.3 | 41.9% | 0.0 |
| 2018 | 7,265.3 | 30.40% | 189,032.8 | 80,544.5 | 108,488.3 | 42.6% | 0.0 |
| 2019 | 7,594.1 | 30.43% | 197,084.4 | 85,353.5 | 111,730.9 | 43.3% | 0.0 |
| 2020 | 7,923.4 | 30.40% | 205,391.6 | 90,414.2 | 114,977.3 | 44.0% | 0.0 |
| 2021 | 8,274.2 | 30.38% | 213,975.9 | 95,764.0 | 118,211.9 | 44.8% | 0.0 |
| 2022 | 8,645.4 | 30.37% | 222,858.4 | 101,443.0 | 121,415.4 | 45.5% | 0.0 |
| 2023 | 9,035.4 | 30.37% | 231,839.5 | 107,481.4 | 124,358.2 | 46.4% | 0.0 |
| 2024 | 9,431.7 | 30.32% | 241,134.7 | 113,907.7 | 127,226.9 | 47.2% | 0.0 |
| 2025 | 9,843.1 | 30.29% | 250,756.2 | 120,752.4 | 130,003.8 | 48.2% | 0.0 |
| 2026 | 10,297.4 | 30.33% | 260,724.5 | 128,085.3 | 132,639.2 | 49.1% | 0.0 |
| 2027 | 10,773.2 | 30.38% | 271,055.5 | 135,975.4 | 135,080.1 | 50.2% | 0.0 |
| 2028 | 11,249.8 | 30.38% | 281,751.8 | 144,438.0 | 137,313.8 | 51.3% | 0.0 |
| 2029 | 11,755.9 | 30.39% | 292,848.5 | 153,529.6 | 139,318.9 | 52.4% | 0.0 |
| 2030 | 12,272.8 | 30.36% | 304,360.0 | 163,305.4 | 141,054.7 | 53.7% | 0.0 |
| 2031 | 12,815.4 | 30.35% | 316,309.8 | 173,833.4 | 142,476.5 | 55.0% | 0.0 |
| 2032 | 13,406.8 | 30.39% | 328,723.3 | 185,211.7 | 143,511.6 | 56.3% | 0.0 |
| 2033 | 14,042.3 | 30.49% | 341,602.3 | 197,543.1 | 144,059.2 | 57.8% | 0.0 |
| 2034 | 15,935.5 | 33.13% | 354,985.1 | 212,218.1 | 142,767.0 | 59.8% | 0.0 |
| 2035 | 16,638.5 | 33.13% | 368,901.6 | 228,146.9 | 140,754.7 | 61.8% | 0.0 |
| 2036 | 17,374.6 | 33.13% | 383,387.2 | 245,450.5 | 137,936.7 | 64.0% | 0.0 |
| 2037 | 18,143.8 | 33.13% | 398,471.6 | 264,244.9 | 134,226.7 | 66.3% | 0.0 |
| 2038 | 18,942.3 | 33.13% | 414,059.7 | 284,748.1 | 129,311.6 | 68.8% | 0.0 |
| 2039 | 19,760.0 | 33.12% | 430,176.5 | 306,978.7 | 123,197.9 | 71.4% | 0.0 |
| 2040 | 20,614.0 | 33.12% | 446,885.4 | 331,071.8 | 115,813.7 | 74.1% | 0.0 |
| 2041 | 21,517.0 | 33.11% | 464,294.6 | 357,253.4 | 107,041.2 | 76.9% | 0.0 |
| 2042 | 22,477.6 | 33.11% | 482,530.3 | 385,815.3 | 96,715.0 | 80.0% | 0.0 |
| 2043 | 23,492.4 | 33.11% | 501,654.7 | 417,054.8 | 84,599.9 | 83.1% | 0.0 |
| 2044 | 24,564.4 | 33.11% | 521,756.8 | 451,226.9 | 70,529.8 | 86.5% | 0.0 |
| 2045 | 25,692.2 | 33.11% | 542,940.8 | 488,646.8 | 54,294.0 | 90.0% | 0.0 |

Total

\$0.0

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