

Utah Legislature Executive Appropriations Committee

Audit of Long-Term Actuarial Projections
Relating to State Retirement System

Summary of Key Findings



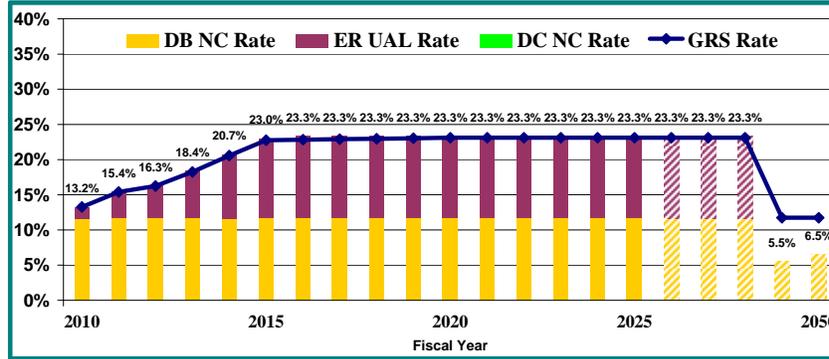
Bill Hallmark, Mike Noble
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Key Findings

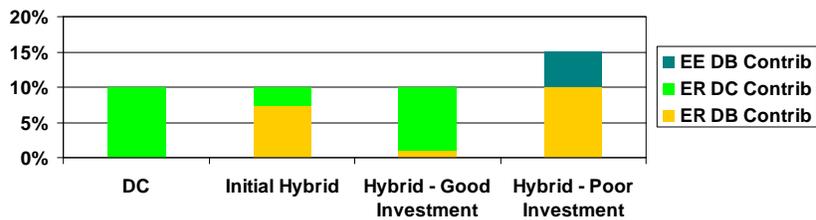
- We agree with the substantive results produced by GRS
- We have concerns that SB 63 may result in an unsustainable structure
- GRS projections assume contribution rates will not decline until the plan is 110% funded, despite the fact that the Board will have the option of doing so
- GRS projections apply a minimum contribution rate equal to the normal cost
 - Result of these two issues makes the DC program appear more favorable from a cost perspective
- Additional projection scenarios may help illustrate the dynamics of the different alternatives

Agreement with GRS Long-Term Projections

Replication of GRS Exhibit # 1
Baseline, 7.75% Investment Return Every Year



SB 63 Issues Impact of Investment Experience



- DB cost increases → fewer elect the DB hybrid plan
- DB cost decreases → more elect the DB hybrid plan
- Extreme changes in cost could affect the behavior of current employees as well as new hires (e.g., if the costs are too high compared to the benefit, employees are likely to leave)



Funding Policy in GRS Projections

- Policy allows URS to maintain non-decreasing contribution rates or reduce those rates as the 110% funding target is approached
- GRS projections do not reduce contribution rates until the 110% target is reached
- Once the 110% threshold is met, GRS' projections reduce the contribution to the normal cost (the expected long-term cost) when the ARC would be even lower
- Results in overstatement of DB costs particularly when compared to a DC program

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Other Scenarios

- The projection scenarios used for the long-term projection report are somewhat limited
- May want to consider additional variables and additional economic scenarios to stress test the alternatives considered

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