Actuarial Note Transmittal

Amendments 01354 and 01558 to Senate Bill 1, Printer's Number 853
June 3, 2017

The Independent Fiscal Office (IFO) submits an actuarial note for Amendments 01354 and 01558 to Senate Bill 1, Printer's Number 853 in accordance with section 615-B of the Administrative Code of 1929. Per statute, the IFO selected an enrolled actuary (Milliman, Inc.) to prepare the actuarial note, and a copy of the actuary's work product follows page 33 of this transmittal document. In addition, this transmittal includes attached cost notes and supplemental letters prepared by Conduent, actuary for the Public School Employees' Retirement System (PSERS) and Korn Ferry Hay Group, actuary for the State Employees' Retirement System (SERS).

The proposal amends the retirement codes to (1) require most new employees to select one of three new plan design options and (2) make actuarial funding changes applicable to SERS. The plan design options include two hybrid plans consisting of defined benefit and defined contribution components. The third option is a stand-alone defined contribution plan. New employees not making an election are automatically assigned to one of the hybrid plans. Current members may elect to join one of the new plans. The actuarial funding changes for SERS include a revision to the normal cost computation and a schedule of additional employer contributions to accelerate payments applied to its unfunded accrued liability. See pages 2 to 7 for a summary of the legislation.

The analysis of the proposal is summarized below. Impacts are presented in nominal dollars (cash flow) and present values computed at a discount rate of 3.6%.

Employer Contributions For FYs 2018-19 through 2049-50, the proposal is projected to reduce employer contributions by $1.4 billion on a cash flow basis and $319 million on a present value basis. Benefit design changes account for $1.2 billion of the savings on a cash flow basis and $592 million on a present value basis. See pages 8 to 11 for details.

Unfunded Liabilities By the end of the projection period (2048 valuation), the financial position of PSERS and SERS is projected to improve by $4.2 billion on a cash flow basis and $1.4 billion on a present value basis. See page 11 for details.

Risk Transfer Two simulations estimate the amount of investment risk transferred under the proposal. An "all employee" simulation demonstrates that the risk transfer grows over time as employees under the new plan design comprise a greater share of the workforce. A "new employee" simulation estimates risk reduction of 53 percent for PSERS and 58 percent for SERS under the new plans. For a 100 basis point reduction in assumed rates of return, the risk reduction is valued at $6.5 billion on a cash flow basis and $2.9 billion on a present value basis. See pages 11 to 17 for details.

Employee Shared Risk/Shared Gain Expansion of shared-risk contributions and introduction of shared-gain contributions could change risk reduction estimates by 11 percentage points for PSERS and 8 percentage points for SERS. See pages 16 to 17 for details.

Investment Fees The Public Pension Management and Asset Investment Review Commission will recommend expenditure reductions to provide $3.0 billion in actuarial savings on a cash flow basis and $1.6 billion on a present value basis. See page 18 for details.