Pension Review Commission

September 27, 2024

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Agenda

- Response to Independent Review of Assumptions (PNYX Report):
  - Aon Investments
  - Segal
- PERA Response
- Fiscal Impacts of Pension Review Commission Bill Drafts

Response to Independent Review of Assumptions (PNYX Report):

- Aon Investments
- Segal
- PERA

Response to Independent Review of Assumptions (PNYX Report)

- PERA appreciates the Subcommittee's continued engagement and demonstrated commitment to the financial health of the trust funds, as well as the focus on ensuring that stakeholders understand pension risks and considerations.
- Significant PERA stakeholder interest on the same key elements considered by PNYX: return rate assumption, unfunded liabilities, funded percentage and amortization period
- PERA continues to prioritize enhancing risk analysis and reporting via the annual Signal Light Report.

Response to Independent Review of Assumptions (PNYX Report)

- Review of assumptions, while helpful, missed key elements that would make the report more comprehensive and on point.
- Increased flexibility on deadlines could be helpful in future years to allow time for incorporation of most recent enhancements made as part of the annual sensitivity analysis.
- While PERA agrees additional significant funds (such as a $2B lump sum infusion) would mitigate risk and reduce pressure on employers and retirees, the inclusion of feasible policy options would have enhanced the value of report.
- Overall, PERA appreciates the report’s focus on how critical the initial years following the 2018 legislative changes are to long-term success.

Pension Review Commission Bill Drafts

Pension Review Commission Bill Drafts

Bill 1: Adjust PERA Direct Distribution for Inflation

Bill Summary

The bill would require that beginning on July 1, 2025, and on July 1 each year thereafter, the State Treasurer shall annually adjust for inflation or deflation the amount of the direct distribution payment, but it may never be less than the current amount of $225 million.

Estimated Impacts

The following tables (next slide) illustrate estimated impacts by projecting direct distribution payments from 2025 through the targeted full funding date of 2047, with a comparison of current law vs. indexing (assumed indexing rate of 3.35% based on annualized 10-year local CPI increase).

- Within each table, the direct distribution dollars are shown in the left-hand column and the projected accumulated values are shown in the right-hand column.
- The accumulated values assume an annual rate of return of 7.25% (the assumed long-term rate of return of the total PERA fund).
- The estimated differences in contributed dollars and accumulated values under the two scenarios are shown under the right-hand table.

In summary, this bill would:

- be estimated to increase through the targeted funding period, the total principal dollars contributed to PERA by approximately $2.7 billion and increase the total estimated accumulated balance (which considers assumed investment interest) by approximately $4.8 billion,
- lead to a slight reduction in the amortization period (approximately 1 year) of PERA's division trust funds, and
- potentially delay the next automatic adjustment provision adjustments in future years.

Pension Review Commission Bill Drafts

Bill 1: Adjust PERA Direct Distribution for Inflation (continued)

PROJECTION THROUGH 2047 - UNDER CURRENT LAW

Calendar Year	Based on Current Law	Assumed Rate of Return (ROR) at Year-End	Interest Earned at Assumed ROR in Current Year on Direct Distribution (Prior Year DD Balance and DD Contributed in Current Year)	Total Balance at Year-End
2024	$225,000,000	7.25%	$ 8,013,546	$ 233,013,546
2025	225,000,000	7.25%	24,907,028	482,920,574
2026	225,000,000	7.25%	43,025,288	750,945,862
2027	225,000,000	7.25%	62,457,121	1,038,402,983
2028	225,000,000	7.25%	83,297,762	1,346,700,745
2029	225,000,000	7.25%	105,649,350	1,677,350,095
2030	225,000,000	7.25%	129,621,428	2,031,971,523
2031	225,000,000	7.25%	155,331,481	2,412,303,004
2032	225,000,000	7.25%	182,905,514	2,820,208,518
2033	225,000,000	7.25%	212,478,664	3,257,687,182
2034	225,000,000	7.25%	244,195,867	3,726,883,049
2035	225,000,000	7.25%	278,212,567	4,230,095,616
2036	225,000,000	7.25%	314,695,478	4,769,791,094
2037	225,000,000	7.25%	353,823,400	5,348,614,494
2038	225,000,000	7.25%	395,788,097	5,969,402,591
2039	225,000,000	7.25%	440,795,234	6,635,197,825
2040	225,000,000	7.25%	489,065,388	7,349,263,213
2041	225,000,000	7.25%	540,835,129	8,115,098,342
2042	225,000,000	7.25%	596,358,176	8,936,456,518
2043	225,000,000	7.25%	655,906,644	9,817,363,162
2044	225,000,000	7.25%	719,772,375	10,762,135,537
2045	225,000,000	7.25%	788,268,372	11,775,403,909
2046	225,000,000	7.25%	861,730,329	12,862,134,238
2047	225,000,000	7.25%	940,518,278	14,027,652,516
	$5,400,000,000			

PROJECTION THROUGH 2047 - BASED ON PRC BILL DRAFT #1

Calendar Year	As Proposed in PRC Bill Draft #1 (Applying Approximated 10-yr Annualized Local CPI Rate of 3.35%)	Assumed Rate of Return (ROR) at Year-End	Interest Earned at Assumed ROR in Current Year on Direct Distribution (Prior Year DD Balance and DD Contributed in Current Year)	Total Balance at Year-End
2024	$225,000,000	7.25%	$ 8,013,546	$ 233,013,546
2025	232,537,500	7.25%	25,175,482	490,726,528
2026	240,327,506	7.25%	44,137,120	775,191,154
2027	248,378,477	7.25%	65,047,547	1,088,617,178
2028	256,699,156	7.25%	88,067,280	1,433,383,614
2029	265,298,578	7.25%	113,369,122	1,812,051,314
2030	274,186,080	7.25%	141,139,065	2,227,376,459
2031	283,371,314	7.25%	171,577,277	2,682,325,050
2032	292,864,253	7.25%	204,899,149	3,180,088,452
2033	302,675,205	7.25%	241,336,420	3,724,100,077
2034	312,814,824	7.25%	281,138,393	4,318,053,294
2035	323,294,121	7.25%	324,573,229	4,965,920,644
2036	334,124,474	7.25%	371,929,344	5,671,974,462
2037	345,317,644	7.25%	423,516,898	6,440,809,004
2038	356,885,785	7.25%	479,669,411	7,277,364,200
2039	368,841,459	7.25%	540,745,473	8,186,951,132
2040	381,197,648	7.25%	607,130,601	9,175,279,381
2041	393,967,769	7.25%	679,239,216	10,248,486,366
2042	407,165,689	7.25%	757,516,777	11,413,168,832
2043	420,805,740	7.25%	842,442,056	12,676,416,628
2044	434,902,732	7.25%	934,529,597	14,045,848,957
2045	449,471,974	7.25%	1,034,332,334	15,529,653,265
2046	464,529,285	7.25%	1,142,444,425	17,136,626,975
2047	480,091,016	7.25%	1,259,504,262	18,876,222,253
	$8,094,748,229			$18,876,222,253
	5,400,000,000	Estimated Impact of PRC Bill Draft #1		14,027,652,516
	$2,694,748,229			$4,848,569,737
	(Difference in Contributed Dollars)			(Difference, Considering Interest)

3.35%	Estimated annual indexing beginning July 1, 2025. Based on 10-year annualized Local CPI increases.

Pension Review Commission Bill Drafts

Bill 3: PERA Risk-Reduction Measures

Bill Summary

The bill would codify the current governance reporting practices of PERA starting 2025 forward, by statutorily requiring the actuarial experience study and actuarial audit, increasing the frequency of conducting said reporting from the current practice of, "at least every five years" to a required three-year cycle and the proposed schedule repeats on a rolling three-year basis. It also would require the Office of the State Auditor (OSA) to commission, in the year following PERA's independent actuarial audit, another independent actuarial audit intended to review the independent actuarial audit just performed.

Impacts and Considerations

- **The current governance schedule of PERA reflects best practice models as set forth by the Government Finance Officers Association (GFOA) and industry standards.**
  - **A four- to five-year cycle period (a review of either 3 or 4 years of actual experience, respectively) is considered best-practice to capture and analyze sufficient plan experience that will ensure reflection of meaningful long-term expectations and avoid risk of putting too much weight on short-term fluctuations, which helps to avoid high volatility in the adjustments made to any assumptions and potentially appearing in the metrics of the plan.**
  - **In addition, these are purposefully staggered to allow enough time for the actuarial audit to review the results of the experience study, including any adjustments to the assumptions and how those revised assumptions have performed over a period of time.**
- **A statutory change to require a three-year cycle instead would allow the actuaries just two years of actual experience for review and this would not allow sufficient time to appropriately observe and assess any impact regarding the most recently adjusted assumptions in the current actuarial audit or the proposed follow-up audit that would be commissioned by the OSA under this bill.**

Questions