Funding Strategies in Selected Plans

August 25, 2020

David Eager, Executive Director
# Strategy 1 - Use Realistic Assumptions

## KERS Non-Hazardous

<table>
<thead>
<tr>
<th></th>
<th>06/30/2016</th>
<th>06/30/2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation</td>
<td>3.25%</td>
<td>2.30%</td>
</tr>
<tr>
<td>Investments</td>
<td>6.75%</td>
<td>5.25%</td>
</tr>
<tr>
<td>Payroll Growth</td>
<td>4.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Mortality</td>
<td>--</td>
<td>+ 2 years or more</td>
</tr>
<tr>
<td>Contribution Rate</td>
<td>49.47%</td>
<td>83.43%</td>
</tr>
<tr>
<td>Unfunded Liability</td>
<td>$11,112 Mil</td>
<td>$14,260 Mil</td>
</tr>
<tr>
<td>Funded Ratio</td>
<td>16.0%</td>
<td>12.9%</td>
</tr>
</tbody>
</table>
Strategy 2 - Convert Funding to a Fixed Allocation Method

Unfunded liability paid as a % of payroll

Encourages outsourcing and other methods to reduce payroll

The “Contribution Death Spiral”

Each agency pays its own unfunded liability over up to a 30 year period

There will be winners and losers

House passed 90 to 0
Senate adjourned due to the pandemic
Strategy 3 – Quasi Agency Cessation

Currently buy themselves out using the lesser of the 30 year Treasury +3.25% or 5.25%

<table>
<thead>
<tr>
<th></th>
<th>One Time Exit Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hard Freeze/Lump Sum</td>
<td>4.50%</td>
</tr>
<tr>
<td>Hard Freeze/Installments</td>
<td>4.00%</td>
</tr>
<tr>
<td>Soft Freeze/Lump Sum</td>
<td>4.00%</td>
</tr>
<tr>
<td>Soft Freeze/Installments</td>
<td>3.50%</td>
</tr>
</tbody>
</table>

Decide during April, 2021
Strategy 4 – Wall-Off the Retired Lives Liability

State guarantees all retiree benefits as of a certain date
- Put in statutes

Actuary dedicates the current and future assets to active, inactive and future hire liabilities
- Funded status for that group goes up dramatically
- Supports more aggressive asset allocation and higher interest rate assumption
- Increasing return from 5.25% to 6.25% worth $3 Billion over 30 years in a $2 Billion fund

Does not affect trust accounting, GASB, the CAFR, etc.
- Comes back to one balance sheet

Good marketing and education is critical
Strategy 5 – State Donates Real Estate

Undeveloped land or buildings with value enhancement potential

Complicated and fraught with potential conflicts
Strategy 6 – Retiree and Inactive Buyouts

- 70% might be the “sweet spot”

- Adverse selection likely

- Social issues and bad press may abound

- Drives funding down in poorly funded plans
  - Before $2.2 Bil assets and $16.4 Bil liabilities = 13.4% funded
  - After $1.5 Bil assets and $15.4 Bil liabilities = 9.7% funded
Finally

No uniform solution applicable to all funds

Education and collaboration with legislators and leadership critical