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Act 12 Analysis
Prepared for the
City of Milwaukee Employes' Retirement System

July 24, 2023

Today's Topics

Act12

Act 12 Prescribed Assumptions and Funding Policy

Recommendations Resulting from Implementation of Act 12

Employer Contribution Results Under Act 12

Next Steps

Act 12

- Act 12 requires many changes that impact the actuarial valuation of CMERS.
- We summarize these over the next few slides.
- We are not attorneys and will be proceeding based on attorney recommendations.
- We appreciate the guidance from CMERS Staff and the City of Milwaukee.

Date of enactment: **June 20, 2023**
2023 Assembly Bill 245 Date of publication*: **June 21, 2023**

2023 WISCONSIN ACT 12

AN ACT ***to repeal*** 49.45 (51), 60.85 (1) (f), 66.1105 (2) (d), 70.043, 70.11 (42), 70.47 (15), 70.53 (1) (a), 71.07 (5n) (a) 5. d., 71.28 (5n) (a) 5. d., 76.07 (4g) (a) 11. and 12., 76.69, 79.01 (1), 79.01 (2d), 79.02 (3) (e) and 79.036 (2); ***to renumber*** 66.0608 (title); ***to renumber and amend*** 23.0917 (5t), 62.13 (2m) (title), 62.13 (2m) (a), 62.13 (2m) (b), 66.0608 (2), 66.0608 (3), 66.0608 (4), 77.51 (12t), 77.70 and 79.02 (3) (a); ***to amend*** 26.03 (1m) (b) (intro.), 33.01 (9) (a), 33.01 (9) (am) 1. and 2., 33.01 (9) (ar) 1., 33.01 (9) (b) 1., 40.02 (48) (b) 5., 40.21 (7) (b), 59.52 (25), 59.605 (3) (c), 59.875 (2) (a), 60.34 (1) (a), 60.85 (1) (h) 1. c., 60.85 (1) (o), 61.26 (2), 61.26 (3), 62.09 (9) (a), 62.09 (9) (e), 62.13 (1), 62.13 (2) (b), 62.50 (1h), 62.50 (1m), 62.50 (3) (a), 62.50 (3) (am), 62.623 (1), 66.0435 (3) (c) 1. (intro.), 66.0435 (3) (g), 66.0435 (9), 66.0602 (1) (am), 66.0602 (1) (d), 66.0602 (3) (a), 66.0602 (3) (b), 66.0602 (3) (dm), 66.0602 (3) (ds), 66.0607 (1), 66.1105 (2) (f) 1. c., 66.1105 (2) (f) 2. e., 66.1105 (2) (i) 2., 66.1105 (6m) (c) 8., 66.1106 (1) (k), 70.02, 70.04 (1r), 70.05 (5) (a) 1., 70.10, 70.119 (3) (c), 70.13 (1), 70.13 (2), 70.13 (3), 70.13 (7), 70.15 (2), 70.17 (1), 70.174, 70.18 (1), 70.18 (2), 70.19, 70.20, 70.21 (1), 70.21 (1m) (intro.), 70.21 (2), 70.22 (1), 70.22 (2) (a), 70.27 (1), 70.27 (3) (a), 70.27 (4), 70.27 (5), 70.27 (7) (b), 70.29, 70.30 (intro.), 70.34, 70.345, 70.35 (1), 70.35 (2), 70.35 (3), 70.35 (4), 70.35 (5), 70.36 (1), 70.36 (2), 70.43 (2), 70.44 (1), 70.47 (7) (aa), 70.49 (2), 70.50, 70.52, 70.65 (2) (a) 2., 70.65 (2) (b) (intro.), 70.68 (1), 70.73 (1) (b), 70.73 (1) (c), 70.73 (1) (d), 70.84, 70.855 (1) (intro.), 70.855 (1) (a), 70.855 (1) (b), 70.995 (1) (a), 70.995 (4), 70.995 (5), 70.995 (7) (b), 70.995 (8) (b) 1., 70.995 (12) (a), 71.07 (5n) (a) 5. a., 71.07 (5n) (a) 9. (intro.), 71.07 (5n) (a) 9. a., 71.07 (5n) (d) 2., 71.07 (6e) (a) 5., 71.07 (9) (a) 3., 71.17 (2), 71.28 (5n) (a) 5. a., 71.28 (5n) (a) 9. (intro.), 71.28 (5n) (a) 9. a., 71.28 (5n) (d) 2., 71.52 (7), 73.01 (5) (a), 76.02 (1), 76.03 (1), 76.07 (2), 76.07 (4g) (a) 10., 76.07 (4g) (a) 13., 76.125 (1), 76.24 (2) (a), 76.31, 76.82, chapter 77 (title), 77.04 (1), 77.54 (20n) (d) 2., 77.54 (20n) (d) 3., 77.54 (57d) (b) 1., subchapter V (title) of chapter 77 [precedes 77.70], 77.71, 77.73 (2), (2m) and (3), 77.75, 77.76 (1), 77.76 (2), 77.76 (3), 77.76 (4), 77.77 (1) (a), 77.77 (1) (b), 77.77 (3), 77.78, 77.84 (1), 78.55 (1), 79.015, 79.02 (2) (b), 79.035 (title), 79.035 (4) (c) 2., 79.035 (4) (d) 2., 79.035 (4) (e) 2., 79.035 (4) (f) 2., 79.035 (4) (g), 79.035 (4) (h), 79.035 (4) (i), 79.035 (5), 79.035 (6), 79.035 (8), 79.05 (2) (c), 79.05 (3) (d), 119.04 (1), 174.065 (3), 256.15 (4m) (d), 256.15 (8) (b) 3., 815.18 (3) (intro.) and 978.05 (6) (a); ***to repeal and recreate*** 62.50 (3) (title), 79.035 (5) and 79.036 (1) (intro.); ***to create*** 13.94 (1) (w), 13.94 (1) (x), 13.94 (1) (y), 13.94 (1s) (c) 1m., 13.94 (1s) (c) 1s., 23.0917 (5t) (b), 25.17 (1) (jf), 25.491, 59.875 (2) (c), 59.875 (4), 59.90, 60.85 (5) (j), 62.50 (1j), 62.623 (3), 62.625, 62.90, 66.0144, 66.0145, 66.0441, 66.0602 (1) (cm), 66.0602 (1) (e), 66.0602 (3) (dq), 66.0602 (3) (dv), 66.0608 (title), 66.0608 (1) (fm), 66.0608 (2m), 66.1105 (4m) (b) 2m., 66.1105 (5) (j), 66.1106 (4) (e), 70.015, 70.111 (28), 70.17 (3), 70.995 (5n), 71.07 (5n) (a) 9. c., 71.28 (5n) (a) 9. c., 73.03 (77), 76.025 (5), 76.074, 77.51 (12t) (a) to (c), 77.70 (2), 77.701, 77.76 (3r), 79.036, 79.037, 79.038, 79.039, 79.05 (4), 79.0965, 101.02 (7y), 111.70 (4) (mc) 7., 111.70 (4) (mc) 8., 115.385 (1) (e), 115.385 (1g) (g), 118.124, 252.03 (2j), 256.15 (1) (ij), 256.15 (4) (a) 4., 256.15 (8) (bm), 256.15 (8) (fm), 256.15 (10m), 256.35 (3s) (bm) 5. and 706.05 (2m) (b) 3. of the statutes; and ***to affect*** Laws of 1937, chapter 201, section 1 (4), Laws of 1937,

* Section 991.11, WISCONSIN STATUTES: Effective date of acts. "Every act and every portion of an act enacted by the legislature over the governor's partial veto which does not expressly prescribe the time when it takes effect shall take effect on the day after its date of publication."

Act 12 Provisions Significantly Impact CMERS

- CMERS is soft-closed effective January 1, 2024
- Stable Employer Contribution is repealed
- 30-year amortization of unfunded actuarial accrued liability
- Investment return assumption no higher than WRS

Act 12 Provisions
CMERS is soft-closed effective January 1, 2024

- Our understanding is that CMERS is soft-closed effective January 1, 2024, which means
  - Current members through December 31, 2023 continue to accrue benefits under CMERS
  - New hires effective January 1, 2024 participant in WRS

- Tax revenues stop when CMERS is fully funded or after 30 years has passed, whichever occurs first.

77.701 Adoption by municipal ordinance.

…No 1st class city may impose a tax under this section unless the city makes an election to join the Wisconsin Retirement System for all new employees pursuant to s. 40.21 (7) (a), and the city contributes the amount calculated under s. 62.625 to its retirement system's unfunded actuarial accrued liability in 2025 and in each year thereafter until the first year in which the retirement system is determined by the retirement system's actuary to be fully funded. …

Act 12 Provisions
Stable Employer Contribution is repealed

- Act 12 effectively repeals the Stable Contribution Policy

- Act 12 is not clear if the calendar 2023 contributions can be based on the Stable Employer Contribution Policy

- We are proceeding with the understanding that the 2023 calendar rate under the Stable Employer Contribution Policy will be the basis for 2023 Employer Contributions

77.701 Adoption by municipal ordinance.

…In addition, if the 1st class city has enacted an ordinance regarding the city's retirement system that requires an actuary to periodically reset the actuarial contribution rate, the 1st class city may not impose a tax under this section unless the city repeals the ordinance and subsequently follows standard actuarial practices to determine contribution rates. …

Act 12 Provisions
30-year Amortization of UAAL

- Our understanding is that Act 12 prescribes a 30-year Amortization of the Unfunded Actuarial Accrued Liability as of January 1, 2024 based on an investment return no greater than that used by WRS

- Act 12 is silent on UAAL payment increases; we will assume no increase in UAAL payments (level dollar) instead of the 2% increases currently used for the CMERS actuarial valuation

- Act 12 is silent on whether the 30-year amortization is closed or open; we will assume the amortization is closed

- We have additional recommendations for amortization of future changes in the unfunded actuarial accrued liability

62.625 Amortization period for employer contributions

Notwithstanding any provision of law or actuarial rule, beginning in the calendar quarter of the year that a tax is first imposed under s. 77.70 (1), in any retirement system of a 1st class city, the required annual employer contribution shall be calculated using a 30-year amortization period and an annual investment return assumption that is the same as or less than the annual investment return assumption used by the Wisconsin Retirement System for participating employees, as defined in s. 40.02 (46). Future unfunded actuarial accrued liability due to factors such as market returns and standard actuarial practices may be amortized on the basis of standard actuarial practices. The amortization period and investment return assumptions in this section shall supersede any amortization period and investment return assumption adopted by the actuary or retirement board of the retirement system of the city. No trustee or administrator of a retirement system of a 1st class city shall be subject to liability for complying with this section.

Recommendations

- We recommend the following to implement Act 12
  - Implement a One-Year Contribution Lag
  - Amortization Policy for Future UAAL
  - Allocation of Employer Contribution Across Agencies
  - Replace Employer Contribution Rates with Employer Contribution Dollars

Act 12 Provisions
Investment Return Assumption No Higher Than WRS

- Our understanding is that the investment return assumption can be no higher than the WRS investment return assumption
- The current WRS assumption is 6.80%
  - Before the closure of CMERS, the 7.50% was reasonable as discussed during the recent experience review
  - Given the decrease in negative cashflows resulting from increased employer contributions under Act 12, the 6.80% assumption is reasonable
  - We will continue to monitor this assumption
- If the WRS assumption is changed, the CMERS investment return assumption may need to be changed to comply with this provision

62.625 Amortization period for employer contributions

Notwithstanding any provision of law or actuarial rule, beginning in the calendar quarter of the year that a tax is first imposed under s. 77.70 (1), in any retirement system of a 1st class city, the required annual employer contribution shall be calculated using a 30-year amortization period and an annual investment return assumption that is the same as or less than the annual investment return assumption used by the Wisconsin Retirement System for participating employees, as defined in s. 40.02 (46). Future unfunded actuarial accrued liability due to factors such as market returns and standard actuarial practices may be amortized on the basis of standard actuarial practices. The amortization period and investment return assumptions in this section shall supersede any amortization period and investment return assumption adopted by the actuary or retirement board of the retirement system of the city. No trustee or administrator of a retirement system of a 1st class city shall be subject to liability for complying with this section.

Recommendation
Implement a One-Year Contribution Lag

- For CMERS, there has been no contribution lag:
  - For example, the January 1, 2023 valuation is the basis for agency contributions beginning January 1, 2023
- The Stable Employer Contribution Policy gave agencies time to budget for agency contributions but has been eliminated due to Act 12.
- In a typical valuation cycle, the timing with a one-year contribution lag would be:
  - June 2024 – Actuarial Valuation with 2025 agency contributions presented,
  - Fall 2024 – Agencies budget,
  - Calendar 2025 – Agency contributions made to CMERS.
- Later in this presentation, we have developed agency contributions for 2024 based on Act 12 and the January 1, 2023 actuarial valuation.
- We are using the January 1, 2023 actuarial valuation for both the 2023 and 2024 agency contributions.

"Contribution Lag" is the term used for the difference between the valuation date and the date the agency contributions from that valuation are to be contributed.

For example, if a January 1, 2023 actuarial valuation is used to determined contributions for calendar year 2024, the contribution lag is one year.

To develop contributions. The actuary adjusts the contribution to reflect expected events during the contribution lag period.

Contribution lags are common for Public Retirement Systems to allow for time for agency budgeting.

Recommendation
Amortization Policy for Future UAAL

- The four components of a funding policy are:
  - Actuarial Cost Method - the technique used to allocate the total present value of future benefits over an employee's working career (normal cost/service cost).
  - Asset Smoothing Method - the technique used to recognize returns that vary from expected over some period of time so as to reduce the effects of market volatility and stabilize contributions.
  - Amortization Policy - The length of time and payment amount to determine the payment schedule to eliminate any UAAL.
  - Output Smoothing Method – methods used to reduce contribution volatility such as a contribution phase-in, corridor or stable contribution policy

At the February 28, 2023 Board meeting CMC reviewed and made Funding Policy recommendations which the Board adopted.

Recommendation
Amortization Policy for Future UAAL

Our recommendations are based on the guidance from:

- *ASOP 4: Measuring Pension Obligations and Determining Pension Plan Costs or Contributions* from the Actuarial Standards Board
- *Core Elements of a Funding Policy* from the Government Finance Officers Association (GFOA)
- *Actuarial Funding Policies and Practices for Public Pension Plans* from the Conference of Consulting Actuaries Public Plans Committee (CCA PPC)

ACTUARIAL STANDARDS BOARD

Actuarial Standard
of Practice
No. 4

Revised Edition

Measuring Pension Obligations and
Determining Pension Plan Costs or Contributions

Developed by the
Pension Committee of the
Actuarial Standards Board

Adopted by the
Actuarial Standards Board
December 2021

Doc. No. 205

Conference of Consulting Actuaries
Public Plans Community (CCA PPC)

Actuarial Funding Policies and Practices
for Public Pension Plans

October 2014

BEST PRACTICES

Core Elements of a Funding Policy for Governmental Pension and OPEB Plans

GFOA recommends that governments adopt a funding policy that provides reasonable assurance that the cost of those benefits will be funded in an equitable and sustainable manner.

Compensation packages for active workers may include pensions as well as healthcare and other similar benefits for those employees after they have completed their active service. Generically, healthcare and other benefits are described as other postemployment benefits (OPEB) to distinguish them from pensions. [1] A government's unfunded liabilities from pensions and OPEB are considered by rating agencies when assessing their credit rating. Employers are required to recognize the cost of pension benefits as employees earn them, and the Governmental Accounting Standards Board (GASB) extends this same requirement to OPEB. [2] While pensions have long been funded on an actuarial basis in most cases, OPEB plans have typically not. The change in accounting standards has focused attention on the costs of OPEB, including concerns about rising health-care costs and an aging public-sector workforce. The real issue is not the change in accounting standards, but rather the underlying budgetary and funding challenge that those accounting standards highlight. Meeting this challenge requires governments to ensure that both pension and OPEB are sustainable over the long term - that they are affordable to stakeholders, competitive, and sufficient to meet employee needs, and that they may be reasonably expected to remain so.

Recommendation
Amortization Policy for Future UAAL

Our recommendation of 10-year level dollar amortization adopted by the Retirement Board at its February 28, 2023 meeting is based on the following and our professional judgment:

- *ASOP 4* provides guidance that the duration of the actuarial accrued liability and the average remaining service lifetime of active plan participants should be considered; this suggests use of a shorter amortization period

- *GFOA* additional considerations for plans closed to new entrants include:
  - Asset smoothing periods should be shorter than open plans, and
  - Amortization periods should be shorter, no more than 10 years for gains and losses

- *CCA PPC* suggests level dollar amortization and more analysis when developing an amortization policy to determine the length of the period

Recommendation
Amortization Policy for Future UAAL

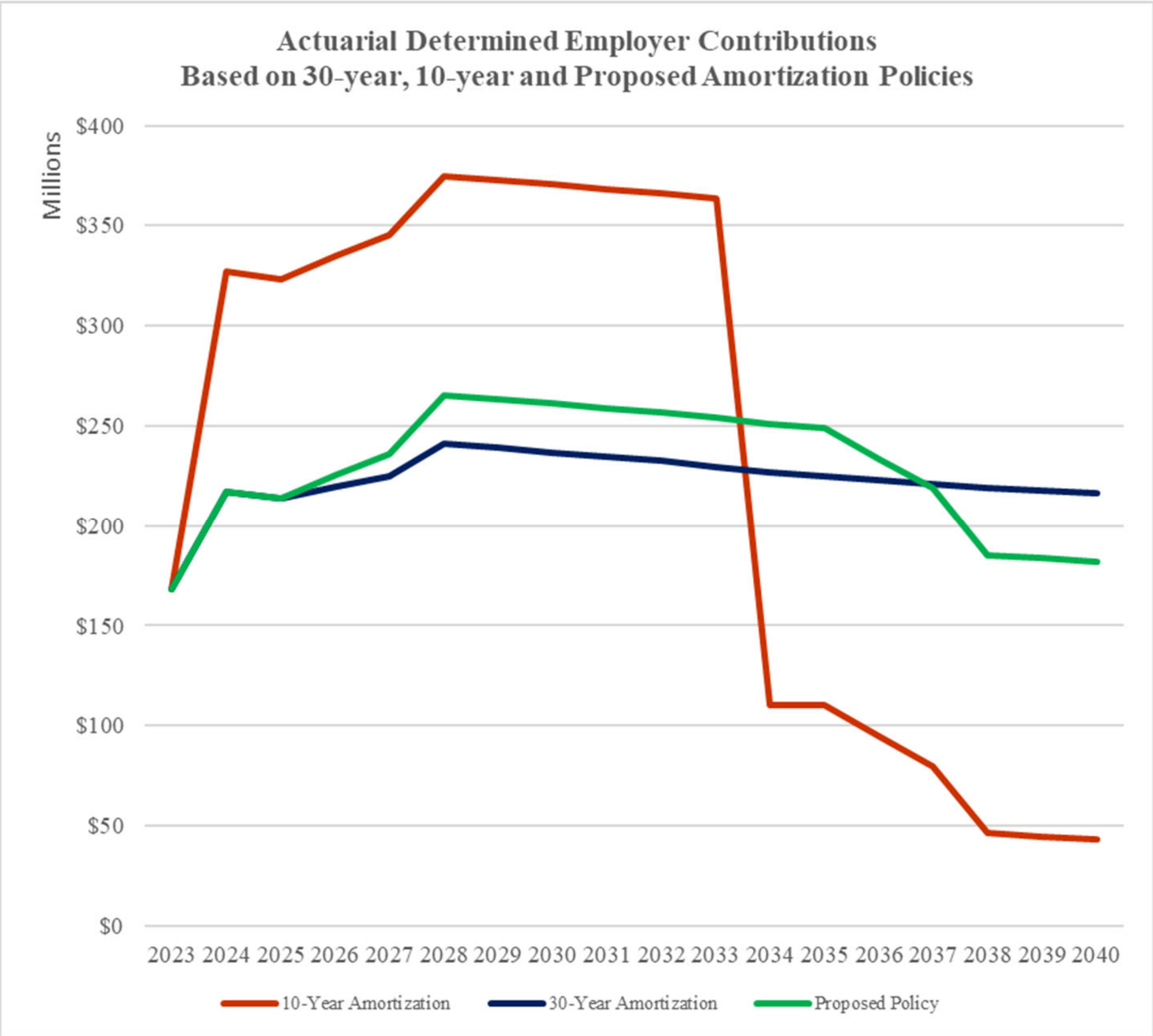
- Act 12 prescribes a 30-year amortization for the initial UAAL and that future UAAL may be amortized on the basis of standard actuarial practices.

- Due to the provisions of Act 12, we recommend that:
  - Future increases in UAAL be amortized over a 10-year level dollar layered amortization, and
  - Decreases in UAAL be amortized over either a fixed 10-year level dollar amortization or the remainder of the 30-year period beginning on January 1, 2024, whichever is longer.

- While not required under ASOP 4, we will be disclosing the employer contribution based on our pre-Act 12 recommendation of 10-year level dollar amortization as adopted by the Retirement Board.

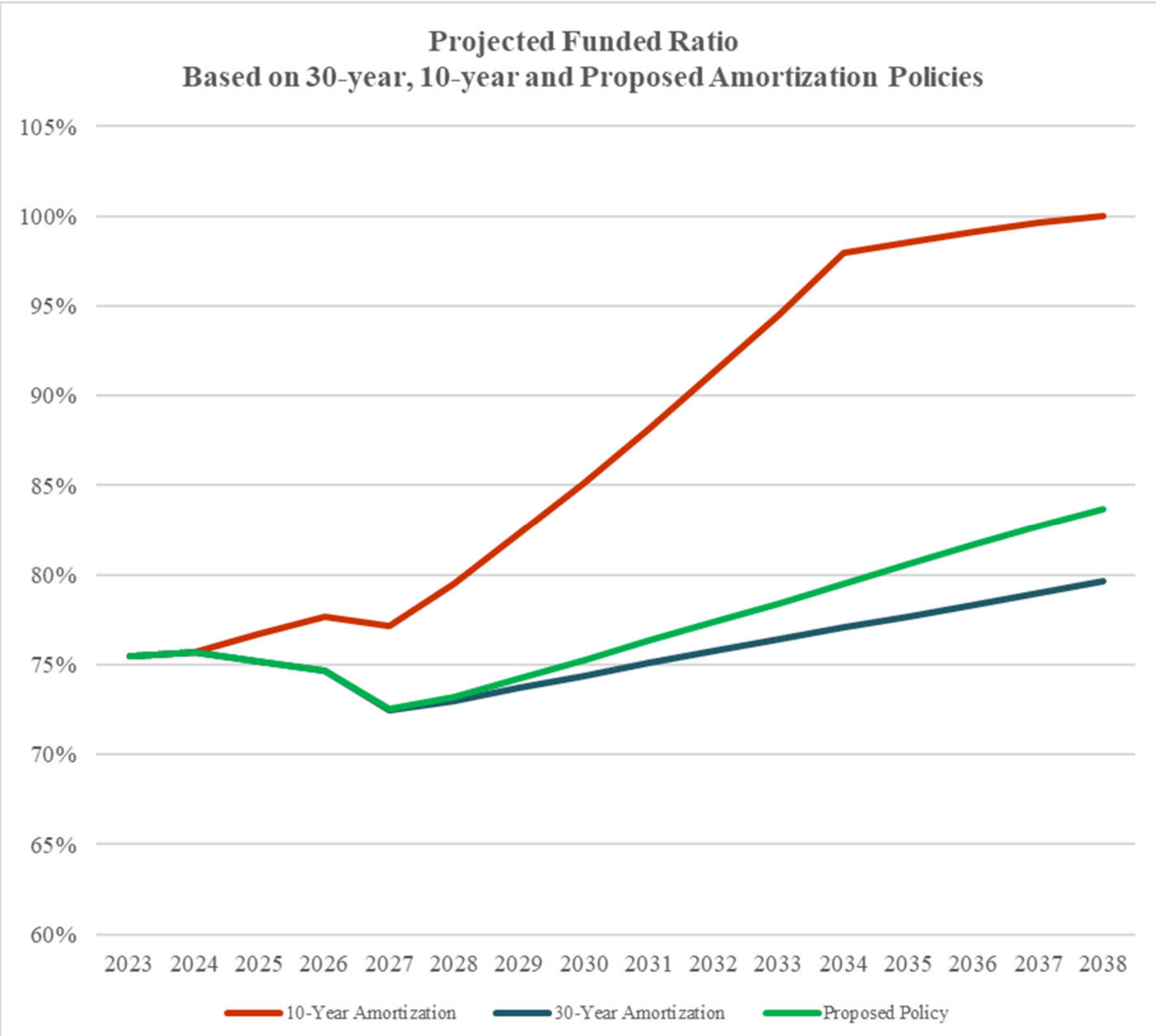
- On the next two slides are comparisons of the 30-year, 10-year and Proposed amortization policies.

Projected Combined Fund ADEC: Based on 30-year, 10-year and Proposed Amortization Policies



- The 30-year amortization policy has the lowest of the contribution levels because of the longer amortization period. Contributions do not decrease to the level of the employer normal cost until calendar 2054.
- The 10-year amortization policy has the highest of the contribution levels because of the 10-year board amortization policy. Contributions decrease to the level of the employer normal cost in calendar 2038.
- The Proposed amortization policy, which uses a 10-year amortization period for projected asset losses but not the initial UAAL, slightly moves toward the higher contributions of the 10-year policy. However, contributions do not decrease to the level of the employer normal cost in calendar 2054 because the 30-year amortization of the initial UAAL provided for in Act 12 does not fully fund the UAAL until January 1, 2054.

Projected Combined Fund Funded Ratio: Based on 30-year, 10-year and Proposed Amortization Policies



- The 30-year amortization policy results in the lowest funded ratio and full funding in 2054.
- The 10-year amortization policy results in full funding in 2038. One might anticipate full funding in 2034, but the recognition of asset losses over the next four years delays full funding.
- The Proposed amortization policy provides for more benefit security than the 30-year policy.

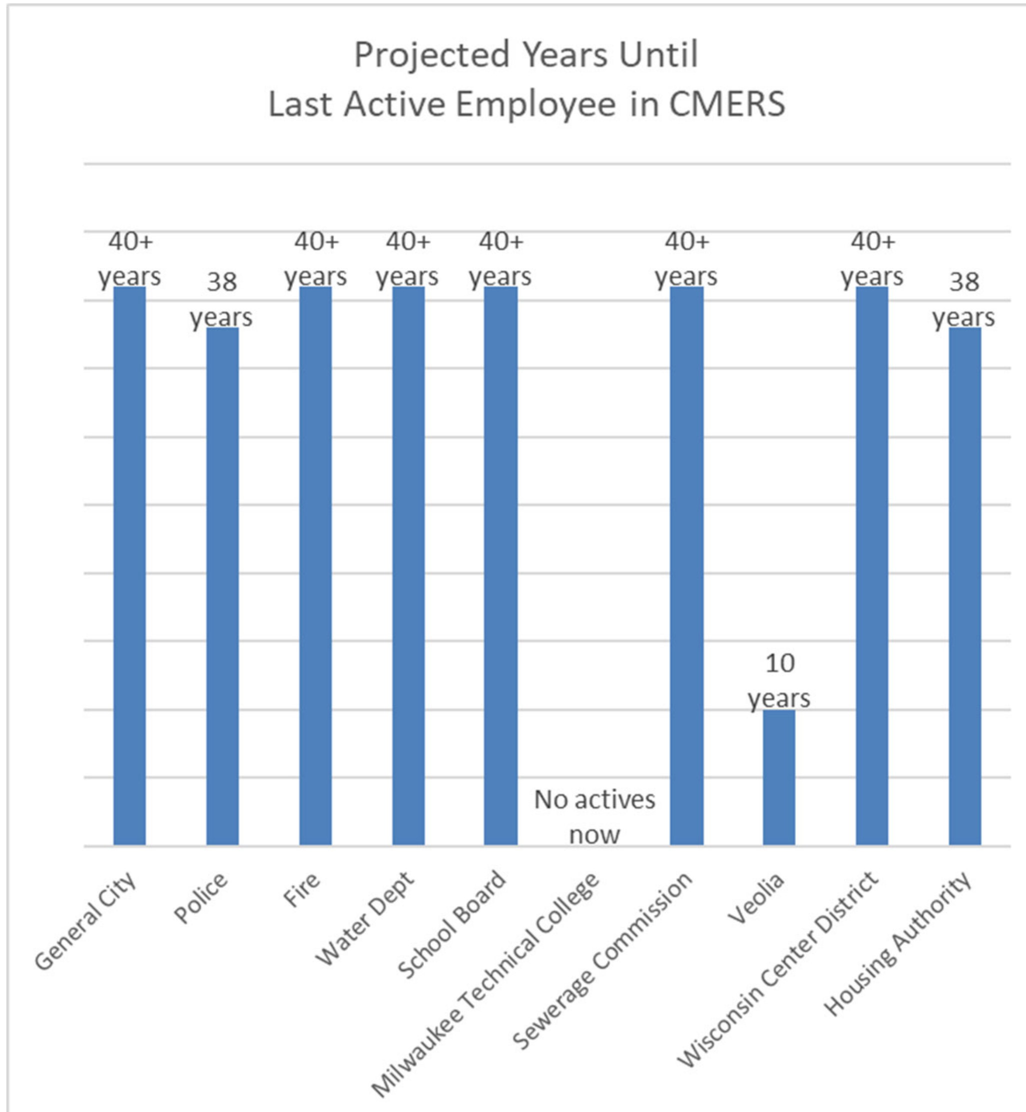
Recommendation
Allocation of Employer Contribution Across Agencies

- Under current policy, agency contribution rates are the total of the amounts below and developed for Police, Fire and General:
  - Employer normal cost rate for each group
  - Total Administrative Expenses allocated based on active UAAL and divided by payroll for group
  - Total UAAL payment allocated based on active UAAL and divided by payroll

- Dollar contribution for each agency is determined by multiplying the group rate developed above by the expected payroll for the group

Recommendation
Allocation of Employer Contribution Across Agencies

- Under the current policy, an agency has no employer contribution when there are no active employes of the agency.
- As a result, an agency without active members in CMERS does not contribute to the UAAL
- As seen to the right, some agencies will have no projected active members before the 30-year amortization period ends; while there may be active members 40+ years in some CMERS agencies, the total is projected to be less than 50
- The proposed policy on the next slide outlines an employer contribution allocation procedure which continues to allocate UAAL payments to all agencies based on their portion of the Total UAAL



Recommendation
Allocation of Employer Contribution Across Agencies

- Under our proposed policy, employer contribution *dollars* are the total of the amounts below and developed for each *agency*:
  - Employer normal cost for each agency
  - Total Administrative Expenses allocated based on Total UAAL for the agency
  - Total UAAL payment allocated based on Total UAAL for the agency

- Note that the total contribution under either policy is expected to be the same.

- This also results in changing agency contribution rates to dollars.

Comparison of Current and Proposed Allocations Policies for Calendar 2024

Calendar Year 2024 Contributions based on Current and Proposed Allocation Policies $ Thousands			
1) City of Milwaukee	Current	Proposed	Change
a) General	$44,856	$48,492	$3,636
b) Police	86,913	85,955	(958)
c) Fire	36,729	40,443	3,714
d) Total City	$168,498	$174,890	6,392
2) Non-City Employers			
a) Water Dept	4,640	4,494	(146)
b) School Board	35,120	27,349	(7,771)
c) Milwaukee Technical College	0	259	259
d) Sewerage Commission	5,280	5,560	280
e) Veolia	145	1,408	1,263
f) Wisconsin Center District	1,553	980	(573)
g) Housing Authority	1,638	1,934	296
h) Total Non-City	$48,376	$41,984	(6,392)
3) Total System: 1d + 2h	$216,874	$216,874	$213,793

Amounts shown are as of January 1 of each year. Interest at 6.80% per year (7.50% for 2023) is added for contributions made after January 1.

The allocation policies do not change the total amount of contributions, but the allocation across agencies. Agencies with a higher proportion of total UAAL, compared to active UAAL which is used in the current policy, saw increases under the proposed allocation policy. In addition, for agencies other than police and fire, the employer normal cost varies from agency to agency based on the demographics of the agency under the proposed policy. Under the current policy for agencies other than police and fire, the employer cost is averaged across all agencies.

Projected Employer Contributions based on Act 12 and Proposed Recommendations

Projected Contributions for Calendar Year based on Proposed Recommendations $ Thousands					
1) City of Milwaukee	2023	2024	2025	2026	2027
a) General	$35,067	$48,492	$46,977	$48,892	$50,690
b) Police	68,121	85,955	85,932	91,481	96,526
c) Fire	28,592	40,443	40,294	42,805	45,169
d) Total City	$131,780	$174,890	$173,203	$183,178	$192,385
2) Non-City Employers					
a) Water Dept	$3,594	4,494	$4,382	$4,573	$4,753
b) School Board	26,204	27,349	26,409	27,356	28,272
c) Milwaukee Technical College	0	259	237	237	234
d) Sewerage Commission	4,249	5,560	5,378	5,601	5,817
e) Veolia	134	1,408	1,352	1,417	1,473
f) Wisconsin Center District	1,259	980	952	971	1,006
g) Housing Authority	1,282	1,934	1,880	1,971	2,059
h) Total Non-City	$36,722	$41,984	$40,590	$42,126	$43,614
3) Total System: 1d + 2h	$168,502	$216,874	$213,793	$225,304	$235,999

Amounts shown are as of January 1 of each year. Interest at 6.80% per year (7.50% for 2023) is added for contributions made after January 1.

A breakdown of the projected dollar contributions by agency based on our recommendations is shown above:

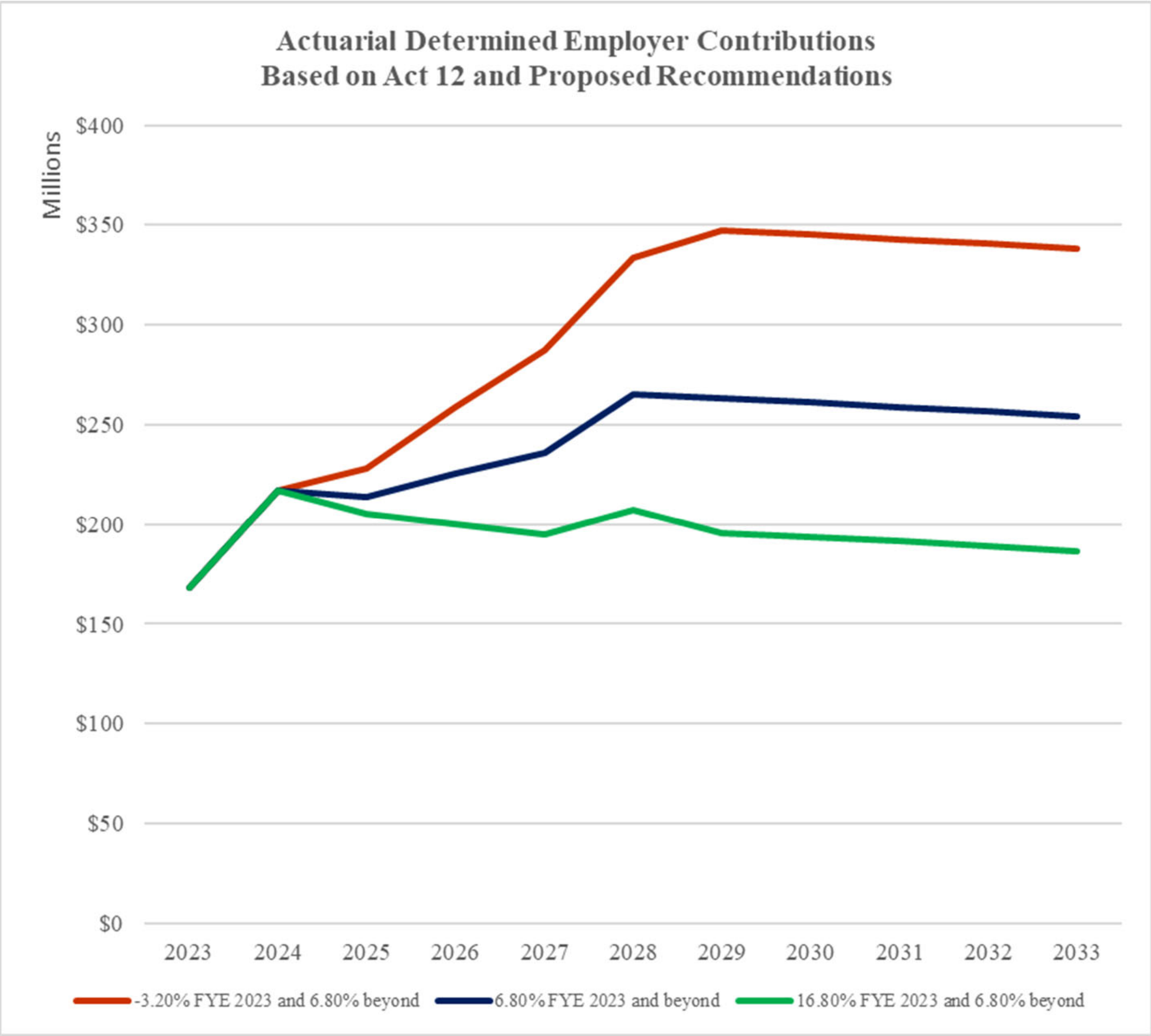
- The 2023 amounts were presented at the June 2023 Board meeting
- The amounts for 2024 and beyond reflect the impact of Act 12, including our recommendations; these are the actual amounts to be contributed as of January 1, 2024 if our recommendations are adopted.
- The 2025 through 2027 amounts are projected; these amounts will be updated in subsequent actuarial valuations.

Comparative Summary of Assets and Liabilities for Combined Fund Before and After Act 12

	January 1, 2023 Before Act 12	After Act 12	% Change
Assets and Liabilities			
a. Asset Values (includes contributions receivable)			
(i) Actuarial Value of Assets (AVA)	$5,747,610,000	$5,747,610,000	0.0%
(ii) Market Value of Assets (MVA)	$5,427,104,000	$5,427,104,000	0.0%
b. Actuarial Accrued Liability (AAL)	$7,053,868,000	$7,616,350,000	8.0%
c. Funded Status			
(i) Unfunded AAL (Based on AVA)	$1,306,258,000	$1,868,740,000	43.1%
(ii) Funded Ratio (Based on AVA)	81.5%	75.5%	(6.0%)
(iii) Unfunded AAL (Based on MVA)	$1,626,764,000	$2,189,246,000	34.6%
(iv) Funded Ratio (Based on MVA)	76.9%	71.3%	(5.6%)

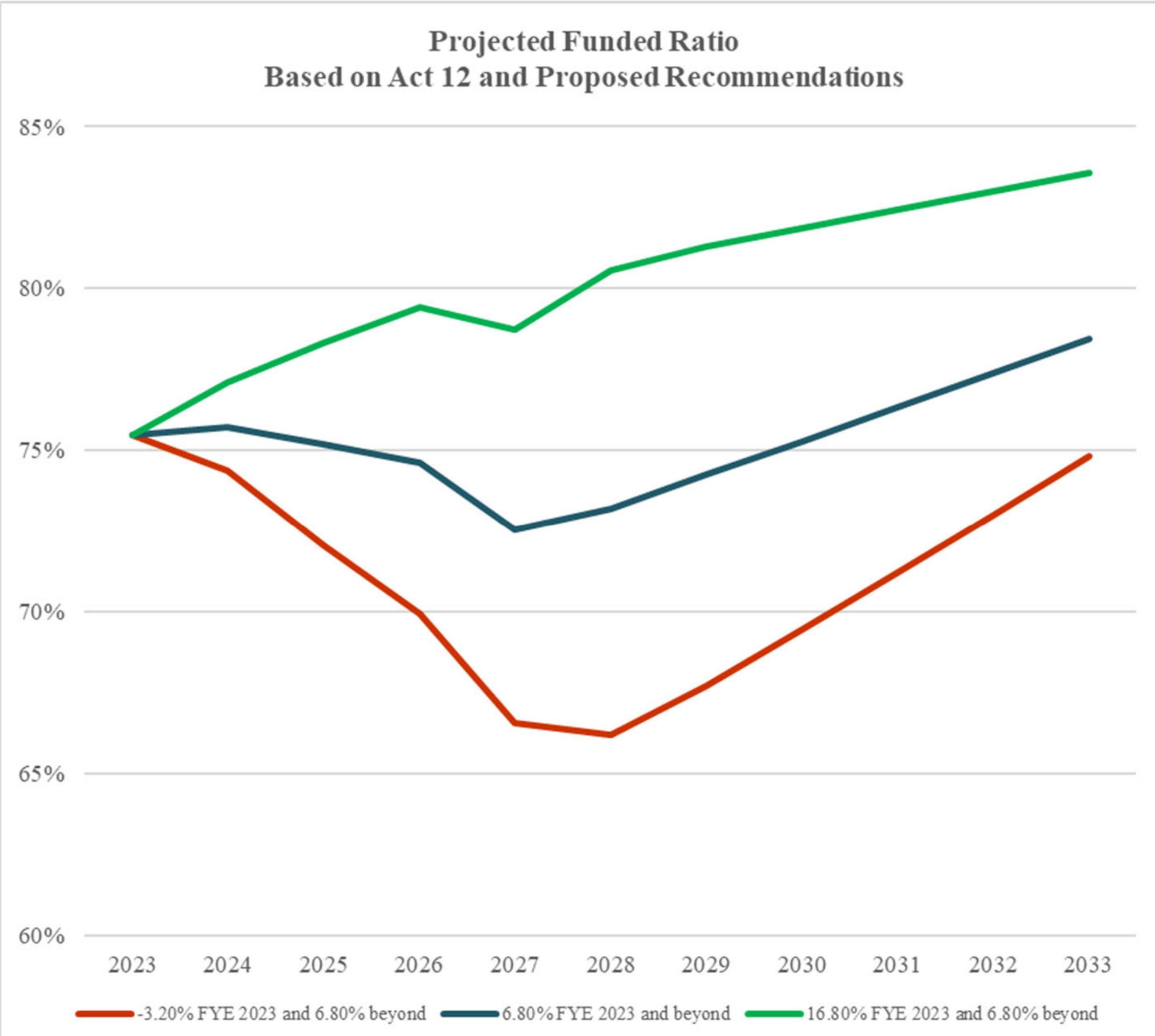
- Act 12 has no impact of January 1, 2023 assets.
- The only impact of Act 12 on January 1, 2023 actuarial accrued liability is the reduction in discount rate to 6.80%.
- This increased UAAL and decreased funded ratio.
- The soft plan closure does not occur until January 1, 2024 and as a result does not impact the actuarial accrued liability.

Projected Combined Fund ADEC:
Based on FYE 2023 returns of 6.80%, -3.20% and 16.80%



- The graphs to the left contains projections of employer contributions under alternate investment returns in FYE 2023 and 6.80% thereafter.
- Under the five-year asset smoothing, the impact of returns that differ from the 6.80% return assumption is phased in over five years.
- This means that the full impact of the 2022 return will not be fully reflected until the January 1, 2027 actuarial valuation, and the employer contributions are projected to increase if 6.80% is achieved.
- Note that the steady decrease after 2029 is due to the closure of the plan resulting in decreasing benefit accruals

Projected Combined Fund Funded Ratio: Based on FYE 2023 returns of 6.80%, -3.20% and 16.80%



- The graphs to the left contain projections of the Funded Ratio under alternate investment returns in FYE 2023 and 6.80% thereafter.
- Under the five-year asset smoothing, the impact of returns that differ from the 6.80% return assumption is phased in over five years.
- This means that the full impact of the 2022 return will not be fully reflected until the January 1, 2027 actuarial valuation, and the employer contribution is projected to increase even if 6.80% return is met.
- While we typically anticipate the funded ratio will increase by one percent or so each year, as we reflect the 2022 returns the funded ratio is expected to decline before eventually increasing to 100%.
- The 30-year amortization period results in the funded ratio increasing at a much slower rate than acceptable.

Next Steps

- Board may make decisions on:
  - Implementing a One-Year Contribution Lag
  - Amortization Policy for Future UAAL
    - The Calendar 2024 agency contributions in total do not change since UAAL over 30 years, so a decision is not needed now
    - Agency contributions for Calendar 2025 and beyond will be based on future actuarial valuations
  - Allocation of Employer Contribution Across Agencies
    - Note that the allocation has some impact on the allocation of agency contributions
    - A decision is not needed immediately for the 2024 contributions presented here, but should be considered in the future
  - Replace Contribution Rates with Contribution Dollars

- Once all decisions have been made and adopted, CMC will prepare a formal report which will serve as documentation of the Calendar 2024 agency contribution.

Key Takeaways

Act 12 significantly increased contribution requirements primarily due to the reduction in the assumed investment return assumption to 6.80%.

We recommend a shorter amortization period than the 30-year period prescribed in Act 12. The recommended amortization policy provides for more benefit security.

Use of a 10-year amortization would increase the 2024 contribution by over $110 million. We will continue to publish a recommended employer contribution based on a 10-year amortization in future reports .

As noted in the projections, the funded ratio is projected to likely decline over the next few years. The slow rebound in the funded ratio under the Proposed Amortization Policy is related to the long amortization period and unrecognized asset losses as of January 1, 2023

Actuarial Certification

These results are based on the January 1, 2023 actuarial valuation, including the census, asset, benefit provisions, assumptions and methods except as noted in this presentation.

The results were prepared under the direction of actuaries who meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. These results have been prepared in accordance with all applicable Actuarial Standards of Practice, and we are available to answer questions about them.

Future actuarial measurements may differ significantly from current measurements due to plan experience differing from that anticipated by the economic and demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law.

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Questions?

Thank you!