Franklin Regional Retirement System

Introduction to Actuarial Allocation Method

April 30, 2014

Linda L. Bournival, FSA
Consulting Actuary
KMS Actuaries, LLC

Introduction

- Currently, annual appropriations are allocated based on member unit salary
  - If member unit salary is 10% of total salary, then member unit is allocated 10% of total appropriation
- Desire to explore possibility of allocation based on actual member unit experience
  - Normal cost and ERI costs are based on actual experience
  - If member unit unfunded accrued liability is 10% of total unfunded accrued liability, then member unit is allocated 10% of amortization payment towards the unfunded

Salary Allocation Method

- Section 22 of Chapter 32
  - Provides methodology for allocation of annual appropriation
  - September 30 annual salary
  - Allocate proportionally
- FRRS method
  - Allocated based on member units' 5-year salary averages
  - Reconciled with member deduction salaries

Salary Allocation Method

- Pros
  - Simple calculation
  - Predictable when salary percent of total is stable
  - Lower appropriations for units with proportionately higher percentage of Group 4 employees
- Cons
  - Employee experience not considered
  - Higher appropriations for units with proportionately lower percentage of Group 4 employees, e.g. school districts
  - Does not allocate cost of ERI

Actuarial Allocation Method

- Considers experience of each individual member, retiree and beneficiary
- Charges ERIs to impacted unit
- Allocates assets every year
- Optionally, develops assets year by year for each unit with actual cash flow
  - Member deductions and unit appropriations
  - Pension payouts
  - 3(8)(c) transfers
  - Allocate expenses and investment return
- Allocate Retirement unit appropriation to all others

Actuarial Allocation Method

- Pros
  - Considers employee experience
  - Charges ERI to impacted units
- Cons
  - Complex calculations
  - More difficult to communicate
  - Allocations within units

Phase-In Option

- Avoids dramatic increase or decrease in individual unit appropriations as a result of method change
- Three-year phase-in example
  - Year 1
    - 2/3 Salary Allocation Method
    - 1/3 Actuarial Allocation Method
  - Year 2
    - 1/3 Salary Allocation Method
    - 2/3 Actuarial Allocation Method
  - Year 3
    - 100% Actuarial Allocation Method

Member Unit Statement

- Summary of Member Data
  - Counts
  - Average age, service, salary, pensions
- Normal Cost as of Valuation date
- Development of Unfunded Actuarial Accrued Liability (UAAL)
  - Accrued Liability
  - Allocation of assets
- Annual Appropriations, prior and current fiscal years
  - Salary allocation method
  - Actuarial allocation method
  - Phase-In
  - Early payment discount