Pension Reform Legislation

Update

Board of Trustees Meeting

May 29, 2013
Defined Benefit Plans

Tier I: Joined prior to January 1, 2011

Tier II: Joined on or after January 1, 2011

Defined Contribution Plan (SMP)
Four Components of Reform Plans

Tier I
Benefit Change

Amortization of Liability

Tier II
Benefit Change

Normal Cost Shift
Two Active Bills

House Amendment to SB 1 Passed May 3

Senate Bill 2404 Passed May 9
Four Components of Reform Plans

Tier I
Benefit Change

Tier II
Benefit Change

Amortization of Liability

Normal Cost Shift
House Bill Changes:

Retirement Age

Annual Annuity Increases (COLA)

Pensionable Salary Cap

Contributions

All changes effective on enactment
| Retirement Age                                      | • Above 45 years no change  
|                                                   | • 40 – 45 years increase by 1 year  
| (Current: 60 years)                               | • 35 - 39 increase by 3 years  
<table>
<thead>
<tr>
<th></th>
<th>• All others increase by 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Annuity Increases</td>
<td>COLA starts 5 yrs. after retirement or age 67, whichever is first. Maximum annual increase $900. Provision affects retirees</td>
</tr>
<tr>
<td>(COLA)</td>
<td></td>
</tr>
<tr>
<td>(Current: 3% compounded)</td>
<td></td>
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<tr>
<td>Pensionable Pay</td>
<td>Capped at SS wage limit or current salary if higher than that limit</td>
</tr>
<tr>
<td>(Current: IRS cap approx $245K)</td>
<td></td>
</tr>
<tr>
<td>Employee Contributions</td>
<td>Increases by 1% in FY14 and 2% in FY15</td>
</tr>
<tr>
<td>(Current: 8% of pay)</td>
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</tbody>
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Senate Bill Benefit Changes

Set of Choices Involving:

• COLA
• Health Care Benefits
• Pensionable Salary Cap
• Additional Contributions

Choice to be made by May 31, 2014
Changes Effective July 1, 2014
<table>
<thead>
<tr>
<th>Benefit</th>
<th>Option A</th>
<th>Option B (Default)</th>
<th>Option C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Annuity Increase (COLA)</td>
<td>3% simple Starts 2 yrs. after retirement</td>
<td>3% compounded</td>
<td>3% compounded Starts 3 yrs. after retirement</td>
</tr>
<tr>
<td>Access to Retire Health Care Plan</td>
<td>YES</td>
<td>NO</td>
<td>YES</td>
</tr>
<tr>
<td>Pensionable Salary Cap</td>
<td>Existing IRS Cap</td>
<td>No future salary increase included in benefits</td>
<td>Existing IRS Cap</td>
</tr>
<tr>
<td>Contribution</td>
<td>No Change (8%)</td>
<td>No Change (8%)</td>
<td>10%</td>
</tr>
</tbody>
</table>
Amortization of Unfunded Liabilities

SURS currently funded approx. 42% of required level

Both bills would accelerate payment of unfunded liabilities

House bill would reach 100% funding in 2045

Senate bill would reach 90% funding in 2045
Annual Cost of Pension for Benefits Accrued that Year

In FY2014 employer portion of normal cost: 11.09% of pensionable pay

Currently employer portion is paid by the State

Gradual transfer to university starting in FY15 @ 0.5% per year cumulative
Cost to University

Each 0.5% equivalent to:

- $4.34 million for state funds
- $2.95 million for auxiliary funds
- Approx $7.3 million in total
Normal Cost Projections

Expected Maximum University Payment Approx. 6.5%

Univ. Payment in 2026 is 6%
BUT...

Projections may change due to actuarial adjustments

Creating potential for liabilities

30 year straight line amortization of liabilities
Related Requests by Universities

University control over future changes to plan
University representation on SURS Board
Stability in General Revenue appropriations
Relief from regulations that impede efficiency