

ALASKA LEGISLATURE COMMITTEE FILES 2007-2008 HSTA 12341



# Medicare Reform New Information

## Qualified retiree drug plans

<p><b>Plan must be actuarially equivalent to standard Medicare drug benefit</b></p> <p>Plan-wide testing</p> <p>Several different tests under consideration</p> <p>Actuarial attestation as to equivalence</p>	<p><b>Monthly payments proposed</b></p> <p>Alternative payment mechanisms may be considered</p>
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## Other proposed rules

<p><b>Enrollment</b></p> <p>Medicare Part D kickoff: 11/15/05 – 5/15/06</p> <p>Annual open enrollment in 2007 and later: 11/15 – 12/31</p>	<p><b>“Creditable coverage” notices</b></p> <p>Disclose to retirees and CMS whether drug benefit is “creditable”</p> <p>Rules for content, method, timing – TBD</p>
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## Rules merely proposed

<p><b>For many items, CMS provided alternative positions and is seeking comments</b></p>	<p><b>Content of the final regulations may differ from the proposed version</b></p>
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Mercer's Medicare reform website: [www.mercerHR.com/usmedicarereform](http://www.mercerHR.com/usmedicarereform)



# Medicare Reform

## Actuarial Equivalence

- Range of alternatives presented for actuarial equivalence
- “One-pronged” approach – Gross Value of Benefit  $\geq$  Medicare Part D Gross Value
  - Same as creditable coverage test, easiest to pass
  - Financing of coverage is not considered
  - Does not avoid employer windfall
- “One-pronged” approach with subsidy limit – Gross Value of Benefit  $\geq$  Medicare Part D Gross Value - PLUS - Subsidy limited to plan sponsor’s cost for the prescription drug benefit
  - Still easy to pass test
  - Prevents windfall
  - Sponsor cost can be zero, but does not allow gain



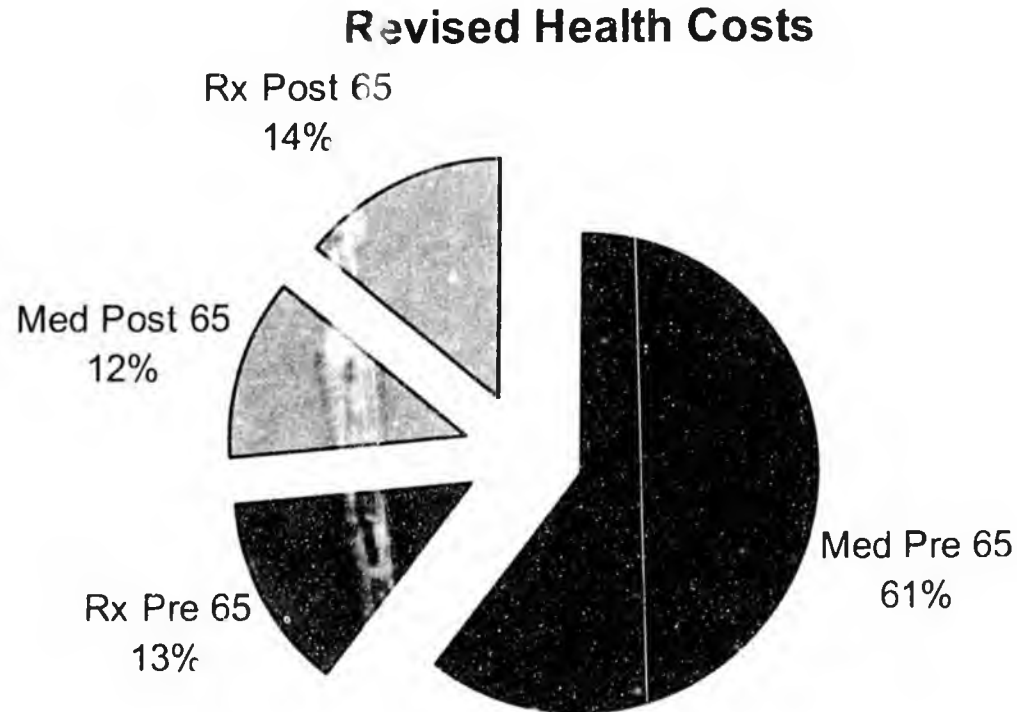
# Medicare Reform

## Actuarial Equivalence

- “Two-pronged” approach – Net value of benefit must be as rich as Medicare Part D value
  - Net Value is Gross Value less retiree contributions
  - Most difficult test to pass
  - Prevents windfall

# Medicare Reform Assumption Changes

- Total Projected Claims Cost for Fiscal Year 2004 - \$225,731,231



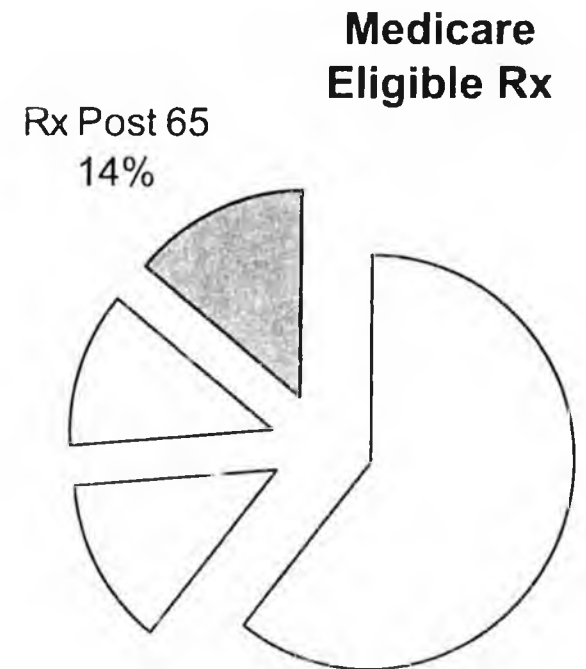


# Medicare Reform Assumption Changes

- Beginning in 2006, the federal government will provide a cash incentive payment to plan sponsors that maintain Rx plans which are at least actuarially equivalent to Medicare Part D
- Plan sponsor gets 28% subsidy for covered drug costs from \$250 to \$5000 (indexed) per eligible participant

Medicare Eligible Rx Total Cost	\$32.2 M
Estimated Subsidy	23.3%
Estimated Savings*	\$7.5 M

\*Represents savings in 2004 dollars.  
Actual medicare subsidy will be effective in 2006.



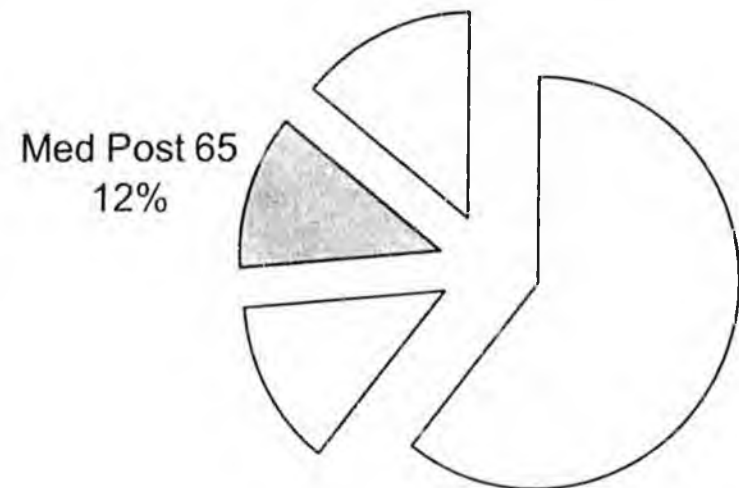


# Medicare Reform Assumption Changes

- As part of the Medicare Prescription Drug Improvement and Modernization Act of 2003, a special provision affecting physicians in Alaska will result in more than a 52% increase in average Physician fee schedule payments for 2004
- Assumptions
  - Portion of physician services performed in State of Alaska - 65%
  - Portion of medical expenses related to physician cost - 61%

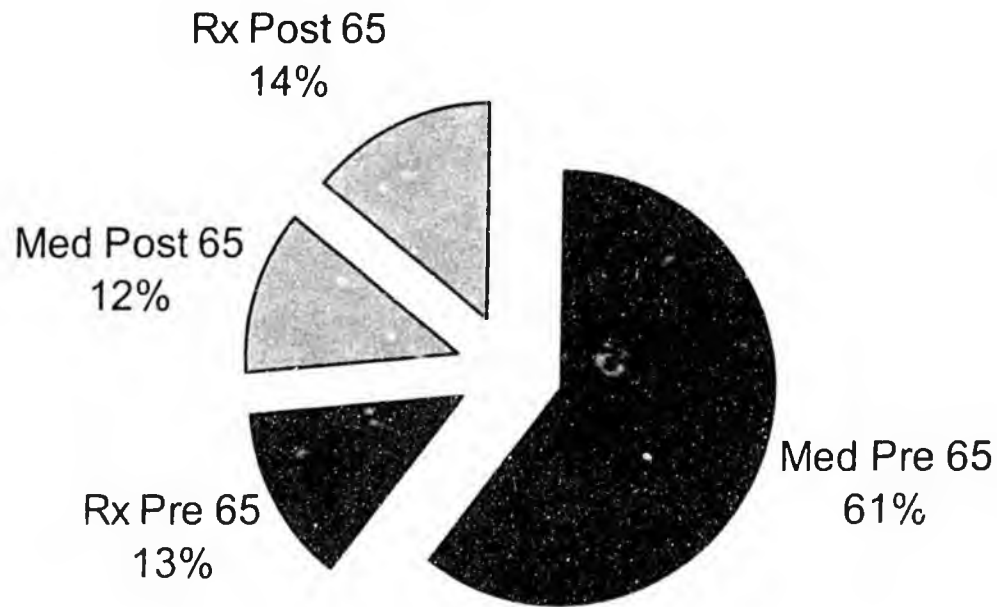
Post-65 Physician Reimbursement	\$27.1 M
Estimated Increase	20.6%
Estimated Cost Increase	\$5.6 M

**Physician  
Fee Increase**

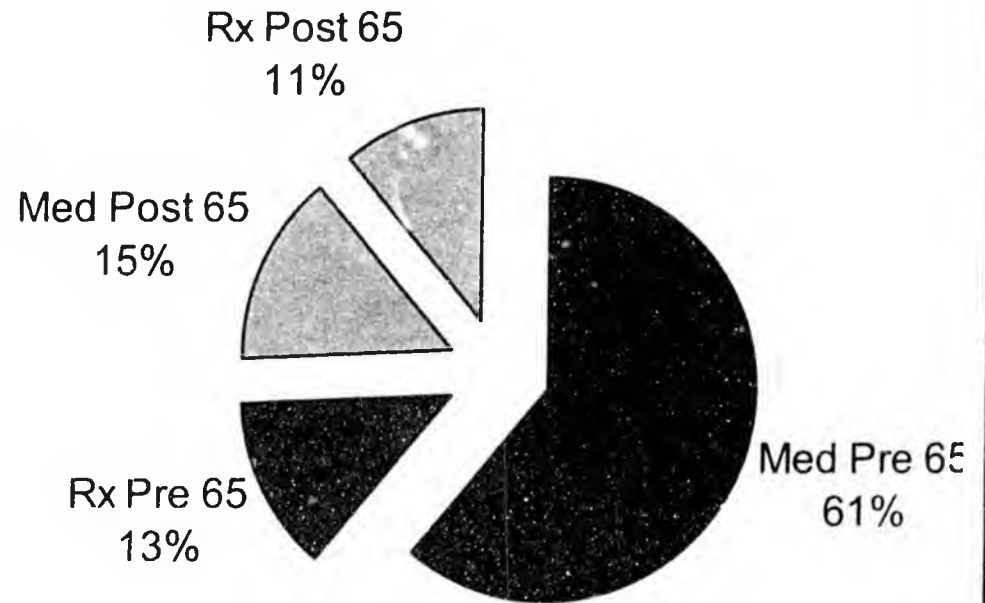


# Medicare Reform Assumption Changes

**Revised Total Projected Claim Cost  
\$225.7 M**



**Total Claim Cost after Medicare Reform  
\$223.6 M\***



\*Represents savings in 2004 dollars.  
Actual medicare subsidy will be effective in 2006.



# Medicare Reform

## Medicare Reform Impact

### Claims Cost Assumptions – Age 65 Per Member Per Year

	<u>Medical</u>		<u>Prescription Drug</u>	
	<u>Pre-Medicare</u>	<u>Post-Medicare</u>	<u>Pre-Medicare</u>	<u>Post-Medicare</u>
Revised Assumptions	\$7,014	\$1,052	\$1,491	\$1,491
Medicare Reform	\$7,010	\$1,262	\$1,491	\$1,132

\*Represents savings in 2004 dollars.  
Actual medicare subsidy will be effective in 2006.



# Medicare Reform

## Medicare Reform Impact

### Valuation Results

- Incorporation of claims and assumption changes related to Medicare Reform produces the following percentage changes in medical liabilities (relative to revised assumption liabilities):

	<u>Percentage Change</u>
Accrued Liability (medical only)	-3.1%
Normal Cost (medical only)	-2.6%



# **Medicare Reform**

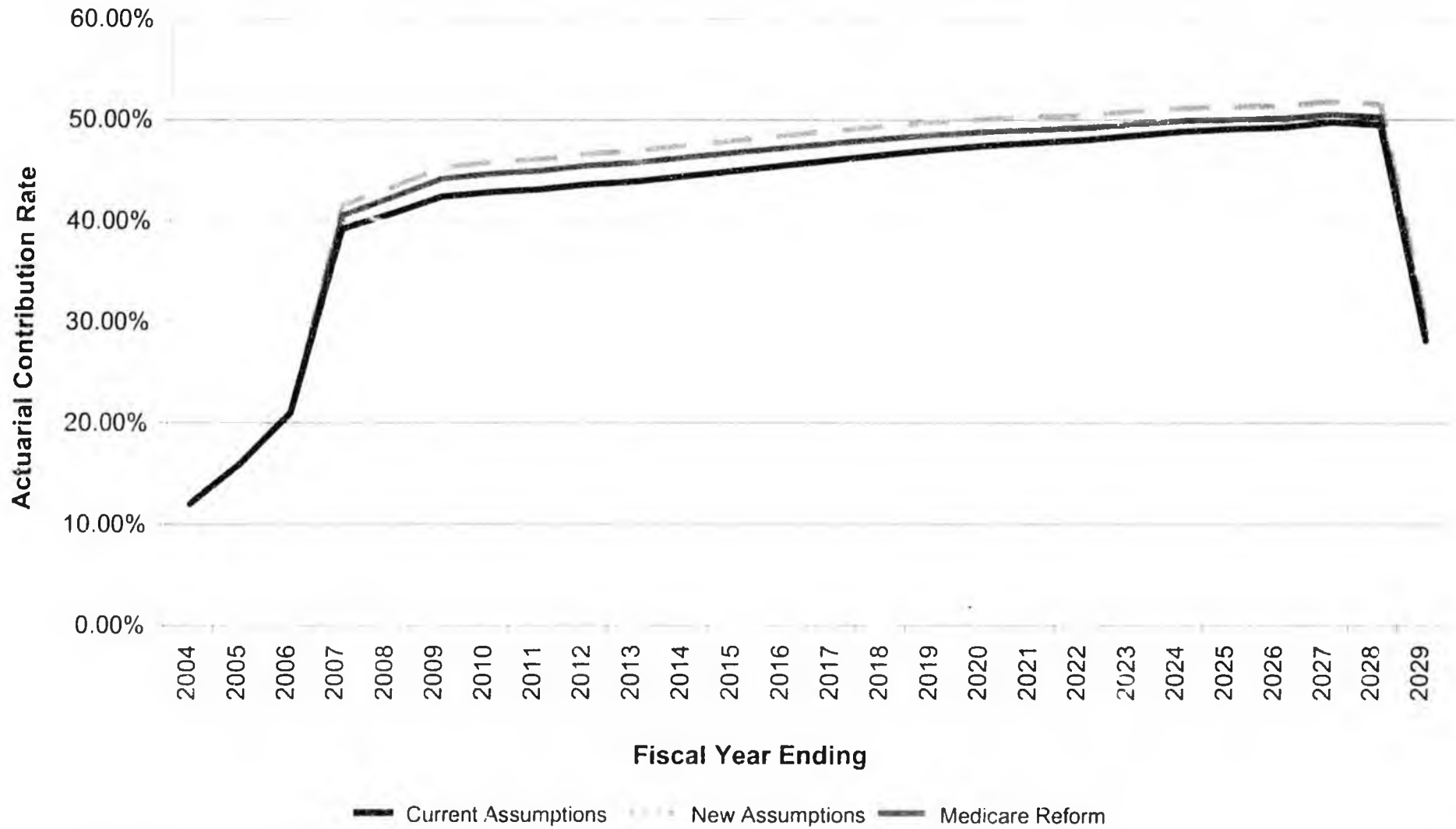
## **Cost Projections**

The following pages show the effect the changes due to Medicare Reform would be expected to have over time on actuarial calculated contribution rates

- For purposes of isolating the effect of the Medicare Reform changes, non-medical benefits have been kept unchanged from the current program
- Data, assumptions and methods are as described in the Appendix

# Medicare Reform Cost Projections – TRS

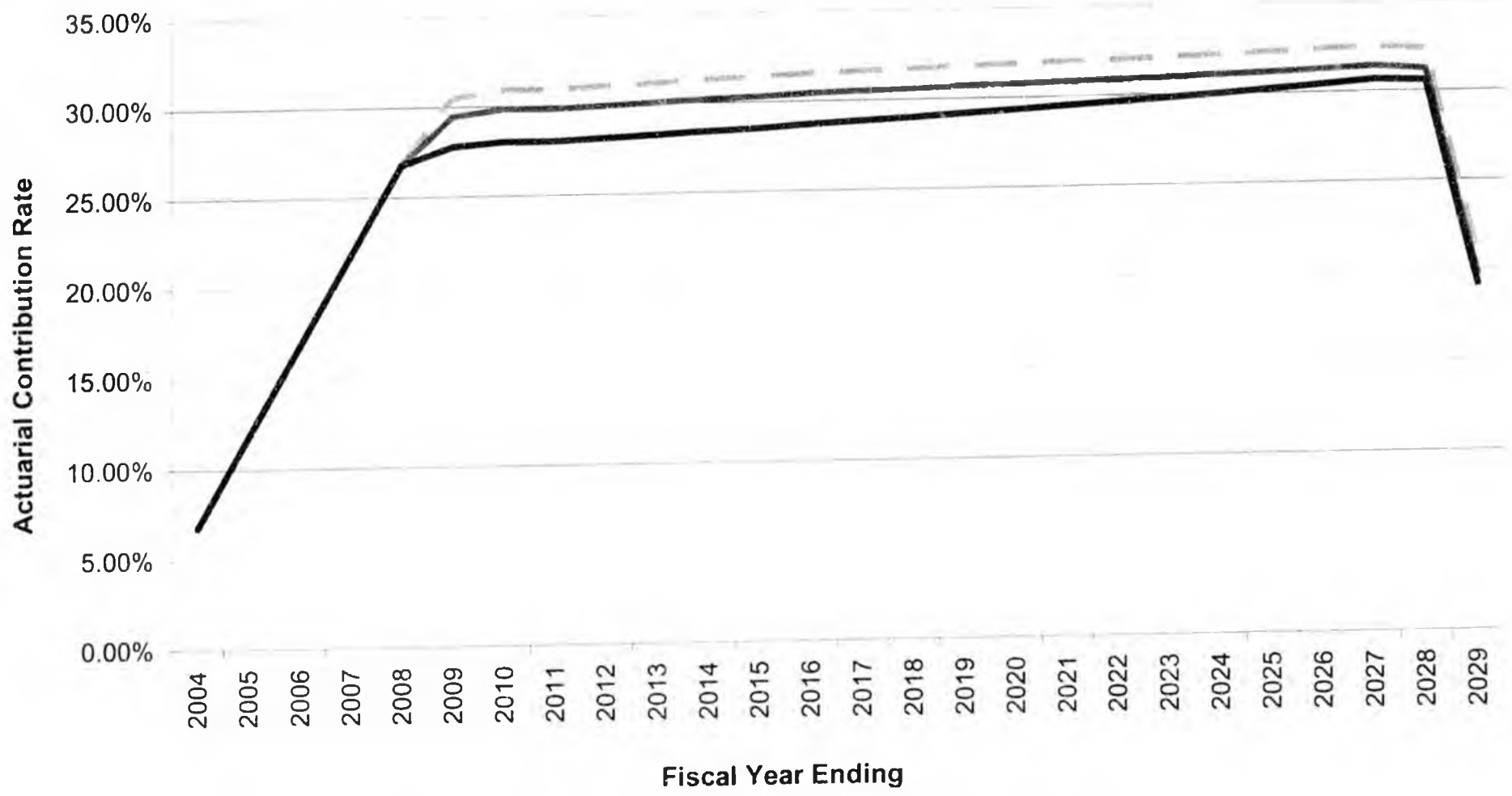
Contribution Comparison – TRS





# Medicare Reform Cost Projections – PERS

Contribution Comparison – PERS



— Current Assumptions    - - - New Assumptions    — Medicare Reform



# Medicare Reform

## Key Observations

- Net effect of new assumptions and Medicare reform is a modest increase in total employer actuarial contribution rate
- Assumption and method improvements over current
  - Separate costs and trend for medical versus Rx
    - More accurate estimation and valuation of benefit changes
  - Explicit recognition of effect of aging on claims
  - Detailed analysis of claims costs by Medicare eligibility status (pre and post 65)
- Opportunity for further method improvements
  - Annual review recommended
  - Dependent coverage data for retiree population



## **5. Alternative 1 – Valuation Results and Cost Projections**



# Alternative 1 – Valuation Results and Cost Projections

## Claims Cost Assumptions – Age 65 PMPY

	<u>Medical</u>		<u>Prescription Drug</u>	
	<u>Pre-Medicare</u>	<u>Post-Medicare</u>	<u>Pre-Medicare</u>	<u>Post-Medicare</u>
Revised Assumptions	\$7,014	\$1,052	\$1,491	\$1,491
Medicare Reform	\$7,010	\$1,262	\$1,491	\$1,132
Plan Alternative	\$6,381	\$1,149	\$1,252	\$951



## Alternative 1 – Valuation Results and Cost Projections

- Actual “normal cost” rates for Alternative 1 are as follows:

	Normal Cost Rates	
	TRS	PERS
Medical normal cost rate	3.75%	3.5%
Defined benefit normal cost rate	5.0%	4.5%
Defined contribution rate	8.25%	6.0%
Gross normal cost rate	17.0%	14.0%
Member contribution rate	(10.0)%	(8.0)%
Employer normal cost rate	7.0%	6.0%



## **Alternative 1 – Valuation Results and Cost Projections**

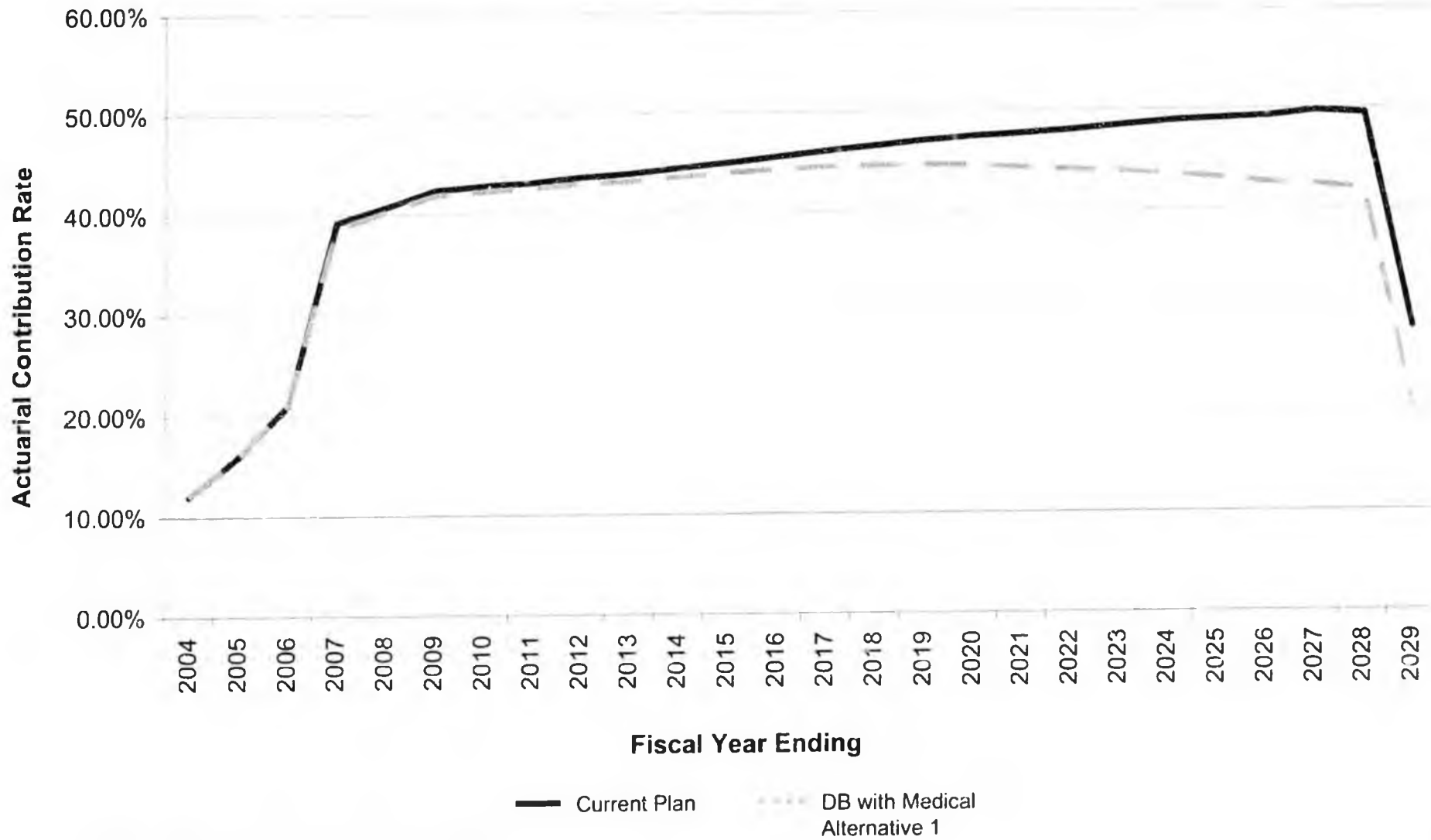
The following pages show the effect that proposed program alternative 1 would be expected to have over time on actuarial calculated contribution rates

- Member data, assumptions and methods are as described in the June 30, 2003 actuarial valuation reports, except for revisions to the medical assumptions previously described
- Proposed assumption and method changes (including the estimated effect of Medicare Reform) have been incorporated in this analysis
- Data, assumptions and methods are as described in the Appendix



# Alternative 1 - Valuation Results and Cost Projections - TRS

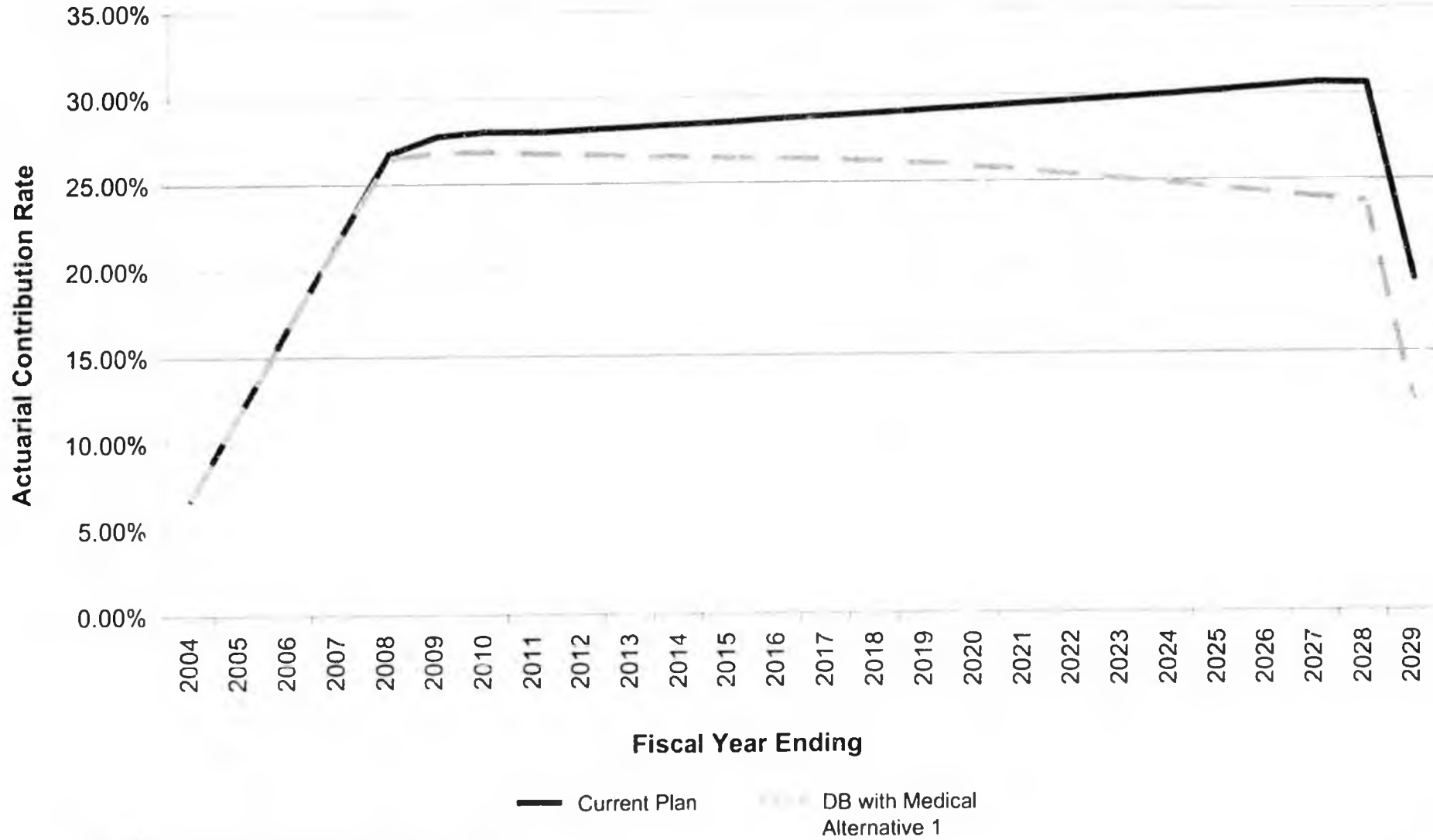
Contribution Comparison - TRS

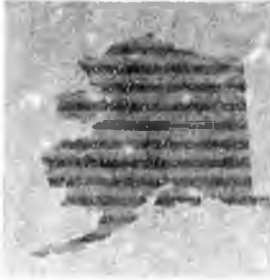




# Alternative 1 – Valuation Results and Cost Projections - PERS

Contribution Comparison – PERS





## **Alternative 1**

### **Key Observations**

- Alternative 1 reduces overall cost
- Cost is shared between employers and members
- Much of the investment risk continues to be borne by employers
- Healthcare inflation risk is borne by both employers and members



## **5. Alternative 2 – Valuation Results and Cost Projections**



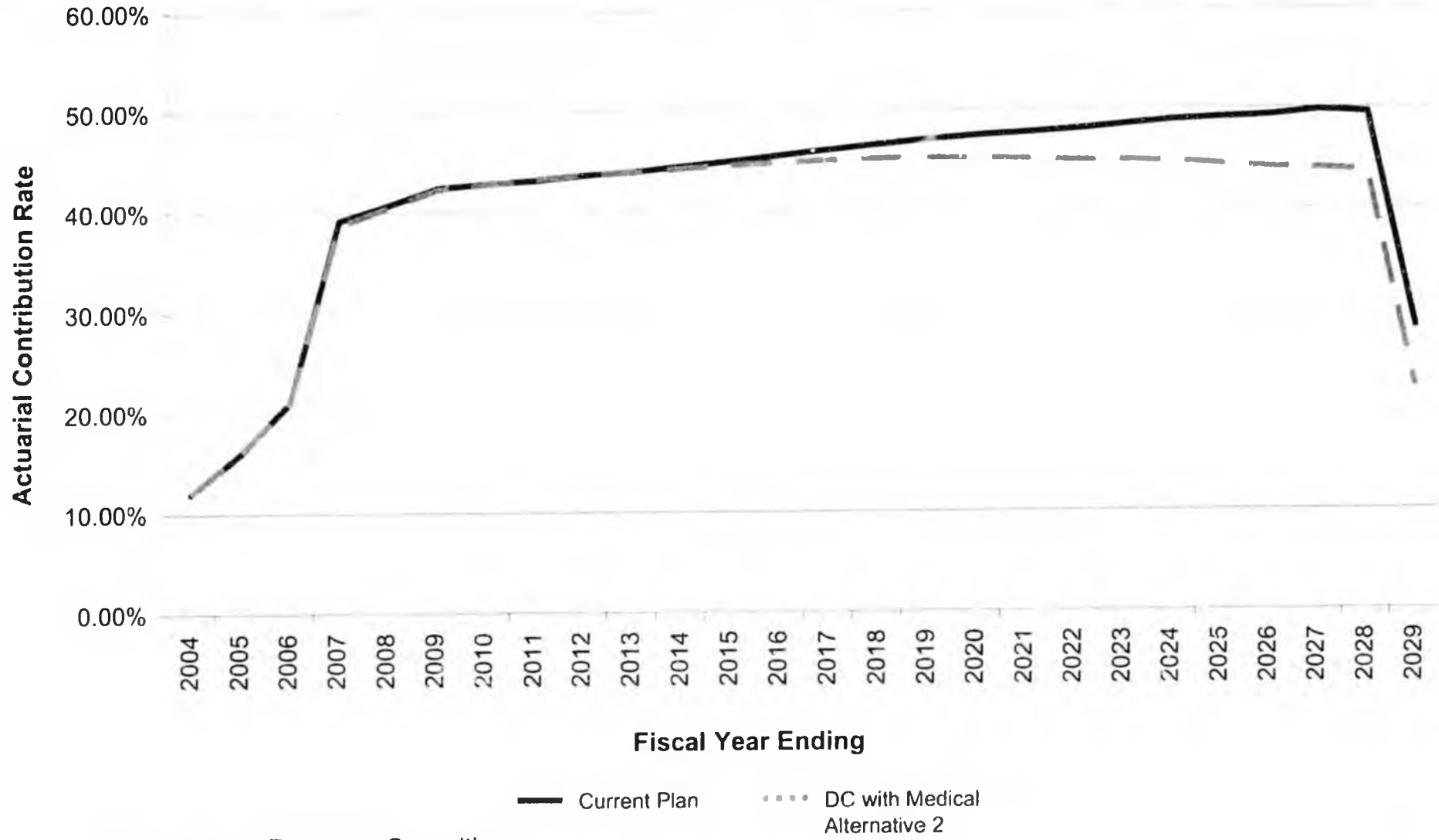
## Alternative 2 – Valuation Results and Cost Projections

- Actual “normal cost” rates for Alternative 2 are as follows:

	<u>Normal Cost Rates</u>	
	<u>TRS</u>	<u>PERS</u>
Medical normal cost rate	3.75%	3.5%
Defined contribution rate	14.25%	12.0%
Gross normal cost rate	18.0%	15.5%
Member contribution rate	<u>(10.0)%</u>	<u>(8.0)%</u>
Employer normal cost rate	8.0%	7.5%

# Alternative 2 – Valuation Results and Cost Projections - TRS

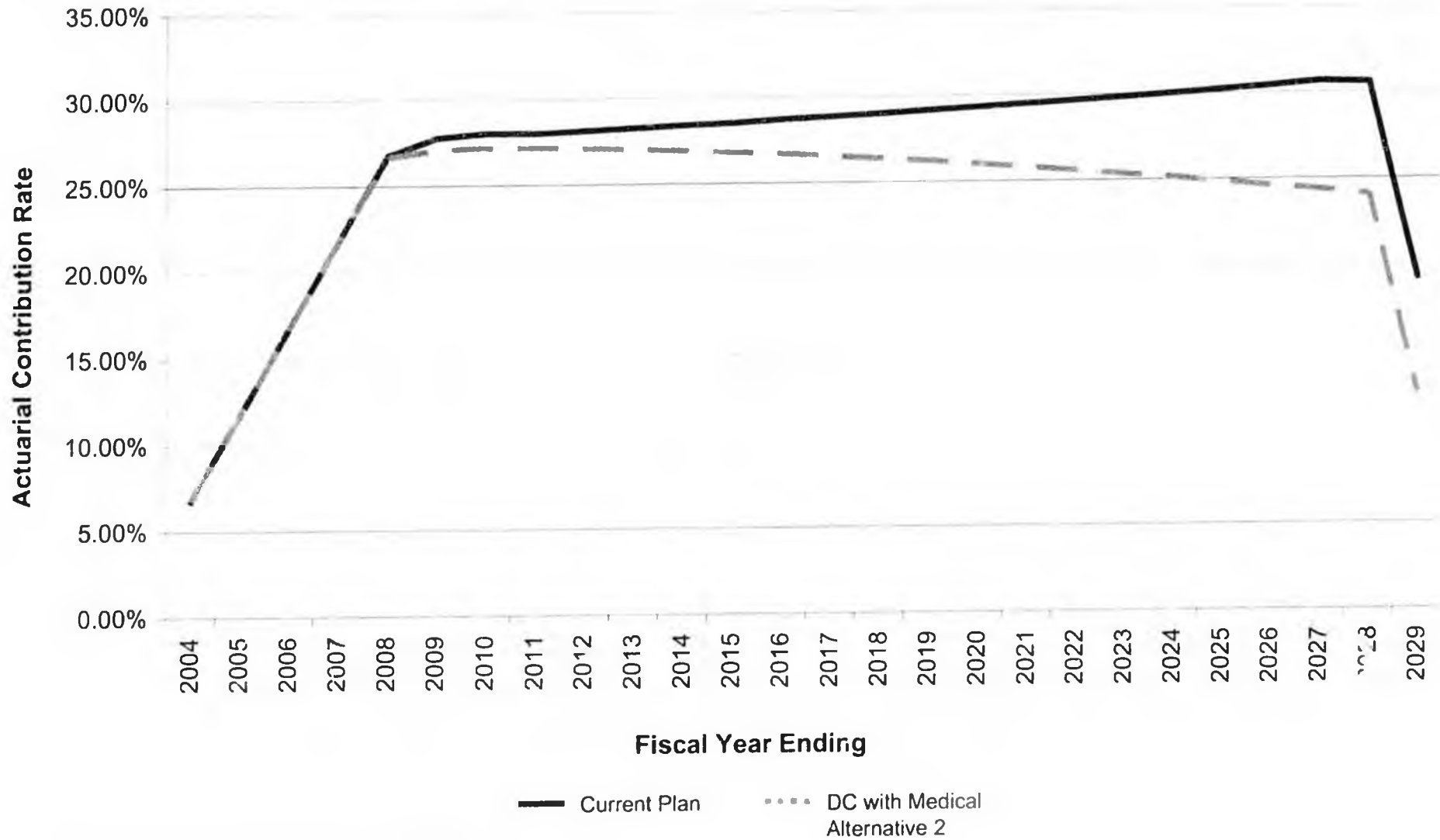
Contribution Comparison – TRS





# Alternative 2 - Valuation Results and Cost Projections - PERS

### Contribution Comparison -- PERS





## **Alternative 2**

### **Key Observations**

- Alternative 2 reduces overall cost
- Cost is shared between employers and members
- Employers bear less investment risk than either the current program or Alternative 1
- Members bear healthcare inflation risk
  - Can expect to pay greater share over time



## **6. Next Steps**



## Next Steps

- Agree on most desirable alternative
- Presentation to full Boards
- Documentation needs



## **7. Appendix**



## Appendix

# Data, Assumptions and Methods for Cost Projections

- Member data, assumptions and methods are as described in the June 30, 2003 actuarial valuation reports, except for revisions to the medical assumptions previously described
- Proposed assumption and method changes (including the estimated effect of Medicare Reform) have been incorporated in this analysis
- Active population scenario: 1% growth
- New entrants brought in to replace members assumed to die, terminate, retire, or become disabled
- New entrant profiles based on average new entrant profiles from the prior 3 years



## Appendix

### Data, Assumptions and Methods for Cost Projections

- Future liabilities and asset returns are calculated at 8.25%, except:
  - 17% investment return for FY04
- Adopted contribution rate is equal to the actuarially calculated rate for all future years.



## **Appendix**

### Current Financial Context

- The following charts show projected actuarial contribution rates assuming
  - No benefits are accrued by new members to the Systems
  - New members also do not contribute to the Systems
- This is not presented as a tier alternative
- It is shown for context, to show the long-term, gradual effect of new tier changes on employer contribution rates
- Projections for the current Systems assuming no changes are shown for comparative purposes
- Key assumptions:
  - Adopted rates are equal to actuarial contribution rates
  - Other assumptions as follows



## Appendix

### Current Financial Context

- Member data, assumptions and methods are as described in the June 30, 2003 actuarial valuation reports

#### Other key assumptions

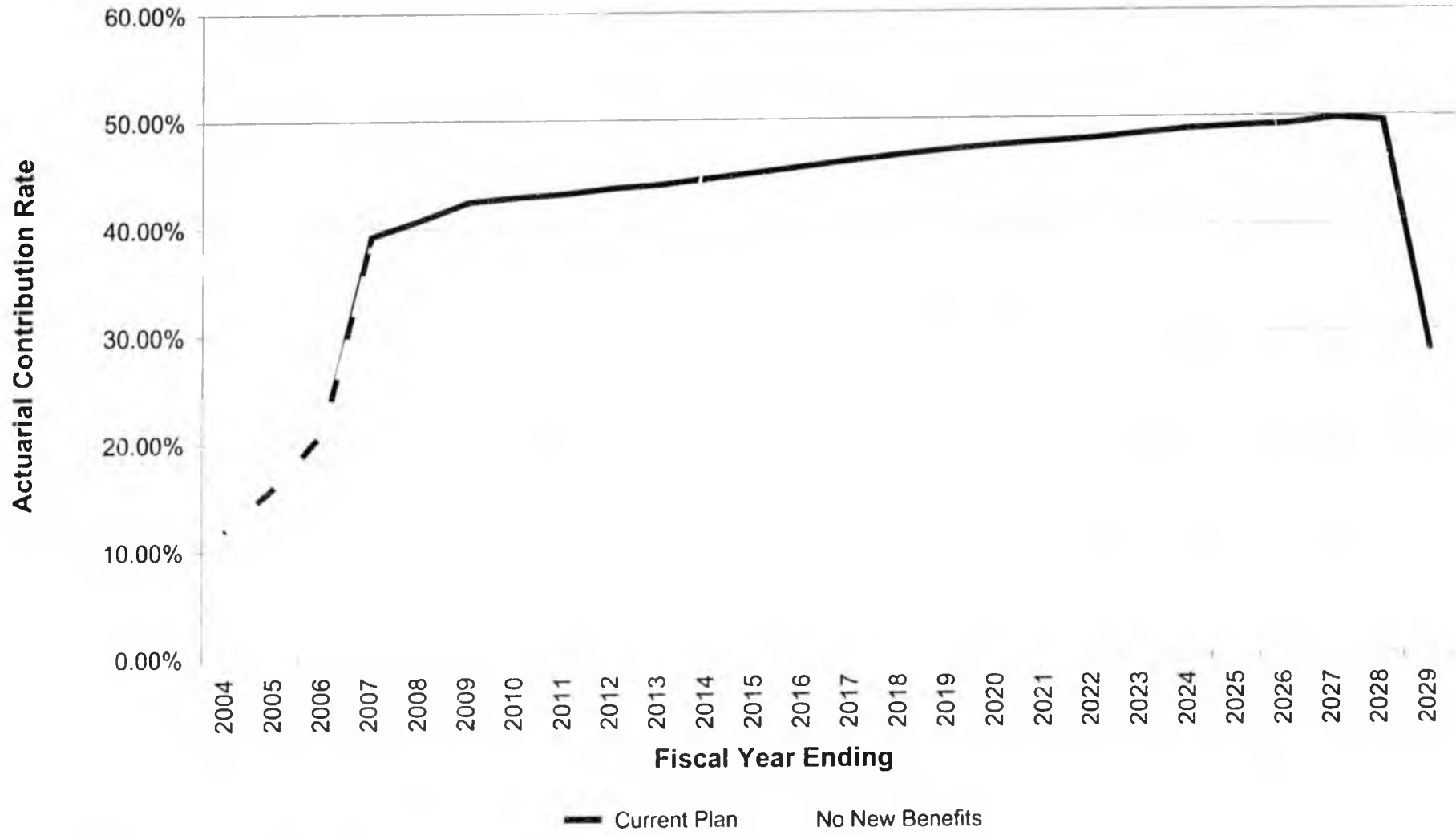
- Active population scenario: 1% growth
- New entrants brought in to replace members assumed to die, terminate, retire, or become disabled
- New entrant profiles based on average new entrant profiles from the prior 3 years
- Future liabilities and asset returns are calculated at 8.25%, except:
  - 17% investment return for FY04



# Appendix

## Current Financial Context

Contribution Comparison – TRS

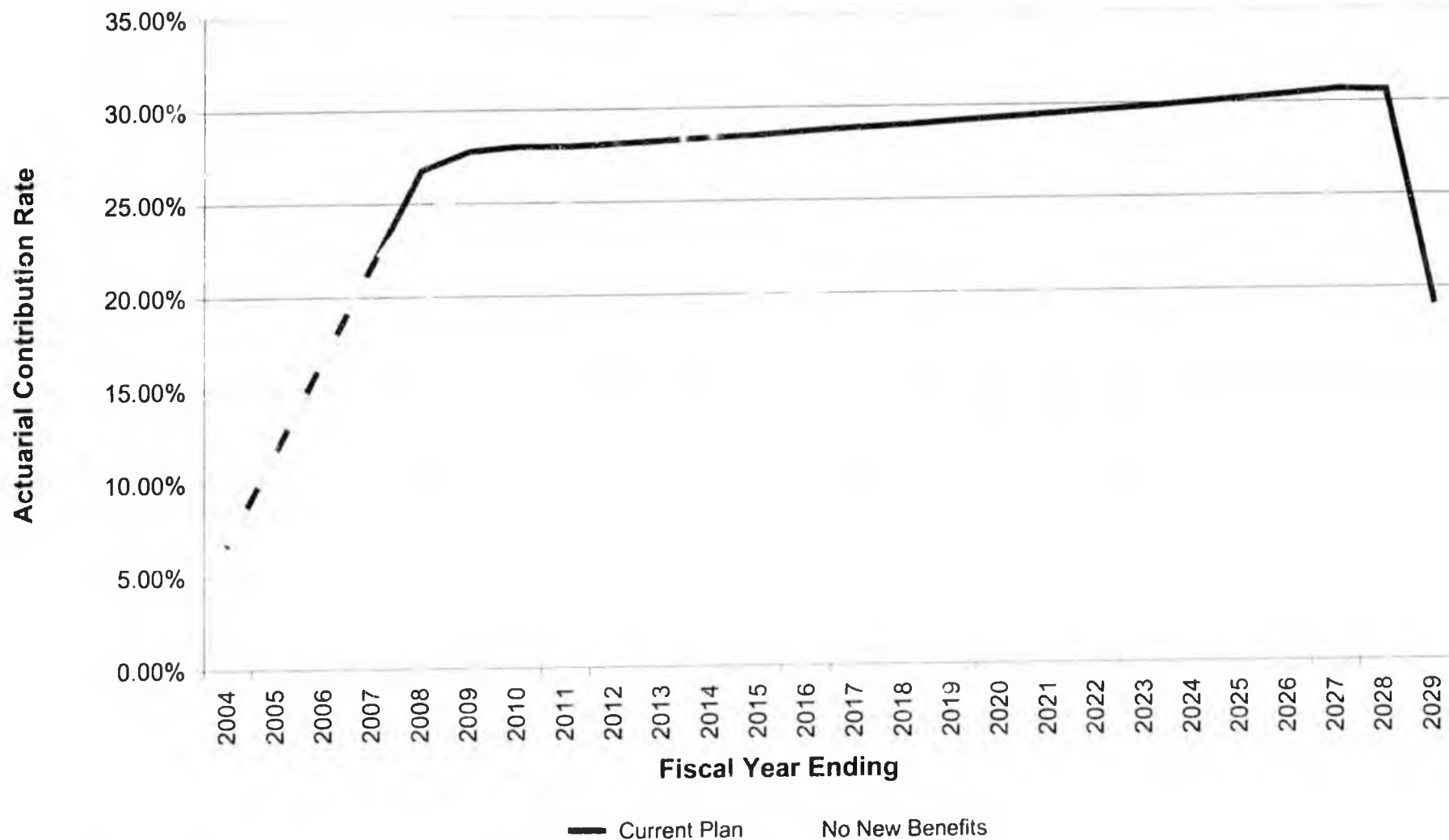




# Appendix

## Current Financial Context

### Contribution Comparison – PERS



**MERCER**

Human Resource Consulting

June 10 & 11, 2004

Presentation to the Tier Committee of PERC/TRS Boards

**State of Alaska**  
**PERS & TRS**  
**Tier Redesign Study**



Marsh & McLennan Companies

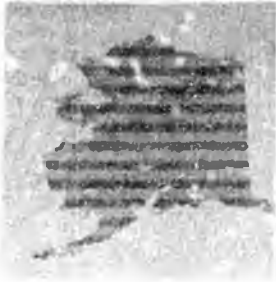


# Proposed Agenda

- Introduction
- Benchmarking
- Income and Current Program Analysis
- Demographics
- Financial Analysis
- Medicare Reform and Implications
- Employer Survey Results
- Member Focus Group Results
- Medical Program Issues and Alternatives
- Retirement (Non-medical) Program Observations, Trends and Alternatives
- Next Steps



# **1. Introduction**



# **Introduction**

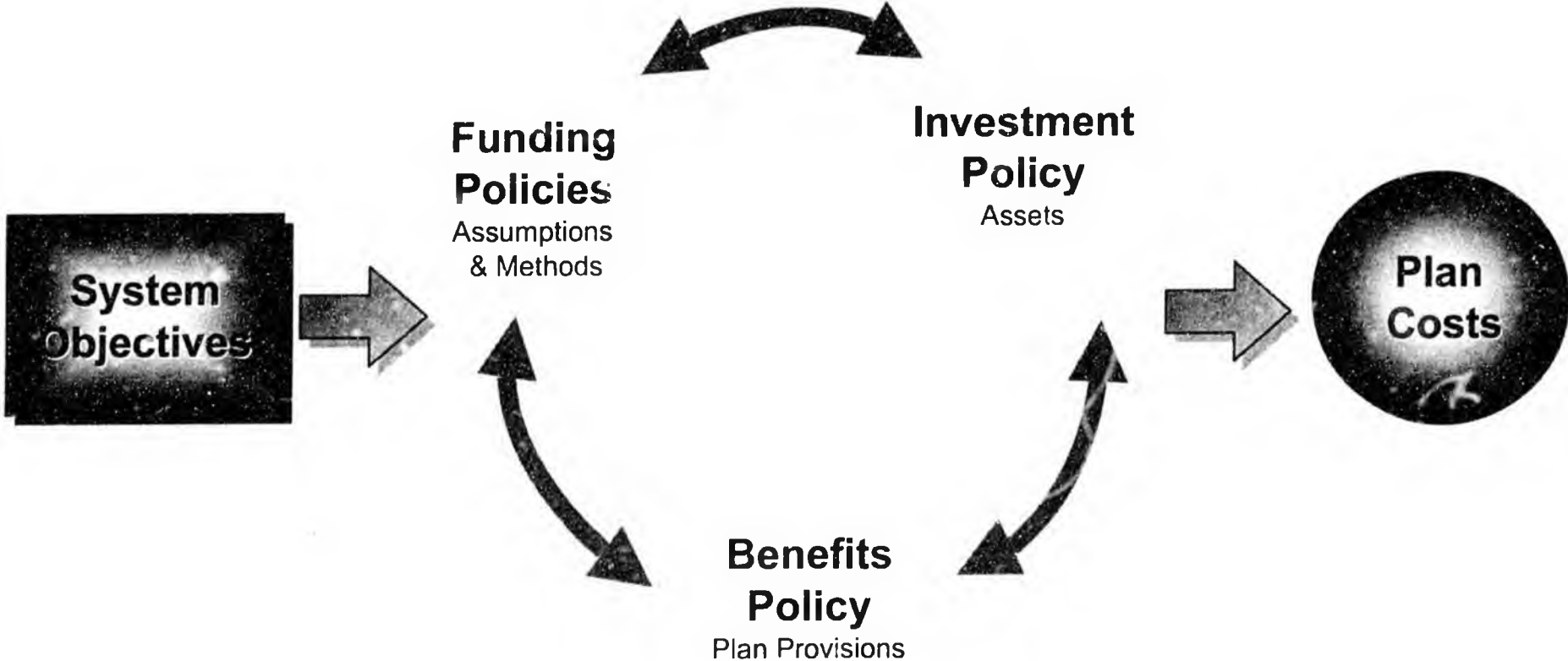
## **Meeting Objectives**

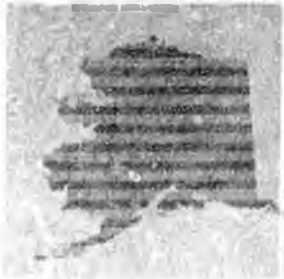
- Develop a thorough understanding of relevant facts applicable to the State of Alaska's Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS)
- Review retirement system objectives, and examine current trends and alternatives
- Draft future directions for the retirement systems



# Introduction

## Retirement Program Financial Management





# **Introduction**

## **Meeting Context**

- Rising contribution levels
- Volatile investment returns
  - Investment uncertainty
- Rising medical costs



# Introduction

- Implications of opting out of Social Security
  - Required minimum level of benefits
  - Separate requirements for defined benefit versus defined contributions plans
  - Described in Federal Insurance Contributions Act



## Introduction

- Required minimum level of benefits – defined contribution plans
  - Allocations must be at least 7.5% of compensation
  - Employer match may be taken into account
  - Definition of compensation must at least include base pay



## Introduction

- Required minimum level of benefits – defined benefit plans
  - Minimum accrued benefit
  - Expressed as annual amount commencing on or before Social Security retirement age
  - Must at least equal Primary Insurance Amount (PIA)



## **2. Benchmarking**



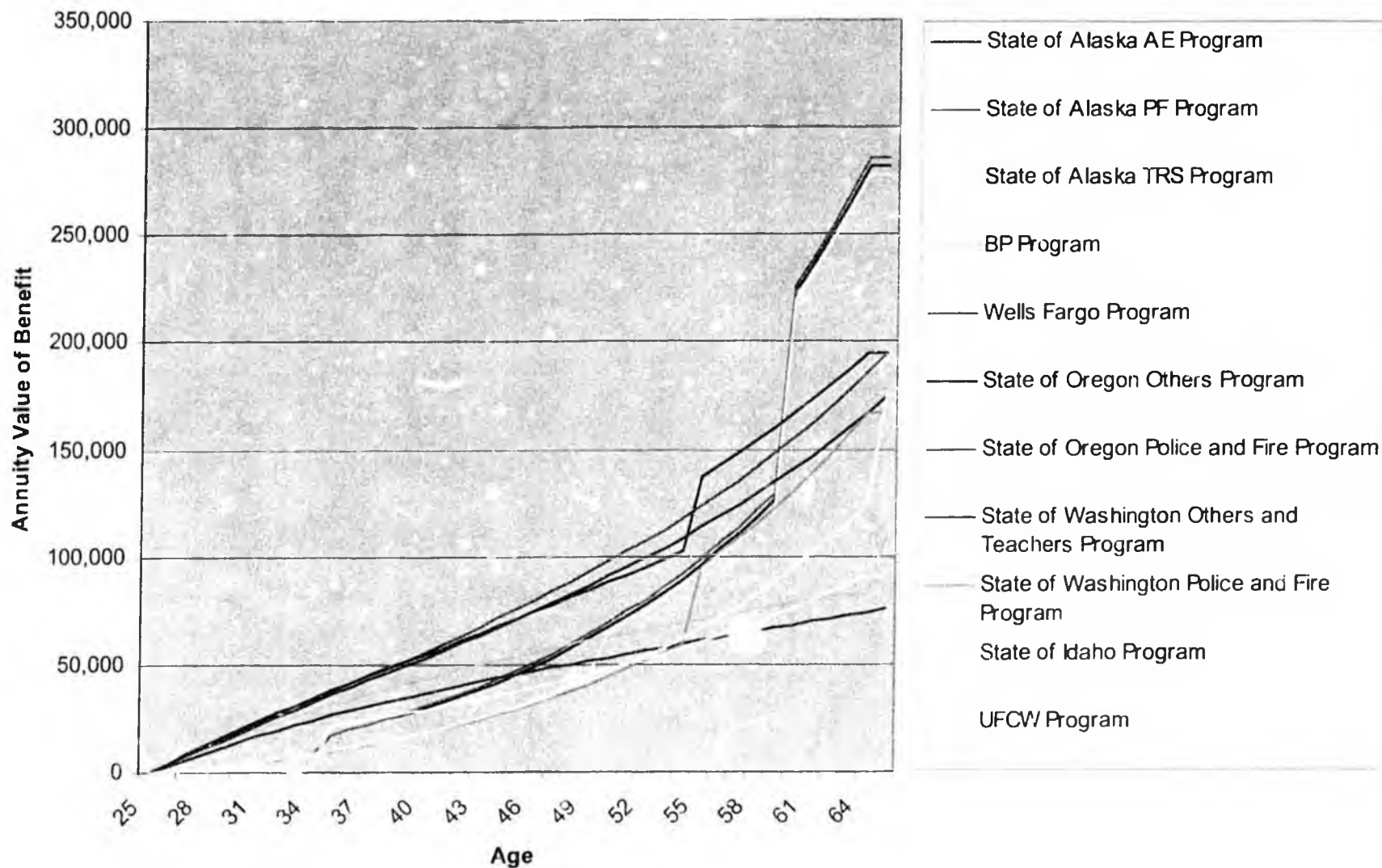
# Benchmarking

## Purpose of Benchmarking

- Qualitative
  - Identify key features
  - Trends (what are other states doing?)
- Quantitative
  - Identify position in market

# Benchmarking

## Comparison with Other Programs

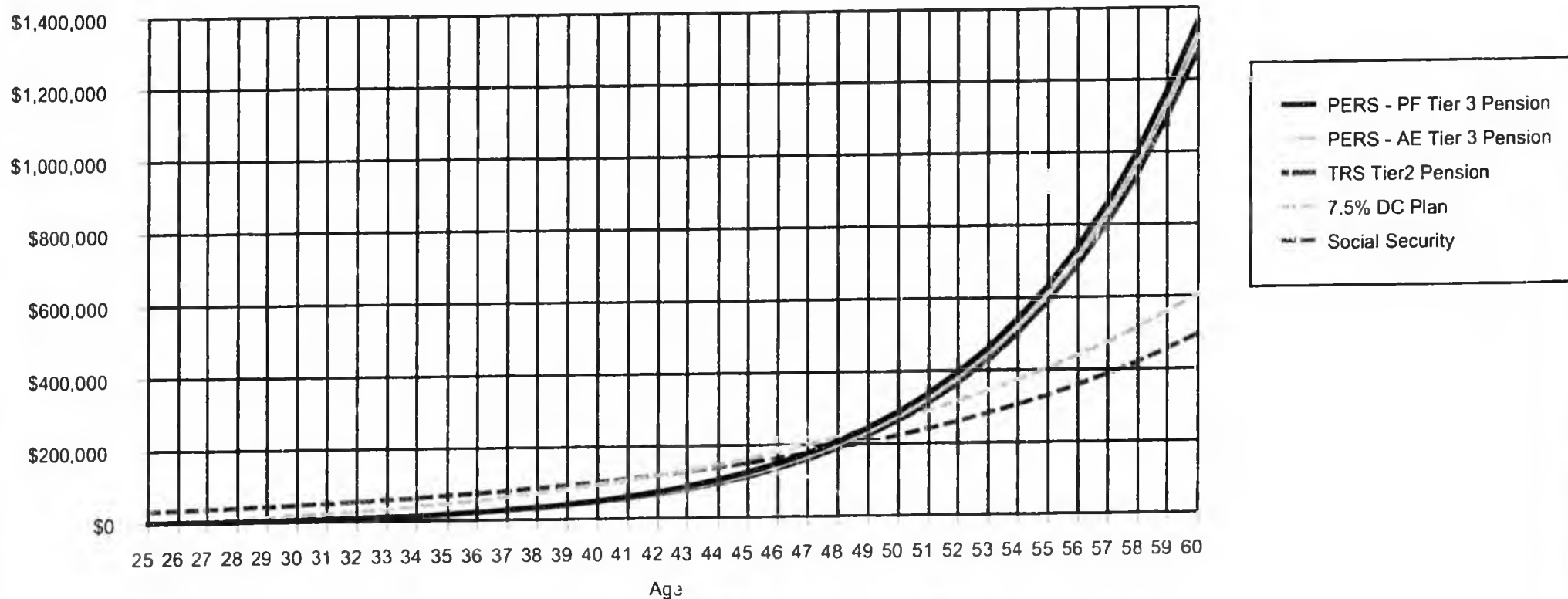




# Benchmarking Comparison with Social Security

## Present Value of Benefit Payable as a Lump Sum

Sample Employee 1 Data at 2003: Age = 25, Service = 0, Salary = \$35,000



Equity: Rate of return on account balance: 8.39%; 7.39%; 6.39%; 5.39%; 4.39%  
Bond: Rate of return on account balance: 10%; 9%; 8%; 7%; 6%  
Equity investment mix: 80%; 70%; 60%; 50%; 40%; Post-retirement 20%  
Salary increase rate: 5.5%; 4%



### **3. Income and Current Program Analysis**



## Income and Current Program Analysis

- Benefit accumulation graphs show how benefits are earned under the Systems and express value as a lump sum
- All components of the Systems are incorporated, pension and retiree medical
- Benefits are earned throughout a member's career, with most significant value earned at later ages
- The benefit accumulation graphs also show how System benefit values would compare to a defined contribution program with similar annual cost
- System annual cost is based on the normal cost rate (employer portion)
- A defined contribution program with similar annual cost delivers greater value early on in a member's career, but provides significantly less at retirement



# **Income and Current Program Analysis**

## **Retirement Spending and Employee View of Risk**

- Retirement spending charts focus on the “spend down” of Retirement Program assets after age 60
- Retirement need targeted at 70% (plus retiree medical) income replacement (adjusted for inflation)
- Pension annuities will/can continue for life, with some adjustment annually for inflation
- Savings are drawn down each year to fill gap to meet needs
- A defined contribution plan of similar cost runs out sooner:
  - The accumulation is less at age 60
  - There is no pooling of longevity risk



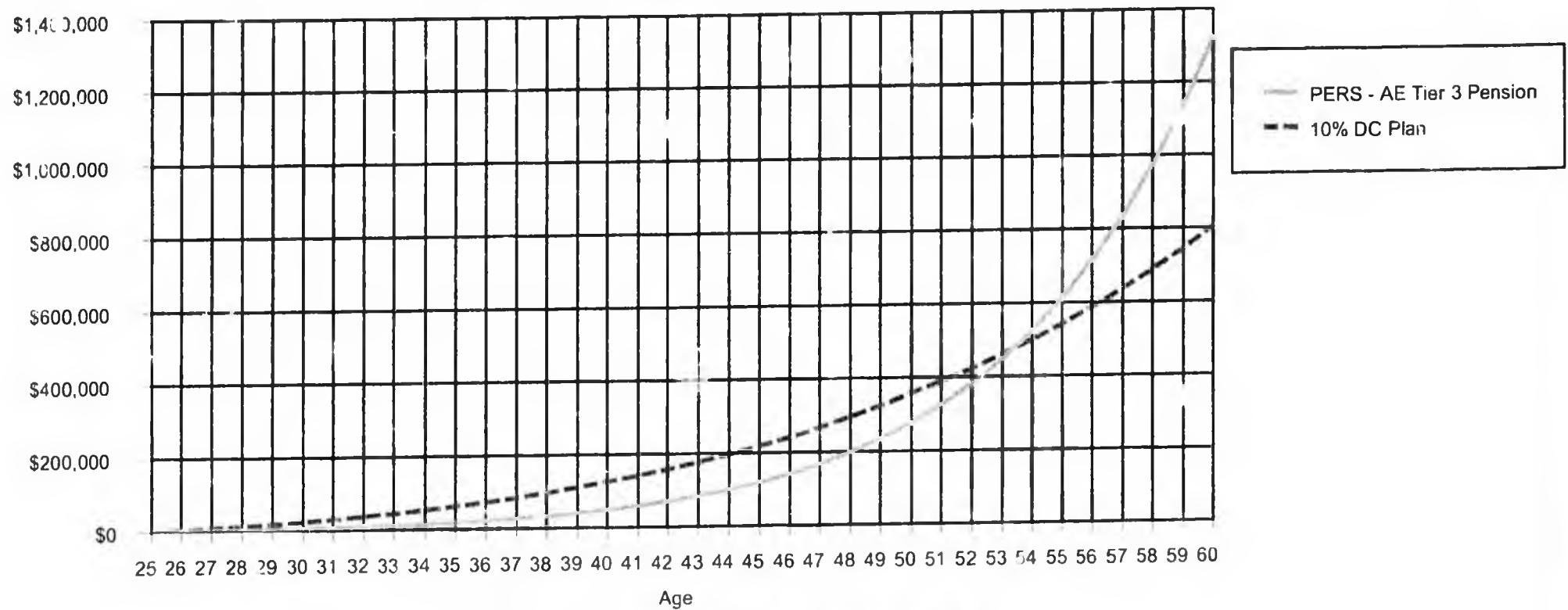
# Income and Current Program Analysis

## PERS Others

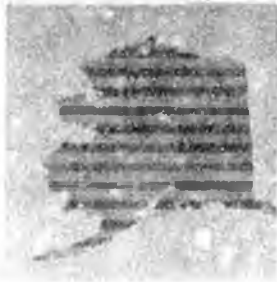
### Benefit Accumulation – Long Service Member

#### Present Value of Benefit Payable as a Lump Sum

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Salary increase rate: 5.5%; 4%



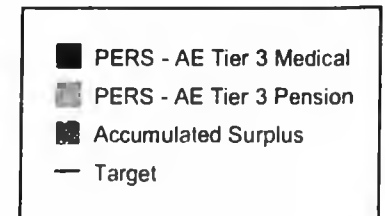
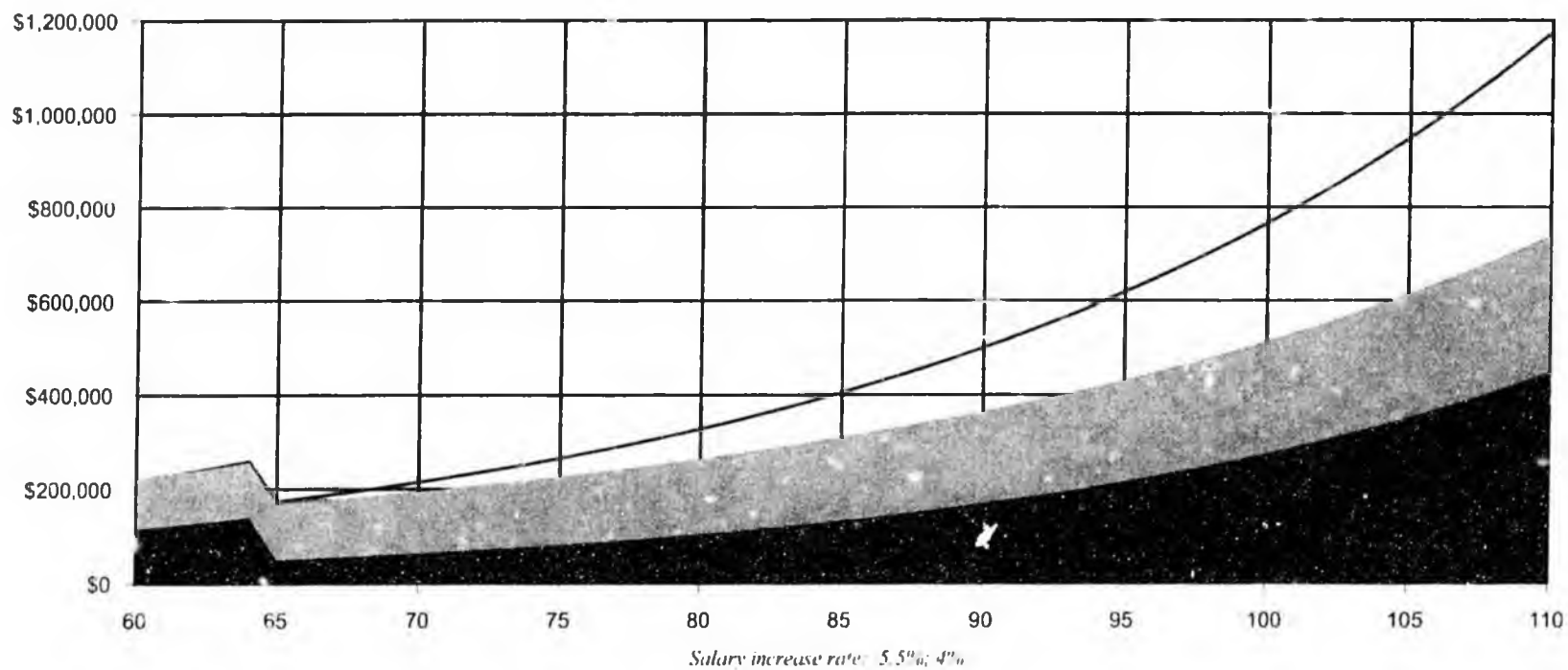
# Income and Current Program Analysis

## PERS Others

### Retirement Spending – Long Service Member

Post-Retirement Spending Needs and Sources -- Terminal Age = 66

Sample Employee 1 Data at 2003: Age = 25, Service = 0, Salary = \$35,000  
Retirement Age = 60, Target = 70% (plus medical), Tax Rate = 28%, Post Ret COLA = 4%



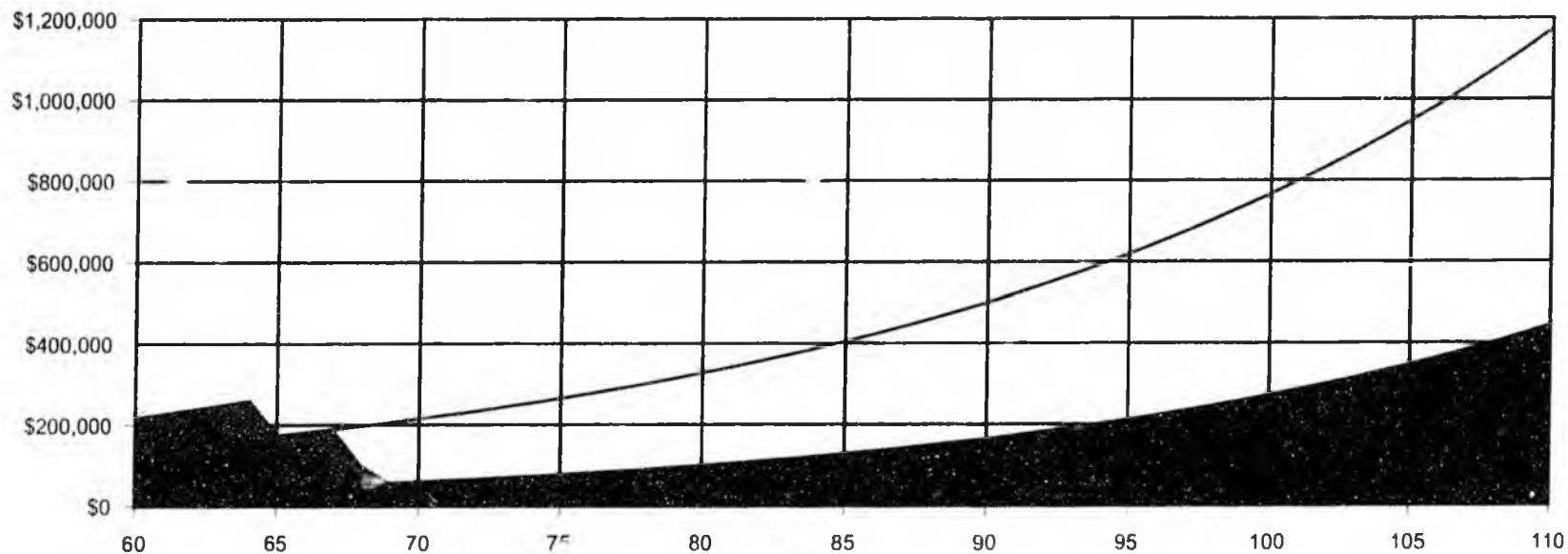
# Income and Current Program Analysis

## PERS Others

### Retirement Spending (DC Plan) – Long Service Member

Post-Retirement Spending Needs and Sources -- Terminal Age = 68

Sample Employee 1 Data at 2003: Age = 25, Service = 0, Salary = \$35,000  
 Retirement Age = 60, Target = 70% (plus medical), Tax Rate = 28%, Post-Ret COLA = 4%



PERS - AE Tier 3 Medical  
 10% DC Plan  
 Target

*Equity: Rate of return on account balance: Pre-Ret: 8.39%, 7.39%, 6.39%, 5.39%, 4.39%, Post-Ret: 4.39%*  
*Bond: Rate of return on account balance: Pre-Ret: 10%, 9%, 8%, 7%, 6%, Post-Ret: 6%*  
*Equity investment mix: 80%, 70%, 60%, 50%, 40%, Post-retirement 20%*  
*Salary increase rate: 5.5%, 4%*

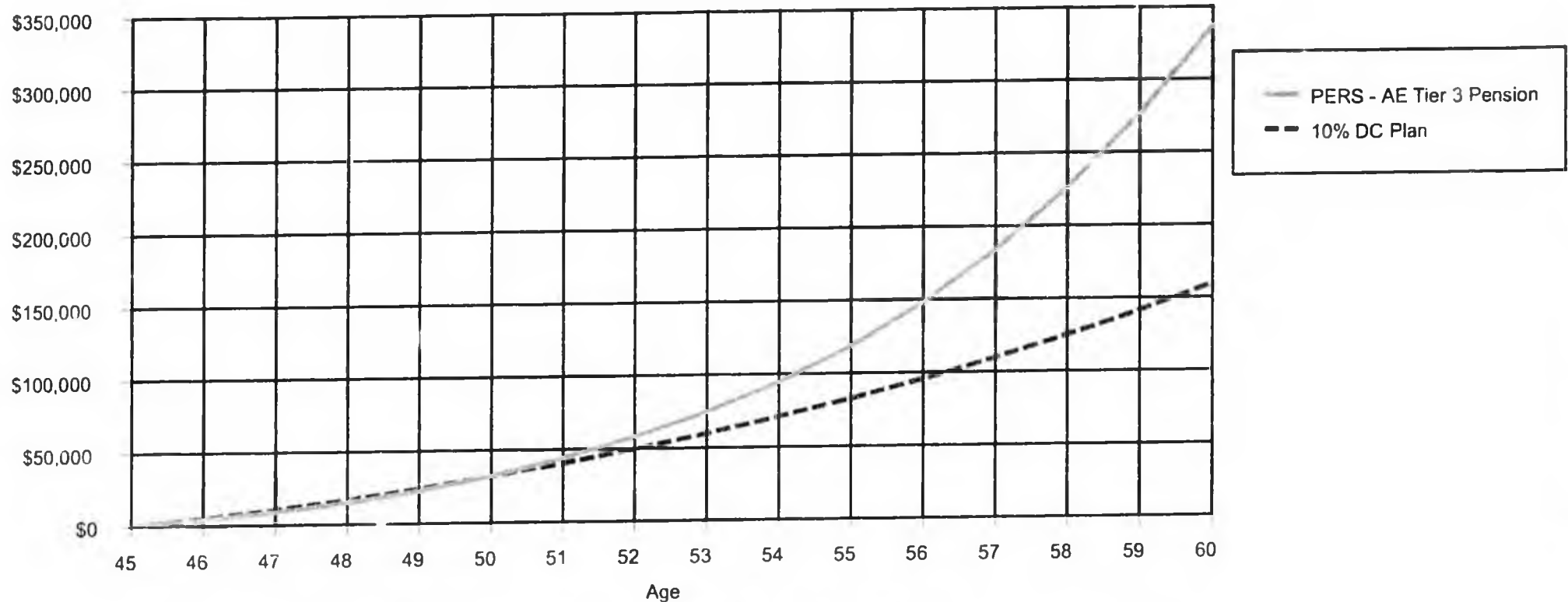
# Income and Current Program Analysis

## PERS Others

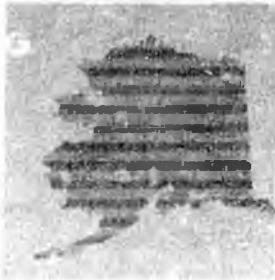
### Benefit Accumulation – Short Service Member

#### Present Value of Benefit Payable as a Lump Sum

Sample Employee 1 Data at 2003: Age = 45, Service = 0, Salary = \$50,000



Equity: Rate of return on account balance: 8.39%<sub>a</sub>; 7.39%<sub>a</sub>; 6.39%<sub>a</sub>; 5.30%<sub>a</sub>; 4.39%<sub>a</sub>  
 Bond: Rate of return on account balance: 10%<sub>a</sub>; 9%<sub>a</sub>; 8%<sub>a</sub>; 7%<sub>a</sub>; 6%<sub>a</sub>  
 Equity investment mix: 80%<sub>a</sub>; 70%<sub>a</sub>; 60%<sub>a</sub>; 50%<sub>a</sub>; 40%<sub>a</sub>; Post-retirement 20%<sub>a</sub>  
 Salary increase rate: 5.5%<sub>a</sub>; 4%<sub>a</sub>



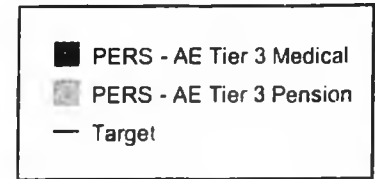
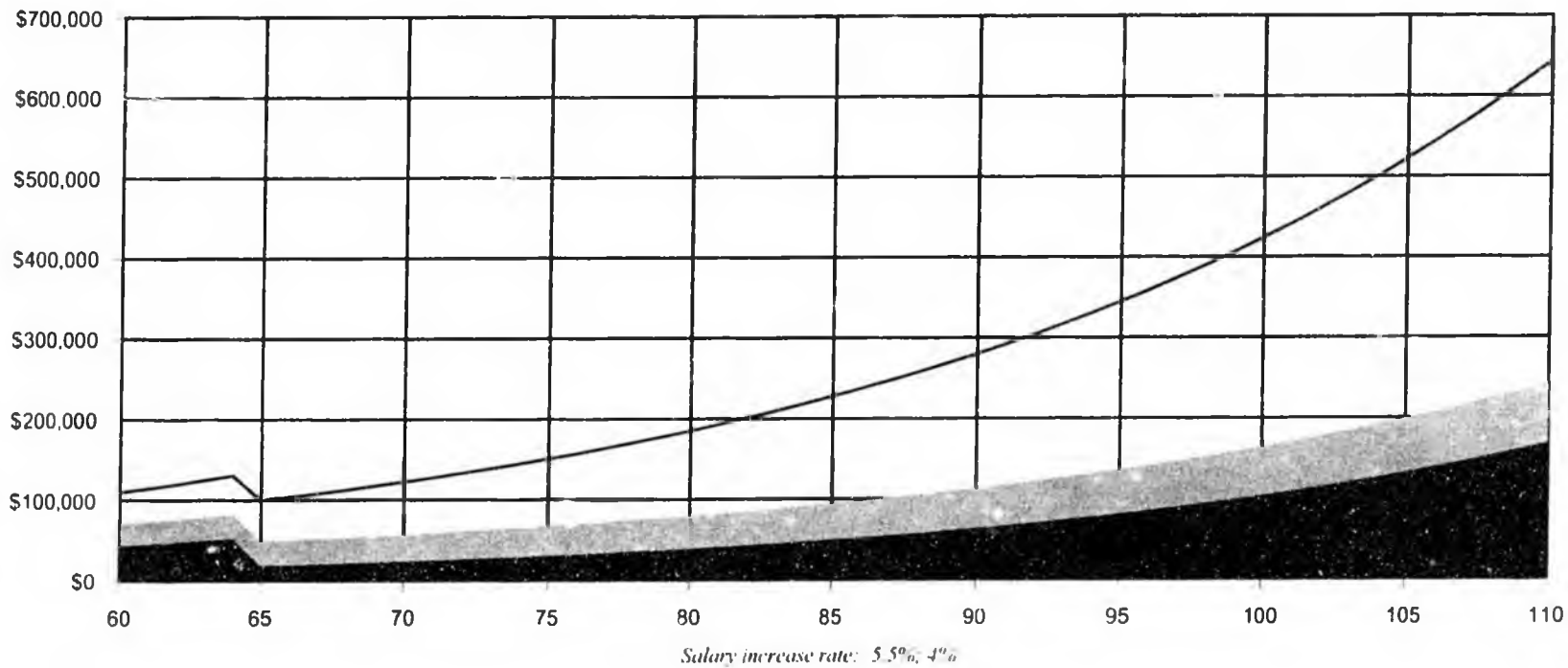
# Income and Current Program Analysis

## PERS Others

### Retirement Spending – Short Service Member

Post-Retirement Spending Needs and Sources -- Terminal Age = 60

Sample Employee 1 Data at 2003: Age = 45, Service = 0, Salary = \$50,000  
Retirement Age = 60, Target = 70% (plus medical), Tax Rate = 28%, Post-Ret COLA = 4%





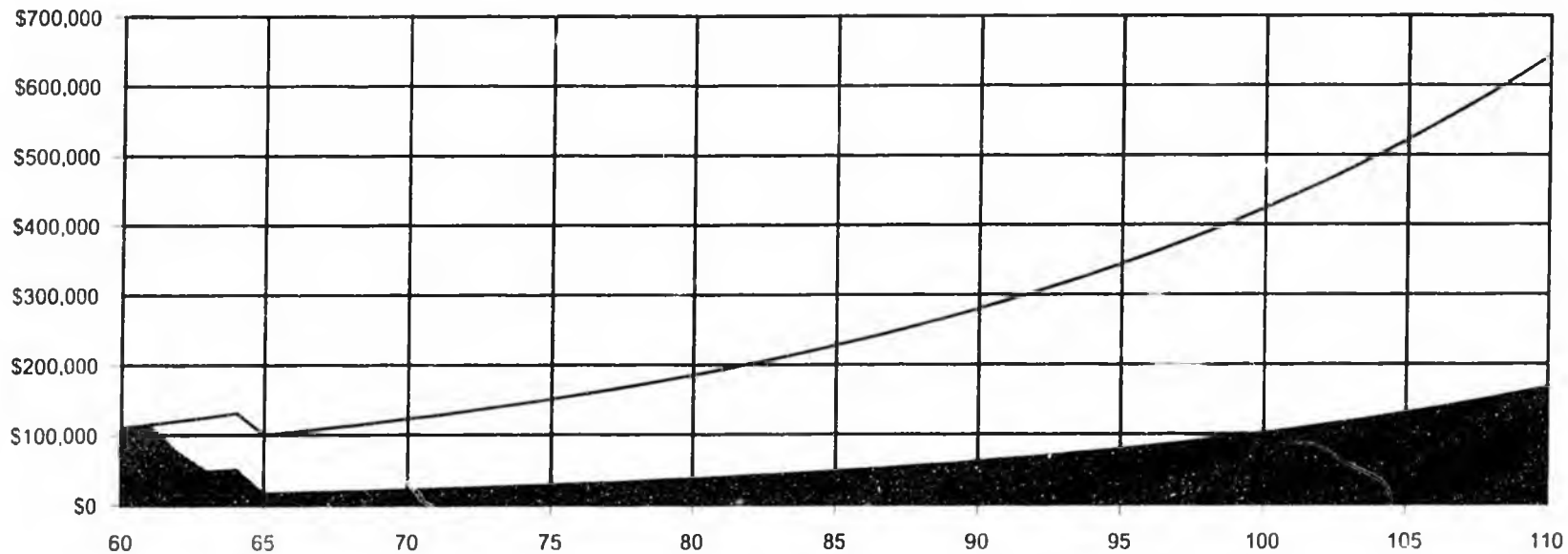
# Income and Current Program Analysis

## PERS Others

### Retirement Spending (DC Plan) – Short Service Member

Post-Retirement Spending Needs and Sources -- Terminal Age = 62

Sample Employee 1 Data at 2003: Age = 45, Service = 0, Salary = \$50,000  
 Retirement Age = 60, Target = 70% (plus medical), Tax Rate = 28%, Post-Ret COLA = 4%



■ PERS - AE Tier 3 Medical  
 ■ 10% DC Plan  
 — Target

*Equity: Rate of return on account balance: Pre-Ret: 8.39%; 7.39%; 6.39%; 3.9%; 4.39%; Post-Ret: 4.39%*  
*Bond: Rate of return on account balance: Pre-Ret: 10%; 9%; 8%; 7%; 6%; Post-Ret: 6%*  
*Equity investment mix: 80%; 70%; 60%; 50%; 40%; Post-retirement 20%*  
*Salary increase rate: 5.5%; 4%*

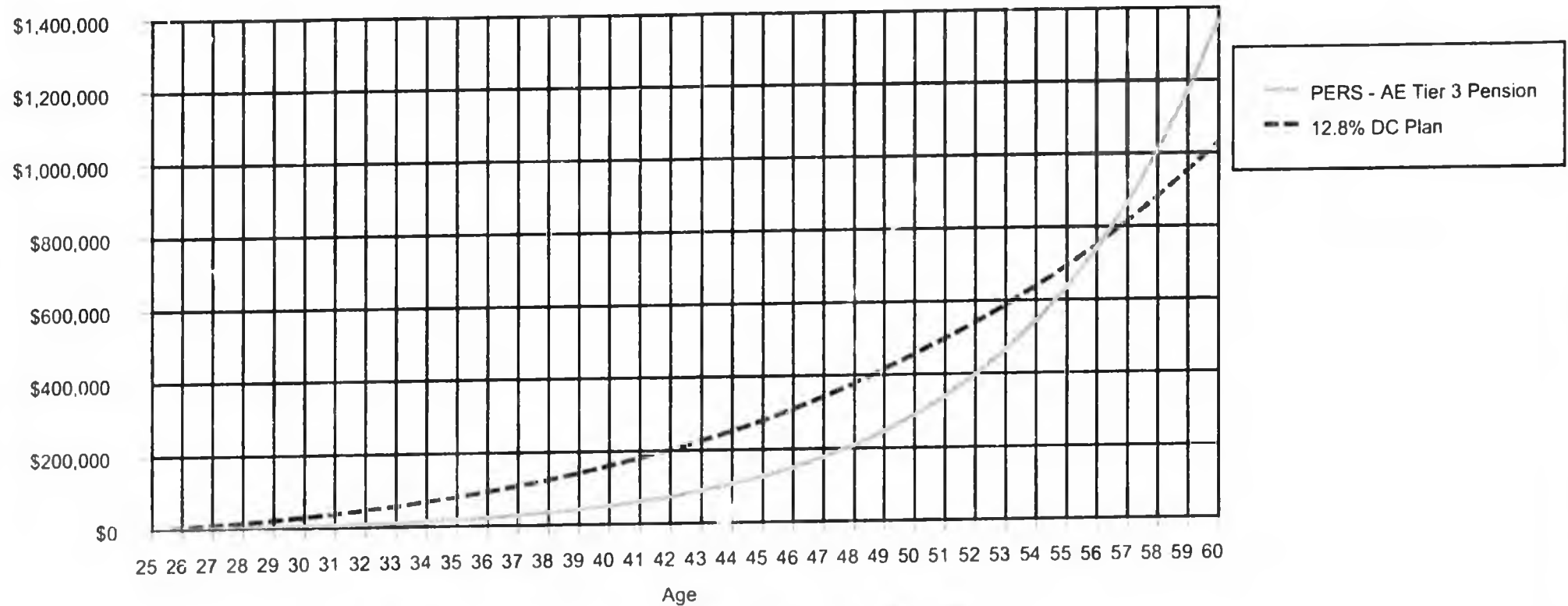
# Income and Current Program Analysis

## PERS Police/Fire

### Benefit Accumulation – Long Service Member

#### Present Value of Benefit Payable as a Lump Sum

Sample Employee 1 Data at 2003: Age = 25, Service = 0, Salary = \$35,000



Equity: Rate of return on account balance: 8.39%<sub>0</sub>; 7.39%<sub>0</sub>; 6.39%<sub>0</sub>; 5.39%<sub>0</sub>; 4.39%<sub>0</sub>  
 Bond: Rate of return on account balance: 10%<sub>0</sub>; 9%<sub>0</sub>; 8%<sub>0</sub>; 7%<sub>0</sub>; 6%<sub>0</sub>  
 Equity investment mix: 80%<sub>0</sub>; 70%<sub>0</sub>; 60%<sub>0</sub>; 50%<sub>0</sub>; 40%<sub>0</sub>; Post-retirement 20%<sub>0</sub>  
 Salary increase rate: 5.5%<sub>0</sub>; 4%<sub>0</sub>

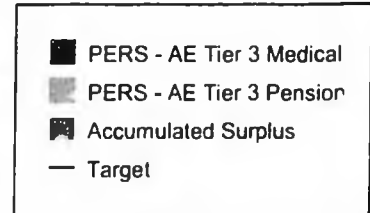
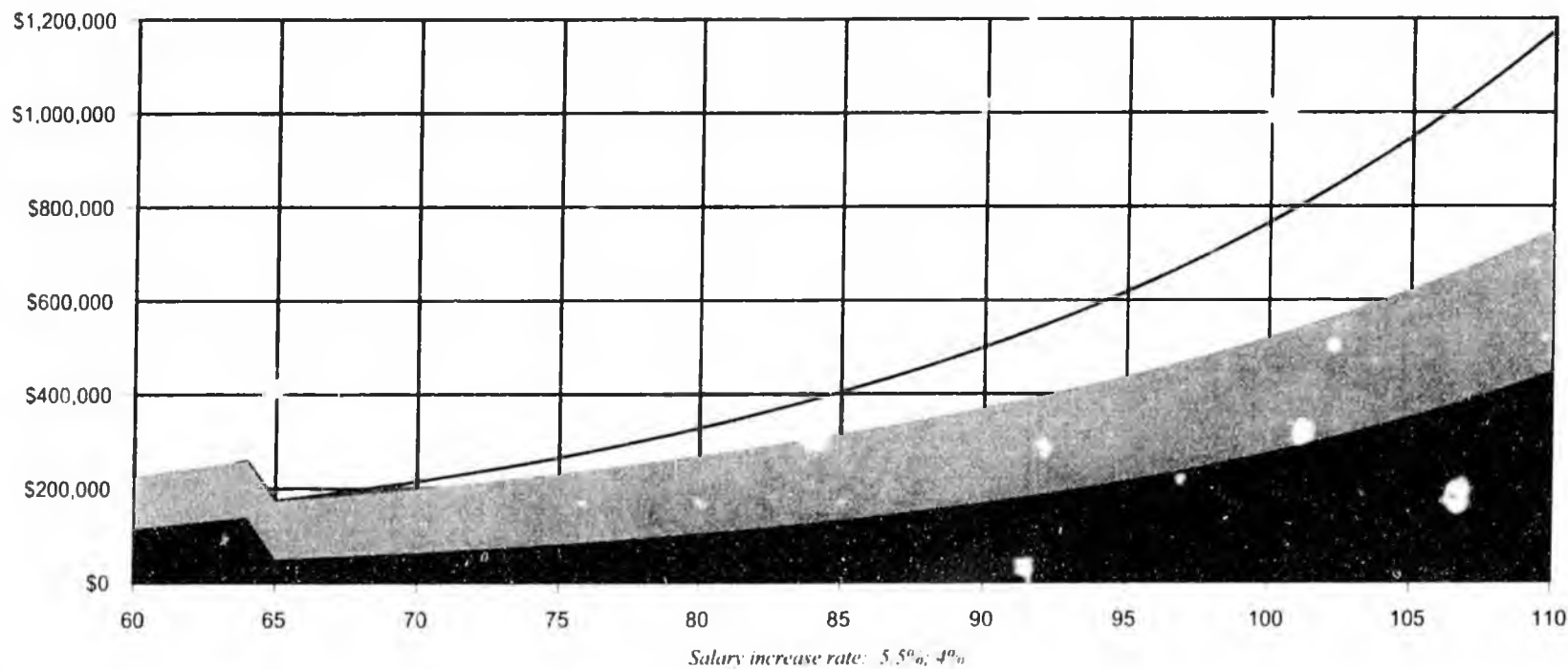
# Income and Current Program Analysis

## PERS Police/Fire

### Retirement Spending – Long Service Member

#### Post-Retirement Spending Needs and Sources – Terminal Age = 70

Sample Employee 1 Data at 2003: Age = 25, Service = 0, Salary = \$35,000  
 Retirement Age = 60, Target = 70% (plus medical), Tax Rate = 28%, Post-Ret COLA = 4%





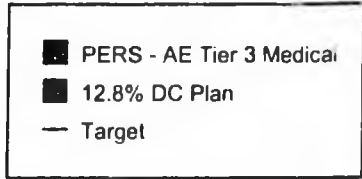
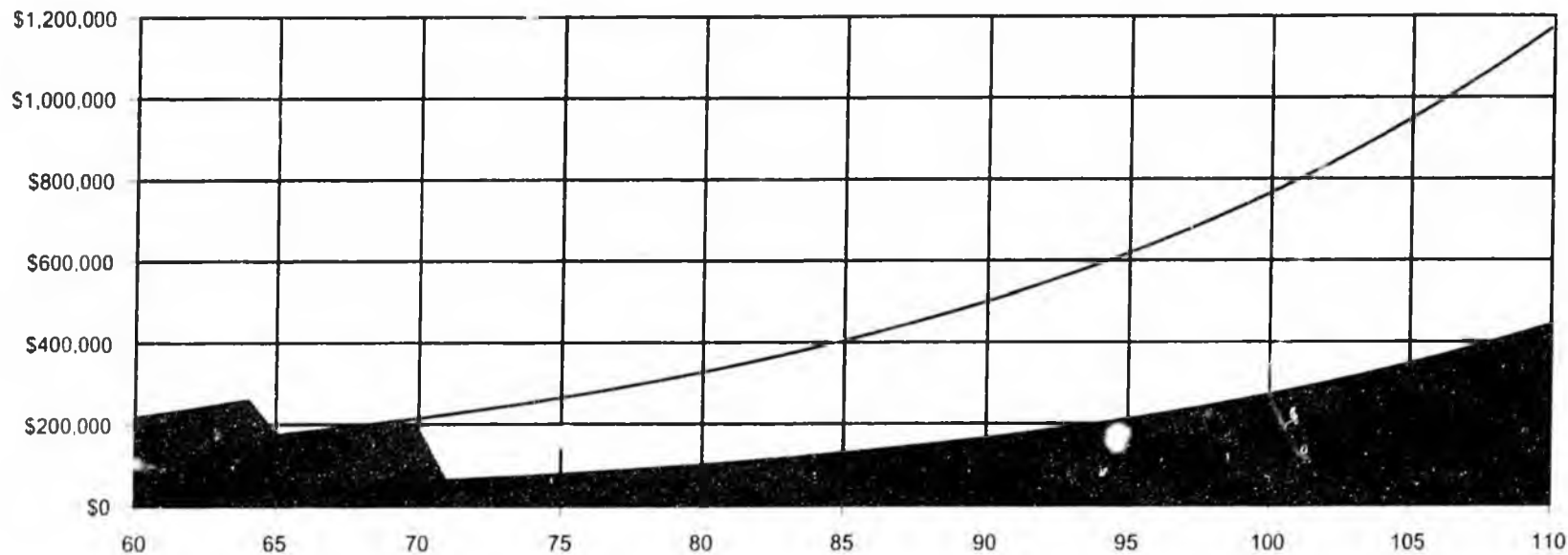
# Income and Current Program Analysis

## PERS Police/Fire

### Retirement Spending (DC Plan) – Long Service Member

Post-Retirement Spending Needs and Sources -- Terminal Age = 70

Sample Employee 1 Data at 2003: Age = 25, Service = 0, Salary = \$35,000  
Retirement Age = 60, Target = 70% (plus medical), Tax Rate = 28%, Post-Ret COLA = 4%



Equity: Rate of return on account balance: Pre-Ret: 8.39%, 7.39%, 6.39%, 5.39%, 4.39%, Post-Ret: 4.39%  
Bond: Rate of return on account balance: Pre-Ret: 10%, 9%, 8%, 7%, 6%, Post-Ret: 6%  
Equity investment mix: 80%, 70%, 60%, 50%, 40%, Post-retirement 20%  
Salary increase rate: 5.5%, 4%



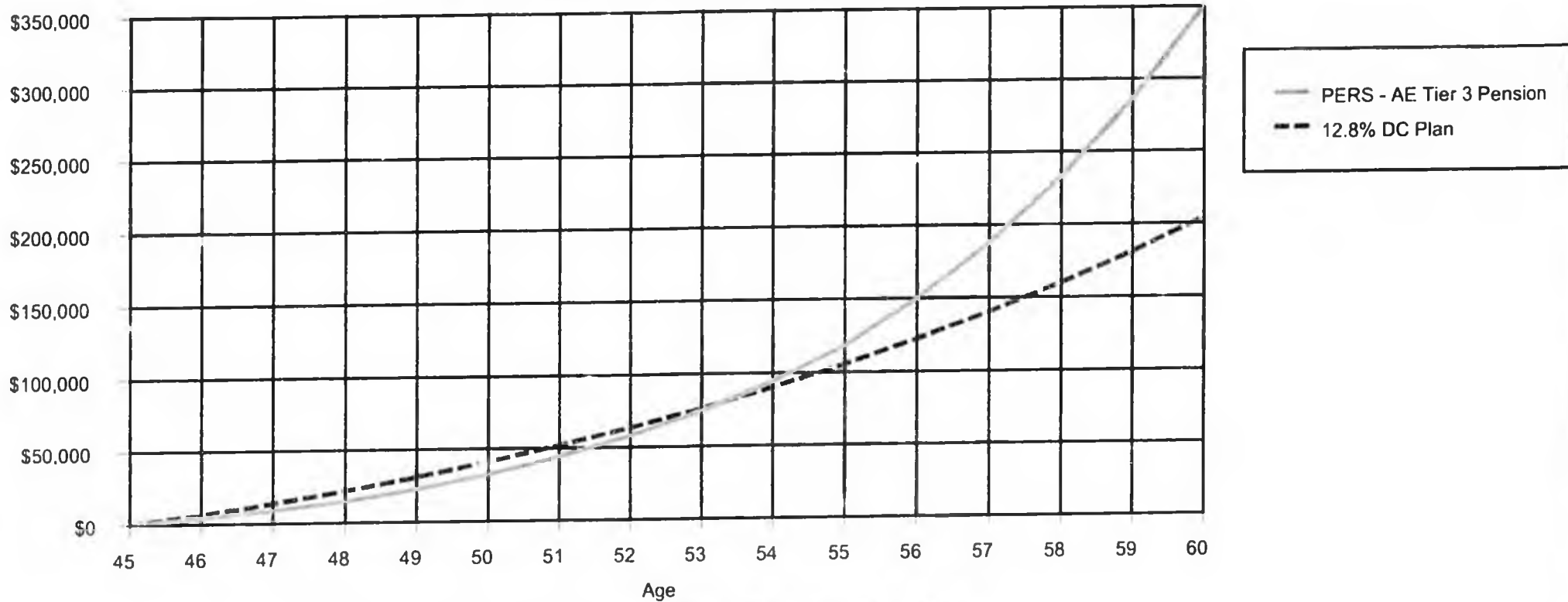
# Income and Current Program Analysis

## PERS Police/Fire

### Benefit Accumulation – Short Service Member

#### Present Value of Benefit Payable as a Lump Sum

Sample Employee 1 Data at 2003: Age = 45, Service = 0, Salary = \$50,000



Equity: Rate of return on account balance: 8.39%; 7.39%; 6.39%; 5.39%; 4.39%  
Bond: Rate of return on account balance: 10%; 9%; 8%; 7%; 6%  
Equity investment mix: 80%; 70%; 60%; 50%; 40%; Post-retirement 20%  
Salary increase rate: 5.5%; 4%

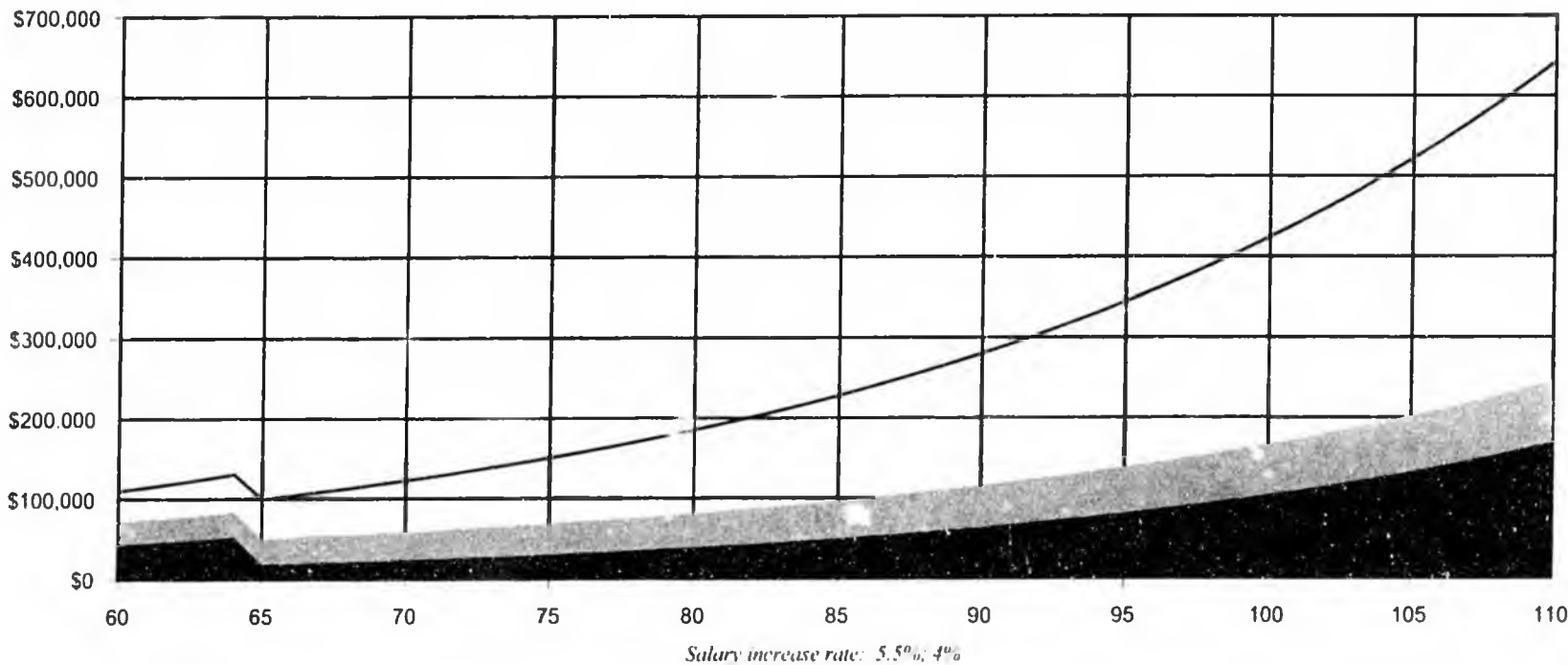
# Income and Current Program Analysis

## PERS Police/Fire

### Retirement Spending – Short Service Member

Post-Retirement Spending Needs and Sources -- Terminal Age = 60

Sample Employee 1 Data at 2003: Age = 45, Service = 0, Salary = \$50,000  
 Retirement Age = 60, Target = 70% (plus medical), Tax Rate = 28%, Post-Ret COLA = 4%



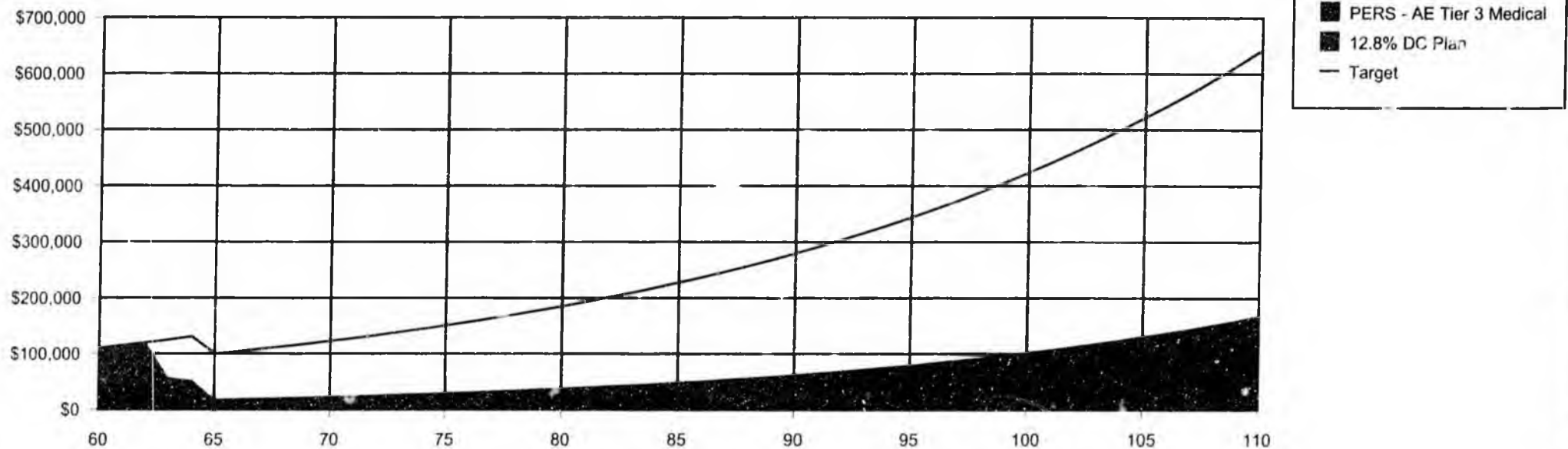
# Income and Current Program Analysis

## PERS Police/Fire

### Retirement Spending (DC Plan) – Short Service Member

Post-Retirement Spending Needs and Sources -- Terminal Age = 63

Sample Employee 1 Data at 2003: Age = 45, Service = 0, Salary = \$50,000  
 Retirement Age = 60, Target = 70% (plus medical), Tax Rate = 28%, Post-Ret COLA = 4%



Equity: Rate of return on account balance: Pre-Ret: 8.39%, 7.39%, 6.39%, 5.39%, 4.39%; Post-Ret: 4.39%  
 Bond: Rate of return on account balance: Pre-Ret: 10%, 9%, 8%, 7%, 6%; Post-Ret: 6%  
 Equity investment mix: 80%, 70%, 60%, 50%, 40%, Post-retirement 20%  
 Salary increase rate: 5.5%, 4%

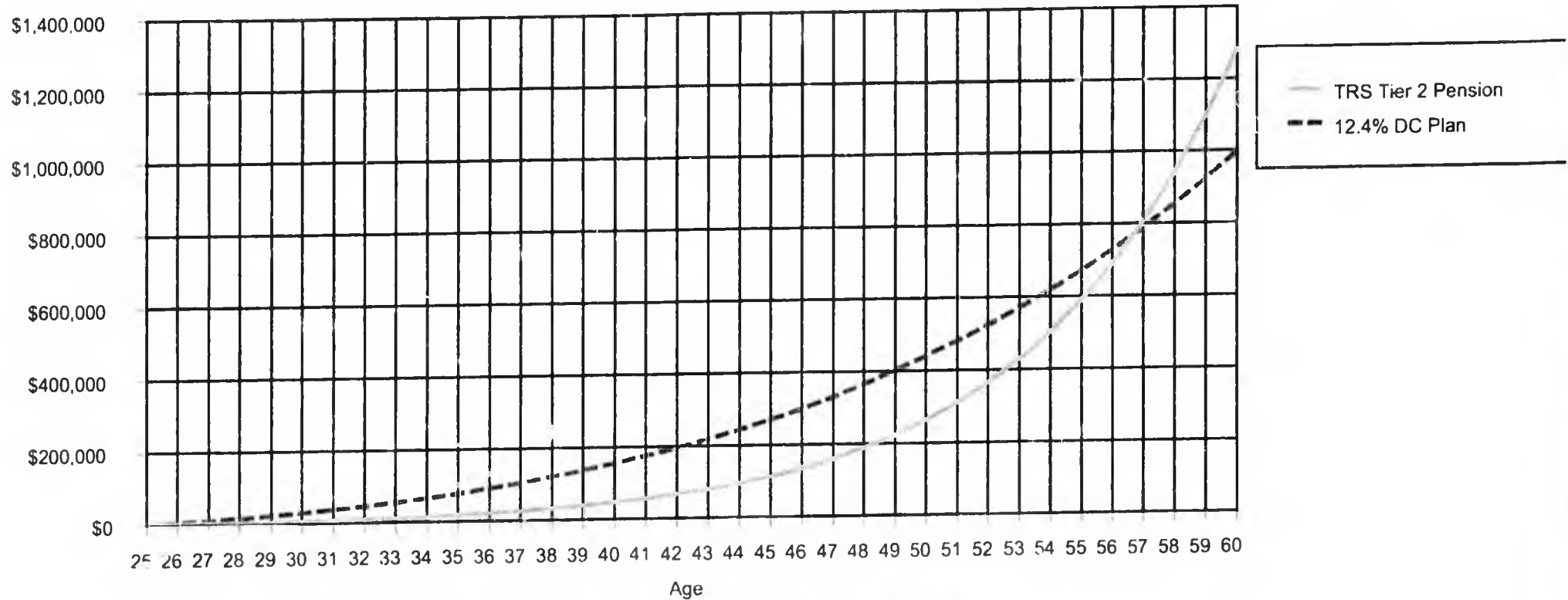
# Income and Current Program Analysis

## TRS

### Benefit Accumulation – Long Service Member

#### Present Value of Benefit Payable as a Lump Sum

Sample Employee 1 Data at 2003: Age = 25, Service = 0, Salary = \$35,000



Equity: Rate of return on account balance: 8.39%, 7.39%, 6.39%, 5.39%, 4.39%  
 Bond: Rate of return on account balance: 10%, 9%, 8%, 7%, 6%  
 Equity investment mix: 80%, 70%, 60%, 50%, 40%; Post-retirement 20%  
 Salary increase rate: 5.5%, 4%



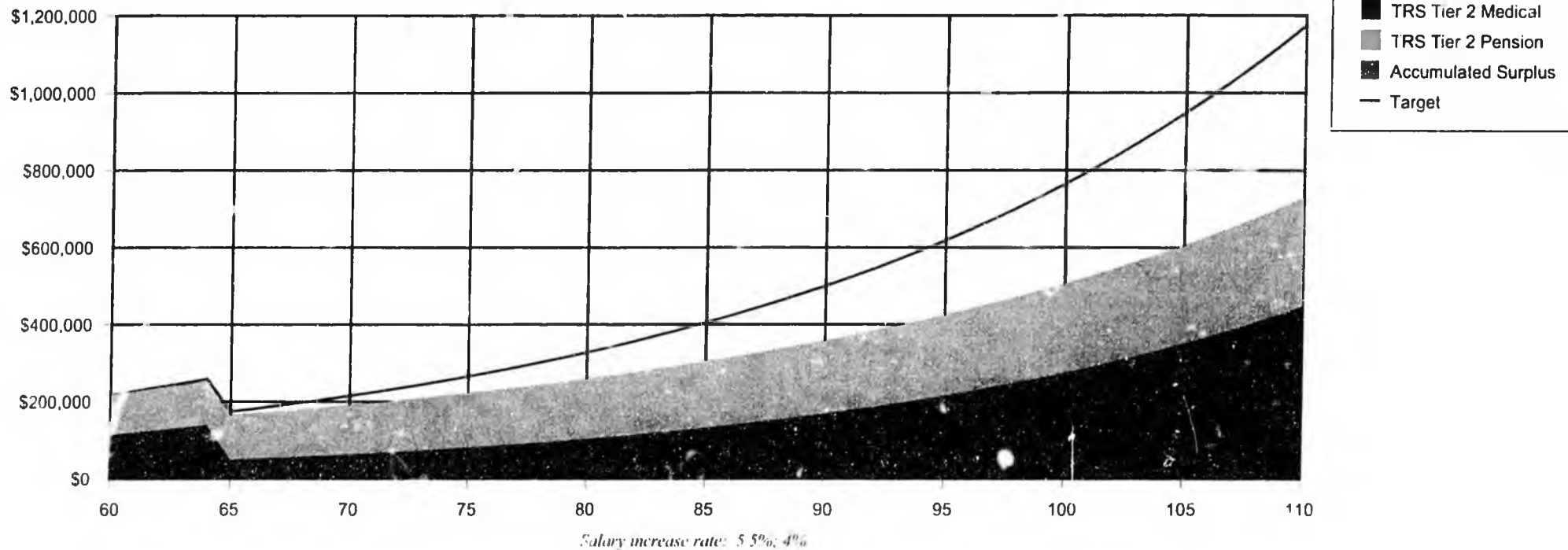
# Income and Current Program Analysis

## TRS

### Retirement Spending – Long Service Member

Post-Retirement Spending Needs and Sources -- Terminal Age = 63

Sample Employee 1 Data at 2003: Age = 25, Service = 0, Salary = \$35,000  
Retirement Age = 60, Target = 70% (plus medical), Tax Rate = 28%, Post-Ret COLA = 4%





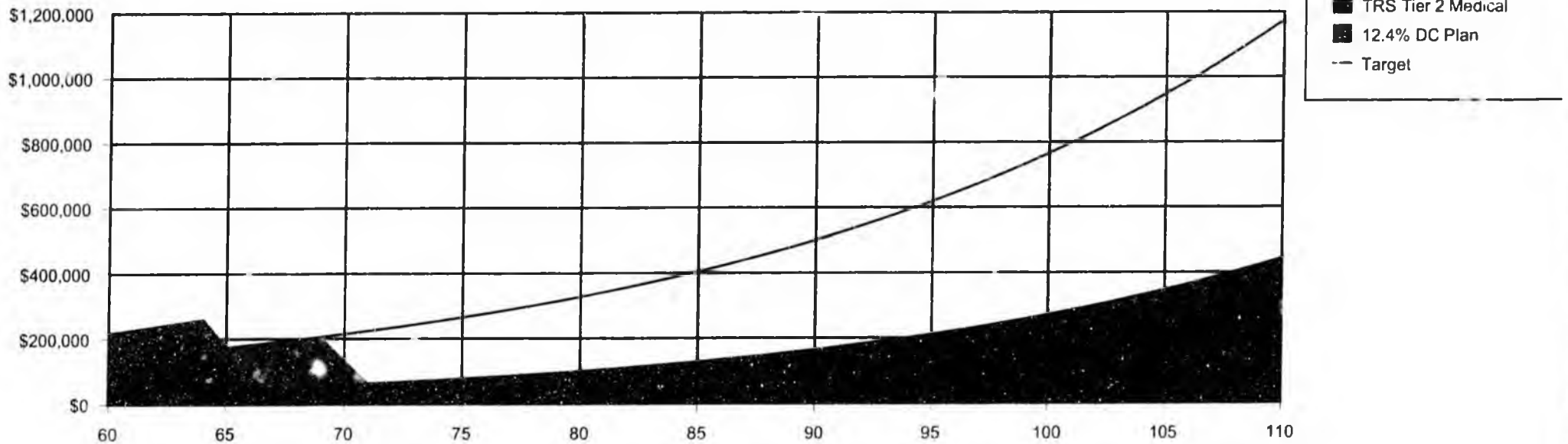
# Income and Current Program Analysis

## TRS

### Retirement Spending (DC Plan) – Long Service Member

Post-Retirement Spending Needs and Sources -- Terminal Age = 70

Sample Employee 1 Data at 2003: Age = 25, Service = 0, Salary = \$35,000  
Retirement Age = 60, Target = 70% (plus medical), Tax Rate = 28%, Post-Ret COLA = 4%



Equity: Rate of return on account balance: Pre-Ret: 8.39%; 7.39%; 6.39%; 5.39%; 4.39%; Post-Ret: 4.39%  
Bond: Rate of return on account balance: Pre-Ret: 10%; 9%; 8%; 7%; 6%; Post-Ret: 6%  
Equity investment mix: 80%; 70%; 60%; 50%; 40%; Post-retirement 20%  
Salary increase rate: 5.5%; 4%



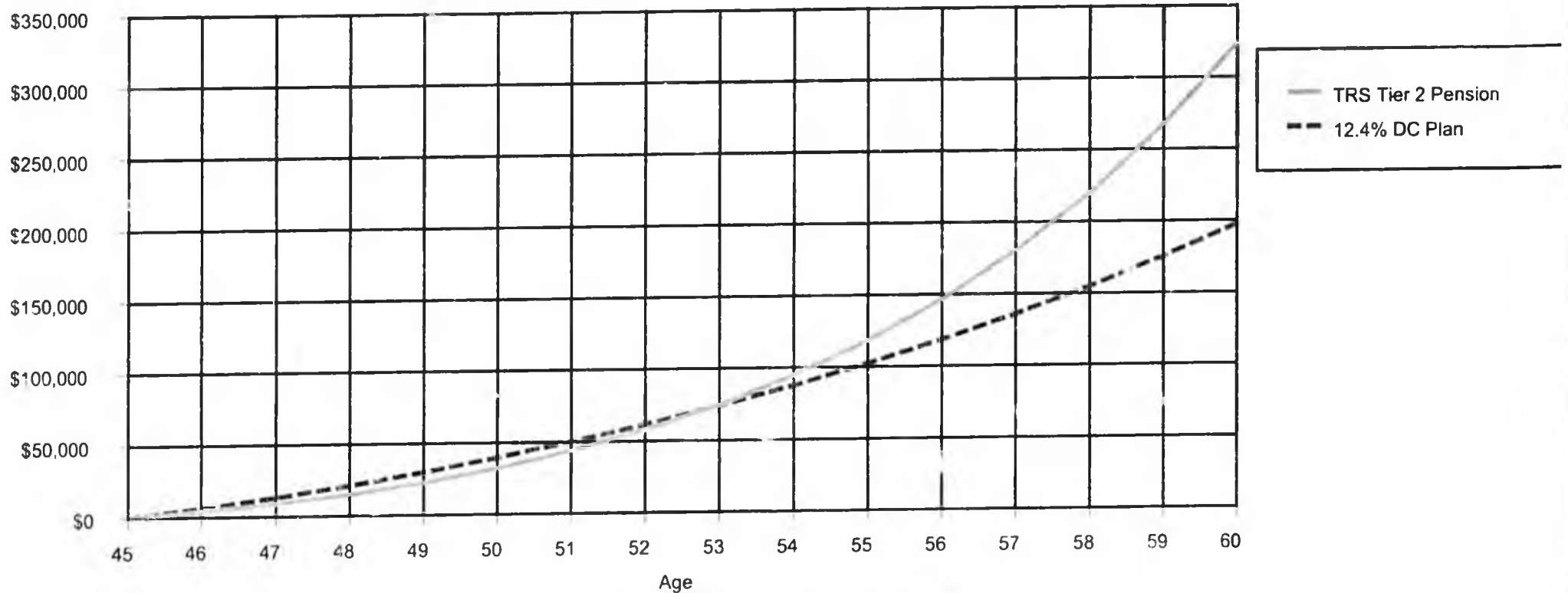
# Income and Current Program Analysis

## TRS

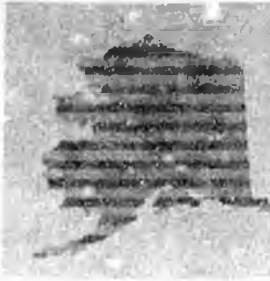
### Benefit Accumulation – Short Service Member

#### Present Value of Benefit Payable as a Lump Sum

Sample Employee 1 Data at 2003: Age = 45, Service = 0, Salary = \$50,000



Equity: Rate of return on account balance: 8.39%; 7.39%; 6.39%; 5.39%; 4.39%  
Bond: Rate of return on account balance: 10%; 9%; 8%; 7%; 6%  
Equity investment mix: 80%; 70%; 60%; 50%; 40%; Post-retirement 20%  
Salary increase rate: 5.5%; 4%



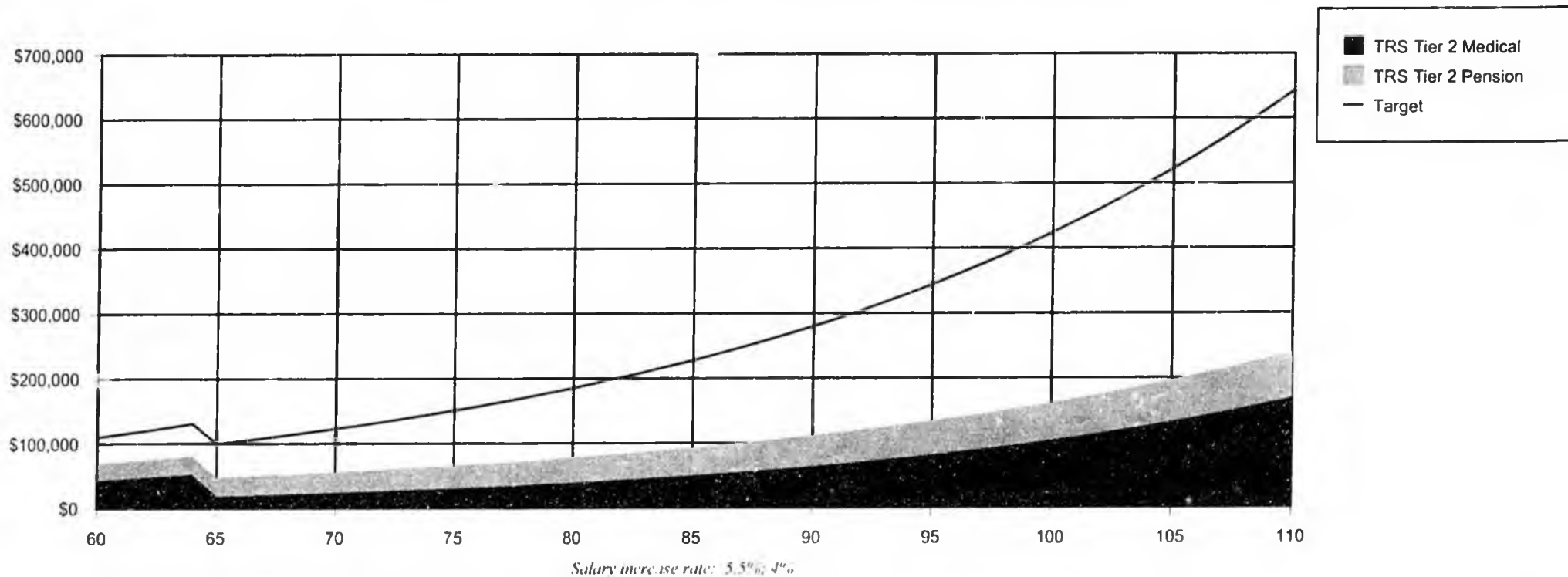
# Income and Current Program Analysis

## TRS

### Retirement Spending – Short Service Member

Post-Retirement Spending Needs and Sources – Terminal Age = 60

Sample Employee 1 Data at 2003: Age = 45, Service = 0, Salary = \$50,000  
Retirement Age = 60, Target = 70% (plus medical), Tax Rate = 28%, Post-Ret COLA = 4%



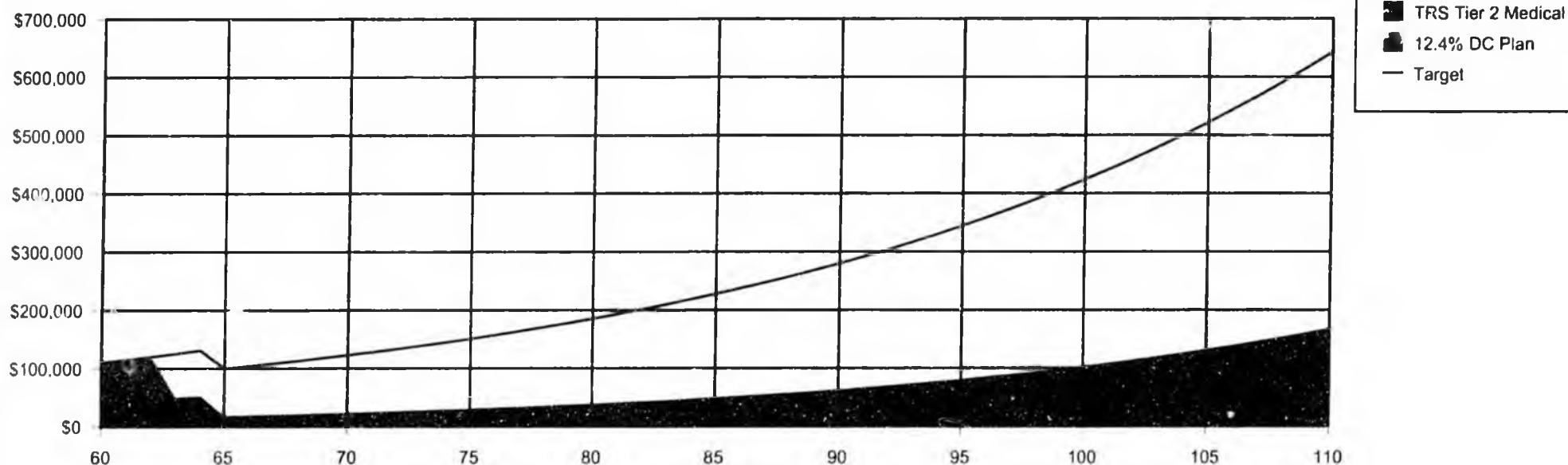


# Income and Current Program Analysis TRS

## Benefit Accumulation (DC Plan) – Short Service Member

Post-Retirement Spending Needs and Sources -- Terminal Age = 63

Sample Employee 1 Data at 2003: Age = 45, Service = 0, Salary = \$50,000  
Retirement Age = 60, Target = 70% (plus medical), Tax Rate = 28%, Post-Ret COI A = 4%



Equity: Rate of return on account balance: Pre-Ret: 8.39%; 7.39%; 6.39%; 5.39%; 4.39%; Post-Ret: 4.39%  
Bond: Rate of return on account balance: Pre-Ret: 10%; 9%; 8%; 7%; 6%; Post-Ret: 6%  
Equity investment mix: 80%; 70%; 60%; 50%; 40%; Post-retirement 20%  
Salary increase rate: 5.5%; 4%



## **4. Demographics**



# Demographics

## Police & Fire

Distribution of Work Force

