



Agenda Item 12

May 15, 2012

ITEM NAME: Preview of Upcoming Actuarial Topics

PROGRAM: Actuarial Office

ITEM TYPE: Information

EXECUTIVE SUMMARY

Over the next two years, in addition to the regular annual valuations and reports, the Actuarial Office will be bringing to the Pension and Health Benefits Committee (Committee) various actuarial topics related to funding policies and risks. Some of these items will require the Board of Administration (Board) to make important decisions that will impact the funding of the system. The purpose of this agenda item is to provide the Committee a preview of the various actuarial topics that will be presented so that the Committee members can understand the larger context in which their decisions will be made.

BACKGROUND

The actuarial environment is ever changing and requires a continuous review of methods, assumptions, as well as, practices and approaches important for the funding of the system. A systematic review of the Board's actuarial policies was implemented last year and is currently under way. In addition, the Board has had a long standing policy of regularly reviewing its actuarial assumptions.

ANALYSIS

At the highest level, the funding of a pension system is the process of ensuring that contributions plus investment income is sufficient to pay the benefits and expenses of the system. In order to ensure the sufficiency of the funding of the system, staff will be bringing a number of topics before the Board and its Committees over the next two years.

Most of these agenda items will fall within one of the following general categories:

- Funding Risk Topics
- Actuarial Methods
- Actuarial Assumptions

Within the funding risk topics category, there will be a workshop on the new asset/liability decision making framework that staff is developing. This workshop will also address the funding risk tolerances of the Board. There will also be ongoing reporting on funding risks and whether the funding risk tolerances are being exceeded.

Within the actuarial methods category, the first agenda item (June 2012) is expected to be a review of the Board's policies regarding risk pooling. This item is expected to recommend some changes to the current policies but not major changes. In November and December 2012, staff expect to present a workshop and an agenda item regarding the Board's smoothing policies. In order to address new accounting standards and some concerns that have arisen as a result of the market downturn in 2008/09, staff expects to recommend fairly significant changes including the use of closed amortization periods for gains and losses and a shorter asset smoothing period with a wider "corridor" around market value. Finally, in June 2013, there will be an agenda item reviewing the Board's other actuarial policies. That agenda item is not expected to recommend significant changes.

Within the actuarial assumptions category, the main agenda item will be the regular review of the economic and demographic assumptions, currently scheduled for early 2014. This item will include the experience study which reviews our actual demographic experience and forms the basis for any recommended changes to the demographic assumptions. An emerging concern is the impact of ongoing mortality improvements. Addressing ongoing mortality improvements in the actuarial assumptions could have a significant impact on employer rates. In addition to the main agenda item, there will be additional items that cover much more specialized issues. Examples of these include possible changes to the assumptions applicable to the terminated agency pool and the discount rate applicable to the Long-Term Care program.

ATTACHMENTS

A timeline of the agenda items discussed is attached.

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