Guidelines for Requests to Extend Amortization due to Financial Necessity Under Item 10 of the Actuarial Amortization Policy

The following guidelines are for evaluating and implementing requests by employers for an extension of the period used to pay down the unfunded accrued liability (UAL). If granted, the UAL shall be amortized longer than the average remaining period of the current amortization schedule but in no event longer than 30 years. These guidelines are not meant to be exclusive and additional facts or criteria may be examined where deemed necessary by the Chief Actuary prior to approval or denial of extension requests.

1. Guidelines for tasks completed by Pension Contracts and Prefunding Programs (PCPP)

The PCPP will request the delivery of financial reports and information from the employer including recent financial statements and consider the following:

- The employer's financial health;
- Recent revenues and expenses by source;
- Projected revenues and expenses by source;
- Financial and operational impact due to the change in amortization payments; and
- Any other information provided by the employer regarding the economic outlook and financial projections.

The PCPP will use the above information to determine:

- Does a financial necessity exist, and
- Is there sufficient evidence that payment of all future required contributions under an extended amortization period is financially sustainable.

The PCPP will provide its analysis to the Chief Actuary.

2. Guidelines for tasks completed by the Chief Actuary

Upon receiving a request for extending the amortization period, the Chief Actuary will first provide a preliminary assessment of the existing amortization schedule to ensure that an allowable extension would provide contribution relief. If not, the request will be denied before any additional analysis is performed, including the analysis described above by the PCPP.

If an allowable extended amortization period may provide contribution relief, the Chief Actuary will await the financial analysis from the PCPP as discussed above. In addition to this analysis, the Chief Actuary will also consider evidence that reductions in the employer contributions will produce no harm to the members of the plan, including;

- A review of the plan's future cash flows to ensure that benefit payments and refunds are not expected to be jeopardized;
- A review of projected future funded status of the plan; and
- Additional facts or criteria may be examined where deemed necessary by the Chief Actuary.

If the Chief Actuary believes there is sufficient evidence that an extension of the amortization period will result in no harm to the members, the specific method and amortization period will then be determined.

Periods in excess of 25 years as well as the "level percent of payroll" method of amortization should only be used in extreme circumstances. In order to use either of these features, the following must be true i) without the use of a period in excess of 25 years and/or a "level percent of payroll", it is considered likely the employer will default on required contributions and the plan will be terminated with reductions to member benefits, and ii) with the use of a period in excess of 25 years and/or a "level percent of payroll" method, it is considered likely the employer will be able to meet all future contribution requirements so that a plan termination is not required.

3. Review After 3-5 Years

After 3-5 years of payments under the modified amortization schedule, the Chief Actuary will review the financial condition of the plan and discuss alternate amortization options with the agency. In particular, if the financial condition of the agency has improved, the agency may choose during this review to shorten the existing amortization schedule to save money or to eliminate the UAL sooner.