



## Select Committee on Pension Policy

### Update On HERP Valuation

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### Why The Update?

- The SCPP is required to receive actuarial reports for the HERP Supplemental Benefit Plan
  - Higher Education Retirement Plan
  - Closed DB plan for HIED institutions
- Statutory duty added in 2011
- OSA is developing these reports
- Executive Committee requested an update



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## Today's Briefing

- Overview
- New roles
- Draft project plan for valuation
- Current status
- SCPP considerations



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## What Is The HERP Supplemental Benefit Plan?

- DB plan administered by HIED institutions
- Similar to a minimum benefit
- Covers eligible faculty and professional staff
  - 25,000 active employees potentially eligible
  - 875 retirees and beneficiaries currently receiving benefit
  - Counts as of July 1, 2013
- Closed to new entrants in 2011
- Generally not prefunded prior to 2011





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## Supplemental Benefit Designed To Work Alongside A DC Plan

- Offered in conjunction with the HERP
  - DC plans administered by HIED institutions
  - Similar to 401(K)
  - SSCP has statutory role in HERPs
- Pays additional benefit to eligible HERP participants under certain circumstances
  - Markets perform poorly
- Mitigates some of the risks of a DC plan

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## 2011 Legislature Made Changes Related To The HERP Supplemental Benefit

- Discontinued the benefit for new hires
  - No one hired after July 1, 2011, is eligible
- Required systematic actuarial funding
  - Institutions required to start prefunding liabilities
  - Fund created to collect assets and pay benefits
- Expanded the roles of several pension entities
  - Including SSCP

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## Process For Systematic Actuarial Funding For HERP Supplemental Benefit

- Institutions make regular employer contributions
- DRS collects contributions
- WSIB invests funds
- Initial contribution rates set in statute
  - Currently 0.50 percent of pay
- PFC will adopt contribution rates based on OSA's actuarial valuation

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## Higher Education Supplemental Benefit Fund Established

- Contributions are going into fund
  - Current balance is \$25.7 million
- Benefits are not being paid from the fund yet
  - Benefit payments about \$5 million/year
  - Fund needs to accumulate sufficient assets
  - Institutions continuing to pay benefits
- WSIB is investing the fund and responsible for developing a long-term investment policy

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## New Roles For HERP Supplemental Benefits

- OSA
  - Actuarial valuations every two years
  - Experience study every six years
- PFC
  - Receive valuation and experience study reports
  - Adopt employer contribution rates for supplemental benefit
- SCPP
  - Receive valuation and experience study reports
- DRS
  - Collects contributions
- WSIB
  - Invests contributions and manages the assets
  - Sets investment policy

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## Highlights Of Draft Project Plan For Valuation

- Gathering additional stakeholder feedback before final
  - Consulted with Benefit Directors at institutions

Project	Estimated Completion
Replication	Completed
Assumptions and Methods Study - Phase 1	March 2015
Accounting Valuation	September 2015
Assumptions and Methods Study - Phase 2	December 2015
Funding Valuation	Spring 2016
Funding Policy and Rate Adoption	Summer 2016

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## Replication Results

- Goal is to reproduce the prior actuary's results within reasonable tolerances
  - Confirmation of results
  - Bridges work between actuaries
  - Education
- OSA coded plan provisions and prior actuary's assumptions and methods into valuation software
  - Prior actuary provided participant data file
- OSA successfully completed replication
  - Results do not represent an "OSA valuation" because it relies on the prior actuary's assumptions and methods

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## Assumptions And Methods Study

- OSA to review all assumptions and methods
- Will be completed in two phases
  - Phase 1 currently in process and represents most significant assumptions and methods
  - Phase 2 heavily reliant on historical data from the institutions
- OSA will publish the findings of each phase and deliver to key stakeholders including the SCPP

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## Actuarial Valuations

- Accounting valuation to be completed September 2015
  - Will reflect Phase 1 of the assumptions and methods study
  - Timing reflects institutions' financial reporting needs
- Funding valuation to be completed Spring 2016
  - After completion of Phase 2 of the study
  - Provides basis for funding policy and rate adoption discussion



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## Funding Policy and Rate Adoption

- Funding policy is yet to be determined
  - Along with funding valuation, determines future and on-going contribution rates
  - Adequacy, stability, affordability
- Risk analysis to inform decision making
  - OSA projections will provide a wide range of possible future outcomes in addition to expected outcome
    - Often referred to as stochastic or probabilistic projections
- Projections will also inform long-term investment policy
  - Time horizon
  - Variability



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## Where Are We Now?

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- OSA to run projections to inform funding policy determination and long-term investment policy

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## Future SCPP Considerations

- Will start receiving actuarial reports next year
  - Experience study in 2015
  - Valuations in 2016
- Not required by statute to do anything with the reports
- May choose
  - Receive briefings
  - Study funding policy
  - Make recommendations to the PFC
- Staff can provide additional education

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