



# Actuarial Update on GET

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***Presentation to GET Legislative Advisory Committee***



Office of the State Actuary

*"Securing tomorrow's pensions today."*

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# Highlights

- Ninety-four percent funded status at June 30, 2013
- Full funding plan remains on schedule
- 2013-14 unit price unchanged at \$172
- Improved risk profile since last measurement
- Supporting analysis in *2013 Price-Setting Analysis Letter* and *GET Actuarial Valuation Report*



# Funded Status Of Current Contracts

## Funded Status Summary

*(Dollars in Millions)*

<b>Present Value of Future Obligations</b>	\$2,716
<b>Present Value of Fund</b>	\$2,557
<b>Funded Status</b>	94.1%
<b>Reserve/(Deficit)</b>	(\$160)

- Measured at June 30, 2013
- Funded status improved from last measurement due to lower assumed tuition growth in response to enacted 2013-15 Budget and higher than expected investment returns
- Excludes the impacts of differential tuition



# Projection Of Current And Future Contracts

Projection of Current and Future Contracts (If All Assumptions are Realized)					
<i>(Dollars in Millions)</i>					
Fiscal Year	Funded Status	Units Sold	BOY* Fund Value	BOY* Obligation Value	Net Cash Flow
2013	94%	787,215	\$2,557	\$2,716	\$111
2014	95%	877,243	2,689	2,823	113
2015	96%	886,809	2,830	2,935	97
2016	98%	898,047	2,955	3,028	78
2017	99%	904,397	3,064	3,101	74
2018	100%	912,719	3,170	3,166	75
2019	102%	922,882	3,278	3,229	92
2020	103%	929,078	3,403	3,303	105
2021	105%	937,339	3,543	3,387	108
2022	106%	947,522	3,688	3,468	113
2023	108%	954,496	3,840	3,550	122
2024	110%	963,550	4,003	3,635	134
2025	112%	972,246	4,179	3,725	149
2026	114%	982,939	4,372	3,823	161
2027	117%	991,264	4,580	3,928	180
2028	119%	999,647	4,810	4,043	207
2029	121%	1,008,193	5,069	4,177	247
2030	124%	1,018,861	5,371	4,341	289
2031	126%	1,027,937	5,720	4,539	336
2032	128%	1,035,729	6,119	4,773	380
2033	130%	1,045,790	6,566	5,039	425
2034	132%	1,054,827	\$7,063	\$5,338	\$470

- Full funding expected in 2018
- Funded status of 115 percent recommended for adequate future reserve
- More units expected to be redeemed than sold until 2030
- Net cash flow, including investment income, expected to remain positive
- Results will vary to the extent future experience varies from assumptions

\*Beginning of Year.



# Key Assumptions

Key Assumptions	
Annual Investment Return	5.50%
Annual Tuition Growth	
2013-14	0.0%
2014-15	0.0%
2015-16	8.1%
2016-17	8.1%
2017-18	8.1%
2018-19	8.1%
2019-20	6.5%
2020-21	6.5%
2021-22	6.5%
2022-23	6.5%
2023-24	6.5%
2024-25+	5.5%
Average Annual Unit Sales*	947,906

\*Over next 20 years.

- Investment return assumption lowered from 5.98 to 5.50 percent
- Short-term tuition growth assumptions consistent with enacted 2013-15 Budget
- Assumptions reviewed and updated annually



# Full Funding Plan Remains On Track

- After two years of experience, full funding plan adopted in 2011 remains on track
- 1,503,962 units sold during 2011-12 enrollment period
- 1,038,773 units sold during most recent enrollment period
  - 845,000 units expected for the year under 30-year amortization schedule



# 2013-14 Unit Price Unchanged At \$172

GET Unit Price Information		
Category	2012-13 Enrollment	2013-14 Enrollment
Unit Price		
Expected Cost	\$127.66	\$126.42
Expenses	5.33	5.45
Reserve	19.95	19.78
Amortization	19.73	20.82
<b>Total Unit Price</b>	<b>\$172.00</b>	<b>\$172.00</b>

*Note: Totals may not agree due to rounding.*

- **Expected Cost** - covers the expected cost of future tuition and certain administrative expenses
- **Expenses** - covers the GET program's annual operating expenses
- **Reserve** - covers unexpected future costs such as higher than expected tuition growth or lower than expected investment returns
- **Amortization** - an optional component that covers unexpected past costs from significant program or policy changes. In 2011, GET committee established a one-time 30-year amortization of the unfunded liability measured at June 30, 2011.



# Risk Analysis

- Program's on-going success depends on maintaining delicate balance between risk and affordability
- "Risk" represents risk state will need to make contributions to program
- "Affordability" represents the affordability of future GET units
- Improving one risk typically increases the risk of the other



# Key Risk Metrics

Key Risk Metrics — Current Guidelines		
Risk Category	2012	2013
Probability of Insolvency over 50 Years	1.0%	0.1%
Probability of Funded Status Under 50% over 50 years*	21.7%	6.0%
Probability of Purchaser Experiencing Negative Return**	3.0%	3.9%
Probability of Average Annual Sales Below 750,000	18.3%	16.9%
Average Expected Annual Units Sold (Next 20 Years)	936,803	947,906

\* Probability of funded status below 50 percent over consecutive years is less than the probability of funded status below 50 percent in a single year.

\*\* 2013-14 enrollment cohort only.

- Improvement in all key risk metrics except one
- Chance of purchaser experiencing negative ROR increased because amortization component increased as a percentage of total unit price
- Solvency risk over next 50 years back to 2009 levels
- Risk analysis assumes program remains open under current price-setting guidelines



# Solvency Report Card

Solvency Report Card				
Category	Value	Score	Grade	Weight
Probability of State Contributions	0.1%	100	A	25%
Worst Case 50-Year State Contributions (Millions)	\$759	98	A	25%
Average Funded Status	145%	100	A	20%
Probability of Funded Status Under 50%	6.0%	89	B	20%
Average Annual Change in Premium Level	0.89%	96	A	10%
<b>Total Solvency Score</b>		<b>97</b>	<b>A</b>	<b>100%</b>

- Solvency Report Card improved from B to A
- Worst case 50-year state contributions reduced by nearly 60 percent
- See *2009 GET Solvency Study* for more information on development and use of solvency report cards



# Summary

- Plan currently 94 percent funded
- Long-term funding target of 115 percent recommended
- Full funding plan on track after two years of experience
- Program's obligations and risks can change quickly
- Future experience can vary from expectations
- On-going monitoring and risk management recommended

