

M E M O R A N D U M

Date: May 14, 2015

TO: Consolidated Retirement System Board of Trustees

FROM: Susan Smith, Finance Director

SUBJECT: Actuarial Study regarding Cash outs

The Town recently hired Doug Lozen to perform an impact study to determine what would happen if we allowed Active Members the opportunity to cash out their actuarial accrued benefits. Attached are the three studies for your review and consideration. I have summarized Doug's reports into two summary pages which combines the three plans.

Each Plan was analyzed for two types of scenarios:

Scenario A. All active Plan Members receive the lump sum equivalent of their accrued benefit (or accumulated Member Contributions, if greater); and

Scenario B. 50% of the active Plan Members with the largest liabilities received the lump sum equivalent of their accrued benefit (or accumulated Member Contributions, if greater).

In the worst case, Scenario A, a lump sum payment of \$6.6 million would take place, which reduces the market value of assets from \$32.7 million to \$26.2 million. The actuarial accrued liability (AAL) for each Member is roughly equal to the cash-out amount since the benefit is frozen. So, while the AAL decreases by the cash-out amount, Plan assets also decrease by the same amount, hence little change in the UAAL.

Our investment advisors from Graystone have looked at these scenarios and feel that liquidating the assets would not cause any significant issues for the three plans. All investments in the plan are liquid. There would be no commission charges to sell assets in the Fire accounts as these accounts trade with zero commission. Assets in the Police fund would have some commission charges as the assets are held at Salem and commissions are charged on trades. But they cannot speak with certainty on the charges for the General plan assets.

Consideration was then taken into account on the rate of return assumption and the ability to maintain a 7.5% return with this sizable reduction in plan assets. Given current allocations, 7.5% after fees may be at the higher end of the expected rate of returns. Moving to 7% over time would be prudent.

A final consideration was whether the annual benefit payments will stay relatively the same over the next 5 – 10 years in both A and B options. Doug Lozen responded that they'd have to run cost projections to determine the change in expected benefit payments over the next 5-10 years under the various scenarios. If anything, they will decrease under either cash-out option, but probably not significantly over the next 5-10 years.

If the Pension Board feels favorable to offering this cash-out, a recommendation should be made to the Town Commission.

Consolidated Retirement System					Prepared by: SLS 5/15/15	
Cash Out Analysis Summary						
Determined as of October 1 2014						
SCENARIO A - All active Members						
CURRENT	Asset value- Current	Asset Value- Actuarial	Unfunded Accrued Actuarial Liability	Lump Sum Payment	Expected Net Cash Flow (Annual)	Town Contribution (Annual)
General	\$ 10,203,725	\$ 9,775,235	\$ 5,126,147	\$ -	\$ (321,797)	\$ 738,676
Fire	\$ 15,707,549	\$ 15,026,121	\$ 13,703,215	\$ -	\$ (216,305)	\$ 1,758,137
Police	\$ 6,858,039	\$ 6,429,064	\$ 4,741,178	\$ -	\$ (231,728)	\$ 623,019
TOTAL	\$32,769,313	\$31,230,420	\$23,570,540	\$ -	\$ (769,830)	\$ 3,119,832
SCENARIO A						
General	\$ 7,473,452	\$ 7,045,962	\$ 4,821,734	\$ 2,730,273	\$ (343,788)	\$ 706,625
Fire	\$ 12,973,059	\$ 12,291,631	\$ 13,554,879	\$ 2,734,490	\$ (246,216)	\$ 1,725,459
Police	\$ 5,710,521	\$ 5,281,546	\$ 4,875,129	\$ 1,147,518	\$ (246,286)	\$ 605,408
TOTAL	\$26,157,032	\$24,619,139	\$23,251,742	\$ 6,612,281	\$ (836,290)	\$ 3,037,492
Increase (Decrease)	\$ (6,612,281)	\$ (6,611,281)	\$ (318,798)	\$ 6,612,281	\$ 66,460	\$ (82,340)
General - 7.75% return						
Fire - 8% return						
Police - 7.5% return						

Consolidated Retirement System				Prepared by: SLS 5/15/15		
Cash Out Analysis Summary						
Determined as of October 1 2014						
SCENARIO B - 50% of Active (most Expensive Members)						
CURRENT	Asset value- Current	Asset Value- Actuarial	Unfunded Accrued Actuarial Liability	Lump Sum Payment	Expected Net Cash Flow (Annual)	Town Contribution (Annual)
General	\$ 10,203,725	\$ 9,775,235	\$ 5,126,147	\$ -	\$ (321,797)	\$ 738,676
Fire	\$ 15,707,549	\$ 15,026,121	\$ 13,703,215	\$ -	\$ (216,305)	\$ 1,758,137
Police	\$ 6,858,039	\$ 6,429,064	\$ 4,741,178	\$ -	\$ (231,728)	\$ 623,019
TOTAL	\$32,769,313	\$31,230,420	\$23,570,540	\$ -	\$ (769,830)	\$ 3,119,832
SCENARIO B						
General	\$ 7,942,649	\$ 7,515,159	\$ 4,891,673	\$ 2,261,076	\$ (336,234)	\$ 714,218
Fire	\$ 13,619,025	\$ 12,937,597	\$ 13,581,211	\$ 2,088,524	\$ (237,417)	\$ 1,734,849
Police	\$ 5,974,055	\$ 5,545,080	\$ 4,785,933	\$ 883,984	\$ (235,915)	\$ 617,477
TOTAL	\$27,535,729	\$25,997,836	\$23,258,817	\$ 5,233,584	\$ (809,566)	\$ 3,066,544
Increase (Decrease)	\$ (5,233,584)	\$ (5,232,584)	\$ (311,723)	\$ 5,233,584	\$ 39,736	\$ (53,288)
General - 7.75% return						
Fire - 8% return						
Police -7.5% return						