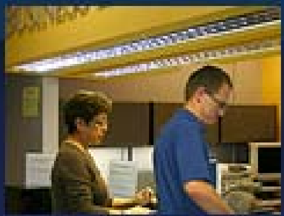
TSRS Town Hall

Update of plan status

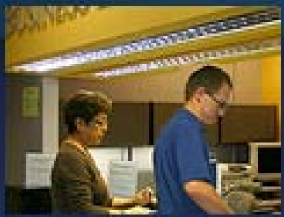
December 17, 2013

CITY OF TUCSON



Initiative Climate

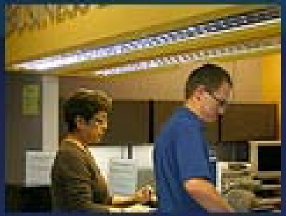
- Initiatives to close retirement plans are often not a grass root/local effort
- Pension initiatives are typically funded by out of state policy groups
- Touted as a way to save taxpayer money
- May immediately increase costs with no guarantee of budget savings



Where did the 2013 initiative originate?

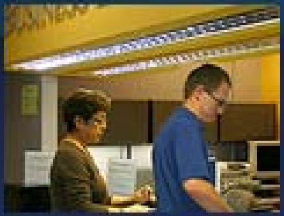
- Who sponsored this ballot initiative?
  - The initiative petition was submitted to the City by the **Sustainable Retirement Benefits Act Committee**.
  - **Major funding** for the sponsoring committee is being **provided by** national policy groups, **the Liberty Initiative Fund and the National Taxpayers Union**

- Why is a national group funding a ballot measure in Tucson?
  - These policy groups advocate to close government pension plans as a way to save taxpayer money. These groups are active all over the country.




2013 Initiative Attempt

- Initiative Components
  - – Closure of TSRS
    - A defined benefit (DB) plan
  - – Creation of a retirement plan for new-hires
    - A defined contribution (DC) plan
  - – Allow existing TSRS members the option to change to the new DC plan
  - – Terminate TSRS after all benefit are paid

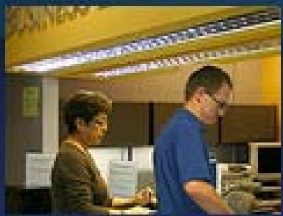



Explain the difference between TSRS and a DC plan

- TSRS is a defined benefit (DB) plan – TSRS pays a specified benefit determined by a formula that uses average salary, years of service and a multiplier. The benefit is paid for your lifetime. You cannot outlive your benefit.
- A Defined Contribution (DC) plan is a tax-deferred retirement savings and investment account in which the employee selects investments from a list of options offered in the plan. The account provides the employee with income during retirement. There is not guarantee to provide a specific level or duration of income.

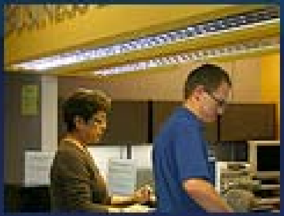
Budget Impact of Closure

- What does Closure/Freezing really mean?
  - No new members in TSRS
  - Decline in membership as existing employees retire or resign
  - Greater number of retirees to active members
  - Investments may need to be more conservative to account for liquidity needs to pay benefits, reducing the expected rate of return and increasing funding requirements



Why do contributions increase if TSRS is closing?

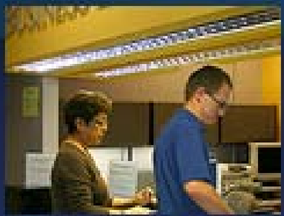
- Payment of TSRS’ unfunded liability is spread out over the average work life of a member (20 yrs.)
- If the plan is closed and it has no new members, the payment of the liability is shortened to the remaining work life of the existing members.
- The plan’s actuary estimates that the acceleration of the payment on the liability would add roughly $24 million additional to the City’s first year cost
- Cost savings wouldn’t be realized for 10-15 years.
- The City would be required to fund the plan until the final payment is paid to the last benefit recipient.



What will the impact to the budget be?

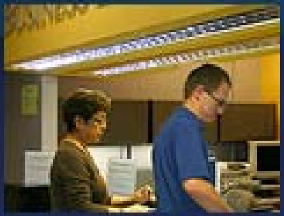
- If TSRS is closed the City's budget would be impacted
  – the payment of the unfunded liability of the plan would be accelerated to match the remaining work life of the existing members.
  – The plan's actuary estimates an immediate increase in funding requirements to the plan in the amount of $24 million in the first year
  – Cost savings won't be realized for 10-15 years
  – The City may have to reduce expenditures in other areas or increase revenues to pay for the additional funding requirements of the plan

tucsonaz.gov
Finance Department



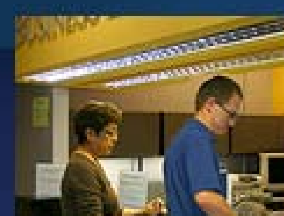
Sustainability of the Plan

- Over the past 7 years, the TSRS Board and City Council have instituted reforms to improve the stability of the plan and lower costs
- Many options were carefully researched by the TSRS board, including converting to a DC plan
- Actions Taken Include:
  - Reduced benefit formula
    - Lower multiplier, minimum age and service requirements, longer average salary, changes to includible salary
  - Modified employee contributions
  - Modified actuarial assumptions
    - Amortization period
    - Asset-smoothing period
    - Assumed rate of return on assets



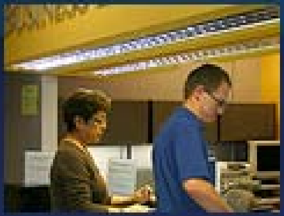
Where does TSRS stand now?

- Why is TSRS underfunded?
  - TSRS was fully funded as recently as 2000. The underfunded state is primarily the result of investment losses during 2002/2003 (tech bubble) and 2008/2009 (housing and financial crisis)
- 63.3% as of 6/30/2013
  - TSRS has enough assets to pay 63.3% of all benefits earned to date for all members
  - 63.5% funded as of 6/30/2012



Sustainability for the Future

- Plan to be fully funded within 20 years (by 2032)
- Change to a level funding requirement for employer contributions
- Other benefit and/or plan design changes



TSRS Town Hall Update

Questions?

TSRS Office 791-4598