
Urgent Changes for a Sustainable System

November 19, 2010



Our Pension & Health Care Plans are in
Jeopardy

A Recommendation to City Council

Background and Commentary

- Since the November 4, 2010 meeting of the Board of Trustees, we have been working to refine our recommendations and develop actuarial estimates of the impact on liabilities of the changes considered.
- The Board has received comments from current employees as well as retirees. We recognize that the contemplated changes will impact all stakeholders in some fashion, so we certainly encourage thoughtful input.

Background and Commentary

- The changes the Board is considering are crafted to begin to put CRS on sound financial footing. No one will benefit if in a decade or two CRS is just that much closer to depleting its Trusts.
- The Board recognizes that the vast majority of the liabilities of the Pension Plan are intractable legacy costs. Consequently, the Board will be looking to the Health Care Plan and its generous and largely fully subsidized benefits offered to current retirees to help obtain overall System savings.

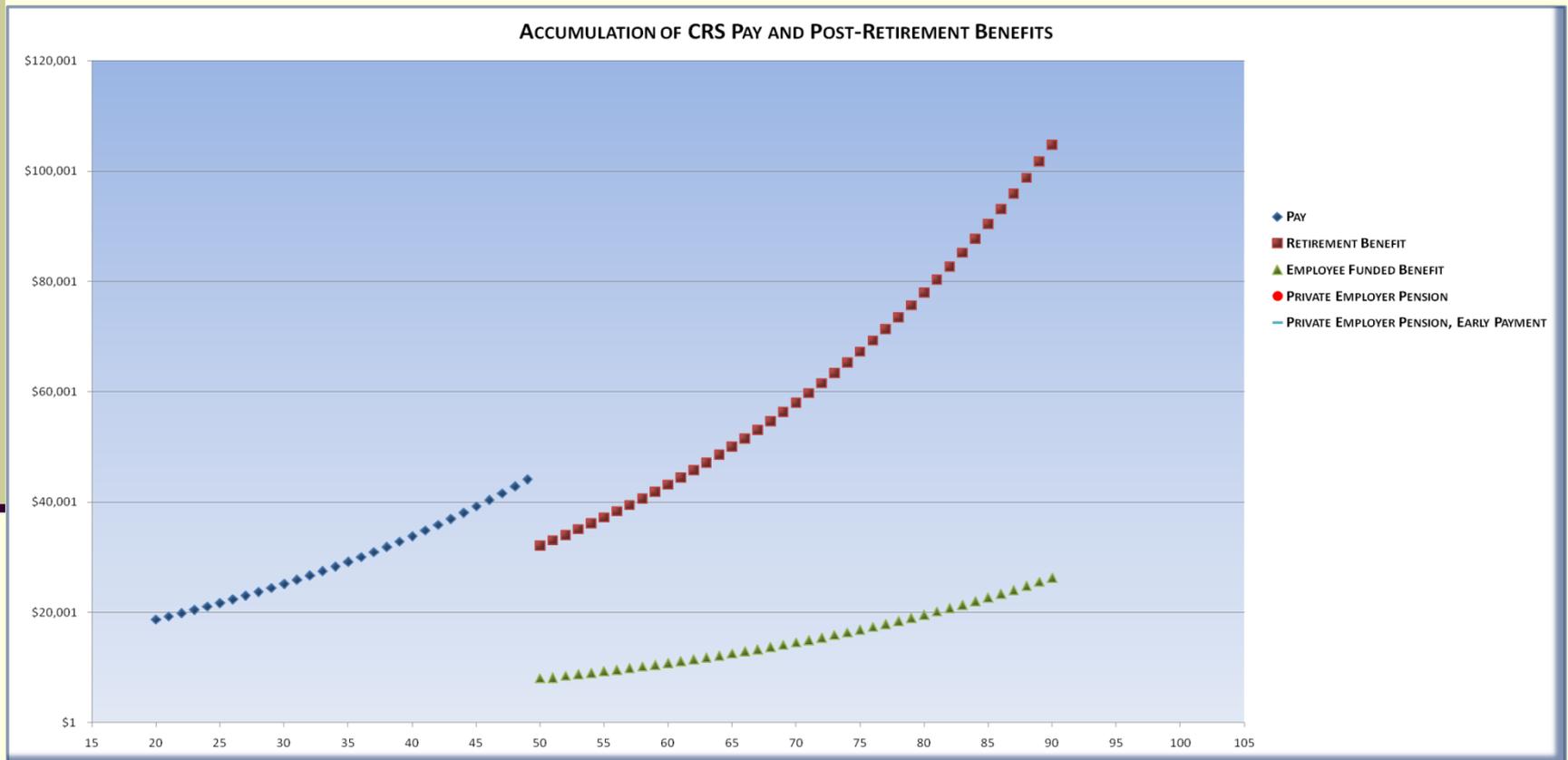
Background and Commentary

- The Health Care Plan recommendations will create new cost sharing mechanisms with plan beneficiaries that will mirror the direction that employer-provided health care plans have taken over the past decade or two.
- Finally, the Board views all of its recommendations as a first step that will require constant surveillance to ensure our objectives are met.

Current CRS Pension Benefits for Employees Hired before 1/1/2010

- The following 8 slides provide examples of the nature and value of benefits that can be earned under the CRS Pension Plan and reflect:
 - An employee contribution rate of 9%
 - A pension benefit accrual rate of 2.5% per year for all years of service
 - A fixed 3% compound COLA after retirement
 - A normal (unreduced) retirement age of 30 years of service or age 60 and 5 years of service
 - A salary average using the highest consecutive 3 years of salary

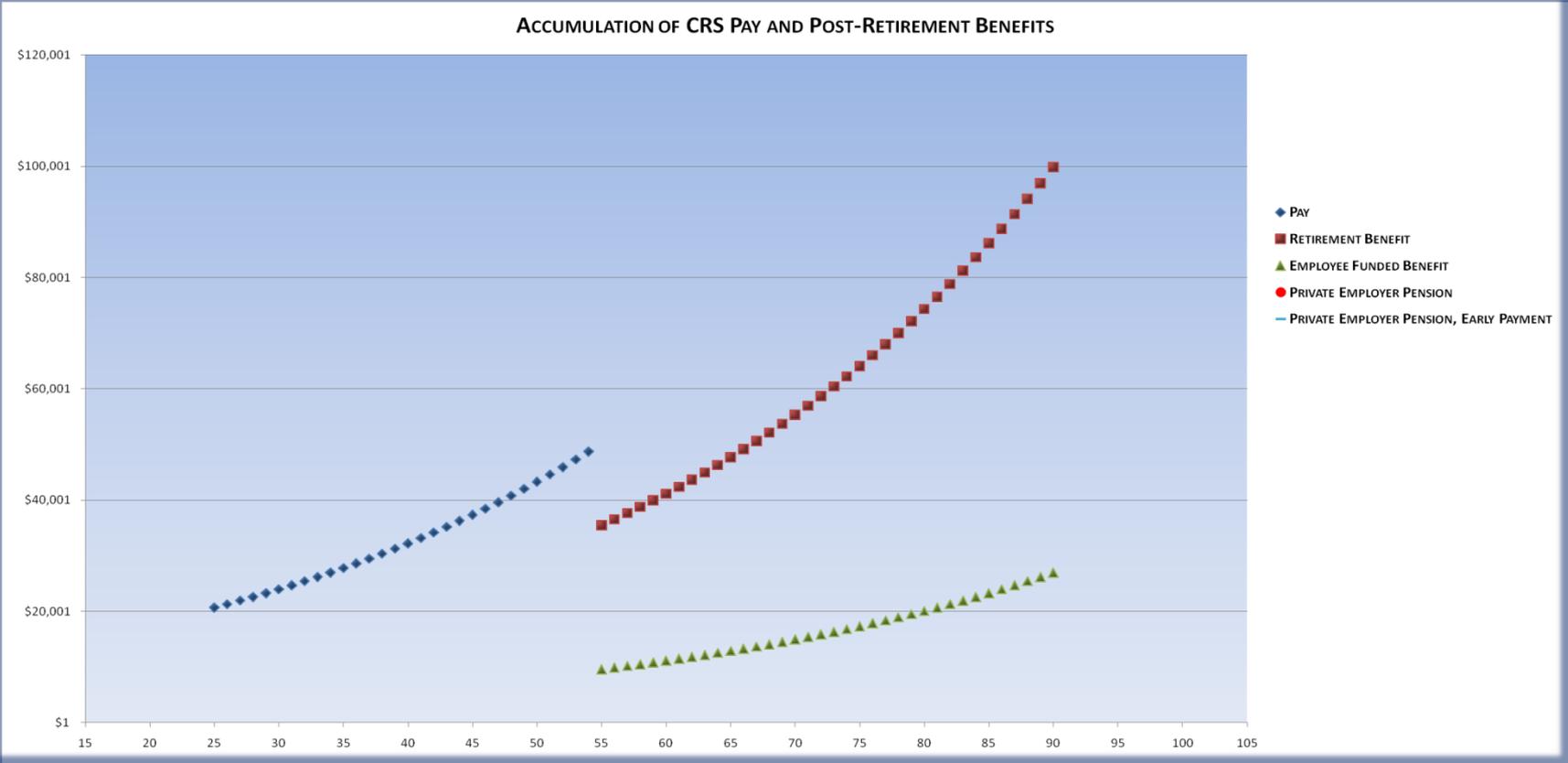
CRS Pension Benefits Today. Hired at 20, retired at 50 (earliest unreduced retirement age). Live until 90.



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Current CRS Pension Plan Values					
Hire Age	Earliest Unreduced Retirement Age	Age at Death	Years of Service	Value¹ at Retirement of CRS Pension (both employer & employee)	Value¹ at Retirement of Employee Contributions to CRS Pension
20	50	90	30	\$ 741,276	\$ 186,311
¹ Values are calculated using a 6% rate of earnings for employee contributions and a 6% rate of discount and no mortality until the designated age at death for determining the value of the total Pension.					

CRS Pension Benefits Today. Hired at 25, retired at 55 (earliest unreduced retirement age). Live until 90.



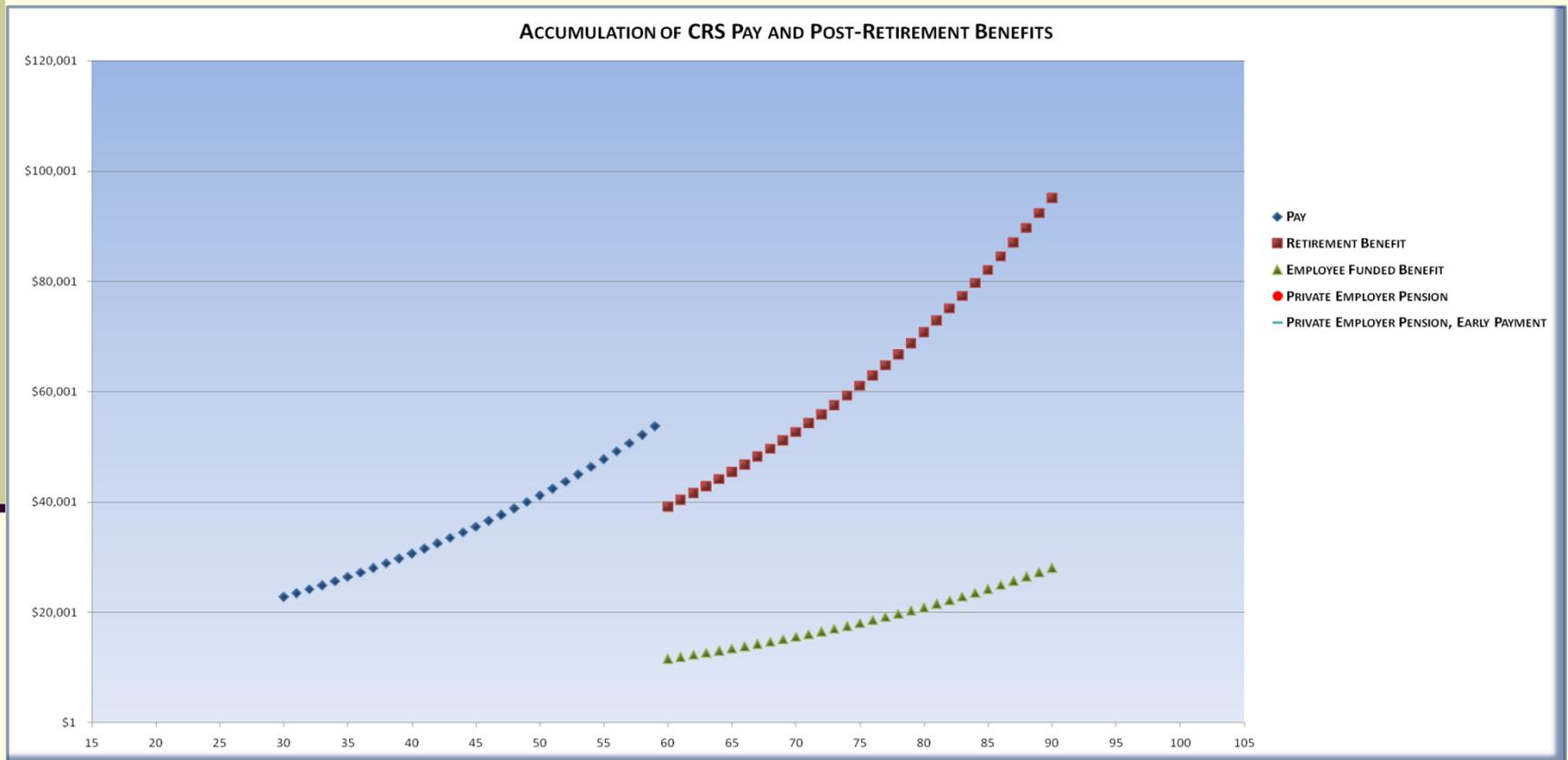
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Current CRS Pension Plan Values

Hire Age	Earliest Unreduced Retirement Age	Age at Death	Years of Service	Value ¹ at Retirement of CRS Pension (both employer & employee)	Value ¹ at Retirement of Employee Contributions to CRS Pension
25	55	90	30	\$ 762,163	\$ 205,702

¹ Values are calculated using a 6% rate of earnings for employee contributions and a 6% rate of discount and no mortality until the designated age at death for determining the value of the total Pension.

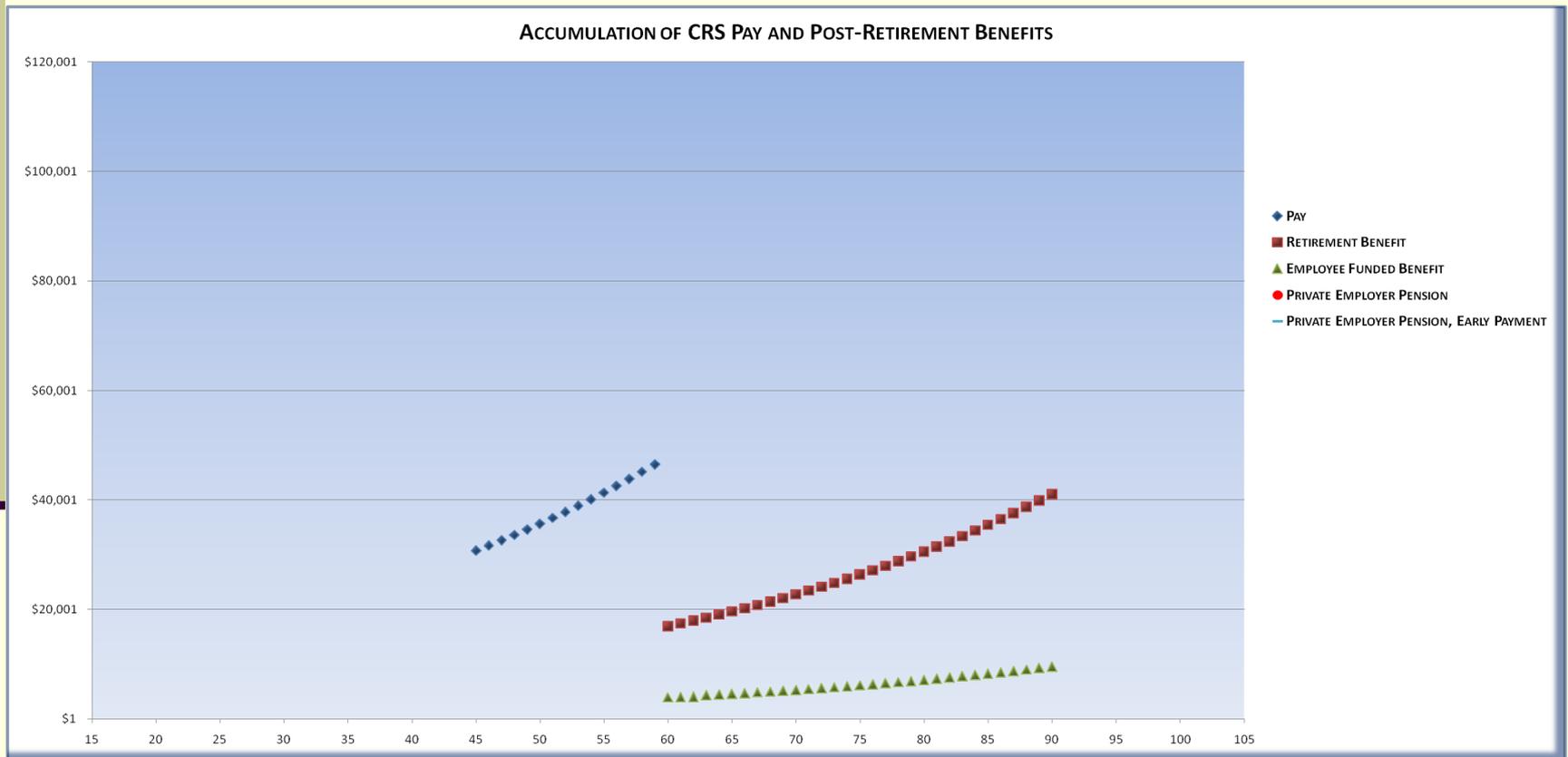
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Current CRS Pension Plan Values					
Hire Age	Earliest Unreduced Retirement Age	Age at Death	Years of Service	Value¹ at Retirement of CRS Pension (both employer & employee)	Value¹ at Retirement of Employee Contributions to CRS Pension
30	60	90	30	\$ 769,769	\$ 227,112
¹ Values are calculated using a 6% rate of earnings for employee contributions and a 6% rate of discount and no mortality until the designated age at death for determining the value of the total Pension.					

CRS Pension Benefits Today. Hired at 45, retired at 60 (earliest unreduced retirement age). Live until 90.



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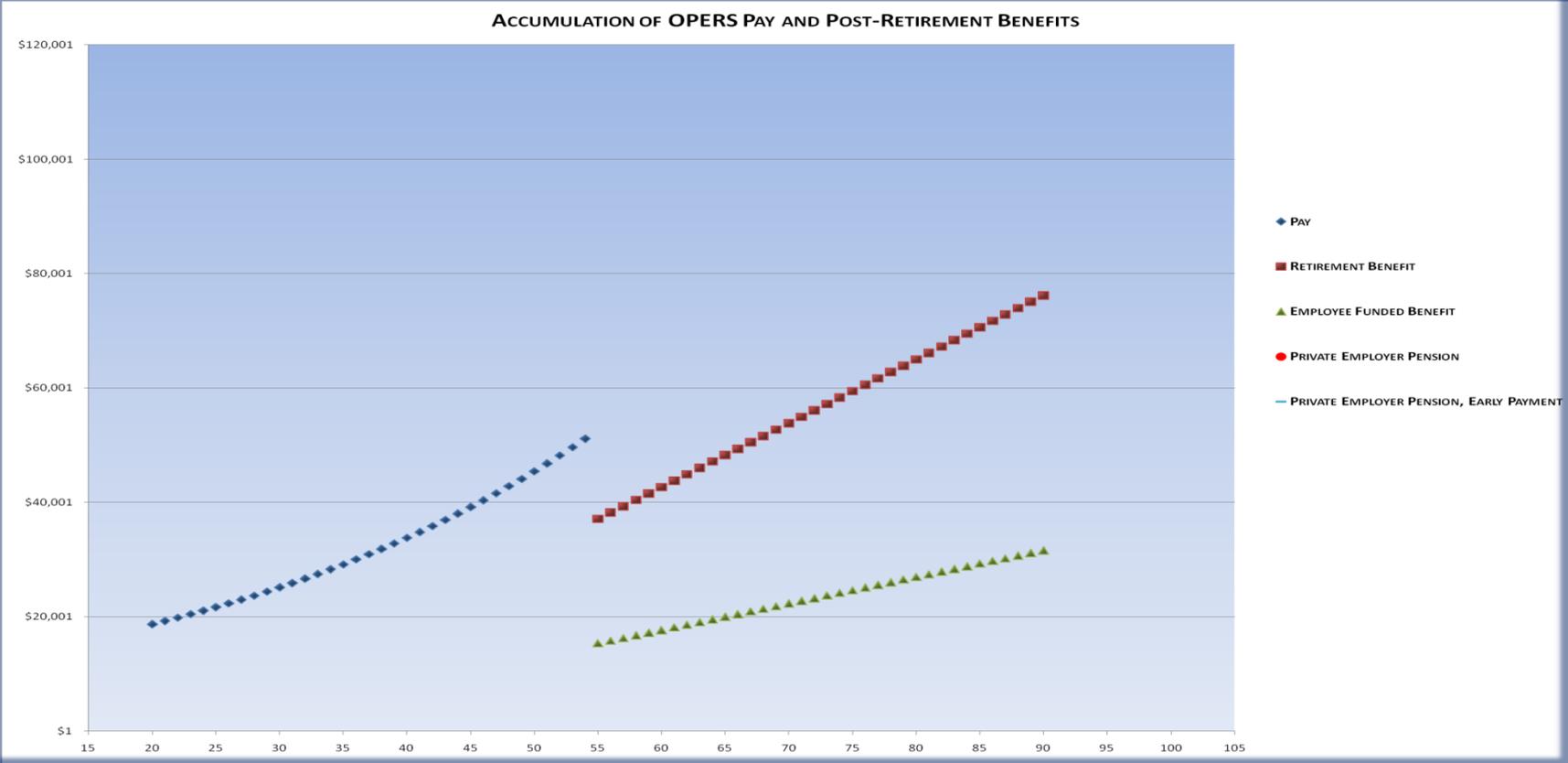
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20	50	90	30	\$ 741,276	\$ 186,311	25.1%
25	55	90	30	\$ 762,163	\$ 205,702	27.0%
30	60	90	30	\$ 769,769	\$ 227,112	29.5%
 45	60	90	15	\$ 332,491	\$ 77,294	23.2%

¹ Values are calculated using a 6% rate of earnings for employee contributions and a 6% rate of discount and no mortality until the designated age at death for determining the value of the total Pension.

Proposed OPERS Pension Benefits

- The following 8 slides provide examples of the nature and value of benefits that can be earned under the OPERS Pension Plan and reflect:
 - An employee contribution rate of 10%
 - A pension benefit accrual rate of 2.2% per year for the first 35 years of service and 2.5% per year for years in excess of 35
 - An indexed simple COLA to a maximum of 3% per year after retirement
 - A normal (unreduced) retirement age at age 55 with 32 years of service or age 67 and 5 years of service
 - A salary average using the highest consecutive 5 years of salary

Proposed OPERS Pension Benefits. Hired at 20, retired at 55 (earliest unreduced retirement age). Live until 90.



Proposed OPERS Pension Benefits. Hired at 20, retired at 55 (earliest unreduced retirement age). Live until 90.

New OPERS Pension Plan Values					
Hire Age	Earliest Unreduced Retirement Age	Age at Death	Years of Service	Value¹ at Retirement of OPERS Pension (both employer & employee)	Value¹ at Retirement of Employee Contributions to OPERS
20	55	90	35	\$ 732,974	\$ 304,144
¹ Values are calculated using a 6% rate of earnings for employee contributions and a 6% rate of discount and no mortality until the designated age at death for determining the value of the total Pension.					

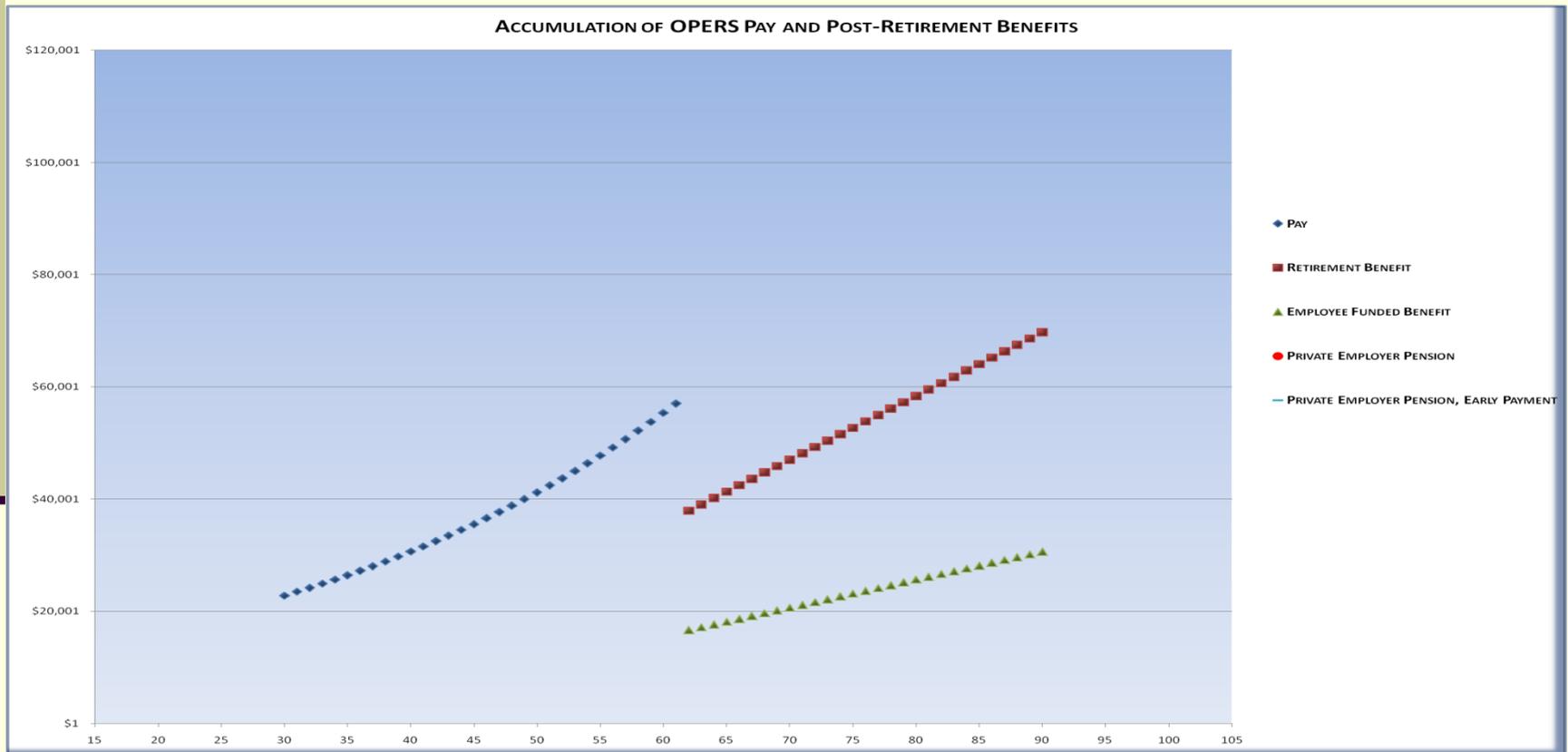
Proposed OPERS Pension Benefits. Hired at 25, retired at 57 (earliest unreduced retirement age). Live until 90.



Proposed OPERS Pension Benefits. Hired at 25, retired at 57 (earliest unreduced retirement age). Live until 90.

New OPERS Pension Plan Values					
Hire Age	Earliest Unreduced Retirement Age	Age at Death	Years of Service	Value¹ at Retirement of OPERS Pension (both employer & employee)	Value¹ at Retirement of Employee Contributions to OPERS
25	57	90	32	\$ 659,439	\$ 267,297
¹ Values are calculated using a 6% rate of earnings for employee contributions and a 6% rate of discount and no mortality until the designated age at death for determining the value of the total Pension.					

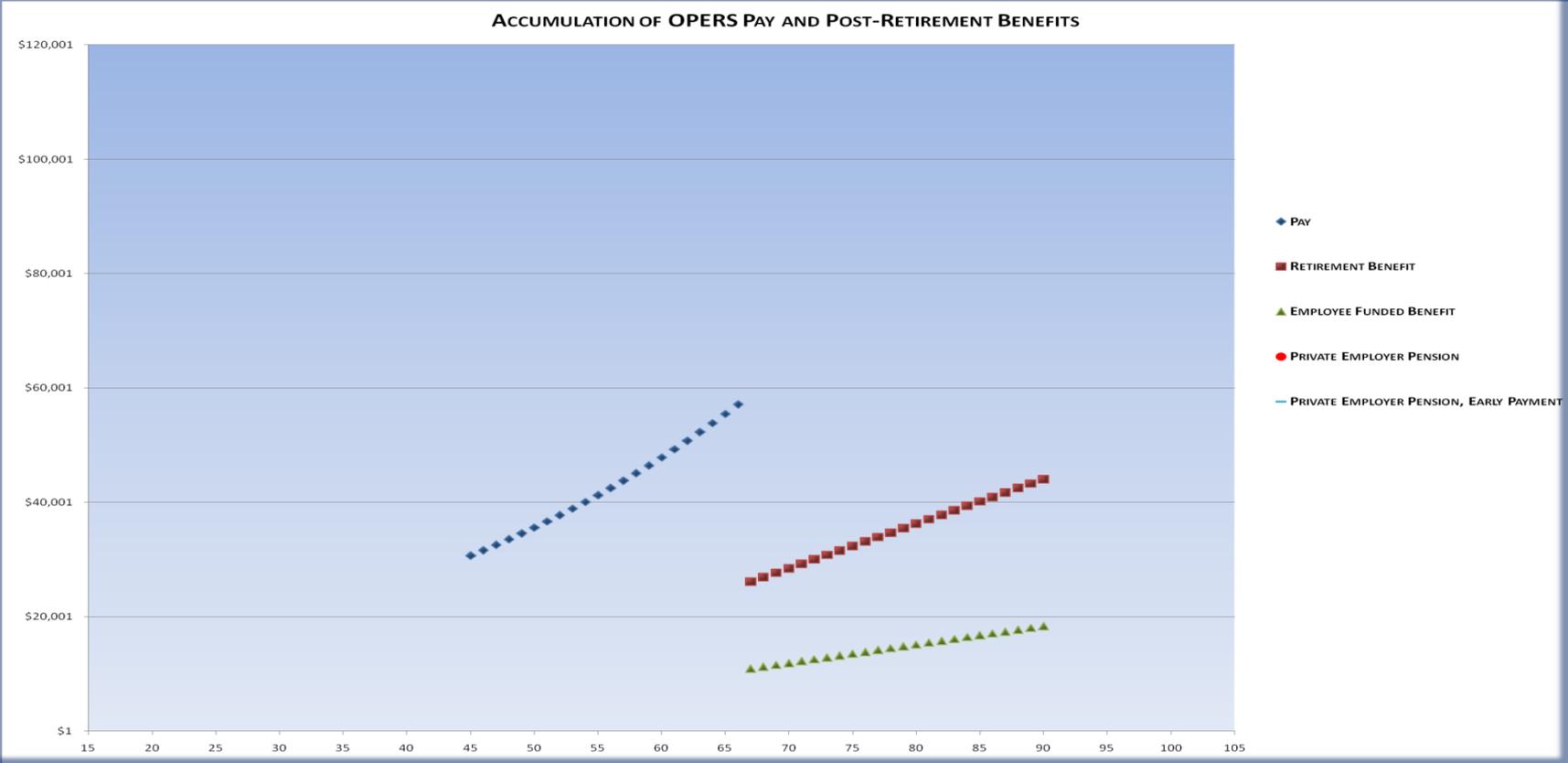
Proposed OPERS Pension Benefits. Hired at 30, retired at 62 (earliest unreduced retirement age). Live until 90.



Proposed OPERS Pension Benefits. Hired at 30, retired at 62 (earliest unreduced retirement age). Live until 90.

New OPERS Pension Plan Values					
Hire Age	Earliest Unreduced Retirement Age	Age at Death	Years of Service	Value¹ at Retirement of OPERS Pension (both employer & employee)	Value¹ at Retirement of Employee Contributions to OPERS
30	62	90	32	\$ 671,316	\$ 295,118
¹ Values are calculated using a 6% rate of earnings for employee contributions and a 6% rate of discount and no mortality until the designated age at death for determining the value of the total Pension.					

Proposed OPERS Pension Benefits. Hired at 45, retired at 67 (earliest unreduced retirement age). Live until 90.



Proposed OPERS Pension Benefits. Hired at 45, retired at 67 (earliest unreduced retirement age). Live until 90.

Proposed OPERS Pension Plan Values							
Hire Age	Earliest Unreduced Retirement Age	Age at Death	Years of Service	Value ¹ at Retirement of OPERS Pension (both employer & employee)	Value ¹ at Retirement of Employee Contributions to OPERS	Portion provided by Employee	
20	55	90	35	\$ 732,974	\$ 304,144	41.5%	
25	57	90	32	\$ 659,439	\$ 267,297	40.5%	
30	62	90	32	\$ 671,316	\$ 295,118	44.0%	
 45	67	90	22	\$ 413,961	\$ 172,815	41.7%	

¹ Values are calculated using a 6% rate of earnings for employee contributions and a 6% rate of discount and no mortality until the designated age at death for determining the value of the total Pension.

Summary of Pension Plan Values at Retirement Age – Current CRS and Proposed OPERS

Current CRS Pension Plan Values							
Hire Age	Earliest Unreduced Retirement Age	Age at Death	Years of Service	Value ¹ at Retirement of CRS Pension (both employer & employee)	Value ¹ at Retirement of Employee Contributions to CRS Pension	Portion provided by Employee	
20	50	90	30	\$ 741,276	\$ 186,311	25.1%	
25	55	90	30	\$ 762,163	\$ 205,702	27.0%	
30	60	90	30	\$ 769,769	\$ 227,112	29.5%	
45	60	90	15	\$ 332,491	\$ 77,294	23.2%	
<p>¹ Values are calculated using a 6% rate of earnings for employee contributions and a 6% rate of discount and no mortality until the designated age at death for determining the value of the total Pension.</p>							
Proposed OPERS Pension Plan Values							
Hire Age	Earliest Unreduced Retirement Age	Age at Death	Years of Service	Value ¹ at Retirement of OPERS Pension (both employer & employee)	Value ¹ at Retirement of Employee Contributions to OPERS	Portion provided by Employee	
20	55	90	35	\$ 732,974	\$ 304,144	41.5%	
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<p>¹ Values are calculated using a 6% rate of earnings for employee contributions and a 6% rate of discount and no mortality until the designated age at death for determining the value of the total Pension.</p>							



A REVIEW OF RECOMMENDED CHANGES TO CRS

Pension Changes Recommended

- The CRS Board has studied the following changes and recommends their adoption, subject to a comprehensive set of grandfather and transition rules to protect participant benefits earned to date.
 - COLA will be based on simple interest, not compound
 - COLA will no longer be guaranteed at 3% but will be indexed to follow the CPI-U up to a maximum of **2%** per year
 - With the assistance of legal counsel, the Board will review pension benefits being paid to retirees and beneficiaries to determine what changes, if any, may be made to those benefits.

Pension Changes Recommended

- The average salary used in benefit calculations will be changed from a highest consecutive 3 year average to a highest consecutive 5 year average.
- **In general, the rate of pension accrual will be reduced from 2.50% of pay to 2.20% of pay.**
- **In calculating pension benefits, the first 30 years of service will accrue at a 2.20% rate of pay, years beyond 30 will accrue at the rate of 2.00% rate of pay.**
- **Retirement ages and service requirements will increase as shown on the following two slides.**
- With the exception of the spousal joint and survivor death benefit for active participants, all additional survivor death benefits, and attendant health care coverage, will be eliminated.
- The retiree \$7,500 death benefit will be eliminated.

Retirement Age and Service

Current Rules

- Normal Retirement (pre-2010 hires):
 - 30 years of service, any age
 - 5 years of service, age 60
- Normal Retirement (post-2009 hires)
 - 30 years of service, age 55
 - 5 years of service, age 65

Proposed Rules

- Normal Retirement (pre-2011 hires):
 - **30 years of service, age 60**
 - 5 years of service, age 65
- Normal Retirement (post 2010 hires)
 - **30 years of service, age 62**
 - 5 years of service, age 67

Retirement Age and Service

Current Rules

- Early Retirement (pre-2010 hires):
 - 25 years of service, age 55
- Early Retirement (post-2009 hires)
 - 25 years of service, age 60
- Actuarial reduction applies

Proposed Rules

- Early Retirement (pre-2010 and post-2009 hires):
 - 15 years of service, age 57
- Actuarial reduction applies

Grandfather and Transition Rules

- Group A: Pre-1999 retirees who retired with a 3% simple COLA (enhanced to a 3% compound COLA on 1/1/1999)
- Group B: Post-1998 retirees who retired with a 3% compound COLA
- Group C: Current active employees eligible for normal retirement before 1/1/2011
- Group D: Current active employees eligible for normal retirement after 12/31/2010 and before 1/1/2014 who retire by 1/1/2014
- Group E: Current active employees eligible for normal retirement after 12/31/2010 and before 1/1/2014 who retire after 12/31/2013
- Group F: Current active employees who do not belong to Group C, D or E
- Group G: Employees hired on and after 1/1/2011

Grandfather and Transition Rules

- Change 1: Simple COLA
- Change 2: Simple COLA, indexed (non-guaranteed) with maximum of 2%
- Change 3: Highest consecutive 3 year final average salary changed to highest consecutive 5 year final average salary
- Change 4: **In general, for benefit calculations, first 30 years of service will accrue at the rate of 2.2% of pay, years beyond 30 will accrue at the rate of 2.00% of pay**

Grandfather and Transition Rules

- Change 5: Revised retirement ages –
 - Normal Retirement: 65 & 5 (67 & 5 for post-2010 hires), **or 60 & 30 (62 & 30 for post-2010 hires)**
 - Early Retirement: 57 & 15 (actuarially reduced).
 - Each participant's accrued benefit as of 1/1/2011 is protected and retiree gets better of:
 - a) 1/1/2011 actuarially adjusted accrued benefit plus post 12/31/2010 accruals, or
 - b) benefit calculated as if 1/1/2011 changes had always been in effect.
- Change 6: Except for the spousal death benefit for actives, eliminate all other survivor death benefits.
- Change 7: Eliminate \$7,500 death benefit for retirees.

Grandfather and Transition Rules Application Matrix

	Group A	Group B	Group C	Group D	Group E	Group F	Group G
Change 1	Yes ¹	No	No	Yes	Yes	Yes	Yes
Change 2	No	No	No	Yes	Yes	Yes	Yes
Change 3	No	No	No	No	Yes ²	Yes ³	Yes
Change 4	No	No	No	No	Yes ²	Yes ³	Yes
Change 5	No	No	No	No	Yes ²	Yes ³	Yes
Change 6	No	No	No	Yes	Yes	Yes	Yes
Change 7	Yes	Yes	Yes	Yes	Yes	Yes	Yes

¹3% simple COLA, not indexed.

²Benefits earned prior to 1/1/2014 will be maintained and benefits for subsequent service will be paid under the new basis.

³Benefits earned prior to 1/1/2011 will be maintained and benefits for subsequent service will be paid under the new basis.

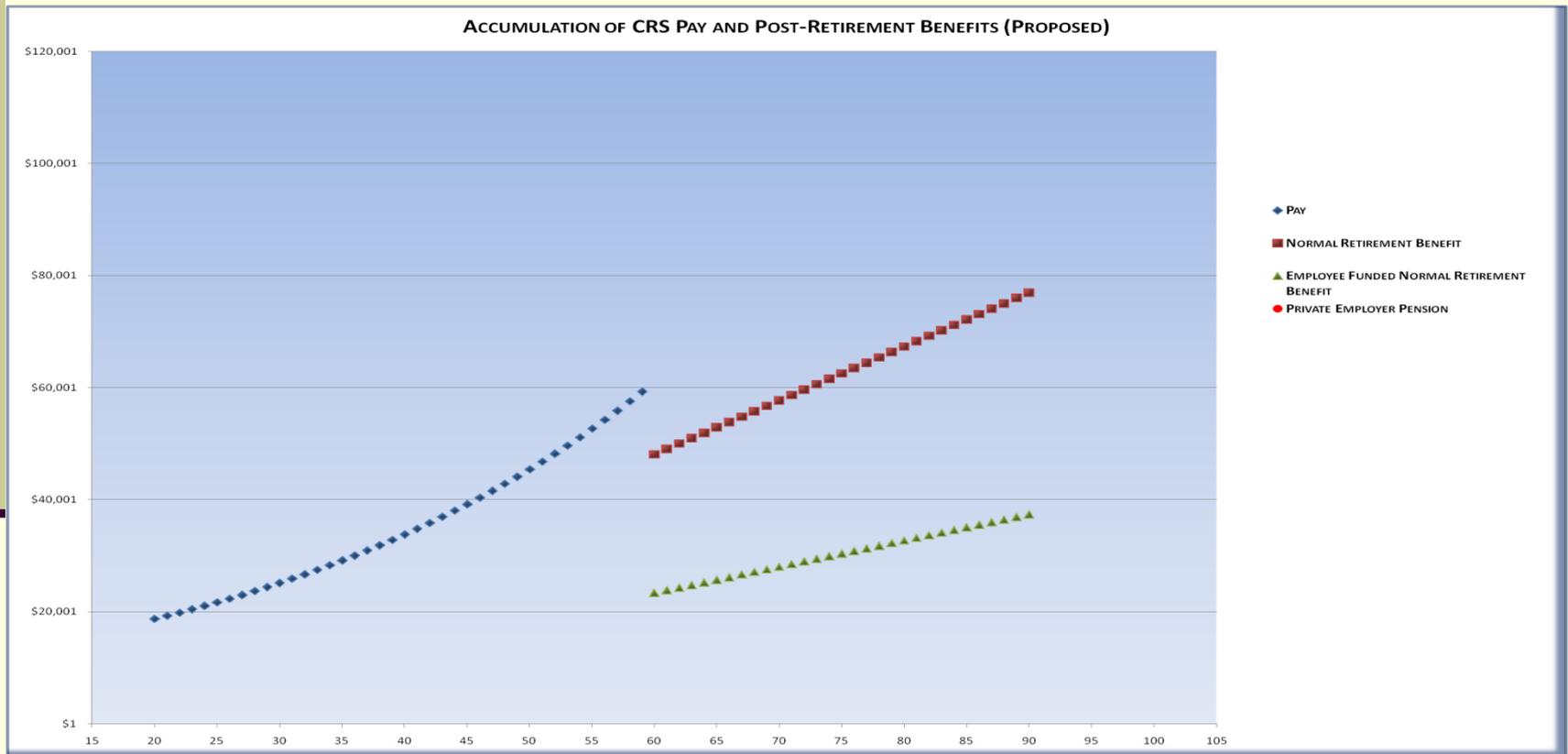
Alternative Grandfather and Transition Rules Application Matrix

		<u>Recommended Pension Changes</u>						
Groups		Changes						
		<u>Simple 3% COLA</u> Change # 1	<u>Simple Indexed COLA</u> Change # 2	<u>5-Year Final Avg Salary</u> Change # 3	<u>Two Tier Accrual Rate 2.2% and 2.0%</u> Change # 4	<u>Revised Retirement Requirements</u> Change # 5	<u>J & S Death Benefit Only</u> Change # 6	<u>Eliminate \$7,500 Death Benefit</u> Change # 7
A	Pre 1998 Retirees	Yes	No	N/A	N/A	N/A	N/A	Yes
B	Post 1997 Retirees	No	No	N/A	N/A	N/A	N/A	Yes
C	Actives Eligible to Retire by 1/1/2011	No	No	No	No	No	No	Yes
D	Actives Who Retire by 1/1/2014	No	Yes	No	No	No	Yes	Yes
E	Actives Eligible by 1/1/2014, But Retire Later	No	Yes	Yes ¹	Yes ¹	Yes ¹	Yes	Yes
F	Actives Hired Pre 2011 & Not In Other Groups	No	Yes	Yes ²	Yes ²	Yes ²	Yes	Yes
G	Employees Hired Post 2010	No	Yes	Yes	Yes	Yes	Yes	Yes
		<p>1 Benefits earned prior to 1/1/2014 will be maintained and benefits for subsequent service will be paid under the new basis.</p>						
		<p>2 Benefits earned prior to 1/1/2011 will be maintained and benefits for subsequent service will be paid under the new basis.</p>						

Proposed CRS Pension Benefits

- The following 8 slides provide examples of the nature and value of benefits that can be earned under the Proposed CRS Pension Plan and reflect:
 - An employee contribution rate of 9%
 - A pension benefit accrual rate of 2.2% per year for the first 30 years of service and 2.0% per year for years in excess of 30.
 - An indexed 2% simple COLA after retirement
 - A normal (unreduced) retirement age at age 60 with 30 years of service or age 65 and 5 years of service
 - A salary average using the highest consecutive 5 years of salary

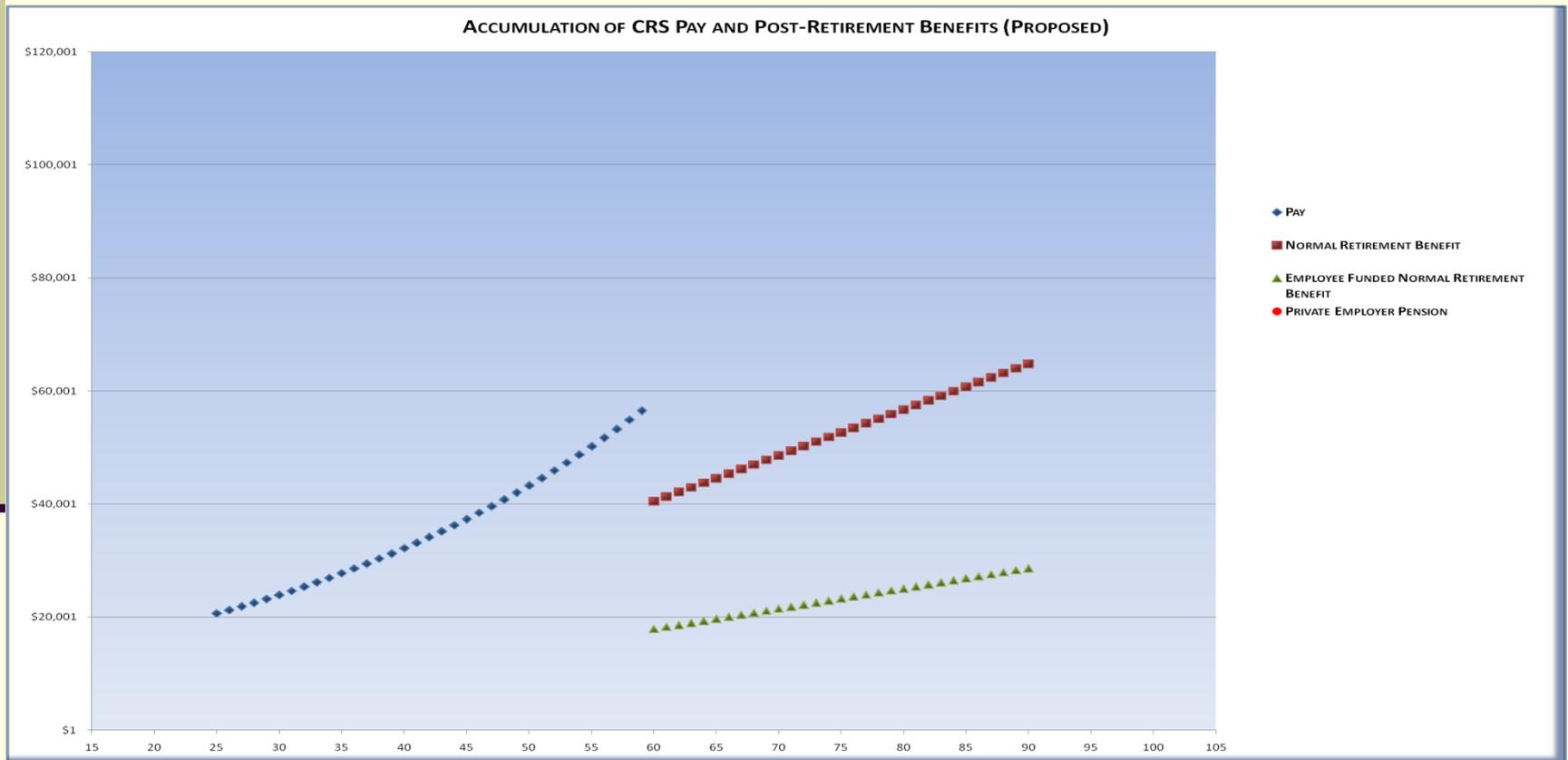
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Proposed CRS Pension Plan Values						
Hire Age	Earliest Unreduced Retirement Age	Age at Death	Years of Service	Value¹ at Retirement of CRS Pension (both employer & employee)	Value¹ at Retirement of Employee Contributions to CRS Pension	
20	60	90	40	\$ 812,016	\$ 394,602	
¹ Values are calculated using a 6% rate of earnings for employee contributions and a 6% rate of discount and no mortality until the designated age at death for determining the value of the total Pension.						

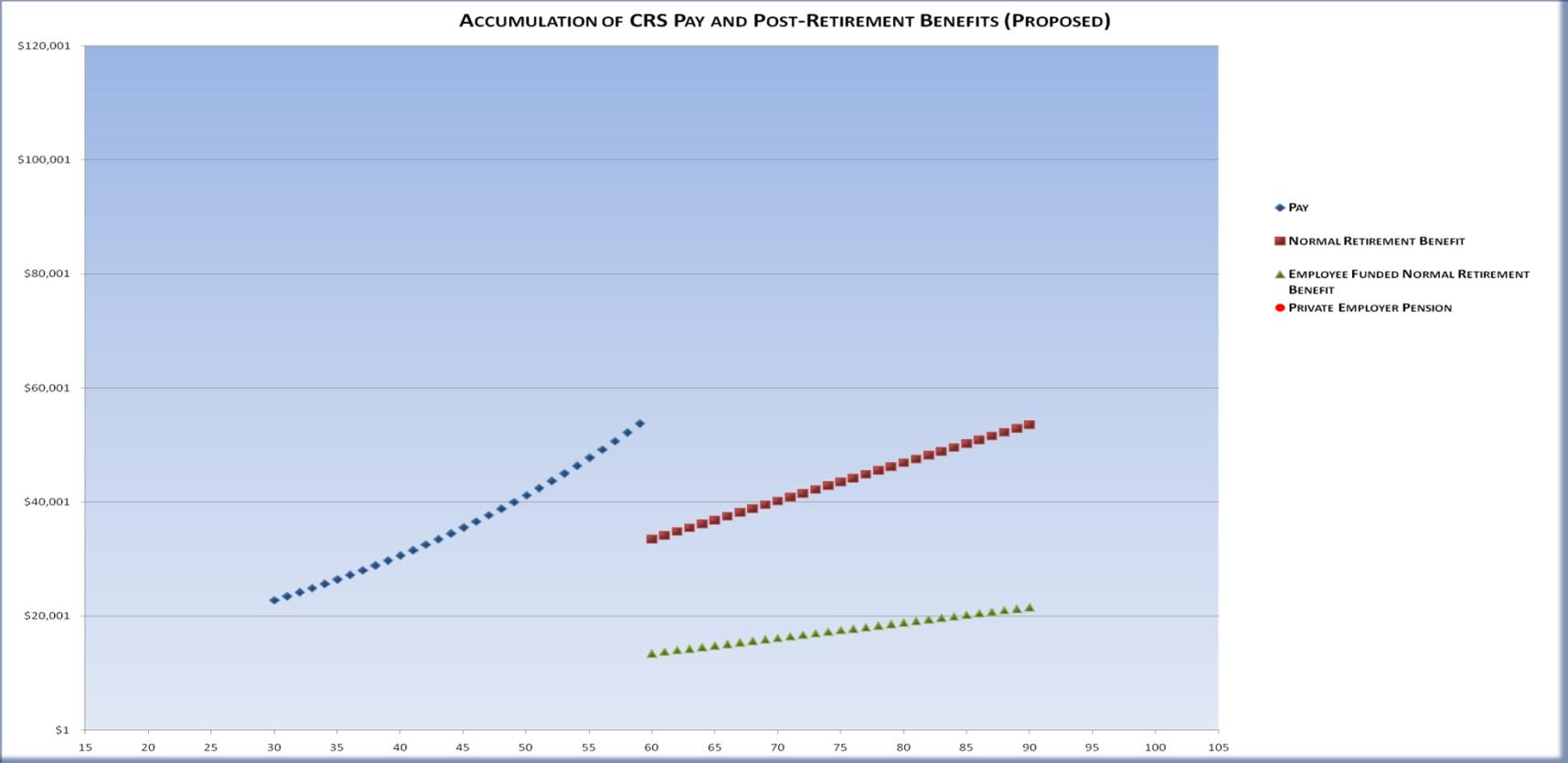
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25	60	90	35	\$ 683,430	\$ 302,219	
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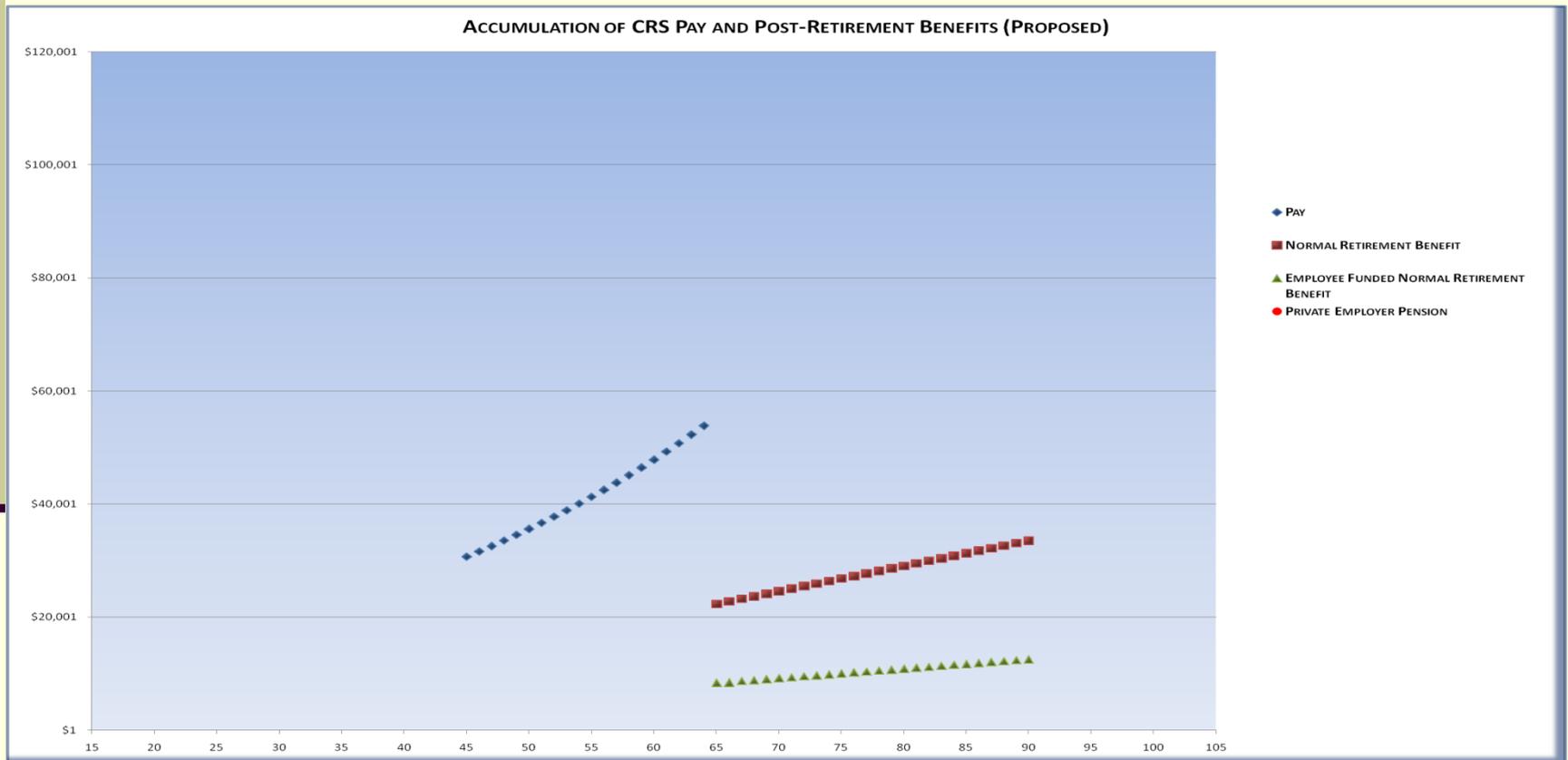
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30	60	90	30	\$ 565,256	\$ 227,112
¹ Values are calculated using a 6% rate of earnings for employee contributions and a 6% rate of discount and no mortality until the designated age at death for determining the value of the total Pension.					

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25	60	90	35	\$ 683,430	\$ 302,219	44.2%	
30	60	90	30	\$ 565,256	\$ 227,112	40.2%	
 45	65	90	20	\$ 345,133	\$ 129,135	37.4%	

¹ Values are calculated using a 6% rate of earnings for employee contributions and a 6% rate of discount and no mortality until the designated age at death for determining the value of the total Pension.

Summary of Pension Plan Values at Retirement Age – Current CRS and Proposed CRS

Proposed CRS Pension Plan Values						
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45	60	90	15	\$ 332,491	\$ 77,294	23.2%

¹ Values are calculated using a 6% rate of earnings for employee contributions and a 6% rate of discount and no mortality until the designated age at death for determining the value of the total Pension.

Health Care Changes Recommended

- Move all retirees to the same medical plan and same premium cost share approach as actives (excluding certain PPA requirements).
- Future premium cost sharing approaches for all retirees will be considered and may be based on years of service, age, or both. (Implementation deferred)
- Increase cost sharing for retirees prior to a age 65. (Implementation deferred)

Health Care Changes Recommended

- Set 57 as the minimum age requirement for retiree healthcare eligibility. This will correspond to the new Early Retirement Age (age 57 and 15 years of service) within the pension plan. (Implementation deferred)
- Eliminate the Medicare Part B subsidy for all retirees and spouses.
- Require retirees to pay 100% of premiums for dental and vision benefits if they choose to continue coverage.

Estimated Decrease in Pension Actuarial Liability from each Change

	Group A	Group B	Group C	Group D	Group E	Group F	Group G	Liability Change
Change 1	Yes ¹	No	No	Yes	Yes	Yes	Yes	\$20.5 ⁴
Change 2	No	No	No	Yes	Yes	Yes	Yes	\$23.5 ⁴
Change 3	No	No	No	No	Yes ²	Yes ³	Yes	\$5.0 ⁴
Change 4	No	No	No	No	Yes ²	Yes ³	Yes	\$9.1 ⁴
Change 5	No	No	No	No	Yes ²	Yes ³	Yes	\$41.1 ⁴
Change 6	No	No	No	Yes	Yes	Yes	Yes	\$2.6 ⁴
Change 7	Yes	Yes	Yes	Yes	Yes	Yes	Yes	\$11.7 ⁴

¹13% simple COLA, not indexed.

²Benefits earned prior to 1/1/2014 will be maintained and benefits for subsequent service will be paid under the new basis.

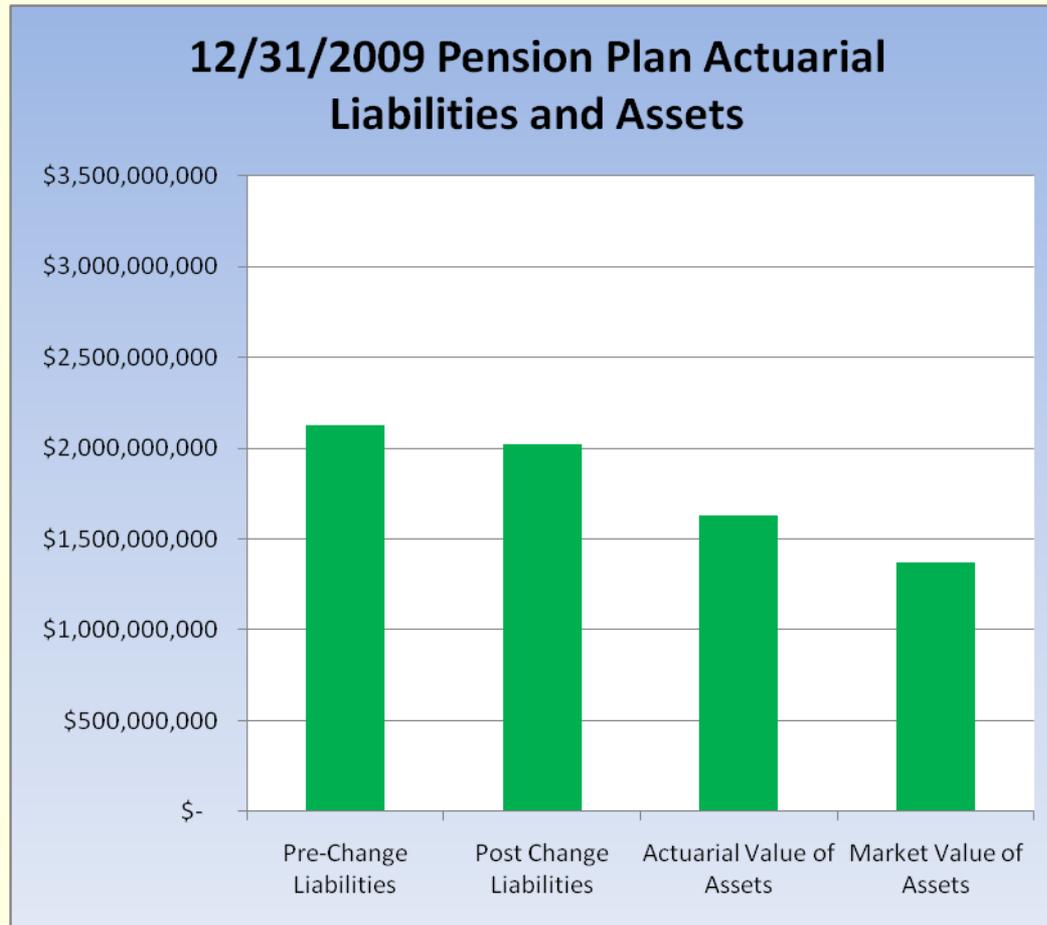
³Benefits earned prior to 1/1/2011 will be maintained and benefits for subsequent service will be paid under the new basis.

⁴Reduction (in \$1,000,000's) to the 12/31/2008 actuarial liability (incorporating changes from Task Force I). Note that changes are not additive since there is some overlap in how changes impact actuarial assumptions and participant behavior.

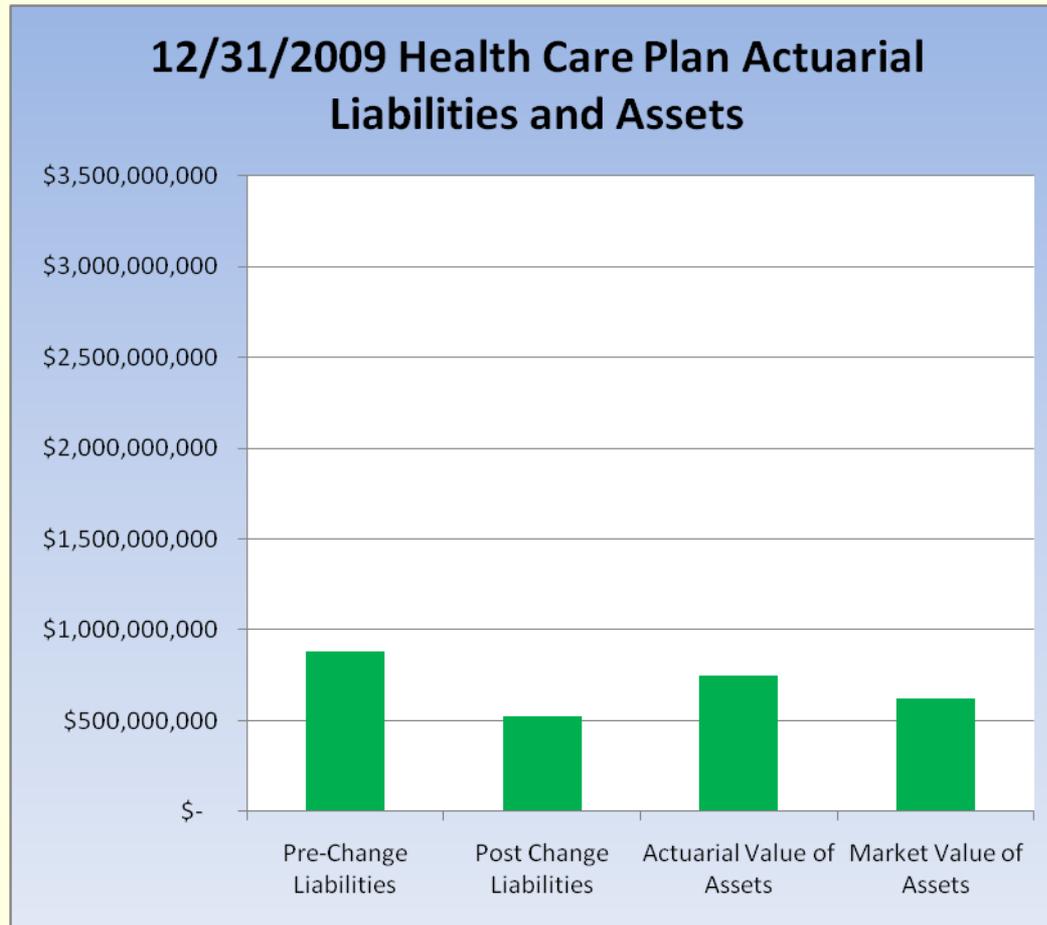
Estimated Decrease in Health Care Actuarial Liability from each Change

	Liability Change
Move all retirees to the same medical plan and same premium cost share approach as actives	\$130.0
Eliminate the Medicare Part B subsidy for all retirees	\$112.0
Eliminate the Medicare Part B subsidy for all spouses	\$80.0
Require retirees to pay 100% of premiums for dental and vision benefits	\$33.0

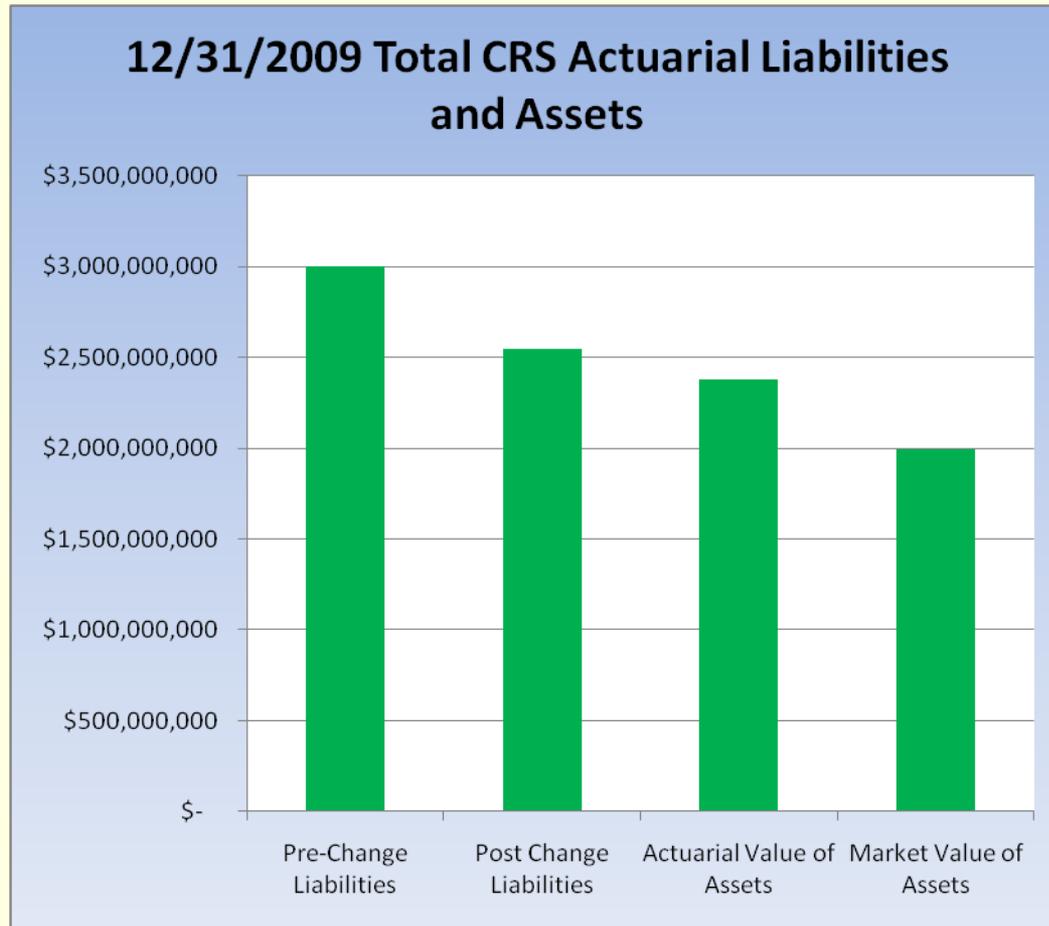
How Much Impact on Pension Liabilities?



How Much Impact on Health Care Liabilities?



How Much Impact on Total CRS Liabilities?



What Else Could Effect Future Costs?

- If City Council enacts these recommended changes, it's important to understand what factors could adversely effect the magnitude and timing of future costs.
 - Short term (1-2 years)
 - The long-term return on CRS assets could settle below 8%.
 - Potential asset losses during 2010/2011/2012.
 - Liability increases caused by a rush to retire in the near term, exceeding actuarially projected levels.
 - Reduced employer contributions to the health care trust may result in actuary decreasing rate of return and discount rate assumptions thereby increasing unfunded liabilities.

What Else Could Effect Future Costs?

- Mid term (3-5 years)
 - The long-term return on CRS assets could settle below 8%.
 - GASB (Governmental Accounting Standards Board) has begun the process of revising their accounting standards for pension and retiree health care benefits of governmental entities.
 - If GASB adopts a more mark-to-market approach to determining costs and disclosing unfunded actuarial liabilities this could result in earlier cost recognition by the City and greater transparency for unfunded liabilities on financial statements.

What Else Could Effect Future Costs?

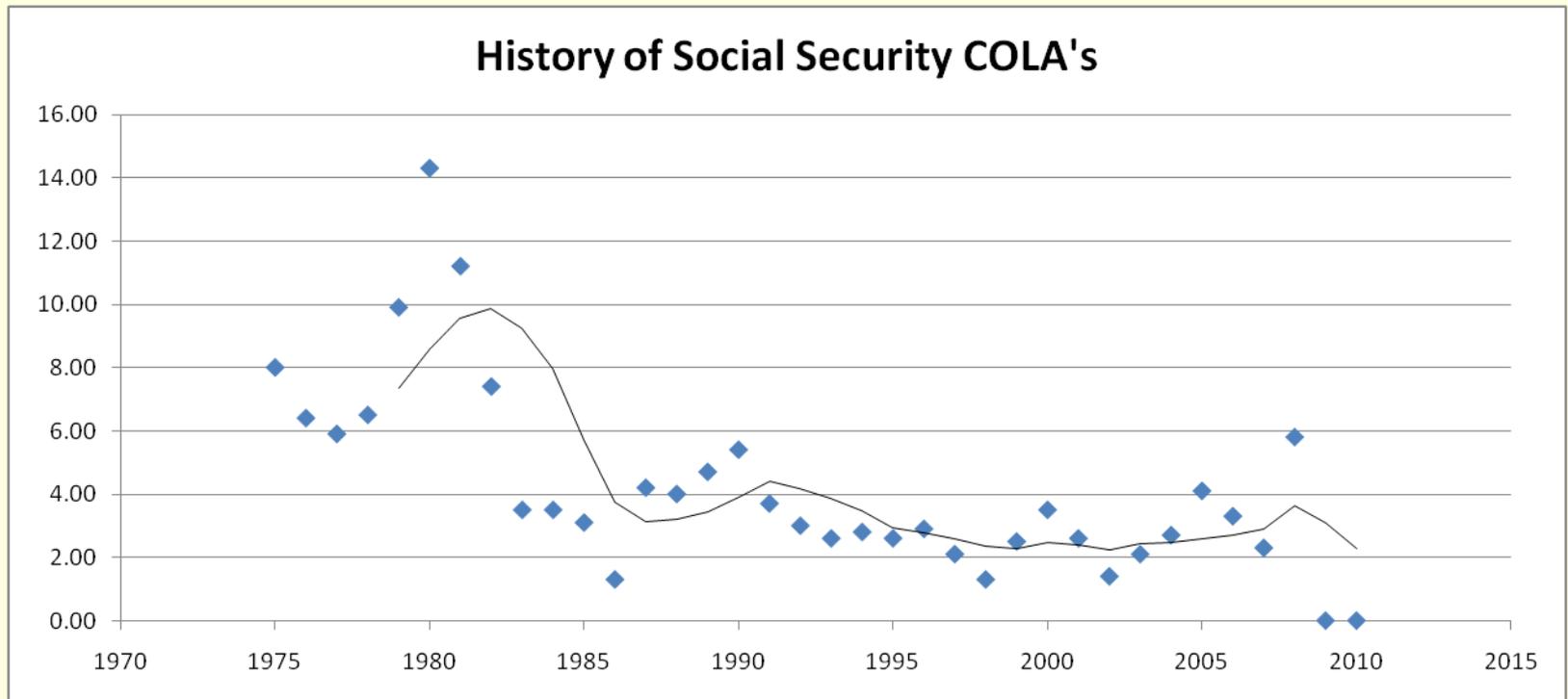
- Long term (6+ years)
 - The long-term return on CRS assets could settle below 8%.
 - Health care costs continue to spiral at rates greater than assumed in actuarial calculations so that actuarial assumptions must be reevaluated.
 - Longevity continues to improve in the population at rates greater than assumed in actuarial calculations and rates of morbidity (ill health) in this older population grow so that actuarial assumptions must be reevaluated.

Next Steps

- Board Subcommittee to meet with stakeholders through community meetings
- Potential additions and/or revisions to recommended changes
- Board action to adopt recommendations and present to Council

Appendix

Five Year Moving Average of Social Security COLA's



What Types of Losses Contributed to Today's Situation?

