Manning, Deborah

From:	Manning, Deborah
Sent:	Thursday, March 12, 2015 2:47 PM
To:	Brown, Cheryl
Cc:	Keane, John; Parks, Brian
Subject:	FW: Mortality Tables

2015-3-1
attachment

TO ALL CITY COUNCIL MEMBERS AS SUGGESTED. PLEASE REFER TO THE FOLLOWING E-MAILS AND INFORMATION COPIED BELOW:

E-mail from John Keane to Brian Parks 3/12/15 @ 2:03pm:

The Board will not be discussing RP 2014, as RP2014 does not apply to public plans. At your suggestion, I will forward my email with the WSJ story to the Council. Thanks for the suggestion.

E-mail from Brian Parks to John 3/12/15 @ 1:50pm:

John,

Will there be discussion on mortality tables at the meeting on the 20th? If so, I may attend to listen to discussion; however, I have no intent on being an active participant in the discussion.

In regards to the other question, to my knowledge no change has occurred regarding Kirk's stance on the mortality tables.

Also, if there is something you would like to provide to Council it would be best to come from you to them.

Brian

D. Manning for John Keane
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From: Keane, John
Sent: Wednesday, March 11, 2015 12:43 PM
To: Parks, Brian
Cc: Stork, Kevin; Manning, Deborah; Greive, Patrick; Hand, Chris; Bill Scheu; Jarmon Welch
Subject: RE: Mortality Tables

Brian: The article below was published in the Wall Street Journal 2 weeks ago today. Some of the more interesting takeaways, in the order presented are:

Public Plan sponsors will not take a big hit from longer lifespans.

The study presented by the Society of Actuaries is their idea. Not sponsored, endorsed or required by any governmental rule, regulation, publication, standard or the like.

Most Corporate plans are required to use certain guidelines under the provisions of the IRS code. Not so for public plans.

Public plans update their assumptions every 5 years. See reference in earlier email below concerning our update planned for 2015.

Many public plans have updated assumptions incorporated into their actuarial studies.

The RP 2014 study used ONLY private plans.

The Society is starting a study of public plans.

Public plans and their sponsor used different accounting rules and standards.

Please share this information with Kirk and the City Council.

- THE WALL STREET JOURNAL.
- WSJ.com
- February 25, 2015, 5:20 PM ET

Public Pensions Not Expected to Take a Big Hit From New Data on Longer Lifespans

ByMichael Rapoport

Many corporate pension plans are taking big financial hits because of new data that show Americans are living longer – but what about public-employee pension plans? Will they too see big losses and hits to their balance sheets as a result?

The answer is, no – at least not as significantly, broadly or immediately.

Government-sponsored pension plans generally won't feel the same kind of effect from last fall's revisions to mortality assumptions as big companies like AT&T Inc., Verizon Communications Inc. and General Motors Co. – all of which have recorded big charges to earnings and/or increases to their pension obligations as a result, as The Wall Street Journal reported Tuesday.

That's because the process by which public pension plans take retirees' mortality into account is different from that of corporate-sponsored plans. The public plans aren't as closely tied into using the specific, newly revised mortality data that companies use, and they've effectively already taken into account some of the improvements in retirees' lifespans in recent years.

"There's not a governmental accounting standards document saying 'here's the assumption to use,'" said Dale Hall, managing director of research for the Society of Actuaries, the group that issued the new mortality assumptions last October.

Those new assumptions indicated that private-plan retirees are living longer than was the case the last time the society revised its pension-plan mortality assumptions, back in 2000 – the average 65-year-old retiree will now live about two years longer, the society found. Longer lifespans for retirees translates into bigger payments by pension plans, and so they have to take into account increased costs and the need for their balance sheets to reflect a higher level of future benefit obligations to retirees.

As a result, some companies like AT&T and Verizon that account for such higher costs upfront took big charges to their fourth-quarter earnings. Many others, like GM, have had to increase their pension obligations, making their plans more underfunded than they already were.

But there are some key differences between corporate plans and public-sector plans. For one thing, corporate plans are required by the Internal Revenue Service to use mortality assumptions based on the society's data unless the plan is big enough to formulate assumptions specific to that plan. That requirement doesn't apply to government-sponsored plans, though some may still use the society's assumptions.

Also, large public plans generally update their mortality assumptions every three to five years – more frequently than corporate plans, said David Kausch, chief actuary at Gabriel Roeder Smith & Co., a consulting firm focusing on public-sector benefits plans. That means the public plans' numbers already reflect some of the improvements in mortality shown in the Society of Actuaries' data.

In fact, the society based its new assumptions only on data from private-plan retirees. The society did gather mortality data from some public plans as well, but found it was significantly different from the private-plan data, and that the public plans had differences from plan to plan. The reasons aren't entirely clear – differences in geography may play a role, as well as the fact that corporate employees are more likely to work in more physically strenuous blue-collar jobs. **The society is now starting a separate study of the mortality of public-plan retirees, Mr. Hall said.**

For that matter, public plans follow a different set of accounting rules from private plans. New government accounting rules currently going into effect change the way that many governments will have to calculate their pension obligations, but those rules don't change how the public plans deal with changes in mortality.

John Keane

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From: Keane, John
Sent: Wednesday, March 11, 2015 10:41 AM
To: Parks, Brian
Subject: RE: Mortality Tables

Thank you.

John Keane

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From: Parks, Brian
Sent: Wednesday, March 11, 2015 10:40 AM
To: Keane, John
Cc: Stork, Kevin; Manning, Deborah; Greive, Patrick; Hand, Chris
Subject: RE: Mortality Tables

John,

I will check with Kirk and let you know.

Brian

From: Keane, John
Sent: Wednesday, March 11, 2015 10:24 AM
To: Parks, Brian
Cc: Stork, Kevin; Manning, Deborah; Greive, Patrick; Hand, Chris
Subject: RE: Mortality Tables

Good morning. Brian. In light of the action taken by the Council President last night concerning the proposed mortality table changes recommended by the SOA, has a change occurred in the position of the Council Auditor? Also, you and the Council Auditor are invited to attend our monthly meeting on March 20th, and address the Board on this and other issues. Our meeting begins at 9 AM. Please advise.

John Keane

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From: Keane, John
Sent: Thursday, February 05, 2015 10:22 AM
To: Parks, Brian
Cc: Stork, Kevin; Manning, Deborah; Greive, Patrick
Subject: RE: Mortality Tables

Brian: Responding to your email from 4:25 yesterday. You ask 3 questions. I will answer the questions in the order presented, our response is **in bold.**

Has there been consideration given to switching the mortality tables for the Police and Fire Pension Fund to the RP-2014 tables?

As noted in your message, on October 27, 2014, the Society of Actuaries (SOA) issued the final version of new mortality tables (RP-2014) for use by defined benefit (DB) pension plans. The tables were also accompanied by new mortality improvement scales (MP-2014), which project the rates at which future mortality is expected to decrease. The new assumptions, which are based on a study that began in 2009, confirm the intuitive observation that life expectancies in the United States have been increasing. This makes sense, because fewer people smoke cigarettes and medical care has improved. As a result, the assumptions underlying the new mortality tables show that, in comparison with the existing tables found in RP-2000, the life expectancy for 65-year-old males has risen from 19.6 years to 21.6 years—or 10.4%. For age-65 females, the corresponding increase has been from 21.4 years to 23.8 years—up 11.3%. As life expectancy increases, so does the cost of pension annuity payments.

<u>It is important to realize that the SOA's final report and updated tables do not constitute new rules and regulations.</u>

If so, where did it land?

Due to the release date, October 27, 2014, the Board has not discussed this issue with the Fund Actuary. At our February Board Meeting on February 20, the Board Members will be reviewing the 2014 Actuarial Evaluation of the Fund with the Actuary. This issue may be discussed. As always, you and Council Auditor Sherman are again invited to attend our Board Meeting. We also note, the SOA predicts that retirement liabilities could grow anywhere from 4% to 8%, while some actuarial firms estimate that overall cost increases will be at the high end of this range. The Fund is also due to conduct another "5 year Experience Study" in 2015, the cost of which will be budgeted in our next fiscal year budget.

Further, the end result of the SOA's conclusions regarding improved life expectancy is an increase in required contributions, effectively contradicting the objective of recent legislation such as the Highway and Transportation Funding Act of 2014 (HATFA), which sought to reduce pension contribution requirements. This raises the possibility that Congress could act to delay the impact of the updated mortality assumptions on pension funding.

Has or will your office formulated a recommendation or preparing comments to City Council on this subject?

Also, do you think there may be a switch in the future?

The conventional wisdom is that the IRS will mandate use of the RP-2014 mortality tables for 2016, after the expiration of the term set in Notice 2013-49. However, certain large corporate and some public plans would be entitled to use plan-specific tables, even after 2015, due to their size. As in many regulatory issues, this view on timing may be oversimplifying things, because the <u>IRS cannot require use of the new tables</u> merely by issuing a notice and will have to implement the changes by amending its regulations. The regulatory process, including publication of proposed regulations and a period for public comment, could delay adoption of the new tables <u>until 2017 or 2018.</u>

The IRS is under a statutory obligation to review applicable mortality rates for qualified plan funding purposes at least every 10 years, but this does not mean that adoption of the latest SOA tables is required, and some countervailing factors may apply. For example, the methodology and data of the SOA study that resulted in the new assumptions was criticized by other actuarial groups such as the Academy of Actuaries, which suggested that the SOA's new tables might overstate life expectancy. This debate could be rejoined when proposed regulations for adoption of the new assumptions are opened to public comment.

I recall during previous public comment periods on administrative and/or regulatory issues the Council Auditor declined to submit written comments. Will your office file a written comment during the public comment period?

I look forward to your responses and further discussion. Have a great day.

John Keane

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From: Parks, Brian
Sent: Wednesday, February 04, 2015 4:25 PM
To: Keane, John
Subject: Mortality Tables

John,

Has there been consideration given to switching the mortality tables for the Police and Fire Pension Fund to the RP-2014 tables? If so, where did it land? Also, do you think there may be a switch in the future?

Thanks,

Brian Parks, CPA
Council Auditor's Office
City of Jacksonville
(904) 630-1212 EXT. 5609