Pension Task Force
Actuarial Request #4 Summary – Scenario Modeling

Below is a brief description of the scenarios that the Task Force working groups developed for actuarial modeling. For all modeling, actuarial analysis is requested to evaluate the impact of the individual option, as well as the impact of that option combined into scenarios with multiple other options.

VSERS Group F

Model 4 combined revenue scenarios that include various combinations of these revenue options:

Option Name		Description	Scenario A	Scenario B	Scenario C	Scenario D
One-Time Revenue 1	$75 mil	Full sum invested on June 30, 2022 and recognized in subsequent ADEC calculations.	x		x	
One-Time Revenue 2	$50 mil			x		x
Recurring Revenue #1	$15 mil	Model impacts consistent with the methodology in previous analysis. Sums represent "base year" funding in FY24. FY23 receives 5/12ths of the "base year" revenue. Revenue grows at 2% annually above the "base" beyond FY24. Revenue credited to the pension fund on June 30th of each year.	x		x	
Recurring Revenue #2	$40 mil			x		x
Contribution F1		(Group F Only) Incremental Increases based on salary percentiles: Income in the 0-25th percentile: contributions remain the same Income in the 26-74th percentiles: Contributions increase by 0.5%/year for 3 years beginning in FY23 (a 1.5% total increase) Income in the 75th percentile+: Contributions increase	x	x		

		by 0.5%/year for 4 years beginning in FY23 (a 2% total increase) (Please also provide the current income levels at these 25/75 percentiles).				
Contribution F2		(Group F Only) Incremental Increases based on salary percentiles: Income in the 0-25th percentile: contributions remain the same Income in the 26-74th percentiles: Contributions increase by 0.5%/year for 4 years beginning in FY23 (a 2% total increase) Income in the 75th percentile+: Contributions increase by 0.5%/year for 5 years beginning in FY23 (a 2.5% total increase) (Please also provide the current salary levels at these 25/75 percentiles).			x	x

Benefit Change Options

The 4 revenue options described above are then to be applied to various combination of changes to benefits:

Option Name	**Description**	**Scenario 1**	**Scenario 2**	**Scenario 3**	**Scenario 4**	**Scenario 5**	**Scenario 6**	**Scenario 7**	**Scenario 8**
	Apply the revenue scenario described above	Revenue Scenario A	Revenue Scenario A	Revenue Scenario B	Revenue Scenario B	Revenue Scenario C	Revenue Scenario C	Revenue Scenario D	Revenue Scenario D
COLA F1	COLA Threshold - COLA only on first $24K of pension income.	x		x		x		x	
COLA F2	COLA Threshold - COLA only on first $24K of pension		x		x		x		x

	income, but index the $24K threshold to increase annually by CPI from FY24 on.								
COLA F3	CPI Thresholds changed to 0% minimum, 4% maximum.	x	x	x	x	x	x	x	x
COLA F4	No COLA until member retired at least 24 months	x	x	x	x	x	x	x	x
COLA F5	No COLA until member retired at least 36 months.	x	x	x	x	x	x	x	x
Max Benefit Cap F1	Increase the Max Benefit Cap by 1% of AFC for each year worked beyond 30 years (Old Group F) and 36 years (New Group F) for all actives. Apply prospectively to service actually worked after July 1, 2022 (someone with 40 years of service accrued wouldn't retroactively see their AFC cap increase by 10%). Use current	x	x	x	x	x	x	x	x

	retirement behavior assumptions.								

Two versions of the 8 scenarios above were requested for comparative purposes – v.1 would apply to all actives and v.2 would exempt actives within 5 years of normal retirement eligibility from the COLA changes only.

Additionally, it was requested to cost out the fiscal impact of combining 1) COLA F3 and COLA F4, and 2) COLA F3 and COLA F5 without combing them with other options.

In addition to the scenarios described above, modeling or analysis was requested on the expected impact of offering an option to pay retirement eligible actives an annual bonus payment for each year they continue working, with a cap of 5 years. The bonus payment would not come from pension assets and would not be included in AFC calculations. Annual payment amount TBD.

VSERS Group C

Model 4 combined revenue scenarios that include various combinations of these revenue options:

Option Name		Description	Scenario A	Scenario B	Scenario C	Scenario D
One-Time Revenue 1	$75 mil	Full sum invested on June 30, 2022 and recognized in subsequent ADEC calculations.	x		x	
One-Time Revenue 2	$50 mil			x		x
Recurring Revenue #1	$15 mil	Model impacts consistent with the methodology in previous analysis. Sums represent "base year" funding in FY24. FY23 receives 5/12ths of the "base year" revenue. Revenue grows at 2% annually above the "base" beyond FY24. Revenue credited to the pension fund on June 30th of each year.	x		x	
Recurring Revenue #2	$40 mil			x		x

Contribution C1		(Group C Only) Increase of 1.35% phased in over 3 years beginning in FY23 (0.45%/year).	x	x		
Contribution C2		(Group C Only) Adopt marginal rates based on salary percentiles beginning in FY23: Income in 0-25th percentile : status quo 8.53% Income in 25.01-50th percentile: 9% Income in 50.01-75th percentile: 10% Income above 75th percentile: 11% (Please also provide the current salary levels at the 25/50/75 percentiles).			x	x

Model each of the Max Benefit Cap options below with each of the 4 revenue scenarios above. For both scenarios assume adoption rates are 50% retire status quo, 10% each year age 51-53, 5% each year age 54-57.

<u>Max Benefit Cap C1</u>: Increase the Max Benefit Cap by 1% of AFC for each year worked beyond reaching the latter of 50 y/o or 20 years of service. Apply prospectively to service actually worked after July 1, 2022. Increase mandatory retirement age to 57.

<u>Max Benefit Cap C2</u>: Increase the Max Benefit cap by 2% of AFC for each year worked beyond reaching the latter of 50 y/o or 20 years of service. Apply prospectively to service actually worked after July 1, 2022. Increase mandatory retirement age to 57.

<u>COLA Risk Sharing</u>: If possible, estimates were requested for the impact of a risk sharing COLA modification. If the actuarial investment rate of return is greater than or equal to the assumed rate of return, the existing COLA formula would be used. If the rate of return is less than the assumed rate of return, COLA is limited to 1%.

<u>VSTRS</u>

Model <u>2 combined revenue scenarios</u> that include various combinations of these revenue options:

<u>Option Name</u>		<u>Description</u>	<u>Revenue Scenario 1</u>	<u>Revenue Scenario 2</u>
One-Time Revenue	$97.5 mil	Full sum invested on June 30, 2022 and recognized in subsequent ADEC calculations.	x	x

Recurring Revenue #1	$32.5 mil	Model impacts consistent with the methodology in previous analysis. Sums represent "base year" funding in FY24. FY23 receives 5/12ths of the "base year" revenue. Revenue grows at 2% annually above the "base" beyond FY24. Revenue credited to the pension fund on June 30th of each year.	x	
Recurring Revenue #2	$50 mil			x
Contribution 1		Incremental Increases: Actives currently paying 5%: Contributions increase 0.25%/year for 4 years, beginning in FY23. By FY26 the contribution rate would be 6%. Actives currently paying 6%: Contributions increase 0.25%/year for 2 years, beginning in FY25. By FY26 the contribution rate would be 6.5%.	x	
Contribution 2		Replace current "flat" rates with progressive contributions beginning in FY23: 5.5% on first $40K of income 6.25% on income $40-60k 7% on income $60-80k 7.75% on income above $80K		x

Benefit Change Options:

The 2 revenue options described above are then to be applied to 3 different combinations of changes to the COLA benefit. Two versions of the analysis were requested- v.1 applies to all actives, and v.2 exempts actives within 5 years of normal retirement from COLA changes only.

		Scenario 1	**Scenario 2**	**Scenario 3**
COLA 1	COLA Threshold - COLA (status quo 50% of CPI) only on first $48K of retirement benefit. 25% of CPI COLA on retirement benefit above $48,001.	Analyze with Revenue Scenario 1		
COLA 2	Tiered COLA - 100% of CPI on first $20K of retirement benefit. 50% of CPI on retirement benefit between $20,001-$40,000. 25% of CPI on benefit above $40K.		Analyze with Revenue Scenario 2	
COLA 3	Vested COLA - No COLA upon retirement unless the member has at least 15 years of service credit.			Analyze with Revenue Scenario 1

Max Benefit Cap 1	Increase the Max Benefit Cap by 1% of AFC for each year actually worked beyond 33.34 years (Group C2 only) after July 1, 2022 - all actives.	x	x	x

Additionally, modeling/analysis was requested on the expected impact of offering an option for active employees to freeze their pension benefits upon reaching the Rule of 90 or 65 years old and continue working. Upon entering the “freeze,” members would keep working but would stop paying pension contributions and accruing service credits for that time, and their AFC would be calculated at the pre-freeze compensation. Pension benefits would not be paid out until the member officially retires and separates from service.