



Cavanaugh Macdonald

CONSULTING, LLC

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June 13, 2018

Ms. Cecelia Carter
Executive Director
Omaha School Employees Retirement System
3215 Cuming Street
Omaha, NE 68133

Re: New Actuarial Factors and Service Purchase Calculator

Dear Cecelia:

The Nebraska legislature passed LB 1005, as amended by AM 2204 in the 2018 session. Legislative Bill 1005, AM 2204, protects the actuarial basis currently in statute for members who were hired before July 1, 2018. However, the bill authorizes the OSERS Board of Trustees to determine the basis for actuarial equivalence for optional forms of payment for members hired after July 1, 2018.

The definition of “actuarial equivalence”, which requires a specific interest rate and mortality assumption, for members hired before July 1, 2018 is summarized below:

- Forms of payment other than joint and survivor annuities: 8% interest and the 1994 Group Annuity Mortality Table with a one-year age setback, blended 25% male and 75% female.
- Joint and survivor annuities: 8% interest and 1994 Group Annuity Mortality Table with a one-year age setback, blended 65% male and 35% female for the member and blended 35% male and 65% female for the joint annuitant.

The definition of actuarial equivalence only affects the amount of benefit received if a member elects to receive payment under an optional form of benefit. The benefit formula determines the amount of the benefit (Final Average Salary * Years of Service * Multiplier) payable under the normal form of payment, a five year certain and life annuity. Optional forms are based on this amount multiplied by an optional form factor.

Given the changes in the actuarial assumptions that were adopted by the OSERS Board last year, and the fact that additional changes may be made upon the recommendation of the actuary after each experience study, it is likely the factors used to convert the formula benefit to optional benefit amounts for post-July 1, 2018 members will be based on an actuarial equivalent basis that is different from the current basis. Assuming the Board of Trustees would like to develop optional form factors based on actuarial assumptions that are consistent with the valuation assumptions, we can make recommendations for the assumptions to be used (interest rate, mortality and COLA) and then develop the new factors that will apply to members hired after July 1, 2018.

Ms. Cecelia Carter
June 13, 2018
Page 2



In addition, new optional form factors will be needed for Tier 2 and 3 members to reflect the 1% COLA in the benefit structure rather than the 1.5% COLA for Tier 1. These factors will be based on the statutory interest rate and mortality tables (see description on page 1).

This project is outside our regular retainer services so additional fees will be required for us to prepare the factors. Our best estimate of the additional fees for the two sets of factors would be \$8,000.

In addition, the current spreadsheet that calculates the cost of service purchases should be updated to reflect the changes to the investment return and mortality assumptions to avoid any potentially negative impact on the funding of the system. Cavanaugh Macdonald Consulting did not create the current service purchase cost calculator so there will be a significant amount of work required to analyze the current methodology and then to develop a new service purchase calculator (in Excel) that can be used internally by staff. At this point, our best estimate of the time involved is \$12,000 to \$15,000. We can monitor our time as we work on this project and notify you if it appears the budgeted amount will be insufficient. Obviously, if less time is involved, we will only bill the actual hours and the cost will be less.

If you have any questions or additional information is needed, please let me know.

Sincerely,

Patrice Beckham

Patrice A. Beckham, FSA, EA, FCA, MAAA
Principal and Consulting Actuary