OSERS Transition Board of Trustees Meeting

Experience Study Recommendation

January 6, 2022

Public Schools

Agenda

1. **General Information and History**
2. **Key Factors Considered**
3. **Options Evaluated**
   - Options Cited in Cavanaugh Macdonald's Original Report
   - Other Alternatives Considered
4. **Recommendation**

Appendix – NPERS Economic Assumption Changes

General Information and History

- Cavanaugh Macdonald concluded their Experience Study and issued their report dated October 7, 2021
  - The report included recommended changes to the plan's economic assumptions
  - Any changes would be effective for the January 1, 2022 valuation and impact the ARC due in this fiscal year
- Economic assumptions include: investment return, price inflation, wage growth, Inflation or COLAs, and payroll growth
- The investment return assumption has the biggest impact on the District's ARC payment. Small changes can have a big impact on amounts due
- CavMac's initial report only included 2 recommendations for implementing changes to the recommended assumptions:
  - Making the entire change in year 1; no phasing over time
  - Accelerating the phasing of changes over a 3-year period (while NPERS is using 4 years)
- In late October, CavMac was asked to model 2 additional options utilizing a similar 4-year phasing timeline used by NPERS

General Information and History

- These 2 additional options were received from CavMac on November 19th
  - Option 1 phases changes in over 4 years with more of a change in year 1
  - Option 2 phases changes in over 4 years with more of a change in year 4
- All 4 options (2 original and 2 additional) were reviewed by District leadership and presented to a sub-committee of the Board of Education on December 17th
- The Committee agreed on a recommendation that is felt best serves both the Plan and the District

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Appendix – NPERS Economic Assumption Changes

Key Factors Considered

Long-Term Health of The Plan

- Changes being considered should not adversely impact funding of the under-funded liability or extend the time it takes to reach 100% funding (i.e., 2049)

What is NPERS Doing?

- NPERS has a plan to phase in changes to their economic assumptions over a 4-year period; OSERS should follow the same approach
- OSERS should try to match the “end state” rates being adopted by NPERS in “year 4” for each of the key assumptions

Financial Considerations

- OPS’s general fund budget is fully allocated in the current year. Any significant change to the investment return assumption in year 1 would stress the current budget and likely lead to expense reductions this year
- OPS is opening 5 new schools in the next 20 months. First-year operating costs for these schools are estimated to be nearly $40m. Assumption changes adopted for the plan should reflect the reality of resources available to sustain higher ARC payments

Timing of Changes

- Where possible, the scheduled phasing of changes should have OSERS and NPERS at that same end point during the first year of transition of the plan to the state (i.e. FY 2024-25)

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Options Evaluated With Comments

- **Option 1 : Phasing In Changes Immediately**
  - Overly aggressive plan that is not financially sustainable in the short-term
  - No requirements to implement immediately
  - Financial Impact(1): $8.4m estim. increase in the ARC payment required this year; $25.4m over 3 years

- **Option 2: Phasing in Changes Over 3 Years**
  - 3-year phasing of changes is more aggressive than what NPERS is doing (4-year phasing)
  - OSERS would implement 2 years of changes in the current year to "catch up" and actually get ahead of what NPERS is doing
  - Financial Impact(1): $4.4m estim. increase in the ARC payment required this year; $19.4m over 3 years

- **Option 3: Phasing in Changes Over 4 Years (Front Ended)**
  - Mirrors NPERS 4-year phasing
  - Compared to option 4, this reflects a more aggressive implementation
  - Financial Impact(1): $2.7m estim. increase in the ARC payment required this year; $15.1m over 3 years

- **Option 4: Phasing in Changes Over 4 Years (Gradual)**
  - Mirrors NPERS 4-year phasing of changes
  - Compared to option 3, this option reflects a more gradual and consistent step-down of rates / changes
  - Financial Impact(1): $0.4m estim. increase in the ARC payment required this year; $8.3m over 3 years

Note 1: Increases in the ARC cited above are estimates provided by Cavanaugh Macdonald. The dollar change in the ARC payments under each option are in comparison to the ARC payment estimates provided in most recent OSERS actuary report dated January 1, 2021

Note 2: The estimated cost difference between option 3 and 4 (over the next 30 years) is roughly $11.2m. Present valued, the difference is insignificant over the long term. The main impact to our District is in the short-term of a more aggressive implementation of changes in Option 3

Investment Return & ARC

NPERS		Current (7/120)	Year 1 (7/1/21)	Year 2 (7/1/22)	Year 3 (7/1/23)	Year 4 (7/1/24)
4 Year Phasing	Investment Return	7.50%	7.30%	7.20%	7.10%	7.00%

OSERS		Current (1/1/21)	Year 1 (1/1/22)	Year 2 (1/1/23)	Year 3 (1/1/24)	Year 4 (1/1/25)
January 2021 Actuarial Report	Investment Return	7.50%	7.50%	7.50%	7.50%	7.50%
	Estimated ARC	**$22.2m**	**$23.5m**	**$24.6m**	**$25.6m**	**$26.6m**
Option 1 No Phasing; Immediate	Investment Return	7.50%	7.00%	7.00%	7.00%	7.00%
	Estimated ARC	**$22.2m**	**$31.9m**	**$33.1m**	**$34.1m**	**n/a**
Option 2 3-Year Phasing	Investment Return	7.50%	7.20%	7.10%	7.00%	n/c
	Estimated ARC	**$22.2m**	**$27.9m**	**$31.0m**	**$34.2m**	**n/a**
Option 3 4-Year Phasing #1	Investment Return	7.50%	7.30%	7.20%	7.10%	7.00%
	Estimated ARC	**$22.2m**	**$26.2m**	**$29.6m**	**$33.0m**	**$36.3m**
Option 4 4-Year Phasing #2	Investment Return	7.50%	7.40%	7.30%	7.20%	7.00%
	Estimated ARC	**$22.2m**	**$23.9m**	**$27.2m**	**$30.9m**	**$36.5m**

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Recommendation – Option 4

This option phases in OSERS economic assumption changes over 4 years to mirror the number of years being used by NPERS. This option also provides for a gradual reduction in rates with a manageable impact to the District's current year financial obligations to the Plan

	Current (1/1/21)	Year 1 (1/1/22)	Year 2 (1/1/23)	Year 3 (1/1/24)	Year 4 (1/1/25)	NPERS (In Yr. 4)
Investment Return	7.50%	7.40%	7.30%	7.20%	7.00%	7.00%
Real Return	4.75%	4.70%	4.70%	4.65%	4.65%	4.65%
Wage Growth	3.25%	3.20%	3.10%	3.05%	2.85%	2.85%
Payroll Growth	3.25%	3.20%	3.10%	3.05%	2.85%	2.85%
Estimated ARC (Based on Changes Above)	**$22.2m**	**$23.9m**	**$27.2m**	**$30.9m**	**$36.5m**	
Estimated ARC (1/1/21 Actuarial Report)	**$22.2m**	**$23.5m**	**$24.6m**	**$25.6m**	**$26.6m**	

***Note**: The only assumption that has any material impact on the ARC is the Investment Return. The other assumptions collectively would lower the ARC slightly (all other assumptions being equal)*

OMAHA Public Schools

Rationale For Recommendation

- According to Cavanaugh Macdonald, “the system is expected to reach 100% funding in the January 1, 2049 valuation, regardless of which option is selected”. This ensures the amortization period for the unfunded liability is not extended
- Cavanaugh Macdonald further concludes “given that [this option] result[s] in the investment return assumption reaching 7.0% in the January 1, 2025 valuation, we believe [this option] is reasonable and will smooth the impact of the assumption change on the additional District contribution.”
- The financial impact in the current year is manageable
- Estimated increases in the ARC for future years can be adequately planned for; taking into consideration new spending anticipated over the next few years (i.e. new schools, etc.)
- 4-year phasing mirrors the time period being used by NPERS; OSERS and NPERS get to the same place on rates in the first year of transition

Final NPERS Changes
July 2024
→ **Transition**
September 2024
→ **Final OSERS Changes**
January 2025

Conclusion

This is balanced approach and doesn’t adversely impact the overall health of the plan, long-term funding objectives, or the District’s current year budget. It also achieves the goal of matching changes being made by NPERS by the first year of plan transition

Appendix

NPERS Economic Assumption Changes By Year

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Economic Assumptions - NPERS

	Current (7/1/20)	Year 1 (7/1/21)	Year 2 (7/1/22)	Year 3 (7/1/23)	Year 4 (7/1/24)
Investment Return	7.50%	7.30%	7.20%	7.10%	7.00%
Real Return	4.75%	4.65%	4.65%	4.65%	4.65%
Price Inflation	2.75%	2.65%	2.55%	2.45%	2.35%
Wage Growth	3.50%	3.15%	3.05%	2.95%	2.85%
Payroll Growth	3.50%	3.15%	3.05%	2.95%	2.85%
Inflation / COLA (Pre 2013 Hires)	2.25%	2.15%	2.10%	2.05%	2.00%
Inflation / COLA (Post 2013 Hires)	1.00%	1.00%	1.00%	1.00%	1.00%