[redacted]

Subject: Collin County TCDRS plan

From: Bill Bilyeu
Sent: Monday, November 18, 2013 4:25 PM
Subject: FW: Collin County TCDRS plan

From: Chris Bucknall
Sent: Friday, November 15, 2013 11:32 AM
To: Bill Bilyeu
[redacted]
Subject: Collin County TCDRS plan

Bill,

Here are the responses to some of the questions you have given to us and related to the study you have requested of us.

Throughout TCDRS' history, plan design, benefit structure, funding policy and investment strategy have changed and adapted to employer needs, legislation, markets and the external environment. It would require extensive work to provide a complete history of the system changes since 1968, and the history would not be that helpful in making future decisions.

However to answer the basics of your question, in the very early years of the system, all plans were fixed-rate plans. The investment portfolio was in 100% fixed income securities. There was no vesting; employees had to either work for 30 years with the county or still be working for the county at age 60 and have at least 12 years of service to be eligible for retirement benefits. These are just a few examples; there are numerous other differences. As more options were given to employers to allow local control and flexibility, it became unworkable to allow employers to increase and decrease benefits without adjusting the employer contribution rates respectively. So plans were transitioned from the fixed rate design to a variable rate design.

The benefit equation is in some ways very simple: It is like a scale. On one side of the scale, there are contributions and investment earnings. On the other side of the scale, there are the benefits and expenses. This scale needs to be in balance over longer periods of time. In other words, the money coming in (contributions and investment earnings) has to equal the money going out (benefit payments) over time. Adoption of the variable rate plan design kept the plans responsibly funded and the scale in balance.

That said, it is a workable concept to annually adjust benefits and keep your contribution rate at a set level. We are currently preparing models that will show how such an approach would work. Here are some details of the study we are preparing for you. Please note that this study is a "proof of concept" and is not a TCDRS recommendation of a specific funding and benefit strategy for Collin County's TCDRS plan. Collin County will need to determine the final funding and benefit rules that best suit them if the county is interested in this approach.

- Benefit/Funding rules to be used in Milliman's study
    - Collin County plan will adopt an elected rate of 8.5% of payroll.

- Collin County will have a targeted required employer rate range of 4.5% to 8.5% of payroll. As long as Collin County's required employer rate is between 4.5% and 8.5% the benefit level will not change.
- If Collin County's required rate goes over 8.5%, the county will reduce the employer match to the highest match that results in an required employer contribution rate of less than 6.5%. If a 100% match doesn't achieve this level of funding, then Collin County will reduce the match to 100% and then reduce the employee deposit rate until the required employer rate is less than 6.5%.
- If Collin County's required rate goes below 4.5% then the county will increase plan benefits to the highest level that has a required employer rate of less than 6.5%. If the employee deposit rate is less than 7%, the county will try to increase that percentage first and then increase the employer matching percentage. Employer matching increases will apply to future contributions only, and the employer matching percent will not exceed 200%.
- If Collin County passes a COLA they will need to pay for the estimated cost up front or keep track of this cost separately (or this type of benefit/funding strategy will not work).

- Milliman's study
  - Milliman will perform stochastic modeling using our investment advisor's Capitol Market Assumptions and our current target investment portfolio to project multiple ten year investment return scenarios.
  - Milliman will select three 10 year return scenarios, the median 10 year return scenario, one that has better than expected returns (75th percentile), and one that has lower than expected returns (25th percentile).
  - For the each of the selected scenarios, Milliman will project the Collin County plan year by year using the annual returns for that scenario (so the returns will vary from year to year). For each year Milliman will calculate the required rate for Collin County and adjust Collin County's benefit as needed based on the benefit/funding rules stated above
  - Results will be shown for each scenario and will include the investment return, Collin County's employer rate and Collin County's plan of benefits for each year.

Regarding retirees, Collin County does ensure that retirees receive their benefits, and your employer rate takes this into consideration. The study that we are preparing will take into account both the members' and the retirees' benefits.

Regards,
Chris Bucknall
Director of Actuarial Services
Texas County & District Retirement System