DEAN ACTUARIES, LLC

5646 MILTON STREET, SUITE 210 DALLAS, TX 75206 (214) 891-0990 FAX (214) 722-0101

September 19, 2014

Ms. Jodi Cox
CEO/Executive Director
OMRF
525 Central Park Drive
Suite 320
Oklahoma City, OK 73105

Re: Recommended Actuarial Assumptions and Methods for Determining Member Contributions for the Plan Year Beginning July 1, 2015

Dear Jodi:

We recommend the following changes to our actuarial valuations to determine member contributions for the plan year beginning July 1, 2015:

- *Valuation date*: The valuation date will be changed from January 1, 2015 to July 1, 2014.
- *Actuarial asset value*: The actuarial asset value will recognize only one half of the scheduled recognition of existing bases – that is, 12.5% of the transition amount and 10% of the 2013 investment gain/loss – and 20% of the gain/loss determined for the period ending 6/30/2014.
- *Amortization basis*: For plans that set up a fixed amortization period of 30 years at the 1/1/2013 valuation, the remaining unfunded liability as of the 7/1/2014 valuation date will be amortized over 28 years, thus maintaining the fixed ending date of 6/30/2043.

  Plans with a fixed 30 year period at the 1/1/2014 valuation date (either because they were new plans in 2013, or because they came out of a surplus position during 2013) will amortize the remaining unfunded liability as of 7/1/2014 over 29 years.

  Plans setting a new fixed period on 7/1/2014 (new plans and plans coming out of surplus) will amortize the unfunded liability as of 7/1/2014 over 30 years.

  The amortization factor, which has included an additional half year's interest to reflect the 6-month delay before the new contribution rate becomes effective, will now include a full year's interest to reflect the 12-month delay.
- *Normal cost*: Normal cost is calculated as the level percent of pay to fund the employees' retirement plan benefits over their working careers. Because cities contribute a percentage of each payroll, this amount automatically adjusts to reflect changes in pay and new hires after the valuation date. No adjustment to the normal cost is needed.

- No changes in assumptions are recommended at this time. All assumptions (including investment return) will be reviewed at the time of the next experience study, scheduled for 2017.

Sincerely,

Sean M. Sullivan, FSA
Consulting Actuary

SUMMARY OF CHANGES TO ACTUARIAL VALUATION PROCEDURES AND SCHEDULE

Funding Valuation

Changes to Actuarial Method

- *Valuation date*: The valuation date is being changed from January 1 to July 1. The new contribution rate will thus become effective 12 months after the valuation date, rather than 6 months.
- *Actuarial asset value*: Currently, the cumulative investment gains/losses as of 1/1/2013 (transition amount) is being recognized 25% per year; subsequent gains/losses are being recognized 20% per year. Because the 7/1/2014 valuation date is 6 months after the prior valuation date, the actuarial asset value will recognize 12.5% of the transition amount and 10% of the 2013 investment gain/loss. The gain/loss determined for the period ending 6/30/2014 will represent one half year's market activity; the full 20% of this amount will be recognized 7/1/2014 (so as not to halve it twice). Subsequent valuations will resume the full recognition schedule. Thus, the 7/1/2015 valuation will recognize 25% of the transition amount and 20% of each subsequent gain/loss (the 12 months ending 12/31/2013, the 6 months ending 6/30/2014, and the 12 months ending 6/30/2015).
- *Amortization basis*: Most plans set up a fixed amortization period of 30 years at the 1/1/2013 valuation, with the remaining unfunded actuarial liability at the 1/1/2014 valuation date being amortized over 29 years. Because of the 6 month delay before the new contribution rate became effective, these amortization amounts were calculated to fund the unfunded liability over the fixed period ending 6/30/2043. In order to maintain this fixed end date, the remaining unfunded liability as of the 7/1/2014 valuation date will be amortized over 28 years (thus funding the unfunded liability from the 7/1/2015 effective date of the new contribution rate through 6/30/2043).

  Plans with a fixed 30 year period at the 1/1/2014 valuation date (either because they were new plans in 2013, or because they came out of a surplus position during 2013) will amortize the remaining unfunded liability as of 7/1/2014 over 29 years.

  Plans setting a new fixed period on 7/1/2014 (new plans and plans coming out of surplus) will amortize the unfunded liability as of 7/1/2014 over 30 years.

  The amortization factor, which has included an additional half year's interest to reflect the 6 month delay before the new contribution rate becomes effective, will now include a full year's interest to reflect the 12 month delay.
- *Normal cost*: Normal cost is calculated as the level percent of pay to fund the employees' retirement plan benefits over their working careers. Because cities contribute a percentage of each payroll, this amount automatically adjusts to reflect changes in pay and new hires after the valuation date. No adjustment to the normal cost is needed.

Actuarial Assumptions

No changes in assumptions are recommended at this time. All assumptions (including investment return) will be reviewed at the time of the next experience study, scheduled for 2017.

Accounting Valuation (GASB 68)

Overview

- We will adopt a 6/30/2014 measurement date for city fiscal years ending in 2015. For most cities with a 6/30 fiscal year end, this will mean a measurement date that is 12 months prior to the fiscal year end (GASB allows a measurement date up to 18 months prior to fiscal year end.)

- As a result, our first full GASB 68 valuation will be run with the 6/30/2014 census and assets. There will no longer be a need for a preliminary report detailing a city's initial position and estimated expense for fiscal 2015.

- For the initial valuation only, liability at the start of the year will be determined by a "rollback" from the 6/30/2014 census. Therefore, there will be no demographic gain or loss during fiscal 2015, although there will be an investment gain or loss to be amortized.