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April 9, 2015

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

Re: Discount Rate for Member Cities under GASB 68 at the July 1, 2014 Measurement Date

Dear Jodi:

As you know, GASB 68 prescribes a discount rate that reflects the long-term expected rate of return on pension plan investments to the extent that plan assets are projected to be sufficient to make projected benefit payments, and the yield on high quality 20-year tax-exempt general obligation municipal bonds on any payments due after plan assets are projected to be depleted. This determination is generally made by a projection of future trust cashflows: benefit payments to current participants and beneficiaries, contributions from current participants, employer contributions on behalf of current participants, employer contributions on behalf of future participants in excess of their projected service costs, trust investment earnings, and administrative expenses. GASB 68 paragraph 29 also provides, however, that if plan assets can be shown to be sufficient without a separate projection of cashflows, the expected return on plan assets is used for the discount rate.

OkMRF has adopted a funding policy for its members that is designed to fund all benefits payable to participants over the course of their working careers. Any differences between actual and expected experience are funded over a fixed period to ensure all funds necessary to pay benefits have been contributed to the trust before those benefits are payable. Because the assumptions prescribed for the cashflow projection are the same as those used to determine funding requirements (while the funding assumes a net 7.50% return, the cashflow projection uses a 7.75% return with 0.25% assumed administrative expenses), and because the cashflow projection assumes no demographic or investment gains or losses in the future, to the extent that members make their actuarially determined contributions, they will not have a depletion date which would trigger the municipal bond rate for subsequent cashflows.

This conclusion is a mathematical certainty for any plan that does not have an unfunded liability (new plans that did not grant past service credit, and plans in a surplus position). Thus, the only risk for other plans is that the amortization period would defer contributions beyond the time they were needed to pay benefits. While this presents no risk to most plans as benefits to current participants are still being paid 50-75 years into the future (versus a fixed amortization period of 28 to 30 years), we ran a number of sample cashflow projections for cities most at risk. These included:

- plans with large unfunded liabilities relative to payroll
- plans with unfunded liabilities and an unusually high average employee age
- plans with unfunded liabilities and a high ratio of retirees to active employees.

In all these cashflow projections, the plans had no depletion date.

There are 4 member plans where the employer historically has contributed less than the actuarially determined contribution; only one of these members reports on an accrual basis. That member recently made plan changes (effective January 1, 2014) to reduce the actuarially determined contribution below the level they had been contributing, and continued contributing at the prior (and now higher than needed) level. Our cashflow projection for this member determined that this plan did not have a depletion date.

In conclusion, in accordance with our analysis, all OkMRF members reporting on an accrual basis should use the long-term expected rate of return (7.75%) as their discount rate as of the July 1, 2014 measurement date, as none of these members have a depletion date which would trigger the municipal bond rate for subsequent cashflows.

Sincerely,

Sean M. Sullivan, FSA
Consulting Actuary