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The experience and dedication you deserve

“Counter-cyclical Contributions”

National Council on Teacher Retirement

2009 Annual Conference



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National Council on Teacher Retirement



Background

- Root cause of contribution volatility is experience that varies from expected – gains and losses
- Most significant source of gains and losses is actual investment returns compared to the long term expected rate of return
- Bad experience leads to increased contributions with limited ability to reduce benefits
- Good experience leads to contribution reductions and/or benefit improvements





The Current Problem

- Historical market value of assets losses
- Anticipation of significant contribution increases
- Tightened Employer budgets
- Call by some to reduce benefits
- Benefit reductions typically focus on new entrants
- New entrant normal cost is not the problem





Is Asset Smoothing The Answer?

- Reduces volatility but does not eliminate economically cyclical contributions
- Good times - budget surpluses, decreasing contribution rates
- Bad times - budget deficits, increasing contribution rates





Wouldn't It Be Nice If We Could...

- Actuarially reduce contributions during bad times
- Actuarially increase contributions during good times
- Maintain actuarial soundness
- Comply with GASB and actuarial standards of practice





Counter-cyclical Contributions

- Assumed investment rate of return is a reasonable best estimate of longer-term experience
- Experience will differ from the assumption
- Premise: Future experience converges to the expected mean over a reasonable period of time





Effect on Contribution Rates

