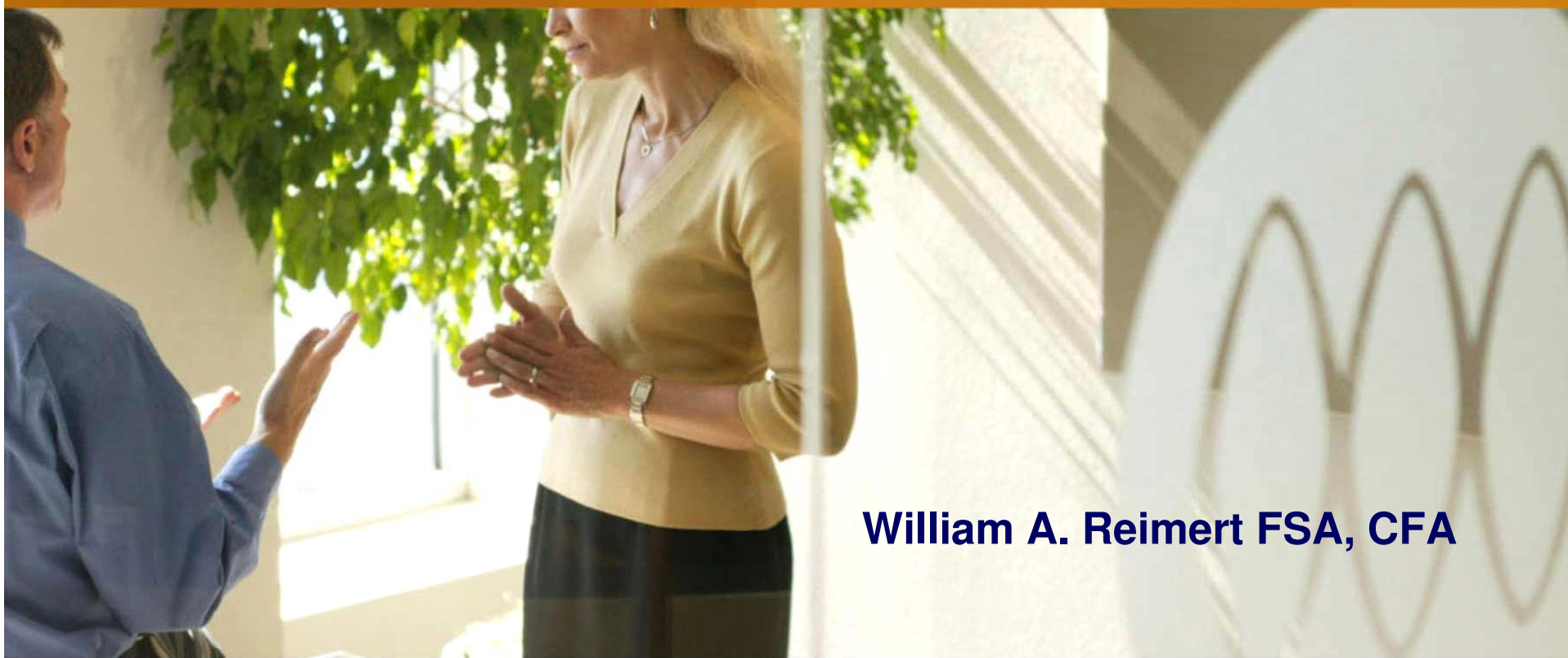


Presentation to Joint Legislative Committee on Public Employee Benefits Reform

August 31, 2006



William A. Reimert FSA, CFA

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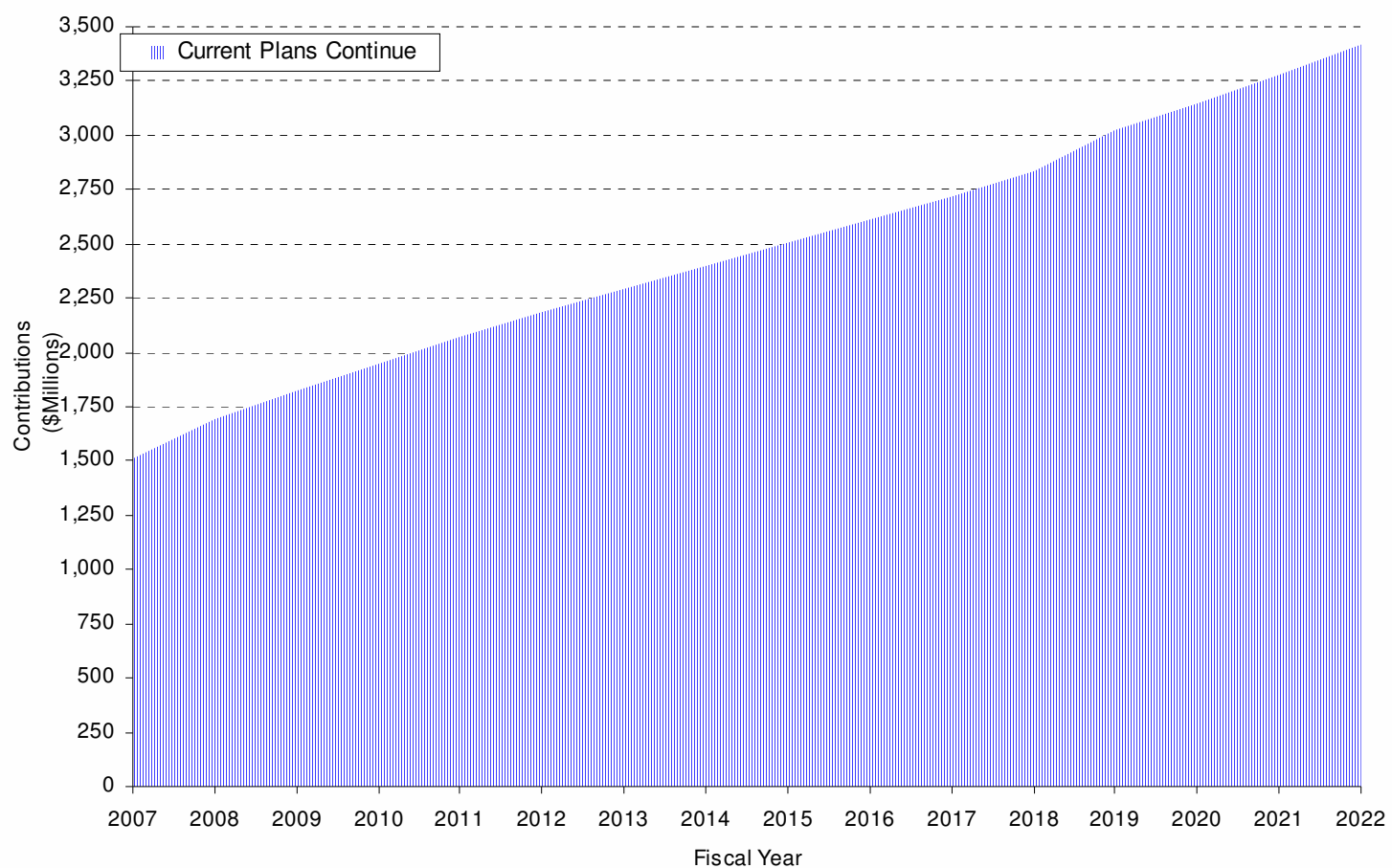


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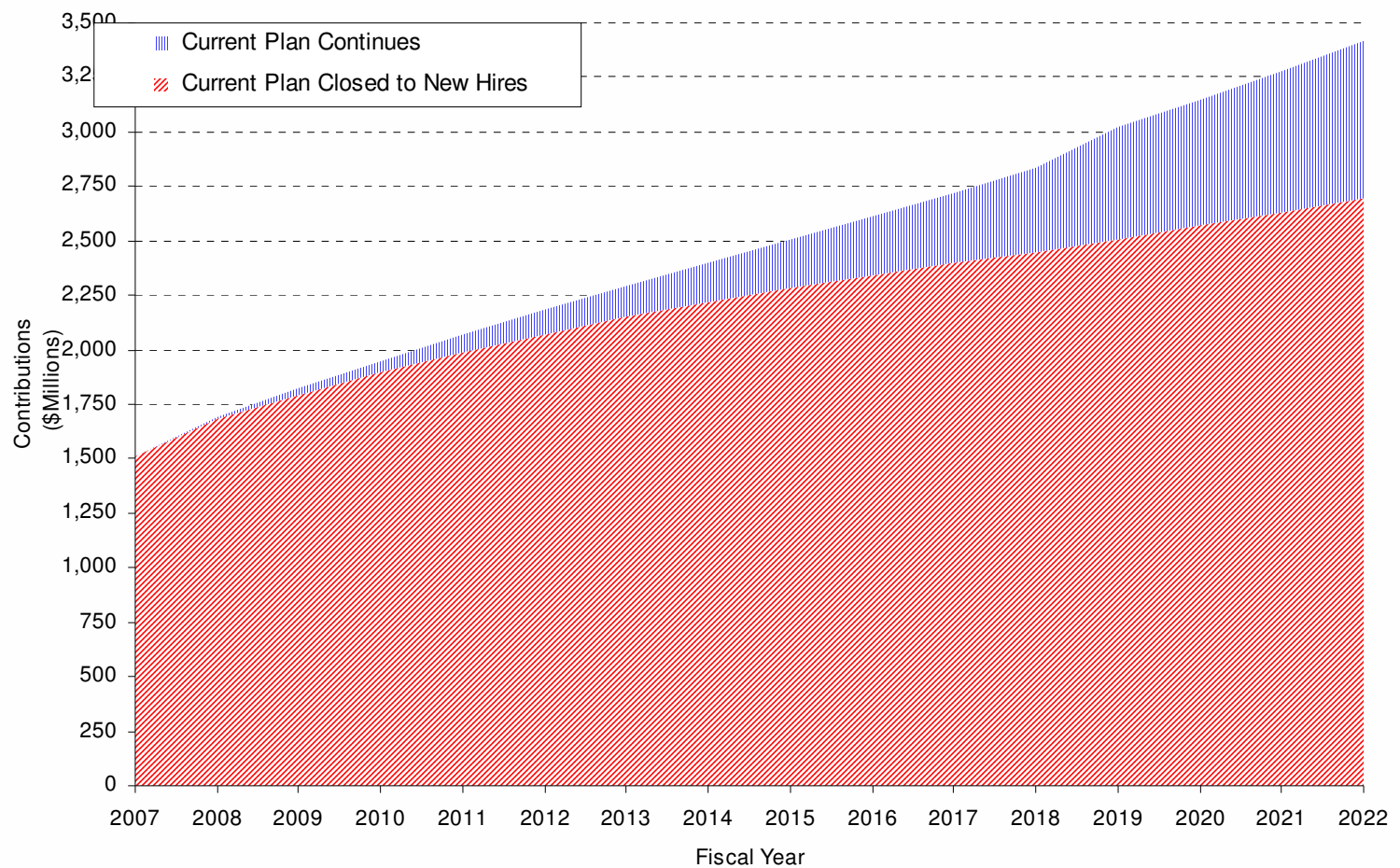
State Projected Contributions to PERS-State & TPAF

Current Plans Continue



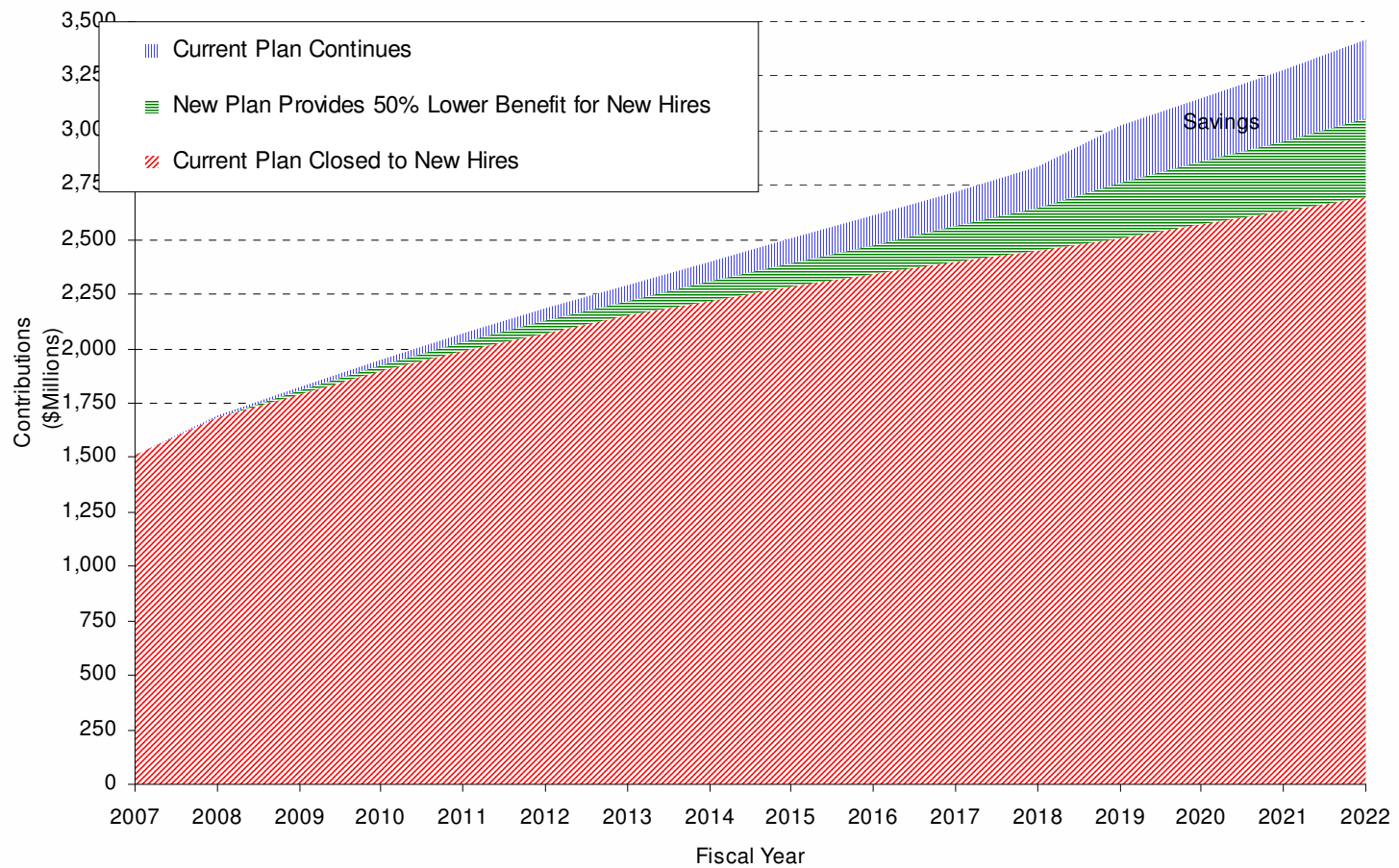
State Projected Contributions to PERS-State & TPAF

If Current Plan Closed to New Hires



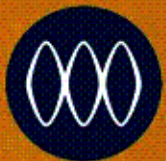
State Projected Contributions to PERS-State & TPAF

If New Plan for New Hires Provided 50% Lower Benefits



Notes with Respect to the Graphs

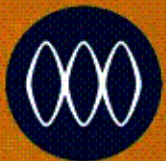
- If PERS and/or TPAF are closed to new members, the amortization of the Unfunded Accrued Liabilities will need to be accelerated beyond amounts in graph in order to accumulate sufficient assets to pay benefits when due.
- Establishing a new DC Plan may increase required employer contributions over the near term (a decade or more) relative to the current DB Plans even though it may reduce employer contributions over the longer term.
- Employer contributions shown are the full contributions specified in current law. (Possible appropriation reductions to 60% or 80% of the full actuarially computed amounts are not reflected.)



Notes with Respect to the Graphs

(continued)

- The DB Plans for Uniformed Employees are excluded; i.e., PFRS and SPRS.
- Differences between the estimates and actual amounts will depend on the extent to which future experience conforms to the assumptions used to project pension contributions. It is certain that actual experience will not conform exactly to the assumptions used in this estimate. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.



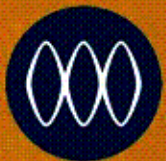
Options for Change

(Assumes State is prohibited from curtailing benefits for current members)

- Modify the features of the current DB Plans for new hires, such as:

the accrual rate, and/or
retirement age, and/or
disability provisions, or

change structure to a hybrid design, e.g., one that may have some characteristics of a DC plan, but which provides fully defined benefits by specifying the contributions and the interest credited on member accounts, and/or provides reduced DB benefits funded solely by employer contributions, etc.

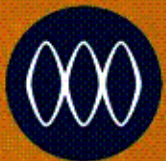


Options for Change

(continued)

- Close the current DB Plans and create a DC Plan for new hires.
- Offer current members the option of moving to a new plan.

This could further increase employer contributions to the extent that members successfully pick the option that will provide them with the greatest benefit.



Comparison of Defined Benefit and Defined Contribution Retirement Plans

Traditional Defined Benefit

Plan defines the annual pension to be paid at retirement. Typically annual pension based on member's service and final average earnings.

Active members can calculate annual pension commencing at future retirement date based on service-to-date and current salary.

Both active members and employers can contribute.

Defined Contribution

Plan defines the annual contribution to be made to the member's account each year. Benefit at retirement is accumulated account balance at that time.

Active members know accumulated balance in their account reflecting all contributions and actual investment returns.

Both active members and employers can contribute.



Comparison of Defined Benefit and Defined Contribution Retirement Plans

(continued)

Traditional Defined Benefit

Employer is required to contribute whatever is necessary to meet actual cost of the benefits provided. (Member contributions and investment returns cover some of the benefits paid to retirees, but the employer must pay the entire balance.)

Annual pensions are typically paid as an annuity over the life of the member or the joint lifetime of the member and spouse.

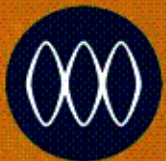
Retirees and beneficiaries receive lifetime pensions. Therefore, employer assumes longevity, i.e., life expectancy, risk.

Defined Contribution

Employer's obligation is to pay each year the annual contribution defined by the plan. No residual employer obligation if investment returns are unfavorable; no employer savings if returns are favorable.

Account balances are typically paid as a lump sum at retirement. Plan may offer annuitization option, but most private sector plans do not.

Account balances may be exhausted before member and/or spouses death. Employee assumes longevity risk.



Comparison of Defined Benefit and Defined Contribution Retirement Plans

(continued)

Traditional Defined Benefit

Employer can contribute less if investment returns are favorable and must contribute more if investment returns are unfavorable.

Annual pensions are adjusted to reflect salary inflation before retirement and cost inflation after retirement. (NJ systems reflect 60% of CPI.)

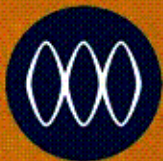
Members cannot receive benefits until they retire, die, become disabled or elect a refund at termination.

Defined Contribution

Employee will have a higher account balance at retirement if investment returns are favorable and a lower account balance if investment returns are unfavorable.

Investment returns tend to reflect inflation over very long timeframes, but may not do so over the short-term, i.e., periods of a decade or more.

Plan may allow in-service loans, so account may be depleted before retirement, death or disability.



Comparison of Defined Benefit and Defined Contribution Retirement Plans

(continued)

Traditional Defined Benefit

Plans may pay disability pensions.

Plans may pay survivor pensions and/or lump sum death benefits.

Plans can provide subsidized early retirement benefits to those who retire “early”.

Defined Contribution

Account balance likely to be inadequate to provide meaningful disability income to younger, shorter service members.

Account balance likely to be inadequate to provide meaningful survivor income to younger or shorter service members or to retirees who largely exhaust their account before death.

Account balances for those who retire early will be significantly lower than they would be if retirement were delayed and must provide income for more years.



Comparison of Defined Benefit and Defined Contribution Retirement Plans

(continued)

Traditional Defined Benefit

Plan “skews” benefit distributions toward older, longer-service members.

Employer has some contribution flexibility. (Pay now or pay more later)

Investments can be managed as a large commingled pool with a long-term view, which permits the use of more volatile asset classes expected to produce higher returns over time.

Defined Contribution

Plan provides same contribution to members without regard to their age or length of service.

Employer must pay defined contribution annually as specified by the plan.

Individual member-managed accounts are typically managed with a shorter-term perspective in less volatile asset classes expected to produce lower returns over time.



Comparison of Defined Benefit and Defined Contribution Retirement Plans

(continued)

Traditional Defined Benefit

Employers can invest in investment classes, such as private equity, not available to individuals.

DB plans can be amended easily to provide early retirement windows and/or other benefit enhancements and the employer can pay for those improved benefits over time.

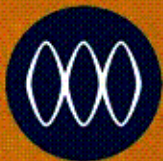
Older workers can retire with assurance of a defined level of income replacement.

Defined Contribution

If employees can direct the investment of their own account, fewer investment opportunities can be offered.

DC plans cannot provide early retirement incentives. Benefit improvements must be paid in full each year.

Older workers subject to uncertain income replacement due to investment market volatility before or after retirement.



Questions?



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In preparing the graph of the contribution projections, we have relied on the data and information provided by the Division of Pensions & Benefits and the PERS' actuary. We have not audited or verified this data and information. If the data or information is inaccurate or incomplete, the results may likewise be inaccurate or incomplete.

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