

**ANNUAL REVIEW OF  
MTA DEFINED-BENEFIT PENSION PLANS**

MTA Finance Committee  
June 17, 2003

## **Annual Pension Review: Introduction**

- Focus of this year's review: degrees of underfunding and earnings-rate assumptions
  - Usual data on performance is provided, but is not the focus today
- Review is divided into following parts
  - Basic information
  - Funding progress
  - Earnings-rate assumptions
  - Recommendations
  - Appendix

## Annual Pension Review: Basic Information<sup>1</sup>

-- Four basic defined-benefit systems:

(Dollars in Millions)

<b>System</b>	<b>Asset Actuarial Value - 1/1/02<sup>2</sup></b>	<b>Asset Actuarial Value - 1/1/01<sup>2</sup></b>
Long Island Rail Road (2 Funds)	\$820.8	\$813.8
SIRTOA	\$33.8	\$31.0
MaBSTOA	\$656.4	\$611.5
MTA	\$255.5	\$240.4

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<sup>1</sup> See Attachment 1 in the Appendix for details.

<sup>2</sup> Actual Asset Value as reported in Attachment 1 differs from Actuarial Value,

## Annual Pension Review: Funding Progress

- Summary of funding progress<sup>1</sup>:

(Dollars in Millions)

Pension Fund	Funded Ratio -1/1/93	Funded Ratio - 1/1/02	Funded Ratio - Peak Year 1993 - 2002
LIRR	37.4	56.6	67.4 <sup>2</sup>
SIRTOA	49.9	78.2	80.4 <sup>3</sup>
MaBSTOA	16.5	40.6	40.6
MTA	85.3 <sup>4</sup>	89.9	89.9

- Average ratios for Milliman USA survey of 100 private companies – 82.4% in years ending in 2002. Average ratio for 50 States from Wilshire Report - 91% in 2002.

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<sup>1</sup> For details, see Attachment 2.

<sup>2</sup> Peak Year was 1998.

<sup>3</sup> Peak Year was 2000.

<sup>4</sup> Data from 2000, the first comparable year.

## **Annual Pension Review: Funding Progress (continued)**

- Is more progress necessary?
  - What is the appropriate funding status? Is a little underfunding tolerable?
  
- Ways to progress more rapidly:
  - Begin or accelerate amortization of unfunded liability
  - Use excess earnings to amortize
  - Pension benefit obligations

## **Annual Pension Review: Earnings Rate Assumptions<sup>1</sup>**

-- Current assumptions are:

<b>System</b>	<b>Earnings Rate (percent)<sup>2</sup></b>
Long Island Rail Road (2 Funds)	8.50
SIRTOA	8.00
MaBSTOA	8.25
MTA	8.25

- Average rates for Milliman USA survey of 100 private companies – 8.92% in years ending in 2002. Average ratio for 50 States from Wilshire Report - 8% in 2002.

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<sup>1</sup> See Attachment 4 for details

<sup>2</sup> All except Long Island Rail Road are net of investment expenses.

## **Annual Pension Review: Earnings-Rate Assumptions**

- The current interest rate assumptions are not inconsistent with long-term trends (except for the past five years. Assuming a 60/40 equity/debt asset allocation, and using commonly available indices, for the following periods the average returns would have been:
  - Last 5 years, 3.3%
  - Last 10 years, 9.0%
  - Last 20 years, 11.8%
  - Last 27 years, 11.6%
  - Last 50 years, 9.7%

## **Annual Pension Review: Earnings-Rate Assumptions**

- Note also that changes in the unfunded liability are determined more by the spread between the investment earnings assumption and the earnings-base (pensionable compensation) increase assumption than by the former alone. And don't forget the effects of the other actuarial assumptions (e.g., longevity) as well.
  
- However, some parties would caution that the past is not the prologue to the future, and that even the long-term trends discussed previously need to be analyzed more carefully (e.g., can the rate of the run-up in P/E ratios continue indefinitely?).
  
- So, what are the financial consequences of changing the earnings-rate assumptions?

## Annual Pension Review: Earnings Rate Assumptions (continued)<sup>1</sup>

-- For each 1 percent decrease in the earnings assumptions, the actuarially required contributions would increase by the following dollar and percentage amounts:

<b>System</b>	<b>Dollars (in millions)</b>	<b>Percentage</b>
Long Island Rail Road (2 Funds)	\$3.5	8.39
SIRTOA	\$1.0	71.43
MaBSTOA	\$25.1	20.32
MTA	\$5.9	27.70

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<sup>1</sup> See Attachment 4 for details

## **Annual Pension Review: Recommendation**

- The Committee should adopt a resolution setting forth the following summary of its views:
  - While the ultimate fiduciary responsibility for the pension funds lies with their several boards of managers, it is the sense of this Committee that the several pension boards of managers should:
    - Review their current earnings-rate assumptions, recognizing that it is likely over the short to intermediate term that realization of earnings in the 8 to 8+ range may not be achievable without a greater degree of risk than obtained in the past;
    - In connection therewith, review their other actuarial assumptions, if no such review has been undertaken during the past five years;
    - Adopt policies for periodic review for earnings-rate and other actuarial assumptions, with such reviews occurring no later than every five years.

## **APPENDIX (ATTACHMENTS)**

## **List of Attachments**

<b><u>Attachment Number</u></b>	<b><u>Attachment Title</u></b>
One	Annual Review of MTA Pension Funds (12 pages)
Two	Funding Progress of MTA Sponsored Defined Benefit Plans (2 pages)
Three	Schedule of Pension Funding Progress (excerpt from financial statements) (1 page)
Four	MTA Pension Plans: Performance Review as of December 31, 2002