CHEIRON CLASSIC VALUES, INNOVATIVE ADVICE

UNITE Hotel and Restaurant Employees Local 25 and Hotel Association of Washington DC Pension Plan

Experience Study

July 19, 2012

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Topics for Discussion

- Experience Study Background
- Experience Study Analysis
  - Economic Assumptions
  - Demographic Assumptions
- Summary of Recommended Changes
- Projected Financial Impact

Experience Study Background

Reconcile Unfunded from 2006 to 2011

Unfunded Actuarial Liability as of January 1, 2006	$ 16.2
Investment (Gains)/Losses (compared to expected 7.5%)	14.3
Benefit Improvements	14.4
Liability (Gains)/Losses	1.9
Expected Change*	(18.9)
Net Change	11.8
Asset Surplus as of January 1, 2011	$ 27.9

* Normal Cost, Contributions, Benefits, & Interest

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Experience Study Background

- An experience study is a detailed review of the key assumptions, performed every 4 or 5 years, to ensure the plan is being valued appropriately.
- Internal Revenue Code requires that the assumptions be *individually* reasonable
- Economic
  - Investment Return
  - Inflation
  - Expenses
- Demographic
  - Retirement
  - Termination
  - Disability
  - Mortality
  - Missing Gender
  - Missing Date of Birth

Economic Assumptions

Factors to Consider

- Past Experience of the Plan
- Historical Data in General
- Outlook for the Future

Economic Assumptions

Past Experience

Plan Year	Return	Plan Year	Return
1997	19.1%	2005	5.4%
1998	19.4%	2006	11.8%
1999	16.6%	2007	6.0%
2000	(1.9%)	2008	(22.7%)
2001	(3.8%)	2009	16.4%
2002	(7.4%)	2010	11.3%
2003	13.2%	2011 (Est.)	1.2%
2004	7.7%		

Average Return (15 years)	5.5%
Average Return (10 years)	3.6%
Average Return (5 years)	1.4%

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Economic Assumptions

Historical Data in General

Period thru 2011	Years	60% Equity/40% Bond Index	Inflation[1]
Since 1926	86	8.57%	2.99%
Since 1946	66	8.88%	3.89%
Since 1946	46	8.71%	4.35%
Since 1986	26	9.09%	2.83%
Since 1996	16	6.71%	2.44%

[1] *CPI-U (All Cities) shown since Wash DC only goes back to 1996*

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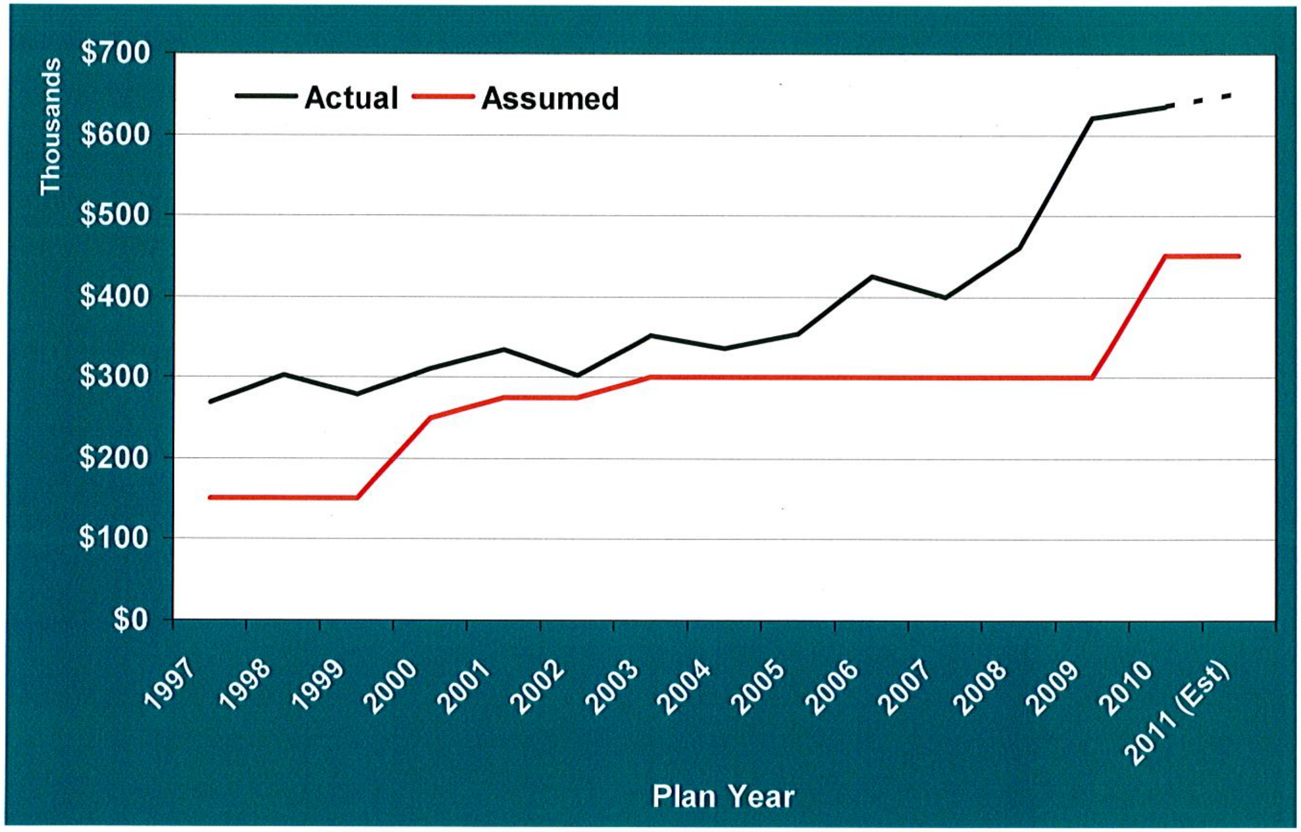
Economic Assumptions
Outlook for the Future

- Meketa's Expected Return
  - Projected an annual return of 7.2% on the current allocation (Policy C in Meketa's Asset Allocation Policy Review and Recommendation)
  - Investment related fees have averaged 15 basis points over the last eight years
  - Anticipated net return in the range of 7%
- Suggest move from current 7.5% assumption to either 7.25% or 7.0%

Economic Assumptions
Administrative Expenses



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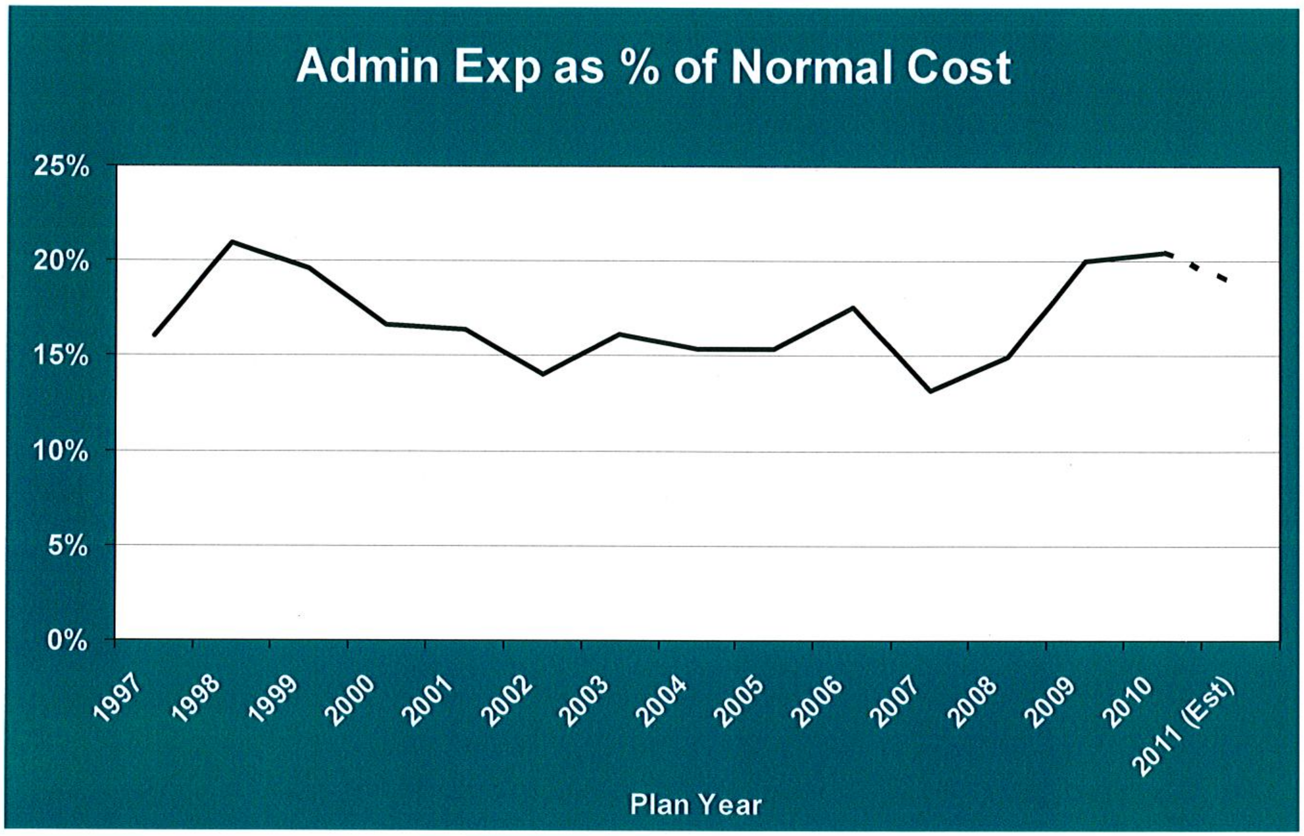
Economic Assumptions
Administrative Expenses



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Economic Assumptions

Summary

- Recommended Changes
  - Interest Rate: Change to either 7.25% or 7.0%, depending on desired level of conservativeness
  - Maintain assumption that returns are net of investment expenses
  - Administrative Expense: Move away from a level dollar assumption to use a load of 15% on plan normal cost

Demographic Assumptions

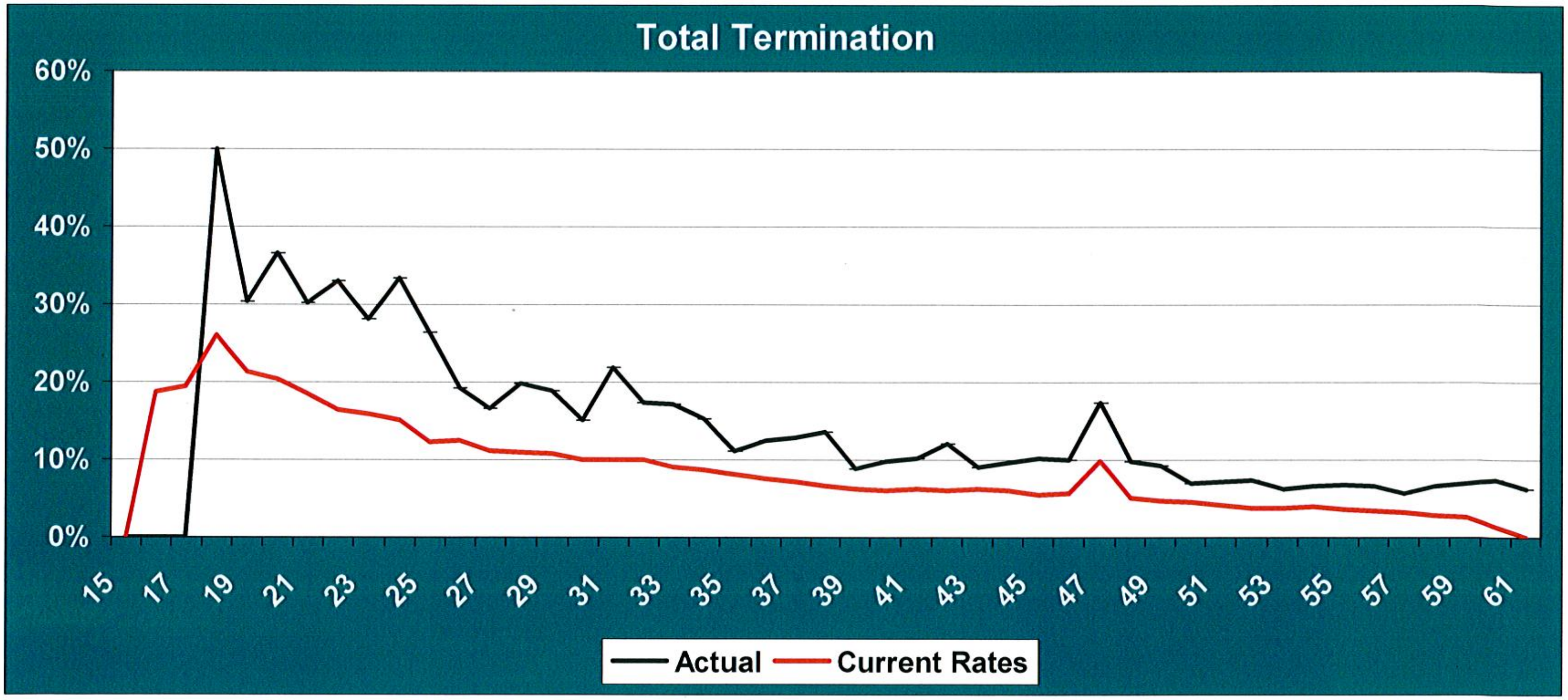
- Turnover
- Withdrawal
- Disability
- Mortality
- Missing Gender
- Missing Dates of Birth

Rate of Turnover

- Current assumption is age-based but with higher rates in the first 5 years of employment
- Experience from 2006 through 2010

Service	Actual	Expected	Ratio
0-1	368	219	1.68
1-2	467	363	1.29
2-3	292	215	1.36
3-4	186	122	1.52
4-5	142	73	1.95
5+	914	282	3.24
Totals	2,369	1,274	1.86

Total Turnover Experience



In this graph it looks like termination varies by age, however, if we split it up by service cohorts......

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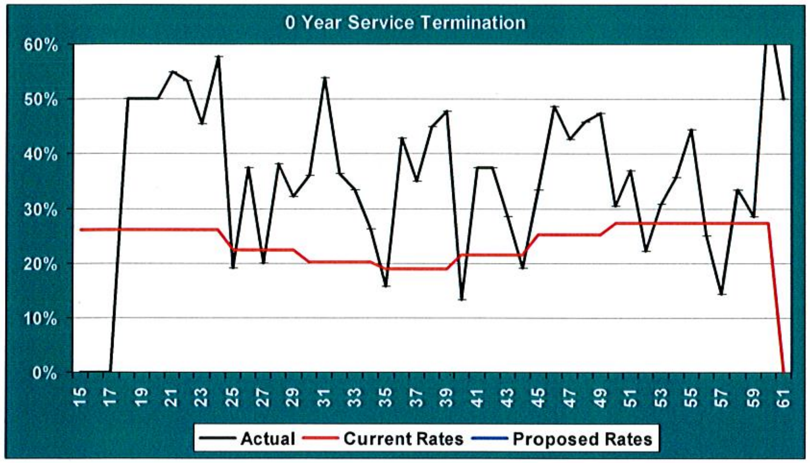
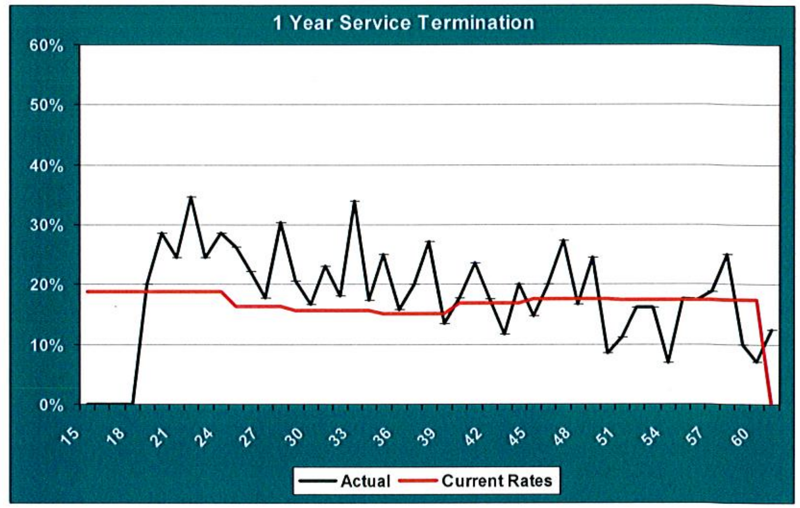
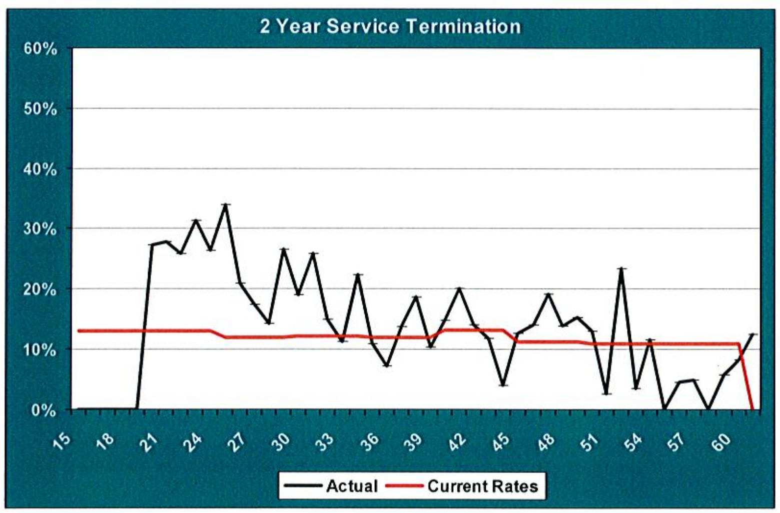
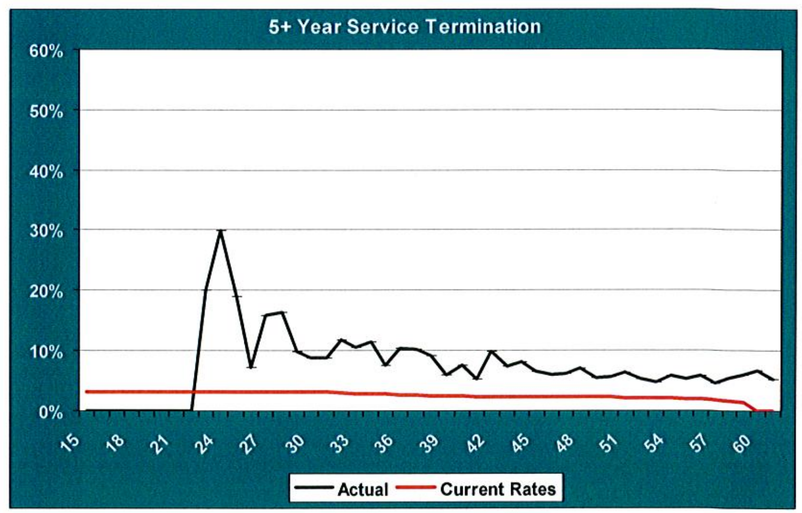
...we see that there is very little variation by age









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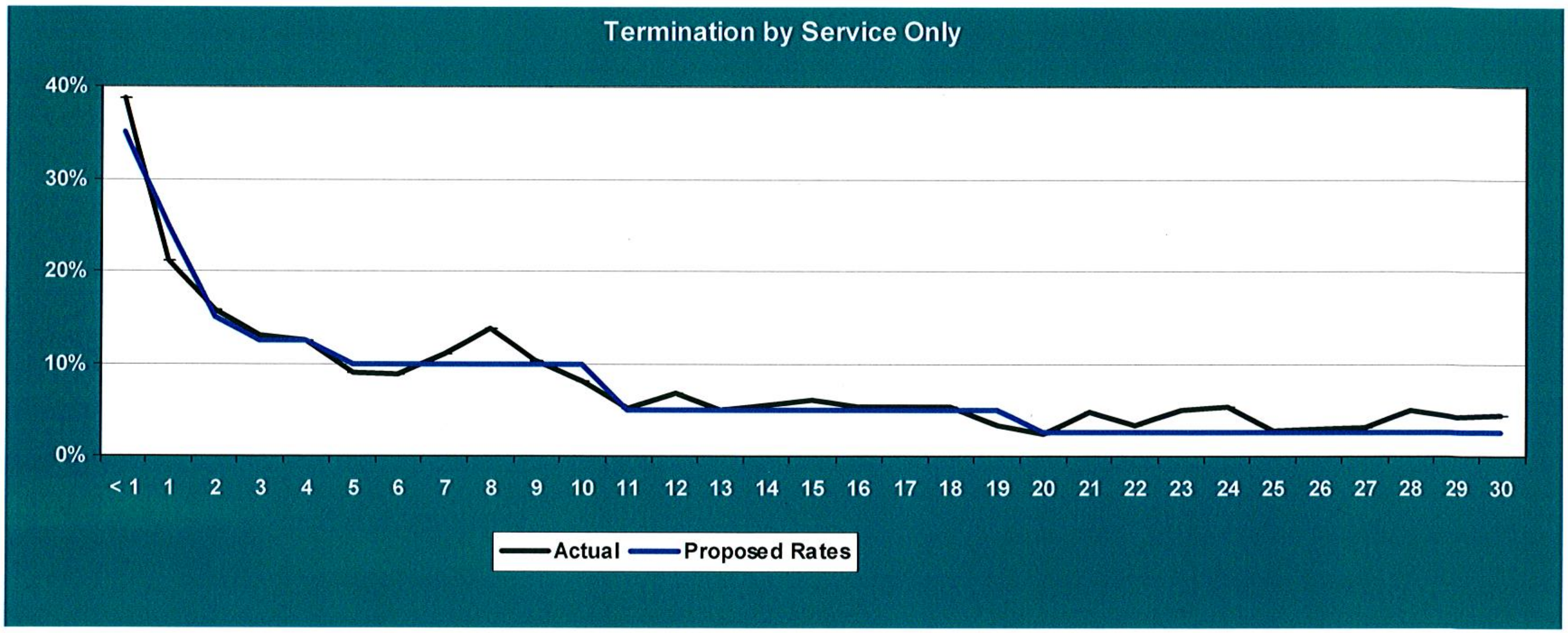
Rate of Turnover

- Predicting Service-based seems more appropriate



- Ratio under proposed rates: 1.02

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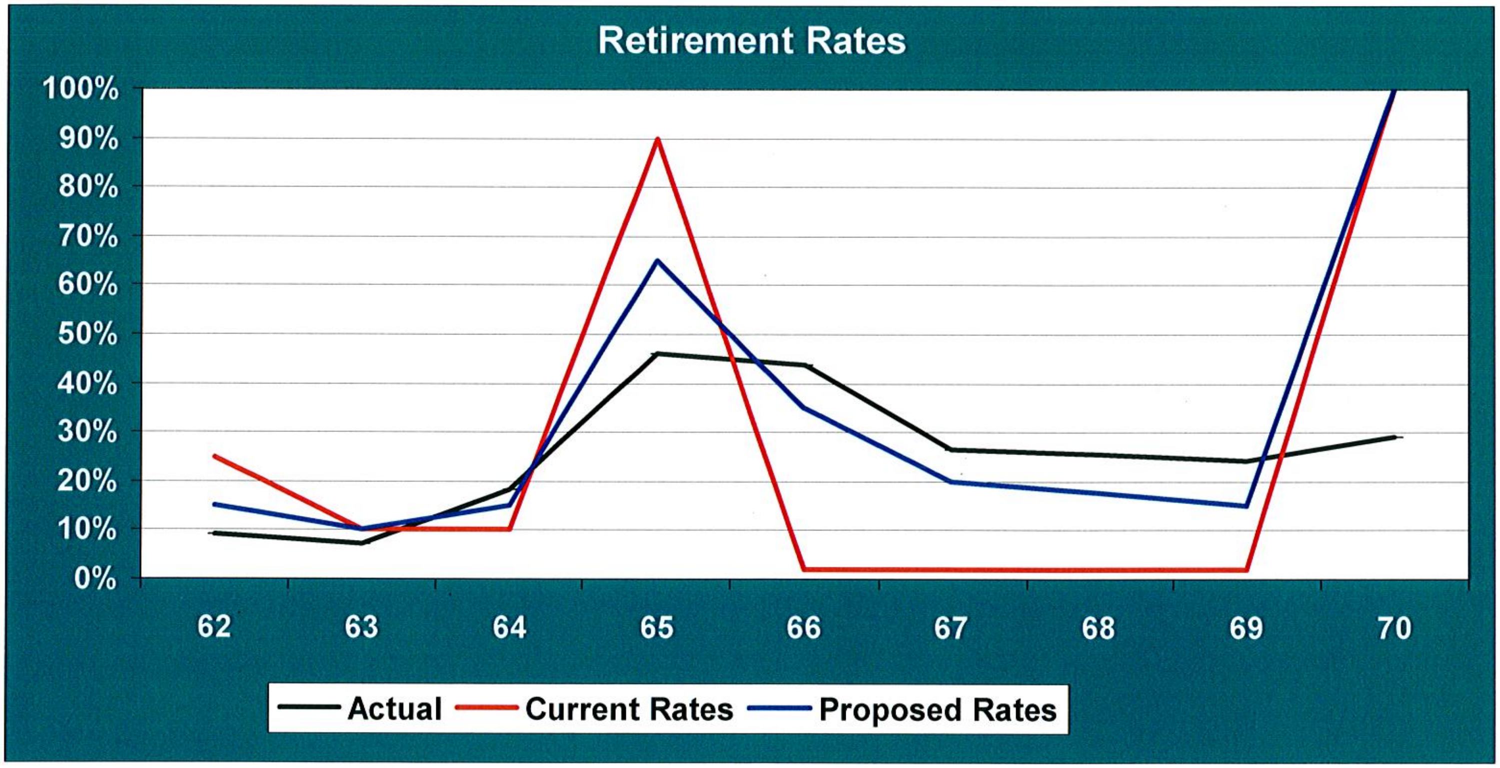
Rate of Retirement

- Current assumption is age-based
- Experience from 2006 through 2010
  - Fewer people than expected retired prior to age 66
  - More than expected took retirement at ages 66 through 70

Rate of Retirement

Retirement Age	Actual	Expected	Ratio
62	17	46	0.37
63	24	33	0.73
64	55	30	1.83
65	112	219	0.51
66	56	3	18.67
67	19	1	19.00
68	13	1	13.00
69	9	1	9.00
70	9	31	0.29
Totals	314	365	0.86

Rate of Retirement



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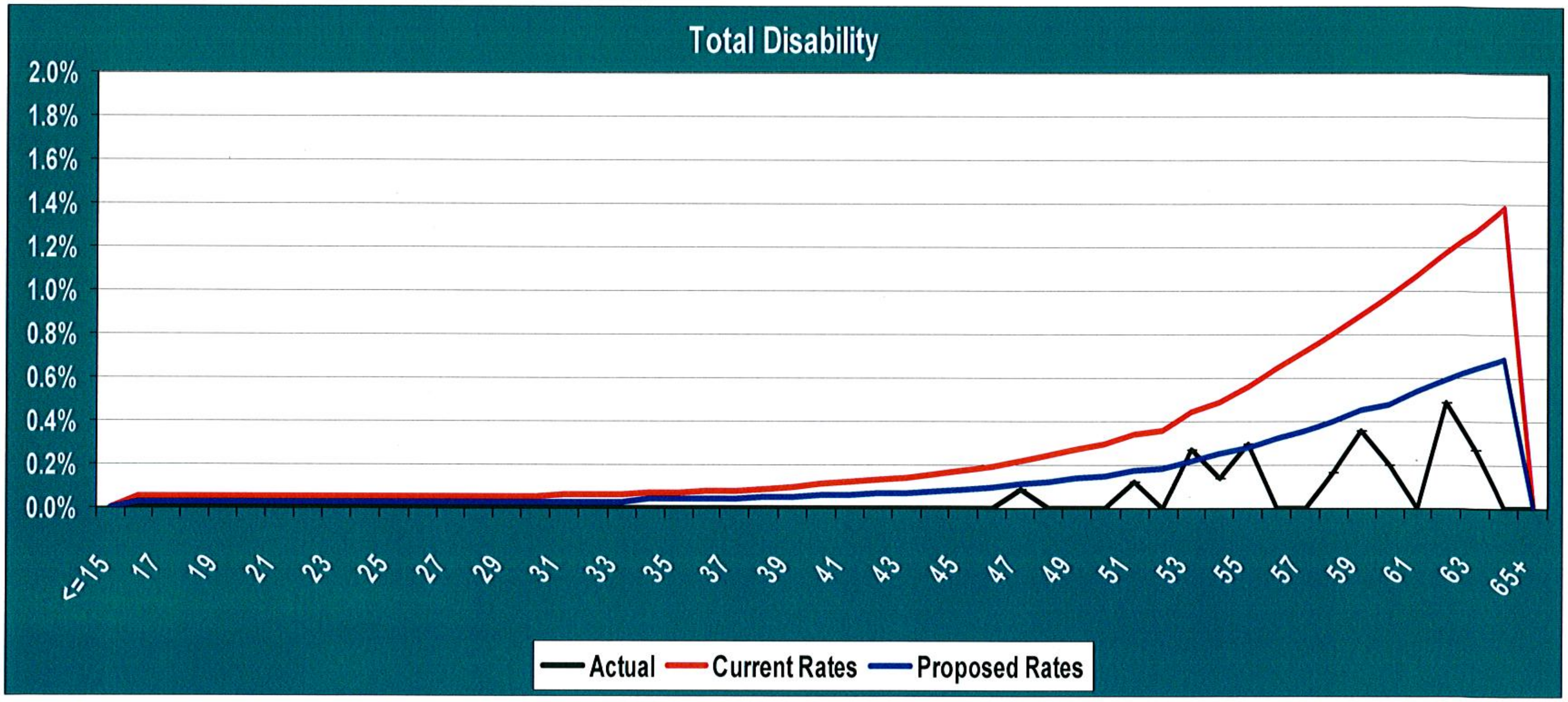
Rate of Disability

- Current assumption is age-based
- Experience from 2006 through 2010
  - Very low number of actual incidences based on data provided to us; not statistical significant

Actual	Expected	Ratio
14	77	0.18

Rate of Disability



- Halve the disability decrement

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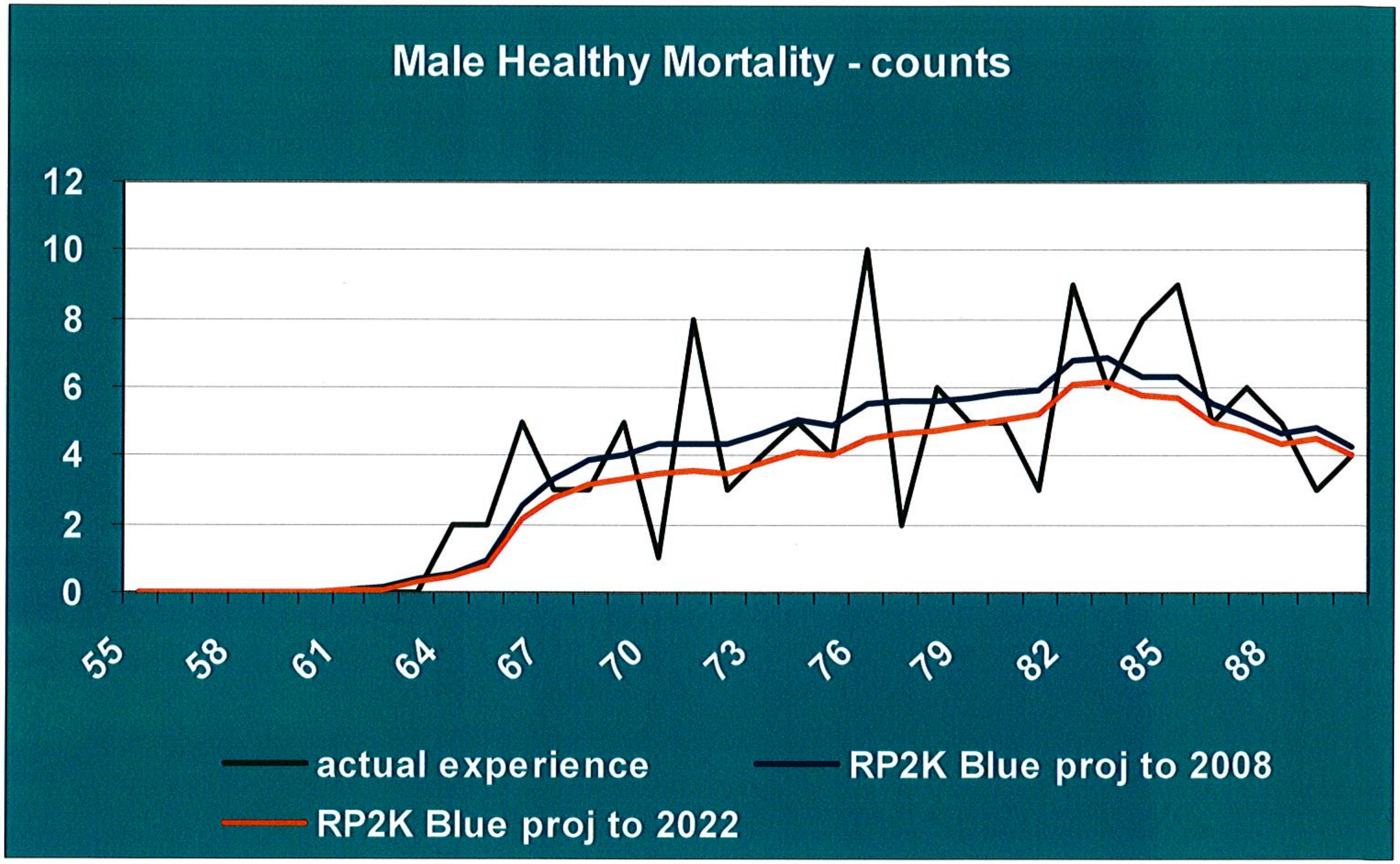
Rate of Mortality

- Current assumption
  - Healthy lives: 1994 GAM, set forward one year for males and females
  - Disabled lives: 1994 GAM, set forward nine years for males and females
- ASOP 35 was recently revised to require the actuary to identify both the underlying mortality as of valuation date as well as provision for future mortality improvement included in assumption

Rate of Mortality

- Compared experience for 2006-2010 to a number of standard tables projected to the mid-point of the period (i.e., 2008)
- Best fit was the RP 2000 mortality table with blue collar adjustment
- Propose using an additional projection to 2022 to allow margin for continued improvement
- Will periodically test continued applicability and adjust projection year in the future as warranted
- Use the companion disability tables in the same way

Male Mortality



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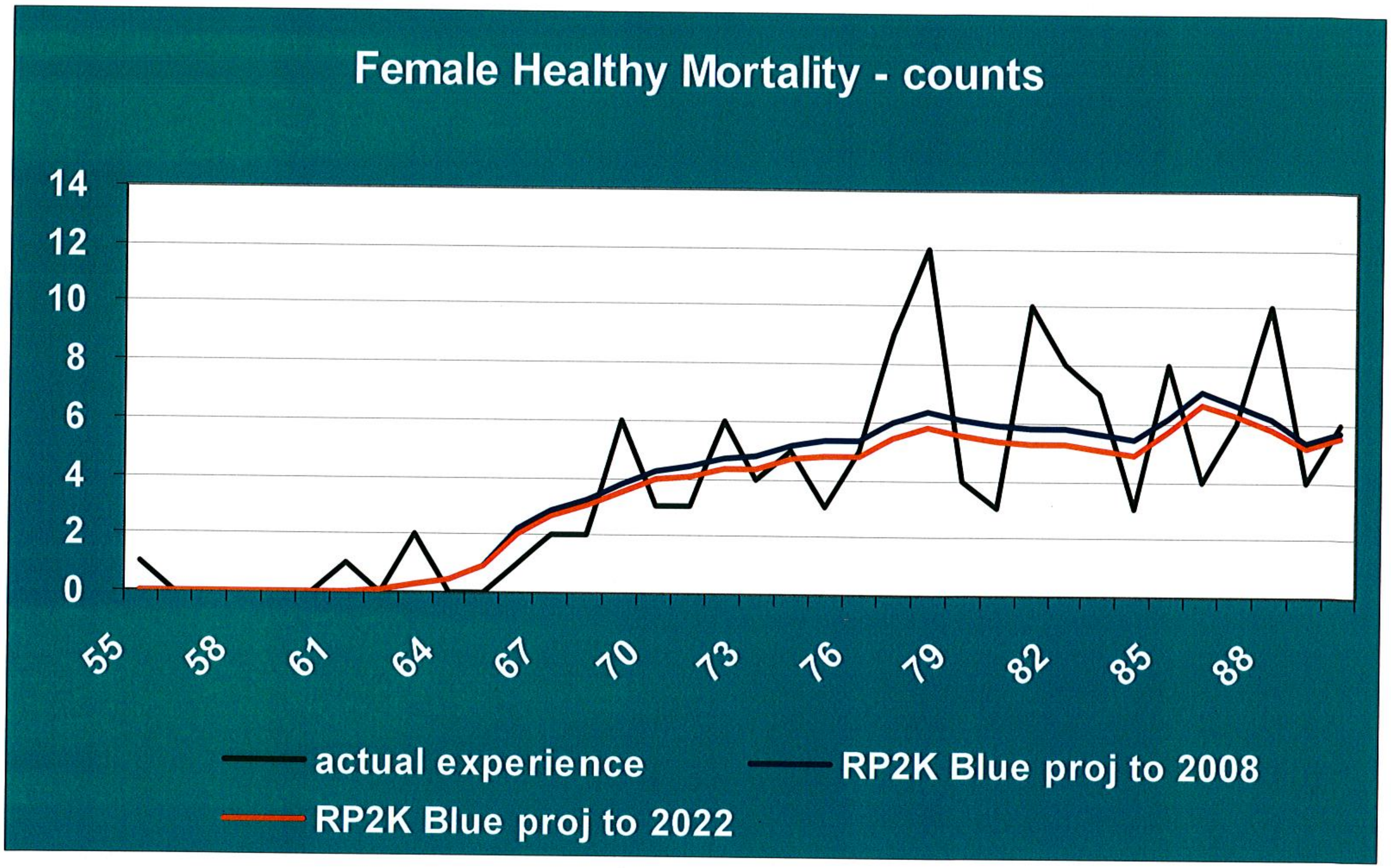
Female Mortality



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Missing Gender

- Current assumption is to use last digit of SSN; Odd = Female and Even = Male

	Actual	Assumed
Male	110	86
Female	60	84

- Population is 65% male so use male if last digit is 0-6, female if 7-9

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Missing Dates of Birth

- Current assumption is to use date of birth based on average age for non-missing participants

	Actives With Missing Date of Birth			Known Date of Birth Later			
Valuation Year	Count	Assumed Age	Average Service	Count	Actual Age	Assumed Current	Assumed Proposed
2008	130	46.9	0.8	74	40.7	46.9	36.4
2009	200	47.2	1.0	112	39.2	47.2	36.5
2010	61	47.0	1.0	7	39.1	47.0	37.4

- Propose using date of birth based on adjusted average hire age of 35 and missing participant's years of benefit service

Demographic Assumptions

Summary

- Recommended Changes
  - Turnover: Change to service-based only table
  - Retirement: Reflect behavior of more participants retiring after age 65
  - Disability: Cut current table in half
  - Mortality: Move to RP-2000 Combined table with Blue Collar adjustments projected with scale AA to 2022
  - Missing Gender: Assume 70% male
  - Missing Dates of Birth: Base on benefit service and assumed age 35 at hire

Financial Impact

- The next slide shows key valuation results as of January 1, 2012 under various proposed changes
- These are still draft 2012 valuation results
  - Outstanding data questions to be answered
  - Financial statements still in draft form
  - Need monthly contribution information to finalize credit balance
- While the actuarial assumptions are the purview of Cheiron, we welcome Trustee input on the level of risk the Trust wishes to take on the investment rate of return assumption
  - Cheiron is comfortable moving to either 7.25% or 7.0%

Financial Impact

DRAFT

($ amounts in millions)	Current	Alt #1	Alt #2	Alt #3
Investment Rate	7.5%	7.5%	7.25%	7.0%
Assumed Admin Exp.	$ 0.45	15% NC	15% NC	15% NC
Demographic Assumpt.	Old	New	New	New
Prelim Actuarial Liability	$ 136.4	$ 140.9	$ 144.9	$ 149.2
Actuarial Value of Assets	112.1	112.1	112.1	112.1
Unfunded Act. Liab.	$ 24.3	$ 28.8	$ 32.8	$ 37.1
Funded Status	82.2%	79.6%	77.4%	75.1%
Min to maintain Cr. Bal.	$ 10.2	$ 10.5	$ 11.0	$ 11.6

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Impact on Fund Projection
Current

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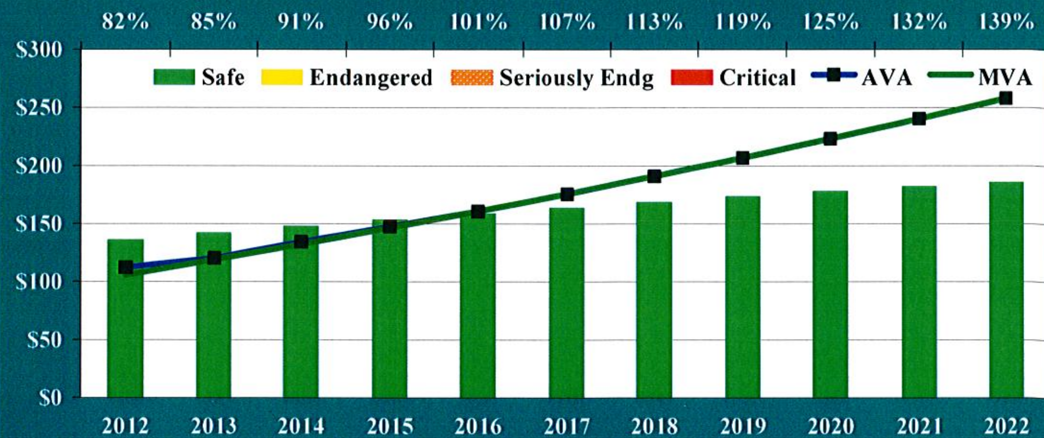
MFD: none
Insolvent: none
Emergence: n/a

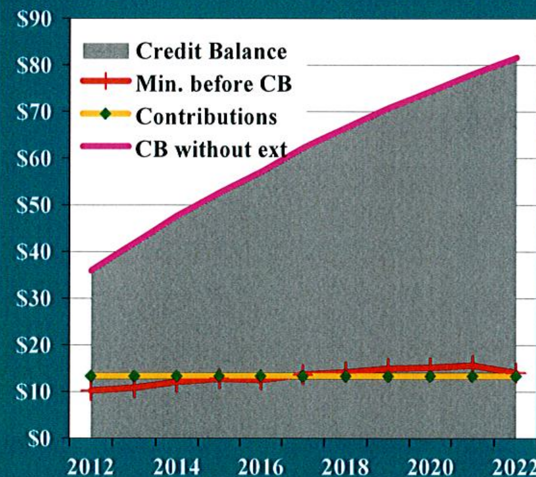
Discount Assump: 7.50%
Demog Assumptions: Old
2012 Return: #N/A

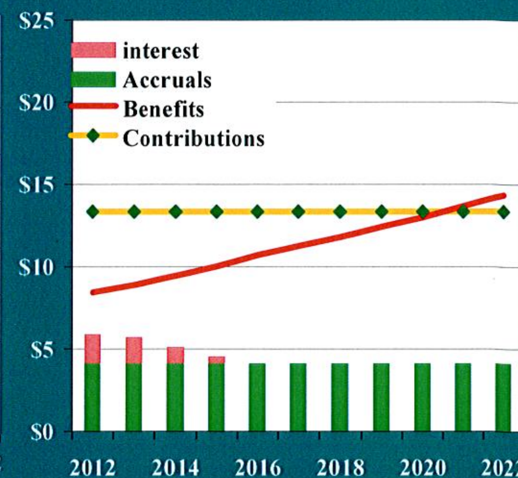
Choice: Baseline

1946

PYB	Return	Cont	Ben	Mem grwth
2012	7.50%	$ 1.50	$ 21.25	0%
2013	7.50%	$ 1.50	$ 21.25	0%
2014	7.50%	$ 1.50	$ 21.25	0%
2015	7.50%	$ 1.50	$ 21.25	0%
2016	7.50%	$ 1.50	$ 21.25	0%
2017	7.50%	$ 1.50	$ 21.25	0%
2018	7.50%	$ 1.50	$ 21.25	0%
2019	7.50%	$ 1.50	$ 21.25	0%
2020	7.50%	$ 1.50	$ 21.25	0%
2021	7.50%	$ 1.50	$ 21.25	0%
2022	7.50%	$ 1.50	$ 21.25	0%
2023	7.50%	$ 1.50	$ 21.25	0%
2024	7.50%	$ 1.50	$ 21.25	0%
2025	7.50%	$ 1.50	$ 21.25	0%
2026	7.50%	$ 1.50	$ 21.25	0%
2027	7.50%	$ 1.50	$ 21.25	0%
2028	7.50%	$ 1.50	$ 21.25	0%
2029	7.50%	$ 1.50	$ 21.25	0%
2030	7.50%	$ 1.50	$ 21.25	0%
2031	7.50%	$ 1.50	$ 21.25	0%
AVE	7.50%			







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Impact on Fund Projection Alternative #1

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MFD	none
Insolvent	none
Emergence	n/a
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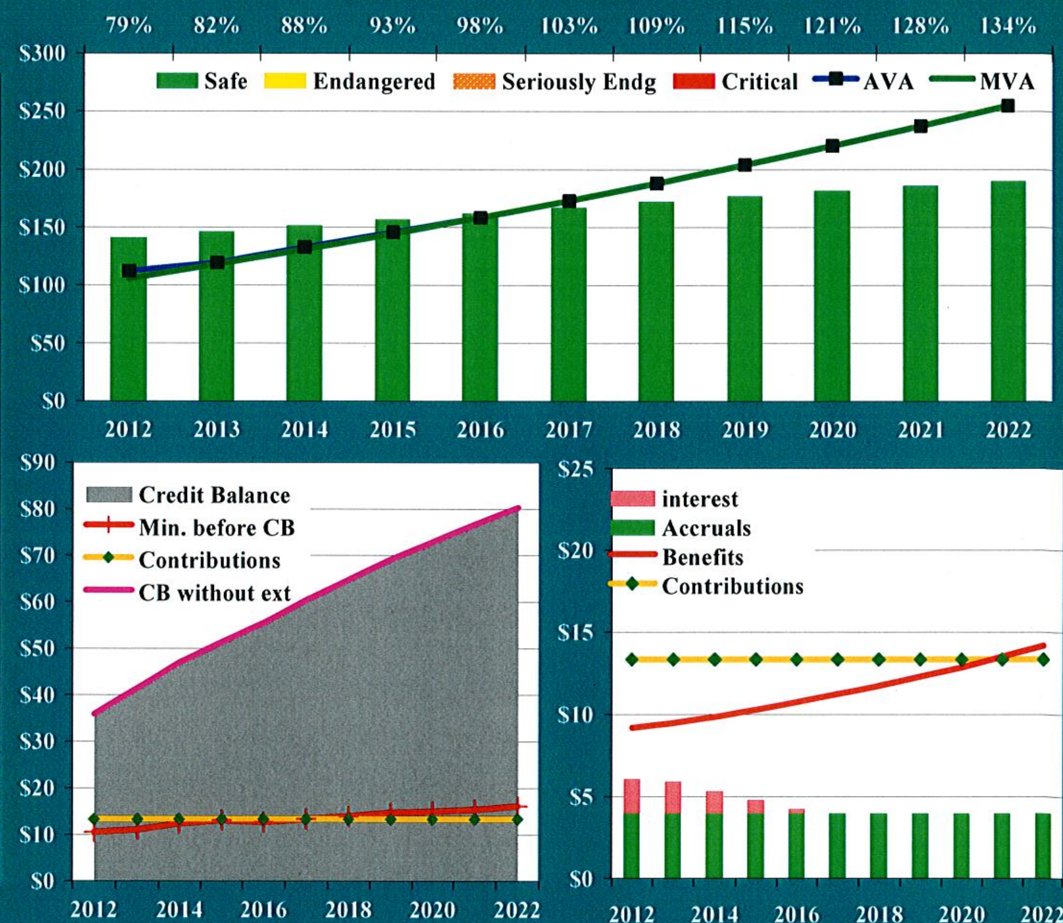
Discount Assump	7.50%
Demog Assumptions	New
2012 Return	#N/A

Choice: Alternative #1

PYB	Return	Cont	Ben	Mem grwth
2012	7.50%	$ 1.50	$ 21.25	0%
2013	7.50%	$ 1.50	$ 21.25	0%
2014	7.50%	$ 1.50	$ 21.25	0%
2015	7.50%	$ 1.50	$ 21.25	0%
2016	7.50%	$ 1.50	$ 21.25	0%
2017	7.50%	$ 1.50	$ 21.25	0%
2018	7.50%	$ 1.50	$ 21.25	0%
2019	7.50%	$ 1.50	$ 21.25	0%
2020	7.50%	$ 1.50	$ 21.25	0%
2021	7.50%	$ 1.50	$ 21.25	0%
2022	7.50%	$ 1.50	$ 21.25	0%
2023	7.50%	$ 1.50	$ 21.25	0%
2024	7.50%	$ 1.50	$ 21.25	0%
2025	7.50%	$ 1.50	$ 21.25	0%
2026	7.50%	$ 1.50	$ 21.25	0%
2027	7.50%	$ 1.50	$ 21.25	0%
2028	7.50%	$ 1.50	$ 21.25	0%
2029	7.50%	$ 1.50	$ 21.25	0%
2030	7.50%	$ 1.50	$ 21.25	0%
2031	7.50%	$ 1.50	$ 21.25	0%
AVE	7.50%			



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Impact on Fund Projection
Alternative #2

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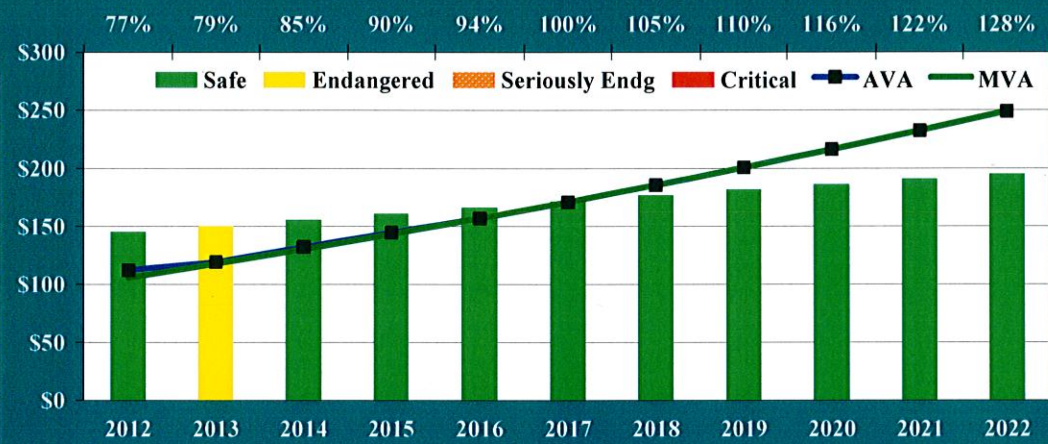
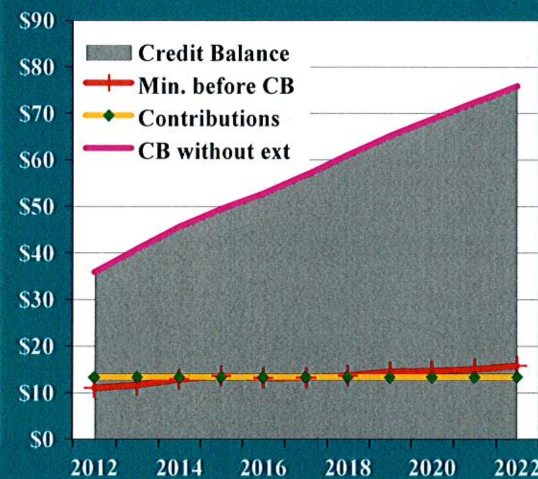
MFD	none
Insolvent	none
Emergence	n/a
	1946

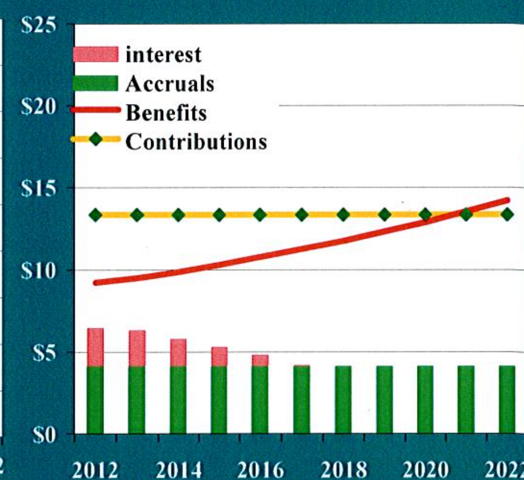
Discount Assump	7.25%
Demog Assumptions	New
2012 Return	#N/A

Choice: Alternative #2

PYB	Return	Cont	Ben	Mem grwth
2012	7.25%	$ 1.50	$ 21.25	0%
2013	7.25%	$ 1.50	$ 21.25	0%
2014	7.25%	$ 1.50	$ 21.25	0%
2015	7.25%	$ 1.50	$ 21.25	0%
2016	7.25%	$ 1.50	$ 21.25	0%
2017	7.25%	$ 1.50	$ 21.25	0%
2018	7.25%	$ 1.50	$ 21.25	0%
2019	7.25%	$ 1.50	$ 21.25	0%
2020	7.25%	$ 1.50	$ 21.25	0%
2021	7.25%	$ 1.50	$ 21.25	0%
2022	7.25%	$ 1.50	$ 21.25	0%
2023	7.25%	$ 1.50	$ 21.25	0%
2024	7.25%	$ 1.50	$ 21.25	0%
2025	7.25%	$ 1.50	$ 21.25	0%
2026	7.25%	$ 1.50	$ 21.25	0%
2027	7.25%	$ 1.50	$ 21.25	0%
2028	7.25%	$ 1.50	$ 21.25	0%
2029	7.25%	$ 1.50	$ 21.25	0%
2030	7.25%	$ 1.50	$ 21.25	0%
2031	7.25%	$ 1.50	$ 21.25	0%
AVE	7.25%			







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Impact on Fund Projection
Alternative #3

MFD: none
Insolvent: none
Emergence: n/a

Discount Assump: 7.00%
Demog Assumptions: New
2012 Return: #N/A

Choice: Alternative #3

1946

PYB	Return	Cont	Ben	Mem grwth
2012	7.00%	$ 1.50	$ 21.25	0%
2013	7.00%	$ 1.50	$ 21.25	0%
2014	7.00%	$ 1.50	$ 21.25	0%
2015	7.00%	$ 1.50	$ 21.25	0%
2016	7.00%	$ 1.50	$ 21.25	0%
2017	7.00%	$ 1.50	$ 21.25	0%
2018	7.00%	$ 1.50	$ 21.25	0%
2019	7.00%	$ 1.50	$ 21.25	0%
2020	7.00%	$ 1.50	$ 21.25	0%
2021	7.00%	$ 1.50	$ 21.25	0%
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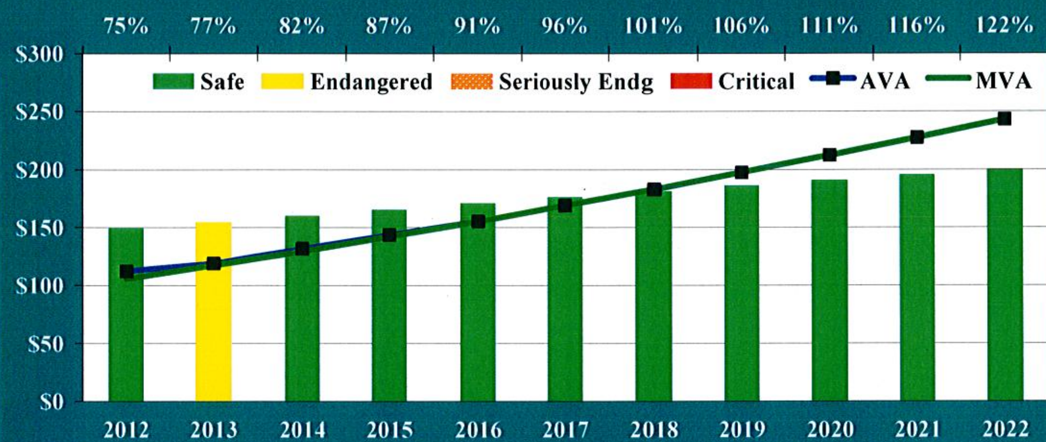
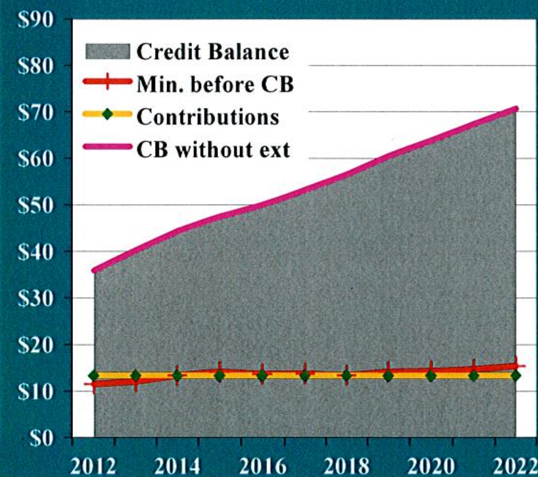
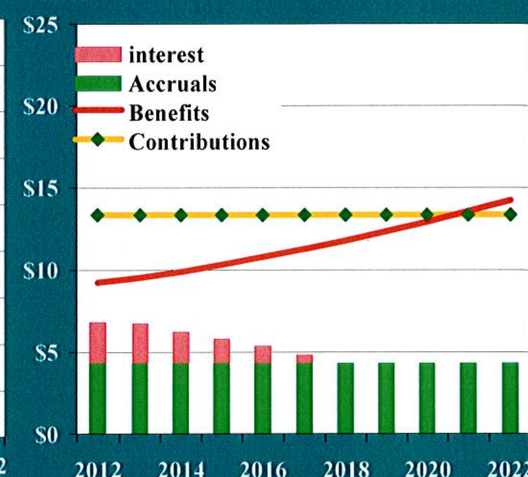
2023	7.00%	$ 1.50	$ 21.25	0%
2024	7.00%	$ 1.50	$ 21.25	0%
2025	7.00%	$ 1.50	$ 21.25	0%
2026	7.00%	$ 1.50	$ 21.25	0%
2027	7.00%	$ 1.50	$ 21.25	0%
2028	7.00%	$ 1.50	$ 21.25	0%
2029	7.00%	$ 1.50	$ 21.25	0%
2030	7.00%	$ 1.50	$ 21.25	0%
2031	7.00%	$ 1.50	$ 21.25	0%
AVE	7.00%			







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