Investment Return Assumption for HIS and National Guard Valuations

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Investment Return Assumption

- Currently, HIS and National Guard are effectively funded on a pay-as-you-go basis
- Incoming standards (GASB 67 & 68) give specific direction on the investment return assumption to be used for financial reporting of plans funded on a pay-as-you-go basis
  - The assumption should reflect an index of 20-year, tax-exempt, high-quality (AA/Aa or higher) general obligation municipal bonds
  - The assumption selected should based on market conditions as of the date of the financial reporting in question

Investment Return Assumption

- The needed assumption is solely for GASB-mandated financial reporting
- GASB does not require a specific index
- Two options to consider are:
  - Bond Buyer General Obligation 20-Bond Municipal Bond Index
  - S&P Municipal Bond 20-Year High-Grade Index

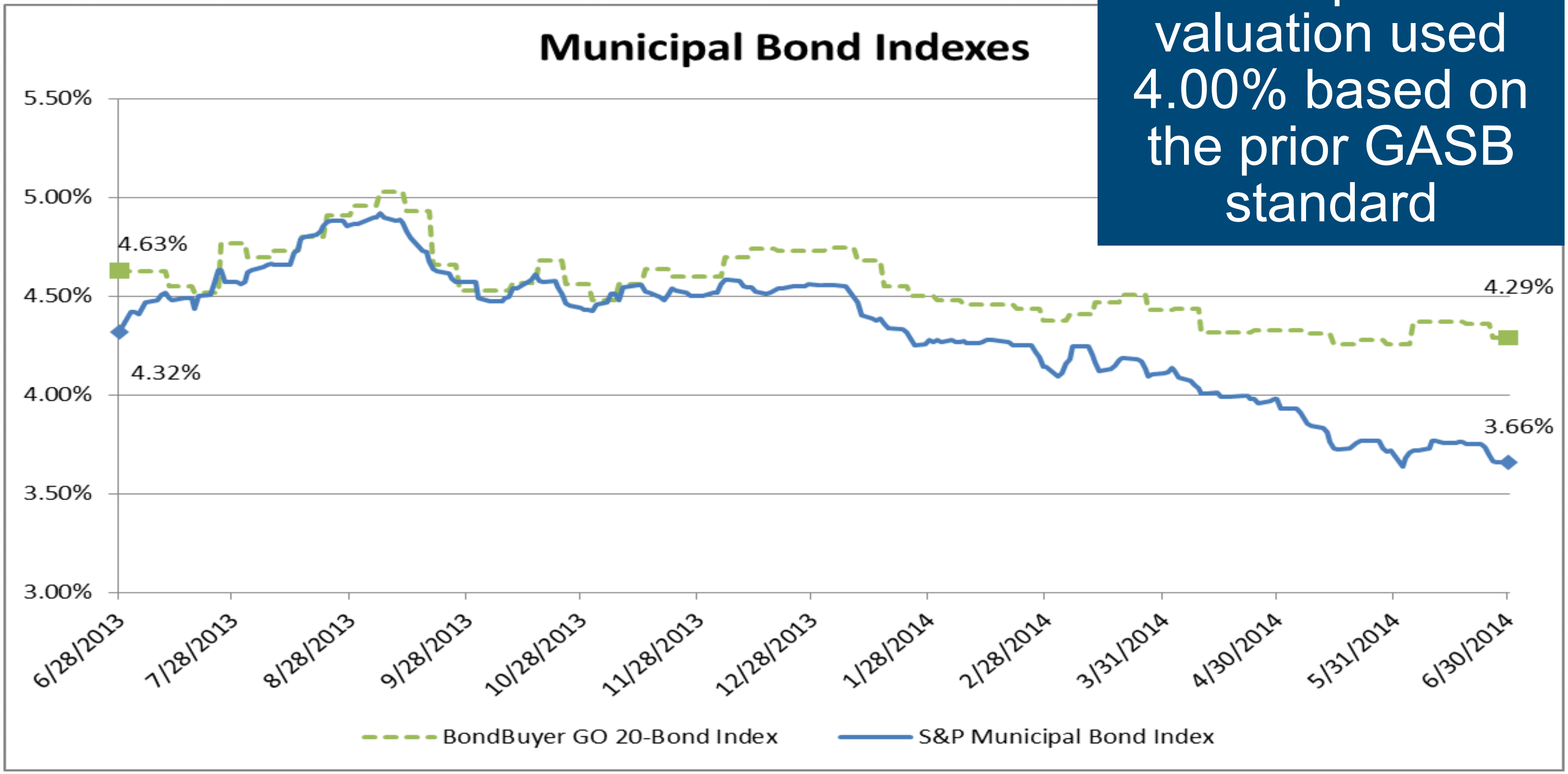
Bond Buyer Index

- Bond Buyer says its index:
  - *"consists of 20 general obligation bonds that mature in 20 years. The average rating…is roughly equivalent to Standard & Poor's Corp's AA…The index represents theoretical yields rather than actual price or yields quotations. Municipal bond traders are asked to estimate what a current-coupon bond for each issuer in the index would yield if the bond was sold at par value. The index is a simple average of the average estimated yields."*
- Strengths: 20-year tax-exempt, general obligation bonds
- Weaknesses: Based on estimates instead of market prices; not published daily; not investable; individual bonds in index are below the average rating; number of bonds in index could lead to volatility

Standard & Poor's Index

- S&P says its index:
  - *"consists of bonds in the S&P Municipal Bond Index with a maturity of 20 years. Eligible bonds must be rated at least AA by Standard and Poor's Rating Services, Aa2 by Moody's or AA by Fitch. If there are multiple ratings, the lowest rating is used."*
- Strengths: Daily valuation based on market prices; investable; each individual bond in index meets rating requirements, which should lower index volatility
- Weaknesses: Not based exclusively on general obligation bonds

Comparison of Bond Indices



The prior valuation used 4.00% based on the prior GASB standard

We need an assumption identified by the Conference for the 2014 valuations of HIS and National Guard