

Date: January 31, 2017

To: Board of Trustees, Grand Rapids General Retirement System
Board of Trustees, Grand Rapids Police and Fire Retirement System

From: David L. Hoffman and James D. Anderson, FSA, EA, MAAA

Re: **Investment Return Assumption for December 31, 2016 and June 30, 2017 Actuarial Valuations**

Based on expected return data provided by Wilshire Consulting as of December 31, 2016, GRS has determined that the current 7.25% investment return assumption remains reasonable for use in the December 31, 2016 valuation of the Police and Fire Retirement System and the June 30, 2017 valuation of the General Retirement System.

Note that Wilshire Consulting provided a long-term (30-year) return expectation of 7.3% along with a 10-year return expectation of 6.1%. If the shorter term forecast is realized, higher computed employer contributions than currently anticipated will result and little or no progress will be made toward increasing the funded ratios for the two Systems. Note that the relatively long amortization periods currently in effect also contribute to the funded ratio impact.

The most recent experience study for the Systems set the implicit long-term price inflation assumption at 2.75%. We recommend that the price inflation assumption for both Systems be lowered to 2.5% and that the wage inflation assumptions also decrease to 3.25%. (However, we still believe the current 3.5% wage inflation assumption is reasonable). The projected benefits for future benefit recipients would be lowered as a result of this change while contributions for paying off the unfunded actuarial accrued liability for the Police-Fire System would likely increase. Lastly, we believe that the Wilshire Consulting investment return assumption is not dependent on our price inflation assumption so lowering the price inflation assumption would not affect the investment return assumption.

James D. Anderson is a Member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

This communication shall not be construed to provide tax advice, legal advice or investment advice.