

PENSION VALUATION – INTEREST RATE ASSUMPTION

The main component of a Pension Valuation that determines the present value of the marital part of a participant's monthly accrued benefit, is:

INTEREST RATE ASSUMPTION

This assumption is the most significant factor in calculating present value of the marital component of the Pension Benefit. Too often attorneys accept without question a pension evaluators Interest Rate Assumption.

Troyan emphasizes that this is not a subject amenable to "opinion". The actual interest rate used by a pension plan is not determined by the opinion of a Pension Evaluator. Rather it is mandated as follows:

For Federal, State, Municipal Plans:

The interest rate stated in the Plan's actuarial annual Report of the Retirement System's Actuary.

For All ERISA Plans:

The interest rate stated in the Plan's annual IRS filing.

Attorneys are urged to challenge any Pension Evaluation that fails to apply the Interest Rate Assumption being used by the Plan or Retirement System.

No other rate produces the correct present value.

Attorney are encouraged not to accept an "Opinion Interest Rate".

Use of any Interest Rate that is other than the assumption of the Plan's Actuary is a deviation from reality. It represents an "opinion", not a fact.

To be relevant to the Pension Evaluation must use the Plan's Interest Rate, not an "Opinion Rate". An "Opinion Rate" is a deviation from reality.

To illustrate the adverse impact of use of "opinion" interest rates as opposed to the Plan's Rate as found in Internal Revenue Service filing for ERISA Plans or Annual Report of Actuary for State and Municipal Plans, three Illustrations are Offered:

- Florida Teacher Retirement System
- New Jersey Law Enforcement Retirement System
- New York State Public Employees Retirement System

Illustration # 1.
Florida Teacher Retirement System

Valuation Based on Retirement System's Current Interest Rate Assumption	6.8%
Valuation Date	5/6/2022
Valuation Date Age	45
Years of Service	15
Applicable Pay	\$80,000.00
Marital Mo. Benefit	\$1,600.000
Normal Retirement Age	62
Present Cash Value Marital Benefit on 5/06/2022	\$67,344.38

Alternate Pension Evaluation based on U.S. Treasury 30 Year Bond	
Present Cash Value Marital Benefit on 5/06/2022	\$160,464.59
Percentage of Overstatement	138%

Illustration # 2
NEW JERSEY LAW ENFORCEMENT OFFICER

Valuation Based on Retirement System's Current Interest Rate Assumption	7%
Valuation Date	5/6/2022
Valuation Date Age	45
Years of Service	15
Applicable Pay	\$110,000.00
Marital Mo. Benefit	\$2,750.000
Normal Retirement Age	55
Present Cash Value Marital Benefit on 5/06/2022	\$220,629.00

Alternate Pension Evaluation based on U.S. Treasury 30 Year Bond	
Present Cash Value Marital Benefit on 5/06/2022	\$512,919.14
Percentage of Overstatement	132%

Illustration # 3
New York State Public Employee (PERS)

Valuation Based on Retirement System's Current Interest Rate Assumption	5.9%
Valuation Date	5/6/2022
Valuation Date Age	45
Years of Service	15
Applicable Pay	\$80,000.00
Marital Mo. Benefit	\$2,000.000
Normal Retirement Age	62
Present Cash Value Marital Benefit on 5/06/2022	\$126,141.45
Alternate Pension Evaluation based on U.S. Treasury 30 Year Bond	
Present Cash Value Marital Benefit on 5/06/2022	\$264,612.04
Percentage of Overstatement	110%

COMMENTARY REGARDING INTEREST RATES USED BY PUBLIC PLANS.

Family Law Attorneys may not be familiar with the Investment Rate of Return assumptions of State and Municipal Plans. For this reason, we offer the following observation:

As of March 2022, based on statistical data for 134 Public Pension Plans, the current average Investment Rate of Return is 7%. No Public Plan reported an Investment Rate of Return of less than 5.9%. To thus opine that the published Plan Rate is not correct for Public Plan Present Value Calculations is to disregard Fact.