



Cavanaugh Macdonald
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**Highway Patrol Officers' Retirement System
of the State of Montana**



**Actuarial Valuation
As of June 30, 2018**





Cavanaugh Macdonald

CONSULTING, LLC

The experience and dedication you deserve

October 1, 2018

Public Employees' Retirement Board
100 North Park, Suite 200
Helena, MT 59620-0139

Members of the Board:

In this report are submitted the results of the annual valuation of the assets and liabilities of the Highway Patrol Officers' Retirement System of the State of Montana (HPORS), prepared as of June 30, 2018.

The purpose of this report is to provide a summary of the funded status of the System as of June 30, 2018. While not verifying the data at source, the actuary performed tests for consistency and reasonability. The valuation indicates that the statutory contribution rate reflecting all anticipated contribution increases are sufficient to amortize the unfunded accrued liability within a 40-year period. The asset values used to determine unfunded liabilities are not market values but less volatile market related values. A smoothing technique is applied to market values to determine the market related values. The unfunded liability amounts using the market value of assets would be different. The interest rate used for determining liabilities is based on the expected return on assets. Therefore, liability amounts in the report cannot be used to assess a settlement of the obligation.

The promised benefits of the System are included in the actuarially calculated contribution rates, which are developed using the Entry Age Normal Cost Method. Four-year market related value of assets is used for actuarial valuation purposes. Gains and losses are reflected in the unfunded accrued liability that is being amortized by regular annual contributions as a level percentage of payroll, on the assumption that payroll will increase by 3.50% annually. The assumptions recommended by the actuary and adopted by the Board are, in the aggregate, reasonably related to the experience under the Fund and to reasonable expectations of anticipated experience under the Fund.

This is to certify that Edward Macdonald and Todd Green, Principal and Consulting Actuaries for Cavanaugh Macdonald Consulting, are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. This also certifies that the undersigned have experience in performing valuations for public retirement systems, that the valuation was prepared in accordance with principles of practice prescribed by the Actuarial Standards Board, and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the retirement system and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the System.



Future actuarial results may differ significantly from the current results presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Since the potential impact of such factors is outside the scope of a normal annual actuarial valuation, an analysis of the range of results is not presented herein.

The Table of Contents, which immediately follows, outlines the material contained in the report.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'Edward Macdonald', with a stylized flourish at the end.

Edward A. Macdonald, ASA, FCA, MAAA
President

A handwritten signature in blue ink, appearing to read 'Todd B. Green', with a horizontal line extending to the right.

Todd B. Green, ASA, FCA, MAAA
Principal and Consulting Actuary

A handwritten signature in blue ink, appearing to read 'Matthew Yonz', with a stylized flourish at the end.

Matthew Yonz, ASA, FCA, MAAA
Actuary



Highway Patrol Officers' Retirement System of the State of Montana

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Section I: Summary of Results

For convenience of reference, the principal results of the valuation and a comparison with the preceding year's results are summarized below:

VALUATION DATE	June 30, 2018	June 30, 2017
Active members*	233	238
Disabled Members**	7	6
Retirees and Beneficiaries**	331	325
Terminated Vested Members	14	16
Terminated Non-Vested Members	23	17
Total***	608	602
Annual Covered Payroll of Active Members	\$ 15,251,339	\$ 14,778,975
Average Salaries from Covered Payroll	\$ 65,456	\$ 62,097
Annual Retirement Allowances for Retired Members and Beneficiaries	\$ 11,470,062	\$ 10,905,648
Assets		
Actuarial value	\$ 147,143,742	\$ 141,235,730
Market value	149,198,868	140,536,689
Actuarial Accrued Liability (AAL)	\$ 229,821,775	\$ 219,469,619
Unfunded Actuarial Accrued Liability (UAAL)	\$ 82,678,033	\$ 78,233,889
Funded Ratio	64.03%	64.35%
Market Value Rate of Return	8.86%	11.87%
Annual Cost		
Statutory Funding Rate	51.38%	51.38%
Total Normal Rate	24.14%	24.79%
Employee Contribution Rate****	<u>13.05%</u>	<u>13.05%</u>
Employer Normal Rate	11.09%	11.74%
Employer Contribution Rate		
Normal Rate	11.09%	11.74%
Administrative Expense Load	0.27%	0.30%
UAAL Rate	<u>26.97%</u>	<u>26.29%</u>
Total Rate	38.33%	38.33%
Amortization Period	40 years	37 years
Employer Contribution Rate Necessary to Amortize UAAL over 30 Years		
Normal Rate	11.09%	11.74%
Administrative Expense Load	0.27%	0.30%
UAAL Rate (30-Year Rate)	<u>30.69%</u>	<u>28.93%</u>
Total Rate	42.05%	40.97%
Shortfall/(Surplus)	3.72%	2.64%

* Includes 10 DROP members as of June 30, 2017 and 13 DROP members as of June 30, 2018.

** Based on PERB categorization for the annual report. For actuarial purposes, 18 members in 2017 and 18 members in 2018 were valued as disabled members with offsetting reductions to the number of retired members.

*** A reconciliation between participant counts used for the annual report and counts for the valuation appears at the beginning of Appendix D.

**** Rates shown are for the fiscal year following the valuation date.



Section I: Summary of Results

As a result of this actuarial valuation of the benefits in effect under the Highway Patrol Officers' Retirement System as of June 30, 2018, the statutory employer contributions are sufficient to amortize the Unfunded Actuarial Accrued Liability (UAAL) of the Retirement System within 40 years. The Funded Ratio is 64.03%.

Calculations based on the Market Value of Assets

MCA 19-2-407 requires this report to show how market performance is affecting the actuarial funding of the Retirement System. The June 30, 2018 market value of assets is \$2,055,126 more than the actuarial value of assets. This is due to the smoothing of investment gains and losses over a four-year period. If the market value of assets was used, the amortization period would be 38 years, and the Funded Ratio would be 64.92%.

Additional Details

MCA 19-6-404 sets the employer contribution at 28.15% of salary, the state contribution at 10.18% and MCA 19-6-402 sets the employee contribution at 13% for non-GABA actives (effective July 1, 2016) and 13.05% for GABA actives (effective July 1, 2016).

The actuarial costs are calculated using the entry age actuarial cost method. This is the method used by most public plans. It is designed to provide a stable contribution rate as a percent of member pay. This actuarial valuation measures the adequacy of the contribution rates set in Montana State Law.

Investment Experience

The market assets earned 8.86% net of investment expenses. As a result of prior years' unrecognized losses, the actuarial assets earned 6.84%, which is 0.81% less than the expected return of 7.65%. The return on the actuarial assets differs from the return on market assets because the actuarial value of assets spreads gains and losses over four years. The chart below shows the annual returns for the past ten years.

Year	Market Return	Actuarial Return	Assumed Investment Return	Market Return over Assumption	Actuarial Return over Assumption
7/1/2008 to 6/30/2009	(20.98)%	(0.15)%	8.00%	(28.98)%	(8.15)%
7/1/2009 to 6/30/2010	13.04	(1.16)	7.75	5.29	(8.91)
7/1/2010 to 6/30/2011	21.79	(0.04)	7.75	14.04	(7.79)
7/1/2011 to 6/30/2012	2.24	3.32	7.75	(5.51)	(4.43)
7/1/2012 to 6/30/2013	12.88	11.86	7.75	5.13	4.11
7/1/2013 to 6/30/2014	17.10	13.13	7.75	9.35	5.38
7/1/2014 to 6/30/2015	4.60	9.61	7.75	(3.15)	1.86
7/1/2015 to 6/30/2016	2.04	8.76	7.75	(5.71)	1.01
7/1/2016 to 6/30/2017	11.87	8.25	7.75	4.12	0.50
7/1/2017 to 6/30/2018	8.86	6.84	7.65	1.21	(0.81)

Asset gains and losses result when the return on the actuarial value of assets differs from the assumed actuarial investment return.



Section I: Summary of Results

Amortization of the UAAL

The June 30, 2017 actuarial valuation calculated a 37-year amortization period for the UAAL. The resulting amortization period at June 30, 2018 is 40 years.

Funding and Benefits Policy

The Montana Public Employees' Retirement Board has adopted a Funding and Benefits Policy to provide general guidelines to help ensure decisions are made based on sound, consistent, and thoroughly examined criteria. The Funding and Benefits Policy includes guidance on the following topics:

1) Funding Requirement

a) The Funding and Benefits Policy states:

1. The Entry Age Normal Cost Method shall be applied to the projected benefits in determining the Normal Cost and Actuarial Accrued Liability.
2. Asset smoothing can be used in the valuation process to spread the recognition of investment gains and losses over a four-year period.
3. The unfunded actuarial accrued liability should be amortized over a reasonable period of time and should not exceed 30 years on a rolling basis. Generally, the funding period should be constant or decreasing.

b) Analysis: The liabilities of the System are determined using the Entry Age Normal Cost Method and are compared to the actuarial value of assets, which are developed using asset smoothing that recognizes gains and losses over a four-year period. The amortization period as of June 30, 2018 is 40 years based on actuarial value of assets. The contributions provided for in statute are not sufficient to fully amortize the unfunded actuarially accrued liability within 30 years.

2) Funding Objectives

a) The Funding and Benefits Policy states: "The primary objectives are to: 1) ensure that the systems are financially sound and pay all benefits promised using assets accumulated from required employer and member contributions and investment income; and 2) achieve a well-funded status with a range of safety to absorb market volatility without creating a UAL."

b) Analysis: The contributions provided for in statute are not sufficient to fully amortize the unfunded actuarially accrued liability within 30 years. Absent significant investment return, the System is in danger of not ensuring the System will remain financially sound and is risking the ability to pay all benefits promised in the future. It is important to note that the normal cost rate for new hires is less than the current active population. As terminate or retire, and are replaced with a member with a lower normal cost rate, more of the employer contribution will be available to amortize the unfunded accrued liability. As a result, the effective amortization period is less than the amortization period calculated in the actuarial valuation, which does not reflect new hires.



Section I: Summary of Results

3) Benefit Enhancements

- a) The Funding and Benefits Policy states: "Proposals must provide funding from sources sufficient to cover future costs. Unfunded liabilities created by the proposal must be amortized over a period of time appropriate to the retirement system, but not more than 30 years."
- b) Analysis: Without supplemental funding, a benefit enhancement would increase the amortization period of the unfunded actuarial accrued liability and further delay the goal of achieving a well-funded status with a range of safety to absorb market volatility without creating additional UAAL.

Sensitivity to Future Experience

The valuation results are projections based on the actuarial assumptions. Actual experience will differ from these assumptions, either increasing or decreasing the ultimate cost. The following illustrations provide simple analyses on how the costs are sensitive to changes in the assumed rate of return.

Investment Return – The investment return generally has the largest impact on the funding of the System.

Impact of Assuming 1.00% Lower Investment Return	
	<u>Funded Ratio</u>
Current Assumption 7.65%	64.03%
Lower Assumption 6.65%	<u>56.25%</u>
Increase / (Decrease)	(7.78)%
	<u>Amortization Period</u>
	<u>Increase / (Decrease)</u>
Current Assumption 7.65%	40 Years
Lower Assumption 6.65%	<u>Does Not Amortize</u>
Increase / (Decrease)	N/A
Impact of Assuming 0.50% Lower Investment Return	
	<u>Funded Ratio</u>
Current Assumption 7.65%	64.03%
Lower Assumption 7.15%	<u>60.10%</u>
Increase / (Decrease)	(3.93)%
	<u>Amortization Period</u>
	<u>Increase / (Decrease)</u>
Current Assumption 7.65%	40 Years
Lower Assumption 7.15%	<u>77 Years</u>
Increase / (Decrease)	37 Years



Section I: Summary of Results

Impact of Assuming 0.50% Higher Investment Return	
	<u>Funded Ratio</u>
Current Assumption 7.65%	64.03%
Higher Assumption 8.15%	<u>68.01%</u>
Increase / (Decrease)	3.98%
	<u>Amortization Period</u>
	<u>Increase / (Decrease)</u>
Current Assumption 7.65%	40 Years
Higher Assumption 8.15%	<u>26 Years</u>
Increase / (Decrease)	(14) Years
Impact of Assuming 1.00% Higher Investment Return	
	<u>Funded Ratio</u>
Current Assumption 7.65%	64.03%
Higher Assumption 8.65%	<u>72.07%</u>
Increase / (Decrease)	8.04%
	<u>Amortization Period</u>
	<u>Increase / (Decrease)</u>
Current Assumption 7.65%	40 Years
Higher Assumption 8.65%	<u>18 Years</u>
Increase / (Decrease)	(22) Years

The future funding status of the System will be determined by the System's experience. The System's actual asset returns and retirement rates, as well as member longevity, salary increases, withdrawal rates, disability rates and future legislation will all impact the funding status of the System. The entry age normal cost method and four-year smoothing of asset gains and losses will help to provide a more orderly funding of the System's liabilities, but will not change the actual experience. The amortization period of the UAAL is not likely to decrease by the expected 1.0 year with each passing actuarial valuation. Instead, the amortization period is expected to decrease more or less than 1.0 years each year, reflecting gains and losses due to experience different than the actuarial assumptions.

Assumption Changes

There have been no assumption changes since the previous valuation.

Benefit Changes

There have been no benefit changes since the previous valuation.

Contribution Changes

There have been no contribution changes since the previous valuation.

Method Changes

There have been no method changes since the previous valuation.



Section I: Summary of Results

Impact of Changes

The following table summarizes how experience has changed the UAAL since the June 30, 2017 Actuarial Valuation. Further detail can be found in Tables 10 and 11.

Changes in the Unfunded Actuarial Accrued Liability (UAAL)

June 30, 2017 Valuation UAAL	\$78,233,889
Normal Cost (Including Expenses)	3,384,129
Contributions	(8,495,169)
Interest	<u>5,918,839</u>
Expected June 30, 2018 UAAL	\$79,041,688
Experience (Gain) / Loss on Actuarial Liabilities	\$2,507,334
Experience (Gain) / Loss on Actuarial Assets	1,129,011
Assumption & Method Changes	0
Plan Changes	<u>0</u>
Total (Gain) / Loss	<u>\$3,636,345</u>
June 30, 2018 Valuation UAAL	\$82,678,033



Section I: Summary of Results

Summary

- * The System's actuarial value investment return of 6.84% for the year ended June 30, 2018 is 0.81% less than the expected return of 7.65%. This represents an asset loss of \$1,129,011 due to investment return being less than anticipated. As of June 30, 2018, the market value of assets was \$149,198,868. As of June 30, 2018 the actuarial value of assets was \$147,143,742. The June 30, 2018 market value of assets will be recognized in future actuarial valuations unless it is offset by returns less than the 7.65% assumption.

- * As of June 30, 2018, the amortization period of the UAAL is 40 years. Prior to this valuation, the funding period was 37 years. The increase in the amortization period is due experience losses. The ultimate goal of the Board's Funding and Benefits Policy is to increase the funded status to a level such that the amortization period does not exceed 30 years. Absent significant good investment experience, this goal cannot be achieved without increasing employer contributions, member contributions or a combination of the two.

- * The funding of the retirement system will be impacted by future experience, which will sometimes be more favorable than the actuarial assumptions and sometimes less favorable. In particular, investment returns larger and smaller than the 7.65% assumption are expected to have significant impacts on the System's funding progress. In the long term, the favorable experience is needed to offset the less favorable experience. This is the reason for using an actuarial value of assets that allows gains and losses to be smoothed over four years.

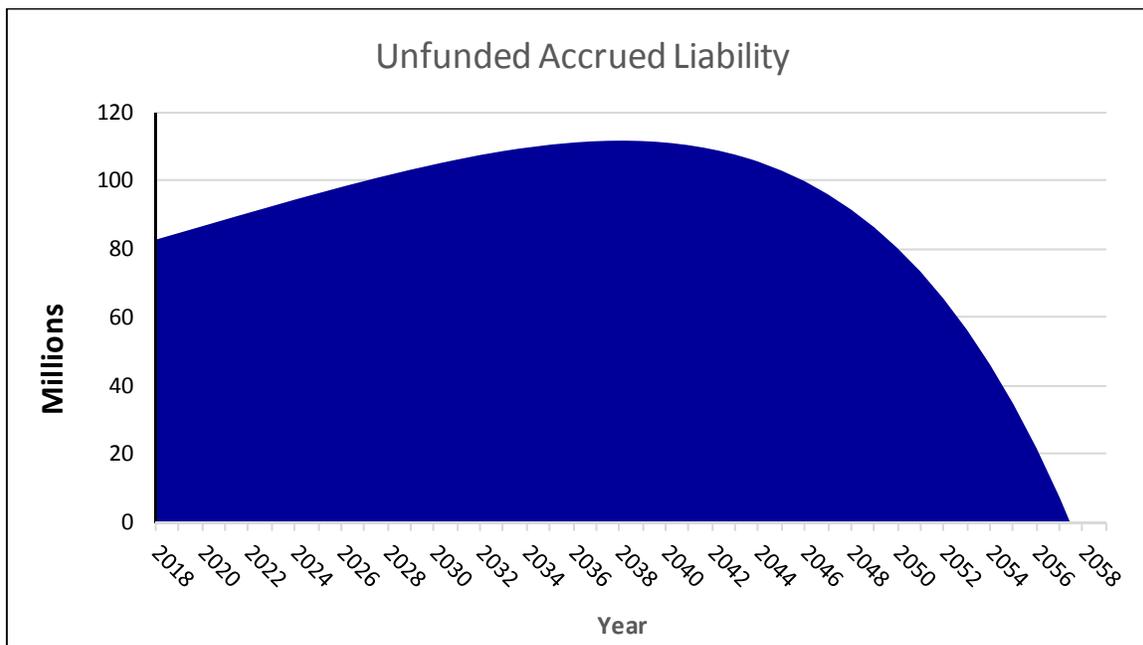
- * The unfunded actuarial accrued liability is amortized using a level percentage of payroll method over the amortization period. Under the level percentage of payroll method, amortization payments will not be large enough to cover interest on the UAL in the beginning of the amortization schedule, which means that as a dollar amount the UAL is expected to grow. After a period of time, amortization payments will be large enough that the amortization payments will cover both interest and principal, and the UAL as a dollar amount will be projected to decrease in each subsequent year. The payroll growth assumption is used to determine the percentage of payroll required over the remaining amortization period to fully amortize the unfunded liability. The payroll growth assumption is 3.50%.



Section I: Summary of Results

Projected Progress toward 100% Funding

The table below shows the projected progress toward reaching 100%. When the System is 100% funded, the Unfunded Actuarial Accrued Liability will be fully amortized. This is scheduled to occur within 40 years. The ultimate goal of the HPORS System is to become at least 100% funded and to establish a reserve.





Section II: Assets

Assets

In many respects, an actuarial valuation can be regarded as an inventory process. The inventory is taken as of the actuarial valuation date, which for this valuation is June 30, 2018. On that date, the assets available for the payment of benefits are appraised. These assets are compared with the actuarial liabilities. The actuarial process thus leads to a method of determining what contributions by members and their employers are needed to strike a balance.

The asset valuation method being used is a four-year smoothing method. The expected return is determined each year based on the beginning of year market value and actual cash flows during the year. Any difference between the expected market value return and the actual market value return is recognized evenly over a period of four years.

Table 1 lists the assets held and their market value for the past two years. Table 2 summarizes the fund's activity during the past two years. Table 3 summarizes the determination of the actuarial value of assets. Table 4 summarizes historical asset returns for the last 10 years including the amount recognized by the actuarial asset valuation method which was greater or lesser than the actuarial investment return assumption. Table 5 summarizes the historical asset values on a market value and actuarial value basis, to the extent it was available. Additional data can be included in this table for future reports, if provided by the System.

**Section II: Assets**

**Table 1:
Statement of Fiduciary Net Position
Fiscal Year Ended June 30**

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and Short Term Investments	\$ 3,398,346	\$ 3,802,572
Securities Lending Collateral	\$ 946,762	\$ 797,749
Receivables:		
Interest Receivable	\$ 5,783	\$ 3,291
Accounts Receivable	126,241	219,184
Due from Other Funds	-	-
Due from Primary Government	-	-
Notes Receivable	-	-
Total Receivables	<u>\$ 132,024</u>	<u>\$ 222,475</u>
Investments, at fair value:		
Investment Pools	145,456,514	136,347,861
Other Investments	-	-
Total Investments	<u>\$ 145,456,514</u>	<u>\$ 136,347,861</u>
Capital Assets		
Property and Equipment, at cost, net of Accumulated Depreciation	\$ 311	\$ 311
Intangible Assets, at cost, net of Amortization Expense	348,399	323,391
Total Capital Assets	<u>\$ 348,710</u>	<u>\$ 323,702</u>
TOTAL ASSETS	<u>\$ 150,282,356</u>	<u>\$ 141,494,359</u>
LIABILITIES		
Securities Lending Liability	\$ 946,762	\$ 797,749
Accounts Payable	86,432	105,986
Unearned Revenue	7,735	680
Due to Other Funds	42,559	47,161
Compensated Absences	-	45
OPEB Implicit Rate Subsidy LT	-	6,049
TOTAL LIABILITIES	<u>\$ 1,083,488</u>	<u>\$ 957,670</u>
NET POSITION - RESTRICTED FOR PENSION BENEFITS	<u>\$ 149,198,868</u>	<u>\$ 140,536,689</u>

**Section II: Assets**

**Table 2:
Statement of Changes in Fiduciary Net Position
Fiscal Year Ended June 30**

	<u>2018</u>	<u>2017</u>
ADDITIONS		
Contributions:		
Employer	\$ 5,858,493	\$ 5,782,258
Plan Member	2,386,526	1,949,795
Other	250,150	262,884
Total Contributions	<u>\$ 8,495,169</u>	<u>\$ 7,994,937</u>
Misc. Income	\$ -	\$ -
Investment Income:		
Net Appreciation/(Depreciation) in Fair Value of Investments	\$ 12,766,752	\$ 8,479,564
Investment Earnings	402,085	7,301,992
Security Lending Income	28,413	40,128
Investment Income/(Loss)	<u>\$ 13,197,250</u>	<u>\$ 15,821,684</u>
Investment Expense	(903,088)	(707,069)
Security Lending Expense	(11,338)	(15,802)
Net Investment Income/(Loss)	<u>\$ 12,282,824</u>	<u>\$ 15,098,813</u>
Total Additions	<u>\$ 20,777,993</u>	<u>\$ 23,093,750</u>
DEDUCTIONS		
Benefit Payments	\$ 11,545,732	\$ 11,036,794
Refunds/Distributions	321,840	244,597
Refunds to Other Plans	-	-
Transfers to DCRP	-	-
Transfers to MUS-RP	-	-
OPEB Expense	-	466
Administrative Expense	256,309	248,124
Total Deductions	<u>\$ 12,123,881</u>	<u>\$ 11,529,981</u>
NET INCREASE (DECREASE) IN PLAN NET ASSETS	\$ 8,654,112	\$ 11,563,769
NET POSITION - RESTRICTED FOR PENSION BENEFITS BEGINNING OF YEAR	\$ 140,536,689	\$ 128,972,920
ADJUSTMENT	8,067	\$ -
END OF YEAR	<u>\$ 149,198,868</u>	<u>\$ 140,536,689</u>



Section II: Assets

**Table 3:
Determination of Actuarial Value of Assets**

Valuation Date June 30:	2017	2018	2019	2020	2021
A. Actuarial Value Beginning of Year	\$ 133,868,650	\$ 141,235,730			
B. Market Value End of Year	140,536,689	149,198,868			
C. Market Value of Beginning of Year	128,972,920	140,536,689			
D. Cash Flow					
D1. Contributions	7,994,937	8,495,169			
D2. Benefit Payments	(11,281,391)	(11,867,572)			
D3. Administrative Expenses	(248,124)	(256,309)			
D4. Investment Expenses	(722,871)	(914,426)			
D5. Net	\$ (4,257,449)	\$ (4,543,138)			
E. Investment Income					
E1. Market Total: B. - C. - D5.	\$ 15,821,218	\$ 13,205,317			
E2. Assumed Rate	7.75%	7.65%			
E3. Amount for Immediate Recognition C.*E2. + ((D1.+D2.+D3.)*E2.*0.5) - D4.	10,581,307	11,526,684			
E4. Amount for Phased-in Recognition E1. - E3.	5,239,911	1,678,633			
F. Phased-in Recognition of Investment Income					
F1. Current Year: 0.25 * E4.	\$ 1,309,978	\$ 419,658	\$ -	\$ -	\$ -
F2. First Prior Year	(1,823,804)	1,309,978	419,658	-	-
F3. Second Prior Year	(981,366)	(1,823,804)	1,309,978	419,658	-
F4. Third Prior Year	2,538,414	(981,366)	(1,823,804)	1,309,978	419,658
F5. Total Recognized Investment Gain	\$ 1,043,222	\$ (1,075,534)	\$ (94,168)	\$ 1,729,636	\$ 419,658
G. Actuarial Value End of Year A. + D5. + E3. + F5.	\$ 141,235,730	\$ 147,143,742			



Section II: Assets

**Table 4:
Historical Investment Returns***

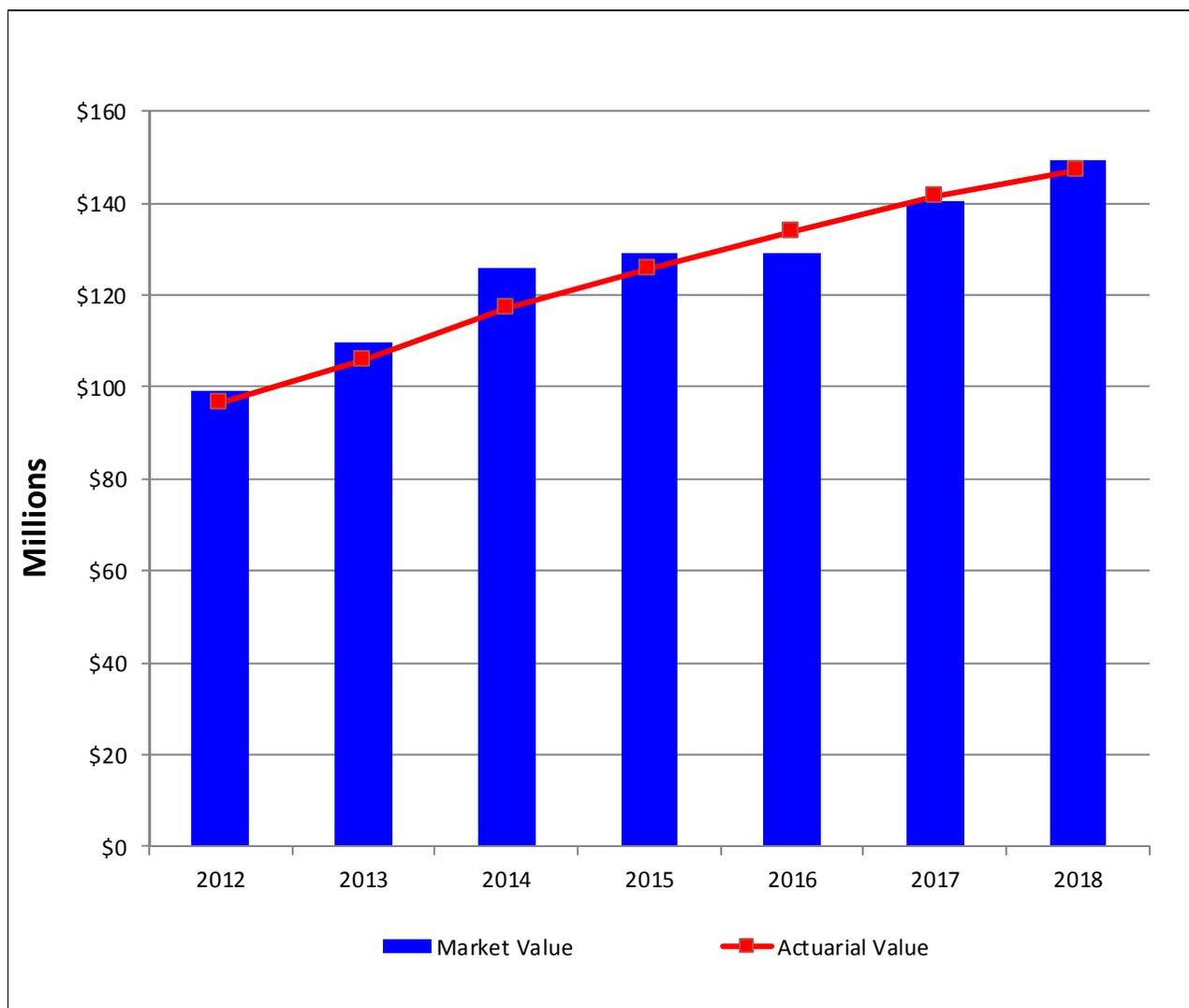
Fiscal Year Ending	Market Returns	Actuarial Returns	Assumed Rate of Return	Actuarial Return Over Assumption
June 30, 2009	(20.98)%	(0.15)%	8.00%	(8.15)%
June 30, 2010	13.04%	(1.16)%	7.75%	(8.91)%
June 30, 2011	21.79%	(0.04)%	7.75%	(7.79)%
June 30, 2012	2.24%	3.32%	7.75%	(4.43)%
June 30, 2013	12.88%	11.86%	7.75%	4.11%
June 30, 2014	17.10%	13.13%	7.75%	5.38%
June 30, 2015	4.60%	9.61%	7.75%	1.86%
June 30, 2016	2.04%	8.76%	7.75%	1.01%
June 30, 2017	11.87%	8.25%	7.75%	0.50%
June 30, 2018	8.86%	6.84%	7.65%	(0.81)%
10 Year Average	6.69%	5.93%		(1.85)%

* Returns reflect all investment returns, including investment income and realized and unrealized investment gains and losses, and are net of investment expenses and administrative expenses paid by the System.



Section II: Assets

Table 5:
Market Value of Assets vs. Actuarial Value of Assets





Section III: Actuarial Present Value of Future Benefits

Actuarial Present Value of Future Benefits

In the previous section, an actuarial valuation was related to an inventory process, and an analysis was given of the inventory of assets of the System as of the valuation date. In this section, the discussion will focus on the commitments of the System, which will be referred to as its actuarial liabilities.

Table 6 contains an analysis of the actuarial present value of all future benefits for active members, for retirees, and for beneficiaries. The analysis is given by type of benefit.

The actuarial liabilities summarized in Table 6 include the actuarial present value of all future benefits expected to be paid with respect to each member covered as of the valuation date. For an active member, this value includes a measure of both benefits already earned and future benefits to be earned. Thus, for all members, active and retired, the value extends over benefits earnable and payable for the rest of their lives and, if an optional benefit is chosen, for the lives of their surviving beneficiaries.

The actuarial valuation does not recognize liabilities for employees who become members and participate in the System after the valuation date.



Section III: Actuarial Present Value of Future Benefits

**Table 6:
Actuarial Present Value of Future Benefits for Actives,
Retirees, and Beneficiaries**

	<u>June 30, 2018</u> Total	<u>June 30, 2017</u> Total
A. Active Members Liability Due to Probability of		
Service Retirement	\$ 71,656,879	\$ 73,498,540
Disability Retirement	\$ 2,662,304	\$ 2,763,254
In-Service Death	\$ 1,168,278	\$ 1,219,318
Termination	\$ 2,677,786	\$ 2,807,811
Total	\$ 78,165,247	\$ 80,288,923
B. Inactive Members and Annuitants		
Service Retirement	\$ 141,589,961	\$ 134,415,288
Disability Retirement	\$ 11,963,728	\$ 11,355,319
Beneficiaries*	\$ 22,020,559	\$ 18,114,199
Vested Terminated Members	\$ 1,387,079	\$ 2,238,183
Refund of Member Contributions	\$ 226,008	\$ 149,710
Total	\$ 177,187,335	\$ 166,272,699
C. Grand Total	\$ 255,352,582	\$ 246,561,622

* Includes survivors of active and retired members



Section IV: Employer Contributions

Employer Contributions

In the previous two sections, attention has been focused on the assets and the present value of all future benefits of the System. A comparison of Tables 3 and 7 indicates that there is a shortfall in current actuarial assets to meet the present value of all future benefits for current members and beneficiaries.

In an active system, there will always be a difference between the assets and the present value of all future benefits. An actuarial valuation sets a schedule of future contributions that will deal with this funding in an orderly fashion.

The method used to determine the incidence of the contributions in various years is called the actuarial cost method. For this valuation, the entry age actuarial cost method has been used. A description of the entry age actuarial cost method is provided in Appendix A. Under this method, or essentially any actuarial cost method, the contributions required to meet the difference between current assets and the present value of all future benefits are allocated each year between three elements:

- A normal cost amount, which ideally is relatively stable as a percentage of salary over the years;
- A load for administrative expenses; and
- An amount which is used to amortize the UAAL.

The two items described above, normal cost and UAAL, are the keys to understanding the actuarial cost method. Let us first discuss the normal cost.

The normal cost is the theoretical contribution rate, which will meet the ongoing costs of a group of average new employees. Suppose that a group of new employees were covered under a separate fund from which all benefits and to which all contributions and associated investment return were to be paid. Under the entry age actuarial cost method, the normal cost contribution rate is that level percentage of pay which would be exactly right to maintain this fund on a stable basis. If experience were to follow the actuarial assumptions exactly, the fund would be completely liquidated with the last payment to the last survivor of the group.

The assumed investment rate of return is 7.65%, net of investment expenses only. As a result, the actuarially determined contribution must include an amount for administrative expenses expected to occur during the year.

We have determined the normal cost rates separately by type of benefit under the System. These are summarized in Table 7. In Table 7 we also provide a summary of the member and employer statutory contributions.

The term "fully funded" is often applied to a system where contributions for everyone at the normal cost rate will fully pay for the benefits of existing as well as new employees. Often, systems are not fully funded, either because of benefit improvements in the past that have not been completely paid for or actuarial deficiencies that have occurred because experience has not been as anticipated. Under these circumstances, a UAAL exists.



Section IV: Employer Contributions

Table 8 shows how the UAAL was derived for the System. Lines A and B show, respectively, the total present value of future benefits and the portion of the future liability that is expected to be paid from future normal cost contributions, both employer and employee. The future normal cost contributions are the portion of the present value of future benefits that are attributed to future years of service that have not been earned yet by the active membership. Line C shows the actuarial accrued liability. Line D shows the amount of assets available for benefits. Line E shows the UAAL.

The UAAL at any date after establishment of a system is affected by any actuarial gains or losses arising when the actual experience of the system varies from the experience anticipated by the actuarial assumptions used in the valuations. To the extent actual experience as it develops differs from the assumptions used, so also will the actual emerging costs differ from the estimated costs. The impact of these differences in actual experience from the assumptions is included in Section 1, the Summary of Findings.



Section IV: Employer Contributions

**Table 7:
Normal Cost Contribution Rates
As Percentages of Salary**

	<u>June 30, 2018</u> <u>Total</u>	<u>June 30, 2017</u> <u>Total</u>
Service retirement	19.52%	20.11%
Disability retirement	1.66%	1.69%
In Service Death	0.67%	0.69%
Vested retirement	<u>2.29%</u>	<u>2.30%</u>
Total Normal Rate	<u>24.14%</u>	<u>24.79%</u>
Employee Normal Rate	13.05%	13.05%
Employer Normal Rate	11.09%	11.74%
Administrative Expense Load	0.27%	0.30%
Rate Available to Amortize Unfunded Actuarial Accrued Liability	<u>26.97%</u>	<u>26.29%</u>
Statutory Funding Rate*	51.38%	51.38%

* The rates shown are for the fiscal year following the valuation date.

Note: The normal cost rate for members hired on or after July 1, 2013 is 23.15%.



Section IV: Employer Contributions

**Table 8:
Unfunded Actuarial Accrued Liability**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
A. Actuarial present value of all future benefits for present members, retirees, and their survivors (Table 6)	\$ 255,352,582	\$246,561,622
B. Less actuarial present value of total future normal costs for present members	<u>\$ 25,530,807</u>	<u>\$ 27,092,003</u>
C. Actuarial accrued liability	\$ 229,821,775	\$219,469,619
D. Less assets available for benefits	<u>\$ 147,143,742</u>	<u>\$ 141,235,730</u>
E. Unfunded actuarial accrued liability	\$ 82,678,033	\$ 78,233,889



Cash Flows

The fundamental equation for funding a retirement system is that benefits and administrative expenses must be provided for by contributions (past and future) and investment income. When a retirement system matures, benefits and administrative expenses often exceed contributions. In this case we say the system has a “negative cash flow.” Mature systems are characterized by negative cash flows and large pools of assets. This is natural. Actuarial funding is designed to accumulate large pools of assets which will in turn provide investment income and finance negative cash flows when systems mature. If the fund is looked at as a whole, investment income is usually larger than the difference between contributions and benefit payments. The retirement system’s investment strategy should maximize potential returns at a prudent level of risk while providing for needed cash flows.

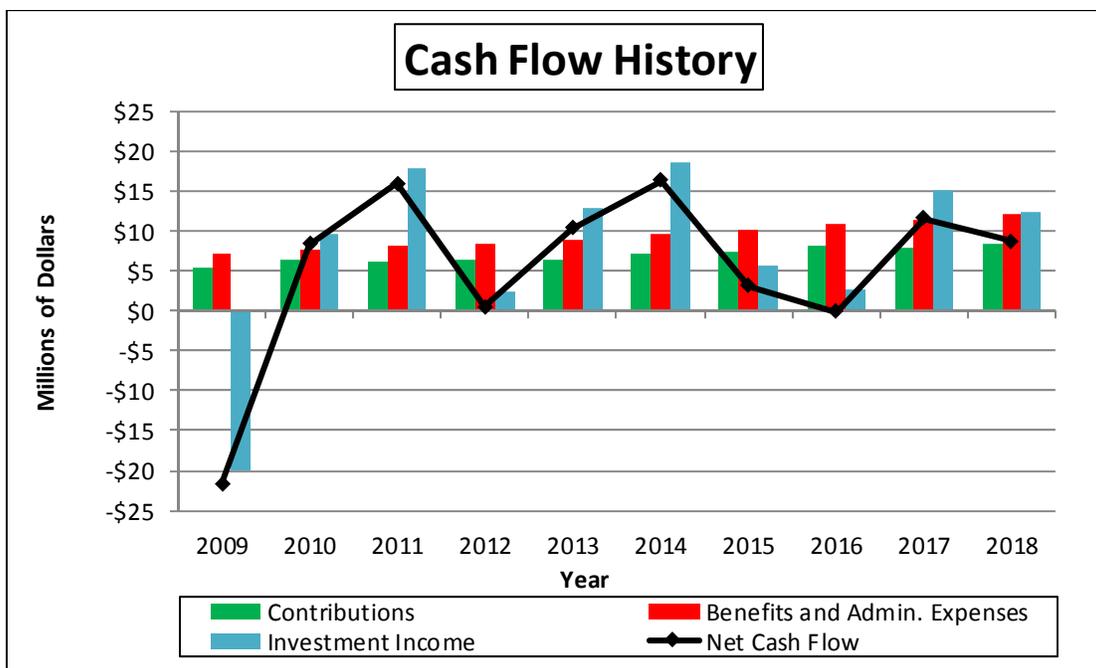
Table 9 shows the System had a positive cash flow for the year ended June 30, 2018. The System’s total cash flow including benefits payments, administrative expenses and investment earnings was \$8.7 million. Of the \$8.7 million, \$12.3 million was due to investment returns.

If the System had a positive cash flow, there would be no need to plan where the funds would come from to pay benefits since benefits could be paid by incoming contributions. A negative cash flow, as defined above, requires planning what funds will be used to pay the difference between benefits and contributions.



Section V: Cash Flows

**Table 9:
Cash Flow History
(Dollar amounts in millions)**



Year Ended June 30	Historical Cash Flows			
	Contributions	Benefits & Administrative Expenses	Investment Income	Net Cash Flow
2009	\$ 5.5	\$ 7.2	\$ (20.0)	\$ (21.7)
2010	6.3	7.7	9.7	8.3
2011	6.1	8.0	17.9	16.0
2012	6.5	8.4	2.3	0.4
2013	6.5	8.9	12.8	10.4
2014	7.2	9.6	18.7	16.3
2015	7.5	10.1	5.7	3.1
2016	8.1	10.8	2.6	(0.1)
2017	8.0	11.5	15.1	11.6
2018	8.5	12.1	12.3	8.7



Section VI: Actuarial Gains of Losses

Actuarial Gains or Losses

An analysis of actuarial gains or losses is performed in conjunction with all regularly scheduled valuations.

The developments of the gains or losses related to the actuarial liability and the assets are shown in Table 10. The results of our analysis of the financial experience of the System in the three most recent regular actuarial valuations are presented in Table 11.

Each gain or loss shown represents our estimate of how much the given type of experience caused the UAAL or Funding Reserve to change in the period since the previous actuarial valuation.

Gains and losses shown due to demographic sources are approximate. Demographic experience is analyzed in greater detail in our periodic experience studies.

Non-recurring gains and losses result from changes in the actuarial assumptions and benefit improvements.



Section VI: Actuarial Gains of Losses

**Table 10:
Analysis of Actuarial (Gains) or Losses***

A. ACTUARIAL ACCRUED LIABILITY (GAIN) / LOSS ANALYSIS	
1. Actual Actuarial Accrued Liability as of June 30, 2017:	\$ 219,469,619
2. Normal Cost for this Plan Year (Including Expenses)	3,384,129
3. Interest on items 1 and 2 [(1+2) x 7.65%]	17,048,312
4. Benefit Payments for this Plan Year (Including Expenses)	(12,123,881)
5. Interest on item [4 x 7.65% x .5]	(463,738)
6. Expected Actuarial Accrued Liability as of June 30, 2017:	<u>\$ 227,314,441</u>
7. Changes due to:	
a. Assumption Changes	0
b. Plan Amendments	0
c. Funding Method	0
d. Actuarial (Gain) / Loss	\$ 2,507,334
8. Actual Unfunded Accrued Actuarial Liability as of June 30, 2018:	<u>\$ 229,821,775</u>
9. Items Affecting Calculation of Unfunded Accrued Actuarial Liability:	
a. Benefit provisions reflected in the unfunded accrued liability (see Appendix C)	
b. Actuarial assumptions and methods used to determine actuarial accrued liability (see Appendix B)	
B. ASSET (GAIN) / LOSS ANALYSIS	
1. Actuarial Value of Assets as of June 30, 2017:	\$ 141,235,730
2. Interest on item [1 x 7.65%]	10,804,533
3. Contributions for this Plan Year	8,495,169
4. Interest on item [3. x 7.65% x .5]	324,940
5. Benefit Payments for this Plan Year (Including Expenses)	(12,123,881)
6. Interest on item [5. x 7.65% x .5]	(463,738)
7. Expected Actuarial Value of Assets as of June 30, 2018:	<u>\$ 148,272,753</u>
8. Actuarial Value of Assets as of June 30, 2018:	<u>\$ 147,143,742</u>
9. (Gain) / Loss	\$ 1,129,011
C. UNFUNDED ACTUARIAL ACCRUED LIABILITY (GAIN) / LOSS ANALYSIS	
1. Actual Unfunded Actuarial Accrued Liability as of June 30, 2017:	\$ 78,233,889
2. Normal Cost for this Plan Year (Including Expenses)	3,384,129
3. Contributions for this Plan Year:	(8,495,169)
4. Interest on items 1 - 3: [(1+2) x 7.65% + (3 x 7.65% x .5)]	5,918,839
5. Expected Unfunded Actuarial Accrued Liability as of June 30, 2018:	<u>\$ 79,041,688</u>
6. Changes due to:	
a. Assumption Changes	-
b. Plan Amendments	-
c. Funding Method	-
d. Actuarial (Gain) / Loss	\$ 3,636,345
7. Actual Unfunded Actuarial Accrued Liability as of June 30, 2018:	<u>\$ 82,678,033</u>

* Effects related to gains are shown in parentheses. Numerical results are expressed as a (decrease) increase in the Unfunded Actuarial Accrued Liability (UAAL). Gains decrease the UAAL and losses increase the UAAL.



Section VI: Actuarial Gains of Losses

**Table 11:
Historical Actuarial (Gains) or Losses***
(\$ in thousands)

	UAAL (Gain)/Loss		
	June 30, 2018	June 30, 2017	June 30, 2016
Investment Income			
Investment income was (greater) less than expected based on actuarial value of assets.	\$ 1,129.0	\$ (663.8)	\$ (1,254.9)
Pay Increases			
Pay increases were (less) greater than expected.	(381.8)	(2,547.8)	837.6
Age & Service Retirements			
Members retired at (older) younger ages or with (less) greater final average pay than expected	1,690.0	5,111.7	1,016.5
Disability Retirements			
Disability claims were (less) greater than expected	143.9	(479.8)	18.0
Death-in-Service Benefits			
Survivor claims were (less) greater than expected	(33.6)	29.4	(32.1)
Withdrawal From Employment			
(More) less reserves were released by withdrawals than expected	136.3	470.4	(380.7)
Death After Retirement			
Retirees (died younger) lived longer than expected	(55.9)	(730.7)	443.7
Data Adjustments and Benefit Payment Timing			
Service purchases, data corrections, etc.	1,005.5	(1,156.8)	178.4
Other			
Miscellaneous (gains) and losses	2.9	120.6	697.5
Total (Gain) or Loss During Period From Financial Experience	\$ 3,636.3	\$ 153.2	\$ 1,524.0
Non-Recurring Items.			
Changes in actuarial assumptions and methods	-	7,880.6	-
Changes in benefits caused a (gain) loss	-	-	-
Composite (Gain) Loss During Period	\$ 3,636.3	\$ 8,033.8	\$ 1,524.0

* Effects related to gains are shown in parentheses. Numerical results are expressed as a (decrease) increase in the Unfunded Actuarial Accrued Liability (UAAL). Gains decrease the UAAL and losses increase the UAAL.



Appendix A: Actuarial Procedures and Methods

The assumptions and methods utilized in the valuation were developed in the six-year experience study for the period ending June 30, 2016.

Tables B-3 through B-7 give rates of decrement for service retirement, disablement, mortality, and other terminations of employment.

Actuarial Cost Method

The actuarial valuation was prepared using the entry age actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percentage of the individual's projected compensation between entry age and assumed exit. The portion of this actuarial present value allocated to a valuation year is called the normal cost. The normal cost was first calculated for each individual member. The normal cost rate is defined to equal the total of the individual normal costs, divided by the total pay rate.

The portion of this actuarial present value not provided for at a valuation date by the sum of (a) the actuarial value of the assets and (b) the actuarial present value of future normal costs is called the UAAL. The UAAL is amortized as a level percentage of the projected salaries of present and future members of the System.

Records and Data

The data used in the valuation consists of financial information; records of age, sex, service, salary, contribution rates, and account balances of contributing members; and records of age, sex, and amount of benefit for retired members and beneficiaries. All of the data was supplied by the System and has been accepted for valuation purposes without audit.

Replacement of Terminated Members

The ages at entry and distribution by sex of future members are assumed to average the same as those of the present members they replace. If the number of active members should increase, it is further assumed that the average entry age of the larger group will be the same, from an actuarial standpoint, as that of the present group. Under these assumptions, the normal cost rates for active members will not vary with the termination of present members.

Administrative and Investment Expenses

The investment expenses of the System are assumed to be funded by investment earnings in excess of 7.65% per year.

Administrative expenses are assumed to equal 0.27% of payroll.

Valuation of Assets

The actuarial asset valuation method spreads asset gains and losses over four years. The expected return is determined each year based on the beginning of year market value and actual cash flows during the year. Any difference between the expected market value return and the actual market value return is recognized evenly over a period of four years.



Appendix A: Actuarial Procedures and Methods

Investment Earnings

The annual rate of investment earnings of the assets of the System is assumed to be 7.65% per year net of investment expenses, compounded annually.

Interest on Member Contributions

Interest on member contributions is assumed to accrue at a rate of 2.75% per annum, compounded annually.

Future Salaries

The rates of annual salary increase assumed for the purpose of the valuation are illustrated in Table B-2. In addition to increases in salary due to merit and longevity, this scale includes an assumed 3.5% annual rate of increase in the general wage level of the membership.

Service Retirement

Table B-3 shows the annual assumed rates of retirement among members eligible for service retirement. Separate rates are used when a member is eligible for reduced benefits, for the first year a member is eligible for full benefits, and for the years following the first year a member is eligible for full benefits.

Disablement

The rates of disablement used in this valuation are illustrated in Table B-4.

Mortality

The mortality rates used in this valuation are illustrated in Table B-5. A written description of each table used is included in Table B-1.

Other Terminations of Employment

The rates of assumed future withdrawal from active service for reasons other than death, disability or retirement are shown for representative ages in Table B-6.

Benefits for Terminating Members

Members terminating with less than five years of service are assumed to request an immediate withdrawal of their contributions with interest. Table B-7 shows the assumed probability of retaining membership in the System among members terminating with five or more years of service.

We estimated the present value of future benefits for terminated vested members based on the greater of the present value of their deferred benefit at age 60 or their available contribution account.



Appendix A: Actuarial Procedures and Methods

Probability of Marriage & Dependent Children

If death occurs in active status, all members are assumed to have an eligible surviving spouse with no dependent children. Female spouses are assumed to be three years younger than their male spouse.

Records with no Birth Date

New records with no birth date are assumed to be 37 years old. Records that are not new and have no birth date used the same birth date as the prior year's valuation.

Active Records with a Salary Less than \$1,000

These members are included in the active headcounts, however the pay of these members is not included in the Valuation Projected Salaries summarized in Appendix D. The liability for these members is their accumulated member contributions payable on the valuation date.



Appendix B: Summary of Valuation Assumptions

Table B-1

Summary of Valuation Assumptions

I. Economic assumptions	
A. General wage increases	3.50%
B. Investment return	7.65%
C. Price inflation assumption	2.75%
D. Growth in membership	0.00%
E. Interest on member accounts	2.75%
F. Administrative Expenses as a percentage of payroll	0.27%
G. Interest on DROP accounts	7.65%
II. Demographic assumptions	
A. Individual salary increase due to promotion and longevity	Table B-2
B. Retirement	Table B-3
C. Disablement	Table B-4
D. Mortality among contributing members, service retired members, and beneficiaries. The tables include margins for mortality improvement which is expected to occur in the future. For Males and Females: RP 2000 Combined Employee and Annuitant Mortality Table projected to 2020 using Scale BB, males set back 1 year.	Table B-5
E. Mortality among disabled members For Males and Females: RP 2000 Combined Mortality Table.	Table B-5
F. Other terminations of employment	Table B-6
G. Probability of retaining membership in the System upon vested termination	Table B-7



Appendix B: Summary of Valuation Assumptions

Table B-2

Future Salaries

	(a)	(b)	(1+(a))*(1+(b))
Years of Service	Individual Merit & Longevity	General Wage Increase	Total Salary Increase
1	6.30%	3.50%	10.02%
2	4.70	3.50	8.36
3	3.50	3.50	7.12
4	2.70	3.50	6.29
5	2.00	3.50	5.57
6	1.40	3.50	4.95
7	0.90	3.50	4.43
8	0.50	3.50	4.02
9	0.20	3.50	3.71
10 & Up	0.00	3.50	3.50



Appendix B: Summary of Valuation Assumptions

Table B-3

**Retirement
Annual Rates**

Age	20 or More Years of Service
Less than 50	12.0%
50	16.0%
51	16.0
52	16.0
53	16.0
54	16.0
55	20.0
56	20.0
57	20.0
58	20.0
59	20.0
60 & Over	100.0

Vested terminations are assumed to retire at their earliest unreduced eligibility.

An additional 15% are assumed to retire and enter the DROP for each of the first six years following DROP eligibility.



Appendix B: Summary of Valuation Assumptions

Table B-4
Disablement
Annual Rates

<u>Age</u>	<u>All Members</u>
22	.00%
27	.10
32	.10
37	.10
42	.40
47	.40
52	.40
57	.40
62	.00

75% of disabilities are assumed to be duty-related. All disabilities are assumed to be permanent and without recovery.



Appendix B: Summary of Valuation Assumptions

Table B-5
Mortality
Annual Rates

Age	Contributing Members, Service Retired Members and Beneficiaries		Disabled Members	
	Men	Women	Men	Women
25	0.0354%	0.0195%	0.0376%	0.0207%
30	0.0388	0.0249	0.0444	0.0264
35	0.0661	0.0447	0.0773	0.0475
40	0.0961	0.0665	0.1079	0.0706
45	0.1316	0.1058	0.1508	0.1124
50	0.1879	0.1578	0.2138	0.1676
55	0.3010	0.2458	0.3624	0.2717
60	0.5271	0.4135	0.6747	0.5055
65	0.9041	0.7624	1.2737	0.9706
70	1.4636	1.3151	2.2206	1.6742
75	2.5057	2.2077	3.7834	2.8106
80	4.2816	3.6037	6.4368	4.5879
85	7.3750	6.0833	11.0757	7.7446
90	13.0721	10.5549	18.3408	13.1682
95	21.7835	17.2452	26.7491	19.4509

70% of all member deaths are assumed to be duty-related.



Appendix B: Summary of Valuation Assumptions

Table B-6

**Other Terminations of Employment
Among Members Not Eligible to Retire
Annual Rates**

<u>Years of Service</u>	<u>All Members</u>
0	12.0%
1	7.5
2	7.5
3	7.5
4	7.5
5	5.0
6	5.0
7	5.0
8	5.0
9	5.0
10	3.0
11	3.0
12	3.0
13	3.0
14	3.0
15	1.0
16	1.0
17	1.0
18	1.0
19	1.0



Appendix B: Summary of Valuation Assumptions

Table B-7

**Probability of Retaining Membership in the System
Upon Vested Termination**

<u>Age</u>	<u>Probability of Retaining Membership</u>
Under 35	60%
35	60
36	60
37	60
38	60
39	60
40	60
41	60
42	60
43	60
44	60
45	70
46	70
47	70
48	70
49	70
50 & Over	100



Appendix C: Summary of Benefit Provisions

- Service credit**
- Service credit is used to determine the amount of a member's retirement benefit.
 - One month of service credit is earned for each month where the member is paid for 160 hours. This includes certain transferred and purchased service.
- Membership service**
- Membership service is used to determine eligibility for vesting, retirement or other benefits.
 - One month of membership service is earned for any month member contributions are made, regardless of the number of hours worked.
 - Eligible members in all systems may purchase service that counts toward membership service.
 - Additionally, eligible active and inactive Sheriffs' Retirement System (SRS) members may purchase 1 for 5 (additional) service that will count as membership service.
- Contributions**
- Member contributions are made through an "employer pick-up" arrangement which results in deferral of taxes on the contributions.
- Compensation**
- Compensation generally means all remuneration paid, excluding certain allowances, benefits, and lump sum payments. Compensation is specifically defined in law and differs amongst the systems.
 - Bonuses paid **on or after** July 1, 2013 to any member will not be treated as compensation for retirement purposes. No member or employer contributions will be paid on bonuses.
- Withdrawal of employee contributions**
- A member is eligible for a withdrawal of their contributions when they terminate service and are either not eligible for or have not taken a retirement benefit.
 - The member receives the accumulated member contributions, which consists of member contributions and regular interest.
 - Upon receipt of a refund of accumulated contributions a member's vested right to a monthly benefit is forfeited.



Appendix C: Summary of Benefit Provisions

Member contributions interest credited (regular interest)

- Interest is credited to member accounts at the rates determined by the Board.
- The current interest rate credited to member accounts is 0.77%.

Working Retiree Limitations -

Applies to retirement system members who return **on or after** July 1, 2017 to covered employment in the system from which they retired. These limits already applied to SRS members before July 1, 2017.

- Members who return for **less than 480 hours** in a **calendar year**:
 - may not become an active member in the system; and
 - are subject to a \$1 reduction in their retirement benefit for each \$3 earned in excess of \$5,000 in the calendar year.
- Members who return for **480 or more hours** in a **calendar year**;
 - must become an active member of the system;
 - will stop receiving a retirement benefit from the system; **and**
 - will be eligible for a second retirement benefit if they earn 5 or more years of service credit through their second employment.
- Employee, employer and state contributions apply as follows:
 - Employer contributions and state contributions (if any) must be paid on all working retirees;
 - Employee contributions must be paid on working retirees who return to covered employment for 480 or more hours in a calendar year.

NOTE: PERS has its own limits.



Appendix C: Summary of Benefit Provisions

Second Retirement Benefit

Applies to retirement system members who return on or after July 1, 2017 to active service covered by the system from which they retired.

- If the member works more than 480 hours in a calendar year and accumulates less than 5 years of service credit before terminating again, the member:
 - is not awarded service credit for the period of reemployment;
 - is refunded the accumulated contributions associated with the period of reemployment;
 - starting the first month following termination of service, receives the same retirement benefit previously paid to the member; and
 - does not accrue post-retirement benefit adjustments during the term of reemployment but receives a GABA in January immediately following second retirement.

Second Retirement Benefit (continued)

- If the member works more than 480 hours in a calendar year and accumulates at least 5 years of service credit before terminating again, the member:
 - is awarded service credit for the period of reemployment;
 - starting the first month following termination of service, receives:
 - * the same retirement benefit previously paid to the member; **and**
 - * a second retirement benefit for the period of reemployment calculated based on the laws in effect as of the member's rehire date; **and**
 - does not accrue post-retirement benefit adjustments during the term of reemployment but receives a GABA:
 - * on the initial retirement benefit in January immediately following second retirement; **and**
 - * on the second retirement benefit starting in January after receiving that benefit for at least 12 months.
- A member who returns to covered service is **not** eligible for a disability benefit.



Appendix C: Summary of Benefit Provisions

- | | |
|--|---|
| Refunds | <ul style="list-style-type: none">• Terminating members eligible to retire may, in lieu of receiving a monthly retirement benefit, refund their accumulated contributions in a lump sum.• Terminating members with accumulated contributions between \$200 and \$1,000 who wish to rollover their refund must do so within 90 days of termination of service.• Trusts, estates, and charitable organizations listed as beneficiaries are entitled to receive only a lump sum payment. |
| Lump-sum payouts | <ul style="list-style-type: none">• Effective July 1, 2017, lump sum payouts in all systems are limited to the member's accumulated contributions rather than the present value of the member's benefit. |
| Type of plan | <ul style="list-style-type: none">• Single-employer defined benefit |
| Membership eligibility | <ul style="list-style-type: none">• All members of the Montana highway patrol including supervisors and assistant supervisors |
| Member contributions | <ul style="list-style-type: none">• 13% of member's compensation, not covered by GABA• 13.05% of member's compensation, covered by GABA• Effective July 1, 2014, member contributions increase 1% annually through the fiscal year ending 2017. |
| Employer contributions | <ul style="list-style-type: none">• 28.15% of member's compensation |
| State contributions | <ul style="list-style-type: none">• 10.18% of each member's compensation paid from the General Fund |
| Compensation period used in benefit calculation | <ul style="list-style-type: none">• HAC = Highest Average Compensation• HAC is average of the highest 36 consecutive months (or shorter period of total service) of compensation paid to member.• Hired on or after July 1, 2013: 110% annual cap on compensation considered as part of a member's HAC. |
| Service retirement eligibility and benefit | <ul style="list-style-type: none">• 20 years of membership service• 2.6% of HAC x years of service credit |



Appendix C: Summary of Benefit Provisions

Early retirement eligibility and benefit

- Hired **prior to** July 1, 2013:
Any age with **5 years** of membership service; if discontinued from service other than for cause.
- Hired **on or after** July 1, 2013:
Any age with **10 years** of membership service; if discontinued from service other than for cause.
- Normal retirement benefit calculated using HAC and service credit at early retirement, and reduced to the actuarial equivalent of a service retirement benefit based on a retirement age of 60.

Disability eligibility and benefit

Duty-related disability:

- Any active member
- **Less than 20 years** of membership service:
50% of HAC, or
- **20 years or more** of membership service:
2.6% of HAC x years of service credit

Regular disability:

- Any vested member
- The actuarial equivalent of the normal retirement benefit based on retirement age of 60.

Survivor's eligibility and benefit

Duty-related deaths:

- Active member
- A monthly survivor benefit to the surviving spouse or dependent child: 50% of HAC of the member.

Non-duty-related death:

- Active or inactive member
- Member's spouse will receive (or, if there is no surviving spouse or after the surviving spouse dies, each dependent child for as long as they remain dependent children) will equally receive a benefit: The actuarial equivalent of the early retirement benefit.
- A beneficiary may elect to receive the present value of the benefit as a single lump sum.
- For retired members without a surviving spouse or dependent child, the member's designated beneficiary will receive a payment equal to the retired member's accumulated contributions reduced by any retirement benefits already paid.



Appendix C: Summary of Benefit Provisions

Vesting eligibility and benefit

- Hired **prior to** July 1, 2013:
5 years of membership service
- Hired **on or after** July 1, 2013:
10 years of membership service.
- Accrued normal retirement benefit, payable when eligible for retirement.
- In lieu of a pension, a member may receive a refund of accumulated contributions.
- Upon receipt of a refund of accumulated contributions, a member's vested right to a monthly benefit is forfeited.

Retirement benefits - Form of payment

- The retirement benefit is paid for the retired member's life.
- Upon the death of the retired member, the benefit is paid to the surviving spouse.
- If there is no surviving spouse, or after the death of a surviving spouse, benefits are paid to the dependent children, if any, for as long as they remain dependent children.

Post retirement benefit increases

- For retired members who either became active members **on or after** July 1, 1997 **and before** July 1, 2013, **or** who were hired **before** July 1, 1997 **and elected** to be covered under GABA, and who have been retired at least 12 months, a GABA will be paid each year in January equal to 3%.
- For retired members who were hired **prior to** July 1, 1997 **and did not elect** GABA, the minimum monthly benefit provided is equal to 2% x service credit x the current base compensation of a probationary highway patrol officer. Such benefit may not exceed 60% of the current base compensation of a probationary highway patrol officer and the annual increase may not exceed 5% of the current benefit.
- For retired members who became active members **on or after** July 1, 2013, **and** who have been retired at least 36 months, a GABA will be paid each year in January equal to 1.5%.
- For **non-GABA** members who retired **prior to** July 1, 1991 **and** meet eligibility requirements, a supplemental lump sum payment will be made each year based on the increase in the Consumer Price Index.



Appendix C: Summary of Benefit Provisions

- Changes since last valuation**
- None

HPORS Deferred Retirement Option Plan (DROP)

Effective October 1, 2015, eligible members of the Highway Patrol Officers' Retirement System (HPORS) have the opportunity to participate in the DROP. The DROP allows active HPORS members to begin accumulating their retirement benefit, without terminating employment, for up to 60 months. If a member chooses to join the DROP, their monthly retirement benefit and their employee contributions will go into their individual DROP account.

- | | |
|---|---|
| Eligibility | <ul style="list-style-type: none">• Active members of HPORS with at least 20 years of membership service. |
| Period | <ul style="list-style-type: none">• Minimum of one month up to a maximum of five years. The member will not earn additional membership service or service credit. |
| Member contributions | <ul style="list-style-type: none">• While a member is working, the member's contributions go into the DROP Participant's DROP Account. |
| Member contributions interest credited | <ul style="list-style-type: none">• A member's DROP account will earn an interest rate equal to the actuarial assumed rate of return. Currently the rate of return is 7.65%. |
| Employer contributions | <ul style="list-style-type: none">• While a member is working, the member's employer and the State will pay the regular contributions to HPORS. |
| Terminate employment | <ul style="list-style-type: none">• When the member terminates employment at the end of the DROP Period the member will begin receiving the HPORS monthly retirement benefit. At this time, members will receive the DROP Benefit as a lump sum payment or a direct rollover to another eligible retirement plan (as allowed by the IRS). If the member does not designate a distribution method within 60 days after termination of employment, the DROP Benefit will be paid in a taxable lump sum.• If a member's HPORS-covered employment is terminated during the DROP Period, the DROP Benefit will be distributed to the member and payment of the monthly service retirement benefit will begin. |



Appendix C: Summary of Benefit Provisions

- | | |
|--|--|
| Disability | <ul style="list-style-type: none">• If the member becomes disabled during the DROP Period, the member will not be eligible for HPORS disability benefits. If the member terminates service, the service retirement benefit will be paid to the member rather than to the monthly DROP Account. The member will also be eligible to receive the DROP Benefit. |
| Survivor Benefit | <ul style="list-style-type: none">• If a member dies before the end of the DROP Period, the member's surviving spouse or dependent children are entitled to the member's DROP Benefit and the benefit they would have received had the member retired.• If the member does not have a surviving spouse or dependent children, the member's designated beneficiary receives the balance of the member's retirement account and a lump-sum payment of the member's DROP Benefit. |
| Benefit | <ul style="list-style-type: none">• A member may continue to work after the DROP Period ends and remain vested in HPORS. The member will not receive the service retirement benefit or the DROP Benefit during the time the member continues working. The balance of the DROP Account will continue to earn interest.• Upon termination of employment, the member will receive the initial HPORS monthly retirement benefit; an additional benefit based on the member's service credit and highest average compensation earned after DROP participation; and the DROP Benefit. |
| Post retirement benefit increases | <ul style="list-style-type: none">• Members do not receive the Guaranteed Annual Benefit Adjustment (GABA) on the accrued DROP retirement benefit. GABA starts January 1 immediately following retirement for initial and subsequent retirement benefits. |
| Changes since last valuation | <ul style="list-style-type: none">• None |



Appendix D: Valuation Data

Valuation Data

This chart is presented for informational purposes only. The counts shown in the valuation line were used for preparation of the liabilities disclosed within this report. The counts disclosed for the Annual Financial Report and the Summary of Results (page 1) match the Financial Statements at the request of the Board. The differences between counts, if any, have no material effect upon the liability calculation.

	<u>Active</u>	<u>Disabled</u>	<u>Retirees and Beneficiaries</u>	<u>Terminated Vested Members</u>	<u>Terminated Non-Vested Members</u>	<u>Total</u>
Participant Counts Used for Valuation	220	25	326	14	23	608
Disabled Members having attained normal retirement age		(18)	18			0
Beneficiaries of Disabled Members						0
Beneficiaries with less than one year of certain payments remaining						0
DROP Members	13		(13)			0
Other Adjustments						0
Participant Counts shown in the Annual Financial Report	233	7	331	14	23	608



Appendix D: Valuation Data

This valuation is based upon the membership of the System as of June 30, 2018. Membership data was supplied by the System and has been accepted for valuation purposes without audit. However, tests were performed to ensure that the data was sufficiently accurate for valuation purposes.

The salaries used in the tables and charts which follow are different than the salaries used for the Summary of Results on page 1. The valuation salaries are anticipated to be paid for the following fiscal year, whereas the Summary of Results salaries are applicable in the year ending on the valuation date.

<u>Active Members</u>	<u>Number</u>	<u>Valuation Projected Salaries</u>
Full-Time Members	217	\$ 14,376,502
Part-Time Members	<u>3</u>	<u>\$ 123,753</u>
Total Active Members*	220	\$ 14,500,255

* Data from the 13 DROP participants are excluded from the table above.

Table D-1 contains summaries of the data for active members. For full-time members, values shown in the tables are the numbers of members and their total and average annual salaries. For part-time members, only the numbers of members are shown.

Table D-2 presents distributions of the following:

- Members receiving service retirement benefits.
- Members receiving disability retirement benefits.
- Survivors of deceased retired members receiving benefits.
- Survivors of deceased active members.
- Terminated vested members.

Table D-3 is a reconciliation of membership data from June 30, 2017 to June 30, 2018.



Appendix D: Valuation Data

The following is a summary of retired members and beneficiaries currently receiving benefits. The chart reflects the counts and benefits used for valuation purposes as a result of data processing. Please refer to the chart on page 44 for an explanation of the number of annuitants used for valuation purposes.

Type of Annuitant	Number	Annual Benefits	Average Annual Benefits
Service Retirement	238	\$ 8,724,250	\$ 36,657
DROP Members	13	630,415	48,493
Total Service Retired Members	251	\$ 9,354,665	\$ 37,270
Survivors of Deceased Retired Members	63	\$ 1,813,474	\$ 28,785
Survivors of Deceased Active Members	12	245,991	20,499
Total Survivors and Beneficiaries	75	\$ 2,059,465	\$ 27,460
Disability Retirement	25	686,347	27,454
Total Annuitants	351	\$ 12,100,477	\$ 34,474

Terminated Members with Contributions Not Withdrawn	Number
Vested Terminated Members	14
Non-Vested Terminated Members	23
Total Terminated Members	37



**Table D-1:
Active Members Distribution of
Full-Time Employees and Salaries
as of June 30, 2018**

Number of Employees

Age	Completed Years of Service											Totals	
	0	1	2	3 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39		40+
<25	4	3		1									8
25 to 29	3	7	4	13	1								28
30 to 34	4	3	1	18	8	4							38
35 to 39		3		6	16	17	1						43
40 to 44		2			7	13	14	3					39
45 to 49				1	2	4	14	8					29
50 to 54					4	5	6	3	2				20
55 to 59						2	5	2					9
60 to 64					1	2							3
65 to 69													
70 and up													
Totals	11	18	5	39	39	47	40	16	2				217

* Data from the 13 DROP participants is excluded from the table above.



Appendix D: Valuation Data

**Table D-1:
Active Members Distribution of
Full-Time Employees and Salaries
as of June 30, 2018**

Annual Salaries in Thousands

Age	Completed Years of Service											Totals		
	0	1	2	3 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39		40+	
<25	208	174		64										446
25 to 29	158	406	253	805	55									1,677
30 to 34	211	169	60	1,096	536	308								2,379
35 to 39		177		368	988	1,186	63							2,782
40 to 44		115			437	896	1,057	219						2,724
45 to 49				58	121	285	1,022	605						2,091
50 to 54					253	365	423	201	176					1,419
55 to 59						154	364	139						657
60 to 64					62	138								200
65 to 69														
70 and up														
Totals	576	1,041	314	2,391	2,452	3,333	2,929	1,164	176					14,377

* Data from the 13 DROP participants is excluded from the table above.
The salary shown in the above chart was used for valuation purposes and assumes pay increases for the year.



Appendix D: Valuation Data

**Table D-1:
Active Members Distribution of
Full-Time Employees and Salaries
as of June 30, 2018**

Average Annual Salary

Age	Completed Years of Service												Totals	
	0	1	2	3 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40+		
<25	51,973	57,956		64,488										55,781
25 to 29	52,616	58,008	63,298	61,911	55,483									59,908
30 to 34	52,672	56,403	60,314	60,862	66,978	76,981								62,618
35 to 39		59,004		61,386	61,745	69,789	62,717							64,707
40 to 44		57,545			62,433	68,946	75,487	72,969						69,850
45 to 49				57,738	60,555	71,152	73,007	75,626						72,088
50 to 54					63,304	72,940	70,568	67,021	88,186					70,938
55 to 59						77,194	72,778	69,591						73,051
60 to 64					61,841	69,095								66,677
65 to 69														
70 and up														
Totals	52,403	57,847	62,701	61,305	62,883	70,905	73,224	72,760	88,186					66,251

* Data from the 13 DROP participants is excluded from the table above.
The salary shown in the above chart was used for valuation purposes and assumes pay increases for the year.



**Table D-1:
Active Members Distribution of
Part-Time Employees
as of June 30, 2018**

Number of Employees

Age	<u>Completed Years of Service</u>											Totals	
	0	1	2	3 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39		40+
<25													
25 to 29													
30 to 34		1		1									2
35 to 39													
40 to 44						1							1
45 to 49													
50 to 54													
55 to 59													
60 to 64													
65 to 69													
70 and up													
Totals		1		1		1							3



Appendix D: Valuation Data

**Table D-2:
Distribution of Inactive Lives**

The chart reflects the counts and benefits used for valuation purposes as a result of data processing. Please refer to the chart on page 44 for an explanation of the number of annuitants used for valuation purposes.

Members Receiving Service Retirement Benefits as of June 30, 2018

<u>Age</u>	<u>Number of Persons</u>	<u>Annual Benefits</u>	<u>Average Annual Benefits</u>
<50	10	\$ 395,527	\$ 39,553
50 to 54	29	1,095,423	37,773
55 to 59	30	1,085,857	36,195
60 to 64	21	771,606	36,743
65 to 69	29	1,150,061	39,657
70 to 74	42	1,656,154	39,432
75 to 79	38	1,397,779	36,784
80 to 84	24	726,178	30,257
85 to 89	14	380,053	27,147
90 and up	1	65,612	65,612
Totals	238	\$ 8,724,250	\$ 36,657

Members Receiving Disability Retirement Benefits as of June 30, 2018

<u>Age</u>	<u>Number of Persons</u>	<u>Annual Benefits</u>	<u>Average Annual Benefits</u>
<50	5	\$ 145,127	\$ 29,025
50 to 54	4	99,286	24,822
55 to 59	7	193,880	27,697
60 to 64	1	32,742	32,742
65 to 69	4	105,702	26,426
70 to 74	1	28,912	28,912
75 to 79	3	80,698	26,899
80 to 84	-	-	-
85 to 89	-	-	-
90 and up	-	-	-
Totals	25	\$ 686,347	\$ 27,454



Table D-2:
Distribution of Inactive Lives

The chart reflects the counts and benefits used for valuation purposes as a result of data processing. Please refer to the chart on page 44 for an explanation of the number of annuitants used for valuation purposes.

Survivors of Deceased Retired Members as of June 30, 2018

Table with 4 columns: Age, Number of Persons, Annual Benefits, Average Annual Benefits. Rows include age groups from <50 to 90 and up, and a Totals row.

Survivors of Deceased Active Members as of June 30, 2018

Table with 4 columns: Age, Number of Persons, Annual Benefits, Average Annual Benefits. Rows include age groups from <50 to 90 and up, and a Totals row.



Appendix D: Valuation Data

**Table D-2:
Distribution of Inactive Lives**

The chart reflects the counts and benefits used for valuation purposes as a result of data processing. Please refer to the chart on page 44 for an explanation of the number of annuitants used for valuation purposes.

DROP Members as of June 30, 2018

<u>Age</u>	<u>Number of Persons</u>	<u>Annual Benefits</u>	<u>Average Annual Benefits</u>
<50	5	\$ 240,740	\$ 48,148
50 to 54	5	234,678	46,936
55 to 59	2	82,623	41,312
60 to 64	1	72,374	72,374
65 to 69	-	-	-
70 to 74	-	-	-
75 to 79	-	-	-
80 to 84	-	-	-
85 to 89	-	-	-
90 and up	-	-	-
Totals	13	\$ 630,415	\$ 48,493

**Terminated Vested Members as of June 30, 2018
Number of Persons**

<u>Age</u>	<u>Number</u>
<25	
25 to 29	
30 to 34	2
35 to 39	2
40 to 44	3
45 to 49	3
50 to 54	
55 to 59	3
60 to 64	1
65 to 69	
70 and above	
Total	14



Appendix D: Valuation Data

**Table D-3:
Data Reconciliation**

The following table shows a reconciliation of the participants used in the previous valuation to this valuation. This chart reflects the counts used for valuation purposes as a result of data processing.

	<u>Active Members*</u>	<u>Terminated Vested Members</u>	<u>Service Retired Members**</u>	<u>Disabled Members</u>	<u>Survivors and Beneficiaries</u>
June 30, 2017 Valuation	228	16	247	24	70
Refunds and Non-Vested Terminations	(5)				
Vested Terminations	(2)	2			
Service Retirements	(10)	(3)	13		
Disability Retirements	(1)			1	
Deaths			(11)		(1)
New Entrants	11				10
Rehires					
Other	(1)	(1)	2		(4)
June 30, 2018 Valuation	220	14	251	25	75

* Excludes members in DROP

** Includes members in DROP



Appendix E: Comparative Schedules

Comparative Schedules

This section contains tables that summarize the experience of the System shown in present and past valuation reports.

Table E-1 shows a summary of the active members covered as of the various valuation dates.

Table E-2 shows a summary of the retired and inactive members as of the various valuation dates.

Table E-3 summarizes the contribution rates determined by each annual actuarial valuation.



**Table E-1:
Active Membership Data**

<u>Valuation Date (June 30)</u>	<u>Actives</u>	<u>Annual Salaries in Thousands</u>	<u>Average Annual Salary</u>	<u>Average Age</u>	<u>Average Years of Service</u>	<u>Average Hire Age</u>
2018*	233	15,251	65,456	39.5	9.9	29.6
2017*	238	14,779	62,097	39.7	9.6	30.0
2016*	228	15,276	67,000	40.2	10.0	30.2
2015	241	14,503	60,176	40.4	10.0	30.4
2014	229	13,901	60,704			
2013	219	13,000	59,362			
2012	218	13,514	61,990			

* Number of actives members includes members in DROP



Appendix E: Comparative Schedules

Table E-2:
Members in Receipt of Annuities and Inactive Membership Data

Table with 9 columns: Valuation Date (June 30), Number, Annual Benefits in Thousands, Average Annual Benefit, Average Current Age, Average Age at Retirement, Average Service at Retirement, Number Vested Terminated, Number Non-Vested Terminated. Rows for years 2012 to 2018*.

* Number of members in receipt of annuities excludes members in DROP.



Appendix E: Comparative Schedules

**Table E-3:
Contribution Rates**

Valuation Date (June 30)	Contribution Rates***			Normal	UAAL
	Employee	Employer/State	Total	Cost Rate*	Rate**
2018	13.05%	38.33%	51.38%	24.41%	26.97%
2017	13.05	38.33	51.38	25.09	26.29
2016	13.05	38.33	51.38	25.18	26.20
2015	12.05	38.33	50.38	25.49	24.89
2014	11.05	38.33	49.38	24.69	24.69
2013	10.05	38.33	48.38	25.23	23.15
2012	9.05	36.33%	45.38	23.60	21.78

* Includes administrative expenses starting with the 2014 Valuation Date

** The UAAL rate is the amount available to amortize the UAAL. It is equal to the total contribution rate, minus the normal cost rate.

*** Rates shown below are for the fiscal year following the valuation date.



Appendix F: Financial Statement Information

The information presented in the required supplementary schedules was determined as part of the actuarial valuation as of June 30, 2018. Additional information as of the latest actuarial valuation follows.

Valuation date	June 30, 2018
Actuarial cost method	Entry Age Normal
Amortization method	Open
Remaining amortization period	40 Years
Asset valuation method	Four-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.65%
General wage growth*	3.50%
Merit salary increases	0.0% - 6.3%
*Includes inflation	2.75%



Appendix F: Financial Statement Information

Gain and Loss in Accrued Liability During Years Ended June 30 Resulting from Differences Between Assumed Experience and Actual Experience						
Type of Activity	Gain or (Loss) for Year Ending June 30, (expressed in thousands)					
	2013	2014	2015	2016	2017	2018
Investment Income on Actuarial Value of Assets	\$ 3,921	\$ 5,631	\$ 2,148	\$ 1,255	\$ 664	\$(1,129)
Combined Liability Experience	1,648	(267)	(181)	(2,779)	(817)	(2,507)
(Loss)/Gain During Year from Financial Experience	\$ 5,569	\$ 5,364	\$ 1,967	\$ (1,524)	\$ (153)	\$(3,636)
Non-Recurring Items	(2,179)	0	(1,692)	0	(7,881)	0
Composite Gain or (Loss) During Year	\$ 3,390	\$ 5,364	\$ 275	\$ (1,524)	\$(8,034)	\$(3,636)

Schedule of Funding Progress (expressed in thousands)						
Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2018	\$ 147,144	\$ 229,822	64%	\$ 82,678	\$ 15,251	542%
2017	141,236	219,470	64%	78,234	14,779	529%
2016	133,869	203,326	66%	69,457	15,276	455%
2015	125,676	192,983	65%	67,307	14,549	463%
2014	117,226	183,400	64%	66,174	14,149	468%
2013	105,736	175,594	60%	69,858	13,484	518%



Appendix F: Financial Statement Information

Solvency Test								
Aggregate Accrued Liabilities for (expressed in thousands)								
Valuation Date June 30,	Active	Retirees & Beneficiaries	Active	Actuarial Value of Reported Assets	Portion of Accrued Liability Covered by Reported Assets			
	Member Contributions (1)		Employer Financed Contributions (3)		(1)	(2)	(3)	
2018	\$ 12,976	\$ 175,574	\$ 41,271	\$ 147,144	100%	76%	0%	
2017	12,288	163,885	43,297	141,236	100%	79%	0%	
2016	12,535	146,267	44,524	133,869	100%	83%	0%	
2015	12,102	133,628	47,252	125,676	100%	85%	0%	
2014	11,507	126,478	45,416	117,226	100%	84%	0%	
2013	11,339	117,914	46,341	105,736	100%	80%	0%	



Appendix G: Glossary

The following definitions are largely excerpts from a list adopted in 1981 by the major actuarial organizations in the United States. In some cases the definitions have been modified for specific applicability to the Highway Patrol Officers' Retirement System. Defined terms are capitalized throughout this Appendix.

Accrued Benefit

The amount of an individual's benefit (whether or not vested) as of a specific date, determined in accordance with the terms of a pension plan and based on compensation and service to that date.

Actuarial Accrued Liability

That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of pension plan benefits and expenses which is not provided for by future Normal Costs.

Actuarial Assumptions

Assumptions as to the occurrence of future events affecting pension costs, such as: mortality, withdrawal, disablement, and retirement; changes in compensation, rates of investment earnings, and asset appreciation or depreciation; procedures used to determine the Actuarial Value of Assets; and other relevant items.

Actuarial Cost Method

A procedure for determining the Actuarial Present Value of pension plan benefits and expenses and for developing an actuarially equivalent allocation of such value to time periods, usually in the form of a Normal Cost and an Actuarial Accrued Liability.

Actuarial Gains and Losses

A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions during the period between two Actuarial Valuation dates, as determined in accordance with a particular Actuarial Cost Method.

Actuarial Present Value

The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions.

Actuarial Valuation

The determination, as of a valuation date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets, and related Actuarial Present Values for a pension plan.

Actuarial Value of Assets

The value of cash, investments and other property belonging to a pension plan, as used by the actuary for the purpose of an Actuarial Valuation.

Actuarially Equivalent

Of equal Actuarial Present Value, determined as of a given date with each value based on the same set of Actuarial Assumptions.



Appendix G: Glossary

Amortization Payment

That portion of the pension plan contribution which is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability.

Entry Age Actuarial Cost Method

A method under which the Actuarial Present Value of the Projected Benefits of each individual included in an Actuarial Valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit ages. The portion of this Actuarial Present Value allocated to a valuation year is called the Normal Cost. The portion of this Actuarial Present Value not provided for at a valuation date by the Actuarial Present Value of future Normal Costs is called the Actuarial Accrued Liability.

Market Value of Assets

The fair value of cash, investments and other property belonging to a pension plan that could be acquired by exchanging them on the open market.

Normal Cost

That portion of the Actuarial Present Value of pension plan benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method.

Projected Benefits

Those pension plan benefit amounts which are expected to be paid at various future times under a particular set of Actuarial Assumptions, taking into account such items as the effect of advancement in age and past and anticipated future compensation and service credits.

Unaccrued Benefit

The excess of an individual's Projected Benefits over the Accrued Benefits as of a specified date.

Unfunded Actuarial Accrued Liability

The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets.