



Cavanaugh Macdonald
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**Municipal Police 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 Municipal Police Officers' Retirement System of the State of Montana (MPORS), 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 is sufficient to amortize the unfunded accrued liability within a 20-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', written in a cursive style.

Edward A. Macdonald, ASA, FCA, MAAA
President

A handwritten signature in blue ink, appearing to read 'Todd B. Green', written in a cursive style.

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

A handwritten signature in blue ink, appearing to read 'Matthew Yonz', written in a cursive style.

Matthew Yonz, ASA, FCA, MAAA
Actuary



**Municipal Police Officers' Retirement System
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
Participant Counts		
Active Members*	787	775
Retirees and Beneficiaries**	780	761
Disabled Members**	32	30
Terminated Vested Members	78	75
Terminated Non-Vested Members	153	143
Total***	1,830	1,784
Annual Covered Payroll of Active Members	\$ 52,035,958	\$ 48,603,580
Average Salaries from Covered Payroll	\$ 66,119	\$ 62,714
Annual Retirement Allowances for Retired Members and Beneficiaries	\$ 25,031,524	\$ 23,808,557
Assets		
Actuarial value	\$ 413,608,005	\$ 386,259,339
Market value	418,314,296	384,062,216
Actuarial Accrued Liability (AAL)	\$ 611,055,584	\$ 562,570,270
Unfunded Actuarial Accrued Liability (UAAL)	\$ 197,447,579	\$ 176,310,931
Funded Ratio	67.69%	68.66%
Market Value Rate of Return	8.65%	11.56%
Annual Cost		
Statutory Funding Rate	52.78%	52.78%
Total Normal Rate	25.78%	25.46%
Employee Contribution Rate	<u>9.00%</u>	<u>9.00%</u>
Employer Normal Rate	16.78%	16.46%
Employer Statutory Contribution Rate		
Normal Rate	16.78%	16.46%
Administrative Expense Load	0.23%	0.24%
UAAL Rate	<u>26.77%</u>	<u>27.08%</u>
Total Rate	43.78%	43.78%
Amortization Period	20 years	16 years
Employer Contribution Rate Necessary to Amortize UAAL over 30 Years		
Normal Rate	16.78%	16.46%
Administrative Expense Load	0.23%	0.24%
UAAL Rate (30-Year Rate)	<u>21.11%</u>	<u>18.88%</u>
Total Rate	38.12%	35.58%
Shortfall/(Surplus)	(5.66%)	(8.20%)

* Includes 61 DROP members as of June 30, 2017 and 61 DROP members as of June 30, 2018.

** Based on PERB categorization for the annual report. For actuarial purposes, 97 members in 2017 and 100 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.



Section I: Summary of Results

As a result of this actuarial valuation of the benefits in effect under the Municipal Police 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 20 years. The Funded Ratio is 67.69%.

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 \$4,706,291 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 19 years, and the Funded Ratio would be 68.46%.

Additional Details

MCA 19-9 sets the employer contribution at 14.41% of salary, the state contribution at 29.37% and the employee contribution at 9.00% for both non-GABA actives and GABA actives. Non-GABA actives hired between June 30, 1979 and prior to July 1, 1997 contribute 8.50% and those hired after June 30, 1975 and prior to July 1, 1979, contribute 7.00%.

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 8.65% net of investment and operating expenses. As a result of prior years' unrecognized losses, the actuarial assets earned 6.81%, which is 0.84% less than the actuarial assumption 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	(20.32)%	(0.25)%	8.00%	(28.32)%	(8.25)%
7/1/2009 to 6/30/2010	12.02	(0.96)	7.75	4.27	(8.71)
7/1/2010 to 6/30/2011	20.72	0.59	7.75	12.97	(7.16)
7/1/2011 to 6/30/2012	2.40	3.71	7.75	(5.35)	(4.04)
7/1/2012 to 6/30/2013	12.42	11.08	7.75	4.67	3.33
7/1/2013 to 6/30/2014	16.53	12.46	7.75	8.78	4.71
7/1/2014 to 6/30/2015	4.52	9.32	7.75	(3.23)	1.57
7/1/2015 to 6/30/2016	2.13	8.37	7.75	(5.62)	0.62
7/1/2016 to 6/30/2017	11.56	8.01	7.75	3.81	0.26
7/1/2017 to 6/30/2018	8.65	6.81	7.65	1.00	(0.84)

Asset gains or 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 16-year amortization period for the UAAL. The resulting amortization period at June 30, 2018 is 20 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. Finally, the amortization period as of June 30, 2018, is 20 years based on actuarial value of assets. The current employer and employee statutory rates keep the System's funding within Board policy guidelines.

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 employer and employee contributions provided for in statute are sufficient to amortize the unfunded actuarial accrued liability within a 30-year period. This ensures that the System is financially sound and will be able to pay all promised benefits and eventually achieve a well-funded status with a range of safety to absorb market volatility without creating a UAL.

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 a UAL.



Section I: Summary of Results

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%	67.69%
Lower Assumption 6.65%	<u>58.98%</u>
Increase / (Decrease)	(8.71)%
	<u>Amortization Period</u>
	<u>Increase / (Decrease)</u>
Current Assumption 7.65%	20 Years
Lower Assumption 6.65%	<u>53 Years</u>
Increase / (Decrease)	33 Years
Impact of Assuming 0.50% Lower Investment Return	
	<u>Funded Ratio</u>
Current Assumption 7.65%	67.69%
Lower Assumption 7.15%	<u>63.28%</u>
Increase / (Decrease)	(4.41)%
	<u>Amortization Period</u>
	<u>Increase / (Decrease)</u>
Current Assumption 7.65%	20 Years
Lower Assumption 7.15%	<u>30 Years</u>
Increase / (Decrease)	10 Years



Section I: Summary of Results

Impact of Assuming 0.50% Higher Investment Return	
	<u>Funded Ratio</u>
Current Assumption 7.65%	67.69%
Higher Assumption 8.15%	<u>72.18%</u>
Increase / (Decrease)	4.49%
	<u>Amortization Period</u>
	<u>Increase / (Decrease)</u>
Current Assumption 7.65%	20 Years
Higher Assumption 8.15%	<u>13 Years</u>
Increase / (Decrease)	(7) Years
Impact of Assuming 1.00% Higher Investment Return	
	<u>Funded Ratio</u>
Current Assumption 7.65%	67.69%
Higher Assumption 8.65%	<u>76.76%</u>
Increase / (Decrease)	9.07%
	<u>Amortization Period</u>
	<u>Increase / (Decrease)</u>
Current Assumption 7.65%	20 Years
Higher Assumption 8.65%	<u>9 Years</u>
Increase / (Decrease)	(11) 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 Table 10.

Changes in the Unfunded Actuarial Accrued Liability (UAAL)

June 30, 2017 Valuation UAAL	\$176,310,931
Normal Cost (Including Expenses)	11,728,786
Contributions	(28,644,460)
Interest	<u>13,289,388</u>
Expected June 30, 2018 UAAL	\$172,684,645
Experience (Gain) / Loss on Actuarial Liabilities	\$21,525,103
Experience (Gain) / Loss on Actuarial Assets	3,237,831
Assumption & Method Changes	0
Plan Changes	<u>0</u>
Total (Gain) / Loss	<u>\$24,762,934</u>
June 30, 2018 Valuation UAAL	\$197,447,579



Section I: Summary of Results

Summary

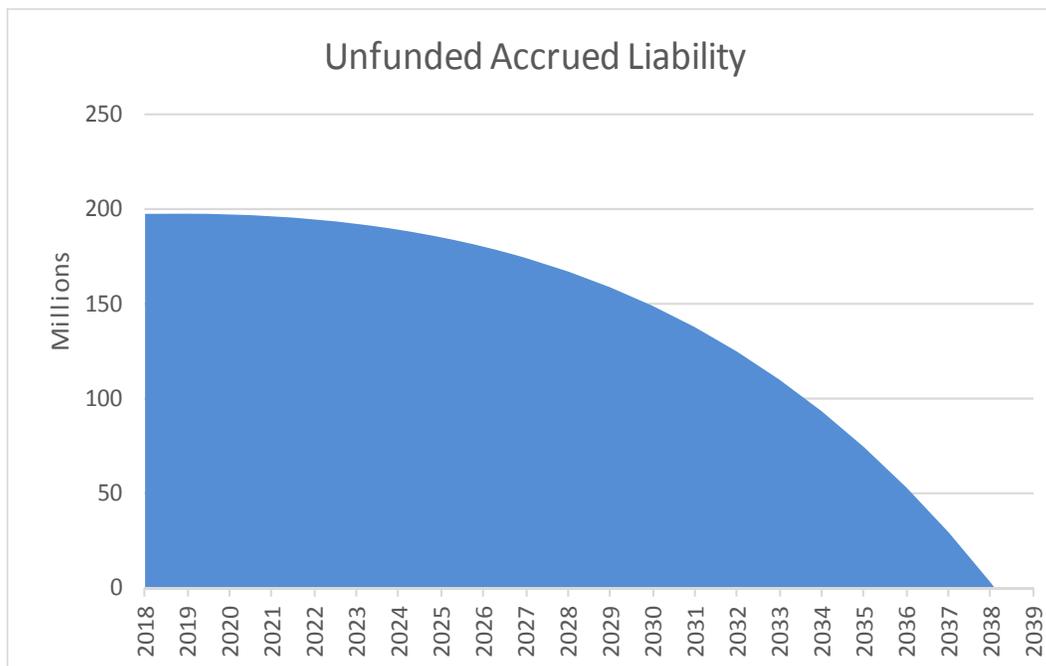
- * The System's actuarial value investment return of 6.81% for the year ended June 30, 2018, is 0.84% less than the actuarial assumption of 7.65%. This represents an asset loss of \$3,237,831 due to investment return being less than anticipated. As of June 30, 2018, the market value of assets was \$418,314,296. As of June 30, 2018, the actuarial value of assets was \$413,608,005. 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 20 years. Prior to this valuation, the funding period was 16 years. 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 is below 30 years. The System is currently being funded within the parameters defined by the Board.
- * 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 20 years. The ultimate goal of the MPORS System is to become at least 100% funded and to establish a reserve equal to 10% of the Systems Actuarial Accrued Liability.





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	\$ 8,125,755	\$ 9,450,613
Securities Lending Collateral	\$ 2,563,218	\$ 2,109,054
Receivables:		
Interest Receivable	\$ 14,329	\$ 8,442
Accounts Receivable	404,576	210,444
Due from Other Funds	-	-
Due from Primary Government	15,857,660	13,960,571
Notes Receivable	-	-
Total Receivables	<u>\$ 16,276,565</u>	<u>\$ 14,179,457</u>
Investments, at fair value:		
Investment Pools	393,802,035	360,470,610
Other Investments	-	-
Total Investments	<u>\$ 393,802,035</u>	<u>\$ 360,470,610</u>
Capital Assets		
Property and Equipment, at cost, net of Accumulated Depreciation	\$ 328	\$ 328
Intangible Assets, at cost, net of Amortization Expense	367,490	341,111
Total Capital Assets	<u>\$ 367,818</u>	<u>\$ 341,439</u>
TOTAL ASSETS	<u>\$ 421,135,391</u>	<u>\$ 386,551,173</u>
LIABILITIES		
Securities Lending Liability	\$ 2,563,218	\$ 2,109,054
Accounts Payable	98,088	210,189
Unearned Revenue	34,939	32,684
Due to Other Funds	124,850	127,369
Compensated Absences	-	47
OPEB Implicit Rate Subsidy LT	-	9,614
TOTAL LIABILITIES	<u>\$ 2,821,095</u>	<u>\$ 2,488,957</u>
NET POSITION - RESTRICTED FOR PENSION BENEFITS	<u>\$ 418,314,296</u>	<u>\$ 384,062,216</u>



Section II: Assets

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

Table with 3 columns: Description, 2018, and 2017. Rows include ADDITIONS (Contributions, Misc Income, Investment Income), DEDUCTIONS (Benefit Payments, Refunds, etc.), and NET INCREASE (DECREASE) IN PLAN NET ASSETS. Final row shows END OF YEAR with values \$ 418,314,296 for 2018 and \$ 384,062,216 for 2017.



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	\$ 356,985,327	\$ 386,259,339			
B. Market Value End of Year	\$ 384,062,216	\$ 418,314,296			
C. Market Value of Beginning of Year	\$ 343,626,914	\$ 384,062,216			
D. Cash Flow					
D1. Contributions	\$ 25,517,448	\$ 28,644,460			
D2. Benefit Payments	(24,518,089)	(27,294,703)			
D3. Administrative Expenses	(339,344)	(350,328)			
D4. Investment Expenses	(1,905,167)	(2,480,802)			
D5. Net	\$ (1,245,152)	\$ (1,481,373)			
E. Investment Income					
E1. Market Total: B. - C. - D5.	\$ 41,680,454	\$ 35,733,453			
E2. Assumed Rate	7.75%	7.65%			
E3. Amount for Immediate Recognition C*E2. + ((D1. +D2. + D3.) * E2. * 0.5) - D4.	28,561,828	31,899,790			
E4. Amount for Phased-in Recognition E1. = E3.	13,118,626	3,833,663			
F. Phased-In Recognition of Investment Income					
F1. Current Year: 0.25 * E4.	\$ 3,279,657	\$ 958,416	\$ -	\$ -	\$ -
F2. First Prior Year	(4,728,267)	3,279,657	958,416	-	-
F3. Second Prior Year	(2,579,557)	(4,728,267)	3,279,657	958,416	-
F4. Third Prior Year	5,985,503	(2,579,557)	(4,728,267)	3,279,657	958,416
F5. Total Recognized Investment Gain	\$ 1,957,336	\$ (3,069,751)	\$ (490,194)	\$ 4,238,073	\$ 958,416
G. Actuarial Value End of Year A. + D5. + E3. + F5.	\$ 386,259,339	\$ 413,608,005			



Section II: Assets

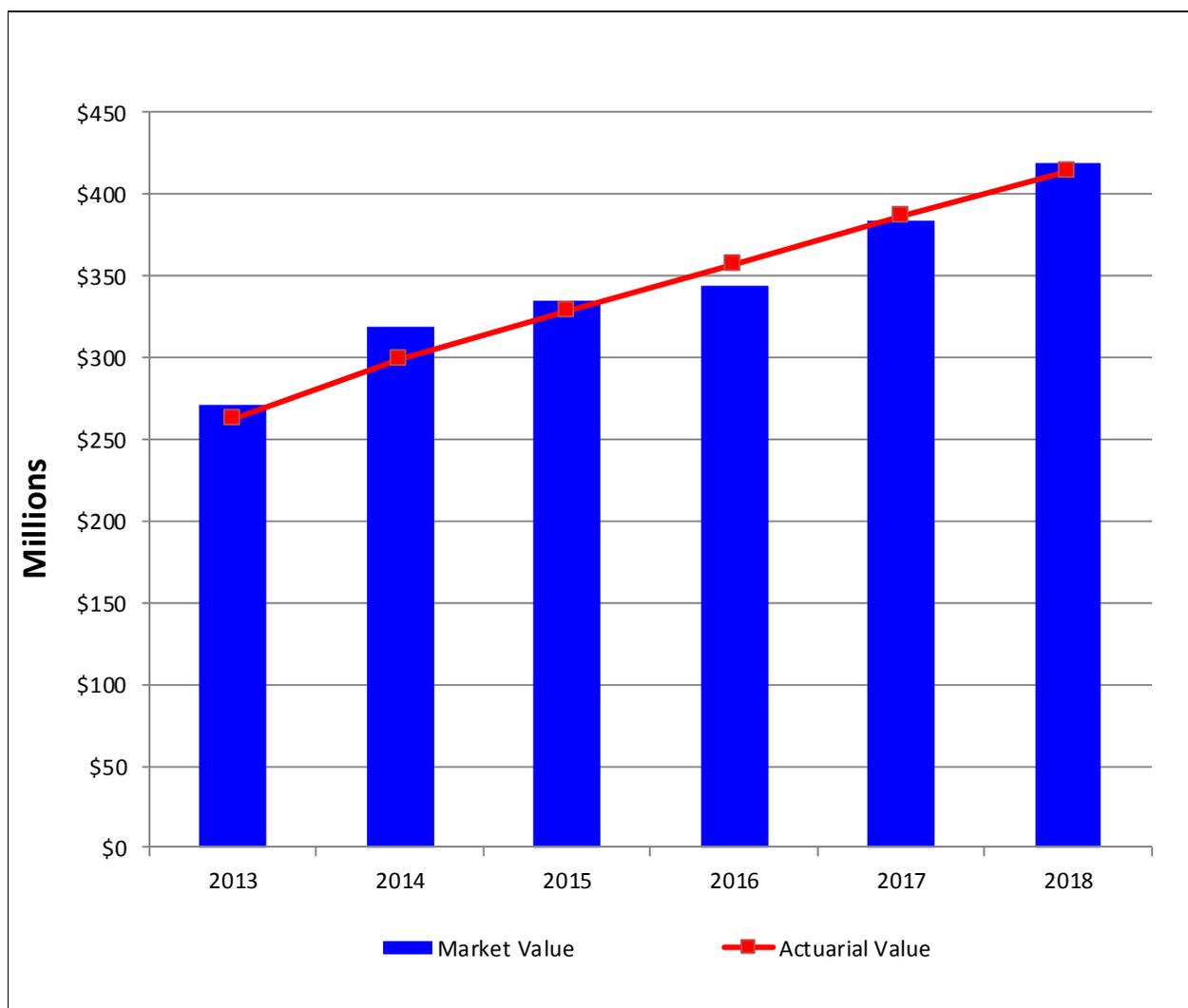
**Table 4:
Historical Investment Returns***

Fiscal Year Ending	Market Returns	Actuarial Returns	Assumed Rate of Return	Actuarial Return Over Assumption
June 30, 2009	(20.32)%	(0.25)%	8.00%	(8.25)%
June 30, 2010	12.02%	(0.96)%	7.75%	(8.71)%
June 30, 2011	20.72%	0.59%	7.75%	(7.16)%
June 30, 2012	2.40%	3.71%	7.75%	(4.04)%
June 30, 2013	12.42%	11.08%	7.75%	3.33%
June 30, 2014	16.53%	12.46%	7.75%	4.71%
June 30, 2015	4.52%	9.32%	7.75%	1.57%
June 30, 2016	2.13%	8.37%	7.75%	0.62%
June 30, 2017	11.56%	8.01%	7.75%	0.26%
June 30, 2018	8.65%	6.81%	7.65%	(0.84)%
10 Year Average	6.46%	5.81%		(1.96)%

* 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.



**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		
Retirement	\$ 274,082,980	\$ 254,999,651
Disability	\$ 13,488,609	\$ 13,751,375
In-Service Death	\$ 4,426,543	\$ 4,551,293
Termination	\$ 21,622,549	\$ 22,018,364
Total	\$ 313,620,681	\$ 295,320,683
B. Inactive Members and Annuitants		
Service Retirement	\$ 286,293,832	\$ 263,691,162
Disability Retirement	\$ 45,578,201	\$ 41,671,314
Beneficiaries	\$ 42,483,009	\$ 41,011,612
Vested Terminated Members	\$ 10,527,009	\$ 9,962,441
Refund of Member Contributions	\$ 1,588,852	\$ 1,442,081
Total	\$ 386,470,903	\$ 357,778,610
C. Grand Total	\$ 700,091,584	\$ 653,099,293

* 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 6 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 Total</u>	<u>June 30, 2017 Total</u>
Service retirements	17.14%	16.97%
Disability retirements	3.08%	3.01%
Survivors' benefits	0.82%	0.81%
Termination Benefits	<u>4.74%</u>	<u>4.67%</u>
Total Normal Rate	<u>25.78%</u>	<u>25.46%</u>
Employee Normal Rate	9.00%	9.00%
Employer Normal Rate	16.78%	16.46%
Administrative Expense Load	0.23%	0.24%
Amount Available to Amortize the Unfunded Actuarial Accrued Liability	<u>26.77%</u>	<u>27.08%</u>
Statutory Funding Rate	52.78%	52.78%



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)	\$ 700,091,584	\$ 653,099,293
B. Less actuarial present value of total future normal costs for present members	<u>\$ 89,036,000</u>	<u>\$ 90,529,023</u>
C. Actuarial accrued liability	\$ 611,055,584	\$ 562,570,270
D. Less assets available for benefits	<u>\$ 413,608,005</u>	<u>\$ 386,259,339</u>
E. Unfunded actuarial accrued liability	\$ 197,447,579	\$ 176,310,931



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.

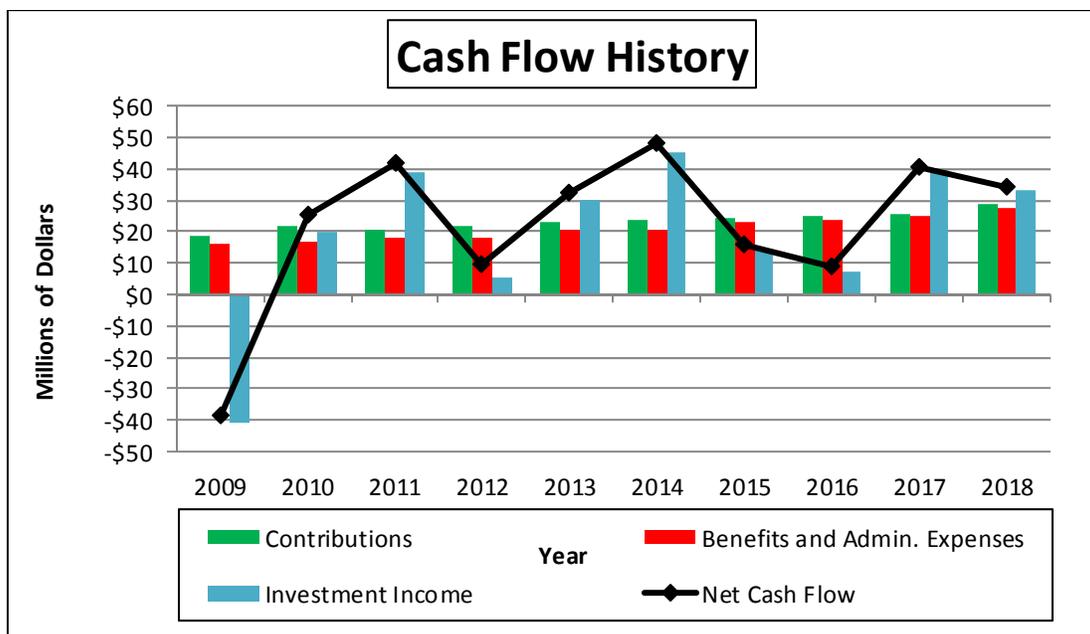
Table 9 shows the System had a positive cash flow for the year ended June 30, 2018. The System’s total cash flow including benefits payments, administrative expenses and investment earnings was \$34.2 million. Of the \$34.2 million, \$33.2 million was due to investment returns.

As long as the System had a positive cash flow, there was 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	\$ 18.4	\$ 16.0	\$ (40.9)	\$ (38.4)
2010	21.9	16.8	20.0	25.1
2011	20.8	18.1	39.2	41.9
2012	22.1	18.2	5.7	9.6
2013	22.9	20.5	30.0	32.4
2014	23.6	20.7	45.2	48.2
2015	24.4	23.0	14.5	15.9
2016	25.1	23.6	7.1	8.6
2017	25.5	24.9	39.8	40.4
2018	28.6	27.6	33.2	34.2



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 Unfunded Actuarial Accrued Liability 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:	\$ 562,570,270
2. Normal Cost for this Plan Year (Including Expenses):	11,728,786
3. Interest on items 1 and 2 [(1+2) x 7.65%]:	43,933,878
4. Benefit Payments for this Plan Year (Including Expenses):	(27,645,031)
5. Interest on item [4 x 7.65% x .5]:	(1,057,422)
6. Expected Actuarial Accrued Liability as of June 30, 2018:	<u>\$ 589,530,481</u>
7. Changes due to:	
a. Assumption Changes:	0
b. Plan Amendments:	0
c. Funding Method:	0
d. Actuarial (Gain) / Loss:	<u>\$ 21,525,103</u>
8. Actual Actuarial Accrued Liability as of June 30, 2018:	<u>\$ 611,055,584</u>
9. Items Affecting Calculation of Actuarial Accrued 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:	\$ 386,259,339
2. Interest on item [1 x 7.65%]:	29,548,839
3. Contributions for this Plan Year:	28,644,460
4. Interest on item [3. x 7.65% x .5]	1,095,651
5. Benefit Payments for this Plan Year (Including Expenses):	(27,645,031)
6. Interest on item [5. x 7.65% x .5]	(1,057,422)
7. Expected Actuarial Value of Assets as of June 30, 2018:	<u>\$ 416,845,836</u>
8. Actuarial Value of Assets as of June 30, 2018:	<u>\$ 413,608,005</u>
9. (Gain) / Loss:	<u>\$ 3,237,831</u>
C. UNFUNDED ACCRUED ACTUARIAL LIABILITY (GAIN) / LOSS ANALYSIS	
1. Actual Unfunded Accrued Actuarial Liability as of June 30, 2017:	\$ 176,310,931
2. Normal Cost for this Plan Year (Including Expenses):	11,728,786
3. Contributions for this Plan Year:	(28,644,460)
4. Interest on items 1 - 3: [(1+2) x 7.65% + (3 x 7.65% x .5)]:	13,289,388
5. Expected Unfunded Actuarial Accrued Liability as of June 30, 2018:	<u>\$ 172,684,645</u>
6. Changes due to:	
a. Assumption Changes:	0
b. Plan Amendments:	0
c. Funding Method:	0
d. Actuarial (Gain) / Loss:	<u>\$ 24,762,934</u>
7. Actual Unfunded Accrued Actuarial Liability as of June 30, 2018:	<u>\$ 197,447,579</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***

(Dollar amounts 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.	\$ 3,237.8	\$ (922.1)	\$ (2,022.3)
Pay Increases			
Pay increases were (less) greater than expected.	(7,444.1)	8,577.4	(546.5)
Age & Service Retirements			
Members retired at (older) younger ages or with (less) greater final average pay than expected	3,057.2	(12,923.2)	3,495.5
Disability Retirements			
Disability claims were (less) greater than expected	996.4	(226.2)	1,280.7
Death-in-Service Benefits			
Survivor claims were (less) greater than expected	(880.9)	(2,027.9)	282.6
Withdrawal From Employment			
(More) less reserves were released by withdrawals than expected	542.3	1,304.6	475.3
Death After Retirement			
Retirees (died younger) lived longer than expected	(2,878.5)	(42.8)	(485.0)
Data Adjustments and Benefit Payment Timing			
Service purchases, data corrections, etc.	25,681.8	4,515.1	1,614.9
Other			
Miscellaneous (gains) and losses	2,450.9	1,308.5	(10,496.1)
Total (Gain) or Loss During Period From Financial Experience	\$ 24,762.9	\$ (436.6)	\$ (6,400.9)
Non-Recurring Items.			
Changes in actuarial assumptions and methods	-	16,473.3	-
Changes in benefits caused a (gain) loss	-	-	-
Composite (Gain) Loss During Period	\$ 24,762.9	\$ 16,036.7	\$ (6,400.9)

* 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-6 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 has been supplied by the System and was 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 0.23% % 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 3.50% annual rate of increase in the general wage level of the membership.

Service Retirement

Table B-3 shows the annual assumed rates of retirement for actives members meeting the service retirement eligibilities.

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.

There is sufficient margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

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%
E. Administrative Expenses as a percentage of payroll	0.23%
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, set back one year for males.	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	6.60%	3.50%	10.33%
2	4.90	3.50	8.57
3	3.70	3.50	7.33
4	2.80	3.50	6.40
5	2.10	3.50	5.67
6	1.50	3.50	5.05
7	1.00	3.50	4.54
8	0.60	3.50	4.12
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

<u>Age</u>	<u>Less than 20 Years of Service</u>	<u>20 or More Years of Service</u>
Less than 50	0.0%	12.0%
50	0.0	15.0
51	0.0	15.0
52	0.0	15.0
53	0.0	15.0
54	0.0	15.0
55	0.0	20.0
56	0.0	20.0
57	0.0	20.0
58	0.0	20.0
59	0.0	20.0
60	0.0	20.0
61	0.0	20.0
62	0.0	100.0
63	0.0	100.0
64	0.0	100.0
65 & Over	100.0	100.0

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

15% of active members are assumed to enter the DROP for each of the first six years following DROP eligibility. These members are assumed to elect to participate in the DROP for five years.



Appendix B: Summary of Valuation Assumptions

Table B-4
Disablement
Annual Rates

<u>Age</u>	<u>All Members</u>
22	.00%
27	.25
32	.25
37	.50
42	.50
47	.50
52	.50
57	.50
62	.00

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



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	16.0%
1	13.0
2	11.0
3	9.0
4	7.0
5	7.0
6	7.0
7	7.0
8	5.0
9	5.0
10 & Over	2.0



Table B-7
Probability of Retaining Membership in the System
Upon Vested Termination

<u>Age</u>	<u>Probability of Retaining Membership</u>
Under 35	40%
35	90
36	90
37	90
38	90
39	90
40	90
41	90
42	90
43	90
44	90
45	90
46	90
47	90
48	90
49	90
50 & Over	100

Family Composition

Female spouses are assumed to be three years younger than males. 100% of active members are assumed to be married. Actual marital characteristics are used for pensioners.

Vested Benefits for Termination Members

Vested benefits for members who terminated during years ending June 30, 2009 and later were estimated based upon compensation and service information in the census data. For members who terminated prior to June 30, 2008, vested benefits valued were the same as had been calculated by the prior actuary for the June 30, 2008 actuarial valuation.



Appendix C: Summary of Benefit Provisions

- | | |
|--|---|
| Service credit | <ul style="list-style-type: none">• 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 | <ul style="list-style-type: none">• 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 | <ul style="list-style-type: none">• Member contributions are made through an "employer pick-up" arrangement which results in deferral of taxes on the contributions. |
| Compensation | <ul style="list-style-type: none">• 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 | <ul style="list-style-type: none">• 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. |
| Member contributions interest credited (regular interest) | <ul style="list-style-type: none">• Interest is credited to member accounts at the rates determined by the Board.• The current interest rate credited to member accounts is 0.77%. |



Appendix C: Summary of Benefit Provisions

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.

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.
- 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:



Appendix C: Summary of Benefit Provisions

- 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**
 - o 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.
- Refunds**
- 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**
- 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**
- Multiple-employer cost sharing
- Membership eligibility**
- Police officers of first- and second-class cities, and
 - Police officers of other cities with the state that adopt the plan, other than those cities which maintain a separate local police fund
- Member contributions**
- Members **not electing** GABA:
- Hired **after** June 30, 1975 but **on or before** June 30, 1979: 7.0% of member's compensation
 - Hired **after June 30, 1979** but **before** July 1, 1997: 8.5% of member's compensation
 - Hired **on or after** July 1, 1997: 9.0% of member's compensation
- Members **electing** GABA:
- 9.0% of member's compensation



Appendix C: Summary of Benefit Provisions

- | | |
|--|---|
| Employer contributions | <ul style="list-style-type: none">• 14.41% of each member's compensation |
| State contributions | <ul style="list-style-type: none">• 29.37% of each member's compensation |
| Compensation period used in benefit calculation | <ul style="list-style-type: none">• FAC = Final Average Compensation• FAC is the average over the last 36 months (or shorter period of total service) of compensation paid to the member.• Hired on or after July 1, 2013: 110% annual cap on compensation considered as part of a member's FAC. |
| Service retirement eligibility and benefit formula | <ul style="list-style-type: none">• Age 50 with 5 years of membership service, or• Any age with 20 years of membership service• 2.5% of FAC x years of service credit |
| Second retirement eligibility and benefit formula | <ul style="list-style-type: none">• Re-employed in a MPORS position and at least age 50
Re-calculated using criteria below:<ul style="list-style-type: none">• Less than 20 years of membership service:<ol style="list-style-type: none">a. Initial retirement benefit will cease;b. The retiree becomes a vested active MPORS member;c. The member must repay all initial benefits received plus interest at the actuarially assumed rate of return;d. The second retirement will be based on total MPORS service; ande. The member will be treated as a new retiree who after having been retired at least 12 months, will receive a 3% GABA each year in January. This applies only to members who were GABA members initially.• More than 20 years of membership service:<ol style="list-style-type: none">a. The initial retirement benefit will cease;b. The retiree becomes a vested active MPORS member;c. At second retirement the initial benefit resumes and a new benefit will be calculated on new service credit and FAC after re-employment; andd. The retiree will receive GABA on their first benefit in January immediately following second retirement but waits 12 months for GABA on the second retirement benefit. If not initially retired 12 months, the retiree will wait 12 months for GABA on both parts of benefit. This applies only to members who were GABA members initially. |
| Disability retirement eligibility and benefit formula | <ul style="list-style-type: none">• Any active member• Before completing 20 years of membership service: 50% of FAC• After completing 20 years or more of membership service: 2.5% of FAC for each year of service credit |



Appendix C: Summary of Benefit Provisions

- | | |
|---|---|
| Survivor's eligibility and benefit formula | <ul style="list-style-type: none">• Any active member• Before completing 20 years of membership service:
50% of member's FAC• After completing 20 years or more of membership service:
2.5% of member's FAC for each year of service credit• Benefits are paid to the surviving spouse (or equally to dependent children if there is no surviving spouse or after a surviving spouse dies, for as long as they remain dependent children).• In the absence of a spouse or child, the accumulated contributions minus any benefits already paid will be paid to the member's designated beneficiary. |
| Vesting eligibility and benefit | <ul style="list-style-type: none">• 5 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 | <ul style="list-style-type: none">• The normal form of payment is a life annuity, with 100% continuation after death to a 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 | <ul style="list-style-type: none">• For retired members who became active members on or after July 1, 1997, or those who elected to be covered under GABA and who have been retired at least 12 months, a GABA will be made each year in January equal to 3%.• For retired members who were hired prior to July 1, 1997 and who did not elect GABA, the minimum benefit adjustment provided should not be less than 50% of the current base compensation of a newly confirmed police officer of the employer that last employed the member as a police officer. |
| Changes since last valuation | <ul style="list-style-type: none">• None |



Appendix C: Summary of Benefit Provisions

MPORS Deferred Retirement Option Plan (DROP)

- | | |
|-------------------------|--|
| Eligibility | <ul style="list-style-type: none">• 20 years of membership service |
| DROP period | <ul style="list-style-type: none">• Maximum of five years.• Member may not receive membership service or service credit during the DROP Period. |
| Contributions | <ul style="list-style-type: none">• State, employer and member contributions continue during the DROP Period and are made to the retirement system. |
| Disability | <ul style="list-style-type: none">• If a member becomes disabled during the DROP Period, the member will not be eligible for MPORS disability benefits.• If the member must terminate service, the member's service retirement benefit will be paid to the member rather than to the member's monthly DROP Account. The member will also be eligible to receive the DROP Account. |
| Survivor benefit | <ul style="list-style-type: none">• If a member dies before the end of the DROP Period, the surviving spouse or dependent children are entitled to receive a lump-sum payment equal to the member's DROP Benefit and a survivorship benefit equal to the benefit the member would have received had the member retired rather than elected to participate in the DROP.• If the member does not have a surviving spouse or dependent children, then 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.• The DROP Benefit paid must include interest credited to the participant's account as follows:<ul style="list-style-type: none">(a) through June 30, 2009, interest must be credited every fiscal year end at a rate reflecting the retirement system's annual investment earnings for the applicable fiscal year.(b) after June 30, 2009, interest must be credited every fiscal year end at the actuarially assumed rate of return. Proportionate interest must be credited for distributions taking place at other than a fiscal year end. |



Appendix C: Summary of Benefit Provisions

DROP benefit

- Member receives DROP accruals equal to the retirement benefit calculated at DROP commencement and added each month during the DROP Period, including any post retirement adjustments (GABA), plus interest reflecting the retirement system's annual investment earnings.
- Effective July 1, 2009, the interest rate credited to DROP Accounts was changed to the actuarial assumed rate of 8%.
- As a result of the experience study performed during fiscal year 2010, the interest rate credited to DROP Accounts was changed to the actuarial assumed rate of 7.75%.
- As a result of the experience study performed during fiscal year 2017, the interest rate credited to DROP Accounts was changed to the actuarial assumed rate of 7.65%.

Changes in DROP since last valuation

- 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 (page 1) match the CAFR 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	727	100	773	65	153	1,818
Disabled Members having attained normal retirement age		(68)	68			0
Beneficiaries of Disabled Members						0
Beneficiaries with less than one year of certain payments remaining						0
DROP Members	61		(61)			0
Other Adjustments	(1)			13		12
Participant Counts shown in the Annual Financial Report	787	32	780	78	153	1,830



Appendix D: Valuation Data

This valuation is based upon the membership of the System as of June 30, 2018. Membership data were 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 on page 1. The valuation projected salaries to be paid for the following fiscal year, whereas the Summary, salaries are applicable in the year ending on the valuation date.

Active Members	Number	Valuation Projected Salaries
Full-Time Members	659	\$ 47,408,674
Part-Time Members	68	2,939,325
Total Active Members*	727	\$ 50,347,999

* Data from the 61 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 43 for an explanation of the number of annuitants used for valuation purposes.

Type of Annuitant	Number	Annual Benefits	Average Annual Benefits
Service Retirement	566	\$ 18,213,210	\$ 32,179
DROP Members	61	2,500,590	40,993
Total Service Retired Members	627	\$ 20,713,800	\$ 33,036
Survivors of Deceased Retired Members	114	3,257,448	28,574
Survivors of Deceased Active Members	32	826,759	25,836
Total Survivors and Beneficiaries	146	\$ 4,084,207	\$ 27,974
Disability Retirement	100	2,734,106	27,341
Total Annuitants	873	27,532,114	\$ 31,537

Terminated Members with Contributions Not Withdrawn	Number
Vested Terminated Members	65
Non-Vested Terminated Members	153
Total Terminated Members	218



**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	9	8	3	1									21
25 to 29	22	23	27	24	15								111
30 to 34	5	18	18	19	53	17							130
35 to 39	10	3	6	18	45	44	12						138
40 to 44	1	5	4	6	23	27	25	4					95
45 to 49	1	2		3	11	23	35	17	1				93
50 to 54		1	2		10	7	16	9	7				52
55 to 59					2	4	3	2					11
60 to 64					1	1	1		2			1	6
65 to 69							2						2
70 and up													
Totals	48	60	60	71	160	123	94	32	10			1	659

Data for the 61 DROP participants are excluded from the table above.



**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	502	501	188	49										1,241
25 to 29	1,216	1,318	1,748	1,542	1,036									6,860
30 to 34	331	1,004	1,091	1,171	3,691	1,333								8,621
35 to 39	560	191	377	1,128	3,288	3,631	1,024							10,200
40 to 44	23	269	280	385	1,626	2,109	2,086	300						7,078
45 to 49	36	116		212	769	1,768	2,851	1,722	98					7,572
50 to 54		48	103		602	579	1,411	844	757					4,343
55 to 59					104	246	255	175						780
60 to 64					56	86	78		189				126	535
65 to 69							179							179
70 and up														
Totals	2,668	3,447	3,788	4,488	11,173	9,752	7,883	3,041	1,044				126	47,409

Data for the 61 DROP participants are 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**

Age	Average Annual Salary											Totals	
	Completed Years of Service												
	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	55,830	62,677	62,648	49,194									59,096
25 to 29	55,252	57,318	64,748	64,255	69,036								61,799
30 to 34	66,194	55,763	60,593	61,651	69,650	78,412							66,317
35 to 39	56,047	63,758	62,833	62,671	73,071	82,519	85,324						73,911
40 to 44	22,629	53,732	70,115	64,242	70,674	78,119	83,427	75,052					74,503
45 to 49	35,978	57,919		70,653	69,944	76,860	81,463	101,305	97,923				81,422
50 to 54		47,941	51,631		60,177	82,709	88,160	93,740	108,074				83,513
55 to 59					52,235	61,591	84,938	87,356					70,942
60 to 64					56,442	85,566	78,075		94,612			125,880	89,198
65 to 69							89,349						89,349
70 and up													
Totals	55,585	57,453	63,126	63,214	69,830	79,282	83,861	95,024	104,367			125,880	71,940

Data for the 61 DROP participants are 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	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	1			1										2
25 to 29	6	2	1	6										15
30 to 34	8		1	3	3									15
35 to 39	6	1	1	1	4		2							15
40 to 44	3			1	3	2	1							10
45 to 49	1			1	2		1							5
50 to 54	1				1	1		1						4
55 to 59						1	1							2
60 to 64														
65 to 69														
70 and up														
Totals	26	3	3	13	13	4	5	1						68



Appendix D: Valuation Data

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

Please refer to the chart on page 43 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	22	\$ 861,784	\$ 39,172
50 to 54	77	2,122,793	27,569
55 to 59	95	2,997,441	31,552
60 to 64	93	2,784,567	29,942
65 to 69	121	4,125,244	34,093
70 to 74	76	2,878,826	37,879
75 to 79	31	924,962	29,837
80 to 84	25	729,089	29,164
85 to 89	20	616,929	30,846
90 and up	6	171,577	28,596
Totals	566	\$ 18,213,210	\$ 32,179

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	31	\$ 962,816	\$ 31,059
50 to 54	7	202,754	28,965
55 to 59	10	282,070	28,207
60 to 64	12	310,769	25,897
65 to 69	15	361,072	24,071
70 to 74	10	245,096	24,510
75 to 79	6	141,041	23,507
80 to 84	6	151,059	25,176
85 to 89	3	77,430	25,810
90 and up	-	-	-
Totals	100	\$ 2,734,106	\$ 27,341



Appendix D: Valuation Data

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

Please refer to the chart on page 43 for an explanation of the number of annuitants used for valuation purposes.

Survivors of Deceased Retired Members as of June 30, 2018

Age	Number of Persons	Annual Benefits	Average Annual Benefits
<50	3	\$ 65,145	\$ 21,715
50 to 54	4	113,013	28,253
55 to 59	2	53,524	26,762
60 to 64	10	302,293	30,229
65 to 69	12	394,550	32,879
70 to 74	18	591,164	32,842
75 to 79	17	445,924	26,231
80 to 84	18	469,243	26,069
85 to 89	17	451,230	26,543
90 and up	13	371,361	28,566
Totals	114	\$ 3,257,448	\$ 28,574

Survivors of Deceased Active Members as of June 30, 2018

Age	Number of Persons	Annual Benefits	Average Annual Benefits
<45	6	\$ 103,848	\$ 17,308
45 to 49	1	41,392	41,392
50 to 54	2	59,228	29,614
55 to 59	3	71,093	23,698
60 to 64	4	117,066	29,267
65 to 69	3	90,064	30,021
70 to 74	6	157,839	26,306
75 to 79	1	40,219	40,219
80 to 84	4	99,826	24,956
85 to 89	-	-	-
90 and up	2	46,184	23,092
Totals	32	\$ 826,759	\$ 25,836



Appendix D: Valuation Data

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

Please refer to the chart on page 43 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	15	\$ 608,505	\$ 40,567
50 to 54	25	1,016,072	40,643
55 to 59	19	809,314	42,595
60 to 64	2	66,699	33,350
65 to 69	-	-	-
70 to 74	-	-	-
75 to 79	-	-	-
80 to 84	-	-	-
85 to 89	-	-	-
90 and up	-	-	-
Totals	61	\$ 2,500,590	\$ 40,993

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

<u>Age</u>	<u>Number</u>
<25	
25 to 29	
30 to 34	9
35 to 39	17
40 to 44	18
45 to 49	16
50 to 54	4
55 to 59	1
60 to 64	
65 to 69	
70 and above	
Total	65



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	714	65	600	97	155
Refunds and Non-Vested Terminations	(28)	(3)			
Vested Terminations	(10)	10			
Service Retirements	(22)	(5)	27		
Disability Retirements	(4)	(1)		5	
Deaths	(1)	(1)	(7)	(2)	(17)
New Entrants	74				7
Rehires	4	(1)			
Other		1	7		1
June 30, 2018 Valuation	727	65	627	100	146

* 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*	787	52,036	66,119	39.3	9.4	29.9
2017*	775	48,604	62,715	38.2	8.5	29.5
2016*	762	47,234	61,987	38.4	8.6	29.8
2015	694	45,162	60,783	38.7	8.8	29.9
2014	743	44,454	59,830			
2013	734	42,324	57,662			
2012	701	41,584	56,500			

* Includes members in DROP



Appendix E: Comparative Schedules

**Table E-2:
Retired and Inactive Membership Data**

Valuation Date (June 30)	Number	All Annuitants					Terminated Members	
		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
2018*	812	25,032	30,827	65.9	48.9	18.4	78	153
2017*	791	23,809	30,099	65.8	47.5	18.6	75	143
2016*	768	22,539	29,347	66.0	47.4	19.0	61	112
2015	744	21,203	28,499	66.6	47.9	19.4	60	103
2014	716	19,815	27,675				55	90
2013	710	18,948	26,687				52	77
2012	676	17,665	26,132				49	76

* Retired members 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	9.00%	43.78%	52.78%	26.01%	26.77%
2017	9.00	43.78	52.78	25.70	27.08
2016	9.00	43.78	52.78	27.92	24.86
2015	9.00	43.78	52.78	26.04	26.74
2014	9.00	43.78	52.78	25.85	26.93
2013	9.00	43.78	52.78	26.29	26.49
2012	9.00	43.78	52.78	26.26	26.52

* 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.



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	20 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% - 6.6%
*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	\$ 7,836	\$ 12,454	\$ 4,700	\$ 2,022	\$ 922	\$ (3,238)
Combined Liability Experience	454	2,014	3,292	4,379	(485)	(21,525)
(Loss)/Gain During Year from Financial Experier	\$ 8,290	\$ 14,468	\$ 7,992	\$ 6,401	\$ 437	\$ (24,763)
Non-Recurring Items	0	0	0	0	(16,473)	0
Composite Gain or (Loss) During Year	\$ 8,290	\$ 14,468	\$ 7,992	\$ 6,401	\$(16,037)	\$ (24,763)

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
2018	\$ 413,608	\$ 611,056	68%	\$ 197,448	\$ 52,036	379%
2017	386,259	562,570	69%	176,311	48,604	363%
2016	356,985	518,946	69%	161,961	47,234	343%
2015	328,025	497,186	66%	169,161	45,736	370%
2014	298,722	474,308	63%	175,586	44,427	395%
2013	262,678	450,043	58%	187,365	42,796	438%



Appendix F: Financial Statement Information

Solvency Test								
Aggregate Accrued Liabilities for (expressed in thousands)								
Valuation Date June 30,	Active Member	Retirees & Beneficiaries	Active Member Employer Financed	Actuarial Value of Reported Assets	Portion of Accrued Liability Covered by Reported Assets			
	(1)	(2)	(3)		(1)	(2)	(3)	
2018	\$ 43,686	\$ 374,355	\$ 193,014	\$ 413,608	100%	99%	0%	
2017	42,364	346,374	173,832	386,259	100%	99%	0%	
2016	38,543	308,635	171,768	356,985	100%	100%	6%	
2015	37,193	297,235	162,758	328,025	100%	98%	0%	
2014	36,950	276,306	161,052	298,722	100%	95%	0%	
2013	34,778	267,540	147,725	262,678	100%	85%	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 Municipal Police 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 Loss

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.

Amortization Payment

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



Appendix G: Glossary

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.