

Cincinnati Retirement System

Template for CRS Task Force in Developing Funding Policy

1) What are the Board's Funding Goals or Objectives?

- a. Mission Statement
- b. Solvency – should a maximum number of years be set for solvency in order to ensure that fluctuations in cost or dramatic asset losses do not cause an interruption?
- c. Funding Ratio
 - i. Long-Term Goals
 - ii. Minimum before changes are required
- d. Amortization Period
 - i. Open or Closed (Decreasing)
 - ii. Minimum/Maximum
- e. Contribution Rates
 - i. Employer/Employee
 - ii. Stable/Increasing
 - iii. Possible schedule of rates to avoid insolvency – can be tied to solvency factor
- f. Triggers
 - i. For Increasing Employer or Employee Contribution Rates
 - ii. For Granting Benefit Improvements
 - iii. For Reducing Benefits

2) What are the Plan's Methods and Assumptions?

- a. Actuarial Funding Method
 - i. Basically a balancing item of Present Value of Future Benefits by what has been accrued to date vs. what will be accrued in future
 - ii. Entry Age Normal currently used which is the most common method among Public Sector (Mercer changed methods in 2000)

- b. Asset Smoothing Period
 - i. 5-year smoothing of market value gains and losses currently used
 - ii. Corridor
- c. Actuarial Assumptions
 - i. "Target Rate of Return"
 - ii. Economic including what discount rate to be used (based on Investment Policy and whether System is making the required contributions)
 - iii. Decremental (based on experience of system)
 - iv. Healthcare (including a benchmarking process for Trend Rates)
- d. Experience Study
 - i. State that an experience study should be completed every 5 years
- e. Audit
 - i. State that an actuarial audit conducted by an outside actuary be performed every 5-10 years

3) Review and Evaluate using certain Benchmarks

- a. At each valuation performed on 12/31/XXXX, the actuary should provide the following for evaluation of the System:
 - i. Funding Ratio
 - ii. Solvency Report
 - iii. Amortization Period
 - iv. 10-year Projections of Anticipated Required Contributions and Funding Ratio
 - v. Gain/Loss Analysis of Financial and Decremental Experience
 - vi. Stress testing" of key variables
 - 1. Population
 - 2. Asset Investment Rate
 - 3. Health care trend