

## Sample Retirement System – Funding Policy

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The following is the Sample Public Employees' Retirement System Board of Trustees' funding policy for the Sample Retirement System (the System). The purpose of this funding policy is to state the overall funding goals for the System, the benchmarks that will be used to measure progress in achieving those goals, and the methods and assumptions that will be employed to develop the benchmarks.

It should be noted that the policy refers to pension benefits and does not address retiree healthcare benefits that may be provided under Statute in the future. In addition to periodic reviews of this policy, the Board of Trustees will amend the policy if retiree healthcare benefits become payable.

### I. FUNDING GOALS

The objective in requiring employer and member contributions to the System is to accumulate sufficient assets during a member's employment to fully finance the benefits the member receives throughout retirement. In meeting this objective, the System will strive to meet the following funding goals:

- To maintain a stable or increasing ratio of system assets to accrued liabilities, and eventually reach a 100% funding ratio, as defined below.
- To maintain adequate asset levels to finance the benefits promised to members.
- To develop a pattern of stable contribution rates when expressed as a percentage of member payroll as measured by valuations prepared in accordance with the principles of practice prescribed by the Actuarial Standards Board, with a minimum employer contribution equal to the normal cost determined under the Entry Age Normal funding method.
- To provide intergenerational equity for taxpayers with respect to System costs.
- To fund benefit improvements through increases in employer contribution rates.

### II. BENCHMARKS

To measure progress in achieving the funding goals outlined above, the following benchmarks will be used:

- The **funding ratio** defined as the actuarial value of system assets divided by the System's actuarial accrued liability.
- An **experience test** that compares the annual net actuarial gain or loss to the actuarial accrued liability.

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- A **short condition test** that compares the actuarial value of System assets to the sum of the retiree liability and active member accumulated contributions.
- Employer and employee **contribution rate history**.
- The **amortization period** for the System’s unfunded actuarial accrued liability (UAAL).

Each of these benchmarks will be measured annually as of the actuarial valuation date. To achieve the funding goals, the following objectives are established (with due recognition that a single year’s results may not be indicative of long term trends):

- Funding ratio – the ratio should be stable or increasing each year, before adjustments for changes in benefits, actuarial methods, and/or actuarial assumptions.
- Experience test – the ratio of the net gain/loss to the accrued liability should be less than 5% and the last six year period should produce both gains and losses.
- Short condition test – the System assets should exceed the sum of the retiree liability and active member accumulated contributions.
- Contribution rate history – employer and member contribution rates should be reasonably level from year to year when expressed as a percent of active member payroll.
- UAAL amortization period – the amortization period should be stable or gradually declining, and should not exceed 30 years for any reason. If preliminary results indicate a period in excess of 30 years, the employer contribution rate will be increased by a sufficient amount to reduce the period to not more than 30 years.

### III. METHODS AND ASSUMPTIONS

The actuarial funding method used to develop the benchmarks will be the entry age normal method. The method used to develop the actuarial value of assets will recognize the underlying market value of the assets by spreading each year’s unanticipated investment income over a smoothing period, as adopted by the Board of Trustees.

The actuarial assumptions used will be those last adopted by the Board of Trustees based upon the advice and recommendation of the System’s actuary. The actuary shall conduct an investigation into each system’s experience at least every four years, and utilize the results of the investigation to form the basis for those recommendations.

The Board of Trustees will have an audit of the Systems’ actuarial valuation results conducted by an independent actuary at least every ten (10) years. The purpose of such a review is to provide

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a critique of the reasonableness of the actuarial methods and assumptions in use and the resulting actuarially computed liabilities and contribution rates.

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