

# Public Employees Retirement Association of Minnesota

Local Government Correctional Service Retirement Plan  
Actuarial Valuation Report as of July 1, 2020





November 13, 2020

Public Employees Retirement Association of Minnesota  
Trustees of the Local Government Correctional Service Retirement Plan  
St. Paul, Minnesota

Dear Trustees of the Local Government Correctional Service Retirement Plan:

The results of the July 1, 2020 annual actuarial valuation of the Local Government Correctional Service Retirement Plan are presented in this report. This report was prepared at the request of the Board and is intended for use by the Board and staff and those designated or approved by the Board. This report may be provided to parties other than the Board and staff only in its entirety and only with permission of the Board. GRS is not responsible for unauthorized use of this report.

The purpose of the valuation is to measure the Plan's funding progress and to determine the required contribution rate for the fiscal year beginning July 1, 2020 according to the prescribed assumptions. Note that the impact of GASB Statements No. 67 and No. 68 is provided in a separate report.

Actuarial assumptions, including discount rates, mortality tables and others identified in this report, are prescribed by Minnesota Statutes Section 356.215, the Legislative Commission on Pensions and Retirement (LCPR), and the Trustees. These parties are responsible for selecting the plan's funding policy, actuarial valuation methods, asset valuation methods, and assumptions. The policies, methods and assumptions used in this valuation are those that have been so prescribed and are described in the Actuarial Basis section of this report. PERA is solely responsible for communicating to GRS any changes required thereto.

In a 2019 analysis of long-term rate of investment return and inflation assumptions, GRS determined that an investment return assumption of 7.50% was reasonable. Please see our experience study report dated June 27, 2019 for additional information. This report also concluded that the probability of exceeding the current 7.50% assumption over 10 years is 44%. If capital market assumptions decline from present levels, the 7.50% return assumption might not comply with actuarial standards for the July 1, 2021 valuation. For informational purposes, results based on a 6.50% assumption are shown on page 5.

The contribution rate in this report is determined using the actuarial assumptions and methods disclosed in the Actuarial Basis section of this report. This report includes risk metrics on pages 6 through 9, but does not include a more robust assessment of the risks of future experience differing materially from the actuarial assumptions. Additional assessment of risks was outside the scope of this assignment.

The valuation assumed the continuing ability of the plan sponsor to make the contributions necessary to fund this plan. A determination regarding whether or not the plan sponsor is actually able to do so is outside our scope of expertise and was not performed.

The findings in this report are based on data and other information through June 30, 2020. The valuation was based upon information furnished by the Public Employees Retirement Association of Minnesota (PERA), concerning benefits, financial transactions, plan provisions and active members, terminated members, retirees and beneficiaries. We checked for internal and year-to-year consistency, but did not audit the data. We are not responsible for the accuracy or completeness of the information provided by PERA.

Future actuarial measurements may differ significantly from the current measurements 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. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of such future measurements.

This report does not fully reflect the recent and still developing impact of COVID-19, which is likely to influence demographic and investment experience, at least in the short term. We will continue to monitor these developments and their impact on the plan.

This report was prepared using our proprietary valuation model and related software which in our professional judgment has the capability to provide results that are consistent with the purposes of the valuation. We performed tests to ensure that the model reasonably represents that which is intended to be modeled.

This report should not be relied on for any purpose other than the purpose described herein. Determinations of the financial results associated with the benefits described in this report in a manner other than the intended purpose may produce significantly different results.

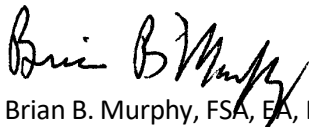
The signing actuaries are independent of the plan sponsor. We are not aware of any relationship that would impair the objectivity of our work.

Brian B. Murphy and Bonita J. Wurst are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. In addition, Mr. Murphy meets the requirements of "approved actuary" under Minnesota Statutes Section 356.215, Subdivision 1, Paragraph (c).

This report has been prepared by actuaries who have substantial experience valuing public employee retirement systems. To the best of our knowledge and belief, the information contained in this report is accurate and fairly presents the actuarial position of the Local Government Correctional Service Retirement Plan as of the valuation date and was performed in accordance with the requirements of Minnesota Statutes Section 356.215, and the requirements of the Standards for Actuarial Work established by the LCPR. All calculations have been made in conformity with generally accepted actuarial principles and practices, with the Actuarial Standards of Practice issued by the Actuarial Standards Board, and with applicable statutes.

We are available to answer any questions or provide further details.

Respectfully submitted,



Brian B. Murphy, FSA, EA, FCA, MAAA, PhD



Bonita J. Wurst, ASA, EA, FCA, MAAA

BBM/BJW:rmn



## Other Observations

### General Implications of Contribution Allocation Procedure or Funding Policy on Future Expected Plan Contributions and Funded Status

Given the plan's contribution allocation procedure, if there are no changes in benefits or contributions and all actuarial assumptions are met (including the assumption of the plan earning 7.50%), it is expected that:

- (1) The normal cost of the plan is expected to remain approximately level as a percent of pay,
- (2) The funded status of the plan is expected to gradually improve and is expected to be 100% funded within the next 28 years, and
- (3) The unfunded liability will grow initially as a dollar amount before beginning to decline.

### Limitations of Funded Status Measurements

Unless otherwise indicated, a funded status measurement presented in this report is based upon the actuarial accrued liability and the actuarial value of assets. Unless otherwise indicated, with regard to any funded status measurements presented in this report:

- (1) The measurement is inappropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations, in other words, of transferring the obligations to an unrelated third party in an arm's length market value type transaction.
- (2) The measurement is dependent upon the actuarial cost method which, in combination with the plan's amortization policy, affects the timing and amounts of future contributions. The amounts of future contributions will most certainly differ from those assumed in this report due to future actual experience differing from assumed experience based upon the actuarial assumptions. A funded status measurement in this report of 100% is not synonymous with no required future contributions. If the funded status were 100%, the plan would still require future normal cost contributions (i.e., contributions to cover the cost of the active membership accruing an additional year of service credit).
- (3) The measurement would produce a different result if the market value of assets were used instead of the actuarial value of assets.

### Limitations of Project Scope

Actuarial standards do not require the actuary to evaluate the ability of the plan sponsor or other contributing entity to make required contributions to the plan when due. Such an evaluation was not within the scope of this project and is not within the actuary's domain of expertise. Consequently, the actuary performed no such evaluation.



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# Summary of Valuation Results

## Contributions

The following table summarizes important contribution information as described in the Development of Costs section.

| Contributions   | Actuarial Valuation as of |              |
|---|---------------------------|--------------|
|   | July 1, 2020              | July 1, 2019 |
| Statutory Contributions - Chapter 353E (% of Payroll) | 14.58%                    | 14.58%       |
| Required Contributions - Chapter 356 (% of Payroll)   | 14.46%                    | 14.83%       |
| Sufficiency / (Deficiency)                            | 0.12%                     | (0.25%)      |

Statutory contributions are defined in statutes as a fixed percentage of payroll, plus any supplemental contributions, and represent the amount that is actually contributed to the fund. Required contributions are defined in statutes and the LCPR Standards for Actuarial Work, and represent the amount needed to fully fund the plan within 28 years (normal cost, expenses, and a payment to amortize the unfunded liability).

The contribution sufficiency/(deficiency) improved from a deficiency of (0.25%) of payroll to a sufficiency of 0.12% of payroll. The improvement is primarily due to demographic gains including lower than expected salary increases, more terminations than expected, and lower than expected post-retirement benefit increases during the past year, as well as the assumption change described on page 3. On a market value of assets basis, contributions are deficient by 0.06% of payroll.

The Plan Assets section provides detail on the Plan Assets used for the valuation including a development of the Actuarial Value of Assets (AVA). The Market Value of Assets (MVA) earned approximately 4.2% for the plan year ending June 30, 2020. The AVA earned approximately 7.2% for the plan year ending June 30, 2020 as compared to the assumed rate of 7.50%.

Participant reconciliation and statistics are detailed in the Membership Data section. The Actuarial Basis section includes a summary of plan provisions and actuarial methods and assumptions used for the calculations in this report.

Accounting information prepared according to GASB Statements No. 67 and No. 68 will be provided in a separate report.

## Summary of Valuation Results

A summary of principal valuation results from the current valuation and the prior valuation follows. Any changes in plan provisions, actuarial assumptions or valuation methods and procedures between the two valuations are described after the summary.

|   | Actuarial Valuation as of |               |
|---|---------------------------|---------------|
|   | July 1, 2020              | July 1, 2019  |
| <b>Contributions</b> ( <i>% of Payroll</i> )          |                           |               |
| Statutory - Chapter 353E                              | 14.58%                    | 14.58%        |
| Required - Chapter 356                                | 14.46%                    | 14.83%        |
| Sufficiency / (Deficiency)                            | 0.12%                     | (0.25%)       |
| <b>Funding Ratios</b> ( <i>dollars in thousands</i> ) |                           |               |
| Assets  |                           |               |
| - Current assets (AVA)                                | \$ 794,221                | \$729,570     |
| - Current assets (MVA)                                | \$ 787,322                | \$744,423     |
| Accrued Benefit Funding Ratio                         |                           |               |
| - Current benefit obligations                         | \$ 759,889                | \$704,919     |
| - Funding ratio (AVA)                                 | 104.52%                   | 103.50%       |
| - Funding ratio (MVA)                                 | 103.61%                   | 105.60%       |
| Accrued Liability Funding Ratio                       |                           |               |
| - Actuarial accrued liability                         | \$ 814,456                | \$758,268     |
| - Funding ratio (AVA)                                 | 97.52%                    | 96.22%        |
| - Funding ratio (MVA)                                 | 96.67%                    | 98.17%        |
| Projected Benefit Funding Ratio                       |                           |               |
| - Current and expected future assets                  | \$ 1,068,479              | \$1,005,441   |
| - Current and expected future benefit obligations     | \$ 1,064,039              | \$1,015,373   |
| - Projected benefit funding ratio (AVA)               | 100.42%                   | 99.02%        |
| <b>Participant Data</b>                               |                           |               |
| Active members  |                           |               |
| - Number  | 3,855                     | 3,965         |
| - Actual covered payroll ( <i>000s</i> )              | \$ 217,702                | \$214,151     |
| - Projected annual earnings ( <i>000s</i> )           | \$ 234,118                | \$237,958     |
| - Average projected annual earnings                   | \$ 60,731                 | \$60,015      |
| - Average age   | 39.0                      | 38.8          |
| - Average service                                     | 7.6                       | 7.4           |
| Service retirements                                   | 1,164                     | 1,053         |
| Survivors   | 72                        | 66            |
| Disability retirements                                | 207                       | 199           |
| Deferred retirements                                  | 3,637                     | 3,374         |
| Terminated other non-vested                           | 2,184                     | 2,790         |
| <b>Total</b>  | <b>11,119</b>             | <b>11,447</b> |

# Summary of Valuation Results

## Effects of Changes

The following changes in actuarial assumptions were recognized as of July 1, 2020:

- The mortality projection scale was changed from MP-2018 to MP-2019

Refer to the Actuarial Basis section of this report for a complete description of this change. The combined impact of the above change was to decrease the accrued liability by \$2.0 million and decrease the required contribution by 0.09% of pay, as follows:

|   | <b>Before Changes</b> | <b>Reflecting Assumption Changes</b> |
|---|-----------------------|--------------------------------------|
| Normal Cost Rate, % of Pay  | 13.83%                | 13.80%                               |
| Amortization of Unfunded Accrued Liability,<br>Level % of Pay to 2048 | 0.58%                 | 0.52%                                |
| Expenses (% of Pay)   | 0.14%                 | 0.14%                                |
| Total Required Contribution, % of Pay                                 | 14.55%                | 14.46%                               |
| Accrued Liability Funding Ratio                                       | 97.3%                 | 97.5%                                |
| Projected Benefit Funding Ratio                                       | 100.1%                | 100.4%                               |
| Unfunded Accrued Liability (in millions)                              | \$22.2                | \$20.2                               |



# Summary of Valuation Results

## Valuation of Future Post-Retirement Benefit Increases

The 2018 Omnibus Pension Bill, which was passed during the 2018 legislative session, revised the post-retirement benefit increases payable to retirees in the Local Government Correctional Service Retirement Plan (LGCSRP). Effective January 1, 2019, benefit recipients receive a future annual post-retirement benefit increase equal to 100% of the Social Security Cost-of-Living Adjustment, not less than 1.0% and not more than 2.5%. If the funding status declines to 85% for two consecutive years or 80% for one year, the maximum increase will be lowered to 1.5%.

For valuation purposes, we must make an assumption about future post-retirement benefit increases. We completed analysis initially after the plan change was adopted and updated the analysis recently for the change in the inflation assumption as recommended in the 2019 experience study (dated July 10, 2020).

We examined the capital market inflation assumptions for 14 investment consulting firms based on the GRS Capital Market Assumption Modeler (CMAM). Because GRS is a benefits consulting firm and does not develop or maintain its own capital market expectations, we request and monitor forward-looking expectations developed by several major investment consulting firms. We update our CMAM on an annual basis. The capital market assumptions in the 2019 CMAM are from the following investment consultants (in alphabetical order): Aon, Blackrock, BNY Mellon, Callan, Cambridge, JPMorgan, Marquette, Meketa, Mercer, NEPC, RVK, Verus, Voya, and Wilshire.

The average assumption for inflation was 2.24%, with a range of 1.70% to 3.00%, and the standard deviation was 1.79% (note that not every investment firm provided a standard deviation).

We normalized these parameters slightly so that they would correspond to an inflation assumption of 2.25% (proposed in the 2019 experience study report dated July 10, 2020). Then, based on a Monte Carlo simulation (1,000 simulations) of the post-retirement benefit increases as described above, we determined that an annual COLA assumption of 2.00% would be appropriate to model the effect of the post-retirement benefit increases. This is only an assumption; actual increases will depend on actual experience.

Note the result of the simulation was 1.91%; our recommended actuarial assumption of 2.0% reflects a margin for adverse deviation and minor rounding. The assumptions will be quite sensitive to the inflation assumption, and to its assumed standard deviation.

Actual benefit increases since this plan provision was enacted are summarized in the table below:

| Effective date: | Benefit increase: |
|-----------------|-------------------|
| January 1, 2019 | 2.5%              |
| January 1, 2020 | 1.6%              |

# Summary of Valuation Results

## Sensitivity Tests

During the 2017 legislative session, the Legislative Commission on Pensions and Retirement (LCPR) enacted a new sensitivity disclosure requirement for PERA's valuations. Per the LCPR's requirement, we have calculated the liabilities associated with the following scenarios:

- 1) 6.50% interest rate assumption
- 2) 8.50% interest rate assumption

We also included two alternate post-retirement benefit increase scenarios for informational purposes. The maximum benefit increase paid under current plan provisions is 2.5% per year. If the funding status declines to a specified level, the maximum benefit increase will be lowered to 1.5% per year. The financial impact of a 1.5% or 2.5% post-retirement benefit increase compared to the baseline assumption of 2.0% is shown below.

In each case, all other assumptions were unchanged from those used to develop the final valuation results in this report. Note that we believe the 8.50% interest rate assumption would not comply with Actuarial Standards of Practice.

| \$ in millions   | Final Valuation Assumptions | Final Valuation                | Final Valuation                | Final Valuation                                 | Final Valuation                                 |
|--|-----------------------------|--------------------------------|--------------------------------|---|---|
|  |                             | Assumptions with 6.5% Interest | Assumptions with 8.5% Interest | Assumptions with 2.5% COLA for All Future Years | Assumptions with 1.5% COLA for All Future Years |
| Normal Cost Rate, % of Pay   | 13.80%                      | 17.42%                         | 11.16%                         | 14.55%  | 13.12%  |
| Amortization of Unfunded Accrued Liability, Level % of Pay to 2048 | 0.52%                       | 3.76%                          | (2.60%)                        | 1.71%   | (0.54%)   |
| Expenses (% of Pay)  | 0.14%                       | 0.14%                          | 0.14%                          | 0.14%   | 0.14%   |
| Total Required Contribution, % of Pay                              | 14.46%                      | 21.32%                         | 8.70%                          | 16.40%  | 12.72%  |
| Contribution Sufficiency/(Deficiency)                              | 0.12%                       | (6.74%)                        | 5.88%                          | (1.82%)   | 1.86%   |
| Accrued Liability Funding Ratio                                    | 97.5%                       | 83.1%                          | 113.3%                         | 92.3%   | 102.8%  |
| Present Value of Projected Benefits                                | \$1,064.0                   | \$1,298.1                      | \$888.2                        | \$1,123.2                                       | \$1,009.8                                       |
| Present Value of Future Normal Costs                               | <u>\$249.5</u>              | <u>\$342.1</u>                 | <u>\$187.0</u>                 | <u>\$263.2</u>                                  | <u>\$237.2</u>                                  |
| Actuarial Accrued Liability  | \$814.5                     | \$956.0                        | \$701.2                        | \$860.0   | \$772.6   |
| Unfunded Accrued Liability   | \$20.2                      | \$161.7                        | (\$93.1)                       | \$65.8  | (\$21.6)  |

# Summary of Valuation Results

## Risks Associated with Measuring the Accrued Liability and Actuarially Determined Contribution

The determination of the accrued liability and the actuarially determined contribution requires the use of assumptions regarding future economic and demographic experience. Risk measures, as illustrated in this report, are intended to aid in the understanding of the effects of future experience differing from the assumptions used in the course of the actuarial valuation. Risk measures may also help with illustrating the potential volatility in the accrued liability and the actuarially determined contribution that result from the differences between actual experience and the actuarial assumptions.

Future actuarial measurements may differ significantly from the current measurements 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 due to changing conditions; 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. The scope of an actuarial valuation does not include an analysis of the potential range of such future measurements.

Examples of risk that may reasonably be anticipated to significantly affect the plan's future financial condition include:

1. **Investment Risk** – actual investment returns may differ from the expected returns;
2. **Asset/Liability Mismatch** – changes in asset values may not match changes in liabilities, thereby altering the gap between the accrued liability and assets and consequently altering the funded status and contribution requirements;
3. **Contribution Risk** – actual contributions may differ from expected future contributions. For example, actual contributions may not be made in accordance with the plan's funding policy or material changes may occur in the anticipated number of covered employees, covered payroll, or other relevant contribution base;
4. **Salary and Payroll Risk** – actual salaries and total payroll may differ from expected, resulting in actual future accrued liability and contributions differing from expected;
5. **Longevity Risk** – members may live longer or shorter than expected and receive pensions for a period of time other than assumed; and
6. **Other Demographic Risks** – members may terminate, retire or become disabled at times or with benefits other than assumed resulting in actual future accrued liability and contributions differing from expected.

The effects of certain trends in experience can generally be anticipated. For example, if the investment return since the most recent actuarial valuation is less (or more) than the assumed rate, the cost of the plan can be expected to increase (or decrease). Likewise, if longevity is improving (or worsening), increases (or decreases) in cost can be anticipated.

## Summary of Valuation Results

The Required Contribution rate shown on page 1 may be considered as a minimum contribution rate that complies with Minnesota Statutes and the requirements of the Standards for Actuarial Work published by the LCPR. The timely receipt of the actuarially determined contributions is critical to support the financial health of the plan. Users of this report should be aware that contributions made at the actuarially determined rate do not necessarily guarantee benefit security.

### PLAN MATURITY MEASURES

Risks facing a pension plan evolve over time. A young plan with virtually no investments and paying few benefits may experience little investment risk. An older plan with a large number of members in pay status and a significant trust may be much more exposed to investment risk. Generally accepted plan maturity measures include the following. Additional maturity measures are shown on the following page.

|   | 2020  | 2019  |
|---|-------|-------|
| Ratio of market value of assets to total payroll      | 3.62  | 3.48  |
| Ratio of actuarial accrued liability to total payroll | 3.74  | 3.54  |
| Ratio of actives to retirees and beneficiaries        | 2.67  | 3.01  |
| Ratio of net cash flow to market value of assets      | 1.4%  | 1.8%  |
| Approximate modified duration* of:                    |       |       |
| ▪ Total projected benefits:                           | 19.26 | 19.72 |
| ▪ Actuarial accrued liability:                        | 15.64 | 15.87 |
| ▪ Retiree liability:                                  | 9.89  | 9.97  |

\* Based on 7.50% interest.

### RATIO OF MARKET VALUE OF ASSETS TO PAYROLL

The relationship between assets and payroll is a useful indicator of the potential volatility of contributions. For example, if the market value of assets is 5.0 times the payroll, a return on assets 5% different than assumed would equal 25% of payroll. A higher (lower) or increasing (decreasing) level of this maturity measure generally indicates a higher (lower) or increasing (decreasing) volatility in plan sponsor contributions as a percentage of payroll.

### RATIO OF ACTUARIAL ACCRUED LIABILITY TO PAYROLL

The relationship between actuarial accrued liability and payroll is a useful indicator of the potential volatility of contributions for a fully funded plan. A funding policy that targets a funded ratio of 100% is expected to result in the ratio of assets to payroll and the ratio of liability to payroll converging over time. The ratio of liability to payroll may also be used as a measure of sensitivity of contribution rates to liability gains and losses. For example, if the actuarial accrued liability is 5.0 times the payroll, a change in liability 2% other than assumed would equal 10% of payroll. A higher (lower) or increasing (decreasing) level of this maturity measure generally indicates a higher (lower) or increasing (decreasing) volatility in liability (and also plan sponsor contributions) as a percentage of payroll.

# Summary of Valuation Results

## **RATIO OF ACTIVES TO RETIREES AND BENEFICIARIES**

A young plan with many active members and few retirees will have a high ratio of active to retirees. A mature open plan may have close to the same number of actives to retirees resulting in a ratio near 1.0. A super-mature or closed plan may have significantly more retirees than actives resulting in a ratio below 1.0.

## **RATIO OF NET CASH FLOW TO MARKET VALUE OF ASSETS**

A positive net cash flow means contributions exceed benefits and expenses. A negative cash flow means benefits and expenses exceed contributions, and existing funds may be used to make payments. A certain amount of negative net cash flow is generally expected to occur when benefits are prefunded through a qualified trust. Large negative net cash flows as a percent of assets may indicate a super-mature plan or a need for additional contributions.

## **DURATION OF ACTUARIAL LIABILITIES**

The modified duration (as opposed to the Macaulay duration) may be used to approximate the sensitivity of the liability to a small change in the assumed rate of return. For example, a modified duration of 10 indicates that the liability would change by approximately 10% if the assumed rate of return were changed by 1% (i.e., from 7.5% to 6.5%).

## **ADDITIONAL RISK ASSESSMENT**

Additional risk assessment is outside the scope of the annual actuarial valuation. Additional assessment may include scenario tests, sensitivity tests, stochastic modeling, stress tests, and a comparison of the present value of accrued benefits at low-risk discount rates with the actuarial accrued liability.

# Summary of Valuation Results

## Risk Measures Summary (Dollars in Thousands)

| Valuation Date (6/30) | (1)<br>Accrued Liabilities (AAL) | (2)<br>Market Value of Assets | (3)<br>Market Value Unfunded AAL | (4)<br>Actual Covered Payroll | (5)<br>Market Value Funded Ratio (2)/(1) | (6)<br>Retiree Liabilities | (7)<br>Ret Liab/ AAL (6)/(1) | (8)<br>AAL/ Payroll (1)/(4) | (9)<br>Assets/ Payroll (2)/(4) |
|-----------------------|----------------------------------|-------------------------------|----------------------------------|-------------------------------|--|----------------------------|------------------------------|-----------------------------|--------------------------------|
| 2011                  | \$ 284,593                       | \$ 280,031                    | \$ 4,562                         | \$ 165,077                    | 98.4%                                    | \$ 50,393                  | 17.7%                        | 172.4%                      | 169.6%                         |
| 2012                  | \$ 343,199                       | \$ 305,408                    | \$ 37,791                        | \$ 164,340                    | 89.0%                                    | \$ 63,419                  | 18.5%                        | 208.8%                      | 185.8%                         |
| 2013                  | \$ 381,179                       | \$ 366,750                    | \$ 14,429                        | \$ 164,820                    | 96.2%                                    | \$ 74,683                  | 19.6%                        | 231.3%                      | 222.5%                         |
| 2014                  | \$ 426,508                       | \$ 453,232                    | \$ (26,724)                      | \$ 172,041                    | 106.3%                                   | \$ 85,638                  | 20.1%                        | 247.9%                      | 263.4%                         |
| 2015                  | \$ 498,052                       | \$ 490,731                    | \$ 7,321                         | \$ 179,623                    | 98.5%                                    | \$ 106,898                 | 21.5%                        | 277.3%                      | 273.2%                         |
| 2016                  | \$ 553,840                       | \$ 507,783                    | \$ 46,057                        | \$ 188,816                    | 91.7%                                    | \$ 126,066                 | 22.8%                        | 293.3%                      | 268.9%                         |
| 2017                  | \$ 629,870                       | \$ 602,460                    | \$ 27,410                        | \$ 200,103                    | 95.6%                                    | \$ 162,539                 | 25.8%                        | 314.8%                      | 301.1%                         |
| 2018                  | \$ 696,842                       | \$ 680,395                    | \$ 16,447                        | \$ 205,077                    | 97.6%                                    | \$ 189,738                 | 27.2%                        | 339.8%                      | 331.8%                         |
| 2019                  | \$ 758,268                       | \$ 744,423                    | \$ 13,845                        | \$ 214,151                    | 98.2%                                    | \$ 218,046                 | 28.8%                        | 354.1%                      | 347.6%                         |
| 2020                  | \$ 814,456                       | \$ 787,322                    | \$ 27,134                        | \$ 217,702                    | 96.7%                                    | \$ 247,929                 | 30.4%                        | 374.1%                      | 361.7%                         |

| Valuation Date (6/30) | (10)<br>Portfolio Std Dev | (11)<br>Std Dev % of Pay (9) x (10) | (12)<br>Unfunded/ Payroll (3)/(4) | (13)<br>Non-Investment Cash Flow (NICF) | (14)<br>NICF/ Assets (13)/(2) | (15)<br>Market Rate of Return | (16)<br>5-Year Trailing Average | (17)<br>10-Year Trailing Average |
|-----------------------|---------------------------|-------------------------------------|-----------------------------------|---|-------------------------------|-------------------------------|---------------------------------|----------------------------------|
| 2011                  |                           |                                     | 2.8%                              | 18,320                                  | 6.5%                          | 23.0%                         | N/A                             | N/A                              |
| 2012                  |                           |                                     | 23.0%                             | 17,531                                  | 5.7%                          | 2.3%                          | 2.3%                            | N/A                              |
| 2013                  |                           |                                     | 8.8%                              | 16,964                                  | 4.6%                          | 14.2%                         | 6.2%                            | N/A                              |
| 2014                  | 14.1%                     | 37.1%                               | -15.5%                            | 17,031                                  | 3.8%                          | 18.5%                         | 14.5%                           | N/A                              |
| 2015                  | 14.1%                     | 38.5%                               | 4.1%                              | 17,127                                  | 3.5%                          | 4.4%                          | 12.2%                           | N/A                              |
| 2016                  | 14.1%                     | 37.9%                               | 24.4%                             | 16,845                                  | 3.3%                          | 0.0%                          | 7.6%                            | N/A                              |
| 2017                  | 14.1%                     | 42.5%                               | 13.7%                             | 16,314                                  | 2.7%                          | 15.1%                         | 10.2%                           | 6.2%                             |
| 2018                  | 14.1%                     | 46.8%                               | 8.0%                              | 14,972                                  | 2.2%                          | 10.3%                         | 9.4%                            | 7.8%                             |
| 2019                  | 14.3%                     | 49.7%                               | 6.5%                              | 13,175                                  | 1.8%                          | 7.3%                          | 7.3%                            | 10.9%                            |
| 2020                  | 14.3%                     | 51.7%                               | 12.5%                             | 11,125                                  | 1.4%                          | 4.2%                          | 7.3%                            | 9.7%                             |

(5). The Funded ratio is the most widely known measure of a plan's financial strength, but the trend in the funded ratio is much more important than the absolute ratio. The funded ratio should trend to 100%. As it approaches 100%, it is important to re-evaluate the level of investment risk in the portfolio and potentially to re-evaluate the assumed rate of return.

(6) and (7). The ratio of retiree liabilities to total accrued liabilities gives an indication of the maturity of the system. As the ratio increases, cash flow needs increase, and the liquidity needs of the portfolio change. A ratio on the order of 50% indicates a maturing system.

(8) and (9). The ratios of liabilities and assets to payroll gives an indication of both maturity and volatility. Many systems have ratios between 500% and 700%. Ratios significantly above that range may indicate difficulty in supporting the benefit level as a level % of payroll.

(10) and (11). The portfolio standard deviation measures the volatility of investment return. When multiplied by the ratio of assets to payroll it gives the effect of a one standard deviation asset move as a percent of payroll. This figure helps users understand the difficulty of dealing with investment volatility and the challenges volatility brings to sustainability.

(12). The ratio of unfunded liability to payroll gives an indication of the plan sponsor's ability to actually pay off the unfunded liability. A ratio above approximately 300% or 400% may indicate difficulty in discharging the unfunded liability within a reasonable time frame.

(13) and (14). The ratio of Non-Investment Cash Flow to assets is an important measure of sustainability. Negative ratios are common and expected for a maturing system. In the longer term, this ratio should be on the order of approximately -4%. A ratio that is significantly more negative than that for an extended period could be a leading indicator of potential exhaustion of assets.

(15), (16) and (17). Investment return is probably the largest single risk that most systems face. The year by year return and the 5-year and 10-year geometric average give an indicator of past performance. Of course, past performance is not a guarantee of future results, and may not ever be reflective of potential future results.

## Supplemental Information

The remainder of the report includes information supporting the results presented in the previous sections.

- **Plan assets** presents information about the Plan's assets as reported by the Public Employees Retirement Association of Minnesota. The assets represent the portion of total fund liabilities that has been funded.
- **Membership data** presents and describes the membership data used in the valuation.
- **Development of costs** shows the liabilities for plan benefits and the derivation of the contribution amount.
- **Actuarial basis** describes the Plan provisions, as well as the methods and assumptions used to value the Plan. The valuation is based on the premise that the Plan is ongoing.
- **Additional schedules** shows the Schedule of Funding Progress and Schedule of Contributions.
- **Glossary** defines the terms used in this report.

## Plan Assets

### Statement of Fiduciary Net Position *(Dollars in Thousands)*

| Assets in Trust                                      | Market Value      |                   |
|--|-------------------|-------------------|
|  | June 30, 2020     | June 30, 2019     |
| Cash, equivalents, short term securities             | \$ 34,069         | \$ 20,842         |
| Fixed income   | \$ 160,323        | \$ 151,524        |
| Equity   | \$ 469,467        | \$ 463,263        |
| Private Markets                                      | \$ 123,096        | \$ 108,365        |
| Other  | \$ -              | \$ -              |
| <b>Total Assets in Trust</b>                         | <b>\$ 786,955</b> | <b>\$ 743,994</b> |
| Assets Receivable                                    | \$ 912            | \$ 965            |
| Amounts Payable                                      | \$ (545)          | \$ (536)          |
| <b>Net Assets Held in Trust for Pension Benefits</b> | <b>\$ 787,322</b> | <b>\$ 744,423</b> |



## Plan Assets

### Reconciliation of Plan Assets *(Dollars in Thousands)*

The following exhibit shows the revenue, expenses and resulting assets of the Fund as reported by the Public Employees Retirement Association for the Plan's prior two fiscal years.

| <u>Change in Assets</u>                                | <u>Market Value</u>  |                      |
|--|----------------------|----------------------|
|  | <u>June 30, 2020</u> | <u>June 30, 2019</u> |
| <b>Year Ending</b>                                     |                      |                      |
| 1. Fund balance at market value at end of prior year   | \$ 744,423           | \$ 680,395           |
| 2. Adjustment to match reported value                  | \$ -                 | \$ -                 |
| 3. Fund balance at market value at beginning of year   | \$ 744,423           | \$ 680,395           |
| 4. Contributions                                       |                      |                      |
| a. Member  | \$ 12,692            | \$ 12,485            |
| b. Employer  | \$ 19,043            | \$ 18,676            |
| c. Other sources                                       | \$ -                 | \$ -                 |
| d. Total contributions                                 | \$ 31,735            | \$ 31,161            |
| 5. Investment income                                   |                      |                      |
| a. Investment income/(loss)                            | \$ 32,484            | \$ 51,549            |
| b. Investment expenses                                 | \$ (710)             | \$ (696)             |
| c. Net subtotal  | \$ 31,774            | \$ 50,853            |
| 6. Other   | \$ -                 | \$ -                 |
| <b>7. Total income: (4.d.) + (5.c.) + (6.)</b>         | <b>\$ 63,509</b>     | <b>\$ 82,014</b>     |
| 8. Benefits Paid                                       |                      |                      |
| a. Annuity benefits                                    | \$ (17,569)          | \$ (15,381)          |
| b. Refunds   | \$ (2,709)           | \$ (2,244)           |
| c. Total benefits paid                                 | \$ (20,278)          | \$ (17,625)          |
| 9. Expenses  |                      |                      |
| a. Other   | \$ -                 | \$ -                 |
| b. Administrative                                      | \$ (332)             | \$ (361)             |
| c. Total expenses                                      | \$ (332)             | \$ (361)             |
| <b>10. Total disbursements: (8.c.) + (9.c.)</b>        | <b>\$ (20,610)</b>   | <b>\$ (17,986)</b>   |
| <b>11. Fund balance at market value at end of year</b> | <b>\$ 787,322</b>    | <b>\$ 744,423</b>    |
| 12. Approximate return on market value of assets       | 4.2%                 | 7.3%                 |

## Plan Assets

### Actuarial Asset Value *(Dollars in Thousands)*

|   | June 30, 2020     | June 30, 2019              |            |
|---|-------------------|----------------------------|------------|
| 1. Market value of assets available for benefits                      | \$ 787,322        | \$ 744,423                 |            |
| 2. Determination of average balance                                   |                   |                            |            |
| a. Total assets available at beginning of year                        | \$ 744,423        | \$ 680,395                 |            |
| b. Total assets available at end of year                              | \$ 787,322        | \$ 744,423                 |            |
| c. Net investment income for fiscal year                              | \$ 31,774         | \$ 50,853                  |            |
| d. Average balance <i>[a. + b. - c.] / 2</i>                          | \$ 749,986        | \$ 686,982                 |            |
| 3. Expected return <i>[7.5% x 2.d.]</i>                               | \$ 56,249         | \$ 51,524                  |            |
| 4. Actual return  | \$ 31,774         | \$ 50,853                  |            |
| 5. Current year asset gain/(loss) <i>[4. - 3.]</i>                    | \$ (24,475)       | \$ (671)                   |            |
| 6. Unrecognized asset returns   |                   |                            |            |
|   | <b>Original</b>   |                            |            |
|   | <b>Amount</b>     | <b>Unrecognized Amount</b> |            |
| a. Year ended June 30, 2020   | \$ (24,475)       | \$ (19,580)                | N/A        |
| b. Year ended June 30, 2019   | \$ (671)          | \$ (403)                   | \$ (537)   |
| c. Year ended June 30, 2018   | \$ 14,166         | \$ 5,666                   | \$ 8,500   |
| d. Year ended June 30, 2017   | \$ 37,088         | \$ 7,418                   | \$ 14,835  |
| e. Year ended June 30, 2016   | \$ (39,723)       | N/A                        | \$ (7,945) |
| f. Unrecognized return adjustment                                     | \$ (6,899)        | \$ (6,899)                 | \$ 14,853  |
| 7. <b>Actuarial value at end of year</b> <i>(1. - 6.f.)</i>           | <b>\$ 794,221</b> | <b>\$ 729,570</b>          |            |
| 8. Approximate return on actuarial value of assets during fiscal year | 7.2%              | 7.4%                       |            |
| 9. Ratio of actuarial value of assets to market value of assets       | 1.01              | 0.98                       |            |

# Membership Data

## Distribution of Active Members

Years of Service as of June 30, 2020

| Age                  | Years of Service as of June 30, 2020 |                  |                  |                  |                  |                  |         |         |     | Total            |
|----------------------|--------------------------------------|------------------|------------------|------------------|------------------|------------------|---------|---------|-----|------------------|
|                      | <3*                                  | 3 - 4            | 5 - 9            | 10 - 14          | 15 - 19          | 20 - 24          | 25 - 29 | 30 - 34 | 35+ |                  |
| < 25                 | 341                                  | 22               |                  |                  |                  |                  |         |         |     | 363              |
| Avg. Earnings        | \$ 33,654                            | \$ 45,886        |                  |                  |                  |                  |         |         |     | \$ 34,395        |
| 25 - 29              | 434                                  | 161              | 62               |                  |                  |                  |         |         |     | 657              |
| Avg. Earnings        | \$ 43,618                            | \$ 53,448        | \$ 55,579        |                  |                  |                  |         |         |     | \$ 47,156        |
| 30 - 34              | 256                                  | 131              | 190              | 20               |                  |                  |         |         |     | 597              |
| Avg. Earnings        | \$ 47,425                            | \$ 55,367        | \$ 61,099        | \$ 65,972        |                  |                  |         |         |     | \$ 54,141        |
| 35 - 39              | 145                                  | 80               | 123              | 134              | 34               | 1                |         |         |     | 517              |
| Avg. Earnings        | \$ 45,730                            | \$ 52,417        | \$ 58,051        | \$ 70,117        | \$ 73,132        | \$ 107,809       |         |         |     | \$ 57,939        |
| 40 - 44              | 89                                   | 52               | 83               | 101              | 94               | 18               |         |         |     | 437              |
| Avg. Earnings        | \$ 41,855                            | \$ 60,181        | \$ 62,637        | \$ 70,055        | \$ 72,480        | \$ 70,820        |         |         |     | \$ 62,281        |
| 45 - 49              | 72                                   | 29               | 55               | 68               | 108              | 94               |         |         |     | 426              |
| Avg. Earnings        | \$ 54,560                            | \$ 55,816        | \$ 64,911        | \$ 71,009        | \$ 73,809        | \$ 77,790        |         |         |     | \$ 68,613        |
| 50 - 54              | 61                                   | 32               | 46               | 64               | 95               | 118              |         |         |     | 416              |
| Avg. Earnings        | \$ 45,811                            | \$ 64,700        | \$ 67,779        | \$ 74,005        | \$ 72,787        | \$ 83,367        |         |         |     | \$ 70,844        |
| 55 - 59              | 33                                   | 15               | 23               | 37               | 61               | 88               |         |         |     | 257              |
| Avg. Earnings        | \$ 58,044                            | \$ 49,827        | \$ 69,430        | \$ 69,658        | \$ 75,719        | \$ 80,081        |         |         |     | \$ 71,996        |
| 60 - 64              | 20                                   | 7                | 13               | 18               | 42               | 47               |         |         |     | 147              |
| Avg. Earnings        | \$ 41,824                            | \$ 43,817        | \$ 51,464        | \$ 69,316        | \$ 75,562        | \$ 81,365        |         |         |     | \$ 68,420        |
| 65 - 69              | 2                                    | 2                | 2                | 8                | 5                | 11               |         |         |     | 30               |
| Avg. Earnings        | \$ 10,190                            | \$ 21,302        | \$ 31,111        | \$ 56,654        | \$ 79,861        | \$ 69,157        |         |         |     | \$ 57,949        |
| 70+                  |                                      | 2                | 2                | 2                | 2                |                  |         |         |     | 8                |
| Avg. Earnings        |                                      | \$ 9,308         | \$ 18,104        | \$ 49,948        | \$ 78,261        |                  |         |         |     | \$ 38,905        |
| <b>Total</b>         | <b>1,453</b>                         | <b>533</b>       | <b>599</b>       | <b>452</b>       | <b>441</b>       | <b>377</b>       |         |         |     | <b>3,855</b>     |
| <b>Avg. Earnings</b> | <b>\$ 42,944</b>                     | <b>\$ 54,399</b> | <b>\$ 60,845</b> | <b>\$ 70,207</b> | <b>\$ 73,773</b> | <b>\$ 80,011</b> |         |         |     | <b>\$ 57,658</b> |

\* This exhibit does not reflect service earned in other PERA funds or service earned in a Combined Service Annuity arrangement. It should not be relied upon as an indicator of non-vested status.

In each cell, the top number is the count of active participants for the age/service combination and the bottom number is average valuation earnings for the fiscal year ending on the valuation date.



# Membership Data

## Distribution of Service Retirements

| Age                 | Years Retired as of June 30, 2020 |                  |                  |                 |                 |               |     | Total            |
|---------------------|-----------------------------------|------------------|------------------|-----------------|-----------------|---------------|-----|------------------|
|                     | <1                                | 1 - 4            | 5 - 9            | 10 - 14         | 15 - 19         | 20 - 24       | 25+ |                  |
| <50                 |                                   |                  |                  |                 |                 |               |     |                  |
| Avg. Benefit        |                                   |                  |                  |                 |                 |               |     |                  |
| 50 - 54             | 8                                 | 23               |                  |                 |                 |               |     | 31               |
| Avg. Benefit        | \$ 16,056                         | \$ 12,864        |                  |                 |                 |               |     | \$ 13,688        |
| 55 - 59             | 47                                | 120              | 26               |                 |                 |               |     | 193              |
| Avg. Benefit        | \$ 16,471                         | \$ 14,096        | \$ 9,965         |                 |                 |               |     | \$ 14,118        |
| 60 - 64             | 39                                | 135              | 75               | 9               |                 |               |     | 258              |
| Avg. Benefit        | \$ 16,983                         | \$ 16,255        | \$ 10,764        | \$ 5,755        |                 |               |     | \$ 14,403        |
| 65 - 69             | 16                                | 121              | 137              | 53              | 1               |               |     | 328              |
| Avg. Benefit        | \$ 15,376                         | \$ 14,247        | \$ 13,083        | \$ 8,391        | \$ 1,199        |               |     | \$ 12,830        |
| 70 - 74             | 1                                 | 28               | 99               | 66              | 30              |               |     | 224              |
| Avg. Benefit        | \$ 14,143                         | \$ 14,949        | \$ 11,793        | \$ 7,218        | \$ 4,663        |               |     | \$ 9,895         |
| 75 - 79             |                                   | 3                | 20               | 37              | 24              | 2             |     | 86               |
| Avg. Benefit        |                                   | \$ 12,456        | \$ 8,677         | \$ 7,656        | \$ 3,632        | \$ 536        |     | \$ 6,772         |
| 80 - 84             | 1                                 |                  | 2                | 7               | 22              | 6             |     | 38               |
| Avg. Benefit        | \$ 23,445                         |                  | \$ 7,698         | \$ 5,064        | \$ 2,991        | \$ 497        |     | \$ 3,765         |
| 85 - 89             |                                   |                  |                  | 2               | 3               | 1             |     | 6                |
| Avg. Benefit        |                                   |                  |                  | \$ 5,519        | \$ 1,416        | \$ 79         |     | \$ 2,561         |
| 90+                 |                                   |                  |                  |                 |                 |               |     |                  |
| Avg. Benefit        |                                   |                  |                  |                 |                 |               |     |                  |
| <b>Total</b>        | <b>112</b>                        | <b>430</b>       | <b>359</b>       | <b>174</b>      | <b>80</b>       | <b>9</b>      |     | <b>1,164</b>     |
| <b>Avg. Benefit</b> | <b>\$ 16,505</b>                  | <b>\$ 14,794</b> | <b>\$ 11,742</b> | <b>\$ 7,486</b> | <b>\$ 3,729</b> | <b>\$ 459</b> |     | <b>\$ 12,054</b> |

In each cell, the top number is the count of retired participants for the age/years retired combination and the bottom number is the average annual benefit amount.



# Membership Data

## Distribution of Survivors

| Age                 | Years Since Death as of June 30, 2020 |                  |                 |                 |                 |         |     | Total            |
|---------------------|---------------------------------------|------------------|-----------------|-----------------|-----------------|---------|-----|------------------|
|                     | <1                                    | 1 - 4            | 5 - 9           | 10 - 14         | 15 - 19         | 20 - 24 | 25+ |                  |
| <45                 |                                       | 4                | 2               | 1               |                 |         |     | 7                |
| Avg. Benefit        |                                       | \$ 8,105         | \$ 6,598        | \$ 4,372        |                 |         |     | \$ 7,141         |
| 45 - 49             | 1                                     | 1                | 2               |                 |                 |         |     | 4                |
| Avg. Benefit        | \$ 2,935                              | \$ 19,852        | \$ 9,361        |                 |                 |         |     | \$ 10,377        |
| 50 - 54             | 1                                     | 1                | 3               | 1               |                 |         |     | 6                |
| Avg. Benefit        | \$ 14,506                             | \$ 13,496        | \$ 12,522       | \$ 11,233       |                 |         |     | \$ 12,800        |
| 55 - 59             | 1                                     | 5                | 5               | 1               |                 |         |     | 12               |
| Avg. Benefit        | \$ 20,395                             | \$ 21,002        | \$ 13,979       | \$ 2,628        |                 |         |     | \$ 16,494        |
| 60 - 64             | 2                                     | 5                | 2               |                 | 1               |         |     | 10               |
| Avg. Benefit        | \$ 6,670                              | \$ 11,882        | \$ 14,727       |                 | \$ 1,165        |         |     | \$ 10,337        |
| 65 - 69             |                                       | 6                | 4               | 3               | 1               |         |     | 14               |
| Avg. Benefit        |                                       | \$ 8,534         | \$ 7,523        | \$ 7,372        | \$ 1,399        |         |     | \$ 7,486         |
| 70 - 74             |                                       | 5                | 1               | 1               | 1               |         |     | 8                |
| Avg. Benefit        |                                       | \$ 10,414        | \$ 6,678        | \$ 8,558        | \$ 24,079       |         |     | \$ 11,423        |
| 75 - 79             | 1                                     | 2                | 4               | 2               | 1               |         |     | 10               |
| Avg. Benefit        | \$ 8,205                              | \$ 13,380        | \$ 3,767        | \$ 4,370        | \$ 9,561        |         |     | \$ 6,833         |
| 80 - 84             |                                       |                  | 1               |                 |                 |         |     | 1                |
| Avg. Benefit        |                                       |                  | \$ 1,122        |                 |                 |         |     | \$ 1,122         |
| 85 - 89             |                                       |                  |                 |                 |                 |         |     |                  |
| Avg. Benefit        |                                       |                  |                 |                 |                 |         |     |                  |
| 90+                 |                                       |                  |                 |                 |                 |         |     |                  |
| Avg. Benefit        |                                       |                  |                 |                 |                 |         |     |                  |
| <b>Total</b>        | <b>6</b>                              | <b>29</b>        | <b>24</b>       | <b>9</b>        | <b>4</b>        |         |     | <b>72</b>        |
| <b>Avg. Benefit</b> | <b>\$ 9,897</b>                       | <b>\$ 12,421</b> | <b>\$ 9,241</b> | <b>\$ 6,405</b> | <b>\$ 9,051</b> |         |     | <b>\$ 10,212</b> |

In each cell, the top number is the count of survivors for the age/years since death combination and the bottom number is the average annual benefit amount.



# Membership Data

## Distribution of Disability Retirements

| Age                 | Years Disabled as of June 30, 2020 * |                  |                  |                  |                  |                  |     | Total            |
|---------------------|--------------------------------------|------------------|------------------|------------------|------------------|------------------|-----|------------------|
|                     | <1                                   | 1 - 4            | 5 - 9            | 10 - 14          | 15 - 19          | 20 - 24          | 25+ |                  |
| < 45                | 1                                    | 7                | 5                | 4                |                  |                  |     | 17               |
| Avg. Benefit        | \$ 8,797                             | \$ 22,375        | \$ 14,925        | \$ 12,228        |                  |                  |     | \$ 16,997        |
| 45 - 49             |                                      | 6                | 4                | 5                |                  |                  |     | 15               |
| Avg. Benefit        |                                      | \$ 15,836        | \$ 17,380        | \$ 14,896        |                  |                  |     | \$ 15,935        |
| 50 - 54             | 2                                    | 10               | 9                | 8                |                  |                  |     | 29               |
| Avg. Benefit        | \$ 24,464                            | \$ 26,979        | \$ 21,820        | \$ 24,602        |                  |                  |     | \$ 24,549        |
| 55 - 59             | 3                                    | 13               | 11               | 7                | 2                | 2                |     | 38               |
| Avg. Benefit        | \$ 25,592                            | \$ 19,335        | \$ 13,798        | \$ 18,581        | \$ 16,974        | \$ 26,379        |     | \$ 18,334        |
| 60 - 64             |                                      | 9                | 7                | 13               | 5                |                  |     | 34               |
| Avg. Benefit        |                                      | \$ 17,450        | \$ 17,601        | \$ 20,696        | \$ 29,377        |                  |     | \$ 20,476        |
| 65 - 69             | 8                                    | 21               | 2                | 1                |                  | 1                |     | 33               |
| Avg. Benefit        | \$ 15,076                            | \$ 18,434        | \$ 10,896        | \$ 19,949        |                  | \$ 31,830        |     | \$ 17,615        |
| 70 - 74             |                                      | 2                | 29               |                  |                  |                  |     | 31               |
| Avg. Benefit        |                                      | \$ 15,127        | \$ 21,271        |                  |                  |                  |     | \$ 20,875        |
| 75+                 |                                      |                  |                  | 9                | 1                |                  |     | 10               |
| Avg. Benefit        |                                      |                  |                  | \$ 16,070        | \$ 15,101        |                  |     | \$ 15,973        |
| <b>Total</b>        | <b>14</b>                            | <b>68</b>        | <b>67</b>        | <b>47</b>        | <b>8</b>         | <b>3</b>         |     | <b>207</b>       |
| <b>Avg. Benefit</b> | <b>\$ 18,222</b>                     | <b>\$ 19,812</b> | <b>\$ 18,719</b> | <b>\$ 18,807</b> | <b>\$ 24,491</b> | <b>\$ 28,196</b> |     | <b>\$ 19,425</b> |

\* Based on effective date as provided by PERA, "Years Disabled" may reflect years since age 65 for members over age 65.

In each cell, the top number is the count of disabled participants for the age/years disabled combination and the bottom number is the average annual benefit amount.



# Membership Data

## Reconciliation of Members

|                             | Terminated   |                     |                  | Recipients         |                       |           | Total         |
|-----------------------------|--------------|---------------------|------------------|--------------------|-----------------------|-----------|---------------|
|                             | Actives      | Deferred Retirement | Other Non-Vested | Service Retirement | Disability Retirement | Survivor  |               |
| <b>Members on 7/1/2019</b>  | <b>3,965</b> | <b>3,374</b>        | <b>2,790</b>     | <b>1,053</b>       | <b>199</b>            | <b>66</b> | <b>11,447</b> |
| New members                 | 587          | -                   | -                | -                  | -                     | -         | 587           |
| Return to active            | 33           | (11)                | (22)             | -                  | -                     | -         | -             |
| Terminated non-vested       | (360)        | -                   | 360              | -                  | -                     | -         | -             |
| Service retirements         | (61)         | (62)                | -                | 123                | -                     | -         | -             |
| Terminated deferred         | (213)        | 213                 | -                | -                  | -                     | -         | -             |
| Terminated refund/transfer  | (82)         | (61)                | (467)            | -                  | -                     | -         | (610)         |
| Deaths                      | (6)          | (8)                 | (2)              | (12)               | (3)                   | -         | (31)          |
| New beneficiary             | -            | -                   | -                | -                  | -                     | 7         | 7             |
| Disabled                    | (8)          | -                   | -                | -                  | 8                     | -         | -             |
| Data correction             | -            | 192                 | (475)            | -                  | 3                     | (1)       | (281)         |
| Net change                  | (110)        | 263                 | (606)            | 111                | 8                     | 6         | (328)         |
| <b>Members on 6/30/2020</b> | <b>3,855</b> | <b>3,637</b>        | <b>2,184</b>     | <b>1,164</b>       | <b>207</b>            | <b>72</b> | <b>11,119</b> |

## Summary of Membership

| Active Member Statistics | Total     |
|--------------------------|-----------|
| Number                   | 3,855     |
| Average age              | 39.0      |
| Average service          | 7.6       |
| Average salary           | \$ 57,658 |

| Terminated Member Statistics   | Deferred Retirement | Other Non-Vested | Total    |
|--|---------------------|------------------|----------|
| Number   | 3,637               | 2,184            | 5,821    |
| Average age  | 42.7                | 36.2             | 40.2     |
| Average service  | 3.7                 | 1.0              | 2.7      |
| Average annual benefit, with augmentation to December 31, 2018 and 35% Combined Service Annuity (CSA) load | \$ 6,165            | N/A              | \$ 6,165 |
| Average refund value, with 35% CSA load (1% CSA load for Non-Vested)                                       | \$ 12,052           | \$ 1,774         | \$ 8,196 |

| Retiree & Survivor Member Statistics | Service Retirees | Disabled Retirees | Survivors | Total     |
|--------------------------------------|------------------|-------------------|-----------|-----------|
| Number                               | 1,164            | 207               | 72        | 1,443     |
| Average age                          | 66.1             | 60.0              | 61.7      | 65.0      |
| Average annual benefit               | \$ 12,054        | \$ 19,425         | \$ 10,212 | \$ 13,019 |



# Development of Costs

## Actuarial Valuation Balance Sheet (*Dollars in Thousands*)

The actuarial balance sheet is based on the principle that the long-term projected benefit obligations of the Plan should be ideally equal to the long-term resources available to fund those obligations. **A Projected Benefit Funding Ratio less than 100% indicates that contributions are insufficient.** The resources available to meet projected obligations for current members consist of current fund assets plus the present value of anticipated future contributions intended to fund benefits for current members. In the exhibit below, B.2 is the estimated present value of contributions to fund the normal cost rate for current members until their respective termination dates. Item B.1 is the present value of the total 14.58% statutory contribution net of normal cost and anticipated Plan expenses during the period from the valuation date to the statutory unfunded amortization date.

The contributions made in excess of amounts required for current benefit payments are accumulated as a reserve to help meet benefit payments in later years. It is this reserve system which permits the establishment of a level rate of contribution each year.

|   |           |            |            | <u>June 30, 2020</u> |
|---|-----------|------------|------------|----------------------|
| A. Actuarial Value of Assets  |           |            |            | \$ 794,221           |
| B. Expected Future Assets   |           |            |            |                      |
| 1. Present value of expected future statutory supplemental contributions* |           |            |            | \$ 24,675            |
| 2. Present value of future normal cost contributions                      |           |            |            | \$ 249,583           |
| 3. Total expected future assets: (1.) + (2.)                              |           |            |            | \$ 274,258           |
| C. Total Current and Expected Future Assets: (A.+ B.3)                    |           |            |            | \$ 1,068,479         |
| D. Current Benefit Obligations**  |           |            |            |                      |
| 1. Benefit recipients   |           |            |            |                      |
| a. Service retirements  | \$ -      | \$ 183,925 | \$ 183,925 |                      |
| b. Disability retirements   | \$ -      | \$ 8,007   | \$ 8,007   |                      |
| c. Survivors  | \$ -      | \$ 55,997  | \$ 55,997  |                      |
| 2. Deferred retirements with augmentation                                 | \$ -      | \$ 167,124 | \$ 167,124 |                      |
| 3. Former members without vested rights                                   | \$ 1,595  | \$ -       | \$ 1,595   |                      |
| 4. Active members   | \$ 31,348 | \$ 311,893 | \$ 343,241 |                      |
| 5. Total Current Benefit Obligations                                      | \$ 32,943 | \$ 726,946 | \$ 759,889 |                      |
| E. Expected Future Benefit Obligations                                    |           |            |            | \$ 304,150           |
| F. Total Current and Expected Future Benefit Obligations***               |           |            |            | \$ 1,064,039         |
| G. Unfunded Current Benefit Obligations: (D.5.) - (A.)                    |           |            |            | \$ (34,332)          |
| H. Unfunded Current and Future Benefit Obligations: (F.) - (C.)           |           |            |            | \$ (4,440)           |
| I. Accrued Benefit Funding Ratio: (A.)/(D.)                               |           |            |            | 104.52%              |
| J. Projected Benefit Funding Ratio: (C.)/(F.)                             |           |            |            | 100.42%              |

\* Per the LCPR Standards for Actuarial Work, calculated assuming the current contribution toward the unfunded liability continues for the entire amortization period.

\*\* Present value of credited projected benefits (projected compensation, current service).

\*\*\* Present value of projected benefits (projected compensation, projected service).





# Development of Costs

## Determination of Unfunded Actuarial Accrued Liability and Supplemental Contribution Rate (Dollars in Thousands)

|  | Actuarial Present<br>Value of Projected<br>Benefits | Actuarial Present<br>Value of Future<br>Normal Costs | Actuarial<br>Accrued Liability |
|--|---|--|--------------------------------|
| A. Determination of Actuarial Accrued Liability (AAL)                              |   |  |                                |
| 1. Active members  |   |  |                                |
| a. Retirement annuities  | \$ 494,639  | \$ 148,758   | \$ 345,881                     |
| b. Disability benefits   | \$ 81,697   | \$ 45,062  | \$ 36,635                      |
| c. Survivor's benefits   | \$ 11,417   | \$ 3,962   | \$ 7,455                       |
| d. Deferred retirements  | \$ 56,292   | \$ 41,756  | \$ 14,536                      |
| e. Refunds*  | <u>\$ 3,346</u>                                     | <u>\$ 10,045</u>                                     | <u>\$ (6,699)</u>              |
| f. Total   | \$ 647,391  | \$ 249,583   | \$ 397,808                     |
| 2. Deferred retirements with future augmentation                                   | \$ 167,124  | \$ -   | \$ 167,124                     |
| 3. Former members without vested rights  | \$ 1,595  | \$ -   | \$ 1,595                       |
| 4. Annuitants  | <u>\$ 247,929</u>                                   | <u>\$ -</u>  | <u>\$ 247,929</u>              |
| 5. Total   | \$ 1,064,039  | \$ 249,583   | \$ 814,456                     |
| B. Determination of Unfunded Actuarial Accrued Liability (UAAL)                    |   |  |                                |
| 1. Actuarial accrued liability   |   |  | \$ 814,456                     |
| 2. Current assets (AVA)  |   |  | <u>\$ 794,221</u>              |
| 3. Unfunded actuarial accrued liability  |   |  | \$ 20,235                      |
| C. Determination of Supplemental Contribution Rate**                               |   |  |                                |
| 1. Present value of future payrolls through the amortization date of June 30, 2048 |   |  | \$ 3,855,524                   |
| 2. Supplemental contribution rate: (B.3.) / (C.1.)                                 |   |  | 0.52% ***                      |

\* Includes non-vested refunds and non-married survivor benefits only.

\*\* The amortization of the Unfunded Actuarial Accrued Liability (UAAL) using the current amortization method results in initial payments less than the "interest only" payment on the UAAL. Payments less than the interest only amount will result in the UAAL increasing for an initial period of time.

\*\*\* The amortization factor as of June 30, 2020 is 16.468293.

## Development of Costs

### Changes in Unfunded Actuarial Accrued Liability (UAAL) *(Dollars in Thousands)*

|  | Year Ending June 30, 2020      |                  |   |
|--|--------------------------------|------------------|---|
|  | Actuarial Accrued<br>Liability | Current Assets   | Unfunded Actuarial<br>Accrued Liability |
| A. At beginning of year  | \$ 758,268                     | \$ 729,570       | \$ 28,698                               |
| B. Changes due to interest requirements and current rate of funding  |                                |                  |   |
| 1. Normal cost, including expenses   | \$ 33,504                      | \$ -             | \$ 33,504                               |
| 2. Benefit payments  | \$ (20,278)                    | \$ (20,278)      | \$ -                                    |
| 3. Contributions   | \$ -                           | \$ 31,735        | \$ (31,735)                             |
| 4. Interest on A., B.1., B.2. and B.3.   | <u>\$ 57,366</u>               | <u>\$ 55,147</u> | <u>\$ 2,219</u>                         |
| 5. Total (B.1. + B.2. + B.3. + B.4.)   | \$ 70,592                      | \$ 66,604        | \$ 3,988                                |
| C. Expected unfunded actuarial accrued liability at end of year (A. + B.5.)  |                                |                  | \$ 32,686                               |
| D. Increase (decrease) due to actuarial losses (gains) because of experience deviations from expected                          |                                |                  |   |
| 1. Age and Service Retirements   |                                |                  | \$ (112)                                |
| 2. Disability Retirements  |                                |                  | \$ (2,346)                              |
| 3. Death-in-Service Benefits   |                                |                  | \$ (832)                                |
| 4. Withdrawals   |                                |                  | \$ (5,651)                              |
| 5. Salary increases  |                                |                  | \$ (3,290)                              |
| 6. Investment income   |                                |                  | \$ 1,953                                |
| 7. Mortality of annuitants   |                                |                  | \$ 694                                  |
| 8. Other items*  |                                |                  | <u>\$ (890)</u>                         |
| 9. Total   |                                |                  | \$ (10,474)                             |
| E. Unfunded actuarial accrued liability at end of year before Plan amendments and changes in actuarial assumptions (C. + D.9.) |                                |                  | \$ 22,212                               |
| F. Change in unfunded actuarial accrued liability due to changes in Plan provisions  |                                |                  | \$ -                                    |
| G. Change in unfunded actuarial accrued liability due to changes in actuarial assumptions                                      |                                |                  | \$ (1,977)                              |
| H. Change in unfunded actuarial accrued liability due to changes in methodology  |                                |                  | \$ -                                    |
| I. Unfunded actuarial accrued liability at end of year (E. + F. + G. + H.)**   |                                |                  | \$ 20,235                               |

\* Includes a gain of approximately \$0.9 million due to lower than expected increases to retiree benefits effective January 1, 2020. Benefits increased 1.6% and were expected to increase 2.0%.

\*\* The unfunded actuarial accrued liability on a market value of assets basis is \$27,134.

## Development of Costs

### Determination of Contribution Sufficiency/(Deficiency) *(Dollars in Thousands)*

The required contribution is defined in Minnesota statutes as the sum of normal cost, a supplemental contribution to amortize the UAAL, and an allowance for expenses. The dollar amounts shown are for illustration purposes and equal percent of payroll multiplied by projected annual payroll.

|   | Percent of<br>Payroll | Dollar<br>Amount |
|---|-----------------------|------------------|
| A. Statutory contributions - Chapter 353E   |                       |                  |
| 1. Employee contributions   | 5.83%                 | \$ 13,649        |
| 2. Employer contributions   | 8.75%                 | \$ 20,485        |
| 3. Total  | 14.58%                | \$ 34,134        |
| B. Required contributions - Chapter 356   |                       |                  |
| 1. Normal cost  |                       |                  |
| a. Retirement benefits  | 8.34%                 | \$ 19,525        |
| b. Disability benefits  | 2.68%                 | \$ 6,274         |
| c. Survivors  | 0.21%                 | \$ 492           |
| d. Deferred retirement benefits   | 2.05%                 | \$ 4,799         |
| e. Refunds*   | 0.52%                 | \$ 1,217         |
| f. Total  | 13.80%                | \$ 32,307        |
| 2. Supplemental contribution amortization of<br>Unfunded Actuarial Accrued Liability by June 30, 2048 |                       |                  |
|   | 0.52%                 | \$ 1,217         |
| 3. Allowance for expenses   |                       |                  |
|   | 0.14%                 | \$ 328           |
| 4. Total  |                       |                  |
|   | 14.46% **             | \$ 33,852        |
| C. Contribution Sufficiency/(Deficiency) (A.3. - B.4.)  |                       |                  |
|   | 0.12%                 | \$ 282           |

Note: Projected annual payroll for fiscal year beginning on the valuation date: \$234,118 (determined by increasing reported pay for each member by one full year's assumed pay increase according to the actuarial salary scale, as prescribed by the LCPR Standards for Actuarial Work).

\* Includes non-vested refunds and non-married survivor benefits only.

\*\* The required contribution on a market value of assets basis is 14.64% of payroll.

# Actuarial Basis

## Actuarial Methods

All actuarial methods are prescribed by Minnesota Statutes, the Legislative Commission on Pensions and Retirement, or the Board of Trustees. Different methodologies may also be reasonable and results based on other methodologies would be different.

### **Actuarial Cost Method**

Actuarial Accrued Liability and required contributions in this report are computed using the Entry Age Normal Cost Method. This method is prescribed by Minnesota Statute. Under this method, a normal cost is developed by amortizing the actuarial value of benefits expected to be received by each active participant (as a level percentage of pay) over the total working lifetime of that participant, from hire to termination. Age as of the valuation date was calculated based on the dates of birth provided by the Fund. Entry age for valuation purposes was calculated as the age on the valuation date minus the provided years of service on the valuation date.

To the extent that current assets and future normal costs do not support participants' expected future benefits, an Unfunded Actuarial Accrued Liability ("UAAL") develops. The UAAL is amortized over the statutory amortization period using level percent of payroll assuming payroll increases. The total contribution developed under this method is the sum of normal cost, expenses, and the payment toward the UAAL.

### **Valuation of Future Post-Retirement Benefit Increases**

Benefit increases after retirement will equal 100% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 2.5%, beginning January 1, 2019; if the funding status declines to 85% for two consecutive years or 80% for one year, the maximum increase will be lowered to 1.5%. Stochastic modeling was used to determine the assumption that benefit increases will equal 2.00% per year. This is only an assumption; actual increases will depend on actual experience.

### **Funding Objective**

The fundamental financing objective of the Fund is to establish contribution rates which, when expressed as a percentage of active member payroll, will remain approximately level from generation to generation and meet the required deadline for full funding.

# Actuarial Basis

## Actuarial Methods (Concluded)

### Asset Valuation Method

The assets are valued based on a five-year moving average of expected and market values (five-year average actuarial value) and determined as follows:

- At the end of each plan year, an average asset value is calculated as the average of the market asset value at the beginning and end of the fiscal year net of investment income for the fiscal year;
- The investment gain or (loss) is taken as the excess of actual investment income over the expected investment income based on the average asset value as calculated above;
- The investment gain or (loss) so determined is recognized over five years at 20% per year; and
- The asset value is the sum of the market asset value plus the scheduled recognition of investment gains or (losses) during the current and the preceding four fiscal years.

### Payment on the Unfunded Actuarial Accrued Liability

Payment equals a level percentage of payroll each year to the statutory amortization date of June 30, 2048 assuming payroll increases of 3.25% per annum. If there is a negative Unfunded Actuarial Accrued Liability, the surplus amount is amortized over 30 years as a level percentage of payroll. If the unfunded liability increases due to changes in benefits, assumptions, or methods, the statutory amortization date may be extended.

As required by the Standards for Actuarial Work, projected payroll is 1) determined by increasing reported payroll for each member by one full year's assumed pay increase according to the actuarial salary scale and 2) multiplied by 0.962 in the determination of the present value of future payroll to account for timing differences. This statutory method produces a required contribution that is similar to, but slightly below, the contribution that would be produced by more common actuarial methods.

### Changes in Methods since Prior Valuation

There have been no changes in actuarial methods since the prior valuation.

# Actuarial Basis

## Summary of Actuarial Assumptions

The following assumptions were used in valuing the liabilities and benefits under the Plan. All actuarial assumptions are prescribed by Minnesota Statutes, the Legislative Commission on Pensions and Retirement (LCPR), or the Board of Trustees. These parties are responsible for selecting the assumptions used for this valuation. Unless noted otherwise, the assumptions prescribed are based on the last experience study, dated February 2012, prepared by a former actuary. The mortality assumption is based on the Public Employees' Police & Fire Plan experience study, dated August 30, 2016. An experience study for the 2015-2019 period was issued on July 10, 2020. This report recommended changes to the economic and demographic assumptions, expected to be effective at a future date. The Allowance for Combined Service Annuity assumptions are based on an analysis completed by the LCPR actuary and documented in a report dated October 2016.

| Investment return                  | 7.50% per annum.  |      |                         |   |     |   |     |   |     |
|------------------------------------|---|------|-------------------------|---|-----|---|-----|---|-----|
| Benefit increases after retirement | 2.00% per annum.  |      |                         |   |     |   |     |   |     |
| Salary increases                   | Reported salary at valuation date increased according to the rate table, to current fiscal year and annually for each future year. Prior fiscal year salary is annualized for members with less than one year of service earned during the year.  |      |                         |   |     |   |     |   |     |
| Inflation                          | 2.50% per year.   |      |                         |   |     |   |     |   |     |
| Payroll growth                     | 3.25% per year.   |      |                         |   |     |   |     |   |     |
| Mortality rates                    |   |      |                         |   |     |   |     |   |     |
| Healthy pre-retirement             | RP-2014 employee generational mortality table projected with mortality improvement scale MP-2019, from a base year of 2006.   |      |                         |   |     |   |     |   |     |
| Healthy post-retirement            | RP-2014 annuitant generational mortality table projected with mortality improvement scale MP-2019 from a base year of 2006. Male rates are adjusted by a factor of 0.96.  |      |                         |   |     |   |     |   |     |
| Disabled                           | RP-2014 annuitant generational mortality table projected with mortality improvement scale MP-2019 from a base year of 2006. Male rates are adjusted by a factor of 0.96.  |      |                         |   |     |   |     |   |     |
| Notes                              | The RP-2014 employee mortality table as published by the Society of Actuaries (SOA) contains mortality rates for ages 18 to 80 and the annuitant mortality table contains mortality rates for ages 50 to 120. We have extended the annuitant mortality table as needed for members and beneficiaries younger than age 50 who are receiving a benefit by deriving rates based on the employee table and the juvenile table. Similarly, we have extended the employee table as needed for members older than age 80 by deriving rates based on the annuitant table. |      |                         |   |     |   |     |   |     |
| Retirement                         | Members retiring from active status are assumed to retire according to the age related rates shown in the rate table. Members who have attained the highest assumed retirement age are assumed to retire in one year. Note that plan changes reflected in this report may ultimately result in behavior changes that are not anticipated in the current retirement rates.   |      |                         |   |     |   |     |   |     |
| Withdrawal                         | Select and Ultimate rates based on actual experience. Ultimate rates after the third year are shown in the rate table. Select rates in the first three years are:   |      |                         |   |     |   |     |   |     |
|                                    | <table border="1"> <thead> <tr> <th>Year</th> <th>Select Withdrawal Rates</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>25%</td> </tr> <tr> <td>2</td> <td>20%</td> </tr> <tr> <td>3</td> <td>15%</td> </tr> </tbody> </table>  | Year | Select Withdrawal Rates | 1 | 25% | 2 | 20% | 3 | 15% |
| Year                               | Select Withdrawal Rates   |      |                         |   |     |   |     |   |     |
| 1                                  | 25%   |      |                         |   |     |   |     |   |     |
| 2                                  | 20%   |      |                         |   |     |   |     |   |     |
| 3                                  | 15%   |      |                         |   |     |   |     |   |     |



# Actuarial Basis

## Summary of Actuarial Assumptions (Continued)

|  |  |
|--|--|
| Disability                             | Age-related rates based on experience; see table of sample rates. All incidences are assumed to be duty-related.   |
| Allowance for combined service annuity | Liabilities for former members are increased by 35.0% for vested members and 1.0% for non-vested members to account for the effect of some participants having eligibility for a Combined Service Annuity.   |
| Administrative expenses                | Prior year administrative expenses expressed as a percentage of prior year projected payroll.  |
| Refund of contributions                | Account balances accumulate interest until normal retirement date and are discounted back to the valuation date. All employees withdrawing after becoming eligible for a deferred benefit are assumed to take the larger of contributions accumulated with interest or the value of the deferred benefit.  |
| Commencement of deferred benefits      | Members receiving deferred annuities (including current terminated deferred members) are assumed to begin receiving benefits at age 55.  |
| Percentage married                     | 85% of active members are assumed to be married. Actual marital status is used for members in payment status.  |
| Age of spouse                          | Females are assumed to be three years younger than their male spouses. For members in payment status, actual spouse date of birth is used, if provided.  |
| Eligible children                      | Retiring members are assumed to have no dependent children.  |
| Form of payment                        | <p>Married members retiring from active status are assumed to elect subsidized joint and survivor form of annuity as follows:</p> <p>Males:           5% elect 25% Joint &amp; Survivor option<br/>                           10% elect 50% Joint &amp; Survivor option<br/>                           10% elect 75% Joint &amp; Survivor option<br/>                           35% elect 100% Joint &amp; Survivor option</p> <p>Females:         5% elect 25% Joint &amp; Survivor option<br/>                           5% elect 50% Joint &amp; Survivor option<br/>                           5% elect 75% Joint &amp; Survivor option<br/>                           5% elect 100% Joint &amp; Survivor option</p> <p>Remaining married members and unmarried members are assumed to elect the Straight Life option.</p> <p>Members receiving deferred annuities (including current terminated deferred members) are assumed to elect a straight life annuity.</p> |
| Eligibility testing                    | Eligibility for benefits is determined based upon the age nearest birthday and service on the date the decrement is assumed to occur.  |
| Decrement operation                    | Withdrawal decrements do not operate during retirement eligibility. Decrements are assumed to occur mid-fiscal year.   |
| Service credit accruals                | It is assumed that members accrue one year of service credit per year.   |
| Pay increases                          | Pay increases are assumed to happen at the beginning of the fiscal year. This is equivalent to assuming that reported earnings are pensionable earnings for the year ending on the valuation date.   |



# Actuarial Basis

## Summary of Actuarial Assumptions (Continued)

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|                                  |   |
|----------------------------------|---|
| Unknown data for certain members | <p>To prepare this report, GRS has used and relied on participant data supplied by the Fund. Although GRS has reviewed the data in accordance with Actuarial Standards of Practice No. 23, GRS has not verified or audited any of the data or information provided.</p> <p>In cases where submitted data was missing or incomplete, the following assumptions, based on average results for applicable members, were applied:</p> <p><u>Data for active members:</u><br/>There were 49 members reported with a salary less than \$100. We used prior year salary (39 members), if available; otherwise high five salary with a 10% load to account for salary increases (9 members). If neither prior year salary or high five salary was available, we assumed a value of \$43,000.</p> <p>There were also 55 members reported without a gender and 4 members reported without a date of birth. We assumed an entry age of 30 and male gender.</p> <p><u>Data for terminated members:</u><br/>We calculated benefits for these members using the reported Average Salary and credited service. There were no members reported without Average Salary. If credited service was not reported (30 members), we used elapsed time from hire date to termination date (18 members), otherwise we assumed nine years of service. If termination date was not reported (12 members), we assumed the termination date was equal to the hire date plus credited service, otherwise the valuation date. If the reported termination date occurs prior to the reported hire date, the two dates were swapped.</p> <p>There were no members reported without a date of birth. There were 6 members reported without a gender; male was assumed.</p> <p><u>Data for retired members:</u><br/>There were no members reported without a date of birth, gender or benefit.</p> <p>Because PERA reclassifies disabled members as retirees once the member reaches Normal Retirement Age, we compare the members that PERA reports as retirees to our disabled group from the last valuation. If a member was disabled in the prior valuation, we reclassify that member as a disabled retiree in this year's valuation. We reclassified 71 retirees as disabled retirees in this valuation.</p> |
| Changes in actuarial assumptions | <p>The mortality projection scale was changed from MP-2018 to MP-2019.</p>  |

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# Actuarial Basis

## Summary of Actuarial Assumptions (Continued)

| Age in<br>2020 | Percentage of Members Dying Each Year* |        |                                      |        |                         |        |
|----------------|--|--------|--------------------------------------|--------|-------------------------|--------|
|                | Healthy Post-<br>Retirement Mortality  |        | Healthy Pre-<br>Retirement Mortality |        | Disability<br>Mortality |        |
|                | Male                                   | Female | Male                                 | Female | Male                    | Female |
| 20             | 0.04%                                  | 0.02%  | 0.05%                                | 0.02%  | 0.04%                   | 0.02%  |
| 25             | 0.07                                   | 0.04   | 0.06                                 | 0.02   | 0.07                    | 0.04   |
| 30             | 0.11                                   | 0.08   | 0.06                                 | 0.03   | 0.11                    | 0.08   |
| 35             | 0.17                                   | 0.14   | 0.08                                 | 0.04   | 0.17                    | 0.14   |
| 40             | 0.24                                   | 0.20   | 0.08                                 | 0.05   | 0.24                    | 0.20   |
| 45             | 0.30                                   | 0.23   | 0.11                                 | 0.07   | 0.30                    | 0.23   |
| 50             | 0.40                                   | 0.28   | 0.17                                 | 0.11   | 0.40                    | 0.28   |
| 55             | 0.56                                   | 0.39   | 0.29                                 | 0.18   | 0.56                    | 0.39   |
| 60             | 0.80                                   | 0.60   | 0.50                                 | 0.28   | 0.80                    | 0.60   |
| 65             | 1.14                                   | 0.87   | 0.89                                 | 0.40   | 1.14                    | 0.87   |
| 70             | 1.67                                   | 1.31   | 1.44                                 | 0.64   | 1.67                    | 1.31   |
| 75             | 2.65                                   | 2.14   | 2.39                                 | 1.10   | 2.65                    | 2.14   |
| 80             | 4.49                                   | 3.68   | 4.06                                 | 1.94   | 4.49                    | 3.68   |
| 85             | 7.88                                   | 6.60   | 8.00                                 | 5.16   | 7.88                    | 6.60   |
| 90             | 13.87                                  | 11.78  | 14.62                                | 11.36  | 13.87                   | 11.78  |

\* Generally, mortality rates are expected to increase as age increases. These standard mortality rates have been adjusted slightly to prevent decreasing mortality rates. The adjustment has no material effect on these results.

| Age | Rates of         |        |                       |        |
|-----|------------------|--------|-----------------------|--------|
|     | Withdrawal Rates |        | Disability Retirement |        |
|     | Male             | Female | Male                  | Female |
| 20  | 14.70%           | 14.20% | 0.04%                 | 0.04%  |
| 25  | 14.70%           | 14.20% | 0.06%                 | 0.06%  |
| 30  | 9.10%            | 11.40% | 0.10%                 | 0.08%  |
| 35  | 6.00%            | 8.60%  | 0.18%                 | 0.11%  |
| 40  | 4.40%            | 6.90%  | 0.23%                 | 0.18%  |
| 45  | 3.40%            | 4.30%  | 0.34%                 | 0.39%  |
| 50  | 2.40%            | 3.10%  | 0.55%                 | 0.70%  |
| 55  | 1.40%            | 2.20%  | 0.88%                 | 1.18%  |
| 60  | 0.10%            | 0.20%  | 1.41%                 | 2.41%  |
| 65  | 0.00%            | 0.00%  | 1.67%                 | 2.67%  |

# Actuarial Basis

## Summary of Actuarial Assumptions (Concluded)

| Age | Retirement Rate | Salary Scale |          |
|-----|-----------------|--------------|----------|
|     |                 | Age          | Increase |
| 50  | 3%              | 20           | 8.50%    |
| 51  | 2               | 25           | 7.25     |
| 52  | 2               | 30           | 6.25     |
| 53  | 2               | 35           | 5.75     |
| 54  | 5               | 40           | 5.25     |
| 55  | 20              | 45           | 4.50     |
| 56  | 8               | 50           | 4.50     |
| 57  | 8               | 55           | 4.25     |
| 58  | 8               | 60           | 3.75     |
| 59  | 8               | 65           | 3.50     |
| 60  | 15              | 70+          | 3.50     |
| 61  | 15              |              |          |
| 62  | 30              |              |          |
| 63  | 30              |              |          |
| 64  | 30              |              |          |
| 65  | 40              |              |          |
| 66  | 40              |              |          |
| 67  | 40              |              |          |
| 68  | 40              |              |          |
| 69  | 40              |              |          |
| 70+ | 100             |              |          |

# Actuarial Basis

## Summary of Plan Provisions

Following is a summary of the major plan provisions used in the valuation of this report. PERA is solely responsible for the validity, accuracy and comprehensiveness of this information. If any of the plan provisions shown below are not accurate and complete, the valuation results may differ significantly from those shown in this report and may require a revision of this report.

|                                  |  |               |       |                 |       |
|----------------------------------|--|---------------|-------|-----------------|-------|
| <b>Plan year</b>                 | July 1 through June 30.  |               |       |                 |       |
| <b>Eligibility</b>               | Local government employees in covered correctional service for a county administered jail or correctional facility or in a regional correctional facility administered by multiple counties, who are directly responsible for security, custody and control of persons confined in jail or facility, who are expected to respond to incidents within the jail or facility, and who are not members of the Public Employees Police and Fire Fund. |               |       |                 |       |
| <b>Contributions</b>             | Shown as a percent of salary:<br><br><table><tr><td><u>Member</u></td><td>5.83%</td></tr><tr><td><u>Employer</u></td><td>8.75%</td></tr></table><br>Member contributions are “picked up” according to the provisions of Internal Revenue Code 414(h).  | <u>Member</u> | 5.83% | <u>Employer</u> | 8.75% |
| <u>Member</u>                    | 5.83%  |               |       |                 |       |
| <u>Employer</u>                  | 8.75%  |               |       |                 |       |
| <b>Allowable service</b>         | Local Government Correctional Service during which member contributions were made (effective July 1, 1999). May also include certain leaves of absence, military service and periods while temporary Worker’s Compensation is paid.  |               |       |                 |       |
| <b>Salary</b>                    | Includes amounts deducted for deferred compensation or supplemental retirement plans, net income from fees and sick leave payments funded by the employer. Excludes unused annual leaves and sick leave payments, severance payments, Workers’ Compensation benefits and employer-paid flexible spending accounts, cafeteria plans, healthcare expense accounts, day-care expenses, fringe benefits and the cost of insurance coverage.          |               |       |                 |       |
| <b>Average salary</b>            | Average of the five highest successive years of salary. Average Salary is based on all Allowable Service if less than five years.  |               |       |                 |       |
| <b>Vesting</b>                   | Hired before July 1, 2010: 100% vested after 3 years of Allowable Service.<br>Hired after June 30, 2010: 50% vested after 5 years of Allowable Service;<br>60% vested after 6 years of Allowable Service;<br>70% vested after 7 years of Allowable Service;<br>80% vested after 8 years of Allowable Service;<br>90% vested after 9 years of Allowable Service; and<br>100% vested after 10 years of Allowable Service.                          |               |       |                 |       |
| <b>Retirement</b>                |  |               |       |                 |       |
| <u>Normal retirement benefit</u> |  |               |       |                 |       |
| Age/service requirement          | Age 55 and vested. Proportionate Retirement Annuity is available at age 65 and one year of Allowable Service.  |               |       |                 |       |
| Amount                           | 1.9% of Average Salary for each year of Allowable Service, pro rata for completed months, adjusted for partial vesting if applicable.  |               |       |                 |       |



# Actuarial Basis

## Summary of Plan Provisions (Continued)

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### Retirement (Concluded)

#### Early Retirement

Age/service requirement      Age 50 and vested.

Amount      Normal Retirement Benefit based on Allowable Service and Average Salary at retirement date with actuarial reduction to commencement age assuming 3% augmentation to age 55 (2.50% if hired after June 30, 2006). Augmentation adjustment is phased out over a five-year period starting July 1, 2019, resulting in no augmentation adjustment after June 30, 2024.

#### Form of payment

Life annuity. Actuarially equivalent options are:  
25%, 50%, 75% or 100% Joint and Survivor. If a Joint and Survivor benefit is elected and the beneficiary predeceases the annuitant, the annuitant's benefit increases to the Life Annuity amount. This "bounce back" is subsidized by the plan.

#### Benefit increases

Benefit recipients receive increases each year in January based upon 100% of the current Social Security increase, not less than 1.0% and not more than 2.5%, beginning January 1, 2019. If the funding status declines to 85% for two consecutive years or 80% for one year, the maximum increase will be lowered to 1.5%.

A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

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### Disability

#### Duty Disability

Age/service requirement      Member who cannot perform his duties as a direct result of a disability relating to an act of duty specific to protecting the property and personal safety of others.

Amount      47.50% of Average Salary plus 1.90% of Average Salary for each year in excess of 25 years of Allowable Service (pro rata for completed months).

Payment begins at disability and ends at age 65 or earlier if disability ceases or death occurs. Benefits may be paid upon re-employment but salary plus benefit cannot exceed current salary of position held at time of disability.

#### Regular Disability

Age/service requirement      At least one year of Allowable Service and a disability preventing member from performing normal duties that arise out of activities not related to covered employment or while at work, activities related to duties that do not present inherent dangers specific to occupation.

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# Actuarial Basis

## Summary of Plan Provisions (Continued)

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|   |   |
|---|---|
| <b>Disability (Concluded)</b>                 |   |
| Amount  | Normal Retirement Benefit based on Allowable Service (minimum of 10 years) and Average Salary at disability.<br><br>Payment begins at disability and ends at age 65 or earlier if disability ceases or death occurs. Benefits may be paid upon re-employment but salary plus benefit cannot exceed current salary of position held at time of disability.   |
| <u>Retirement benefit</u>                     |   |
| Age/service requirement                       | Age 65 with continued disability.   |
| Amount  | Any optional annuity continues. Otherwise, the larger of the disability benefit paid before age 65 or the normal retirement benefit available at age 65, or an actuarially equivalent optional annuity.   |
| <u>Form of payment</u>                        | Same as for retirement.   |
| <u>Benefit increases</u>                      | Same as for retirement.   |
| <hr/>   |   |
| <b>Death</b>                                  |   |
| <u>Surviving spouse benefit</u>               |   |
| Age/service requirement                       | Vested active member at any age or vested former member age 50 or older who dies before retirement or disability benefit commences. If an active member dies, benefits may commence immediately, regardless of age.   |
| Amount  | Surviving spouse receives the 100% joint and survivor benefit using the Normal Retirement formula above. If commencement is prior to age 55, the appropriate early retirement formula described above applies except that one-half the monthly reduction factor is used from age 50 to the commencement age. In lieu of this benefit, the surviving spouse may elect a refund of contributions with interest or an actuarially equivalent term certain annuity (lump sum payable to estate at death). |
| Benefit increases                             | Same as for retirement.   |
| <u>Surviving dependent children's benefit</u> |   |
| Age/service requirement                       | If no surviving spouse, all dependent children (biological or adopted) below age 20 who are dependent for more than half of their support on deceased member.   |
| Amount  | Actuarially equivalent to surviving spouse 100% joint and survivor annuity payable to the later of age 20 or five years. The amount is to be proportionally divided among surviving children.   |

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# Actuarial Basis

## Summary of Plan Provisions (Continued)

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|                                |  |
|--------------------------------|--|
| <b>Death (Concluded)</b>       |  |
| <u>Refund of contributions</u> |  |
| Age/service requirement        | Active employee dies and survivor benefits paid are less than member's contributions or a former employee dies before annuity begins.  |
| Amount                         | If no survivor benefits are paid, the member's contributions with 6.00% interest until June 30, 2011; 4.00% to June 30, 2018; 3.00% thereafter. If survivor benefits are paid and accumulated contributions exceed total payments to the surviving spouse and children, then the remaining contributions are paid out. |

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|                                |  |
|--------------------------------|--|
| <b>Termination</b>             |  |
| <u>Refund of contributions</u> |  |
| Age/service requirement        | Termination of local government service.   |
| Amount                         | Member's contributions with 6.00% interest through June 30, 2011. Beginning July 1, 2011, a member's contributions increase at 4.00% interest. Beginning July 1, 2018, a member's contributions increase at 3.00% interest. If a member is vested, a deferred annuity may be elected in lieu of a refund.  |
| <u>Deferred benefit</u>        |  |
| Age/service requirement        | Partially or fully vested.   |
| Amount                         | Benefit computed under law in effect at termination and increased by the following percentage (augmentation), compounded annually, if termination of employment is prior to January 1, 2012:<br><br>(a.) 3.00% (2.50% if hired after June 30, 2006) until the earlier of January 1 of the year following attainment of age 55 and January 1, 2012;<br>(b.) 5.00% (2.50% if hired after June 30, 2006) thereafter until the earlier of the date the annuity begins and January 1, 2012;<br>(c.) 1.00% from January 1, 2012 through December 31, 2018; and<br>(d.) 0.00% thereafter.<br><br>If a member terminates employment after 2011, they are not eligible for augmentation.<br><br>Same as for retirement. |
| <u>Form of payment</u>         |  |

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|                                     |  |
|-------------------------------------|--|
| <b>Actuarial equivalent factors</b> | Effective July 1, 2019, actuarially equivalent factors based on the RP-2014 mortality table for healthy annuitants for a member turning age 55 in 2021, reflecting projected mortality improvements using Scale MP-2017, male rates multiplied by 0.96, blended 65% males, 4.88% post-retirement interest, and 7.5% pre-retirement interest. Reflecting statutory requirements, joint and survivor factors are based on an interest assumption of 6.50%. |
|-------------------------------------|--|

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# Actuarial Basis

## Summary of Plan Provisions (Concluded)

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### Combined service annuity

Members are eligible for combined service benefits if they:

- (a.) Meet minimum retirement age for each plan participated in and total public service meets the vesting requirements of each plan;
- or
- (b.) Have three or more years of service under PERA and the covered fund(s) (if hired prior to July 1, 2010).

Other requirements for combined service include:

- (a.) Member must have at least six months of allowable service credit in each plan worked under; and
- (b.) Member may not be in receipt of a benefit from another plan.

Members who meet the above requirements must have their benefit based on the following:

- (a.) Allowable service in all covered plans is combined in order to determine eligibility for early retirement.
- (b.) Average salary is based on the high five consecutive years during their entire service in all covered plans.

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### Changes in plan provisions

There were no changes in plan provisions since the prior valuation.

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## Additional Schedules

### Schedule of Funding Progress<sup>1</sup> (*Dollars in Thousands*)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded (Overfunded) AAL (UAAL) (b) - (a) | Funded Ratio (a)/(b) | Actual Covered Payroll (Previous FY) (c) | UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c) |
|--------------------------|-------------------------------|---------------------------------------|--|----------------------|--|---|
| 7-1-2006                 | \$ 125,776                    | \$ 133,306                            | \$ 7,530                                   | 94.35                | \$ 125,189                               | 6.01 %  |
| 7-1-2007                 | 159,548                       | 162,169                               | 2,621                                      | 98.38                | 134,117                                  | 1.95  |
| 7-1-2008                 | 192,937                       | 192,572                               | (365)                                      | 100.19               | 154,202                                  | (0.24)  |
| 7-1-2009                 | 217,577                       | 229,383                               | 11,806                                     | 94.85                | 154,650                                  | 7.63  |
| 7-1-2010                 | 242,019                       | 248,867                               | 6,848                                      | 97.25                | 154,777                                  | 4.42  |
| 7-1-2011                 | 274,704                       | 284,593                               | 9,889                                      | 96.53                | 165,077 <sup>2</sup>                     | 5.99  |
| 7-1-2012                 | 306,454                       | 343,199                               | 36,745                                     | 89.29                | 164,340 <sup>2</sup>                     | 22.36   |
| 7-1-2013                 | 346,778                       | 381,179                               | 34,401                                     | 90.98                | 164,820 <sup>2</sup>                     | 20.87   |
| 7-1-2014                 | 410,489                       | 426,508                               | 16,019                                     | 96.24                | 172,041 <sup>2</sup>                     | 9.31  |
| 7-1-2015                 | 475,963                       | 498,052                               | 22,089                                     | 95.56                | 179,623 <sup>2</sup>                     | 12.30   |
| 7-1-2016                 | 529,879                       | 553,840                               | 23,961                                     | 95.67                | 188,816 <sup>2</sup>                     | 12.69   |
| 7-1-2017                 | 595,366                       | 629,870                               | 34,504                                     | 94.52                | 200,103 <sup>2</sup>                     | 17.24   |
| 7-1-2018                 | 666,012                       | 696,842                               | 30,830                                     | 95.58                | 205,077 <sup>2</sup>                     | 15.03   |
| 7-1-2019                 | 729,570                       | 758,268                               | 28,698                                     | 96.22                | 214,151 <sup>2</sup>                     | 13.40   |
| 7-1-2020                 | 794,221                       | 814,456                               | 20,235                                     | 97.52                | 217,702 <sup>2</sup>                     | 9.29  |

<sup>1</sup> Information prior to 2012 provided by prior actuaries. See prior reports for additional detail.

<sup>2</sup> Assumed equal to actual member contributions divided by 5.83%.



## Additional Schedules

### Schedule of Contributions from the Employer and Other Contributing Entities<sup>1</sup> (Dollars in Thousands)

| Plan Year<br>Ended<br>June 30 | Actuarially Required<br>Contribution Rate<br>(a) | Actual Covered Payroll<br>(b) | Actual<br>Member<br>Contributions<br>(c) | Annual Required<br>Contributions<br>[(a)x(b)] - (c) = (d) | Actual Employer<br>Contributions <sup>2</sup><br>(e) | Percentage<br>Contributed<br>(e)/(d) |
|-------------------------------|--|-------------------------------|--|---|--|--------------------------------------|
| 2006                          | 13.09  | \$ 125,189                    | \$ 7,881                                 | \$ 8,507  | \$ 11,826  | 139.02 %                             |
| 2007                          | 12.71  | 134,117                       | 8,335                                    | 8,712   | 12,499   | 143.48                               |
| 2008                          | 12.37  | 154,202                       | 8,922                                    | 10,153  | 13,388   | 131.87                               |
| 2009                          | 13.50  | 154,650                       | 9,409                                    | 11,469  | 14,124   | 123.15                               |
| 2010                          | 14.03  | 154,777                       | 9,442                                    | 12,273  | 14,170   | 115.46                               |
| 2011                          | 13.21  | 165,077 <sup>3</sup>          | 9,624                                    | 12,183  | 14,289   | 117.29                               |
| 2012                          | 13.42  | 164,340 <sup>3</sup>          | 9,581                                    | 12,473  | 14,320   | 114.80                               |
| 2013                          | 14.45  | 164,820 <sup>3</sup>          | 9,609                                    | 14,207  | 14,498   | 102.04                               |
| 2014                          | 14.32  | 172,041 <sup>3</sup>          | 10,030                                   | 14,606  | 15,054   | 103.07                               |
| 2015                          | 13.49  | 179,623 <sup>3</sup>          | 10,472                                   | 13,759  | 15,736   | 114.37                               |
| 2016                          | 14.54  | 188,816 <sup>3</sup>          | 11,008                                   | 16,446  | 16,490   | 100.27                               |
| 2017                          | 14.46  | 200,103 <sup>3</sup>          | 11,666                                   | 17,269  | 17,489   | 101.27                               |
| 2018                          | 15.11  | 205,077 <sup>3</sup>          | 11,956                                   | 19,031  | 17,871   | 93.90                                |
| 2019                          | 14.92  | 214,151 <sup>3</sup>          | 12,485                                   | 19,466  | 18,676   | 95.94                                |
| 2020                          | 14.83  | 217,702 <sup>3</sup>          | 12,692                                   | 19,593  | 19,043   | 97.19                                |
| 2021                          | 14.46  |                               |  |   |  |                                      |

<sup>1</sup> Information prior to 2012 provided by prior actuary. See prior reports for additional detail.

<sup>2</sup> Includes contributions from other sources (if applicable).

<sup>3</sup> Assumed equal to actual member contributions divided by 5.83%.

## Glossary of Terms

|   |  |
|---|--|
| <b><i>Accrued Benefit Funding Ratio</i></b>                 | The ratio of assets to Current Benefit Obligations.  |
| <b><i>Accrued Liability Funding Ratio</i></b>               | The ratio of assets to Actuarial Accrued Liability.  |
| <b><i>Actuarial Accrued Liability (AAL)</i></b>             | The difference between the Actuarial Present Value of Future Benefits, and the Actuarial Present Value of Future Normal Costs.   |
| <b><i>Actuarial Assumptions</i></b>                         | Assumptions about future plan experience that affect costs or liabilities, such as: mortality, withdrawal, disablement, and retirement; future increases in salary; future rates of investment earnings; future investment and administrative expenses; characteristics of members not specified in the data, such as marital status; characteristics of future members; future elections made by members; and other items.  |
| <b><i>Actuarial Cost Method</i></b>                         | A procedure for allocating the Actuarial Present Value of Future Benefits between the Actuarial Present Value of future Normal Costs and the Actuarial Accrued Liability.  |
| <b><i>Actuarial Equivalent</i></b>                          | Of equal Actuarial Present Value, determined as of a given date and based on a given set of Actuarial Assumptions.   |
| <b><i>Actuarial Present Value (APV)</i></b>                 | The amount of funds required to provide a payment or series of payments in the future. It is determined by discounting the future payments with an assumed interest rate and with the assumed probability each payment will be made.   |
| <b><i>Actuarial Present Value of Projected Benefits</i></b> | The Actuarial Present Value of amounts which are expected to be paid at various future times to active members, retired members, beneficiaries receiving benefits, and inactive, non-retired members entitled to either a refund or a future retirement benefit. Expressed another way, it is the value that would have to be invested on the valuation date so that the amount invested plus investment earnings would provide sufficient assets to pay all projected benefits and expenses when due. |
| <b><i>Actuarial Valuation</i></b>                           | 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 plan. An Actuarial Valuation for a governmental retirement system typically also includes calculations of items needed for compliance with GASB No. 25, such as the Funded Ratio and the Annual Required Contribution (ARC).   |
| <b><i>Actuarial Value of Assets</i></b>                     | The value of the assets as of a given date, used by the actuary for valuation purposes. This may be the market or fair value of plan assets or a smoothed value in order to reduce the year-to-year volatility of calculated results, such as the funded ratio and the actuarially required contribution (ARC).  |

## Glossary of Terms (Continued)

|  |  |
|--|--|
| <b><i>Amortization Method</i></b>                | A method for determining the Amortization Payment. Under the Level Percentage of Pay method, the Amortization payment is one of a stream of increasing payments, whose Actuarial Present Value is equal to the UAAL. The stream of payments increases at the rate at which total covered payroll of all active members is assumed to increase.   |
| <b><i>Amortization Payment</i></b>               | That portion of the plan contribution or ARC which is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability.  |
| <b><i>Amortization Period</i></b>                | The period used in calculating the Amortization Payment.   |
| <b><i>Annual Required Contribution (ARC)</i></b> | The employer's periodic required contributions, expressed as a dollar amount or a percentage of covered plan compensation, determined under GASB No. 25. The ARC consists of the Employer Normal Cost and Amortization Payment.  |
| <b><i>Augmentation</i></b>                       | Annual increases to deferred benefits.   |
| <b><i>Closed Amortization Period</i></b>         | A specific number of years that is reduced by one each year, and declines to zero with the passage of time. For example, if the amortization period is initially set at 30 years, it is 29 years at the end of one year, 28 years at the end of two years, etc.  |
| <b><i>Current Benefit Obligations</i></b>        | The present value of benefits earned to the valuation date, based on current service and including future salary increases to retirement (comparable to a Projected Unit Credit measurement).  |
| <b><i>Employer Normal Cost</i></b>               | The portion of the Normal Cost to be paid by the employer. This is equal to the Normal Cost less expected member contributions.  |
| <b><i>Expected Assets</i></b>                    | The present value of anticipated future contributions intended to fund benefits for current members.   |
| <b><i>Experience Gain/Loss</i></b>               | A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions, during the period between two actuarial valuations. To the extent that actual experience differs from that assumed, Unfunded Actuarial Accrued Liabilities emerge which may be larger or smaller than projected. Gains are due to favorable experience, e.g., the assets earn more than projected, salaries do not increase as fast as assumed, members retire later than assumed, etc. Favorable experience means actual results produce actuarial liabilities not as large as projected by the actuarial assumptions. On the other hand, losses are the result of unfavorable experience, i.e., actual results that produce Unfunded Actuarial Accrued Liabilities which are larger than projected. |

## Glossary of Terms (Concluded)

|  |   |
|--|---|
| <b><i>GASB</i></b>                                     | Governmental Accounting Standards Board.  |
| <b><i>GASB No. 25 and<br/>GASB No. 27</i></b>          | These are the governmental accounting standards that previously set the accounting rules for public retirement systems and the employers that sponsor or contribute to them. Statement No. 27 sets the accounting rules for the employers that sponsor or contribute to public retirement systems, while Statement No. 25 sets the rules for the systems themselves.  |
| <b><i>GASB No. 50</i></b>                              | The accounting standard governing a state or local governmental employer's accounting for pensions.   |
| <b><i>GASB No. 67 and<br/>GASB No. 68</i></b>          | Statements No. 67 and No. 68, issued in June 2012, replace the requirements of Statements No. 25 and No. 27, respectively. Statement No. 68, effective for the fiscal year beginning July 1, 2014, sets the accounting rules for the employers that sponsor or contribute to public retirement systems, while Statement No. 67, effective for the fiscal year beginning July 1, 2013, sets the rules for the systems themselves. Accounting information prepared according to Statements No. 67 and No. 68 will be provided in a separate report. |
| <b><i>Normal Cost</i></b>                              | The annual cost assigned, under the Actuarial Cost Method, to the current plan year.  |
| <b><i>Projected Benefit Funding<br/>Ratio</i></b>      | The ratio of the sum of Actuarial Value of Assets and Expected Assets to the Actuarial Present Value of Projected Benefits. A Ratio less than 100% indicates that contributions are insufficient.   |
| <b><i>Unfunded Actuarial Accrued<br/>Liability</i></b> | The difference between the Actuarial Accrued Liability and Actuarial Value of Assets.   |
| <b><i>Valuation Date</i></b>                           | The date as of which the Actuarial Present Value of Future Benefits are determined. The benefits expected to be paid in the future are discounted to this date.   |