Funding Policy Template

Submit your policy and any amendments thereto to: Sandi Thompson; Tennessee Comptroller of the Treasury; Office of State and Local Finance; 505 Deaderick Street; James K. Polk Building, Suite 1600; Nashville, Tennessee 37243-0273; (615) 747-5380 (telephone); (615) 741-5986 (fax); sandi.thompson@cot.tn.gov. Electronic submission is preferred. We strongly suggest that your political subdivision utilize this policy template in order to develop the political subdivision's funding policy.

Should you have any questions about Chapter Number 990 of the Public Acts of 2014 (The Public Employee Defined Benefit Financial Security Act of 2014), please contact Mary Collins, the Manager of Employer Pension Accounting, at 502 Deaderick Street, 15th Floor; Nashville, Tennessee 37243; (615) 741-7063 (telephone); mary.collins@tn.gov.

The (*name*) hereby adopts this document as the defined benefit plan funding policy for (*pension plan*). This document is prepared in accordance with Public Chapter 990, Acts of 2014.

Preamble *(recommended, but not required)*

The intent of this funding policy is to establish a formal methodology for financing the pension obligations accruing under the (*name*). The purpose of the methodology is to ensure that current assets plus future assets from employer contributions, employee contributions, and investment earnings will be sufficient to finance all defined benefit pension benefits provided by (*name*), including, but not limited to death, disability and retirement benefits. The funding policy is intended to reflect a reasonable and fiscally conservative approach with each generation of taxpayers financing, considering the cost of pension benefits being accrued. This funding policy recognizes that there will be investment market place volatility and that actual economic and demographic experience will differ from assumed experience. Accordingly, this funding policy is intended to provide flexibility to smooth such volatility and experience in a reasonable, systematic, and financially sound manner. Further, it is the intent that this funding policy comply with all applicable federal and state laws, rules, and regulations.

This funding policy is being adopted by the (chief legislative body/governing body) of (*name*) in accordance with Chapter Number 990 of the Public Acts of 2014, and also in fulfilling its fiduciary duty. Also, Chapter Number 990 of the Public Acts of 2014 requires the (*name*) to develop a funding policy. Moreover, adoption of a funding policy is recommended by the Government Finance Officers Association and the Governmental Accounting Standards Board.

Components of this Funding Policy *(required)*

1. The ADC for the pension plan, which shall include the normal costs and the amortization of any unfunded accrued liability;
2. The maximum amortization period; and
3. A statement indicating that the political subdivision shall include at least one hundred percent (100%) funding of the ARC within its budget.

Actuarial Services ***(****Not required for inclusion in the funding policy, but required by law)*

(*Name*) shall obtain the services of an independent, qualified actuary who shall determine *(Name's)* ADC for its defined benefit pension plan. The actuary shall be a member of the American Academy of Actuaries, shall not be a member of *(Name)* and shall not be otherwise eligible to participate in any of *(Name)*'s pension plans.

(Recommended, but not required)

(Name) shall acquire the services of professional actuarial firms to perform an actuarial experience study, an actuarial valuation, an actuarial audit, and other necessary actuarial services. The actuarial firm that performs the actuarial audit shall not be the same firm that performs the actuarial valuation and the actuarial experience study. The contractual agreement with an actuarial firm shall not exceed five (5) years. The actuarial firm shall be independent and shall act as an advisor on actuarial matters on behalf of (*Name*).

In addition to being a member of the American Academy of Actuaries, the lead actuaries of actuarial firms shall have the requisite experience, capabilities, strengths, and qualifications including, but not limited to, the following: (*include, expand, or omit any of the following)*

1. Attainment of the Fellowship of the Society of Actuaries (FSA) designation,
2. Attainment of the Enrolled Actuary (EA) designation,
3. At least seven (7) years of actuarial experience in the defined benefit field,.

Actuarial Experience Study (*Recommended, except where noted as required)*
An actuarial experience study shall be conducted (*state time period and effective date*). As determined necessary (*Name*), assumptions may be evaluated on an interim basis.

Assumptions adopted by the (*Name*) should be established based on past experience and future expectations as the result of an extensive actuarial experience study.

Demographic assumptions to be established include, but are not limited to, the following: (*adapt as necessary)*

1. Turnover pattern
2. Pre-retirement mortality based on expected improvement in mortality
3. Pattern of retirement
4. Pattern of disability
5. Post-retirement mortality (*It should be noted when expected improvement in mortality will be used) (Required beginning on or before the plan fiscal year after 6-15-24)*

Economic assumptions to be established include, but are not limited to, the following: (*adapt as necessary)*

1. Investment earnings (net of investment expenses) *(Required: the investment earnings assumption cannot exceed the rate adopted by TCRS by more than 50 basis points)*
2. Salary
3. Retiree COLA

Economic assumptions shall include an underlying assumption for inflation.

(*adapt as necessary)* The actuarial experience study shall also generate administrative factors including, but not limited to, the following: (1) survivorship benefit option factors, (2) social security leveling option factors, (3) early retirement reduction factors, (4) age 65 actuarial equivalent factors, and (5) annuity factors. These factors shall be determined on a cost neutral basis.

Actuarial Valuation *(Not required for inclusion in the funding policy, but required by law)*

Valuation method and frequency. An actuarial valuation to determine the "Actuarially Determined Contribution (ADC)" rate to finance pension obligations shall be performed (annually) beginning as of (date). The valuation shall utilize the (*Example*: *entry-age normal actuarial method or another permitted method).* The ADC shall include (1) the normal cost, (2) the unfunded liability cost, and (3) the cost of administration. The ADC shall be calculated and become applicable on (*as an example: July 1 that is 12 months –adapted to specific situation)* following the valuation date.

Funding the ADC. The ADC, as determined by an actuarial valuation, shall provide funding at a level of no less than 100%. With respect to the obligations of *(name)*, the budget shall include funding of at least 100% of the ADC. *(Adapt as necessary in compliance with the provisions in Public Chapter 990)*

Asset smoothing method. (Insert specific method adopted) (Example: An asset smoothing method shall be utilized to determine the actuarial value of assets. The difference between the amount actually earned and the earnings assumption for a particular year shall be amortized in level amounts. The asset smoothing period shall be a maximum of ten (10) years; however, for any smoothing period greater than five (5) years, there shall be a corridor so that the actuarial value of assets cannot be 20% more than nor 20% less than the market value of assets existing as of the actuarial valuation date.

Amortization methodology for actuarial gains and losses. Insert specific methodology but remember that level dollar amortization is required for the plan fiscal year after 6-15-20 and that the maximum amortization period is 30 years.

(Example: Unfunded liabilities shall be amortized utilizing the level dollar amortization method over a closed period not to exceed 20 years. A tier approach will be utilized with new actuarial gains and losses from each actuarial valuation. Each tier shall be amortized over a closed, maximum 20 year period. The amortization period may be shortened or extended from valuation to valuation but the gains and losses for a specific tier must be completely amortized within 20 years. Any extension of the amortization period for a specific tier cannot exceed the 20 year maximum less whatever time has elapsed from the beginning of the amortization period.

The unfunded liability based on the 2013 actuarial valuation shall be funded no later than 2033. In subsequent actuarial valuations, new tiers of actuarial gains and losses where actual experience differed from assumed experience, changes in demographic and economic

assumptions are made, and changes in benefit provisions are enacted shall be amortized over a closed period not to exceed 20 years.)
Demographic data. The demographic data in an actuarial valuation shall include: (1) all active members, (2) all inactive vested members, (3) all inactive non-vested members with an account balance, and (4) all annuitants (including beneficiary annuitants and disability annuitants).
Benefit provisions. The actuarial valuation shall include all benefits being accrued by members of (name) including, but not limited to, retirement, disability, death benefits, and post-employment cost-of-living adjustments (COLAs). The valuation shall be based on the benefit eligibility and benefit terms as set out in state law.

Assumptions utilized. Demographic and economic assumptions as determined by an actuarial experience study and adopted by the (name) shall be utilized in the actuarial valuation.

Actuarial Audit *(Recommended, but not required)*

An actuarial audit by an independent actuarial audit firm shall be conducted at least once in a ten (10) year period. The purpose of the actuarial audit shall include, but not be limited to the following: (1) the validation and verification of actuarial valuation results for both funding and accounting; (2) an evaluation of the reasonableness of actuarial assumptions and methods; (3) compliance with professional standards such as generally accepted actuarial standards; and (4) compliance with state law and Board policy.

Transparency and Accountability (*Recommended, but not required*)

This funding policy, the actuarial experience study, the actuarial valuation, and the actuarial audit shall be readily available for review. Accordingly, the funding policy shall be posted on the agency's website. Further, the actuarial experience study, the actuarial valuation, and the actuarial audit shall be maintained on the departmental website for a period of no less than five years after being published.

Filing of Funding Policy *(Required)*

Pursuant to Public Chapter 990, Acts of 2014, this funding policy and any amendments thereafter shall be submitted to the comptroller of the treasury within thirty (30) days after adoption.

Effective Date *(Required)*

This policy shall remain in effect until amended by the (name) or preempted by federal or state law.

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(Chair) Date Adopted