

# Cincinnati Retirement System

## Template for CRS Task Force in Developing Funding Policy

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

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

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

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

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

### **3) Review and Evaluate using certain Benchmarks**

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