

JUDICIAL RETIREMENT SYSTEM OF TEXAS, PLAN 1
ANNUAL ACTUARIAL VALUATION
AS OF AUGUST 31, 2013



November 25, 2013

Board of Trustees
Employees Retirement System of Texas
200 East 18th Street
Austin, TX 78701

Re: Actuarial Valuation as of August 31, 2013

Members of the Board:

We certify that the information contained in this report is accurate and fairly presents the actuarial position of the Judicial Retirement System of Texas, Plan 1 (JRS-1) as of August 31, 2013. This report was prepared at the request of the Board and is intended for use by ERS staff and those designated or approved by the Board. This report may be provided to parties other than ERS only in its entirety and only with the permission of the Board.

Actuarial Valuation

JRS-1 is not advanced funded as the actual benefit payments are funded through legislative appropriations. As a result, the primary purpose for the annual actuarial valuation of JRS-1 is to determine the financial statement disclosure and reporting information as provided by the Governmental Accounting Standards Board. The applicable disclosure and reporting information for JRS-1 can be found in ERS' Comprehensive Annual Financial Report for the fiscal year ending August 31, 2013.

The purpose of this report is to document the plan's Actuarial Accrued Liability and membership demographics as well as provide a projection of the appropriations needed to cover the actual plan benefit payments.

Plan Provisions

Senate Bill 1459 passed by the 83rd Legislature of the State of Texas (SB1459) made the following changes to the plan provisions of JRS-1.

1. Reduces interest paid on retirement account balances to 2% prospectively starting January 1, 2014.
2. Member contribution rates were increased to 6.60% of payroll for fiscal year 2014, 6.90% of payroll for fiscal year 2015, 7.20% of payroll for fiscal year 2016, and 7.50% of payroll for all subsequent fiscal years. The ultimate member contribution rate may be subject to the State maintaining a certain level of contributions to the pre-funded pension plans relative to the State's contribution for fiscal year 2015.

The current plan provisions are outlined in Appendix I of this report.

Actuarial Assumptions and Methods

The assumptions and methods applied in these actuarial valuations were adopted by the Board of Trustees on February 26, 2013 based on the experience investigation completed by Buck Consultants that covered the five-year period from September 1, 2006 through August 31, 2011. We did not perform an independent analysis of the actuarial assumptions. We believe the assumptions are internally consistent and are reasonable, based on the actual experience of JRS-1.

The actuarial valuation as of August 31, 2013 incorporates all known across-the-board pay increases budgeted by the State Legislature for the upcoming biennium. Specifically, judges are scheduled to receive approximately a 12% increase on September 1, 2013 and no increase on September 1, 2014.

The interest rate used in this valuation reflects a composite expected rate of return based on all pension plans of the Employees Retirement System of Texas. As this pension plan has no assets, if an expected rate of return was separately determined for the JRS-1, the interest rate used would be significantly less than 8% per year.

The results of the actuarial valuations are dependent upon the actuarial assumptions used. Actual results can and almost certainly will differ, as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rates and funding periods. A review of the impact of a different set of assumptions on the liabilities of JRS-1 is outside the scope of this actuarial valuation.

The current actuarial assumptions are outlined in Appendix II of this report.

Data

The valuation was based upon information as of August 31, 2013, furnished by ERS staff, concerning system 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 otherwise audit the data. We are not responsible for the accuracy or completeness of the information provided by ERS staff.

All of the actuarial valuation results stated as of August 31, 2012 are based on the prior actuary's actuarial valuation report. Any values not explicitly stated in the prior actuarial valuation report are denoted with an "N/A".

Appendix III shows key census statistics for the various groups included in the valuation.

Certification

All of our work conforms with generally accepted actuarial principles and practices, and to the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion, our calculations also comply with the requirements of, where applicable, the Internal Revenue Code and ERISA.

The signing actuaries are independent of the plan sponsor. They are all Enrolled Actuaries, Fellows of the Society of Actuaries, and Members of the American Academy of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries. Finally, each of the undersigned are experienced in performing valuations for large public retirement systems.

Respectfully submitted,
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SUMMARY OF PLAN OBLIGATIONS

	August 31, 2013	August 30, 2012
1. Payroll		
a. Reported Payroll (August Payroll of Active Members)	\$ 1,700,000	\$ 2,199,999
b. Valuation Payroll (Expected Covered Payroll for Following Plan Year)	1,904,000	2,199,999
2. Present Value of Future Pay	\$ 2,402,734	N/A
3. Total Normal Cost Rate		
a. Gross normal cost rate	25.78%	24.38%
b. Administrative expenses	0.00%	0.00%
c. Total (Item 3a + Item 3b)	25.78%	24.38%
4. Actuarial Accrued Liability for Active Members		
a. Present value of future benefits for active members	\$ 13,867,947	N/A
b. Less: present value of future normal costs (Item 3a * Item 2)	(619,425)	N/A
c. Actuarial accrued liability	\$ 13,248,522	N/A
5. Total Actuarial Accrued Liability for:		
a. Retirees and beneficiaries	\$ 239,650,186	\$ 217,912,747
b. Inactive members	44,348	44,348
c. Active members (Item 4c)	13,248,522	14,964,637
d. Total	\$ 252,943,056	\$ 232,921,732
6. Actuarial Value of Assets	\$ 0	\$ 0
7. Unfunded Actuarial Accrued Liability (UAAL) (Item 5d - Item 6)	\$ 252,943,056	\$ 232,921,732

Prior year information from prior actuary. "N/A" indicates information not disclosed in prior reports.

SUMMARY OF PROJECTED PAYMENTS

The following chart illustrates the outlook of the benefit payments and contributions of JRS-1 over the next 10 years:

Fiscal Year	Projected Benefit Payments	Projected Member Contributions	Net Projected Appropriation
2014	\$ 28,376,257	\$ 51,292	\$ 28,324,965
2015	27,144,135	36,281	27,107,854
2016	26,768,479	30,448	26,738,031
2017	26,345,133	22,320	26,322,813
2018	25,844,221	14,155	25,830,066
2019	25,279,056	8,216	25,270,840
2020	24,605,270	6,206	24,599,064
2021	23,894,276	4,678	23,889,598
2022	23,151,456	3,518	23,147,938
2023	22,398,506	927	22,397,579

The projections are based on the same assumptions, methods and provisions used for the August 31, 2013 valuation, which include the impact of SB 1459, known across-the-board pay increases budgeted by the State Legislature, and the assumptions adopted by the Board in February 2013.

The significant increase from the actual benefit payments in the plan year that began on September 1, 2012, of \$25,578,389, to the projected benefit payments for the plan year beginning September 1, 2013 is primarily due to the across-the-board pay increases of 12.0%, effective September 1, 2013, that affect the annuities due to both current and future retirees. Otherwise, the projected benefit payments for JRS-1 are expected to slowly decline over time because the reduction in benefits due to the mortality of current retirees will exceed the expected benefit increases and the new benefits payable to current active members. Note that the projected benefit payments assume an across-the-board pay increase of 0% as of September 1, 2014 and 3.5% per year beginning September 1, 2015.

**SUMMARY OF PLAN PROVISIONS FOR
JUDICIAL RETIREMENT SYSTEM, PLAN 1**

Membership

Membership is mandatory at the first day of employment for eligible persons who, before August 31, 1985, became a judge, justice, or commissioner of:

- (1) The Supreme Court;
- (2) The Court of Criminal Appeals;
- (3) Courts of Appeals;
- (4) District Courts; or
- (5) Specified commissioners to a court.

Member Contributions

Judicial officers contribute a percentage of their compensation based on the following schedule:

- a. Fiscal year 2014: 6.60%
- b. Fiscal year 2015: 6.90%
- c. Fiscal year 2016: 7.20%
- d. Fiscal year 2017 and beyond: 7.50%

The ultimate member contribution rate may be subject to the State maintaining a certain level of contributions to the pre-funded pension plans relative to the State's contribution for fiscal year 2015

Contributions cease after member has accrued 20 years of service credit. However, these members may elect to make contributions for each subsequent year of service credit and receive the additional benefit accruals.

Member contributions accumulate interest at 5.00% per year through December 31, 2013 and 2.00% interest per year, thereafter.

State of Texas Contributions

Appropriations as needed to cover actual benefit payments.

Creditable Service

The types of service creditable in JRS-1 are membership service, military service and equivalent membership service. Equivalent membership service includes: previously cancelled service, service not previously established, waiting period service, and additional purchased service.

Standard Service Retirement Annuity

1. Eligibility:
 - a. Age 65 and ten years of service if currently holding judicial office; or
 - b. Age 65 and twelve years of service; or
 - c. Twenty years of service, regardless of age; or
 - d. Member's age plus service credited in the retirement system equals 70 (Rule of 70), if the member has served at least twelve years on an appellate court.
2. Benefits: Monthly annuity payable for life, equal to 50% of the State salary, as adjusted from time to time, being paid to a judge of a court of the same classification as the last court on which the member served before retirement. The 50% is increased to 60% if the member has not been out of judicial office for one year or the member has served as a visiting judge within one year of benefit commencement.

Members who elect to continue their contributions after 20 years of service credit could do so for up to an additional 13 years of service. For each such year, the Standard Service Retirement Annuity would be increased by 2.3% of the applicable State salary.

3. Normal Form of Payment: Payable for the life of the member with any remaining member account balance paid at time of death. Survivorship options and partial lump-sum option are available on an actuarially equivalent basis.

Early Commencement of the Standard Service Retirement Annuity

1. Eligibility:
 - a. Age 60 and ten years of service if currently holding judicial office; or
 - b. Age 60 and twelve years of service.
2. Benefits: Standard Service Retirement Annuity with the 50% replaced by the following percentages based on age at retirement:

<u>Attained Age</u>	<u>Percent of Applicable State Salary</u>
60	40.0%
61	41.7
62	43.6
63	45.6
64	47.7

3. Normal Form of Payment: Payable for the life of the member with any remaining member account balance paid at time of death. Survivorship options and partial lump-sum option are available on an actuarially equivalent basis.

Standard Non-Occupational Disability Annuity

1. **Eligibility:** Seven years of service and Chief Justice of the Supreme Court and the medical board must certify that the member is mentally or physically incapacitated for the further performance of regular judicial duties.
2. **Benefits:** Unreduced Standard Service Retirement Annuity.
3. **Normal Form of Payment:** Payable for the life of the member with any remaining member account balance paid at time of death. Survivorship options and partial lump-sum option are available on an actuarially equivalent basis.

Death Benefit Plan (DBP) Annuity

1. **Eligibility:** Death of an active member with 10 years of service.
2. **Benefits:** Benefits are calculated as if the member had elected an optional form of payment, received a Standard Service Retirement Annuity, and died immediately thereafter. If the member dies before becoming eligible for a Standard Service Retirement Annuity, the benefit is reduced for early retirement from age 65.

Pre-Retirement Death Refund Alternative

A refund of accumulated contributions is payable in cases of pre-retirement death where the member did not meet the eligibility requirements for a Death Benefit Plan Annuity, or the eligible beneficiary chooses to receive a refund of the member account balance in lieu of an annuity.

Deferred Service Retirement Annuity

1. **Eligibility:** Twelve or more years of service and Member Contributions have not been refunded.
2. **Benefits:** The Standard Service Retirement Annuity earned as of the date of termination; provided that the annuity may be increased under the provisions of the proportionate retirement program if the member becomes a contributing member of another system that participates in the program.
3. **Payments may commence at:** Age 65; or a reduced amount as early as age 60.
4. **Normal Form of Payment:** Payable for the life of the member with any remaining member account balance paid at time of death. Survivorship options and partial lump-sum option are available on an actuarially equivalent basis.

Refund of Accumulated Contributions

A refund of accumulated contributions is payable in cases where a terminated member did not meet the eligibility requirements for an annuity, or a terminated member chooses to receive a refund of his or her account balance in lieu of an annuity.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

The assumptions and methods applied in this actuarial valuation were adopted by the Board of Trustees on February 26, 2013 based on the experience investigation that covered the five-year period from September 1, 2006 through August 31, 2011.

I. Valuation Date

The valuation date is August 31 of each plan year. This is the date as of which the actuarial present value of future benefits and the actuarial value of assets are determined.

II. Actuarial Cost Method

The actuarial valuation uses the Entry Age Normal actuarial cost method. Under this method, the first step is to determine the contribution rate (level as a percentage of pay) required to provide the benefits to each member, or the normal cost rate. The normal cost rate consists of two pieces: (i) the member's contribution rate, and (ii) the remaining portion of the normal cost rate which is the employer's normal cost rate.

The Unfunded Actuarial Accrued Liability (UAAL) is the liability for future benefits which is in excess of (i) the actuarial value of assets, and (ii) the present value of future normal costs. The employer contribution provided in excess of the employer normal cost is applied to amortize the UAAL.

The Entry Age actuarial cost method is an "immediate gain" method (i.e., experience gains and losses are separately identified as part of the UAAL). However, they are amortized over the same period applied to all other components of the UAAL.

III. Actuarial Value of Assets

JRS-1 is not an advance funded plan. No asset smoothing method is applicable.

IV. Actuarial Assumptions

Investment Return: 8.00% per year, net of investment-related expenses (composed of an assumed 3.50% inflation rate and a 4.50% real rate of return)

Administrative Expenses: None assumed.

Salary Increases: 3.50% per year; total liabilities for this valuation reflect all known legislative salary increases for the biennium.

Payroll Growth: Not applicable.

Post-Retirement Benefit Increases: Benefits are assumed to increase 3.50% per year during retirement (each September 1), compounded annually, consistent with the assumed Salary Increases for a judge of a court of the same classification as the last court on which the member served before retirement. Increases are assumed to also occur during deferral periods (if any).

Age and Service Assumptions and Methods:

Rounding of ages:

Current and projected ages rounded to the nearest year are used for all purposes – determining eligibility for benefits, present value factors, early retirement reductions, option factors, salary increase rates, and decrements.

Benefit Service:

Current Benefit Service in years and months as of the valuation date was provided by ERS. This service plus Future Earned Service, and Eligibility Service at Retirement were used to project benefit amounts.

Future Earned Service:

Active members were assumed to earn one additional year of service credit in each future year they are assumed to make contributions.

Service for Decrements:

The method of calculating JRS Decrement Service on the valuation date is shown below. Decrement service is assumed to increase by one year for each future year employed.

- Valuation Age: Age rounded to the nearest year on valuation date
- JRS Service: Years and months of all JRS service on the valuation date
- Date 1: (Valuation Date) minus (JRS Service)
- JRS Decrement Service: (Valuation Age) minus (age rounded to nearest year on Date 1)
- JRS Funding Entry Age (age at hire for the entry age normal cost method): (Valuation Age) minus (JRS Decrement Service)

Decrement Timing: All decrements – mortality, service retirement, disability retirement, and termination of employment for reasons other than death or retirement – are assumed to occur at the beginning of the valuation year.

Mortality Decrements:

Active Members, Service Retirees, Beneficiaries, and Inactive Members

1994 Group Annuity Mortality with no setback for males and set forward two years for females. Generational mortality improvements in accordance with Scale AA are projected from the year 2000.

Disability Retirees

RP-2000 Disabled Retiree Mortality set forward six years for males and setback one year for females.

Service Retirement Decrements: Graded tables based on JRS-1 and JRS-2 experience.

JRS Decrement Service is used to determine when the rates apply:

- Age 65 with ten years of service, if member currently holding judicial office
- Age 65 with twelve years of service
- Twenty years of service
- Age plus service equal to or greater than 70, if member has at least twelve years of service on an appellate court

Annual Service Retirement Rates per 100 Participants	
Age	
50 - 69	20
70 - 74	25
75+	100

Members are assumed to retire when they are projected to have accrued the maximum benefit of 90% of applicable salary, regardless of whether the member elects to continue contributing.

Disability Retirement Decrements: Graded Tables Based on ERS Experience

JRS Decrement Service is used to determine when the rates apply:

- The rates do not apply before someone is eligible for the benefit.
- Service greater than zero is required for occupational disability retirement.
- Seven years of service is required for non-occupational disability retirement.
- Non-occupational disability rates are assumed to be zero once the member has attained age 60.

Sample rates for eligible members:

Annual Disability Rates per 100 Participants		
Age	Males	Females
30	0.0366	0.0180
35	0.0867	0.0589
40	0.0999	0.1195
45	0.1369	0.1940
50	0.1979	0.2762
55	0.3302	0.4651

99% of the disability rates stated above are assumed to be attributable to non-occupational disabilities and 1% are assumed to be attributable to occupational disabilities. No occupational disabilities are assumed for judges.

Termination Decrements for Reasons Other Than Death or Retirement: Based on JRS-1 and JRS-2 Experience

Four per 100 participants for members not eligible for service retirement.

Rates of Withdrawal of Employee Contributions

Members eligible to receive a deferred annuity are assumed not to withdraw their contributions. Members not eligible to receive a deferred annuity are assumed to withdraw their contributions.

Percentage of Members Electing Various Benefit Options:

Sex/ Benefit	Standard Life Annuity	Option 1	Option 4
Male Member			
Disability	50%	40%	10%
Service Retirement	100%	0%	0%
Death Benefit Plan	0%	75%	25%
Female Member			
Disability	75%	20%	5%
Service Retirement	100%	0%	0%
Death Benefit Plan	0%	50%	50%

Beneficiary Characteristics: Male member is assumed to be three years older than female beneficiary; and female member is assumed to be the same age as male beneficiary.

Census Data and Assets

- The valuation was based on members of JRS-1 as of August 31, 2013 and does not take into account future members.
- All census data was supplied by ERS and was subject to reasonable consistency checks.
- There were data elements that were modified for some members as part of the valuation in order to make the data complete. However, the number of missing data items was immaterial.

Other Actuarial Valuation Procedures

- No provision was made in this actuarial valuation for the limitations of Internal Revenue Code Section 415 or 401(a)(17).
- Valuation payroll (earnings applied to the current valuation year) is the expected payroll for the fiscal year following the valuation date. It is based on reported payroll determined from August member contributions increased to reflect the across-the-board salary increases appropriated by the State legislature, effective on or after September 1, and projected according to the actuarial assumptions for the upcoming fiscal year.
- No liability was included for benefits which are funded by special State appropriations.

SUMMARY OF MEMBERSHIP DATA

Active Members

Item	Male	Female	Total
Number of Members	13	0	13
Average Annual Salaries	\$ 130,769	N/A	\$ 130,769
Average Age	67.6	N/A	67.6
Average Service	25.3	N/A	25.3

Inactive Members

Item	Number	Annual Annuities	Average Annuities	Average Age
Participants with Deferred Benefits	0	\$ 0	N/A	N/A
Service Retirees and Beneficiaries	421	\$ 25,289,640	60,070	78.8
Disability Retirees	0	\$ 0	N/A	N/A
Total	421	\$ 25,289,640	\$ 60,070	78.8

Non-vested Members

Item	Number	Account Balances	Average Account Balance	Average Age
Non-vested Participants	4	\$ 44,348	\$ 11,087	72.5

GLOSSARY

Actuarial Accrued Liability (AAL): That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of Future Plan Benefits which is not provided for by future Normal Costs. It is equal to the Actuarial Present Value of Future Plan Benefits minus the actuarial present value of future Normal Costs.

Actuarial Assumptions: Assumptions as to future experience under the Fund. These include assumptions about the occurrence of future events affecting costs or liabilities, such as:

- mortality, withdrawal, disablement, and retirement;
- future increases in salary;
- future rates of investment earnings and 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 relevant items.

Actuarial Cost Method or Funding Method: A procedure for allocating the Actuarial Present Value of Future Benefits to various time periods; a method used to determine the Normal Cost and the Actuarial Accrued Liability. These items are used to determine the ARC.

Actuarial Gain or Actuarial Loss: A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions, during the period between two Actuarial Valuation dates. Through the actuarial assumptions, rates of decrements, rates of salary increases, and rates of fund earnings have been forecasted. To the extent that actual experience differs from that assumed, Actuarial Accrued Liabilities emerge which may be the same as forecasted, or may be larger or smaller than projected. Actuarial gains are due to favorable experience, e.g., the Fund's 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, actuarial losses are the result of unfavorable experience, i.e., actual results that produce actuarial liabilities which are larger than projected. Actuarial gains will shorten the time required for funding of the actuarial balance sheet deficiency while actuarial losses will lengthen the funding period.

Actuarially Equivalent: Of equal actuarial present value, determined as of a given date and based on a given set of Actuarial Assumptions.

Actuarial Present Value (APV): The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions. For purposes of this standard, each such amount or series of amounts is:

- a. adjusted for the probable financial effect of certain intervening events (such as changes in compensation levels, marital status, etc.),
- b. multiplied by the probability of the occurrence of an event (such as survival, death, disability, termination of employment, etc.) on which the payment is conditioned, and
- c. discounted according to an assumed rate (or rates) of return to reflect the time value of money.

Actuarial Present Value of Future Plan Benefits: The Actuarial Present Value of those benefit amounts which are expected to be paid at various future times under a particular set of Actuarial Assumptions, taking into account such items as the effect of advancement in age and past and anticipated future compensation and service credits. The Actuarial Present Value of Future Plan Benefits includes the liabilities for active members, retired members, beneficiaries receiving benefits, and inactive, nonretired members either entitled to 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 be provide sufficient assets to pay all projected benefits and expenses when due.

Actuarial Valuation: 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 25, such as the funded ratio and the ARC.

Actuarial Value of Assets or Valuation Assets: The value of the Fund's assets as of a given date, used by the actuary for valuation purposes. This may be the market or fair value of plan assets, but commonly actuaries use a smoothed value in order to reduce the year-to-year volatility of calculated results, such as the funded ratio and the ARC.

Actuarially Determined: Values which have been determined utilizing the principles of actuarial science. An actuarially determined value is derived by application of the appropriate actuarial assumptions to specified values determined by provisions of the law.

Amortization Method: A method for determining the Amortization Payment. The most common methods used are level dollar and level percentage of payroll. Under the Level Dollar method, the Amortization Payment is one of a stream of payments, all equal, whose Actuarial Present Value is equal to the UAAL. 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. Under the Level Percentage of Pay method, the stream of payments increases at the assumed rate at which total covered payroll of all active members will increase.

Amortization Payment: That portion of the pension plan contribution or ARC which is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability.

Annual Required Contribution (ARC): The employer’s periodic required contributions, expressed as a dollar amount or a percentage of covered plan compensation, determined under GASB 25. The ARC consists of the Employer Normal Cost and the Amortization Payment

Closed Amortization Period: A specific number of years that is counted down by one each year and therefore 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. See Funding Period and Open Amortization Period.

Decremets: Those causes/events due to which a member’s status (active-inactive-retiree-beneficiary) changes, that is: death, retirement, disability, or termination.

Defined Benefit Plan: A retirement plan that is not a Defined Contribution Plan. Typically a defined benefit plan is one in which benefits are defined by a formula applied to the member’s compensation and/or years of service.

Defined Contribution Plan: A retirement plan, such as a 401(k) plan, a 403(b) plan, or a 457 plan, in which the contributions to the plan are assigned to an account for each member, and the plan’s earnings are allocated to each account, and each member’s benefits are a direct function of the account balance.

Employer Normal Cost: The portion of the Normal Cost to be paid by the employers. This is equal to the Normal Cost less expected member contributions.

Experience Study: A periodic review and analysis of the actual experience of the Fund which may lead to a revision of one or more actuarial assumptions. Actual rates of decrement and salary increases are compared to the actuarially assumed values and modified as deemed appropriate by the Actuary.

Funded Ratio: The ratio of the actuarial value of assets (AVA) to the actuarial accrued liability (AAL). Plans sometimes calculate a market funded ratio, using the market value of assets (MVA), rather than the AVA, although GASB 25 reporting requires the use of the AVA.

Funding Period or Amortization Period: The term “Funding Period” is used in two ways. In the first sense, it is the period used in calculating the Amortization Payment as a component of the ARC. This funding period is chosen by the Board of Trustees. In the second sense, it is a calculated item: the number of years in the future that will theoretically be required to amortize (i.e., pay off or eliminate) the Unfunded Actuarial Accrued Liability, based on the statutory employer contribution rate, and assuming no future actuarial gains or losses.

GASB: Governmental Accounting Standards Board.

GASB 25 and **GASB 27**: Governmental Accounting Standards Board Statements No. 25 and No. 27. These are the governmental accounting standards that 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.

Normal Cost: That portion of the Actuarial Present Value of pension plan benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method. Any payment in respect of an Unfunded Actuarial Accrued Liability is not part of Normal Cost (see Amortization Payment). For pension plan benefits which are provided in part by employee contributions, Normal Cost refers to the total of employee contributions and employer Normal Cost unless otherwise specifically stated. Under the entry age normal cost method, the Normal Cost is intended to be the level cost (when expressed as a percentage of pay) needed to fund the benefits of a member from hire until ultimate termination, death, disability or retirement.

Open Amortization Period: An open amortization period is one which is used to determine the Amortization Payment but which does not change over time. In other words, if the initial period is set as 30 years, the same 30-year period is used in determining the Amortization Period each year. In theory, if an Open Amortization Period is used to amortize the Unfunded Actuarial Accrued Liability, the UAAL will never completely disappear, but will become smaller each year, either as a dollar amount or in relation to covered payroll.

Unfunded Actuarial Accrued Liability: The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets. This value may be negative in which case it may be expressed as a negative Unfunded Actuarial Accrued Liability, also called the Funding Surplus.

Valuation Date or Actuarial Valuation Date: The date as of which the value of assets is determined and as of which the Actuarial Present Value of Future Plan Benefits is determined. The expected benefits to be paid in the future are discounted to this date.