

## Public Agenda Item #20

### Review and Discussion of Pension Funding Policy

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# What Is a Funding Policy?

## *Emerging Best Practice*



*A Funding Policy outlines objectives and procedures for pension contributions*

- Fund the expected cost of all promised benefits (normal cost + unfunded liabilities)
- Manage contribution volatility and create budget predictability
- Create intergenerational equity to pay the cost of benefits
- Balance competing objectives

Bringing It into Focus – What Started the Conversation?	Which Systems Are Creating Policies?
Nationwide pension funding challenges	City of Austin, TCDRS, TMRS
GASB 67/68 requirements	A number of state systems

# Funding Policy Components



Funding policies cover key areas:



**Actuarial cost method** is used to allocate the total present value of future benefits over an employee's working career (normal cost/service cost).



**Asset smoothing method** is used to recognize gains or losses in pension assets over some period of time so as to reduce the effects of market volatility and stabilize contributions.



**Amortization policy** is the length of time and the structure selected for increasing or decreasing contributions to systematically eliminate any unfunded actuarial accrued liability or surplus.



**Benefit enhancements** – including cost-of-living adjustments (COLAs), 13th checks and other benefit increases – should be addressed as part of our policy. Ad-hoc, unfunded benefit enhancements from the 1980s through 2002 are part of the reason the system has accrued its current unfunded liabilities.

# Why Hasn't ERS Adopted a Policy Before?



## Scheduled depletion prior to 2015

Adopting a funding policy would have been impractical.

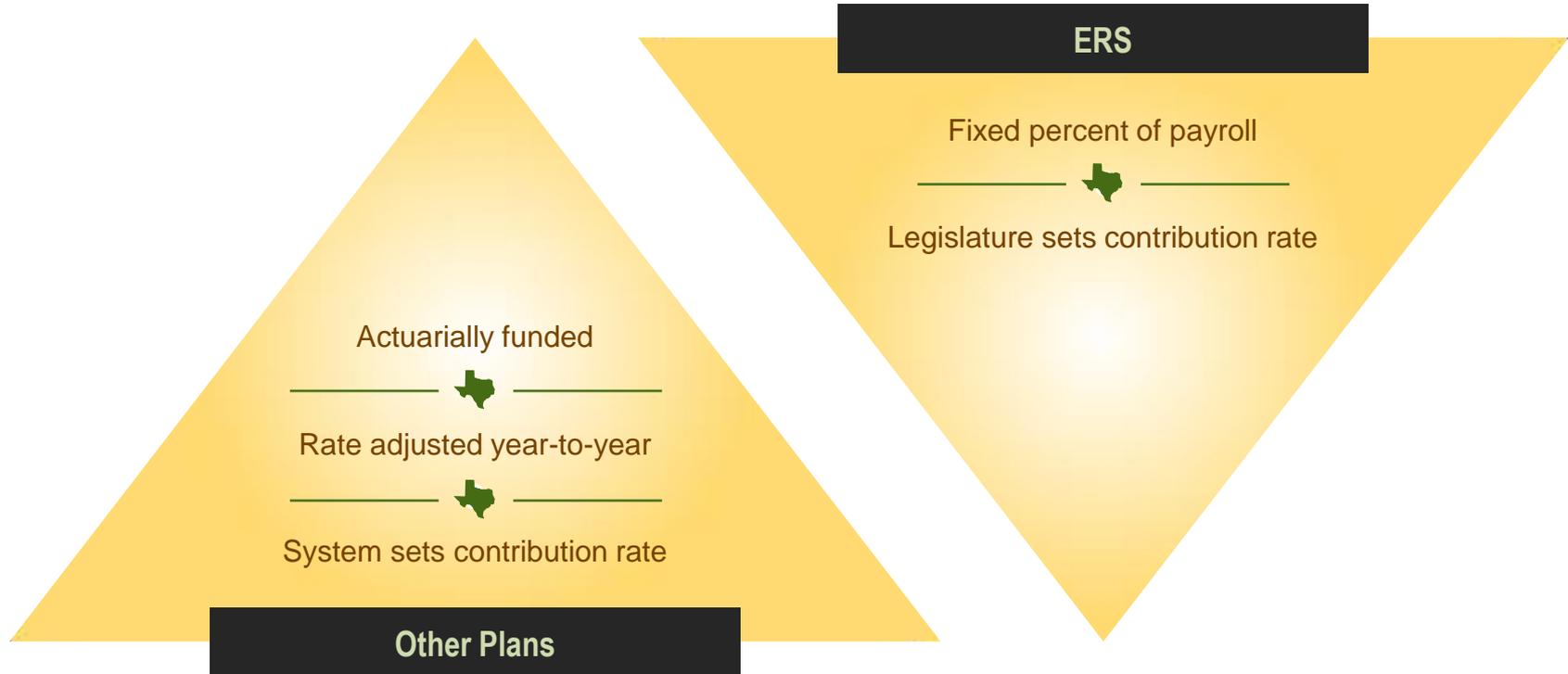
## Seeking a sound path

Because a funding policy contribution rate is one of the potential results, if a plan has an infinite funding period, as ERS did, it puts upward pressure on the contribution rate.

## Funding policy contribution rate

Determined by amortization policy, it is the contribution rate needed to pay off unfunded liabilities within the defined period (30 years, 20 years, etc.)

# Potential Funding Policy Limitations



# Project Goals



## *Develop a formal, comprehensive funding policy for ERS plans*

- Where practical, implement best practices that make sense for our plans
- In the future, use policy to guide board and legislative discussions (such as developing Legislative Appropriations Requests)
- Update as needed
- Educate external stakeholders about funding policies and their practical implications

# How Do We Proceed?



## Today's Goals

Provide educational background on Funding Policy

Discuss best practices

Solicit board feedback to move forward

## If the Board Is Interested ...

Staff will present draft policy at the May 2016 Board meeting

The Board will make a decision on that policy

or

The Board will request more information and delay decision

Questions?