benefit will be encouraged to obtain the information themselves from an independent actuary or other competent professional; and,

b) Individuals who must obtain the present value of their retirement benefit from the Board's actuary will be billed the actual cost of obtaining that information.

B. Other Policy Considerations

1. **The Board aspires that the retirement systems it administers become 100% funded.** Once a system has achieved this goal, there needs to be a range of safety to absorb market volatility without creating unfunded actuarial liabilities.

2. **The Board will review existing funding levels for retirement systems with a funded ratio in excess of 120%.** The Board will consider a wide range of factors, both historical and prospective, in determining the range of safety required. Surplus funds that may become available may be applied toward the cost of benefit enhancements and/or contribution reductions provided sufficient reserves are retained to reasonably allow for adverse experience.

3. **It is the responsibility of the Board to report the financial solvency of the funds to the Legislature.** A single year's funded ratio, by itself, does not provide a measure of the direction the funding of the system is headed. However, either a trend which results in decreasing the funded ratio or the inability of the system to reduce the amortization period by one, for each passing year, may cause the Board to consider recommending rate increases and or system changes to address financial sustainability. It is desirable that the funded ratio improves over time, allowing for a decrease in the ratio following benefit enhancements.

4. **It is the obligation of the Board to recommend funding increases.** Whenever, through the use of long term cash flow projections, the amortization period of a system's unfunded liabilities is projected to exceed 30 years for two consecutive valuations and the Board can not reasonably anticipate that the amortization period would decline without an increase in funding sources, it is the obligation of the Board to recommend to the Legislature that funding be increased and/or system changes to address financial sustainability.

VI. GLOSSARY OF FUNDING TERMS

ACTUARIAL ACCRUED LIABILITY (AAL) also referred to as ACTUARIAL LIABILITY: The portion of the Present Value of Benefits which will not be paid by future Normal Costs. It represents the value of past Normal Costs with interest to the valuation date. This is the amount of assets the plan would have today if the current plan provisions, actuarial assumptions and participant data had always been in effect, contributions equal to the Normal Cost had been made and all actuarial assumptions came true.

ACTUARIAL COST METHOD: allocates a portion of the total cost (PVB) to each year of service, both past service and future service, usually in the form of a Normal Cost and an Actuarial Accrued Liability.

ACTUARIAL GAINS AND LOSSES: A measure of the difference between actuarial experience and that expected based upon a set of Actuarial Assumptions during the period between two Actuarial Valuation dates, as determined by a particular Actuarial Cost Method. For example, if during a given year the assets earn more than the investment return assumption, the amount of earnings above the assumption will cause an unexpected reduction in UAAL, or “actuarial gain” as of the next valuation. Actuarial gains and losses include contribution gains and losses that result from actual contributions made being greater or less than the level determined under the policy.

ACTUARIAL VALUE OF ASSETS (AVA) OR SMOOTHED VALUE: The value of cash, investments and other property belonging to a pension plan as used by the actuary for the purpose of an actuarial valuation. The purpose of an Actuarial Value of Assets is to smooth out fluctuations in market values. This way long-term costs are not distorted by short-term fluctuations in the market.

ACTUARIAL VALUE FUNDED RATIO: the ratio of the AVA to the AAL.

ACTUARAL VALUATION: The determination, as of a specified date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets, and related Actuarial Present Values for a pension plan.

ENTRY AGE NORMAL ACTUARIAL COST METHOD: a funding method that usually calculates the Normal Cost as a level percentage of pay over the working lifetime of the plan’s members. VFCA calculates the Normal Cost as a level dollar amount over the expected service period.

MARKET VALUE OF ASSETS (MVA): the fair value of assets of the plan as reported in the plan’s audited financial statements.

MARKET VALUE FUNDED RATIO: the ratio of the MVA to the AAL.

NORMAL COST (NC): The portion of the Present Value of Benefits which is allocated to a valuation year by the Actuarial Cost Method.

PRESENT VALUE OF BENEFITS (PVB) OR TOTAL COST: the “value” at a particular point in time of all projected future benefit payments for current plan members. The “future benefit payments” and the “value” of those payments are determined using actuarial assumptions as to future events. Examples of these assumptions are estimates of retirement patterns, salary increases, investment returns, etc. Another way to think of the PVB is that if the plan has assets equal to the PVB and all actuarial assumptions are met, then no future contributions would be needed to provide all future service benefits for all current members, including future service and salary increases for current active members.

SURPLUS: If the UAAL is negative, this is usually referred to as a Surplus**.**

UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) also referred to as UNFUNDED ACTUARIAL LIABILITY (UAL): the excess of the AAL over the AVA.

VALUATION DATE: June 30 of every year.

VII. CROSS REFERENCE GUIDE

The following laws, rules or policies may contain provisions that might modify a decision relating to the Funding and Benefit Policy. The list should not be considered exhaustive - others may apply.

Montana Constitution Article VIII, Sections 13 and 15
Section 19-2-303, MCA
Section 19-2-403, MCA
Section 19-2-405, MCA
Section 19-2-408, MCA
Section 19-2-409, MCA
Title 19, Chapter 2, Part 5, MCA
ARM 2.43.1306
Board Policy O8-93 Actuarial Studies
Board Policy O1-01 Actuarial Assumptions

VIII. HISTORY

G9-92 General Principles Governing the Board's Evaluation of Legislative Proposals

Originally approved September 1992
Amended March 24, 2005
O8-93 Actuarial Experience Studies
Originally approved August 1983
To be Amended
O4-94 Actuarial Assumptions
Originally approved April 1994
Amended December 27, 2000 (O1-01)
O1-01 Actuarial Assumptions
To Be Amended
08-08 Annual Actuarial Evaluations
Originally approved 08-08
10-08 Financial Solvency
Originally Approved September 1992
Board Admin 02 Request for Actuarial Information
Originally Approved February 1989
Amended November 2012
Board Admin 01 Funding and Benefit Policy
Amended 06 2014
Amended May 2017
Amended August 2020