

- **Asset Smoothing Method:** the techniques that spread the recognition of investment gains or losses over a period of time for the purposes of determining the Actuarial Value of Assets used in the actuarial valuation process; and
- **Amortization Policy:** the decisions on how, in terms of duration and pattern, to fund the difference between the Actuarial Accrued Liability and the Actuarial Value of Assets in a systematic manner.

1. Actuarial Cost Method:

The Entry Age Normal method shall be applied to the projected benefits in determining the Normal Cost and the Actuarial Accrued Liability. The Normal Cost shall be determined on an individual basis for each active member. If there is a positive (Surplus) or negative (Unfunded) difference between the Valuation of Assets and the Actuarial Accrued Liability, the amortization policy below will determine the amortization of the Unfunded Actuarial Accrued Liability on a level percentage of payroll needed to fund the UAAL or the amount of available surplus which would be distributable in any given year.

2. Asset Smoothing Method:

The investment gains or losses of each valuation period, as a result of comparing the actual market return to the expected market return, shall be recognized in level amounts over five (5) years in calculating the Actuarial Value of Assets.

3. Amortization Policy:

As of June 30, 2011, the Systems do not have an Unfunded Actuarial Accrued Liability ("UAAL"), (i.e., there is a positive difference between the Valuation Value of Assets and the Actuarial Accrued Liability ("AAL") which is considered a surplus). This policy sets forth the amortization procedures for funding any UAAL or amortization and allocation of any available Surplus in the Systems.

- 1) Any new Unfunded Actuarial Accrued Liability (i.e. there is a negative difference between the Valuation of Assets and the Actuarial Accrued Liability) as a result of actuarial gains or losses identified in the annual valuation as of June 30 will be amortized over a period of fifteen (15) years.
- 2) Any new Unfunded Actuarial Accrued Liability as a result of any change in actuarial assumptions or methods will be amortized over a period of twenty-five (25) years.
- 3) Unless an alternative amortization period is recommended by the Actuary and accepted by the Board based on the results of an actuarial analysis:

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- a) with the exception noted in b), below, any increase in Unfunded Actuarial Accrued Liability as a result of any amendments to the System will be amortized over a period of fifteen (15) years;
 - b) any increase in Unfunded Actuarial Accrued Liability resulting from a temporary retirement incentive will be funded over a period not to exceed five (5) years.
- 4) Unfunded Actuarial Accrued Liability shall be amortized over “closed” (separate) amortization periods so that the amortization period for each layer decreases by one year with each actuarial valuation.
 - 5) Unfunded Actuarial Accrued Liability shall be amortized as a level percentage of payroll so that the amortization amount in each year during the amortization period shall be expected to be a level percentage of covered payroll, taking into consideration the current assumption for general payroll increase.
 - 6) If an overfunding status exists (i.e., the Valuation Value of Assets exceeds the Unfunded Actuarial Accrued Liability, the System is considered to have a Surplus in the System as of a point in time), such actuarial surplus and any subsequent surpluses will be amortized over an “open” amortization period of thirty (30) years. This amortization period of twenty-five years shall be applicable to the provisions in Fresno Municipal Code Sections 3-354(d)(1) and 3-567(d)(1) relating to the amortization period used in the calculation of the Post Retirement Supplement Benefit. Any prior Unfunded Actuarial Accrued Liability amortization layers will be considered fully amortized, and any subsequent Unfunded Actuarial Accrued Liability will be amortized over fifteen (15) years as the first of a new series of amortization layers.

Glossary of Funding Policy Terms

- **Actuarial Accrued Liability (AAL):** the value at a particular point in time of all past Normal Costs. 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.
- **Actuarial Value of Assets (AVA) or smoothed value:** a market-related value of the plan assets for determining contribution requirements. The AVA tracks the market value of assets over time, smoothes out short term fluctuations in market values and produces a smoother pattern of contributions than would result from using market value.
- **Actuarial Value Funded Ratio:** the ratio of the Valuation Value Assets and the Actuarial Accrued Liability.
- **Entry Age Normal Actuarial Cost Method:** A funding method that calculates the Normal Cost as a level percentage of pay over the working lifetime of the plan's members.
- **Market Value of Assets:** 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 Market Value of Assets to the Actuarial Accrued Liability.
- **Open Amortization Period:** An Open Amortization period is one where the number of years used in amortization is non-decreasing and will remain unchanged from one valuation to the next. In effect the UAAL is re-amortized each year over the same number of years. This is often called "rolling" amortization.
- **Normal Cost (NC):** the cost allocated under the Actuarial Cost Method to each year of active member service.
- **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 members, including future service and salary increases for active members.
- **Surplus:** the positive difference, if any, between the Valuation Value Assets and the Actuarial Accrued Liability.
- **Valuation Value of Assets (VVA):** the value of assets used in the actuarial valuation to determine contribution rate requirements. It is equal to the Actuarial Value of Assets reduced by the value of any non-valuation reserves.

- **Unfunded Actuarial Accrued Liability (UAAL):** the positive difference, if any, between the Actuarial Accrued Liability and the Valuation Value of Assets.

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1. Adopted 11/7/2012
 2. Amended 10/10/2018