

# Omaha School Employees' Retirement System (OSERS) Funding Policy

*Adopted May 1, 2013*

Proposed Changes March 2019 (DRAFT 2 = April 2019)

## Introduction and Background

The Class V Retirement System Board of Trustees (OSERS or Board of Trustees) administers a pre-funded defined benefit pension plans for all full time employees of the Omaha Public Schools. The plans is are funded based on with fixed, statutory legislatively determined contributions for the employer, employee contributions, and state contributions of Nebraska. If the total of the statutory contribution rates is less than the actuarial contribution rate, determined in the annual actuarial valuation and based on the funding policy established by the Board of Trustees, the school district is required to make an additional contribution to the plan to eliminate the contribution shortfall. Additionally, the funding of the plan is supplemented by investment earnings which effective January 1, 2017 is managed by the Nebraska State Investment Officer (SIO) under the guidance of the Nebraska Investment Council (NIC). The transition of investment management to the SIO was the result of LB 447 (2016).

The purpose of this funding policy is to state the overall funding goals, identify the benchmarks that will be used to measure progress in achieving those goals, and disclose the actuarial methods and assumptions that will be employed to develop the benchmarks. In addition, this Policy will provide annual actuarial metrics to guide the OSERS Board when considering items such as discretionary COLAs, as well as whether to pursue or support proposed contribution and benefit legislation. Finally, the policy will include a brief list of governance responsibilities regarding the commissioning, collection, and review of actuarial information.

It is the intention of the Board that this funding policy be considered a working document, reviewed periodically and, as necessary, altered in the future through formal action of the Board.

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## **I. Funding Goals**

The objective is to accumulate sufficient assets during a member's employment from ~~the State of Nebraska~~, employer and member contributions to OSERS, and contributions from the State of Nebraska to fully finance the benefits the member receives throughout retirement. In meeting this objective, OSERS will strive to meet the following funding goals:

- To maintain an increasing ratio of assets to actuarial liabilities and reach a funded ratio of at least 100 percent;
- To maintain adequate asset levels to finance the benefits promised to members;
- To develop a pattern of stable contribution rates as a percentage of members' payroll. This goal is achieved by fixed contribution rates for the State of Nebraska, members of the System and the School District set out in state statutes. In order to evaluate whether the fixed contribution rates are sufficient, an Actuarial Recommended Contribution Rate (ARC) will be determined in the annual valuations of the System. Such valuations will be prepared in accordance with the principles of practice promulgated by the Actuarial Standards Board. The ARC will be determined as the normal cost rate plus the amortization payment on the unfunded actuarial liability, based on the amortization period set out in this funding policy. ~~The ARC will never be less than the normal cost rate determined under the Entry Age Normal funding method.~~ The ARC shall be determined by the actuary, engaged by the Board of Trustees, and contributed to the plan as promulgated under Nebraska Revised Statutes section 79-9, 113, and any applicable other statutory requirement thereafter.
- To provide intergenerational equity for members and taxpayers with respect to OSERS' contribution requirements.

## II. Benchmarks

To track progress in achieving the previously outlined funding goals, the following benchmarks will be measured annually as of the actuarial valuation date (with due recognition that a single year's results may not be indicative of long-term trends):

- **Funded ratio** – The funded ratio, defined as the actuarial value of OSERS' assets divided by OSERS' actuarial liability, should be increasing over time, before adjustments for changes in benefits, actuarial methods, and/or actuarial assumptions.
- **Evaluation of Fixed Contribution Rates** – The intent is to fund the System by maintaining the fixed contribution rates set out in statute. However, the Trustees recognize that the actuarial recommended contribution rate (ARC as defined earlier in this Policy) will fluctuate from year to year, at times significantly due to the volatility associated with investing in the financial markets. Therefore, valuation results which produce an ARC that is higher or lower than the fixed contribution rates in statute will not automatically indicate that immediate action must be taken to change the contribution rates or benefit structure. In evaluating the need for adjustments to the Systems' funding, the longer term trends will first be analyzed and projections performed to determine the potential long term funded status of the System under alternative scenarios.
- **Unfunded Actuarial Liability (UAL) amortization base** – One amortization base shall be used in determining the amortization payment.
- **Unfunded Actuarial Liability (UAL) amortization period** – The amortization period for OSERS' UAL ~~will be~~ was set to 30 years in 2013 and ~~will be~~ was closed ~~so it and set to~~ declined by one

year each year until a funded ratio of 100 percent is reached. The Board of Trustees moved to layered amortization, effective with the January 1, 2017 actuarial valuation. The existing UAL as of January 1, 2017 remained on the initial amortization period (27 years remaining at that time) and new bases that were established as a result of assumption changes or experience gains/losses were amortized over closed 25-year periods. The amortization ~~payment schedule for~~ of the UAL ~~will be~~ is developed using the level percent of payroll methodology.

- Understanding the fiscal impact of the closed 30-year amortization period set in 2013 on the District, the Board recognizes the request of the employer to implement a 30-year layered amortization schedule beginning with the January 1, 2019 valuation report to alleviate the financial pressure, yet ensure the long-term funding objective of the OSERS Board of Trustees. The Board commits to reviewing this policy at a date in the future when the funding ratio of the plan is at ~~or exceeds least~~ 85%, ~~funded~~ with the goal of reducing the 30-year layered amortization schedule to 25-years the first valuation report following the attainment of 85% funded ~~ratio~~. If any future annual actuarial valuation indicates the plan has a negative UAAL (a surplus), all existing amortization bases will be eliminated and a new base with a 30-year amortization period will be created.

### III. Actuarial Methods and Assumptions

**Actuarial Cost Method:** The actuarial cost method is the means by which the total present value of future benefits for current active and inactive members is allocated to each year of service, including past years. The Entry Age cost method will be used.

**Asset Valuation Method:** The method of valuing assets is intended to recognize a “smoothed” value of assets that is market related. Asset smoothing methods reduce the effect of short term volatility on contributions while still tracking the overall movement of the market value of assets by recognizing the effects of investment gains and losses over a period of years. The asset valuation method used to develop the actuarial value of assets first calculates the expected value of assets based on the prior year’s actuarial value of assets plus net cash flow (contributions minus benefit payments for the year) increased by the assumed rate of return and then adding to the expected value of assets 25% of the difference between the actual market value of assets and the expected value of asset (whether positive or negative). In addition, the asset valuation method will utilize a corridor of 80% to 120% of the market value of assets. The impact of the corridor is that the actuarial value of assets cannot exceed 120% of the market value of assets nor be less than 80% of the market value of assets. If the initial actuarial value of assets is outside the corridor, the actuarial value of assets will be set equal to the applicable endpoint of the corridor (80% or 120% of market value).

**Actuarial Assumptions:** The actuarial assumptions used will be those last adopted by the Trustees based upon the advice and recommendation of the actuary. A formal investigation into OSERS' experience shall be conducted by the actuary at least every five years and the results of the investigation used to form the basis of the actuary's recommendations. In addition, the actual experience compared to the actuarial assumptions will be monitored each year in the annual actuarial valuation by including an analysis of the actuarial gain or loss by source.

#### **IV. Other**

**Actuarial Audit:** The Trustees shall have an audit of OSERS' actuarial valuation results conducted by an independent actuary periodically, but at least every ten years. The purpose of such a review is to provide a critique of the reasonableness of the actuarial methods and assumptions in use and to verify the resulting actuarially computed liabilities and contribution rates. The Board recommends an audit of the retained actuary in the year of the January 1, 2023 Valuation report, followed by every ten years thereafter.

**Benefit Changes:** An actuarial cost study shall be completed before any change to the benefit structure is made.

**Actuarial Projections:** The funded status of OSERS will be monitored on a regular basis, both on a snapshot basis in the actuarial valuation and on a projected basis. The Trustees will periodically have projections of funded status performed to assess the current and expected future progress toward the overall funding goals of OSERS.

In order to ensure all stakeholders of the plan are abreast of future funding needs, the Board will ensure a five year projection of contributions is reported in the annual Valuation report. ~~s to ensure all participants of the plan are abreast of future funding needs.~~

#### **V. Funding Policy Review**

It is expected that the funding policy may need to be amended in future years as the funding of a retirement system is a dynamic process which is dependent on a number of variables. Therefore, the funding policy will be reviewed annually following the annual actuarial valuation and amended as necessary by the Trustees.