



# Investments & Pensions Oversight Committee Overview of Actuarial Processes

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John Garrett, ASA, FCA, MAAA  
Principal and Consulting Actuary

Jonathan Craven, ASA, FCA, MAAA, EA  
Consulting Actuary

## Present Value of Benefits

- Value of benefits expected to be paid to all current participants (active and retired)
- Includes past service and expected future service

## Actuarial Accrued Liability

- Value of benefits expected to be paid to participants based upon past service
- Includes all benefits for members in pay status
- Includes the portion of active members' benefits allocated to service performed up to the valuation

## Normal Cost

- Present value of active members' benefits allocated to the upcoming year of service
- Sometimes called service cost – the additional cost resulting from an additional year of service

## Present Value of Future Normal Costs

- Value of all future annual normal costs
- Value of expected future benefit accruals

## Actuarial Cost Method

- A method used to allocate the Present Value of Benefits between past service (Actuarial Accrued Liability) and future service (Present Value of Future Normal Costs)
- Currently PERA uses the Entry Age Normal cost method
- All cost methods maintain the following relationship:



## Actuarial Value of Assets

- Dampens the effect that market value fluctuations on funding results. PERA “smooths” the recognition of market gains and losses over 4 years.

## Funded Ratio

- The ratio of the Actuarial Value of Assets to the Actuarial Accrued Liability
- Commonly used to monitor the progress toward funding objectives

## Unfunded Actuarial Accrued Liability (UAAL)

- The difference between the Actuarial Accrued Liability and the Actuarial Value of Assets
- Liability allocated to past service in excess of assets
- Also reflects the cumulative effect of experience gains and losses

## Funding Period

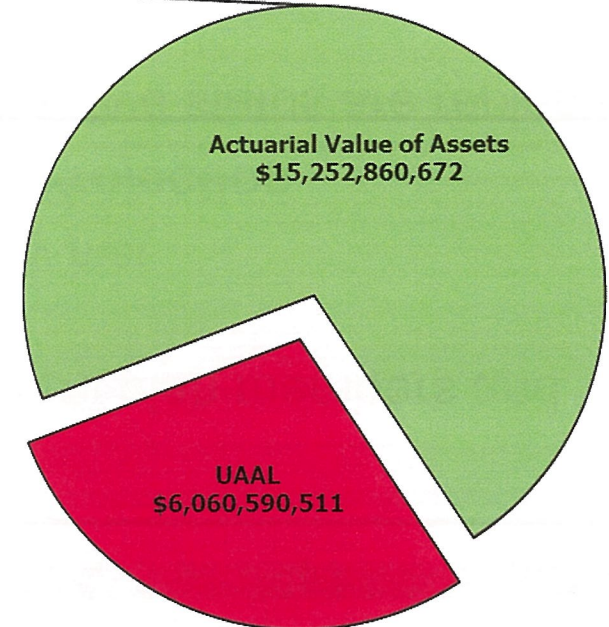
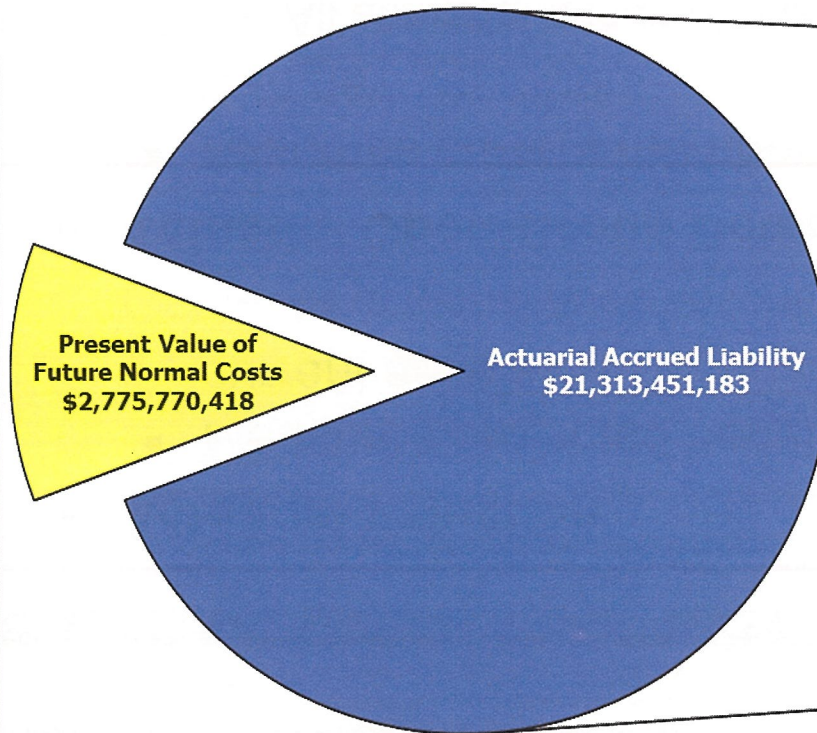
- The number of years required to fully amortize the Unfunded Actuarial Accrued Liability

- **Actuarial Accrued Liability** is the accumulated value of past **Normal Costs**
- **Normal Cost Contribution** is shared between Member and Employer
  - Provided all assumptions are met, the Normal Cost contributions accumulate and equal the accrued liability in each future year
  - If actual experience differs from assumptions, the gain or loss decreases or increases the unfunded liability
- **Unfunded Liability** spreads the impact of gains and losses on required funding through use of an amortization method
- **Statutory Rates** ignores needed changes to the UAAL amortization cost unless legislated

- **Actuarial Valuation**
  - Measures projected benefits of current plan members and current assets
    - All actuarial assumptions are exactly met
- **Actuarial Open-Group Deterministic Projection**
  - Assumes current members leaving active status are replaced with new members
    - All actuarial assumptions are exactly met
- **Actuarial Open-Group Stochastic Projection**
  - Also called Asset Liability Model (ALM)
  - Open-group but runs 500 random streams of future investment returns from likely distribution of returns
    - Provides sensitivity of projected results to investment volatility

# June 30, 2018 PERA Actuarial Valuation Results

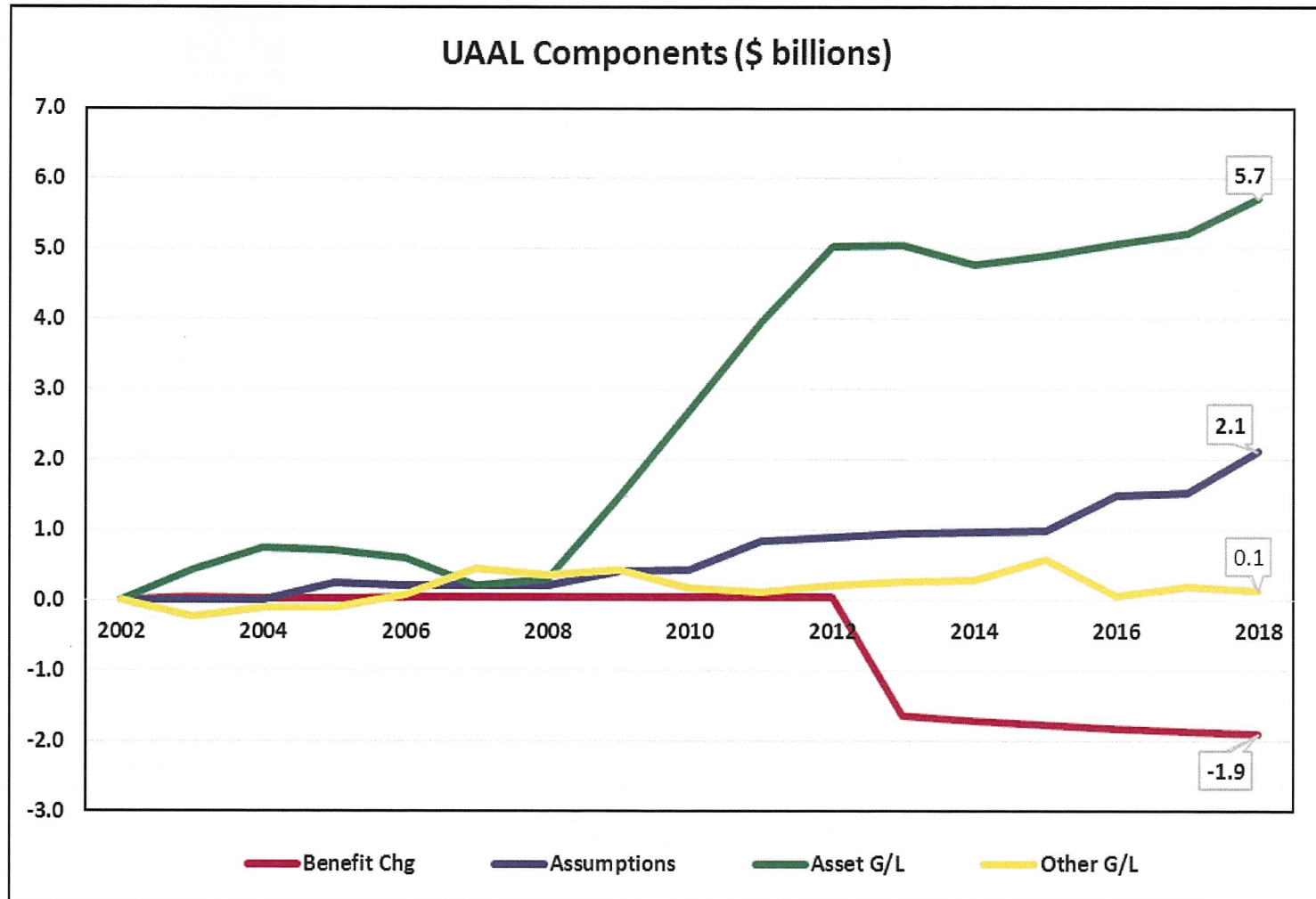
**Present Value of Benefits**  
**\$24,089,221,601**



**2018 Funded Ratio = Assets/Accrued Liability or 71.6%**



# Components of Unfunded Actuarial Accrued Liability 2002-2018



# Components of Unfunded Actuarial June 30, 2018

