Macomb County Employees Retirement System
Actuarial Funding Policy
(Adopted: July 31, 2014)

WHEREAS, the Macomb County Employees Retirement System ("Retirement System") is established and administered pursuant to the provisions of (a) Public Act 156, of 1851, Section 12a added by Public Act 249 of 1943, as amended ["County Pension Plan Act"], (MCL 46.12a); (b) the Macomb County Employees Retirement System Ordinance, as amended ["Retirement Ordinance"]; (c) applicable collective bargaining agreements; and (d) applicable state and federal laws including, but not limited to Public Act 314 of 1965, as amended ("Act 314") [MCL 38.1132 *et seq*.], and

WHEREAS, the Macomb County Employees Retirement Commission ("Retirement Commission") is vested with the authority and fiduciary responsibility for the administration, management and operation of the Retirement System, and

WHEREAS, the Retirement Commission, in consultation with its Actuary, has an obligation to establish the economic and demographic assumptions to be utilized in performing the required actuarial valuation of the Retirement System and in determining the required annual employer contribution to the Retirement System, and

WHEREAS, the Retirement Commission is aware of upcoming changes to the accounting and reporting standards approved by the Governmental Accounting Standards Board (GASB) for public pension plans, and

WHEREAS, the Retirement Commission wishes to establish a formal Actuarial Funding Policy addressing the funding objectives and actuarial assumptions to be utilized in determining the funding status of the Retirement System, therefore be it

RESOLVED, that the Retirement Commission hereby adopts the following Actuarial Funding Policy:

FUNDING OBJECTIVES

The main financial objective of the Macomb County Employees Retirement System (MCERS) is to receive employer and member contributions to fund the long-term costs of benefits provided to plan members and their beneficiaries. From the perspective of the members and beneficiaries, a funding policy based on actuarially determined contributions is one which will pay all benefits when due. From the perspective of the contributing plan sponsor and taxpayers, the actuarially determined contributions have the additional objectives of keeping contribution rates relatively stable as a percentage of active member payroll and equitably allocating the costs over the active members' period of active service. For pension funding, the payment of benefits is supported in part by income earned on invested assets. This funding policy meets these objectives and it is implemented through the application of Board adopted governance policies.

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<u>Board Established Policy Associated with Funding:</u>

Actuarial Valuations
As part of the actuarial valuation prepared as of December 31st of each year, the Board shall have an actuary determine the amount of the unfunded accrued liability. On the basis of each such unfunded accrued liability, the board shall have an actuary determine the level annual contribution required to discharge such amount over a period set by the Board not to exceed 30 years (the maximum period allowed by state law).

Actuarial Cost Method

Annual valuations of MCERS will be based on the use of the entry age normal actuarial cost method. The purpose of this method is to determine the annual Normal Cost for each individual active member, payable from the date of employment to the date of retirement, that is:

(i) Sufficient to accumulate to the value of the member's benefit at the time of retirement, and
(ii) A constant percentage of the member's year by year projected covered pay.

Asset Valuation Method

The Actuarial Value of Assets is based on the market value with investment gains and losses smoothed over 5 years. The Actuarial Value of Assets will not consistently be above or below the Market Value and is expected to converge to the Market Value in a relatively short period of time. At any time it may be either greater or less than Market Value. During periods when investment performance exceeds the assumed rate, Actuarial Value of Assets will tend to be less than Market Value. During periods when investment performance is less than the assumed rate, Actuarial Value of Assets will tend to be greater than Market Value

Amortization Method

A closed amortization period of 20 years will be used to amortize the MCERS unfunded actuarial accrued liability beginning with the 2013 actuarial valuation of MCERS. The amortization method is a level percentage of payroll.

Funding Target

The funding objective is to achieve 100% funding. For this purpose, 100% funding means that the Actuarial Value of Assets equals the Actuarial Accrued Liability. The amortization objective is to reach 100% funding by December 31, 2032. The employer contribution for a given benefit group shall be at least equal to the normal cost unless the funded ratio exceeds 120%.

Risk Management

The main financial objective of this funding policy is to fund the long-term costs of benefits provided to plan members and beneficiaries. There are numerous risks that MCERS faces in trying to achieve this objective including funding risk, demographic risk, investment risk, and benefit risk. The Board policies for managing these risks are outlined in this section.

Funding Risk

Frequency of Actuarial Valuations

Regular valuations manage funding risk by allowing employer contribution rates to reflect actual experience as it emerges.

Demographic and Investment Risk

Process for Reviewing and Updating Actuarial Assumptions

Demographic and investment risks may be managed in part by having regular reviews of the actuarial assumptions. The Board shall have the actuary make an actuarial investigation into the experience of the System at least once every 5-10 years If circumstances warrant, the Board may change assumptions more frequently based on the recommendation of the actuary.

The experience study report will serve as the basis for determinations by the Board regarding whether or not demographic or economic assumptions should be modified for future valuations.

Responding to Favorable/Unfavorable Investment Experience

Annual investment experience other than assumed is reflected in the valuation asset method described above.

Asset Liability Studies

The Board adopts an asset allocation based on recommendations from the Independent Investment Consultant. The asset allocation approved by the Board will reflect the results of an Asset Liability Study performed at least once in every five-year period, or more often, as recommended by System staff, and the Investment Consultant.

Risk Measures

In order to quantify the risks outlined in this actuarial funding policy, the following metrics will be included in annual valuation reports. These metrics provide quantifiable measurements of risk and its movement over time:

i. Funded ratio (Actuarial Value of Assets divided by Actuarial Accrued Liability).
   - Measures progress towards the funding objective of the 100% target funded ratio.

ii. Total Unfunded Actuarial Accrued Liability (UAAL) divided by Total Payroll
   - Measures the risk associated with contribution decreases relative impact on the ability to fund the UAAL. A decrease in this measure indicates a decrease in contribution risk.

Miscellaneous Matters Associated with Funding:

Overall Conformance with Professional Standards of Practice

The work of the actuary in connection with this policy shall conform to Actuarial Standards of Practice for public employee retirement plans promulgated by the Actuarial Standards Board and shall satisfy the requirements of applicable federal and state laws.