Pension Funding Policy

The Retirement System of the Town of Greenwich

A. Introduction

The purpose of this Statement of Pension Funding Policy is to record the funding objectives and strategy set by the Retirement Board (Board) as Trustees for the **Retirement System of the Town of Greenwich** (the System). The Board establishes this Funding Policy to ensure future benefit payments for members of the System. In addition, this document records certain guidelines established by the Board to assist in administering the System in a consistent and efficient manner. In the event that this Policy conflicts with any language in the Town Charter, the Charter shall prevail.

This is a working document and may be modified as the Board deems necessary.

B. Funding Objectives

The Board's primary funding objectives, in order of importance, are to:

1. Provide sufficient assets to permit the payment of all benefits under the System.
2. Establish improvement, on a projected basis, in the System's Funded Ratio, as defined in Section E, such that it approaches 100% over a given period of time.
3. Amortize the Unfunded Actuarial Accrued Liability, as defined in Section E, over a period of not more than 30 years.
4. Minimize the volatility of the Town's annual contribution rate as a percentage of covered pay by smoothing investment gains and losses over a period of five years.

C. Funding Guidelines

This statement reflects the policy of the Board and establishes guidelines for setting the employer contribution rate.

1. Regular Contribution Rate

   Through coordinated Funding and Investment Policy we will attempt to minimize the volatility of the Town's contribution rate from year to year as a percentage of covered pay. The Town contribution is the sum of the employer Normal Cost and a payment to amortize the Unfunded Actuarial Accrued Liability as of the date of valuation:

   a. The Normal Cost and Actuarial Accrued Liability used for this purpose will be calculated using the Entry Age actuarial cost method.

   b. The Actuarial Value of Assets used for this purpose will be a smoothed value that recognizes realized and unrealized investment gains and losses over a five-year period, but shall not be more than 120% or less than 80% of Market Value of Assets.

   c. The Unfunded Actuarial Accrued Liability will be amortized as a level dollar amount over an 18 year period beginning with the 7/1/2015 Valuation. This amortization period will decrease by one year each Valuation Year until it reaches 15 years (7/1/2018), at which point no further decreases will occur (i.e., open or rolling 15 year amortization), unless there is no Normal Cost, in which case the amortization period will be closed. The following schedule shows the planned amortization periods:

Valuation Date	Amortization Years
7/1/2014	19
7/1/2015	18
7/1/2016	17
7/1/2017	16
7/1/2018	15
2019+	15

2. Additional Contribution Rate
   To maintain consistency with actuarial best practices:
   a. Any changes in plan provisions will be amortized over a maximum of 15 years;
   b. Ad-Hoc-cost-of living adjustments (COLA) will be amortized over a maximum of 15 years; and
   c. Any early retirement incentive programs (ERIP) will be amortized over a maximum of 15 years.

3. Minimum Contribution Rate
   In order to maintain adequate funding and to control contribution volatility:
   If the Funded Ratio has increased to over 100% (any Unfunded Actuarial Accrued Liability has been fully amortized), the surplus will be amortized over 30 years.

4. Contribution Timing
   After the Board has adopted a contribution or rate based on a given actuarial valuation, the funds will be requested to be contributed by the Town no later than thirteen (13) months after the date of the valuation.

D. Assumption Guidelines
The actuarial assumptions are adopted by the Board in an effort to align the funding of the plan with actual demographic and economic experience, thus providing stability to the contribution rate over time.

To the extent that actual experience deviates from the assumptions, experience gains and losses will occur. These gains (or losses) then serve to reduce (or increase) future contributions.

Assumptions are generally grouped into two major categories:
- Demographic assumptions -- which include withdrawal (termination), retirement, disability, and mortality rates, as well as assumptions regarding beneficiaries.
- Economic assumptions -- which include inflation, investment return, and employee salary increases

The assumptions adopted by the Board are informed by the actuary's recommendations based on their best estimate of anticipated experience under the System, and are intended to be long term in nature. Therefore, in developing these assumptions, the actuary considers not only past experience, but also trends, external forces and future expectations. Despite the care with which actuarial assumptions are developed, actual experience over the short term is not expected to exactly match these assumptions.

It is the Board's policy that, at least once every five years, the System's consulting actuary shall conduct an Experience Study and Assumption Review to examine the actuarial assumptions. The actuary will present recommendations (and accompanying reports, discussion, etc.) to the Board, which will have the option to accept or reject such.
At the time of the Assumption Review, this Funding Policy shall also be reviewed for any necessary modifications. Any changes are also subject to legal review.
(The Last Assumption Review was conducted as of 6/30/2010; the next will cover 7/1/2010 through 6/30/2015.)

E. Glossary of Terms

Actuarial Cost Method: The technique used to allocate costs to various time periods.

Actuarial Accrued Liability (AAL): The portion of the Present Value of Projected Benefits that is attributed to past years of service by the Actuarial Funding Method. The AAL serves as a funding target at any given point in time.

Actuarial Value of Assets: The smoothed value of assets used by the actuary in the actuarial valuation, for the purpose of reducing the impact of market fluctuations on the employer contribution rate.

Entry Age Actuarial Funding Method: An Actuarial Funding Method that determines the plan's Normal Cost as a level percentage of pay over the working lifetimes of plan members.

Experience Gains and Losses: The difference between the experience anticipated by the actuarial assumptions and the plan's actual experience during the period between valuations. If actual experience is financially more favorable to the System, it is a Gain, (e.g., higher investment return than expected). If actual experience is financially less favorable to the System, it is a Loss, (e.g., lower investment return than expected).

Funded Ratio: A measure of the ratio of plan assets to the Actuarial Accrued Liability (funding target) of the System. Plan assets can refer to the Market Value of Assets or the Actuarial Value of Assets.

Market Value of Assets: The total fair value of fund assets as reported in the System's financial statements.

Normal Cost: The portion of the Present Value of Projected Benefits that is attributed to the current year by the Actuarial Funding Method. Also referred to as the *Annual Benefit Cost*.

Unfunded Actuarial Accrued Liability (UAAL): The portion of the Actuarial Accrued Liability not covered by plan assets. It is calculated by subtracting the Pension Actuarial Value of Assets from the Actuarial Accrued Liability.

This Policy was adopted on February 27, 2015.

John D. Chadwick, Chair

Peter Mynarski, Comptroller