

**Legislative Interim Report  
Public Retirement Systems Committee  
December 9, 2015**

**Board of Trustees  
Municipal Fire and Police Retirement System of Iowa  
7155 Lake Drive, Suite 201  
West Des Moines**

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**Terry Slattery  
Executive Director  
MFPRSI**

**Glen Gahan, FSA  
Principal  
SilverStone Group**

# Table of Contents

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03	Establishment, Governance, and Goals
05	Responsibilities & Major Activities of MFPRSI
08	Program Description & Statistics
12	Challenges Facing MFPRSI
15	Legislative Activities
16	GASB Summary
18	July 1, 2015, Actuarial Report
21	Funded Ratio
22	Attachment One: Contribution Rate 25-Year Forecast
24	Attachment Two: Alternative Statutory Actuarial Reporting
26	Attachment Three: Vision Statement

# Establishment, Governance, and Goals

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**Established**

January 1, 1992 by an Act of the 1990 Iowa General Assembly – Iowa Code Chapter 411.

**Governance**

Four representatives of the membership – Two firefighter representatives and two police representatives:

- Marty Pottebaum, retired police officer, Sioux City (Chairperson)
- Eric Court, active police officer, Davenport
- June Anne Gaeta, active firefighter, Muscatine
- Frank Guihan, retired firefighter, West Burlington

Four representatives of the participating cities:

- P. Kay Cmelik, Grinnell
- Duane Pitcher, Ames
- Dan Ritter, Des Moines
- Michelle Weidner, Waterloo

One private citizen selected by the Board of Trustees:

- Mary Bilden, CPA, Boone (Vice Chairperson)

# Establishment, Governance, and Goals

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**Governance,  
continued**

Two Senators from the Iowa Senate and two Representatives from the Iowa House of Representatives. All four legislative members are non-voting participants.

Senator Wally E. Horn, Cedar Rapids

Senator Jason Schultz, Schleswig

Representative Scott Ourth, Ackworth

Representative Dawn Pettengill, Mount Auburn

**Mission**

The System provides a comprehensive set of retirement and disability benefits to eligible local police officers and firefighters in a sound, sustainable and efficient manner, in accordance with the requirements of the program's governing statute.

# Responsibilities & Major Activities of MFPRSI

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## **Program Responsibilities**

- Collection of member and employer contributions.
- Pre-retirement and refund counseling.
- Administration of a permanent disability program.
- Execution of regular benefit and refund payrolls.
- Compliance with federal legal/tax requirements.
- Implementation of a diversified investment policy.
- Application of statutory provisions (including marital and dependent provisions).
- Extensive member communications.

# Responsibilities & Major Activities of MFPRSI

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## Major Program Activities

- Systematic Investment Policy Revisions (asset – liability forecasting).
- Annual Investment Policy Implementation and Oversight (scheduled meetings, quarterly updates).
- Review and Evaluation of Goals.
- Examination of Actuarial Experience and Adjustment of Assumptions (SilverStone Group) every five years.
- Legislative Changes (Technical advice and implementation).
- Escalator Program (Annual retiree adjustment – July 2015, 3,557 individuals, \$75.50 per month, 2.3% increase).
- Federal Legislative Interest in Public Funds (Monitor and comment as warranted).
- Litigation Representation (District, Appeals, and Iowa Supreme Court).
- DROP Implementation in 2007 – nearly 50% of those eligible have participated.

# Responsibilities & Major Activities of MFPRSI

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## Major Program Activities

- Federal PPA of 2006 (Retiree income tax exclusion, up to \$3000, for health insurance – Sept. 2007).
- Annual Comprehensive Review of Audit Controls and Safeguards for System's Portfolios.
- Conduct Annual Actuarial Valuation of Benefit Program and establish Contribution Rates.
- Maintain System's tax exempt status by obtaining IRS Determination Letter.
- Keep members and stakeholders informed of System activities through a comprehensive communications program.

# Program Description & Statistics

## Membership Profile as of July 1, 2015

### Active Members

Number	3,892
Average Attained Age	41.1
Average Past Service	13.8
Total Annual Compensation	\$273,319,323
Average Annual Compensation	\$70,226

### Members & Beneficiaries in Pay

Number	3,935
Average Age (excluding children)	69.3
Total Annual Benefits	\$146,804,148
Average Annual Benefit	\$37,307
Average Age of New Service Retirements	58.4

### Non-Active Members with Deferred Benefits

Number	328
Average Age	44.1
Total Annual Benefits	\$5,459,448
Average Annual Benefit	\$16,645

Data provided by July 1, 2015, actuarial report created by SilverStone Group.

# Program Description & Statistics

## Benefit Program Description - Retirement Formulas

<b>Basic Service Retirement Formula (22 years of service)</b>	66%
Additional credit (up to 8 years beyond 22 years – 2% per year)	16%
Maximum retirement formula with 30 or more years of service	82%
<b>Basic Accidental Disability Retirement Formula (work-related)*</b>	60%
<b>Basic Ordinary Disability Retirement Formula*</b>	50%

\*An individual retiring on disability is entitled to either the disability formula or the percentage payable corresponding to the number of years of service that the individual has earned.

## Membership Cities

Ames	Ankeny	Bettendorf	Boone	Burlington	Camanche	<i>Carroll</i>	Cedar Falls
Cedar Rapids	Centerville	Charles City	Clinton	<i>Clive</i>	Council Bluffs	Creston	Davenport
Decorah	Des Moines	<i>DeWitt</i>	Dubuque	<i>Estherville</i>	<i>Evansdale</i>	Fairfield	Ft. Dodge
Ft. Madison	Grinnell	<i>Indianola</i>	Iowa City	Keokuk	Knoxville	<i>LeMars</i>	<i>Maquoketa</i>
Marion	Marshalltown	Mason City	Muscatine	Newton	Oelwein	Oskaloosa	Ottumwa
<i>Pella</i>	Sioux City	Spencer	Storm Lake	Urbandale	Waterloo	Waverly	Webster City
West Des Moines							

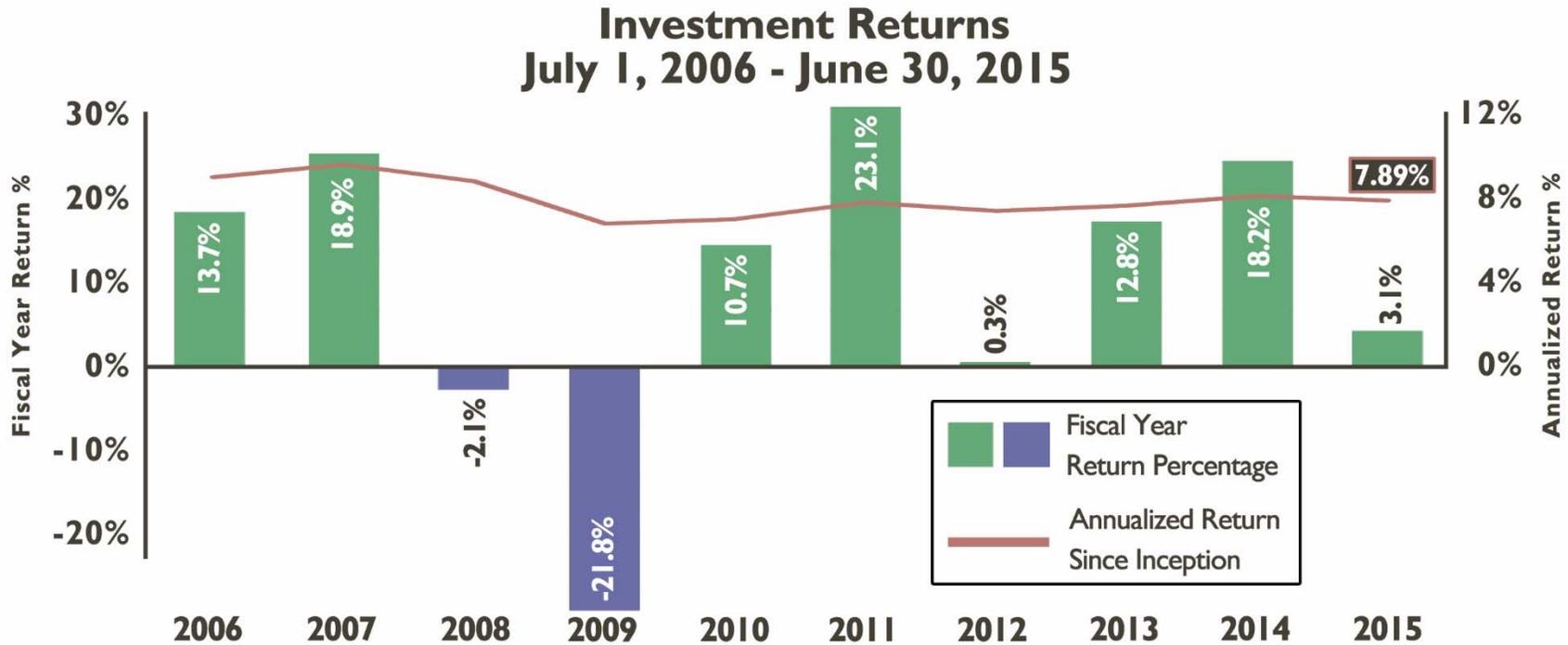
*Italics denote police department participation only.*

# Program Description & Statistics

## Assets and Investments

- Initial transfer liability January 1, 1992: \$574,500,000
- Market value of MFPRSI's assets, June 30, 2015: \$2.312 billion, a positive change of \$180 million year over year according to Summit Strategies.

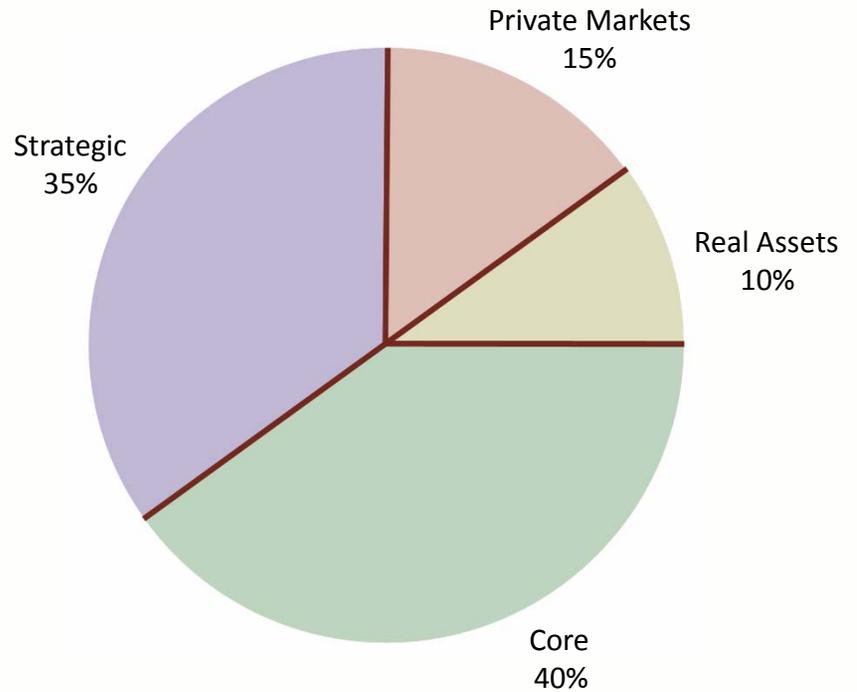
Investment performance of MFPRSI's portfolio, according to Summit Strategies:



# Program Description & Statistics

## Current Investment Allocation Policy

Core Investments	40%
Strategic Investments	35%
Private Market Investments	15%
Real Asset Investments	10%
<b>Total Allocation</b>	<b>100%</b>



## Performance and Risk Expectation

Plan Performance Expectation %	7.6%	Rate of Inflation %	2.25%
Risk (Standard Deviation) %	12.2%	Actuarial Return Assumption %	7.5%

Performance expectation and risk projection based upon Summit Strategies' 2015 assumptions.

# Challenges Facing MFPRSI

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## **Investment Return Expectations**

The Board of Trustees completed an asset/liability study that altered the investment portfolio through additional diversification. As a result of the study Master Limited Partnerships and Emerging Market Debt was added to the portfolio. Also as a result of the study, the allocation to private equity was decreased by 5% while Global Tactical Asset Allocation (“Strategic”) increased by 5%.

Based on these changes to the portfolio, the fund is still expected to earn its 7.5% return going forward while taking on less risk and greater liquidity.

## **Strategic Planning**

The Board opted to include analyses using the following two rates of return when reporting future actuarial cost estimates associated with proposed benefits enhancements when the System is fully funded:

1. The adopted rate of return, and,
2. A rate of return 1% less than the adopted rate reflecting the impact of possible underperformance.

# Challenges Facing MFPRSI

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## **Funding Policy**

The Board of Trustees developed a funding policy with the goal of fully funding the System over a 25-year period using a steady contribution rate.

## **Financial Status of the Plan**

The correction of investment markets during the period 2007-2009 had a significant impact on the funded status of MFPRSI. The System's funding dropped from 100% in fiscal year 2007 to 74% in fiscal year 2013. The System's investment portfolio has regained those losses and is currently valued at \$2.3 billion, an all-time high for MFPRSI. In addition, the funded status has improved to 81% as of July 1, 2015. Meanwhile, city contributions reached as high as 30.41% of payroll during fiscal year 2015. The current trend for city contributions remains on a downward trajectory with the Trustees approving a rate of 25.92% beginning July 1, 2016.

During the past two years, the Trustees have diligently worked to ensure the soundness and sustainability of the Fund. As previously mentioned, the Trustees adopted an overall Funding Policy which sets standards to provide an equitable and prudent manner in which benefits are funded. The Trustees also conducted a 10-year experience study with the actuarial consultant, SilverStone Group, which compared the Trustees' actuarial assumptions used in the annual valuation calculations to the actual experience of the membership over that time period. As a result, the Trustees adopted changes to the assumptions in order to better align with the actual results. Finally, the Trustees hired an independent firm to conduct an actuarial audit of the reports and studies prepared by the SilverStone Group. The results of the audit confirmed that the reporting performed by SilverStone Group was complete, accurate, and provided reliable information.

# Challenges Facing MFPRSI

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## Implementation of Complex Programs

Implementation of a number of complex programs, including:

1. Regular review of the pre-employment medical protocols and activities of the medical examination network.
2. Evaluation of the investment activities of the firms currently managing MFPRSI's portfolios and review of asset allocation.
3. Development of legislative reports in response to the requests of Committees or individual legislators.
4. Administration of the DROP program and of the PPA of 2006.
5. Maintain MFPRSI's tax-qualified status by filing necessary documentation with the IRS in 2014 obtaining a favorable determination letter.
6. Review of the operational controls and audit processes of the investment managers.
7. Integrating GASB 67 and 68 into annual financial statement preparation.
8. Conduct document imaging project to electronically maintain member records and data, thus eliminating dependence on paper records. The project will also enhance the staff's efficiency of processing and long-term security of data.
9. The Trustees conducted a Strategic Planning project in order to create a Mission Statement and Vision Statement establishing the future direction of MFPRSI.

# Legislative Activities

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## **Funding Change**

As required by statute, the board of trustees provided the General Assembly with MFPRSI's Financial Evaluation Report in January 2015. The report included the board's recommendation that the State resume its contribution to the retirement system at a rate of 3.79% of earnable compensation.

This recommendation would reinstate the funding agreement between the State and participating cities dating back to 1976. A bill reflecting this recommendation, S.F. 188 sponsored by Senator Danielson, was introduced and did not pass in the 2015 legislative session. The bill is currently in recess and will return for consideration in the 2016 legislative session.

# GASB Summary

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## **GASB Summary of Statement 67**

This Statement requires defined benefit pension plans to present two financial statements—a statement of fiduciary net position and a statement of changes in fiduciary net position. In addition, defined benefit pension plans also should follow all accounting and financial reporting requirements of other standards, as applicable.

The notes to financial statements of defined benefit pension plans should include descriptive information, such as the types of benefits provided, the classes of plan members covered, and the composition of the pension plan’s board. Such pension plans also should disclose information about pension plan’s investments, including investment policies, a description of how fair value is determined, concentrations of investments with individual organizations equaling or exceeding 5 percent of the pension plan’s fiduciary net position, and the annual money-weighted rate of return on pension plan investments.

The defined benefit plan’s net pension liability is measured as the total pension liability (defined as total accrued liabilities) less the amount of the pension plan’s fiduciary net position.

The System implemented these reporting requirements of GASB Statement 67 with the fiscal year ending June 30, 2014.

# GASB Summary

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## **GASB Summary of Statement 68**

This Statement requires MFPRSI to calculate a Net Pension Liability for the total Fund and then pro rate this amount to each participating employer based on their portion of contributions in relation to the total amount of contributions paid. Net Pension Liability is the difference between the total pension liability of the Fund and the assets valued at fair value that are used to pay benefits. Assuming that liabilities are greater than the assets of the Fund, the amount reported to each participating employer will be a liability which the City will be required to report on their financial statements along with their other long-term liabilities.

In addition to reporting their portion of the Net Pension Liability, each participating employer will be required to report the following in their financial statements:

- Descriptions of the pension plan(s) and the benefits provided.
- Disclosure of significant assumptions employed in the measurement of the Net Pension Liability.
- Disclosure of assumptions related to the discount rate.
- Disclosure of what the participating employer's proportionate share of the Net Pension Liability would be if a discount rate one percentage point higher and a rate one percentage point lower had been used.
- A schedule consisting of ten years of data reporting the participating employer's proportionate share of the total Net Pension Liability, the employer's payroll amount, and the pension plan's funded ratio.

The System worked with its auditor, Eide Bailly, and the State Auditor to provide the participating cities with the necessary information to comply with the reporting requirements of GASB Statement 68.

# July 1, 2015, Actuarial Report

## Contribution Rate Requirement

The contribution rate derived from this formula and approved by the Board will be implemented effective July 1, 2016.

### Contribution Rate

Estimated Earnable Compensation	\$ 273,319,323
Estimated State's Contribution	\$0
Member's Contribution Rate	9.4%
Actuarial Calculated Rate for Cities	25.92%

## Valuation of Assets & Liabilities

### Market Value vs. Actuarial Value of Investment Assets

Market Value of Total Assets (Net)	\$ 2,300,180,355
Actuarial Value of Assets*	2,239,539,373
Actuarial Accrued Liability	2,769,994,684
Interest Rate Assumption	7.5%

\*System utilizes 5-year rolling average to value assets for actuarial calculation.

# July 1, 2015, Actuarial Report

## MFPRSI Liabilities

The unfunded actuarial accrued liability is the amount the actuarial accrued liability exceeds the actuarial value of plan assets determined as of the actuarial valuation date.

### Unfunded Actuarial Accrued Liability as of July 1, 2015

1. Actuarial Accrued Liability	
Active members	\$ 1,105,654,162
Inactive members	1,646,832,111
Total	<u>2,752,486,273</u>
2. Actuarial Value of Plan Assets	2,239,539,373
3. Unfunded Actuarial Accrued Liability before changes (Excess of #1 over #2)	512,946,900
4. Change in Actuarial Assumptions	17,508,411
5. Unfunded Actuarial Accrued Liability after change in assumptions (Excess of #3 plus #4)	530,455,311

# July 1, 2015, Actuarial Report

## MFPRSI Contributions

### Annual Contributions as of July 1, 2015

#### Preliminary Total Contribution

1. Annual Normal Cost	\$ 51,366,130
2. Estimated Member Contributions	25,692,016
3. 25-Year Amortization of Unfunded Actuarial Accrued Liability	45,164,944
4. Total (Cities plus State) Contribution = #1 - #2 + #3	70,839,058

#### Cities' Contribution

5. Preliminary Total Contribution = #4	70,839,058
6. Estimated State Contribution	0
7. Preliminary Cities' Contribution = #5 - #6	70,839,058
8. Covered Payroll	273,319,323
9. Cities' Contribution as a percent of payroll = #7 / #8	25.92%
10. Minimum required contribution rate for Cities	17.00%
11. Cities' Contribution = Greater of #9 x #8 or #10 x #8	\$ 70,844,369

# Funded Ratio

## Current and Projected Funded Ratio of the Plan

The following information is provided to assist the Public Retirement Systems Committee in its deliberation concerning the Plan. Information provided is as of the July 1, 2015, actuarial valuation study. Responses are shown using the Entry Age Normal actuarial methodology, as adopted by the Board of Trustees beginning July 1, 2011.

### Funded Ratio and Contribution Rates

Current Funded Ratio	
Entry Age Normal	81%
Contribution Rates	
Employee	9.4%
Employer - Actuarially determined each year. Minimum of 17%	
Fiscal Year 2015	27.77%
Fiscal Year 2016	25.92%
State Contribution	\$ 0
Contribution projection over 25 years, using an interest rate assumption of 7.5%	See following slides

# Attachment One: Contribution Rate 25-Year Forecast

## Municipal Fire & Police Retirement System of Iowa Forecast of Contribution Rates and Funded Status (Amounts in Thousands)

Valuation Date	7/1/2015	7/1/2016	7/1/2017	7/1/2018	7/1/2019	7/1/2020	7/1/2021	7/1/2022	7/1/2023	7/1/2024	7/1/2025	7/1/2026	7/1/2027	
Actual Prior Year														
Investment Return on Assets														
- Market Value	N/A	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	
- Actuarial Value	N/A	8.42%	9.45%	8.42%	6.68%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	
Covered Payroll	273,319	284,252	295,480	307,152	319,284	331,896	345,006	358,633	372,799	387,525	402,832	418,744	435,284	
<b>Current Entry Age Normal Method</b>														
<b>25-Year Amortization Period of UAL</b>														
<b>Level Dollar, Closed Layered Amortization</b>														
Actuarial Accrued Liability	2,769,995	2,873,707	2,979,616	3,087,562	3,197,384	3,308,893	3,421,867	3,536,050	3,651,148	3,766,823	3,882,693	3,998,320	4,105,004	
Asset Values														
- Market Value	2,300,180	2,411,164	2,521,157	2,631,950	2,743,716	2,855,526	2,971,283	3,088,915	3,208,162	3,328,761	3,450,450	3,572,852	3,695,578	
- Actuarial Value	2,239,539	2,366,387	2,518,518	2,651,935	2,743,716	2,855,526	2,971,283	3,088,915	3,208,162	3,328,761	3,450,450	3,572,852	3,695,578	
Funded Ratio (Actuarial Value Assets)	80.85%	82.35%	84.52%	85.89%	85.81%	86.30%	86.83%	87.35%	87.87%	88.37%	88.87%	89.36%	90.03%	
Contribution Rates (% of Payroll)														
- Cities	25.92%	24.91%	24.09%	23.11%	23.42%	23.13%	22.84%	22.56%	22.30%	22.04%	21.79%	21.54%	21.14%	
- Members	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	
- State	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
- Total	35.32%	34.31%	33.49%	32.51%	32.82%	32.53%	32.24%	31.96%	31.70%	31.44%	31.19%	30.94%	30.54%	
Actual Cities Contribution Rate	27.77%	25.92%	24.91%	24.09%	23.11%	23.42%	23.13%	22.84%	22.56%	22.30%	22.04%	21.79%	21.54%	
Assumptions and Data														
Interest Rate	7.5%	Non-Investment Expense Growth					4.0%							
Active Members		Census Data												
- Population Growth	0.2%	- As of July 1, 2015												
- Average Age	41.1	Asset Data					October 5, 2015							
- Average Service	13.8	- As of July 1, 2015					SilverStone Group							

# Attachment One: Contribution Rate 25-Year Forecast

## Municipal Fire & Police Retirement System of Iowa Forecast of Contribution Rates and Funded Status (Amounts in Thousands)

Valuation Date	7/1/2028	7/1/2029	7/1/2030	7/1/2031	7/1/2032	7/1/2033	7/1/2034	7/1/2035	7/1/2036	7/1/2037	7/1/2038	7/1/2039	7/1/2040
Actual Prior Year													
Investment Return on Assets													
- Market Value	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
- Actuarial Value	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Covered Payroll	452,478	470,351	488,930	508,243	528,318	549,187	570,880	593,429	616,870	641,236	666,565	692,894	720,264
<b>Current Entry Age Normal Method</b>													
<b>25-Year Amortization Period of UAL</b>													
<b>Level Dollar, Closed Layered Amortization</b>													
Actuarial Accrued Liability	4,209,558	4,311,302	4,409,475	4,503,236	4,591,647	4,673,673	4,748,166	4,813,860	4,869,357	4,913,119	4,943,452	4,958,493	4,966,111
Asset Values													
- Market Value	3,818,142	3,939,294	4,058,405	4,174,677	4,287,373	4,395,519	4,498,147	4,594,127	4,682,274	4,761,157	4,829,324	4,885,117	4,922,256
- Actuarial Value	3,818,142	3,939,294	4,058,405	4,174,677	4,287,373	4,395,519	4,498,147	4,594,127	4,682,274	4,761,157	4,829,324	4,885,117	4,922,256
Funded Ratio (Actuarial Value Assets)	90.70%	91.37%	92.04%	92.70%	93.37%	94.05%	94.73%	95.44%	96.16%	96.91%	97.69%	98.52%	99.12%
Contribution Rates (% of Payroll)													
- Cities	20.76%	20.38%	20.03%	19.68%	19.35%	19.03%	18.73%	18.43%	18.15%	17.88%	17.00%	17.00%	17.00%
- Members	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%
- State	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
- Total	30.16%	29.78%	29.43%	29.08%	28.75%	28.43%	28.13%	27.83%	27.55%	27.28%	26.40%	26.40%	26.40%
Actual Cities Contribution Rate	21.14%	20.76%	20.38%	20.03%	19.68%	19.35%	19.03%	18.73%	18.43%	18.15%	17.88%	17.00%	17.00%
Assumptions and Data													
Interest Rate	7.5%	Non-Investment Expense Growth			4.0%								
Active Members		Census Data											
- Population Growth	0.2%	- As of July 1, 2015											
- Average Age	41.1	Asset Data											
- Average Service	13.8	- As of July 1, 2015											
		October 5, 2015 SilverStone Group											

# Attachment Two: Alternative Statutory Actuarial Reporting

BUSINESS AND PERSONAL RESOURCE MANAGEMENT



October 16, 2015

Mr. Terry Slattery  
 Executive Director  
 Municipal Fire & Police Retirement System of Iowa  
 7155 Lake Drive, Suite 201  
 West Des Moines, IA 50266

RE: July 1, 2015 Alternative Actuarial Reporting to General Assembly - Revised

Dear Terry:

Enclosed are the results of the alternative actuarial valuation for the Municipal Fire & Police Retirement System of Iowa under common standards for General Assembly reporting. This reporting is based on the Entry Age Normal Cost Method as required for reporting to the General Assembly reflecting a level percent of pay amortization of the Unfunded Accrued Liability. We present below a summary of the July 1, 2015 actuarial valuation results under the current and alternative reporting and have also attached details of the calculation.

	Current Reporting	Alternative Reporting
Cities Contribution Rate		
- Prior to 17% Minimum	25.92%	17.90%
- After 17% Minimum	25.92%	17.90%
Cost Method	Entry Age Normal	Entry Age Normal
Amortization Period	25 Years	30 Years
Amortization Method	Level Dollar Closed	Level Percent of Pay Open
Asset Valuation Method	5-Year Smoothing	5-Year Smoothing
Interest Rate	7.5%	7.5%
Inflation Growth*	N/A	N/A
Funded Ratio	80.85%	80.85%

Please note the funded ratio is determined by comparing the actuarial value of assets to the actuarial accrued liability for this reporting purpose. All other assumptions and methods are consistent with those used for the July 1, 2015 actuarial valuation.

\* For current reporting purposes, there is no explicit inflation growth assumption. Inflation growth is implicitly part of the valuation interest rate and salary growth assumptions, but is not explicitly defined. Further, currently the annual escalator benefit for retirees and beneficiaries is a fixed percentage plus a fixed dollar amount per year, not based on inflation growth.

Please do not hesitate to call me if you have any questions or if we can be of additional assistance.

Sincerely,

Michael S. Ehmke, ASA, EA, MAAA  
 Principal

# Attachment Two: Alternative Statutory Actuarial Reporting

## MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA

### Current and Alternative Reporting As of July 1, 2015

<b>Current Reporting*</b>	<b>Entry Age Normal (25 Yr Level \$)</b>
1. Plan Liability- Actuarial Accrued Liability	2,769,994,684
2. Actuarial Value of Assets	2,239,539,373
3. Funded Ratio = (2)/(1)	80.85%
4. Unfunded Accrued Liability = (1)-(2)	530,455,311
5. 25-year Level Dollar Closed Layered Amortization of (4)	45,164,944
6. Normal Cost	51,366,130
7. Total (Cities plus State plus Members) Contribution = (5)+(6)	96,531,074
8. Estimated Member Contributions	25,692,016
9. Estimated State Contribution	0
10. Cities Contribution = (7)-(8)-(9)	70,839,058
11. Cities' Contribution Rate Prior to 17% Statutory Minimum = (10)/(Covered Payroll of \$273,319,323)	25.92%
<b>Alternative Reporting**</b>	<b>Entry Age Normal (30 Yr Level %)</b>
1. Plan Liability- Actuarial Accrued Liability	2,769,994,684
2. Actuarial Value of Assets	2,239,539,373
3. Funded Ratio = (2)/(1)	80.85%
4. Unfunded Accrued Liability = (1)-(2)	530,455,311
5. 30-year Level Percent of Pay Amortization of (4)	23,255,285
6. Normal Cost	51,366,130
7. Total (Cities plus State plus Members) Contribution = (5)+(6)	74,621,415
8. Estimated Member Contributions	25,692,016
9. Estimated State Contribution	0
10. Cities Contribution = (7)-(8)-(9)	48,929,399
11. Cities' Contribution Rate Prior to 17% Statutory Minimum = (10)/(Covered Payroll of \$273,319,323)	17.90%

\*Current Reporting: Entry Age Normal Cost Method, 25 Year Level Dollar Closed Layered Amortization of UAL, 7.5% interest rate, Eleventh Year of Twelve Year Phase-in of 1994 GAM and Graded salary growth

\*\*Alternative Reporting: Entry Age Normal Cost Method, 30 Year Level Percent of Pay Amortization of UAL, 7.5% interest rate, Eleventh Year of Twelve Year Phase-in of 1994 GAM and Graded salary growth

# Attachment Three: Vision Statement

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**Comprehensive:**

Adequacy of retirement and disability benefits to attract and retain top quality police officers and firefighters and provide for them and their families when they are no longer working or able to do so. Retirement and disability benefits should be competitive with comparable police and fire systems.

- The National Association of State Retirement Administrators conducted a Public Fund Survey in 2013. Comparing the results of this survey with its benefit structure, MFPRSI concludes that its benefit structure is comparable with similar defined benefit plans. Included in this comparison is minimum retirement age, final average salary, social security participation, and average benefit multiplier.

**Efficient:**

Managing the system and the investment portfolio in a timely, professional, cost effective and customer-oriented manner. Obtaining top quality management services for a cost that is mid-range for comparable systems. The investment portfolio should provide net returns in the top quartile for similarly-sized plans. On a risk-adjusted basis the portfolio's returns should be no less than the median for public plans.

- MFPRSI, in conjunction with its investment consultant, Summit Strategies, compared its investment portfolio against all other public pension funds between \$1 billion and \$5 billion in asset size in the United States. Using data as of December 31, 2014, the study showed that MFPRSI's fee agreements with its investment managers is in-line with its peers across multiple time periods (e.g., 3 months, 1 year, 3 years, 5 years, 7 years, and 10 years).

# Attachment Three: Vision Statement

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## Sound:

Stable and secure retirement benefits and funding policy based upon fiduciary principles, appropriate risk management policies and independent governance. Funding should be based upon actuarially determined contribution rates and intergenerational equity, and a disciplined, accountable and transparent funding policy. Investment practices should be cognizant of unexpected volatility.

- MFPRSI reviewed its investment asset allocation policy against comparably sized funds in the United States as of June 30, 2014, and determined that its investment portfolio's allocation to fixed income, public equity, private equity, and real assets are approximately at the median in each category across the data set. MFPRSI's investment portfolio returns, however, rank higher than the average of its peers across 1 year, 3 year, 5 year, and 10 year return periods.

## Sustainable

The system shall be economically and politically durable. Economically, the system should sustain progress toward 100% funded status while maintaining employer contributions on a consistent basis at 30% or less of covered payroll. Significant year-to-year variability in funding requirements should be avoided for both members and cities. Once full funded status is achieved, benefit or contribution changes should take into consideration necessary buffers against inevitable financial market downturns.

- MFPRSI and its actuarial consultant, SilverStone, annually review contribution requirement projections of its participating cities. The annual projection provides estimates of city contribution rates for the next 25 years using rate of return assumptions and achieving a funded ratio of 100%.