

**Tucson Supplemental Retirement System  
Board of Trustees  
Funding Policy**

**As Reviewed and Documented by TSRS Board on December 18, 2014**

*30th*

**Background:** The TSRS Funding Policy is designed to provide assurance that the Tucson Supplemental Retirement System ("TSRS") will remain viable and sustainable, and that the cost of the benefits provided by TSRS will be funded in an equitable manner. The TSRS funding policy is based on the following primary principles:

1. TSRS will obtain an actuarially determined contribution (ADC) annually and the ADC will serve as the basis for the recommended contribution rate to the City, subject to additional policy considerations and funding concerns explained below.
2. The ADC will be calculated in a manner designed to fully fund (and not over-fund) the long-term costs for the benefits while balancing the goals of stable contribution rates and the allocation of members' costs over their working lifetime.
3. The TSRS Board certifies an annual contribution which shall not be less than the ADC to the City annually and which the City is required to appropriate and pay over to TSRS under the Tucson City Code ("TCC).
4. The TSRS Board annually shall recommend to the City an additional contribution amount designed to address the unfunded accrued liabilities in TSRS. As of December 2014, the Board intends to encourage the City to extinguish the TSRS unfunded liability over a 12 – 15 year time period by recommending that the City contribution to TSRS remain fixed at a minimum of 27.5% of payroll, subject to changing market conditions.
5. The TSRS board wishes to demonstrate accountability and transparency by communicating all of the information necessary for assessing the City's progress toward meeting its pension funding objectives.

Effective July 1, 2013 the contribution requirement for members hired after July 1, 2006 was changed from 40% of the ADC to a range of 50% to 100% of the normal cost of their given tier. In no event shall the variable contribution tier members contribute less than 5% of pay as set forth in TCC §22-34(a) and (b). Members hired prior to 7/1/2006 contribute 5% of pay.

**Purpose:** The Funding Policy will cover four core elements of a funding policy:

1. **Actuarial Cost Method**-this is the technique used to allocate the total present value of future benefits over an employee's working career (*normal cost/service cost*).
2. **Asset Valuation and Smoothing Method**-the method employed to determine the actuarial value of assets, including the period used to smooth the gains/losses on the assets.
3. **Amortization Policy**-The length of time and the structured used to eliminate the unfunded accrued liability (or surplus).
4. **Rounding Policy**-once the actuary has determined the ADC, the rates for each of the three separate employee member groups and the rate for the City, the Rounding Policy (described in greater detail below) will be applied.

**Tucson Supplemental Retirement System  
Board of Trustees  
Funding Policy**

**Authority:** The Board has been granted the power and authority necessary to effectuate the administration, management and operation of TSRS. TCC §22-44(a). The actuarially determined contribution (ADC) to TSRS is set by the Board each fiscal year, based on the actuarial calculations of by the independent actuary engaged by TSRS. TCC §22-30(h). In connection with the determination of the ADC, the Board is required to certify to the City Manager the ADC, the Member Contribution rate(s) and the City Contribution. TCC §22-35(b).

**Policy:**

**1. Actuarial Cost Method**

The actuarial cost method is the individual entry age normal cost method, level percent of pay. This method conforms to the actuarial standards of practice and allocates normal costs over a period beginning no early than the date of employment and does not exceed the last assumed retirement age. This cost method fully funds the long-term costs of the promised benefits of the employees' period of active service.

**2. Asset Valuation Method**

To minimize the volatility effect of contribution rates affected by investment gains or losses during the year, the Board has adopted a smoothing process that involves spreading the difference between actual and expected market returns over a five year period to determine the actuarial value of assets.

**3. Amortization Policy**

The Board has adopted a 20 year open, level percent of pay amortization policy. A single unfunded amount is determined with each actuarial valuation, and that amount is then amortized over a 20 year period, assuming that the contribution amounts will remain level as a percent of the total payroll (so the dollar amount of the contribution is assumed to grow each year). The Board's amortization policy was most recently revised effective July 1, 2013.

**4. Contribution Rounding Policy**

- A. **Background:** Contributions to the Tucson Supplemental Retirement System are made by participating employees (Member Contributions) and the City of Tucson (City Contributions). Member Contributions are made pursuant to Tucson City Code ("TCC") Section 22-34, which sets forth the specific contribution rates for three separate member groups: members hired prior to July 1, 2006 (the "Legacy Members"), members hired between July 1, 2006 and June 30, 2011 ("Tier I Members") and members hired on or after July 1, 2011 ("Tier II Members").
- B. **Purpose:** This Contribution Rounding Policy is intended to (1) minimize volatility in the Member Contribution rates and the related impact on the net take home pay of employees,

**Tucson Supplemental Retirement System  
Board of Trustees  
Funding Policy**

(2) eliminate minor adjustments in contribution rates, and (3) recognize the inherent timing gap between actuarial valuation data and the effective date of new contribution rates.

- C. **Rounding Policy:** The Board shall determine and certify Member and City Contribution rates in accordance with all applicable provisions of the TCC and, effective July 1, 2014, the terms of this Contribution Policy as set forth below:

- I. **Member Contribution Rates:** Member Contributions for Legacy Members, Tier I Members and Tier II Members shall be determined by the TSRS actuary pursuant to TCC Section 22-34. The actuarially determined Member Contribution rate for each group shall be referred to as the "Calculated Rate" for the applicable group.

The Board will then review the Calculated Rate for each member group and set the "Charged Rate" for the upcoming fiscal year. The Charged Rate will equal the Calculated Rate, rounded up to the nearest 0.25. The Charged Rate for a member group shall never be less than the Calculated Rate for that member group (for that same fiscal year).

Examples:

Year 1:	Actuarially Calculated Tier I Member Contribution Rate:	6.67% of pay
	Charged Rate for Tier I Member Contribution:	6.75% of pay
Year 2:	Actuarially Calculated Tier I Member Contribution Rate:	6.48% of pay
	Charged Rate for Tier I Member Contribution:	6.50% of pay

- II. **City Contribution Rates:** The City Contribution rate for a particular fiscal year equals the difference between the annual required contribution and the Member Contribution rate(s). TCC §22-30(t). Because there are three different Member Contribution rates, the TSRS actuary shall calculate a City Contribution rate for each member group and a blended City Contribution rate for the entire member population. In no event shall the blended City Contribution rate for the entire member population be less than the City Contribution rate for any member group. The City Contribution rates calculated by the TSRS actuary are referred to as the "Calculated Rates."

The Board will then review the Calculated Rates and set the "Charged Rate" for the City Contribution for the upcoming fiscal year. The Charged Rate will equal the

**Tucson Supplemental Retirement System  
Board of Trustees  
Funding Policy**

blended Calculated City Contribution rate, rounded up to the nearest 0.50. The Charged Rate shall be rounded up to the nearest 0.50 instead of the nearest 0.25 because the Charged Rate is a blended rate. The Charged Rate shall never be less than the Calculated Rate for any member group for that same fiscal year.

Example:

Actuarial Calculated City Contribution Rates  
for three member groups:

Legacy Members:	27.22% of pay
Tier I Members:	25.55% of pay
Tier II Members:	27.08% of pay

Actuarially Calculated Blended City Contribution Rate 26.95%

Charged Rate for City Contribution: 27.50% of pay  
(Charged Rate is not set at 27.0% because that  
would be less than the Calculated Rate  
for two of the member groups)

III. I; Funded Status of TSRS: It is the goal of the Board to increase the funded status of TSRS. The Board anticipates that Calculated Rates for both Member Contributions and City Contributions may decrease from time to time, based on various actuarial factors. The Board will not recommend a decrease in the Charged Rate for Member and/or City Contributions until such point as TSRS is fully funded because the unfunded accrued liability has been extinguished, and the Calculated Rates for Member and City Contributions represent the payment of the normal cost of benefits only. Moreover, the Board shall recommend a decrease in the Charged Rates for Member Contributions only to the extent that the Charged Rates for Tier I Member Contributions and Tier II Member Contributions decrease simultaneously, in the same percentage of pay.

Attachment: TSRS Actuarial Assumptions Addendum to TSRS Code Sec. 22-30(d)

**Tucson Supplemental Retirement System  
Board of Trustees  
Funding Policy**

**Tucson Supplemental Retirement System ("TSRS")**

**Addendum to TSRS Code Sec. 22-30(d)**

**TSRS Actuarial Assumptions**

To determine the value of actuarially equivalent member benefits under TSRS, the following actuarial assumptions shall be applied, effective as of July 1, 2014:

**Interest Rate:**                    **7.25%**

**Mortality Table:**                **Mortality Table: RP-2000 Combined Mortality Table for males  
and females projected with Scale BB to 2020**

The foregoing actuarial assumptions are adopted in accordance Tucson Code Chapter 22, Section 22-30(d) and are incorporated into this Addendum as required pursuant to Section 401(a)(25) of the Internal Revenue Code of 1986, as amended.

This Addendum hereby is executed by an authorized representative of the Tucson Supplemental Retirement System Board of Trustees, pursuant to action taken at a duly called meeting of the Board held on the 18th day of December, 2014, at which a quorum was present.

By:   
Name: Robert Fleming, Chairman  
TSRS Board of Trustees