

**FUNDING POLICY
of the
MEMPHIS CITY SCHOOLS RETIREMENT SYSTEM**

I. PURPOSE

To establish a formal methodology for financing the pension obligations accruing under the retirement system of the former Memphis City Schools Local Pension System.

II. SCOPE

This policy applies to the Shelby County Board of Education as successor in interest to the Memphis City Schools Retirement System.

III. POLICY STATEMENT

Pursuant to Section 3 of Chapter 990 of the Public Acts of 2014 (codified at Tennessee Code Annotated §9-3-501 et seq.), the Shelby County Board of Education (as successor in interest to the Memphis City Schools with respect to the Memphis City Schools Retirement System)(the “Board”), hereby adopts this policy effective commencing plan fiscal year beginning the 1st day of July, 2015, and continuing thereafter until amended, as and for the funding policy for the Memphis City Schools Retirement System (the “Local Pension System”).

Preamble

The intent of this funding policy is to establish a formal methodology for financing the pension obligations accruing under the Local Pension System. It is intended that current assets plus future assets from employer contributions and investment earnings should be sufficient to finance all benefits provided by the Local Pension System.

This funding policy is intended to reflect a reasonable approach to the funding of the Local Pension System with each generation of taxpayers financing, to the greatest extent possible, the cost of pension benefits being accrued thereunder. This funding policy recognizes that there will be investment market place volatility and that assumptions related to economic and demographic experience will differ from actual experience. Accordingly, this funding policy is intended to provide flexibility to smooth such volatility and experience in a reasonable, systematic, and financially sound manner. Further, this funding policy is intended to comply with all applicable laws, rules, and regulations of the State of Tennessee and the Federal Government.

A. Components of this Funding Policy

1. Procurement of actuarial services
2. Actuarial experience study
3. Actuarial valuation

B. Procurement of Actuarial Services

The Local Pension System shall retain the services of professional actuarial firms to perform an actuarial experience study, an actuarial valuation, and other necessary actuarial services. The actuarial firm shall be independent and shall not otherwise be eligible to accrue benefits under the Local Pension System. The lead actuary of actuarial firm performing the actuarial services shall be a member of the American Academy of Actuaries.

C. Actuarial Experience Study

An actuarial experience study shall be conducted at least every ten (10) years as of December 31st in accordance with the terms and provisions of the Local Pension System, as it may be amended from time to time. The actuarial firm shall act as an advisor on actuarial matters on behalf the Local Pension System.

D. Actuarial Valuation

Valuation method, frequency, and ADC. An actuarial valuation to determine the Actuarially Determined Contribution (ADC) rate to finance pension obligations of the Local Pension System shall be performed annually beginning as of December 31, 2014. Since the Local Pension System is a closed plan with only retired members remaining, the actuary shall calculate the present value of future benefits for all retirees and compare that liability to the market value of assets as of the

valuation date. The difference of the liability and the market value of assets will be called the unfunded actuarial accrued liability. The ADC shall be the amount to amortize any unfunded actuarial accrued liability over a closed 10-year period beginning as of December 31, 2014. If the unfunded actuarial accrued liability is negative, meaning a surplus exists, then no ADC will be required by the Board. The ADC shall be calculated as of a valuation date six (6) months prior to the Plan's beginning fiscal year.

The ADC, as determined by an actuarial valuation, shall provide funding at a level of no less than one hundred percent (100%).

The budget adopted by the Board each year shall include funding of the ADC as provided above.

Asset smoothing method. The actuarial value of assets shall equal the market value of the assets.

Amortization methodology for actuarial gains and losses. The current Unfunded Actuarial Accrued Liability shall be amortized utilizing the level dollar amortization method over a closed 10-year period beginning December 31, 2014. Any new actuarial gains and losses shall be amortized immediately in the calculation of the ADC.

Actuarial gains and losses may result from (1) the difference between experience versus assumptions, (2) changes in demographic and economic assumptions, and (3) changes in benefit provisions.

Demographic data. The demographic data in an actuarial valuation shall include all annuitants (including beneficiary annuitants).

Valuation Interest Rate. The investment earnings assumption in an actuarial valuation shall not be greater than fifty (50) basis points above the rate adopted by the Tennessee consolidated retirement system.

Valuation Mortality: The mortality assumptions in an actuarial valuation utilized for plan years commencing on and after July 1, 2024 shall consider the effect of expected mortality improvements.

Benefit provisions. The actuarial valuation shall include all benefits being accrued by participants of the Local Pension System including, but not limited to retirement, death benefits, and disability. The valuation shall be based on the benefit eligibility and benefit terms as set forth in the Local Pension System.

E. Effective Date

This policy shall be effective commencing July 1, 2015, and shall remain in effect until duly amended or preempted by state law.

IV. RESPONSIBILITY

- A.** The office responsible for finance is responsible for implementing this policy.
- B.** The Superintendent is responsible for ensuring this policy is adhered to and implemented.

Legal References:

- 1. TCA 9-3-501 et seq

Cross References:

- 1.