Experience Study and Investment Return Assumption - TRANSCRIPT

Understanding Your Pension Fund **video series**

The TRS pension fund has one goal.

To provide you with a dependable source of retirement income for life.

In this series of videos, industry expert Joe Newton will answer some of the most commonly asked questions by our members.

Join us as we help you *understand your pension fund.*

Hi! I'm Joe Newton and I am an actuary at GRS - the independent actuarial firm that analyzes pension funds across the nation, including TRS.

That means I'm the one who calculates the indicators used to determine how healthy the TRS Pension Trust Fund is.

This is one in a series of videos where I explain some of the key factors and processes we use and follow to make sure the pension fund ***stays*** healthy. We want to make sure it has enough money for current and future retirees.

First off, funding for the TRS Pension Fund comes from three sources.

Those include dollars from the state and employers, active TRS members, as well as investment returns.

And it's important to know that the majority of contributions come from investment income.

In some years, the pension fund makes a lot of money in investment income and in other years, the fund makes less.

What is important though, is how those actual returns, or income, are averaging over time.

The investment return assumption is used to project what portion of the future benefit payments will be paid for by investment income and what portion will be paid for by contributions.

That's because if more investment income can be made in the future, the plan would require less in contributions. And of course, the opposite could also be true.

It's important to evaluate the accuracy of assumptions used in those projections.

Best practice is to perform a deep dive and fully re-assess the investment return assumption on a regular basis.

And that is done through an **experience study**.

TRS is required by law to conduct an **EXPERIENCE STUDY,** which is completed every four years.

If the **EXPERIENCE STUDY** projects that investment income is expected to be lower for a long time, then for me as the actuary, the best practice would be to recommend lowering the return assumption.

Lowering it would reflect that less money is projected to be going into the fund from investment income.

While we only focused on the return assumption in this video, the Experience Study also evaluates changing demographics, such as retirement behaviors or plan requirements.

This process really boils down to protecting the security of the pension system by responding to our ever-changing landscape.

And you can be assured that investment professionals, and actuaries like me, are using these tools to ensure the pension fund stays healthy for generations to come.