**Purpose:** Actual market rate of investment returns for a given fiscal year (FY) exceeding, by actuarially determined increments, the assumed rate of investment return (AROR) in place for a retirement system pension plan or OPEB plan for that same FY will be used to reduce the AROR for the actuarial valuation for that FY and forward for that retirement system plan.

**Policy:**

1. Separate schedules of AROR reduction for pension are in place for all systems. Separate schedules of AROR reduction for OPEB are in place for the following systems – MPSERS, SERS, SPRS, and JRS.
   1.1. MRS does not have a separate OPEB schedule as their health care benefits are part of the SERS OPEB plan.
   1.2. For SERS, SPRS, JRS, and MRS pension and OPEB plans, AROR reduction schedules account for the increases in both UAAL and the first year of normal cost. That is, the excess gains will cover the increases in the UAAL and the first year of normal cost, and so the total contribution rate will not go up due to the reduction in the AROR for the first year. It will go up in subsequent years to account for the increase in normal cost.
   1.3. For MPSERS plans, due to the UAAL and normal cost contribution floors created through PA 92 of 2017, AROR reduction schedules account only for the increases in UAAL. Normal cost will increase because of lowering the AROR starting from the first year of the decrease.
   1.4. Schedules will be reviewed by the actuary with every experience study to determine if any adjustments are necessary based on plan experience.

2. AROR reduction is automatic in a plan in which the actual market rate of investment returns for a FY exceeds the AROR in place for that plan as described in the schedule for each system, and will apply to the actuarial valuation starting with that FY.
   2.1. For systems with both pension and OPEB, the AROR reduction is applied independently to each plan, which can result in each plan having a different AROR.

3. AROR will be reduced through this policy by 5 basis points (0.05%) per increment described in the schedule for each system. The AROR can be reduced by multiple increments at a time, depending on market performance and in accordance with the schedules created by the actuary.

4. For systems that have hybrid plans (MPSERS and SPRS) with a 7% AROR, this policy will apply initially only to the legacy DB plans and OPEB.
   4.1. This policy will apply to hybrid plans’ AROR when the legacy DB plan AROR for that system reaches 7%. At that time, actual market rates of investment return for the legacy DB plan and the hybrid plan will be used to reduce the AROR of both plans in tandem.
   4.1.1. For SPRS only – The legacy DB plan AROR will be reduced to 7%. At that time, the AROR for both the legacy DB plan and the hybrid plan may be reduced below 7% subject to Board approval.

5. AROR reduction will continue as specified in this policy until such a time that systems’ retirement boards and the DTMB director revise or discontinue the policy.