

Key Terms

Defined Benefit (DB) Plan - A pension plan that is designed to provide participants with a predefined, predictable and guaranteed benefit based on a formula that takes into account an employee's compensation, years of service, and age, or a combination of these elements. TCRS is a defined benefit plan.

Deferred Compensation or Defined Contribution (DC) Plan - A pension plan in which contributions are made to an individual account for each employee. The retirement benefit is entirely dependent upon the account balance at retirement, and is based on the money that accumulates in an employee's account. Employers can also contribute or provide matching funds. A 401(k) is an example of this type of plan.

For purposes of this document all other terms will relate only to a defined benefit plan and NOT a defined contribution plan.

Actuarial Accrued Liability - Represents the portion of the present value of projected benefits attributable to service credit earned (or accrued) as of the valuation date.

Actuarial Assumptions - Factors used by actuaries for estimating the cost of funding a defined benefit pension plan. Examples include: the rate of return on plan investments; mortality rates; and the rates at which plan participants are expected to leave the system because of retirement, disability, termination, etc.

Actuarial Valuation - The determination, as of a specific date, of the normal cost, actuarial accrued liability, actuarial value of assets, and related actuarial present values for a plan.

Actuarial Value of Assets - The value of pension plan investments and contributions used by the actuary for the purpose of an actuarial valuation. TCRS uses an asset valuation method that smooths the effects of short-term volatility in the market value of assets. The actuarial value of assets is different than the market value of assets.

Actuarially Determined Contribution (ADC) - The amount actuarially calculated each year that is required to be contributed by an employer in order to ensure there will be enough funds to pay a promised pension. The ADC is comprised of the normal cost, amortization of unfunded accrued liability, if any, and administrative fee. The ADC changes with each actuarial valuation.

Agent Multiple Employer Plan - A plan in which the assets of participating employers are pooled for investment purposes but separate accounts are maintained for each individual employer. In TCRS, state government employees and political subdivisions participate in this type plan.

Amortization - Paying off a liability incrementally through a series of installments, as opposed to paying with a lump sum payment. The unfunded accrued liability is amortized and included in the ADC.

Contributory - The employee contributes a portion of salary towards their pension plan (i.e. the employee shares the cost of the plan with the employer).

Cost of Living Adjustment (COLA) - Adjustments made to retiree benefits to help offset inflation. The amount is based on the increase in the Federal Consumer Price Index (CPI). For TCRS, the COLA cannot exceed 3%.

Cost Sharing Multiple Employer Plan - A plan in which the participating employers pool their assets and obligations for providing pension benefits to employees. In TCRS, the only cost sharing plan is for teachers of local education agencies (both Hybrid and Closed plan).

Discount Rate - The rate used to value the current cost of future pension obligations. For TCRS purposes, this rate is currently the same as the investment rate of return.

Entry Age Normal - The cost of each individual's pension is allocated on a level percent of payroll between the time employment starts (entry age) and the assumed retirement date.

Experience Study - A periodic review and analysis of the actual experience of a plan which may lead to a revision of some assumptions used in the actuarial valuation. Actual investment performance, mortality, retirement patterns, salary increases, etc. are compared to the assumed values and modified as appropriate.

Funded Ratio - For GASB purposes the ratio of the plan fiduciary net position as a percentage of the total pension liability, or also referred to as market value funded ratio.

Investment Rate of Return Assumption - An assumption of the investment rate of return the actuary uses in the actuarial valuation as opposed to the actual rate of return earned by TCRS.

Level Dollar Amortization- A method of amortizing the unfunded accrued liability using equal dollar amounts paid over a given number of years.

Market Value of Assets - The fair value of plan assets at a point in time.

Net Pension Liability (Asset) - The difference between the total pension liability and plan fiduciary net position. If the total pension liability exceeds the plan fiduciary net position, then a net pension liability exists and is displayed as a positive number. If the plan fiduciary net position exceeds the total pension liability, then a net pension asset exists and is displayed as a negative number.

Non-Contributory - The employee does not contribute any portion of salary towards their pension plan (i.e. employee does not share any portion of the cost of the plan with the employer).

Normal Cost - The cost of projected benefits allocated to the current fiscal/plan year. The employer normal cost equals the total normal cost of the plan less employee contributions.

Pension Expense - The amount an employer charges to expense in relation to its liabilities and pensions payable to employees. Some factors impacting pension expense include expected investment return, service cost, interest cost, and amortization of assumption gains/losses.

Plan Fiduciary Net Position - The total market value of assets, plus deferred outflows of resources, minus liabilities and deferred inflows of resources.

Present Value - The current value of a series of amounts payable in the future, after discounting each amount at an assumed rate of interest.

Total Pension Liability - See actuarial accrued liability.

Unfunded Actuarial Accrued Liability (UAAL) - The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by current plan assets.

Vesting - A defined number of years of service an employee must work to be eligible to receive a pension benefit.