



## **Key Terms**

**Defined Benefit (DB) Plan** - A pension plan that is designed to provide participants with a retirement benefit based on a formula that considers an employee's compensation, years of service, and age, or a combination of those factors. TCRS is a defined benefit plan.

**401(k) and 457 Plans** - Defined contribution plans where an employee can make before or after-tax contributions. The employee selects their own investment options and the amount received in retirement is based on contributions plus any accumulated earnings.

**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 fully 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 assets 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 investment markets on 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 promised pension benefits. The rate changes each year based upon the most recent actuarial valuation.

**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.

**Cost of Living Adjustment (COLA)** - Adjustments made to monthly retirement 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%.

**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).



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

**Hybrid Plan** – Combines elements on a defined benefit plan and a defined contribution plan, such as a 401(k) or 457 plan.

**Non-Contributory** - The employee does not contribute any portion of salary towards their pension plan (i.e. the 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.

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

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

**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.