The 'Asset Smoothing Method' (ASM) excerpt presented on the following page will appear in the forthcoming *Actuarial Methods Recommendations* report, which is expected to be finalized in the third quarter of calendar 2020. A summary of this excerpt was presented auditorily to the WV MPOB Board during the June 18, 2020 Board meeting. At the meeting, the Board approved the proposed asset smoothing method as well as the proposed assumptions in the *Experience And Assumption Study* report dated June 8, 2020. The approved asset smoothing method and assumptions will first be reflected in the July 1, 2020 valuations, which will be issued in the fall of 2021 and which will develop the required contributions for the fiscal year ending June 30, 2022.

Municipal Pensions Oversight Board

Municipal Policemen's and Firemen's Pension and Relief Funds of West Virginia

Actuarial Methods Recommendations

Bolton

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Asset Smoothing Method

The method of determining the value of the assets as of a given date that is used by the actuary for valuation purposes is called the actuarial asset valuation method. The actuarial value of assets may be set equal to the market or plan assets or may be calculated as a smoothed value in order to reduce the year-to-year volatility of calculated results, such as the funded ratio and the actuarially determined contribution (ADC).

Plans using the Standard or Optional funding policies determine the unfunded liability (and required contributions) based on the market value of assets. This is an “acceptable” practice[1]. Using the market value of assets is not model practice when developing a level cost allocation model since asset values and contributions will be more volatile when using market value than if employing some variation of “asset smoothing.”

An example of model practice is one where the asset smoothing method spreads the investment gains (or losses) in excess of (or below) the assumed return over a certain period. Members of the WV MPOB Board Experience Study Subcommittee asked that we consider the asset smoothing period of four years which is used by the statewide pension plans. Model practice also suggests the use of a corridor around the market value of assets if the smoothing period is too long.

The asset smoothing method should strike an appropriate balance between level budgeting and representing the actual, versus a smoothed, position of the plan.

We believe a four-year smoothing method without a corridor fits model practice and recommend it for all plans using the Standard and Optional funding policies starting with returns for FY 2020 (i.e. the July 1, 2020 valuations).

The COVID-19 related market losses will first be reflected in the July 1, 2020 valuations. If a smoothed actuarial asset method is adopted for that valuation, the annual impact of those losses on the developed contributions and funded ratio will be dampened and spread over four years, rather than recognized immediately.

[1] According to the 2014 CCA White paper *Actuarial Funding Policies and Practices for Public Pension Plans*