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- The experience study should disclose the target asset allocation used in the analysis.
- The retained actuary should consider benchmarking sources in their experience study (e.g., NASRA data).
- The retained actuary should consider evaluating the investment rate of based on building block approach, using the inflation assumption plus real rate of return less investment expenses.

As outlined in Section 3.6.1 of ASOP No. 27, the retained actuary should consider the following when selecting an investment assumption: current yields of fixed income securities, forecasts of inflation, GDP growth, and returns for each asset class, historical and current investment data, and historical plan performance. While the experience study report does consider historical plan performance, it does not consider any additional factors when determining the assumption. While 7.50% is generally an acceptable return based on industry information, there is not sufficient support for the selection of the assumption.

We have assessed the validity of the inflation assumption above. While it is not officially disclosed, we will assume it is equal to the COLA assumption of 3.00% for this analysis since the COLA is based on inflation with a 3% cap. In this section, we will assess the validity of the 4.50% real return assumption as of July 1, 2017 based on the target asset allocation disclosed in the GASB 67/68 Supplement Report as of June 30, 2017. A survey released by Horizon Actuarial Services, LLC provides expected returns by asset classes. The survey provides capital market assumptions specific to projections over 10 years and 20 years. The investment return assumption, as noted by the SOA's Report of the Blue Ribbon Panel on Public Pension Plan Funding, should be using rates of return that can be achieved over the next 20 to 30-year period. Therefore, we selected the 20-year time horizon for our analysis.

Using the survey's expected returns by asset class for the 20-year horizon, the target asset allocation disclosed in the GASB 67/68 Supplement Report as of June 30, 2017, and adjusting for inflation differences and expenses, produces the following results:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Horizon[1])
Broad Equity Market	7.00%	7.29%
Domestic Large Cap Equity	30.00%	6.68%
Domestic Mid-Cap Equity	15.00%	7.89%
Domestic Small-Cap Equity	9.00%	7.89%
International Equity	9.00%	6.98%
Domestic Fixed Income	25.00%	2.15%
Alternative Investments[2]	5.00%	6.47%
Weighted Average Real Return		**5.90%**
Assumed Investment Expenses[3]		**-0.37%**
Real Return		**5.53%**