Prilago. · PDF p.10 Excerpt

Determination of discount rate and investment rates of return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. The target allocation (approved by the Board) and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	23.5%	5.82%
International developed markets equity	9%	5.91%
International emerging markets equity	3.5%	7.06%
Core fixed income	15%	1.81%
High-yield fixed income	9%	3.34%
Real estate	10%	3.34%
Timber	4%	3.82%
Hedge fund, GTAA, Risk parity	10%	2.77%
Private equity	16%	9.20%
Total	**100%**	

Note: Some asset classes included in the System's target asset allocation have been combined.

Discount rate. The discount rate used to measure the TPL was 7.00% as of December 31, 2024 and December 31, 2023. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the Plan FNP was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL as of both December 31, 2024 and December 31, 2023.