**THE CITY OF FREDERICK**
**MAYOR AND BOARD OF ALDERMEN**

**RESOLUTION NO: 15 - 14**

**A RESOLUTION CONCERNING**
The City of Frederick Pension Funding Policy

**WHEREAS**, The City of Frederick ("City") provides pension benefits to qualifying City employees and beneficiaries; and

**WHEREAS,** the City desires to establish a funding policy which will provide sufficient assets to permit the payment of all benefits under the Pension Plans; and

**WHEREAS**, the City desires to maintain equity among generations of tax and fee payers by establishing a plan to improve, on a projected basis, the Pension Plans' Funded Ratios such that they approach 100% over a given period of time; and

**WHEREAS,** the City desires to amortize the Unfunded Actuarial Accrued liability over a period of not more than 30 years; and

**WHEREAS,** the City desires to minimize the volatility of the City's contribution rate as a percentage of covered payroll by smoothing investment gains and losses over a reasonably short time frame.

**NOW THEREFORE BE IT RESOLVED** by the Board of Aldermen of The City of Frederick that The City of Frederick Pension Funding Policy attached hereto as Attachment A is hereby established with regard to the funding of the City's Pension Plans.

**ADOPTED** and **APPROVED**, the 16th day of July 2015

The City of Frederick

Phyllis M. Ham
Witness

Randy McC
Randy McClement, Mayor

Approved for legal sufficiency:

Saundra A. Nickols
City Attorney

The City of Frederick Pension Funding Policy

**22 Year Pension Plan**
**25 Year Pension Plan**
**30 Year Pension Plan**

**July 16, 2015**

A. Introduction

The purpose of this Pension Funding Policy is to record the funding objectives and strategy set by the Mayor and Board of Aldermen (Board) for The **City of Frederick's Pension Plans** (the Plans). The Board establishes this Funding Policy to ensure future benefit payments for members of the Plans. In addition, this document records certain guidelines established by the Board to assist in administering the Plans in a consistent and efficient manner. In the event that this Policy conflicts with any language in the Pension Plan, the Pension Plan shall prevail.

This is a working document and may be modified as the Board deems necessary.

B. Funding Objectives

The Board's primary funding objectives, in order of importance, are to:

1. Provide sufficient assets to permit the payment of all benefits under the Plans.
2. Maintain equity among generations of taxpayers by:
   a. Establishing improvement, on a projected basis, in the Plans' Funded Ratios, as defined in Section E, such that they approach 100% over a given period of time;
   b. Amortizing the Unfunded Actuarial Accrued Liability, as defined in Section E, over a period of not more than 30 years.
3. Minimize the volatility of the employer's annual contribution rate as a percentage of covered pay by smoothing investment gains and losses over a period of five years.

C. Funding Guidelines

This statement reflects the policy of the Board and establishes guidelines for setting the employer contribution rate.

1. Regular Contribution Rate

   Through coordinated Funding and Investment Policies we will attempt to minimize the volatility of the employer's contributions rate from year to year as a percentage of covered pay. The employer contribution is the sum of the employer's Normal Cost and a payment to amortize the Unfunded Actuarial Accrued Liability as of the date of valuation:

   a. The Normal Cost and Actuarial Accrued Liability used for this purpose will be calculated using the Entry Age actuarial cost method.
   b. The Actuarial Value of Assets used for this purpose will be a smoothed value that recognizes realized and unrealized investment gains and losses over a five-year period, but shall not be more than 120% or less than 80% of Market Value of Assets.
   c. The Unfunded Actuarial Accrued Liability will be amortized as a level dollar amount over a closed 27-year period beginning with the 07/01/2014 Valuation.

2. Minimum Contribution Rate
   In order to maintain adequate funding and to control contribution volatility:
   If the Funded Ratio exceeds 100% (any Unfunded Actuarial Accrued Liability has been fully amortized) based on the actuarial valuation, the surplus will be amortized over 30 years. The Funded Ratio for this purpose will be based on the Actuarial Value of Assets.

3. Contribution Timing
   After the Board has adopted a contribution or rate based on a given actuarial valuation, the funds will be requested to be contributed by the City no later than 18 months after the date of the valuation.

D. Assumption Guidelines

The actuarial assumptions are adopted by the Board in an effort to align the funding of the plan with actual demographic and economic experience, thus providing stability to the contribution rate over time.

To the extent that actual experience deviates from the assumptions, experience gains and losses will occur. These gains (or losses) then serve to reduce (or increase) future contributions.

Assumptions are generally grouped into two major categories:

- Demographic assumptions -- which include withdrawal (termination), retirement, disability, and mortality rates, as well as assumptions regarding beneficiaries.
- Economic assumptions -- which include inflation, investment return, and employee salary increases

The assumptions adopted by the Board represent the actuary's best estimate of anticipated experience under the Plans and are intended to be long term in nature. Therefore, in developing the assumptions, the actuary considers not only past experience, but also trends, external forces and future expectations. Despite the care with which actuarial assumptions are developed, actual experience over the short term is not expected to match these assumptions exactly.

It is the Board's policy that these assumptions shall be reviewed by the Plans' consulting actuary not less often than every five years, through an Experience Study and Assumption Review. The actuary will present recommendations (and accompanying reports, discussion, etc.) to the Board, which will have the option to accept or reject such recommendations. The Board also reserves the right to update assumptions between formal studies.

At the time of the Assumption Review, this Funding Policy shall also be reviewed for any necessary modifications. Any changes are also subject to legal review.

E. Glossary of Terms

*Actuarial Cost Method*: The technique used to allocate costs to various time periods.

*Actuarial Accrued Liability (AAL)*: The portion of the Present Value of Projected Benefits that is attributed to past years of service by the Actuarial Funding Method. The AAL serves as a funding target at any given point in time.

*Actuarial Value of Assets*: The smoothed value of assets used by the actuary in the actuarial valuation, for the purpose of reducing the impact of market fluctuations on the employer's contribution rate. The terms *Total Actuarial Value of Assets* and *Pension Actuarial Value of Assets* will be used to distinguish between values that include or exclude any special reserve balances.

*Entry Age Actuarial Funding Method*: An Actuarial Funding Method that determines the plan's Normal Cost as a level percentage of pay over the working lifetimes of plan members.

*Experience Gains and Losses*: The difference between the experience anticipated by the actuarial assumptions and the plan's actual experience during the period between valuations. If actual experience is financially more favorable to the Plans, it is a Gain, (e.g., higher investment return than expected). If actual experience is financially less favorable to the Plans, it is a Loss, (e.g., lower investment return than expected).

*Funded Ratio:* A measure of the ratio of plan assets to the Actuarial Accrued Liability (funding target) of the Plans. Plan assets can be the Pension Market Value of Assets or the Pension Actuarial Value of Assets.

*Market Value of Assets:* The total fair value of fund assets as reported in the Plans' financial statements. The terms *Total Market Value of Assets* and *Pension Market Value of Assets* will be used to distinguish between values that include or exclude any special reserves which are not used for funding of pension benefits (e.g., Healthcare Reserve).

*Normal Cost*: The portion of the Present Value of Projected Benefits that is attributed to the current year by the Actuarial Funding Method. Also referred to as the *Annual Benefit Cost.*

*Unfunded Actuarial Accrued Liability (UAAL)*: The portion of the Actuarial Accrued Liability not covered by plan assets. It is calculated by subtracting the Pension Actuarial Value of Assets from the Actuarial Accrued Liability.