

AGENDA



Date: November 6, 2020

A meeting of the Supplemental Police and Fire Pension Fund Board of Trustees will be held at **8:30 a.m.** on **Thursday, November 12, 2020**, via telephone conference for audio at **214-271-5080** access code **588694** or Toll-Free (US & CAN): **1-800-201-5203** and Zoom meeting for visual <https://us02web.zoom.us/j/87136913186?pwd=OFhtSC80RnJUS0kwek0zeWQvSHUrUT09> Passcode: **806351**. Items of the following agenda will be presented to the Board:

A. CONSENT AGENDA

Approval of Minutes

Regular meeting of October 8, 2020

B. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

- 1. January 1, 2020 Actuarial Valuation**
- 2. Second Reading and discussion of the 2021 Budget**

3. Quarterly Financial Reports

The term "possible action" in the wording of any Agenda item contained herein serves as notice that the Board may, as permitted by Texas Government Code, Section 551, in its discretion, dispose of any item by any action in the following non-exclusive list: approval, disapproval, deferral, table, take no action, and receive and file. At the discretion of the Board, items on this agenda may be considered at times other than in the order indicated in this agenda.

At any point during the consideration of the above items, the Board may go into Closed Executive Session as per Texas Government Code, Section 551.071 for consultation with attorneys, Section 551.072 for real estate matters, Section 551.074 for personnel matters, and Section 551.078 for review of medical records.

**Dallas Police and Fire Pension System
Thursday, October 8, 2020
8:30 a.m.
Via telephone conference**

Regular meeting, William F. Quinn, Chairman, presiding:

ROLL CALL

Board Members

Present at 8:31 a.m. William F. Quinn, Nicholas A. Merrick, Armando Garza, Michael Brown, Robert B. French, Gilbert A. Garcia, Kenneth Haben, Tina Hernandez Patterson, Steve Idoux, Mark Malveaux, Allen R. Vaught

Absent: None

Staff

Kelly Gottschalk, Josh Mond, Kent Custer, Brenda Barnes, John Holt, Greg Irlbeck, Milissa Romero, Cynthia Thomas, Ryan Wagner, Michael Yan

Others

None

* * * * *

The meeting was called to order and recessed at 8:31 a.m.

The meeting was reconvened at 12:00 p.m.

* * * * *

A. CONSENT AGENDA

Approval of Minutes

Regular meeting of September 10, 2020

After discussion, Mr. Quinn made a motion to approve the minutes of the meeting of September 10, 2020. Mr. Vaught seconded the motion, which was unanimously approved by the Board.

* * * * *

**Supplemental Board Meeting
Thursday, October 8, 2020**

**B. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR
INDIVIDUAL CONSIDERATION**

Initial reading and discussion of the 2021 Budget

The Chief Financial Officer presented the initial reading of the 2021 budget, prepared in total for both the Combined Pension Plan and the Supplement Plan.

After discussion, Mr. Quinn made a motion to authorize forwarding the 2021 proposed budget to the City of Dallas for comment and the posting of the proposed budget to www.dfpf.org for member review prior to the November meeting and bring the proposed budget to the Board at the November 12, 2020 Board meeting for consideration. Ms. Hernandez Patterson seconded the motion, which was unanimously approved by the Board.

* * * * *

Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Mr. Quinn and a second by Mr. Haben, the meeting was adjourned at 12:01 p.m.

William F. Quinn
Chairman

ATTEST:

Kelly Gottschalk
Secretary



DISCUSSION SHEET

Supplemental

ITEM #B1

Topic: **January 1, 2020 Actuarial Valuation**

Attendees: Jeff Williams, Vice President and Consulting Actuary, Segal Consulting
Caitlin Grice, Consulting Actuary, Segal Consulting

Discussion: Jeff Williams and Caitlin Grice of Segal Consulting, DFPF's actuarial firm, will be present to discuss results of the January 1, 2020 actuarial valuation report, including the GASB No. 67 actuarial valuation.

Staff

Recommendation: **Approve** issuance of the January 1, 2020 actuarial valuation report, subject to final review by the auditors (BDO) and review and approval by the Executive Director.

Supplemental Board Meeting – Thursday, November 12, 2020



Dallas Police and Fire Pension System

Annual Valuation Summary as of January 1, 2020

Board of Trustees Meeting

November 12, 2020 / Jeff Williams / Caitlin Grice

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| Agenda

Portrait of a Pension Valuation

Summary of January 1, 2020 Actuarial Valuation Results

Summary of Data

Historical Results

Solvency Projection

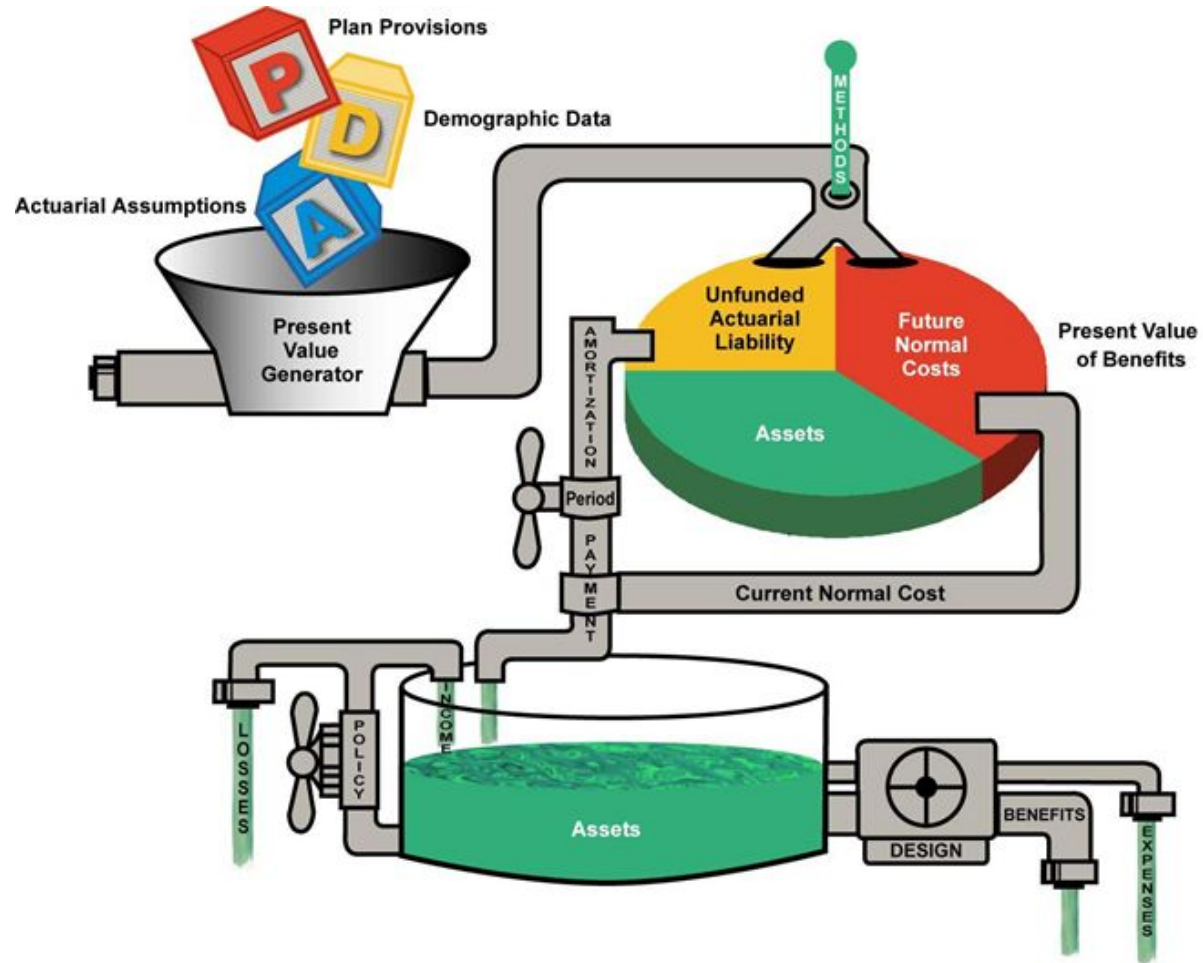
Risk

Importance of Accurate Payroll Projections

GASB Accounting Disclosures

Supplemental Plan Results

Portrait of a Pension Valuation



Combined Plan Results



Summary of 2020 Actuarial Valuation Results

Actuarial Determined Contribution (ADC)

- City's ADC is based on a 30-year amortization of the System's unfunded actuarial accrued liability, in accordance with Texas Code Section 802.101
 - Actual City contributions expected to be less than ADC
 - Unfunded liability is projected to be paid off in **55** years, based on City's Hiring Plan payroll projections (up from **38** years in the 2019 valuation)
- City's ADC for 2020 is \$170.0 million (42.82% of computation pay)
 - Increased from \$152.1 million (41.88% of computation pay) in 2019, primarily due to investment losses, demographic experience and assumption changes
 - Actual City contributions for 2019 were \$155.7 million, or 102.4% of the 2019 ADC
 - Contributions were expected to be approximately \$157.8 million (\$5.571 million for 26 pay periods, plus \$13 million)
 - City contributions for 2020 are expected to be approximately \$161.8 million (\$5.724 million for 26 pay periods, plus \$13 million)
 - If this amount is contributed, it will be 95.2% of the 30-year ADC

Funded ratios

- On an actuarial basis, decreased from 48.10% in 2019 to 45.73% in 2020
- On a market basis, decreased from 45.43% in 2019 to 43.56% in 2020

Summary of 2020 Actuarial Valuation Results

Financial information

- Actuarial value of assets remained level at \$2.16 billion
- Market value of assets increased from \$2.04 billion to \$2.06 billion
- Rates of return
 - Assumed return of 7.25%
 - Market return of 6.25%
 - Actuarial return of 5.05%
 - Lowered assumed return from 7.25% to 7.00% with this year's valuation



Assumption changes

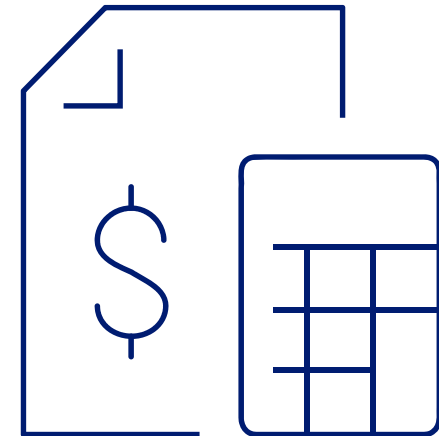
- Variety of assumption changes, as recommended in January 1, 2015 – December 31, 2019 experience study that was presented in May 2020
 - Net investment return assumption
 - Salary scale
 - Payroll growth rate
 - Mortality tables
 - Retirement rates
 - DROP Annuitization interest rate
 - Withdrawal (or turnover) rates
- System provided revised short-term market rates of return to be assumed for projecting assets and funding status
- Ad-hoc COLA timing was updated to reflect all assumption changes

Summary of 2020 Actuarial Valuation Results

Reconciliation of City's ADC (30-year amortization)

- 2019 ADC **\$152.1M**, or **41.88%** of computation pay
- 2020 ADC, prior to assumption changes **\$157.6M**, or **39.71%** of computation pay
- 2020 ADC, after assumption changes **\$170.0M**, or **42.82%** of computation pay

Note: Total computation pay, or valuation pay, shown in the valuation report is the active members' actual payroll for the preceding year, increased by the salary scale applicable for each member to account for their anticipated salary increases in the upcoming year.



Summary of 2020 Actuarial Valuation Results

	2020	2019
Total normal cost, including administrative expenses	\$69,083,972	\$60,600,247
Expected member contributions	<u>-53,588,890</u>	<u>-49,020,851</u>
Employer normal cost	\$15,495,082	\$11,579,396
Total normal cost as % of computation pay	17.40%	16.69%
Employer normal cost as a % of computation pay	3.90%	3.19%
Actuarial accrued liability	\$4,723,972,480	\$4,494,822,504
Actuarial value of assets	<u>-2,160,125,611</u>	<u>-2,161,899,662</u>
Unfunded liability	\$2,563,846,869	\$2,332,922,842
Funded ratio	45.73%	48.10%
Computation pay	\$396,954,743	\$363,117,415
Actuarial Determined Contribution, in dollars	\$169,987,256	\$152,084,297
Actuarial Determined Contribution, as a % of computation pay	42.82%	41.88%
Projected year of full funding, based on City's Hiring Plan Payroll	2075	2057

Summary of Data

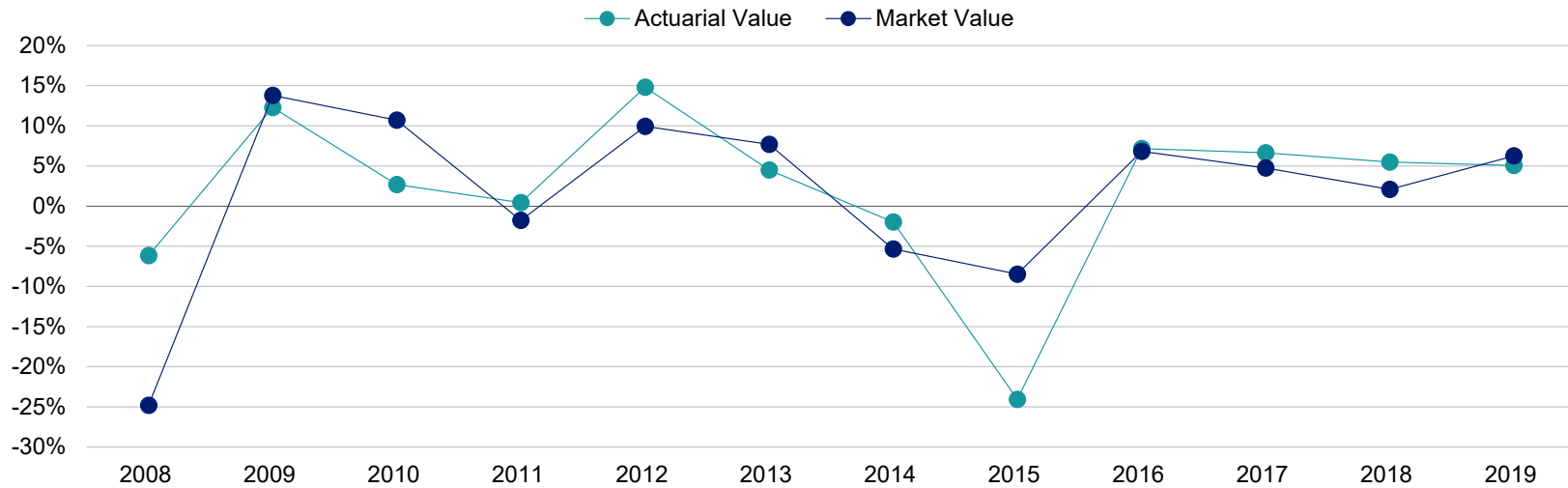
	Year Ended December 31,		Change
	2019	2018	
Active members			
Number	5,121	5,012	2.2%
Average age	39.8	40.1	-0.3
Average service	12.3	12.8	-0.5
Average computation pay	\$77,515	\$72,450	7.0%
Number in DROP	383	483	-20.7%
Total DROP accounts	\$154.2M	\$192.4M	-19.8%
Retirees and beneficiaries			
Number ¹	4,956	4,849	2.2%
Average monthly payment ²	\$4,250	\$4,217	0.8%
Inactive vested members			
Number	242	230	5.2%

¹ Excludes beneficiaries with DROP accounts only

² Includes benefit supplement, excludes annuitization of DROP balances

Historical Results

Asset Returns

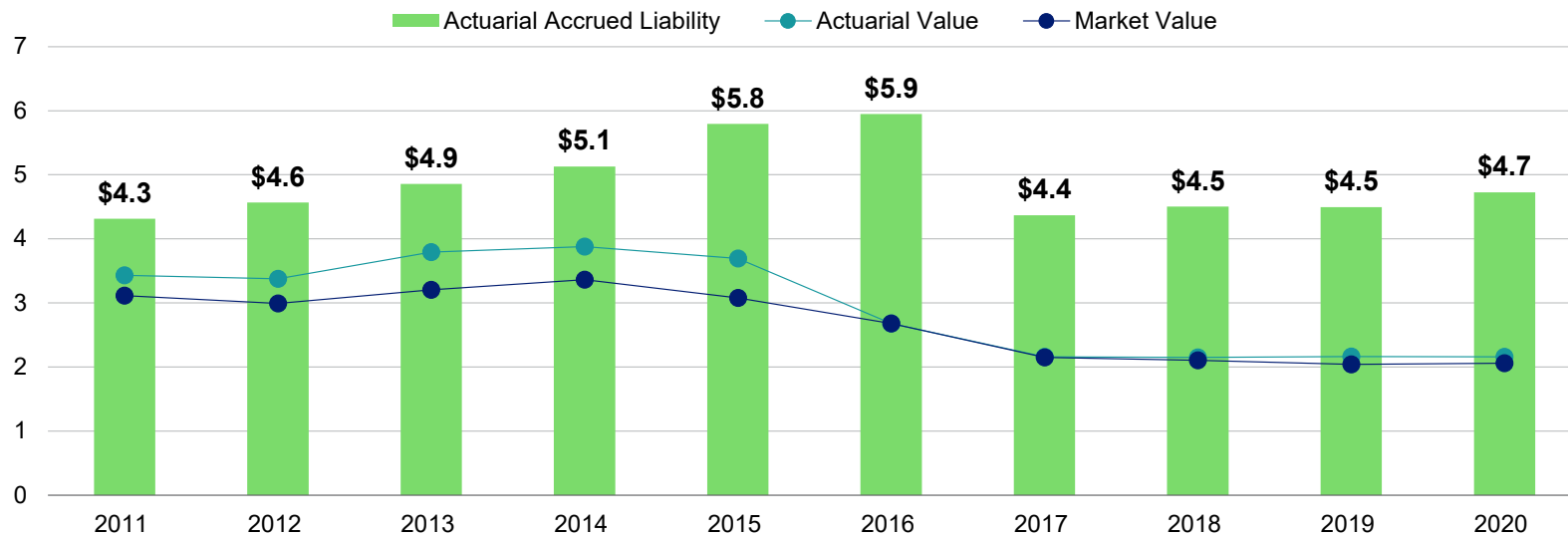


	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
AVA	-6.14%	12.29%	2.69%	0.43%	14.79%	4.52%	-1.98%	-24.03%	7.16%	6.63%	5.48%	5.05%
MVA	-24.80%	13.78%	10.72%	-1.78%	9.92%	7.70%	-5.35%	-8.47%	6.82%	4.74%	2.09%	6.25%

Note: The actuarial returns for 2012 and 2015 include effects of changes in asset method. The returns for 2014 and 2015 include significant write-downs of the Plan's assets.

Historical Results

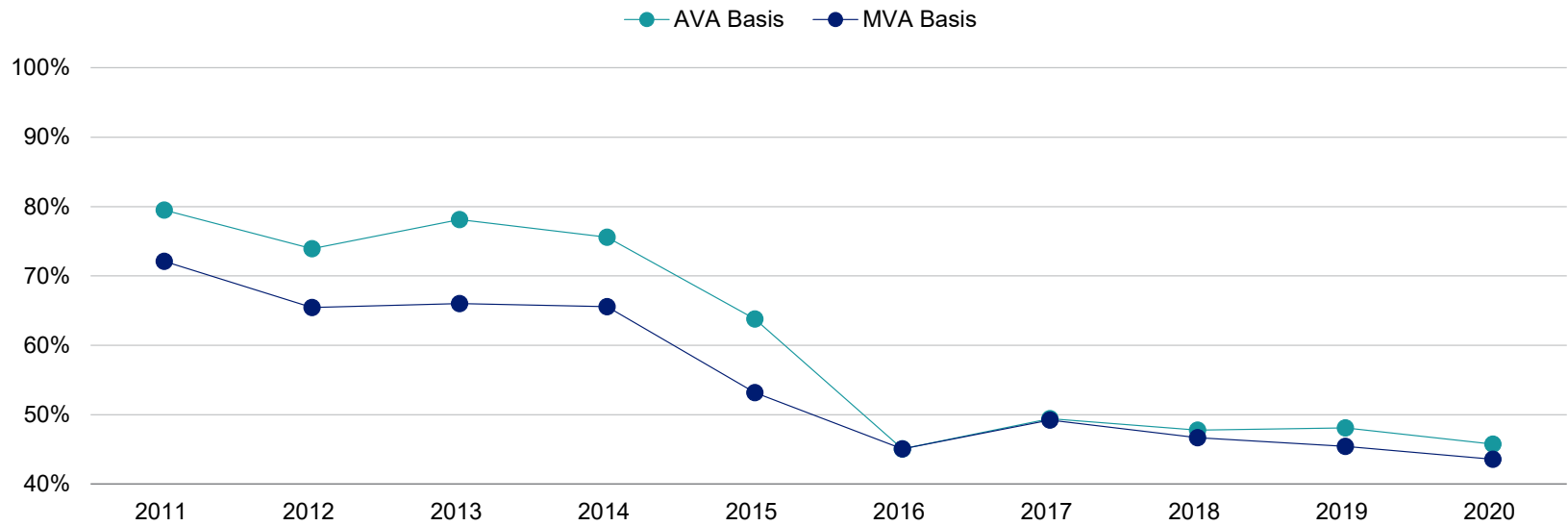
Asset and Actuarial Accrued Liability Values as of January 1
 (\$ billions)



Notes: The significant increase in liability in 2015 is due to the change in discount rate, from 8.50% to 7.25%.
 The liability decrease in 2017 is attributable to the plan changes implemented following the adoption of HB 3158.
 As mentioned previously, the decline in assets from January 1, 2014 through January 1, 2016 is primarily the result of write-downs. The actuarial value of assets was set equal to market value as of January 1, 2016.
 The decline during 2016 reflects the unusually large number of DROP payments made in that year.

Historical Results

Funded Percentage as of January 1



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
AVA	79.5%	73.9%	78.1%	75.6%	63.8%	45.1%	49.4%	47.7%	48.1%	45.7%
MVA	72.1%	65.5%	66.0%	65.6%	53.2%	45.1%	49.2%	46.7%	45.4%	43.6%

Risk

Investment Risk

- The System's assets are expected to earn less than the assumed rate over the next few years as the investment portfolio is rebalanced
- Beyond that, the System could be at risk of not meeting its funding goals if asset returns are below the assumed long-term rate
- Benefit payments are higher than contribution income making the System reliant on investment income to cover the difference
 - For 2019, benefits and administrative expenses were \$108.3 million more than contributions received

Longevity and Demographic Risk

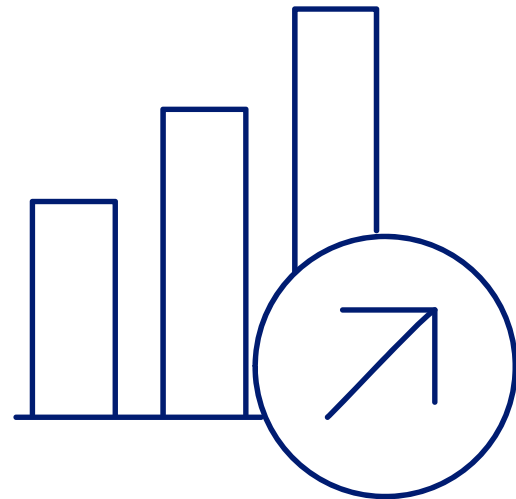
- If members live longer than expected, the benefit payouts will be higher than currently assumed, which will draw down the System's assets
- The plan's costs are also reliant on turnover and retirement patterns

Contribution Risk

- Plan contribution rates are set by statute, but the dollars of contributions depend on the computation payroll to which the rates are applied
- The following slides describe the importance of accurate payroll projections on the System's ability to improve its funding status

The Importance of Accurate Payroll Projections

- Segal strongly recommends an actuarial funding method that targets 100% funding of the actuarial accrued liability
- Payments should be enough to cover normal cost, interest on the unfunded actuarial accrued liability and, ultimately, the principal balance
- The funding policy adopted by the State in HB 3158 meets this standard, if the City's Hiring Plan payroll projections come to fruition
- Assuming the City's Hiring Plan payroll projection is met, the expected full-funding date is 2075, 18 years later than the expected full-funding date from the 2019 valuation
 - Full-funding date may vary on an annual basis due to demographic experience, economic experience, and contributions other than assumed



The Importance of Accurate Payroll Projections

- Through the first four years of the policy (2017-2020), valuation payroll based on participant data is cumulatively \$51.5 million less than the City's projections
- City's long-term contribution rate is scheduled to be 34.50% of computation pay
 - Through 2024 there is a floor on the City's contribution levels
 - Beginning in 2025, City expected to contribute based solely on pay
 - City's plan reflects significant growth in payroll over 20 years, from \$372 million in 2017 to \$684 million in 2037 (average annual growth of 3.1%)
 - Differences between actual payroll and City's Hiring Plan payroll will have an impact on when the System is projected to become fully funded
 - If payroll growth is more modest, or if there is adverse experience in the System that leads to losses, the period required to achieve 100% funding could be significantly longer

If the City's Hiring Plan projections are not met and instead the current valuation payroll of \$397.0 million increases by the assumed payroll growth of 2.50% each year ongoing, and if City and member contributions are based on this projected payroll beginning in 2025, the System is projected to be only 41% funded in 2075, rather than 100%.

City's Hiring Plan Payroll vs. Projected Valuation Payroll

Year	City's Hiring Plan Payroll	Projected Valuation Payroll ¹	\$ Difference
2017	\$372,000,000	\$357,414,472	-\$14,585,528
2018	364,000,000	346,036,690	-17,963,310
2019	383,000,000	363,117,415	-19,882,585
2020	396,000,000	396,954,743	954,743
2021	408,000,000	406,878,612	-1,121,388
2022	422,000,000	417,050,577	-4,949,423
2023	438,000,000	427,476,841	-10,523,159
2024	454,000,000	438,163,762	-15,836,238
2025	471,000,000	449,117,856	-21,882,144
2026	488,000,000	460,345,803	-27,654,197
2027	507,000,000	471,854,448	-35,145,552
2028	525,000,000	483,650,809	-41,349,191
2029	545,000,000	495,742,079	-49,257,921
2030	565,000,000	508,135,631	-56,864,369
2031	581,000,000	520,839,022	-60,160,978
2032	597,000,000	533,859,998	-63,140,002
2033	614,000,000	547,206,498	-66,793,502
2034	631,000,000	560,886,660	-70,113,340
2035	648,000,000	574,908,826	-73,091,174
2036	666,000,000	589,281,547	-76,718,453
2037	684,000,000	604,013,586	-79,986,414
			-\$806,064,125

¹ Valuation payroll is the active members' actual payroll for the preceding year, increased by the salary scale applicable for each member to account for their anticipated salary increases in the upcoming year.

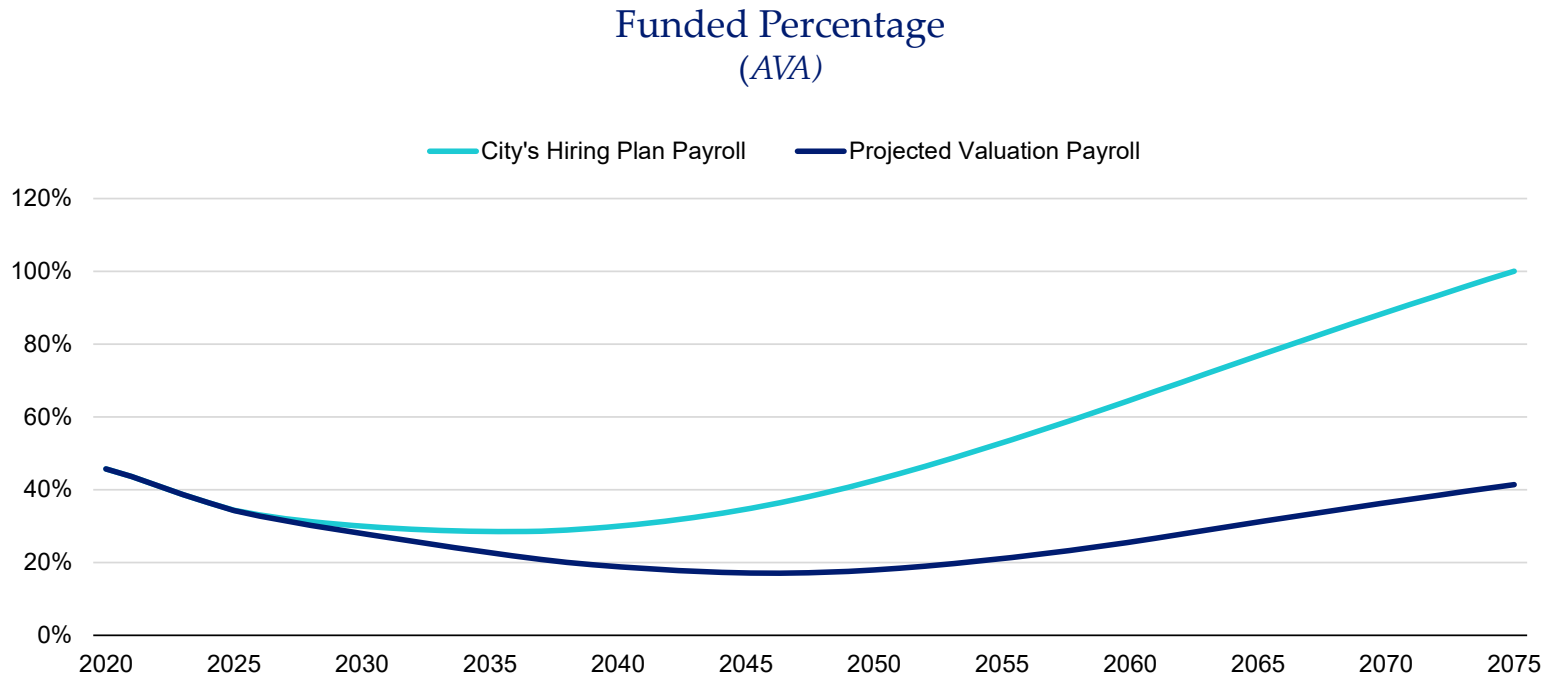
Assumptions

- Valuation payroll projected at 2.5% per year
- Beginning in 2025, the statutory contributions cease and City contributions equal 34.5% of actual computation pay
- Member contributions: 13.5% of computation pay

Findings

- Total City and Member contributions between 2025 and 2037, based on the City's Hiring Plan payroll projections: **\$3.611 billion**
- Total City and Member contributions between 2025 and 2037, based on projected valuation payroll: **\$3.264 billion**
- Difference in total contributions based on these two projections, just for the period of 2025 through 2037: **\$347 million**
- The **\$347 million** gap is down from **\$457 million** last year, because the 2020 projected valuation payroll is about 9% higher than expected based on projecting the 2019 computation pay by the payroll growth assumption

Funded Percentage Projection



The projection above anticipates that all actuarial assumptions are met in the future and all contributions are made as expected. Projections are based on the City's Hiring Plan payroll projections through 2037 for the "City's Hiring Plan Payroll" projection. The "Projected Valuation Payroll" uses the actual January 1, 2020 payroll projected forward each year at the 2.50% growth assumption.

Based on the City's Hiring Plan payroll projections, 100% funding is projected by January 1, 2075. Based on the projected valuation payroll, the funded percent is projected to be 41% on January 1, 2075.

GASB 67 Accounting Disclosures – Net Pension Liability

- The Pension System is required to provide disclosures under GASB Statement 67. The components of the net pension liability are as follows:

	Year Ended December 31, 2019	Year Ended December 31, 2018
Total Pension Liability (TPL)	\$4.73 billion	\$4.50 billion
Plan's Fiduciary Net Position	\$2.06 billion	\$2.04 billion
City's Net Pension Liability (NPL)	\$2.67 billion	\$2.46 billion
Plan Fiduciary Net Position as a percentage of the TPL	43.49%	45.36%

- TPL as of December 31, 2018 includes the DROP revocations between September 1, 2017 and February 28, 2018
- In the event that a pension plan has a projected insolvency date, GASB requires that the unfunded benefits be discounted using a 20-year, tax-exempt general obligation bonds rate rather than the Plan's funding rate
- Based on HB 3158 contribution requirements and the City's Hiring Plan (90% of which was used for projecting computation pay for GASB purposes), City and member contributions are projected be able to pay the benefits of current members. Therefore, GASB liabilities are determined using the valuation discount rate.
 - 7.00% as of December 31, 2019
 - 7.25% as of December 31, 2018

Supplemental Plan Results



Supplemental Plan Results

- City of Dallas contributes to the Supplemental Plan each year based on the normal cost (net of member contributions), interest on the unfunded actuarial accrued liability and the principal balance
 - The funding policy was changed from an open, 10-year amortization period to a closed, 20-year amortization period with this year's valuation
 - Beginning in 2021, future gains or losses each year will be amortized over a closed, 10-year period
- Same assumption changes implemented for the Combined Pension Plan apply to the Supplemental Plan
- Total recommended contribution for the Supplemental Plan decreased from \$1.97 million in 2019 to \$1.86 million in 2020
 - City's portion decreased from \$1.88 million to \$1.78 million; the change in amortization methodology caused the ADC to decrease by \$0.8 million
- Supplemental Plan net assets decreased from \$18.3 million to \$17.3 million
- Funded ratio decreased from 57.6% to 48.3%
- Number of active members increased from 39 to 41
- Number of annuitants increased from 138 to 139
- GASB net pension liability (NPL) is determined using the valuation discount rate of 7.00%
- NPL increased from \$13.5 million to \$18.5 million

Caveats

- This presentation is intended for the use of the Board of Trustees for the Dallas Police and Fire Pension System, and is a supplement to Segal's full valuation reports for the System as of January 1, 2020.
- Please refer to the full valuation reports for a description of assumptions and plan provisions reflected in the results shown in this presentation. The reports also include more comprehensive information regarding the System's membership, assets, and experience during the most recent plan year.
- Projections, by their nature, are not a guarantee of future results. They are intended to serve as estimates of future financial outcomes that are based on assumptions about future experience and the information available to us at the time the modeling is undertaken and completed. The projected future results included in this presentation show how the System would be affected if specific investment return, salary, mortality, turnover, disability and retirement assumptions are met. Actual results may differ due to such variables as demographic experience, the economy, contribution patterns, stock market performance and the regulatory environment.
- The calculations included in this presentation were completed under the supervision of Jeffrey S. Williams, FCA, ASA, MAAA, EA, and Deborah K. Brigham, FCA, ASA, MAAA, EA.

Questions?

Jeffrey S. Williams, FCA, ASA, MAAA, EA
Vice President and Consulting Actuary
jwilliams@segalco.com
678.306.3147

Caitlin Grice, FCA, ASA, MAAA, EA
Consulting Actuary
cgrice@segalco.com
410.336.2266



Dallas Police and Fire Pension System Supplemental Plan

Actuarial Valuation and Review as of January 1, 2020



This report has been prepared at the request of the Board of Trustees to assist in administering the Plan. This valuation report may not otherwise be copied or reproduced in any form without the consent of the Board of Trustees and may only be provided to other parties in its entirety, unless expressly authorized by Segal. The measurements shown in this actuarial valuation may not be applicable for other purposes.

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Segal



2727 Paces Ferry Road SE, Building One, Suite 1400
Atlanta, GA 30339-4053
segalco.com
T 678.306.3100

November 6, 2020

Board of Trustees
Dallas Police and Fire Pension System Supplemental Plan
4100 Harry Hines Blvd., Suite 100
Dallas, TX 75219-3207

Dear Board Members:

We are pleased to submit this Actuarial Valuation and Review as of January 1, 2020. It summarizes the actuarial data used in the valuation, analyzes the preceding year's experience, and establishes the funding requirements for fiscal 2020.

This report was prepared in accordance with generally accepted actuarial principles and practices at the request of the Board to assist in administering the Supplemental Plan. The census information on which our calculations were based was prepared by the System's IT Department, under the supervision of John Holt, and the financial information was provided by the System's Finance Department. That assistance is gratefully acknowledged.

The actuarial calculations were directed under our supervision. We are members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein. To the best of our knowledge, the information supplied in this actuarial valuation is complete and accurate. Further, in our opinion, the assumptions as approved by the Board are reasonably related to the experience of and the expectations for the Plan. Since the members in this Supplemental Plan are a subset of the Dallas Police and Fire Pension System Combined Pension Plan, and since the assets are invested together, the same assumptions are used for both. Changes impacting the larger plan will impact this one as well.

We look forward to reviewing this report at your next meeting and to answering any questions.

Sincerely,
Segal

Handwritten signature of Jeffrey S. Williams in black ink.

Jeffrey S. Williams, FCA, ASA, MAAA, EA
Vice President and Consulting Actuary

Handwritten signature of Deborah K. Brigham in black ink.

Deborah K. Brigham, FCA, ASA, MAAA, EA
Senior Vice President and Consulting Actuary

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Actuarial Valuation Summary

Purpose and basis

This report was prepared by Segal to present a valuation of the Plan as of January 1, 2020. The valuation was performed to determine whether the assets and contributions are sufficient to provide the prescribed benefits and to provide information for required disclosures under Governmental Accounting Standards Board (GASB) Statement No. 67. The measurements shown in this actuarial valuation may not be applicable for other purposes. In particular, the measures herein are not necessarily appropriate for assessing the sufficiency of Plan assets to cover the estimated cost of settling the Plan's benefit obligations. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provisions or applicable law.

The contribution requirements presented in this report are based on:

- The benefit provisions of the Pension Plan, as administered by the Board;
- The characteristics of covered active members, inactive vested members, inactive members due a refund of contributions and retired members and beneficiaries as of December 31, 2019, provided by the System's IT Department;
- The assets of the Plan as of December 31, 2019, provided by the System's Finance Department;
- Economic assumptions regarding future salary increases and investment earnings; and
- Other actuarial assumptions regarding employee terminations, retirement, death, etc.

The majority of the assumptions and methods used to value the Plan were set by the Board based on recommendations made by Segal following a five-year experience study for the period ended December 31, 2019. In addition, the COLA assumption is updated annually. Assumptions are reviewed and updated annually as needed.

Certain disclosure information required by GASB Statement No 68 as of September 30, 2020 for the City will be provided in a separate report.

Section 1: Actuarial Valuation Summary

Valuation highlights

This actuarial valuation is based on plan assets as of December 31, 2019. Due to the COVID-19 pandemic, market conditions have changed significantly since the valuation date. The Plan's actuarial status does not reflect short-term fluctuations of the market, but rather is based on the market values on the last day of the Plan Year. While it is impossible to determine how the market will perform over the next several months, and how that will affect the results of next year's valuation, Segal is available to prepare projections of potential outcomes upon request.

1. Segal strongly recommends an actuarial funding method that targets 100% funding of the actuarial accrued liability. Generally, this implies payments that are ultimately at least enough to cover normal cost, interest on the unfunded actuarial accrued liability (UAL) and the principal UAL balance. The funding policy was changed from an open, 10-year amortization of the UAL to a closed, 20-year amortization with this year's valuation, and the policy meets this standard. Beginning in 2021, future gains or losses each year will be amortized over separate, closed, 10-year periods. Amortization will remain on a level percentage of pay basis.
2. The City's actuarial determined contribution (ADC) for the upcoming year is \$1,777,311, a decrease of \$103,744 from last year. The contribution is equal to the sum of the normal cost, administrative expenses, and a 20-year, level percent-of-payroll amortization of the UAL.
3. The funded ratio (the ratio of assets to actuarial accrued liability) is 48.30%, compared to the prior year funded ratio of 57.56%. The decrease is attributable to investment losses, demographic experience and assumption changes. This ratio is one measure of funding status, and its history is a measure of funding progress. These measurements are not necessarily appropriate for assessing the sufficiency of Plan assets to cover the estimated cost of settling the Plan's benefit obligation or the need for or the amount of future contributions.
4. Actual City contributions made during the fiscal year ending December 31, 2019 were \$1,530,262, 81.4% of the ADC. In the prior fiscal year, actual City contributions were \$1,979,285, 87.1% of the prior year ADC. The 2019 contributions would have been sufficient to reduce the UAL, if there had been no investment or demographic losses and no assumption changes. The UAL is \$18.5 million, which is an increase of \$5.0 million since the prior valuation.
5. The rate of return on the market value of assets, as calculated by the actuary, was 0.95% for the 2019 plan year. This resulted in an actuarial loss when measured against the assumed rate of return of 7.25%. Given the low fixed income interest rate environment, target asset allocation and expectations of future investment returns for various classes, the Board lowered the assumed long-term rate of return on investments from 7.25% to 7.00% with this year's valuation.
6. The net experience loss from sources other than investment experience was 8.7% of the actuarial accrued liability prior to reflection of assumption changes. This loss was largely due to participants whose DROP annuities were being paid out of the 415 Excess Plan but are now being paid from this Plan. By diverting contributions that would otherwise have been paid to the

Section 1: Actuarial Valuation Summary

Supplemental Plan into the Excess Plan, this will show up as a “contribution deficiency” for the Supplemental Plan for GASB Purposes (see Section 5, Exhibit 3).

7. Included in this valuation for the first time are a variety of assumption changes, as recommended in the January 1, 2015 – December 31, 2019 experience study for the System. The study was presented to the Board in May 2020. Changes were made to the net investment return rate, salary scale, payroll growth rate, mortality tables, retirement rates, DROP annuitization rates, and withdrawal (or turnover) rates. In addition, the System has provided revised short-term market rates of return to be assumed for projecting assets and funding status. The assumption for ad-hoc COLA timing was updated to reflect all of these assumption changes. Details of the new assumptions are summarized in Section 4, Exhibit I. Overall, the assumption changes increased the total normal cost by \$7,663 and the actuarial accrued liability by \$1,325,550. The total impact was an increase in the ADC of \$106,740.
8. Lengthening the UAL amortization period in this valuation from 10 to 20 years lowered the ADC by \$845,554.
9. Since the actuarial valuation results are dependent on a given set of assumptions, there is a risk that emerging results may differ significantly as actual experience proves to be different from the assumptions. Segal has not been engaged to perform a detailed analysis of the potential range of the impact of risk relative to the System’s future financial condition, but have included a brief discussion of some risks that may affect the System in Section 2.
10. This report constitutes an actuarial valuation for the purpose of determining the City’s ADC under the Plan’s funding policy. The information contained in Section 5 provides the accounting information for Governmental Accounting Standards Board (GASB) Statement No. 67, for inclusion in the plan and employer’s financial statements as of December 31, 2019. The Net Pension Liability (NPL) and Pension Expense under GASB Statement No. 68, for inclusion in the plan and employer’s financial statements as of September 30, 2020, will be provided separately.
11. The Net Pension Liability (NPL) is equal to the difference between the Total Pension Liability (TPL) and the Plan’s fiduciary net position (equal to the market value of assets). The NPL as of December 31, 2019 is \$18.5 million, an increase from \$13.5 million as of December 31, 2018.

Section 1: Actuarial Valuation Summary

Summary of key valuation results

		2020	2019
Contributions for plan year beginning January 1:	• Total actuarially determined contribution (City and member)	\$1,860,984	\$1,973,154
	• Expected member contributions	83,673	92,099
	• City's actuarially determined contribution (ADC)	1,777,311	1,881,055
	• Actual City contributions	--	1,530,262
	• Amortization period for determination of ADC	20 years	10 years
Actuarial accrued liability for plan year beginning January 1:	• Retired members and beneficiaries	\$31,976,272	\$28,621,814
	• Inactive vested members	90,481	81,227
	• Active members	3,710,053	3,068,054
	• Inactive members due a refund of employee contributions	53,678	53,678
	• Total actuarial accrued liability	35,830,484	31,824,773
Assets for plan year beginning January 1:	• Employer normal cost including administrative expenses	367,040	190,672
	• Actuarial (market) value of assets	\$17,307,433	\$18,317,893
Funded status for plan year beginning January 1:	• Unfunded actuarial accrued liability	\$18,523,051	\$13,506,880
	• Funded percentage	48.30%	57.56%
Key assumptions	• Net investment return	7.00%	7.25%
	• Inflation rate/payroll increase	2.50%	2.75%
GASB information	• Discount rate	7.00%	7.25%
	• Total pension liability	\$35,838,906	\$31,830,733
	• Plan fiduciary net position	17,307,433	18,317,893
	• Net pension liability	18,531,473	13,512,840
	• Plan fiduciary net position as a percentage of total pension liability	48.29%	57.55%
Demographic data for plan year beginning January 1:	• Number of retired members and beneficiaries	139	138
	• Number of inactive vested members	2	2
	• Number of active members	41	39
	• Number of inactive members due a refund of employee contributions	1	1
	• Total supplemental computation pay ¹	\$599,187	\$658,757
	• Average supplemental computation pay	14,614	16,891

¹ Total computation pay, or valuation pay, is the active members' actual payroll for the preceding year, increased by the salary scale applicable for each member to account for their anticipated salary increases in the upcoming year.

Section 1: Actuarial Valuation Summary

Important information about actuarial valuations

An actuarial valuation is a budgeting tool with respect to the financing of future projected obligations of a pension plan. It is an estimated forecast – the actual long-term cost of the plan will be determined by the actual benefits and expenses paid and the actual investment experience of the plan.

In order to prepare a valuation, Segal relies on a number of input items. These include:

Plan of benefits	Plan provisions define the rules that will be used to determine benefit payments, and those rules, or the interpretation of them, may change over time. Even where they appear precise, outside factors may change how they operate. It is important to keep Segal informed with respect to plan provisions and administrative procedures, and to review the plan summary included in our report to confirm that Segal has correctly interpreted the plan of benefits.
Participant data	An actuarial valuation for a plan is based on data provided to the actuary by the System. Segal does not audit such data for completeness or accuracy, other than reviewing it for obvious inconsistencies compared to prior data and other information that appears unreasonable. It is important for Segal to receive the best possible data and to be informed about any known incomplete or inaccurate data.
Assets	The valuation is based on the market value of assets as of the valuation date, as provided by the System.
Actuarial assumptions	In preparing an actuarial valuation, Segal projects the benefits to be paid to existing plan participants for the rest of their lives and the lives of their beneficiaries. This projection requires actuarial assumptions as to the probability of death, disability, withdrawal, and retirement of each participant for each year. In addition, the benefits projected to be paid for each of those events in each future year reflect actuarial assumptions as to salary increases and cost-of-living adjustments. The projected benefits are then discounted to a present value, based on the assumed rate of return that is expected to be achieved on the plan's assets. There is a reasonable range for each assumption used in the projection and the results may vary materially based on which assumptions are selected. It is important for any user of an actuarial valuation to understand this concept. Actuarial assumptions are periodically reviewed to ensure that future valuations reflect emerging plan experience. While future changes in actuarial assumptions may have a significant impact on the reported results that does not mean that the previous assumptions were unreasonable.

Section 1: Actuarial Valuation Summary

The user of Segal's actuarial valuation (or other actuarial calculations) should keep the following in mind:

The actuarial valuation is prepared at the request of the Board. Segal is not responsible for the use or misuse of its report, particularly by any other party.

An actuarial valuation is a measurement of the plan's assets and liabilities at a specific date. Accordingly, except where otherwise noted, Segal did not perform an analysis of the potential range of future financial measures. The actual long-term cost of the plan will be determined by the actual benefits and expenses paid and the actual investment experience of the plan.

Actuarial results in this report are not rounded, but that does not imply precision.

If the Board is aware of any event or trend that was not considered in this valuation that may materially change the results of the valuation, Segal should be advised, so that we can evaluate it.

Segal does not provide investment, legal, accounting, or tax advice. Segal's valuation is based on our understanding of applicable guidance in these areas and of the plan's provisions, but they may be subject to alternative interpretations. The Board should look to their other advisors for expertise in these areas.

As Segal has no discretionary authority with respect to the management or assets of the System, it is not a fiduciary in its capacity as actuaries and consultants with respect to the System.

Actuarial Valuation Results

Member data

The Actuarial Valuation and Review considers the number and demographic characteristics of covered members, including active members, inactive vested members, retired members and beneficiaries.

This section presents a summary of significant statistical data on these member groups.

More detailed information for this valuation year and the preceding valuation can be found in *Section 3, Exhibits A and B*.

Member Population: 2010 – 2019

Year Ended December 31	Active Members	Inactive Vested Members ¹	Retired Members and Beneficiaries	Total Non-Actives	Ratio of Non-Actives to Actives
2010	39	--	113	113	2.90
2011	37	--	113	113	3.05
2012	39	--	120	120	3.08
2013	38	--	120	120	3.16
2014	39	--	122	122	3.13
2015	45	--	124	124	2.76
2016	47	--	128	128	2.72
2017	44	1	140	141	3.20
2018	39	2	138	140	3.59
2019	41	2	139	141	3.44

¹ Excludes non-vested terminated members due a refund of employee contributions

Section 2: Actuarial Valuation Results

Active members

Plan costs are affected by the age, years of service and supplemental computation pay of active members. In this year's valuation, there were 41 active members with an average age of 50.0, average years of service of 24.6 years and average supplemental computation pay of \$14,614. The 39 active members in the prior valuation had an average age of 49.8, average service of 24.2 years and average covered pay of \$16,891.

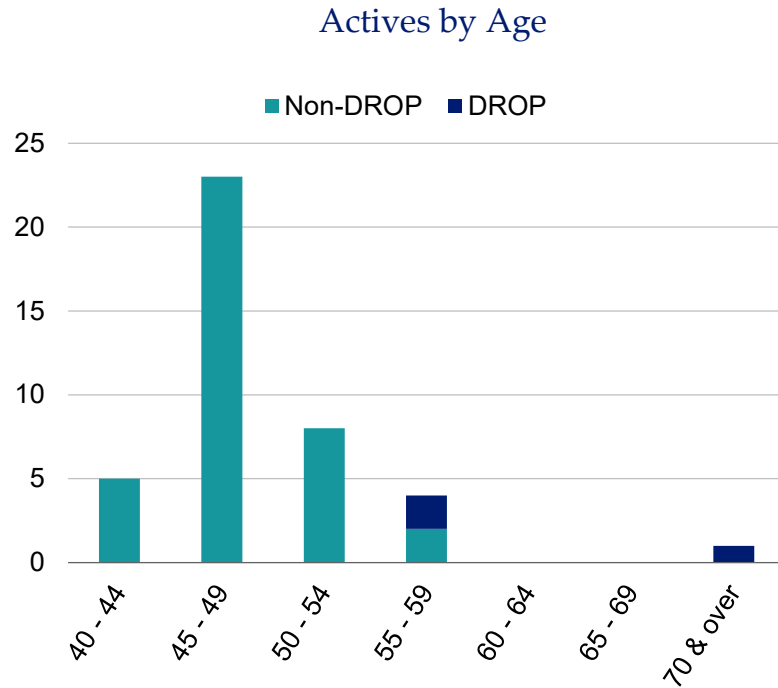
The number of active Firefighters increased from 16 to 18 as of December 31, 2019. The average age of this group is 49.2, the average years of service is 23.8 and the average supplemental computation pay is \$18,375. Last year, these averages were 49.2, 23.8 and \$11,082, respectively.

The number of active Police Officers remained level at 23 as of December 31, 2019. The average age of this group is 50.6, the average years of service is 25.2 and the average supplemental computation pay is \$11,671. Last year, these averages were 50.2, 24.5 and \$20,932, respectively.

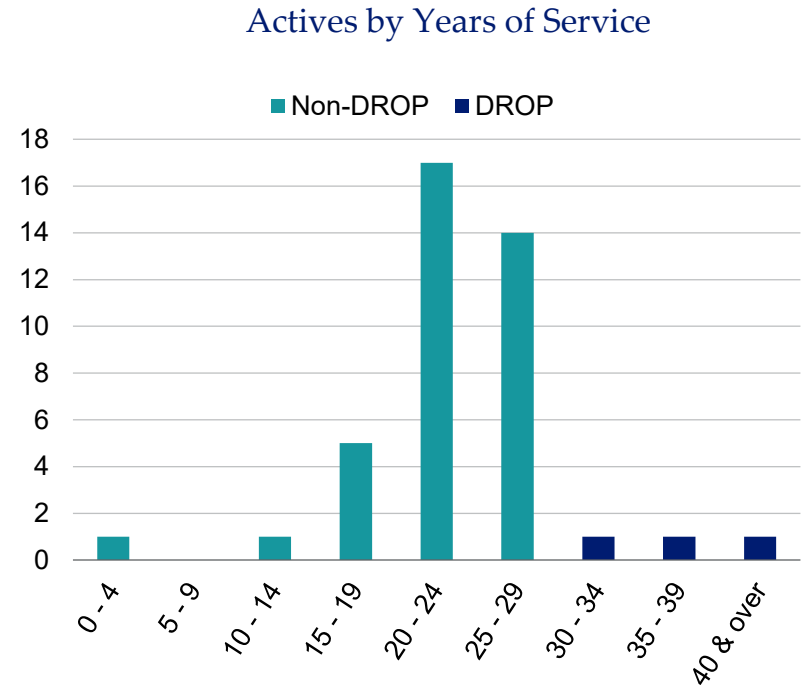
The number of active participants participating in DROP decreased from five at the end of 2018 to three at the end of 2019.

Section 2: Actuarial Valuation Results

Distribution of Active Members as of December 31, 2019



Average age	50.0
Prior year average age	49.8
Difference	0.2



Average years of service	24.6
Prior year average years of service	24.2
Difference	0.4

Section 2: Actuarial Valuation Results

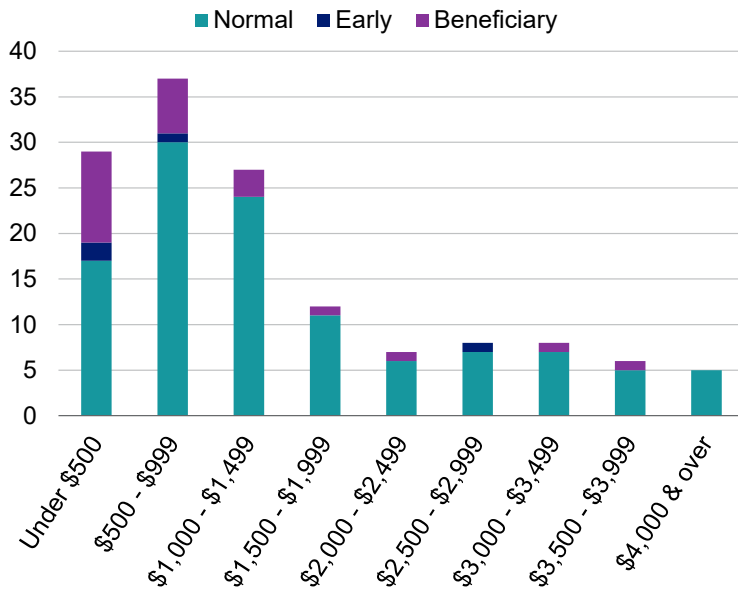
Retired members and beneficiaries

As of December 31, 2019, 116 retired members and 23 beneficiaries were receiving total monthly benefits of \$206,420. For comparison, in the previous valuation, there were 112 retired members and 26 beneficiaries receiving monthly benefits of \$204,514.

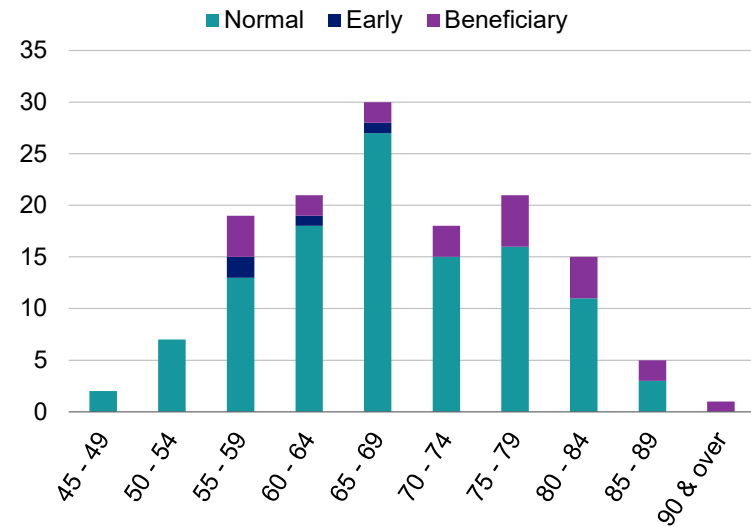
As of December 31, 2019, the average monthly benefit for retired members is \$1,485, compared to \$1,482 in the previous valuation. The average age for retired members is 68.8 in the current valuation, compared with 68.7 in the prior valuation.

Distribution of Pensioners as of December 31, 2019

Pensioners by Type and Monthly Amount



Pensioners by Type and Age



Section 2: Actuarial Valuation Results

Historical plan population

The chart below demonstrates the progression of the active population over the last ten years. The chart also shows the growth among the retired population over the same time period.

Member Data Statistics: 2010 – 2019

Year Ended December 31	Active Members			Retired Members and Beneficiaries		
	Count	Average Age	Average Service	Count	Average Age ¹	Average Monthly Amount
2010	39	52.1	27.5	113	--	\$1,331
2011	37	53.1	29.0	113	--	1,384
2012	39	49.9	24.2	120	--	1,381
2013	38	49.6	26.0	120	--	1,402
2014	39	50.2	26.6	122	--	1,406
2015	45	50.5	26.7	124	69.3	1,452
2016	47	50.1	26.4	128	69.5	1,548
2017	44	49.8	24.3	140	69.5	1,464
2018	39	49.8	24.2	138	68.7	1,482
2019	41	50.0	24.6	139	68.8	1,485

¹Information for December 31, 2014 and earlier is not available.

Section 2: Actuarial Valuation Results

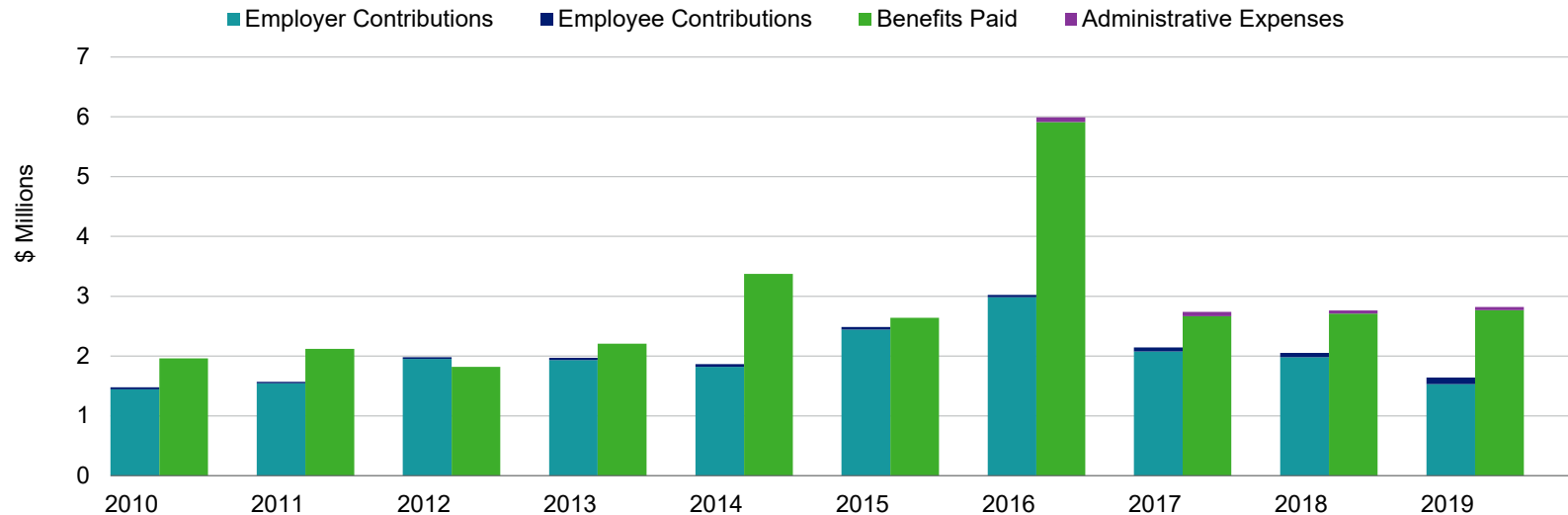
Financial information

Retirement plan funding anticipates that, over the long term, both contributions (less administrative expenses) and investment earnings (less investment fees) will be needed to cover benefit payments. Retirement plan assets change as a result of the net impact of these income and expense components.

Benefit payments in 2016 totaled \$5.9 million, of which \$3.8 million were DROP lump sum payments. This was a one-time event, as members reacted to pending changes in plan provisions. DROP balances have been annuitized, resulting in more stable projected benefit payment levels going forward.

Additional financial information, including a summary of transactions for the valuation year, is presented in *Section 3, Exhibits C, D and E*.

Comparison of Contributions Made with Benefits and Expenses Paid
for Years Ended December 31, 2010 – 2019



Section 2: Actuarial Valuation Results

It is desirable to have level and predictable plan costs from one year to the next. However, the Board has approved an asset valuation method that uses market value. Under this valuation method, the full value of market fluctuation is recognized in a single year and, as a result, the asset value and the plan costs are relatively volatile. The Supplemental Plan is small compared to the combined Pension Plan, and City contributions to the plan are less than 2% of the total amount that the City contributes to the System. Thus, some volatility can be withstood. The Board has the option to adopt an asset "smoothing" method in the future should they decide the current method (using market value) is producing undesirable fluctuations.

Determination of Actuarial Value of Assets for Year Ended December 31, 2019

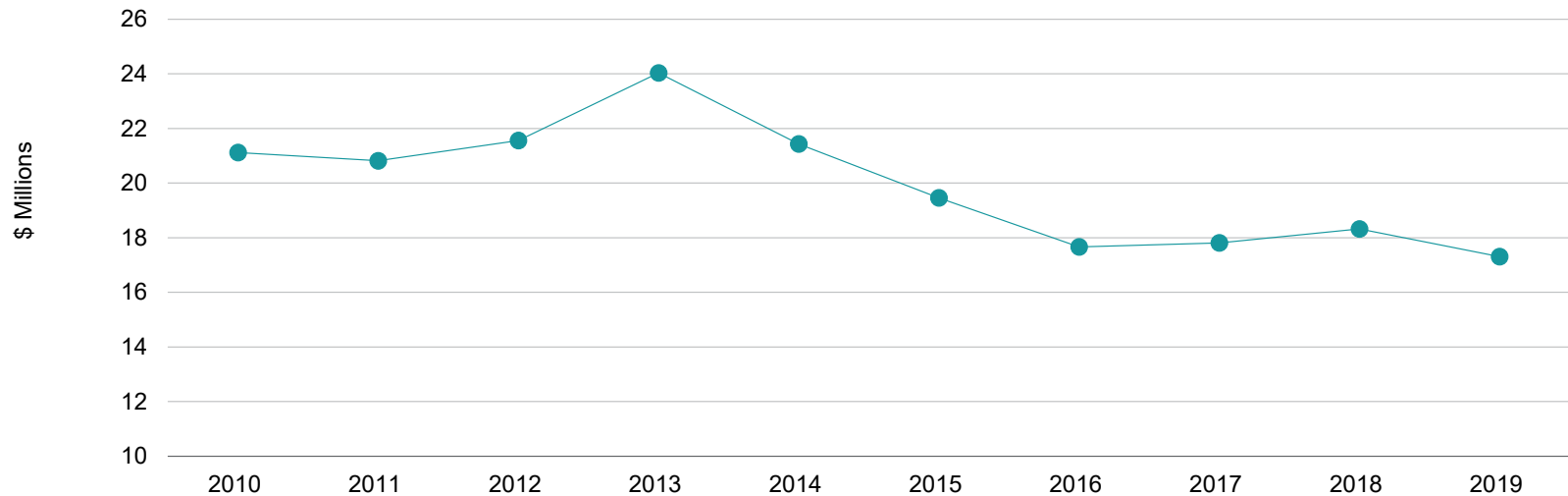
1	Actuarial value of assets = Market value of assets	\$17,307,433
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Section 2: Actuarial Valuation Results

The actuarial value (equal to the market value of assets) is a representation of the Plan's financial status. The actuarial asset value is significant because the Plan's liabilities are compared to these assets to determine what portion, if any, remains unfunded. Amortization of the unfunded actuarial accrued liability is an important element in determining the contribution requirement.

The decline in asset values from 2013 to 2015 was primarily the result of significant write-downs in the System's asset holdings. The decline from 2015 to 2016 reflects the unusually large number of DROP payments made in 2016.

Actuarial Value of Assets (equal to Market Value of Assets) as of December 31, 2010 – 2019



Section 2: Actuarial Valuation Results

Actuarial experience

To calculate any actuarially determined contribution, assumptions are made about future events that affect the amount and timing of benefits to be paid and assets to be accumulated. Each year actual experience is measured against the assumptions. If overall experience is more favorable than anticipated (an actuarial gain), any contribution requirement will decrease from the previous year. On the other hand, any contribution requirement will increase if overall actuarial experience is less favorable than expected (an actuarial loss).

Taking account of experience gains or losses in one year without making a change in assumptions reflects the belief that the single year's experience was a short-term development and that, over the long term, experience will return to the original assumptions. For contribution requirements to remain stable, assumptions should approximate experience.

If assumptions are changed, the contribution requirement is adjusted to take into account a change in experience anticipated for all future years.

The total loss is \$4,111,206, which includes \$1,116,297 from investment losses and \$2,994,909 in net losses from all other sources. The net experience variation from individual sources other than investments was 8.7% of the actuarial accrued liability. A discussion of the major components of the actuarial experience is on the following pages.

Actuarial Experience for Year Ended December 31, 2019

1	Net loss from investments ¹	-\$1,116,297
2	Net gain from administrative expenses	10,772
3	Net loss from other experience	-3,005,681
4	Net experience loss: 1 + 2 + 3	-\$4,111,206

¹ Details on next page

Section 2: Actuarial Valuation Results

Investment experience

A major component of projected asset growth is the assumed rate of return. The assumed return should represent the expected long-term rate of return, based on the Plan's investment policy. The rate of return on the market value of assets was 0.95% for the year ended December 31, 2019.

For valuation purposes, the assumed rate of return on the actuarial value of assets (equal to market value of assets) was 7.25% for the year ended December 31, 2019. The actual rate of return for the 2019 plan year was 0.95%. Since the actual return for the year was less than the assumed return, the Plan experienced an actuarial loss during the year ended December 31, 2019 with regard to its investments.

Investment Experience

	Year Ended December 31, 2019	Year Ended December 31, 2018
1 Net investment income	\$168,995	\$1,220,482
2 Average value of assets	17,728,166	17,451,282
3 Rate of return: 1 ÷ 2	0.95%	6.99%
4 Assumed rate of return	7.25%	7.25%
5 Expected investment income: 2 x 4	1,285,292	1,265,218
6 Actuarial gain/(loss): 1 - 5	<u>-\$1,116,297</u>	<u>-\$44,736</u>

Section 2: Actuarial Valuation Results

Because actuarial planning is long term, it is useful to see how the assumed investment rate of return has followed actual experience over time. The chart below shows the rate of return on an actuarial basis for the last 12 years, including averages over select time periods.

Investment Return – Actuarial Value of Assets (equal to Market Value of Assets): 2008 - 2019

Year Ended December 31	Actuarial (Market) Value Investment Return	
	Amount ¹	Percent
2008	-\$7,039,494	-27.92%
2009	2,985,884	16.66
2010	924,634	4.52
2011	252,054	1.21
2012	578,432	2.77
2013	2,712,000	12.65
2014	-1,091,374	-4.69
2015	-1,828,695	-8.56
2016	1,176,323	6.55
2017	735,567	4.24
2018	1,220,482	6.99
2019	168,995	0.95
Most recent five-year average return		1.60%
Most recent ten-year average return		2.44%
Most recent 12-year average return		0.33%

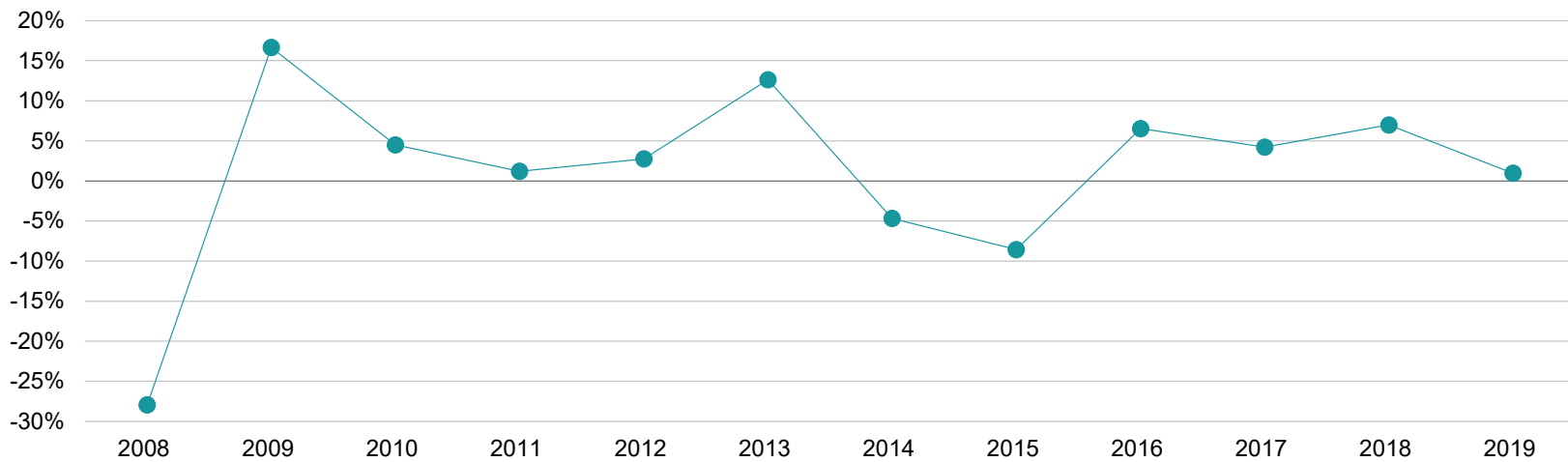
Note: Each year's yield is weighted by the average asset value in that year.

¹ Returns for years 2014 and 2015 include significant write-downs of the Plan's assets.

Section 2: Actuarial Valuation Results

The actuarial value of assets has been equal to market value for the last 12 years. This, combined with prior asset write-downs, has resulted in relatively volatile actuarial rates of return and pension plan cost.

Actuarial Rates of Return (equal to Market Value Rates of Return) for Years Ended December 31, 2008 - 2019



Section 2: Actuarial Valuation Results

Non-investment experience

Administrative expenses

- Administrative expenses for the year ended December 31, 2019 totaled \$54,598, as compared to the assumption of \$65,000, payable monthly. This resulted in a gain of \$10,772, when adjusted for timing. We have maintained the assumption of \$65,000 for the current year.

Other experience

There are other differences between the expected and the actual experience that appear when the new valuation is compared with the projections from the previous valuation. These include:

- the extent of turnover among members,
- retirement experience (earlier or later than projected),
- the number of disability retirements (more or fewer than projected), and
- salary increases (greater or smaller than projected).

The net loss from this other experience for the year ended December 31, 2019 amounted to \$3,005,681, which is 8.7% of the actuarial accrued liability.

Section 2: Actuarial Valuation Results

Actuarial assumptions

- The following actuarial assumptions were approved by the Board and changed with this valuation, following the completion of a five-year experience study for the period ended December 31, 2019:
 - The net investment return assumption was lowered from 7.25% to 7.00%
 - The salary scale assumption was updated based on the 2019 Meet and Confer agreement, with a new ultimate rate of 2.50%.
 - The payroll growth assumption was lowered from 2.75% to 2.50%.
 - The mortality rates were updated to the Pub-2010 Public Safety Amount-weighted Mortality Tables, with varying adjustments by status and sex, projected generationally with Scale MP-2019.
 - The withdrawal rates were updated and the ultimate 0% rate was moved up from 38 to 25 years of service.
 - The DROP retirement rates were increased at most ages and the ultimate 100% retirement was updated from the earlier of age 67 or 8 years in the DROP to the earlier of age 65 or 10 years in the DROP.
 - The non-DROP retirement rates were lowered at most ages and simplified from three set to two sets of rates.
 - The retirement assumption for inactive vested participants was updated to include an assumption that 75% of those who terminate with a vested benefit prior to age 40 will take a cash out at age 40.
 - The DROP annuitization interest rate for account balances as of September 1, 2017 was lowered from 3.00% to 2.75%.
- Based on a projection of the System's funded ratio, taking into account 2020 data, new long-term assumptions, and the System's near-term asset expectations, the ad-hoc COLA assumption was updated to begin October 1, 2063. Last year, the COLA was assumed to begin October 1, 2050.
- The System's expectations for near-term market returns were lowered to -6.00% for 2020, +5.25% for 2021, +5.75% for 2022, and +6.25% for 2023. For valuation purposes, these return assumptions are used for determining the projected full-funding date and the projected COLA start date.
- These changes increased the actuarial accrued liability by 3.84% and increased the total normal cost by 2.03%.
- Details on actuarial assumptions and methods are in Section 4, Exhibit I.

Plan provisions

- There were no changes in plan provisions since the prior valuation.
- A summary of plan provisions is in Section 4, Exhibit II.

Section 2: Actuarial Valuation Results

Development of Unfunded Actuarial Accrued Liability for Year Ended December 31, 2019

1	Unfunded actuarial accrued liability at beginning of year	\$13,506,880
2	Normal cost at beginning of year	279,604
3	Total expected contributions	-1,640,922
4	Interest	
	• For whole year on 1 + 2	\$999,520
	• For full year on 3	<u>-58,787</u>
	Total interest	<u>940,733</u>
5	Expected unfunded actuarial accrued liability	\$13,086,295
6	Changes due to:	
	• Net experience loss	\$4,111,206
	• Assumptions	<u>1,325,550</u>
	Total changes	<u>\$5,436,756</u>
7	Unfunded actuarial accrued liability at end of year	<u>\$18,523,051</u>

Section 2: Actuarial Valuation Results

Actuarially determined contribution

The actuarially determined contribution is equal to the employer normal cost payment and a payment on the unfunded actuarial accrued liability. As of January 1, 2020, the actuarially determined contribution is \$1,777,311.

The funding policy used to calculate the actuarially determined contribution as of January 1, 2020 is based on a closed amortization period of 20 years, established as of January 1, 2020. For prior years, including 2019, an open amortization period of ten years was used. Amortization is on a level-percentage-of-pay basis. The payment on the unfunded actuarial accrued liability accounts for nearly 80% of the City's recommended contribution.

The contribution requirement as of January 1, 2020 are based on the data previously described, the actuarial assumptions and Plan provisions described in *Section 4*, including all changes affecting future costs adopted at the time of the actuarial valuation, actuarial gains and losses, and changes in the actuarial assumptions.

Actuarially Determined Contribution for Year Beginning January 1

	2020	2019
1. Total normal cost	\$385,092	\$216,839
2. Assumed administrative expenses	62,838	62,765
3. Expected member contributions	<u>-80,890</u>	<u>-88,932</u>
4. Employer normal cost: (1) + (2) + (3)	\$367,040	\$190,672
5. Actuarial accrued liability	\$35,830,484	\$31,824,773
6. Actuarial value of assets	<u>17,307,433</u>	<u>18,317,893</u>
7. Unfunded actuarial accrued liability: (5) - (6)	\$18,523,051	\$13,506,880
8. Payment on unfunded actuarial accrued liability ¹	1,351,151	1,625,692
9. Adjustment for timing ²	59,120	64,691
10. Actuarially determined contribution: (4) + (8) + (9)	<u>\$1,777,311</u>	<u>\$1,881,055</u>

¹ The 2020 payment was calculated using a 20-year amortization period and the 2019 payment was calculated using a ten-year amortization period.

² Actuarially determined contributions are assumed to be paid at the middle of every year.

Section 2: Actuarial Valuation Results

Reconciliation of actuarially determined contribution

The chart below details the changes in the actuarially determined contribution from the prior valuation to the current year's valuation.

Reconciliation of Actuarially Determined Contribution from January 1, 2019 to January 1, 2020

	Amount
Actuarially Determined Contribution as of January 1, 2019	\$1,881,055
• Effect of expected change in amortization payment due to payroll growth	46,299
• Effect of change in amortization period	-845,554
• Effect of changes in actuarial assumptions, including COLA timing	106,740
• Effect of contributions less than actuarially determined contribution	46,662
• Effect of investment loss	151,545
• Effect of other gains and losses on accrued liability	406,579
• Net effect of other changes, including composition and number of members	<u>-16,015</u>
Total change	-\$103,744
Actuarially Determined Contribution as of January 1, 2020	\$1,777,311

Section 2: Actuarial Valuation Results

History of employer contributions

A history of the most recent years of contributions is shown below.

The contribution deficiencies for calendar years 2017 through 2019 represent contributions directed to the Excess Benefit Plan and Trust.

History of Employer Contributions: 2011 – 2020

Fiscal Year Ended December 31	City's Actuarially Determined Contribution (ADC) ¹	Actual Employer Contribution	Percent Contributed
2011	\$1,543,717	\$1,543,717	100.00%
2012	1,954,022	1,954,022	100.00%
2013	1,935,588	1,935,588	100.00%
2014	1,817,136	1,817,136	100.00%
2015	2,442,790	2,442,790	100.00%
2016	3,063,584	3,063,584	100.00%
2017	2,086,639	2,077,059	99.54%
2018	2,273,581	1,979,285	87.06%
2019	1,881,055	1,530,262	81.35%
2020	1,777,311	N/A	N/A

¹ Prior to 2015, this amount was the Annual Required Contribution (ARC)

Section 2: Actuarial Valuation Results

Risk

Since the actuarial valuation results are dependent on a given set of assumptions and data as of a specific date, there is a risk that emerging results may differ significantly as actual experience differs from the assumptions.

The contributions of this Plan can fluctuate significantly from year to year, due to its nature as an excess pay plan and the fact the covered population is small. The assets are likely to fluctuate considerably from year to year as well, since there is no smoothing method in place. As mentioned previously, City contributions to this Plan are less than 2% of the total amount that the City contributes to the System, and therefore some volatility can be withstood.

This report does not contain a detailed analysis of the potential range of future measurements, but does include a brief discussion of some risks that may affect the Plan. Upon request, a more detailed assessment of the risks can be provided to enable a better understanding of the risks inherent in the Plan. This assessment may include scenario testing, sensitivity testing, stress testing and stochastic modeling.

Section 2: Actuarial Valuation Results

GFOA funded liability by type

The Actuarial Accrued Liability represents the present value of benefits earned, calculated using the plan's actuarial cost method. The Actuarial Value of Assets reflects the financial resources available to liquidate the liability. The portion of the liability covered by assets reflects the extent to which accumulated plan assets are sufficient to pay future benefits, and is shown for liabilities associated with employee contributions, pensioner liabilities, and other liabilities.

The Government Finance Officers Association (GFOA) recommends that the funding policy aim to achieve a funded ratio of 100%. As noted previously, the funded policy adopted by the City meets this standard.

GFOA Solvency Test as of December 31

	2020	2019
Actuarial accrued liability (AAL)		
• Active member contributions	\$202,902	\$202,006
• Retirees and beneficiaries	31,976,272	28,621,814
• Active and inactive members (employer-financed)	3,651,310	3,000,953
Total	\$35,830,484	\$31,824,773
Actuarial value of assets	\$17,307,433	\$18,317,893
Cumulative portion of AAL covered		
• Active member contributions	100.00%	100.00%
• Retirees and beneficiaries	53.49%	63.29%
• Active and inactive members (employer-financed)	0.00%	0.00%

Section 2: Actuarial Valuation Results

Actuarial balance sheet

An overview of the Plan's funding is given by an Actuarial Balance Sheet. In this approach, first the amount and timing of all future payments that will be made by the Plan for current members is determined. Then these payments are discounted at the valuation interest rate to the date of the valuation, thereby determining the present value, referred to as the "liability" of the Plan.

Second, this liability is compared to the assets. The "assets" for this purpose include the net amount of assets already accumulated by the Plan, the present value of future member contributions, the present value of future employer normal cost contributions, and the present value of future employer amortization payments for the unfunded actuarial accrued liability.

Actuarial Balance Sheet

	Year Ended	
	December 31, 2019	December 31, 2018
Liabilities		
• Present value of benefits for retired members and beneficiaries (non-DROP)	\$24,988,459	\$24,325,849
• Present value of benefits for retired members and beneficiaries (DROP)	6,987,813	4,295,965
• Present value of benefits for inactive vested members	144,159	134,905
• Present value of benefits for active members	<u>5,133,845</u>	<u>4,069,700</u>
Total liabilities	\$37,254,276	\$32,826,419
Assets		
• Total valuation value of assets	\$17,307,433	\$18,317,893
• Present value of future contributions by members	318,919	423,947
• Present value of future employer contributions for:		
• Entry age cost	1,104,873	577,699
• Unfunded actuarial accrued liability	<u>18,523,051</u>	<u>13,506,880</u>
Total of current and future assets	<u>\$37,254,276</u>	<u>\$32,826,419</u>

Supplemental Information

Exhibit A: Table of Plan Coverage

Category	Year Ended December 31		Change From Prior Year
	2019	2018	
Active members in valuation:			
• Number	41	39	5.1%
• Average age	50.0	49.8	0.2
• Average years of service	24.6	24.2	0.4
• Total supplemental computation pay	\$599,187	\$658,757	-9.0%
• Average supplemental computation pay	14,614	16,891	-13.5%
• Accumulated contribution balances	202,902	202,006	0.4%
• Total active vested members	40	38	5.3%
Active members (excluding DROP):			
• Number	38	34	11.8%
• Average age	48.9	48.3	0.6
• Average years of service	23.3	22.6	0.7
• Total supplemental computation pay	\$540,088	\$598,297	-9.7%
• Average supplemental computation pay	14,213	17,597	-19.2%
Active members (DROP):			
• Number	3	5	-40.0%
• Average age	62.8	59.9	2.9
• Average years of service	40.4	35.3	5.1
• Total supplemental computation pay	\$59,099	\$60,461	-2.3%
• Average supplemental computation pay	19,700	12,092	62.9%
• DROP account balances	136,599	174,807	-21.9%
Inactive vested members:			
• Number	2	2	0.0%
• Average age	48.3	47.3	1.0
• Average monthly benefit	\$319	\$319	0.0%
Terminated members due a refund of contributions:			
• Number	1	1	0.0%
• Accumulated contribution balance	\$53,678	\$53,678	0.0%

Section 3: Supplemental Information

Retired members:			
• Number in pay status	116	112	3.6%
• Average age	67.9	67.3	0.6
• Average monthly benefit	\$1,591	\$1,615	-1.5%
Beneficiaries:			
• Number in pay status	23	26	-11.5%
• Average age	73.6	74.7	-1.1
• Average monthly benefit	\$950	\$910	4.4%

Section 3: Supplemental Information

Exhibit B: Reconciliation of Member Data

	Active Members	Inactive Vested Members ¹	Retired Members	Beneficiaries	Total
Number as of January 1, 2019	39	2	112	26	179
• New members	6	N/A	N/A	N/A	6
• Terminations – with vested rights	0	0	0	0	0
• Terminations – without vested rights	0	N/A	N/A	N/A	0
• Retirements	-4	0	4	N/A	0
• Return to work	0	0	0	N/A	0
• Deceased	0	0	0	-3	-3
• New beneficiaries	0	0	0	0	0
• Lump sum payouts ²	0	0	0	0	0
• Certain period expired	N/A	N/A	0	0	0
Number as of January 1, 2020	41	2	116	23	182

¹ Excludes terminated members due a refund of contributions.

² Members who terminated and requested a refund of member contributions.

Section 3: Supplemental Information

Exhibit C: Summary Statement of Income and Expenses on a Market Value Basis

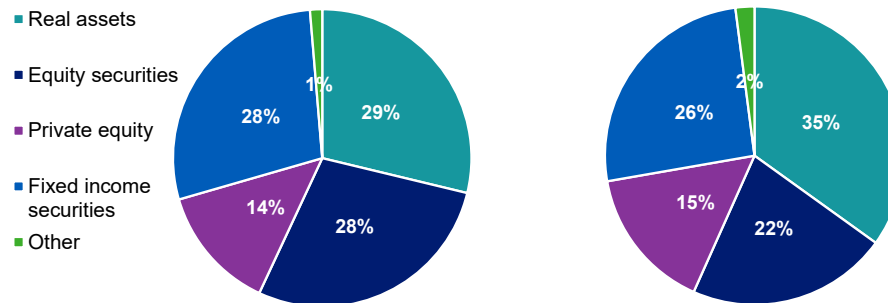
	Year Ended December 31, 2019	Year Ended December 31, 2018
Net assets at market value at the beginning of the year ¹	\$18,317,893	\$17,805,153
Contribution income:		
• Employer contributions	\$1,530,262	\$1,979,285
• Member contributions	110,660	73,880
• Less administrative expenses	<u>-54,598</u>	<u>-52,636</u>
<i>Net contribution income</i>	<i>\$1,586,324</i>	<i>\$2,000,529</i>
Investment income:		
• Interest, dividends and other income	\$322,981	\$406,350
• Asset appreciation	-85,530	886,129
• Less investment fees	<u>-68,456</u>	<u>-71,997</u>
<i>Net investment income</i>	<u><i>\$168,995</i></u>	<u><i>\$1,220,482</i></u>
Total income available for benefits	\$1,755,319	\$3,221,011
Less benefit payments:		
• Benefits paid to members	-\$2,764,781	-\$2,707,773
• Refunds to members	<u>-998</u>	<u>-498</u>
<i>Net benefit payments</i>	<i>-\$2,765,779</i>	<i>-\$2,708,271</i>
Change in market value of assets	-\$1,010,460	\$512,740
Net assets at market value at the end of the year	\$17,307,433	\$18,317,893

¹ Based on preliminary unaudited assets

Section 3: Supplemental Information

Exhibit D: Summary Statement of Plan Assets

	December 31, 2019	December 31, 2018
Cash equivalents and prepaid expenses	\$750,383	\$449,481
Invested securities lending collateral	108,762	182,979
Capital assets	102,947	111,152
Total accounts receivable	480,312	351,588
Investments:		
• Real assets	\$4,736,110	\$6,242,503
• Equity securities	4,636,273	3,879,822
• Private equity	2,234,396	2,784,586
• Fixed income securities	4,637,555	4,590,396
• Other	<u>216,800</u>	<u>365,312</u>
Total investments at market value	\$16,461,134	\$17,862,619
Total assets	\$17,903,538	\$18,957,819
Total accounts payable	-596,105	-639,926
Net assets at market value	\$17,307,433	\$18,317,893
Net assets at actuarial value	\$17,307,433	\$18,317,893



Section 3: Supplemental Information

Exhibit E: Development of the Fund through December 31, 2019

Year Ended December 31	Employer Contributions	Member Contributions	Net Investment Return ¹	Admin. Expenses ²	Benefit Payments	Actuarial (Market) Value of Assets at Year-End
2010	\$1,443,717	\$34,355	\$924,634	\$0	\$1,964,422	\$21,119,036
2011	1,543,717	26,791	252,054	0	2,119,029	20,822,569
2012	1,954,022	26,688	578,432	0	1,819,155	21,562,556
2013	1,935,588	34,039	2,712,000	0	2,207,338	24,036,845
2014	1,817,136	49,104	-1,091,374	0	3,372,841	21,438,870
2015	2,442,790	43,358	-1,828,695	0	2,639,617	19,456,706
2016	2,985,478	34,612	1,176,323	78,047	5,911,533	17,663,539
2017	2,077,059	66,095	735,567	68,528	2,668,579	17,805,153
2018	1,979,285	73,880	1,220,482	52,636	2,708,271	18,317,893
2019	1,530,262	110,660	168,995	54,598	2,765,779	17,307,433

¹ Net of investment fees and administrative expenses prior to 2016. Returns for years ended 2010-2014 were estimated based on prior actuarial valuations.

² Administrative expenses were subtracted from net investment return prior to the 2016 valuation.

Section 3: Supplemental Information

Exhibit F: Definition of Pension Terms

The following list defines certain technical terms for the convenience of the reader:

Actuarial Accrued Liability for Actives:	The equivalent of the accumulated normal costs allocated to the years before the valuation date.
Actuarial Accrued Liability for Pensioners and Beneficiaries:	Actuarial Present Value of lifetime benefits to existing pensioners and beneficiaries. This sum takes account of life expectancies appropriate to the ages of the annuitants and the interest that the sum is expected to earn before it is entirely paid out in benefits.
Actuarial Cost Method:	A procedure allocating the Actuarial Present Value of Future Benefits to various time periods; a method used to determine the Normal Cost and the Actuarial Accrued Liability that are used to determine the actuarially determined contribution.
Actuarial Gain or Loss:	A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions, during the period between two Actuarial Valuation dates. To the extent that actual experience differs from that assumed, Actuarial Accrued Liabilities emerge which may be the same as forecasted, or may be larger or smaller than projected. Actuarial gains are due to favorable experience, e.g., assets earn more than projected, salary increases are less than assumed, members retire later than assumed, etc. Favorable experience means actual results produce actuarial liabilities not as large as projected by the actuarial assumptions. On the other hand, actuarial losses are the result of unfavorable experience, i.e., actual results yield actuarial liabilities that are larger than projected.
Actuarially Equivalent:	Of equal Actuarial Present Value, determined as of a given date and based on a given set of Actuarial Assumptions.
Actuarial Present Value (APV):	The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions. Each such amount or series of amounts is: Adjusted for the probable financial effect of certain intervening events (such as changes in compensation levels, marital status, etc.) Multiplied by the probability of the occurrence of an event (such as survival, death, disability, withdrawal, etc.) on which the payment is conditioned, and Discounted according to an assumed rate (or rates) of return to reflect the time value of money.

Section 3: Supplemental Information

Actuarial Present Value of Future Benefits:	The Actuarial Present Value of benefit amounts expected to be paid at various future times under a particular set of Actuarial Assumptions, taking into account such items as the effect of advancement in age, anticipated future compensation, and future service credits. The Actuarial Present Value of Future Benefits includes the liabilities for active members, retired members, beneficiaries receiving benefits, and inactive members entitled to either a refund of member contributions or a future retirement benefit. Expressed another way, it is the value that would have to be invested on the valuation date so that the amount invested plus investment earnings would provide sufficient assets to pay all projected benefits and expenses when due.
Actuarial Valuation:	The determination, as of a valuation date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets, and related Actuarial Present Values for a plan, as well as Actuarially Determined Contributions.
Actuarial Value of Assets (AVA):	The value of the Plan's assets as of a given date, used by the actuary for valuation purposes. This may be the market or fair value of plan assets, but commonly plans use 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.
Actuarially Determined:	Values that have been determined utilizing the principles of actuarial science. An actuarially determined value is derived by application of the appropriate actuarial assumptions to specified values determined by provisions of the Plan.
Actuarially Determined Contribution (ADC):	The employer's periodic required contributions, expressed as a dollar amount or a percentage of covered plan compensation, determined under the Plan's funding policy. The ADC consists of the Employer Normal Cost and the Amortization Payment.
Amortization Method:	A method for determining the Amortization Payment. The most common methods used are level dollar and level percentage of payroll. Under the Level Dollar method, the Amortization Payment is one of a stream of payments, all equal, whose Actuarial Present Value is equal to the Unfunded Actuarial Accrued Liability. Under the Level Percentage of Pay method, the Amortization Payment is one of a stream of increasing payments, whose Actuarial Present Value is equal to the Unfunded Actuarial Accrued Liability. Under the Level Percentage of Pay method, the stream of payments increases at the assumed rate at which total covered payroll of all active members will increase.
Amortization Payment:	The portion of the pension plan contribution, or ADC, that is intended to pay off the Unfunded Actuarial Accrued Liability.
Assumptions or Actuarial Assumptions:	The estimates upon which the cost of the Plan is calculated, including: <u>Investment return</u> - the rate of investment yield that the Plan will earn over the long-term future; <u>Mortality rates</u> - the rate or probability of death at a given age for employees and pensioners; <u>Retirement rates</u> - the rate or probability of retirement at a given age or service;

Section 3: Supplemental Information

	<p><u>Disability rates</u> - the rate or probability of disability retirement at a given age;</p> <p><u>Withdrawal rates</u> - the rate or probability at which employees of various ages are expected to leave employment for reasons other than death, disability, or retirement;</p> <p><u>Salary increase rates</u> - the rates of salary increase due to inflation, real wage growth and merit and promotion increases.</p>
Closed Amortization Period:	A specific number of years that is counted down by one each year, and therefore declines to zero with the passage of time. For example, if the amortization period is initially set at 20 years, it is 19 years at the end of one year, 18 years at the end of two years, etc. See Open Amortization Period.
Decrements:	Those causes/events due to which a member's status (active-inactive-retiree-beneficiary) changes, that is: death, retirement, disability, or withdrawal.
Defined Benefit Plan:	A retirement plan in which benefits are defined by a formula based on the member's compensation, age and/or years of service.
Defined Contribution Plan:	A retirement plan, such as a 401(k) plan, a 403(b) plan, or a 457 plan, in which the contributions to the plan are assigned to an account for each member, the plan's earnings are allocated to each account, and each member's benefits are a direct function of the account balance.
Employer Normal Cost:	The portion of the Normal Cost to be paid by the employer. This is equal to the Normal Cost less expected member contributions.
Experience Study:	A periodic review and analysis of the actual experience of the Plan that may lead to a revision of one or more actuarial assumptions. Actual rates of decrement and salary increases are compared to the actuarially assumed values and modified based on recommendations from the Actuary.
Funded Ratio:	The ratio of the Actuarial Value of Assets (AVA) to the Actuarial Accrued Liability (AAL). Plans sometimes also calculate a market funded ratio, using the Market Value of Assets (MVA), rather than the AVA.
GASB 67 and GASB 68:	Governmental Accounting Standards Board (GASB) Statements No. 67 and No. 68. These are the governmental accounting standards that set the accounting rules for public retirement systems and the employers that sponsor or contribute to them. Statement No. 68 sets the accounting rules for the employers that sponsor or contribute to public retirement systems, while Statement No. 67 sets the rules for the systems themselves.
Investment Return:	The rate of earnings of the Plan from its investments, including interest, dividends and capital gain and loss adjustments, computed as a percentage of the average value of the fund. For actuarial purposes, the investment return often reflects a smoothing of the capital gains and losses to avoid significant swings in the value of assets from one year to the next.

Section 3: Supplemental Information

Net Pension Liability (NPL):	The Net Pension Liability is equal to the Total Pension Liability minus the Plan Fiduciary Net Position.
Normal Cost:	The portion of the Actuarial Present Value of Future Benefits and expenses allocated to a valuation year by the Actuarial Cost Method. Any payment with respect to an Unfunded Actuarial Accrued Liability is not part of the Normal Cost (see Amortization Payment). For pension plan benefits that are provided in part by employee contributions, Normal Cost refers to the total of member contributions and employer Normal Cost unless otherwise specifically stated.
Open Amortization Period:	An open amortization period is one which is used to determine the Amortization Payment but which does not change over time. If the initial period is set as 30 years, the same 30-year period is used in each future year in determining the Amortization Period.
Plan Fiduciary Net Position:	Market value of assets.
Total Pension Liability (TPL):	The actuarial accrued liability under the entry age normal cost method and based on the blended discount rate as described in GASB 67 and 68.
Unfunded Actuarial Accrued Liability:	The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets. This value may be negative, in which case it may be expressed as a negative Unfunded Actuarial Accrued Liability, also called the Funding Surplus or an Overfunded Actuarial Accrued Liability.
Valuation Date or Actuarial Valuation Date:	The date as of which the value of assets is determined and as of which the Actuarial Present Value of Future Benefits is determined. The expected benefits to be paid in the future are discounted to this date.

Actuarial Valuation Basis

Exhibit I: Actuarial Assumptions, Actuarial Cost Method and Models

Rationale for Assumptions:	The information and analysis used by the Board in selecting each assumption that has a significant effect on this actuarial valuation is shown in the Experience Study Report for the five-year period ended December 31, 2019.																		
Net Investment Return:	7.00% The net investment return assumption was chosen by the System's Board of Trustees, with input from the actuary. This assumption is a long-term estimate derived from historical data, current and recent market expectations, and professional judgment. As part of the analysis, a building block approach was used that reflects inflation expectations and anticipated risk premiums for each of the portfolio's asset classes, as well as the System's target asset allocation.																		
Salary Scale:	<table border="1"> <thead> <tr> <th rowspan="2">Year</th> <th colspan="3">Rate (%)</th> </tr> <tr> <th>Officers</th> <th>Corporals, Drivers, Senior Officers & Chiefs</th> <th>Sergeants, Lieutenants, Captains, Majors, Deputy Chiefs & Assistant Chiefs</th> </tr> </thead> <tbody> <tr> <td>2020 – 2022</td> <td>3.25</td> <td>3.00</td> <td>2.50</td> </tr> <tr> <td>2023+</td> <td>2.50</td> <td>2.50</td> <td>2.50</td> </tr> </tbody> </table> <p>The salary scale assumption is based on the City's pay plan, along with analysis completed in conjunction with an Experience Study Report for the five-year period ended December 31, 2019 and the 2019 Meet and Confer Agreement.</p>				Year	Rate (%)			Officers	Corporals, Drivers, Senior Officers & Chiefs	Sergeants, Lieutenants, Captains, Majors, Deputy Chiefs & Assistant Chiefs	2020 – 2022	3.25	3.00	2.50	2023+	2.50	2.50	2.50
Year	Rate (%)																		
	Officers	Corporals, Drivers, Senior Officers & Chiefs	Sergeants, Lieutenants, Captains, Majors, Deputy Chiefs & Assistant Chiefs																
2020 – 2022	3.25	3.00	2.50																
2023+	2.50	2.50	2.50																
Payroll Growth:	2.50%, used to amortize the unfunded actuarial accrued liability as a level percentage of payroll.																		
Cost-of-Living Adjustments:	<p><i>Prior to October 1, 2063: 0.00%</i> <i>Beginning October 1, 2063: 2.00%, on original benefit</i></p> <p>The assumption for the year the COLA begins will be updated on an annual basis and set equal to the year the System is projected to be 70% funded on a market value basis after the COLA is reflected.</p>																		
Administrative Expenses:	\$65,000 per year, payable monthly (equivalent to \$62,838 at the beginning of the year) or 1% of computation pay, if greater																		

Section 4: Actuarial Valuation Basis

Mortality Rates:

Healthy pre-retirement: Pub-2010 Public Safety Employee Amount-Weighted Mortality Table, set forward five years for males, projected generationally using Scale MP-2019

Healthy annuitants and dependent spouses: Pub-2010 Public Safety Retiree Amount-Weighted Mortality Table, set back one year for females, projected generationally using Scale MP-2019

Healthy contingent beneficiaries: Pub-2010 Public Safety Contingent Survivor Amount-Weighted Mortality Table, set back one year for females, projected generationally using Scale MP-2019

Disabled annuitants: Pub-2010 Public Safety Disabled Retiree Amount-Weighted Mortality Table, set forward four years for males and females, projected generationally using Scale MP-2019

The tables above, with adjustments as shown and projected to the measurement date, reasonably reflect the mortality experience of the System as of the measurement date. The mortality tables were then generationally projected using Scale MP-2019 to anticipate future mortality improvement.

Annuitant Mortality Rates:

Age	Rate (%) ¹			
	Healthy		Disabled	
	Male	Female	Male	Female
55	0.306	0.231	0.670	0.643
60	0.508	0.399	1.078	0.976
65	0.881	0.690	1.732	1.481
70	1.568	1.191	2.893	2.248
75	2.826	2.057	5.057	3.552
80	5.103	3.552	8.308	6.134
85	9.135	6.134	14.238	10.592
90	15.860	10.592	22.306	17.403

¹ Mortality rates shown for base table.

Section 4: Actuarial Valuation Basis

Mortality and Disability Rates Before Retirement:

Age	Rate (%)			
	Mortality ¹		Disabled ²	
	Male	Female	Male	Female
20	0.037	0.016	0.010	0.010
25	0.041	0.020	0.015	0.015
30	0.047	0.027	0.020	0.020
35	0.059	0.036	0.025	0.025
40	0.082	0.049	0.030	0.030
45	0.120	0.067	0.035	0.035
50	0.175	0.091	0.040	0.040
55	0.264	0.123	--	--
60	0.410	0.168	--	--

¹ Mortality rates shown for base table

² 100% of disabilities are assumed to be service-related

Section 4: Actuarial Valuation Basis

Withdrawal Rates Before Retirement:

Years of Service	Rate (%)	
	Police	Fire
0	14.0	20.0
1	6.0	5.5
2	5.5	5.5
3	5.0	5.5
4	4.5	5.5
5	4.0	5.5
6	3.5	3.5
7	3.0	3.5
8	2.5	3.5
9	2.0	3.5
10	1.0	3.5
11-14	1.0	2.0
15-24	1.0	1.0
25-37	1.0	0.0
38 & over	0.0	0.0

Section 4: Actuarial Valuation Basis

Retirement Rates:

DROP Active Members

Age	Rate (%)	
	Police	Fire
Under 50	1.00	0.75
50	10.00	0.75
51	15.00	0.75
52-53	15.00	10.00
54	25.00	10.00
55-57	25.00	15.00
58-62	30.00	40.00
63	40.00	50.00
64	50.00	50.00
65 & over	100.00	100.00

100% retirement rate after ten years in DROP.

Section 4: Actuarial Valuation Basis

Retirement Rates (continued):	<i>Non-DROP Active Members</i>		
	Age	Rate (%)	
		Member hired prior to March 1, 2011 with at least 20 years of service as of September 1, 2017	Member hired prior to March 1, 2011 with less than 20 years of service as of September 1, 2017 & Members hired on or after March 1, 2011
	Under 50	1.0	1.0
	50-51	8.0	2.0
	52	10.0	2.0
	53	15.0	2.0
	54	20.0	2.0
	55	35.0	2.0
	56-57	40.0	2.0
	58-60	75.0	25.0
	61	75.0	50.0
	62	100.0	100.0
	100% retirement rate once benefit multiplier hits 90% maximum.		
Weighted Average Retirement Age:	Age 56, determined as follows: The weighted average retirement age for each participant is calculated as the sum of the product of each potential current or future retirement age times the probability of surviving from current age to that age and then retiring at that age, assuming no other decrements. The overall weighted retirement age is the average of the individual retirement ages based on all the active participants included in the January 1, 2020 actuarial valuation.		
Retirement Rates for Inactive Vested Participants:	Terminated vested members who terminated prior to September 1, 2017 are assumed to retire at age 50 Terminated vested members who terminated on or after September 1, 2017 are assumed to retire at age 58 75% of members who terminated prior to age 40 are assumed to take a lump sum cash out at age 40		
DROP Utilization:	No members are assumed to elect to enter the DROP		
Interest on DROP Accounts:	2.75% on account balances as of September 1, 2017, payable upon retirement 0.00% on account balances accrued after September 1, 2017		
DROP Payment Period:	Based on expected lifetime as of the later of September 1, 2017 or retirement date. Expected lifetime determined based on an 85% male/15% female blend of the current healthy annuitant mortality tables.		

Section 4: Actuarial Valuation Basis

DROP Annuitization Interest:	2.75%. Based on United States Department of Commerce Daily Treasury Yield Curve Rates for durations between 5 and 30 years.
Actuarial Equivalence:	Actuarial equivalence for optional forms of benefit payments are based on an 85% male/15% female blend of the current healthy annuitant mortality tables, along with an interest rate of 7.00%
Unknown Data for Participants:	Same age and service as those exhibited by members with similar known characteristics. If not specified, members are assumed to be male.
Family Composition:	75% of participants are assumed to be married. Females are assumed to be three years younger than males. The youngest child is assumed to be ten years old.
Benefit Election:	Married participants are assumed to receive the Joint and Survivor annuity form of payment and non-married participants are assumed to receive a Life Only annuity.
Actuarial Value of Assets:	Market value of assets
Actuarial Cost Method:	Entry Age Actuarial Cost Method. Entry Age is the age at the time the member commenced employment. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis, with Normal Cost determined using the plan of benefits applicable to each participant. Actuarial Liability is allocated by salary.
Amortization Methodology:	The actuarially determined contribution is calculated using a 20-year level-percentage-of-pay amortization of unfunded actuarially accrued liability. Beginning January 1, 2021, each year's gains and losses will be amortized over a closed 10-year period.

Section 4: Actuarial Valuation Basis

Justification for Change in Actuarial Assumptions:

Based on past experience and future expectations, the following actuarial assumptions were changed:

- The net investment return assumption was lowered from 7.25% to 7.00%
- The salary scale assumption was updated based on the 2019 Meet and Confer agreement, with a new ultimate rate of 2.50%.
- The payroll growth assumption was lowered from 2.75% to 2.50%.
- The mortality rates were updated to the Pub-2010 Public Safety Amount-weighted Mortality Tables, with varying adjustments by status and sex, projected generationally with Scale MP-2019.
- The withdrawal rates were updated and the ultimate 0% rate was moved up from 38 to 25 years of service.
- The DROP retirement rates were increased at most ages and the ultimate 100% retirement was updated from the earlier of age 67 or 8 years in the DROP to the earlier of age 65 or 10 years in the DROP.
- The non-DROP retirement rates were lowered at most ages and simplified from three set to two sets of rates.
- The retirement assumption for inactive vested participants was updated to include an assumption that 75% of those who terminate with a vested benefit prior to age 40 will take a cash out at age 40.
- The DROP annuitization interest rate for account balances as of September 1, 2017 was lowered from 3.00% to 2.75%.
- The ad-hoc COLA assumption was updated to begin October 1, 2063 based on the updated projection of the unfunded actuarial accrued liability; last year, the COLA was assumed to begin October 1, 2050.

Segal valuation results are based on proprietary actuarial modeling software. The actuarial valuation models generate a comprehensive set of liability and cost calculations that are presented to meet regulatory, legislative and client requirements. Deterministic cost projections are based on a proprietary forecasting model. Our Actuarial Technology and Systems unit, comprised of both actuaries and programmers, is responsible for the initial development and maintenance of these models. The models have a modular structure that allows for a high degree of accuracy, flexibility and user control. The client team programs the assumptions and the plan provisions, validates the models, and reviews test lives and results, under the supervision of the responsible actuary.

Exhibit II: Summary of Plan Provisions

This exhibit summarizes the major provisions of the Plan included in the valuation. It is not intended to be, nor should it be interpreted as, a complete statement of all plan provisions.

Plan Year:	January 1 through December 31
Plan Status:	Ongoing

Members whose Participation Began Before March 1, 2011

Normal Retirement:	<p>Benefit Earned Prior to September 1, 2017:</p> <ul style="list-style-type: none"> • <i>Age Requirement:</i> 50 • <i>Service Requirement:</i> 5 • <i>Amount:</i> Greater of 3.0% of Average Supplemental Computation Pay times years of Pension Service (maximum 96.0%) • <i>Average Supplemental Computation Pay:</i> <ul style="list-style-type: none"> – Supplemental Computation Pay is the current rate of pay received by the member, minus the rate of pay the member would receive for the highest civil service rank the member held. – Average Supplemental Computation Pay is determined based on the highest 36 consecutive months of Supplemental Computation Pay. <p>Benefit Earned Beginning September 1, 2017:</p> <ul style="list-style-type: none"> • <i>Age Requirement:</i> 58 • <i>Service Requirement:</i> 5 • <i>Amount:</i> Greater of 2.5% of Average Supplemental Computation Pay times years of Pension Service (maximum 90.0%) and \$2,200 per month • <i>Average Supplemental Computation Pay:</i> <ul style="list-style-type: none"> – Supplemental Computation Pay is the current rate of pay received by the member, minus the rate of pay the member would receive for the highest civil service rank the member held. – Average Supplemental Computation Pay is determined based on the highest 60 consecutive months of Supplemental Computation Pay.
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Section 4: Actuarial Valuation Basis

20 and Out Reduced Retirement:

If Eligible as of September 1, 2017:

- *Age Requirement:* None
- *Service Requirement:* 20 years
- *Amount:* 20 & Out Multiplier times 36-month (Table 1 Benefit) or 60-month (Table 2 Benefit) Average Supplemental Computation Pay times years of Pension Service

Benefit Accrued Before September 1, 2017 20 & Out Table 1		Benefit Accrued Beginning September 1, 2017 20 & Out Table 2	
Age	20 & Multiplier	Age	20 & Multiplier
45 & under	2.00%	53 & under	2.00%
46	2.25%	54	2.10%
47	2.50%	55	2.20%
48	2.75%	56	2.30%
49	2.75%	57	2.40%
50 & above	3.00%	58 & above	2.50%

If Not Eligible as of September 1, 2017:

- *Age Requirement:* None
- *Service Requirement:* 20 years
- *Amount:* 20 & Out Multiplier times 60-month Average Supplemental Computation Pay times years of Pension Service

20 & Out Table 2	
Age	20 & Multiplier
53 & under	2.00%
54	2.10%
55	2.20%
56	2.30%
57	2.40%
58 & above	2.50%

Section 4: Actuarial Valuation Basis

Early Retirement:	<p>If at least age 45 as of September 1, 2017 and less than age 50</p> <ul style="list-style-type: none"> • <i>Age Requirement:</i> 45 • <i>Service Requirement:</i> 5 • <i>Amount:</i> Normal pension accrued prior to September 1, 2017 plus the benefit accrued based on the 20 & Out Table 2 for service beginning September 1, 2017, reduced by 2/3 of 1% for each whole month by which the benefit commencement date precedes age 50. <p>If at least age 53 after September 1, 2017</p> <ul style="list-style-type: none"> • <i>Age Requirement:</i> 53 • <i>Service Requirement:</i> 5 • <i>Amount:</i> Normal pension accrued prior to September 1, 2017 plus the benefit accrued based on the 20 & Out Table 2 for service beginning September 1, 2017, reduced by 2/3 of 1% per month from age 58 for the post-September 1, 2017 benefit.
Non-Service Connected Disability:	<ul style="list-style-type: none"> • <i>Eligibility:</i> Injury or illness (lasting more than 90 days) not related to or incurred while in the performance of the member's job, preventing the member from performing their departmental duties. • <i>Amount:</i> 3% of Average Supplemental Computation Pay for service earned prior to September 1, 2017 and the applicable benefit multiplier from 20 & Out Table 2 times Average Supplemental Computation Pay for service earned beginning September 1, 2017
Service Connected Disability:	<ul style="list-style-type: none"> • <i>Eligibility:</i> Injury or illness (lasting more than 90 days) obtained while on duty in the performance of the member's job. • <i>Amount:</i> 3% of Average Supplemental Computation Pay for service earned prior to September 1, 2017 and the applicable benefit multiplier from 20 & Out Table 2 times Average Supplemental Computation Pay for service earned beginning September 1, 2017; if the member has less than 20 years of service, the benefit will be calculated as if they had 20 years at the time of disability.
Benefit Supplement:	<ul style="list-style-type: none"> • <i>Age Requirement:</i> 55 • <i>Service Requirement:</i> 20 years, waived if member is receiving a service-connected disability • <i>Amount:</i> 3% of the total monthly benefit (including any applicable COLAs) payable to the Member when the Member attains age 55. The benefit supplement shall not be less than \$75 per month. <p>Beginning September 1, 2017, only those annuitants already receiving the supplement will be eligible to maintain their current supplement, which will not change ongoing; no additional retirees will be eligible for the supplement.</p>

Section 4: Actuarial Valuation Basis

Termination Benefit:	<ul style="list-style-type: none"> • <i>With less than five years of pension service:</i> Upon request, the member's contributions will be returned without interest • <i>With at least five years of pension service:</i> The member may either withdraw contributions or leave contributions in the Plan and receive a monthly benefit to commence no earlier than the member's earliest eligibility for retirement benefits. Retirement benefit is equal to the accrued benefit as of the date of termination.
Pre-Retirement Death Benefit:	<ul style="list-style-type: none"> • <i>While in active service:</i> The greater of 50% of the Member's accrued benefit or a benefit based on 20 years of service. The benefit may not exceed 45% of Average Supplemental Computation Pay. • <i>After leaving active service, with fewer than five years:</i> A lump sum benefit equal to the return of member contributions without interest • <i>After leaving active service, with at least five years:</i> 50% of the Member's accrued benefit, with no early retirement reduction, or a refund of member contributions
Post-Retirement Death Benefit:	50% or 100% of the pension the Member was receiving at the time of their death, depending on the form of joint and survivor annuity chosen; if a life only annuity was chosen, no further benefits will be paid
Qualified Surviving Children Benefit:	50% of the pension the Member was receiving at the time of their death, divided equally among the children, paid until the youngest child is 19 years old or for life if the child becomes handicapped prior to age 23
Special Survivor Benefit	<ul style="list-style-type: none"> • <i>Eligibility:</i> Upon leaving active service or joining DROP: a) the Member was at least 55 years old with at least 20 years of pension service, or b) the sum of the Member's age plus Pension Service was at least 78; and Has no Qualified Surviving Children or handicapped children currently eligible for survivor benefits; and Whose Qualified Surviving Spouse is at least 55 years old. The Qualified Surviving Spouse does not have to be 55 years old at the time of the Member's death. • <i>Amount:</i> Once all the eligibility conditions are met, the amount the Qualified Surviving Spouse will receive increases from 50% of the Member's pension benefit to a percentage of the Member's pension benefit based on the Member's applicable benefit multiplier times the number of years of Pension Service the Member worked.
Survivor Benefit if No Qualified Surviving Spouse:	A lump sum that is the actuarial equivalent of 120 monthly payments of the greater of: 50% of the Member's pension benefit at the time of their death, or a benefit based on 20 years of the Member's service.
DROP:	<ul style="list-style-type: none"> • <i>Eligibility:</i> Members in active service who are retirement eligible may elect to enter the Deferred Retirement Option Plan (DROP). • <i>Distribution:</i> The DROP account balance will be paid over the expected future lifetime of annuitants. • <i>Interest:</i> Based on United States Department of Commerce Daily Treasury Yield Curve Rates for durations between 5 and 30 years; interest rate is based on the expected lifetime of the members at the time they retire. Interest is only paid on DROP account balances as of September 1, 2017.

Section 4: Actuarial Valuation Basis

Members whose Participation Began On or After March 1, 2011

Normal Retirement:	<ul style="list-style-type: none"> • <i>Age Requirement:</i> 58 • <i>Service Requirement:</i> 5 • <i>Amount:</i> 2.5% of Average Supplemental Computation Pay for each year of Pension Service, maximum 90% • <i>Average Supplemental Computation Pay:</i> <ul style="list-style-type: none"> – Supplemental Average Computation Pay is the current rate of pay received by the member, minus the rate of pay the member would receive for the highest civil service rank the member held. – Average Supplemental Computation Pay is determined based on the highest 60 consecutive months of Supplemental Computation Pay. 																
Early Retirement:	<ul style="list-style-type: none"> • <i>Age Requirement:</i> 53 • <i>Service Requirement:</i> 5 • <i>Amount:</i> Normal pension accrued, reduced by 2/3 of 1% for each whole month by which the benefit commencement date precedes the normal retirement date. 																
20 and Out Reduced Retirement:	<ul style="list-style-type: none"> • <i>Age Requirement:</i> None • <i>Service Requirement:</i> 20 years • <i>Amount:</i> 20 & Out Multiplier times Average Supplemental Computation Pay times years of Pension Service <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="2" style="text-align: center;">20 & Out Table 2</th> </tr> <tr> <th style="text-align: center;">Age</th> <th style="text-align: center;">20 & Multiplier</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">53 & under</td> <td style="text-align: center;">2.00%</td> </tr> <tr> <td style="text-align: center;">54</td> <td style="text-align: center;">2.10%</td> </tr> <tr> <td style="text-align: center;">55</td> <td style="text-align: center;">2.20%</td> </tr> <tr> <td style="text-align: center;">56</td> <td style="text-align: center;">2.30%</td> </tr> <tr> <td style="text-align: center;">57</td> <td style="text-align: center;">2.40%</td> </tr> <tr> <td style="text-align: center;">58 & above</td> <td style="text-align: center;">2.50%</td> </tr> </tbody> </table>	20 & Out Table 2		Age	20 & Multiplier	53 & under	2.00%	54	2.10%	55	2.20%	56	2.30%	57	2.40%	58 & above	2.50%
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Non-Service Connected Disability:	<ul style="list-style-type: none"> • <i>Eligibility:</i> Injury or illness (lasting more than 90 days) not related to or incurred while in the performance of the member's job, preventing the member from performing their departmental duties. • <i>Amount:</i> The Member's accrued benefit, but not less than a pro-rated minimum benefit. 																
Service Connected Disability:	<ul style="list-style-type: none"> • <i>Eligibility:</i> Injury or illness (lasting more than 90 days) obtained while on duty in the performance of the member's job. • <i>Amount:</i> The greater of 50% of Average Supplemental Computation Pay and the Member's accrued benefit. 																

Section 4: Actuarial Valuation Basis

Termination Benefit:	<ul style="list-style-type: none"> • <i>With less than five years of pension service:</i> Upon request, the member's contributions will be returned without interest • <i>With at least five years of pension service:</i> The member may either withdraw contributions or leave contributions in the Plan and receive a monthly benefit to commence no earlier than the member's earliest eligibility for retirement benefits. Retirement benefit is equal to the accrued benefit as of the date of termination.
Pre-Retirement Death Benefit:	<ul style="list-style-type: none"> • <i>While in active service:</i> The greater of 50% of the Member's accrued benefit or a benefit based on 20 years of service. The benefit may not exceed 45% of Average Supplemental Computation Pay. • <i>After leaving active service, with fewer than five years:</i> A lump sum benefit equal to the return of member contributions without interest • <i>After leaving active service, with at least five years:</i> 50% of the Member's accrued benefit, with no early retirement reduction, or a refund of member contributions
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Section 4: Actuarial Valuation Basis

All Members

Cost of Living:	The Board may grant an ad hoc COLA based on the actual market return over the prior five years less 5%, not to exceed 4% of the base benefit, if, after granting a COLA, the funded ratio on a market value of assets basis is no less than 70%.
Member Contributions:	13.5% of supplemental computation pay for all members
City Contributions:	The City will contribute the Actuarially Determined Contribution based on a closed, 20-year amortization period, established January 1, 2020.
Optional Forms of Benefits:	Life Only Annuity, 50% or 100% Joint and Survivor Pension
Changes in Plan Provisions:	None

GASB Information

Exhibit 1: Net Pension Liability

The components of the net pension liability at December 31, 2019 were as follows:

Total pension liability	\$35,838,906
Plan fiduciary net position	17,307,433
Net pension liability	18,531,473
Plan fiduciary net position as a percentage of the total pension liability	48.29%

Actuarial assumptions. The total pension liability was determined by an actuarial valuation as of January 1, 2020, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Real rate of return	4.50%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation

The actuarial assumptions used in the January 1, 2020 valuation were based on the results of an experience study for the period January 1, 2015 to December 31, 2019. Assumptions are detailed in Section 4, Exhibit I of this report.

Section 5: GASB Information

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges 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 by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return ¹
Global Equity	40%	5.29%
Emerging Market Equity	10%	6.47%
Private Equity	5%	8.19%
Short-Term Investment Grade Bonds	12%	0.71%
Investment Grade Bonds	4%	1.00%
High Yield Bonds	4%	3.18%
Bank Loans	4%	2.85%
Global Bonds	4%	0.97%
Emerging Markets Debt	4%	3.58%
Real Estate	5%	3.85%
Natural Resources	5%	5.54%
Cash	3%	0.62%
Total	100%	

¹ The real rates of return are provided by Segal Marco Advisors, and are net of inflation.

Section 5: GASB Information

Discount rate: The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that City contributions will equal the employer's normal cost plus a 20-year amortization payment on the unfunded actuarial accrued liability and member contributions will equal 13.50%% of supplemental computation pay. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of 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 total pension liability.

With this year's valuation, the long-term expected rate of return on investments was lowered from 7.25% to 7.00%.

Actuarial cost method: In accordance with GASB 67, the Total Pension Liability for active members is valued as the total present value of benefits once they enter the DROP. For the funding valuation, the liability for these members accumulates from their entry age until they are assumed to leave active service.

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability, calculated using the discount rate of 7.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6.00%) or one percentage-point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
Net pension liability	\$21,763,346	\$18,531,473	\$15,762,677

Section 5: GASB Information

Exhibit 2: Schedule of Changes in Net Pension Liability

	2019	2018
Total pension liability		
• Service cost	\$212,383	\$222,231
• Interest	2,222,866	2,359,025
• Change of benefit terms	0	887,898
• Differences between expected and actual experience	3,007,115	-2,628,276
• Changes of assumptions	1,331,588	27,946
• Benefit payments, including refunds of employee contributions	-2,765,779	-2,708,271
Net change in total pension liability	\$4,008,173	-\$1,839,447
Total pension liability – beginning	<u>31,830,733</u>	<u>33,670,180</u>
Total pension liability – ending (a)	<u>\$35,838,906</u>	<u>\$31,830,733</u>
Plan fiduciary net position		
• Contributions – employer	\$1,530,262	\$1,979,285
• Contributions – employee	110,660	73,880
• Net investment income	168,995	1,220,482
• Benefit payments, including refunds of employee contributions	-2,765,779	-2,708,271
• Administrative expense	-54,598	-52,636
Net change in plan fiduciary net position	-\$1,010,460	\$512,740
Plan fiduciary net position – beginning	<u>18,317,893</u>	<u>17,805,153</u>
Plan fiduciary net position – ending (b)	<u>\$17,307,433</u>	<u>\$18,317,893</u>
Net pension liability – ending (a) – (b)	<u>\$18,531,473</u>	<u>\$13,512,840</u>
Plan fiduciary net position as a percentage of the total pension liability	48.29%	57.55%
Covered employee payroll	\$584,068	\$621,622
Net pension liability as percentage of covered employee payroll	3,172.83%	2,173.80%

Notes to Schedule:

Benefit changes: The provision of HB 3158 that allows members who entered DROP before June 1, 2017 to revoke the DROP election during a window from September 1, 2017 through February 28, 2018 was reflected in the December 31, 2018 total pension liability.

Change of Assumptions: The assumption changes in 2018 include updates to the salary scale to reflect the 2016 Meet and Confer Agreement, as amended in 2018, and a change in the expected COLA date from October 1, 2053 to October 1, 2050. The assumption changes in 2019 were based on the recommendations in the experience study for the period January 1, 2015 to December 31, 2019 and included lowering the discount rate from 7.25% to 7.00% and changes to the salary scale, mortality rates, withdrawal rates, retirement rates, and expected COLA date. The expected COLA start date was also updated from October 1, 2050 to October 1, 2063.

Section 5: GASB Information

Exhibit 3: Schedule of Employer Contributions

Year Ended December 31	Actuarially Determined Contributions	Contributions in Relation to the Actuarially Determined Contributions	Contribution Deficiency/ (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
2015	\$2,442,790	\$2,442,790	\$0	\$556,725	438.78%
2016	3,063,584	3,063,584	0	724,503	422.85%
2017	2,086,639	2,077,059	9,580	525,048	395.59%
2018	2,273,581	1,979,285	294,296	916,199	216.03%
2019	1,881,055	1,530,262	350,793	621,622	246.17%

The contribution deficiencies for calendar years 2017 through 2019 represent contributions redirected to the Excess Benefit Plan and Trust.

Notes to Schedule:

Methods and assumptions used to determine contribution rates for the year ended December 31, 2019:

Valuation date	Actuarially determined contribution is calculated using a January 1, 2019 valuation date as of the beginning of the year in which contributions are reported
Actuarial cost method	Entry age
Amortization method	10-year level percent of payroll, using 2.75% annual increases
Remaining amortization period	10 years, open
Asset valuation method	At market value
Investment rate of return	7.25%, including inflation, net of pension plan investment expense
Inflation rate	2.75%
Projected salary increases	Inflation plus merit increases, varying by group and service
Retirement rates	Group-specific rates based on age
Cost-of-living adjustments	2.00% simple increases starting October 1, 2050

Section 5: GASB Information

Mortality:	
<i>Pre-retirement</i>	Sex-distinct RP-2014 Employee Mortality Table, set back two years for males, projected generationally using Scale MP-2015
<i>Healthy annuitant</i>	Sex-distinct RP-2014 Healthy Annuitant Mortality Table, set forward two years for females, projected generationally using Scale MP-2015
<i>Disabled</i>	Sex-distinct RP-2014 Disabled Retiree Mortality Table, set back three years for males and females, projected generationally using Scale MP-2015
Other information:	See Section 4 of the January 1, 2019 actuarial valuation for a full outline of assumptions. See Exhibit 2 of this section for the history of changes to plan provisions and assumptions over the last two years.
<i>DROP utilization</i>	0% of Police and Fire members are assumed to elect to enter DROP
<i>Interest on DROP Accounts</i>	Beginning January 1, 2018, 3.00% payable upon retirement on active account balances as of September 1, 2017

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DISCUSSION SHEET

Supplemental

ITEM #B2

Topic: **Second reading and discussion of the 2021 Budget**

Discussion: Attached is the budget proposal for Calendar Year 2021.

The budget has been prepared in total for both the Combined Pension Plan and the Supplemental Plan. Total expenses are then allocated to the Supplemental Plan based upon the Group Trust allocation reported by JPMorgan.

Significant changes from the prior year budget and/or projected 2020 actual expenses are explained in the comments accompanying the proposed budget.

The first reading of the proposed budget was at the October 10, 2020 Board meeting and there are no changes to the proposed budget from the first reading of the budget.

Staff

Recommendation: **Approve** the proposed 2021 budget.

Supplemental Board Meeting – Thursday, November 12, 2020

**DALLAS POLICE AND FIRE PENSION SYSTEM
PROPOSED OPERATING BUDGET SUMMARY
FOR THE YEAR 2021
SECOND READING AT THE NOVEMBER 12, 2020 BOARD MEETING**

Expense Type	2020 Budget	2020 Projected Actual	2021 Proposed Budget	Variances		Variances	
				2021	2020	2021	2020
				Prop. Bud. vs	Budget	Prop. Bud. vs	Proj. Act.
				\$	%	\$	%
Administrative Expenses	5,797,866	5,541,519	5,973,808	175,942	3.0%	432,289	7.8%
Investment Expenses	16,285,551	15,445,222	16,036,610	(248,941)	-1.5%	591,388	3.8%
Professional Expenses	1,496,520	1,472,915	1,609,120	112,600	7.5%	136,205	9.2%
Total	\$ 23,579,937	\$ 22,459,656	\$ 23,619,538	\$ 39,601	0.2%	\$ 1,159,882	5.2%

Dallas Police & Fire Pension System Proposed Operating Budget Calendar Year 2021							
Description	2020 Budget	2020 Projected Actual*	2021 Proposed Budget	\$ Change 2021 Prop. Bud. vs. 2020 Bud.	% Change 2021 Prop. Bud. vs. 2020 Bud.	\$ Change 2021 Prop. Bud. vs. 2020 Proj. Actual	% Change 2021 Prop. Bud. vs. 2020 Proj. Actual
Administrative Expenses							
1 Salaries and benefits	3,653,766	3,746,274	3,775,241	121,475	3.3%	28,967	0.8%
2 Employment Expense	15,000	17,165	25,110	10,110	67.4%	7,945	46.3%
3 Memberships and dues	19,706	17,240	19,917	211	1.1%	2,677	15.5%
4 Staff meetings	1,000	-	1,000	-	0.0%	1,000	100.0%
5 Employee service recognition	5,000	288	5,030	30	0.6%	4,742	1646.5%
6 Member educational programs	2,750	-	3,250	500	18.2%	3,250	100.0%
7 Board meetings	6,420	2,594	6,420	-	0.0%	3,826	147.5%
8 Conference registration/materials - Board	11,650	-	11,650	-	0.0%	11,650	100.0%
9 Travel - Board	21,500	-	21,500	-	0.0%	21,500	100.0%
10 Conference/training registration/materials - Staff	34,800	6,110	36,300	1,500	4.3%	30,190	494.1%
11 Travel - Staff	44,500	3,516	43,200	(1,300)	(2.9%)	39,684	1128.7%
12 Liability insurance	640,571	608,941	727,147	86,576	13.5%	118,206	19.4%
13 Communications (phone/internet)	56,300	67,816	70,800	14,500	25.8%	2,984	4.4%
14 Information technology projects	140,000	110,728	190,000	50,000	35.7%	79,272	71.6%
15 IT subscriptions/services/licenses	153,100	150,544	182,715	29,615	19.3%	32,171	21.4%
16 IT software/hardware	19,500	23,858	17,000	(2,500)	(12.8%)	(6,858)	(28.7%)
17 Building expenses	405,467	390,670	401,482	(3,985)	(1.0%)	10,812	2.8%
18 Repairs and maintenance	97,414	23,668	84,424	(12,990)	(13.3%)	60,756	256.7%
19 Office supplies	29,350	14,116	24,850	(4,500)	(15.3%)	10,734	76.0%
20 Leased equipment	24,000	23,686	24,000	-	0.0%	314	1.3%
21 Postage	28,200	23,628	21,700	(6,500)	(23.0%)	(1,928)	(8.2%)
22 Printing	14,000	-	14,000	-	0.0%	14,000	100.0%
23 Subscriptions	2,125	1,018	2,125	-	0.0%	1,107	108.7%
24 Records storage	1,400	1,392	1,400	-	0.0%	8	0.6%
25 Administrative contingency reserve	12,000	862	12,000	-	0.0%	11,138	1292.1%
26 COVID 19 Expense	-	19,367	7,500	7,500	100.0%	(11,867)	(61.3%)
27 Depreciation Expense	240,947	240,946	240,947	-	0.0%	1	0.0%
28 Bank fees	3,400	3,056	3,100	(300)	(8.8%)	44	1.4%
Investment Expenses							
29 Investment management fees	14,178,000	13,954,330	14,664,000	486,000	3.4%	709,670	5.1%
30 Investment consultant and reporting	365,000	362,084	340,000	(25,000)	(6.8%)	(22,084)	(6.1%)
31 Bank custodian services	222,000	216,974	220,000	(2,000)	(0.9%)	3,026	1.4%
32 Other portfolio operating expenses (legal, valuation, tax)	1,520,551	911,834	777,610	(742,941)	(48.9%)	(134,224)	(14.7%)
33 Investment due diligence	39,000	-	35,000	(4,000)	(10.3%)	35,000	100.0%
Professional Services Expenses							
34 Actuarial services	240,000	241,280	190,500	(49,500)	(20.6%)	(50,780)	(21.0%)

Dallas Police & Fire Pension System Proposed Operating Budget Calendar Year 2021							
Description	2020 Budget	2020 Projected Actual*	2021 Proposed Budget	\$ Change 2021 Prop. Bud. vs. 2020 Bud.	% Change 2021 Prop. Bud. vs. 2020 Bud.	\$ Change 2021 Prop. Bud. vs. 2020 Proj. Actual	% Change 2021 Prop. Bud. vs. 2020 Proj. Actual
35 Accounting services	60,770	59,000	60,770	-	0.0%	1,770	3.0%
36 Independent audit	165,000	162,977	166,000	1,000	0.6%	3,023	1.9%
37 Legal fees	550,000	577,752	562,500	12,500	2.3%	(15,252)	(2.6%)
38 Legislative consultants	126,000	126,000	159,000	33,000	26.2%	33,000	26.2%
39 Public relations	-	-	-	-	100.0%	-	100.0%
40 Pension administration software & WMS	283,000	263,616	302,000	19,000	6.7%	38,384	14.6%
41 Business continuity	17,000	16,224	18,300	1,300	7.6%	2,076	12.8%
42 Network security review	10,000	2,400	10,000	-	0.0%	7,600	316.7%
43 Network security monitoring	75,000	44,036	102,000	27,000	36.0%	57,964	131.6%
44 Disability medical evaluations	9,500	5,540	16,500	7,000	73.7%	10,960	197.8%
45 Elections	15,000	-	-	(15,000)	(100.0%)	-	100.0%
46 Miscellaneous professional services	20,250	18,126	21,550	1,300	6.4%	3,424	18.9%
Total Budget	23,579,937	22,459,656	23,619,538	39,601	0.2%	1,159,882	5.2%
Less: Investment management fees	14,178,000	13,954,330	14,664,000	486,000	3.4%	709,670	5.1%
Adjusted Budget Total	9,401,937	8,505,326	8,955,538	(446,399)	(4.7%)	450,212	5.3%

SUPPLEMENTAL BUDGET

Total Budget (from above)	23,579,937	22,459,656	23,619,538	39,601	0.2%	1,159,882	5.2%
Less: Allocation to Supplemental Plan Budget*	207,503	199,891	210,214	2,711	1.3%	10,323	5.2%
Total Combined Pension Plan Budget	23,372,434	22,259,765	23,409,324	36,890	0.2%	1,149,559	5.2%

* Projected based on 6/30/20 YTD annualized

** Allocation to Supplemental is based on JPM allocation between accounts as of 6/30/20 of .0089%

_____ 0.89% per JPM Unitization report as of 6/30/20

Significant Budget Changes - 2021
Budget Changes (>5% and \$10K)
SORTED BY THE \$ CHANGE FROM 2020 BUDGET TO 2021 BUDGET

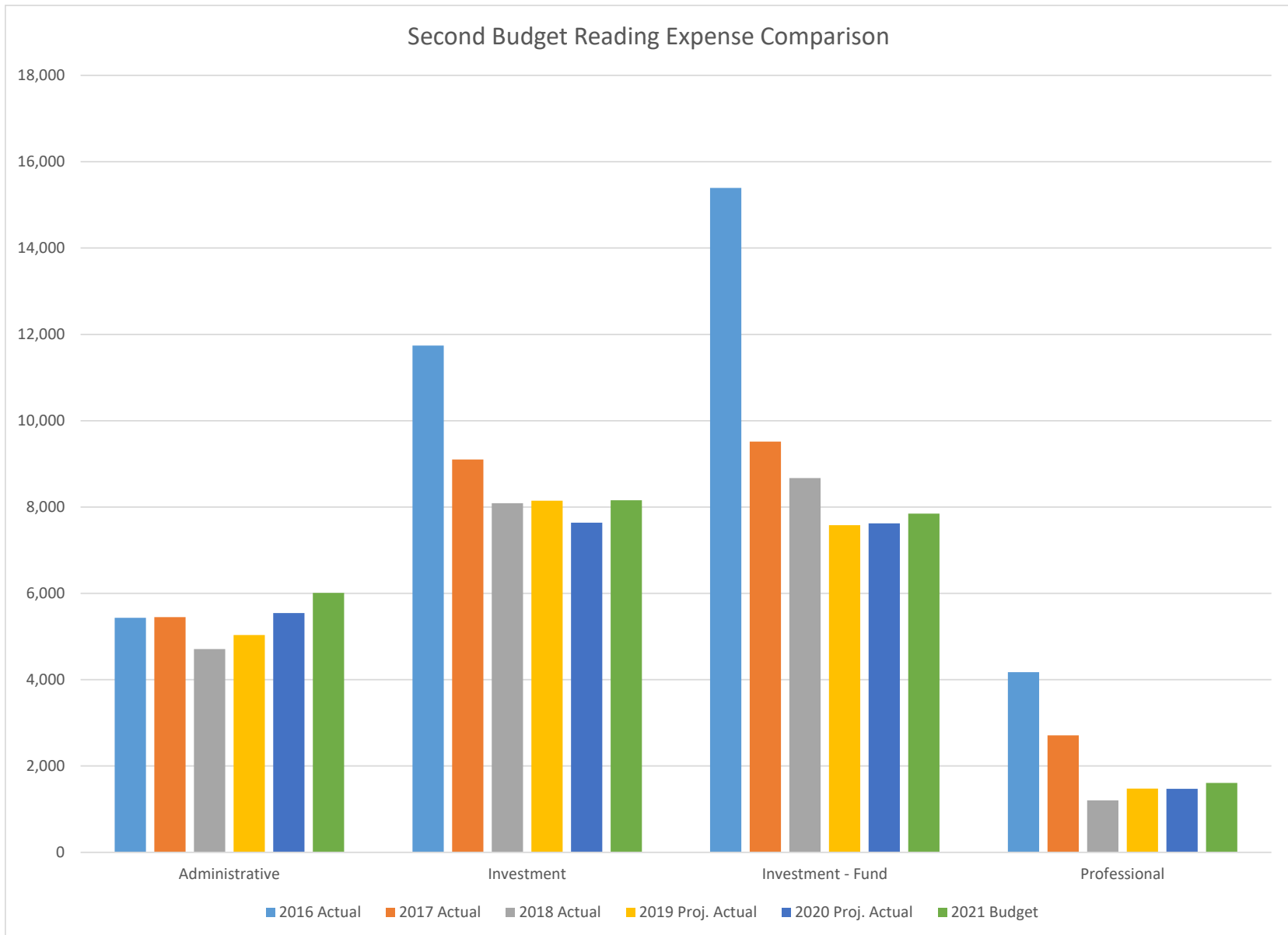
		2020	2020	2021	\$ Change	% Change	\$ Change	% Change	
	Item	Budget	Projected Actual**	Proposed Budget	2021 Prop. Bud. vs. 2020 Bud.	2021 Prop. Bud. vs. 2020 Bud.	2021 Prop. Bud. vs. 2020 Proj. Act.	2021 Prop. Bud. vs. 2020 Proj. Act.	Explanation
	INCREASES:								
1	Liability insurance	640,571	608,941	727,147	86,576	13.5%	118,206	19.4%	Projected renewal includes expected double digit increases across almost all lines of risk insurance. Fiduciary insurance is 80% of 2021 budget.
2	Information technology projects	140,000	110,728	190,000	50,000	35.7%	79,272	71.6%	Increase includes some projects deferred from 2020 to 2021 due to COVID-19.
3	Legislative consultants	126,000	126,000	159,000	33,000	26.2%	33,000	26.2%	Legislature is in session in 2021. Fees are higher for the periods when legislature is in session
4	IT subscriptions/services/licenses	153,100	150,544	182,715	29,615	19.3%	32,171	21.4%	Additional licenses and devices to be covered along with projected increases for renewals.
5	Network security monitoring	75,000	44,036	102,000	27,000	36.0%	57,964	131.6%	Additional items to be covered and expect full year of services in 2021.
6	Pension administration software & WMS	283,000	263,616	302,000	19,000	6.7%	38,384	14.6%	Enhancements for pension admin software and fee increases.
7	Communications (phone/internet)	56,300	67,816	70,800	14,500	25.8%	2,984	4.4%	Additional services like Zoom and Conference Calling added during COVID-19, combined with rate increases on contracts.
8	Employment Expense	15,000	17,165	25,110	10,110	67.4%	7,945	46.3%	Primarily agency fees for new staff.
	REDUCTIONS:								
9	Other portfolio operating expenses (legal, valuation, tax)	1,520,551	911,834	777,610	(742,941)	-48.9%	(134,224)	-14.7%	Significant reduction in legal and advisor fees for private equity investments expected in 2021.
10	Actuarial services	240,000	241,280	190,500	(49,500)	-20.6%	(50,780)	-21.0%	Experience study conducted in 2020 will not be repeated in 2021.
11	Investment consultant and reporting	365,000	362,084	340,000	(25,000)	-6.8%	(22,084)	-6.1%	HB 322 report costs of \$30k were included in the 2020 budget partially offset by contractual price increase.
12	Elections	15,000	-	-	(15,000)	-100.0%	-	100.0%	No trustee election in 2021.
13	Repairs and maintenance	97,414	23,668	84,424	(12,990)	-13.3%	60,756	256.7%	Fewer maintenance projects planned for 2021.

** Projected based on 8/31/19 Prelim YTD annualized

Significant Budget Changes - 2021
Budget Changes (>5% and \$10K)
SORTED BY THE \$ CHANGE FROM 2020 PROJECTED ACTUAL TO 2021 BUDGET

		2020	2020	2021	\$ Change	% Change	\$ Change	% Change	
	Item	Budget	Projected Actual**	Proposed Budget	2021 Prop. Bud. vs. 2020 Bud.	2021 Prop. Bud. vs. 2020 Bud.	2021 Prop. Bud. vs. 2020 Proj. Act.	2021 Prop. Bud. vs. 2020 Proj. Act.	Explanation
	INCREASES:								
1	Investment management fees	14,178,000	13,954,330	14,664,000	486,000	3.4%	709,670	5.1%	Increased market value in equities expected to drive higher fees, which will be partially offset by declines in fees for fixed income and real assets.
2	Liability insurance	640,571	608,941	727,147	86,576	13.5%	118,206	19.4%	Projected renewal includes expected double digit increases across almost all lines of risk insurance. Fiduciary insurance is 80% of 2021 budget.
3	Information technology projects	140,000	110,728	190,000	50,000	35.7%	79,272	71.6%	Project start dates delayed due to COVID-19. At least one project may be delayed until 2021.
4	Repairs and maintenance	97,414	23,668	84,424	(12,990)	-13.3%	60,756	256.7%	Some maintenance being delayed or deferred during COVID-19. Expect to return to more normal levels in 2021.
5	Network security monitoring	75,000	44,036	102,000	27,000	36.0%	57,964	131.6%	Project implementation delayed due to COVID-19. Expect full year of monitoring in 2021.
6	Travel - Staff	44,500	3,516	43,200	(1,300)	-2.9%	39,684	1128.7%	Reduced staff travel in 2020 due to COVID-19. Expect to return to more normal levels in 2021.
7	Pension administration software & WMS	283,000	263,616	302,000	19,000	6.7%	38,384	14.6%	Some enhancements delayed due to COVID-19.
8	Investment due diligence	39,000	-	35,000	(4,000)	-10.3%	35,000	100.0%	Purchase of investment software currently deferred. No investment due diligence travel due to COVID-19. Expect to return to more normal levels in 2021.
9	Legislative consultants	126,000	126,000	159,000	33,000	26.2%	33,000	26.2%	Legislature is in session in 2021. Fees are higher for the periods when legislature is in session
10	IT subscriptions/services/licenses	153,100	150,544	182,715	29,615	19.3%	32,171	21.4%	Additional licenses and devices to be covered along with projected increases for renewals.
11	Conference/training registration/materials - Staff	34,800	6,110	36,300	1,500	4.3%	30,190	494.1%	Staff conference training significantly reduced due to COVID-19. Expect to return to more normal levels during 2021.
12	Travel - Board	21,500	-	21,500	-	0.0%	21,500	100.0%	No board travel in 2020 due to COVID-19. Expect to return to more normal level in 2021.
13	Printing	14,000	-	14,000	-	0.0%	14,000	100.0%	Updated member handbook printing not completed due to COVID-19.
14	Conference registration/materials - Board	11,650	-	11,650	-	0.0%	11,650	100.0%	No conferences attended by board members during COVID-19.
15	Administrative contingency reserve	12,000	862	12,000	-	0.0%	11,138	1292.1%	Contingency reserve.
16	Disability medical evaluations	9,500	5,540	16,500	7,000	73.7%	10,960	197.8%	Only one disability evaluation in 2020 so far. 2020 projected actual allows for two in total and 2021 projects for five in total.
17	Office supplies	29,350	14,116	24,850	(4,500)	-15.3%	10,734	76.0%	Office supplies usage down in 2020 due to COVID-19. Expect to return to more normal level in 2021.
	REDUCTIONS:								
18	Other portfolio operating expenses (legal, valuation, tax)	1,520,551	911,834	777,610	(742,941)	-48.9%	(134,224)	-14.7%	Reduction in appraisal, legal and advisor fees for private equity investments expected in 2021.
19	Actuarial services	240,000	241,280	190,500	(49,500)	-20.6%	(50,780)	-21.0%	Experience study conducted in 2020 will not be repeated in 2021.
20	Investment consultant and reporting	365,000	362,084	340,000	(25,000)	-6.8%	(22,084)	-6.1%	HB 322 report costs of \$30k were incurred in 2020 budget and will not be repeated in 2021.
21	COVID 19 Expense	-	19,367	7,500	7,500	100.0%	(11,867)	-61.3%	Purchase of temperature scanners, plexiglass and other COVID-19 supplies in 2020.

** Projected based on 6/30/20 Prelim YTD annualized





DISCUSSION SHEET

Supplemental

ITEM #B3

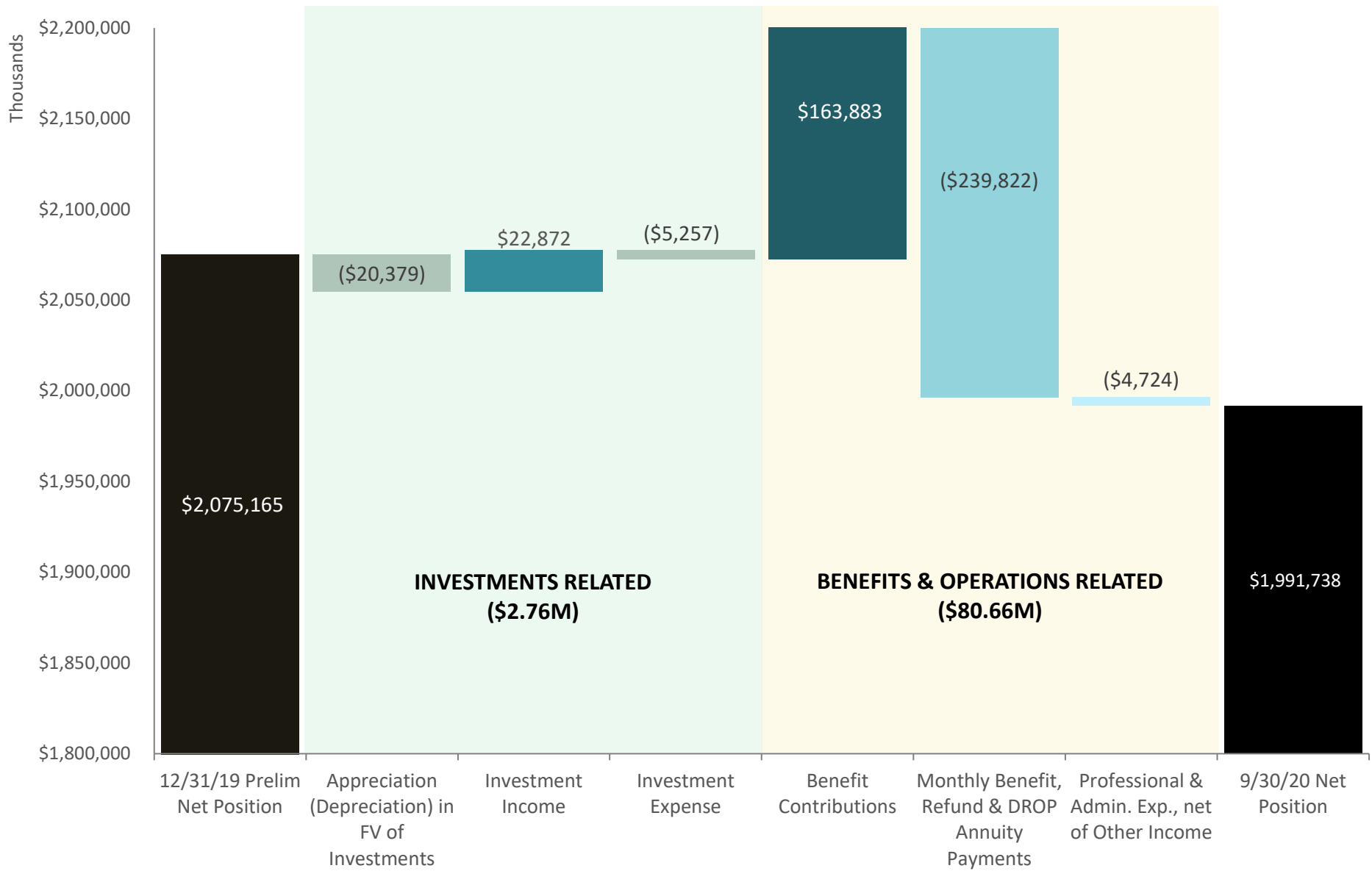
Topic: **Quarterly Financial Reports**

Discussion: The Chief Financial Officer will present the third quarter 2020 financial statements.

Supplemental Board Meeting – Thursday, November 12, 2020

Change in Net Fiduciary Position

December 31, 2019 – September 30, 2020



Components may not sum exactly due to rounding.

DALLAS POLICE & FIRE PENSION SYSTEM
Combined Statements of Fiduciary Net Position

	September 30, 2020	December 31, 2019 (unaudited)	\$ Change	% Change
Assets				
Investments, at fair value				
Short-term investments	\$ 24,419,758	\$ 25,311,029	\$ (891,271)	-4%
Fixed income securities	497,254,070	555,384,168	(58,130,098)	-10%
Equity securities	599,471,972	555,230,590	44,241,382	8%
Real assets	519,143,091	567,186,915	(48,043,824)	-8%
Private equity	265,217,476	267,586,704	(2,369,228)	-1%
Forward currency contracts	(522,107.76)	652,498	(1,174,606)	-180%
Total investments	<u>1,904,984,260</u>	<u>1,971,351,904</u>	<u>(66,367,644)</u>	<u>-3%</u>
Invested securities lending collateral	-	13,025,117	(13,025,117)	-100%
Receivables				
City	6,665,007	3,035,500	3,629,507	120%
Members	2,398,495	1,055,869	1,342,626	127%
Interest and dividends	4,750,194	4,459,663	290,531	7%
Investment sales proceeds	102,047,241	52,570,414	49,476,827	94%
Other receivables	189,829	186,104	3,725	2%
Total receivables	<u>116,050,766</u>	<u>61,307,550</u>	<u>54,743,216</u>	<u>89%</u>
Cash and cash equivalents	68,615,604	89,461,720	(20,846,116)	-23%
Prepaid expenses	558,392	402,596	155,796	39%
Capital assets, net	12,148,063	12,328,774	(180,711)	-1%
Total assets	<u>\$ 2,102,357,084</u>	<u>\$ 2,147,877,661</u>	<u>\$ (45,520,577)</u>	<u>-2%</u>
Liabilities				
Payables				
Securities lending obligations	-	13,025,117	(13,025,117)	-100%
Securities purchased	106,722,690	54,957,185	51,765,505	94%
Accounts payable and other accrued liabilities	3,896,197	4,730,610	(834,413)	-18%
Total liabilities	<u>110,618,887</u>	<u>72,712,912</u>	<u>37,905,975</u>	<u>52%</u>
Net position				
Net investment in capital assets	12,148,063	12,328,774	(180,711)	-1%
Unrestricted	1,979,590,134	2,062,835,976	(83,245,842)	-4%
Net position held in trust - restricted for pension benefits	<u>\$ 1,991,738,197</u>	<u>2,075,164,750</u>	<u>\$ (83,426,553)</u>	<u>-4%</u>

DALLAS POLICE & FIRE PENSION SYSTEM
Combined Statements of Changes in Fiduciary Net Position

	<u>9 Months Ended 9/30/2020</u>	<u>9 Months Ended 9/30/2019</u>	<u>\$ Change</u>	<u>% Change</u>
Contributions				
City	\$ 121,192,801	\$ 116,124,677	\$ 5,068,124	4%
Members	42,690,176	38,755,631	3,934,545	10%
Total Contributions	<u>163,882,977</u>	<u>154,880,308</u>	9,002,669	6%
Investment income				
Net appreciation (depreciation) in fair value of investments	(20,379,301)	77,391,129	(97,770,430)	-126%
Interest and dividends	22,837,430	30,029,029	(7,191,599)	-24%
Total gross investment income	2,458,129	107,420,158	(104,962,029)	-98%
less: investment expense	(5,256,887)	(5,739,070)	482,183	8%
Net investment income	<u>(2,798,758)</u>	<u>101,681,088</u>	(104,479,846)	-103%
Securities lending income				
Securities lending income	89,355	738,598	(649,243)	-88%
Securities lending expense	(54,330)	(641,674)	587,344	-92%
Net securities lending income	<u>35,025</u>	<u>96,924</u>	(61,899)	-64%
Other income	258,338	270,866	(12,528)	-5%
Total additions	<u>161,377,582</u>	<u>256,929,186</u>	(95,551,604)	-37%
Deductions				
Benefits paid to members	238,373,140	231,019,688	7,353,452	3%
Refunds to members	1,448,367	1,948,102	(499,735)	-26%
Legal expense	291,568	415,894	(124,326)	-30%
Legal expense reimbursement	-	(58,584)	58,584	-100%
Legal expense, net of reimbursement	<u>291,568</u>	<u>357,310</u>	(65,742)	-18%
Staff Salaries and Benefits	2,760,754	2,518,643	242,111	10%
Professional and administrative expenses	1,930,306	1,876,174	54,132	3%
Total deductions	<u>244,804,135</u>	<u>237,719,917</u>	7,084,218	3%
Net increase (decrease) in net position	<u>(83,426,553)</u>	<u>19,209,269</u>		
Beginning of period	2,075,164,750	2,060,232,023		
End of period	<u>\$ 1,991,738,197</u>	<u>\$ 2,079,441,292</u>		

