

Funding Policy for the Denison Firemen's Relief and Retirement Fund

Introduction

Effective January 14, 2021, the Board of Trustees (the "**Board**") of the Denison Firemen's Relief and Retirement Fund (the "**Fund**") adopts this Funding Policy. The Funding Policy should strive to **balance** three pension funding goals: (1) an **adequate contribution arrangement** so that member benefits are secure, (2) **contribution stability** so that the City of Denison (the "**City**") as the Fund sponsor and its employees who are members of the Fund have some level of predictability of contribution rates from year to year, and (3) **intergenerational equity** so that future taxpayers and member employees are not burdened with costs associated with a previous generation's service. The Board acknowledges its role in the process of working with the member employees, the City, and the Fund's actuary to achieve a balance between the total contribution rate and benefits expected over the long-term future as reflected in this Funding Policy.

Funding Objectives

Pursuant to Texas Government Code Section 802.2011, the Fund will target a 100% funded ratio, which is the ratio of the Fund's actuarial value of assets divided by the Fund's actuarial accrued liability, through the funding objectives and considering the limitations outlined in this Funding Policy. The Fund will target to fully fund the Fund's long-term obligations over as brief a period as reasonably possible, with 10-25 years being the preferable range, and over no more than 30 years.

Due to the state law governing the Fund and to the authority of the City granted by the state, the contribution rates of the employees and of the City are determined in advance, so the Fund has a "fixed-rate" contribution policy. Under Article 6243e, Vernon's Texas Civil Statutes ("**TLFFRA**"), the City may change its contribution rate at any time through formal action by its governing body, *provided that* such change does not reduce the City contribution rate below the minimum rate required by TLFFRA. The members of the Fund may change the member contribution rate through a majority member vote as recommended by the Board if the Fund's actuary approves the proposed change to the member contribution rate. The Board may not unilaterally change contribution rates, and this Funding Policy reflects such limitation.

Actuarial Methods

There are three actuarial methods that are part of each actuarial valuation for the Fund:

Actuarial Cost Method

The Entry Age Actuarial Cost Method is an actuarial cost method in which the actuarial present value of projected benefits of each active firefighter included in the valuation is allocated as a level percentage of compensation between age at hire and assumed termination. Each active firefighter's normal cost is the current annual contribution in a series of annual contributions which, if made

throughout the firefighter's total period of employment, would fund his expected benefits. Each firefighter's normal cost is calculated to be a constant percentage of his expected compensation in each year of employment. The normal cost for the Fund is the sum of the normal costs for each active firefighter for the year following the valuation date.

The Fund's actuarial accrued liability is the excess of the actuarial present value of projected benefits over the actuarial present value of all future remaining normal cost contributions. The unfunded actuarial accrued liability ("UAAL") is the amount by which the actuarial accrued liability exceeds the actuarial value of assets. The UAAL is recalculated each time a valuation is performed. Experience gains and losses, which represent deviations of the UAAL from its expected value based on the prior valuation, are determined at each valuation and are amortized as part of the newly calculated UAAL.

Amortization Method

The UAAL is assumed to be amortized with level percentage of payroll contributions (total assumed contribution rate less normal cost contribution rate) based on an assumed payroll growth of 2.75% per year.

Actuarial Value of Assets Method

All assets are valued at market value with an adjustment made to uniformly spread actuarial gains or losses (as measured by actual market value investment return vs. expected market value investment return) over a five-year period. The total adjustment amount shall be limited as necessary such that the actuarial value of assets shall not be less than 80% of market value nor greater than 120% of market value.

A Roadmap to Achieve Funding Objectives

As part of its fiduciary duty, the Board will oversee and monitor the ongoing investment experience of the Fund and the adequacy of the City and member contribution rates to fund the benefits expected over the long-term future. In doing so, the Board will take the following actions or arrange for them to occur:

Actuarial Valuation

The Fund's actuary completes an actuarial valuation of the Fund on a biennial basis. As a part of each actuarial valuation, the Fund's actuary reviews the actuarial assumptions used in the prior actuarial valuation to see if they are still appropriate. Recommended changes in assumptions are communicated to the Board for their consideration before the actuarial valuation is completed. The report of the valuation is presented to, reviewed, and approved by the Board at a regular meeting. This report is provided to the Texas State Pension Review Board ("**PRB**").

In each actuarial valuation, the actuary determines the normal cost, the actuarial accrued liability, the actuarial value of assets, the UAAL and how long it will take for the total contribution rate in excess of the normal cost contribution rate to amortize the UAAL (actuarially determined amortization period) as a level percentage of payroll. Each actuarial valuation report will also

include a benchmark actuarially determined contribution (“*ADC*”) rate using a closed amortization period of 30 years beginning with the date of the first actuarial valuation completed after January 1, 2020.

Review of Funding Policy

The Board will review this Funding Policy periodically, but no less frequently than in connection with each actuarial valuation.

Comparison of Contribution Rates to Benchmark ADC Rate

In conjunction with each biennial actuarial valuation, the Fund’s actuary will calculate the benchmark ADC rate as described in this Funding Policy and will prepare a comparison of the benchmark ADC rate with the actual fixed contributions being received by the Fund for review by the Board. One indicator of achieving the desired balance between contribution rates and the long-term cost of benefits is that the contribution arrangement results in an actuarially determined amortization period that is reasonably in line with the period used in the benchmark ADC rate, such as within five years. Another indicator of achieving this balance is that the total contribution rate is reasonably in line with the benchmark ADC rate, such as within 2% of payroll.

When Actual Experience Diverges from Expected Experience

In connection with the comparison of the total contribution rate to the benchmark ADC rate described above, when actual experience diverges from expected experience, the Board will adhere to the following guidelines:

Positive Divergence From Benchmark ADC Rate

If the actuarially determined amortization period is determined to be sufficiently less than the period used in the benchmark ADC rate, the Board may consider a benefit increase, such as an ad hoc cost-of-living adjustment for the retirees and surviving spouses and children, that would result in an actuarially determined amortization period somewhat less than the period used in the benchmark ADC rate. Any increase in benefits would require approval by a majority of the members of the Fund, the Fund’s actuary, and the Board, as required by TLFRA.

Negative Divergence From Benchmark ADC Rate

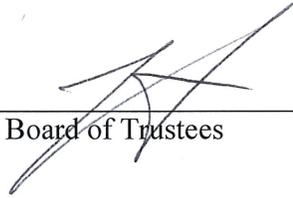
If the actuarially determined amortization period is not reasonably in line with the period used in the benchmark ADC rate (i.e., greater than the period used in the benchmark ADC rate by more than five years), the Board will notify the City and any member employee group or association of the condition and then may consider whether a contribution rate increase, a benefit formula reduction, or a combination thereof should be pursued in order to achieve an actuarially determined amortization period that is reasonably in line with the period used in the benchmark ADC rate or with the PRB Pension Funding Guidelines. Initially the Board would work with the Fund’s actuary to develop potential changes that would reestablish an appropriate balance between benefits and contributions. The process would continue by working with the member employees and the City to achieve the necessary changes.

Changes to Funding Policy

The adoption of this Funding Policy in no way restricts future modifications to be made by the Board of Trustees.

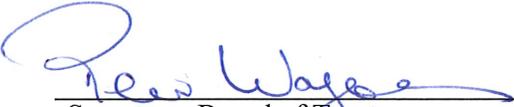
Adopted by the Denison Firemen's Relief and Retirement Fund Board of Trustees at their meeting held on the 14 day of January, 2021.

Approved:



Chair, Board of Trustees

Attest:



Secretary, Board of Trustees

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