**RESOLUTION 20-R-04** amending the Funding Policy for the City of Murfreesboro, Tennessee Employees' Revised Pension Plan.

**WHEREAS**, the Tennessee General Assembly adopted Public Chapter 990 which included "The Public Employee Defined Benefit Financial Security Act of 2014," now codified as T.C.A. §9-3-501 et. seq. (the "Act"); and,

**WHEREAS**, the Act required political subdivisions with defined benefit pension plans to develop a funding policy for financing the pension plan's obligations and for such funding policy to be approved by resolution of the political subdivision's governing body; and,

**WHEREAS**, the City of Murfreesboro has a defined benefit pension plan known as the City of Murfreesboro, Tennessee Employees' Revised Pension Plan (the "Plan"); and,

**WHEREAS**, the Act also required that such funding policy be in effect for fiscal years beginning after June 15, 2015 until amended; and,

**WHEREAS**, the City adopted Resolution 15-R-12 on June 4, 2015 approving a funding policy for the City's Pension Plan in accordance with the Act; and,

**WHEREAS**, the City's actuary reviewed the Funding Policy and made recommendations for updates including the addition of language which explicitly states the amortization method the Plan uses, mortality rate improvement assumptions, and that optional form of payment assumption will be reviewed; and,

**WHEREAS**, the City's Pension Committee unanimously approved an amended Funding Policy at its February 19, 2020 meeting and recommends that the City Council adopt the Funding Policy attached as Attachment A.

**NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF MURFREESBORO, TENNESSEE, AS FOLLOWS:**

SECTION 1. The Funding Policy for the City of Murfreesboro, Tennessee Employees' Revised Pension Plan is hereby amended and replaced with the attached Attachment A and shall remain in effect unless and until it is amended by this City Council.

SECTION 2. A copy of this Resolution and Funding Policy shall be submitted to the Comptroller of the Treasury within thirty (30) days of its adoption in accordance with T.C.A. §9-3-504(b). Any subsequent amendment of the Funding Policy adopted by this Council shall similarly be timely submitted to the Comptroller in accordance with state law.

SECTION 3. This Resolution shall be effective immediately, the public welfare and the welfare of the City requiring it.

Passed: February 27, 2020

Shane McFarland, Mayor

ATTEST:

Melissa B. Wright
City Recorder

APPROVED AS TO FORM:

Adam F. Tucker
City Attorney

CITY OF MURFREESBORO
SEAL
MURFREESBORO, TENN

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# Funding Policy for the City of Murfreesboro, Tennessee Employees' Revised Pension Plan

The City of Murfreesboro Tennessee adopts this document as the funding policy applicable to the City of Murfreesboro, Tennessee Employees' Revised Pension Plan ("the Plan"), a defined benefit plan, in compliance with The Public Employee Defined Benefit Financial Security Act of 2014, T.C.A. § 9-3-501 et. seq., Public Chapter 990, Acts of 2014. This funding policy replaces the prior funding policy which was signed on June 4, 2015.

## Preamble

The intent of this funding policy is to establish a formal methodology for financing the pension obligations accruing under the Plan. It is intended that current assets plus future assets from employer contributions and investment earnings should be sufficient to finance all benefits provided by the Plan and all costs incurred by the Plan. The funding policy is intended to reflect a reasonable, conservative approach with each generation of taxpayers financing, to the greatest extent possible, the cost of pension benefits being accrued. This funding policy recognizes that there will be investment market place volatility and that actual economic and demographic experience will differ from assumed experience. Accordingly, this funding policy is intended to provide flexibility to smooth such volatility and experience in a reasonable, systematic, and financially sound manner. Further, it is the intent that this funding policy comply with all applicable laws, rules, and regulations of the State of Tennessee and the Federal Government.

This funding policy is being adopted by the City Council upon the recommendation of the Pension Committee as a prudent action, a fiduciary duty and a legal obligation. Moreover, adoption of a funding policy is recommended by the Government Finance Officers Association, the Governmental Accounting Standards Board, and the actuarial profession.

## Components of this Funding Policy

1. Procurement of actuarial services
2. Actuarial experience study
3. Actuarial valuation
4. Actuarial audit
5. Transparency and Accountability
6. Filing with the State

## Procurement of Actuarial Services

The Plan shall acquire the services of professional actuarial firms as needed to perform actuarial experience studies, actuarial valuations, and other necessary actuarial services. A selected actuarial firm shall be independent and shall act as an advisor on actuarial matters on behalf of the Plan.

The lead actuary of the selected actuarial firm shall have the requisite experience, capabilities, strengths, and qualifications including, but not limited to, the following:

1. Member of the American Academy of Actuaries,
2. Attainment of the Fellowship of the Society of Actuaries (FSA) designation,
3. Attainment of the Enrolled Actuary (EA) designation,
4. At least seven years of actuarial experience in the defined benefit field,
5. Ineligible to participate in the Plan, and
6. Shall not be an employee of the City.

## Actuarial Experience Study

An actuarial experience study shall be conducted at least every five years. As determined to be necessary by the Pension Committee or as recommended by the Plan's actuary, assumptions may be evaluated on an interim basis between studies.

Assumptions adopted by the Pension Committee should be established based on past experience and future expectations as the result of an actuarial experience review.

Demographic assumptions to be established include, but are not limited to, the following:

1. Turnover pattern
2. Pre-retirement mortality based on expected improvement in mortality
3. Pattern of retirement
4. Pattern of disability
5. Post-retirement mortality based on expected improvement in mortality
6 Forms of benefit payments.

Due to the number of participants in the Plan, the Plan data is insufficient to develop assumptions based only on plan experience. The Pension Committee and the Plan's actuary will base the development of the demographic assumptions using published studies, plan experience, and expected experience input from the City's management.

Economic assumptions to be established include, but are not limited to, the following:

1. Investment earnings (net of investment expenses)
2. Salary

The investment earnings assumption cannot exceed the rate adopted by the Tennessee Consolidated Retirement System ("TCRS") by more than 50 basis points. Economic assumptions shall include an underlying assumption for inflation.

## Actuarial Valuation

*Valuation method and frequency.* An actuarial valuation to determine the "Actuarially Determined Contribution (ADC)" rate to finance pension obligations shall be performed annually for the fiscal years beginning after June 15, 2015. The valuation shall utilize the entry-age normal actuarial method. The ADC shall include (1) the normal cost, (2) the unfunded liability cost, and (3) the cost of administration and (4) interest on (1) and (2). The ADC rate shall be calculated and become applicable on the July 1 that is 12 months following the valuation date.

*Funding the ADC.* The ADC rate, as determined by an actuarial valuation, shall provide funding at a level of no less than 100%. The City's budget shall include funding of at least 100% of the ADC of the Plan.

*Asset smoothing method.* An asset smoothing method shall be utilized to determine the actuarial value of assets. The difference between the amount actually earned and the earnings assumption for a particular year shall be amortized in level amounts. The asset smoothing period shall continue to be five (5) years.

*Unfunded liability.* The unfunded liability based on the 2001 actuarial valuation shall be funded no later than 2041. In subsequent actuarial valuations, the unfunded liability will be reestablished and will be amortized over the remaining period to 2041. Changes in the unfunded liability due to assumption changes, method changes or benefit plan provision changes may either be included in the amortization of the reestablished unfunded liability or the amount of change in the unfunded liability may be amortized over a closed period not to exceed 30 years. The amortization method shall be a level dollar amortization method. It is permissible in any subsequent actuarial valuation to amortize the actual actuarial gains and losses separate from the prior reestablished unfunded liability. The amortization methodology for the actuarial gains and losses is described in the next section.

*Amortization methodology for actuarial gains and losses.* A tier approach will be utilized with new actuarial gains and losses from each actuarial valuation. Each tier shall be amortized over a closed, maximum 20 year period using a level dollar amortization method. Tiers may be combined, but the resulting amortization period may not be less than 5 years nor exceed the lowest amortization period of the combined tiers.

*Demographic data.* The demographic data in an actuarial valuation shall include: (1) all active members, (2) all inactive vested members, and (3) all annuitants (including beneficiary annuitants and disability annuitants).

*Benefit provisions.* The actuarial valuation shall include all benefits being accrued by members of the Plan including, but not limited to, retirement, termination, disability and death benefits, The valuation shall be based on the benefit eligibility and benefit terms as set out in the Plan document.

*Assumptions utilized.* Demographic and economic assumptions as determined by an actuarial experience study and adopted by the Pension Committee shall be utilized in the actuarial valuation. For the mortality assumptions, the actuary and the Pension Committee will consider expected mortality improvements and will include mortality improvements in the mortality assumptions.

*Actuarial audit.* The City may subject the Plan to an actuarial audit by an independent actuarial audit firm at any time. Such audits are not generally conducted more frequently than once in a ten (10) year period. The purpose of such an actuarial audit may include but is not limited to: (1) the validation and verification of actuarial valuation results of both funding and accounting; (2) an evaluation of the reasonableness of actuarial assumptions and methods; and (3) compliance with generally accepted actuarial standards.

## Transparency and Accountability

This funding policy, the actuarial experience study, and the actuarial valuation shall be readily available for review.

## Filing with the State

Pursuant to Public Chapter 990, Acts of 2014, this Funding Policy and any amendments hereafter adopted shall be submitted to the Comptroller or the Treasury within thirty (30) days after adoption.

## Effective Date

This Funding Policy shall remain in effect until amended by the City Council or preempted by federal or state law.

Shane McFarland, Mayor

02/27/20
Date Adopted