

COUNCIL OF THE CITY OF ABERDEEN
Resolution No. 18-R-01

Date Introduced: March 12, 2018

Sponsored By: Mayor Patrick L. McGrady

Amendments Adopted:

Date Adopted: March 26, 2018

Date Effective: March 26, 2018

A RESOLUTION concerning

OPEB Trust Funding Policy

FOR the purpose of adopting a funding policy for the City's Non-Pension Post-Employment Benefit (OPEB) Trust Fund.

EXPLANATORY STATEMENT: Pursuant to Ordinance No. 14-O-18 the City of Aberdeen created a Non-Pension Post-Employment Benefit Trust Fund for investment and administration of the City's annual contributions for retiree health and life insurance benefits under the City's OPEB Plan. The City Council deems it prudent and advisable to formally adopt a Funding Policy to establish funding objectives and strategies with respect to the Trust Fund. Such a funding policy has been prepared by the City's Finance Director and recommended by the OPEB actuaries. Now, therefore,

SECTION 1. BE IT RESOLVED BY THE COUNCIL OF THE CITY OF ABERDEEN that the Retiree Healthcare (OPEB) Funding Policy attached to this Resolution is adopted.

**ATTACHMENT TO RESOLUTION NO. 18-R-01
OPEB Trust Funding Policy**

Retiree Healthcare (OPEB) Funding Policy

A. Introduction

The purpose of this Statement of OPEB Funding Policy is to record the funding objectives and strategy set by the City of Aberdeen. The City establishes this Funding Policy to ensure future benefit payments for members of the Plan. In addition, this document records certain guidelines established by the City to assist in administering the Plan in a consistent and efficient manner. In the event that this Policy conflicts with any language in local or State Law, the Law shall prevail.

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

B. Funding Objectives

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

1. Set aside sufficient assets to permit prefunding and payment of benefits under the Plan.
2. Maintain equity among generations of taxpayers by:
 - a. Establishing improvement, on a projected basis, in the Plan's Funded Ratio, as defined in Section E, such that it approaches 100% over a period of not more than 30 years;
 - b. Amortizing the Unfunded Actuarial Accrued Liability, as defined in Section E, as specified below.
3. Minimize the volatility of the employer's annual actuarial cost as a percentage of covered pay.

C. Funding Guidelines

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

1. Regular Contribution Rate

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

- a. The Normal Cost and Actuarial Accrued Liability used for this purpose will be calculated using the Entry Age actuarial cost method.

- b. The Actuarial Value of Assets used for this purpose may be based on a smoothed value that recognizes realized and unrealized investment gains and losses gradually, but shall not be more than 120% or less than 80% of Market Value of Assets.
- c. The Unfunded Actuarial Accrued Liability will be amortized as a level dollar amount over a closed 27-year period, beginning July 1, 2017.
- d. Any changes in plan provisions will be amortized over a maximum of 15 years.

2. Minimum Contribution Rate

In order to maintain adequate funding and to control contribution volatility:

If the Funded Ratio (Actuarial Value of Assets divided by Actuarial Accrued Liability) has increased to over 100% (all Unfunded Actuarial Accrued Liability has been fully amortized), the surplus will be amortized over 30 years.

3. Contribution Timing

The City's contribution will be made no later than one year after the date of the actuarial valuation.

D. Assumption Guidelines

The actuarial assumptions are set by the actuary in an effort to align the funding of the plan with actual Plan experience, thus providing stability to the contribution rate over time.

Assumptions are generally grouped into three major categories:

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

For demographic assumptions, the actuary will maintain consistency with the assumptions used for the participants' pension valuation, as appropriate. Economic and healthcare assumptions will be reviewed for each actuarial valuation of the OPEB, and adjusted as warranted based on experience and market conditions.

To the extent that actual experience deviates from the assumptions, experience gains and losses will occur. These gains/(losses) then serve to decrease/(increase) the actuarial cost.

The assumptions adopted by the City represent the actuary's best estimate of anticipated experience of the Plan and are intended to be long term in nature. Therefore, in developing the assumptions, the actuary considers not only past experience, but also trends, external forces

and future expectations. Despite the care with which actuarial assumptions are developed, actual experience over the short term is not expected to match these assumptions exactly.

This Funding Policy shall be reviewed at least once every five years for any necessary modifications. Any changes are also subject to legal review.

E. Glossary of Terms

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

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

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

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

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

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

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

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


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

This Policy was adopted on March 26, 2018.

COUNCIL OF THE CITY OF ABERDEEN



Patrick L. McGrady, Mayor

Steven E. Goodin, Councilman

Sandra J. Landbeck, Councilwoman

Timothy W. Lindecamp, Councilman

Melvin T. Taylor, Councilman

ATTEST:

SEAL:



Monica A. Correll, City Clerk

Date



March 26, 2018