

**RESOLUTION ADOPTING WRITTEN FUNDING POLICY**

**WHEREAS**, Section 2.64.010 of Chapter 2.64 of the El Paso, Texas Municipal Code (“Municipal Code”) provides for the creation of a pension fund for most employees of the City of El Paso, except for those employees who are members of the Policemen’s or Firemen’s Pension Fund; and,

**WHEREAS**, Section 2.64.020 of Chapter 2.64 of the Municipal Code provides that the City of El Paso Employees Retirement Trust shall be administered by a board of trustees; and,

**WHEREAS**, Section 2.64.090 of the Municipal Code authorizes the Board of Trustees of the City of El Paso Employees Retirement Trust (“the Board”) to make such rules, not inconsistent with law and with the Municipal Code, as may be appropriate for the proper performance of its duties; and,


**WHEREAS**, Texas Senate Bill No. 2224 (effective September 1, 2019) requires public retirement systems in Texas to adopt a written funding policy no later than January 1, 2020.

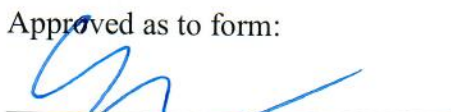
**NOW THEREFORE BE IT RESOLVED**, by the Board that the written funding policy attached hereto as Exhibit “A” shall be the official adopted written funding policy of the City of El Paso Employees’ Retirement Trust.

**PASSED AND APPROVED THIS 12<sup>th</sup> DAY OF DECEMBER, 2019.**

**CITY OF EL PASO EMPLOYEES  
RETIREMENT TRUST**

By:   
\_\_\_\_\_  
**Nick Costanzo, Chairperson**

Attest:  
  
\_\_\_\_\_  
**Robert B. Ash**  
Board Secretary

Approved as to form:  
  
\_\_\_\_\_  
**Eduardo Miranda**  
Board Counsel

# **City of El Paso Employees Retirement Trust**

## **Funding Policy**

This document outlines the details of the Funding Policy adopted by the Retirement Board ("Board") for the City of El Paso Employees Retirement Trust ("Plan") in accordance with Section 802.2011 of the Texas Government Code as amended by Senate Bill No. 2224.

### **Background on Plan**

The Plan provides retirement and ancillary benefits to most classified civil service employees of the City of El Paso, except for members of the Policemen's or Firemen's Pension Fund. Different levels of benefits are provided for employees who become participants in the Plan after August 31, 2011.

In accordance with Section 2.64.190 of the El Paso, TX Municipal Code ("Municipal Code"), contributions to the Plan are fixed. The contribution rates are adjusted by the City from time to time, and were most recently increased effective September 1, 2014 to the following percentages:

- Active participants: 8.95% of total pay
- City: 14.05% of total pay

For purposes of determining active participants' and City contributions, pay in excess of the compensation limit under Internal Revenue Code Section 401(a)(17) is disregarded.

### **Objectives of Funding Policy**

Over the lifetime of the Plan, contributions and investment income generated from invested assets must be sufficient to pay all benefits and expenses from the Plan.

The key objectives of the Funding Policy are to:

1. Ensure the Plan has sufficient assets on hand to pay all promised benefits to Plan participants and their beneficiaries.
2. Minimize volatility in the contributions from year to year.
3. Ensure that each generation of employees and taxpayers bear the cost of benefits for employees who provide services to those taxpayers.

### **Elements of Funding Policy**

Although participant and City contributions are fixed percentages of pay as defined by the Municipal Code, the Board engages an independent actuary to calculate the Actuarially Determined Contribution ("ADC") for each Plan year. The ADC is comprised of two amounts:

1. Normal Cost
2. Amortization of Unfunded Actuarial Accrued Liability

The Normal Cost is determined using the Entry Age Normal Actuarial Cost Method (level percent of pay basis), and represents the actuarial cost of benefits accruing in the current year for active participants.

The Actuarial Accrued Liability is the excess of the present value of future benefits over the present value of future Normal Costs.



The Actuarial Value of Assets is determined as follows:

1. Each year, a market gain/(loss) is calculated based on the expected return on assets that has been adopted by the Board. A market gain occurs if the actual return on assets exceeds the expected return; a market loss occurs if the actual return on assets is less than the expected return.
2. The market gains/(losses) are recognized at a rate of 20% each year.
3. The Actuarial Value of Assets as of the valuation date is equal to:
  - a. The Market Value of Assets as of the valuation date, minus
  - b. 80% of the market gain/(loss) for the year preceding the valuation date, and
  - c. 60% of the market gain/(loss) for the 2<sup>nd</sup> year preceding the valuation date, and
  - d. 40% of the market gain/(loss) for the 3<sup>rd</sup> year preceding the valuation date, and
  - e. 20% of the market gain/(loss) for the 4<sup>th</sup> year preceding the valuation date.

The Unfunded Actuarial Accrued Liability is the difference between the Actuarial Accrued Liability and the Actuarial Value of Assets as of the date of the actuarial valuation. The Unfunded Actuarial Accrued Liability is amortized on a level percent of pay basis using a layered approach as described below:

1. The Unfunded Actuarial Accrued Liability as of September 1, 2019 is amortized over a closed 25-year period.
2. Each year's change in Unfunded Actuarial Accrued Liability after September 1, 2019 is amortized separately over a closed 25-year period that begins when the change in Unfunded Actuarial Accrued Liability is initially measured.

Each year, the ADC is compared to the City's fixed contribution rate (currently 14.05% of pay as defined in the Municipal Code). If the ADC exceeds the City's fixed contribution rate, the Board will recommend to the City that an additional contribution be made to the Plan by the City equal to the excess of the ADC over the City's fixed contribution rate.

The Board has the limited authority to adopt an increase in benefits for Plan participants. Any benefit increase (including COLA's) for current and/or future retirees, separately or in combination, may be granted by the Board if (i) the funded ratio of the Plan after the benefit increase is at least 80%, and (ii) the decrease in the funded ratio due to the benefit increase is not more than 1% (for example, a funded ratio of 81% prior to the benefit increase cannot decrease to less than 80% after the benefit increase). For this purpose, the funded ratio is the ratio of the Actuarial Value of Assets to the Actuarial Accrued Liability as of the date of the most recent actuarial valuation.

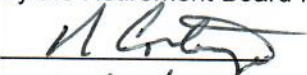
In addition to the previous paragraph, the following parameters shall apply to potential cost-of-living adjustments (COLA's) for existing retirees/beneficiaries:

1. The maximum amount of a COLA shall not be more than the actual increase in Consumer Price Index (CPI), as published by the U.S. Bureau of Labor Statistics, since the last COLA was granted.
2. Any COLA granted by the Board shall apply only for those who have been retired for at least one calendar year as of the date the COLA is paid.
3. The time required to process the payment of a COLA is at least three months.
4. The form of COLA can be a one-time payment or a percentage increase in monthly pension benefits, at the sole discretion of the Board.

Actuarial valuations to determine the ADC are prepared biennially, as of September 1 of even years. Interim valuations are prepared as of September 1 of odd years based on updated assets and a roll-forward of liabilities from the previous valuation. The Board may elect to have a full actuarial valuation prepared in any or all odd years in lieu of an interim valuation.

Economic and demographic assumptions used in the actuarial valuations are set by the Board in consultation with the actuary. An experience study will generally be performed every 5-6 years to determine if updates to the assumptions are warranted. In addition, economic assumptions will be monitored each year and updated for significant changes in future market expectations, trust asset allocations, or the investment policy for the Plan's assets. The Board may elect to update an actuarial assumption in any year as deemed appropriate based on relevant information at that time.

Adopted by the Retirement Board for the City of El Paso Employees Retirement Trust

Signed: 

Date: 12/12/19