# WATER AND POWER EMPLOYEES' RETIREMENT PLAN
# FUNDING POLICY
# REVISED NOVEMBER 9, 2022

## I. BACKGROUND

The purpose of the Funding Policy of the Water and Power Employees' Retirement Plan (Plan) is to provide a systematic set of rules to ensure that the cost of benefits will be funded in an equitable and sustainable manner. The Policy is established by the Board of Administration (Retirement Board) and reviewed periodically to ensure that the goals are met.

The Plan maintains three distinct trust funds for each of the benefits: Retirement Fund, Death Benefit Fund, and Disability Fund. Separate valuation methods and separate accountings have been established for each of the Funds.

## II. GOAL

The goal of the Funding Policy is to fully fund the long-term cost of promised benefits, while reasonably and equitably allocating the cost of benefits over time. To the extent possible, while ensuring consistency with the goal, the Funding Policy should seek to minimize the volatility of Department contributions.

## III. PRINCIPLE ELEMENTS OF THE FUNDING POLICY

The annual funding requirement is comprised of a payment for the cost attributed to the current year of service (Normal Cost) and a payment on the Unfunded Actuarial Accrued Liability (UAAL). The Normal Cost and payment on the UAAL is determined by the following components:

1. **Actuarial Cost Method**: Allocates the actuarial present value of projected benefits to each year.

2. **Asset Smoothing Method**: Reduces the effect of short-term market volatility while tracking market value of assets.

3. **Amortization Policy**: Determines length of time and structure of the increase or decrease in contributions required to systematically fund the UAAL, or recognize any surplus when assets exceed the AAL.

## IV. RETIREMENT FUND

1. Actuarial Cost Method - Sections IV C (2)(b), VII E (4)(a), IV C (2)(a)

   a) Entry Age Actuarial Cost Method shall be utilized to determine the Normal Cost and the AAL. The Normal Cost and AAL are calculated on an individual basis, based on costs allocated as a level percentage of salary.

b) For Tier 1, the required minimum contribution from the Department shall be 110 percent of the member's normal contributions.

2. Asset Smoothing Method

a) The investment gains or losses of each valuation period, as a result of comparing the Market Value of Assets at the end of the period with what the market value would have been if the assumed rate of return on assets was realized during the period, shall be recognized in equal amount over five years when calculating the Actuarial Value of Assets.

3. Amortization Policy - Sections IV C (2)(b), VII E (4)(a)

a) The unfunded actuarial liability or surplus is amortized through a layered method. Each change to the unfunded actuarial liability is amortized over separate 15-year periods in equal dollar amounts over the amortization period. If the Retirement Fund is in a surplus position and the surplus is 20 percent or greater (i.e., the funded ratio is 120 percent or greater), the surplus in excess of 20 percent will be amortized over a 30-year period in equal dollar amounts. In a year where the Retirement Fund is in a surplus position following a previous unfunded liability position, or an unfunded liability position following a previous surplus position, the previous amortization layers will be considered fully amortized (i.e., set to zero) and a new series of amortization layers will start.

b) For an unusual event or a change in assumptions or methods, the Retirement Board may, by resolution, adopt a separate period of not more than 30 years to amortize the gain or loss resulting from such event.

## V. DEATH BENEFIT FUND

1. Actuarial Cost Method - Sections VI B (3)(a), VI B (3)(b), VI B (5)

a) Entry Age Actuarial Cost Method shall be utilized to determine the Normal Cost and the AAL. The Normal Cost and AAL are calculated on an individual basis, based on costs allocated as a level percentage of salary.

2. Asset Smoothing Method

a) The investment gains or losses of each valuation period, as a result of comparing the Market Value of Assets at the end of the period with what the market value would have been if the assumed rate of return on assets was realized during the period, shall be recognized in equal amount over five years when calculating the Actuarial Value of Assets.

3. Amortization Policy - Sections VI B (3)(a), VI B (3)(b), VI B (5)

   a) The unfunded actuarial liability or surplus is amortized through a layered method. Each change to the unfunded actuarial liability is amortized over separate 15-year periods in equal dollar amounts over the amortization period. If the Death Benefit Fund is in a surplus position and the surplus is 20 percent or greater (i.e., the funded ratio is 120 percent or greater), the surplus in excess of 20 percent will be amortized over a 30-year period in equal dollar amounts. In a year where the Death Benefit Fund is in a surplus position following a previous unfunded liability position, or an unfunded liability position following a previous surplus position, the previous amortization layers will be considered fully amortized (i.e., set to zero) and a new series of amortization layers will start.

   b) For an unusual event or a change in assumptions or methods, the Retirement Board may, by resolution, adopt a separate period of not more than 30 years to amortize the gain or loss resulting from such event.

## VI. DISABILITY FUND

Disability benefits are divided into four types: Temporary and Extended Temporary Disability (TD), Permanent Total Disability (PTD), Supplemental Industrial Disability, and Contingent Disability.

1. Temporary and Extended Temporary Disability - Section V B (1)(a)(ii)

   a) The annual Department contribution shall be equal to the present value of future Temporary and Extended Temporary Disability payments during the year, plus the amount required to fund a prudent reserve.

   b) The prudent reserve is equal to 20 percent of the claim reserve, which is the sum of the open claim reserve and the pending claim reserve.

   c) Any surplus or deficiency in the prudent reserve shall be amortized over a five-year rolling period.

2. Permanent Total Disability - Section V B (1)(b)(ii)

a) The annual Department contribution shall be equal to the present value of future Permanent Total Disability payments during the year, plus the amount required to fund a prudent reserve.

b) The prudent reserve is equal to 20 percent of the claim reserve, which is the sum of the open claim reserve and the pending claim reserve.

c) Any surplus or deficiency in the prudent reserve shall be amortized over a five-year rolling period.

3. Supplemental Industrial Disability - Section V B (1)(c)

   a) Fully funded by the Department on a pay-as-you-go cash basis.

4. Contingent Disability - Section V B (1)(e)

   a) Fully funded by the Department on a pay-as-you-go cash basis.

## VII. POLICY HISTORY

December 18, 2019: This policy was adopted pursuant to Resolution 20-29.

November 10, 2021: This policy revised pursuant to Resolution 22-26.

November 9, 2022: This policy revised pursuant to Resolution 23-29.

**RESOLUTION NO. 23-29**

**RESOLUTION TO ADOPT THE REVISED PLAN FUNDING POLICY**

**WHEREAS**, at its meeting on October 25, 2022, the Board of Water and Power Commissioners approved the Water and Power Employees' Retirement Plan (Plan) amendments as recommended by the Board of Administration (Retirement Board); and

**WHEREAS**, one of the amendments addressing the amortization of Fund surplus is referenced in the Plan's Funding Policy; and

**WHEREAS**, the Funding Policy has been revised to mirror the amended Plan provisions.

**NOW, THEREFORE, BE IT RESOLVED** that the Retirement Board hereby adopts the "Plan's Funding Policy Revised November 9, 2022".

**I HEREBY CERTIFY** that the foregoing is a full, true, and correct copy of the resolution adopted by the Retirement Board at its meeting held on November 9, 2022.

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Linda P. Le
Retirement Plan Manager