



Takoma Park City Council Meeting – November 30, 2022 Agenda Item 2

Presentation

Presentation of the Police Employees' Retirement Plan Actuarial Valuation as of June 30, 2022

Recommended Council Action

Hear presentation by the City's actuary, Bolton Retirement.

Context with Key Issues

In 2001, the City of Takoma Park established a pension plan (Police Employees' Retirement Plan) for its sworn police officers.

The Police Employees' Retirement Plan (the Plan) allows for full retirement after 25 years of service or at age 62 with five years of service.

Bolton Retirement provides actuarial services for the Plan and prepares an annual valuation based on participant data and asset information. The July 1, 2022 valuation is setting the employer contribution for the fiscal year ending on June 30, 2024.

Tom Vicente, Senior Consulting Actuary, of Bolton Retirement will present the actuarial report. Following the presentation, they will be available to respond to questions from Council.

Council Priority

Fiscally Sustainable Government

Environmental Considerations

N/A

Fiscal Considerations

The valuation provides the recommendation for the employer contribution for FY 2024. During the budget setting process, the Council has always adhered to the actuarial recommendation.

Racial Equity Considerations

A strong retirement plan is an important benefit when recruiting police officers. Since there is substantial competition for police officers of color, a weak retirement plan may make it more difficult to work towards a police staff that is reflective of the community.

Attachments and Links

- Actuarial Valuation as of July 1, 2022
- Presentation (to be posted when available)



City of Takoma Park Police Employees' Retirement Plan

Actuarial Valuation as of July 1, 2022 to
Determine the City's Contribution for the
Fiscal Year Ending June 30, 2024

Bolton

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Bolton

Employee Benefits, Actuarial & Investment Consulting

September 9, 2022

Mr. Jamal Fox
City Manager
City of Takoma Park
7500 Maple Avenue
Takoma Park, MD 20912

Re: City of Takoma Park Police Employees' Retirement Plan Valuation

Dear Jamal:

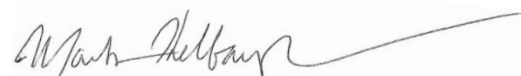
The following sets forth the actuarial valuation of the City of Takoma Park Police Employees' Retirement Plan as of July 1, 2022. Section I of the report provides a summary and an actuarial certification while Sections II through VI contain the development of the City's contribution for the 2024 fiscal year along with a summary of the census and asset data, plan provisions, assumptions and actuarial methods. Section VII provides a glossary of many of the terms used in this report. The appendices of the report provide information on plan funding, contribution history, a 10-year projection of benefit payments, and risk metrics.

We are available to answer any questions on the material in this report or to provide explanations or further details as appropriate. The undersigned credentialed actuaries meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report. We are not aware of any direct or material indirect financial interest or relationship, including investments or other services that could create a conflict of interest, which would impair the objectivity of our work.

Respectfully submitted,



Tom Vicente, FSA, EA



Mark Kelbaugh, ASA, EA



Section I. Executive Summary

Background

Bolton Partners, Inc. has prepared the following report that sets forth the actuarial valuation of the City of Takoma Park Police Employees' Retirement Plan as of July 1, 2022.

Actuarially Determined Contributions (ADC)

The actuarially determined contribution (ADC) amount increased this year as a nominal amount and as a percentage of participant payroll.

	FY2022	FY2023	FY2024
ADC	\$1,406,153	\$1,331,937	\$1,483,212
Percent of Total Payroll	42.88%	39.54%	47.27%

It is anticipated that the contribution will be paid in December 2023 and will equal 47.27% of the rate of pay for covered employees at that time. Details of the determination of the City's contribution for FY2024 are shown in Section II of this report.

Funding Measures

Funding Measures	7/1/2021	7/1/2022	Percent Change
1. Actuarial Accrued Liability			
a. Active (not in DROP)	\$ 10,667,851	\$ 9,215,732	(13.61%)
b. Active (in DROP)	0	1,227,592	N/A
c. Retirees, Disables, and Survivors	15,331,215	17,850,634	16.43%
d. Term Vested	961,609	1,155,898	20.20%
e. Refund of Contributions Due	97,746	121,003	23.79%
f. Total	\$ 27,058,421	\$ 29,570,859	9.29%
2. Market Value of Assets	\$ 24,102,065	\$ 20,843,961	(13.52%)
3. Funded Ratio if Market Value of Assets was Used (2 / 1.f.)	89.07%	70.49%	
4. Actuarial Value of Assets	\$ 21,534,146	\$ 23,094,143	7.24%
5. Funded Ratio if Actuarial Value of Assets was Used (4 / 1.f.)	79.58%	78.10%	

Section I. Executive Summary

Risk Measures

The risks that a plan sponsor incurs from a defined benefit plan are primarily the risk of substantial increases in annual contributions. These increases occur most frequently due to variation in the investment returns. This valuation reflects the smoothing of asset returns, which reduces the risk of wide year-by-year contribution changes, but does not ultimately reduce the risk inherent in a defined benefit plan. The following table shows four commonly used measures of the relative riskiness of a pension plan, relative to the plan sponsor and the employee group covered by the plan. Additional information is shown in Appendix 3.

Risk Measure	FY2020	FY2021	FY2022	Conservative Measures
Retiree Liability as a Percent of Total Liability ¹	51%	57%	65%	<50%
Assets to Payroll	5.8	6.4	7.4	<5
Liabilities to Payroll	8.1	8.0	9.4	<5
Benefit Payments to Contributions	0.5	0.6	0.7	<3

Experience Analysis

The following factors affected the City's contribution as a percentage of payroll:

- Investment returns during 2022 were about \$5.3 million lower than expected. A portion of this loss is reflected in this valuation with the remaining portions to be reflected in future valuations. There is a total of \$2.3 million in net deferred investment losses as of July 1, 2022 that will be reflected in future valuations.
- The 2022 COLA of 7.04% was higher than the assumed annual increase of 3.00%.
- Pay for returning employees increased approximately 5.60% over the prior year; slightly higher than the assumed 5.50%.
- Total participant payroll decreased by 6.86% over the prior year; this is less than the assumed 2.75% increase per year.

¹ DROP Participant liability has been included in the Retiree Liability for purposes of this measure.



Section I. Executive Summary

Changes in Method, Assumptions, and Plan Amendments

The mortality assumptions for both healthy and disabled participants were updated to Pub-2010 Safety Tables projected generationally using MP-2021.

There were no other method or assumption changes adopted since the prior valuation.

There were no changes to plan provisions since the prior valuation.

Projection of Expected Benefit Payments

The projection of expected benefit payments for current participants is shown in Appendix 2.

Sources of Information

The July 1, 2022 participant data and market value of assets were provided by or at the direction of the City of Takoma Park. While we have reviewed this data for consistency and completeness, we have not audited this data.

Actuarial Certification

This actuarial valuation sets forth our calculation of an estimate of the liabilities of the City of Takoma Park Police Employees' Retirement Plan (the Plan), together with a comparison of these liabilities with the value of the plan assets, as submitted by City of Takoma Park Government (the City). This calculation and comparison with assets is applicable for the valuation date only. The future is uncertain, and the plan may become better funded or more poorly funded in the future. This valuation does not provide any guarantee that the plan will be able to provide the promised benefits in the future.

This is a deterministic valuation in that it is based on a single set of assumptions. This set of assumptions is one possible basis for our calculations. Other assumptions may be equally valid. The future is uncertain and the plan's actual experience will differ from those assumptions; these differences may be significant or material because these results are very sensitive to the assumptions made and, in some cases, to the interaction between the assumptions. We may consider that some factors are not material to the valuation of the plan and may not provide a specific assumption for those factors. We may have used other assumptions in the past. We will likely consider changes in assumptions at a future date.



Section I. Executive Summary

Different assumptions or scenarios within the range of possibilities may also be reasonable and results based on those assumptions would be different. As a result of the uncertainty inherent in a forward looking projection over a very long period of time, no one projection is uniquely “correct” and many alternative projections of the future could also be regarded as reasonable. Two different actuaries could, quite reasonably, arrive at different results based on the same data and different views of the future. A “sensitivity analysis” shows the degree to which results would be different if you substitute alternative assumptions within the range of possibilities for those utilized in this report. We have not been engaged to perform such a sensitivity analysis and thus the results of such an analysis are not included in this report. At the City’s request, Bolton Partners, Inc. is available to perform such a sensitivity analysis.

The City is responsible for selecting the plan’s funding policy, actuarial valuation methods, asset valuation methods, and assumptions. The policies, methods and assumptions used in this valuation are those that have been so prescribed and are described in this report. The City is solely responsible for communicating to Bolton Partners, Inc. any changes required thereto.

The City could reasonably ask how the valuation would change if we used a different assumption set or if plan experience exhibited variations from our assumptions. This report does not contain such an analysis. This type of analysis would be a separate assignment.

In addition, decisions regarding benefit improvements, benefit changes, the trust’s investment policy, and similar issues should not be based on this valuation. These are complex issues and other factors should be considered when making such decisions. These other factors might include the anticipated vitality of the local economy and future growth expectations, as well as other economic and financial factors.

The cost of this plan is determined by the benefits promised by the plan, the plan’s participant population, the investment experience of the plan and many other factors. An actuarial valuation is a budgeting tool for the City. It does not affect the cost of the plan. Different funding methods provide for different timing of contributions to the plan. As the experience of the plan evolves, it is normal for the level of contributions to the plan to change. If a contribution is not made for a particular year, either by deliberate choice or because of an error in a calculation, that contribution can be made in later years. We will not be responsible for contributions that are made at a future time rather than an earlier time. The plan sponsor is responsible for funding the cost of the plan.

We make every effort to ensure that our calculations are accurately performed. We reserve the right to correct any potential errors by amending the results of this report or by including the corrections in a future valuation report.



Section I. Executive Summary

Because modeling all aspects of a situation is not possible or practical, we may use summary information, estimates, or simplifications of calculations to facilitate the modeling of future events in an efficient and cost-effective manner. We may also exclude factors or data that are immaterial in our judgment. Use of such simplifying techniques does not, in our judgment, affect the reasonableness of valuation results for the plan.

The valuation was completed using both proprietary and third-party models (including software and tools). We have tested these models to ensure they are used for their intended purposes, within their known limitations, and without any known material inconsistencies unless otherwise stated.

This report is based on plan provisions, census data, and asset data submitted by the City. We have relied on this information for purposes of preparing this report, but have not performed an audit. The accuracy of the results presented in this report is dependent upon the accuracy and completeness of the underlying information. The plan sponsor is solely responsible for the validity and completeness of this information.

The City is solely responsible for selecting the plan's investment policies, asset allocations and individual investments. Bolton Partners, Inc.'s actuaries have not provided any investment advice to the City.

The information in this report was prepared for the internal use of the City and its auditors in connection with our actuarial valuations of the pension plan. It is neither intended nor necessarily suitable for other purposes. Bolton Partners, Inc. is not responsible for the consequences of any other use or the reliance upon this report by any other party.

The only purpose of this report is to:

- Provide the recommended employer contribution for the 2024 fiscal year

This report may not be used for any other purpose; Bolton Partners, Inc. is not responsible for the consequences of any unauthorized use.

The calculation of actuarial liabilities for valuation purposes is based on a current estimate of future benefit payments. The calculation includes a computation of the "present value" of those estimated future benefit payments using an assumed discount rate; the higher the discount rate assumption, the lower the estimated liability will be. For purposes of estimating the liabilities (future and accrued) in this report, you selected an assumption based on the expected long-term rate of return on plan investments. Using a lower discount rate assumption, such as a rate based on long-term bond yields, could substantially increase the estimated present value of future and accrued liabilities.

Because valuations are a snapshot in time and are based on estimates and assumptions that are not precise and will differ from actual experience, contribution calculations are inherently imprecise. There is no uniquely "correct" level of contributions for the coming plan year.



Section I. Executive Summary

This report provides certain financial calculations for use by the auditor. These values have been computed in accordance with our understanding of generally accepted actuarial principles and practices and fairly reflect the actuarial position of the Plan. The various actuarial assumptions and methods which have been used are, in our opinion, appropriate for the purposes of this report.

The report is conditioned on the assumption of an ongoing plan and is not meant to present the actuarial position of the Plan in the case of Plan termination. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions, changes in economic or demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status), and changes in plan provisions or applicable law.

Bolton does not practice law and, therefore, cannot and does not provide legal advice. Any statutory interpretation on which this report is based reflects Bolton's understanding as an actuarial firm. Bolton recommends that recipients of this report consult with legal counsel when making any decisions regarding compliance with ERISA, the Internal Revenue Code, or any other statute or regulation.

The City should notify Bolton Partners, Inc. promptly after receipt of this report if the City disagrees with anything contained in the report or is aware of any information that would affect the results of the report that has not been communicated to Bolton Partners, Inc. or incorporated therein. The report will be deemed final and acceptable to the City unless the City promptly provides such notice to Bolton Partners, Inc.

The undersigned credentialed actuaries meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. We are currently compliant with the Continuing Professional Development Requirement of the Society of Actuaries. We are not aware of any direct or material indirect financial interest or relationship, including investments or other services, which could create a conflict of interest that would impair the objectivity of our work.

We are available to answer any questions on the material in this report to provide explanations or further details as appropriate.

Sincerely,

Tom Vicente, FSA, EA

Mark Kelbaugh, ASA, EA



Section II. Determination of City Contributions

Derivation of Liabilities

Below is a summary of the actuarial accrued liability of the future benefits expected to be paid from the plan.

Unfunded Liability	7/1/2021	7/1/2022
1. Valuation Discount Rate	7.25%	7.25%
2. Number of Participants		
a. Active Participants (not in DROP)	42	38
b. Active Participants (in DROP)	0	1
c. Retired Participants	27	29
d. Vested Terminated Participants	6	6
e. Refund of Contributions Due	8	10
f. Total	83	84
3. Active Payroll	\$ 3,368,703	\$ 3,137,727
4. Actuarial Accrued Liability		
a. Active Participants (not in DROP)	\$ 10,667,851	\$ 9,215,732
b. Active Participants (in DROP)	0	1,227,592
c. Retired Participants and Beneficiaries	8,592,562	10,073,238
d. Disabled Participants	6,738,653	7,777,396
e. Vested Terminated Participants	961,609	1,155,898
f. Refund of Contributions Due	97,746	121,003
g. Total	\$ 27,058,421	\$ 29,570,859
5. Actuarial Value of Assets	21,534,146	23,094,143
6. Unfunded Actuarial Liability (4.g.- 5.)	\$ 5,524,275	\$ 6,476,716
7. Amortization of Unfunded Liability	551,361	656,537
8. Amortization of Unfunded as a Percentage of Payroll (7. / 3.)	16.37%	20.92%
9. Employer Normal Cost	780,576	826,675
10. Employer Normal Cost as a Percentage of Payroll (9. / 3.)	23.17%	26.35%
11. Total Employer Contribution (7. + 9.)	1,331,937	1,483,212
12. Total Employer Contribution as a Percentage of Payroll (11. / 3.)	39.54%	47.27%



Section II. Determination of City Contributions

Schedule of Amortization Bases

Below is a schedule of the amortization bases as of July 1, 2022.

Description	Date Established	Remaining Years	Amount to be Amortized	Payment / (Credit)
Original	7/1/2013	13	\$ 11,307,740	\$ 1,039,301
Actuarial Loss/(Gain)	7/1/2014	14	\$ (1,244,929)	\$ (107,782)
Actuarial Loss/(Gain)	7/1/2015	15	\$ (645,989)	\$ (52,948)
Actuarial Loss/(Gain)	7/1/2016	16	\$ (542,907)	\$ (42,313)
Assumption Change	7/1/2016	16	\$ 752,153	\$ 58,621
Actuarial Loss/(Gain)	7/1/2017	17	\$ (107,473)	\$ (7,995)
Assumption Change	7/1/2017	17	\$ 879,218	\$ 65,409
Actuarial Loss/(Gain)	7/1/2018	18	\$ (1,433,621)	\$ (111,868)
Actuarial Loss/(Gain)	7/1/2019	19	\$ (868,362)	\$ (65,401)
Actuarial Loss/(Gain)	7/1/2020	20	\$ (805,724)	\$ (58,724)
Actuarial Loss/(Gain)	7/1/2021	21	\$ (1,956,654)	\$ (138,331)
Actuarial Loss/(Gain)	7/1/2022	22	\$ 501,796	\$ 34,485
Assumption Change	7/1/2022	22	\$ 641,468	\$ 44,083
Totals			\$ 6,476,716	\$ 656,537

The July 1, 2022 amortization payment of \$656,537 is sufficient to cover the interest on the plan's unfunded liability.



Section III. Valuation of Assets

Reconciliation of Assets

Below is a reconciliation of assets (unaudited) from July 1, 2020 through June 30, 2022.

	FY2021	FY2022
1. Beginning of Year Assets	\$ 18,384,283	\$ 24,102,065
2. Additions		
a. Employer Contributions	\$ 1,373,751	\$ 1,226,807
b. Employee Contributions	230,106	216,540
c. Other Receipts	0	0
d. Investment Income & Dividends	638,437	621,976
e. Realized Gain/(Loss)	377,491	694,332
f. Unrealized Gain/(Loss)	4,148,597	(4,817,941)
g. Total Receipts	\$ 6,768,381	\$ (2,058,287)
3. Deductions		
a. Benefit Payments	\$ 968,659	\$ 1,067,916
b. Administrative Expenses	81,940	131,901
c. Total Disbursements	\$ 1,050,599	\$ 1,199,817
4. Net Increase (2.g. – 3.c.)	\$ 5,717,782	\$ (3,258,104)
5. Net Assets (1. + 4.)	\$ 24,102,065	\$ 20,843,961
6. Rate of Return Net of Investment Fees (2I / [A + B – I] Method)	27.7%	(14.5%)

Development of Actuarial Asset Value

The actuarial asset value as of July 1, 2022 is determined by spreading the asset gain or loss for each year over a five-year period. The asset gain or loss is the amount by which the actual asset return differs from the expected asset return.

					7/1/2022
1.	Market Value of Assets				\$ 20,843,961
2.	Spreading of Investment (Gain)/Loss				
	BOY	EOY	(Gain)/Loss	% Deferred	Amount Deferred
	2021	2022	\$ 5,257,862	80%	\$ 4,206,289
	2020	2021	(3,811,608)	60%	(2,286,965)
	2019	2020	717,629	40%	287,052
	2018	2019	219,032	20%	43,806
	a. Total Deferred				2,250,182
3.	Actuarial Value of Assets (1 + 2.a.)				\$ 23,094,143



Section IV. Participant Information

Participant Summary

The following table summarizes the counts, ages and benefit information for plan participants used in this valuation.

	7/1/2021	7/1/2022
1. Actives (not in DROP)		
a. Number	42	38
b. Average Age	41.0	40.8
c. Average Service	8.9	8.4
d. Average Salary	\$ 80,207	\$ 82,572
2. Actives (in DROP)		
a. Number	N/A	1
b. Average Age	N/A	54.7
c. Total Annual Benefits	\$ N/A	\$ 68,198
d. Total DROP Account Balances	\$ N/A	\$ 93,828
3. Retirements and Beneficiaries		
a. Number	27	29
b. Average Age	61.0	60.6
c. Total Annual Benefits	\$ 974,586	\$ 1,118,635
4. Vested Terminations		
a. Number	6	6
b. Average Age	44.9	49.5
c. Total Annual Benefits	\$ 165,325	\$ 171,123
5. Refund of Contributions Due		
a. Number	8	10
b. Total Benefits	\$ 97,746	\$ 121,003



Section IV. Participant Information

Active Age/Service Distribution Including Compensation

Shown below is the distribution of active participants based on age and service. The compensation shown is the average expected earnings for the twelve months following the valuation date.

	Years of Service as of 07/01/2022										Total
	Under 1	1-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40 & Up	
Under 25	-	1	-	-	-	-	-	-	-	-	1
	-	66,149	-	-	-	-	-	-	-	-	66,149
25 - 29	1	4	-	-	-	-	-	-	-	-	5
	66,329	69,808	-	-	-	-	-	-	-	-	69,113
30 - 34	-	7	1	-	-	-	-	-	-	-	8
	-	66,800	75,000	-	-	-	-	-	-	-	67,825
35 - 39	-	-	2	-	1	-	-	-	-	-	3
	-	-	81,897	-	86,834	-	-	-	-	-	83,542
40 - 44	-	3	1	1	3	-	-	-	-	-	8
	-	70,440	87,928	82,740	86,306	-	-	-	-	-	80,113
45 - 49	-	2	-	-	-	2	-	-	-	-	4
	-	103,085	-	-	-	95,299	-	-	-	-	99,192
50 - 54	-	3	-	-	2	1	1	-	-	-	7
	-	107,783	-	-	86,009	97,176	115,821	-	-	-	101,195
55 - 59	-	-	-	1	-	-	-	-	-	-	1
	-	-	-	85,139	-	-	-	-	-	-	85,139
60 - 64	-	-	-	-	-	1	-	-	-	-	1
	-	-	-	-	-	101,611	-	-	-	-	101,611
65 - 69	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-
70 & Up	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-
Totals	1	20	4	2	6	4	1	-	-	-	38
	66,329	77,691	81,680	83,939	86,295	97,346	115,821	-	-	-	82,572

Averages	
Age	40.8
Service	8.4



Section IV. Participant Information

Participant Reconciliation

Shown below is the reconciliation of participants between the prior and current valuation date.

	Active	DROP	Inactive Participants			Total
			Retirees & Beneficiaries	Terminated Vested	Refund Due	
Participants as of 7/1/2021	42	0	27	6	8	83
New	2	0	0	0	0	2
Terminated Vested	(1)	0	0	1	0	0
Terminated (Owed Refunds)	(2)	0	0	0	2	0
Terminated (Paid Refunds)	0	0	0	(1)	0	(1)
Retired	(2)	0	2	0	0	0
Entered DROP	(1)	1	0	0	0	0
Deceased	0	0	(1)	0	0	(1)
Beneficiaries	0	0	0	0	0	0
QDRO	0	0	1	0	0	1
Data Adjustments	0	0	0	0	0	0
Participants as of 7/1/2022	38	1	29	6	10	84



Section V. Summary of Plan Provisions

Plan Year

July 1 – June 30.

Normal Retirement Date or Unreduced Early Retirement Date

25 years of service, or age 62 with 5 years of service, if earlier.

Normal Form of Benefit

Single Life Annuity with death benefit of undistributed employee contributions plus accumulated interest at retirement. Other forms are the actuarial equivalent.

Post Retirement Cost of Living Increases

CPI index, but no more than would cause the participant's benefit to exceed an amount equal to the original benefit compounded at 3% per year.

Average Compensation

Average of base pay for 36 highest consecutive months.

Service

Service includes:

1. Time as an active member contributing to the plan.
2. Unused sick leave (22 days = 1 month).
3. Service prior to July 1, 2001 under the State plan that was transferred to this plan at its inception.
4. For employees hired before July 1, 2001, up to five years of pre-employment military service if eligible under the State plan. If not eligible under the State plan, up to five years of pre-employment military service may be credited after 10 years of credited service with the plan.

Employee Contributions

7% of base pay. DROP participants continue to make contributions.

Benefit Formula

2% of average compensation for each year of service earned. Total service is limited to 30 years.

The above amount will be increased by 2% of average compensation for each year of service attributable to unused sick leave (limited to 2 years.)

Note: prior to the latest plan amendment effective 7/1/2009, each year of service earned prior to 7/1/2000 was credited with 1.5% of average compensation. Total service was limited to 25 years.

Early Retirement Benefit

Age 55 with at least 15 years of service. Benefit is reduced actuarially from normal retirement date.



Section V. Summary of Plan Provisions

Termination Prior to Retirement

Return of employee contributions with 5% interest or if vested (after five years of service) an annuity beginning age 62 (or at the early retirement date, actuarially reduced).

Line of Duty Disability Benefit

Catastrophic Disability

The greater of:

- (a) the benefit due to employee contributions or
- (b) 66 2/3% of base pay.

Non-Catastrophic Disability

The greater of:

- (a) the benefit due to employee contributions or
- (b) 50% of base pay.

Note: prior to the latest plan amendment effective 7/1/2009, those hired before 7/1/2001 received the greater of (a) and 66 2/3% of base pay.

Ordinary Disability

5 Years of Service is required for this benefit.

The benefit is equal to the accrued benefit, without actuarial reduction.

If a participant is under age 62, or has earned less than 25 years of credited service as of the disability date, the years of credited service are projected. They include both the actual years of credited service, plus any credited service which would have otherwise been earned as of the earlier of the participant's 62nd birthday or the date the participant would have earned 25 years of credited service.

Line of Duty Pre-Retirement Death Benefit

If the participant is unmarried at his date of death, his beneficiary is entitled to receive a refund of the participant's contributions with interest, plus a single lump sum equal to the participant's compensation as of the date of death.

If the participant is married or has a registered domestic partner at the date of death and is eligible for normal or early retirement, his surviving spouse or partner may receive the benefit described above, or an annuity for the spouse's or partner's lifetime or earlier remarriage/re-registration, equal to a 66 2/3% of base pay. Upon the death or remarriage/re-registration of the surviving spouse or domestic partner, a benefit equal to 50% of base pay will be paid to the surviving children.

If the participant is not married and has designated one or more child as the primary beneficiary, the surviving children will receive an aggregate annuity equal to 50% of base pay. This benefit ceases upon the attainment of age 18, or 23 if a full-time student.

Section V. Summary of Plan Provisions

Ordinary Pre-Retirement Death Benefit

If the participant is unmarried at his date of death, his beneficiary is entitled to receive a refund of the participant's contributions with interest, plus a single lump sum equal to the participant's compensation as of the date of death.

If the participant is married or has a registered domestic partner at the date of death and is eligible for normal or early retirement, his surviving spouse or partner may receive the benefit described above, or an annuity for the spouse's or partner's lifetime, equal to the Joint and 100% Survivor benefit that would have been payable upon the participant's death.

Deferred Retirement Option Program (DROP)

Effective March 1, 2021, members with at least 25 years of service may elect to enter the deferred retirement option program (DROP). Upon entering DROP, members must elect a DROP Participation Period equal to 3 years and complete a benefit election form. The benefit election form includes an irrevocable election of form of benefit.

The member's retirement benefit is calculated as of DROP entry and the monthly benefits are accumulated in a notional DROP account during the Participation Period. COLAs are not earned while in DROP. COLAs start being earned at least one year after DROP exit and are earned on the valuation date. The DROP account is credited monthly with interest based on a 5% annual rate. No interest is earned on additions to the account made during the current calendar month. During enrollment, employee contributions are paid by the participant but are not accumulated in the notional DROP account. If DROP members retire or become disabled prior to completing the participation period, the member is treated as if they never elected DROP i.e., DROP account balances are forfeited. If the member dies prior to completing the participation period, DROP account balances and normal death benefits are paid to survivors.

Currently, there is a limit to the number of DROP participants allowed in the Plan. There is a limit of 3 members for PYE 06/30/2021, 6 members for PYE 06/30/2022, and 25% of actives for PYE 06/30/2023 and later.

Changes Since Prior Valuation

No changes to plan provisions since the prior valuation.



Section VI. Actuarial Methods and Assumptions

Funding Method

Projected Unit Credit. Costs are determined as a percentage of payroll based on the assets and liabilities on the valuation date. The liability for disability benefits is fully accrued for participants hired before July 1, 2003. Disability attribution method for those hired on or after July 1, 2003 is linear to decrement. Benefits for Members who have entered DROP are treated as fully accrued.

The Unfunded Actuarial Accrued Liability as of July 1, 2013 was amortized as a level percent of payroll over a fixed period of 22 years (closed amortization). Actuarial gains or losses after June 30, 2013 are also amortized over a fixed period of 22 years.

Asset Method

Five year smoothed asset value. Investment returns above or below the assumed rate of return are recognized at a rate of 20% per year over five years.

Interest

7.25% net of investment related expenses, compounded annually. This assumption is based on the plan's investment policy and the long-term expectation of each investment class, based upon the recommendations of the plan's investment advisor. Details of the investment policy and long-term expectations are available in the plan's financial statements.

Payroll Growth

2.75% compounded annually. Amortization bases established prior to July 1, 2018 assume 4% compounded annually.

Post Retirement COLA Increases

3% compounded annually, no limit.

Mortality

Pub-2010 Safety Tables for Employees, Retirees, Beneficiaries, and Disabled Participants projected generationally using MP-2021.

Projection to the year of the valuation is assumed to be current mortality experience. Generational projection beyond the valuation date is assumed to account for future mortality improvements.

Salary Increases

5.5% compounded annually.

Section VI. Actuarial Methods and Assumptions

Disability

Sample rates are:

Age	Rates
25	0.55%
35	1.02%
45	2.64%

Half the disability benefits are assumed to be line-of-duty. One-third of the line-of-duty disabilities are assumed to be catastrophic and two-thirds are considered non-catastrophic

Turnover

Sample rates are:

Age	Rates by Service		
	0 – 9	10 - 14	15 and over
25	6.179%	4.634%	1.236%
35	5.021%	3.766%	1.004%
45	3.180%	2.385%	0.636%

Rates are 75% of the initial rates between 10 and 15 years of service and 20% of the initial rates after 15 years. Employees that quit before age 50 are assumed to withdraw their contributions

Retirement

Probabilities of retirement or DROP entry are: 70% at 25 years, 10% at 26-29 years, and 100% at 30 years or age 62.

Sick Leave

Accrued benefit loaded 3.4% for unused sick leave credit.

Pay Limit

None.

Pre-Employment Military Service

Actual service credit as provided in census.



Section VI. Actuarial Methods and Assumptions

Marriage Assumption

80% of participants are assumed to be married. Husbands 3 years older.

Compensation

Compensation provided to us was assumed to be base pay for the 12 months ending on the valuation date.

Administrative Expenses

Employer normal cost includes assumed administrative expenses equal to the average of the actual expenses of the two fiscal years preceding the date of the valuation.

Changes Since Prior Valuation

The mortality assumptions for both healthy and disabled participants were updated to Pub-2010 Safety Tables projected generationally using MP-2021.

No other changes to actuarial methods and assumptions since the prior valuation.

Section VII. Glossary

Actuarial Accrued Liability (AAL)

The difference between the Actuarial Present Value of Future Benefits and the Actuarial Present Value of Future Normal Costs or the portion of the present value of future benefits allocated to service before the valuation date in accordance with the actuarial cost method. Represents the present value of benefits expected to be paid from the plan in the future allocated to service prior to the date of the measurement.

Actuarial Asset Valuation Method

The method of determining the value of the assets as of a given date, used by the actuary for valuation purposes. This may be the market or fair value of plan assets or a smoothed value in order to reduce the year-to-year volatility of calculated results, such as the funded ratio and the actuarially determined contribution (ADC).

Actuarial Cost Method

A procedure for allocating the Actuarial present Value of Future Benefits and the actuarial Present Value of Future Normal costs and the Actuarial Accrued Liability. Also known as the “funding method”. Examples of actuarial cost methods include Aggregate, Entry Age Normal, Projected Unit Credit, and Pay-as-you-go.

Actuarial Present Value of Future Benefits (APVFB)

The Actuarial Present Value of amounts which are expected to be paid at various future times to active members, retired members, beneficiaries receiving benefits, and inactive, non-retired members entitled to either a refund or a future retirement benefit. Expressed another way, it is the value that would have to be invested on the valuation date so that the amount invested plus investment earnings would provide sufficient assets to pay all projected benefits and expenses when due.

Aggregate Cost Method

An actuarial cost method that spreads the cost of all future benefits in excess of plan assets as a level percentage of future salary or service. The actuarial accrued liability is set to the value of assets in this method.

Annual Determined Contributions of the Employer(s) (ADC)

The employer’s periodic determined contributions to a pension plan, calculated in accordance with the assumptions and methods used by the plan actuary. The ADC replaced the actuarially required contribution (ARC), with the replacement of GASB 27 with GASB 68.

Cost-of-Living Adjustment (COLA)

An annual increase in the amount of a retired participant’s benefit intended to adjust the benefit for inflation.

Covered Group

Plan members included in actuarial valuation.

Section VII. Glossary

Deferred Retirement Option Program (DROP)

A program allowing a participant eligible to retire to continue working for a fixed period of time, while accumulating the benefit payments he would have received if he had retired on his entry to DROP.

Demographic Assumption

Assumptions regarding the future population of pension participants, including retirement, termination, disability and mortality assumptions.

Economic Assumption

Assumptions regarding future economic factors, including COLA, salary improvement, change in average wages, changes in Social Security benefits and investment returns.

Employer's Contributions

Contributions made in relation to the actuarially determined contributions of the employer (ADC). An employer has made a contribution in relation to the ADC if the employer has (a) made payments of benefits directly to or on behalf of a retiree or beneficiary, (b) made premium payments to an insurer, or (c) irrevocably transferred assets to a trust, or an equivalent arrangement, in which plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the plan and are legally protected from creditors of the employer(s) or plan administrator.

Entry Age Normal (EAN) Cost Method

An actuarial cost method that spreads the cost for each individual's expected benefits over their career, either as a level percentage of pay or service. The actuarial accrued liability is the accumulated value of all past normal cost, and the unfunded accrued liability (surplus) is the excess of the AAL over the value of assets.

Expenses

Plan expenses paid by the plan are divided into administrative and investment related expenses.

Funded Ratio

The actuarial value of assets expressed as a percentage of the plan's actuarial accrued liability.

GASB

Government Accounting Standards Board.

GASB No. 25 and GASB No. 27

These are the government accounting standards that set the accounting rules for public retirement systems and the employers that sponsor or contribute to them. Statement No. 27 sets the accounting rules for the employers that sponsor or contribute to public retirement systems while Statement No. 25 sets the rules for the systems themselves.

Section VII. Glossary

GASB No. 67 and GASB No. 68

These are the government standards that replace GASB 25 and 27 They are effective for plan years beginning after June 14, 2013 and employer fiscal years beginning after June 14, 2014.

Investment Return Assumption or Investment Rate of Return (Discount Rate)

The rate used to adjust a series of future payments to reflect the time value of money.

Level Percentage of Projected Payroll Amortization Method

Amortization payments are calculated so that they are a constant percentage of the projected payroll of active plan members over a given number of years. The dollar amount of the payments generally will increase over time as payroll increases due to inflation; in dollars adjusted for inflation, the payments can be expected to remain level.

Normal Cost or Normal Actuarial Cost

That portion of the Actuarial Present Value of pension plan benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method.

Pay-as-you-go (PAYG)

A method of financing a benefits plan under which the contributions to the plan are generally made at about the same time and in about the same amount as benefit payments and expenses becoming due.

Payroll Growth Rate

An actuarial assumption with respect to future increases in total covered payroll attributable to inflation; used in applying the level percentage of projected payroll amortization method.

Plan Liabilities

Obligations payable by the plan at the reporting date, including, primarily, benefits and refunds due and payable to plan members and beneficiaries, and accrued investment and administrative expenses. Plan liabilities do not include actuarial accrued liabilities for benefits that are not due and payable at the reporting date.

Plan Members

The individuals covered by the terms of a Pension or OPEB plan. The plan membership generally includes employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits.

Projected Unit Credit (PUC) Funding Method

An actuarial cost method that spreads the employee's benefit over their career, as a level percentage of service. The normal cost is the present value of the portion of the benefit assigned to the current year. The actuarial accrued liability is the accumulated value of all past normal cost, and the unfunded accrued liability (surplus) is the excess of the AAL over the value of assets.



Section VII. Glossary

Post-Employment

The period between termination of employment and retirement as well as the period after retirement.

Salary Improvement

An actuarial assumption regarding the increase in employees' salaries, reflecting cost-of-living, merit and longevity increases.

Select and Ultimate Rates

Actuarial assumptions that contemplate different rates for successive years. Instead of a single assumed rate with respect to, for example, the investment return assumption, the actuary may apply different rates for the early years of a projection and a single rate for all subsequent years. For example, if an actuary applies an assumed investment return of 8 percent for year 2000, 7.5 percent for 2001, and 7 percent for 2002 and thereafter, then 8 percent and 7.5 percent are select rates, and 7 percent is the ultimate rate.

Unfunded Actuarial Accrued Liabilities

The excess of the present value of prospective pension benefits, as of the date of a pension plan valuation, over the sum of (1) the actuarial value of the assets of the plan and (2) the present value of future normal costs determined by any of several actuarial cost methods. For plans that define an accrued liability, this amount equals the excess of the accrued liability over plan assets.

Vested Plan Benefits

All benefits to which current participants have a vested right based on pay and service through the valuation date. A participant has a vested right to a benefit if he/she would still be eligible to receive that benefit if employment terminated on the valuation date.



Appendix 1

Summary of Funding Progress

Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability	(3) Percentage Funded (1) / (2)	(4) Unfunded Actuarial Accrued Liability (2) - (1)	(5) Annual Covered Payroll ²	(6) Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (4) / (5)
7/1/2008	\$4,500,963	\$13,402,672	33.6%	\$8,901,709	\$2,383,190	373.5%
7/1/2009	\$4,035,510	\$14,355,855	28.1%	\$10,320,345	\$2,671,071	386.4%
7/1/2010	\$5,058,336	\$15,094,744	33.5%	\$10,036,408	\$2,713,518	369.9%
7/1/2011	\$6,795,093	\$16,397,138	41.4%	\$9,602,045	\$2,774,501	346.1%
7/1/2012	\$7,808,944	\$19,146,415	40.8%	\$11,337,471	\$2,673,827	424.0%
7/1/2013	\$8,700,353	\$20,508,708	42.4%	\$11,808,355	\$2,849,563	414.4%
7/1/2014	\$9,867,595	\$20,487,736	48.2%	\$10,620,141	\$2,570,207	413.2%
7/1/2015	\$11,141,355	\$21,161,355	52.6%	\$10,020,000	\$2,843,149	352.4%
7/1/2016	\$12,575,165	\$22,825,234	55.1%	\$10,250,069	\$2,777,426	369.0%
7/1/2017	\$14,046,725	\$25,057,687	56.1%	\$11,010,962	\$2,889,222	381.1%
7/1/2018	\$15,782,136	\$25,291,501	62.4%	\$9,509,364	\$3,025,166	314.3%
7/1/2019	\$17,160,772	\$25,716,882	66.7%	\$8,556,111	\$3,013,969	283.9%
7/1/2020	\$18,910,500	\$26,544,845	71.2%	\$7,634,345	\$3,278,860	232.8%
7/1/2021	\$21,534,146	\$27,058,421	79.6%	\$5,524,275	\$3,368,703	164.0%
7/1/2022	\$23,094,143	\$29,570,859	78.1%	\$6,476,716	\$3,137,727	206.4%

Analysis of the dollar amounts of net assets available for benefits, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the actuarial accrued liability provides one indication of funding status on a going-concern basis. Analysis of this percentage over time indicates whether the plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of City of Takoma Park's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

² Annual covered payroll does not include pay for participants currently enrolled in DROP.



Appendix 2

Summary of Contributions

Year Ended June 30	Actuarially Determined Contribution	Percentage Contributed
2013	\$ 923,331	100.00%
2014	1,044,504	100.00%
2015	1,101,564	100.00%
2016	1,296,482	100.00%
2017	1,189,854	100.00%
2018	1,325,199	100.00%
2019	1,238,480	100.00%
2020	1,385,917	100.00%
2021	1,373,751	100.00%
2022	1,226,807	100.00%

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Actuarial cost method	Projected unit credit
Amortization Method	Level percentage of payroll (closed)
Remaining amortization period	Remaining periods range from 13 to 22 years
Asset valuation method	5-year smoothed method
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increase	5.50% compounded annually
Future payroll growth	2.75%
Post-retirement cost-of-living adjustments	3.00%



Appendix 3

Benefit Payment Projection

The following table shows the estimated benefit payments from July 1, 2022 through June 30, 2032 based on existing members of the plan. Benefit payments shown include DROP Account allocations.

Fiscal Year	Benefits³
2023	1,345,000
2024	1,619,000
2025	1,513,000
2026	1,593,000
2027	1,712,000
2028	1,863,000
2029	1,995,000
2030	2,118,000
2031	2,208,000
2032	2,482,000

³ Benefit payments for fiscal year 2023 include \$121,003 in refunds due. These payments are assumed to be paid immediately as of the valuation date.

Appendix 4

ASOP 51 Disclosure

Actuarial Standard of Practice No. 51 *Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions* is effective for actuarial valuations after November 2018. The standard requires actuaries to provide information so that users of the report can better understand the potential for future results to vary from the results presented in this report and identify risks on the plan's future financial condition. This standard does not require the assessment to be based on numerical calculations.

Examples of risk common to most public plans include the following (generally listed from greatest to least risk):

- **Investment risk:** The potential that investment returns will be different than expected. The Trustees are well aware of this risk.
- **Contribution risk:** Most commonly this is associated with the potential that actual future contributions are not made in accordance with the plan's actuarially based funding policy. When this occurs, it can create negative long-term problems.
- **Longevity and other demographic risks:** The potential that mortality or other demographic experience will be different than expected.
- **Asset/liability mismatch risk:** The potential that changes in asset values are not matched by changes in the value of liabilities.
- **Cash flow risks:** The potential that contributions coming into the plan will not cover benefit payments. While common in well-funded plans, this still requires the use of interest, dividends or principal to cover benefit payments. When assets need to be sold (or more cash held) it can be an issue. Poorly funded plans with DROP lump sum payments can be a particular issue.

One item left off this list is "interest rate risk" (i.e., the potential that interest rates will be different than expected). This risk is common in corporate ERISA plans where funding is based on bond rates. Interest rates on bonds are still an important consideration when setting an expected return assumption and can change over time.

The City contributions will vary over time based on the experience of the plan's investments and participants. As the value of the plan's assets and liabilities increase relative to the participant payroll, there is a greater risk of large changes to the City's contribution expressed as a percentage of participant payroll.

The Asset Volatility Ratio (AVR) is equal to the market value of assets (MVA) divided by payroll. A higher AVR implies that the plan is exposed to greater contribution volatility. The current AVR of 7.4 indicates that a 1% asset gain/loss can be related to about 7.4% of the annual payroll. The plan currently amortizes asset gains/losses over a period of 22 years. This would result in a change in the City's contribution of about 0.5% of payroll for each 1.0% change in market assets.

Appendix 4

ASOP 51 Disclosure

The Liability Volatility Ratio (LVR) is equal to the Actuarial Accrued Liability (AAL) divided by payroll. A higher LVR implies that the plan is exposed to greater contribution volatility due to changes in liability measurements. The current LVR of 9.4 indicates that a 1% liability gain/loss can be related to about 9.4% of the annual payroll. The plan currently amortizes liability gains/losses over a period of 22 years. This would result in a change in the City's contribution of about 0.6% of payroll for each 1.0% change in AAL. As the plan approaches a 100% funded level, the AVR will converge to the LVR.

	2019	2020	2021	2022
AVR	5.2	5.8	6.4	7.4
LVR	8.4	8.1	8.0	9.4

If the plan or employer were interested in doing a more quantitative assessment of risks, the following are example of tests that could be performed:

Scenario Test—A process for assessing the impact of one possible event, or several simultaneously or sequentially occurring possible events, on a plan's financial condition.

Sensitivity Test—A process for assessing the impact of a change in an actuarial assumption on an actuarial measurement.

Stochastic Modeling—A process for generating numerous potential outcomes by allowing for random variations in one or more inputs over time for the purpose of assessing the distribution of those outcomes.

Stress Test—A process for assessing the impact of adverse changes in one or relatively few factors affecting a plan's financial condition.