



Funding Policy
of the
Fort Worth Employees' Retirement Fund

This funding policy outlines a formal long-term strategy for financing the pension obligations accruing under the Fort Worth Employees' Retirement Fund (FWERF or the Fund) with the goal of achieving a funded ratio that is equal to or greater than 100% as required by Texas Government Code §802.2011.

Scope of Board Authority

This policy is limited by the terms and provisions of, and the authority granted to the Board of Trustees under, Chapter 2.5 of the Code of the City of Fort Worth (City Code) and Article 6243i of the Texas Revised Civil Statutes (Act). Therefore, while this document is intended to create a framework for proactively managing risks by outlining how the Board will approach future changes to benefit and contribution levels under different conditions, the policy does not and cannot provide for unilateral Board action to change benefits or contribution rates. The Board does not have such authority under the Act or City Code.

The methods provided under the Act or City Code for changing contribution rates or benefits, as well as for granting any cost-of-living adjustments (COLAs), are described in the relevant provisions of this policy. In the event this policy conflicts with the Act, the City Code, or any other governing document of the Fund, the terms of such governing document shall prevail.

Funding Priorities

The primary funding priorities are to:

1. Ensure the security of accrued benefits by making appropriate contributions and maintaining assets that are sufficient to pay benefits when due.
2. Limit the volatility of contribution rates for both the members of FWERF and the City of Fort Worth (the City), consistent with other funding objectives.
3. Ensure that each generation of members incur the cost of its own benefits, and taxpayers incur the cost of benefits for the generation of members who provide services to them, rather than deferring those costs to future members and taxpayers.
4. Pursue a systematic reduction of the Unfunded Actuarial Accrued Liability (UAAL).

Funding Objectives

Consistent with the City Code, the funding objective of FWERF is to fund the sum of the Normal Cost, the assumed administrative expenses, and an amount necessary to eliminate the UAAL over a closed 30-year period beginning on December 31, 2018 with the goal of eliminating the UAAL and attaining a funded ratio of 100% by December 31, 2048. Contribution rates should be established which, over time, will remain level as a percent of payroll. In connection with such goal, the Fund's actuary will calculate an Actuarially Determined Employer Contribution (ADEC) benchmark that is based on a closed 30-year amortization of the UAAL as a level percentage of payroll. This benchmark ADEC, the rationale for which is discussed in more detail below, will be equal to the City's portion of the total contributions that are necessary to meet this funding objective and will be used by the Board to monitor progress towards the funding goals described in this policy.



Funding Policy
of the
Fort Worth Employees' Retirement Fund

Actuarial Methods

The Board has adopted the following methods for purposes of actuarial valuations and the determination of the benchmark ADEC:

1. Cost Method

Individual entry age normal actuarial cost method.

2. Asset Smoothing

Market value of assets with a five-year phase-in of actual investment returns in excess of (or less than) expected investment income. Offsetting unrecognized gains and losses are immediately recognized. In no event will this amount exceed 120% of market value or be less than 80% of market value.

3. Amortization Policy

Level percent of payroll. Closed 30-year period beginning on December 31, 2018 with the goal of eliminating the UAAL by December 31, 2048.

This amortization policy will result in expected increases in the UAAL (a.k.a. "negative amortization") until the remaining amortization period is closer to 20 years. The Board's goal is to eliminate the UAAL as quickly as possible and ultimately maintain a contribution rate that is expected to result in the reduction of the UAAL each year.

Actuarial Assumptions Guidelines

A comprehensive experience study will be completed every three to five years with possible review of individual assumptions more frequently, based on advice from FWERF's actuary. All assumptions will be determined based on Actuarial Standards of Practice promulgated by the American Academy of Actuaries taking into account both actual experience and reasonable future expectations.

Actuarially Determined Employer Contribution (ADEC) Benchmark

The City Code specifically defines an actuarially determined contribution (ADC) as a contribution "based on a closed 30-year funding of unfunded liabilities...." In this context, the ADC is the sum of the anticipated member and City contributions and is the measurement used when determining if the risk-sharing mechanisms under the City Code (as described below) take effect. As such, the Board will monitor how total contributions to the Fund compare to the ADC as determined using the actuarial methods described above.

However, for purposes of this policy, the Board will place primary focus on the Actuarially Determined Employer Contribution (ADEC) as a benchmark for purposes of monitoring the funding health of the Fund. The Board and the Fund's actuary believe using the ADEC as a benchmark, and comparing this benchmark to City contributions, provides a more constant and reliable evaluation, since member contributions can be refunded to terminating members and the payroll basis for member and City contributions is different.



Funding Policy
of the
Fort Worth Employees' Retirement Fund

However, the ADEC is simply the projected ADC less anticipated member contributions, so the ADC is always considered in the process of determining the ADEC.

Consideration of Plan Modifications

Guidelines for Future Benefit Changes

Under the Act and City Code, the Board has no authority to change benefits. Any amendment to increase benefits under the Fund must be reviewed and approved by the City Council. Similarly, under the Act, only the City Council may adopt an amendment to decrease benefits under the Fund.

With respect to COLAs, under the City Code, Group I, III, and V members who have retired or entered the DROP on or before January 1, 2021 are eligible for a Guaranteed 2% COLA and/or Conditional Ad Hoc COLA on certain credited service earned through July 19, 2019. The Guaranteed 2% COLA will be paid to such Group I, III, and V retirees regardless of the actuarial condition of FWERF. Additionally, a Conditional Ad Hoc COLA will also be paid to such Group I, III, and V retirees as long as the amortization period of FWERF is less than 28 years.

The FWERF Board may, with City Council ratification, award a Variable COLA or 13th check to Group I, III, and V members who did not retire or enter DROP on or before January 1, 2021 as long as (1) the ADC is less than or equal to the total contributions for two consecutive years and (2) the cost to fund the Variable COLA or 13th check will not cause the ADC to exceed the total contributions for the year in which the Variable COLA or 13th check will apply. Variable COLAs awarded to any such Group I, III, and V retirees in any single year may not exceed a 4% increase of base pension and may not be awarded if any automatic risk-sharing contributions as described below are being made for such calendar year.

Group II, IV, and VI members are not eligible for a COLA under the City Code.

For all other benefit enhancements not specifically mentioned above, the Board believes it is best to consider supporting such enhancements only when the following conditions exist:

1. Annual COLAs are built into funding assumptions for all members; and
2. The funded ratio is equal to or greater than 120% after incorporating the benefit enhancement, and
3. The ADEC is less than or equal to the anticipated City contribution.

Guidelines for Future Changes in Contributions

Under the Act, City contribution rates may only be changed, and member rates may only be increased, if (1) a qualified actuary performs an actuarial analysis of the fiscal impact of the proposed change, (2) the Board or City Council calls a special election of all participating members and the change is approved by a majority of the members eligible to vote in the special election, and (3) the change is approved by a majority vote of the Board (in the event the City Council called the election) or the City Council (in the event the Board called the election), provided that only the City Council can approve any increase to City contribution rates.



Funding Policy
of the
Fort Worth Employees' Retirement Fund

Member and City contribution rates are set forth in the City Code. City Code Section 2.5-3(c) sets forth specific guidelines for when contributions will be automatically increased or decreased in a manner which shares risk between the members and the City (as discussed below).

For contribution rate reductions not specifically mentioned in the risk-sharing mechanisms described below, the Board believes it is best to consider supporting a reduction in the actual City contribution rate only when the following conditions exist:

1. The funded ratio is at least 120%;
2. The member contribution rate will be reduced by the same proportionate percentage amount;
3. All members are eligible for a periodic COLA;
4. Regular COLAs are built into funding assumptions for all members; and
5. The total contribution is not less than the Normal Cost.

Risk-Sharing Mechanisms

The Board and the City both acknowledge that a key risk facing FWERF is when actual experience diverges from actuarial assumptions, resulting in actuarial losses. The following describes the mechanism set forth in City Code for sharing risk in changes to the contribution rates between the members and the City when these circumstances occur:

1. If the total contributions are less than the ADC for two consecutive years, the City and member contributions will be automatically increased (subject to a cap) as required to meet the ADC with 60% of the increases allocated to the City and the remaining 40% allocated to the members. The annual increase in the total contribution rate will be capped at 2% of pay and the aggregate increase will be capped at 4% of pay. These increases cannot commence prior to January 1, 2022.
2. If contributions are increased as described above and subsequently the total contributions are determined to be more than the ADC for two consecutive valuations, the City Council may reduce contributions to the amount of the ADC (but not less), and such reduction will be shared by members and the City in the same proportions described above.

The risk-sharing mechanisms cannot be used in determining the amortization period for granting a Conditional Ad Hoc COLA. Additionally, no Variable COLA can be awarded if any automatic risk-sharing contributions are being made for such calendar year.

Review of Funding Policy

This policy will be reviewed by the Board periodically, but no less frequently than in connection with any actuarial experience study, and may be amended from time-to-time by the Board as it deems appropriate.

This Policy was adopted on December 18, 2019.



Funding Policy
of the
Fort Worth Employees' Retirement Fund

Key Terms

Actuarial Accrued Liability (AAL): That portion, as determined by a particular Actuarial Cost Method, of the total present value of future benefits which is not provided for by future Normal Costs. It is equal to the total present value of future benefits minus the actuarial present value of future Normal Costs.

Actuarial Cost Method: A procedure for allocating the total present value of future benefits to various time periods; a method used to determine the Normal Cost and the Actuarial Accrued Liability.

Actuarial Value of Assets: The value of a plan's assets as of a given date, used by the actuary for valuation purposes. This may be the market or fair value of plan assets, but commonly actuaries use a smoothed value in order to reduce the year-to-year volatility of calculated results, such as the funded ratio and the ADEC.

Actuarially Determined Contribution (ADC): A calculated contribution for a defined benefit pension plan for the reporting period, most often determined based on the funding policy of the plan. Typically, the calculated contribution has a Normal Cost payment and an amortization payment.

Actuarially Determined Employer Contribution (ADEC): The portion of the ADC that is attributable to the employer.

Amortization Method: A method for determining the portion of the pension plan contribution, ADC or ADEC, which is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability.

Amortization Payment: The portion of the pension plan contribution, ADC or ADEC, which is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability.

Closed Amortization Period: A specific number of years that is counted down by one each year and therefore declines to zero with the passage of time.

Conditional Ad Hoc COLA: The cost-of-living adjustment described in City Code, Section 2.5-8(e)(2).

Experience Study: A periodic review and analysis of the actual experience of the plan which may lead to a revision of one or more actuarial assumptions.

Amortization Period or Funding Period: These terms are used in two ways. In the first sense, it is the period used in calculating the Amortization Payment as a component of the ADEC. This funding period should be consistent with the plan's funding policy. In the second sense, it is a calculated item: the number of years in the future that will theoretically be required to amortize (i.e., pay off or eliminate) the Unfunded Actuarial Accrued Liability, based on the statutory employer contribution rate, and assuming no future actuarial gains or losses.

Guaranteed 2% COLA: The cost-of-living adjustment described in City Code, Section 2.5-8(e)(1).

Normal Cost: That portion of the total present value of future benefits which is allocated to a particular year by the Actuarial Cost Method. Any payment in respect of an Unfunded Actuarial Accrued Liability is not part of Normal Cost (see Amortization Payment). Under the entry age Normal Cost method, the



Funding Policy
of the
Fort Worth Employees' Retirement Fund

Normal Cost is intended to be the level cost (when expressed as a percentage of pay) needed to fund the benefits of a member from hire until ultimate termination, death, disability, or retirement.

Unfunded Actuarial Accrued Liability: The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets.

Variable COLA: The cost-of-living adjustment described in City Code, Section 2.5-8(d)(3).