AUSTIN FIRE FIGHTERS RELIEF AND RETIREMENT FUND

Funding Policy

Funding Objective

Effective December 16, 2019 (the "Effective Date"), the Board of Trustees (the "Board") of the Austin Fire Fighters Relief and Retirement Fund (the "Fund") adopts this Funding Policy to assist the Fund in meeting the objectives of funding the long-term costs of benefits promised to members over the course of members' careers in an equitable manner and by maintaining intergenerational equity. Pursuant to Texas Government Code Section 802.2011, the Fund will strive to satisfy these objectives by targeting a 100% funded ratio, which is the ratio of the Fund's actuarial value of assets divided by the Fund's actuarial accrued liability. This Funding Policy sets forth the Fund's plan for achieving these objectives.

Current Funding Procedure

The Fund is a defined benefit retirement plan with a fixed-rate contribution. The contribution rates are established under Vernon's Texas Civil Statutes, Article 6243e.1 (the "Act"). As of the Effective Date, the member contribution rate is 18.70% of monthly compensation, and the City of Austin (the "City") contribution rate is 22.05% of monthly compensation. Under the Act, the City may make additional contributions through City Council authorization, and the members of the Fund may increase their contribution rate through a majority member vote as recommended by the Board. The Board may not unilaterally change contribution rates, and this Funding Policy reflects such limitation.

This Funding Policy will address how the Fund intends to achieve a 100% funded ratio in accordance with Texas Government Code Section 802.2011 considering the limitations outlined above. This will be accomplished through monitoring of a funding benchmark, as detailed below in this Funding Policy.

Key Actuarial Assumptions/Methods Used for Calculating Amortization Period

Actuarial Cost Method — The Fund utilizes the Entry Age Normal (level percentage of pay) Cost Method.

Actuarial Asset Valuation Method — All assets are valued at market value with an adjustment to uniformly spread investment gains and losses (as measured by actual market value investment return against expected market value investment return) over a five-year period.

Amortization Method — Based on the nature of the Fund's fixed-rate contributions, there is no explicit amortization method; instead, the funding period required to amortize any existing Unfunded Actuarial Accrued Liability (UAAL) (such period, the "amortization period") is determined in conjunction with each actuarial valuation. The amortization period is calculated as the present value of the expected contributions available to fund the UAAL each year, after considering the contributions allocated to fund the normal cost rate.

All other actuarial assumptions and methods used for calculating the amortization period will be identical to those disclosed in the most recent actuarial valuation report. All actuarial assumptions and methods will be reviewed by the Board periodically, as discussed later in this Funding Policy.

Establishment of Funding Benchmark

Since the City and members each contribute to the Fund at a fixed rate, it is imperative that the Board be aware of how these rates compare to a rate that is actuarially determined. In this section, a Actuarially Determined Contribution (ADC) benchmark will be created for comparative purposes only and will be constructed under the actuarial assumptions and methods identical to those disclosed in the most recent actuarial valuation report, except as follows:

Amortization Period — The ADC benchmark will be determined in conjunction with each annual actuarial valuation by determining the fixed-rate contribution rates that would result in a 30-year amortization period as of the valuation date.

Payroll Growth Assumption – The ADC benchmark will be calculated using a payroll growth assumption that is the lesser of 3.0% and the average payroll growth of the Austin Fire Department (as reported in the actuarial valuations) over the last ten (10) years.

Oversight, Monitoring, and Board Action

As part of its fiduciary duty, the Board will oversee and monitor the ongoing solvency of the Fund and adequacy of the City and member contribution rates. In doing so, the Board will take the following actions or arrange for them to occur:

Annual Actuarial Valuation — The Fund's actuary completes an actuarial valuation of the Fund on an annual basis. The report of this valuation is presented to, reviewed, and approved by the Board at a regular meeting. This report is included in the Fund's annual report and provided to the Texas State Pension Review Board (PRB).

Review of Actuarial Assumptions — The Fund's actuary performs an actuarial experience study at least once every five (5) years (in accordance with the Texas Government Code) and presents the results of this study to the Board. This study will identify when the actual experience of the Fund has diverged from adopted assumptions, and in such cases, the Fund's actuary will recommend changes to the actuarial assumptions if any are warranted. The Board will consider the recommended changes to the actuarial assumptions, if any, and the results of the study will be filed with the PRB. The Fund's actuary may also make recommendations with respect to actuarial assumptions for the Board's consideration independent of a formal experience study if warranted.

Adoption of Annual COLA — The Board considers the adoption of an annual COLA in accordance with the procedures set forth in Section VII of the Fund Rules (Procedures for Adoption of Annual COLA) and consistent with the parameters and methodology under Section VIII of the Fund Rules (COLA Adjustment Policy).

<u>Review of Funding Policy</u> — The Board will review this Funding Policy periodically, but no less frequently than in connection with any actuarial experience study.

<u>Comparison of Contribution Rates to ADC Benchmark</u> — In conjunction with each annual actuarial valuation, the Fund's actuary will calculate the ADC benchmark described in this Funding Policy and prepare a comparison of the ADC benchmark with the actual fixed contributions being received by the Fund. The Fund's actuary will utilize the data and assumptions listed in the most recent actuarial valuation report (unless otherwise denoted above) in creating the ADC benchmark.

If, upon comparing the ADC benchmark to the fixed contribution rates, it is determined that the fixed contribution rates have been smaller than the ADC benchmark by more than 2% of payroll in each of the three (3) most recent actuarial valuations, then the Board will:

1) Notify the City Council, the City Manager, and the local Association President of this contribution shortfall and request that they meet to develop a 20-year plan (at the latest) that will establish fixed contribution rates that will result in a 100% funded ratio over a 30-year closed amortization period. The Board will provide all necessary background information to assist all stakeholders in this regard.

2) Provide each party with an annual update as to the progress of their solution relative to the 100% funded ratio goal.

<u>Benefit Changes and Cost-of-Living Adjustments</u>

While the focus of this Funding Policy is on funding, a reference to how the Board handles benefit changes and Cost-of-Living Adjustments is also worth noting. Before any benefit changes are made to the Fund, certain actuarial parameters must be satisfied to ensure the actuarial soundness and financial stability of the Fund. These parameters, and the methodology for determining whether such parameters have been satisfied, have been adopted by the Board and are set forth in the Section IX of the Fund Rules (Benefit Improvement Policy).

In addition, Section 9.04 of the Act provides the methodology for determining the amount and form of the annual cost-of-living adjustment that may be provided to eligible retirees and beneficiaries, if any. Under the Act, the cost-of-living adjustment amount is to be reduced as necessary to maintain the financial stability of the Fund. Under Section VIII of the Fund Rules (COLA Adjustment Policy), the Board has adopted parameters to determine when COLAs may be provided, and the methodology for determining whether such parameters have been satisfied, in order to ensure that the actuarial soundness and financial stability of the Fund are maintained.