

Houston Police Officers' Pension System

ACTUARIAL VALUATION REPORT FOR THE YEAR
BEGINNING JULY 1, 2024





October 8, 2024

Board of Trustees
Houston Police Officers' Pension System
602 Sawyer
Suite 300
Houston, TX 77007

Re: Risk Sharing Valuation Study as of July 1, 2024

Dear Members of the Board:

We are pleased to present our Risk Sharing Valuation Study (RSVS, or sometimes referred to as the actuarial valuation in the report) of the Houston Police Officers' Pension System ("HPOPS" or "the System") for the plan year commencing July 1, 2024. This Report describes the current actuarial condition of HPOPS, determines the calculated employer contribution rate (the actuarially determined rate), and analyzes changes in this contribution rate from the prior year. Valuations are prepared annually, as of July 1st, the first day of the HPOPS plan year. This report was prepared at the request of the Board and is intended for use by the HPOPS staff and those designated or approved by the Board. This report may be provided to parties other than HPOPS staff only in its entirety and only with the permission of the Board, or as required by law.

Financing objectives and funding policy

Under the HPOPS statute, the employer contribution rate is determined actuarially, based on the Board's funding policy and the HPOPS governing law. The contribution rate determined by a given actuarial valuation and implemented by the Board becomes effective twelve months after the valuation date, i.e., the rates determined by this July 1, 2024 actuarial valuation will be used by the Board when determining the employer contribution rate for the year beginning July 1, 2025 and ending June 30, 2026.

While inside the RSVS Corridor, the actual City Contribution Rate will be the greater of the Estimated City Contribution Rate determined below and the Corridor Midpoint that was established in the June 30, 2016 RSVS. However, now that the funded ratio has reached 90% and the Estimated City Contribution Rate has dropped below the Corridor Minimum, the actual City Contribution Rate will be the greater of the Estimated City Contribution Rate and the Corridor Minimum. The Estimated City Contribution Rate (City of Houston) for FY 2026 is 22.58%, which is less than the Corridor Minimum of 27.10%. Thus, the City Contribution rate for FY 2026 is 27.10%.

The Estimated City Contribution Rate and liabilities are computed using the Ultimate Entry Age Normal (UEAN) actuarial cost method. The Estimated City Contribution Rate is the sum of two pieces: the employer normal cost rate and the amortization rate. The normal cost rate is determined as a percentage of active member payroll, with the employer normal cost being the difference between the total normal cost and the member contribution rate. The amortization rate is determined as a level percentage of active member payroll. It is the amount required to amortize the unfunded actuarial accrued liability (UAAL) over a closed period using the process of "laddering".

The UAAL as of June 30, 2016, as restated in the “Final Risk Sharing Valuation Study as of June 30, 2016” (RSVS Study), which was dated September 28, 2017, is the initial base and is amortized over a closed 30-year period beginning FY2018. Each future valuation will establish either a liability gain layer or a liability loss layer. These layers will represent unexpected increases/decreases in the unfunded actuarial accrued liability (after subtracting out any remaining Legacy Liability or any remaining prior years’ liability layers). New loss bases will be amortized over a 30-year period, while new gain bases will be amortized over the remaining amortization period as of one year after the valuation date of the largest remaining loss base (will typically be the initial RSVS base). The amortization of all bases will begin one year after the valuation date using a level percentage of payroll amortization method.

Gains from assets returning 10.11% on a smoothed basis compared to the 7.00% assumed were partially offset by the COLA and DROP credit risk sharing provisions. Note that the calculation of the COLA (return on AVA less 5.0% with a minimum of 0.0% and max of 4.0%) means that gains due to asset performance will necessarily result in liability losses due to COLAs being greater than assumed, while asset losses will result in liability gains from COLAs being less than assumed. Please see Table 6 under Section IV of our Report for a detailed analysis of the change in the estimated City contribution rate from the prior year to this year.

The contribution rate is determined using a smoothed (or actuarial) value of assets rather than market value. The actuarial value of assets recognizes at least 20% of the difference (typically referred to as “five-year smoothing”) between the market value of assets and the expected actuarial value of assets, based upon the assumed valuation rate of return of 7.00% per annum. There are currently \$0.424 billion in asset gains being deferred that will be recognized in the future and will provide tailwinds for the improvement in the funded status and provide a cushion against future asset losses.

Progress toward realization of financing objectives

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) is a standard measure of a plan’s funded status. In the absence of benefit improvements, it should increase over time, until it reaches 100%. The funded ratio as of July 1, 2024 is 92.0% which is up compared to last year’s funded ratio of 89.3%. The funded status alone may not be appropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations.

Benefit provisions

The benefit provisions reflected in this valuation are those which were in effect on July 1, 2024. There were no changes in the benefit provisions since the prior valuation. The benefit provisions are summarized in Appendix B of our Report.



Assumptions and methods

Actuarial assumptions and methods are set by the Board of Trustees, based upon recommendations made by the System's actuary. As part of the legislation enacting the 2016 RSVS benefit changes, the investment return assumption (7.0%) was set into statute (Article 6243g-4, Vernon's Texas Civil Statutes). This assumption is now considered a prescribed assumption under the actuarial standards of practice. The assumptions used in this valuation were adopted by the Board based on the recommendations from GRS following the 2022 Actuarial Experience Investigation Study. These assumptions were first used in the 2022 actuarial valuation. Assumption changes from the experience study included updating the salary scale, DROP interest credit, mortality tables, and turnover rates. The combined effect of the assumptions, excluding prescribed assumptions or methods set by law, is expected to have no significant bias (i.e. not significantly optimistic or pessimistic).

The results of the actuarial valuation are dependent upon the actuarial assumptions used. Actual results can and almost certainly will differ, as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rates and funding periods. The actuarial calculations presented in our Report are intended to provide information for rational decision making.

This report was prepared using our proprietary valuation model and related software which in our professional judgment has the capability to provide results that are consistent with the purposes of the valuation and has no material limitations or known weaknesses. We performed tests to ensure that the model reasonably represents that which is intended to be modeled.

The actuarial assumptions and methods used in this Report all comply with the actuarial standards of practice (ASOPs) and are described in Appendix A of our Report.

Data

Member data for retired, active and inactive members was supplied as of July 1, 2024 by the HPOPS staff. We did not audit this data, but we did apply a number of tests to the data, and we concluded that it was reasonable and consistent with the prior year's data. GRS is not responsible for the accuracy or completeness of the information provided to us.

Asset and all financial information as of July 1, 2024 were supplied to us by the HPOPS staff.

Plan Experience

As part of each valuation, we examine the System's experience relative to the assumptions. The aggregate results of these analyses are disclosed in Tables 5 & 6 under Section IV of our Report.

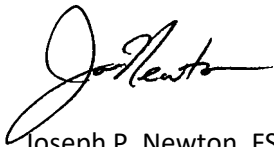


Actuarial Certification

All of the tables contained in this actuarial valuation report and in the actuarial section of the HPOPS Annual Comprehensive Financial Report (ACFR) were prepared by Gabriel, Roeder, Smith & Company. Historical information for years prior to 2008 was prepared by the prior actuarial firm and was not subjected to our actuarial review. We certify that the information presented herein is accurate and fairly portrays the actuarial position of HPOPS as of July 1, 2024.

All of our work conforms with generally accepted actuarial principles and practices, and to the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion, our calculations also comply with the requirements of State law and the Statements of the Governmental Accounting Standards Board. The undersigned are independent actuaries and consultants. All of the undersigned are Enrolled Actuaries, Members of the American Academy of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries. Finally, all of the undersigned are experienced in performing valuations for large public retirement systems.

Respectfully submitted,
Gabriel, Roeder, Smith & Company



Joseph P. Newton, FSA, EA, MAAA
Pension Market Leader



Blake Orth, FSA, EA, MAAA
Consultant & Actuary



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SECTION I

RISK SHARING VALUATION STUDY

RISK SHARING VALUATION STUDY DISCUSSION

The purpose of the Risk Sharing Valuation Study (RSVS) is to determine the City Contribution Rate for the fiscal year beginning one year after the valuation date. The initial RSVS study was based on the membership and financial information as of the June 30, 2016 valuation, and the results are detailed in the actuarial impact statement dated September 25, 2017. The initial RSVS determined the Corridor and Corridor midpoint to be used in this and all future RSVS studies.

The first exhibit in this section shows the RSVS Corridor. Column 3 shows the Corridor Midpoint, which for fiscal year 2026, is 32.10% of pay. Columns 2 and 4 show the Corridor Minimum and Corridor Maximum respectively. Column 5 shows the actual City Contribution Rate for the fiscal year.

The next exhibit shows the individual pieces and Estimated City Contribution Rate.

The third exhibit shows the Liability Gain/Loss Layers established by each RSVS. Columns 2 and 3 show the original liability layer and any remaining liability layer respectively. Column 4 is the payment on that particular layer for the fiscal year beginning one year after the valuation date. The payment is determined using a level percentage of payroll and the remaining amortization period is shown in column 5. The payments reflect the one-year delay between the determination of the payment and the beginning of the fiscal year in which the payment is made. The dollar amounts of the payments are summed and then converted to a percentage of payroll based on the projected payroll for the fiscal year beginning one year after the valuation date.



RISK SHARING VALUATION STUDY CORRIDOR

Fiscal Year Ending	Corridor Minimum	Corridor Midpoint	Corridor Maximum	City Contribution Rate
(1)	(2)	(3)	(4)	(5)
June 30, 2018	26.77%	31.77%	36.77%	31.77%
June 30, 2019	26.85%	31.85%	36.85%	31.85%
June 30, 2020	26.82%	31.82%	36.82%	31.82%
June 30, 2021	26.84%	31.84%	36.84%	31.84%
June 30, 2022	26.92%	31.92%	36.92%	31.92%
June 30, 2023	26.98%	31.98%	36.98%	31.98%
June 30, 2024	27.03%	32.03%	37.03%	32.03%
June 30, 2025	27.07%	32.07%	37.07%	32.07%
June 30, 2026	27.10%	32.10%	37.10%	27.10%
June 30, 2027	27.12%	32.12%	37.12%	
June 30, 2028	27.13%	32.13%	37.13%	
June 30, 2029	27.13%	32.13%	37.13%	
June 30, 2030	27.13%	32.13%	37.13%	
June 30, 2031	27.14%	32.14%	37.14%	
June 30, 2032	27.14%	32.14%	37.14%	
June 30, 2033	27.14%	32.14%	37.14%	
June 30, 2034	27.15%	32.15%	37.15%	
June 30, 2035	27.14%	32.14%	37.14%	
June 30, 2036	27.14%	32.14%	37.14%	
June 30, 2037	27.14%	32.14%	37.14%	
June 30, 2038	27.14%	32.14%	37.14%	
June 30, 2039	27.13%	32.13%	37.13%	
June 30, 2040	27.14%	32.14%	37.14%	
June 30, 2041	27.13%	32.13%	37.13%	
June 30, 2042	27.13%	32.13%	37.13%	
June 30, 2043	27.13%	32.13%	37.13%	
June 30, 2044	27.13%	32.13%	37.13%	
June 30, 2045	27.13%	32.13%	37.13%	
June 30, 2046	27.13%	32.13%	37.13%	
June 30, 2047	27.13%	32.13%	37.13%	

RISK SHARING VALUATION STUDY ESTIMATED CITY CONTRIBUTION RATE

Fiscal Year Ending <u>(1)</u>	Employer Normal Cost <u>(2)</u>	Amortization Payment <u>(3)</u>	Estimated City Contribution Rate <u>(4)</u>
June 30, 2018	13.86%	17.91%	31.77%
June 30, 2019	13.85%	17.89%	31.74%
June 30, 2020	13.51%	18.07%	31.58%
June 30, 2021	13.47%	16.14%	29.61%
June 30, 2022	13.48%	15.74%	29.22%
June 30, 2023	13.48%	13.54%	27.02%
June 30, 2024	14.40%	12.37%	26.77%
June 30, 2025	14.41%	10.44%	24.85%
June 30, 2026	14.45%	8.13%	22.58%

RISK SHARING VALUATION STUDY LIABILITY GAIN OR LOSS LAYERS

Valuation Year Base Established	Original Layer	Remaining Layer as of Valuation Date	Payment for Fiscal Year 2026	Years Remaining From 7/1/2025
(1)	(2)	(3)	(4)	(5)
July 1, 2024	\$ (182,044,431)	(182,044,431)	\$ (13,561,409)	22
July 1, 2023	(94,905,692)	(101,549,090)	(7,069,324)	22
July 1, 2022	(110,524,349)	(118,458,094)	(8,246,442)	22
July 1, 2021	(171,779,850)	(184,714,032)	(12,858,838)	22
July 1, 2020	(17,265,778)	(18,654,071)	(1,298,600)	22
July 1, 2019	(124,475,264)	(135,305,974)	(9,419,304)	22
July 1, 2018	(28,335,051)	(31,027,334)	(2,159,963)	22
July 1, 2017	12,356,562	13,753,914	933,403	23
July 1, 2016	1,323,312,199	1,393,490,112	97,007,595	22
Total		635,491,000	43,327,118	
Projected Payroll for Fiscal Year +1			\$ 533,183,751	
Amortization Payments as % of Projected Pay			8.13%	
Single Equivalent Amortization Period from the Valuation Date			23.0	



SECTION II

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Item	July 1, 2024	July 1, 2023
Membership (dollar amounts in thousands) <ul style="list-style-type: none"> • Number of: <ul style="list-style-type: none"> - Active members - Retirees and beneficiaries - Inactive members - Total • Total annualized salaries supplied by HPOPS 	 	
Contribution Rates <ul style="list-style-type: none"> • City Contribution Rate • Member 	 	
Assets (\$000s) <ul style="list-style-type: none"> • Market value • Actuarial value • Estimation of return on market value • Estimation of return on actuarial value • Employer contribution • Member contribution • Ratio of actuarial value to market value 	 	
Actuarial Information (\$000s) <ul style="list-style-type: none"> • Employer normal cost % • Unfunded actuarial accrued liability (UAAL) • Amortization rate • Funding period • Funded ratio 	 	
Projected employer contribution <ul style="list-style-type: none"> • Fiscal year ending June 30, • Projected payroll (millions) • Projected employer contribution (millions) 	 	

SECTION III

DISCUSSION

CONTRIBUTION REQUIREMENTS

- The above Executive Summary shows the City Contribution Rate for FY 2026 to be 27.10% of active member payroll
 - The Estimated City Contribution Rate was 22.58%, a decrease from 24.85% of active member payroll for FY 2025
 - The final City Contribution Rate is the greater of the Estimated City Contribution Rate or the Corridor Minimum of 27.10%.
 - The gain from assets returning 10.11% on a smoothed basis compared to the 7.00% assumed was partially offset by the COLA and DROP credit risk sharing provisions.
 - Rates shown on the Executive Summary are calculated rates for the twelve-month period beginning July 1, 2025, based on current board policy
 - Table 6 under Section IV of our Report reconciles the Estimated City Contribution Rate from the prior valuation date to the current valuation date
- Projected FY 2026 payroll was based on the prior year's annualized salaries of the active members as of July 1, 2024 of \$505.0 million rolled forward two years at the 2.75% assumed payroll growth rate.
- There were no changes to the benefit provisions since the previous actuarial valuation.
- There were no changes to the actuarial assumptions since the previous actuarial valuation.
- The amortization payments are developed based upon the following assumptions:
 - Laddering of bases with initial base set up with the June 30, 2016 RSVS study.
 - 30-year closed funding period for each new loss base with new gains amortized over the remaining period of the largest existing loss base
 - Dollar contribution amounts increase as a level percentage of payroll
 - Total payroll increases 2.75% per year

CALCULATION OF CONTRIBUTION RATES

The funds available to pay benefits come from two sources: contributions and investment income on those contributions (the majority of the funds available to pay benefits typically come from investment income). HPOPS receives contributions from two sources: employer contributions, which are currently based on the funding policy prescribed by statute, and member contributions, which are a percentage of pay. As shown in Table 2 under Section IV of our Report, the Estimated Employer Contribution Rate has two components:

- The normal cost percentage (NC%)
- The amortization percentage (UAAL%)

The normal cost is the present value of the portion of projected benefits that is attributable to service accrued in the current year. The NC% is shown in Table 4 under Section IV of our Report. Members are required to make employee contributions and only the excess of the NC% over the member contribution rate is included in the employer contribution rate.

The actuarial accrued liability (AAL) is the difference between (i) the actuarial present value of all future benefits for the current participants of the fund, including active, inactive and retired members, and (ii) the actuarial present value of future normal costs. Thus, the AAL represents the liability associated with past years. The unfunded actuarial accrued liability (UAAL) is the difference between the AAL and the actuarial value of assets (AVA). It is the shortfall/excess between the liability associated with prior years (the AAL) and the assets actually accumulated (the AVA). This shortfall/excess can arise from several sources, including actuarial gains and losses which are caused by differences between actual experience and the plan's assumptions, changes to the plan's actuarial assumptions, and amendments to the benefit provisions.

The UAAL% is the amount required to fund this difference and is developed using the process of laddering with the initial base established in the July 1, 2016 RSVS Study and amortized over a closed 30-year period beginning FY2018 as a level percentage of payroll. Each future valuation will establish either a liability gain layer or a liability loss layer. These layers will represent unexpected increases/decreases in the unfunded actuarial accrued liability (after subtracting out any remaining Legacy Liability or any remaining prior years' liability layers). New loss bases will be amortized over a 30-year period, while new gain bases will be amortized over the remaining amortization period as of one year after the valuation date of the largest remaining loss base (typically, the initial RSVS base). The amortization of all bases will begin one year after the valuation date using a level percentage of payroll amortization method. Item 11a of Table 2 in Section IV of our report shows the UAAL%.

While inside the RSVS Corridor, the actual City Contribution Rate will be the greater of the Estimated City Contribution Rate and the Corridor Midpoint that was established in the June 30, 2016 RSVS. However, now that the Estimated City Contribution Rate is below the Corridor Minimum and the funded ratio exceeds 90%, the City Contribution Rate will be equal to the Corridor Minimum of 27.10%.

ASOP 4 requires the disclosure of a Reasonable Actuarially Determined Contribution (ADC) for comparisons to the actual contributions per the funding policy. For purposes of this valuation, the ADC is determined using the same assumptions and methodology as the valuation, with the following exceptions: a 20-year amortization was used which ensures immediate positive amortization of the UAAL, the individual entry age normal cost method was used, and liabilities were assumed to be fully accrued upon members becoming eligible to enter DROP. We have also incorporated an Output Smoothing Method which will set the ADC equal to the City Contribution Rate if the City Contribution rate exceeds the result of the preliminary calculation above. In this valuation, the City Contribution Rate exceeds the initial reasonable ADC and so the ultimate Reasonable ADC equals the City Contribution Rate of 27.10%.



FINANCIAL DATA AND EXPERIENCE

As of July 1, 2024, HPOPS has a total market value of about \$7.78 billion. Financial information was gathered from the HPOPS staff.

Our Report includes a number of Exhibits related to plan assets. Table 8 under Section IV of our Report shows how the total market value is distributed among the various asset classes of investments.

Table 9 under Section IV of our Report shows a reconciliation of the market values between the beginning and end of FY2024.

During FY2024, the dollar-weighted total investment return on the market value of assets (MVA) was 10.94%, net of investment expenses, as shown in Table 11 under Section IV of our Report.

In determining the contribution rates and funded status of the System, an actuarial value of assets (AVA) is used, rather than the market value of assets. The AVA recognizes at least 20% of the difference between the projected actuarial value (based on last year's annual assumed 7.00% investment return rate) and the market value at the valuation date. This is an approximation of five year smoothing and is intended to help reduce the volatility of the contribution rates from year to year.

The development of the AVA is shown in Table 10 under Section IV of our Report. The AVA as of July 1, 2024 increased to \$7.36 billion from \$6.88 billion as of the last valuation. This year, the AVA is 94.5% of the MVA, compared to 95.4% last year.

In addition to the market return, Table 11 also shows the return on the actuarial value of assets for HPOPS. For FY2024, this return was 10.11%. Because this is greater than the assumed 7.00% investment return, an actuarial gain occurred, decreasing the unfunded actuarial accrued liabilities of the System by \$211 million. Table 13 shows a historical summary of market and actuarial return rates in recent years.



MEMBER DATA

Member data as of July 1, 2024 was supplied electronically by the HPOPS staff. While we did not audit this data, we did perform various tests to ensure that it was internally consistent, consistent with the prior year's data, and was reasonable overall.

Table 19 under Section IV of our Report shows the number of members by category (active, inactive, retired, etc.). Tables 20a-d show active member statistics by Group. Tables 17 and 18 show summaries of certain historical data, including membership statistics.

The number of active and DROP members was 5,270 as of July 1, 2024, compared with 5,198 as of July 1, 2023.

The total payroll shown on the statistical tables is the amount that was supplied by HPOPS, annualized, if necessary and rolled forward to the current plan year with one year of payroll growth. For the cost calculations, the pay amounts were adjusted in accordance with the actuarial assumptions to reflect one year's payroll growth.

Total projected active member payroll increased 0.57% last year, compared with an 8.24% increase the prior year.

The rate of payroll growth is significant because the methodology used in the valuation to amortize the unfunded actuarial accrued liability assumes a growing payroll into the future. If the payroll does not grow at the assumed 2.75% per year average, the current amortization payments may be understated and the funding position of the System will not strengthen over time.



BENEFIT PROVISIONS

Appendix B of our Report includes a summary of the benefit provisions for HPOPS, and a brief summary of the current benefit provisions is provided below.

- *Normal Retirement Eligibility*
 - Sworn Prior to October 9, 2004 – 20 years of service
 - Sworn on or after October 9, 2004 –the Rule of 70 (age plus service greater or equal to 70)
- *Normal Retirement Benefit*
 - Sworn Prior to October 9, 2004 – 2.75% of average direct pay for the first 20 years of service and 2% for each year after 20
 - Sworn on or after October 9, 2004 – 2.25% for the first 20 years of service and 2% for each year after 20 up to a maximum of 80%
- *Normal Form of Payment* is a 100% Joint & Survivor Annuity for married retirees and Life Annuity for unmarried retirees
- *Employee Contributions* – 10.50% for all employees.
 - Contributions of employees in DROP are not credited to the DROP account.
- *Post-retirement Cost of Living Adjustments (COLAs)* are granted each year on April 1 and are calculated prospectively at 100% of the 5-year average investment return less 5.0%. However, the COLA can never be less than 0.0% or greater than 4.0%. This COLA is applied to retirement and survivor benefits and is included in the benefit payment made at the end of April.
 - COLA does not apply to DROP benefits.
 - The COLA will begin at age 55 except for line-of-duty survivors and participants or survivors of participants who began receiving benefit prior to June 8, 1995.
- *Insurance Benefit* - Retired members and surviving spouses are entitled to receive an additional stipend of \$150.00 per month to help offset the cost of medical insurance premiums

This valuation reflects all benefits offered to HPOPS members. There are no ancillary benefits that might be deemed a HPOPS liability if continued beyond the availability of funding by the current funding source. There were no changes in benefit provisions since the prior valuation.



ACTUARIAL METHODS AND ASSUMPTIONS

Appendix A of our Report includes a summary of the actuarial assumptions and methods used in this valuation. The assumptions used in this valuation were adopted by the Board based on the recommendations from GRS following the Actuarial Experience Investigation Study, dated September 20, 2022. These assumptions were first used in the July 1, 2022 actuarial valuation, and there have been no changes since that valuation.

Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions

The determination of the accrued liability and the actuarially determined contribution requires the use of assumptions regarding future economic and demographic experience. Risk measures, as illustrated in this report, are intended to aid in the understanding of the effects of future experience differing from the assumptions used in the course of the actuarial valuation. Risk measures may also help with illustrating the potential volatility in the accrued liability and the actuarially determined contribution that result from the differences between actual experience and the actuarial assumptions.

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 due to changing conditions; 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. The scope of an actuarial valuation does not include an analysis of the potential range of such future measurements.

Examples of risk that may reasonably be anticipated to significantly affect the plan's future financial condition include:

1. Investment risk – actual investment returns may differ from the expected returns;
2. Asset/Liability mismatch – changes in asset values may not match changes in liabilities, thereby altering the gap between the accrued liability and assets and consequently altering the funded status and contribution requirements;
3. Contribution risk – actual contributions may differ from expected future contributions. For example, actual contributions may not be made in accordance with the plan's funding policy or material changes may occur in the anticipated number of covered employees, covered payroll, or other relevant contribution base;
4. Salary and Payroll risk – actual salaries and total payroll may differ from expected, resulting in actual future accrued liability and contributions differing from expected;
5. Longevity risk – members may live longer or shorter than expected and receive pensions for a period of time other than assumed;
6. Other demographic risks – members may terminate, retire or become disabled at times or with benefits other than assumed resulting in actual future accrued liability and contributions differing from expected.

Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions (Continued)

The effects of certain trends in experience can generally be anticipated. For example, if the investment return since the most recent actuarial valuation is less (or more) than the assumed rate, the cost of the plan can be expected to increase (or decrease). Likewise, if longevity is improving (or worsening), increases (or decreases) in cost can be anticipated.

The City Contribution Rate shown in the Executive Summary may be considered as a minimum contribution rate that complies with HPOPS Statute. The timely receipt of the actuarially determined contributions is critical to support the financial health of the plan. Users of this report should be aware that contributions made at the actuarially determined rate do not necessarily guarantee benefit security.

PLAN MATURITY MEASURES

Risks facing a pension plan evolve over time. A young plan with virtually no investments and paying few benefits may experience little investment risk. An older plan with a large number of members in pay status and a significant trust may be much more exposed to investment risk. Several generally accepted plan maturity measures are described below and are followed by a table showing a history of the measurements.

RATIO OF MARKET VALUE OF ASSETS TO PAYROLL

The relationship between assets and payroll is a useful indicator of the potential volatility of contributions. For example, if the market value of assets is 2.0 times the payroll, a return on assets 5% different than assumed would equal 10% of payroll. A higher (lower) or increasing (decreasing) level of this maturity measure generally indicates a higher (lower) or increasing (decreasing) volatility in plan sponsor contributions as a percentage of payroll.

RATIO OF ACTUARIAL ACCRUED LIABILITY TO PAYROLL

The relationship between actuarial accrued liability and payroll is a useful indicator of the potential volatility of contributions for a fully funded plan. A funding policy that targets a funded ratio of 100% is expected to result in the ratio of assets to payroll and the ratio of liability to payroll converging over time.



Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions (Continued)

The ratio of liability to payroll may also be used as a measure of sensitivity of the liability itself. For example, if the actuarial accrued liability is 2.5 times the payroll, a change in liability 2% other than assumed would equal 5% of payroll. A higher (lower) or increasing (decreasing) level of this maturity measure generally indicates a higher (lower) or increasing (decreasing) volatility in liability (and also plan sponsor contributions) as a percentage of payroll.

RATIO OF ACTIVES TO RETIREES AND BENEFICIARIES

A young plan with many active members and few retirees will have a high ratio of actives to retirees. A mature open plan may have close to the same number of actives to retirees, resulting in a ratio near 1.0. A super-mature or closed plan may have significantly more retirees than actives, resulting in a ratio below 1.0. For the purposes of this measurement, members of DROP were counted as active members.

RATIO OF NET CASH FLOW TO MARKET VALUE OF ASSETS

A positive net cash flow means contributions exceed benefits and expenses. A negative cash flow means existing funds are being used to make payments. A certain amount of negative net cash flow is generally expected to occur when benefits are prefunded through a qualified trust. Large negative net cash flows as a percent of assets may indicate a super-mature plan or a need for additional contributions.

DURATION OF PRESENT VALUE OF BENEFITS

The duration of the present value of benefits may be used to approximate the sensitivity to a 1% change in the assumed rate of return. For example, duration of 10 indicates that the present value of benefits would increase approximately 10% if the assumed rate of return were lowered 1%.

ADDITIONAL RISK ASSESSMENT

Additional risk assessment is outside the scope of the annual actuarial valuation. Additional assessment may include scenario tests, sensitivity tests, stochastic modeling, stress tests, and a comparison of the present value of accrued benefits at low-risk discount rates with the actuarial accrued liability.

Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions (Continued)

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Ratio of the market value of assets to total payroll	14.99	13.97	14.40	14.91	11.81	12.48	12.52	10.68	9.73	10.60
Ratio of actuarial accrued liability to payroll	15.40	14.92	15.49	14.88	14.49	14.64	14.74	14.90	14.54	14.05
Ratio of actives to retirees and beneficiaries	1.01	1.02	1.03	1.09	1.15	1.18	1.20	1.22	1.36	1.42
Ratio of net cash flow to market value of assets*	-2.7%	-2.5%	-2.6%	-2.8%	-2.9%	-2.7%	10.3%	-6.5%	-2.2%	-1.8%
Duration of the actuarial present value of benefits**	15.31	15.37	15.25	15.14	15.20	15.11	NA	NA	NA	NA

* The 2018 net cash flow reflects issuance of a \$750 million Pension Obligation Bond

**Duration measure not available prior to 2019



LOW-DEFAULT-RISK OBLIGATION MEASURE

Actuarial Standards of Practice No. 4 (ASOP No. 4) was revised and reissued in December 2021 by the Actuarial Standards Board (ASB). It includes a new calculation called a low-default-risk obligation measure (LDRM) to be prepared and issued annually for defined benefit pension plans. The transmittal memorandum for ASOP No. 4 includes the following explanation:

“The ASB believes that the calculation and disclosure of this measure provides appropriate, useful information for the intended user regarding the funded status of a pension plan. The calculation and disclosure of this additional measure is not intended to suggest that this is the “right” liability measure for a pension plan. However, the ASB does believe that this additional disclosure provides a more complete assessment of a plan’s funded status and provides additional information regarding the security of benefits that members have earned as of the measurement date.”

The LDRM estimates the amount of money the plan would need to invest in low risk securities to provide the benefits with greater certainty. The current model expects lower costs but with higher risk, which creates less certainty and a possibility of higher costs. The LDRM model creates higher expected costs but more predictability when compared to the current model. Thus, the difference between the two measures (Valuation and LDRM) is one illustration of the possible costs the sponsor could incur if there was a reduction in the investment risk in comparison to the current diversified portfolio. However, the downside risk would be limited in the scenarios where the current portfolio would fail to achieve returns in excess of the low-default-risk discount, in this case 5.32%.

The following information has been prepared in compliance with this new requirement. Unless otherwise noted, the measurement date, actuarial cost methods, and assumptions used are the same as for the funding valuation covered in this actuarial valuation report.

- A. Low-default-risk Obligation Measure of benefits earned as of the measurement date: \$8,725 million
- B. Valuation liability at 7% on measurement date: 7,991 million
- C. Cost to mitigate investment risk in the HPOPS portfolio: \$734 million

The HPOPS benefit structure has several risk sharing provisions that are contingent on the investment returns of the portfolio and thus if the portfolio was changed to expect lower returns, the expected liabilities that are contingent on those returns would also decrease. If these provisions were not contingent on the investment performance, it would have increased the LDRM by another \$804 million, meaning these provisions reduced the impact of lowering the discount rate from 7.0% to 5.32% by about half, which is an illustration that half the investment risk is currently being borne by the HPOPS members and not the City.

Discount rate used to calculate LDRM: 5.32% Intermediate FTSE Pension Discount Curve as of June 30, 2024. Other significant assumptions that differ from those used for the funding valuation: Future assumed COLAs would decrease from 2.0% per year to 1.1% per year and the assumed DROP interest crediting rate would decrease from the current 5.6% to 3.7%.

This measure may not be appropriate for assessing the need for or amount of future contributions as the current portfolio is expected to generate significantly more investment earnings than the low-default-risk portfolio. This measure is also not appropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan’s benefit obligation as this measure includes projections of salary increases and the ability for current members to continue to accrue eligibility and vesting service.



SECTION IV

SUPPORTING EXHIBITS

SUMMARY OF COST ITEMS (\$000)

TABLE 1

	Valuation as of July 1, 2024		Valuation as of July 1, 2023	
	Cost Item	Cost as %	Cost Item	Cost as %
		of Pay		of Pay
(1)	(2)	(3)	(4)	
1. Participants				
a. Active participants, hired post 10/9/2004	3,930		3,704	
b. Active participants enrolled in DROP	1,321		1,409	
c. Other active participants	19		85	
d. Retirees	4,030		3,940	
e. Disabled retirees	205		198	
f. Beneficiaries	975		944	
g. Inactive, deferred vested	90		78	
h. Total	<u>10,570</u>		<u>10,358</u>	
2. Projected valuation payroll	\$ 533,184		\$ 530,152	
3. Averages for active members				
a. Average age	41.1		41.2	
b. Average years of service	13.5		13.7	
c. Average pay (\$)	\$ 98,466		\$ 99,262	
4. Present value of future pay	\$ 5,892,842		\$ 5,811,101	
5. Total normal cost rate	24.95%		24.91%	
6. Present value of future benefits	\$ 9,395,919	1762.2%	\$ 9,083,297	1713.3%
7. Present value of future normal costs	\$ 1,405,324	263.6%	\$ 1,383,942	261.0%
8. Actuarial accrued liability (6 - 7)	\$ 7,990,595	1498.7%	\$ 7,699,355	1452.3%
9. Present actuarial assets	\$ 7,355,104	1379.5%	\$ 6,876,727	1297.1%
10. Unfunded actuarial accrued liability (UAAL)	\$ 635,491	119.2%	\$ 822,628	155.2%
11. Funding period	23.0		24.0	
12. Estimated City Contribution Rate				
a. Normal cost	14.45%		14.41%	
b. Amortization charge	8.13%		10.44%	
c. Total	<u>22.58%</u>		<u>24.85%</u>	
13. Actual City Contribution Rate	27.10%		32.07%	
14. Average estimated return				
a. Based on market value	10.94%		7.75%	
b. Based on actuarial value	10.11%		9.36%	
15. Funded ratio	92.0%		89.3%	



**CALCULATION OF ACTUARIALLY DETERMINED
CONTRIBUTION RATE (\$000)
TABLE 2**

	July 1, 2024 (1)	July 1, 2023 (2)
1. Projected valuation payroll (adjusted for two-year's payroll growth)	\$ 533,184	\$ 530,152
2. Present value of future pay	\$ 5,892,842	\$ 5,811,101
3. Employer normal cost rate (Table 4)	14.45%	14.41%
4. Actuarial accrued liability for active members		
a. Present value of future benefits for active members	\$ 3,801,200	\$ 3,783,135
b. Less: present value of future employer normal costs	(786,576)	(773,776)
c. Less: present value of future employee contributions	(618,748)	(610,166)
d. Actuarial accrued liability	\$ 2,395,876	\$ 2,399,193
5. Total actuarial accrued liability for:		
a. Retirees and beneficiaries	\$ 5,571,870	\$ 5,280,479
b. Inactive participants	22,849	19,683
c. Active members (Item 4d)	2,395,876	2,399,193
d. Total	\$ 7,990,595	\$ 7,699,355
6. Actuarial value of assets (Table 10)	\$ 7,355,104	\$ 6,876,727
7. Unfunded actuarial accrued liability (UAAL) (Item 5d - Item 6)	\$ 635,491	\$ 822,628
8. Funding period	23.0	24.0
9. Assumed payroll growth rate	2.75%	2.75%
10. Funded Ratio	92.0%	89.3%
11. City Contribution Rate		
a. UAAL amortization payment as % of pay	8.13%	10.44%
b. Employer normal cost	14.45%	14.41%
c. Estimated City Contribution Rate (a + b)	22.58%	24.85%
d. Corridor Midpoint	27.10%	32.07%
e. City Contribution Rate (greater of c and d)	27.10%	32.07%



ACTUARIAL PRESENT VALUE OF FUTURE BENEFITS (\$'000)

TABLE 3

	<u>July 1, 2024</u>	<u>July 1, 2023</u>
	(1)	(2)
1. Active members, hired post 10/9/2004		
a. Retirement benefits	\$ 1,931,851	\$ 1,793,225
b. Deferred termination benefits	15,149	14,837
c. Refunds	13,951	13,458
d. Death benefits	71,872	68,778
e. Disability benefits	77,716	73,845
f. Total	<u>\$ 2,110,539</u>	<u>\$ 1,964,143</u>
2. Active members enrolled in DROP		
a. Retirement benefits	\$ 1,655,526	\$ 1,723,880
b. Deferred termination benefits	0	0
c. Refunds	0	0
d. Death benefits	15,922	16,835
e. Disability benefits	0	0
f. Total	<u>\$ 1,671,448</u>	<u>\$ 1,740,715</u>
3. Other active members		
a. Retirement benefits	\$ 18,819	\$ 76,499
b. Deferred termination benefits	0	0
c. Refunds	4	19
d. Death benefits	390	1,759
e. Disability benefits	0	0
f. Total	<u>\$ 19,213</u>	<u>\$ 78,277</u>
4. Members in Pay Status		
a. Service retirements	\$ 4,914,915	\$ 4,658,202
b. Disability retirements	158,044	148,376
c. Beneficiaries	498,911	473,901
d. Total	<u>\$ 5,571,870</u>	<u>\$ 5,280,479</u>
5. Inactive members	<u>\$ 22,849</u>	<u>\$ 19,683</u>
6. Total actuarial present value of future benefits	\$ 9,395,919	\$ 9,083,297



ANALYSIS OF NORMAL COST RATE TABLE 4

	<u>July 1, 2024</u> (1)	<u>July 1, 2023</u> (2)
1. Gross normal cost rate		
a. Retirement benefits	20.98%	20.93%
b. Deferred termination benefits	0.23%	0.23%
c. Refunds	0.40%	0.40%
d. Disability benefits	1.25%	1.25%
e. Death benefits	<u>1.25%</u>	<u>1.26%</u>
f. Total	24.11%	24.07%
2. Plus: Administrative expenses as percentage of payroll	0.84%	0.84%
3. Less: member contribution rate	10.50%	10.50%
4. Employer normal cost rate (Item 1f + Item 2 - Item 3)	14.45%	14.41%

CALCULATION OF TOTAL ACTUARIAL GAIN OR LOSS

TABLE 5

1. Unfunded actuarial accrued liability (UAAL) as of July 1, 2023	\$	822,628
2. Total normal cost for year		122,413
3. Actuarially calculated contribution requirement		(183,005)
4. Interest on UAAL for one year		57,584
5. Interest on Item 2 and Item 3 for one-half year		(2,085)
6. Actuarially expected UAAL as of July 1, 2024 (1+2+3+4+5)	\$	817,535
7. Actual UAAL as of July 1, 2024		635,491
8. Actuarial gain/(loss) for the period (6 - 7)	\$	182,044

SOURCE OF GAINS/(LOSSES)

9. Asset gain/(loss) (See Table 12)	\$	210,717
10. Impact of contributions different than actuarially determined		33,387
11. COLA & DROP credit different than assumed		(81,940)
12. Changes due to Experience Study		-
13. Other liability gain/(loss) for the period		19,880
14. Actuarial gain/(loss) for the period	\$	182,044

Note: Dollar amounts in \$000

**CHANGE IN CALCULATED CONTRIBUTION RATE
SINCE THE PRIOR VALUATION
TABLE 6**

1.	Estimated City Contribution Rate as of July 1, 2023	24.85%
2.	Change in Contribution Rate During Year	
	a. Change in Employer Normal Cost	0.04%
	b. Assumption changes	0.00%
	c. Recognition of prior asset losses (gains)	(1.64%)
	d. Actuarial (gain) loss from current year asset performance	(0.66%)
	e. COLA & DROP credit different than assumed	0.89%
	f. Actuarial (gain) loss from other liability sources	(0.68%)
	g. Impact of City contributing different than actuarially determined	(0.37%)
	h. Effect of Payroll growing slower than Payroll Growth Rate	0.15%
	i. Total Change	<u>(2.27%)</u>
3.	Estimated City Contribution Rate as of July 1, 2024	22.58%

NEAR TERM OUTLOOK TABLE 7

Valuation as of July 1, (1)	Unfunded Actuarial Accrued Liability (UAAL, in 000s) (2)	Funded Ratio (3)	Actuarial Value of Assets (in 000s) (4)	For Fiscal Year Ending June 30, (5)	Covered Compensation (6)	City Contribution Rate (7)	Employer Contributions (8)	Employee Contributions (9)	Benefit Payments, Refunds, and Administrative (10)	Net External Cash Flow (11)
2024	\$ 635,491	92.0%	\$ 7,355,104	2025	\$ 518,914	32.1%	\$ 166,416	\$ 54,486	\$ 475,239	\$ (254,337)
2025	585,395	92.9%	7,606,873	2026	533,184	27.1%	144,493	55,984	510,874	(310,397)
2026	556,670	93.4%	7,818,277	2027	547,846	27.1%	148,576	57,524	537,381	(331,282)
2027	523,939	93.9%	8,022,876	2028	562,912	27.1%	152,718	59,106	562,981	(351,158)
2028	486,914	94.4%	8,221,238	2029	578,392	27.1%	156,918	60,731	588,058	(370,409)
2029	445,286	95.0%	8,413,570	2030	594,298	27.1%	161,233	62,401	612,547	(388,912)
2030	398,707	95.6%	8,600,226	2031	610,641	27.1%	165,728	64,117	635,153	(405,307)
2031	346,738	96.2%	8,782,989	2032	627,434	27.1%	170,286	65,881	657,512	(421,346)
2032	288,980	96.9%	8,961,955	2033	644,688	27.1%	174,968	67,692	677,782	(435,122)
2033	224,965	97.6%	9,139,198	2034	662,417	27.2%	179,846	69,554	696,146	(446,746)
2034	154,099	98.4%	9,316,824	2035	680,634	27.1%	184,724	71,467	690,357	(434,167)

The projections assume the current funding policy and that all assumptions are met, including earning 7% on the actuarial value of assets. Benefit payments associated with members with a current PROP balance are assumed to payout over the member's remaining life expectancy.



STATEMENT OF PLAN NET ASSETS (\$000)

TABLE 8

	July 1, 2024	July 1, 2023
	(1)	(2)
A. ASSETS		
1. Current Assets		
a. Cash and short term investments		
1) Cash on hand	\$ 484	\$ 152
2) Short term investments	946,907	881,293
b. Accounts Receivable		
1) Members	2,215	1,888
2) Investments	16,598	15,263
3) Due from Brokers	188	10,345
4) Other	47	126
c. Total Current Assets	\$ 966,439	\$ 909,067
2. Long Term Investments		
a. Fixed Income	\$ 942,788	\$ 860,908
b. Equity Securities	2,498,025	2,307,420
c. Alternative Investments	3,368,403	3,124,011
d. Foreign Currency Contracts	446	2,067
e. Total long term investments	\$ 6,809,662	\$ 6,294,406
3. Other Assets		
a. Collateral on securities lending	\$ 123,836	\$ 158,460
b. Land and Building	5,322	5,322
c. City of Houston Contribution Receivable	6,758	5,777
d. Right-to-use lease asset	2,367	2,534
e. Total other assets	\$ 138,283	\$ 172,093
4. Prepaid Management Fees	0	0
5. Total Assets	\$ 7,914,384	\$ 7,375,566
B. LIABILITIES		
1. Current Liabilities		
a. Lease Liability	\$ 2,367	\$ 2,534
b. Due to Brokers	6,704	2,251
c. Securities Lending Collateral	123,836	158,460
d. Accrued Professional and Investment Fees	1,381	1,690
e. Other Liabilities	571	2,176
2. Total Liabilities	134,859	167,111
3. Net Assets Held in Trust	\$ 7,779,525	\$ 7,208,455
C. ASSET ALLOCATION FOR CASH & LONG TERM INVESTMENTS		
1. Current Assets	12.4%	12.6%
2. Fixed Income	12.1%	12.0%
3. Equity Securities	32.1%	32.0%
4. Alternative Investments	43.4%	43.4%
5. Total	100.0%	100.0%



RECONCILIATION OF PLAN NET ASSETS (\$'000)

TABLE 9

	Year Ending	
	July 1, 2024	July 1, 2023
	(1)	(2)
1. a. Market value of assets at beginning of year	\$ 7,208,455	\$ 6,861,988
b. Adjustment	<u>0</u>	<u>0</u>
c. Adjusted Market value of assets	\$ 7,208,455	\$ 6,861,988
2. Revenue for the year		
a. Contributions		
i. Member contributions	\$ 53,400	\$ 52,399
ii. Employer contributions	<u>162,992</u>	<u>159,915</u>
iii. Total	<u>\$ 216,392</u>	<u>\$ 212,314</u>
b. Net investment income		
i. Dividends	\$ 50,327	\$ 39,823
ii. Short Term Investments	44,413	32,433
iii. Fixed Income	40,823	36,896
iv. Net appreciation (depreciation) on investments	648,488	423,613
v. Securities lending income	803	258
vi. Securities lending expense	(201)	(64)
vii. Less investment expenses	(7,099)	(7,989)
viii. Other	<u>0</u>	<u>83</u>
c. Total revenue	\$ 993,946	\$ 737,367
3. Expenditures for the year		
a. Refunds	\$ 2,999	\$ 2,295
b. Benefit payments	415,577	384,367
c. Administrative and miscellaneous expenses	<u>4,300</u>	<u>4,238</u>
d. Total expenditures	\$ 422,876	\$ 390,900
4. Increase in net assets (Item 2c - Item 3d)	\$ 571,070	\$ 346,467
5. Market value of assets at end of year (Item 1c + Item 4)	\$ 7,779,525	\$ 7,208,455



DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS (\$000)

TABLE 10

	Year Ending June 30, 2024
1. Actuarial value of assets at beginning of year (prior to adjustment)	\$ 6,876,727
2. Net new investments	
a. Contributions	\$ 216,392
b. Benefits and refunds paid	(418,576)
c. Administrative expenses	(4,300)
d. Subtotal	\$ (206,484)
3. Assumed investment return rate for fiscal year	7.00%
4. Assumed investment return rate for fiscal year (Item 1 + Item 2 / 2) x Item 3	\$ 474,144
5. Expected Actuarial Value at end of year (Item 1+ Item 2 + Item 4)	\$ 7,144,387
6. Market value of assets at end of year	\$ 7,779,525
7. Difference (Item 6 - Item 5)	\$ 635,138
8. Development of amounts to be recognized as of June 30, 2024:	

Fiscal Year End	Remaining Deferrals of Excess (Shortfall) of Investment Income	Offsetting of Gains/(Losses)	Net Deferrals Remaining	Years Remaining	Recognized for this valuation	Remaining after this valuation
	(1)	(2)	(3) = (1) + (2)	(4)	(5) = (3) / (4)	(6) = (3) - (5)
2020	\$ 0	\$ 0	\$ 0	1	\$ 0	\$ 0
2021	268,410	0	268,410	2	134,205	134,205
2022	0	0	0	3	0	0
2023	63,318	0	63,318	4	15,830	47,488
2024	303,410	0	303,410	5	60,682	242,728
Total	\$ 635,138	\$ 0	\$ 635,138		\$ 210,717	\$ 424,421

9. Actuarial value of plan assets, end of year (Item 6 - Item 8)	\$ 7,355,104
10. Asset gain (loss) for year (Item 9 - Item 5)	\$ 210,717
11. Asset gain (loss) as % of actual actuarial assets	2.86%
12. Ratio of actuarial value to market value	94.5%

Notes: Remaining deferrals in Column (1) for prior years are from last year's report column (6). The number in the current year is the difference between the remaining deferrals in for prior years and the total Excess/(Shortfall) return shown in Item 7. Column 2 is a direct offset of the current year's excess/(shortfall) return against prior years' excess/(shortfall) of the opposite type.



ESTIMATION OF DOLLAR-WEIGHTED INVESTMENT RETURN (\$'000)

TABLE 11

Item (1)	Market Value (2)	Actuarial Value (3)
1. Assets as of July 1, 2023	\$ 7,208,455	\$ 6,876,727
2. Contributions during FY2024	216,392	216,392
3. Benefit payments made during FY2024	415,577	415,577
4. Refunds of contributions during FY2024	2,999	2,999
5. Administrative Expenses during FY2024	4,300	4,300
6. Investment return during FY2024	777,554	684,861
7. Assets as of July 1, 2024: (1 + 2 - 3 - 4 - 5 + 6)	7,779,525	7,355,104
8. Approximate rate of return on average invested assets		
a. Net investment income	777,554	684,861
b. Net investment return FY 2024	10.94%	10.11%

INVESTMENT EXPERIENCE GAIN OR LOSS (\$000)

TABLE 12

Item (1)	Valuation as of 6/30/2024 (2)	Valuation as of 6/30/2023 (3)
1. Actuarial assets, prior valuation	\$ 6,876,727	\$ 6,459,373
2. Total contributions since prior valuation	216,392	212,314
3. Benefits and refunds since prior valuation	(418,576)	(386,662)
4. Administrative expenses since prior valuation	(4,300)	(4,238)
5. Assumed net investment income		
a. Beginning assets	481,371	452,156
b. Contributions	7,574	7,431
c. Benefits and refunds paid	(14,650)	(13,533)
d. Administrative expenses	(151)	(148)
e. Total	474,144	445,906
6. Expected actuarial assets (Sum of Items 1 through 5)	7,144,387	6,726,693
7. Actual actuarial assets, this valuation	7,355,104	6,876,727
8. Asset gain (loss) since prior valuation (Item 7 - Item 6)	210,717	150,034

Note: Dollar amounts in \$000



HISTORY OF INVESTMENT RETURNS

TABLE 13

<u>For Fiscal Year Ending</u> (1)	<u>Market Value ¹</u> (2)	<u>Actuarial Value</u> (3)	<u>For Fiscal Year Ending</u> (4)	<u>Market Value ¹</u> (5)	<u>Actuarial Value</u> (6)
June 30, 1983 ²	44.20%	N/A	June 30, 2004 ²	21.68%	6.09%
June 30, 1984 ²	(7.70%)	N/A	June 30, 2005	13.40%	3.63%
June 30, 1985 ²	24.80%	N/A	June 30, 2006	11.20%	8.93%
June 30, 1986 ²	26.70%	N/A	June 30, 2007	17.80%	13.93%
June 30, 1987 ²	14.80%	N/A	June 30, 2008	0.24%	12.47%
June 30, 1988 ²	(0.80%)	N/A	June 30, 2009	(18.55%)	4.15%
June 30, 1989 ²	12.80%	N/A	June 30, 2010	13.47%	4.43%
June 30, 1990 ²	13.80%	N/A	June 30, 2011	20.99%	7.16%
June 30, 1991 ²	1.89%	N/A	June 30, 2012	2.83%	6.32%
June 30, 1992 ²	11.19%	N/A	June 30, 2013	7.88%	6.58%
June 30, 1993 ²	14.74%	N/A	June 30, 2014	17.27%	8.53%
June 30, 1994 ²	2.61%	N/A	June 30, 2015	0.82%	6.65%
June 30, 1995 ²	12.12%	N/A	June 30, 2016	(3.19%)	4.43%
June 30, 1996 ²	17.44%	N/A	June 30, 2017	16.96%	8.99%
June 30, 1997 ²	17.15%	N/A	June 30, 2018	9.77%	9.46%
June 30, 1998 ²	14.26%	(0.46%)	June 30, 2019	6.29%	9.07%
June 30, 1999 ²	15.02%	15.37%	June 30, 2020	1.09%	6.72%
June 30, 2000 ²	14.80%	15.58%	June 30, 2021	32.25%	11.77%
June 30, 2001 ²	(3.96%)	11.02%	June 30, 2022	(1.40%)	9.24%
June 30, 2002	(8.80%)	5.25%	June 30, 2023	7.75%	9.36%
June 30, 2003 ²	4.15%	2.80%	June 30, 2024	10.94%	10.11%
			Average Return - last 5 years	9.52%	9.43%
			Average Return - last 10 years	7.70%	8.56%
			Average Return - since 1983	9.67%	

¹ Dollar-weighted return.

² Gross return.



HISTORICAL SOLVENCY TEST (\$'000)
TABLE 14

Valuation Date	Aggregated Accrued Liabilities for				Portions of Accrued Liabilities Covered by Reported Assets		
	Active Members Contributions	Retirees	Members (City Financed Portion)	Actuarial Value of Assets	[(5)-(2)-(3)]/		
		Beneficiaries and Vested Terminations			(5)/(2)	[(5)-(2)]/(3)	(4)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
July 1, 2005	249,804	1,259,243	1,883,927	2,508,794	100%	100%	53%
July 1, 2006	262,514	1,421,330	1,949,301	2,681,375	100%	100%	51%
July 1, 2007	275,990	1,575,900	2,005,790	3,004,927	100%	100%	57%
July 1, 2008	294,678	1,726,121	2,058,165	3,337,612	100%	100%	64%
July 1, 2009	312,489	1,872,226	2,183,786	3,430,946	100%	100%	57%
July 1, 2010	149,252	1,998,683	2,084,797	3,526,703	100%	100%	66%
July 1, 2011	160,828	2,146,222	2,181,093	3,718,052	100%	100%	65%
July 1, 2012	167,739	2,320,239	2,259,195	3,888,504	100%	100%	62%
July 1, 2013	163,660	2,501,745	2,344,556	4,070,951	100%	100%	60%
July 1, 2014	162,982	2,834,747	2,366,263	4,342,936	100%	100%	57%
July 1, 2015	157,344	3,131,654	2,417,132	4,550,620	100%	100%	52%
July 1, 2016	151,259	3,381,371	2,548,761	4,758,079	100%	100%	48%
July 1, 2017	158,648	3,812,704	2,246,942	4,868,614	100%	100%	40%
July 1, 2018	166,807	4,033,323	2,263,742	5,128,835	100%	100%	41%
July 1, 2019	179,254	4,198,909	2,276,980	5,434,933	100%	100%	46%
July 1, 2020	194,868	4,368,772	2,272,042	5,631,533	100%	100%	47%
July 1, 2021	210,110	4,685,333	2,225,517	6,082,317	100%	100%	53%
July 1, 2022	226,289	5,062,950	2,092,001	6,459,373	100%	100%	56%
July 1, 2023	239,303	5,300,162	2,159,890	6,876,727	100%	100%	62%
July 1, 2024	261,476	5,594,719	2,134,400	7,355,104	100%	100%	70%



SCHEDULE OF FUNDING PROGRESS (\$000)

TABLE 15

Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (3) - (2)	Funded Ratio (2)/(3)	Annual Payroll	UAAL as % of Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
July 1, 2005	2,508,794	3,392,974	884,180	73.9%	321,057	275.4%
July 1, 2006	2,681,375	3,633,145	951,770	73.8%	327,080	291.0%
July 1, 2007	3,004,927	3,857,680	852,753	77.9%	336,029	253.8%
July 1, 2008	3,337,612	4,078,963	741,351	81.8%	351,525	210.9%
July 1, 2009	3,430,946	4,368,501	937,556	78.5%	366,924	255.5%
July 1, 2010*	3,526,703	4,232,732	706,029	83.3%	377,779	186.9%
July 1, 2011	3,718,052	4,488,142	770,090	82.8%	388,409	198.3%
July 1, 2012	3,888,504	4,747,173	858,669	81.9%	389,884	220.2%
July 1, 2013	4,070,951	5,009,961	939,010	81.3%	391,957	239.6%
July 1, 2014	4,342,936	5,363,992	1,021,056	81.0%	399,447	255.6%
July 1, 2015	4,550,620	5,706,130	1,155,510	79.7%	406,233	284.4%
July 1, 2016**	4,758,079	6,081,392	1,323,313	78.2%	424,300	311.9%
July 1, 2017	4,868,614	6,218,293	1,349,679	78.3%	440,614	306.3%
July 1, 2018	5,128,835	6,463,872	1,335,037	79.3%	438,396	304.5%
July 1, 2019	5,434,933	6,655,143	1,220,210	81.7%	454,696	268.4%
July 1, 2020	5,631,533	6,835,682	1,204,149	82.4%	471,903	255.2%
July 1, 2021	6,082,317	7,120,960	1,038,643	85.4%	478,530	217.0%
July 1, 2022	6,459,373	7,381,240	921,867	87.5%	476,665	193.4%
July 1, 2023	6,876,727	7,699,355	822,628	89.3%	515,963	159.4%
July 1, 2024	7,355,104	7,990,595	635,491	92.0%	518,914	122.5%

* Change to Projected Unit Credit cost method. Prior results were provided based on Entry Age Normal.

** Change to Ultimate Entry Age Normal cost method and benefit changes to all groups.



HISTORICAL CITY CONTRIBUTION RATES

TABLE 16

<u>Valuation Date</u> (1)	<u>Calculated Contribution Rate</u> (2)	<u>Time Period for Contribution Rate</u> (3)	<u>Actual Contribution Rate</u> (4)
July 1, 2005	34.00	July 1, 2006 through June 30, 2007	17.7
July 1, 2006	34.00	July 1, 2007 through June 30, 2008	18.7
July 1, 2007	32.10	July 1, 2008 through June 30, 2009	19.3
July 1, 2008	30.91	July 1, 2009 through June 30, 2010	19.9
July 1, 2009	31.73	July 1, 2010 through June 30, 2011	20.7
July 1, 2010	32.04	July 1, 2011 through June 30, 2012	21.4
July 1, 2011	32.68	July 1, 2012 through June 30, 2013	24.0
July 1, 2012	34.50	July 1, 2013 through June 30, 2014	26.4
July 1, 2013	36.01	July 1, 2014 through June 30, 2015	28.8
July 1, 2014	38.18	July 1, 2015 through June 30, 2016	33.8
July 1, 2015	39.59	July 1, 2016 through June 30, 2017	32.9
July 1, 2016	31.77	July 1, 2017 through June 30, 2018	32.1*
July 1, 2017	31.74	July 1, 2018 through June 30, 2019	32.2
July 1, 2018	31.58	July 1, 2019 through June 30, 2020	32.5
July 1, 2019	29.61	July 1, 2020 through June 30, 2021	32.4
July 1, 2020	29.22	July 1, 2021 through June 30, 2022	32.8
July 1, 2021	27.02	July 1, 2022 through June 30, 2023	31.8
July 1, 2022	26.77	July 1, 2023 through June 30, 2024	32.3
July 1, 2023	24.85	July 1, 2024 through June 30, 2025	N/A
July 1, 2024	22.58	July 1, 2025 through June 30, 2026	N/A

* Excludes proceeds from \$750 million Pension Obligation Bond as the amount was included in assets to calculate the rate.



HISTORICAL ACTIVE PARTICIPANT DATA

TABLE 17

Valuation Date (1)	Active Count (2)	Average Age (3)	Average Svc (4)	Covered Payroll (5)	Average Salary (6)	Percent Changes (7)
2005	4,867	42.0	N/A	321,057	65,966	4.5%
2006	4,785	42.3	N/A	327,080	68,355	3.6%
2007	4,879	42.1	N/A	336,029	68,873	0.8%
2008	5,065	42.0	15.7	351,525	69,403	0.8%
2009	5,245	41.8	15.4	366,924	69,957	0.8%
2010	5,347	41.9	15.3	377,779	70,652	1.0%
2011	5,312	42.3	15.7	388,409	73,119	3.5%
2012	5,326	42.5	15.7	389,884	73,204	0.1%
2013	5,364	42.6	15.7	391,957	73,072	(0.2%)
2014	5,343	42.6	15.7	399,447	74,761	2.3%
2015	5,261	42.8	15.9	406,233	77,216	3.3%
2016	5,261	42.6	15.7	418,252	79,500	3.0%
2017	5,164	41.7	14.5	417,320	80,813	1.7%
2018	5,226	41.6	14.4	438,396	83,887	3.8%
2019	5,282	41.6	14.3	454,696	86,084	2.6%
2020	5,319	41.5	14.1	471,903	88,720	3.1%
2021	5,238	41.5	14.1	478,530	91,357	3.0%
2022	5,156	41.1	13.7	476,665	92,449	1.2%
2023	5,198	41.2	13.7	515,963	99,262	7.4%
2024	5,270	41.1	13.5	518,914	98,466	(0.8%)

⁽¹⁾ Beginning October 9, 2004, pensionable pay is the total of the last 26 pay periods, excluding CMEPP and SOSP.

RETIREES, BENEFICIARIES, AND DISABLED PARTICIPANTS ADDED TO AND REMOVED FROM ROLLS (\$000)

TABLE 18

Valuation July 1, (1)	Added to Rolls		Removed from Rolls		Rolls-End of Year		% Increase in Annual Allowances (8)	Average Annual Allowances (9)
	Number (2)	Annual Allowances (3)	Number (4)	Annual Allowances (5)	Number (6)	Annual Allowances (7)		
2005	353	15,962	55	1,776	2,403	86,933	23.6%	36,177
2006	254	10,195	66	2,197	2,549	96,812	11.4%	37,980
2007	175	8,056	49	1,809	2,717	105,481	9.0%	38,823
2008	149	11,889	57	1,995	2,809	115,375	9.4%	41,073
2009	154	9,639	63	2,275	2,900	122,738	6.4%	42,324
2010	165	8,891	56	2,355	3,009	129,274	5.3%	42,963
2011	171	10,567	59	2,218	3,121	137,623	6.5%	44,096
2012	180	11,934	71	2,820	3,230	146,737	6.6%	45,429
2013	183	11,674	64	2,345	3,349	156,066	6.4%	46,601
2014	217	13,857	63	2,627	3,503	167,296	7.2%	47,758
2015	288	16,132	65	2,762	3,726	180,666	8.0%	48,488
2016	259	16,357	77	3,291	3,908	193,733	7.2%	49,573
2017	460	26,911	95	4,139	4,273	216,505	11.8%	50,668
2018	221	14,138	98	4,370	4,396	226,273	4.5%	51,473
2019	189	12,198	91	4,344	4,494	234,127	3.5%	52,098
2020	236	14,280	108	4,943	4,622	243,464	4.0%	52,675
2021	287	18,223	123	6,070	4,786	255,617	5.0%	53,409
2022	338	26,332	128	6,379	4,996	275,569	7.8%	55,158
2023	202	19,949	116	6,216	5,082	289,303	5.0%	56,927
2024	231	22,154	103	5,336	5,210	306,120	5.8%	58,756



MEMBERSHIP DATA

TABLE 19

	July 1, 2024 (1)	July 1, 2023 (2)	July 1, 2022 (3)
1. Active members			
a. Number	5,270	5,198	5,156
b. Number in DROP	1,321	1,409	1,404
c. Total payroll	\$ 518,913,626	\$ 515,963,453	\$ 476,665,438
Payroll in DROP	\$ 156,347,225	\$ 166,376,011	\$ 154,121,839
d. Average salary	98,466	99,262	92,449
e. Average age	41.1	41.2	41.1
f. Average service	13.5	13.7	13.7
2. Inactive participants			
a. Vested	90	78	71
b. Total annual benefits (deferred)	\$ 2,656,081	\$ 2,319,666	\$ 2,137,260
c. Average annual benefit	29,512	29,739	30,102
3. Service retirees			
a. Number	4,030	3,940	3,885
b. Total annual benefits	\$ 245,452,748	\$ 232,361,362	\$ 222,206,718
c. Average annual benefit	60,906	58,975	57,196
d. Average age	67.1	66.6	66.1
4. Disabled retirees			
a. Number	205	198	191
b. Total annual benefits	\$ 10,394,920	\$ 9,744,007	\$ 9,192,900
c. Average annual benefit	50,707	49,212	48,130
d. Average age	59.0	58.7	58.1
5. Beneficiaries and spouses			
a. Number	975	944	920
b. Total annual benefits	\$ 50,272,518	\$ 47,197,409	\$ 44,169,724
c. Average annual benefit	51,562	49,997	48,011
d. Average age	71.1	70.7	70.5

DISTRIBUTION OF ACTIVE MEMBERS BY AGE AND BY YEARS OF SERVICE
ACTIVE MEMBERS SWORN PRIOR TO OCTOBER 9, 2004 AND NOT CURRENTLY IN DROP

TABLE 20a

Attained Age	<u>0-4</u> No. & Avg. <u>Comp.</u>	<u>5-9</u> No. & Avg. <u>Comp.</u>	<u>10-14</u> No. & Avg. <u>Comp.</u>	<u>15-19</u> No. & Avg. <u>Comp.</u>	<u>20-24</u> No. & Avg. <u>Comp.</u>	<u>25-29</u> No. & Avg. <u>Comp.</u>	<u>30-34</u> No. & Avg. <u>Comp.</u>	<u>35 & Over</u> No. & Avg. <u>Comp.</u>	<u>Total</u> No. & Avg. <u>Comp.</u>
Under 25									
25-29									
30-34									
35-39									
40-44					1				1
45-49					109,361				109,361
50-54					10				10
55-59					125,507				125,507
60-64					4	2			6
65 & Over					117,443	109,392			114,759
					1	1			2
					127,717	107,193			117,455
Total					16	3			19
					\$ 122,620	108,659			\$ 120,416

Average:

Age	49.3
Service	22.6
Salary	\$120,416



DISTRIBUTION OF ACTIVE MEMBERS BY AGE AND BY YEARS OF SERVICE
ACTIVE MEMBERS SWORN AFTER OCTOBER 9, 2004

TABLE 20b

Attained Age	<u>0-4</u>	<u>5-9</u>	<u>10-14</u>	<u>15-19</u>	<u>20-24</u>	<u>25-29</u>	<u>30-34</u>	<u>35 & Over</u>	<u>Total</u>
	No. & Avg. Comp.	No. & Avg. Comp.	No. & Avg. Comp.	No. & Avg. Comp.	No. & Avg. Comp.	No. & Avg. Comp.	No. & Avg. Comp.	No. & Avg. Comp.	No. & Avg. Comp.
Under 25	106								106
	56,495								56,495
25-29	593	87							680
	70,215	84,339							72,023
30-34	363	505	79						947
	72,840	88,858	102,062						83,819
35-39	140	288	343	77					848
	74,853	91,460	106,013	112,240					96,491
40-44	55	105	198	372					730
	69,603	90,136	106,338	114,983					105,645
45-49	19	40	77	211					347
	79,696	94,464	107,300	112,807					107,657
50-54	1	16	60	123	1	1			202
	83,667	90,134	106,551	112,314	221,176	109,753			109,229
55-59	1		22	39					62
	100,848		104,566	110,929					108,508
60-64		1		7					8
		114,327		103,973					105,267
65 & Over									
Total	1,278	1,042	779	829	1	1			3,930
	\$ 70,480	\$ 89,588	105,823	113,495	221,176	109,753			\$ 91,674

Average:
 Age 36.6
 Service 8.7
 Salary \$91,674



DISTRIBUTION OF ACTIVE MEMBERS BY AGE AND BY YEARS OF SERVICE
CURRENT DROP MEMBERSHIP
TABLE 20c

Attained Age	<u>0-4</u> No. & Avg. Comp.	<u>5-9</u> No. & Avg. Comp.	<u>10-14</u> No. & Avg. Comp.	<u>15-19</u> No. & Avg. Comp.	<u>20-24</u> No. & Avg. Comp.	<u>25-29</u> No. & Avg. Comp.	<u>30-34</u> No. & Avg. Comp.	<u>35 & Over</u> No. & Avg. Comp.	<u>Total</u> No. & Avg. Comp.
Under 25									
25-29									
30-34									
35-39									
40-44					13				13
					126,534				126,534
45-49					192	26			218
					123,091	119,376			122,649
50-54					150	259	29		438
					118,777	118,395	115,114		118,308
55-59					48	212	222	2	484
					113,995	116,583	118,414	118,518	117,175
60-64					6	50	52	33	141
					115,710	116,693	114,406	116,798	115,832
65 & Over						5	6	16	27
						111,001	118,293	114,763	114,851
Total					409	552	309	51	1,321
					\$ 120,443	\$ 117,524	\$ 117,428	\$ 116,227	\$ 118,355

Average:

Age	54.3
Service	27.6
Salary	\$118,355



**DISTRIBUTION OF ACTIVE MEMBERS BY AGE AND BY YEARS OF SERVICE
TOTAL ACTIVE AND DROP MEMBERS**

TABLE 20d

Attained Age	<u>0-4</u> No. & Avg. Comp.	<u>5-9</u> No. & Avg. Comp.	<u>10-14</u> No. & Avg. Comp.	<u>15-19</u> No. & Avg. Comp.	<u>20-24</u> No. & Avg. Comp.	<u>25-29</u> No. & Avg. Comp.	<u>30-34</u> No. & Avg. Comp.	<u>35 & Over</u> No. & Avg. Comp.	Total No. & Avg. Comp.
Under 25	106								106
	\$ 56,495								\$ 56,495
25-29	593	87							680
	\$ 70,215	\$ 84,339							\$ 72,023
30-34	363	505	79						947
	\$ 72,840	\$ 88,858	\$ 102,062						\$ 83,819
35-39	140	288	343	77					848
	\$ 74,853	\$ 91,460	\$ 106,013	\$ 112,240					\$ 96,491
40-44	55	105	198	372	14				744
	\$ 69,603	\$ 90,136	\$ 106,338	\$ 114,983	\$ 125,307				\$ 106,015
45-49	19	40	77	211	202	26			575
	\$ 79,696	\$ 94,464	\$ 107,300	\$ 112,807	\$ 123,211	\$ 119,376			\$ 113,651
50-54	1	16	60	123	155	262	29		646
	83,667	90,134	\$ 106,551	\$ 112,314	\$ 119,403	\$ 118,293	\$ 115,114		\$ 115,437
55-59	1		22	39	49	213	222	2	548
	100,848		\$ 104,566	\$ 110,929	\$ 114,275	\$ 116,539	\$ 118,414	\$ 118,518	\$ 116,196
60-64		1		7	6	50	52	33	149
		114,327		\$ 103,973	\$ 115,710	\$ 116,693	\$ 114,406	\$ 116,798	\$ 115,265
65 & Over						5	6	16	27
						111,001	\$ 118,293	\$ 114,763	\$ 114,851
Total	1,278	1,042	779	829	426	556	309	51	5,270
	\$ 70,480	\$ 89,588	\$ 105,823	\$ 113,495	\$ 120,761	\$ 117,462	\$ 117,428	\$ 116,227	\$ 98,466

Average:

Age 41.1
Service 13.5
Salary \$98,466



APPENDIX A

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

The following methods and assumptions were used in preparing the July 1, 2024 actuarial valuation report.

1. Valuation Date

The valuation date is as of July 1st, the first day of each plan year. This is the date as of which the actuarial present value of future benefits and the actuarial value of assets are determined.

2. Actuarial Cost Method

The Ultimate Entry Age Normal (UEAN) actuarial cost method allocates the System's actuarial present value of future benefits to various periods based upon service. The portion of the present value of future benefits allocated to years of service prior to the valuation date is the actuarial accrued liability, and the portion allocated to years following the valuation date is the present value of future normal costs. The normal cost is determined for each active member as the level percent of payroll necessary to fully fund the expected benefits to be earned over the career of each individual active member. Under UEAN, the normal cost calculation is done assuming all members earn benefits that would be applicable to a newly hired member so that the normal cost should remain fairly stable as the relative distribution of active employees in different benefit groups changes. The normal cost is partially funded with active member contributions with the remainder funded by employer contributions.

An unfunded accrued liability exists in the amount equal to the excess of accrued liability over valuation assets. The amortization period of the System is the number of years required to fully amortize the unfunded accrued liability, on an actuarial value of asset basis, with the expected amount of employer contributions in excess of the employers' portion of the normal cost.

The contribution rate determined by this valuation will not be effective until one year later, but the determination of the rate does not reflect this deferral. It is assumed that there will be no change in the employer normal cost rate due to the deferral, and it is assumed that payments are made uniformly throughout the year.

3. Actuarial Value of Assets

The actuarial value of assets is equal to the market value of assets less a five-year phase in of the excess (shortfall) between expected investment return and actual income. The actual calculation is based on the difference between actual market value and the expected actuarial value of assets each year, and recognizes the cumulative excess return (or shortfall) over at a minimum rate of 20% per year. Each year a base is set up to reflect this difference. If the current year's base is of opposite sign to the deferred bases then it is offset dollar for dollar against the deferred bases. Any remaining bases are then recognized over the remaining period for the base (5 less the number of years between the bases year and the valuation year). This is intended to ensure the smoothed value of assets will converge towards the market value in a reasonable amount of time. Expected earnings are determined using the assumed investment return rate and the beginning of year actuarial value of assets (adjusted for receipts and disbursements during the year). The returns are computed net of investment expenses.



4. Economic Assumptions

- a. Investment return: 7.00% per year, compounded annually, composed of an assumed 2.30% inflation rate and a 4.70% net real rate of return. This rate represents the assumed return, net of all investment expenses.
- b. Cost of Living Adjustment (COLA): Monthly benefits for participants receiving payments are increased each April 1 by the five-year average investment return minus 5.00%, with a minimum of 0.00% and a maximum of 4.00%. For this valuation, the annual COLA is assumed to be 2.00%.
- c. Salary increase rate: A service-related component, plus a 3.25% component for inflation and productivity, as follows:

Years of Service	Service-related Component	Total Annual Rate of Increase Including 3.25% Inflation & Productivity Component
(1)	(2)	(3)
1	30.00%	33.25%
2	3.00%	6.25%
3	3.00%	6.25%
4	3.00%	6.25%
5	6.00%	9.25%
6	6.00%	9.25%
7	2.00%	5.25%
8	2.00%	5.25%
9	2.00%	5.25%
10	6.00%	9.25%
11	1.00%	4.25%
12	5.00%	8.25%
13	1.00%	4.25%
14	1.00%	4.25%
15	1.00%	4.25%
16	5.00%	8.25%
17	0.00%	3.25%
18 and Over	0.00%	3.25%

- d. Payroll growth rate: In the amortization of the unfunded actuarial accrued liability, payroll is assumed to increase 2.75% per year. This increase rate is solely due to the effect of inflation on salaries, with no allowance for future membership growth.

5. Demographic Assumptions

a. Retirement Rates

Age	Service		
	<25	25 - 29	30+
40-49	3.0%	3.0%	9.0%
50-54	4.0%	6.0%	10.0%
55-59	6.8%	10.2%	17.0%
60-64	9.6%	14.4%	24.0%
65 +	100.0%	100.0%	100.0%

For members hired after October 9, 2004, 3% per year the member's first retirement eligibility exceeds age 45 is added to the retirement rate at first eligibility up to a maximum increase of 30% at age 55. For members in DROP as of July 1, 2016, retirement rates are multiplied by 110% to reflect that future employee contributions are no longer credited to the DROP balance.

b. DROP Participation

100% of eligible active participants are assumed to elect the DROP.

c. DROP Entry Date

Active members (not already in DROP) are assumed to take advantage of the DROP and enter when first eligible. Participants are assumed to elect the maximum duration for the DROP, up to 20 years.

d. DROP Interest Credit

Interest in the amount of 65% of the five-year average investment return, with a minimum of 2.50%, will be credited to existing DROP accounts on a monthly basis. For this actuarial valuation, the drop interest credit is assumed to be 5.40%.

e. Withdrawal of DROP and PROP Balances

Members are assumed to withdraw balances in equal annual installments over 10 years.

f. Mortality rates (for active and retired members)

- Healthy retirees - The Gender-Distinct Pub-2010 Public Safety Healthy Mortality Tables for males and females. The base rates were multiplied by 116% for males and 108% for females. The rates are projected on a fully generational basis by the ultimate values of scale MP-2020 to account for future mortality improvements.
- Disabled males and females – The Gender-Distinct Pub-2010 Public Safety Disabled Retiree Mortality Tables are used without adjustment. The rates are projected on a fully generational basis by the ultimate values of scale MP-2020 to account for future mortality improvements.
- Active members - The Gender-Distinct Pub-2010 Below-Median Income Public Safety Mortality Tables are used without adjustment. The rates are projected on a fully generational basis by the ultimate values of scale MP-2020 to account for future mortality improvements.

Sample rates are shown below for 2024 (after multipliers):

Age	Healthy Retired Males	Healthy Retired Females	Disabled Males	Disabled Females	Healthy Active Males	Healthy Active Females
(1)	(2)	(3)	(4)	(5)	(6)	(7)
25	0.04%	0.02%	0.09%	0.05%	0.04%	0.02%
30	0.04%	0.02%	0.10%	0.07%	0.05%	0.03%
35	0.05%	0.03%	0.12%	0.10%	0.05%	0.04%
40	0.06%	0.05%	0.15%	0.14%	0.07%	0.06%
45	0.12%	0.08%	0.20%	0.19%	0.09%	0.08%
50	0.19%	0.13%	0.30%	0.25%	0.13%	0.10%
55	0.30%	0.23%	0.40%	0.39%	0.20%	0.14%
60	0.49%	0.40%	0.62%	0.59%	0.29%	0.19%
65	0.86%	0.70%	1.00%	0.89%	0.46%	0.26%
70	1.55%	1.22%	1.62%	1.37%	0.87%	0.52%
75	2.81%	2.13%	2.78%	2.10%	1.63%	1.05%
80	5.13%	3.71%	4.85%	3.43%	3.08%	2.10%

g. Termination Rates and Disability Rates

Termination rates (for causes other than death, disability or retirement) are a function of the member's service and are not applied after a member becomes eligible for a retirement benefit. Disability rates are age-based and not applied for members in the DROP. All disabilities are assumed to be duty-related. Rates at selected ages and service levels are shown below.

Service Based Rates of		
Service	Male	Female
1	3.26%	3.26%
3	2.56%	2.56%
5	2.02%	2.02%
7	1.59%	1.59%
9	1.25%	1.25%
11	0.98%	0.98%
13	0.77%	0.77%
15	0.61%	0.61%
17	0.48%	0.48%
19	0.38%	0.38%
20+	0.10%	0.10%

Age Based Rates of Disability		
Age	Male	Female
20	0.1149%	0.1149%
25	0.1145%	0.1145%
30	0.1197%	0.1197%
35	0.1321%	0.1321%
40	0.1516%	0.1516%
45	0.1785%	0.1785%
50	0.2126%	0.2126%
55	0.2538%	0.2538%
60	0.3023%	0.3023%

1% is also added to the rates above during the period that members hired post-2004 would have been eligible to retire under pre-2004 retirement eligibilities, but are not yet eligible.

6. Other Assumptions

- a. Percent married: 90% of employees are assumed to be married. (No beneficiaries other than the spouse assumed.)
- b. Valuation payroll: To determine the amortization rate, the payroll used is the amount budgeted by the City for the fiscal year following the valuation date increased by one year of payroll growth.
- c. Age difference: Male members are assumed to be three years older than their spouses, and female members are assumed to be three years younger than their spouses.
- d. Percent electing annuity on death (when eligible): All of the spouses of vested, married participants are assumed to elect an annuity.
- e. Percent electing deferred termination benefit: 50% of vested terminating members are assumed to elect a refund rather than take a deferred benefit at age 60.
- f. There will be no recoveries once disabled.
- g. Assumed age for commencement of deferred benefits: Members electing to receive a deferred benefit are assumed to commence receipt at the first age at which unreduced benefits are available.
- h. Administrative expenses: Administrative expenses are accounted for as an explicit component on the normal cost rate.
- i. Pay increase timing: Beginning of (fiscal) year. This is equivalent to assuming that reported pays represent amounts paid to members during the year ended on the valuation date.
- j. Decrement timing: Decrements of all types are assumed to occur mid-year.
- k. Eligibility testing: Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.
- l. Decrement relativity: Decrement rates are converted to probabilities in order to account for multiple decrements.
- m. Incidence of Contributions: Contributions are assumed to be received continuously throughout the year based upon the computed percent of payroll shown in our Report, and the actual payroll payable at the time contributions are made.
- n. Benefit Service: All members are assumed to accrue one year of service each year. Exact fractional service is used to determine the amount of benefit payable.

7. Participant Data

Participant data was supplied in electronic files. There were separate files for (i) active members, (ii) inactive members, and (iii) members and beneficiaries receiving benefits.

The data for active members included birth date, gender, most recent hire date, salary paid during last fiscal year, hours worked by the employee, and employee contribution amounts. For retired members and beneficiaries, the data included date of birth, gender, amount of monthly benefit, and date of retirement. Also included was the member's Group and for members participating in DROP, their account balances and monthly DROP income.

All healthy and disabled retirees are assumed to have 100% joint and survivor annuities, prorated by the 90% marriage assumption and reflecting the three-year spousal age differential described above. All beneficiaries are assumed to have life annuity only benefits.

Salary supplied for the current year was based on the earnings for the year preceding the valuation date. This salary was adjusted by the salary increase rate for one year.

In fiscal years when a 27th pay period occurs the individual pays for employees who were employed throughout the year will be adjusted by multiplying their reported pay by the ratio of 26/27. In years that have only 26 pay periods no adjustment would be needed.

Assumptions were made to correct for missing, bad, or inconsistent data. These had no material impact on the results presented.

APPENDIX B

SUMMARY OF PLAN PROVISIONS

SUMMARY OF PLAN PROVISIONS

Covered Members

All police officers sworn before September 1, 1975 are covered under Plan 1, except those who elected by December 31, 1981 to participate in Plan 3.

All police officers sworn on or after September 1, 1975, but before September 1, 1981 are covered under Plan 2, except those who elected by December 31, 1981 to participate in Plan 3 and those Plan 1.

All other police officers are covered by Plan 3, except those from Police Cadet Classes 70 and 71 who elected to pay additional contributions and transfer to Plan 1.

Final Compensation

Prior to November 28, 1998

Monthly base salary paid to the participant in his/her last month of service. For any participant from a position held for less than 3 years, final compensation is the average monthly base salary for the 3 years prior to retirement.

After November 28, 1998 but prior to July 1, 2001

Monthly total direct pay less overtime paid to the participant in his/her last month of service. For any participant from a position held for less than 3 years, final compensation is the average monthly base pay for the 3 years prior to retirement plus the other current components of total direct pay.

After July 1, 2001 but prior to October 9, 2004

Highest biweekly pay period (excluding overtime) during the last 26 pay periods annualized. Amounts not paid on a biweekly basis are deducted from period paid. Annual amounts are divided by 26 and added to the highest pay period, including motorcycle allowances.

On or after October 9, 2004

Average of the last three years of compensation (excluding exempt time, overtime and strategic officer staffing pay). This average will be phased in beginning with the pay period ending after October 9, 2004 until the new definition is fully phased in after 78 pay periods.

Service Retirement

Eligibility

- ▶ Sworn prior to October 9, 2004
- ▶ Sworn on or after October 9, 2004

20 years of service.

The age at which the sum of age and years of service is at least 70 (Rule of 70).



Benefit

- ▶ Prior to November 1, 1955 \$75 per month plus \$2 per month for each year of service in excess of 25 years.
- ▶ After November 1, 1955 but prior to January 13, 1968 30% of final compensation plus 1 % of final compensation for each year of service in excess of 20 years.
- ▶ After January 13, 1968 but prior to July 1, 1986 Plans 1 and 2: 30% of final compensation plus 2% of final compensation for each year of service in excess of 20 years.
Plan 3: 2% of final compensation for each year of service up to 40 years, reduced 0.42% for each month benefit commencement precedes age 55.
- ▶ After July 1, 1986 but prior to July 1, 1988 2% of final compensation for each year of service up to 40 years.
- ▶ After July 1, 1988 but prior to September 1, 1997 45% of final compensation plus 2% of final compensation for each year of service in excess of 20 years; maximum 80% of final compensation. Benefit based on prior formula is payable until July 1, 1991 and recomputed benefit is payable thereafter
- ▶ After September 1, 1997 but prior to July 1, 2001 50% of final compensation plus 2% of final compensation for each year of service in excess of 20 years; maximum 80% of final compensation.
- ▶ After July 1, 2001 but prior to October 9, 2004 55% of final compensation plus 2% of final compensation for service in excess of 20 years.
The Pension System recomputed the benefit of each person who retired before July 1, 2001. The retiree's benefit was increased by the result of multiplying the difference between 55% and the percentage used at the time of retirement in computing the retiree's benefit for the first 20 years of service by the base salary of the retiree at the time of retirement. Retroactive cost-of-living increases were not applied to the increased benefit. This recomputed benefit is effective for all payments on or after July 1, 2001.

▶ After October 9, 2004 Participants sworn prior to October 9, 2004 will receive the highest of the following alternatives using Final Average Compensation effective after October 9, 2004, from October 9, 2004 through October 7, 2007:

- 1) 2.75% of Final Average Compensation for each of the first 20 years of service plus 2% of Final Average Compensation for each year of service in excess of 20 years, with a maximum of 80% of Final Average Compensation.
- 2) Benefit participant would have received had participant retired or entered the DROP immediately before October 9, 2004
- 3) Benefit calculated using a sliding average of the pay received for the pay periods elapsed since October 9, 2004.

New participants after October 9, 2004:

2.25% of Final Average Compensation for each of the first 20 years of service plus 2% of Final Average Compensation for each year of service in excess of 20 years, with a maximum of 80% of Final Average Compensation.

Additional Benefits

An extra monthly benefit of \$150.00 is payable for life. Effective November 28, 1998, a \$5,000 lump sum is payable upon retirement for members sworn prior to October 9, 2004.

Terminated Vested Pension Benefit

Eligibility

Sworn in before October 9, 2004 and more than 10 but less than 20 years of service. Termination on or after November 28, 1998.

Benefit

▶ Sworn prior to October 9, 2004

2.75% of final average compensation times years of service. This benefit commences at age 60 or at termination of service if later.

▶ Sworn on or after October 9, 2004

2.25% of final average compensation times years of service. This benefit commences at the age at which the sum of age and years of service is at least 70 (Rule of 70) or at termination of service if later.



Deferred Retirement Option Plan (DROP)

Eligibility	20 years of service and sworn in prior to October 9, 2004.
Benefit	<p>▶ After September 1, 1995 but prior to September 1, 1997 Eligible participants may elect to participate in the DROP until they leave active service. The member's retirement pension will be calculated based on service and earnings at the time the DROP is elected.</p> <p>A notional account will be maintained for each DROP participant. This account will be credited with the following amounts while the member is participant of the DROP:</p> <ul style="list-style-type: none">– The member's monthly retirement pension, including applicable cost-of-living adjustments,– The member's contribution to the Pension System, limited to 8.75% of pay, and– Investment earnings/losses at the rate of the Pension System's earnings/losses averaged over a five-year period. Effective July 1, 2001, this rate is subject to a minimum of 0%. <p>A benefit equal to the DROP account balance is paid at the time the member leaves active service. The payment is made as a single lump sum.</p> <p>If a DROP participant suffers an on-duty disability resulting in the inability to perform his/her usual and customary duties as a police officer or dies in the line of duty, he (or his survivors) are allowed to revoke the DROP election and to receive the more generous on-duty disability or death benefits.</p>
After September 1, 1997 but prior to December 1, 1998	The Pension System recomputed the benefit of each person who entered the DROP before September 1, 1997. The benefit was increased in the same manner as the retiree's benefit.
After December 1, 1998 but prior to July 1, 2001	The Pension System recomputed the benefit of each person who entered the DROP before December 1, 1998. The benefit was recalculated based on Total Direct Pay less overtime upon entry to the DROP. This recomputed benefit is effective for all payments on or after December 1, 1998.
After July 1, 2001 but prior to October 9, 2004	The Pension System recomputed the benefit of each person who entered the DROP before July 1, 2001. The member's benefit was increased by the result of multiplying the difference between 55% and the percentage used at the time of DROP entry in computing the member's benefit for the first 20 years of service by the base salary of the member at the time of DROP entry. Retroactive cost-of-living increases were applied to the increased benefit. The account balance for each participant was recomputed as if this new benefit had been effective since DROP entry.



After October 9, 2004	A minimum of 3.00% interest will be credited to existing DROP accounts with a maximum of 7.00%. If the actuary certifies that past service costs are fully funded, the credit may be as high as 10.00%.
After July 1, 2016	Participants may participate in the DROP for a maximum of 20 years. Cost of living adjustments will not be granted while still active, and the member's contributions to the Pension System will no longer be credited to the DROP account. DROP accounts will be credited with interest equal 65% of the five-year average investment return, with a minimum of 2.50%.
Benefit Recalculation	Effective July 1, 2001, monthly benefit at retirement will be recalculated to be the greater of (i) current monthly benefit, or (ii) monthly benefit based on service at DROP entry and Final Compensation at retirement date. The recalculation provision was discontinued effective July 1, 2016.
Back DROP Option	Effective on July 1, 2001, a back DROP option is available for all eligible participants. The DROP account is recalculated under the option based on what the account balance would have been had the participant elected the DROP earlier than he/she actually did. The initial DROP entry date cannot be backdated prior to September 1, 1995 or prior to 20 years of credited service, and must be on the first of the month selected. The Back DROP provision was discontinued effective July 1, 2016.

**Postretirement
Option Plan (PROP)**

Eligibility	Retired from DROP and sworn in prior to October 9, 2004.
Benefit	
▶ After November 28, 1998 but prior to July 1, 2001	A retired member is allowed to leave all or a portion of their DROP account in the System. These accounts are credited every calendar year with the 30-year Treasury bond rate as of June of the preceding year.
▶ After July 1, 2001	The interest rate earned on PROP accounts will be the same as the interest rate credited to DROP accounts, including a minimum credited rate of 0%.

**Partial Lump Sum
Optional Payment (PLOP)**

Eligibility	Participant on or after October 9, 2004.
Benefit	
▶ After October 9, 2004	Up to 20% of the actuarial value of the accrued pension at retirement.

Disability Retirement

Eligibility	Effective July 1, 2001, a disabled participant is eligible for Disability Retirement as defined below: Disability is defined as "unable to perform his/her usual and customary duties as a police officer".
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Benefit

▶ Duty-connected

The service retirement benefit accrued to date of disability. For participants before October 9, 2004, the disability benefit is 2.75% of final average pay times years of service with a minimum of 55% of final average pay. For participants after

October 9, 2004, the disability benefit is 2.25% of final average pay times years of service with a minimum of 45% of final average pay.

Additional Benefits

For participants before October 9, 2004, an education allowance equal to 100% of final compensation less disability benefit is payable for up to four years for off-duty or duty-related disability.

Proportionate members injured while on-duty as a municipal worker will receive immediate off-duty benefit upon Board approval.

Survivor Benefits

Eligibility

Surviving spouses and dependent children and parents of participants, including surviving spouses of retired or disabled participants who were not married at the time of retirement or disability, provided the spouse was married to the participant for at least 5 years at the time of death.

Benefit

▶ Prior to September 1, 1997

If duty-connected: monthly lifetime benefit equal to 100% of final compensation at date of death.

If not duty-connected: monthly lifetime benefit equal to 100% of the service retirement benefit the participant had accrued at the time of death.

Spouse's benefit upon death after retirement: monthly lifetime benefit equal to actual benefit payable at time of death.

Dependent children's benefit if no surviving spouse: the benefit that would have been payable to the spouse is divided equally among the dependent children.

If there is a surviving spouse, the dependent children of Plan 1 and Plan 2 participants receive \$25 per month. Dependent children include unmarried children who are under age 18, and for Plan 3, full-time students under age 22, or permanently disabled children.

Dependent parent's income if no surviving spouse or children, but there is a dependent parent: the benefit that would have been payable to the spouse will be paid to the dependent parent.



▶ After September 1, 1997 but prior to July 1, 2001 The Pension System recomputed the benefit of each survivor whose original benefit was computed prior to September 1, 1997. The benefit was increased in the same manner as the retiree's benefit.

▶ After July 1, 2001 The Pension System recomputed the benefit of each survivor whose original benefit was computed prior to July 1, 2001. The benefit was increased in the same manner as the retiree's benefit.

Additional Benefits

Effective December 1, 1998, a \$5,000 lump sum is paid upon the death of an active member who was sworn in prior to October 9, 2004.

Effective July 1, 2001, an extra monthly benefit of \$150.00 is payable for life. Children receiving equivalent of the spouse's benefit do not receive this additional benefit.

Benefit Adjustments

Cost-of-Living

- ▶ Prior to October 9, 2004 Monthly benefits for participants receiving payments are increased each April 1 by 2/3 of the increase in the Consumer Price Index for All Urban Consumers (CPI-U) for the preceding calendar year. Effective September 1, 1997 this increase is subject to a minimum of 3.0% per year compounded and a maximum increase of 8.0% per year compounded.
- ▶ Between October 9, 2004 and July 1, 2016 Monthly benefits for participants receiving payments are increased each April 1 by 80% of the increase in the Consumer Price Index for All Urban Consumers (CPI-U) for the preceding year, with a minimum of 2.4% and a maximum of 8%.
- ▶ After July 1, 2016 Monthly benefits for participants receiving payments are increased each April 1 by 100% of the five-year average investment return minus 5.00%, with a minimum of 0.00% and a maximum of 4.00%. Members will receive their COLA once they reach age 55.

Service Adjustments

Effective November 28, 1998, participants with previous service with the City in non-classified positions may use that service to satisfy the service requirement of 20 years for retirement purposes only. Effective July 1, 2001, participants who have service credit in more than one City of Houston Pension Plan may use their combined service to qualify for DROP participation. Effective July 1, 2001, participants involuntarily transferred to the System from the Houston Municipal Employees System will receive service under this plan for years worked while serving as a City Marshall, Airport Police or Park Police.

Contributions

Employee Contributions

- ▶ Prior to December 1, 1998 Each participant contributes 8.75% of base salary.
- ▶ After December 1, 1998 but before October 9, 2004 Each participant contributes 8.75% of average total direct pay less overtime.
- After October 9, 2004 Each participant contributes 9.00% of pay. The additional 0.25% will be credited to the Plan’s general fund. 8.75% of pay is used for purposes of crediting eligible DROP accounts
 - Members sworn in prior to October 9, 2004 Each participant contributes 10.25% of pay, which will be credited to the Plan’s general fund.
 - Others
- ▶ After July 1, 2016 Each participant contributes 10.50% of pay, which will be credited to the Plan’s general fund.

Refunds Contributions are refunded without interest.

Employer Contribution

The City of Houston will contribute the City Contribution Rate which will consist of a normal cost contribution and a fixed layer closed amortization schedule, with each new loss layer having a 30-year period. Each layer will be assumed to begin with the fiscal year beginning 12 months after the valuation date.



GLOSSARY

GLOSSARY

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

Actuarial Assumptions: Assumptions as to future experience under the Fund. These include assumptions about the occurrence of future events affecting costs or liabilities, such as:

- mortality, withdrawal, disablement, and retirement;
- future increases in salary;
- future rates of investment earnings and future investment expenses;
- characteristics of members not specified in the data, such as marital status;
- characteristics of future members;
- future elections made by members; and
- other relevant items.

Actuarial Cost Method or Funding Method: A procedure for allocating the Actuarial Present Value of Future Benefits to various time periods; a method used to determine the Normal Cost and the Actuarial Accrued Liability. These items are used to determine the ADC.

Actuarial Gain or Actuarial Loss: A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions, during the period between two Actuarial Valuation dates. Through the actuarial assumptions, rates of decrements, rates of salary increases, and rates of fund earnings have been forecasted. To the extent that actual experience differs from that assumed, Actuarial Accrued Liabilities emerge which may be the same as forecasted, or may be larger or smaller than projected. Actuarial gains are due to favorable experience, e.g., the Fund's assets earn more than projected, salaries do not increase as fast as assumed, members retire later than assumed, etc. Favorable experience means actual results produce actuarial liabilities not as large as projected by the actuarial assumptions. On the other hand, actuarial losses are the result of unfavorable experience, i.e., actual results that produce actuarial liabilities which are larger than projected. Actuarial gains will shorten the time required for funding of the actuarial balance sheet deficiency while actuarial losses will lengthen the funding period.

Actuarially Equivalent: Of equal actuarial present value, determined as of a given date and based on a given set of Actuarial Assumptions.

Actuarial Present Value (APV): The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions. For purposes of this standard, each such amount or series of amounts is:

- a. adjusted for the probable financial effect of certain intervening events (such as changes in compensation levels, marital status, etc.)
- b. multiplied by the probability of the occurrence of an event (such as survival, death, disability, termination of employment, etc.) on which the payment is conditioned, and
- c. discounted according to an assumed rate (or rates) of return to reflect the time value of money.

Actuarial Present Value of Future Plan Benefits: The Actuarial Present Value of those benefit amounts which are expected to be paid at various future times under a particular set of Actuarial Assumptions, taking into account such items as the effect of advancement in age and past and anticipated future compensation and service credits. The Actuarial Present Value of Future Plan Benefits includes the liabilities for active members, retired members, beneficiaries receiving benefits, and inactive, non-retired members either entitled to 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.

Actuarial Valuation: The determination, as of a valuation date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets, and related Actuarial Present Values for a plan. An Actuarial valuation for a governmental retirement system typically also includes calculations of items needed for compliance with GASB 25, such as the funded ratio and the ADC.

Actuarial Value of Assets or Valuation Assets: The value of the Fund'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 ADC.

Actuarially Determined: Values which have been determined utilizing the principles of actuarial science. An actuarially determined value is derived by application of the appropriate actuarial assumptions to specified values determined by provisions of the law.

Amortization Method: A method for determining the Amortization Payment. The most common methods used are level dollar and level percentage of payroll. Under the Level Dollar method, the Amortization Payment is one of a stream of payments, all equal, whose Actuarial Present Value is equal to the UAAL. Under the Level Percentage of Pay method, the Amortization payment is one of a stream of increasing payments, whose Actuarial Present Value is equal to the UAAL. Under the Level Percentage of Pay method, the stream of payments increases at the assumed rate at which total covered payroll of all active members will increase.

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

Annual Determined Contribution (ADC): The employer's periodic required contributions, expressed as a dollar amount or a percentage of covered plan compensation, determined under GASB 25. The ADC consists of the Employer Normal Cost and the Amortization Payment.

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. For example, if the amortization period is initially set at 30 years, it is 29 years at the end of one year, 28 years at the end of two years, etc. See Funding Period and Open Amortization Period.

Decrements: Those causes/events due to which a member's status (active-inactive-retiree-beneficiary) changes, that is: death, retirement, disability, or termination.

Defined Benefit Plan: A retirement plan that is not a Defined Contribution Plan. Typically, a defined benefit plan is one in which benefits are defined by a formula applied to the member's compensation and/or years of service.

Defined Contribution Plan: A retirement plan, such as a 401(k) plan, a 403(b) plan, or a 457 plan, in which the contributions to the plan are assigned to an account for each member, and the plan's earnings are allocated to each account, and each member's benefits are a direct function of the account balance.

Employer Normal Cost: The portion of the Normal Cost to be paid by the employers. This is equal to the Normal Cost less expected member contributions.

Experience Study: A periodic review and analysis of the actual experience of the Fund which may lead to a revision of one or more actuarial assumptions. Actual rates of decrement and salary increases are compared to the actuarially assumed values and modified as deemed appropriate by the Actuary.

Funded Ratio: The ratio of the actuarial value of assets (AVA) to the actuarial accrued liability (AAL). Plans sometimes calculate a market funded ratio, using the market value of assets (MVA), rather than the AVA.

Funding Period or Amortization Period: The term "Funding Period" is used in two ways. In the first sense, it is the period used in calculating the Amortization Payment as a component of the ADC. This funding period is chosen by the Board of Trustees. 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.



GASB: Governmental Accounting Standards Board.

GASB 67 and **GASB 68:** Governmental Accounting Standards Board Statements No. 67 and No. 68. These are the governmental accounting standards that set the accounting rules for public retirement systems and the employers that sponsor or contribute to them. Statement No. 68 sets the accounting rules for the employers that sponsor or contribute to public retirement systems, while Statement No. 67 sets the rules for the systems themselves.

Normal 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. Any payment in respect of an Unfunded Actuarial Accrued Liability is not part of Normal Cost (see Amortization Payment). For pension plan benefits which are provided in part by employee contributions, Normal Cost refers to the total of employee contributions and employer Normal Cost unless otherwise specifically stated. Under the entry age normal cost method, the 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.

Open Amortization Period: An open amortization period is one which is used to determine the Amortization Payment but which does not change over time. In other words, if the initial period is set as 30 years, the same 30-year period is used in determining the Amortization Period each year. In theory, if an Open Amortization Period is used to amortize the Unfunded Actuarial Accrued Liability, the UAAL will never completely disappear, but will become smaller each year, either as a dollar amount or in relation to covered payroll.

Unfunded Actuarial Accrued Liability: The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets. This value may be negative in which case it may be expressed as a negative Unfunded Actuarial Accrued Liability, also called the Funding Surplus.

Valuation Date or Actuarial Valuation Date: The date as of which the value of assets is determined and as of which the Actuarial Present Value of Future Plan Benefits is determined. The expected benefits to be paid in the future are discounted to this date.

