



## PENSION PLAN

### Funding Policy Statement

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**Record keepers:**

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**Investment Managers:**

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Prudential Real Estate Investors – Real Estate  
State Street – Small Cap Core Equity  
Invesco Balanced Risk Allocation Trust – Global Tactical Asset Allocation  
Mellon Capital Bond Market Fund Index – Fixed Income  
Blackrock Strategic Income Opportunities – Fixed Income  
Principal Diversified Real Asset Fund – Real Assets

This Funding Policy Statement supersedes all other previous funding policy documents.

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**Background:**

The City of Rockville sponsors a single employer, prefunded, Defined Benefit Pension Plan (the “Plan”) for its employees and retirees who are the intended beneficiaries of the Plan. The Plan was established in accordance with Article VIII, Section 7, of the Rockville City Charter and it complies with all relevant Federal and State regulations. This Funding Policy Statement (the “Statement”) applies only to the funding of the City’s pension Plan assets. The City’s Retirement Board (the “Board”) has the responsibility of administering the Plan’s assets. The Board’s overall goal is to ensure that sufficient resources will be available to make payments as promised to the Plan’s beneficiaries. The Board accomplishes this by taking a long-term approach with its investment strategy including a review of its risk tolerance. This Statement will be reviewed and revised when necessary to ensure that the Plan’s expectations and objectives are being fulfilled.

**Statement of Purpose:**

The fundamental financial objective of a public employee defined benefit pension plan is to fund the long-term cost of benefits promised to the plan participants. In order to assure that pension benefits will remain sustainable; the Rockville Employees Retirement System (ROCKers) should accumulate adequate resources for future benefit payments in a systematic and disciplined manner during the active service life of the benefitting employees. In pursuit of this objective, ROCKers has adopted a funding policy to achieve and maintain a 100 percent funded ratio. The Plan’s funded ratio is the ratio of Plan assets to Plan Liabilities.

The ROCKers Board believes that its funding policy and its implementation meets the “Pension Funding Guidelines” for state and local governments issued by the Government Finance Officers Association (GFOA), which address the following general policy objectives:

- Ensure pension funding plans are based on actuarially determined contributions
- Build funding discipline into the policy to ensure promised benefits can be paid
- Maintain intergenerational equity so the cost of employee benefits is paid by the generation of taxpayers who receive services
- Make employer costs a consistent percentage of payroll
- Require clear reporting to show how and when the pension plan will be adequately funded.

**Goals:**

1. To achieve long-term full funding of the cost of benefits provided by the City of Rockville.
2. To reasonably and equitably allocate the cost of benefits over time.
3. To minimize volatility of employee and employer contributions to the extent reasonably possible, consistent with the policy goals.
4. To maintain a policy that is both transparent and accountable to the stakeholders of ROCKers, including Plan participants, the employer, and the residents of the City of Rockville.

**Funding Requirements and Policy Components:**

The ROCKers annual funding requirement is comprised of a payment of the Normal Cost and a payment of the Unfunded Actuarial Accrued Liability (UAAL). The Normal Cost and the amount of payment on the UAAL are determined by the following three components of this funding policy.

1. **Actuarial Cost Method:** the techniques to allocate the cost/liability of the retirement benefit to a given period. It is the policy of the Board to utilize the Entry Age Normal Method to be applied to the projected benefit payments in determining the Normal Cost and the Actuarial Accrued Liability. The Normal Cost shall be determined on an individual basis for each active member.
2. **Asset Smoothing Method:** the techniques that spread the recognition of investment gains or losses over a period of time for purposes of determining the Actuarial Value of Assets used in the actuarial valuation process. It is the policy of the Board that the investment gains or losses of each valuation period, as a result of comparing the actual market value of assets to their expected actuarial value, shall be recognized in level amounts over five years in calculating the Actuarial Value of Assets.
3. **Amortization Policy:** the decisions on how, in terms of duration and pattern, to reduce the difference between the Actuarial Accrued Liability and the Actuarial Value of Assets in a systematic manner.
  - The UAAL, (i.e., the difference between the Actuarial Accrued Liability and the Valuation value of Assets), as of June 30, 2015, shall continue to be amortized over separate 20-year period amortization layers based on the valuations during which each separate layer was previously established.
  - Any new UAAL as a result of actuarial gains or losses identified in the annual valuation as of June 30 will be amortized over a period equal to 20 years.
  - Any new UAAL as a result of change in actuarial assumptions or methods will be amortized over a period equal to 20 years.
  - Unless an alternative amortization period is recommended by the Actuary and accepted by the Board based on the results of an actuarial analysis:
    - a. With the exception noted in b., below, the increase in UAAL as a result of any Plan amendments will be amortized over a period of 20 years; and
    - b. Temporary retirement incentives are recommended to be pre-funded by the City and should not increase UAAL.

- UAAL layers shall be amortized over “closed” amortization periods so that the amortization period for each layer decreases by one year with each actuarial valuation.
- UAAL layers shall be amortized as a level dollar in order to avoid growth in the UAAL due to low contribution levels in the early years of the amortization.
- If an overfunding exists (i.e., the total UAAL becomes negative so that there is a surplus), such surplus and any subsequent surpluses will be amortized over an “open” amortization period of 20 years. Any prior UAAL amortization layers will be considered fully amortized, and any subsequent UAAL will be amortized over 20 years as the first of a new series of amortization layers.

Any change in the actuarially determined contribution (ADC) that results from a Plan amendment is generally implemented in the actuarial valuation that follows the effective date of the Plan amendment or as soon as administratively feasible.

The ROCKers Board will annually recommend to the Mayor and Council that each year the City appropriate no less than one hundred percent of the employer contribution as calculated by the Plan actuary for the particular fiscal year.

At the end of each quarter, the ROCKers Board expects the Director of Finance to submit a payment to the Plan equal to the employer annual contribution (ADC) divided equally by quarter. The funds shall be invested in the Plan based upon direction provided by the Board. The Director of Finance may submit payments more frequently at his/her discretion.

There are a large number of actuarial assumptions that go into determining the current cost of the pension Plan. The actuarial liabilities and costs are based on these assumptions being met. The true cost of the pension Plan will be based on the actual benefit payments and expenses offset by actual investment income of the Plan. To the extent that actual experience deviates from the assumptions, experience gains and losses will occur. These gains (or losses) then serve to reduce (or increase) the future contribution requirements.

Actuarial assumptions are generally grouped into two major categories:

- Demographic assumptions – including rates of withdrawal, service retirement, disability retirement, mortality, etc.
- Economic Assumptions – including price inflation, wage inflation, investment return, salary increases etc.

The actuarial assumptions represent the Board's best estimate of anticipated experience under ROCKers and are intended to be long term in nature. Therefore, in developing the actuarial assumptions, the Board considers not only past experience but also trends, external forces, and future expectations. Actuarial experience studies shall be completed every four to six years or more frequently at the Board's direction.

Any City authorized benefit changes may alter the Plan's unfunded liability.

Therefore, the Board shall advise the City with regard to the impact of any proposed future benefit change by providing an analysis of the impact of such proposed change on the funding status of the system. It will further advise the Mayor and Council of the need caused by a potential increase in benefits for sufficient additional funding through increases in contributions. The Board recommends that any benefit improvement that increases costs should not be considered unless the funding level of the system is 100% or unless the improvement is pre-funded or implemented in a manner to prevent an associated increase in unfunded liability.

Consideration of any future COLA should comply with these guidelines.



**ACTUARIAL ACCRUED LIABILITY (AAL):**

The value at a particular point in time of the sum all past Normal Costs. This represents the excess of the present value of total anticipated future benefits owed over the present value of future normal cost accruals. This is the amount of costs the Plan would have today if the current Plan provisions, actuarial assumptions and participant data had always been in effect, contributions equal to the Normal Cost had been made and all actuarial assumptions came true.

**ACTUARIAL COST METHOD:**

Allocates a portion of the total cost (PVB) to each year of service, both past service and future service.

**ACTUARIAL DETERMINED CONTRIBUTION (ADC):**

The value the actuary determines that the Plan sponsor needs to contribute to the Plan on an annual basis. The ADC is determined based on the policies set forth in the document, including but not limited to the Actuarial Cost Method, Asset Smoothing Method, Amortization Policy, and the selection of actuarial assumptions.

**ACTUARIAL GAINS AND LOSSES:**

Changes in UAAL or surplus due to actual experience different from what is assumed in the actuarial valuation. For example, if during a given year the assets earn more than their investment return assumption, the amount of earnings above the assumption will cause an unexpected reduction in UAAL, or “actuarial gain” as of the next valuation. These also include contribution gains or losses that result from actual contributions made being greater or less than the level determined under the policy.

**ACTUARIAL VALUE OF ASSETS (AVA) OR SMOOTHED VALUE:**

A market related value of the Plan assets for determining contribution requirements. The AVA tracks the market value of assets over time, smoothing out short term fluctuations in market values and produces a smoother pattern of contributions than would result from using market value.

**ACTUARIAL VALUE FUNDED RATIO:**

The ratio of the AVA to the AAL

**ENTRY AGE NORMAL ACTUARIAL COST METHOD:**

A funding method that calculates the Normal Cost as a level percentage of pay over the working lifetime of the Plan's members.

**MARKET VALUE OF ASSETS (MVA):**

The fair value of assets of the Plan as reported in the Plan's audited financial statements.

**NORMAL COST (NC)**

The cost allocated under the Actuarial Cost Method to each year of active member service.

**PRESENT VALUE OF BENEFITS (PVB) OR TOTAL COST:**

The "value" at a particular point in time of all projected future benefits payments for current Plan members. The "future benefit payments" and the "value" of those payments are determined using actuarial assumptions as to future events. Examples of these assumptions are estimates of retirement patterns, salary increases, investment returns, etc. Another way to think of the PVB is that if the Plan has assets equal to the PVB and all actuarial assumptions are met, then no future contributions would be needed to provide all future service benefits for all current members, including future service and salary increases for current active members.

**SURPLUS:**

The positive difference, if any, of the AVA over the AAL.

**UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL):**

The positive difference, if any, of the AAL over the AVA.

**VALUATION DATE:**

July 1 of every year

**ACCEPTANCE AND ADOPTION ATTESTATION**

**SECTION VI**

The Retirement Board of the City of Rockville’s Pension Plan hereby adopts this Funding Policy Statement. All modifications to this Statement shall be in writing and signed by the Board before they become binding.

IN WITNESS WHEREOF this document has been approved by the Retirement Board on November 20, 2020.

_____	_____
<b>Date</b>	<b>John Rodgers, Chairperson</b>
_____	_____
<b>Date</b>	<b>Beryl L. Feinberg, Councilmember</b>
_____	_____
<b>Date</b>	<b>Rob DiSpirito, City Manager</b>
_____	_____
<b>Date</b>	<b>Paula Perez, AAME Representative</b>
_____	_____
<b>Date</b>	<b>Chris Peck, FOP Representative</b>
_____	_____
<b>Date</b>	<b>Derrick Pierson, Union Representative</b>
_____	_____
<b>Date</b>	<b>Mikhail Sukhenko, Citizen Representative</b>