City of Rockville
Pension Plan

Actuarial Valuation as of July 1, 2025 to Determine the City's Contribution for the Fiscal Year Ending June 30, 2027

Bolton

Submitted by:

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Bolton

November 10, 2025

Retirement Board
City of Rockville, City Hall
111 Maryland Avenue
Rockville, MD 20850

Re: City of Rockville Pension Plan

Dear Members of the Board:

The following sets forth the actuarial valuation of the City of Rockville Pension Plan as of July 1, 2025. Section I of the report provides the Executive Summary, Section II sets forth our Actuarial Certification, and Section III contains the development of the City's contribution for the 2027 fiscal year. Section IV provides a discussion of risk metrics, while Section V through Section VIII contains a summary of the census and asset data, plan provisions, assumptions and actuarial methods. Section IX provides a glossary of many of the terms used in this report. The appendices of the report provide information on plan funding, a 10-year projection of benefit payments, the estimated cost of a 1% cost-of-living adjustment and information on the Benefit Index Option.

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

Respectfully submitted,

James E. Ritchie, ASA, EA, FCA, MAAA

Jordan McClane, FSA, EA, FCA, MAAA

Section I. Executive Summary

Background

Bolton Partners, Inc. has prepared the following report that sets forth the actuarial valuation of the City of Rockville Pension Plan (the Plan) as of July 1, 2025. This report provides the funded status of the Plan as of July 1, 2025 as well as the Actuarially Determined Contribution (ADC) for the Plan for the fiscal year ending June 30, 2027 (FY 2027). Please note that some columns may not add due to rounding.

Actuarially Determined Contributions (ADC)

The ADC increased this year as a nominal amount, but decreased as a percentage of participant payroll. The increase to the ADC dollar amount is primarily the result of the increase in participant payroll.

	FY 2025	FY 2026	FY 2027
Total ADC	$5,639,321	$5,847,323	$6,127,530
Estimated Payroll	$47,923,468	$50,249,644	$54,032,280
Percent of Total Payroll	**11.77%**	**11.64%**	**11.34%**

The FY 2027 contribution of $6,127,530 is assumed to be paid by October 1, 2026. Details of the determination of the City's contribution for FY 2027 are shown in Section III of this report.

Funding Measures

Funding Measures		7/1/2024	7/1/2025	Percent Change
1. Actuarial Accrued Liability				
a. Active	$	74,284,761	71,421,425	-3.85%
b. Retired/Disabled		76,846,140	85,680,298	11.50%
c. Terminated Vested/Refunds Owed		6,576,368	6,286,672	-4.41%
d. **Total**	**$**	**157,707,269**	**163,388,395**	**3.60%**
2. Actuarial Value of Assets	$	133,600,928	140,069,369	4.84%
3. Plan Funded Ratio (2. / 1.d.)		84.71%	85.73%	
4. Market Value of Assets	$	132,142,832	140,432,922	6.27%
5. Funded Ratio if Market Value of Assets was used (4. / 1.d.)		83.79%	85.95%	

Experience Analysis

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

- **Plan assets and investment performance** – investment returns during FY 2025 were about $3.3 million higher than expected. A portion of this gain is reflected in this valuation with the remaining portions to be reflected in future valuations.

The actuarial value of assets (AVA) and the return on the AVA also reflect the continued recognition of investment gains and losses from prior valuations. There is a total of $0.4 million in net deferred investment gains as of July 1, 2025 that will be reflected in future valuations.

- **Payroll changes** – pay for returning employees increased approximately 6.6% over the prior year; more than the 4.4% expected by the valuation assumptions. Total covered payroll increased by 7.5% over the prior year; more than the assumption of 3.0%.

  The amount by which the total participant payroll changes from one year to the next is a function of (1) the change in payroll for returning employees and (2) the change in payroll due to the net change in members (new hire payroll offset by payroll for members who exited). The higher payroll from greater than anticipated salary increases for returning members and 3.3% increase in active membership resulted in a net reduction to the ADC as a percentage of payroll but a net increase in the ADC as a dollar amount.

- **Plan changes** – there were two plan changes: (1) A Deferred Retirement Option Program, into which eligible Police participants may enter through June 30, 2034, was implemented and (2) a 1% cost-of-living adjustment (COLA) was provided to members in receipt of annuity pension benefits for at least a year on January 1, 2025.

Risk Measures

The primary risk that a plan sponsor incurs from a defined benefit plan is the risk of substantial increases in annual contributions. Many variables can influence future results and the sensitivity of the ADC will vary from plan to plan. As part of the annual valuation, we monitor commonly used measures of the relative riskiness of a pension plan, relative to the plan sponsor and the employee group covered by the plan. A brief review of the risk metrics and a discussion of key risks are shown in *Section IV. Risk Discussion*. Additional detailed or focused assessment of risks is outside the scope of the actuarial valuation but can be conducted as a separate assignment.

Changes in Method, Assumptions, and Plan Amendments

The plan was amended to add a deferred retirement option program (DROP), into which eligible Police members may enter through June 30, 2034. In conjunction with DROP implementation, the retirement assumption for Police was increased from 25% to 30% at age 60 prior to attaining 25 years of service and at 25 years of service prior to age 51 (coinciding with first eligibility for unreduced benefits for these periods) to reflect retirements at DROP entry through June 30, 2034.

The plan provided a 1% cost-of-living adjustment (COLA) to members in receipt of annuity pension benefits for at least a year on January 1, 2025. Since the City contributed the estimated full cost of this COLA in FY 2025 (i.e., prior to this report's July 1, 2025 valuation date), a separate amortization base for the COLA was not created in this valuation.

Sources of Information

The July 1, 2025 participant data and market value of assets were provided by or at the direction of the City of Rockville. While we have reviewed this data for consistency and completeness, we have not audited the data. Unless otherwise noted in our report, we believe the data provided is sufficiently complete and reliable for purposes of the results presented in this report.

Section II. Actuarial Certification

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

This report was prepared for the internal use of the City and its auditors in connection with our actuarial valuations of the pension plan. The only purposes of this report are to:

- Provide the recommended employer contribution for the 2027 fiscal year
- Provide estimated employer contributions for the Plan and the City's matching Thrift Plan contributions for the 2027 - 2032 fiscal years
- Estimate the adequacy of the assets required by Principal Financial Group for the Benefit Index
- Provide the estimated effect of a 1% COLA to current retirees and beneficiaries

It is neither intended nor necessarily suitable for other purposes. Bolton is not responsible for the consequences of any other use or the reliance upon this report by any other party.

This report is based on Plan provisions, census data, and asset data submitted by the City. We have relied on this information for purposes of preparing this report. We have not audited the census or asset data provided but have reviewed them for reasonableness and consistency relative to previously provided information. Unless otherwise noted in our report, we believe the information provided is sufficiently complete and reliable for purposes of the results presented in this report. The accuracy of the results presented in this report is dependent upon the accuracy and completeness of the underlying information. The Plan Sponsor is solely responsible for the validity and completeness of this information.

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

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

This is a deterministic valuation in that it is based on a single set of assumptions. This set of assumptions is one possible basis for our calculations. We may consider that some factors are not material to the valuation of the Plan and may not provide a specific assumption for those factors. The Plan may have used other assumptions in the past. We will likely consider changes in assumptions at a future date.

Different assumptions or scenarios within the range of possibilities may also be reasonable and results based on those assumptions would be different. As a result of the uncertainty inherent in a forward-looking projection over a very long period of time, no one projection is uniquely

"correct" and many alternative projections of the future could also be regarded as reasonable. Two different actuaries could, quite reasonably, arrive at different results based on the same data and different views of the future.

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

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

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

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

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

The calculations in this report have been computed in accordance with our understanding of generally accepted actuarial principles and practices and fairly reflect the actuarial position of the plan. The various actuarial assumptions and methods which have been used are, in our opinion, appropriate for the purposes of this report.

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

Bolton Partners, Inc. ("Bolton") does not practice law and, therefore, cannot and does not provide legal advice. Any statutory interpretation on which this report is based reflects Bolton's understanding as an actuarial firm. Bolton recommends that recipients of this report consult with

legal counsel when making any decisions regarding compliance with ERISA, the Internal Revenue Code, or any other statute or regulation.

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

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

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

James E. Ritchie, ASA, EA, FCA, MAAA

Jordan McClane, FSA, EA, FCA, MAAA

Section III. Determination of City Contributions

Derivation of Liabilities

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

Projected Unfunded Liability		7/1/2025
1. Actuarial Accrued Liability		
a. Active Participants	$	71,421,425
b. Vested Terminated Participants and Nonvested Terminated Participants Due a Refund of Contributions		6,286,672
c. Retired/Disabled Participants and Beneficiaries		85,680,298
d. Total	$	163,388,395
2. Actuarial Asset Value		140,069,369
3. Unfunded Liability as of July 1, 2024 (1.d. - 2.)	$	23,319,026
4. Funded Ratio (2. ÷ 1.d.)		85.73%
5. Expected Unfunded Liability Payments for FY 2026	$	2,996,569
6. Projected Unfunded Liability as of July 1, 2026 (3. – 5.) * 1.0675	$	21,694,223

Schedule of Amortization Bases

Below is a schedule of the amortization bases as of July 1, 2026.

Description	Date Established	Remaining Years	Amount to be Amortized	Payment / (Credit)
Initial Unfunded Actuarial Liability	7/1/2014	6.25	$ 9,126,488	$ 1,721,690
Actuarial (Gain)/Loss	7/1/2015	8	(2,402,966)	(373,330)
Actuarial (Gain)/Loss	7/1/2016	9	38,329	5,453
Actuarial (Gain)/Loss	7/1/2017	10	5,445,639	717,940
Assumption Change	7/1/2018	12	2,703,647	314,636
Actuarial (Gain)/Loss	7/1/2018	12	(2,782,822)	(323,850)
Conversion from Prior Actuary	7/1/2018	12	(3,400,102)	(395,685)
Actuarial (Gain)/Loss	7/1/2019	13	(713,702)	(78,866)
Assumption/Funding Method Change	7/1/2019	13	1,560,093	172,394
Actuarial (Gain)/Loss	7/1/2020	14	2,470,127	260,634
Assumption/Funding Method Change	7/1/2021	15	1,515,563	153,426
Actuarial (Gain)/Loss	7/1/2021	15	3,073,128	311,105
Actuarial (Gain)/Loss	7/1/2022	16	(3,187,643)	(310,884)
Assumption/Funding Method Change	7/1/2022	16	1,721,329	167,877
Actuarial (Gain)/Loss	7/1/2023	17	1,270,619	119,812
Actuarial (Gain)/Loss	7/1/2024	18	1,845,574	168,784
Assumption Changes	7/1/2024	18	1,726,994	157,939
Plan Change (COLA)	7/1/2024	3	449,060	159,564
Actuarial (Gain)/Loss	7/1/2025	19	(13,036)	(1,159)
Plan Change (Police FAE)	7/1/2025	14	465,238	49,089
Actuarial (Gain)/Loss	7/1/2026	20	740,637	64,223
Plan Change (Police DROP)	7/1/2026	15	42,029	4,255
Totals			**$ 21,694,223**	**$ 3,065,047**

The July 1, 2026 amortization payment of $3,065,047 is sufficient to cover the interest on the unfunded liability. The effective amortization period for the unfunded liability is 9.1 years.

Development of City Contributions

The breakdown of the actuarially determined contribution (ADC) into normal cost and amortization payment is illustrated below.

Valuation Date Actuarially Determined Contribution for	7/1/2024 FY 2026	7/1/2025 FY 2027
1. Total Normal Cost	$ 3,431,685	$ 3,695,496
2. Employee Contributions	871,449	945,754
3. Employer Normal Cost (1. - 2.)	2,560,236	2,749,742
Employer Normal Cost as a Percentage of Payroll	5.25%	5.24%
4. Projected Normal Cost	2,637,043	2,832,234
5. Amortization Amount	2,996,569	3,065,047
6. Expected Expenses	119,000	131,000
7. Interest	94,711	99,249
8. Actuarially Determined Contribution	$ 5,847,323	$ 6,127,530
9. Estimated Payroll	50,249,644	54,032,280
10. Actuarially Determined Contribution as a Percentage of Payroll	11.64%	11.34%

Development of City Contributions by Group

The breakdown of the ADC by group is illustrated below.

Actuarially Determined Contribution	Total	Police	Admin/Union
1. Total Normal Cost	$ 3,695,496	$ 1,076,528	$ 2,618,968
2. Employee Contributions	945,754	582,790	362,964
3. Employer Normal Cost (1. - 2.)	$ 2,749,742	$ 493,738	$ 2,256,004
Employer Normal Cost as a Percentage of Payroll	5.24%	6.76%	5.00%
4. Projected Normal Cost	$ 2,832,234	$ 508,550	$ 2,323,684
5. Amortization Amount	3,065,047	550,354	2,514,693
6. Expected Expenses	131,000	23,522	107,478
7. Interest	99,249	17,821	81,428
8. Actuarially Determined Contribution	$ 6,127,530	$ 1,100,247	$ 5,027,283
9. Estimated Payroll	54,032,280	7,518,870	46,513,410
10. Actuarially Determined Contribution as a Percentage of Payroll	11.34%	14.63%	10.81%
11. Prior Year Actuarially Determined Contribution as a Percentage of Payroll	11.64%	14.91%	11.13%
12. Percentage of Normal Cost paid by Employees (2./1.)	25.59%	54.14%	13.86%

Actuarial Gain/Loss

The development of actuarial (gain)/loss for July 1, 2024 to June 30, 2025 is illustrated below.

	Liability	Actuarial Value of Assets	UAAL
Beginning of Year Total	$ 157,707,269	$ 133,600,928	$ 24,106,341
Normal Cost (Net of Admin Exp.)	3,431,685		3,431,685
Administration Expense		(141,945)	141,945
Benefit Payments	(11,182,502)	(11,182,502)	0
Contributions		7,497,110	(7,497,110)
Interest	10,505,632	8,890,999	1,614,633
Expected End of Year Total	**$ 160,462,084**	**$ 138,664,590**	**$ 21,797,494**
Actual End of Year (Before Changes)	162,616,373	140,069,369	22,547,004
(Gain) / Loss	**$ 2,154,289**	**$ (1,404,779)**	**$ 749,510**

Actuarial Gain/Loss

The development of the unfunded actuarial accrued liability as of June 30, 2025 is illustrated below.

Development of Actual Unfunded Actuarial Accrued Liability		
1. Expected UAAL as of June 30, 2025	$	21,797,494
2. Changes in UAAL due to:		
a. Actuarial (Gain)/Loss		749,510
b. Plan Change		
(i) DROP for Police Employees		39,371
(ii) 1% COLA		732,651
(iii) Total		772,022
c. Assumption Change		0
d. Method Change		0
e. Other		0
3. Total of all changes in UAAL		1,521,532
Actual UAAL as of June 30, 2025 [(1) + (3)]	**$**	**23,319,026**

Actuarial Experience

There was an actuarial loss of $749,510 for the 2024-2025 fiscal year. The gain or loss is measured by comparing the expected unfunded liability to the actual unfunded liability before any changes are made to the valuation, such as any assumption or plan changes reflected in the current valuation. The individual sources of gains and losses that follow are based upon a comparison of actual and expected experience in the year ending on the valuation date.

Source		(Gain) or Loss
Investments	$	(1,404,779)
Salaries		1,119,431
Mortality		(256,315)
Turnover		(168,079)
New Entrants		451,697
Retirement		1,121,792
Miscellaneous		(114,237)
Total	**$**	**749,510**

Funding Projections

The following table shows the estimated ADC for FY 2027 to FY 2032. The projections reflect data as of July 1, 2025 and an expected return on assets of 6.75%.

Any deviation in assumptions, census demographics, or asset performance would impact these results.

Numbers in $ millions

	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032
1. Accrued Liability	$163.39	$167.51	$172.77	$178.03	$183.15	$188.62
2. Actuarial Value of Assets	140.07	144.99	153.36	161.94	170.13	177.73
3. Unfunded Liability (1. - 2.)	23.32	22.52	19.41	16.09	13.02	10.88
4. Funded Ratio	85.73%	86.56%	88.76%	90.96%	92.89%	94.23%
5. Projected Payroll	54.03	55.65	57.32	59.04	60.81	62.64
6. Actuarially Determined Contribution	$6.13	$6.45	$6.44	$6.42	$6.25	$6.34
7. Actuarially Determined Contribution as a Percentage of Payroll	11.34%	11.58%	11.23%	10.88%	10.27%	10.13%

Supplemental Employee Contribution Projections

As documented in the provisions of the Plan, the City of Rockville maintains the right to enforce a Supplemental Employee Contribution as it pertains to the defined benefit portion of the pension plan. Specifically, as of any July 1, if the City contribution to the Defined Benefit Option of the plan made on behalf of employees exceeds 6.50% of the earnings of the employees, then the City reserves the right to impose a Supplemental Employee Contribution for the following fiscal year.

This supplemental Employee Contribution can be no more than 50% of the excess of the City contribution over 6.50% of earnings for employees. Such a contribution would be treated as a contribution to the Defined Benefit Option.

The following table displayed in millions of dollars shows the derivation of the Maximum Supplemental Employee Contribution for Administrative and Union employees. The projections reflect data as of July 1, 2025 and an expected return on assets of 6.75%.

Any deviation in assumptions, census demographics, or asset performance would impact these results.

Numbers in $ millions

Administrative and Union Employees	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032
1. Admin Compensation	$38.98	$40.15	$41.36	$42.60	$43.88	$45.19
2. Union Compensation	7.53	7.75	7.99	8.23	8.47	8.73
3. Total Compensation	**$46.51**	**$47.91**	**$49.35**	**$50.83**	**$52.35**	**$53.92**
4. Admin and Union ADC	$5.03	$5.29	$5.28	$5.27	$5.12	$5.20
5. ADC as a Percentage of Payroll	10.81%	11.04%	10.70%	10.36%	9.79%	9.65%
6. Excess Over 6.5%	4.31%	4.54%	4.20%	3.86%	3.29%	3.15%
7. 50% of Excess	2.16%	2.27%	2.10%	1.93%	1.65%	1.58%
8. Maximum Supplemental Employee Contribution	$1.00	$1.09	$1.04	$0.98	$0.86	$0.85

Supplemental Employee Contribution Projections

The following table displayed in millions of dollars shows the derivation of the Maximum Supplemental Employee Contribution for Police employees. The projections reflect data as of July 1, 2025 and an expected return on assets of 6.75%.

Any deviation in assumptions, census demographics, or asset performance would impact these results.

Numbers in $ millions

Police	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032
1. Police Compensation	$7.52	$7.74	$7.98	$8.22	$8.46	$8.72
2. Police ADC	1.10	1.16	1.16	1.15	1.12	1.14
3. ADC as a Percentage of Payroll	14.63%	14.95%	14.49%	14.03%	13.25%	13.07%
4. Excess Over 6.5%	8.13%	8.45%	7.99%	7.53%	6.75%	6.57%
5. 50% of Excess	4.07%	4.23%	4.00%	3.77%	3.38%	3.29%
6. Maximum Supplemental Employee Contribution	$0.31	$0.33	$0.32	$0.31	$0.29	$0.29

Employer Thrift Plan Matching Contributions

For both Union and Administrative Personnel enrolled in the Thrift Plan, employees make an irrevocable election when hired to contribute 1%, 2%, 3%, 4%, or 5% of earnings to the Thrift Plan. For each $1.00 contributed by a member, the City of Rockville contributes $0.50 to the Plan.

Numbers in $ millions

	FY2027	FY2028	FY2029	FY2030	FY2031
1. Total Thrift Plan Pay Only	$ 38.95	$ 40.12	$ 41.33	$ 42.57	$ 43.84
2. Employee Contribution to Thrift Plan	$ 1.95	$ 2.01	$ 2.07	$ 2.13	$ 2.19
3. City Matching Contribution to Thrift Plan	$ 0.97	$ 1.00	$ 1.03	$ 1.06	$ 1.10

Section IV. Risk Discussion

Risk Measures

Pension plans are complicated financial instruments designed to provide income security for plan participants as they move through their working lives and into retirement. As such they can be subject to many different forces that can put the plan in better or worse positions over time. The primary risk that a plan sponsor incurs from a defined benefit plan is the risk of substantial increases in annual contributions.

The "maturity" level of a plan can indicate the likely sensitivity the plan will have to different events whether positive or negative. Variations in the investment returns are a common source of these types of events or shocks. Other sources might be experience that differs from that assumed, assumption changes or plan changes.

Actuarial Standard of Practice No. 51 *Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions* requires actuaries to provide information so that users of the report can better understand the potential for future results to vary from the results presented in this report and identify risks on the plan's future financial condition. This standard does not require the assessment to be based on numerical calculations. In some cases, a more in-depth review of plan risk is warranted.

There are several plan maturity measures that can be significant to understanding the risks associated with the plan. The following table shows four commonly used measures of the relative riskiness of a pension plan, relative to the plan sponsor and the employee group covered by the plan and how they have changed over time.

Risk Measure	7/1/2023	7/1/2024	7/1/2025
Retiree Liability as a Percent of Total Liability	49%	49%	52%
Assets to Payroll	2.6	2.7	2.7
Liabilities to Payroll	3.3	3.2	3.1
Benefit Payments to Contributions	1.4	1.2	1.5

The Assets to Payroll ratio, also called the Asset Volatility Ratio (AVR), is equal to the Market Value of Assets (MVA) divided by payroll. A higher AVR implies that the plan is exposed to greater contribution volatility. The current AVR of 2.7 indicates that a:

- 1% asset gain/loss can be related to about 2.7% of the annual payroll.
- The City's contribution changes by about 0.2% of payroll for each 1.0% gain or loss on the market assets (the plan currently amortizes asset gains/losses over a period of 20 years)

The Liabilities to Payroll ratio, also call the Liability Volatility Ratio (LVR), is equal to the Actuarial Accrued Liability (AAL) divided by payroll. A higher LVR implies that the plan is exposed to greater contribution volatility due to changes in liability measurements. The current LVR of 3.1 indicates that a:

- 1% liability gain/loss can be related to about 3.1% of the annual payroll.
- The City's contribution changes by about 0.3% of payroll for each 1.0% gain or loss on the AAL (the plan currently amortizes liability gains/losses over a period of 20 years).

As the plan approaches a 100% funded level, the AVR will converge to the LVR.

The use of payroll in these risk measures is an easily available substitute for the employer's revenue and often reflects the employer's ability to afford the plan. Each of these measures are a measure of plan maturity. The common evolution of a pension plan is to become more mature over time. Mature plans present more risk to plan sponsors because changes to the liability or assets will result in large changes in the unfunded liability as compared to the overall size of the employer as measured by payroll. As a result, the change in the metrics over time can be as important as the nominal size of the metric itself.

Elements of Pension Plan Financing

The following equation lays out the fundamental elements of pension plan financing:

Contributions + Investment Returns = Benefit Payments + Expenses

Employers and employees **contribute** to a plan based on the statutory requirements, plan terms, and plan sponsor funding policy. The plan invests these contributions and earns a **return** on that investment. Together, these contributions and investment returns are the sole sources of income to the plan. **Benefits** are paid to participants who have met the eligibility and vesting requirements defined by the plan. Plans also pay administrative, investment, auditing, legal, and other **expenses** for maintaining the plan. **Over time, contributions and investment earnings must equal benefits and expenses.**

From this equation, it is evident that funding, investment, and benefit policies must be developed together. Once the benefit terms are established, each plan sponsor must determine the desired balance of contributions versus investment returns needed to finance benefits accrued to participants. It is important to remember that the plan sponsor's investment and funding policies, along with the selected actuarial assumptions, determine the assumed balance between contributions and investment returns. **The actual cost of a plan is based on the actual experience of the plan and may result in a different balance than is assumed.** Ultimately, the expected return does not impact the long-term relationship between the contributions required and the benefit level that can be supported by such contributions. Using a higher or lower expected return assumption may give an incorrect sense of benefit security if the plan does not realize that level of actual returns over time.

The development of integrated benefit, funding, and investment policies generally requires consideration of many factors such as:

- Balancing benefit security and intergenerational equity;
- Risk appetite and ability to absorb short-term volatility in plan contributions;
- Current plan funded status;
- Timing and expected duration of benefit payments; and
- Nature and frequency of past and anticipated future plan amendments.

Significant Risks Affecting Pension Plans

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

- Investment risk**:** The potential that investment returns will be different than expected.

- Contribution risk: the potential that actual future contributions are not made in accordance with the plan's actuarially based funding policy.

- Longevity and other demographic risks: The potential that mortality or other demographic experience will be different than expected.

- Asset/liability mismatch risk: The potential that changes in the value of liabilities are not matched by changes in asset values.

- Cash flow risks: The potential that contributions to the plan will not cover benefit payments and expenses.

Investment risk is often the single most significant risk for defined benefit plans. Plans that seek a higher investment return are typically forced to accept a higher level of volatility that can change the plan's funded status drastically year-to-year. Use of an asset smoothing method that phases in investment gains and losses over a period of years can give the perception of less volatility in the funded status from year to year.

Contribution risk most commonly results from either large contribution increases that are difficult for the plan sponsor to meet, or from a material decrease in the number of covered employees and/or covered payroll.

Assumptions regarding mortality and other demographic factors related to participant behavior bring the risk that future experience will diverge from the reasonable assumptions utilized within the actuarial valuation model. For example, participants living longer than expected will increase plan costs, while people terminating sooner than expected will generally decrease plan costs. Additionally, what is considered a reasonable assumption may change over time and lead to an increase or decrease in future contributions. Since the start of the COVID-19 pandemic, there has been much discussion about how this event will affect longevity, both over the short-term and long-term, and how certain demographic groups may be impacted to a greater degree than others. Actual life expectancies may be longer or shorter than what is reflected in the valuation and benefit payment projections, and will increase or decrease the cost of the plan as actual experience emerges.

Asset/liability mismatch risk is also another potential risk for many pension plans. To the extent that the duration of plan assets is not matched to the duration of plan liabilities a change in discount rates could have an impact on the plan's funded status. For most public pension plans, changes in asset values and interest rates do not directly affect the measurement of the plan's liability.

As plans mature, they become more reliant on investment returns to pay benefits and expenses. When plans have negative cash flows, they must spend interest and dividends, or may be forced to sell assets at inopportune times, to meet those obligations. Plans with DROP or other lump sum payment features are particularly exposed to this risk.

Quantifying Investment and Funded Status Risk

Although cash and money market funds have the lowest absolute investment risk, they are typically not the lowest risk investment for a pension plan. With respect to interest rate risk, a pension plan liability behaves like the price of a bond because both equal the discounted value of a series of future cash flows. The present value will change in the opposite direction to a change in interest rates. Therefore, a bond portfolio with the timing of expected income cash flows matched to the expected benefit payment outflows is typically the lowest risk investment approach for a pension plan.

Corporate, Treasury, and municipal bonds, often considered lower risk investment classes, can still have a high level of interest rate risk in their present values. If the duration (timing and pattern of income payments) of the fixed income assets are misaligned with the duration of the plan's liability, there can be significant funded status volatility as interest rates change. The way to mitigate this volatility is minimizing the asset/liability (or duration) mismatch risk.

One means of quantifying the expected cost of assuming future investment and asset/liability mismatch risk is to compare the Plan's current assets to a liability calculated assuming very low default risk. One such measure is called a **Low Default-Risk Obligation Measure** (LDROM). An example of an LDROM is the Plan's Funding Liability determined using a discount rate based on the yields on high quality municipal bonds, similar to what is referenced under GASB statement 68.

	Liability Measure	Assumed Return
Actuarial Liability - Funding Policy Return	$163,388,395	6.75%
Actuarial Liability - Municipal Bond Yield (LDROM)	$205,363,607	4.81%

The difference between the LDROM and the Actuarial Liability used to determine funding contributions can be viewed in several ways, and certain views of this measure may be more relevant for different plan sponsors:

- The expected long-term contribution savings to be achieved by investing in asset classes with higher expected risk and returns than bonds.
- The cost of investing in an all-bond portfolio and significantly lowering expected long-term investment returns in exchange for protecting the Plan's current funded status.
- A measure of the Plan's non-diversifiable investment risk.

Investors expect to be compensated for assuming risk when they make an investment. The risk premium of an investment is the return an asset is expected to generate in excess of the risk-free rate of return. The more risk assumed by the investor, the greater the return they expect to achieve in exchange for accepting that risk.

For plans whose assumed long-term rate of return on plan assets is greater than the municipal bond yield used for the LDROM calculation, the expected cost to the plan sponsor of funding the plan will be lower because of the greater level of investment risk accepted. This in turn leads to greater volatility in the plan's funded status because the actual return on plan investments is expected to vary considerably year-to-year. Conversely, if a plan has taken steps to reduce asset/liability mismatch risk the expected cost of contributions to fund the plan will be greater (if the plan is not already fully funded) and the volatility in the plan's funded status will be reduced.

Selecting the right level of investment risk (and associated asset/liability mismatch risk) for a plan requires complex analysis that goes beyond the scope of these basic disclosures. Included in any such analysis must be an evaluation of the plan sponsor's funding policy.

Risk Considerations in Assessing a Funding Policy

When assessing a plan's funding policy, two primary considerations are:

- whether the contributions are determined using reasonable and appropriate actuarial cost, amortization, and asset valuation methods (i.e., is the contribution an Actuarially Determined Contribution (ADC)), and
- the projected period until any Unfunded Actuarial Accrued Liability (UAAL) is fully amortized.

Under the current funding policy, the annual contribution is an ADC. The Plan's UAAL is required to be amortized over 20 years, with new layered amortization bases established annually.

Assuming all actuarial assumptions reflected in the annual valuation are met and the funding policy contributions are made as expected, this funding policy is expected to reduce the plan's UAAL in future years. The funding policy contribution is at least equal to the sum of the normal cost and interest on the UAAL. The effect of declining interest rates, investment losses, or other actuarial losses may offset the favorable effect of these contributions and cause the UAAL to remain steady or increase in future years.

Some examples of changes from year to year that will shorten or lengthen the period until the UAAL is fully amortized include:

Factors that Shorten the Amortization Period	Factors that Lengthen the Amortization Period
Contributing more than the ADC	Contributing less than the ADC
Investment and demographic gains	Investment and demographic losses
Increasing interest rates	Decreasing interest rates
Shorter life expectancies	Longer life expectancies
Reducing or eliminating future benefit accruals	Increasing benefit accruals (past and/or future)

Additional Review

In some instances, more detailed quantitative assessment of risks is warranted either by the above maturity metrics, part of a periodic self-assessment of risks, or due to changes in investment allocations and capital market assumptions. The following are examples of tests that could be performed:

- Scenario Test—A process for assessing the impact of one possible event, or several simultaneously or sequentially occurring possible events, on a plan's financial condition. A scenario test could show, for example, the effect of a layoff or reduction in workforce, or early retirement program.

- Sensitivity Test—A process for assessing the impact of a change in an actuarial assumption on an actuarial measurement. A sensitivity analysis could demonstrate, for example, the impact of a decrease in the valuation discount rate or a change in future life expectancies.

- Stochastic Modeling—A process for generating numerous potential outcomes by allowing for random variations in one or more inputs over time for the purpose of assessing the distribution of those outcomes. This type of analysis could show, for example, a range of potential future contribution levels and the likelihood of contributions increasing to a certain level.

- Stress Test—A process for assessing the impact of adverse changes in one or relatively few factors affecting a plan's financial condition. A stress test could show, for example, the impact of a single year or period of several years with significant investment losses.

Section V. Valuation of Assets

Reconciliation of Assets

Below is a reconciliation of assets (unaudited) from July 1, 2023 through June 30, 2025.

		7/1/2024		7/1/2025
1.	Beginning of Year Assets	$ 122,717,338	$	132,142,832
2.	Additions			
a.	Employer Contributions	$ 5,664,104	$	6,435,741
b.	Employee Contributions	1,026,046		1,061,369
c.	Increase/(Decrease) in Market Value of Investments	11,007,451		12,117,427
d.	**Total Receipts**	**$ 17,697,601**	**$**	**19,614,537**
3.	Deductions			
a.	Benefit Payments	$ 8,151,979	$	11,182,502
b.	Administrative Expenses	120,128		141,945
c.	**Total Disbursements**	**$ 8,272,107**	**$**	**11,324,447**
4.	Net Increase (2.d. – 3.c.)	$ 9,425,494	$	8,290,090
5.	Net Assets (1. + 4.)	$ 132,142,832	$	140,432,922
6.	Rate of Return Net of Investment Fees (2I / [A + B – I] Method)	9.0%		9.3%
7.	Expected Return	$ 8,230,901	$	8,792,578
8.	Investment Gain/(Loss) (2.c. – 7.)	$ 2,776,550	$	3,324,849

Asset Allocation

The table below shows the amount of funds invested in each account as of June 30, 2025.

Invested Assets as of June 30, 2025 Assets	Balance
Open End Mutual Funds	
Bonds	$ 27,750,162
Equities	72,920,766
Real Estate	22,605,743
Global Real Assets	0
Global Tactical Asset Allocation	14,913,241
Money Market	2,243,010
Total	$ 140,432,922
Liabilities	
Benefits Payable	$ 0
Net Assets held in trust for benefits	**$ 140,432,922**

Calculation of Actuarial Asset Value

The actuarial asset value as of July 1, 2025 is determined by spreading the asset gain or loss for each year over a five-year period. The asset gain or loss is the amount by which the actual asset return differs from the expected asset return.

Total					7/1/2025
1. Market Value of Assets				$	140,432,922
2. Spreading of Investment (Gain)/Loss					
BOY	**EOY**	**(Gain)/Loss**	**% Deferred**		**Amount Deferred**
2024	2025	$ (3,324,849)	80%	$	(2,659,879)
2023	2024	(2,776,550)	60%		(1,665,930)
2022	2023	549,063	40%		219,625
2021	2022	18,713,153	20%		3,742,631
2020	2021	(20,676,813)	0%		0
		a. Total Deferred			**(363,553)**
3. Actuarial Value of Assets (1 + 2.a.)				$	140,069,369
4. Actuarial Return				$	10,295,778
5. Rate of Return (2I / [A + B – I] Method)					7.82%

Recognition of Deferred Asset Gains and Losses

The table below shows the years (2025 to 2029) in which the net deferred asset gains and losses will be recognized.

FYE	(Gain)/Loss	2025	2026	2027	2028	2029
2021	($20,676,813)	($4,135,363)				
2022	$18,713,153	$3,742,631	$3,742,629			
2023	$549,063	$109,813	$109,813	$109,811		
2024	($2,776,550)	($555,310)	($555,310)	($555,310)	($555,310)	
2025	($3,324,849)	($664,970)	($664,970)	($664,970)	($664,970)	($664,969)
Total		**($1,503,199)**	**$2,632,162**	**($1,110,469)**	**($1,220,280)**	**($664,969)**

Historical Investment Returns

The following table represents the investment returns for each of the last 10 fiscal years. Also presented are the compound returns for the last 1 through 10 years.

Fiscal Year Ended	Approximate Rate of Return Market Value	Level Compounded Annual Return Over Last "n" Years	
		"n"	Market Value
2025	9.3%	1	9.3%
2024	9.0%	2	9.1%
2023	6.3%	3	8.2%
2022	(7.8%)	4	4.0%
2021	27.1%	5	8.2%
2020	1.6%	6	7.1%
2019	3.4%	7	6.5%
2018	7.7%	8	6.7%
2017	10.8%	9	7.1%
2016	1.4%	10	6.6%

Section VI. Participant Information

Participant Summary

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

		7/1/2024		7/1/2025
1. Actives				
a. Number		516		533
b. Average Age		46.64		45.9
c. Average Service		11.29		10.35
d. Average Salary	**$**	**90,571**	**$**	**94,224**
2. Service Retirements and Beneficiaries				
a. Number		346		370
b. Average Age		71.19		71.35
c. Total Annual Benefits	**$**	**7,484,736**	**$**	**8,271,672**
3. Vested Terminations				
a. Number		52		51
b. Average Age		51.93		51.31
c. Total Annual Benefits	**$**	**762,947**	**$**	**766,278**
4. Terminated Participants Owed a Refund of Contributions				
a. Number		122		71
b. Total Refunds Owed	**$**	**816,915**	**$**	**515,712**

B

Active Age/Service Distribution Including Compensation

Shown below is the distribution of active **Administrative Defined Benefit** participants based on age and service. The compensation shown is the average rate of pay as of July 1, 2025.

	Years of Service as of 07/01/2025							
	0-4	5-9	10-14	15-19	20-24	25-29	30 & Up	Total
Under 25	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
25 - 29	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
30 - 34	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
35 - 39	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
40 - 44	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
45 - 49	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
50 - 54	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
55 - 59	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
60 - 64	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
65 & Up	-	-	-	-	-	-	3	3
	-	-	-	-	-	-	102,912	102,912
Totals	**-**	**-**	**-**	**-**	**-**	**-**	**3**	**3**
	-	**-**	**-**	**-**	**-**	**-**	**102,912**	**102,912**

Averages	
Age	70.24
Service	47.61

Active Age/Service Distribution Including Compensation

Shown below is the distribution of active **Administrative Thrift** participants based on age and service. The compensation shown is the average average rate of pay as of July 1, 2025.

	Years of Service as of 07/01/2025							
	0-4	5-9	10-14	15-19	20-24	25-29	30 & Up	Total
Under 25	5	-	-	-	-	-	-	5
	50,117	-	-	-	-	-	-	50,117
25 - 29	21	2	-	-	-	-	-	23
	76,750	88,683	-	-	-	-	-	77,788
30 - 34	30	10	3	-	-	-	-	43
	87,560	66,653	71,805	-	-	-	-	81,599
35 - 39	20	9	9	4	-	-	-	42
	98,681	90,783	117,940	94,358	-	-	-	100,704
40 - 44	13	11	7	11	1	1	-	44
	80,369	111,995	129,875	109,536	96,061	91,835	-	104,060
45 - 49	15	5	9	8	5	5	-	47
	89,360	110,755	107,044	138,478	113,263	99,438	-	106,998
50 - 54	13	7	5	5	2	1	3	36
	109,332	129,399	121,301	124,665	115,361	169,612	117,706	119,733
55 - 59	9	5	3	10	5	8	7	47
	146,584	90,189	108,006	113,829	97,609	129,064	115,781	118,373
60 - 64	10	5	7	10	4	6	4	46
	88,223	118,797	115,802	98,127	135,903	121,475	113,720	108,597
65 & Up	2	-	6	2	1	1	6	18
	81,630	-	86,038	117,130	108,982	89,156	102,902	96,072
Totals	**138**	**54**	**49**	**50**	**18**	**22**	**20**	**351**
	91,551	**99,952**	**110,342**	**113,346**	**112,985**	**118,598**	**111,794**	**102,519**

Averages	
Age	47.18
Service	10.98

Active Age/Service Distribution Including Compensation

Shown below is the distribution of active **Police** participants based on age and service. The compensation shown is the average average rate of pay as of July 1, 2025.

	Years of Service as of 07/01/2025							
	0-4	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30 & Up**	**Total**
Under 25	2	-	-	-	-	-	-	2
	68,748	-	-	-	-	-	-	68,748
25 - 29	13	1	-	-	-	-	-	14
	71,196	86,823	-	-	-	-	-	72,313
30 - 34	10	3	-	-	-	-	-	13
	79,714	96,295	-	-	-	-	-	83,540
35 - 39	4	2	4	-	-	-	-	10
	80,663	99,034	106,795	-	-	-	-	94,790
40 - 44	1	1	2	1	1	-	-	6
	68,748	97,587	108,199	133,595	170,505	-	-	114,472
45 - 49	1	3	1	3	3	-	-	11
	79,562	121,051	109,686	135,279	126,930	-	-	121,730
50 - 54	1	-	-	2	3	1	-	7
	92,047	-	-	123,329	158,353	142,236	-	136,572
55 - 59	4	-	-	-	-	1	1	6
	108,042	-	-	-	-	161,805	161,805	125,963
60 - 64	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
65 & Up	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Totals	**36**	**10**	**7**	**6**	**7**	**2**	**1**	**69**
	79,316	**103,451**	**107,609**	**131,015**	**146,622**	**152,020**	**161,805**	**100,311**

Averages	
Age	39.47
Service	7.97

Active Age/Service Distribution Including Compensation

Shown below is the distribution of active **Union Thrift** participants based on age and service. The compensation shown is the average average rate of pay as of July 1, 2025.

	Years of Service as of 07/01/2025							
	0-4	5-9	10-14	15-19	20-24	25-29	30 & Up	Total
Under 25	3	-	-	-	-	-	-	3
	52,205	-	-	-	-	-	-	52,205
25 - 29	6	-	1	-	-	-	-	7
	52,829	-	58,818	-	-	-	-	53,684
30 - 34	11	4	1	-	-	-	-	16
	55,554	61,229	62,036	-	-	-	-	57,378
35 - 39	12	3	3	-	-	-	-	18
	54,155	62,457	62,304	-	-	-	-	56,897
40 - 44	8	1	3	1	2	-	-	15
	63,617	59,082	62,848	63,711	77,323	-	-	64,995
45 - 49	4	1	5	3	1	-	-	14
	72,184	63,426	60,527	76,140	77,119	-	-	68,595
50 - 54	3	2	2	-	2	1	-	10
	93,861	58,703	75,272	-	75,465	76,773	-	77,724
55 - 59	3	1	-	1	2	1	-	8
	55,012	63,141	-	82,418	79,596	72,790	-	67,822
60 - 64	3	2	1	2	4	-	1	13
	62,211	55,280	65,432	61,628	77,783	-	82,418	67,648
65 & Up	1	-	1	1	2	1	-	6
	50,354	-	73,755	70,876	71,056	60,677	-	66,296
Totals	**54**	**14**	**17**	**8**	**13**	**3**	**1**	**110**
	59,552	**60,422**	**64,040**	**71,085**	**76,549**	**70,080**	**82,418**	**63,699**

Averages	
Age	45.18
Service	8.85

Active Age/Service Distribution Including Compensation

Shown below is the distribution of **all active participants** based on age and service. The compensation shown is the average projected average rate of pay as of July 1, 2025.

	Years of Service as of 07/01/2025							
	0-4	5-9	10-14	15-19	20-24	25-29	30 & Up	Total
Under 25	10	-	-	-	-	-	-	10
	54,470	-	-	-	-	-	-	54,470
25 - 29	40	3	1	-	-	-	-	44
	71,357	88,063	58,818	-	-	-	-	72,211
30 - 34	51	17	4	-	-	-	-	72
	79,119	70,608	69,363	-	-	-	-	76,567
35 - 39	36	14	16	4	-	-	-	70
	81,837	85,892	104,722	94,358	-	-	-	88,594
40 - 44	22	13	12	13	4	1	-	65
	73,749	106,817	109,505	107,862	105,303	91,835	-	96,006
45 - 49	20	9	15	14	9	5	-	72
	85,435	108,928	91,714	124,435	113,803	99,438	-	101,782
50 - 54	17	9	7	7	7	3	3	53
	105,585	113,689	108,150	124,283	122,387	129,540	117,706	114,031
55 - 59	16	6	3	11	7	10	8	61
	119,779	85,681	108,006	110,973	92,462	126,711	121,534	112,490
60 - 64	13	7	8	12	8	6	5	59
	82,220	100,649	109,506	92,044	106,843	121,475	107,460	99,574
65 & Up	3	-	7	3	3	2	9	27
	71,205	-	84,283	101,712	83,698	74,917	102,905	90,215
Totals	**228**	**78**	**73**	**64**	**38**	**27**	**25**	**533**
	82,040	**93,305**	**99,297**	**109,720**	**106,716**	**115,683**	**111,553**	**94,224**

Averages	
Age	45.90
Service	10.35

Participant Reconciliation

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

	Police	Admin DB	Admin TP	Union DB	Union TP	Total
1. Active						
Count on 7/1/2024	**63**	**6**	**342**	**0**	**105**	**516**
New Entrants	18	0	53	0	17	88
Rehired	1	0	0	0	1	2
Transferred	0	0	0	0	0	0
Non-Vested Termination (Refund owed)	(10)	0	(25)	0	0	(35)
Non-Vested Termination (No refund)	0	0	0	0	(9)	(9)
Vested Termination	0	0	(3)	0	0	(3)
Retired	(2)	(3)	(14)	0	(3)	(22)
Death	0	0	(1)	0	(1)	(2)
Adjustment	0	0	0	0	0	0
Paid Out	(1)	0	(1)	0	0	(2)
Count on 7/1/2025	**69**	**3**	**351**	**0**	**110**	**533**
2. Terminated Non-Vested, Owed Refund						
Count on 7/1/2024	**17**	**0**	**90**	**0**	**15**	**122**
Non-Vested Termination	10	0	25	0	0	35
Return to Active	0	0	0	0	(1)	(1)
Vested Termination	0	0	(1)	0	0	(1)
Paid Out	(9)	0	(62)	0	(1)	(72)
Adjustment	0	0	0	0	(12)	(12)
Count on 7/1/2025	**18**	**0**	**52**	**0**	**1**	**71**
3. Terminated Vested						
Count on 7/1/2024	**6**	**1**	**31**	**0**	**14**	**52**
Rehired	0	0	0	0	0	0
Vested Termination	0	0	4	0	0	4
Paid Out	0	0	0	0	0	0
Retired	0	0	(3)	0	(2)	(5)
Death	0	0	0	0	0	0
Adjustment	0	0	0	0	0	0
Count on 7/1/2025	**6**	**1**	**32**	**0**	**12**	**51**
4. Retiree						
Count on 7/1/2024	**18**	**71**	**168**	**6**	**40**	**303**
Retired	2	3	17	0	5	27
Death	0	(4)	(2)	(1)	0	(7)
Adjustment	0	0	0	0	0	0
Count on 7/1/2025	**20**	**70**	**183**	**5**	**45**	**323**
5. Beneficiary						
Count on 7/1/2024	**4**	**18**	**18**	**2**	**1**	**43**
New Beneficiary	0	1	5	1	1	8
Death	0	(2)	(1)	0	0	(3)
Benefits Expired	0	(1)	0	0	0	(1)
Adjustment	0	0	0	0	0	0
Count on 7/1/2025	**4**	**16**	**22**	**3**	**2**	**47**

Inactive Participant Distribution

Shown below are the benefits of retirees and beneficiaries by age for **Administrative** participants.

Age as of 7/1/2025	Number	Average Annual Pension	Total Annual Pension
<55	2	6,598	13,196
55 - 59	14	11,916	166,820
60 - 64	44	26,629	1,171,673
65 - 69	59	26,949	1,589,971
70 - 74	61	21,632	1,319,539
75 - 79	51	24,796	1,264,593
80 - 84	32	19,609	627,495
85+	28	13,193	369,404
	291	22,415	6,522,690

Shown below are the benefits of retirees and beneficiaries by age for **Police** participants.

Age as of 7/1/2025	Number	Average Annual Pension	Total Annual Pension
<55	7	49,398	345,789
55 - 59	4	54,026	216,103
60 - 64	6	59,623	357,736
65 - 69	4	46,230	184,921
70 - 74	1	46,771	46,771
75 - 79	1	32,145	32,145
80 - 84	0	0	0
85+	1	22,591	22,591
	24	50,252	1,206,055

Inactive Participant Distribution

Shown below are the benefits of retirees and beneficiaries by age for **Union** participants.

Age as of 7/1/2025	Number	Average Annual Pension	Total Annual Pension
<55	0	0	0
55 - 59	3	8,652	25,956
60 - 64	19	10,805	205,303
65 - 69	12	9,399	112,789
70 - 74	9	11,073	99,656
75 - 79	7	7,344	51,406
80 - 84	2	12,816	25,631
85+	3	7,396	22,187
	55	9,871	542,927

Shown below are the benefits of retirees and beneficiaries by age for **all participants**.

Age as of 7/1/2025	Number	Average Annual Pension	Total Annual Pension
<55	9	39,887	358,985
55 - 59	21	19,470	408,878
60 - 64	69	25,141	1,734,711
65 - 69	75	25,169	1,887,681
70 - 74	71	20,647	1,465,966
75 - 79	59	22,850	1,348,144
80 - 84	34	19,210	653,126
85+	32	12,943	414,181
	370	22,356	8,271,672

Section VII. Summary of Plan Provisions

Effective Date
July 1, 1969.

Plan Year
July 1 – June 30.

Eligibility
Defined Benefit Option
Administrative personnel hired prior to April 15, 1986 and Union employees hired prior to December 2, 1986, who elected not to transfer to the Thrift Plan, are eligible to participate in the Defined Benefit Option. All Police employees are eligible for the Defined Benefit Option only.

Thrift Plan Option
Administrative personnel hired on or after April 15, 1986 and Union employees hired on or after December 2, 1986 are eligible to participate in the Thrift Plan Option. Administrative personnel hired prior to April 15, 1986 and Union employees hired prior to December 2, 1986, who elected to transfer from the Defined Benefit Option, are eligible to participate in the Thrift Plan Option.

Earnings
Earnings is salary or basic rate of pay, including longevity pay, but excluding overtime, commissions, bonuses, etc.

Final Average Earnings
Administrative Personnel and Union Employees
Average annual Earnings during the 36 consecutive months of the last 120 months of employment with the City which produce the highest average.

Police Employees
Average annual Earnings during the final 36 months of employment with the City.

Credited Service
An employee will receive Credited Service for each full year of continuous service. From the date of Plan entrance to the date of retirement or termination, a fractional year of service is credited based on the completed service rounded to the nearest whole month. Participants are eligible to receive Credited Service provided required contributions have been made to the Plan.

Employee Contributions
Defined Benefit Option
Administrative Personnel
5.2% of Earnings.

Police Employees
8.5% of Earnings.

Accumulated contributions are credited with interest of 6% per annum.

Thrift Plan Option

Administrative Personnel

1% of Earnings contributed to the Defined Benefit portion, plus an irrevocable election to contribute 1%, 2%, 3%, 4%, or 5% of Earnings to the Thrift Plan portion.

Union Employees

An irrevocable election to contribute 1%, 2%, 3%, 4%, or 5% of Earnings to the Thrift Plan, with no employee contribution toward the Defined Benefit portion.

Accumulated contributions are credited according to the investment contract terms.

Employer Contributions

City contributions to the plan:

a. The remaining cost of the Defined Benefit Option based on the actuarial valuation
b. $0.50 for every $1.00 contributed by members of the Thrift Plan Option

Normal Retirement Date

Administrative Personnel and Union Employees

Hired prior to July 1, 2011

First of the month coincident with or immediately following attainment of age 60.

Hired after June 30, 2011

First of the month coincident with or immediately following the later of:

a. Attainment of age 65
b. The completion of 10 years of Credited Service

Administrative Personnel and Union Employees Defined Benefit Option

First of the month coincident with or immediately following attainment of age 60.

Police Employees

First of the month coincident with or immediately following the earlier of:

a. Attainment of age 60
b. The completion of 25 years of Credited Service

Normal Retirement Benefit

Defined Benefit Option

Administrative Personnel

1.8% of Final Average Earnings multiplied by Credited Service prior to April 1, 1996, plus 2.0% of Final Average Earnings multiplied by Credited Service on or after April 1, 1996

Union Employees

1.8% of Final Average Earnings multiplied by Credited Service

Police Employees

The lesser of (a) and (b):

a. 2% of Final Average Earnings multiplied by Credited Service prior to April 1, 2004, plus 2.25% of Final Average Earnings multiplied by Credited Service on or after April 1, 2004
b. 67.5% of Final Average Earnings

Thrift Plan Option

Administrative Personnel

1.0% of Final Average Earnings multiplied by Credited Service prior to April 1, 1996, plus 1.2% of Final Average Earnings multiplied by Credited Service on or after April 1, 1996, plus the member's Thrift Plan Option vested account balance.

Union Employees

1.0% of Final Average Earnings multiplied by Credited Service, plus the member's Thrift Plan Option vested account balance.

Early Retirement Date

Administrative Personnel and Union Employees

First of the month coincident with or immediately following:

Hired prior to July 1, 2011

a. Attainment of age 50, and
b. The completion of 10 years of Credited Service

Hired after June 30, 2011

a. Attainment of age 58, and
b. The completion of 10 years of Credited Service

Police Employees

First of the month coincident with or immediately following the later of:

a. Attainment of age 50
b. The completion of 10 years of Credited Service

Early Retirement Benefit

The accrued benefit reduced by:

Administrative Personnel and Union Employees

Hired prior to July 1, 2011

0.25% for each month that the benefit commencement precedes the normal retirement date.

Hired after June 30, 2011

0.375% for each month that the benefit commencement precedes the normal retirement date.

Police Employees

0.6% for each month during the first 60 months and 0.3% for each month during the next 60 months that the benefit commencement precedes the normal retirement date.

Late Retirement

A participant who defers retirement until after normal retirement date will receive the accrued benefit as of the late retirement date.

Termination Benefits

Deferred Vested Benefit

Participants who have completed at least 10 years of Credited Service are entitled to a benefit that can commence at early retirement date, equal to the accrued benefit at termination.

Termination Benefit

Participants (not available in the Thrift Option Plan) who terminate prior to early or normal retirement date and before completion of 10 years of Credited Service are entitled to a lump sum payment equal to the member's vested account balance. The vested account balance is equal to the employee contributions with interest, plus a portion the City's contributions with interest according to the following schedule:

Years of Credited Service	Vested Percentage
Less than 5	0%
5	50%
6	60%
7	70%
8	80%
9	90%
10 and over	100%

City contributions are deemed to be 150% of the employee's contributions plus interest.

Preretirement Death Benefit Eligibilty

Qualified married participant with 10 years of Credited Service.

Preretirement Death Benefit Benefit

Annuity calculated as if participant had terminated employment on the date of death, survived to earliest retirement age, elected a 50% Joint and Survivor Annuity, and died the next day. The beneficiaries of employees who die before becoming vested, will receive the employee's contributions with interest, plus the vested portion of the City's contributions with interest.

Normal Form

Life annuity with 10 years certain. Other forms are actuarial equivalent.

Optional Forms

50%, $66^{2}/_{3}$%, or 100% Joint and Survivor, with a 10-year certain period. Police and Administrative Personnel or Union Employees in the Defined Benefit Option may elect to receive a single sum equal to 2.5 times the balance of employee contributions with interest, in lieu of the monthly retirement benefit.

In lieu of the normal form of Retirement Benefit, an Employee, who was (a) an Administrative Personnel or Union Employee in the Defined Benefit Option, or (b) effective January 1, 1988, a Police Employee, may elect to receive the City's contributions and a refund of his/her contributions, plus Credited Interest. For purposes of making this calculation, City contributions are deemed to be 150% of the Employee's contributions plus Credited Interest.

Actuarial Equivalence

Mortality: RP-2000 Combined Table projected to 2005 using Scale AA.
Interest: 7.5%.

Thrift plan account balance that are annuitized are through the purchase of an annuity at market rates and not a liability of the defined benefit plan.

Cost-of-Living Adjustment (COLA)

Post-retirement increases are made only on an ad hoc basis. The most recent COLA was effective January 1, 2024, for pensioners who commenced benefits prior to January 1, 2023. The second most recent COLA was effective January 1, 2023, for pensioners who commenced benefits prior to January 1, 2022.

Deferred Retirement Option Program (DROP) for Police:

Allows accumulation of pension after reaching either 25 years of service or age 50 with 10 years of service. DROP period must be between three and five years. Annuity payments to the DROP account are increased for COLAs. Employee contributions of 8.5% are credited to the DROP accounts. The DROP account is invested in individually directed accounts. The DROP has a sunset provision stating participation must begin before June 30, 2034.

Changes in Plan Provisions Since Prior Valuation

The plan was amended to add a deferred retirement option program (DROP) for Police. Eligible members may enter DROP through June 30, 2034.

The plan provided a 1% cost-of-living adjustment (COLA) to members in receipt of annuity pension benefits for at least a year on January 1, 2025. Since the City contributed the estimated full cost of this COLA in FY 2025 (i.e., prior to this report's July 1, 2025 valuation date), a separate amortization base for the COLA was not created in this valuation.

Section VIII. Actuarial Methods and Assumptions

Actuarial Cost Method

The actuarial valuation is completed on the basis of the Entry Age Normal cost method calculated on an individual basis with level percentage of pay normal cost. Past service liability is allocated from the imputed date of hire, taking into account transferred and purchased service.

Amortization Method

Any actuarial gains and losses resulting from actual plan experience either more or less favorable than anticipated on the basis of the actuarial assumptions and asset valuation method will result in direct adjustments of the unfunded actuarial accrued liability. Changes in the unfunded actuarial accrued liability are amortized as individual bases based on the source of the change. Changes due to gains or losses, assumption or method changes are amortized over closed periods of 20 years. Changes due plan changes are amortized over closed periods of 15 years. If a surplus exists, the net amount will be amortized over an open 30-year period and all previously established bases will be eliminated. All bases are amortized as level future payments.

Asset Method

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

Investment Return

6.75%, compounded annually, net of investment expenses. This assumption is based on the plan's investment policy and the long-term expectation of each investment class, based upon the recommendations of the plan's investment advisor. Details of the investment policy and long-term expectations are available in the plan's financial statements.

Inflation

2.50%, compounded annually. This assumption is based on 20-to-30-year historical returns on CPI-U and anticipated future expected returns reviewing the difference between Treasury bonds and TIPS.

Payroll Growth Rate

3.00%.

Cost of Living Increase in Benefits

No expected benefit increase is assumed in future years.

Salary Increases

Salary increases are as follows:

Age	Admin	Union
<=35	4.75%	5.50%
36 - 44	4.75%	4.25%
45 - 54	4.25%	4.25%
>= 55	3.75%	3.25%

Age	Police
<=25	9.00%
26 - 30	7.00%
31 - 35	6.50%
36 - 40	5.75%
41 - 45	5.00%
46 - 54	4.50%
>=55	2.50%

Mortality

Pre-Retirement

The Pub-2010 General and Safety Employees Amount-Weighted mortality table projected generationally using scale MP-2021. The projection scale was changed from scale MP-2020.

Post Retirement

For Healthy Participants: The Pub-2010 General and Safety Retirees Amount-Weighted mortality table projected generationally using scale MP-2021. The projection scale was changed from scale MP-2020.

For Disabled Participants: The Pub-2010 General and Safety Disabled Amount-Weighted mortality table projected generationally using scale MP-2021. The projection scale was changed from scale MP-2020.

Projection to the year of the valuation is assumed to be current mortality experience. The generational projection beyond the year of the valuation is assumed to account for future mortality improvements. The mortality assumption is based on a standard blue-collar mortality table with the initial projection scale produced with the table.

The mortality assumption is based on studies conducted by the Society of Actuaries for pension plans.

Retirement Rates

The retirement rates are as follows (Police rates reflect retirement at DROP entry during the DROP window):

Age	Admin/Union Rates
<=49	0.00%
50 - 58	2.50%
59 - 63	15.00%
64 - 69	20.00%
>=70	100.00%

	Police Rates	
Age	Until June 30, 2034	After July 1, 2034
50 (or younger with 25 YOS)	30.00%	25.00%
51 - 59	15.00%	15.00%
60	30.00%	15.00%
61	15.00%	15.00%
>= 62	100.00%	100.00%

Termination of Employment

The termination rates are as follows:

Service	Admin/Union Rates	Police Rates
0	17.00%	18.00%
1	15.00%	10.00%
2	13.00%	9.00%
3	10.00%	8.00%
4	8.00%	8.00%
5	7.00%	6.00%
6	5.00%	5.00%
7	4.00%	4.00%
8	3.00%	3.00%
9	3.00%	2.00%
>=10	2.00%	1.50%

Disability Rates

None.

Marital Status

55% assumed to be married with wives 3 years younger than husbands.

Non-Vested Terminations

We value non-vested terminations based on the amount of their vested account balance, which is assumed to be paid on the valuation date.

Form of Payment

The annuity form of payment assumption is as follows:

Optional Form	Assumption
10 Certain & Continuous	45%
Joint & 50% Survivor with 10 C&C	20%
Joint & 100% Survivor with 10 C&C	35%

This assumption is based on actual forms of benefit payments elected under this plan.

It is assumed that 33% of the participants whose value of the lump sum of employee and city contributions is greater than annuity value, will choose to elect the lump sum. This assumption was based on the amount of liability for the lump sum benefit that exceeded the annuity value by more than 50%. We chose 50% recognizing that no one in the recent past has elected this benefit and by taking the lump sum, a participant would forgo any future COLA increases.

Administrative Expenses

Total administrative expenses for the fiscal year are assumed to be the average of the administrative expenses for the prior two years, rounded to the nearest $1,000.

Rationale for Assumptions

The assumptions are based on the experience study performed and adopted in 2021.

Changes in Methods/Assumptions Since Prior Valuation

In conjunction with DROP implementation, the retirement assumption for Police was increased from 25% to 30% at age 60 prior to attaining 25 years of service and at 25 years of service prior to age 51 (coinciding with first eligibility for unreduced benefits for these periods) to reflect retirements at DROP entry through June 30, 2034. An assumption change base was not established since changing the retirement rates was part of initiating the DROP plan change.

Section IX. Glossary

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

Actuarial Assumptions
Estimates or projections of future plan experience such as investment return, expected lifetimes and the likelihood of receiving a pension from the pension plan. Demographic, or "people" assumptions include rates of mortality, retirement and separation. Economic, or "money" assumptions, include expected investment return, inflation and salary increases. Assumptions of a long-term nature are representative of average expectations (i.e., they will not be exactly realized in every year, however over an extended period are a reasonable projection of future outcomes).

Actuarial Cost Method
A procedure for allocating the Present Value of Future Benefits into the Present Value of Future Normal Costs and the Actuarial Accrued Liability. Also known as the "funding method".

Actuarial or Experience Gain or Loss
A measure of the difference between actual experience and experience anticipated by a set of Actuarial Assumptions during the period between two actuarial valuation dates, in accordance with the actuarial cost method being used. Such gains or losses are not actual economic gains or losses immediately incurred by a plan, as experience in future years could offset the effect of experience in a single year due to the typically long-term average nature of actuarial assumptions.

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

Actuarially Determined Contribution (ADC)
The employer's periodic determined contribution to a pension plan, calculated in accordance with the assumptions and methods used by the plan actuary.

Amortization Method
A procedure for payment of the Unfunded Actuarial Accrued Liability (UAAL) by means of periodic contributions of interest and principal. The components of the amortization payment for the UAAL includes the amortization period length, amortization payment increase (level dollar or level percentage of pay), and amortization type (closed or open).

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

Low-Default-Risk Obligation Measure (LDROM)
The present value of benefits accrued at the valuation date using actuarial assumptions that are generally the same as those used in determining the plan's funding liability, with the discount rate changed to reflect the expected return on a low-default-risk investment portfolio. For plans using a funding method that does not quantify gains and losses annually (but rather spreads them over future years through the changes in the normal cost), the actuarial cost method is also changed to reflect a different pattern of allocating costs to historical periods than is used to determine the ADC.

Market Value of Assets (MVA)
The value of the assets as of a given date held in the trust available to pay for benefits of the pension plan.

Normal Cost
That portion of the Present Value of Future Benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method.

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

Present Value of Future Normal Cost (PVFNC)
The portion of the Present Value of Future Benefits (PVFB) allocated to future service.

Unfunded Actuarial Accrued Liabilities (UAAL)
The difference between the Actuarial Accrued Liability (AAL) and the Actuarial Value of Assets (AVA).

Appendix 1

Summary of Funding Progress

Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability	(3) Percentage Funded (1) / (2)	(4) Unfunded Actuarial Accrued Liability (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (4) / (5)
4/1/2011	$62,039,361	$88,577,844	70.0%	$26,538,483	$33,212,310	79.9%
4/1/2012	$70,144,539	$92,843,559	75.6%	$22,699,020	$34,557,409	65.7%
4/1/2013	$78,490,190	$97,275,430	80.7%	$18,785,240	$34,875,678	53.9%
7/1/2014	$86,925,136	$101,027,990	86.0%	$14,102,854	$35,318,946	39.9%
7/1/2015	$91,600,681	$105,318,300	87.0%	$13,717,619	$34,861,650	39.3%
7/1/2016	$95,584,743	$116,842,174	81.8%	$21,257,431	$34,187,757	62.2%
7/1/2017	$95,407,926	$112,314,075	84.9%	$16,906,149	$36,810,351	45.9%
7/1/2018	$101,999,637	$118,855,301	85.8%	$16,855,664	$38,762,974	43.5%
7/1/2019	$106,020,752	$125,086,851	84.8%	$19,066,099	$39,968,358	47.7%
7/1/2020	$109,365,336	$132,867,318	82.3%	$23,501,982	$42,412,060	55.4%
7/1/2021	$118,172,591	$139,626,956	84.6%	$21,454,365	$41,719,436	51.4%
7/1/2022	$123,656,076	$145,158,228	85.2%	$21,502,152	$42,506,765	50.6%
7/1/2023	$127,222,323	$151,852,938	83.8%	$24,630,615	$46,527,639	52.9%
7/1/2024	$133,600,928	$157,707,269	84.7%	$24,106,341	$48,786,062	49.4%
7/1/2025	$140,069,369	$163,388,395	85.7%	$23,319,026	$52,458,524	44.5%

Effective with the 2017 valuation, the Annual Covered Payroll is the expected payroll for the plan year beginning on the valuation date.

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

Appendix 2

Summary of Contributions

Year Ended June 30	Actuarially Determined Contribution	Percentage Contributed
2011	$3,478,242	100.0%
2012	$3,563,104	100.0%
2013	$4,255,153	100.0%
2014	$5,218,589	100.0%
2015	$4,024,603	100.0%
2016	$3,575,462	100.0%
2017	$3,473,255	100.0%
2018	$3,899,592	100.0%
2019	$4,210,698	100.0%
2020	$3,592,613	100.0%
2021	$3,961,789	100.0%
2022	$4,589,309	100.0%
2023	$4,761,898	114.8%
2024	$4,901,238	115.6%
2025	$5,639,321	114.1%

Appendix 3

Benefit Payment Projection

The following table shows the estimated benefit payments from July 1, 2025 through June 30, 2035 based on existing members of the plan.

Fiscal Year	Benefits
2026	10,498,000
2027	9,781,000
2028	10,239,000
2029	10,844,000
2030	10,965,000
2031	11,281,000
2032	11,604,000
2033	12,094,000
2034	12,376,000
2035	12,544,000

Appendix 4

Estimated Cost of a 1% Cost-of-Living Adjustment (COLA)

Providing a one-time cost-of-living adjustment of 1% to retirees and beneficiaries as of July 1, 2026 is expected to increase the actuarial accrued liability by $901,513.

Effect of 1% Cost of Living Increase		Increase in Actuarial Accrued Liability
Admin and Union Participants	$	748,444
Police Participants		153,069
Total	**$**	**901,513**

Appendix 5

Benefit Index Option

As of June 30, 2025, there was a group of 38 retirees and beneficiaries under the Benefits Index Option with Principal Financial Group. The City of Rockville is required to maintain a minimum level of assets with Principal Financial Group; otherwise, these employees will be annuitized at current market costs. The benefits due to these retirees are paid from the Principal Financial Group accounts.

If the Benefit Index Option retirees had been converted to annuities on June 30, 2025, the liability would increase from $3.83 million to $4.25 million. The increase is mainly due to the interest rate environment in the annuity market, reflected for purposes of this calculation by using a discount rate of 4.75%. This rate is our best estimate of an annuity purchase rate on January 1, 2025 and is a decrease from last year's rate of 5.11%. It is meant to approximate an annuity purchase rate.

Principal Financial Group requires that the funds exceed the annuitized value of the retiree benefits. We understand that they determine the amount needed to cover the Benefits Index retirees through a two-step formula. First, they increase the annuitized liability by 10%. Next, they take into consideration the volatility of the asset classes and calculate a weighted volatility factor that is used to increase the amount of funds needed to cover retiree payments.

On June 30, 2025, the funds with Principal Financial Group were invested in the following manner and with the following assumed volatility factors:

Principal Fund Name		Balance	Volatility Factor
Liquid Assets	$	-	0.95
Inflation Protection		-	0.95
Bond and Mortgage		-	0.95
Large Cap S&P 500 Index		22,552,779	0.75
Diversified International		31,937,741	0.60
Total	**$**	**54,490,520**	**0.66**

The weighted average volatility factor is divided into the increased annuitized liability to derive the Benefit Index as of a particular date. As of June 30, 2025, the Benefits Index equaled approximately $7.06 million (i.e. $4.25 million x 1.1 / 0.6621). With approximately $54.5 million invested with Principal Financial Group, the Benefit Index is covered.

It is important to note that volatility factors have a significant impact on the high level of assets required to be held by Principal Financial Group. If all of the assets were invested in the Money Market, Inflation Protection, or Bond and Mortgage, which have the least volatility, then the Benefit Index would decrease from $7.06 million required to $4.92 million required.