RESOLUTION NO. _____________

A RESOLUTION ADOPTING A FIRE AND POLICE PENSION FUNDING POLICY AS REQUIRED BY THE STATE OF TENNESSEE.

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF CHATTANOOGA, TENNESSEE, that it is hereby adopting a Fire and Police Pension Funding Policy as required by the State of Tennessee.

ADOPTED: ________________, 2015.

/mem

FIRE AND POLICE PENSION FUND

June 4, 2015

Carol Berz, Chair
City Council
1000 Lindsay Street
Chattanooga, TN 37402

Dear Councilwoman Berz,

In accordance with the Public Employees Defined Benefit Financial Security Act of 2014 ("PEDBFS"), the Board of Directors of the Fire & Police Pension Fund ("Board") recommends the adoption of the attached funding policy by a Council resolution. This policy is the result of a collaborative effort between City Attorney Wade Hinton, the office of the Comptroller of the Treasury, the Board and its consultants. Once Council approves the resolution, then I will submit the policy to the Comptroller of the Treasury as required by the PEDBFS.

As I understand, the Council agenda for June 9, 2015 includes adopting the required resolution.

I look forward to seeing on June 9th.

Best regards,

Frank Hamilton
Administrator

cc: Members of Council
Wade Hinton
Board of Directors

Attachment

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Chattanooga Fire and Police Pension Fund

Funding Policy

GENERAL INFORMATION

This Funding Policy ("Policy") for the City of Chattanooga (the "City")has been created by the Board of Directors of the Chattanooga Fire and Police Pension Fund ("Board") for the benefit of the Chattanooga Fire and Police Pension Fund ("CFPPF" or "Fund") and its Members. Subject to Board approval, the Policy will be submitted to the Chattanooga City Council ("Council") with a recommendation to adopt the Policy. Once Council adopts the Policy, it will be submitted to the Tennessee Comptroller of Treasury and as required by the Public Employee Defined Benefits Financial Security Act of 2014 ("PEDBFS").

PURPOSE AND OBJECTIVES OF THE FUNDING POLICY

This Policy is adopted by the City, based on a recommendation by the Board, to establish a formal methodology for financing the pension obligations accruing under the CFPPF Plan of Benefits ("Plan"). The City intends for the Fund to exist in perpetuity and for current assets plus future employer contributions, employee contributions and investment earnings and gains to be sufficient to finance all benefits provided by the Plan.

The objectives of the City and Board in establishing this Policy are as follows:

- To maintain funding procedures that ensure that the Fund is financially sustainable.
- To secure the benefit obligations under the Fund in a systematic and orderly manner and to ensure that the Fund is funded in accordance with applicable City ordinances and Tennessee state law as well as generally accepted actuarial practices and procedures.
- To utilize actuarial methods which are intended to produce a contribution pattern that is relatively level over time, taking into account the fact that there will be investment market volatility and that actual economic and demographic experience with differ from assumed experience.
- To utilize actuarial techniques that produce stable administrative expenses whenever possible.
- To assure long-term funding levels which are appropriate for mature pension plans.
- To comply with applicable laws, ordinances, regulations and standards.
- To provide for periodic review and modification of the actuarial assumptions used in the annual actuarial valuations.

APPLICABLE LAWS AND POLICY REQUIREMENTS

It is the policy of the City and the Board to comply with all federal, state, and local laws, including the PEDBFS. If this Policy is found to conflict with any applicable laws, then such law will take precedence over this Policy and the Policy will be modified as soon as practical. The City and the Board will comply with all provisions of the PEDBFS no later than the dates prescribed by law.

The Fund's actuary shall be an independent and qualified member of the American Academy of Actuaries. The Fund's actuary shall not be a Member of the Fund, or otherwise entitled to accrue benefits under the Plan.
The Actuarially Determined Contribution ("ADC") under this Policy shall be the sum of the normal cost, the amortization payments on the unfunded actuarial accrued liability and the administrative expenses. The Fund's actuary shall determine the ADC in accordance with Actuarial Standards and Practices established by the Actuarial Standards Board.

Effective with the January 1, 2015 valuation, the unfunded actuarial accrued liabilities will be amortized on a combination of annually decreasing level percent and annually increasing level dollar basis with a closed amortization period of 30 years until 2021 when level dollar amortization will be used exclusively. Each year, the Board may adopt a new base to amortize actuarial gains or losses of the previous year with the recommendation of the actuary. Any additional bases adopted by the Board will be amortized on a level dollar basis for a closed period not to exceed 30 years.

The City generally has contributed the full Actuarially Determined Contribution through 2014. The City shall contribute at least 100% of the ADC in each subsequent year.

ACTUARIAL VALUATIONS

Actuarial valuations shall be conducted on an annual basis. The valuation shall disclose:

- The Actuarially Determined Contribution under this funding policy which shall be the sum of the normal cost, the amortization payments on the unfunded actuarial accrued liability and the administrative expenses.
- The actuarial present value of accumulated Plan benefits and related funding ratios on an ongoing basis.
- Any Plan operation information and disclosure material required under generally accepted accounting and actuarial principles and practices.
- Any other information needed to fully disclose the financial position of the Plan.
- The actuarial methods and assumptions used in the valuation.
- The years in which the Fund is projected to be both 70% and 80% funded on a market value of assets basis.

ACTUARIAL METHODOLOGIES

Actuarial Cost Method— The following provides the methodology for developing the annual actuarial valuation for each plan:

- The actuarial cost method used to attribute pension cost to various fiscal periods is the Entry Age Normal Cost Method with "replacement life" unless an alternative has been specifically approved by the Board.
- The asset valuation method used to develop contribution amounts defines the actuarial value of assets as the market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the actuarial value, and is recognized over a five-year period, further adjusted, if necessary, to be within 20% of the market value. The actuarial value of assets determined by this valuation method is limited to a corridor which is not less than 80% or more than 120% of the market value of assets. If there is an unprecedented decline in the investment markets, a temporary expansion of the corridor shall be permitted provided that the minimal benchmark of 80% of market value of assets is restored over a period not to exceed five years. The temporary expansion of the corridor due to an exceptional increase or decrease in the investment markets shall be approved by the Board in consultation with the actuary.
- Unfunded actuarial accrued liabilities will be amortized on a level percent of payroll basis with a closed amortization period (25 years remaining as of January 1, 2014) until the plan year beginning January 1, 2021, at which time level dollar amortization will be used. The Board will determine in consultation with the actuary an appropriate amortization period to use once the change to level dollar amortization is completed.

Asset Smoothing Method—The actuarial value of assets is currently defined as the market value of assets less unrecognized returns in each of the last ten years. Unrecognized return is equal to the difference between the actual market return and the expected return on the actuarial value, and is recognized over a ten-year period, further adjusted, if necessary, to be within 20% of the market value. At the City's request, the Board changed from a five-year to a ten-year smoothing period effective with the January 1, 2008 actuarial valuation. A five year smoothing period will be used as soon as practical, but no later than January 1, 2018.

Normal Cost—Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are allocated by compensation, with Normal Cost determined as if the current benefit accrual rate had always been in effect. Normal Cost is allocated over Members' employment to their assumed retirement age.

Required Assumptions—Mortality assumptions utilized by the Fund's actuary will reflect expected improvements in mortality beginning no later than the January 1, 2024 valuation. The Actuarially Assumed Rate of Return (AAR) for the Plan shall not be greater than 50 basis points (0.5%) above the rate adopted by the Tennessee Consolidated Retirement System (TCRS).

ASSIGNMENT OF RESPONSIBILITY

Demographic assumptions, economic assumptions, and actuarial methodologies will be reviewed on a five-year basis and may be modified based on the actuary's recommendation, upon approval by the Board. Assumptions or methods may be changed between five-year experience studies if recommended by the Fund's actuary and approved by the Board. The administrative expense assumption is changed at the actuary's discretion, as necessary. The Fund Staff shall provide the Fund's actuary, or independent actuary as determined by the Board, with any information required to perform annual valuations, experience studies, actuarial audits, and any other studies requested by the Board. The Staff will notify the Board of any significant trends or issues that may impact retirement patterns of liabilities of the Plan. The Board will determine appropriate amortization periods in consultation with the Fund's actuary. The Fund's actuary will include in the annual valuations, all information and disclosures required by the Board, PEDBFS, and the GASB. In the annual valuation, the actuary will express the ADC as a specific dollar amount, which is the sum of the normal cost, the amortization payments on the unfunded actuarial accrued liability and the administrative expenses. The actuary will also express the amount of the ADC as a percentage of the total projected payroll, for the informational purposes of the Board. The ADC is payable bi-weekly, as a percentage of gross payroll, by the City, effective on July 1 of each year, based on the determination of the ADC made by the actuary in the January 1 valuation of the same calendar year. The Fund Staff will post the Policy on the Fund's website. The Board will have the responsibility to determine the interval of independent actuarial audits and the responsibility to engage independent actuaries for the purpose of an audit. An independent actuary performing an independent actuarial audit shall 1) verify and validate actuarial valuation results for a period determined by the Board; 2) evaluate the reasonableness of actuarial assumptions and methods; 3) determine compliance with professional standards such as generally accepted actuarial standards; and 4) determine compliance with applicable laws, regulations, and Board policies.

This Policy is adopted as of the 4th day of June, 2015, by the Directors whose signatures appear below, and will remain in effect until amended in writing by the Board and recommended to the City Council for adoption of such amendment or preempted by State law. If any portion of this Policy is determined to be invalid, then all other provisions of the Policy will remain intact.

6/4/15			6/4/15
President	Date	Secretary	Date
P. Burt Coleman	6/4/15		6/4/15
Director	Date	Director	Date
	6-4-15		6-4-15
Director	Date	Director	Date
R. McClain	6/4/15		6/4/15
Director	Date	Director	Date