

REC'D APR 27 2015



April 17, 2015

Bryan, Pendleton, Swats & McAllister  
Mr. Michael Guyton, Actuary  
5301 Virginia Way, Suite 400  
Brentwood, TN 37027

Dear Mr. Guyton:

Enclosed is a copy of the "FUNDING POLICY OF THE CITY OF COLUMBIA" signed April 16, 2015.

Sincerely,

A handwritten signature in black ink, appearing to read "Dean Dickey".

Dean Dickey, Trustee Chairman/Mayor

A handwritten signature in black ink, appearing to read "Betty R. Modrall".

Betty R. Modrall, Trustee/City Recorder  
City of Columbia Employees Retirement Plan

cc: Trustees: Christa Martin  
Travis Neas  
Tim Tisher

## Funding Policy of the City of Columbia

The Trustees of the City of Columbia Employees' Pension Plan ("the Plan") hereby adopts this document as the defined benefit plan funding policy that will be applicable to the Plan.

### Preamble

The intent of this funding policy is to establish a formal methodology for financing the pension obligations accruing under the Plan. It is intended that current assets plus future assets from employer contributions, employee contributions, and investment earnings should be sufficient to finance all benefits provided by the Plan. The funding policy is intended to reflect a reasonable, conservative approach with each generation of taxpayers financing, to the greatest extent possible, the cost of pension benefits being accrued. This funding policy recognizes that there will be investment market place volatility and that actual economic and demographic experience will differ from assumed experience. Accordingly, this funding policy is intended to provide flexibility to smooth such volatility and experience in a reasonable, systematic, and financially sound manner. Further, it is the intent that this funding policy comply with all applicable laws, rules, and regulations of the State of Tennessee and the Federal Government.

This funding policy is being adopted by the Trustee both as a prudent action and as its fiduciary duty. Moreover, adoption of a funding policy is recommended by the Government Finance Officers Association, the Governmental Accounting Standards Board, and the actuarial profession.

### Components of this Funding Policy

1. Procurement of actuarial services
2. Actuarial assumption study
3. Actuarial valuation

### Procurement of Actuarial Services

The Plan shall acquire the services of professional actuarial firms to perform an actuarial assumption study, an actuarial valuation, and other necessary actuarial services. The actuarial firm shall be independent and shall act as an advisor on actuarial matters on behalf of the Plan.

The lead actuary of actuarial firm shall have the requisite experience, capabilities, strengths, and qualifications including, but not limited to, the following:

1. Member of the American Academy of Actuaries,
2. Attainment of the Fellowship of the Society of Actuaries (FSA) designation,
3. Attainment of the Enrolled Actuary (EA) designation,
4. At least seven years of actuarial experience in the defined benefit field, and
5. Ineligible to participate in the Plan.

## Actuarial Assumption Study

An actuarial assumption study shall be conducted at least every five years. As determined necessary by the Trustees or the Plan's actuary, assumptions may be evaluated on an interim basis.

Assumptions adopted by the Trustees should be established based on past experience and future expectations as the result of an actuarial assumption review.

Demographic assumptions to be established include, but are not limited to, the following:

1. Turnover pattern
2. Pre-retirement mortality based on expected improvement in mortality
3. Pattern of retirement
4. Pattern of disability
5. Post-retirement mortality based on expected improvement in mortality

Due to the number of participants in the Plan, the Plan data is insufficient to develop assumptions based only on plan experience. The Trustees and the Plan's actuary will base the development of the demographic assumptions using published studies, plan experience, and expected experience input from the City's management.

Economic assumptions to be established include, but are not limited to, the following:

1. Investment earnings (net of investment expenses)
2. Salary
3. Retiree COLA

Economic assumptions shall include an underlying assumption for inflation.

## Actuarial Valuation

*Valuation method and frequency.* An actuarial valuation to determine the "Actuarially Determined Contribution (ADC)" rate to finance pension obligations shall be performed annually beginning as of June 30, 2015. The valuation shall utilize the entry-age normal actuarial method. The ADC shall include (1) the normal cost, (2) the unfunded liability cost, and (3) interest on (1) and (2). The ADC shall be calculated and become applicable on July 1 that is 12 months following the valuation date.

*Funding the ADC.* The ADC, as determined by an actuarial valuation, shall provide funding at a level of no less than 100%. With respect to the obligations of the Plan, the City's budget shall include funding of at least 100% of the ADC.

*Asset smoothing method.* An asset smoothing method shall be utilized to determine the actuarial value of assets. The difference between the amount actually earned and the earnings assumption for a particular year shall be amortized in level amounts. The asset smoothing period shall be five (5) years beginning July 1, 2015.

**Unfunded liability.** The unfunded liability based on the 2012 actuarial valuation shall be funded no later than 2042. In subsequent actuarial valuations, the unfunded liability will be reestablished and will be amortized over the remaining period to 2042. Changes in the unfunded liability due to assumption changes, method changes or benefit plan provision changes may either be include in the amortization of the reestablished unfunded liability or the amount of change in the unfunded liability change may be amortized over a closed period not to exceed 30 years. It is permissible in any subsequent actuarial valuation to amortize the actual actuarial gains and losses separate from the prior reestablished unfunded liability. The amortization methodology for the actuarial gains and losses is described in the next section.

**Amortization methodology for actuarial gains and losses.** A tier approach may be utilized with new actuarial gains and losses from each actuarial valuation. Each tier shall be amortized over a closed, maximum 20 year period. Tiers may be combined, but the resulting amortization period may not be less than 5 years nor exceed the lowest amortization period of the combined tiers.

**Demographic data.** The demographic data in an actuarial valuation shall include: (1) all active members, (2) all inactive vested members, (3) all inactive non-vested members with an employee contribution account balance, and (4) all annuitants (including beneficiary annuitants and disability annuitants).

**Benefit provisions.** The actuarial valuation shall include all benefits being accrued by members of the Plan including, but not limited to, retirement, termination, disability, death benefits, and post-employment cost-of-living adjustments (COLAs). The valuation shall be based on the benefit eligibility and benefit terms as set out in the plan document.

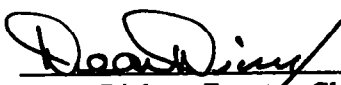
**Assumptions utilized.** Demographic and economic assumptions as determined by an actuarial assumption study and adopted by the Trustees shall be utilized in the actuarial valuation.

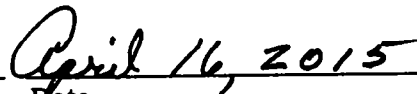
### Transparency and Accountability


This funding policy, the actuarial assumption study, and the actuarial valuation shall be readily available for review.

### Effective Date

This policy shall remain in effect until amended by the Trustees or preempted by state law.

  
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Dean Dickey, Trustee Chairman/Mayor

  
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Date

  
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Betty R. Modrall, Trustee/City Recorder  
City of Columbia Employees' Retirement Plan