

October 17, 2022

The Retirement Board
City of Taylor Police and Fire Retirement System

RE: GASB Statements No. 67 and No. 68 – City of Taylor Police and Fire Retirement System

Dear Board:

We are pleased to present to the Board this report of the GASB Statements No. 67 and No. 68 measured as of June 30, 2022 for the City of Taylor Police and Fire Retirement System.

The calculation of the liability associated with the benefits referenced in this report was performed to satisfy the requirements of GASB No. 67 and No. 68 and is not applicable for other purposes, such as determining the plan's funding requirements. Use of the results for other purposes may not be applicable and may produce significantly different results.

The total pension liability, net pension liability, and certain sensitivity information shown in this report are based on an actuarial valuation performed as of June 30, 2021. The total pension liability was rolled forward from the valuation date to the plan's fiscal year ending June 30, 2022 using generally accepted actuarial principles. It is our opinion that the assumptions used for this purpose are internally consistent, reasonable, and comply with the requirements under GASB No. 67 and No. 68.

The valuation has been conducted in accordance with generally accepted actuarial principles and practices, including the applicable Actuarial Standards of Practice as issued by the Actuarial Standards Board, and reflects law and regulations issued to date pursuant to the provisions of the Retirement System, as well as applicable federal law and regulations. Future actuarial measurements may differ significantly from the current measurements presented in this report for a variety of reasons including: changes in applicable laws, changes in plan provisions, changes in assumptions, or plan experience differing from expectations. Due to the limited scope of the valuation, we did not perform an analysis of the potential range of such future measurements.

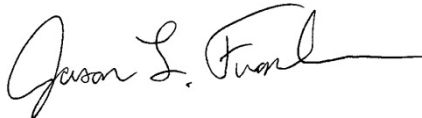
In conducting the valuation, we have relied on personnel, plan design, and asset information supplied by the Board, financial reports prepared by the custodian bank and the actuarial assumptions and methods described in the Actuarial Assumptions section of this report. While we cannot verify the accuracy of all this information, the supplied information was reviewed for consistency and reasonableness. As a result of this review, we have no reason to doubt the substantial accuracy of the information and believe that it has produced appropriate results. This information, along with any adjustments or modifications, is summarized in various sections of this report.

In performing the analysis, we used third-party software to model (calculate) the underlying liabilities and costs. These results are reviewed in the aggregate and for individual sample lives. The output from the software is either used directly or input into internally developed models to generate the costs. All internally developed models are reviewed as part of the process. As a result of this review, we believe that the models have produced reasonable results. We do not believe there are any material inconsistencies among assumptions or unreasonable output produced due to the aggregation of assumptions.

To the best of our knowledge, these statements are complete and accurate and are in accordance with generally recognized actuarial practices and methods.

If there are any questions, concerns, or comments about any of the items contained in this report, please contact us at 630-620-0200.

Respectfully submitted,
Foster & Foster, Inc.

By: 

SUMMARY

Valuation Date	6/30/2021	6/30/2020
Measurement Date	6/30/2022	6/30/2021
Plan Membership:		
Inactives Currently Receiving Benefits ¹	245	235
Inactives Not Yet Receiving Benefits	7	7
Active Plan Members	<u>96</u>	<u>105</u>
Total	348347	
Covered Payroll	\$ 8,196,459	\$ 8,404,265
Net Pension Liability		
Total Pension Liability	\$ 204,039,878	\$ 197,741,207
Plan Fiduciary Net Position	<u>132,184,931</u>	<u>156,692,679</u>
Net Pension Liability	\$ 71,854,947	\$ 41,048,528
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	64.78%	79.24%
Liability Net Pension Liability as a Percentage of Covered Payroll	876.66%	488.42%
Payroll Total Pension Expense	\$ 4,855,523	\$ (2,503,362)
Development of Single Discount Rate		
Single Discount Rate	7.25%	7.25%
Long-Term Expected Rate of Return	7.25%	7.25%
High-quality Municipal Bond Rate	4.09%	2.18%
Number of Years Future Benefit Payments Are Expected to be Paid	99	99

¹ Excludes members with EDRO (29 for the 6/30/2022 measurement date and 28 for 6/30/2021 measurement date).

STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2022

<u>ASSETS</u>	MARKET VALUE
Cash and Cash Equivalents	3,544,580
Total Cash and Equivalents	3,544,580
Receivables:	
Accounts Receivable-Other	158,978
Accrued Interest and Dividends	68,871
Total Receivable	227,849
Investments:	
Fixed Income	5,172,361
Domestic and International Equities	81,775,720
Alternative Investments	41,384,185
Total Investments	128,332,266
Other Assets	0
Total Assets	132,104,695
<u>LIABILITIES</u>	
Liabilities:	
Total Liabilities	0
Net Assets:	
Active and Retired Members' Equity	132,104,695
NET POSITION RESTRICTED FOR PENSIONS	132,104,695
TOTAL LIABILITIES AND NET ASSETS	132,104,695

STATEMENT OF FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2022
Market Value Basis

ADDITIONS

Contributions:

Member	769,179	
City	6,568,459	

Total Contributions Investment Income: 7,337,638

Miscellaneous Income	10,359	
Unrealized Gain (Loss)	(15,450,757)	
Net Increase in Fair Value of Investments		(15,440,398)
Interest & Dividends		0
Less Expenses ¹		(568,195)
Net Investment Income		(16,008,593)
Other		0
Total Additions		(8,670,955)

DEDUCTIONS Distributions to

Members:

Benefit Payments	15,803,956	
Refunds	0	

Total Distributions		15,803,956
Administrative Expenses		72,955
Other		40,118
Total Deductions		15,917,029
Net Increase in Net Position		(24,587,984)

NET POSITION RESTRICTED FOR PENSIONS

Beginning of the Year	156,692,679
End of the Year	132,104,695

¹ Expenses include investment advisory, custodial and performance monitoring fees

SCHEDULE OF CHANGES IN NET PENSION LIABILITY
PLAN AND CITY REPORTING

GASB 68 Reporting Period Ending	06/30/2022	06/30/2021
Measurement Date	<u>06/30/2022</u>	<u>06/30/2021</u>
Total Pension Liability		
Service Cost	2,166,067	2,407,238
Interest	13,920,384	13,973,333
Changes of Benefit Terms	359,534	-
Differences Between Expected and Actual Experience	5,656,642	(1,833,339)
Changes of Assumptions	-	(578,810)
Contributions - Buy Back	-	-
Benefit Payments, Including Refunds of Employee Contributions	<u>(15,803,956)</u>	<u>(14,712,901)</u>
Net Change in Total Pension Liability	6,298,671	(744,479)
Total Pension Liability - Beginning	<u>197,741,207</u>	<u>198,485,686</u>
Total Pension Liability - Ending (a)	\$ 204,039,878	\$ 197,741,207
 Plan Fiduciary Net Position		
Contributions - Employer	6,568,459	6,416,342
Contributions - Employee	769,179	874,695
Contributions - Buy Back	-	-
Net Investment Income	(16,008,593)	39,459,103
Benefit Payments, Including Refunds of Employee Contributions	(15,803,956)	(14,712,901)
Administrative Expense	(72,955)	(123,283)
Other	40,118	(1,005)
Net Change in Plan Fiduciary Net Position	<u>(24,507,748)</u>	<u>31,912,951</u>
Plan Fiduciary Net Position - Beginning	156,692,679	124,779,728
Adjustment to beginning of year	<u>-</u>	<u>-</u>
Plan Fiduciary Net Position - Ending (b)	\$ 132,184,931	\$ 156,692,679
 Net Pension Liability - Ending (a) - (b)	\$ 71,854,947	\$ 41,048,528
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	64.78%	79.24%
 Covered Payroll	\$ 8,196,459	\$ 8,404,265
Net Pension Liability as a Percentage of Covered Payroll	876.66%	488.42%

GASB 68

**PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS
YEAR-END JUNE 30, 2022**

For the year ended June 30, 2022, the Sponsor will recognize a pension expense of \$4,855,523.

On June 30, 2022, the Sponsor reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between actual and expected experience	3,771,094	916,670
Changes of assumptions	0	289,406
Net difference between projected and actual earnings on pension plan investments	<u>6,169,755</u>	<u>0</u>
Total	\$9,940,849	\$1,206,076

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year-ended June 30:

2023	\$2,261,240
2024	\$1,787,044
2025	(\$725,364)
2026	\$5,411,853
2027	\$0
Thereafter	\$0

COMPONENTS OF PENSION
EXPENSE YEAR-END JUNE 30, 2022

	Net Pension Liability	Deferred Inflows	Deferred Outflows	Pension Expense
Beginning Balance	\$ 41,048,528	\$ 28,633,929	\$ 4,849,347	
Total Pension Liability Factors:				
Service Cost	2,166,067	-	-	2,166,067
Interest	13,920,384	-	-	13,920,384
Changes in Benefit Terms	359,534	-	-	359,534
Differences Between Expected and Actual Experience With Regard to Economic or Demographic Assumptions	5,656,642	-	5,656,642	-
Current Year Amortization	-	(458,335)	(2,096,804)	1,638,469
Changes in Assumptions About Future Economic or Demographic Factors or Other Inputs	-	-	-	-
Current Year Amortization	-	(817,861)	-	(817,861)
Benefit Payments, Including Refunds of Employee Contributions	(15,803,956)	-	-	-
Net Change	6,298,671	(1,276,196)	3,559,838	17,266,593
Plan Fiduciary Net Position:				
Contributions - Employer	6,568,459	-	-	-
Contributions - Employee	769,179	-	-	(769,179)
Projected Net Investment Income	11,050,671	-	-	(11,050,671)
Difference Between Projected and Actual Earnings on Pension Plan Investments	(27,059,264)	-	27,059,264	-
Current Year Amortization	-	(7,740,006)	(7,115,949)	(624,057)
Benefit Payments, Including Refunds of Employee Contributions	(15,803,956)	-	-	-
Administrative Expenses	(72,955)	-	-	72,955
Other	40,118	-	-	(40,118)
Net Change	(24,507,748)	(7,740,006)	19,943,315	(12,411,070)
Ending Balance	\$ 71,854,947	\$ 19,617,727	\$ 28,352,500	\$ 4,855,523

AMORTIZATION SCHEDULE – EXPERIENCE

Increase (Decrease) in Pension Expense Arising from the Recognition of the Effects of Differences between Expected and Actual Experience

Year Base Established	Differences Between Expected and Actual Experience	Recognition Period (Years)	2022	2023	2024	2025	2026	Thereafter
2022	\$ 5,656,642	3	\$ 1,885,548	\$ 1,885,547	\$ 1,885,547	\$ -	\$ -	\$ -
2021	\$ (1,833,339)	4	\$ (458,335)	\$ (458,335)	\$ (458,335)	\$ -	\$ -	\$ -
2020	\$ 739,394	2.8	\$ 211,256	\$ -	\$ -	\$ -	\$ -	\$ -
Net Increase (Decrease) in Pension Expense			1,638,469	1,427,212	1,427,212	-	-	-

AMORTIZATION SCHEDULE – CHANGES OF ASSUMPTIONS

Year Base Established	Effects of Changes in Assumptions	Recognition Period (Years)	2022	2023	2024	2025	2026	Thereafter
2021	\$ (578,810)	4	\$ (144,703)	\$ (144,703)	\$ (144,703)	\$ -	\$ -	\$ -
2020	\$ (2,356,054)	2.8	\$ (673,158)	\$ -	\$ -	\$ -	\$ -	\$ -
Net Increase (Decrease) in Pension Expense			\$ (817,861)	\$ (144,703)	\$ (144,703)	\$ -	\$ -	\$ -

AMORTIZATION SCHEDULE – INVESTMENTS

Increase (Decrease) in Pension Expense Arising from the Recognition of the Differences Between Projected and Actual Earnings on Pension Plan Investments

Year Base Established	Differences		Increase (Decrease) in Pension Expense Arising from the Recognition of the Differences Between Projected and Actual Earnings on Pension Plan Investments						
	Between Projected and Actual Earnings	Recognition Period (Years)	2022	2023	2024	2025	2026	Thereafter	
2022	\$ 27,059,264	5	\$ 5,411,852	\$ 5,411,853	\$ 5,411,853	\$ 5,411,853	\$ 5,411,853	\$ -	
2021	\$ (30,686,084)	5	\$ (6,137,217)	\$(6,137,217)	\$(6,137,217)	\$(6,137,217)	\$ -	\$ -	
2020	\$ 6,149,494	5	\$ 1,229,899	\$ 1,229,899	\$ 1,229,899	\$ -	\$ -	\$ -	
2019	\$ 2,370,988	5	\$ 474,198	\$ 474,196	\$ -	\$ -	\$ -	\$ -	
2018	\$ (8,013,946)	5	\$ (1,602,789)	\$ -	\$ -	\$ -	\$ -	\$ -	
Net Increase (Decrease) in Pension Expense			\$ (624,057)	\$ 978,731	\$ 504,535	\$ (725,364)	\$ 5,411,853	\$ -	

SCHEDULE OF CONTRIBUTIONS

The following assumptions were used to determine the Actuarially Determined Contribution for the plan year ending June 30, 2022:

Calculation Timing	The Actuarially Determined Contribution is calculated using a June 30, 2020 valuation date.
Interest Rate	7.25%
Mortality Rate	RP 2014 Combined Healthy Mortality Table. 100% of deaths are assumed to be non-duty.
Assumptions	All other assumptions and methods used for determining the Actuarially Determined Contribution can be found in the June 30, 2020 Actuarial Valuation Report for the City of Taylor Police and Fire Retirement System prepared by Foster & Foster Actuaries and Consultants.

ASSUMPTIONS – GASB PENSION LIABILITY AND PENSION EXPENSE

The GASB 67/GASB 68 Pension Liability for reporting as of June 30, 2022 and GASB Pension Expense were determined as follows:

Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
GASB 68 Expense Measurement Period	July 1, 2021 - June 30, 2022
Reporting Period	July 1, 2021 - June 30, 2022
Discount Rate	7.25%
Inflation	3.50%
Mortality Rate	2010 Public Safety Retiree Mortality Table, with generational mortality improvements with Scale MP-2019.

Additional Assumptions

Retirement Age	See table later in this section.
Disability Rate	See table later in this section. 90% of disabilities are assumed to be in the line of duty.
Termination Rate	See table later in this section.
Salary Increases	See table below.

Age	Across the Board	Merit and Longevity	Total
20	3.50%	4.50%	8.00%
25	3.50%	4.51%	8.01%
30	3.50%	4.09%	7.59%
35	3.50%	2.60%	6.10%
40	3.50%	1.70%	5.20%
45	3.50%	1.70%	5.20%
50	3.50%	1.70%	5.20%
55	3.50%	1.60%	5.10%
60	3.50%	1.50%	5.00%

Final Salary Load	Final salary is loaded 17% for police members and 10% for fire members to account for unused sick leave payouts.
Marital Status	90% of Members are assumed to be married.
Spouse’s Age	Males are assumed to be three years older than females.
Member Contribution Interest	2.00%.

Funding Method

Entry Age Normal.

Decrement Tables

% Terminating
During the Year

% Becoming Disabled
During the Year

Fire									
Service									
Age	0	1	2	3	4	5+	Age	Male Rate	Female Rate
20	10.00%	8.00%	6.00%	4.00%	3.00%	2.00%	20	0.07%	0.03%
25	10.00%	8.00%	6.00%	4.00%	3.00%	2.00%	25	0.09%	0.05%
30	10.00%	8.00%	6.00%	4.00%	3.00%	1.65%	30	0.10%	0.07%
35	10.00%	8.00%	6.00%	4.00%	3.00%	0.86%	35	0.14%	0.13%
40	10.00%	8.00%	6.00%	4.00%	3.00%	0.34%	40	0.21%	0.19%
45	10.00%	8.00%	6.00%	4.00%	3.00%	0.29%	45	0.32%	0.28%
50	10.00%	8.00%	6.00%	4.00%	3.00%	0.29%	50	0.52%	0.45%
55	10.00%	8.00%	6.00%	4.00%	3.00%	0.29%	55	0.92%	0.76%
60+	10.00%	8.00%	6.00%	4.00%	3.00%	0.29%	60	0.92%	0.76%
							66+	0.92%	0.00%

% Terminating
During the Year

Police						
Service						
Age	0	1	2	3	4	5+
20	8.00%	6.00%	4.50%	4.00%	3.00%	3.00%
25	8.00%	6.00%	4.50%	4.00%	3.00%	2.97%
30	8.00%	6.00%	4.50%	4.00%	3.00%	2.57%
35	8.00%	6.00%	4.50%	4.00%	3.00%	1.52%
40	8.00%	6.00%	4.50%	4.00%	3.00%	0.59%
45	8.00%	6.00%	4.50%	4.00%	3.00%	0.54%
50	8.00%	6.00%	4.50%	4.00%	3.00%	0.49%
55	8.00%	6.00%	4.50%	4.00%	3.00%	0.43%
60	8.00%	6.00%	4.50%	4.00%	3.00%	0.38%
61+	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

% Retiring During the Year				
Corp/Patrol Hired				
Service	Other Police Age < 60 Rate	After 9/30/11 Age < 60 Rate	Fire Age < 60 Rate	All Age 60+ Rate
<20	N/A	N/A	N/A	100%
20	70%	N/A	70%	100%
21	20%	N/A	40%	100%
21	20%	N/A	30%	100%
23	20%	N/A	20%	100%
21	20%	N/A	20%	100%
25	100%	50%	50%	100%
26	100%	40%	50%	100%
27	100%	40%	50%	100%
28	100%	40%	50%	100%
29	100%	40%	50%	100%
30	100%	90%	100%	100%
31	100%	40%	100%	100%
32+	100%	100%	100%	100%

NOTES TO THE FINANCIAL STATEMENTS

Discount Rate

The Discount Rate used to measure the Total Pension Liability was 7.25 percent.

The projection of cash flows used to determine the Discount Rate assumed that Plan Member contributions will be made at the current contribution rate and that Sponsor contributions will be made at rates equal to the difference between actuarially determined contribution rates and the Member rate. Based on those assumptions, the Pension Plan’s Fiduciary Net Position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the Long-Term Expected Rate of Return on Pension Plan investments (7.25 percent) was applied to all periods of projected benefit payments to determine the Total Pension Liability.

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.25 percent. The municipal bond rate is 4.09 percent (based on the daily rate closest to, but not later than the measurement date of the S&P Municipal Bond 20 Year High Grade Rate Index). The resulting single discount rate is 7.25 percent.

Deferred Retirement Option Plan (DROP)

Eligibility	Satisfaction of Service Retirement requirements.
Participation	Not to exceed 60 months.
Rate of Return	DROP Interest for each DROP Participant prior to termination of employment shall be equal to the rate paid to an employee who terminates their employment and withdraws their annuity in lieu of a retirement. Upon termination of employment, DROP Interest shall be credited at the same rate and in the same manner as interests is credited to an employee who withdraws their annuity and terminates employment in lieu of a retirement..

The estimated DROP Balance as of June 30, 2022 is \$ 1,044,742.

SUMMARY OF CURRENT PLAN PROVISIONS

Plan	<p>The Plan is a single employer defined benefit pension plan that covers all eligible public safety employees of the City. The plan is administered by a Board of Trustees comprised of five members:</p> <ul style="list-style-type: none"> a.) One police officer elected by plan members, b.) One firefighter elected by plan members, c.) Two members representing the City, and d.) The city treasurer.
Final Average Compensation (FAC)	<p>Highest 3 years out of last 10. Fire FAC will use base wages only and overtime is capped at \$3,000. Corporal/Patrol FAC shall be base wage plus a maximum of 240 hours of paid leave.</p>
Service Retirement	
Eligibility	<p>Corporal/Patrol hired prior to 10/1/2011 and Fire hired prior to August 1, 2012: Any age with 20 or more years of service or age 60 regardless of service.</p> <p>Corporal/Patrol hired after 9/30/2011: Age 50 with 25 or more years of service or age 60.</p> <p>Fire hired after August 1, 2021: Any age with 20 or more years of service or age 60 regardless of service.</p> <p>Police Command: Any age with 25 or more years of service or age 60 regardless of service.</p>
Annual Benefit	<p>Corporal/Patrol hired prior to 10/1/2011: Straight life pension equals 2.80% FAC times first 25 years of service, maximum of 70% of FAC.</p> <p>Police Command and Fire hired prior July 1, 2007: Straight life pension equals 2.80% of FAC times first 25 years of service plus 1.00% of FAC times years of service in excess of 25 years to a maximum of 75% of FAC.</p> <p>Fire hired on or after July 1, 2007 (and before August 1, 2012) and Corporal/Patrol hired after 9/30/2011: Straight life pension equals 2.25% of FAC times years of service.</p> <p>Fire hired on or after August 1, 2021: Straight life pension equals 2.25% of FAC times years of service to a maximum of 75% of FAC.</p>

GASB 67/68

Duty Disability Retirement

Eligibility	Payable upon the total and permanent disability of a member in the line of duty.
Benefit	To age 55: 50% of FAC. At age 55: Same as service retirement pension with service credit from date of disability to age 55.

Non-Duty Disability Retirement

Eligibility	Payable upon the total and permanent disability of a member with 5 or more years of service
Benefit	To Age 55: 1.50% of FAC times years of service. At Age 55: Same as service retirement pension.

Deferred Retirement

Eligibility	10 years of credited service.
Benefit	Computed as service retirement but based upon service, FAC and benefit provisions in effect at termination. Benefit begins at date retirement would have occurred had member remained in employment.

Duty Death in Service Survivor's Pension

Eligibility	Payable upon the expiration of a worker's compensation to the survivors of a member who died in the line of duty.
Benefit	Same amount that was paid by worker's compensation.

Non-Duty Death in Service Survivor's Pension

Eligibility	Payable to a surviving spouse, if any, upon the death of a member with 10 or more years of service.
Benefit	Fire: Spouse's pension equals 60% of the straight life pension. All others: Accrued straight life pension actuarially reduced in accordance with an Option I election

Death After Retirement Survivor's Pension

Eligibility	Payable to an eligible surviving spouse, if any, upon the death of a retired member who was receiving a straight life pension which was effective July 1, 1975 or later.
Annual Benefit:	Spouse's pension equals 60% of the straight life pension the deceased retiree was receiving.

Deferred Retirement Option Plan

Eligibility	Must be Police Command or member of the Taylor Professional Fire Fighters Associate Local 1252 hired before August 1, 2012. Members can elect DROP after earning 20 years of service. Fire members must earn 20 years on or before June 30, 2022.
Participation	Not to exceed 60 months.
Rate of Return	DROP Interest for each DROP Participant prior to termination of employment shall be equal to the rate paid to an employee who terminates their employment and withdraws their annuity in lieu of a retirement. Upon termination of employment, DROP Interest shall be credited at the same rate and in the same manner as interests is credited to an employee who withdraws their annuity and terminates employment in lieu of a retirement..
Member Contributions	8.00% of pay. Member contributions earn 2.00% interest.

Changes Since Prior Year

The valuation reflects the following plan changes:

- DROP provisions were added for members of the Taylor Professional Fire Fighters Association Local 1252 who earn 20 years of service on or before June 30, 2021. Retirement rates were updated to reflect the value of this change.
- A new tier of benefits was added for fire members hired on or after August 1, 2021.