

Frederick County Employees Retirement Trust and  
Frederick County Uniformed Employees Retirement Plan  
Funding Policy  
As of July 1, 2021

***Preamble***

The intent of this funding policy is to establish a formal methodology for financing the pension obligations accruing under the Frederick County Employees Retirement Plan and the Frederick County Uniformed Employees Retirement Plan (the "Plans"). The purpose of the methodology is to ensure that current assets plus future assets from employer contributions, employee contributions and investment earnings will be sufficient to finance all defined benefit pension benefits provided by the Plans, including but not limited to death, disability and retirement benefits. The objective of the funding policy is to reflect a reasonable and fiscally conservative approach to fund the obligations over a time frame that ensures benefit security while balancing the additional, and sometimes competing, goals of intergenerational equity and a stable contribution rate. This funding policy recognizes that there will be investment marketplace 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 federal and state laws, rules and regulations.

This funding policy is being adopted by the Frederick County Employees Retirement Committee and the Frederick County Uniformed Employees Retirement Committee (the "Committees") in fulfilling the Committees' fiduciary duty. Moreover, adoption of a funding policy is recommended by the Government Finance Officers Association and the Governmental Accounting Standards Board.

***Funding Benchmarks***

The Committees have determined that an acceptable plan funded ratio should range between 95% - 105% (inclusive) for each of the Plans. This funded ratio, calculated separately for each Plan, will determine the upcoming fiscal year County plan contributions. However, an exception may be made in the event that a significant change to improve members' benefits is made, at the direction of the County Executive and County Council. In order to maintain the 95% to 105% plan funded ratio, the following County contribution amounts, as calculated for each Plan separately, will be budgeted:

- The percent funded will be determined separately for each Plan as the ratio of the actuarial value of assets to the actuarial liabilities, with the liabilities based upon the methods and assumptions used to determine the annual contributions. Currently that funding method is the Projected Unit Credit method, and changes in assets are smoothed using a 5-year smoothing method.
- For each Plan separately, if the Plan is at least 95% but not more than 105% funded, the greater of the actuarially determined contribution amount or an amount equal to two times the total estimated employee contributions will be budgeted.

- For each Plan separately, if the Plan is greater than 105% funded, the actuarially determined contribution amount but not less than two times the total estimated employee contributions will be budgeted.
- For each Plan separately, if the Plan is less than 95% funded, the actuarially determined contribution plus an additional amount that is estimated to provide for a 100% funded ratio within a five (5) year timeline will be budgeted. This additional contribution will be determined by the actuarial firm in accordance with generally accepted actuarial principles and in accordance with the actuarial assumptions in place at the time of the determination.
- Notwithstanding the foregoing parameters, for each plan separately, in no budget year will the County contribute less than two (2) times the net employee contribution rate as calculated by the actuarial firm, as of the most recent actuarial valuation. The “net employee contribution rate as calculated by the actuarial firm” is equal to the total estimated employee contributions divided by the total estimated participant compensation, including compensation for employees who are no longer contributing to the Plans. The Plans do not require contributions from employees who have exceed 30 years of service for Uniformed employees and 28 years of services for Non-Uniformed employees.
- The effect on the plan funded ratio of any proposed plan amendments or plan enhancements will be determined by the actuarial firm prior to recommendation by the Committees.
- One hundred percent (100%) of all employee payroll contributions will be contributed to the Plans.

#### ***Actuarial Services***

Frederick County, Maryland (the "County") shall obtain the services of an independent, qualified actuary who shall determine the County's actuarially determined contribution for its defined benefit pension plans. The actuary shall be a member of the American Academy of Actuaries.

The County shall acquire the services of professional actuarial firms to perform an actuarial experience study, an actuarial valuation, an actuarial audit, and other necessary actuarial services. The actuarial firm that performs any actuarial audit shall not be the same firm that performs the actuarial valuation and the actuarial experience study. The actuarial firm shall be independent and shall act as an advisor on actuarial matters on behalf of the Plans.

#### ***Actuarial Experience Study***

An actuarial experience study shall be conducted every five years, absent extraordinary circumstances. As determined necessary by the Committees, assumptions may be evaluated on an interim basis.

Assumptions adopted by the Committees should be established based on past experience and future expectations as the result of an extensive actuarial experience study.

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

1. Turnover rates and pattern
2. Pre-retirement mortality reflecting expected improvement in mortality

3. Pattern and rates of retirement
4. Pattern and rates of disability
5. Post-retirement mortality, including expected mortality improvement
6. Other factors, such as marital percentage and spouse age difference, as appropriate

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

7. Investment earnings (net of investment expenses)
8. Salary improvement
9. Retiree COLA
10. Administrative expenses

Economic assumptions shall include an underlying assumption for inflation.

The actuarial experience study shall also be used to generate factors used in the conversion of the normal form of retirement benefit to alternative forms including, but not limited to, the following: (1) survivorship benefit option factors for Joint and 50% and joint and 100% options, with and without the pop up option, and (2) 10-year certain and life option factors. These factors shall be determined on a cost neutral basis, reflecting interest and mortality assumptions similar to those selected for the annual actuarial valuations and should reflect the effect of any automatic cost of living adjustments.

#### *Actuarial Valuation*

*Valuation method and frequency.* An actuarial valuation to determine the "Actuarially Determined Contribution ("ADC") rate to finance pension obligations for each of the Plans shall be performed annually. The valuation shall utilize the projected unit credit method for determining the annual contribution and the entry-age normal method for accounting purposes. The ADC shall include (1) the normal cost, (2) the unfunded liability cost, and (3) the cost of administration. The ADC shall be calculated and become applicable on July 1 following the valuation date (e.g. the ADC calculated as part of the July 1 valuation in year X will apply to the fiscal year ending June 30, in year X +2).

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

*Asset smoothing method.*

The asset valuation method is the smoothed market value method, using a smoothing period of five years. The actuarial value of assets will equal the market value of assets with gains subtracted or losses added (relative to the expected market value of assets) at the rates described below:

- a. 4/5 of the prior year's gain or loss
- b. 3/5 of the second preceding year's gain or loss
- c. 2/5 of the third preceding year's gain or loss
- d. 1/5 of the fourth preceding year's gain or loss

For this purpose, the gain or loss for a year is determined by calculating the difference between the expected value of assets for the year and the market value of assets at the valuation date. The expected value of assets for the year is the market value of assets at the prior-year valuation date brought forward with interest at the valuation interest rate to the current valuation date, plus contributions minus benefit disbursements

and expenses, all adjusted with interest at the valuation rate to the current valuation date. If the expected value is greater than the market value, there is a loss.

*Amortization methodology.*

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.

Gains and Losses:

Effective with the July 1, 2014 valuation, cumulative gains/losses and assumption changes through July 1, 2013 are amortized over a closed 15-year period from July 1, 2014. Actuarial gains/losses and assumption changes after July 1, 2013 are amortized over a closed 15-year period effective with each valuation.

Plan Changes:

Plan changes are amortized over a closed 15-year period (with exception of any Early Retirement Incentives and amendments to the cost-of-living adjustments (COLA) provisions, which are amortized over a closed period of up to 5 years, or a closed period of 3 years, respectively.)

Actuarial Surpluses:

An actuarial surplus is amortized over an open 30-year period.

All bases are amortized as a level percent of payroll, which is assumed to increase 3.0% per year, or other payroll growth assumption as recommended by the Actuary and adopted by the Committees for purposes of annual actuarial valuations.

*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 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 Plans including, but not limited to, retirement, disability, death benefits, and post-employment COLAs. The valuation shall be based on the benefit eligibility and benefit terms as set out in the Plans.

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

*Actuarial Audit*

An actuarial audit by an independent actuarial audit firm shall be conducted at least once in a ten (10) year period. The purpose of the actuarial audit shall include, but not be limited to the following: (1) the validation and verification of the actuarial valuation results for both funding and accounting; (2) an evaluation of the reasonableness of actuarial assumptions and methods; (3) compliance with professional standards such as generally accepted actuarial standards; and (4) compliance with state law and County policy.

*Transparency and Accountability*

This funding policy, the actuarial experience study, the actuarial valuation, and the actuarial audit shall

be readily available for review by any member of the public. Accordingly, the funding policy shall be posted on the Division of Human Resources page of the County's website. Further, the results of the actuarial experience study, the actuarial valuation, and the report of the actuarial audit shall be maintained on the Division of Human Resources page of the County's website for a period of no less than five (5) years after being published.

*Effective Date*

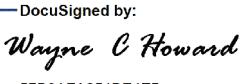
This policy shall remain in effect until further amended by the Frederick County Employees Retirement Committee and the Frederick County Uniformed Employees Retirement Committee, or preempted by federal or state law.

Adopted by Frederick County Employees Retirement Plan Committee on August 10, 2021.

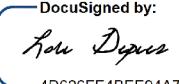
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Wayne C. Howard  
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Chair, Frederick County Employees Retirement Committee and Frederick County Uniformed Retirement Committee

Adopted by Frederick County Uniformed Employees Retirement Plan Committee on August 10, 2021.

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Chair, Frederick County Uniformed Employees Retirement Committee

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Lori Depies, Trustee

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Jan H. Gardner  
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Jan H. Gardner, County Executive