10940. RESOLUTION 15-07 - AUTHORIZES THE ADOPTION OF A PENSION FUNDING POLICY FOR THE DELAWARE RIVER AND BAY AUTHORITY EMPLOYEES' RETIREMENT PLAN

WHEREAS, The Delaware River and Bay Authority ('the Authority") is a bi-state Authority created by Compact for the purposes of owning, operating and controlling both Crossing and Non-Crossing facilities; and

WHEREAS, the Authority has established and maintains the Delaware River and Bay Authority Employees' Retirement Plan (the "Retirement Plan") for the benefit of the Authority's eligible employees: and

WHEREAS, the Board of Commissioners ("the Board") is vested with the authority and fiduciary responsibility for the administration, management and operation of the Retirement Plan; and

WHEREAS, the Board has an obligation to provide reasonable assurance that the costs of benefits under the Retirement Plan will be funded in an equitable and sustainable manner; and

WHEREAS, a funding policy establishes guidelines for plan funding through actuarial valuations, regular contribution rates, contribution timing and actuarial assumptions; and

WHEREAS, the adoption of a Pension Funding Policy is consistent with "best practices" and the Board's fiduciary oversight of the Retirement Plan; and

NOW, THEREFORE BE IT RESOLVED, that the Board adopted the attached Pension Funding Policy for the Delaware River and Bay Authority Employees' Retirement Plan.

A motion to approve Resolution 15-07 was made by Commissioner Downes, seconded by Commissioner Murphy, and approved by a roll call vote of 11-0.

Resolution 15-07 Executive Summary Sheet

Resolution:	Authorizes the Adoption of a Pension Funding Policy for the Delaware River and Bay Authority Employees' Retirement Plan
Committee:	Budget and Finance Committee
Committee Date:	March 17, 2015
Board Date:	March 17, 2015
Purpose of Resolution:	To establish a formal funding policy to ensure the systematic funding of future obligations of the Retirement Plan through maintaining adequate levels of assets, stability of employer contributions, intergenerational equity among ratepayers and promotes public accountability and transparency.
Background for Resolution:	The Authority is implementing new accounting standards for pension liabilities in the current fiscal year. Under the prior accounting standards, there was a direct link between pension accounting and funding measures. The new accounting standards break the link and focuses entirely on accounting for the pension liability, rather than the annual contribution amount (Annual Required Contribution or "ARC"). As a result, the establishment of a pension funding policy is necessary to provide reasonable assurance that the cost of pension benefits will be funded in an equitable and sustainable manner.

THE DELAWARE RIVER AND BAY AUTHORITY

EMPLOYEES’ RETIREMENT PLAN

FUNDING POLICY

Retirement Plan Funding Policy

A. Introduction

The purpose of this Statement of Retirement Plan Funding Policy (“Policy”) is to establish a methodology for funding pension obligations accruing under the Delaware River and Bay Authority Retirement Plan (the “Plan”). It is anticipated that current assets plus future assets from employer contributions, employee contributions, and investment earnings should be sufficient to fund Plan benefits. The Policy is intended to reflect a reasonable, conservative approach with each generation of ratepayers financing, to the greatest extent possible, the cost of pension benefits being accrued. This Policy recognizes that there will be investment market place volatility and that actual economic and demographic experience will differ from assumed experience. Accordingly, this 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 Policy comply with all applicable laws, rules and regulations (collectively “Laws”). In the event that this Policy conflicts with any such Law, the applicable Law shall prevail.

B. Policy Funding Objectives

The primary funding objectives of this Policy, in order of importance, are to:

1. Provide sufficient assets to permit the payment of all benefits under the Plan.
2. Maintain equity among generations of ratepayers by:
    a. Establishing improvement, on a projected basis, in the Plan’s Funded Ratio, as defined in Section E, such that it approaches 100% over a given period of time;
    b. Amortizing the Unfunded Actuarial Accrued Liability, as defined in Section E, over fixed periods, specified below.
3. Minimize the volatility of the employer’s annual contributions by smoothing investment gains and losses over a period of years. Smoothing investment returns over a period of years recognizes that investment performance will fluctuate, and only by coincidence will it exactly equal the assumed rate of return for any given year. It is anticipated that this approach may reduce volatility within the calculation of the Unfunded Actuarial Accrued Liability.

C. Funding Guidelines

This Policy establishes guidelines for setting the employer contribution rate.

1. Actuarial Valuations
   The Plan's actuary shall conduct an actuarial valuation annually, based on actual Plan data, to determine funding progress as well as employer contributions for the following fiscal year.

2. Regular Contribution Rate
   Coordination of the Plan's Funding and Investment Policies will attempt to minimize the volatility of the employer's contribution from year to year. The employer contribution is the sum of the employer's Normal Cost and expenses, plus a payment to amortize the Unfunded Actuarial Accrued Liability as of the date of valuation:
   a. The Normal Cost and Actuarial Accrued Liability used for this purpose will be calculated using the Entry Age actuarial cost method.
   b. The Actuarial Value of Assets used for this purpose will be a smoothed value that recognizes realized and unrealized investment gains and losses gradually, but should not deviate by more than 120% or less than 80% of Market 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 years.
   c. The Unfunded Actuarial Accrued Liability will be amortized as a level dollar amount over a closed period (14 years as of January 1, 2015).

      To maintain consistency with actuarial best practices:
      - Any changes in plan provisions will be amortized over a maximum of 15 years,
      - Ad hoc cost-of-living-adjustments (COLA) will be amortized over a maximum of 5 years, and
      - Any early retirement incentive programs (ERIP) will be amortized over a maximum of 5 years.

   d. For the purposes of the calculation, investment return assumptions will be evaluated by an independent pension investment advisor on a regular basis (at a minimum of every two years), and should reflect the nature of the investments held in the Plan, and the historical and projected return rates anticipated for the investments.

3. Minimum Contribution Rate
   In order to maintain adequate funding and to control contribution volatility, if the Funded Ratio has increased to over 100% (all Unfunded Actuarial Accrued Liability has been fully amortized), the surplus will be amortized over 30 years.

4. Contribution Timing
   After the Board of Commissioners (the "Board") has adopted a contribution or rate based on a given actuarial valuation, the funds will be contributed by the Authority on a regular basis (at least monthly) throughout the fiscal year.

D. Assumption Guidelines

1. The actuarial assumptions are adopted by the Board in an effort to align the funding of the Plan with actual demographic and economic experience, thus providing stability to the contribution rate over time. It is expected that actual experience will deviate from the actuarial assumptions, and Experience Gains and Losses will occur. These gains (or losses) will reduce (or increase) future contributions.

2. Actuarial Assumptions are generally grouped into two major categories:
   - Demographic assumptions -- which include withdrawal (termination), retirement, disability, and mortality rates, as well as assumptions regarding beneficiaries.
   - Economic assumptions -- which include inflation, investment return, and employee salary increases

3. The assumptions adopted by the Board represent the actuary's best estimate of anticipated experience under the Plan and are intended to be long term in nature. Therefore, in developing the assumptions, the actuary considers not only past experience, but also trends, external forces and future expectations. Despite the care with which actuarial assumptions are developed, actual experience over the short term is not expected to match these assumptions exactly.

4. It is the Board's policy that these assumptions shall be reviewed by the Plan's consulting actuary not less often than every five years, through an Experience Study and Assumption Review. The actuary will present recommendations (and accompanying reports, discussion, etc.) to the Board, which will have the option to accept or reject such. At the time of the Assumption Review, this Funding Policy shall also be reviewed for any necessary modifications. Any changes are also subject to legal review.

E. Glossary of Terms

Actuarial Cost Method: The technique used to allocate costs to various time periods.

Actuarial Accrued Liability (AAL): The portion of the Present Value of Projected Benefits that is attributed to past years of service by the Actuarial Funding Method. The AAL serves as a funding target at any given point in time.

Actuarial Value of Assets: The smoothed value of assets used by the actuary in the actuarial valuation, for the purpose of reducing the impact of market fluctuations on the employer's contribution rate.

Entry Age Method: An Actuarial Cost (or Funding) Method that determines the plan's Normal Cost as a level percentage of pay over the working lifetimes of plan members.

Experience Gains and Losses: The difference between the experience anticipated by the actuarial assumptions and the plan's actual experience during the period between valuations. If actual experience is financially more favorable to the Plan, it is a Gain, (e.g., higher investment return than expected). If actual experience is financially less favorable to the Plan, it is a Loss, (e.g., lower investment return than expected).

Funded Ratio: A measure of the ratio of plan assets to the Actuarial Accrued Liability (funding target) of the Plan. Plan assets can be the Market Value of Assets or the Actuarial Value of Assets.

Market Value of Assets: The total fair value of fund assets as reported in the Plan's financial statements.

Normal Cost: The portion of the Present Value of Projected Benefits that is attributed to the current year by the Actuarial Funding Method. Also referred to as the *Annual Benefit Cost*.

Unfunded Actuarial Accrued Liability (UAAL): The portion of the Actuarial Accrued Liability not covered by plan assets. It is calculated by subtracting the Actuarial Value of Assets from the Actuarial Accrued Liability.

All aspects of this Policy and the individual factors in the calculation of the annual employer contribution rate which is the result of the above process are subject to the review and approval of the Board and are subject to change, in whole and in part, if deemed appropriate and in the best interests of the Plan sponsor and participants.