

Funding Policy of the City of Franklin Employees' Pension Plan

The Board of Mayor & Aldermen, as Trustees of the City of Franklin Employees' Pension Plan, hereby adopts this document for its defined benefit plan funding policy.

Preamble

The intent of this funding policy is to establish a formal methodology for financing the pension obligations accruing under the City of Franklin Employees' Pension 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 City of Franklin Employees' Pension 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 that this funding policy comply with all applicable laws, rules, and regulations of the State of Tennessee and the Federal Government.

Components of this Funding Policy

1. Procurement of actuarial services
2. Actuarial experience study
3. Actuarial valuation
4. Actuarial audit

Procurement of Actuarial Services

City of Franklin Employees' Pension Plan 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. Actuarial firms shall be selected by a competitive process. The actuarial firm that performs the actuarial audit shall not be the same firm that performs the actuarial valuation and the actuarial experience study. The contractual agreement with an actuarial firm shall not exceed five years. The actuarial firm shall be independent and shall act as a fiduciary on behalf of City of Franklin Employees' Pension Plan.

The lead actuaries of actuarial firms 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 City of Franklin Employees' Pension Plan

Actuarial Experience Study

An actuarial experience study shall be conducted at least every four years. As determined necessary by the chair of the Investment Committee, assumptions may be evaluated on an interim basis.

Assumptions adopted by the Board 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 pattern
2. Pre-retirement mortality based on expected improvement in mortality
3. Pattern of retirement
4. Post-retirement mortality with expected improvement in mortality to be phased in with future studies

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

1. Investment earnings (net of investment expenses)
2. Salary
3. Retiree Market Price Adjustment (Adjustment for change in purchasing power)
4. Social security wage base

Economic assumptions shall include an underlying assumption for inflation.

The actuarial experience study shall also generate administrative factors including, but not limited to, the following: (1) survivorship benefit option factors, (2) social security leveling option factors, (3) early retirement reduction factors, (4) full retirement age actuarial equivalent factors, and (5) annuity factors. These factors shall be determined on a cost neutral basis.

Actuarial Valuation

Valuation method, frequency, and ADC. An actuarial valuation to determine the Actuarially Determined Contribution (ADC) rate to finance pension obligations shall be performed annually beginning as of January 1, 2015. The valuation shall utilize the entry-age normal actuarial method. The valuation shall provide funding of at least 100% of the ADC. The ADC shall include (1) the normal cost, (2) the unfunded liability cost, and (3) the cost of administration for the operation of City of Franklin Employees' Pension Plan. The ADC shall be calculated and become applicable on first day of July that is six months following the valuation date.

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 years, for fiscal years beginning after June 30, 2014. For fiscal years prior to July 1, 2014, no smoothing period shall be used. However, there shall be a corridor so that the actuarial value of assets cannot be 20% more than nor 20% less than the market value of assets existing as of the actuarial valuation date.

Amortization methodology for actuarial gains and losses. Unfunded liabilities shall be amortized utilizing the level dollar amortization method over a closed period not to exceed 20 years. A tiered approach will be utilized with new actuarial gains and losses from each actuarial valuation. Each

tier shall be amortized over a closed, maximum 20 year period. The amortization period may be shortened or extended from valuation to valuation but the gains and losses for a specific tier must be completely amortized within 20 years. Any extension of the amortization period for a specific tier cannot exceed the 20 year maximum less whatever time has elapsed from the beginning of the amortization period.

The unfunded liability based on the 2015 actuarial valuation shall be funded no later than 2035. In subsequent actuarial valuations, new tiers of actuarial gains and losses shall be amortized over a closed period not to exceed 20 years.

Actuarial gains and losses may result from (1) actual experience versus assumed experience, (2) changes in demographic and economic assumptions, and (3) changes in benefit provisions.

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).

Benefit provisions. The actuarial valuation shall include all benefits being accrued by members of City of Franklin Employees' Pension Plan including, but not limited to, retirement, disability, death benefits, and post-employment market-price adjustments. The valuation shall be based on the benefit eligibility and benefit terms as set out in state law.

Assumptions utilized. Demographic and economic assumptions as determined by an actuarial experience study, recommended by the Investment Committee, and adopted by the Board 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 year period. The purpose of the actuarial audit shall be: (1) the validation and verification of 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 Board policy.

Transparency and Accountability

This funding policy, the actuarial experience study, the actuarial valuation, and the actuarial audit shall be readily available for review. Accordingly, the funding policy shall be posted on the City website. Further, the actuarial experience study, the actuarial valuation, and the actuarial audit shall be maintained on the City website for a period of no less than five years after being published.

Effective Date

This policy be effective upon its adoption by the Board of Mayor & Aldermen, and shall remain in effect until amended by the Board or preempted by state law.