Tennessee Consolidated Retirement System
Employer Actuarially Determined Contribution (ADC) Rate

Department Code(s): 819.09
CITY OF FRANKLIN

Applicable period for this employer rate	July 1, 2018 through June 30, 2019
Actuarial valuation date	June 30, 2017
Actuarial experience study date	June 30, 2016
Investment rate of return assumption	7.25%

Key Elements of the Pension Plan (Employer Elections)

Base plan formula	1.5% formula times years of service
Employee contribution rate	5% of salary
Vesting period	5 years
Retiree COLAs	Provided, CPI based, capped at 3%

Employer ADC Rate

Rate Components:	
Normal cost	5.87 %
Unfunded accrued liability amortization	0.09 %
Administrative cost	0.23 %
Total employer ADC rate	6.19 %

Actuarial Present Value of Benefits (PVB) Summary

Actuarial value of assets	$ 40,393
Expected employee contributions	541,737
Expected employer normal cost	595,826
Unfunded accrued liability	11,874
Total PVB	$ 1,189,830

Employees Covered by Benefit Terms

Inactive employees or beneficiaries currently receiving benefits	0
Annualized Retirement Benefit: $0	
Inactive employees entitled to but not yet receiving benefits	1
Active employees	31
Annualized Salary: $1,197,191	
Total	32

Amortization of Unfunded Accrued Liability

Actuarial Valuation Date	Unfunded Accrued Liability (Negative Unfunded Accrued Liability)	Annual Amortization Amount	Amortization Period at June 30, 2017 (in years)
June 30, 2013	$ 0	$ 0	0.00
June 30, 2015*	0	0	0.00
June 30, 2016	0	0	0.00
June 30, 2017	11,874	1,065	20.00
Total	$ 11,874	$ 1,065	

**Beginning June 30, 2015, valuations are performed annually.*

Employer Contribution Rate Certification
Tennessee Consolidated Retirement System (TCRS)
Actuarial Valuation at June 30, 2017

Acknowledgement of employer rate effective July 1, 2018 through June 30, 2019

Department Code: 81909
Department Name: CITY OF FRANKLIN

☒ I hereby acknowledge and agree that I have reviewed the background information on rates provided to me and also located on the Treasury Website at: https://publicreports.treasury.tn.gov. I further acknowledge the upward trends concerning future employer contribution rates.

Please select one of the options below

☒ The Minimum Employer rate: 6.19%
☐ Optional: We choose to pay a higher contribution of: ____________

Employer Signature Eric S. Stuckey Title City Administrator
Date 4/24/18 Phone 615 550-6605 Email Eric.Stuckey@franklintn.gov

The first department code listed on the Employer Actuarially Determined Contribution (ADC) Rate sheet is your master code. The master code is responsible for determining the rate and submitting the completed employer contribution rate certification to TCRS. The rate selected will be applicable for **all** department codes listed on the Employer Actuarially Determined Contribution (ADC) Rate sheet. It is the master code's responsibility to notify these departments of the new rates.

Please return the completed rate certification no later than May 31, 2018 via one of the following methods:

By email: **TCRS.EmployerReporting@tn.gov**

By mail: **TCRS Employer Reporting**
502 Deaderick Street, 15th Fl.
Nashville, TN 37243

STATE OF TENNESSEE, TREASURY DEPARTMENT
TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
15th FLOOR ANDREW JACKSON BUILDING
502 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-0201

DAVID H. LILLARD, JR.
STATE TREASURER

JAMIE WAYMAN
DIRECTOR

February 26, 2018

Dear Tennessee Consolidated Retirement System Employer:

The actuarial valuation at June 30, 2017 is complete. Attached is an actuarial valuation report that reflects your employer contribution rate for the one year period July 1, 2018 through June 30, 2019. This report reflects the minimum employer rate that must be paid. **We encourage you to consider electing to pay a higher rate to protect against upward pressure on employer rates in the future**.

Enclosed is important information about the future funding of pension benefits you need to consider. **Please read carefully before indicating your rate selection.** As noted in the enclosed document, we anticipate volatility in investment earnings to continue in the foreseeable future. Additionally, the TCRS Board of Trustees adopted several changes to the assumptions as a result of the most recent experience study. The assumption changes will impact the actuarially determined contribution rates.

Since TCRS is now performing annual actuarial valuations, the next actuarial valuation report will be performed at June 30, 2018 that will establish the employer rate for the period July 1, 2019 through June 30, 2020. TCRS follows best practices set by the accounting industry which includes annual actuarial valuations. Please note that conducting annual valuations will result in changes in employer contribution rates each year.

Please return the enclosed rate certification to TCRS no later than May 15, 2018. If you have any questions about your rate, please call RetireReadyTN, at 800-922-7772.

Sincerely,

Jamie Wayman

James Wayman
Director of TCRS

Enclosed Attachments

Important Consideration Regarding Financing Retirement Obligations
Tennessee Consolidated Retirement System (TCRS)

General Information

Since 1972, the Tennessee General Assembly, Governor and all local governments that participate have funded 100% of the employer contribution rate (Actuarial Determined Contribution rate) in accordance with State law. Because of this commitment, TCRS is one of the strongest funded plans in the nation and pension plans for most employers participating in TCRS are well funded.

However, that does not mean that there will not be challenges prospectively regarding the financing of retirement benefits. Two specific items of concern are investment challenges and continued improvement in mortality. In addition, there are unique challenges for smaller employers. Accordingly, there is a potential for upward pressure on employer contribution rates in the future. Your governmental entity needs to prepare for such possibility. Further, the Actuarial Experience Study, conducted by TCRS every 4 years, reflected that a reduction in the investment earnings assumption was needed. Therefore, this fall the TCRS Board of Trustees took action to lower the investment earnings assumption from 7.5% to 7.25%. What seems like a small reduction will impact employer contribution rates.

Specific funded status information for each participating employer will be provided in May of this year. The financial information will be pursuant to GASB 68 and will be in the same format as last year. However, that information only provides the funded status at a point in time and does not give an indication of future challenges relative to employer payments toward pension cost. This document is intended to address factors that may potentially increase employer contribution rates.

Potential Impact of the Financial Marketplace

Investing retirement plan assets greatly impacts the funded status of a plan and the employer contribution rates. Historically, investment earnings represent more than 60% of the revenue to finance retirement benefits. In determining employer contribution rates, the actuarial calculations assume a long-term annualized rate of return of 7.25% as adopted by the TCRS Board of Trustees on September 29, 2017. As can be the case with any long-term expected return, there can be periods that do not meet the 7.25% expectation. The current market volatility makes the 7.25% assumption more difficult to attain in the near term. The investment return for fiscal year ending June 30, 2017 was 11.4%. You should know that even with no other factors that this memo addresses, the investment returns alone can put upward pressure on employer contribution rates.

Potential Impact due to Improving Mortality

As people continue the pattern of living longer due to improving medical treatments and more knowledge about how to live healthier, the result is that retirement benefits are paid longer. Paying retirement benefits for a longer period of time than assumed increases the employer contribution rate.

The TCRS actuarial calculations use mortality assumptions that equates to the current pattern of mortality plus some, but not all, of the expected improvement. As a result of the June 30, 2016 experience study, TCRS projected mortality 6 years beyond the actuarial valuation date.

Potential Impact of Smoothing Methodology

TCRS utilizes a 10-year smoothing methodology for investment returns to control employer rate volatility. Essentially, a portion of the investment gains or losses are recognized each year. The delay in the recognition of losses causes the actuarial value of assets to be larger than the market value of assets. Conversely, the delayed recognition of gains will cause the actuarial value of assets to be lower than the market value of assets. As a reminder, the market value of assets is used in financial statements and for GASB reporting purposes.

Other Actuarial Assumptions

While investment earnings and mortality can impact employer contribution rates to a great degree, other actuarial assumptions impact rates. Employer turnover, salary, early/late retirement and cost of living adjustments are all assumptions that can have positive and/or negative impacts to employer contribution rates.

Impact for Employers with few Employees

There can be greater volatility in the employer contribution rate for employers with few employees. Employers with less than 100 employees can expect to realize volatility in the employer contribution rate each actuarial valuation.

Unfunded Liability

Unfunded liability is part of an employer's contribution rate. The faster the unfunded liability is paid off, the less impact on future rates. Furthermore, GASB 68 requires the pension liability to be reflected on the employer's financial statements. Additional contributions above the actuarially determined contribution (ADC) may lower this value.

Consider paying more than the Minimum Employer Contribution Rate

Understanding that even small percentage changes to governing body budgets can cause great impact to a community's fiscal priorities, TCRS aims to educate entities of the potential for volatility. TCRS strongly encourages a proactive approach to funding pension obligations. As you review your employer contribution rates for this year, we strongly encourage you to adopt an employer rate that is higher than the minimum amount. Options to consider include:

- If your new employer rate is lower, consider staying at the same level you are at now
- If your employer rate is less than 2%, consider paying at least 2% or more
- If you have a relatively low employer rate, consider paying more than the minimum required rate

- If your rate is increasing, consider future budget years and weigh your options for paying more now

By paying more into TCRS, you help mitigate the potential upward pressure of increasing employer contributions in future years. Moreover, you reduce any net pension liability that will be reflected as debt in your financial statements.

TCRS wants to help you understand the rate that is best for you and your budget being mindful that the upward pressure on rates for the next annual valuation period is very strong. Any additional contributions that can be made will help offset increases in future years.

Again, TCRS is one of the best funded plans in the nation because of its prudent financial management and the prudent financial management of all of our members. We welcome the opportunity to work with you to continue to provide retirement for Tennesseans.

What other options are available?

We encourage you to actively discuss with us all aspects of your retirement program. There are alternative plan provisions that would assist with future retirement cost and the long term impact could be significant.

Please reach out to the following employees for assistance if you want to discuss your employer contribution rate and other options.

Tennessee Treasury Outreach Team

Drew Freeman, Director
Cell: (615) 806-4467
Drew.Freeman@tn.gov

East TN Representative: Justin Ball
Cell: (423) 356-1518
Justin.Ball@tn.gov

Middle TN Representative: James Armistead
Cell: (615) 289-4447
James.Armistead@tn.gov

West TN Representative: Tim Joyce
Cell: (901) 233-4517
Tim.Joyce@tn.gov

Key Terms

Defined Benefit (DB) Plan - A pension plan that is designed to provide participants with a predefined, predictable and guaranteed benefit based on a formula that takes into account an employee's compensation, years of service, and age, or a combination. TCRS is a defined benefit plan.

Defined Compensation or Defined Contribution (DC) Plan - A pension plan in which contributions are made to an individual account for each employee from accumulated savings. The retirement benefit is entirely dependent upon the account balance at retirement, and is based on the money that accumulates in an employee's account. Employers can also contribute or provide matching funds. A 401(k) is an example of this type of plan.

For purposes of this document all other terms will relate only to a defined benefit plan and NOT a defined contribution plan.

Actuarial Accrued Liability - Represents the portion of the present value of fully projected benefits attributable to service credit earned (or accrued) as of the valuation date.

Actuarial Assumptions - Factors used by actuaries for estimating the cost of funding a defined benefit pension plan. Examples include: the rate of return on plan investments; mortality rates; and the rates at which plan participants are expected to leave the system because of retirement, disability, termination, etc.

Actuarial Valuation - The determination, as of a specific date, of the normal cost, actuarial accrued liability, actuarial value of assets, and related actuarial present values for a plan.

Actuarial Value of Assets - The value of pension plan investments and contributions used by the actuary for the purpose of an actuarial valuation. TCRS uses an asset valuation method that smooths the effects of short-term volatility in the market value of assets.

Actuarially Determined Contribution (ADC) - The amount actuarially calculated each year that is required to be contributed by an employer in order to ensure there will be enough funds to pay promised pension. The rate changes each year the actuarial valuation.

Amortization - Paying off a liability incrementally through a series of installments, as opposed to paying with a lump sum payment. The unfunded accrued liability is amortized and included in the ADC.

Cost of Living Adjustment (COLA) - Adjustments made to help offset inflation. The amount is based on the increase in the Federal Consumer Price Index (CPI). For TCRS, the COLA cannot exceed 3%.

Contributory - The employee contributes a portion of salary towards their pension plan (i.e. shares the cost of the plan with the employer).

Experience Study - A periodic review and analysis of the actual experience of a plan which may lead to a revision of some assumptions used in the actuarial valuation. Actual investment performance, mortality, retirement, salary increases, etc. are compared to the assumed values and modified as appropriate.

Non-Contributory - The employee does not contribute any portion of salary towards their pension plan (i.e. does not share any portion of the cost of the plan with the employer).

Normal Cost - The cost of projected benefits allocated to the current fiscal/plan year. The employer normal cost equals the total normal cost of the plan less employee contributions.

Present Value - The current value of series of amounts payable in the future, after discounting each amount at an assumed rate of interest.

Rate of Return Assumption - The investment rate of return the actuary uses in the actuarial valuation as opposed to the actual rate of return earned by TCRS.

Unfunded Actuarial Accrued Liability (UAAL) - The excess, if any, of the actuarial accrued liability over the actuarial value of assets. In other words, the present value of benefits earned to date that are not covered by current plan assets.

Vesting - A defined number of years of service an employee must work to be eligible to receive a pension benefit.

Kristine Tallent

From:	Ellen Hansen
Sent:	Monday, April 23, 2018 12:31 PM
To:	Kristine Tallent
Cc:	Shauna Billingsley
Subject:	A18-00402 2018-0077 TCRS ADC rate FY beginning 07.01.18
Attachments:	2018-0077_TCRS ADC Rate for July 1 2018_1.pdf

** Attached file(s):
2018-0077_TCRS ADC Rate for July 1 2018.Law Reviewed

Kristine:
Attached is the document with the contract number you requested.
This will probably need to be on a BOMA agenda-- "signed on behalf of."
Also, the final signed copy should be given to Melda, and she will scan to OnBase—and then give the original to Lanaii to store with the meeting minutes.

Let me know if you have any questions.

Thanks!

Ellen A. Hansen
Legal Assistant
Law Department
City of Franklin
109 3rd Ave. South
Franklin, TN 37064
Phone: 615-550-6603
Fax: 615-550-6998

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