



**Municipal Pensions  
Oversight Board**

## **City of Charleston, West Virginia Firemen's Pension Plan**

Actuarial Valuation as of July 1, 2018 to  
Determine the City's Contribution for the  
Fiscal Year Ending June 30, 2020

**Bolton**

Submitted by:

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Employee Benefits, Actuarial & Investment Consulting

September 27, 2019

Honorable Victor Grigoraci  
City Treasurer  
501 Virginia Street, East  
Charleston, WV 25301

Deputy Chief Robert "Scott" Fisher  
Pension Board Secretary  
City of Charleston Firemen's Pension and Relief Fund

*Re: City of Charleston Firemen's Pension and Relief Fund Actuarial Valuation Report for the Year Beginning July 1, 2018*

Dear Honorable Grigoraci and Deputy Chief Fisher:

The following sets forth the actuarial valuation of the City of Charleston Firemen's Pension and Relief Fund as of July 1, 2018. Sections I and II of the report provide a summary of results and the actuarial certification, respectively. Sections III and IV contain the development of the City's contribution for the 2020 fiscal year. Section V provides projections. Sections VI through VIII provide a summary of the census and asset data, plan provisions, assumptions and actuarial methods. Section IX provides a glossary of many of the terms used in this report.

The purposes of this report are to provide information on:

- The sponsor's funding requirements for the fiscal year ending June 30, 2020, based on the selected funding policy, i.e. the **Conservation** funding policy as defined in West Virginia Code §8-22-20(c)(1)
- The Fund's eligibility to receive an allocation of the premium tax for the fiscal year ending June 30, 2020
- The Fund's eligibility to provide supplemental benefits for the plan year beginning July 1, 2020

This report may not be used for any other purpose; Bolton is not responsible for the consequences of any unauthorized use.

We are available to answer any questions on the material in this report or to provide explanations or further details as appropriate.

Respectfully submitted,

James E. Ritchie, ASA, EA, FCA, MAAA

Jordan McClane, FSA, EA, MAAA



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## Section I. Executive Summary

### Background

Bolton has prepared the following report that sets forth the actuarial valuation of the City of Charleston Firemen’s Pension and Relief Fund (the Plan) as of July 1, 2018. Please note that some columns may not add due to rounding.

### Funding Policy

The Plan is valued using the Conservation funding policy as described in WV Code §8-22-20. The City of Charleston (the City) switched from the Alternative funding policy to the Conservation funding policy effective July 1, 2011.

### Summary of Results

The following table presents a two-year summary of the Plan’s estimated pension contributions.

Total Contribution Summary	FYE 2019	FYE 2020
<b>Benefit Payment Account</b>		
1. Net City Contribution	\$ 6,439,033	\$ 6,609,273
2. Premium Tax Allocation	\$ 901,973	\$ 946,269
Premium Tax Percent	50.63%	48.46%
3. Employee Contributions	\$ 426,947	\$ 410,450
<b>4. Total Contribution (1. + 2. + 3.)</b>	<b>\$ 7,767,953</b>	<b>\$ 7,965,992</b>
<b>Accumulation Account</b>		
5. Net City Contribution	\$ 0	\$ 0
6. Premium Tax Allocation	\$ 879,636	\$ 1,006,246
Premium Tax Percent	49.37%	51.54%
7. Employee Contributions	\$ 98,526	\$ 94,665
<b>8. Total Contribution (5. + 6. + 7.)</b>	<b>\$ 978,162</b>	<b>\$ 1,100,911</b>
<b>Total</b>		
9. Net City Contribution	\$ 6,439,033	\$ 6,609,273
10. Premium Tax Allocation	\$ 1,781,609	\$ 1,952,515
11. Employee Contributions	\$ 525,473	\$ 505,115
<b>12. Total Contribution (9. + 10. + 11.)</b>	<b>\$ 8,746,115</b>	<b>\$ 9,066,903</b>



Amortization Period to Eliminate Unfunded Liability	FYE 2019	FYE 2020
1. Total City Contribution Plus Premium Tax	\$ 8,220,642	\$ 8,561,788
2. Net Employer Normal Cost with Interest	\$ 3,104,220	\$ 2,824,678
3. Payment Towards Unfunded Liability (1. – 2.)	\$ 5,116,422	\$ 5,737,110
<b>4. Estimated Number of Years this ‘Payment Towards Unfunded Liability’ Would Take to Eliminate the Unfunded Liability</b>	<b>Never</b>	<b>Never</b>

The following table presents a three-year historical summary of the assets and liabilities for the Plan.

	July 1, 2016	July 1, 2017	July 1, 2018
Accrued Liability	\$ 180,918,230	\$ 184,198,524	\$ 190,005,438
Actuarial Asset Value (Market Value)	\$ 14,985,518	\$ 17,716,222	\$ 20,062,367
Unfunded Accrued Liability	\$ 165,932,712	\$ 166,482,302	\$ 169,943,071
Funding Percentage	8.28%	9.62%	10.56%

The contributions shown above are assumed to be paid in equal monthly installments throughout the fiscal year. **Details of the determination of the City’s contribution for FYE 2020 are shown in Section 3 of this report.** The City’s contributions for years prior to FYE 2020 and liabilities prior to July 1, 2018 were calculated by the plan’s previous actuary, Gabriel, Roeder, Smith & Company (GRS). **Please note, the Conservation policy does not meet the requirements for a reasonable funding method under standard actuarial principles. Plans funding under the Conservation policy may experience significant increases in the required contribution over time.** In order to understand the ineffectiveness of the Conservation funding policy, we have shown the number of years it would take to completely payoff the unfunded liability assuming the amount shown for the plan year is paid for all future years until the unfunded liability is eliminated<sup>1</sup>. If “Never” is shown, the year’s payment toward the unfunded does not even cover the interest on the unfunded liability and the unfunded liability will be expected to increase in future years.

### Risk Measures

Generally, the primary risk that a plan sponsor incurs from a defined benefit plan is the risk of substantial increases in annual contributions. For plans that develop contributions using a generally accepted actuarial funding policy, these increases occur most frequently due to variation in the investment returns. The following table shows four commonly used measures of the relative riskiness of a pension plan, relative to the plan sponsor and the employee groups covered by the plan. More detail is provided later in this report.

<sup>1</sup> This does not factor in any future increases in the Contributions since scheduled increases might require a growing burden to the City.



Risk Measure	July 1, 2016	July 1, 2017	July 1, 2018	Conservative Measures
Inactive Liability as a Percent of Total Liability	67.9%	68.2%	70.4%	<50%
Assets to Payroll	2.1	2.6	3.1	<5
Liabilities to Payroll	25.7	27.4	29.6	<5
Benefit Payments to Contributions	0.9	0.8	0.9	<3

### Experience Analysis

The following factors affected the City's contribution as a percentage of payroll:

- The Plan uses the Conservation funding policy. City contributions between FY2019 and FY2020 are expected to increase by \$355,590 (5.7%) and benefit payments by \$357,550.
- This valuation uses the same 4.5% discount rate as the prior valuation.
- Contributions under this policy are not based on actuarial liabilities and plan assets. However, liabilities increased by 3.2% and assets increased by 13.2%.
- The Plan's funded ratio increased from 9.6% to 10.6% and is expected to be 100% funded in 2046.
- The return on assets for FY 2018 was 7.8%.

### Changes in Methods, Assumptions, and Plan Amendments

This valuation reflects the following changes in assumptions and methods:

- The premium tax allocation projection methodology was changed to reallocate the premium tax allocation in future years for plans that are projected to be 100% funded in the projection period.

This valuation does not reflect any changes in the provisions of the plan.

### Sources of Information

The July 1, 2018 participant data and market value of assets were provided by or at the direction of the City of Charleston. While we have reviewed this data for consistency and completeness, we have not audited this data.

### Supplemental Benefit Eligibility

West Virginia Code §8-22-26a requires that all retirees, surviving beneficiaries, disability pensioners or future retirees receive a Supplemental Pension Benefit (i.e. cost-of-living adjustments or COLAs) payable on the first day of July, based on a percentage increase equal to any increase in the consumer price index as calculated by the United States Department of Labor, Bureau of Statistics for the preceding year. The COLA shall not exceed 4% per year and is not payable to a retiree until the first day of July after the second anniversary of the retiree's date of retirement. Additionally, the COLA shall only be calculated on the first \$15,000 of the annual benefit paid and on the COLAs accumulated by the retiree since benefit commencement. If, at any time after the COLA becomes applicable, the total accumulated percentage increase in benefit on the allowable amount becomes less than 75% of the total

accumulated percentage increase in the consumer price index over that same period of time, the 4% limitation shall be inapplicable until such time as the accumulated COLAs equal 75% of the accumulated increase in the consumer price index. The consumer price index used to determine the COLA is the CPI-U US City Average all items with a base of 1982-1984 equal to 100. The increase is measured as the increase in the annual average from the second prior calendar year to the annual average from the prior calendar year.

The COLA is only payable to the extent that the actuary certifies to the Board of Trustees of the fund the amount of increase in the COLA, if any, which may be paid, and which will preserve the minimum standards for actuarial soundness of the fund as set forth in West Virginia Code §8-22-20. The related solvency test is discussed below.

### Premium Tax

West Virginia Code §33-3-14d established a 1% tax on premiums for fire insurance and casualty insurance policies. The proceeds from this tax are used to fund the West Virginia Teachers Retirement System, the Fire Protection Fund for volunteer and part-volunteer fire companies and the Municipal Pensions Security Fund, which is managed by the Municipal Pensions Oversight Board (MPOB). The MPOB allocates funds from the Municipal Pensions Security Fund to each eligible municipality's police and fire fund that is less than 100% funded on an actuarial basis. The funds from the Base Allocation are allocated proportionately to each fire and police fund based on the average monthly number of police officers and firefighters who worked at least 100 hours per month (regardless of whether the police and fire employees participate in the municipality's pension plan or the West Virginia state Municipal Police and Firefighters Retirement System (MPFRS)). The funds from the Excess Allocation are allocated proportionately to each fire and police fund based on the average monthly number of police officers and firefighters who worked at least 100 hours per month and the average monthly number of retired police officers and firefighters (regardless of whether the police and fire employees and retirees participate in the municipality's pension plan or the West Virginia state Municipal Police and Firefighters Retirement System (MPFRS)).

West Virginia Code §8-22-19 requires a plan sponsor to deposit into the pension fund the required contributions in accordance with Code §8-22-20 at least on a monthly basis at a rate of one-twelfth of the annual requirement in order to receive the premium tax allocation described above. A municipality may pre-pay this contribution. If the allocable portion of the Municipal Pensions Security Fund is not paid to the pension and relief fund within eighteen months, the portion is forfeited by the pension and relief fund and is allocable to other eligible municipal policemen's and firemen's pension and relief funds in accordance with West Virginia Code §33-3-14d.

### Solvency Tests

There are two solvency tests. The first solvency test is used to determine whether the State premium tax may be allocated to the pension plan for the fiscal year. West Virginia Code §8-22-20 has been historically interpreted to require plans that use the Alternative funding policy to be projected to be solvent in the next 15 years in order to receive the State premium tax allocation. Plans that use the Standard, Optional, or **Conservation** policy, by definition of the funding policy, will always be projected to be solvent in future years. If a plan is not projected to be solvent in the next 15 years, the municipality or employees must make additional contributions in the current fiscal year in order to receive the State premium tax allocation.

The second test is used to determine whether the COLA is payable under West Virginia Code §8-22-26a, which requires the actuary to certify that the minimum funding for actuarial soundness will be preserved after the COLA is granted for the year. The test used to determine if the minimum funding for actuarial soundness will be preserved is a 15-year projection on a closed group basis. For the July 1, 2018 valuation, the 15-year period would end on June 30, 2033. If the assets are greater than \$1 for the first 15 years of the projection, the COLA must be granted. **Please note that the Conservation policy is not consistent with generally accepted actuarial principles for funding even though it does not result in insolvency.**

### Actuarial Projections

Section V of this report provides long-range projections of assets, liabilities, funded status, and contributions for the pension fund. The purpose of the projections is to provide the municipality an understanding of the projected funded status and future contribution requirements. The projections are also used for the Solvency Tests described above.





## Section II. Actuarial Certification

This actuarial valuation sets forth our calculation of an estimate of the liabilities of the City of Charleston Firemen's Pension and Relief Fund, together with a comparison of these liabilities with the value of the Plan assets, as submitted by the City of Charleston (the City). This calculation and comparison with assets is applicable for the valuation date only. The future is uncertain, and the Plan may become better funded or more poorly funded in the future. This valuation does not provide any guarantee that the Plan will be able to provide the promised benefits in the future.

This is a deterministic valuation in that it is based on a single set of assumptions. This set of assumptions is one possible basis for our calculations. Other assumptions may be equally valid and would produce different results, so that no one projection is uniquely "correct" and many alternative projections of the future could also be regarded as reasonable. The Plan's actual experience will differ from the assumptions; the differences may be significant or material because the results are very sensitive to the assumptions made and, in some cases, to the interaction between the assumptions. We may consider that some factors are not material to the valuation of the Plan and may not provide a specific assumption for those factors. The Plan may have used other assumptions in the past. We will likely consider changes in assumptions at a future date in conjunction with the MPOB.

A "sensitivity analysis" shows the degree to which results would be different if alternative assumptions within the range of possibilities were substituted for those utilized in this report. We have not been engaged to perform such a sensitivity analysis, and thus, the results of such an analysis are not included in this report. At the City's request, Bolton is available to perform such a sensitivity analysis.

The City is responsible for selecting the Plan's funding policy. The MPOB selects the actuarial valuation methods, asset valuation methods, and assumptions based on the advice of the plan's actuary. The policies, methods and assumptions used in this valuation are those that have been so prescribed by the MPOB, in consultation with the prior actuarial firm GRS, and are described in this report. The MPOB is solely responsible for communicating to Bolton any changes required thereto.

In addition, decisions regarding benefit improvements, benefit changes, the Plan's investment policy, and similar issues should not be based on this valuation. These issues are complex and other factors should be considered when making such decisions. Other factors might include the anticipated vitality of the local economy and future growth expectations, as well as other economic and financial factors.

The cost of this Plan is determined by the benefits promised by the Plan, the Plan's participant population, the investment experience of the Plan and many other factors. An actuarial valuation is a budgeting tool for the City. It does not affect the cost of the Plan. Different funding methods provide for different timing of contributions to the Plan. As the experience of the Plan evolves, it is normal for the level of contributions to the Plan to change. The Plan sponsor is responsible for funding the cost of the Plan. If a contribution is not made for a particular year, either by deliberate choice or because of an error in a calculation, that contribution can be made in later years. We will not be responsible for contributions that are made at a future time rather than an earlier time.

We make every effort to ensure that our calculations are accurately performed. These calculations are complex. Despite our best efforts, we may make a mistake. We reserve the right to correct



any potential errors by amending the results of this report or by including the corrections in a future valuation report.

Because modeling all aspects of a situation is not possible or practical, we may use summary information, estimates, or simplifications of calculations to facilitate the modeling of future events in an efficient and cost-effective manner. We may also exclude factors or data that are immaterial in our judgment. Use of such simplifying techniques does not, in our judgment, affect the reasonableness of valuation results for the Plan.

This report is based on Plan provisions, census data, and asset data submitted by the City. We have relied on this information for purposes of preparing this report but have not performed an audit. The accuracy of the results presented in this report is dependent upon the accuracy and completeness of the underlying information. The Plan sponsor is solely responsible for the validity and completeness of this information.

The City of Charleston Firemen's Pension Fund Board of Trustees is solely responsible for selecting the Plan's investment policies, asset allocations and individual investments. Bolton's actuaries have not provided any investment advice to the Board.

The information in this report was prepared for the internal use of the MPOB, the West Virginia Legislature's Joint Committee on Pensions and Retirement, the City and their auditors in connection with their review of the City's financial statements and our actuarial valuation of the Plan. It is neither intended nor necessarily suitable for other purposes. Bolton is not responsible for the consequences of any other use or the reliance upon this report by any other party.

The calculation of actuarial liabilities for valuation purposes is based on a current estimate of future benefit payments. The calculation includes a computation of the "present value" of those estimated future benefit payments using an assumed discount rate; the higher the discount rate assumption, the lower the estimated liability will be. For purposes of estimating the liabilities (future and accrued) in this report, the MPOB selected an assumption based on the expected long-term rate of return on Plan investments, its funded status and liquidity needs. Using a lower discount rate assumption, such as a rate based on long-term bond yields, could substantially increase the estimated present value of future and accrued liabilities.

Because valuations are a snapshot in time and are based on estimates and assumptions that are not precise and will differ from actual experience, contribution calculations are inherently imprecise. There is no uniquely "correct" level of Actuarially Determined Contribution (ADC) for the coming Plan year. More importantly, the contribution required under the Conservation policy is not an ADC, because it not determined based on actuarially sound principles.

This report provides certain financial calculations for use by the City's auditor. These values have been computed in accordance with our understanding of generally accepted actuarial principles and practices and fairly reflect the actuarial position of the Plan. The various actuarial assumptions and methods which have been used are, in our opinion, appropriate for the purposes of this report.

The report is conditioned on the assumption of an ongoing Plan (open or closed plans) and is not meant to present the actuarial position of the Plan in the case of Plan termination. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: Plan experience differing from that anticipated by the economic or demographic assumptions, changes in economic or demographic assumptions, increases or



decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the Plan's funded status), and changes in Plan provisions or applicable law.

The MPOB, Pension Board or the City should notify Bolton promptly after receipt of this report if the City disagrees with anything contained in the report or is aware of any information that would affect the results of the report that has not been communicated to Bolton or incorporated therein. The report will be deemed final and acceptable unless the MPOB, Pension Board or the City promptly provides such notice to Bolton.

The undersigned credentialed actuaries meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. We are not aware of any direct or material indirect financial interest or relationship, including investments or other services, which could create a conflict of interest that would impair the objectivity of our work.

We are available to answer any questions on the material in this report and provide explanations or further details as appropriate.

Jim Ritchie, ASA, EA, FCA, MAAA

Jordan McClane, FSA, EA, MAAA



## Section III. Determination of City Contributions

### Net Employer Normal Cost

The breakdown of the Net Employer Normal Cost is illustrated below.

Net Employer Normal Cost (BOY)	7/1/2017 <sup>2</sup>	7/1/2018
1. Normal Cost	\$ 3,634,525	\$ 3,257,733
2.a. Administrative Expenses FYE 2019/2020	\$ 7,774	\$ 8,207
2.b. Administrative Expenses (BOY)	\$ 7,774	\$ 8,028
3. Gross Normal Cost (1. + 2.b.)	\$ 3,642,299	\$ 3,265,761
4. Expected Employee Contributions for Next 12 Months (BOY)	\$ 538,079	\$ 502,571
5. Net Employer Normal Cost (3. – 4.)	\$ 3,104,220	\$ 2,763,190
(% of Compensation)	46.2%	44.0%

<sup>2</sup> The prior actuary calculated Normal Cost as of the middle of the year so numbers presented in this column are as of the middle of the year while those for the current year are determined as of the beginning of the year.



The following table provides the estimated total contribution, city contribution, premium tax allocation and employee contributions for the benefit payment account and the accumulation account. We assumed that 51.54% of the premium tax allocation of \$1,952,515 is deposited into the Accumulation Account and the remainder will be used for benefit payments. The basis of the premium tax allocation between the Benefit Payment Account and the Accumulation Account is developed from the projections in Section V.

<b>Total Contribution Summary</b>	<b>FYE 2019</b>	<b>FYE 2020</b>
<b>Benefit Payment Account</b>		
1. Net City Contribution	\$ 6,439,033	\$ 6,609,273
2. Premium Tax Allocation	\$ 901,973	\$ 946,269
Premium Tax Percent	50.63%	48.46%
3. Employee Contributions	\$ 426,947	\$ 410,450
<b>4. Total Contribution (1. + 2. + 3.)</b>	<b>\$ 7,767,953</b>	<b>\$ 7,965,992</b>
<b>Accumulation Account</b>		
5. Net City Contribution	\$ 0	\$ 0
6. Premium Tax Allocation	\$ 879,636	\$ 1,006,246
Premium Tax Percent	49.37%	51.54%
7. Employee Contributions	\$ 98,526	\$ 94,665
<b>8. Total Contribution (5. + 6. + 7.)</b>	<b>\$ 978,162</b>	<b>\$ 1,100,911</b>
<b>Total</b>		
9. Net City Contribution	\$ 6,439,033	\$ 6,609,273
10. Premium Tax Allocation	\$ 1,781,609	\$ 1,952,515
11. Employee Contributions	\$ 525,473	\$ 505,115
<b>12. Total Contribution (9. + 10. + 11.)</b>	<b>\$ 8,746,115</b>	<b>\$ 9,066,903</b>



## Development of GASB Contribution for Conservation Funding Policies

The breakdown of the Estimated Minimum Employer Contribution for GASB contribution reporting is illustrated below.

Estimated Minimum Employer Contribution	FYE 2019 <sup>3</sup>	FYE 2020
1. Total Normal Cost, Including Administrative Expenses (BOY)	\$ 3,642,299	\$ 3,265,761
2. Expected Employee Contributions for Next 12 Months (BOY)	\$ 538,079	\$ 502,571
3. Net Employer Normal Cost (BOY) (1. – 2.)	\$ 3,104,220	\$ 2,763,190
4. Interest on Normal Cost	\$ 0	\$ 61,488
5. Total Employer Normal Cost with Interest (3. + 4.)	\$ 3,104,220	\$ 2,824,678
6. Payment Toward Unfunded Liability	\$ 9,422,823	\$ 9,756,724
7. Interest on Unfunded Liability Payment	\$ 209,681	\$ 217,111
8. Unfunded Liability Payment with Interest (6. + 7.)	\$ 9,632,504	\$ 9,973,835
9. Estimated Premium Tax Allocation	\$ 1,781,609	\$ 1,952,515
10. Unfunded Liability Payment Net of Premium Tax Allocation (8. – 9., not less than 0)	\$ 7,850,895	\$ 8,021,320
11. Total Employer Contribution (5. + 10.)	\$ 10,955,115	\$ 10,845,998
12. Estimated Premium Tax Allocation (9.)	\$ 1,781,609	\$ 1,952,515
<b>13. Net City Contribution for GASB Purposes (11. + 12.)</b>	<b>\$ 12,736,724</b>	<b>\$ 12,798,513</b>
14. Amortization Period (Years)	32.5	31.5

<sup>3</sup> The prior actuary calculated Normal Cost as of the middle of the year so numbers presented in this column are as of the middle of the year.



## Section IV. Determination of Liabilities and Assets

### Unfunded Actuarial Accrued Liability

Below is a summary of the key valuation results.

Unfunded Actuarial Accrued Liability		7/1/2017		7/1/2018	
1. Actuarial Accrued Liability	<u>Count</u>			<u>Count</u>	
a. Active	118	\$ 58,491,075		109	\$ 56,280,855
b. Retirees	146	91,479,619		148	97,960,178
c. Survivors	47	9,764,180		52	10,509,505
d. Disableds	42	23,072,881		41	23,685,800
e. Deferred Vesteds	2	1,390,769		2	1,497,248
f. Former Members Due Refunds	0	0		1	71,852
<b>g. Total</b>	<b>355</b>	<b>\$ 184,198,524</b>		<b>353</b>	<b>\$ 190,005,438</b>
2. Present Value of Future Normal Costs		\$ 28,669,842		\$ 26,717,043	
3. Present Value of Benefits (1.g. + 2.)		\$ 212,868,366		\$ 216,722,481	
4. Market Value of Assets		\$ 17,716,222		\$ 20,062,367	
5. Unfunded Actuarial Accrued Liability (1.g. – 4.)		\$ 166,482,302		\$ 169,943,071	
6. Funded Ratio (4. / 1.g.)		9.6%		10.6%	



## Experience (Gain)/Loss for Plan Year Ended June 30, 2018

Experience (Gain)/Loss for Plan Year Ended June 30, 2018		
1. Liabilities		
a. Actuarial Accrued Liability as of 7/1/2017	\$	184,198,524
b. Normal Cost as of 7/1/2017		3,634,525
c. Interest on a. and b. to 6/30/2018		8,370,710
d. Benefit Payments with Interest to 6/30/2018		7,578,944
e. Effect of Assumption Changes		0
f. Expected Liability at 7/1/2018 (a. + b. + c. - d. + e.)		188,624,815
g. Actual Liability at 7/1/2018		190,005,438
h. Liability (Gain)/Loss (g. - f.)		1,380,623
2. Market Value of Assets		
a. Market Value of Assets as of 7/1/2017	\$	17,716,222
b. Interest on a. to 6/30/2018		797,230
c. Contributions with Interest to 6/30/2018		8,557,264
d. Benefit Payments with Interest to 6/30/2018		7,578,944
e. Administrative Expenses with Interest to 6/30/2018		7,045
f. Expected Assets at 6/30/2018 (a. + b. + c. - d. - e.)		19,484,727
g. Actual Assets at 6/30/2018		20,062,367
h. Asset (Gain)/Loss (f. - g.)		(577,640)
3. Total (Gain)/Loss (1.h. + 2.h.)	\$	802,983

The gains and losses shown are only for liability and asset gains and losses. Any change in the Unfunded Actuarial Accrued Liability from funding more or less than needed to cover Normal Cost and interest on the Unfunded Actuarial Accrued Liability is a separate amount.





## Reconciliation of Assets

Below is a reconciliation of assets (unaudited) from July 1, 2016 through June 30, 2018.

Plan Year Ending	June 30, 2017		June 30, 2018	
1. Beginning of Year Market Value of Assets	\$	14,985,518	\$	17,716,222
Adjustments to Market Value of Assets at Beginning of Year		(1)		0
<b>Beginning of Year Market Value of Assets</b>	<b>\$</b>	<b>14,985,517</b>	<b>\$</b>	<b>17,716,222</b>
2. Additions				
a. Contributions				
(i) Local Government	\$	5,974,752	\$	6,107,953
(ii) State Government		1,710,329		1,735,139
(iii) Employee		574,505		525,870
(iv) Total		8,259,586		8,368,962
b. Receivable Contribution <sup>4</sup>				
(i) Local Government	\$	0	\$	0
(ii) State Government		0		0
(iii) Employee Contributions		0		0
(iv) Total		0		0
c. Earnings on Investments				
(i) Net Appreciation/(Depreciation)	\$	1,473,160	\$	1,105,313
(ii) Net Realized Gain (Loss) on Sale/Exchange		0		0
(iii) Interest and Dividends		301,003		354,520
(iv) Other Income		23		0
(v) Investment Expense		(76,777)		(88,546)
(vi) Receivable Investment Income		19,716		38,425
(vii) Payable Investment Expenses		0		0
(viii) Net Investment Income		1,717,125		1,409,712
d. Other Revenue		0		203
<b>e. Total Additions</b>	<b>\$</b>	<b>9,976,711</b>	<b>\$</b>	<b>9,778,877</b>
3. Disbursements				
a. Benefit Payments	\$	6,613,394	\$	6,759,818
b. Withdrawals		17,922		44,719
c. Administrative Expenses		7,566		6,890
d. Other		0		0
e. Payable Benefits and Withdrawals		607,087		621,305
f. Payable Administrative Expenses		37		0
<b>g. Total Disbursements</b>	<b>\$</b>	<b>7,246,006</b>	<b>\$</b>	<b>7,432,732</b>
4. Net Increase (2.e. – 3.g.)		2,730,705		2,346,145
<b>5. Net Assets (1. + 4.)</b>	<b>\$</b>	<b>17,716,222</b>	<b>\$</b>	<b>20,062,367</b>
6. Rate of Return Net of Investment Fees (2I / [A + B – I] Method <sup>5</sup> )		11.1%		7.8%

<sup>4</sup> Receivable contributions for each respective plan year ending.

<sup>5</sup> A = beginning-of-year market value of assets

B = end-of-year market value of assets

I = investment return during the year



## Asset Allocation

The table below shows the amount of funds invested in each account as of June 30, 2017 and June 30, 2018.

Assets Held by Category	June 30, 2017	June 30, 2018
Cash and Deposits	\$ 2,578,671	\$ 1,762,173
Receivables		
Contributions	\$ 0	\$ 0
Investment Income	19,716	38,425
<b>Total Receivable Contributions</b>	<b>\$ 19,716</b>	<b>\$ 38,425</b>
Investment		
Government Securities	\$ 2,862,582	\$ 3,187,032
Corporate Bonds	2,081,390	3,642,760
Corporate Stocks	10,780,987	12,053,079
Alternative Investments	0	0
Other	0	203
<b>Total Investments</b>	<b>\$ 15,724,959</b>	<b>\$ 18,883,074</b>
<b>Total Assets</b>	<b>\$ 18,323,346</b>	<b>\$ 20,683,672</b>
Liabilities		
Payables	\$ 607,124	\$ 621,305
<b>Total Liabilities</b>	<b>\$ 607,124</b>	<b>\$ 621,305</b>
<b>Net Position</b>	<b>\$ 17,716,222</b>	<b>\$ 20,062,367</b>

## Risk Measures

Generally, the primary risk that a plan sponsor incurs from a defined benefit plan is the risk of substantial increases in annual contributions. For plans that develop contributions using a generally accepted actuarial funding policy, these increases occur most frequently due to variation in the investment returns. The following table shows three commonly used measures of the relative riskiness of a pension plan, relative to the plan sponsor and the employee groups covered by the plan.

Risk Measure	July 1, 2016	July 1, 2017	July 1, 2018	Conservative Measures
Inactive Liability as a Percent of Total Liability	67.9%	68.2%	70.4%	<50%
Assets to Payroll	2.1	2.6	3.1	<5
Liabilities to Payroll	25.7	27.4	29.6	<5
Benefit Payments to Contributions	0.9	0.8	0.9	<3

The current *Assets to Payroll* of 3.1 indicates that a 1% asset gain/loss is about 3.1% of the annual payroll. Similarly, the current *Liabilities to Payroll* of 29.6 indicates that a 1% change in liability is about 29.6% of the annual payroll.

The use of payroll in these risk measures is generally an easily available substitute for the employer's revenue and often reflects the employer's ability to afford the plan. However, this plan is closed to new entrants, and thus, the payroll figure used in these metrics generally does not align with revenue as it represents only current active members (as of July 1, 2018) who were hired prior to adopting the Conservation funding policy.

If the plan or employer were interested in doing more quantitative assessments of risks, the following are examples of analyses that could be performed:

- *Scenario Test*: A process for assessing the impact of one possible event, or several simultaneously or sequentially occurring possible events, on a plan's financial condition. For example, the effect of a layoff or reduction in workforce, or early retirement program.
- *Sensitivity Test*: A process for assessing the impact of a change in an actuarial assumption on an actuarial measurement. This could be a decrease in the valuation discount rate or a change in future life expectancies.
- *Stochastic Modeling*: A process for generating numerous potential outcomes by allowing for random variations in one or more inputs over time for the purpose of assessing the distribution of those outcomes. This analysis shows a range of potential future contribution levels and the likelihood of contributions increasing to a certain level.
- *Stress Test*: A process for assessing the impact of adverse changes in one or relatively few factors affecting a plan's financial condition. For example, a stress test could show the impact of a single year or period of several years with significant investment losses.







## Section VI. Participant Information

### Participant Summary

The following table summarizes the counts, ages and benefit information for plan participants used in the prior and current valuations.

	July 1, 2017 <sup>7</sup>		July 1, 2018	
1. Actives				
a. Number		118		109
b. Average Age		43.6		44.1
c. Average Service		15.8		16.3
d. Average Salary	\$	57,592	\$	60,718
2. Retirees				
a. Number		146		148
b. Average Age		N/A		66.1
c. Total Annual Benefits	\$	5,479,164	\$	5,684,779
3. Survivors				
a. Number		47		52
b. Average Age		N/A		74.7
c. Total Annual Benefits	\$	755,066	\$	800,224
4. Disableds				
a. Number		42		41
b. Average Age		N/A		56.8
c. Total Annual Benefits	\$	1,121,848	\$	1,111,631
5. Deferred Vesteds				
a. Number		2		2
b. Average Age		N/A		47.2
c. Total Annual Benefits	\$	75,311	\$	75,311
6. Members Owed Refunds				
a. Number		N/A		1
b. Average Age		N/A		45.9
c. Total Refunds Owed	\$	N/A	\$	71,852

<sup>7</sup> Average ages for Retirees, Survivors, Disableds, and Deferred Vesteds were not provided in the July 1, 2017 valuation report prepared by the prior actuary.



### Active Age/Service Distribution Including Compensation

Shown below is the age and service distribution of active participants in the City of Charleston Firemen's Pension and Relief. The compensation shown is the average projected pay for the plan year beginning July 1, 2018.

Credited Service as of July 1, 2018

		0-4	5-9	10-14	15-19	20-24	25-29	30 & Up	Total
Participant Age	Under 25	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-
	25 - 29	-	1	-	-	-	-	-	1
		-	45,462	-	-	-	-	-	45,462
	30 - 34	-	4	2	-	-	-	-	6
		-	53,372	56,114	-	-	-	-	54,286
	35 - 39	-	6	14	3	-	-	-	23
		-	54,405	57,217	57,163	-	-	-	56,476
	40 - 44	-	3	7	8	4	-	-	22
		-	54,808	55,349	62,933	63,920	-	-	59,591
	45 - 49	-	-	8	15	18	5	-	46
		-	-	54,005	60,623	67,976	70,664	-	63,441
	50 - 54	-	-	-	5	5	-	-	10
		-	-	-	63,749	67,644	-	-	65,697
	55 - 59	-	-	-	-	-	-	1	1
		-	-	-	-	-	-	61,899	61,899
	60 - 64	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-
	65 & Up	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	
<b>Totals</b>	<b>0</b>	<b>14</b>	<b>31</b>	<b>31</b>	<b>27</b>	<b>5</b>	<b>1</b>	<b>109</b>	
	-	<b>53,557</b>	<b>55,895</b>	<b>61,388</b>	<b>67,314</b>	<b>70,664</b>	<b>61,899</b>	<b>60,718</b>	

#### Averages

Age	44.1
Service	16.3



## Participant Reconciliation

Shown below is the reconciliation of participants between the prior and current valuation date.

	Actives	Retirees	Survivors	Disableds	Deferred Vesteds	Due Refund	Total
Participants as of 7/1/2017	118	146	47	42	2	0	355
New							0
Rehired							0
Terminated - Vested							0
Terminated - Nonvested	(1)					1	0
Disabled	(1)			1			0
Retired	(7)	7					0
Paid Refund							0
Payments Expired							0
Deceased - No Survivor		(3)	(3)				(6)
Deceased - With Survivor		(2)		(2)			(4)
New Beneficiary			5				5
New QDRO			3				3
Corrections							0
<b>Participants as of 7/1/2018</b>	<b>109</b>	<b>148</b>	<b>52</b>	<b>41</b>	<b>2</b>	<b>1</b>	<b>353</b>



## Section VII. Summary of Plan Provisions

### Plan Year

July 1 – June 30.

### Eligibility to Participate

All compensated employees of the relevant Fire or Police Department are eligible to participate in the Firemen's or Policemen's Pension and Relief Fund. If the fund uses the Optional or Conservation funding policies, only members hired prior to the date of the change to either one of these policies are eligible to participate in this Plan.

### Credited Service

The number of years that the member has contributed to the employees' retirement and benefit fund.

Absence from the service because of sickness or injury for a period of two years or less shall not be construed as time out of service.

*Military Service* — Any current member who has been on qualified military service in the armed forces of the United States with an honorable discharge may, within six months from his or her date of discharge, be given credit for continuous service in the paid police or fire department.

A member may receive retirement eligibility service (i.e. eligibility towards the 20 years of service for normal retirement) for qualified military service only if the military service was prior to November 18, 2009 or the member repays, without interest, member assessments that were missed during the period of military service.

Any member who has served in active duty with the armed forces of the United States, whether prior to or subsequent to becoming a member of a paid police or fire department, shall receive an additional 1% of Average Annual Compensation for each full continuous year so served in active military duty, up to a maximum of an additional 4%.

### Average Annual Compensation

The average of the three twelve-consecutive-month periods of employment in which the member received the highest salary or compensation. While the months in each twelve-month period need to be consecutive, the three "twelve-consecutive-month periods" do not need to be consecutive.

Each twelve-consecutive-month annual compensation is limited to 120% of the *Average Adjusted Salary*, which is the average of the Adjusted Salary for the two consecutive twelve-consecutive-month periods immediately preceding the twelve-consecutive-month period used in determining benefits.

The *Adjusted Salary* for any preceding year is the respective preceding year total salary multiplied by the ratio of base salary of the year used in determining benefits to the base salary from the respective preceding year. A preceding year is either the "year one" which is the second twelve consecutive month period preceding the twelve-consecutive-month period used to determine benefits or "year two" which is the twelve-consecutive-month period



immediate preceding the twelve-consecutive-month period used to determine benefits.

### Employee Contributions

Participating employees hired before January 1, 2010: 7.00% of compensation.  
 Participating employees hired on or after January 1, 2010: 9.50% of compensation.

### Employer Contributions

The municipality has elected to contribute the minimum employer contribution under the Alternative funding policy.

### Normal Retirement Eligibility

Members are eligible at the earlier of age 50 with 20 years of credited service or age 65.

### Normal Retirement Benefit

The annual retirement benefit equals the sum of:

- 60% of average annual compensation, for service up to 20 years; not less than \$6,000
- 2% for each year of service between 20 and 25 years
- 1% for each year of service between 25 and 30 years
- Employees serving in the military are eligible for an additional 1% of average annual compensation for each year of military service up to four years.

The maximum benefit is limited to 75% of average annual compensation.

### Normal Form

Life annuity with a 60% spouse's survivor benefit. The benefit payable to the spouse as of the member's date of death is determined by taking 60% of the member's benefit at the member's retirement date and indexing that amount to the date of death using the COLA methodology described in the Cost of Living Adjustment section below. No other optional forms are allowed under the Plan.

### Disability Retirement Eligibility

Members are eligible after earning five years of service. There is no years of service requirement if disability is service related. Disability is defined in WV Code §8-22-23a as the inability to perform adequately the job duties required of the member.

### Disability Retirement Benefit

The monthly disability benefit equals the sum of:

- 60% of monthly salary at disability, but not less than \$500, plus
- Employees serving in the military are eligible for an additional benefit of 1% of monthly salary at disability for each year of military service up to four years.

Disability benefits, when aggregated with monthly state workers compensation benefits, shall not exceed 100% of the member's monthly compensation at the time of disability. Benefits continue for life or until recovery.

Disability pensions are offset by \$1 per every \$3 of other income. There is no offset if total other income is \$18,200 (as of 2018, indexed by state minimum wage for years after 2018) or less.



### Termination Benefits

Any member who terminates employment prior to retirement and has at least 20 years of credited service will be entitled to a pension benefit equal to the normal retirement benefit commencing at age 50.

Any member who terminates employment prior to retirement with fewer than 20 years of credited service will be entitled to a refund of employee contributions without interest.

**Refunds:** Any member who terminates from their department without receiving a retirement pension shall be refunded all deductions made from his salary, without interest. Any member who receives such a refund and subsequently wishes to reenter (available only if municipal plan is still open as of such date) the department must repay to the pension fund all sums refunded with interest at the rate of 8% per annum.

### Death Benefit Eligibility

Members are eligible after earning five years of service. There is no years of service requirement if death is service related. Retirees and terminated vested participants are also eligible.

### Death Benefit

The benefit is equal to 60% of the participant's benefit, but not less than \$300 per month, payable to the spouse until death or remarriage.

Other dependents (children, parents, brothers and sisters) are also eligible for death benefits. To each dependent:

- child: 20% of the participant's benefit until the child attains 18 or marries;
- orphaned child: 25% of the participant's benefit until the child attains 18 or marries;
- parent: 10% of the participant's benefit for life,
- brother or sister: the sum of fifty dollars per month (but a total not to exceed \$100 per month) until such individual attains the age of 18 or marries.

The total of all benefits cannot be more than 100% of the participant's salary. In no case shall the payments to the surviving spouse and children be reduced below 65 percent of the total amount paid to all dependents.

### Supplemental Benefit (Cost-of-Living Adjustment – COLA)

All retirees, surviving beneficiaries and disability pensioners are eligible for automatic cost-of-living benefits commencing on the first day of July following two years of retirement. The benefits equal the percentage increase in the Consumer Price Index, limited to 4% (2% for some disability retirees), multiplied by the sum of the allowable amount which is the first \$15,000 of the total annual benefits paid and the accumulated supplemental pension amounts for prior years.

### Changes in Plan Provisions Since Prior Valuation

None.







- (3) We have assumed all Pension and Relief Funds will make the minimum statutory contribution requirement and will receive 100% of the total allocation assigned to the individual plan until they are 100% funded. Once a plan attains a funded ratio of at least 100%, the premium tax that would have been allocated to the plan had the funded ratio been lower than 100% is reallocated in subsequent years to all remaining plans that are less than 100% funded.
- (4) The total available premium tax allocation, net of expenses, as of September 1, 2019, includes a Base Allocation of \$8,709,689, an Excess Allocation of \$ 10,790,377, and an Expired Premium Tax Allocation of \$ 387,136.
- (5) For the plan year ending June 30, 2019, all Pension and Relief Funds reported a total of 1,739 eligible active members and 2,165 eligible retired members. The City of Charleston Firemen’s Pension and Relief Fund reported 161 eligible active members and 240 eligible retired members, based on the average number of plan participants for the 12-month period ending June 30, 2019. The Fund is eligible to receive a premium tax allocation of \$ 1,952,515 for the fiscal year ending June 30, 2020.
- (6) The total premium tax allocation is assumed to increase by 2.75% in calendar years ending on and after 2020.

### Administrative Expenses

Total administrative expenses for the fiscal year are equal to the expense assumption used for the prior valuation, increased by 2.75% for inflation. We defined our expense assumption based on discussions with MPOB and currently available information, recognizing this assumption will be evaluated in the next experience study. Future expenses are assumed to increase by the general inflation assumption and are adjusted for headcount.

### Salary Increases

General Inflation: 2.75% *plus*  
 Wage Inflation Increment: 1.00% *plus*  
 Service-based Increase:

Years of Service	Increase
1	20.00%
2	6.50%
3	3.50%
4	2.75%
5-9	2.50%
10-29	2.00%
30-34	1.25%
>34	0.00%

### Cost-of-Living Increase in Benefits

2.75% on first \$15,000 of Annual Benefit and on the accumulated supplemental pension amounts for prior years. Assumed to be payable to all members receiving payments.

### Inflation

2.75%, compounded annually.

### Mortality

Pre-Retirement

RP-2014 Blue Collar Healthy Employee<sup>11</sup> projected generationally using scale MP-2014 two-dimensional mortality improvement scales.

Post Retirement

RP-2014 Blue Collar Healthy Annuitant projected generationally using scale MP-2014 two-dimensional mortality improvement scales.

For Disabled Participants: RP-2014 Blue Collar Healthy Annuitant set forward four years, projected generationally using scale MP-2014 two-dimensional mortality improvement scales.

Projections with MP-2014 to the valuation date represent current mortality and projections using scale MP-2014 beyond the valuation date represent future mortality improvement.

### Termination of Employment

Sample termination rates are as follows:

Age	Rates
25	9%
35	4%
45	2%
50	0%

### Retirement Rates

Members need a minimum of 20 years of service in order to be eligible for normal retirement. The sample retirement rates below are for years of service greater than or equal to 20 years of service:

Age	Rates
50	45%
51-55	30%
56-59	35%
60	100.0%

<sup>11</sup> Assumes 10% of deaths are duty-related and 90% are non-duty related.





Terminated-vested members (members who terminate employment after attaining 20 years of service but prior to commencing pension benefits) are assumed to commence pension benefits at age 50.

## Disability Rates

Sample disability rates are as follows:

Age	Rates <sup>12</sup>
30	0.22%
40	0.50%
50	0.79%

## Marital Status

90% assumed to be married with wives 3 years younger than husbands. Widows are not expected to re-marry in the future.

## Non-Vested Terminations

We value non-vested terminations based on the amount of their employee contribution account balance, which is assumed to be paid during the plan year of termination.

## Form of Payment

Benefits are assumed to be paid as a life annuity with a 60% spousal death benefit taking into account the re-indexing of the spouse's supplemental benefit as provided in WV Code §8-22-26a.

## Child Beneficiaries

Future survivor widow benefits are loaded by 12% to estimate the impact of benefits provided to survivor children. The load assumes 90% of members are married with two children at time of death, and benefits for each child are paid for approximately 8 years.

## Changes in Methods/Assumptions Since Prior Valuation

The premium tax allocation was changed to re-allocate to other plans the premium tax money for plans that are projected to be 100% funded in the projection period. The previous valuation performed by the prior actuary did not reallocate these contributions.

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<sup>12</sup> Assumes that 60% of disabilities are duty related and 40% are non-duty related. Also assumes that 10% of non-duty disabled members receive a 20% reduction in benefits due to gainful employment until age 65.





