



DENVER WATER

TITLE:

Funding Policy for Employees' Retirement Plan

POLICY OWNER:

Chief Finance Officer

EFFECTIVE DATE:

May 23, 2018

PREVIOUS EFFECTIVE DATES:

July 12, 2017

ENTERPRISE POLICY APPROVED:

President

5-23-18

Approval Date

1. PURPOSE

This Funding Policy is a statement of the objectives of the Board of Water Commissioners ("Board") in funding the benefits to be paid by the Employees' Retirement Plan ("Plan").

2. OBJECTIVES

2.1. The Funding Policy sets out the principles under which the employee and employer contributions to the retirement plan are governed.

2.2. The Funding Policy will be developed under the following funding objectives:

(a) To maintain a stable or increasing funded ratio of system assets to accrued liabilities with a target to reach a funded ratio of 100%;

(b) To develop a pattern of minimally volatile actuarially determined employer contributions; and

(c) To provide intergenerational equity for ratepayers whereby the costs of benefits are paid by the ratepayers who receive the services provided by members of the Plan.

3. FUNDING GUIDELINES-The Actuarially Determined Contribution (ADC)

The Board will base its contributions to the Plan on the Actuarially Determined Contributions (ADC) prepared annually in the course of the valuation process. The valuation process will incorporate the assumptions and methods approved by the Board and in consultation with its advisors. The ADC will be calculated in compliance with Actuarial Standards Board's Actuarial Standards of Practice (ASOP No. 4). The ADC is the total annual cost of the Plan for the year and will be determined using the following funding elements:

3.1. Determination of the Normal Cost--Actuarial Cost Method.

The Board uses the Entry Age Normal actuarial cost method to determine the normal cost of the plan. The Entry Age Normal Cost method produces the most stable normal cost rate of all available funding methods, and is therefore most consistent with the objective of providing the most minimally volatile employer contribution rate (2.2(b)).

3.2. Actuarial Asset Valuation Method

The method of valuing assets (smoothing method) is used to recognize gains and losses in Plan assets over a period of time. Smoothing methods are used to mitigate the effects of market volatility and provide stability to contribution rates. The actuarial asset valuation method used by the Board smooths asset gains and losses over a three-year period. The actuarial value of assets is limited to a corridor of 20% above and below market value of assets.

3.3. Amortization of Unfunded Accrued Actuarial Liability (UAAL)

Effective January 1, 2014, the annual payment on the UAAL will be determined using a year by year layered approach. Each year's base will be amortized over a 15-year closed

period. The 15 year period was selected because it closely reflects the average period of active service of Plan members. The 15-year period aligns with the objective of providing intergenerational equity for ratepayers (2.2(c)). The amortization payment will be calculated as a level-dollar amount. Fluctuations in the UAAL due to plan experience different than assumed or changes in actuarial assumptions, methods or Plan provisions will be amortized over a 15-year period beginning with the first valuation following such change.

In the event assets exceed the accrued liability the surplus will be amortized over a 30-year open period. Amortizing the surplus slowly will help to keep the Plan in its fully funded position (2.2(a)), and will support the objective of creating minimally volatile employer contribution rates (2.2(c)).

3.4. Administrative Expenses.

Administrative expenses are included in the determination of the ADC for each year.

3.5. Member Contributions

Effective January 1, 2018, all employees of Denver Water will be required to make contributions to the plan. Based upon a determination that member contributions to the plan of 3% of employee compensation increase the Plan's actuarial soundness, are reasonable and necessary to serve an important public purpose, are actuarially necessary, and strengthen and better the Plan, all members will be required to contribute 3% of compensation each pay period. That 3% contribution amount will be phased in for a period of three years at 1% per year for any member hired prior to 1/1/2018. Members hired on or after 1/1/2018 will commence making contributions immediately at the full 3% rate. The Board has discretion to change the contribution rates.

3.6. Employer Contributions

The Board will make the contributions while taking into account the valuation results of the plan, the actuarially determined contribution and any other facts and circumstances relevant to the funding decision.

4. POLICY CONSIDERATIONS.

The Policy shall be reviewed at least annually by the Chief Finance Officer. The Policy shall be presented to the Board for approval of any changes, but no less frequently than every three years. If no changes are needed, the existing approved Policy will remain in effect until the Board approves the recommended update to the Policy.