

BIG SPRING FIREMEN'S RELIEF AND RETIREMENT FUND

FUNDING ACTUARIAL VALUATION
AS OF JANUARY 1, 2025



FOR THE CONTRIBUTION YEAR
JANUARY 1, 2025 TO DECEMBER 31, 2025

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Actuarial Funding Report



Lauterbach & Amen, LLP

CERTIFIED PUBLIC ACCOUNTANTS

BIG SPRING FIREMEN'S RELIEF AND RETIREMENT FUND

Contribution Year Ending: December 31, 2025

Actuarial Valuation Date: January 1, 2025

Data Date: December 31, 2024

Contact:

Todd A. Schroeder

Partner

October 8, 2025

LAUTERBACH & AMEN, LLP



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ACTUARIAL CERTIFICATION

This report documents the results of the Actuarial Valuation for the Big Spring Firemen’s Relief and Retirement Fund. The information was prepared for use by the Big Spring Firemen’s Relief and Retirement Fund and the City of Big Spring, Texas for determining the Fixed Rate Contribution, under the selected Funding Policy, for the Contribution Year January 1, 2025 to December 31, 2025. It is not intended or suitable for other purposes. Determinations for purposes other than the Employer’s Actuarial Fixed Rate Contribution may be significantly different from the results herein.

The results in this report are based on the demographic data and financial information submitted by the Big Spring Firemen’s Relief and Retirement Fund, and may include results from the prior Actuary. We did not prepare the Actuarial Valuations for the years prior to January 1, 2025. Those valuations were prepared by the prior Actuary whose reports have been furnished to us, and our disclosures are based on those reports. An audit of the prior Actuary’s results was not performed, but high-level reviews were completed for general reasonableness, as appropriate, based on the purpose of this valuation. The accuracy of the results is dependent on the precision and completeness of the underlying information.

In addition, the results of the Actuarial Valuation involve certain risks and uncertainty as they are based on future assumptions, market conditions, and events that may never materialize as assumed. For this reason, certain assumptions and future results may be materially different than those presented in this report. See the *Management Summary* section of this report for a more detailed discussion of the Defined Benefit Plan Risks, as well as the limitations of this Actuarial Valuation on assessing those risks. We are not aware of any known events subsequent to the Actuarial Valuation Date, which are not reflected in this report but should be valued, that may materially impact the results.

The valuation results summarized in this report involve actuarial calculations that require assumptions about future events. The Big Spring Firemen’s Relief and Retirement Fund selected certain assumptions, while others were the result of guidance and/or judgment from the Plan’s Actuary or Advisors. We believe that the assumptions used in this valuation are reasonable and appropriate for the purposes for which they have been used. The selected assumptions represent our best estimate of the anticipated long-term experience of the Plan, and meet the guidelines set forth in the Actuarial Standards of Practice.

In preparing the results, our Actuaries used commercially available software (ProVal) developed by Winklevoss Technologies, LLC. This software is widely used for the purpose of performing Actuarial Valuations. Our Actuaries coded the plan provisions, assumptions, methods, and demographic data summarized in this report, and reviewed the liability and cost outputs for reasonableness. We are not aware of any material weaknesses or limitations in the software, and have determined it is appropriate for performing this valuation.





To the best of our knowledge, all calculations are in accordance with the applicable funding requirements, and the procedures followed and presentation of results conform to generally accepted actuarial principles and practices as prescribed by the Actuarial Standards Board. The undersigned consultants of Lauterbach & Amen, LLP, with actuarial credentials, meet the Qualification Standards of the American Academy of Actuaries to render this Actuarial Certification. There is no relationship between the Big Spring Firemen's Relief and Retirement Fund and Lauterbach & Amen, LLP that impairs our objectivity.

Respectfully Submitted,
LAUTERBACH & AMEN, LLP

A handwritten signature in cursive script that reads "Todd A. Schroeder".

Todd A. Schroeder, ASA, FCA, EA, MAAA





MANAGEMENT SUMMARY

Fixed Rate Contribution
Funded Status
Management Summary – Comments and Analysis
Actuarial Fixed Rate Contribution – Reconciliation

MANAGEMENT SUMMARY

FIXED RATE CONTRIBUTION

	Prior Valuation*	Current Valuation
Fixed Rate Contribution	\$1,397,066	\$1,347,868
Valuation Payroll	\$4,506,666	\$4,208,141
Equivalent Single Amortization Period	19.07	21.22
Fixed Rate Contribution as a Percent of Total Payroll	31.00%	32.03%

*The Equivalent
Single Amortization
Period has
Increased by 2.15
years from the
Prior Valuation.*

FUNDED STATUS

	Prior Valuation*	Current Valuation
Normal Cost	\$714,799	\$651,653
Fair Value of Assets**	\$16,199,412	\$16,998,683
Actuarial Value of Assets	\$15,636,275	\$17,205,997
Actuarial Accrued Liability	\$24,892,494	\$26,853,328
Unfunded Actuarial Accrued Liability/(Surplus)	\$9,256,219	\$9,647,331
<u>Percent Funded</u>		
Actuarial Value of Assets	62.82%	64.07%
Fair Value of Assets	65.08%	63.30%

*The Percent
Funded has
Increased by 1.25%
on an Actuarial
Value of Assets
Basis.*

*The prior valuation, based on data and financials as of December 31, 2022, was completed by Dean Actuaries

**The reported Fair Value of Assets is as of the prior year-end, December 31, 2023.



MANAGEMENT SUMMARY

MANAGEMENT SUMMARY – COMMENTS AND ANALYSIS

Contribution Results

The Fixed Rate Contribution is based on the selected Funding Policy and methods that are outlined in the *Actuarial Funding Policies* section of this report.

“Contribution Risk” is defined by the Actuarial Standards of Practice as the potential for actual future contributions to deviate from expected future contributions. For example, when actual contributions are not made in accordance to the Plan’s Funding Policy, or when future experience deviates materially from assumed. While it is essential for the Actuary and Plan Sponsor to collaborate on implementing a sound and financially feasible Funding Policy, it is important to note that the Actuary is not required, and is not in the position to, evaluate the ability or willingness of the Plan Sponsor to make the Fixed Rate Contribution under the selected Funding Policy.

As a result, while Contribution Risk may be a significant source of risk for the Plan, this Actuarial Valuation makes no attempt to assess the impact of future contributions falling short of those expected under the selected Funding Policy. Notwithstanding the above, see the *Actuarial Fixed Rate Contribution – Reconciliation* section of this report for the impact on the current Fixed Rate Contribution of any contribution shortfalls or excesses from the prior year.

Defined Benefit Plan Risks

Asset Growth:

Pension funding involves preparing Fund assets to pay for benefits when Members retire. During their working careers, assets grow with contributions and investment earnings; and then, the Pension Fund distributes assets in retirement. Based on the Plan’s current mix of Members and Funded Status, the Plan should experience positive asset growth, on average, if the Fixed Rate Contributions are made and expected investment earnings come in. In the current year, the Fund asset growth was positive by approximately \$799,300.

Asset growth is important in the long-term. Long-term cash flow out of the Pension Fund is primarily benefit payments, and expenses are a smaller portion. The Plan should monitor the impact of expected benefit payments on future asset growth. We assess and project all future benefit payments as part of the determination of liability. The assessment is made on all current Members of the Fund, both active and inactive. For active Members, the assessment includes the probability that Members terminate or retire and begin receiving benefits. In the next 5 years, benefit payments are anticipated to increase 50-55%, or approximately \$682,700. In the next 10 years, the expected increase in benefit payments is 55-60%, or approximately \$781,500. The estimated increase in benefit payments is being compared against the benefits paid to inactive Members during the fiscal year, excluding any refunds of Member Contributions.

Furthermore, plans with a large number of inactive Members have an increased “Longevity Risk”. Longevity Risk is the possibility that inactive Members may live longer than projected by the Plan’s mortality assumption. As shown in the previous paragraph, benefit payments are expected to increase over



MANAGEMENT SUMMARY

the next 5-year and 10-year horizons. The projected increases assume that current inactive Members pass away according to the Plan's mortality assumption. To the extent that current inactive Members live longer than expected, the future 5-year and 10-year benefit projections may be larger than the amounts disclosed in the previous paragraph. Higher levels of benefit payments, payable for a longer period of time, may cause a significant strain on the Plan's cash flow, future Fixed Rate Contributions, and may lead to Plan insolvency.

Unfunded Liability:

Unfunded Liability represents the financial shortfall of the Actuarial Value of Assets compared to the Actuarial Accrued Liability. To the extent that Unfunded Liability exists, the Plan is losing potential investment earnings due to the financial shortfall. Contributions towards Unfunded Liability pay for the lost investment earnings, as well as the outstanding unfunded amount. If payments towards Unfunded Liability are not made, the Unfunded Liability will grow.

In the early 1990s, many Pension Funds in Illinois adopted an increasing payment towards Unfunded Liability due to a change in legislation. The initial payment decreased, and future payments are anticipated to increase annually after that. In many situations, payments early on were less than the interest on Unfunded Liability, which means that Unfunded Liability increased even though contributions were made at the expected level.

The current Fixed Rate Contribution includes a payment towards Unfunded Liability that is approximately \$2,500 less than the interest on Unfunded Liability. All else being equal, and contributions being made, Unfunded Liability is expected to increase. The Employer and Fund should not anticipate improvement in the current Percent Funded in the short-term. The Employer and Fund should understand this impact as we progress forward to manage expectations.

Actuarial Value of Assets:

The Pension Fund smooths investment returns that vary from expectations over a 5-year period. The intention is that investment returns for purposes of expected funding are a combination of several years. The impact is intended to smooth out the volatility of Fixed Rate Contributions over time, but not necessarily increase or decrease the level of contributions over the long-term.

When investment returns are smoothed, there are always gains or losses on the Fair Value of Assets that are going to be deferred for current funding purposes, and recognized in future years. Currently, the Pension Fund is deferring approximately \$207,300 in losses on the Fair Value of Assets. These are asset losses that will be recognized in upcoming periods, independent of the future performance of the Fair Value of Assets.

Cash Flow Risk:

Assets, liabilities, and Funded Status are good metrics to monitor over time to assess the progress of the Funding Policy. However, these metrics may provide limited forward-looking insights. Specifically, the



MANAGEMENT SUMMARY

maturity of a Pension Fund can pose certain risks that often cannot be assessed with a point-in-time metric such as Percent Funded.

For example, two different Pension Funds could have the same Percent Funded, but have completely different risk profiles. One Fund might mostly cover active Members with little to no Members in pay status, whereas a second Fund might mostly cover inactive Members with a significant level of annual benefit payments. The latter Fund has a greater “Cash Flow Risk”, i.e. a more significant chance that negative cash flows could lead to a deteriorating, rather than improving, Percent Funded over time.

It is important to note that, in general, positive net cash flows are good, but also need to be sufficient to cover the growth in the liabilities (i.e. the Normal Cost as well as interest on the Actuarial Accrued Liability). Typically, when cash flows are assumed to be insufficient to cover the growth in liabilities, the Percent Funded will decline, while future Fixed Rate Contributions will increase.

Benefit Payment Risk:

Ideally, plans in a sound financial position will have the ratio of annual benefits payments to the Fair Value of Assets to be less than the Expected Rate of Return on Investments assumption (i.e. 7.25%). Theoretically, in this case it can be considered that investment returns will fully cover the annual benefit payments, and therefore, all Employer and Member Contributions made to the Fund will be used to pay for future benefit accruals and pay down the existing Unfunded Liability. To the extent that the ratio of the annual benefit payments to the Fair Value of Assets increases to above the Expected Rate of Return on Investments assumption, the Plan may experience some additional risks, such as the need to keep assets in more liquid investments, inability to pay down Unfunded Liability, and may lead to Plan insolvency.

As of the Valuation Date, the Big Spring Firemen’s Relief and Retirement Fund has a ratio of benefit payments to the Fair Value of Assets of 7.76%. In this case, a portion of the Employer Contributions are being used to pay the annual benefit payments creating Benefit Payment Risk and Cash Flow Risk. The Percent Funded of the Plan may not grow as quickly as expected under the current Funding Policy, since the amortization payment towards the Unfunded Liability is not being fully realized. As shown in the *Asset Growth* section of this report, the 5-year and 10-year horizons of future benefit payments are expected to increase. The Plan Sponsor should monitor the percentage of annual benefit payments to the Fair Value of Assets and consider changing the Funding Policy if this ratio continues to increase.

Fund Assets

The results in this report are based on the assets held in the Pension Fund. Assets consist of funds held for investment and for benefit payments as of the Actuarial Valuation Date. In addition, assets may be adjusted for other events representing dollars that are reasonably expected to be paid out from the Pension Fund or deposited into the Pension Fund after the Actuarial Valuation Date as well.



MANAGEMENT SUMMARY

The current Fund assets are audited.

The Actuarial Value of Assets under the Funding Policy is equal to the Fair Value of Assets, with unexpected gains and losses smoothed over 5 years. More detail on the Actuarial Value of Assets can be found in the *Actuarial Funding Policies* section of this report.

*The Fund
Assets Used in
this Report
are Audited.*



MANAGEMENT SUMMARY

Demographic Data

Demographic factors can change from year to year within the Pension Fund. Changes in this category include hiring new Members, Members retiring or becoming disabled, inactive Members passing away, and other changes. Demographic changes can cause an actuarial gain (contribution that is less than expected compared to the prior year) or an actuarial loss (contribution that is greater than expected compared to the prior year).

Demographic gains and losses occur when the assumptions over the one-year period for Member changes do not meet our long-term expectation. For example, if no Members become disabled during the year, we would expect a liability gain. If more Members become disabled than anticipated during the year, we would expect a liability loss. Generally, we expect short-term fluctuations in demographic experience to create gains or losses of 1%-3% of the Actuarial Accrued Liability in any given year, but to balance out in the long-term.

“Demographic Risk” occurs when Plan demographic experience differs significantly from expected. Similar to Longevity Risk discussed previously, additional risk is created when demographic experience differs from the assumed rates of disability, retirement, or termination. Under the chosen assumptions, actuarial gains and/or losses will always occur, as the assumptions will never be exactly realized. However, the magnitude of the gain and/or loss and its influence on the Fixed Rate Contribution largely depends on the size of the Plan.

A key Demographic Risk is mortality improvement differing from expected. While the actuarial assumptions reflect small, continuous improvements in mortality experience and these assumptions are refined upon the completion of each actuarial experience study, the risk arises because there is a possibility of a sudden shift in mortality experience. This report reflects the impact of COVID-19 experience that has been accounted for in the underlying demographic data. This report does not reflect the ongoing impact of COVID-19, which is likely to influence demographic and economic experience, at least in the short-term. We will continue to monitor these developments and their impact on the Plan. Actual future experience will be reflected in each subsequent Actuarial Valuation, as experience emerges.

Based on the number of active Members in the Plan, the Fixed Rate Contribution has a low risk of having a significant increase due to demographic experience. For example, 1 new disabled Member would typically generate a substantial increase to the Actuarial Accrued Liability. However, due to the size of the Plan, there is an appropriate means to absorb demographic losses without causing a significant increase to the Fixed Rate Contribution.

Assumption Changes

In the current valuation, the individual pay increases assumption has been updated based on a review of the wage schedule between the City of Big Spring, Texas and Big Spring Firemen’s Relief and Retirement Fund for the period October 1, 2024 through September 30, 2025. Also, we have updated the Expected Rate of Return on Investments (from 7.75% to 7.25%), termination rates, total payroll increases (from



MANAGEMENT SUMMARY

4.50% to 3.25%), consumer price index (from 3.00% to 2.50%), and inflation rate (from 3.00% to 2.50%) assumptions.

The assumption changes stated above were made to better reflect the future anticipated experience of the Fund. See the *Actuarial Fixed Rate Contribution – Reconciliation* section of this report for the impact of these changes on the current valuation.

Funding Policy Changes

The Funding Policy was changed from the prior valuation. The Employer Contribution Rate increases from the prior valuation from 18.00% to 19.03%, bringing the Total Contribution Rate from 31.00% to 32.03%.

Output Smoothing

Contributions are determined annually by allocating dollars over a specified period of time. Procedures that are used to allocate contributions over a period of time may include asset smoothing, amortization period, and output smoothing. Each procedure becomes part of the Actuarial Methodology. Output smoothing involves measuring the impact of a specific result on a contribution and recognizing the result. The final contribution should maintain a reasonable relationship to the full Actuarially Determined Contribution.

The current results shown throughout the report reflect the full Actuarially Determined Contribution.



MANAGEMENT SUMMARY

UNFUNDED LIABILITY (GAINS) AND LOSSES – RECONCILIATION

Unfunded Actuarial Accrued Liability is expected to increase each year for both interest for the year and as active Members earn additional service years towards retirement. Similarly, Unfunded Actuarial Accrued Liability is expected to decrease when the Fund pays benefits to inactive Members.

Unfunded Liability is expected to increase as expected pay increases under the Funding Policy for the Fund.

	Actuarial Liability	Actuarial Value of Assets	Unfunded Liability	Percent Funded
Prior Valuation	\$ 24,892,494	\$15,636,275	\$ 9,256,219	62.82%
Expected Changes	2,955,113	2,910,239	44,874	3.78%
Initial Expected Current Valuation	<u>\$ 27,847,607</u>	<u>\$ 18,546,514</u>	<u>\$ 9,301,093</u>	<u>66.60%</u>

Other experience during the year that was unexpected will increase or decrease the amount of Unfunded Liability in the Plan. To the extent that Unfunded Liability increases or decreases unexpectedly, the contribution towards Unfunded Liability will also change unexpectedly.

	Actuarial Liability	Actuarial Value of Assets	Unfunded Liability	Percent Funded
Actuarial Experience	\$ (2,509,790)	\$ (163,219)	\$ (2,346,571)	5.95%
Assumption Changes	1,515,511	-	1,515,511	-4.09%
Investment Experience	-	(1,487,494)	1,487,494	-5.54%
Contribution Experience	-	310,196	(310,196)	1.16%
Total Increase/(Decrease)	<u>\$ (994,279)</u>	<u>\$ (1,340,517)</u>	<u>\$ 346,238</u>	<u>-2.53%</u>
Current Valuation	<u>\$ 26,853,328</u>	<u>\$ 17,205,997</u>	<u>\$ 9,647,331</u>	<u>64.07%</u>

The Actuarial Experience can be attributable to several factors including, but not limited to, demographic changes, salary experience, and benefit payment experience compared to expectation.





VALUATION OF FUND ASSETS

Fair Value of Assets
Fair Value of Assets (Gain)/Loss
Development of the Actuarial Value of Assets
Actuarial Value of Assets (Gain)/Loss
Historical Asset Performance

VALUATION OF FUND ASSETS

FAIR VALUE OF ASSETS

Statement of Assets

	Prior Year	Current Year
Cash and Cash Equivalents	\$ -	\$ 164,886
Money Market	657,702	402,038
Insurance Contracts	2,353,063	1,583,083
Mutual Funds	13,107,969	14,826,427
Receivables (Net of Payables)	80,678	22,249
Total Fair Value of Assets	<u>\$ 16,199,412</u>	<u>\$ 16,998,683</u>

The Total Fair Value of Assets has Increased by Approximately \$799,300 from the Prior Valuation.

Statement of Changes in Assets

Total Fair Value of Assets - Last Year	\$ 16,199,412
Plus - Employer Contributions	914,556
Plus - Member Contributions	660,513
Plus - Return on Investments	1,739,398
Less - Benefit Payments	(1,319,465)
Less - Refunds & Transfers	(1,152,013)
Less - Other Expenses	<u>(43,718)</u>
Total Fair Value of Assets - Current Valuation	<u>\$ 16,998,683</u>

The Rate of Return on Investments on a Fair Value of Assets Basis for the Fund was Approximately 10.77% Net of Administrative Expense.

The Rate of Return on Investments shown above has been determined as a percent of the average of the prior and current Fair Value of Assets on the Statement of Changes in Assets. The Return on Investments is net of Other Expenses, and has been excluded from the Total Fair Value of Assets at the end of the Fiscal Year for this calculation.



VALUATION OF FUND ASSETS

FAIR VALUE OF ASSETS (GAIN)/LOSS

Current Year (Gain)/Loss on Fair Value of Assets

Total Fair Value of Assets - Last Year	\$ 16,199,412
Employer and Member Contributions	1,575,069
Benefit Payments and Refunds	(2,471,478)
Expected Return on Investments	<u>1,220,718</u>
Expected Total Fair Value of Assets - Current Valuation	16,523,721
Actual Total Fair Value of Assets - Current Valuation	<u>16,998,683</u>
Current Fair Value of Assets (Gain)/Loss	<u>\$ (474,962)</u>
Expected Return on Investments	\$ 1,220,718
Actual Return on Investments (Net of Expenses)	<u>1,695,680</u>
Current Fair Value of Assets (Gain)/Loss	<u>\$ (474,962)</u>

The Actual Return on Investments on a Fair Value of Assets Basis was Greater than Expected for the Current Year.

The (Gain)/Loss on the current Fair Value of Assets has been determined based on the Expected Rate of Return on Investments as shown in the *Actuarial Assumptions* section of this report.



VALUATION OF FUND ASSETS

DEVELOPMENT OF THE ACTUARIAL VALUE OF ASSETS

Total Fair Value of Assets - Current Valuation		\$ 16,998,683
Adjustment for Prior (Gains)/Losses		
	Full Amount	Deferral
FYE 12/31/2024	\$ (474,962)	(379,970)
FYE 12/31/2023	(867,793)	(520,676)
FYE 12/31/2022	3,861,050	1,257,291
FYE 12/31/2021	(746,652)	(149,331)
Total Deferred (Gain)/Loss		207,314
Initial Actuarial Value of Assets - Current Valuation		\$ 17,205,997
Less Contributions for the Current Year and Interest		-
Adjustment for the Corridor		-
Total Actuarial Value of Assets - Current Valuation		\$ 17,205,997

The Actuarial Value of Assets is Equal to the Fair Value of Assets with Unanticipated (Gains)/Losses Recognized Over 5 Years. The Actuarial Value of Assets is 101.22% of the Fair Value of Assets.

ACTUARIAL VALUE OF ASSETS (GAIN)/LOSS

Total Actuarial Value of Assets - Last Year		\$ 16,922,902
Plus - Employer Contributions		914,556
Plus - Member Contributions		660,513
Plus - Return on Investments		71,209
Less - Benefit Payments		(1,319,465)
Less - Refunds & Transfers		(1,152,013)
Less - Other Expenses		(43,718)
Total Actuarial Value of Assets - Current Valuation		\$ 17,205,997

The Rate of Return on Investments on an Actuarial Value of Assets Basis for the Fund was Approximately 0.16% Net of Administrative Expense.

The Actuarial Value of Assets incorporates portions of gains and losses over multiple years.



VALUATION OF FUND ASSETS

HISTORICAL ASSET PERFORMANCE

The chart below shows the historical Rates of Return on Investments for both Fair Value of Assets and Actuarial Value of Assets.

	<u>Fair Value of Assets</u>	<u>Actuarial Value of Assets</u>
FYE 12/31/2024	10.77%	0.16%

The historical Rates of Return on Investments shown above were calculated based on the annual Return on Investments, as a percentage of the average value of the assets for the year. The historical Rates of Return on Investments shown above may not reflect the current investment allocation of the Pension Fund.

For purposes of determining the average value of assets for the year, the ending Fair Value of Assets has been adjusted to net out to the portion related to the Return on Investments themselves. All other cash flows are included.

For purposes of determining the annual Return on Investments we have adjusted the figures shown on the preceding pages. The figures shown on the preceding pages are net of Investment Expenses. We have made an additional adjustment to net out Administrative Expenses. Netting out Administrative Expenses allows us to capture returns for the year that can be used to make benefit payments as part of the ongoing actuarial process.

The adjustments we made are for actuarial reporting purposes only. By netting out Administrative Expenses and capturing Return on Investments that are available to pay benefits, it provides us a comparison to the Expected Rate of Return on Investments, but does not provide a figure that would be consistent with the rates of return that are determined by other parties. Therefore, this calculated Return on Investments should not be used to analyze investment performance of the Fund or the performance of the investment professionals.



VALUATION OF FUND ASSETS

Expected Rate of Return on Investments Assumption

The Expected Rate of Return on Investments for this valuation is 7.25%. Lauterbach & Amen, LLP does not provide investment advice. We look at a variety of factors when reviewing the Expected Rate of Return on Investments assumption selected by the client. These factors include: historical Rates of Return on Investments, capital market projections performed by the Board's investment advisors, the Board's investment policy, capital market forward-looking benchmark expected returns by independent investment companies, rates used by comparable pension systems, and other factors identified in the Actuarial Standards of Practice.

Generally speaking, the ideal assumption for Expected Rate of Return on Investments is one that has a 50% chance of being met over the long-term. Recently, we have observed the following factors that impact Expected Rate of Return on Investments:

- Volatility in the market has been high which drags down long-term geometric returns.
- Similar pension systems are looking to reduce future expectations. We generally see about 95% of similar pension systems using an Expected Rate of Return on Investments that is between 6.25% and 7.50%.
- We have reviewed studies conducted by Firms who gather information from multiple investment advisors who provide models and opinions on capital market returns. Those studies help guide us to see if the assumption is expected to have a 50% chance of being met over the long-term. Plans are generally aiming towards 40th to 60th percentile returns, which can help define a range of reasonableness.
- We have reviewed an index of high-quality fixed income rates that takes into consideration the pattern of your benefit payments. The purpose of the review is to provide additional disclosure in Funding Actuarial Valuations for the Low-Default-Risk Obligation Measure. The rates in this measure are low-risk and are being used as an approximate for risk-free rates. Investment funds that incorporate diversified investments which build in more risk would be expected to earn a positive risk premium, over and above the risk-free rates.



VALUATION OF FUND ASSETS

If actual returns going forward come in less than expected, the pension system risks deferring contributions to the future that should be made today and creating additional contribution volatility. Below is a chart detailing the impact on the Equivalent Single Amortization Period by decreasing or increasing the Expected Rate of Return on Investments by 25 basis points:

	0.25% Decrease (7.00%)	Current Expected Rate of Return on Investments (7.25%)	0.25% Increase (7.50%)
Equivalent Single Amortization Period	25.59	21.22	17.81

Currently, the client has selected an Expected Rate of Return assumption that falls within a reasonable range. We recommend the client review the Expected Rate of Return on Investments annually to ensure the selected rate remains within a reasonable range as market conditions change year-to-year.

“Investment Risk” is the potential that the actual Return on Investments will be different from what is expected. The selected Expected Rate of Return on Investments assumption is chosen to be a long-term assumption, producing a return that, on average, would produce a stable rate of return over a long-term horizon. Actual investment returns in the short-term may deviate from this long-term assumption due to current market conditions. Furthermore, establishing the Expected Rate of Return on Investments assumption may be dependent on the Illinois State Statutes pertaining to the limitations on types of investments Plan Sponsors may use. If the actual annual rates of return are less than the Expected Rate of Return on Investments, actuarial losses will be produced, thus increasing the Plan’s Unfunded Liability and, subsequently, future Fixed Rate Contributions.

“Asset/Liability Mismatch” risk is a similar concept as Investment Risk, as it relates to setting the Expected Rate of Return on Investments assumption compared to the actual Return on Investments achieved. The Interest Rate used to discount future Plan liabilities is set equal to the Expected Rate of Return on Investments. It is expected that the selected Interest Rate be a rate that is reasonably expected to be achieved over the long-term. To the extent that the selected Interest Rate to value Plan liabilities is unreasonable, or significantly different than the actual Return on Investments earned over an extended period of time, additional Interest Rate risk is created. For example, determining Plan liabilities at an Interest Rate higher than what is expected to be achieved through investment returns results in Unfunded Liability that is not a true representation of the Plan’s condition and Percent Funded. As a result, the Actuarial Accrued Liability determined is an amount smaller than the liability that would be produced with an Interest Rate more indicative of future Expected Rate of Return on Investments. Therefore, the Fixed Rate Contributions under the established Funding Policy may not be sufficient to appropriately meet the true pension obligations.





FIXED RATE CONTRIBUTION DETAIL

Actuarial Accrued Liability
Funded Status
Development of the Employer Normal Cost
Normal Cost as a Percentage of Expected Payroll
Fixed Rate Contribution Breakdown
Actuarial Methods – Fixed Rate Contribution

FIXED RATE CONTRIBUTION DETAIL

ACTUARIAL ACCRUED LIABILITY

	Current Valuation
Active Members	\$ 10,436,866
Inactive Members	
Terminated Members	626,245
Retired Members	14,385,772
Disabled Members	143,524
Other Beneficiaries	1,260,921
Total Inactive Members	16,416,462
 Total Actuarial Accrued Liability	 \$ 26,853,328

*The Total Actuarial
Accrued Liability
has Increased from
the Prior Valuation
(See Management
Summary).*

FUNDED STATUS

	Current Valuation
Total Actuarial Accrued Liability	\$ 26,853,328
Total Actuarial Value of Assets	17,205,997
Unfunded Actuarial Accrued Liability	\$ 9,647,331
Total Fair Value of Assets	\$ 16,998,683
 <u>Percent Funded</u>	
Actuarial Value of Assets	64.07%
Fair Value of Assets	63.30%

*The Percent Funded
as of the Actuarial
Valuation Date is
Subject to Volatility
on Assets and
Liability in the
Short-Term.*



FIXED RATE CONTRIBUTION DETAIL

DEVELOPMENT OF THE EMPLOYER NORMAL COST

	Current Valuation
Total Normal Cost	\$ 651,653
Estimated Member Contributions	(517,103)
Employer Normal Cost	\$ 134,550

*At a 100%
Funding Level,
the Normal Cost
Contribution is
Still Required.*

NORMAL COST AS A PERCENTAGE OF EXPECTED PAYROLL

	Current Valuation
Valuation Payroll	\$ 4,208,141
Member Normal Cost Rate	<u>13.000%</u>
Employer Normal Cost Rate	<u>2.49%</u>
Total Normal Cost Rate	<u>15.49%</u>

*Ideally, the
Employer
Normal Cost
Rate will Remain
Stable.*

FIXED RATE CONTRIBUTION BREAKDOWN

	Current Valuation
Employer Normal Cost	\$ 134,550
Employee Normal Cost	517,103
Interest (1/2 Year)	46,354
Contribution Towards Unfunded Accrued Liability/(Surplus)	649,860
Fixed Rate Contribution	\$ 1,347,868

*The Fixed Rate
Contribution has
Decreased from
the Prior
Valuation (See
Management
Summary).*



FIXED RATE CONTRIBUTION DETAIL

ACTUARIAL METHODS – FIXED RATE CONTRIBUTION

Actuarial Valuation Date	January 1, 2025
Data Collection Date	December 31, 2024
Actuarial Cost Method	Entry Age Normal (Level % Pay)
Amortization Method	Level % Pay (Closed)
Equivalent Single Amortization Period	100% Funded Over 21.22 Years
Asset Valuation Method	5-Year Smoothed Fair Value

The above methods constitute a sound Actuarially Determined Contribution under the parameters of Actuarial Standards of Practice.

The contributions and benefit values of the Pension Fund are calculated by applying actuarial assumptions to the benefit provisions and demographic data furnished, using the Actuarial Cost Method described. The Actuarial Cost and Amortization Methods allocate the projected obligations of the Plan over the working lifetimes of the Plan Members.

The Fixed Rate Contribution amount shown in this report is based on the methods summarized above. The *Actuarial Funding Policies* section of this report includes a more detailed description of the Actuarial Funding Methods being used.

The Actuarial Funding Methods are meant to provide a systematic process for determining contributions on an annual basis. The methods do not impact the expectation of future benefit payments. The methods only impact the way contributions are made towards future benefit payments.

Different Actuarial Funding Methods may achieve funding goals with differing levels of success. Certain methods are more efficient and more stable on an annual basis.

In the current valuation, the Plan Sponsor has elected to use a 10% corridor in the determination of the Actuarial Value of Assets for the Fixed Rate Contribution. In the event that the Actuarial Value of Assets exceeds 110% of the Fair Value of Assets or falls below 90% of the Fair Value of Assets, the excess gains or losses will be recognized immediately.





ACTUARIAL VALUATION DATA

Active Members
Inactive Members
Summary of Monthly Benefit Payments
Age and Service Distribution

ACTUARIAL VALUATION DATA

ACTIVE MEMBERS

	<u>Current Valuation</u>
Total Active Members	<u>57</u>
Valuation Payroll	<u>\$ 4,208,141</u>

INACTIVE MEMBERS

	<u>Current Valuation</u>
Terminated Members	3
Retired Members	34
Disabled Members	2
Other Beneficiaries	<u>9</u>
Total Inactive Members	<u>48</u>

SUMMARY OF MONTHLY BENEFIT PAYMENTS

	<u>Current Valuation</u>
Retired Members	\$ 101,693
Disabled Members	1,639
Other Beneficiaries	<u>12,029</u>
Total Inactive Members	<u>\$ 115,361</u>



ACTUARIAL VALUATION DATA

AGE AND SERVICE DISTRIBUTION

1/1/2025 Age and Service Distribution - Active Members												
	Service	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 & up	Total
Age												
Under 25		16										16
25 to 29		5	2									7
30 to 34		2	3		1							6
35 to 39			4	1	3	1						9
40 to 44				2	3	2						7
45 to 49					1	1	3	2				7
50 to 54						3		2				5
55 to 59												
60 to 64												
65 to 69												
70 & up												
Total		23	9	3	8	7	3	4				57





ACTUARIAL FUNDING POLICIES

Actuarial Cost Method
Financing Unfunded Actuarial Accrued Liability
Actuarial Value of Assets

ACTUARIAL FUNDING POLICIES

ACTUARIAL COST METHOD

The Actuarial Cost Method allocates the projected obligations of the Plan over the working lifetimes of the Plan Members.

In accordance with the Pension Fund's Funding Policy, the Actuarial Cost Method for the Fixed Rate Contribution basis is Entry Age Normal (Level Percent of Pay). The Entry Age Normal Cost Method is a method under which the Actuarial Present Value of the projected benefits of each individual included in an Actuarial Valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age. The portion of this Actuarial Present Value allocated to a valuation year is called Normal Cost. The portion of the Actuarial Present Value not provided at an Actuarial Valuation Date by the Actuarial Present Value of future Normal Costs is called the Actuarial Accrued Liability.

The Entry Age Normal method attempts to create a level cost pattern. In contrast to other Actuarial Cost Methods which inherently lead to uneven or less predictable cost patterns, the Entry Age Normal method is generally understood to be less risky in terms of contribution stability from year to year.

The Conference of Consulting Actuaries Public Plans Community produced a "white paper" detailing Funding Policy model practices for public sector pension plans. Under the Level Cost Actuarial Methodology ("LCAM"), one of the principal elements to a Funding Policy is the Actuarial Cost Method. When deciding which Actuarial Cost Method to use, several objectives may be considered, such as the following:

- Each Member's benefit should be funded under a reasonable allocation method by the expected retirement date
- Pay-related benefit costs should reflect anticipated pay at retirement
- The expected cost of each year of service (i.e. Normal Cost) for each active Member should be reasonably related to the expected cost of that Member's benefit
- The Member's Normal Cost should emerge as a level percent of Member compensation
- No gains or losses should occur if all assumptions are met.

Following these criteria, the use of the Entry Age Normal Cost Method (Level Percent of Pay) is a model practice.

FINANCING UNFUNDED ACTUARIAL ACCRUED LIABILITY

The Unfunded Actuarial Accrued Liability may be amortized over a period either in level dollar amounts or as a level percentage of projected payroll.

When amortizing the Unfunded Actuarial Accrued Liability as a level percentage of payroll, additional risk is incurred since the amortization payments in the early years of the payment period may not be large enough to cover the interest accrued on the existing Unfunded Liability. As a result, the Unfunded Liability



ACTUARIAL FUNDING POLICIES

may increase initially, before the amortization payments grow large enough to cover all interest accruals. Generally speaking, the Plan Sponsor will be required to contribute a larger total contribution amount over the course of the funding period under a level percentage of payroll basis as compared to a level dollar payroll schedule.

The Government Finance Officers Association notes that best practices in public pension finance include utilizing amortization periods that do not exceed 20 years. Longer amortization periods elevate the risk of failing to reduce any Unfunded Liability. For example, when the amortization payment in full only covers interest on the Unfunded Liability, but does not reduce the existing Unfunded Liability, the required contribution will increase in future years.

A second principal element under the Level Cost Actuarial Methodology described above is to establish an Amortization Policy that determines the length of time and the structure of the increase or decrease in contributions required to systematically fund the Unfunded Actuarial Accrued Liability. When deciding on the Amortization Policy, several objectives may be considered, such as the following:

- Variations in the source of liability changes (i.e. gains or losses, Plan changes, assumption changes) should be funded over periods consistent with an appropriate balance between the policy objectives of demographic matching and volatility management
- The cost changes in Unfunded Actuarial Accrued Liability should emerge as a level percentage of Member compensation

The LCAM model practices for the Amortization Policy include the following:

- Layered fixed period amortization by source
- Level percent of pay amortization
- An amortization period ranging from 15-20 years for experience gains or losses
- An amortization period of 15-25 years for assumption changes

Using the Fixed Rate Contribution from the City, the implied amortization period for Unfunded Liability is 21.22 years. The period was determined using level percent of payroll contributions and a 100% funding target. Employee contributions were assumed to pay Normal Cost, and the City's contribution was assumed to pay any remaining Normal Cost first, prior to being applied to the Unfunded Liability.

Best practice requires a review of core Funding Policy objectives of multiple stakeholders, including Members, Pension Boards, Employers, and Taxpayers. Over the past five years these objectives have been reviewed and discussed extensively by a variety of organizations, including most U.S.-based Actuarial associations, and the Government Finance Officers Association. The results provide a good foundation of common practices viewed as “model” or “best” practices.

The implied period of repayment suggests that the contribution level at this time is sufficient to pay down Unfunded Liability over a reasonable period of time.



ACTUARIAL FUNDING POLICIES

ACTUARIAL VALUE OF ASSETS

The Pension Fund is an ongoing plan. The Employer wishes to smooth the effect of volatility in the Fair Value of Assets on the annual contribution. Therefore, the Actuarial Value of Assets is equal to the Fair Value of Assets with unanticipated gains/losses recognized over a five-year period.

The Asset Valuation Method is intended to create an Actuarial Value of Assets that remains reasonable in relation to the Fair Value of Assets over time. The method produces results that can fall either above or below the Fair Value of Assets. The period of recognition is short.

It is intended that the period of recognition is short enough to keep the Actuarial Value of Assets within a decent range of the Fair Value of Assets. In the event that the Actuarial Value of Assets exceeds or falls below a 10% corridor of the Fair Value of Assets, the additional gain or loss will be recognized immediately.





ACTUARIAL ASSUMPTIONS

Nature of Actuarial Calculations
Selection of Actuarial Assumptions
Actuarial Assumptions in the Valuation Process
Assessment of Risk Exposures
Limitations of Risk Analysis
Assessment and Use of Actuarial Models
Actuarial Assumptions Utilized

ACTUARIAL ASSUMPTIONS

NATURE OF ACTUARIAL CALCULATIONS

The results documented in this report are estimates based on data that may be imperfect and on assumptions about future events. Certain Plan Provisions may be approximated or deemed immaterial, and, therefore, are not valued. Assumptions may be made about demographic data or other factors. Reasonable efforts were made in this valuation to ensure that significant items in the context of the Actuarial Accrued Liability or costs are treated appropriately, and not excluded or included inappropriately.

Actual future experience will differ from the assumptions used in the calculations. As these differences arise, the expense for accounting purposes will be adjusted in future valuations to reflect such actual experience.

A range of results different from those presented in this report could be considered reasonable. The numbers are not rounded, but this is for convenience only and should not imply precision which is not inherent in actuarial calculations.

SELECTION OF ACTUARIAL ASSUMPTIONS

Actuaries and other service providers provide guidance to their clients in the selection of assumptions used in the Actuarial Valuation based on their industry-specific training and experience. The Actuaries' expertise is used in the determination of demographic assumptions as it relates to future expectations of Plan demographic activity, such as mortality, termination, and retirement rates. The selection of economic assumptions, such as Expected Rate of Return on Investments or the assumed inflation rate, is more subjective. Investment advisors and other services providers utilize their expertise and knowledge of capital markets to model future expectations. Some assumptions may have an influence on other assumptions. The role of the Actuary in the selection of the economic assumptions is to review available market information including historical economic information and forward-looking capital market projections from investment professionals and to assess whether or not sufficient backup exists to deem the assumption reasonable. The selection of economic assumptions is the responsibility of the client. For example, the inflation rate (an economic assumption) may directly correlate to the active member salary increase assumption (a demographic assumption). Once all demographic and economic assumptions have been determined, the Actuary will create various sets of assumptions which take into account the proposed assumptions individually and in the aggregate. The client will then make the final decision of which assumption set to use.



ACTUARIAL ASSUMPTIONS

ACTUARIAL ASSUMPTIONS IN THE VALUATION PROCESS

The contributions and benefit values of the Pension Fund are calculated by applying actuarial assumptions to the benefit provisions and demographic data furnished, using the Actuarial Cost Method described in the *Actuarial Funding Policies* section of this report.

The principal areas of financial risk which require assumptions about future experience are:

- Expected Rate of Return on Investments
- Patterns of Pay Increases for Members
- Rates of Mortality Among Active and Inactive Members
- Rates of Termination Among Active Members
- Rates of Disability Among Active Members
- Age Patterns of Actual Retirements

Actual experience of the Pension Fund will not coincide exactly with assumed experience. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience. The result is a continual series of adjustments to the computed Fixed Rate Contribution.

Details behind the selection of the actuarial assumptions can be found in the Actuarial Assumption Summary document provided to the client upon request. The client has reviewed and approved the assumptions as a reasonable expectation of the future anticipated experience under the Plan.



ACTUARIAL ASSUMPTIONS

ASSESSMENT OF RISK EXPOSURES

From time to time it becomes appropriate to modify one or more of the assumptions, to reflect experience trends (but not random year-to-year fluctuations). In addition, Actuarial Standards of Practice require that the Actuary minimally perform a qualitative assessment of key financial and demographic risks as part of the risk assessment process with each annual Actuarial Valuation. The risk assessments we perform include, but are not limited to, the following:

- Periodic demographic experience studies every 3 to 5 years to confirm the ongoing appropriateness of actuarial assumptions
- Highlight the impact of demographic experience over the past year, as well as other sources of change and volatility in the *Actuarial Fixed Rate Contribution – Reconciliation* section of this report
- Detail year-over-year changes in contribution levels, assets, liabilities, and Funded Status in the *Fixed Rate Contribution* and *Funded Status* sections in the *Management Summary* section of this report
- Review any material changes in the demographic data as summarized in the *Actuarial Valuation Data* section of this report
- Provide and discuss the Actuarial Assumption Summary document highlighting the rationale for each key assumption chosen by the client
- Identify potential Cash Flow Risk by highlighting expected benefit payments over the next 5-year and 10-year periods in the *Asset Growth* section in the *Management Summary* section of this report
- Describe the impact of any assumption, method, or policy change in the *Management Summary* section of this report
- Utilize supplemental information, such as the GASB Discount Rate sensitivity disclosures to understand, for example, what impact an alternative Expected Rate of Return on Investments assumption might have on the estimation of Actuarial Accrued Liability and Funded Status
- Utilize supplemental information, such as the GASB solvency test, to better understand the Cash Flow Risk and long-term sustainability of the Plan

LIMITATIONS OF RISK ANALYSIS

Since future experience may never be precisely as assumed, the process of selecting funding methods and actuarial assumptions may inherently create risk and volatility of results. A more detailed evaluation of the above risk exposures is beyond the scope and nature of the annual Actuarial Valuation process. For example, scenario tests, sensitivity tests, stress tests, and/or stochastic modeling for multi-year projections to assess the impact of alternative assumptions and methods, or modeling future experience different from the assumptions in these results, are not included in this Actuarial Valuation.

The Big Spring Firemen’s Relief and Retirement Fund and/or the City of Big Spring, Texas should contact the Actuary if they desire a more detailed assessment of any of these forward-looking risk exposures.



ACTUARIAL ASSUMPTIONS

ASSESSMENT AND USE OF ACTUARIAL MODELS

Actuarial Valuations rely upon the use of actuarial modeling software to predict the occurrence of future events, which include specific demographic and financial potential outcomes. Actuarial assumptions are established to provide a guideline to use for such modeling.

- The model used in this Actuarial Valuation is intended to determine the Fixed Rate Contribution, under the selected Funding Policy. The actuarial assumptions used were developed with this goal in mind.
- There are no known material limitations or inconsistencies among the actuarial assumptions or methods.
- The output from the model is reasonable based on the individual actuarial assumptions and based on the actuarial assumptions in the aggregate.
- The actuarial software used to calculate plan liabilities has been purchased from an outside vendor. We have performed thorough testing of the software, including review of sample participants, to ensure the intended purpose of the model, the operation of the model, sensitivities and dependencies, and strengths and limitations of the model are sufficient for this purpose.
- Demographic data and financial information have been provided by client professionals, financial advisors, and/or auditors, who are known to be experts in their respective fields. We rely on the fact that the information provided by these experts has been given for the intended purpose of this Actuarial Valuation.
- Where applicable, certain actuarial assumptions and Funding Policy may be required as prescribed by law. In such instances, we have followed legal guidance to ensure conformity.
- The Expected Rate of Return on Investments assumption has been chosen using input from several sources; including, but not limited to: client professionals, financial advisors, auditors, and other capital market outlooks. We have relied on the information provided, in the aggregate, to settle on the selected Expected Rate of Return on Investments assumption.

As stated in the *Limitations of Risk Analysis* section, future experience may never be precisely as assumed. As a result, the funding methods and actuarial assumptions used in the model may create volatility in the results when compared year after year. A more detailed evaluation of this volatility is beyond the scope and nature of the annual Actuarial Valuation process. In such cases, additional scenario tests, sensitivity tests, stress tests, and/or stochastic modeling for multi-year projections to assess the impact of alternative assumptions and methods, or modeling future experience different from the assumptions in these results, may be performed to determine a range of reasonable results.



ACTUARIAL ASSUMPTIONS

ACTUARIAL ASSUMPTIONS UTILIZED

Expected Rate of Return on Investments	7.25% Net of Administrative Expense
CPI-U	2.50%
Total Payroll Increases	3.25%
Individual Pay Increases*	4.50% - 9.50%

Projected Individual Pay Increases

Sample rates are as follows:

Service	Rate	Service	Rate
0	9.50%	8	5.50%
1	9.00%	9	5.00%
2	8.50%	10	4.50%
3	8.00%	15	4.50%
4	7.50%	20	4.50%
5	7.00%	25	4.50%
6	6.50%	30	4.50%
7	6.00%	35	4.50%

Retirement Rates

Sample rates are as follows:

Age	Rate	Age	Rate
50	0.00%	58	100.00%
51	0.00%	59	100.00%
52	100.00%	60	100.00%
53	100.00%	61	100.00%
54	100.00%	62	100.00%
55	100.00%	63	100.00%
56	100.00%	64	100.00%
57	100.00%	65	100.00%



ACTUARIAL ASSUMPTIONS

Termination Rates

Sample rates are as follows:

Age/ Service	0	1	2	3	4	5+
25	14.70%	13.70%	12.70%	11.70%	10.70%	9.70%
30	12.50%	11.50%	10.50%	9.50%	8.50%	7.50%
35	10.66%	9.66%	8.66%	7.66%	6.66%	5.66%
40	9.14%	8.14%	7.14%	6.14%	5.14%	4.14%
45	7.75%	6.75%	5.75%	4.75%	3.75%	2.75%
50	6.35%	5.35%	4.35%	3.35%	2.35%	1.35%

Disability Rates

Sample rates are as follows:

Age	Rate	Age	Rate
25	0.09%	40	0.22%
30	0.11%	45	0.36%
35	0.15%	50	0.61%

Mortality Rates

Active Mortality follows the Sex Distinct Raw Rates as developed in the PubS-2010(A) Study improved to 2021 using MP-2021 Improvement Rates. These rates are then improved generationally using MP-2021 Improvement Rates.

Retiree Mortality follows the Sex Distinct Raw Rates as developed in the PubS-2010(A) Study improved to 2021 using MP-2021 Improvement Rates. These rates are then improved generationally using MP-2021 Improvement Rates.

Disabled Mortality follows the Sex Distinct Raw Rates as developed in the PubS-2010 Study for disabled participants improved to 2021 using MP-2021 Improvement Rates. These rates are then improved generationally using MP-2021 Improvement Rates.

Spouse Mortality follows the Sex Distinct Raw Rates as developed in the PubS-2010(A) Study for contingent survivors improved to 2021 using MP-2021 Improvement Rates. These rates are then improved generationally using MP-2021 Improvement Rates.



ACTUARIAL ASSUMPTIONS

Marital Assumptions

Active Members: 90% of active Members are assumed to be married. Female spouses are assumed to be 3 years younger than male spouses.

Retiree and Disabled Members: Actual spousal data was utilized for retiree and disabled Members.





LOW-DEFAULT-RISK OBLIGATION MEASURE

Low-Default-Risk Obligation Measure – Purpose
Low-Default-Risk Obligation Measure
Low-Default-Risk Obligation Measure vs Actuarial Liability

LOW-DEFAULT-RISK OBLIGATION MEASURE

LOW-DEFAULT-RISK OBLIGATION MEASURE - PURPOSE

The Pension Committee of the Actuarial Standards Board adopted changes to Actuarial Standards of Practice No. 4 (“ASOP 4”). ASOP 4 is titled “Measuring Pension Obligations and Determining Pension Plan Costs or Contributions”. The changes were adopted by the Actuarial Standards Board in December 2021 and are effective for reporting and Measurement Dates on or after February 15, 2023.

One change is the requirement for all Funding Actuarial Valuations to include a Low-Default-Risk Obligation Measure (“LDROM”). In its simplest form, the LDROM is a measure of Actuarial Liability determined using a low-risk Expected Rate of Return on Investments. The LDROM is not intended to replace the Actuarial Liability used to determine the Fixed Rate Contribution amount calculated in this report. The intention is to provide additional information on the Funded Status of the Plan and benefit security.

The Low-Default-Risk Obligation Measure is shown below as of the Measurement Date. The discussion that follows provides more information on the assumptions and methods used to determine the LDROM and some interpretation of the results.

LOW-DEFAULT-RISK OBLIGATION MEASURE

	<u>Current Valuation</u>
Low-Default-Risk Obligation Measure	\$ 33,294,298
Fair Value of Assets	<u>16,998,683</u>
Obligation not Covered by Current Assets	<u>\$ 16,295,615</u>

*The Low-Default-Risk
Obligation Measure is Not
Intended to Replace the
Actuarial Liability Used to
Determine the Recommended
Contribution.*

The Obligation not Covered by Current Assets shown above is for illustration of the Low-Default-Risk Obligation Measure only and is not intended for any other purposes. The amount of Obligation not Covered by Current Assets should not be used for pension funding or financial statement reporting purposes. In addition, the Obligation not Covered by Current Assets amount should not be used for any other assessments related to pension funding, such as assessing Unfunded Liability for the purpose of issuing Pension Obligation Bonds. Discussion of any of these items should be handled separately.



LOW-DEFAULT-RISK OBLIGATION MEASURE

Selection of the Discount Rate

Under Actuarial Standards, a Discount Rate should be selected from a source that develops the rate using low-default-risk fixed income securities. In addition, the fixed income securities should be reasonably consistent with the pattern of expected benefit payments from the Fund.

The Low-Default-Risk Obligation Measure has been valued using the FTSE Pension Discount Curve. The FTSE Pension Discount Curve is determined using rates from corporate bonds that are rated AA (from the FTSE U.S. Broad Investment Grade Bond Index) and yields from the FTSE Russell's Treasury model curve. The result is a set of investment grade zero coupon bond rates with maturities from 6 months to 30 years.

The equivalent single discount rate that would produce the same liability as the FTSE Pension Discount Curve is 5.54%.

There are other indices constructed that are appropriate for this disclosure as well. They could produce Discount Rates that are higher or lower than the LDROM shown here. An increase/decrease in the discount rate of 50 basis points (0.50%) would decrease/increase the LDROM by (6.39%)/7.14%, respectively. In our opinion, the FTSE Pension Discount Curve meets the requirements of the disclosure of the LDROM. The curve is constructed using investment grade corporate bonds. In addition, the rates are updated monthly and the current rates used (as of the Measurement Date of this report) are reflective of current market conditions. Finally, the use of a yield curve as opposed to a single rate allows the flexibility for the LDROM to be determined in a manner consistent with the pattern of expected benefit payments.

The Discount Rate is intended for the current Measurement Date only. In order to stay consistent with the prevailing market conditions, the Discount Rate will be assessed and updated each year at each new Measurement Date.

Selection of the Actuarial Cost Method

The Standard requires the use of an immediate-gain Actuarial Cost Method. We have elected to use the Entry Age Normal cost method for measurement of the LDROM. Entry Age Normal is being applied on a percent of pay basis. The Cost Method is the same method used for the determination of the Fixed Rate Contribution in this report.

Other immediate-gain Actuarial Cost Methods are available and acceptable for use in the determination of the LDROM. Other acceptable methods include benefits-based methods and accrued benefit methods. We selected the Entry Age Normal method due to the fact that benefit liability in this Fund is not typically settled with one-time payments. For example, the Plan does not pay lump sums (except refunds of Member Contributions) and is not anticipated to settle liability through the purchase of annuity contracts. Therefore, the usefulness of a benefits-based method is much more limited in interpretation of this measure as it relates to benefit security.



LOW-DEFAULT-RISK OBLIGATION MEASURE

Interpretation of the LDROM

The Low-Default-Risk Obligation Measure is higher than the liability used for the Fixed Rate Contribution determination by \$6,440,970.

Actuarial Liability is determined in different ways based on the purpose of the measurement. The Actuarial Liability for the Fixed Rate Contribution purposes is used to develop a contribution amount that, when combined with other sources of funding (including Member Contributions and expected investment returns), would pay all future expected benefits. The expected investment returns under this scenario are based on the current asset allocation and capital market expectations of the Fund. Assets are invested in a way that involves risk. Actual returns can vary significantly year-to-year above and below expectations. The trade-off is a risk-premium over the long-term and above low-risk market rates.

The LDROM, by contrast, is developed using low-risk returns available in the market. These returns could be obtained theoretically with low-risk of deviation from expectation, and lower expectation (i.e. there is no risk-premium). The LDROM, then, can be thought of as the amount of money that should be set aside today to appropriately fund and prepare for all future benefit payments, if the assets were invested in relatively low volatility assets available in the market today.

The expected decrease in the liability for funding purposes as compared to the LDROM can be thought of as cost savings from investing in riskier assets, with higher long-term return expectations. At the same time, this difference also represents a risk factor for the Pension Fund as the Fund is reliant on receiving the expected return on investments, including a risk premium. Contributions, combined with these investment returns, are required in order to fund future benefit payments.

LOW-DEFAULT-RISK OBLIGATION MEASURE VS ACTUARIAL LIABILITY

	Current Valuation
Low-Default-Risk Obligation Measure	\$ 33,294,298
Actuarial Accrued Liability (Entry Age Normal)	26,853,328
Difference	<u>\$ 6,440,970</u>

*The Low-Default-Risk
Obligation Measure is Not
Intended to Replace the
Actuarial Liability Used to
Determine the Recommended
Contribution.*





SUMMARY OF PRINCIPAL PLAN PROVISIONS

Establishment of the Fund
Administration
Contributions
Service Retirement Pension Benefit
Early Retirement Pension Benefit
Surviving Spouse Benefit
Termination Benefit – Vested
Disability Benefit
Deferred Retirement Option (DROP)

SUMMARY OF PRINCIPAL PLAN PROVISIONS

ESTABLISHMENT OF THE FUND

The Firemen's Relief and Retirement Fund is established and administered as prescribed by Big Spring Firemen's Relief and Retirement Fund Plan Effective January 12, 2018.

ADMINISTRATION

The Firemen's Relief and Retirement Fund is administered by a Board of Trustees whose duties are to manage the Pension Fund, determine applications for pensions, authorize payment of pensions, establish rules, pay expenses, and keep records.

CONTRIBUTIONS

Members contribute 13% of their pensionable salary.

The City contributes 19.03% of all Active Members' pensionable pay for the Valuation year

SERVICE RETIREMENT PENSION BENEFIT

Eligibility: Age 50 with at least 20 years of creditable service.

Benefit: A monthly benefit equal to 2.55% times years of service times average monthly salary, not to exceed 100% of average monthly salary. "Average Monthly Salary" is based on the average of the firefighter's pensionable salary during 60 consecutive months of Service in which the Member earned the highest salary.



SUMMARY OF PRINCIPAL PLAN PROVISIONS

EARLY RETIREMENT PENSION BENEFIT

Eligibility: Retirement before age 50 with completion of 25 or more years of service

Benefit: The regular retirement pension benefit reduced by the actuarially equivalent Percent of the Service Retirement Benefit based on the age payments commence.

SURVIVING SPOUSE BENEFIT

Eligibility: Married to an active firefighter, a disabled pensioner at the time of death, or a retired pensioner. Benefit ceases if Survivor re-marries.

Retired Pensioner: An eligible surviving spouse is entitled to receive two-thirds (2/3) of the Service Retirement Benefit that the Member was receiving on the date of their death.

Disabled Pensioner: An eligible surviving spouse is entitled to receive two-thirds (2/3) of the Disability Retirement Benefit (described in section below) that the Member was receiving on the date of their death.

Active Member: An eligible surviving spouse is entitled to receive two-thirds (2/3) of the Service Retirement Benefit.

Vested Terminated Member: An eligible surviving spouse is entitled to receive two-thirds (2/3) of the monthly Vested Termination Benefit (described in section below) the Member would have begun receiving at his Normal Retirement Date.

TERMINATION BENEFIT – VESTED

Eligibility: Members with least 10 but less than 20 years of creditable service.

Benefit: An accrual factor times the Service Retirement Benefit (determined as if the member had retired on the day the member terminated employment). “Accrual factor” is a factor of 50% at 10 years of service, increasing by 5% with every year of service earned above 10 years, reaching 100% at year 20.



SUMMARY OF PRINCIPAL PLAN PROVISIONS

DISABILITY BENEFIT

Eligibility: If an Active Member becomes disabled from any cause before the Member meets the requirements to qualify for a Service Retirement Benefit.

Benefit:

Non-pre-existing condition: An accrual factor times the Service Retirement Benefit (determined as if the member had retired on the day the member became disabled). “Accrual factor” is a factor of 50% at 10 years of service, increasing by 5% with every year of service earned above 10 years, reaching 100% at year 20. If the Member became disabled with less than 10 years of service, an accrual factor of 50% should be used.

Pre-existing condition: The Member will receive a Benefit equal to \$100 per Month

DEFERRED RETIREMENT OPTION (DROP)

Option 1: The Firefighter must retire within 5 years of a DROP election. The monthly benefit will be determined based upon the salary and service at the time of the DROP election. At the conclusion of the DROP period, the Firefighter will be paid an amount which is the sum of: the employee contributions from the DROP period including interest at 4% compounded annually, plus the product of the monthly benefit amount times the number of months of the DROP period. This amount must be paid within three years in no more than three installments.

Option 2: Upon retirement, a Firefighter may elect to receive 85% of the regular monthly benefit (with all survivor benefits appropriately reduced) for life and a lump sum equal to 24 times this reduced benefit. This amount must be paid over three years in no more than three installments.





GLOSSARY OF TERMS

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Actuarial Accrued Liability – The Actuarial Present Value of future benefits based on Members’ service rendered to the Measurement Date using the selected Actuarial Cost Method. It is that portion of the Actuarial Present Value of Plan benefits and expenses allocated to prior years of employment. It is not provided for by future Normal Costs.

Actuarial Cost Method – The method used to allocate the projected obligations of the Plan over the working lifetimes of the Plan Members.

Actuarial Value of Assets – The value of the assets used in the determination of the Unfunded Actuarial Accrued Liability. The Actuarial Value of Assets is related to the Fair Value of Assets, with adjustments made to spread unanticipated gains and losses for a given year over a period of several years. Actuarial Value of Assets is generally equally likely to fall above or below the Fair Value of Assets, and generally does not experience as much volatility over time as the Fair Value of Assets.

Asset Valuation Method – A valuation method designed to smooth random fluctuations in asset values. The objective underlying the use of an Asset Valuation Method is to provide for the long-term stability of Employer Contributions.

Funding Policy – A set of procedures for a Pension Fund that outlines the “best practices” for funding the pension benefits based on the goals of the Plan Sponsor. A Funding Policy discusses items such as assumptions, Actuarial Cost Method, assets, and other parameters that will best help the Plan Sponsor meet their goal of working in the best interest of the Plan Members.

Fair Value of Assets – The value of the cash, bonds, securities, and other assets held in the pension trust as of the Measurement Date.

Normal Cost – The present value of future benefits earned by Members during the current Fiscal Year. It is that portion of the Actuarial Present Value of benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method.

Unfunded Actuarial Accrued Liability – The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets. The Unfunded Actuarial Accrued Liability is amortized over a period either in level dollar amounts or as a level percentage of projected payroll.

