TRIMET

Memo

Date: September 27, 2023

To: Board of Directors

From: Sam Desue, Jr

Subject: **RESOLUTION NO. 23-09-41 OF THE TRI-COUNTY METROPOLITAN TRANSPORTATION DISTRICT OF OREGON (TRIMET) AMENDING THE FUNDING POLICY FOR THE PENSION PLAN FOR BARGAINING UNIT EMPLOYEES OF TRIMET**

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1. **Purpose of Item**
This Resolution requests that the TriMet Board of Directors (Board) approve an amendment to the Pension Funding Policy and Objectives (Policy) for the Pension Plan for Bargaining Unit Employees of TriMet, in order to reduce the potential for creating a trapped surplus in the Plan.

2. **Type of Agenda Item**
☐ Initial Contract
☐ Contract Modification
☒ Other: Amendment to the Funding Policy for the Pension Plan for Bargaining Unit Employees of TriMet

3. **Reason for Board Action**
TriMet Board approval is necessary to amend its previously adopted Policy.

4. **Type of Action**
☒ Resolution
☐ Ordinance 1st Reading
☐ Ordinance 2nd Reading
☐ Other _____________

5. **Background**
TriMet has two defined benefit pension plans, one for management and staff employees (Management Plan) and one for bargaining unit employees (Bargaining Unit Plan). Both plans have been "closed" for many years, meaning that no new participants have entered (or can enter) either plan. The Management Plan has been closed since 2003, and the Bargaining Unit Plan has been closed since 2012.

On February 26, 2014, the Board approved Resolution No. 14-02-06, adopting Pension Funding Policies for the Management and Bargaining Unit Plans. At that time, the Management Plan was funded at approximately 72% and the Bargaining Unit Plan was funded at approximately 59%, and TriMet's priority was to improve the funded status of both plans. The Policy established a ten-year closed amortization schedule for the Management Plan and a fifteen-year closed amortization schedule for the Bargaining Unit Plan.

However, by 2021 the Management Plan had reached a peak funded status of 109% and the Bargaining Unit Plan had reached a peak funded status of approximately 95%, prompting actuaries to warn TriMet staff and pension trustees of the possibility of "trapped surplus," meaning that positive investment experience over time could lead to excess assets sitting in the Plan for many years into the future, i.e., until all Plan benefits have been paid.

In 2022, investment losses and inflation (which drove COLA higher) reduced the funding level of the Management Plan back to 92%, and reduced the funding level of the Bargaining Unit Plan to approximately 77%. As of September 2023, the funding level for the Bargaining Unit Plan is approximately 79%.

Projections under optimistic investment scenarios – as well as 2021 Plan performance – show that the Bargaining Unit Plan could develop significant surplus assets for which there are limited uses until all benefits have been paid. Because the Bargaining Unit Plan is a closed plan, the possibility of trapped surplus is greater than it would be for an open plan.

The proposed amendments to the Policy are substantively identical to those that the Board adopted for the Management Plan in June 2023 (Resolution No. 23-06-24). They give TriMet more flexibility to limit contributions to the Bargaining Unit Plan as long as it is adequately funded, and to then turn to funding the Other Post-Employment Benefits (OPEB) trust, which is currently 0% funded and has virtually no possibility of generating a surplus for many years.

In an effort to keep the Bargaining Unit Plan adequately funded while making excess funds available to the OPEB trust, at its August 11, 2023 pension trust meeting, the trustees for the Bargaining Unit Plan approved the Policy revisions as set forth in Exhibit A, attached hereto, and staff recommends that the Board so amend the Policy.

The revisions to the Policy are intended to give TriMet staff and the Bargaining Unit Plan's trustees more flexibility to fund the Bargaining Unit Plan in accordance with recommendations from the Bargaining Unit Plan's actuaries, and to respond quickly to changes in the investment markets and interest rates.

The substantive revisions to the Policy are summarized as follows:

(i) Remove the funding policy objective of fully funded status. The revised objective would be a funded status of greater than 80%, while avoiding the accumulation of a trapped surplus.

(ii) Further revise the funding policy objectives to clarify that annual funding is to be determined on an actuarial basis based on normal cost, administrative expenses, and an amortization payment on any unfunded actuarial liability. To prevent a significant trapped surplus, no contributions will be required if the Bargaining Unit Plan's funded status exceeds 90% and contributions are not required under the Working and Wage Agreement.

(iii) Utilize asset smoothing for no longer than a five-year period, with no required link to the Bargaining Unit Plan's market value of assets for that time period.

(iv) No longer require the Bargaining Unit Plan to consider historical rates of return from its investments; instead require it to consider only projected rates of return.

(v) Remove the requirement for a maximum amortization policy. The new amortization policy will seek to maintain a minimum funded status of 80% and to limit the likelihood of a trapped surplus. If the funded status of the Bargaining Unit Plan drops below 80%, an amortization period of no longer than ten years will be used to restore the Bargaining Unit Plan's funded status back to 80% or more. If the funded status exceeds 80%, a longer amortization period may be used.

6. <u>Financial/Budget Impact</u>

These changes do not have any immediate impact TriMet's operating budget.

7. <u>Impact if Not Approved</u>

If this Resolution is not adopted, the Bargaining Unit Plan may develop significant surpluses, while the OPEB trust remains underfunded. The failure to implement these revisions will continue to allow the excess contributions that led to the overfunding. These contributions would be better used to improve the funding of the OPEB trust.

RESOLUTION NO. 23-09-41

RESOLUTION NO. 23-09-41 OF THE TRI-COUNTY METROPOLITAN TRANSPORTATION DISTRICT OF OREGON (TRIMET) AMENDING THE FUNDING POLICY FOR THE PENSION PLAN FOR BARGAINING UNIT EMPLOYEES OF TRIMET

WHEREAS, TriMet has authority under ORS 267.200 to sponsor and maintain retirement and health and welfare plans for the benefit of its employees; and

WHEREAS, in addition to other benefit plans and programs, TriMet currently sponsors the TriMet Defined Benefit Retirement Plan for Management and Staff Employees (Management Plan); the Pension Plan for Bargaining Unit Employees of TriMet (Bargaining Unit Plan); and the Other Postemployment Benefit (OPEB) Plan and Trust; and

WHEREAS, TriMet staff and the Bargaining Unit Plan trustees recommend that TriMet review and update its funding policies and guidelines with respect to the Bargaining Unit Plan, in order to give TriMet flexibility to responsibly fund the Bargaining Unit Plan while avoiding the possibility of a trapped surplus in the Plan; and

WHEREAS, the TriMet Board of Directors (Board) wishes to approve and adopt the amended and restated Pension Funding Policy and Objectives for the Pension Plan for Bargaining Unit Employees of TriMet, attached hereto as <u>Exhibit A</u>;

NOW, THEREFORE, BE IT RESOLVED:

1. That the Pension Funding Policy and Objectives for the Pension Plan for Bargaining Unit Employees of TriMet is hereby amended and restated in accordance with the recommendation of trustees and staff and as shown on the attached <u>Exhibit A</u>, in order to allow TriMet more flexibility to achieve the objectives of keeping the Plan adequately funded while avoiding a trapped surplus.

Dated: September 27, 2023

Presiding Officer

Attest:

Recording Secretary

Approved as to Legal Sufficiency:

Gregory E. Skill

Legal Department

RESOLUTION NO. 23-09-41
EXHIBIT A

Pension Plan for Bargaining Unit Employees of TriMet

PENSION FUNDING POLICY AND OBJECTIVES

The ATU TriMet Pension Trust is a tax exempt trust which holds assets and funds benefits under a single employer defined benefit Pension Plan for Bargaining Unit Employees of Tri-Met (Pension Plan or Plan). The assets of the Plan are held for the exclusive benefit of participants and beneficiaries under the terms of the retirement plan established pursuant to collective bargaining agreements between Tri-Met and Division 757 of the Amalgamated Transit Union (AFL-CIO) (ATU Division 757), and cannot be used to pay any benefits or expenses of any other retirement plan or trust. The benefits are funded by employer contributions and earnings from Pension Plan investments. The funding policy is to systematically fund the liabilities of the Plans on a sound actuarial basis.

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1. PURPOSE OF THIS DOCUMENT

Tri-County Metropolitan Transportation District of Oregon hereby establishes this Pension Funding Policy ("funding policy") for The Pension Plan for ~~the~~ Bargaining Unit Employees of TriMet (Pension Plan or Plan). The Funding policy will provide a process for determining appropriate minimum contributions to the plan on a regular basis. The funding policy will ensure contribution levels that, at a minimum, provide funding as agreed in the Working and Wage Agreement. ~~At June 30, 2019, the plan has a funded ratio of 82.2%, as compared with national averages for government plans exceeding 75%.~~

2. AUTHORITY

The Pension Plan was established by TriMet in 1979 pursuant to a collective bargaining agreement, and is governed by the ~~2008~~ 2022 Restatement of the Pension Plan for Bargaining Unit Employees of TriMet dated March~~January~~ 1, ~~2008~~2022. The plan is a governmental plan within the meaning of Section 414(d) of the Code.

3. ROLES AND RESPONSIBILTIIES

A. Overall Structure

1. TriMet Board of Directors

The TriMet Board of Directors is ultimately responsible for authorization of District spending, including funding of pension trusts, via the annual Adopted Budget. The Board hereby appoints TriMet's Chief Financial Officer as liaison with actuaries and other professionals necessary to calculate funding amounts for the plan.

B. Roles and Responsibilities of the Chief Financial Officer

i. Responsibilities of the Chief Financial Officer

a. Work with actuaries to calculate minimum annual funding amounts
b. delegating to, and monitoring the performance of, accounting staff, who will complete regular funding of contributions as calculated by the actuaries and appropriated in the annual budget; and
c. maintaining a reporting system that provides a clear picture of the status of plan funding to the Board.

C. Roles and Responsibilities of the Actuary

The actuary will provide studies that will:

i. determine the long-term obligations faced by the Plan through annual actuarial valuations, and
ii. calculate minimum plan contributions in accordance with the funding plan.

4. FUNDING POLICY OBJECTIVES

~~Over the long term (15 years or sooner), t~~The funding objective is to maintain an adequate~~achieve a fully~~ funded status while avoiding the accumulation of a trapped surplus. For this purpose, a plan that is at least 80% funded based on the market value of assets will be considered to have an adequate funded status. Given that the plan closed to new enrollment in August 2012, it is anticipated that existing employees eligible for benefits in the plan will, on average, retire within the next 5 to 10 years. Minimum f~~F~~unding will be actuarially determined based on normal cost, administrative expenses, and an amortization payment on any unfunded actuarial liability as described below. ~~on an actuarial basis, and will, a~~At a minimum, these contributions will comply with amortization requirements as defined in the Working and Wage Agreement. Except as provided in the Working and Wage Agreement, no contributions will be required if the funded status based on the market value of assets exceeds 90%~~The fund will be considered fully funded when it reaches at least 93%~~.

5. ACTUARIAL COST METHOD

The actuarial cost method is the method used to allocate the pension costs (and contributions) over an employee's working career. The policy objective is that each participant's benefit should be fully funded under a reasonable allocation method by the expected retirement date. Benefit costs should be determined as a level percentage of compensation and include expected income adjustments. For purposes of the calculation, the policy will be to utilize Entry Age Normal (level percentage of payroll) actuarial cost method in the calculation of contribution amounts.

6. ASSET SMOOTHING METHOD

Asset smoothing method is the method used to recognize gains or losses in pension assets over a period of time, to reduce the impact of market volatility and provide stability to contributions. The asset smoothing method will be consistently applied to both gains and losses, and will not be reset as a result of high or low investment returns. For purposes of the calculation, no longer than a five-year period for "smoothing" investment experience~~, with the resulting value not less than 80%, nor greater than 120% of the market value of assets on the valuation date will~~ may be used.

7. INVESTMENT RETURN ASSUMPTIONS

For purposes of the calculation, investment return assumptions will be evaluated by ~~an independent pension investment advisor~~the actuary on a regular basis (at a minimum every two years), and should reflect the nature of the investments held in the plan, and the ~~historical and~~ projected return rates anticipated for the investments. ~~Currently, the rate of return assumption for the plan is 7.5%.~~ Given the closed nature of the plan and the nature of the plan investments appropriate for a closed plan, it is anticipated that the rate of return assumption may~~will~~ decline over time.

8. AMORTIZATION POLICY

The amortization policy determines the length of time and structure of the payments required to systematically fund~~s~~ accrued employee benefits not covered by the actuarial value of assets. ~~The amortization policy for the plan will not exceed 30 years.~~ The amortization policy of the plan will have an overall goal of maintaining an adequate funded status of at least 80% while limiting the likelihood of generating a trapped surplus. If the funded status drops below 80%, an amortization period no longer than 10 years will be used to restore the funded status to 80% or more. If the funded status exceeds 80%, a longer amortization period may be appropriate to maintain an adequate funded status while limiting the risk of generating a large surplus.~~stable costs for the District and intergenerational equity of costs (thus, the cost of the benefit is paid by the generation of tax payers who receives the services). The District will phase in an amortization period that reflects the remaining average work life of the employees eligible for benefits, beginning with a 15 year amortization period, and reducing by 1 year annually, until the amortization period is 5 years. The amortization period is intended to allow for the funding of the normal cost of the pension over the working life of the employee.~~

9. FREQUENCY OF CALCULATION

The calculation of the actuarially determined contribution (ADC) will be completed on an annual basis, in conjunction with the calculation of the Pension Liability. The ADC will be considered the minimum funding amount for the year. Funding amounts will be determined via the annual budget process and may exceed the ADC.