

**Date:** October 23, 2019  
**To:** Board of Directors  
**From:** Doug Kelsey  
**Subject:** **RESOLUTION NO. 19-10-79 OF THE TRI-COUNTY METROPOLITAN  
TRANSPORTATION DISTRICT OF OREGON (TRIMET)  
AMENDING PENSION FUNDING POLICIES**

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**1. Purpose of Item**

This Resolution requests that the TriMet Board of Directors (Board) amend its pension funding policies for the ATU/TriMet Pension Trust and the TriMet Defined Benefit Retirement Trust for Management and Staff Employees.

**2. Type of Agenda Item**

- Initial Contract  
 Contract Modification  
 Other – Amend Pension Funding Policies

**3. Reason for Board Action**

The Board originally adopted TriMet’s Pension Funding Policies. Board action is required to amend TriMet’s Pension Funding Policies to define the term “fully funded,” in the context of the pension funding plans, taking into consideration asset growth over time.

**4. Type of Action**

- Resolution  
 Ordinance 1<sup>st</sup> Reading  
 Ordinance 2<sup>nd</sup> Reading  
 Other \_\_\_\_\_

**5. Background**

On February 26, 2014, the Board approved Resolution No. 14-02-06, adopting Pension Funding Policies for the ATU/TriMet Pension Trust, and the TriMet Defined benefit Retirement Trust for Management and Staff Employees (collectively, the Plans). The Board’s adoption of Pension Funding Policies for the Plans is consistent with “best practices” and the Board’s fiduciary oversight of TriMet’s financial position. Adherence to a pension funding policy signals to rating agencies, the capital markets, the public, and employees that TriMet is well-managed and that pension liabilities will be funded over reasonable periods using a process that determines appropriate contributions to the plan on a regular basis.

The most recent annual investment in the pension funds resulted in a funding level of 93.1% for the TriMet Retirement Trust for Management and Staff Employees, and a recommendation from the actuarial firm Cheiron that the fund be considered “fully funded” due to the expected growth of the fund over time. The growth of investments has been robust in recent years, allowing this fund to reach 93.1% far sooner than predicted in 2014 when the

policy was adopted. The objective is for the fund growth to reach, but not exceed, 99% through growth over time so that funds are not trapped or “stranded” if the fund grows past 100%.<sup>1</sup>

In 2018, the Board amended the Strategic Financial Plan to clarify that once the TriMet Retirement Trust for Management and Staff Employees is considered “fully funded,” the same amount that had been invested annually in that fund would shift to the ATU/TriMet Pension Trust, in order to increase the level of investment in that fund until it was also considered “fully funded.”

Staff proposes to amend each of the Pension Fund Policies to define the term “fully funded” to mean 93% or above, in order to eliminate any confusion concerning the meaning of that term. This is consistent with the definition of “fully funded” contained in TriMet’s Strategic Financial Plan.

The most recent annual investment in the pension funds resulted in a funding level of 81% for the ATU/TriMet Pension Trust, and it remains on target to be “fully funded” as defined in this Resolution within 15 years, consistent with the Board-approved Pension Funding Policies. Passage of this Resolution is recommended to further clarify that expectation, based on the new actuarial information.

**6. Financial/Budget Impact**  
None

**7. Impact if Not Approved**

Without this clarifying amendment, interpretation of the term “fully funded” may be inconsistent and cause confusion concerning TriMet’s level of investment in each of the pension funds.

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<sup>1</sup> When fund assets exceed 100% of the pension liabilities, the excess funds become trapped or “stranded” in the fund. Excess funds in a pension plan do not result in increased participant benefits, and cannot be used by the business for non-pension fund purposes.

**RESOLUTION NO. 19-10-79**

**RESOLUTION NO. 19-10-79 OF THE TRI-COUNTY METROPOLITAN  
TRANSPORTATION DISTRICT OF OREGON (TRIMET)  
AMENDING PENSION FUNDING POLICIES**

**WHEREAS**, the TriMet Board of Directors (Board) has authority under ORS 267.300 to approve and amend TriMet's Pension Funding Policies and written guidelines concerning the annual funding of its defined benefit pension trusts: the TriMet Retirement Trust for Management and Staff Employees and the ATU/TriMet Pension Trust; and

**WHEREAS**, adherence to Pension Funding Policies signals to rating agencies, the capital markets and the public that TriMet is managing its pension funding obligations consistent with an overall financial plan; and

**WHEREAS**, the Board approves and amends Pension Funding Policies and written guidelines on annual funding of two defined benefit pension trusts as appropriate; and

**WHEREAS**, the amendment of Pension Funding Policies is consistent with the Board's fiduciary oversight of TriMet's financial position;

**NOW, THEREFORE, BE IT RESOLVED:**

That TriMet's Pension Funding Policies applicable to the TriMet Retirement Trust for Management and Staff Employees and the ATU/TriMet Pension Trust are hereby amended as set forth in the attached and incorporated Exhibit A and Exhibit B.

Dated: October 23, 2019

\_\_\_\_\_  
Presiding Officer

Attest:

\_\_\_\_\_  
Recording Secretary

Approved as to Legal Sufficiency:

  
\_\_\_\_\_  
Legal Department



**Resolution 19-10-79**

**Exhibit A**

# **TriMet Defined Benefit Retirement Plan for Management and Staff Employees**



## **PENSION FUNDING POLICY AND OBJECTIVES**

The TriMet Retirement Trust for Management and Staff Employees is a tax exempt trust which holds assets and funds benefits for the TriMet Defined Benefit Retirement Plan for Management and Staff Employees (Pension Plan or Plan). The Plan is closed to new participants. The assets of the Plan are held for the exclusive benefit of participants and beneficiaries under the terms of the Plan, 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, taking into account the closed status of Plan.

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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 TriMet Defined Benefit Retirement Plan for Management and Staff Employees (Pension Plan or Plan). The Funding policy will provide a process for determining appropriate minimum contributions to the plan on a regular basis. At June 30, 2019, the plan has a funded ratio of 93.1%, as compared with national averages for government plans exceeding 75%.

## 2. AUTHORITY

The Pension Plan was established by TriMet in 1970, and is currently governed by the 2008 Restatement of the Plan. The Plan is a governmental plan within the meaning of Section 414(d) of the Code.

## 3. ROLES AND RESPONSIBILITIES

### A. Overall Structure

#### i. 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 agency 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 (10 years or sooner), the funding objective is to achieve a fully funded status. Given that the plan closed to new enrollment in April 2003, it is anticipated that existing employees eligible for benefits in the plan will, on average, retire within the next 5 to 10 years. Minimum annual funding will be determined on an actuarial basis. The Trust 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, 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 be used.

#### 7. INVESTMENT RETURN ASSUMPTIONS

For purposes of the calculation, investment return assumptions will be evaluated by an independent pension investment advisor on a regular basis (at a minimum of 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 7.0%. 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 will decline over time.

#### 8. AMORTIZATION POLICY

The amortization policy determines the length of time and structure of the payments required to systematically fund accrued employee benefits not covered by the actuarial value of assets. The amortization policy for the plan will not exceed 20 years. The amortization policy of the plan will have an overall goal of 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 10 year closed amortization



period (reducing by 1 year annually). 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 until the Trust is deemed fully funded. Funding amounts will be determined via the annual budget process and may exceed the ADC.



**Resolution 19-10-79  
Exhibit B**

# **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 Restatement of the Pension Plan for Bargaining Unit Employees of TriMet dated January 1, 2008. The plan is a governmental plan within the meaning of Section 414(d) of the Code.

## **3. ROLES AND RESPONSIBILITIES**

### **A. Overall Structure**

#### **i. 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), the funding objective is to achieve a fully 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 10 years. Funding will be determined on an actuarial basis, and will, at a minimum, comply with amortization requirements as defined in the Working and Wage Agreement. 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, 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 be used.

#### 7. INVESTMENT RETURN ASSUMPTIONS

For purposes of the calculation, investment return assumptions will be evaluated by an independent pension investment advisor 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 will decline over time.

8. **AMORTIZATION POLICY**

The amortization policy determines the length of time and structure of the payments required to systematically fund 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 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 until the Trust is deemed fully funded. Funding amounts will be determined via the annual budget process and may exceed the ADC.

