

**PORT OF HOUSTON AUTHORITY
RESTATED RETIREMENT PLAN**

FUNDING POLICY



ADOPTED DECEMBER 11, 2019

MINUTE 2019-1211-34

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I. PREAMBLE

The Port of Houston Authority Restated Retirement Plan (the “Plan” or “Pension Plan”) is a defined benefit plan established by the Port of Houston Authority of Harris County, Texas (the “Plan Sponsor”) effective April 3, 1958. The Plan provides retirement benefits to eligible employees during their retirement years and to eligible dependents as specified in the Plan. Funding contributions are made solely by the Plan Sponsor.

The Plan is a public retirement system subject to provisions of Chapter 802, Texas Government Code. As a governmental plan, it is not subject to the federal Employee Retirement Income Security Act of 1974 (“ERISA”) although many of its provisions comply with ERISA. The Port Commission (the “Commission”), as the governing body of the Plan Sponsor, has “the fiduciary responsibility for assets of the system and has the duties of overseeing the investment and expenditure of funds of the system and the administration of benefits of the system.”

Senate Bill No. 2224 was passed by the Texas Legislature, effective September 1, 2019. It mandates that the governing body of a public retirement system adopt a written funding policy that details the plan to achieve a funded ratio that is equal to or greater than 100%. Funded ratio means the ratio of actuarial value of assets divided by the system's actuarial accrued liability. Public retirement systems must adopt such a policy by January 1, 2020 and submit a copy to the Texas Pension Review Board (“PRB”) within 31 days after such adoption.

The Plan Sponsor has amended and restated the Pension Plan several times to ensure compliance with applicable laws and regulations. In addition, the Commission has taken steps to ensure adequate funding of the Plan (e.g., Minute Nos. 1975-0507-34, 1996-0327-41, 2003-0728-54, and 2015-0728-20).

This funding policy is intended to meet the requirements of Senate Bill No. 2224 and the guidelines set forth by the PRB. The provisions in this policy cancel and supersede any conflicting provisions previously adopted by the Commission relating to funding of the Plan.

II. **FUNDING OBJECTIVES**

1. The PRB's guidance for developing a funding policy includes the following statement:

“A funding policy helps a system achieve the three fundamental goals of public pension funding: benefit security, contribution stability, and intergenerational equity. While different pension plans and their governmental sponsors may prioritize these goals differently, the funding policy should strive to balance these three primary pension funding goals so that member benefits are secure; employers and employees are afforded some level of contribution predictability from year to year; and liabilities are managed so that future taxpayers are not burdened with costs associated with a previous generation's service.”

2. **The annual funding policy of the Plan Sponsor is to contribute at least the Actuarially Determined Contribution (“ADC”) to the Plan.**

Statement No. 68 of the Governmental Accounting Standards Board (“GASB”) defines ADC as a “target or recommended contribution to a defined benefit pension plan for the reporting period, determined in conformity with Actuarial Standards of Practice based on the most recent measurement available when the contribution for the reporting period was adopted.”

As used in this funding policy, the ADC is the sum of normal cost, amortization of unfunded liability, and interest.

3. **The ADC shall be calculated based on a closed amortization period, with amortization bases ranging from 5 to 30 years.**

4. **Payment of the ADC each year will bring the Pension Plan to a 100% funded position by the end of the amortization period.**

III. ACTUARIAL METHODS

1. The Port Authority shall engage an actuary whose qualifications meet statutory requirements, including those specified in Chapter 802, Texas Government Code.
2. On an annual basis, the actuary shall provide actuarial valuations for the Pension Plan and/or provide written reports with computations prepared in accordance with generally recognized and accepted actuarial principles and practices.
3. Such actuarial computations shall be based on assumptions consistent with the goals of the Pension Plan. The actuary shall consider all relevant data (e.g., participant data, the present value of accumulated benefits, estimated return on Plan assets, annual Plan costs, amortization of unfunded obligations and other factors) to help determine recommended levels of employer contributions which, considering prior funding excess or deficiency, will accumulate monies sufficient to meet benefit payments when due under the terms of the Plan.
4. PRB guidance for developing a funding policy mentions setting boundaries on what is allowable for actuarial calculations and three actuarial methods that should be addressed:
 - a. **Actuarial cost method** – a way to allocate pieces of a participant's total expected benefit to each year of their working career;
 - b. **Asset-smoothing method** – techniques to keep contributions stable and more predictable over time, with asset gains and losses generally recognized over a period of years rather than immediately; and
 - c. **Amortization policy** – determining the amount, timing, and pattern of recognition of a plan's gains and losses, with amortization amounts as level dollar amounts or determined as a percentage of covered payroll.
5. The Plan Sponsor hereby selects the **Entry Age Normal ("EAN")** cost method as the **actuarial cost method** to be used to value the Plan liability. Under the EAN method, a projected retirement benefit at assumed retirement age is computed for each participant using anticipated future pay increases. The normal cost for each participant is computed as the

level percentage of pay which, if paid from each participant's date of entry into the Plan (thus, entry age) to his assumed retirement date, would accumulate with interest at the rate assumed in the valuation to an amount sufficient to fund his projected retirement benefit. The normal cost for the Plan is the total of the individually computed normal costs for all participants under the Plan.

6. Plan assets shall be valued at fair market value, as measured and reported by the Plan's trustee or custodian, in accordance with standards and guidelines promulgated by GASB or the Financial Accounting Standards Board.

7. Components of the unfunded actuarial liability are to be **amortized as level dollar amounts** using a **closed amortization basis**.

- a. Components consisting of actuarial gains and losses are amortized over 5 years.
- b. Components consisting of impacts of amendments are amortized over 30 years, except the August 1995 amendment that was amortized over 5 years.
- c. Components consisting of revised assumptions are amortized over 10 years.
- d. Components consisting of revised actuarial methods are amortized over 30 years.
- e. In no event will the resulting equivalent single amortization of the amortization bases exceed a period of 30 years.

IV. ROADMAP TO ACHIEVE FUNDING OBJECTIVES

1. As stated above, the annual funding policy of the Plan Sponsor is to contribute at least the Actuarially Determined Contribution (“ADC”) to the Plan.

The ADC is the sum of normal cost (i.e., cost of benefits earned by employees in the current year), plus amortization of unfunded liability, and interest.

2. ADC contribution structures inherently adjust to a plan's changing funded status to maintain the overall trajectory towards fully funding benefit promises made to employees.

3. Plan Sponsor staff is authorized to fund the Pension Plan throughout the fiscal year (August 1 through July 31), provided the aggregate contributions for the fiscal year do not exceed 105% of the ADC amount provided by the actuary, or if a full actuarial valuation is not performed and therefore the ADC is not available, such contribution amount(s) as may be recommended by the actuary based on the relevant factors mentioned above.

4. Staff may also request authorization from the Commission to exceed such ADC amount(s) in a given fiscal year, if deemed advantageous and/or under special circumstances.

5. Unless otherwise authorized, the source of funding is the Plan Sponsor's General Fund.

6. Upon depositing ADC amount(s) to the Pension Plan, staff is authorized to invest Plan assets with any investment managers and funds approved by the Commission.

V. ACTIONS TO ADDRESS FUTURE GAINS AND LOSSES

1. As detailed above, this Policy requires that the actual contribution rate be equal to or exceed the ADC. PRB guidance suggests this approach as a means of ensuring a plan meets its funding objectives.
2. As detailed above, components of the unfunded actuarial liability are amortized as level dollar amounts using a closed amortization basis with varying recognition periods dependent upon the cause of a gain or loss.

VI. POLICY REVIEW AND ADOPTION

To assure continued relevance of the guidelines, objectives, and expectations as established in this funding policy (the "Policy") for the Port of Houston Authority Restated Retirement Plan (the "Plan"), the Port Commission (the "Commission") and staff of the Port of Houston Authority of Harris County, Texas (the "Plan Sponsor") will endeavor to review the Policy at least annually.

The Commission officially finds, determines, and declares that this Policy was reviewed, carefully considered, and adopted at a regular meeting of the Commission, and that a sufficient written notice of the date, hour, place, and subject of this meeting was posted as required by the Open Meetings Act, Chapter 551, Texas Government Code, and that this meeting had been open to the public as required by law at all times during which this Policy was discussed, considered, and acted upon and is herewith adopted. The Commission further ratifies, approves, and confirms such written notice and the contents and posting thereof.

This Policy is adopted on December 11, 2019 and supersedes any conflicting provisions previously adopted by the Commission relating to funding of the Plan.



Chairman, Port Commission
Port of Houston Authority of
Harris County, Texas

ATTEST:



Secretary,
Port Commission
Port of Houston Authority of
Harris County, Texas