



Travis Co. ESD No. 6 Firefighters' Relief and Retirement Fund

Actuarial Report for District's Compliance with GASB Statement No. 68 for the Fiscal Year Ending September 30, 2020

January 15, 2021



R&W

Rudd and Wisdom, Inc.

Rudd and Wisdom, Inc.

CONSULTING ACTUARIES

Mitchell L. Bilbe, F.S.A.
Evan L. Dial, F.S.A.
Philip S. Dial, F.S.A.
Charles V. Faerber, F.S.A., A.C.A.S.
Mark R. Fenlaw, F.S.A.
Brandon L. Fuller, F.S.A.
Shannon R. Hatfield, A.S.A.

Christopher S. Johnson, F.S.A.
Oliver B. Kiel, F.S.A.
Dustin J. Kim, A.S.A.
Edward A. Mire, F.S.A.
Rebecca B. Morris, A.S.A.
Amanda L. Murphy, F.S.A.

Michael J. Muth, F.S.A.
Khiem Ngo, F.S.A., A.C.A.S.
Timothy B. Seifert, F.S.A.
Chelsea E. Stewart, A.S.A.
Raymond W. Tilotta
Ronald W. Tobleman, F.S.A.
David G. Wilkes, F.S.A.

January 15, 2021

Via E-Mail: ssmith@ltfr.org

Board of Trustees

Travis Co. ESD No. 6 Firefighters' Relief
and Retirement Fund

c/o Ms. Sharon Smith, CPA, Financial Manager

Lake Travis Fire Rescue

15304 Pheasant Lane, Suite 100

Austin, TX 78734

Re: GASB No. 68 Report for the Travis Co. ESD No. 6
Firefighters' Relief and Retirement Fund for the
District's Fiscal Year Ending September 30, 2020

Dear Board Members:

At your request, we have prepared an actuarial report providing actuarial information for the Travis Co. ESD No. 6 Firefighters' Relief and Retirement Fund (the Fund) for the district's fiscal year ending September 30, 2020 based on a measurement date of December 31, 2019 in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. This information will be used in the preparation of the district's September 30, 2020 financial report.

The disclosures and required supplementary information in this report are based on (1) the Fund's actuarial valuation as of December 31, 2019, including the actuarial assumptions and census data summarized in our report to the board of trustees dated December 31, 2020, and (2) the statement of changes in plan fiduciary net position for the Fund's audited December 31, 2019 financial report.

Governmental Accounting Standards

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which amended GASB Statement No. 27 effective for fiscal years beginning after June 15, 2014. GASB 68 says that the total pension liability should be determined by (a) an actuarial valuation as of the measurement date or (b) the use of update procedures to roll forward to the measurement date from an actuarial valuation as of a date no more than 30 months and one day earlier than the employer's most recent fiscal year-end. For this report, the December 31, 2019 actuarial valuation is as of the measurement date.

Variability in Future Actuarial Measurement

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following:

- Plan experience differing from that anticipated by the economic or demographic assumptions;
- Changes in economic or demographic assumptions;
- Increases or decreases expected as part of the natural operation of the methodology used for these measurements; and
- Changes in plan provisions or applicable law.

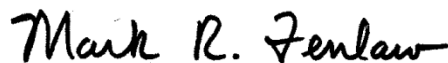
We have not been asked to perform and have not performed any stochastic or deterministic sensitivity analyses of the potential ranges of such future measurements, except as required by GASB 68. If you have an interest in the results of any other such analysis, please let us know.

Required Supplementary Information

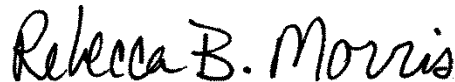
The schedules of required supplementary information (RSI) in Section II of the report do not include the one described in paragraph 46(c) of GASB 68 because the Fund does not have actuarially determined contributions. In addition, there is no schedule for the RSI described in paragraph 46(d) since the district's contributions are not statutorily or contractually required.

We hereby certify that we are members of the American Academy of Actuaries who meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. We do not have any relationship with the Fund or with the district which might impair, or appear to impair, the objectivity of our services for the Fund.

Sincerely,



Mark R. Fenlaw, F.S.A.



Rebecca B. Morris, A.S.A.

MRF/RBM:nlg

TABLE OF CONTENTS

Page No.

Section I:	Information to Comply with GASB Statement No. 68	
A.	General Information about the Retirement Plan.....	4
B.	Net Pension Liability	6
C.	Changes in the Net Pension Liability	8
D.	Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions	8
Section II:	Schedules of Required Supplementary Information	
A.	Changes in the Net Pension Liability and Related Ratios.....	10
B.	Employer Contributions	11
Section III:	Amortization Schedules	12
Section IV:	Alternative Measure.....	13

Section I - Information to Comply with GASB Statement No. 68

A. General Information about the Retirement Plan

1. Plan Description

The district contributes to the retirement plan for firefighters in the Lake Travis Fire Rescue Department known as the Travis Co. ESD No. 6 Firefighters' Relief and Retirement Fund (the Fund). The Fund is a single employer, contributory, defined benefit plan. The benefit provisions of the Fund are authorized by the Texas Local Fire Fighters' Retirement Act (TLFFRA). TLFFRA provides the authority and procedure to amend benefit provisions. The plan is administered by the Board of Trustees of the Fund. The district does not have access to nor can it utilize assets within the retirement plan trust. The Fund issues a stand-alone report pursuant to GASB Statement No. 67, which may be obtained by writing the Travis Co. ESD No. 6 Firefighters' Relief and Retirement Fund at 15304 Pheasant Lane, Suite 100, Austin, TX 78734. See that report for all information about the plan fiduciary net position.

2. Benefits Provided

Firefighters in the Lake Travis Fire Rescue Department are covered by the Fund which provides service retirement, death, disability, and withdrawal benefits. Firefighters may retire at age 53 with 20 years of service. A vested benefit is provided for firefighters who terminate employment with at least 10 years of service. If a terminated firefighter has a vested benefit, he may retire starting on the date he would have both completed 20 years of service if he had remained a Lake Travis Fire Rescue firefighter and attained age 53. The present plan provides a monthly normal service retirement benefit, payable in a Joint and Two-Thirds to Spouse form of annuity, equal to a percentage of Highest Average Monthly Salary of 3.4% for each of the first 20 years of service plus 2.2% for each year of service in excess of 20 years.

A retiring firefighter who is eligible for service retirement has the option to elect the Deferred Retirement Option Plan (DROP) which will provide a lump sum benefit and a reduced monthly benefit. The reduced monthly benefit is based on the service and Highest Average Monthly Salary as if he had terminated employment on his selected DROP benefit calculation date, which is no earlier than the later of the date he is age 51 with 18 years of service and the date two years prior to the date he actually retires. Upon retirement, the member will receive, in addition to his monthly retirement benefit, a lump sum equal to the sum of (1) the amount of monthly contributions the member has made to the Fund after the DROP benefit calculation date plus (2) the total of the monthly retirement benefits the member would have received between the DROP benefit calculation date and the date he retired under the plan. There are no account balances. The lump sum is calculated at the time of retirement and distributed as soon as administratively possible.

There is no provision for automatic postretirement benefit increases. The Fund has the authority to provide, and has periodically in the past provided, ad hoc postretirement benefit increases.

3. Members Covered by the Fund

In the December 31, 2019 actuarial valuation, the following numbers of members were covered by the Fund:

Retirees and beneficiaries currently receiving benefits	0
Inactive employees entitled to but not yet receiving benefits	0
Active employees	<u>92</u>
	92

4. Contribution Policy

The contribution provisions of the Fund are authorized by TLFFRA. TLFFRA provides the authority and procedure to change the amount of contributions determined as a percentage of pay by each firefighter and a percentage of payroll by the district.

The contribution policy of the Fund requires contributions equal to 20.0% of pay by the firefighters, the rate elected by the firefighters according to TLFFRA. The district has contributed 19.2% of payroll for a number of years. The December 31, 2019 actuarial valuation includes the assumption that the district contribution rate will be 19.2% over the remainder of the unfunded liability amortization period. The costs of administering the plan are paid from the Fund assets.

Ultimately, the contribution policy also depends upon the total return of the Fund's assets, which varies from year to year. Investment policy decisions are established and maintained by the board of trustees. For the year ending December 31, 2019, the money-weighted rate of return on pension plan investments was 20.72%. This measurement of the investment performance is net of investment-related expenses, reflecting the effect of the timing of the contributions received and the benefits paid during the year.

While the contribution requirements are not actuarially determined, state law requires that each change in plan benefits adopted by the Fund must first be approved by an eligible actuary, certifying that the contribution commitment by the firefighters and the assumed district contribution rate together provide an adequate contribution arrangement. Using the entry age actuarial cost method, the plan's normal cost contribution rate is determined as a percentage of payroll. The excess of the total contribution rate over the normal cost contribution rate is used to amortize the plan's unfunded actuarial accrued liability (UAAL). The number of years needed to amortize the plan's UAAL is actuarially determined using an open, level percentage of payroll method.

B. Net Pension Liability

The district's net pension liability was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by the actuarial valuation as of December 31, 2019.

Total pension liability	\$ 30,015,942
Plan fiduciary net position	<u>28,086,052</u>
District's net pension liability	\$ 1,929,890

Plan fiduciary net position as a percentage of the total pension liability	93.6%
--	-------

1. Actuarial Assumptions

The total pension liability in the December 31, 2019 actuarial valuation adjusted for subsequent changes of benefits was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.0%, plus promotion, step and longevity increases that vary by service
Investment rate of return	7.0%, net of investment-related expenses, including inflation

Mortality rates were based on the PubS-2010 (public safety) total dataset mortality tables for employees and for retirees (sex distinct), projected for mortality improvement generationally using the projection scale MP-2019.

The long-term expected rate of return on pension plan investments is reviewed for each biennial actuarial valuation and was determined using a building-block method in which expected future net real rates of return (expected returns, net of investment-related expenses and inflation) were developed for each major asset class. These components were combined to produce the long-term expected rate of return by weighting the expected future net real rates of return by the target asset allocation percentage (resulting in 4.38%) and by adding expected inflation (2.75%). In addition, the final 7.0% assumption was selected by rounding down and to allow for a margin of adverse investment experience. The target allocation and expected arithmetic net real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Net Real Rate of Return
Equity		
Domestic large cap	36%	5.75%
Domestic small/mid cap	13	6.25
International developed	8	6.25
Emerging markets	5	7.75
Real estate	4	3.75
Fixed income	32	1.45
Cash	2	0.00
Total	100%	
Weighted Average		4.38%

2. Discount Rate

The discount rate used to measure the total pension liability was 7%. No projection of cash flows was used to determine the discount rate because the December 31, 2019 actuarial valuation adjusted for subsequent changes of benefits showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 4.6 years. Because of the 4.6-year amortization period of the UAAL, the pension plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments of 7% was applied to all periods of projected benefit payments as the discount rate to determine the total pension liability.

3. Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the district, calculated using the discount rate of 7%, compared to what the district's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6%) or 1-percentage-point higher (8%) than the current rate:

	1% Decrease (6%)	Current Discount Rate (7%)	1% Increase (8%)
District's Net Pension Liability	\$6,877,860	\$1,929,890	\$(2,111,383)

4. Plan Fiduciary Net Position

The plan fiduciary net position reported above is the same as reported by the Fund. Detailed information about the plan fiduciary net position is available in the Fund's separately issued audited financial statements, which are reported using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Investments are reported at fair value, the price that would be recognized to sell an asset in an orderly transaction between market participants at the measurement date.

C. Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Amounts as of September 30, 2019¹	\$ 28,770,524	\$ 20,894,159	\$ 7,876,365
Changes for the year:			
Service cost	1,666,099		1,666,099
Interest	2,127,432		2,127,432
Differences between expected and actual experience	(748,491)		(748,491)
Contributions by the district		1,337,310	(1,337,310)
Firefighter contributions		1,393,040	(1,393,040)
Net investment income		4,598,176	(4,598,176)
Benefit payments	(89,480)	(89,480)	0
Administrative expenses		(47,153)	47,153
Assumption changes	(1,710,142)		(1,710,142)
Other	0	0	0
Net changes	<u>1,245,418</u>	<u>7,191,893</u>	<u>(5,946,475)</u>
Amounts as of September 30, 2020²	\$ 30,015,942	\$ 28,086,052	\$ 1,929,890

¹ Measurements for the fiscal year ended September 30, 2019 were taken as of December 31, 2018.

² Measurements for the fiscal year ended September 30, 2020 were taken as of December 31, 2019.

D. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2020, the district's GASB 68 pension expense was \$575,453. Amounts recognized in the fiscal year represent changes between the current and prior measurement dates.

1. Components of Pension Expense for the Fiscal Year Ended September 30, 2020

Components of Pension Expense	
Service cost	\$ 1,666,099
Interest	2,127,432
Firefighter contributions	(1,393,040)
Projected earnings on pension plan investments	(1,553,371)
Amortization of differences between projected and actual earnings on plan investments	(217,428)
Amortization of changes of assumptions	(86,017)
Amortization of differences between expected and actual experience	(15,375)
Pension plan administrative expenses	47,153
Other	0
Total pension expense	<u>\$ 575,453</u>

2. Deferred Outflows of Resources and Deferred Inflows of Resources to Be Recognized in Pension Expense in Future Years

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 0	\$ 1,487,758
Changes of assumptions	532,680	1,587,375
Differences between expected and actual experience	<u>1,084,404</u>	<u>1,535,660</u>
Total	\$ 1,617,084	\$ 4,610,793

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30	Net of Deferred Outflows Minus Deferred Inflows
2021	\$ (458,329)
2022	(515,071)
2023	(209,573)
2024	(710,353)
2025	(101,392)
Thereafter	<u>(998,991)</u>
Total	\$ (2,993,709)

3. Deferred Outflow of Resources to Be Recognized Next Year

The total of the contributions by the district to the Fund contributed subsequent to the measurement date of the net pension liability, December 31, 2019, through September 30, 2020 is a deferred outflow of resources that will be recognized as a reduction in the net pension liability in the fiscal year ending September 30, 2021. **This amount will be provided by the district.**

Section II – Schedules of Required Supplementary Information

A. Schedule of Changes in the District's Net Pension Liability and Related Ratios for the Last 10 Fiscal Years¹

	Fiscal Year Ending					
	9/30/2020	9/30/2019	9/30/2018	9/30/2017	9/30/2016	9/30/2015
1. Total Pension Liability						
a. Service cost	\$ 1,666,099	\$ 1,613,655	\$ 1,146,478	\$ 1,102,383	\$ 1,059,984	\$ 980,014
b. Interest	2,127,432	1,885,108	1,469,413	1,308,078	1,038,806	904,104
c. Changes of benefit provisions	0	3,559,759	0	0	0	0
d. Differences between expected and actual experience	(748,491)	0	(1,001,329)	0	1,543,569	0
e. Changes of assumptions	(1,710,142)	0	471,987	0	194,031	0
f. Benefit payments	(89,480)	(89,393)	(260,580)	(38,945)	(25,156)	(87,471)
g. Net Change	1,245,418	6,969,129	1,825,969	2,371,516	3,811,234	1,796,647
h. Beginning	28,770,524	21,801,395	19,975,426	17,603,910	13,792,676	11,996,029
i. Ending	\$ 30,015,942	\$ 28,770,524²	\$ 21,801,395	\$ 19,975,426³	\$ 17,603,910	\$ 13,792,676³
2. Plan Fiduciary Net Position						
a. District contributions	\$ 1,337,310	\$ 1,166,370	\$ 1,121,761	\$ 1,077,176	\$ 943,417	\$ 899,146
b. Firefighter contributions	1,393,040	1,214,970	1,168,507	1,122,061	968,074	903,757
c. Net investment income	4,598,176	(1,046,878)	2,650,333	649,191	113,088	606,503
d. Benefit payments	(89,480)	(89,393)	(260,580)	(38,945)	(25,156)	(93,228)
e. Administrative expenses	(47,153)	(38,974)	(35,457)	(26,134)	(37,917)	(25,422)
f. Net Change	7,191,893	1,206,095	4,644,564	2,783,349	1,961,506	2,290,756
g. Beginning	20,894,159	19,688,064	15,043,500	12,260,151	10,298,645	8,007,889
h. Ending	\$ 28,086,052	\$ 20,894,159	\$ 19,688,064	\$ 15,043,500	\$ 12,260,151	\$ 10,298,645
3. District's Net Pension Liability [Item 1(i) – 2(h)]	\$ 1,929,890	\$ 7,876,365	\$ 2,113,331	\$ 4,931,926	\$ 5,343,759	\$ 3,494,031
4. Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	93.6%	72.6%	90.3%	75.3%	69.6%	74.7%
5. Covered Payroll⁴	\$ 6,965,200	\$ 6,074,844	\$ 5,842,505	\$ 5,610,292	\$ 4,913,630	\$ 4,683,052
6. District's Net Pension Liability as a Percentage of Covered Payroll	27.7%	129.7%	36.2%	87.9%	108.8%	74.6%

Notes to Schedule:

¹ Until a full 10-year trend is compiled, only available information is shown. The measurement date is December 31, nine months prior to the fiscal year end.

² Determined from the beginning of year total pension liability based on a special study based on the December 31, 2017 actuarial valuation, using the roll forward procedure allowed by GASB 68.

³ Determined from the beginning of year total pension liability using the roll forward procedure allowed by GASB 68.

⁴ Contributions by the district divided by its contribution rate.

B. Schedule of District Contributions for the Last 10 Fiscal Years¹

- ¹ A schedule of district contributions is not required because the district contributions to the Fund are neither actuarially determined nor statutorily or contractually established.

Section III – Amortization Schedules

A. Increase (Decrease) in Pension Expense Arising from the Recognition of Differences between Projected and Actual Earnings on Pension Plan Investments

Fiscal Year Difference Occurred	Differences between Projected and Actual Earnings	Amortization Period	Recognized Outflow (Inflow) of Resources						
			Fiscal Year Recognized						
			2020	2021	2022	2023	2024	2025	Thereafter
2016	\$ 697,553	5 yrs	\$ 139,509	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
2017	283,715	5 yrs	56,743	56,743	0	0	0	0	0
2018	(1,527,489)	5 yrs	(305,498)	(305,498)	(305,497)	0	0	0	0
2019	2,503,896	5 yrs	500,779	500,779	500,779	500,780	0	0	0
2020	(3,044,805)	5 yrs	(608,961)	(608,961)	(608,961)	(608,961)	(608,961)	0	0

Net increase (decrease) for A \$ (217,428)

B. Increase (Decrease) in Pension Expense Arising from the Recognition of Changes in Assumptions

Fiscal Year Difference Occurred	Recognition of Changes in Assumptions	Amortization Period	Recognized Outflow (Inflow) of Resources						
			Fiscal Year Recognized						
			2020	2021	2022	2023	2024	2025	Thereafter
2016	\$ 194,031	16.8084 yrs	\$ 11,544	\$ 11,544	\$ 11,544	\$ 11,544	\$ 11,544	\$ 11,544	\$ 78,591
2017	0		0	0	0	0	0	0	0
2018	471,987	18.7249 yrs	25,206	25,206	25,206	25,206	25,206	25,206	270,339
2019	0		0	0	0	0	0	0	0
2020	(1,710,142)	13.93 yrs	(122,767)	(122,767)	(122,767)	(122,767)	(122,767)	(122,767)	(973,540)

Net increase (decrease) for B \$ (86,017)

C. Increase (Decrease) in Pension Expense Arising from the Recognition of Differences between Expected and Actual Experience

Fiscal Year Difference Occurred	Differences between Expected and Actual Experience	Amortization Period	Recognized Outflow (Inflow) of Resources						
			Fiscal Year Recognized						
			2020	2021	2022	2023	2024	2025	Thereafter
2016	\$ 1,543,569	16.8084 yrs	\$ 91,833	\$ 91,833	\$ 91,833	\$ 91,833	\$ 91,833	\$ 91,833	\$ 625,239
2017	0		0	0	0	0	0	0	0
2018	(1,001,329)	18.7249 yrs	(53,476)	(53,476)	(53,476)	(53,476)	(53,476)	(53,476)	(573,521)
2019	0		0	0	0	0	0	0	0
2020	(748,491)	13.93 yrs	(53,732)	(53,732)	(53,732)	(53,732)	(53,732)	(53,732)	(426,099)

Net increase (decrease) for C \$ (15,375)

Net for future years (A+B+C) \$ (458,329) \$ (515,071) \$ (209,573) \$ (710,353) \$ (101,392) \$ (998,991)

Section IV – Alternative Measure

At the request of the Fund's Board of Trustees, we determined the actuarial present value of accumulated plan benefits as of December 31, 2019, and compared it to the market value of assets. Accumulated plan benefits are based on the service and compensation history as of December 31, 2019 for each fund member. The measurement is not appropriate for an ongoing plan, but could be appropriate if the plan had been frozen as of December 31, 2019. The total actuarial present value of accumulated plan benefits as of December 31, 2019 was \$20,591,223. The market value of assets (fiduciary net position) as of that date was \$28,086,052. The ratio of the assets to the present value of accumulated plan benefits was 136%.