



# El Paso Firemen and Policemen Pension Fund – Tier 2 COLA



# Issues to Consider

- Current annual investment return assumption
- Future market impacts – good and bad times
- Funding Soundness Restoration Plan

# Annual Investment Return Assumption

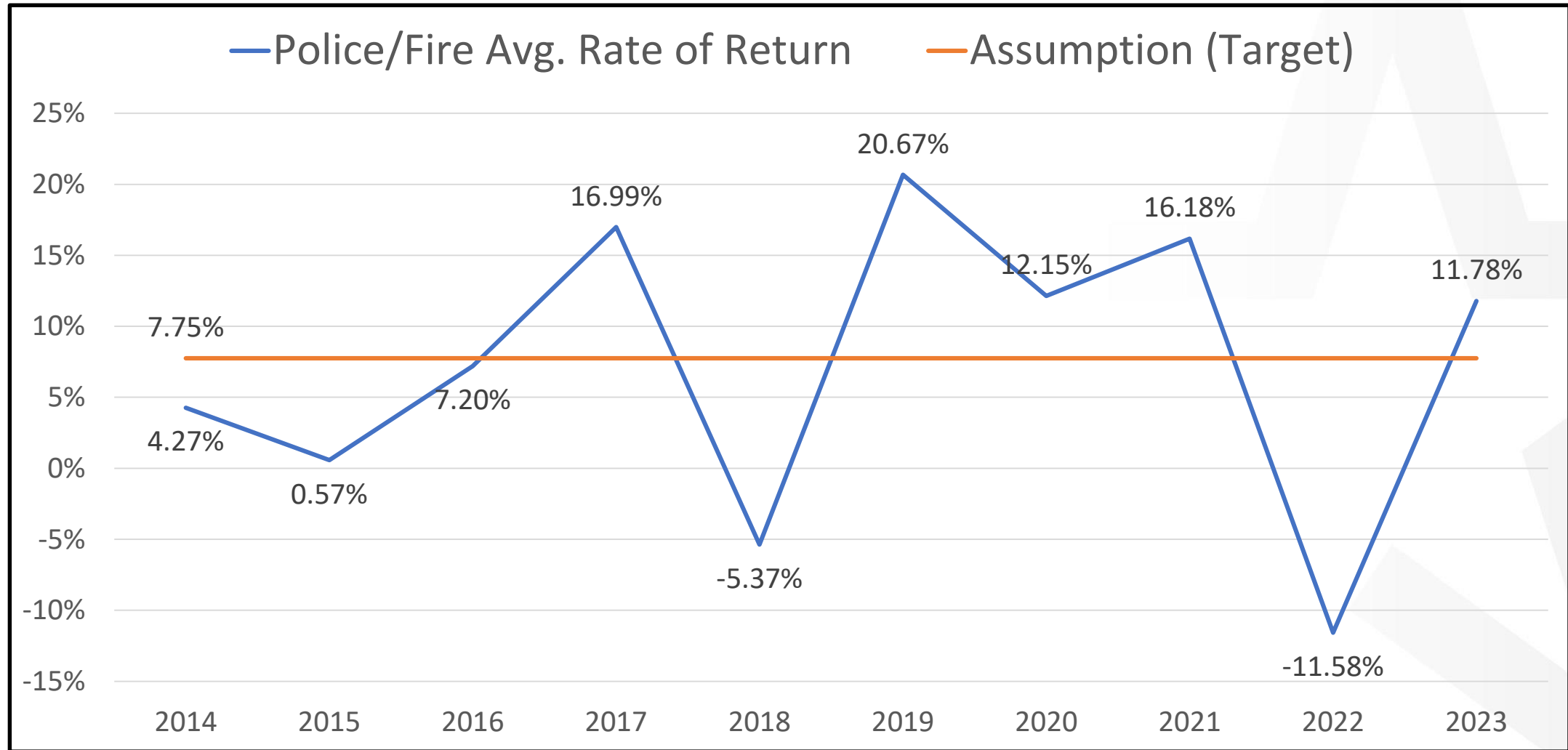
- Rudd and Wisdom Inc. - Actuarial Valuation Report as of Jan. 1, 2024
  - “We recommended lowering the investment return assumption from 7.75% to 7.5%”
- S&P Global Ratings – May 20, 2024 Bond Rating Report
  - “We believe the plans' assumptions, including static mortality rates and discount rates, are aggressive. The high discount rate for the FPPF is indicative of accepted market risk in the asset portfolio.”

# Annual Investment Return Assumption

		<b>7.75%</b>	<b>7.50%</b>
Police	Years to Amortize*	15.1	18.8
	Funded Ratio	81.6%	79.3%
Fire	Years to Amortize*	15.8	20.1
	Funded Ratio	82.7%	80.3%

Actuarial Value of Assets smoothing method - deferred net loss will be recognized in the next two biennial actuarial valuations, instead of being fully recognized

# Annual Rate of Return Net of Expenses



# Projected Actuarial Valuation Results (Fire)

	Scenario					
	1	2	3	4	5	6
Assumed Investment Return for Calendar Year						
2024	7.75%	5.00%	5.00%	5.00%	12.00%	12.00%
2025	7.75	5.00	0.00	12.00	7.75	12.00
2026	7.75	7.75	12.00	7.75	7.75	7.75
2027	7.75	7.75	12.00	7.75	7.75	7.75
2028 and later	7.75	7.75	7.75	7.75	7.75	7.75
Amortization Period in Years as of January 1:						
2024 (actual)	15.8	15.8	15.8	15.8	15.8	15.8
2026 (projected)	17.2	19.1	20.2	17.6	15.3	14.5
2028 (projected)	18.0	23.5	24.7	17.6	14.1	11.5

- Amortization period using Actuarial Value of Assets smoothing method - deferred net loss will be recognized in the next two biennial actuarial valuations, instead of being fully recognized
- Source: El Paso Policemen's and Firemen's Actuarial Valuation as of January 1, 2024, Rudd and Wisdom, Inc.

# Projected Actuarial Valuation Results (Police)

	Scenario					
	1	2	3	4	5	6
<b>Assumed Investment Return for Calendar Year</b>						
2024	7.75%	5.00%	5.00%	5.00%	12.00%	12.00%
2025	7.75	5.00	0.00	12.00	7.75	12.00
2026	7.75	7.75	12.00	7.75	7.75	7.75
2027	7.75	7.75	12.00	7.75	7.75	7.75
2028 and later	7.75	7.75	7.75	7.75	7.75	7.75
<b>Amortization Period in Years as of January 1:</b>						
2024 (actual)	15.1	15.1	15.1	15.1	15.1	15.1
2026 (projected)	16.1	17.7	18.6	16.4	14.4	13.7
2028 (projected)	16.5	21.0	22.0	16.2	13.1	10.8

- Amortization period using Actuarial Value of Assets smoothing method - deferred net loss will be recognized in the next two biennial actuarial valuations, instead of being fully recognized
- Source: El Paso Policemen’s and Firemen’s Actuarial Valuation as of January 1, 2024, Rudd and Wisdom, Inc.

# Projected Actuarial Valuation Results

## Rudd and Wisdom, Inc.: Actuarial Valuation as of January 1, 2024

- Conclusions
  - The primary conclusion from the scenarios is that the Fund's UAAL amortization period is sensitive to the investment experience, even with the AVA methodology that dampens market volatility.
  - The board members should be cautious about their expectations because of the \$41.1 million (Firemen's) and \$57 million (Policemen's) deferred net loss and remember the long-term nature of the Fund



# Future Market Impacts - Sensitivity of Net Pension Liability

## Sensitivity of Net Pension Liability (Asset) to Changes in Discount Rate

The following presents the net pension liability (asset), calculated using the discount rate of 7.75%, as well as what the Fund's net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1 % Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
December 31, 2023			
Firemen division	\$ 317,855,627	\$ 193,335,272	\$ 91,542,982
Police division	460,012,684	283,680,842	139,255,318
Staff Plan	(39,592)	(195,103)	(325,856)
	<u>\$ 777,828,719</u>	<u>\$ 476,821,011</u>	<u>\$ 230,472,444</u>

Source: El Paso Firemen and Policemen's Pension Fund Annual Financial Report (December 31, 2023), Rudd and Wisdom, Inc.