POLICY NUMBER: 1007

POLICY NAME: Retirement System Management, Qualified 415 Replacement Benefit Arrangement & Retiree COLA Implementation

It is the policy of the Collin Central Appraisal District (“CCAD”, “District”) to annually review the District’s financial ability to provide a COLA to retirees through the Texas County District Retirement System (“TCDRS”).

The Board of Directors will review data and receive a recommendation from the Chief Appraiser, during the budget process each year, regarding whether a retiree COLA should be given in the following calendar year.

It must be acknowledged and understood that the funding of a retiree COLA is solely at the expense of the District. Active employees save toward their fixed retirement annuity, but active employees do not contribute to their future retiree COLA. It must be acknowledged and understood that any 415 Replacement Benefit Arrangement must be of no extra cost to the District, when balanced with the contributions made by the District to TCDRS, on behalf of affected retirees.

It must be clearly understood that the Board of Directors, at its sole discretion, even if all of the performance guidelines set forth below are met, may choose to limit or eliminate the COLA for any year(s).

INTENT

This policy is intended to provide instruction and guidance to the District. It establishes the business rules for governing the process of providing a periodic cost-of-living adjustment (COLA) to the District’s retirees and for creating a 415 Replacement Benefit Arrangement with TCDRS that is neutral in cost to the District, while providing for payment to retirees for the difference in Unrestricted and Restricted Benefits, as calculated by TCDRS under the adopted Qualified Replacement Benefit Arrangement. Proper management of the retiree COLA and § 415 is of utmost importance to stabilize the ongoing cost to the District and to provide for our retirees.

GOAL

The goal is to provide for our retirees with a periodic COLA to help offset a portion of the effects of inflation on a retiree's future purchasing power, without creating an unsustainable future liability for the District. The baseline goal will be to offset 50% of the effects of inflation by implementing periodic 50% CPI COLAS on a schedule that properly aligns with GASB68. The goal of the 415 Replacement Benefit Arrangement is to provide for retirees by ensuring that the retiree receives 100% of their calculated TCDRS retirement benefit.

UNDERSTANDING COST OF LIVING ADJUSTMENTS

TWO TYPES OF COLAS

- **CPI-based COLA**
  - **A retiree's benefit payments increase by a percentage based on the increase in the Consumer Price Index for All Urban Consumers (CPI-U). A CPI-based COLA is based on the retiree's original benefit payment amount and how much inflation has occurred since they started receiving the benefit.**
    - **The District has the option to establish 100% CPI, or a lower percentage, based on budget and policy constraints.**
      - **This policy of the board of directors establishes a maximum of 50% CPI.**

- **Flat-rate COLA**
  - **Benefit payments increase by a percentage you choose within the limit set by the TCDRS Board of Trustees each year. All your retirees get the same percentage increase. However, a flat-rate COLA may not adequately address a retiree's loss of buying power.**
    - **The flat rate increase is applied to a retiree's current benefit payment but does not look back at inflation.**
      - **This policy of the board of directors establishes a maximum flat-rate COLA of 3.00%.**

COLAS IMPACT ON EMPLOYER CONTRIBUTION RATES:

- **Unless contributions are made in advance of granting a COLA, the cost of a COLA is spread across the next 15 years.**
  - **This will create a "stairstep" add-on where the next round of COLA starts a new 15 year period.**
- **The District's Budget and this Policy call for payments in advance of granting a COLA to eliminate or greatly decrease the "stairstep" effect on future employer contribution rates.**

PERFORMANCE GUIDELINES

1. **One or both of the following investment performance tests must be met before a flat-rate or CPI COLA can be considered for the entire 3 year or longer period.**

   a. **The 7.50% annualized investment return target was met for three of the four years immediately preceeding the COLA year.**

   OR

   b. **The average annualized investment return over the four years immediately preceeding the COLA year was >= 7.50%.**

2. **If the average annualized investment return over the four years immediately preceeding the COLA year was <7.50%, the flat-rate or CPI COLA will be factored down to account for missing the investment target. If none of the years in the period meet the investment target, a COLA cannot be given.**

   a. **Refer to Addendums 3 and 4 to see how the factor will be calculated.**

3. **The CCAD current year budget must have funds to contribute to TCDRS during the current year to help offset the future effects the granting of a retiree COLA will have on UAAL.**

4. **The District's current employees, based on the current budget, are eligible to receive performance reviews with wage/salary increases that would begin in the same year the retiree COLA would apply. If current employees' wages/salaries are frozen across the general employee population, retirees will not be eligible for a COLA.**

250 Eldorado Pkwy
McKinney, Texas 75069

Metro 469-742-9200
Toll-Free 866-467-1110

Admin Fax 469-742-9209
Appraisal Fax 469-742-9205

5. **If for any reason the Board of Directors determines that a retiree COLA is not feasible or is not financially prudent, even if the Performance Guidelines are met, a retiree COLA will not be given for the year(s) under review.**

COLA IMPLEMENTATION GUIDELINES

6. **A COLA will not be given more than once in a three-year period and cannot be given twice in a four-year period or three times in a six-year period. This schedule will keep the District from receiving the label of "repeating COLA District" under GASB68, which is very important in the calculation of the District's pension liability under GASB 68.**

7. **At least once every three years, during the annual budget process, the chief appraiser will request a cost estimate from TCDRS to grant a 50% CPI COLA. The information is to be utilized in projecting the appropriate amount for the "Retirement, Unfunded Liability & Retiree COLA Funding" line item in the Proposed Budget.**

8. **The Board of Directors, at their sole discretion, will first determine if a COLA should be granted and whether the COLA will be based on CPI or a flat-rate.**
    a. **If TCDRS investments during the preceeding 4 year period averages at least 7.50%, and the District meets the requirement of an average of $275,000 budgeted for COLA and UAAL offset, and the District's "Funded Ratio" percentage calculation based on the TCDRS Plan Customizer is at least 90%, the Board of Directors will give preference to a 50% CPI COLA versus a flat-rate COLA.**

9. **The Board of Directors, based on information provided by the chief appraiser, will utilize inflation data from the Urban Consumer Price Index (CPI-U) and/or TCDRS to determine the appropriate level of flat-rate or CPI COLA if a retiree COLA is approved by the Board of Directors.**
    a. **In a year where a retiree COLA is possible under the guidelines of this Policy, the chief appraiser will compile a report of annual inflation utilizing the year-over-year change in CPI-U. The report will be in the following format.**

250 Eldorado Pkwy
McKinney, Texas 75069
Metro 469-742-9200
Toll-Free 866-467-1110
Admin Fax 469-742-9209
Appraisal Fax 469-742-9205

TCDRS INVESTMENT PERFORMANCE YEAR	TCDRS INVESTMENT <7.50% is Did not Meet. 7.50% is Met. >7.50% is Exceeded Target	CALCULATED INFLATION RATE	BUDGET YEAR IMPACTED
1ST Investment Year	Investment Return %	% Rate	2 Years after investment year
2nd Investment Year	Investment Return %	% Rate	2 Years after investment year
3rd Investment Year	Investment Return %	% Rate	2 Years after investment year
Additional investment years, as appropriate for period under consideration	Investment Return %	% Rate	2 years after investment year

10. **The Board of Directors will determine the flat-rate percentage or percentage of CPI to utilize, based on the "sum of inflation %" calculation for the three-year, or longer, period prior to budget year that would be affected by COLA, to offset a portion of the effects of inflation on retirees.**

11. **The base guideline is 50% CPI COLA or 50% of inflation for the period via a flat-rate with a maximum flat-rate COLA of 3%. Therefore, the range of COLAS will be from 0% to a maximum of 3.00% for a flat-rate adjustment and 0% to a maximum of a 50% CPI COLA. Both will utilize CPI-U inflation determined under this Policy in conjunction with information and reporting from TCDRS.**
    a. **If the calculated flat-rate average inflation contains a two digit decimal less than .75, the flat-rate will be rounded down to the next lower whole percentage. If the calculated flat-rate average inflation contains a two digit decimal greater than .75, the flat-rate will be rounded up to the next higher whole percentage. TCDRS only allows whole percentage increments.**
    b. **To grant up to 3.00% flat-rate or up to 50% CPI COLA, the District's line item for "Retirement, Unfunded Liability & Retiree COLA Funding" must have averaged at least $275,000 for the three budget years immediately prior to the year the COLA is granted.**
    c. **If the budget average is less than $275,000, the flat-rate or CPI COLA percentage must be factored to the actual average, divided by $275,000.**

12. **During the annual budget process for next year's budget, typically April – June, the chief appraiser will seek authority to remit a lump-sum payment to TCDRS from the current budget to minimize the effect of future COLAS on the District's retirement account with TCDRS. The remittance of current funds, while planning for next year's budget, is considered an intregal part of the process to ensure proper management of future TCDRS funding levels and COLA management. The lump-sum payment will be made to**

TCDRS in the 4th quarter of the current year, and will be taken from the current year budget line item titled "Retirement, Unfunded Liability & Retiree COLA Funding" and/or from Designated Fund Reserves for "TCDRS Pension 2.50% of Actuarial Liability".

a. **Funds in the current budget to offset the effects of a COLA on UAAL that are not contributed to TCDRS will be designated to the District's Designated Reserves, below the line, specifically for TCDRS Retiree COLA Prepay.**

13. **In the 4th quarter of the year immediately preceding the year for which a COLA is effective, the chief appraiser will update the required TCDRS plan revision documents and submit the required documents to the Board of Directors in a public session. Once approved by the Board, the chief appraiser will submit the documents to TCDRS in a timely manner.**

QUALIFIED REPLACEMENT BENEFIT ARRANGEMENT

14. **Section 113.1 of the Administrative Code for the Texas County and District Retirement System establishes a qualified governmental excess benefit program in accordance with Section 415(m) of the Internal Revenue Code and as authorized under Section 845.504, Government Code. The program, entitled as the "Texas County and District Retirement System Qualified Replacement Benefit Arrangement", is maintained solely for the purpose of providing for the payment of that portion of the annual retirement benefits that had been accrued by and would otherwise be payable with respect to a member of the Texas County and District Retirement System but for the limitation on the payment of benefits under Section 415(b) of the Internal Revenue Code of 1986, as amended.**

15. **The establishment of a Replacement Benefit Arrangement for any current or future retirees must be cost neutral to the District regarding a retiree's benefit payment, by reducing the employer's annual contribution to TCDRS by the amount paid to the retiree under the 415 Benefit Arrangement.**

16. **Administrative fees charged by TCDRS to the District, if any, must be necessary to maintain the arrangement and reasonable regarding their cost relative to the services provided.**

17. **The 415 Benefit Arrangement must fully comply with the appropriate provisions of the Internal Revenue Service and TCDRS.**

250 Eldorado Pkwy
McKinney, Texas 75069
Metro 469-742-9200
Toll-Free 866-467-1110
Admin Fax 469-742-9209
Appraisal Fax 469-742-9205

18. The 415 Benefit Arrangement must be reviewed by the Board of Directors annually, during the 4th quarter, to determine whether to continue or terminate the Arrangement for the next calendar year.

PROHIBITED ACTIONS

19. The granting of a flat-rate or % of CPI COLA unless all "Performance Guidelines" are met.

20. The granting of a flat-rate COLA that exceeds 3.00%.

21. The granting of a CPI COLA that exceeds 50% CPI COLA.

22. The granting of a Flat-rate or % of CPI retiree COLA when current budget funds and/or designated reserve funds are not available to contribute to offset the cost of granting the COLA.

23. Paying for medical coverage, reimbursing medical premiums or medical expenses to retirees.

24. The adoption of a 415 Replacement Benefit Arrangement that is not neutral to the District, when balanced against the reduction of contributions made to TCDRS for the affected retirees.

25. Under no circumstance will the District or Board adopt a policy that grants an "automatic" or "guaranteed repeating" retiree COLA, as defined under GASB 68.

- **GASB 68 guidelines for determining if a district is a repeating COLA district.**
  - **i. More often than once in three years. OR**
  - **ii. Two of four years. OR**
  - **iii. Three of six years.**

RETIREE ADVISORY PANEL

26. The chief appraiser, during the fourth quarter report required by this policy, will provide a list of 2 to 5 retirees recommended to serve on a "Retiree Advisory Panel".

  a. If at least two retirees agree to serve, a panel will be formed with members being appointed based on the schedule below. Advisory Panel Members can be appointed to additional terms based on the chief appraiser's recommendation, with approval given by the Board of Directors.

    i. Initial appointment term schedule for 2023.

If five members initially serve on the panel

2023	**Appoint three members to a 2 year term (2023-2024)**
2023	**Appoint two members for a 1 year term (2023)**

    ii. Ongoing appointment term schedule, 2024 forward.

2024	**After the initial appointments are made creating a staggering of terms for three members or more, all appointments will be for 2 year terms**

    iii. Vacancies, 2024 forward

2024	**Chief appraiser will determine whether to recommend to the board to fill remainder of open term or leave the panel position open for the remainder of the term**

    iv. If formed, the panel will meet at least once annually during the budget process, with an optional meeting(s) in the fourth quarter as a part of the review of this Policy.

  b. The Retiree Advisory Panel will work directly with the chief appraiser and/or administrative staff as determined by the chief appraiser.

  c. The Retiree Advisory Panel will not report directly to the Board of Directors unless requested by the chief appraiser to assist with specific recommendations or reports.

  d. Participation by retirees will be on a volunteer, non-paid, basis. Members of the Retiree Advisory Panel are not employees of the District.

  e. The District will pay Panel members per diem travel expenses using the same guidelines followed for active employees, with a maximum round trip mileage of 100 miles per day.

i. **The chief appraiser is authorized to purchase meals in conjunction with a work session conducted by the chief appraiser.**

f. **If a Panel cannot be seated, the chief appraiser will continue the implementation of this Policy.**

ADDENDUM 1

KEY TERMS AND DEFINITIONS

- TCDRS: Texas County District Retirement System.
- District: Collin Central Appraisal District (ID in TCDRS #457).
- Pension Plan: TCDRS is a defined benefits pension plan.
  - Savings based plan, with employee and employer contributing funds annually.
  - Does not receive funds from the State of Texas.
- Target Investment Performance: 5% return + 2.50% inflation = 7.50% annual investment return target.
- Investment Return to employee/retiree: 7%
- Investment Return to employer: 8.50%
- TCDRS management fee: under 0.30%
- COLA: Cost of Living Adjustment for retirees
- CPI COLA: Utilizes CPI-U (urban consumer price index) to establish inflation calculation for a period of time.
- % of CPI COLA: District can opt to cover from 10% to 100% of CPI-U.
  - Looks at each individual retiree based on retiree date, and brings them forward with 10% to 100% of inflation offset.
- Flat-Rate COLA: A percent increase in one percent increments that applies flat-rate percentage, but does not have the “catch-up” mechanism of the CPI COLA.
- GASB: Governmental Accounting Standards Board
  - 68 is the Statement Number dealing with accounting and financial reporting for pensions, effective for us in 2015.

ADDENDUM 2

INVESTMENT AND COLA HISTORY

INVESTMENT YEAR	POLICY 1007 PERFORMANCE GUIDELINES LISTED ABOVE MET	COLA %, IF PERFORMANCE MET	BUDGET YEAR AFFECTED
2001	***No 2.91%***	***3.00% Flat Rate***	***2003***
2002	***No 1.29%***	***None***	***2004***
2003	***Yes 20.14%***	***4% Flat Rate***	***2005***
2004	***Yes 12.72%***	***100% CPI***	***2006***
2005	***No 7.24%***	***100% CPI***	***2007***
2006	***Yes 13.93%***	***100% CPI***	***2008***
2007	***No 7.94%***	***2.00% Flat Rate***	***2009***
2008	***No -29.00%***	***50% CPI***	***2010***
2009	***Yes 26.54%***	***30% CPI***	***2011***
2010	***Yes 12.64%***	***None***	***2012***
2011	***No -1.15%***	***1.00% Flat Rate***	***2013***
2012	***Yes 12.63***	***1.00% Flat Rate***	***2014***
2013	***Yes 16.39%***	***1.00% Flat Rate***	***2015***
2014	***No 6.84%***	***None***	***2016***
2015	***No -0.66%***	***None***	***2017***
2016	***No 7.00%***	***None***	***2018***
2017	***Yes 14.72%***	***40% CPI***	***2019***
2018	***No -1.86%***	***None***	***2020***
2019	***Yes 16.57%***	***None***	***2021***
2020	***Yes 9.70%***	***None***	***2022***

Notes: 2011 was first budget to have UAAL buy down as line item.

Policy 1007 was adopted in October 2013, utilized to determine that a 1.00% flat-rate COLA would be given for budget year 2014.

250 Eldorado Pkwy
McKinney, Texas 75069

Metro 469-742-9200
Toll-Free 866-467-1110

Admin Fax 469-742-9209
Appraisal Fax 469-742-9205

ADDENDUM 3

EXAMPLE FOR INDIVIDUAL YEAR(S) MEETING INVESTMENT GOAL, BUT NOT OVERALL FOR PERIOD

TCDRS INVESTMENT PERFORMANCE YEAR	TCDRS INVESTMENT <7.5% is "Did not Meet". 7.5% is "Met". >7.5% is "Exceeded Target"	CALCULATED INFLATION RATE for INVESTMENT YR.	BUDGET YEAR AFFECTED	ANNUAL MET? OVERALL MET?
2013	6.84%	1.50%	2015	No
2014	-0.66%	1.6%	2016	No
2015	7.00 %	0.01%	2017	No
2016	14.72%	1.3%	2018	Yes
	3 of the 4 years missed the target and the overall average for the 4 year period was 7.39%	Overall inflation for 4 year period 4.41%.		1 year exceeded, but overall did not meet

<u>Flat-rate:</u> The calculated rate for the 4 year period was 4.41%, which is multiplied times 50% inflation offset baseline, equals 2.20%. 7.39% investment return divided by 7.50% target is 98.5%. The 2.20% inflation offset, times 98.5% investment return compared to investment target, equals 2.17%. Since TCDRS only allows flat-rate adjustments based on whole percentage amounts, the flat-rate would be 2.00%.

<u>Factoring down from the adopted baseline of 50% of inflation for CPI COLA:</u>

<u>CPI-U:</u> 4.41% inflation for the 4 year period. 7.39% investment return divided by 7.50% target is 98.5%. The baseline CPI COLA of 50% times 98.50% = 49.25% CPI COLA calculation. Since TCDRS only allows increments of 10% in their sliding scale of CPI COLAS, the 49.25% would round to equal the baseline of 50% CPI COLA.

ADDENDUM 4

EXAMPLE FOR INVESTMENT GOAL BEING MET FOR OVERALL PERIOD, BUT SOME INDIVIDUAL YEARS DID NOT MEET

TCDRS INVESTMENT PERFORMANCE YEAR	TCDRS INVESTMENT <7.5% is “Did not Meet”. 7.5% is “Met”. >7.5% is “Exceeded Target”	CALCULATED INFLATION RATE for INVESTMENT YR.	BUDGET YEAR AFFECTED	ANNUAL MET? OVERALL MET?
~~2014~~ 2017	14.72%	2.1%	2019	Yes
~~2015~~ 2018	-1.86%	2.4%	2020	No
~~2016~~ 2019	16.57%	1.8%	2021	Yes
~~2017~~ 2020	9.70%	1.2%	2022	Yes
	Under this example 1 year missed, but the overall avg. for the 4 year period was 9.78%	Overall inflation for 4 year period was 7.50%.		Overall Meets

<u>Flat-rate:</u> The calculated rate for the 4 year period was 7.5%, which is multiplied times 50% inflation offset baseline, equals 3.75%. The maximum flat-rate under this policy is 3.00%. The 9.78% investment return is greater than the target investment rate, therefore the 3.00% would not be factored down.

<u>CPI-U:</u> 7.50% inflation for the 4 year period. The 9.78% investment return is above the target of 7.50%, therefore the baseline CPI COLA of 50% would not be factored down.

Date Adopted: October 24, 2013

Resolution #: 2013-1034

Date Amended: June 22, 2017

Resolution #: 2017-1060

Date Amended: December 19, 2019

Resolution #: 2019-1079

Date Amended: June 24, 2021

Resolution #: 2021-1098

Date Amended: December 16, 2021

Resolution #: 2021-1104

Date Amended: December 15, 2022

Resolution #: 2022-1118