

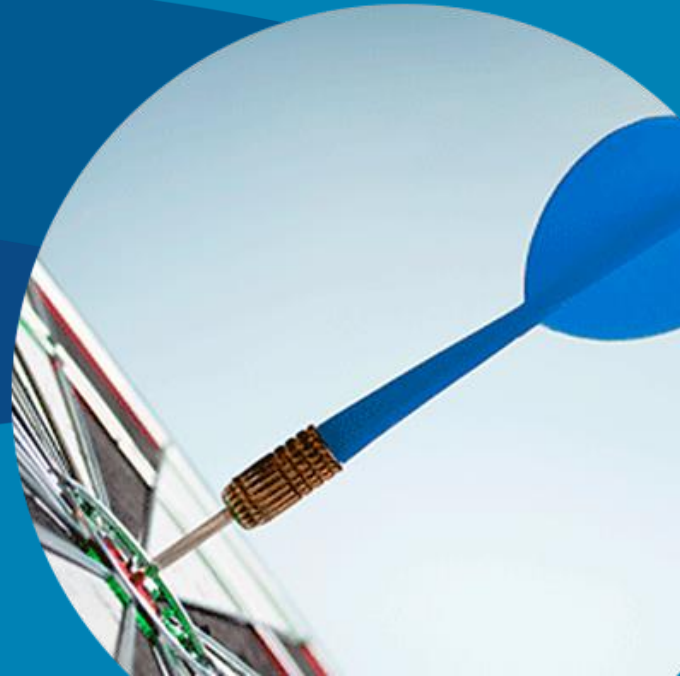


Arapahoe County Retirement Plan Actuarial Valuation as of January 1, 2026

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Big picture overview

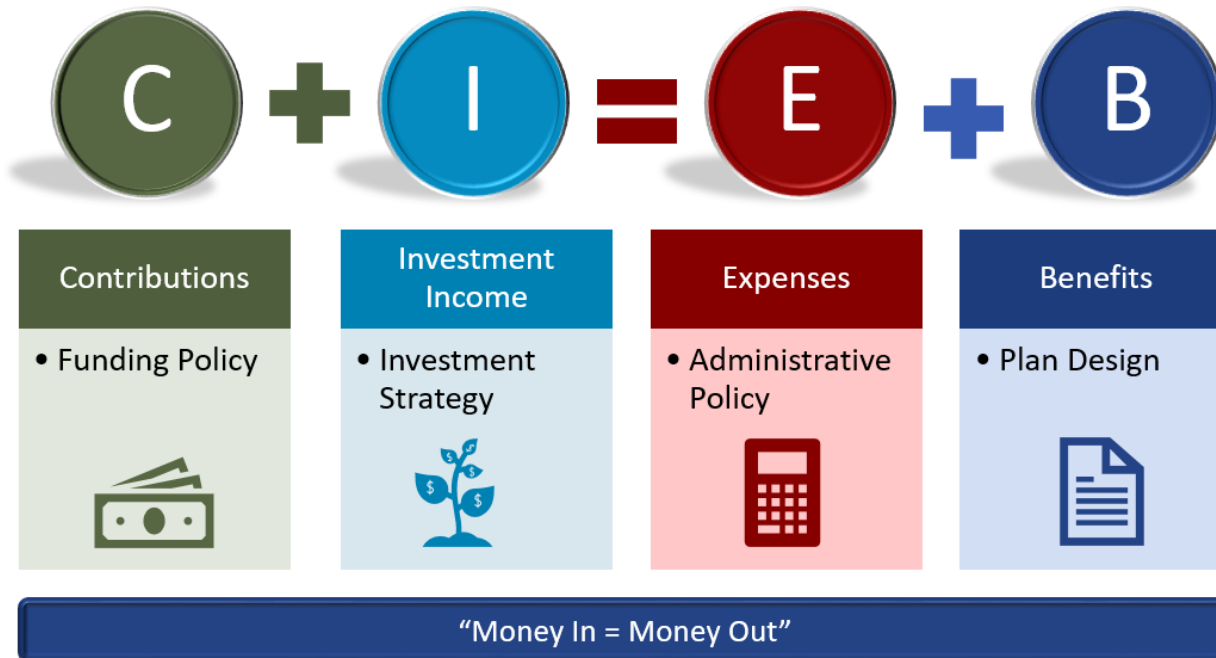
- Plan provides lifetime annuity benefits to Arapahoe County retirees
- Benefit improvements when times were good in the 90s
- Followed by adverse experience
 - Tech bubble 2000-2002
 - Market correction 2008
- And changing expectations
 - Less expected return for same risk
 - Increasing participant longevity

Big picture overview

- Plan has a large unfunded liability
 - \$269 million
- Retirement Board and BOCC have been working hard to turn the tide
 - Reduced benefits for new hires in 2006 and 2010
 - Reduced future benefits for all actives in 2014
 - Contributions increases from BOCC
- There is a plan in place! Stay the course.

Purpose of the Actuarial Valuation

Fundamental Pension Funding Equation



How assumptions factor in...

- Over time, the true cost of benefits will be borne out in actual experience
 - Ultimate benefits paid are NOT affected by actuarial assumptions or methods
 - Determined by actual participant behavior (termination, retirement), plan provisions, and actual investment returns
- Assumptions help us develop a reasonable starting point for decision making today

Purpose of the Actuarial Valuation Fundamental Pension Funding Equation

- Annual report
 - Assess funded status of plan
 - Assess contribution sufficiency
 - Analyze changes during the year

2025 Experience Study

- Every five years
- Assess plan demographic experience since last experience study five years ago
- Assess forward-looking economic information
- Recommend new assumptions based on observations for first use in January 1, 2026 valuation

2025 Experience Study

- Assumption changes following experience study
 - Key finding was that termination rates were okay, but were still having liability losses each year
 - assumption needed to be better tailored to Arapahoe benefit design – reflect that those close to “Rule of” likely have low termination rates
 - Overall the assumption changes increased expected “B (Benefits)”
 - A setback, but doesn’t necessarily require a change in funding plan

This year at a glance

- Good investment experience
 - 12% market return
- Salary increases more than expected
 - Setback at valuation date, but long-term trajectory not materially changed

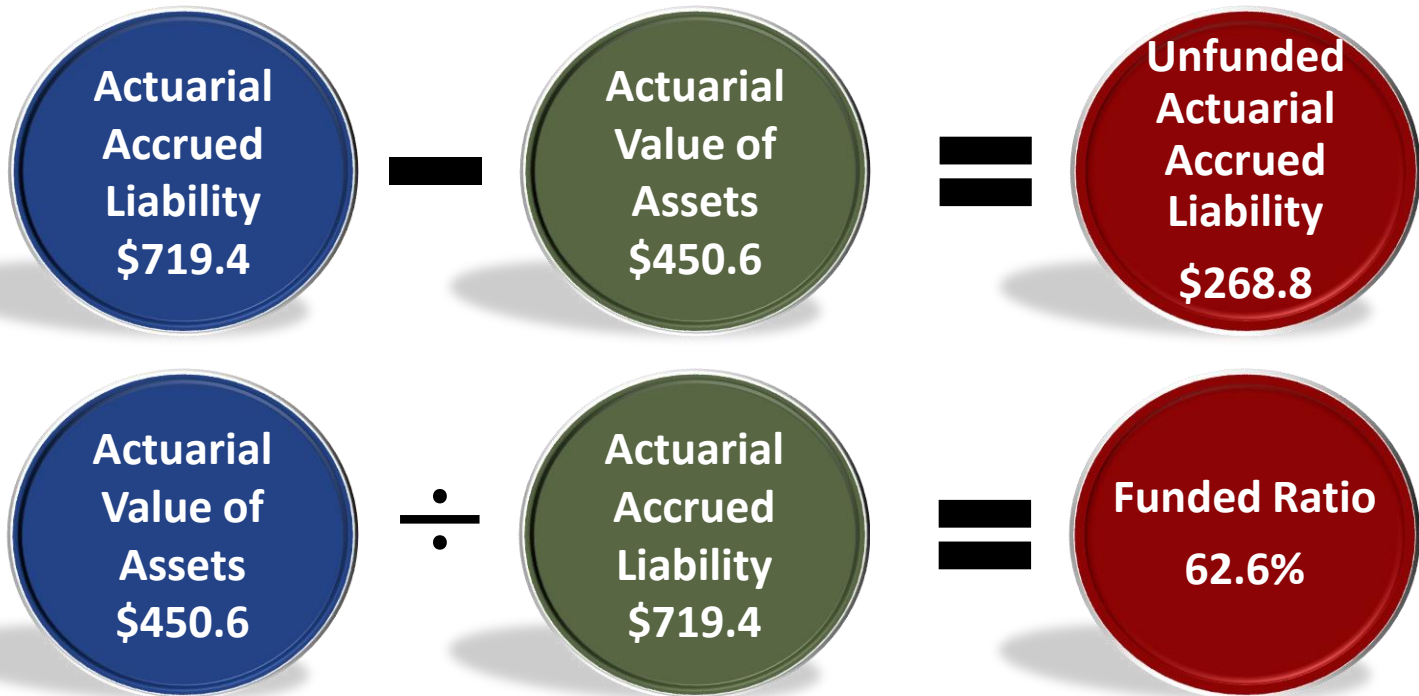
Contribution Rates

- County contribution increase
 - Increased County from 9.75% -> 10%
- Did not increase 9.00% employee

Terminology

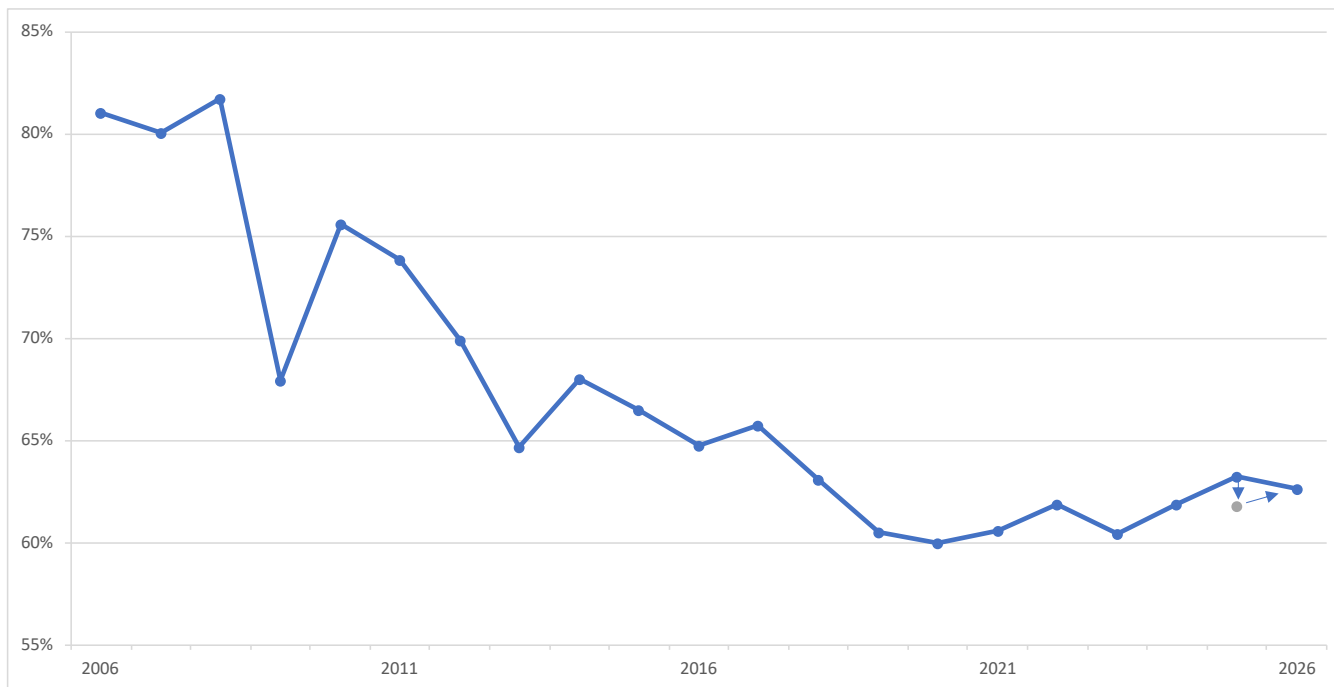
\$ in millions

- Actuarial accrued liability is essentially the present value of benefits **accrued/earned to date**



Funding trend and results

- Funded ratio = 63.2% -> **62.6%**
 - Market value funded ratio 62.1% -> **64.1%**



- Unfunded liabilities = \$246 million -> **\$269 million**

Reconciliation of unfunded liability

Reconciliation of Unfunded Liability

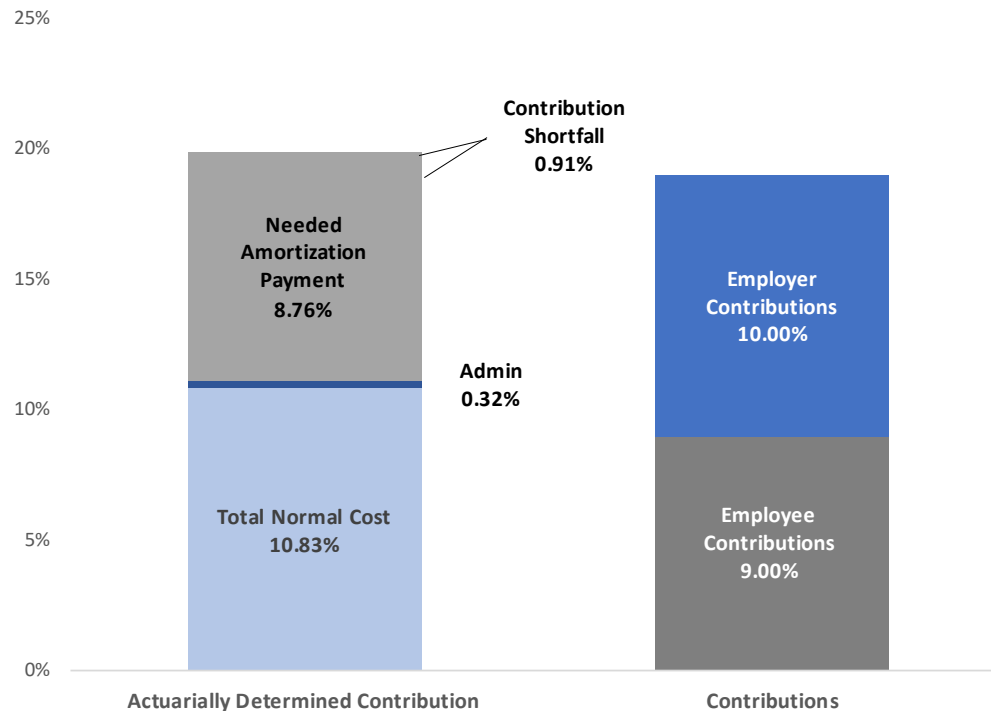
Unfunded liability January 1, 2025	\$245.9
Assumption Changes	\$15.4
Expected Increase in Underfunding	2.7
Asset Gains	-2.4
Salary Losses	5.2
Other liability losses	<u>1.9</u>
Unfunded liability January 1, 2026	\$268.7

Terminology

- Normal Cost
 - Cost of Newly Accruing Benefits
- Actuarially Determined Contribution
 - Amount to pay the Normal Cost + fund the Unfunded Accrued Liability over a set period of time (20 years for ACRP)
- Usually express these as a % of pay to compare to contributory rates

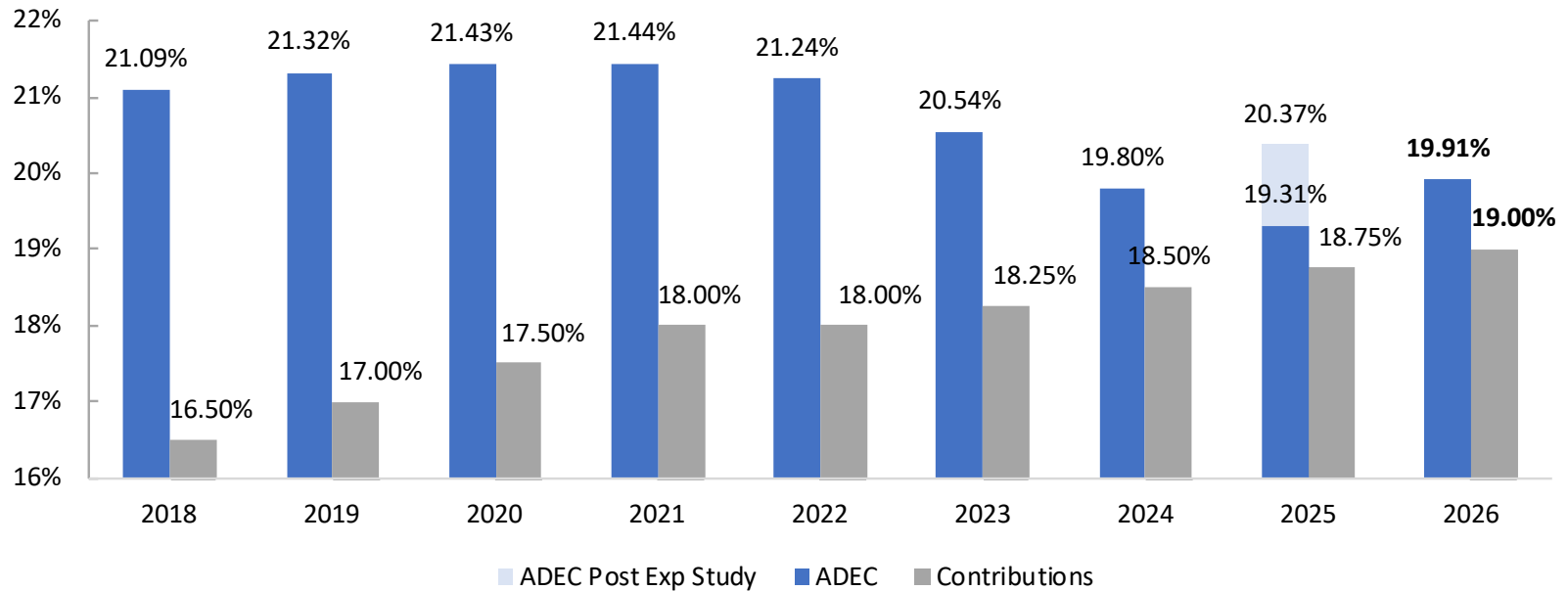
Actuarial Contribution Rate

- Contribution needed to fund plan over 20 years **19.91%**
 - 19.91% actuarial compares to 19.00% actual
 - 0.91% contribution shortfall



Actuarial Contribution Shortfall Trend

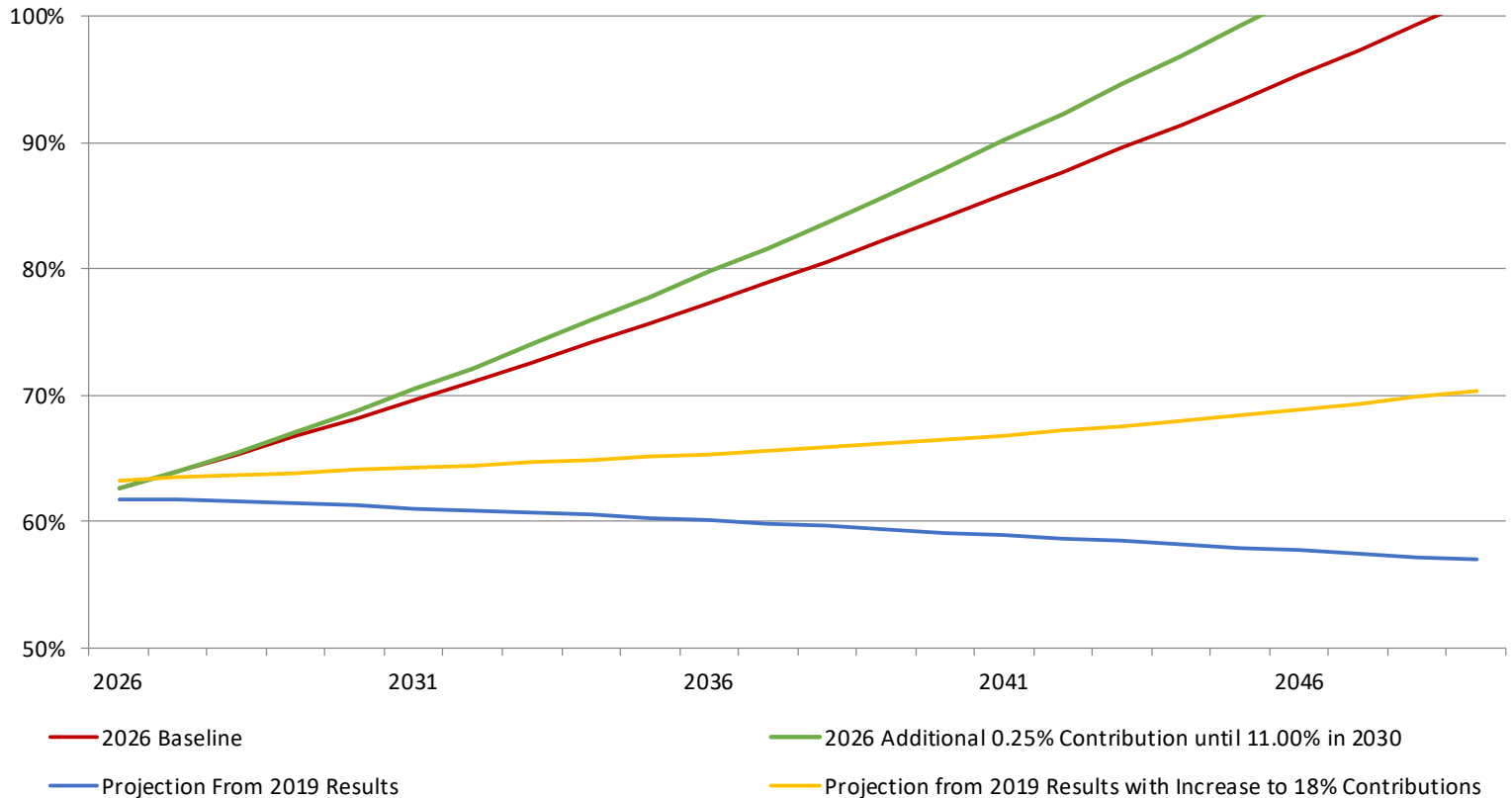
- Setback from assumption changes after several years of closing the gap
- 0.56% -> 0.91%



Retirement Board Recommendation

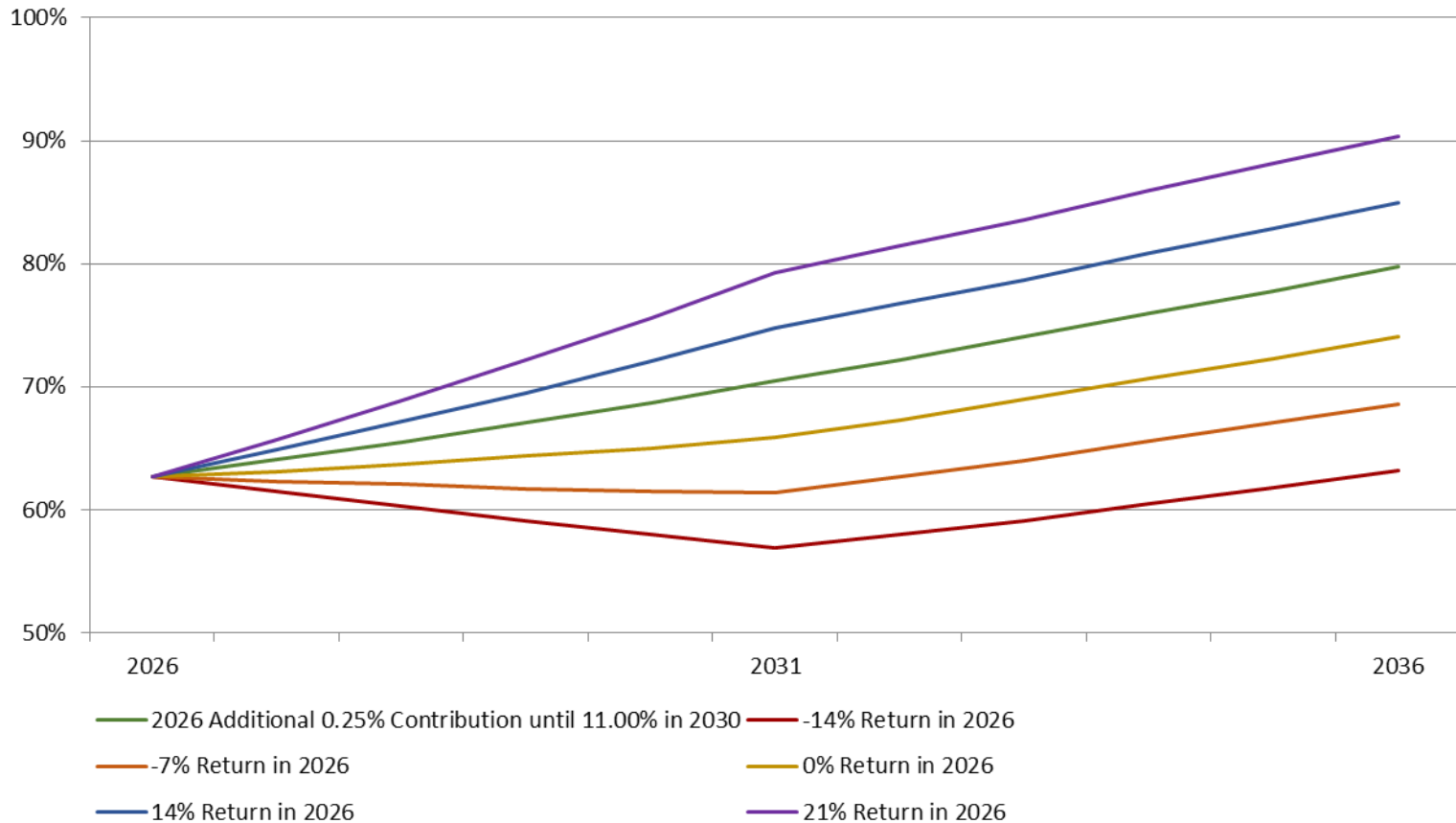
- Continue 0.25% annual County increases until full funding is projected to be 15 years or less
 - In recent years, have shown County contribution reaching 15 year threshold at 10.75%/2029
- 11.00% County in 2030 and 9% employee projected to be 100% funded in 2046 with stable contributions
 - Get to the point where stable contribution consistently exceeds actuarial requirement
 - Viable approach, County reaches full funding in 16 years from final increase
- Asking for 0.25% increase to 10.25% in 2027

Funded Ratio Projections



- Deterministic funding projections assume 7.25% per year investment return on smoothed value of assets

Funded Ratio Projections – Investment Return Sensitivity



- Deterministic funding projections assumes investment return shock in first year and 7.25% per year investment return on smoothed value of assets each year after

Reasons to Stay the Course

- Benefit security
- Reduce time to full funding
 - Stop simply paying interest and swimming upstream
 - More expensive debt than other County obligations
- Increase plan resiliency
 - Less likely the plan will make a big contribution ask at the worst time (adverse investment experience tends to come at least optimal times)
 - With each 0.25% increase, plan becomes sustainable in more and more outcomes
- Stop surviving, start thriving

Summary

- Assumption changes resulted in the first year of setback after several years of good news for the plan
- Funding strategy is still viable
- Strongly recommend increase of **County contribution to 10.25% in 2027**