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June 7, 2023

**Via E-Mail: sheracrow@midlandfrf.com**

Board of Trustees  
Midland Firemen's Relief and Retirement Fund  
c/o Ms. Shera Crow  
P.O. Box 4296  
Midland, TX 79704

Re: Update on the Study of Potential Plan Changes

Dear Board Members:

At your request, we have prepared this update of the study of potential changes in plan provisions and contribution rates for the Midland Firemen's Relief and Retirement Fund (the Fund). This letter is intended to provide information to the Pension Review Board. For over 12 years, the Fund has had an inadequate contribution arrangement as indicated in the last seven biennial actuarial valuations of the Fund. A number of factors, listed below, have contributed to the increasingly adverse situation during those years. The compounding result has been a series of increases in the liabilities and in the long-term adequate contribution rate as a percentage of the covered payroll.

- Lower investment returns than assumed
- Benefit design deficiencies
- High amounts of overtime due to understaffing
- Challenges in recruiting and retaining firefighters due to competition from the oil industry and to high local cost of living
- Changes in city pay practices
- Changes in actuarial assumptions
- Inertia by the Board of Trustees

One way of measuring the inadequacy of the contribution arrangement is to compare the current total contribution rate of the city and firefighters to the total contribution rate actuarially determined that would be required for the current benefits and benefit provisions. As of the most recent actuarial valuation, the required total contribution rate would be 66.3% while the actual total contribution rate is 36.4%. What can be done to close this gap?

In order to restore an adequate contribution arrangement, we as the Fund's retained actuarial firm have recommended a number of improvements in the benefit provisions that would need to be combined with increases in contributions, either lump sum amounts or increases in firefighter and city contribution rates. The Board of Trustees has authorized an ongoing study of a package of potential changes in benefit provisions and contributions that would restore an adequate contribution arrangement, if agreed to by the firefighters, the Board of Trustees, and the City Council, as required by state laws governing the Fund.

One benefit design deficiency we have pointed out is that the benefit formula is too rich for the first 20 years of service and very poor for service beyond 20 years. Smoothing out the value more uniformly for each year of service could encourage firefighters to work longer.

Even though working longer results in a greater benefit than a shorter period of service, a longer work career would result in contributions to fund retirement benefits being made for more years. In addition, the years of the retirement benefit being paid would be somewhat less. The net effect of these changes would be positive for the actuarial condition of the fund. The changes in benefit design could also become a positive factor in recruiting and retaining firefighters.

Another benefit design deficiency we have pointed out is that the final average salary definition as part of the benefit formula does not work well with large amounts of overtime, resulting in larger than projected liabilities. In addition, the final average salary definition allows what is referred to as "spiking", which has a negative perception. Removing **unscheduled** overtime pay and using the highest **consecutive** pay periods in the definition would make projected liabilities more reliable and would have a positive design perception. We have already provided the Board of Trustees the preliminary special study of just these two changes.

The package of potential changes in benefit provisions currently being studied also includes other ways of improving the overall benefit design and moderating the level of benefits that will collectively help close the gap. However, in order to arrive at a benefit design that is competitive for recruiting and retaining firefighters, there will also have to be increases in the contributions by either the firefighters or the city or both. So the ongoing study will include several scenarios of contribution rate increases with benefit design changes.

Some hard decisions will have to be made and accepted by all the stakeholders, the firefighters, the Board of Trustees, the City Council, and the taxpayers. Even though significant changes are needed, the benefit changes will include a transition protecting not only benefits in pay status but also those accrued as of the effective date of the changes. (Accrued benefits are based on the present plan provisions and the pay history and service as of the effective date of change and are calculated as if each firefighter terminated employment on the effective date of the changes.) In addition, those eligible to retire will not be affected by the changes in benefit provisions. Those close to retirement eligibility will be protected in the transition with a hybrid of the new and current provisions that will provide more than just their accrued benefits.

The Board of Trustees has authorized us to draft a ballot for the firefighter election to make the two above changes to the final average salary definition with respect to unscheduled overtime pay and using consecutive pay periods. These changes would be voted on in the near future to

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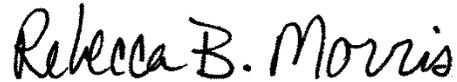
be effective January 1, 2024. The remaining changes to the plan provisions would be voted on in a second election after the ongoing study is completed.

We will let you know more as the process continues of finding a package of changes in benefit provisions and in contributions that would restore an adequate contribution arrangement and that would be acceptable to a majority of the firefighters, to the Board of Trustees, and to the City Council.

Sincerely,



Mark R. Fenlaw, F.S.A.



Rebecca B. Morris, A.S.A.

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