

Financial Statements and Independent Auditor's Report

**Retirement Security Plan of the City of Plano, Texas**

December 31, 2017 and 2016

**Retirement Security Plan  
City of Plano, Texas  
December 31, 2017 and 2016  
Table of Contents**

Independent Auditor's Report.....	1
Management's Discussion and Analysis .....	3
Plan Financial Statements	
Statements of Plan Fiduciary Net Position .....	8
Statements of Changes in Plan Fiduciary Net Position.....	9
Notes to the Financial Statements .....	10
Required Supplementary Information.....	21



## Independent Auditor's Report

To the Retirement Security Plan Committee of the  
City of Plano, Texas

### Report on the Financial Statements

We have audited the accompanying financial statements of the Retirement Security Plan of the City of Plano, Texas (the Plan), a fiduciary fund of the City of Plano, which comprise the statement of plan fiduciary net position as of December 31, 2017, and the related statement of changes in plan fiduciary net position for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

The Plan's Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Plan as of December 31, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

The Retirement Security Plan Committee  
City of Plano, Texas

## **Emphasis of Matters**

### Fund Financial Statements

As discussed in Note 2, the financial statements present only the Plan, a fiduciary fund of the City of Plano (the City) and do not purport to, and do not present fairly the financial position of the City as of December 31, 2017 and 2016 and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Other Matters**

### 2016 Financial Statements

The financial statements of the Plan as of and for the year ended December 31, 2016 were audited by another auditor who expressed an unmodified opinion on those statements in their report dated June 6, 2017.

### Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedules of Changes in Net Pension Liability (Asset) and Related Ratios, Investment Returns, Contributions and Notes to Required Supplementary Information be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas  
July 9, 2018

**Retirement Security Plan  
City of Plano, Texas  
Management's Discussion and Analysis  
December 31, 2017 and 2016**

Our discussion and analysis of the City of Plano, Texas Retirement Security Plan's (RSP or the Plan) financial performance provides an overview and analysis of the Plan's financial activities for the years ended December 31, 2017 and 2016. Please read it in conjunction with the accompanying basic financial statements, including the notes thereto, and required supplementary information.

The City of Plano, Texas (the City) is the trustee, or fiduciary, for the RSP, a Defined Benefit Pension Plan. The RSP provides specific benefits to participants at retirement or disability and to their beneficiaries in case of death.

**Financial Highlights**

- In 2017, net position of the Plan increased by approximately \$21.8 million. The increase was primarily caused by approximately \$5.2 million in contributions, approximately \$2.7 million in interest and dividend income, and \$19.1 million in the increase of the fair value of investments. Approximately \$4.8 million in benefit payments by the City offset the increase. This is compared to an increase in net position of approximately \$5.8 million in 2016.
- Total investment return increased in 2017 by approximately \$15.5 million. The primary driver of this increased appreciation was continued positive performance in the equity markets with a return of 17.3% in 2017, up from 5.4% in 2016.
- The RSP paid approximately \$4.8 million in benefits during 2017, compared to approximately \$4.3 million in 2016. Benefit payments increased primarily due to a 6% increase in the number of retirees receiving annuities than in 2016.
- The RSP received approximately \$5.2 million in City contributions during 2017 compared to \$4.1 million in 2016, due to the growth in payroll as well as an increase in active members.

**Overview of the Financial Statements**

***Basic Financial Statements***

In this financial report, the basic financial statements consist of the Statements of Plan Fiduciary Net Position and the Statements of Changes in Plan Fiduciary Net Position with accompanying Notes to the Financial Statements. Each of those financial statements present information for the RSP as of and for the year ended December 31, 2017, and comparative audited information as of and for the year ended December 31, 2016.

The Statements of Plan Fiduciary Net Position presents the financial position of the Plan. The financial position is assets (primarily investments) less liabilities (primarily advisory fees owed). The difference between assets and liabilities is fiduciary net position, which represents the amount of resources available to pay future benefits to retirees. Investments consist of cash equivalents, fixed income securities, domestic and international equities, and alternative investments.

The Statements of Changes in Plan Fiduciary Net Position presents the additions to and deductions from the Plan's net position during the year. The Plan receives contributions from the City, as well as income or losses from investments and related activity. The primary deductions are to pay benefits, which is the Plan's primary purpose. Deductions also include administrative expenses. The change in the Plan's fiduciary net position during the year is added to or subtracted from the beginning balance of the Plan fiduciary net position to obtain the balance of Plan fiduciary net position at the end of the year.

**Retirement Security Plan  
City of Plano, Texas  
Management's Discussion and Analysis  
December 31, 2017 and 2016**

***Notes to the Financial Statements***

The Notes to the Financial Statements are an integral part of the basic financial statements. They provide background and more details about the information in the financial statements. Among other matters, the notes describe:

- The RSP purpose and its membership
- The significant accounting policies used to prepare the basic financial statements
- The nature of the plan, including the membership and benefit provisions and contribution requirements
- The RSP's investment authority and policies, how investments are safeguarded, and selected details about various investment activity and balances

***Required Supplementary Information***

In 2014, the Plan adopted Government Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pensions*. This statement replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans*. GASB Statement No. 67 requires plans to calculate net pension liability (asset) to be measured as the total pension liability less the amount of the pension plan's fiduciary net position. Additional supplemental schedules required by GASB Statement No. 67 are included in the Required Supplementary Information section.

**SUMMARY AND ANALYSIS OF THE FINANCIAL INFORMATION**

The following Condensed Statements of Plan Fiduciary Net Position and Changes in Plan Fiduciary Net Position present financial information for the RSP, comparing 2017, 2016, and 2015 audited information. This information comes from the Statements of Plan Fiduciary Net Position and Statements of Changes in Plan Fiduciary Net Position for those three years:

**Retirement Security Plan  
City of Plano, Texas  
Management's Discussion and Analysis  
December 31, 2017 and 2016**

**Condensed Statements of Plan Fiduciary Net Position -- Retirement Security Plan**

	<i>December 31</i>			<i>2017 - 2016 Change</i>		<i>2016 - 2015 Change</i>	
	<i>2017</i>	<i>2016</i>	<i>2015</i>	<i>Amount</i>	<i>Percentage</i>	<i>Amount</i>	<i>Percentage</i>
<b>Assets</b>							
Cash and short-term investments	\$ 3,326,774	\$ 1,664,002	\$ 1,468,138	\$ 1,662,772	99.9%	\$ 195,864	13.3%
Investments, at fair value	144,940,758	124,749,001	119,159,571	20,191,757	16.2%	5,589,430	4.7%
Receivables	314,028	341,476	347,786	(27,448)	(8.0%)	(6,310)	(1.8%)
<b>Total Assets</b>	<b>148,581,560</b>	<b>126,754,479</b>	<b>120,975,495</b>	<b>21,827,081</b>	<b>17.2%</b>	<b>5,778,984</b>	<b>4.8%</b>
<b>Liabilities</b>							
Accrued advisory fees	65,253	56,117	53,802	9,136	16.3%	2,315	4.3%
<b>Total Liabilities</b>	<b>65,253</b>	<b>56,117</b>	<b>53,802</b>	<b>9,136</b>	<b>16.3%</b>	<b>2,315</b>	<b>4.3%</b>
<b>Net position restricted for pensions</b>	<b>\$ 148,516,307</b>	<b>\$ 126,698,362</b>	<b>\$ 120,921,693</b>	<b>\$ 21,817,945</b>	<b>17.2%</b>	<b>\$ 5,776,669</b>	<b>4.8%</b>

**Condensed Statements of Changes in Plan Fiduciary Net Position -- Retirement Security Plan**

	<i>December 31</i>			<i>2017 - 2016 Change</i>		<i>2016 - 2015 Change</i>	
	<i>2017</i>	<i>2016</i>	<i>2015</i>	<i>Amount</i>	<i>Percentage</i>	<i>Amount</i>	<i>Percentage</i>
<b>Additions</b>							
Contributions, employer	\$ 5,159,461	\$ 4,133,463	\$ 3,959,196	\$ 1,025,998	24.8%	\$ 174,267	4.4%
Total investment return	21,480,673	5,998,948	2,076,698	15,481,725	258.1%	3,922,250	188.9%
<b>Total Additions</b>	<b>26,640,134</b>	<b>10,132,411</b>	<b>6,035,894</b>	<b>16,507,723</b>	<b>162.9%</b>	<b>4,096,517</b>	<b>67.9%</b>
<b>Deductions</b>							
Benefits	4,760,146	4,297,533	3,822,305	462,613	10.8%	475,228	12.4%
Administrative expenses	38,179	56,897	320,784	(18,718)	(32.9%)	(263,887)	(82.3%)
Miscellaneous expenses	23,864	1,312	6,744	22,552	1,718.9%	(5,432)	(80.5%)
<b>Total Deductions</b>	<b>4,822,189</b>	<b>4,355,742</b>	<b>4,149,833</b>	<b>466,447</b>	<b>10.7%</b>	<b>205,909</b>	<b>5.0%</b>
<b>Net increase in net position</b>	<b>\$ 21,817,945</b>	<b>\$ 5,776,669</b>	<b>\$ 1,886,061</b>	<b>\$ 16,041,276</b>	<b>277.7%</b>	<b>\$ 3,890,608</b>	<b>206.3%</b>

**2017 Compared to 2016**

- The RSP's fiduciary net position increased approximately \$21.8 million during 2017 versus an approximate \$5.8 million increase during 2016. The increase in net position for calendar year 2017 is driven by \$2.7 million in interest and dividends, \$5.2 million in City contributions, and a \$19.1 million increase in investment fair value, offset by \$4.8 million of benefit payments. The Plan's overall portfolio gained 17.19% in 2017 driven by the strong domestic equity performance. The overall total investment return in 2017 was approximately \$21.5 million. This is compared to an overall total investment return of approximately \$6.0 million in 2016.

**Retirement Security Plan  
City of Plano, Texas  
Management's Discussion and Analysis  
December 31, 2017 and 2016**

- In 2017, the overall rate of return on the RSP's investment activity was 17.3%. In 2016, that rate of return was 5.4%. In 2017, the RSP investments, including short-term investments, by type, performed as follows:

<b>Investment Type</b>	<i>Benchmark</i>	<i>Return</i>		<i>Balance at</i>	<i>Allocation</i>
		<i>Percentage</i>	<i>Amount</i>	<i>12/31/17</i>	
Cash and short-term investments	0.84%	0.79%	\$ 19,490	\$ 3,326,774	2.24%
U.S. Government obligations	2.14%	1.97%	354,565	24,426,926	16.47%
Corporate bonds	2.14%	1.97%	458,696	16,411,846	11.07%
Common stocks	21.83%	25.67%	18,958,682	88,735,268	59.85%
Foreign equities	27.19%	29.08%	2,031,828	10,075,560	6.80%
Mutual funds			848,725	3,842,903	2.59%
Master limited partnerships	(8.81%)	(9.34%)	(1,079,308)	1,448,255	0.98%
Real estate investment trusts	-	-	171,815	-	-
<b>Overall or Totals</b>	<u>14.54%</u>	<u>17.28%</u>	<u>\$ 21,764,493</u>	<u>\$ 148,267,532</u>	<u>100.00%</u>

- The RSP paid approximately \$4.8 million in retirement and disability benefits to 812 members during 2017 compared to approximately \$4.3 million paid to 766 members in 2016. On average, this amounts to payments of \$5,862 per person in 2017 versus \$5,610 per person in 2016.
- The RSP received approximately \$5.2 million in City contributions in 2017 compared to \$4.1 million in 2016. The City's contribution rates for two years are based on the biennial actuarial study, and the increase is attributable to increased payroll.
- Contributions exceeded benefit payments in 2017 by \$399,315.
- The cost of administering the Plan in 2017 for the 3,089 members was \$339,280, which is an average cost of \$110 per person. This cost includes \$63,634 in trustee fees, \$246,273 in advisory fees, and \$29,373 in actuary fees. The average cost in 2016 was \$114 per person.

**2016 Compared to 2015**

- The RSP's fiduciary net position increased approximately \$5.8 million during 2016 versus an approximate \$1.9 million increase during 2015. The increase in net position for 2016 is driven by \$2.8 million in interest and dividends, \$4.1 million in City contributions, and \$3.4 million in investment fair value increases, offset by \$4.3 million of benefit payments. The Plan's overall portfolio gained 4.8% in 2016 reflecting the positive financial market backdrop. The overall total investment return in 2016 was approximately \$6.0 million, compared to an overall total investment return of approximately \$2.1 million in 2015.

**Retirement Security Plan  
City of Plano, Texas  
Management's Discussion and Analysis  
December 31, 2017 and 2016**

- In 2016, the overall rate of return on the RSP's investment activity was 5.4%. In 2015, that rate of return was 1.6%. In 2016, the RSP investments, including short-term investments, by type, performed as follows:

<b>Investment Type</b>	<i>Benchmark</i>	<i>Return</i>		<i>Balance at</i>	<i>Allocation</i>
		<i>Percentage</i>	<i>Amount</i>	<i>12/31/16</i>	
Cash and short-term investments	0.27%	0.25%	\$ 4,280	\$ 1,664,002	1.32%
U.S. Government obligations	2.08%	2.36%	453,586	29,260,429	23.15%
Corporate bonds	2.08%	2.36%	561,421	16,571,951	13.11%
Common stocks	11.96%	7.92%	3,972,565	70,926,896	56.11%
Foreign equities	5.01%	2.38%	16,493	6,288,818	4.97%
Mutual funds			49,875	-	-
Master limited partnerships	13.03%	17.80%	1,061,976	1,700,907	1.34%
Real estate investment trusts	-	-	46,972	-	-
<b>Overall or Totals</b>	<u>8.10%</u>	<u>5.40%</u>	<u>\$ 6,167,168</u>	<u>\$ 126,413,003</u>	<u>100.00%</u>

- The RSP paid approximately \$4.3 million in retirement and disability benefits to 766 members during 2016 compared to approximately \$3.8 million paid to 699 members in 2015. On average, this amounts to payments of \$5,610 per person in 2016 versus \$5,468 per person in 2015.
- The RSP received approximately \$4.1 million in City contributions in 2016 compared to \$4.0 million in 2015. The City's contribution rates for two years are based on the biennial actuarial study.
- Benefit payments exceeded contributions in 2016 by \$164,070.
- The cost of administering the Plan in 2016 for the 2,944 members was \$334,731 which is an average cost of \$114 per person. This cost includes \$59,392 in trustee fees, \$228,521 in advisory fees, \$25,818 in actuary fees, and \$21,000 in audit fees. The average cost in 2015 was \$114 per person.

**Retirement Security Plan  
City of Plano, Texas  
Statements of Plan Fiduciary Net Position  
December 31, 2017 and 2016**

	2017	2016
<b>Assets</b>		
<b>Cash and short-term investments</b>	\$ 3,326,774	\$ 1,664,002
<b>Investments, at fair value:</b>		
U.S. Government obligations	24,426,926	29,260,429
Corporate bonds	16,411,846	16,571,951
Common stocks	88,735,268	70,926,896
Foreign equities	10,075,560	6,288,818
Mutual funds	3,842,903	-
Master limited partnerships	1,448,255	1,700,907
Total investments	144,940,758	124,749,001
<b>Receivables</b>		
Accrued interest and dividends	314,028	341,476
Total Assets	148,581,560	126,754,479
<b>Liabilities</b>		
Accrued advisory fees	65,253	56,117
Total Liabilities	65,253	56,117
<b>Net position restricted for pensions</b>	\$ 148,516,307	\$ 126,698,362

The accompanying notes are an integral part of these financial statements.

**Retirement Security Plan  
City of Plano, Texas  
Statements of Changes in Plan Fiduciary Net Position  
As of December 31, 2017 and 2016**

	2017	2016
<b>Additions</b>		
Employer contributions	\$ 5,159,461	\$ 4,133,463
Investment return		
Net increase in		
fair value of investments	19,077,506	3,366,599
Interest	982,564	985,055
Dividends	1,704,423	1,815,514
Miscellaneous	17,281	109,614
Less investment expenses	(301,101)	(277,834)
Net investment income	21,480,673	5,998,948
Total additions	26,640,134	10,132,411
<b>Deductions</b>		
Benefits	4,760,146	4,297,533
Administrative expenses	38,179	56,897
Miscellaneous expenses	23,864	1,312
Total deductions	4,822,189	4,355,742
<b>Net increase in net position</b>	21,817,945	5,776,669
<b>Net position restricted for pensions</b>		
Beginning of year	126,698,362	120,921,693
End of year	\$ 148,516,307	\$ 126,698,362

The accompanying notes are an integral part of these financial statements.

**Retirement Security Plan  
City of Plano, Texas  
Notes to the Financial Statements  
December 31, 2017 and 2016**

**(1) Plan Description**

The Retirement Security Plan (RSP or the Plan) was established on January 1, 1983 pursuant to the City of Plano's (the City) withdrawal from the Federal Social Security system. The RSP is a single-employer defined benefit pension plan and provides retirement benefits for all full-time employees of the City. The purpose of the RSP is to provide specific benefits to participants at retirement or disability, and to their beneficiaries in case of death. As of December 31, 2017, there were 3,089 members, consisting of 2,208 active members of whom 1,358 were vested and 850 were non-vested, 69 terminated members entitled to benefits, but not yet receiving them and 812 retirees and beneficiaries receiving benefits.

The RSP was created by City ordinance and is administered by a committee of five, (the Committee), which meets four times a year. The Committee is appointed by the City Council, based on recommendations from the City Manager, and must include two members that meet the same eligibility requirements as appointees to City boards and commissions as described in section 4.07 of the City Charter. The Committee oversees the RSP and sets policies for operations, including appointing investment management and directing investment decisions. The RSP employs the services of a professional investment manager, investment consultant, and a custodial bank to retain the assets and administer benefit payments.

**(a) Membership**

The RSP's membership consisted of the following as of December 31, 2017:

Active members	
Vested	1,358
Non-vested	850
Total active members	2,208
Terminated members entitled to benefits, but not yet receiving them	69
Retirees and beneficiaries currently receiving benefits	812
Total	3,089

The RSP's membership consisted of the following as of December 31, 2016:

Active members	
Vested	1,350
Non-vested	762
Total active members	2,112
Terminated members entitled to benefits, but not yet receiving them	66
Retirees and beneficiaries currently receiving benefits	766
Total	2,944

**Retirement Security Plan  
City of Plano, Texas  
Notes to the Financial Statements  
December 31, 2017 and 2016**

**(b) Benefit Provisions**

Full-time employees become vested after 5 years of service. Members who terminate employment prior to completing 5 years of service are not eligible for any benefit, and all contributions made on their behalf remain with the Plan. Members are eligible to receive full retirement income benefits when they reach normal retirement (age 65) or full or reduced benefits when they reach a younger age and meet certain length-of-service requirements. Early retirement benefits are paid upon completion of 20 years of vesting (Texas Municipal Retirement System credited service) or upon attaining age 60 with 5 years of vesting service, of which 5 years must be with the City. The RSP provides retirement income benefits, with annual cost-of-living adjustments, based on a member's years of service, average compensation (highest 3 years of last 10), and choice of annuity options or a lump sum payment as noted below.

For normal retirement (age 65), the monthly benefit payment is calculated as follows:

- $.007 \times$  City credited service (not to exceed 25 years)  $\times$  average compensation (highest 3 years of last 10).

Early retirement benefits paid upon completion of 20 years of vesting (Texas Municipal Retirement System credited service) or upon attaining age 60 with 5 years of vesting service with the City are calculated as follows:

- $.007 \times$  City credited service since January 1, 1983 (not to exceed 25 years)  $\times$  average compensation (highest 3 years of last 10)  $\times$  a reduction factor based on the number of years which the benefit start date precedes the normal retirement date. The benefit is reduced 1/15 for each of the first 5 years and 1/30 for each of the next 5 years (and on an Actuarial Equivalent basis thereafter) by which the starting date of pension payments precedes the employee's normal retirement date.

A lump sum payment option is available to eligible participants. Lump sum payments follow these guidelines:

- When the lump sum value is less than \$5,000, the benefit must be in the form of a single lump sum payment.
- When the lump sum value is \$5,000 - \$25,000, the participant has a choice of single lump sum payment or monthly annuity payments.
- When the lump sum value exceeds \$25,000, the participant must receive monthly annuity payments.

Joint and survivor options are available. Additionally, benefits are available for members who become totally and permanently disabled.

Each April 1, retirement benefits which have been paid for at least 12 months are adjusted to reflect changes in the U.S. Consumer Price Index (not to exceed 4%), as determined by the Plan's actuary. This cost of living adjustment is applied to only the participant's benefits; spouses or beneficiaries are excluded.

**Retirement Security Plan  
City of Plano, Texas  
Notes to the Financial Statements  
December 31, 2017 and 2016**

A participant shall be eligible for a deferred vested pension if the participant's employment with the City is terminated, for reasons other than death or normal, late, early or disability retirement, on or after the completion of five (5) or more years of credited service. Payment of a deferred vested pension shall commence as of the first day of the month coinciding with or next following the participant's normal retirement date if the participant is then living. If the participant has completed five (5) years of credited service and requests the commencement of the participant's deferred vested pension as of the first day of the month coinciding with or next following his/her sixtieth (60) birthday, the participant's pension shall commence as of the first day of the month so requested, but the amount thereof shall be subject to the early retirement reduction.

**(c) Contributions**

Contributions by the City are established as a part of the budget process and the actuarially determined percentage of each payroll. Actuarial valuations are performed on a biennial basis and the actuarially determined contribution rate is applicable to the biennium that begins one year after the valuation date. The actuarially determined contribution rate effective for the year ending December 31, 2016, as determined by the actuarial valuation as of December 31, 2013, was 3.12%. The actuarially determined contribution rate effective for the years ending December 31, 2017 and December 31, 2018, as determined by the actuarial valuation as of December 31, 2015, was 3.62%. The last actuarial valuation was performed on December 31, 2017. The actuarially determined contribution rate of 3.22% determined in this actuarial valuation will be applicable to the years beginning January 1, 2019 and January 1, 2020. Participant contributions are not allowed by the Plan. Although the actuarially determined contribution rate set by the actuarial valuation is 3.22%, the committee voted to fund the Plan at 3.62%.

**(d) Tax Status**

The Internal Revenue Service has determined and informed the City by a letter dated December 20, 2016, that the Plan is designed in accordance with applicable sections of the Internal Revenue Code (IRC). The plan administrator and the Plan's tax counsel believe that the Plan is designed and is currently operated in compliance with the applicable requirements of the IRC.

Accounting principles generally accepted in the United State of America Generally Accepted Accounting Principles (US GAAP) require Plan management to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the organization has taken an uncertain tax position that more likely than not would be sustained upon examination by the Internal Revenue Service. The plan administrator has analyzed the tax positions taken by the Plan, and has concluded that as of December 31, 2017, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Plan is subject to routine audits by taxing jurisdictions; however; there are currently no audits for any tax periods in progress. The plan administrator believes it is no longer subject to income tax examinations for years prior to 2012.

**(e) Other Information**

The RSP finances its administrative costs through investment earnings. It is exempt from federal income taxes under the IRC. If the Plan is partially or fully terminated for any reason, state statute provides that the rights of all benefits on the date of termination to all members and benefit recipients to the extent then funded, will become non-forfeitable.

**Retirement Security Plan  
City of Plano, Texas  
Notes to the Financial Statements  
December 31, 2017 and 2016**

**(2) Summary of Significant Accounting Policies**

**(a) Reporting Entity**

The RSP is one of the City's Fiduciary Funds and is presented as such in the City's financial statements. The assets of the RSP are being held for benefit of a third party (pension participants) and cannot be used to address activities or obligations of the government.

**(b) Basis of Presentation and Accounting**

The RSP financial statements are prepared in accordance with the standards of the Governmental Accounting Standards Board for pension trust funds. City contributions are recognized when due, and benefits are recognized when due and payable. Investment transactions are recorded as of the trade date, and investment income from interest and dividends is recorded when earned or declared.

**(c) Use of Estimates**

The preparation of financial statements and required supplementary information in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of investments, net pension liability and the changes therein. Actual results could differ from those estimates.

**(d) Investments**

Investments of the Plan are reported at fair value. The RSP determines the fair value of investments as follows, which are valued using matrix pricing (Level 2 inputs) for U.S. Government Obligations and Corporate Bonds and quoted market prices (Level 1 inputs) for Equities:

- Fixed income and equity securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates.
- Investments in open-end mutual funds are based on the funds' current share prices as determined by quoted market prices.

**(3) Investments**

**(a) Investment Authority and Policies**

The assets of the RSP shall be invested in a manner that is consistent with generally accepted standards of fiduciary responsibility, and the requirements of applicable law. The investment manager shall observe the safeguards that would guide a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. All transactions undertaken on behalf of the RSP shall be for the exclusive benefit of the participants and their beneficiaries. The RSP investment policy shall be reviewed annually to ensure that it remains relevant and effective within prevailing economic conditions and other conditions affecting the RSP taking into consideration the long-term performance and risk characteristics of various asset classes and balancing the risk and rewards of market behavior with the long-term objectives of the RSP. The current investment guidelines are as follows:

**Retirement Security Plan  
City of Plano, Texas  
Notes to the Financial Statements  
December 31, 2017 and 2016**

- Permissible investments include: cash equivalents, including certificates of deposit at U.S. banks, money market and similar bank accounts and money market mutual funds; corporate bonds, including convertibles; commercial paper; U.S. Government and agency securities; common and preferred stocks; exchange traded funds/exchange traded notes; alternative investments (real estate, master limited partnerships (MLP's), etc.); and mutual funds. All other investments are prohibited unless approved in advance by the Committee.
- The Investment Manager shall maintain investments within the acceptable allocation ranges (as a percentage of total assets of the RSP): Cash Equivalents (0-5%); Fixed Income (25-40%); Domestic Equity (45-70%); International Equity (5-15%); and Alternative Investments (0-5%) (Real Estate, Master Limited Partnerships, etc.).
- Domestic equity investments shall be further maintained within the following market capitalization guidelines: Total Large Cap (62-92%); Total Medium Cap (7-27%); Total Small Cap (1-11%).
- Emerging market equities can be up to 50% of International stocks and shall not exceed 5% of total plan assets.
- The amount of assets invested in cash equivalents shall not be less than the amount required to cover current liabilities.

The above limitations and portfolio diversification over several asset classes are intended to reduce the RSP's overall investment risk exposure. The Committee has a written set of investment policies that may be viewed by request to the City's Human Resources Department, at City of Plano, 1520 Avenue K, Suite 130, Plano, TX 75074. Those policies address asset allocations for the various investment types, risk management, and investment monitoring. They also include qualitative and quantitative criteria and specific benchmarks for performance.

***(b) Custody of Assets***

The RSP Committee has a contract with a financial institution to hold the RSP's trust funds in custody for the Plan.

***(c) Cash and Short-Term Investments***

The carrying amount of the RSP's cash and short-term investments at December 31, 2017, in the Statements of Plan Fiduciary Net Position is approximately \$3.3 million compared to \$1.7 million at December 31, 2016, consisting of money market mutual funds.

***(d) Deposit and Investment Risk***

*Custodial Risk.* The RSP does not have any investments that are not insured, not registered or not represented by securities that are held by the RSP or by its agent in the RSP name. There are no deposits.

*Overall Credit Risk.* The RSP investment policy specifies that fixed income investment ratings shall be further maintained with investment grade bonds (BBB or higher) 90-100% and non-investment grade bonds (BB or lower) 0-10% of the allocation. The Plan's fixed income investments are rated by Standard and Poor's as follows:

**Retirement Security Plan  
City of Plano, Texas  
Notes to the Financial Statements  
December 31, 2017 and 2016**

As of December 31, 2017:

<u>Rating</u>	<u>RSP distribution by S&amp;P Rating</u>	
	<u>Number</u>	<u>Market Value</u>
AA+	21	24,426,926
AA	1	996,040
AA-	1	992,800
A+	3	2,441,864
A	8	6,678,903
A-	2	1,255,152
BBB+	2	1,766,707
BBB	1	841,128
BBB-	2	1,439,252
Total		<u>\$ 40,838,772</u>

As of December 31, 2016:

<u>Rating</u>	<u>RSP distribution by S&amp;P Rating</u>	
	<u>Number</u>	<u>Market Value</u>
AA+	24	29,260,429
AA-	1	1,236,412
A+	3	2,181,602
A	8	6,288,575
A-	2	1,240,448
BBB+	4	3,333,730
BBB	1	837,984
BBB-	2	1,453,200
Total		<u>\$ 45,832,380</u>

*Concentration of Credit Risk.* The RSP investment policy limits the amount that may be invested in various investment categories and requires reasonable diversification in equity portfolios. As of December 31, 2017, there are no individual investments that represent five or more percent of the Plan's total investment portfolio value.

*Foreign Currency Risk.* The RSP investment policy limits the amount that may be invested in international equities to 15% of total assets.

*Rate of Return.* The annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, for 2017 and 2016 was 17.19% and 5.20%, respectively. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

*Interest Rate Risk.* The RSP investment policy does not specifically address interest rate risk as it relates to the length of investment period or maturity structure for the fixed income portfolio.

**Retirement Security Plan  
City of Plano, Texas  
Notes to the Financial Statements  
December 31, 2017 and 2016**

The following tables categorize the Plan's investments at December 31, 2017 and 2016, by type of investment to give an indication of the level of interest rate risk. Level 1 inputs are quoted prices in active markets for identical assets or liabilities; Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; Level 3 inputs are unobservable inputs (at the end of 2017 and 2016, the City does not value any of its investments using Level 3 inputs).

<b>Investment type</b>	Fair Value 12/31/17	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Weighted Average Maturity (Years)
U.S. Government obligations	\$ 24,426,926	\$ -	\$ 24,426,926	4.06
Corporate bonds	16,411,846	-	16,411,846	4.29
Total	<u>40,838,772</u>	-	<u>40,838,772</u>	4.15
Common stocks	88,735,268	88,735,268	-	n/a
Foreign equities	10,075,560	10,075,560	-	n/a
Money market mutual funds <sup>(1)</sup>	7,169,677	7,169,677	-	n/a
Master limited partnerships	1,448,255	1,448,255	-	n/a
Total	<u>107,428,760</u>	<u>107,428,760</u>	-	
<b>Total investments</b>	<u>\$ 148,267,532</u>	<u>\$ 107,428,760</u>	<u>\$ 40,838,772</u>	

<sup>(1)</sup> This \$3.3 million investment is reported with cash and short-term investments in the Statements of Plan Fiduciary Net Position.

<b>Investment type</b>	Fair Value 12/31/16	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Weighted Average Maturity (Years)
U.S. Government obligations	\$ 29,260,429	\$ -	\$ 29,260,429	4.67
Corporate bonds	16,571,951	-	16,571,951	4.37
Total	<u>45,832,380</u>	-	<u>45,832,380</u>	4.56
Common stocks	70,926,896	70,926,896	-	n/a
Foreign equities	6,288,818	6,288,818	-	n/a
Money market mutual funds <sup>(1)</sup>	1,664,002	1,664,002	-	n/a
Master limited partnerships	1,700,907	1,700,907	-	n/a
Total	<u>80,580,623</u>	<u>80,580,623</u>	-	
<b>Total investments</b>	<u>\$ 126,413,003</u>	<u>\$ 80,580,623</u>	<u>\$ 45,832,380</u>	

<sup>(1)</sup> This \$1.7 million investment is reported with cash and short-term investments in the Statements of Plan Fiduciary Net Position.

**Retirement Security Plan  
City of Plano, Texas  
Notes to the Financial Statements  
December 31, 2017 and 2016**

**(e) Equities and Long-Term Fixed Income Securities**

The RSP invests in both domestic and international equities and long-term fixed income securities on the Committee's asset allocation strategy. The following tables present the types of those investments, the fair value of each type for the years ended December 31, 2017 and 2016, and the income for each type for the years then ended.

	<i>Fair Value <sup>(1)</sup> 12/31/2017</i>	<i>Appreciation (Depreciation)</i>	<i>Dividend or Interest Income <sup>(1)</sup></i>	<i>Total Return</i>
<b>Equities</b>				
Domestic <sup>(2)</sup>	\$ 94,026,426	\$ 17,481,436	\$ 1,418,478	\$ 18,899,915
International	10,075,560	1,781,468	250,360	2,031,828
Total equities	<u>104,101,986</u>	<u>19,262,904</u>	<u>1,668,838</u>	<u>20,931,743</u>
<b>Fixed income</b>				
U.S. Government	24,426,926	(152,446)	507,011	354,565
Domestic	16,411,846	(32,952)	491,648	458,696
Total fixed income	<u>40,838,772</u>	<u>(185,398)</u>	<u>998,659</u>	<u>813,261</u>
<b>Total</b>	<u>\$ 144,940,758</u>	<u>\$ 19,077,506</u>	<u>\$ 2,667,498</u>	<u>\$ 21,745,004</u>

<sup>(1)</sup> Short-term investment fair value of \$3,326,774 and interest income of \$19,490 is not included in this investment schedule.

<sup>(2)</sup> Master limited partnerships fair value and interest income are included in domestic equities as the investments are traded on public exchanges.

	<i>Fair Value <sup>(1)</sup> 12/31/2016</i>	<i>Appreciation (Depreciation)</i>	<i>Dividend or Interest Income <sup>(1)</sup></i>	<i>Total Return</i>
<b>Equities</b>				
Domestic <sup>(2)</sup>	\$ 72,627,803	\$ 3,380,818	\$ 1,750,570	\$ 5,131,388
International	6,288,818	(48,451)	64,944	16,493
Total equities	<u>78,916,621</u>	<u>3,332,367</u>	<u>1,815,514</u>	<u>5,147,881</u>
<b>Fixed income</b>				
U.S. Government	29,260,429	(66,282)	519,868	453,586
Domestic	16,571,951	100,514	460,907	561,421
Total fixed income	<u>45,832,380</u>	<u>34,232</u>	<u>980,775</u>	<u>1,015,007</u>
<b>Total</b>	<u>\$ 124,749,001</u>	<u>\$ 3,366,599</u>	<u>\$ 2,796,289</u>	<u>\$ 6,162,888</u>

<sup>(1)</sup> Short-term investment fair value of \$1,664,002 and interest income of \$4,280 is not included in this investment schedule.

<sup>(2)</sup> Master limited partnerships fair value and interest income are included in domestic equities as the investments are traded on public exchanges.

**Retirement Security Plan  
City of Plano, Texas  
Notes to the Financial Statements  
December 31, 2017 and 2016**

**(4) Net Pension Liability (Asset)**

The components of the Net Pension Liability (Asset) at December 31, 2017 and 2016 are as follows:

	2017	2016
Total pension liability	\$ 142,908,846	\$ 132,651,136
Less: Plan fiduciary net position	148,516,307	126,698,362
Net Pension Liability (Asset)	\$ (5,607,461)	\$ 5,952,774

Additional information regarding changes in the net pension asset for the year ended December 31, 2017 can be found in the Required Supplementary Information section beginning on page 21.

**a) Actuarial Assumptions**

The total pension liability (asset) was determined by an actuarial valuation.

As of December 31, 2017:

Actuarial cost method:	Entry Age Normal
Amortization method:	Level percentage of payroll, Closed
Remaining amortization period:	17 years as of the measurement date
Asset valuation method:	5-year smoothed market; 20% corridor
Inflation:	2.50%
Salary increases:	8.00% to 2.75%, including inflation
Investment rate of return:	7.00%
Retirement age:	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality:	RP-2000 mortality for combined healthy annuitants with blue-collar adjustment. Males rates are multiplied by 1.09 and female rates are multiplied by 1.03. Generational mortality improvements applied using Scale BB.

As of December 31, 2016:

Actuarial cost method:	Entry Age Normal
Amortization method:	Level percentage of payroll, closed
Remaining amortization period:	18 years as of the valuation date
Asset valuation method:	5-year smoothed market; 20% corridor
Inflation:	2.75%
Salary increases:	7.85% to 3.25% including inflation
Investment rate of return:	7.50%
Retirement age:	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality:	RP-2000 mortality for combined healthy annuitants with blue-collar adjustment. Males rates are multiplied by 1.09 and female rates are multiplied by 1.03. Generational mortality improvements applied using Scale BB.

**Retirement Security Plan  
City of Plano, Texas  
Notes to the Financial Statements  
December 31, 2017 and 2016**

**b) Discount Rate**

A single discount rate of 7.00% and 7.50% were used to measure the total pension liability for the plan years ended December 31, 2017 and 2016, respectively. This single discount rate was based on the expected rate of return on pension plan investments. Based on the stated assumptions and the projection of cash flows as of each plan year ending December 31, the pension plan's fiduciary net position and future contributions were sufficient to finance all the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability.

The projection of cash flows used to determine the single discount rate for the Plan assumed that the funding policy adopted by the RSP's Retirement Committee will remain in effect for all future years. Under this funding policy, the City will finance the unfunded actuarial accrued liability as a level percentage of payroll over the closed period ending September 30, 2035. Under this policy, there are 17 years remaining in the amortization period.

**c) Long-Term Rate of Return Assumption by Asset Class**

As of December 31, 2017:

<u>Asset Class</u>	<u>Long-Term Expected Arithmetic Real Rate of Return</u>	<u>Target Asset Allocation</u>	<u>Development of Long-Term Arithmetic Return for Investment Portfolio</u>
U.S. Government Obligations	1.8%	18%	0.32%
Government Agency Obligations	1.8%	2%	0.04%
Corporate Bonds	3.1%	12%	0.37%
U.S. Large Cap Stocks	5.5%	44%	2.42%
U.S. Mid Cap Stocks	7.1%	10%	0.71%
U.S. Small Cap Stocks	7.1%	3%	0.21%
Foreign Equities	6.6%	8%	0.53%
Alternatives (REITS)	5.6%	3%	0.17%
	Total Expected Arithmetic Real Return:		4.77%
	Inflation Assumption for Actuarial Valuation:		2.50%
	Total Expected Arithmetic Nominal Return:		7.27%

Note: The long-term expected rate of return on retirement plan investments was determined using a building-block method in which best-estimate expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Retirement Plan's target asset allocation as of December 31, 2017 are summarized in the above table.

**Retirement Security Plan  
City of Plano, Texas  
Notes to the Financial Statements  
December 31, 2017 and 2016**

As of December 31, 2016:

<u>Asset Class</u>	<u>Long-Term Expected Arithmetic Real Rate of Return</u>	<u>Target Asset Allocation</u>	<u>Development of Long-Term Arithmetic Return for Investment Portfolio</u>
U.S. Government Obligations	2.8%	18%	0.50%
Government Agency Obligations	2.8%	2%	0.06%
Corporate Bonds	1.6%	12%	0.19%
U.S. Large Cap Stocks	5.9%	44%	2.60%
U.S. Mid Cap Stocks	7.2%	10%	0.72%
U.S. Small Cap Stocks	7.2%	3%	0.22%
Foreign Equities	6.8%	8%	0.54%
Alternatives (REITS)	6.3%	3%	0.19%
	Total Expected Arithmetic Real Return:		5.02%
	Inflation Assumption for Actuarial Valuation:		2.75%
	Total Expected Arithmetic Nominal Return:		7.77%

Note: The long-term expected rate of return on retirement plan investments was determined using a building-block method in which best-estimate expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Retirement Plan's target asset allocation as of December 31, 2016 are summarized in the above table.

**d) Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate**

As of December 31, 2017 and 2016, the Net Pension Liability (Asset) is (\$5,607,461) and \$5,952,774, respectively. Below is a table providing the sensitivity of the Net Pension Liability (Asset) to changes in the discount rate. In particular, the table shows the Plan's Net Pension Liability (Asset) if it were calculated using a single discount rate that is one-percentage point lower or one-percentage point higher than the single discount rate:

As of December 31, 2017:

	1% Decrease 6.00%	Current Single Discount Rate Assumption 7.00%	1% Increase 8.00%
Plan Net Pension Liability (Asset)	\$ 15,731,003	\$ (5,607,461)	\$ (23,077,430)

As of December 31, 2016:

	1% Decrease 6.50%	Current Single Discount Rate Assumption 7.50%	1% Increase 8.50%
Plan Net Pension Liability (Asset)	\$ 24,473,966	\$ 5,952,774	\$ (9,435,799)

**Retirement Security Plan  
City of Plano, Texas  
Required Supplementary Information (Unaudited)  
December 31, 2017 and 2016**

**Schedule of Changes in Net Pension Liability (Asset) and Related Ratios**

Fiscal year ending December 31,	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Total Pension Liability</b>				
Service Cost	\$ 5,073,946	\$ 4,716,387	\$ 3,803,153	\$ 3,674,544
Interest on the Total Pension Liability	9,960,603	9,240,119	8,412,933	7,802,936
Difference between Expected and Actual Experience	(3,005,892)	-	(1,059,691)	-
Assumption Changes	2,989,199	-	7,094,524	-
Benefit Payments	(4,760,146)	(4,297,533)	(3,822,305)	(3,518,902)
<b>Net Change in Total Pension Liability</b>	10,257,710	9,658,973	14,428,614	7,958,578
<b>Total Pension Liability - Beginning</b>	132,651,136	122,992,163	108,563,549	100,604,971
<b>Total Pension Liability - Ending (a)</b>	<u>\$ 142,908,846</u>	<u>\$ 132,651,136</u>	<u>\$ 122,992,163</u>	<u>\$ 108,563,549</u>
<b>Plan Fiduciary Net Position</b>				
Employer Contributions	\$ 5,159,461	\$ 4,133,463	\$ 3,959,196	\$ 4,037,995
Pension Plan Net Investment Income	21,781,774	6,276,782	2,076,698	8,012,049
Benefit Payments	(4,760,146)	(4,297,533)	(3,822,305)	(3,518,902)
Pension Plan Administrative Expenses	(363,144)	(336,043)	(327,528)	(278,376)
Other	-	-	-	(22,051)
<b>Net Change in Plan Fiduciary Net Position</b>	21,817,945	5,776,669	1,886,061	8,230,715
<b>Plan Fiduciary Net Position - Beginning</b>	126,698,362	120,921,693	119,035,632	110,804,917
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>\$ 148,516,307</u>	<u>\$ 126,698,362</u>	<u>\$ 120,921,693</u>	<u>\$ 119,035,632</u>
<b>Net Pension (Asset) Liability - Ending (a) - (b)</b>	(5,607,461)	5,952,774	2,070,470	(10,472,083)
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	103.92%	95.51%	98.32%	109.65%
<b>Covered Employee Payroll</b>	142,526,560	132,482,794	130,412,851	117,023,684
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	(3.93)%	4.49%	1.59%	(8.95)%

Note: GASB No. 67 required supplementary information is not available for years prior to 2014. Data for future years will be added prospectively.

**Schedule of Investment Returns**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	17.19%	5.20%	1.75%	7.22%

Note: GASB No. 67 required supplementary information is not available for years prior to 2014. Data for future years will be added prospectively.

**Retirement Security Plan  
City of Plano, Texas  
Required Supplementary Information (Unaudited)  
December 31, 2017 and 2016**

**Schedule of Contributions**

Fiscal year ending December 31,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Estimated Covered Payroll	Actual Contribution as % of Estimated Covered Payroll
2014	4,037,995	4,037,995	-	117,023,684	3.45%
2015	3,959,196	3,959,196	-	130,412,851	3.04%
2016	4,133,463	4,133,463	-	132,482,794	3.12%
2017	5,159,461	5,159,461	-	142,526,560	3.62%

See accompanying independent auditors' report.

Note: The actuarially determined contributions are calculated as a rate of pay and applied to actual payroll.

Prior to 2015, the covered payroll was the expected payroll for the plan year based on the most recent actuarial valuation. After 2015, the covered payroll is determined by dividing the actual employer contributions by the effective contribution rate. The City contributes the actuarially determined contribution rate determined by the actuarial valuation. The contribution rate is effective for the biennium beginning with the fiscal year following the valuation date.

***Notes to Schedule of Contributions***

Actuarially determined contribution rates are calculated as of December 31 of odd numbered years. The actuarially determined contribution rate determined by the valuation is effective for the biennium period with the calendar year following the valuation date.

See Note 4 for actuarial assumptions.

**Retirement Security Plan  
City of Plano, Texas  
Required Supplementary Information (Unaudited)  
December 31, 2017 and 2016**

**Notes to Required Supplementary Information**

**(1) Actuarial Assumptions and Methods**

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. The assumptions below are rolled forward based upon the latest actuarial valuation.

Valuation date	12/31/17
Actuarial cost method	Entry Age Normal
Amortization method	Level percent of payroll
Payroll growth rate for amortization	2.75%
Remaining amortization period	17 years –closed
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.00%
Projected salary increases	8.00% to 2.75%, including inflation
Inflation	2.50%
Cost of living adjustments (COLA)	2.50%*

\*Actual COLA of 2.13% effective April 1, 2018, 2.50% for all future years.

City's actuarially determined contributions in a single year are based on the prior year-end actuarial study.

**Retirement Security Plan  
City of Plano, Texas  
Required Supplementary Information (Unaudited)  
December 31, 2017 and 2016**

**(2) Significant Factors Affecting Trends in Actuarial Information**

The following actuarial assumptions were modified for the December 31, 2017 actuarial valuation:

- The price inflation assumption was decreased from 2.75% to 2.50%. This assumption is not directly used in the calculation of the actuarial accrued liability or the contribution rate, but does impact other economic assumptions.
- The investment return assumption was decreased from 7.50% to 7.00%.
- There were minor decreases in the step/promotional rates in the individual salary increase assumption for most participants. A productivity component above the 2.50% inflation assumption of 0.25% was added for all participants.
- The payroll growth rate assumption for amortizing the unfunded actuarial accrued liability was decreased from 3.25% to 2.75%.
- The assumed rate of future cost of living adjustments was decreased from 2.70% to 2.50%.
- An explicit load of 0.25% of payroll was added to the normal cost to account for administrative and miscellaneous expenses, and thus the assumed investment return is net of investment expenses only.
- The assumption for termination of employment was changed from being service-based to age-based. The overall impact of this change results in an increase in the expected number of participants who will leave employment prior to attaining retirement age.
- There were small adjustments in the overall retirement assumption used to model the pattern for Plan participants to retire and commence their RSP benefit.
- There was a decrease in the probabilities that participants will become disabled and commence a disability retirement benefit.