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# CPS Energy Pension Plan

## January 1, 2024 Actuarial Valuation

**Prepared by:**

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## January 1, 2024 Actuarial Valuation of the CPS Energy Pension Plan

As part of our engagement with CPS Energy (the “Plan Sponsor”), we performed an actuarial valuation of the CPS Energy Pension Plan (the “Plan”) as of January 1, 2024, for the Plan Year ending December 31, 2024. Our findings are set forth in this actuary’s report. The valuation results are based on the actuarial assumptions and methodology ([Appendix A](#)) and principal plan provisions ([Appendix B](#)) summarized in the appendices. In addition, [Appendix C](#) contains a glossary of actuarial terms and [Appendix D](#) contains information about the Plan’s risks. The Table of Contents lists the supporting schedules (Exhibits) which were prepared to support the results presented in the Executive Summary.

### Purpose of the Valuation

The main purposes of this report are:

- to provide the Actuarially Determined Contribution for the fiscal year ending January 31, 2026,
- to review the experience under the plan for the valuation year ending December 31, 2023; and
- to assess the funded position of the plan.

Actuarial computations presented in this report are for the purposes of determining the recommended funding amounts for the Plan. The calculations in the enclosed report have been made on a basis consistent with our understanding of the Plan’s funding policy. The calculations in this report have been made on a basis consistent with our understanding of the plan provisions described in [Appendix B](#) of this report. Determinations for purposes other than meeting these requirements may be significantly different from the results contained in this report. Accordingly, additional determinations may be needed for other purposes.

### Funding Objective

The Plan’s funding objective is to receive each year the actuarially determined contribution from CPS Energy (the “Plan Sponsor”). Employees contribute to the Plan at a rate of 5% of salary. This funding is designed to allow the Plan to accumulate sufficient assets, generally over the employees’ working career, to pay retirement benefits.

Annual contributions from the Plan Sponsor will change due to actuarial assumptions, investment returns and census changes being different from expected.

### Meeting the Funding Objective

The Plan is meeting its funding objective as it continues to receive the actuarially determined annual contribution from the Plan Sponsor. Any decreases in year-to-year funded status were the result of experience losses and/or changes in assumptions. The funded status of the Plan for the last five years is as follows:

| Plan Year     | 2020  | 2021  | 2022  | 2023  | 2024  |
|---------------|-------|-------|-------|-------|-------|
| Funded Status | 82.7% | 85.4% | 87.6% | 82.5% | 82.4% |

### Actuarial Assumptions

Actuarial assumptions, including discount rates, mortality tables, and others identified in this report, and the actuarial cost methods were adopted by the Administrative Committee on August 22, 2023 as part of the Experience Study and Actuarial Assumptions Review. Additional updates to the inflation and market match assumptions were adopted by the Administrative Committee on August 20, 2024. The Administrative

Committee is responsible for selecting the plan's funding policy, actuarial valuation methods, asset valuation methods, and assumptions. The policies, methods, and assumptions used in this valuation are those that have been adopted and are described in [Appendix A](#) of this report. The Plan is solely responsible for communicating to Milliman any changes required thereto. All costs, liabilities, rates of interest, and other factors for the Plan have been determined on the basis of actuarial assumptions and methods which, in our professional opinion, are individually reasonable (taking into account the experience of the Plan and reasonable expectations); and which, in combination, offer a reasonable estimate of anticipated future experience affecting the Plan and are expected to have no significant bias.

### Variability of Results

This valuation report is only an estimate of the Plan's financial condition as of a single date. It can neither predict the Plan's future condition nor guarantee future financial soundness. Actuarial valuations do not affect the ultimate cost of Plan benefits, only the timing of Plan contributions. While the valuation is based on an array of individually reasonable assumptions, other assumption sets may also be reasonable and valuation results based on those assumptions would be different. No one set of assumptions is uniquely correct. Determining results using alternative assumptions is outside the scope of our engagement.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to factors such as, but not limited to, the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or modifications to contribution calculations based on the plan's funded status); and changes in plan provisions or applicable law. Due to the limited scope of the actuarial assignment, we did not perform an analysis of the potential range of future measurements. The Administrative Committee has the final decision regarding the selection of the assumptions and actuarial cost methods, and the Board has adopted them as indicated in [Appendix A](#).

### Reliance

In preparing the funding policy report, we relied, without audit, on information (some oral and some in writing) supplied by the Plan Sponsor and the Plan's Trustees. This information includes, but is not limited to, plan documents and provisions, member census data, and financial information. We found this information to be reasonably consistent and comparable with information used for other purposes. The valuation results depend on the integrity of this information. If any of this information inaccurate or incomplete, our results may be different and our calculations may need to be revised.

### Limited Distribution

Milliman's work is prepared solely for the use and benefit of the Plan Sponsor. To the extent that Milliman's work is not subject to disclosure under applicable public records laws, Milliman's work may not be provided to third parties without Milliman's prior written consent. Milliman does not intend to benefit or create a legal duty to any third-party recipient of its work product. Milliman's consent to release its work product to any third party may be conditioned on the third-party signing a release, subject to the following exceptions:

- The Plan Sponsor may provide a copy of Milliman's work, in its entirety, to the Plan Sponsor's professional service advisors who are subject to a duty of confidentiality and who agree to not use Milliman's work for any purpose other than to benefit the Plan.
- The Plan Sponsor may provide a copy of Milliman's work, in its entirety to other governmental entities, as required by law.

No third-party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs.

## Models

The valuation results were developed using models intended for valuations that use standard actuarial techniques. We have reviewed the models, including their inputs, calculations, and outputs for consistency, reasonableness, and appropriateness to the intended purpose and in compliance with generally accepted actuarial practice and relevant actuarial standards of practice.

## Qualifications and Certification

The consultants who worked on this assignment are actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.

The signing actuaries are independent of the plan sponsor. We are not aware of any relationship that would impair the objectivity of our work.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the principles prescribed by the Actuarial Standards Board and the Code of Professional Conduct and Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States, published by the American Academy of Actuaries. We are members of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein.

We respectfully submit this report, and we look forward to discussing it with you.



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Jake Pringle  
Principal and Consulting Actuary  
Member, American Academy of Actuaries



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Abby Hirshkowitz  
Actuary  
Member, American Academy of Actuaries

September 30, 2024

Date

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# Executive Summary

## A. Summary of Key Valuation Results

| Census Date   | Actuarial Valuation for Plan Year Beginning |                      |
|---|---|----------------------|
|   | January 1, 2023                             | January 1, 2024      |
| <b>Participant Data</b>   |   |                      |
| Number of participants  |   |                      |
| Active participants   | 2,715                                       | 3,006                |
| Inactive participants with deferred benefits  | 266   | 257                  |
| Participants in pay status  | <u>2,758</u>                                | <u>2,781</u>         |
| Total participants  | 5,739                                       | 6,044                |
| Total annual prior year covered payroll   | \$282,138,575                               | \$331,204,279        |
| <b>Assets</b>   |   |                      |
| Market value  | \$1,919,159,263                             | \$2,136,985,511      |
| Investment yield in prior year  | (10.3%)                                     | 14.5%                |
| Actuarial value   | 2,059,983,606                               | 2,166,875,786        |
| Investment yield in prior year  | 5.8%  | 8.1%                 |
| <b>Actuarial Present Values</b>   |   |                      |
| Present value of benefits   | \$2,945,333,264                             | \$3,150,081,561      |
| Actuarial value of assets   | <u>2,059,983,606</u>                        | <u>2,166,875,786</u> |
| Unfunded present value of benefits  | 885,349,658                                 | 983,205,775          |
| Actuarial accrued liability   | \$2,497,545,988                             | \$2,631,225,704      |
| Actuarial value of assets   | <u>2,059,983,606</u>                        | <u>2,166,875,786</u> |
| Unfunded actuarial accrued liability  | 437,562,382                                 | 464,349,918          |
| Total normal cost <sup>1</sup>  | \$49,312,497                                | \$57,120,391         |
| Expected employee contributions   | <u>15,404,766</u>                           | <u>17,835,350</u>    |
| Employer normal cost  | 33,907,731                                  | 39,285,041           |
| Percentage of total annual prior year covered payroll <sup>1</sup>  | 12.0%                                       | 11.9%                |
| <b>Funding Policy Contribution</b>  |   |                      |
| 30-Year layered amortization funding contribution   | \$72,773,659                                | \$80,960,972         |
| Participant payroll   |   |                      |
| Base rate of pay  | \$272,200,335                               | \$316,281,433        |
| Projected plan year payroll   | \$308,095,324                               | \$356,707,008        |
| Employer funding requirements as a percentage of participant payroll (base rate of pay/projected payroll) |   |                      |
| 30-Year layered amortization funding contribution   | 26.7% / 23.6%                               | 25.6% / 22.7%        |

(1) Adjusted to reflect interest for mid-year payment in the fiscal year following the valuation year

## B. Purpose of this Report

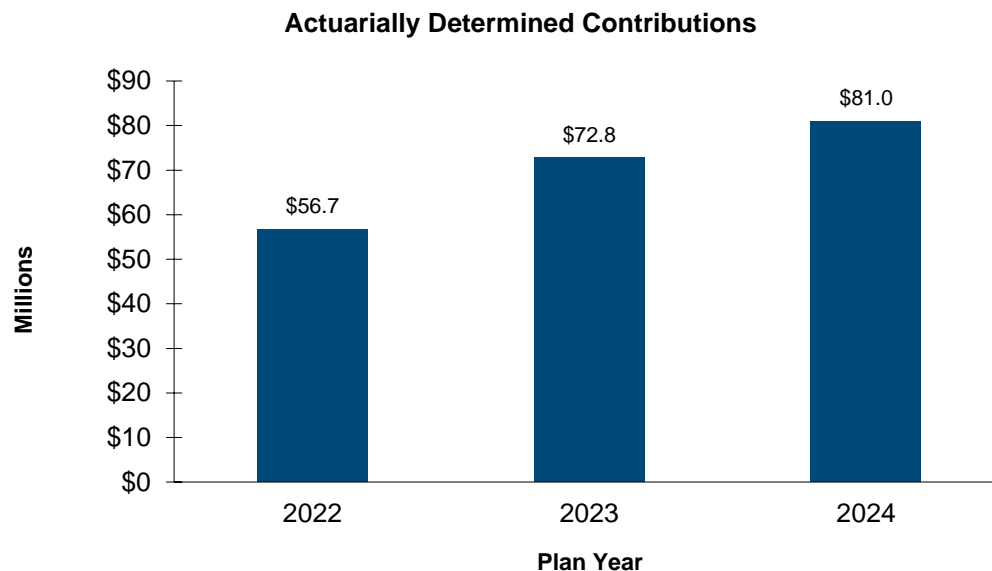
This funding policy report has been prepared for the CPS Energy Pension Plan as of January 1, 2024 to:

- Calculate the Actuarially Determined Contributions for the plan year beginning January 1, 2024.
- Review the experience for the plan year ending December 31, 2023. (“Experience” encompasses the performance of the Plan’s assets during the year and changes in the Plan’s participant demographics that impact liabilities.) A complete experience study was last performed on August 22, 2023.
- Review the Plan’s funded status.

## C. Funding Policy Contribution for the 2024 Plan Year

The Funding Policy Contribution as of January 1, 2024 is \$80,960,972.

The graph below illustrates the Funding Policy Contribution for the current and preceding two plan years.



### Implications of the Actuarially Determined Contribution

The Actuarially Determined Contribution (“ADC”) equals the plan’s target normal cost offset by expected employee contributions and excess asset credit, if applicable, plus a 30-year layered amortization (first set up in 2017) of the Unfunded Actuarial Accrued Liability, if any. We believe the ADC is reasonable and in accordance with applicable actuarial standards.

The ADC can be satisfied via cash contributions. Assuming no actuarial gains and losses, the ADC is designed to eliminate any Funding Shortfall over 25 years which is expected to increase the funded status in future years.

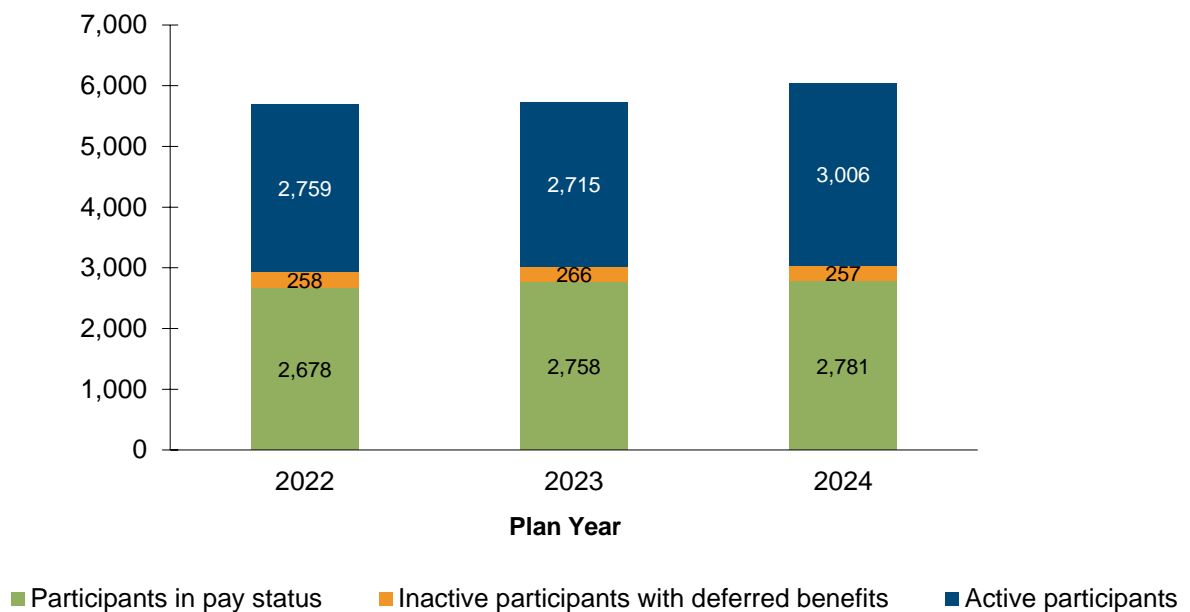
## D. Plan Experience

### Change in Demographics

From January 1, 2023 to January 1, 2024, the number of active participants in the Plan increased by 10.7% from 2,715 to 3,006; while the total number of participants increased by 5.3% from 5,739 to 6,044. From 2023 to 2024, total annual compensation increased by 17.4% from \$282,138,575 to \$331,204,279 and average annual compensation per active participant increased by 6.0% from \$103,918 to \$110,181.

The graph on the next page illustrates the count of participants, by category, as of the valuation date for the current and preceding two plan years.

**Historical Participation**



### Actuarial Accrued Liability

Under the Entry Age Normal actuarial cost method, liability experience for the 2023 plan year was less favorable than expected, generating a net actuarial loss as follows:

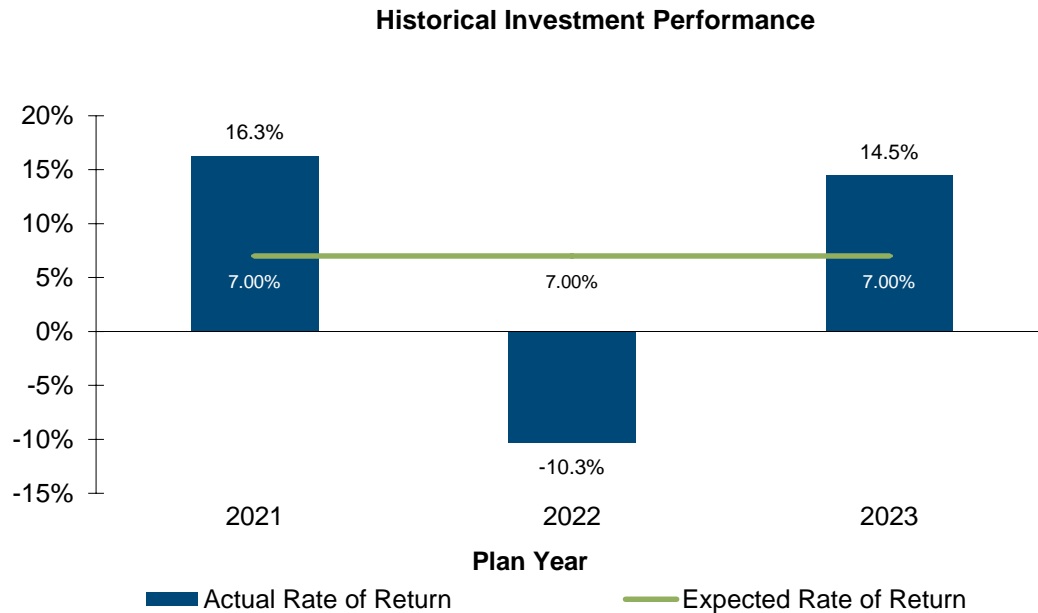
- Economic and demographic experience was different from that assumed, which resulted in an actuarial loss of approximately \$14.0 million.
- Assumption changes resulted in an actuarial loss of approximately \$26.1 million. A summary of all assumption changes can be found on page ES-4.

### Change in Assets

Asset experience for the 2023 plan year was more favorable than expected. The return on the actuarial value of assets for 2023 was more than assumed, generating a net actuarial gain.

- The rate of return on the market value of plan assets for 2023 was 14.5%, which was more than the assumed rate of 7.00% resulting in an investment gain (relative to the assumed 7.00% return) of approximately \$142.3 million.

The following graph illustrates the investment performance on a market value basis for the preceding three plan years.



## E. Actuarial Methods and Assumptions

The actuarial methods and assumptions used in this valuation are the same as those used in the prior valuation except as follows:

- The inflation assumption for the prior valuation was updated from 2.33% to 2.30% per year. It is based on Milliman’s capital market expectations as of December 31, 2023.
- The annual base salary increase rates were updated to reflect 2.30% inflation (previously 2.33%). The 2024 market match assumption for salaried employees (including executives) was added to the 2024 annual base salary increase rates.

These changes were made to better reflect anticipated future plan experience. Please see [Appendix A](#) for a summary of the actuarial methods and assumptions used in this valuation.

## F. Plan Provisions

The valuation reflects the plan provisions in effect on January 1, 2024, including the following:

- An increase in the Internal Revenue Code (IRC) Section 401(a)(17) compensation limit from \$330,000 to \$345,000.

This change had an immaterial impact on the Plan’s liabilities. Please see [Appendix B](#) for a summary of plan provisions.

# Exhibits

## Exhibit 1

### Change in Participation

The change in participation from January 1, 2023 to January 1, 2024 is shown below.

|   | Active<br>Participants | Inactive<br>Participants<br>with Deferred<br>Benefits | Participants<br>in Pay<br>Status | Total      |
|---|------------------------|---|----------------------------------|------------|
| Participants as of January 1, 2023                    | 2,715                  | 266   | 2,758                            | 5,739      |
| Terminated non-vested                                 | (13)                   | 0   | 0                                | (13)       |
| Terminated vested                                     | (17)                   | 17  | 0                                | 0          |
| Died  | (4)                    | 0   | (79)                             | (83)       |
| Retired   | (52)                   | (13)  | 65                               | 0          |
| Received lump sum distribution                        | (27)                   | (11)  | 0                                | (38)       |
| Benefits expired                                      | 0                      | 0   | (1)                              | (1)        |
| New participants or beneficiaries<br>during plan year | 400                    | 3   | 38                               | 441        |
| Rehired   | 4                      | (4)   | 0                                | 0          |
| Net data adjustments                                  | <u>0</u>               | <u>(1)</u>  | <u>0</u>                         | <u>(1)</u> |
| Participants as of December 31, 2023                  | 3,006                  | 257   | 2,781                            | 6,044      |
| New participants as of January 1, 2024                | <u>0</u>               | <u>0</u>  | <u>0</u>                         | <u>0</u>   |
| Participants as of January 1, 2024                    | 3,006                  | 257   | 2,781                            | 6,044      |

## Exhibit 2

### Summary of Active Participants by Age and Service

#### Number of Participants by Age and Service Groups

| Age          | Years of Credited Service |            |            |            |            |            |            |            |           |          | Total    |              |
|--------------|---------------------------|------------|------------|------------|------------|------------|------------|------------|-----------|----------|----------|--------------|
|              | <1                        | 1-4        | 5-9        | 10-14      | 15-19      | 20-24      | 25-29      | 30-34      | 35-39     | 40&Up    |          |              |
| 0-24         | 68                        | 33         | -          | -          | -          | -          | -          | -          | -         | -        | -        | 101          |
| 25-29        | 95                        | 92         | 41         | -          | -          | -          | -          | -          | -         | -        | -        | 228          |
| 30-34        | 57                        | 84         | 99         | 37         | -          | -          | -          | -          | -         | -        | -        | 277          |
| 35-39        | 52                        | 69         | 90         | 74         | 56         | -          | -          | -          | -         | -        | -        | 341          |
| 40-44        | 47                        | 58         | 68         | 45         | 76         | 122        | -          | -          | -         | -        | -        | 416          |
| 45-49        | 32                        | 28         | 50         | 53         | 50         | 161        | 39         | -          | -         | -        | -        | 413          |
| 50-54        | 37                        | 33         | 42         | 37         | 47         | 184        | 139        | 47         | -         | -        | -        | 566          |
| 55-59        | 9                         | 18         | 29         | 29         | 33         | 139        | 52         | 69         | 27        | -        | -        | 405          |
| 60-64        | 7                         | 14         | 26         | 23         | 18         | 56         | 21         | 27         | 15        | 2        | -        | 209          |
| 65-69        | -                         | 1          | 4          | 3          | 4          | 21         | 3          | 4          | 3         | 2        | -        | 45           |
| 70&Up        | -                         | -          | 2          | 1          | -          | 1          | 1          | -          | -         | -        | -        | 5            |
| <b>Total</b> | <b>404</b>                | <b>430</b> | <b>451</b> | <b>302</b> | <b>284</b> | <b>684</b> | <b>255</b> | <b>147</b> | <b>45</b> | <b>4</b> | <b>4</b> | <b>3,006</b> |

#### Average Valuation Compensation by Age and Service Groups

| Age            | Years of Credited Service** |               |                |                |                |                |                |                |                |          | Average  |                |
|----------------|-----------------------------|---------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------|----------|----------------|
|                | <1                          | 1-4           | 5-9            | 10-14          | 15-19          | 20-24          | 25-29          | 30-34          | 35-39          | 40&Up    |          |                |
| 0-24           | 61,422                      | 63,121        | -              | -              | -              | -              | -              | -              | -              | -        | -        | 61,977         |
| 25-29          | 68,846                      | 82,860        | 91,387         | -              | -              | -              | -              | -              | -              | -        | -        | 78,554         |
| 30-34          | 74,324                      | 87,169        | 104,549        | 113,118        | -              | -              | -              | -              | -              | -        | -        | 94,204         |
| 35-39          | 81,973                      | 98,481        | 113,594        | 122,886        | 116,054        | -              | -              | -              | -              | -        | -        | 108,134        |
| 40-44          | 102,353                     | 104,978       | 125,923        | 130,052        | 122,707        | 115,930        | -              | -              | -              | -        | -        | 117,268        |
| 45-49          | 87,484                      | 111,472       | 124,405        | 127,682        | 127,138        | 120,904        | 124,518        | -              | -              | -        | -        | 120,065        |
| 50-54          | 90,688                      | 110,014       | 116,696        | 131,953        | 121,788        | 116,601        | 126,422        | 136,664        | -              | -        | -        | 120,042        |
| 55-59          | *                           | *             | 120,086        | 121,638        | 129,012        | 107,969        | 122,890        | 125,645        | 120,637        | -        | -        | 117,068        |
| 60-64          | *                           | *             | 124,875        | 122,277        | *              | 102,927        | 112,176        | 116,274        | *              | *        | *        | 113,059        |
| 65-69          | -                           | *             | *              | *              | *              | 100,183        | *              | *              | *              | *        | *        | 119,030        |
| 70&Up          | -                           | -             | *              | *              | -              | *              | *              | -              | -              | -        | -        | *              |
| <b>Average</b> | <b>78,948</b>               | <b>92,897</b> | <b>114,513</b> | <b>124,519</b> | <b>122,556</b> | <b>114,038</b> | <b>123,588</b> | <b>127,707</b> | <b>125,662</b> | <b>*</b> | <b>*</b> | <b>109,897</b> |

\* If there are fewer than 20 participants in a cell, the average valuation compensation is not reported.

\*\* Limited by current 401(a)(17) salary limit.

### Exhibit 3

#### Inactive Participants

#### Terminated Vested Participants

| <b>Age</b> | <b>Number of<br/>Participants</b> | <b>Average Contributions<br/>at Date of Termination</b> |
|------------|-----------------------------------|---|
| < 30       | 4                                 | \$20,263  |
| 30 - 34    | 6                                 | 18,086  |
| 35 - 39    | 18                                | 50,127  |
| 40 - 44    | 38                                | 70,899  |
| 45 - 49    | 58                                | 81,820  |
| 50 - 54    | 50                                | 119,354   |
| 55 - 59    | 33                                | 107,402   |
| 60 - 64    | 34                                | 93,378  |
| 65 & Up    | <u>0</u>                          | 0   |
| Total      | 241                               | \$88,043  |

#### Retirees, Beneficiaries, and Disabled Participants

| <b>Age</b> | <b>Number of<br/>Participants</b> | <b>Average Annual<br/>Benefit</b> |
|------------|-----------------------------------|-----------------------------------|
| < 55       | 21                                | \$23,202                          |
| 55 - 59    | 248                               | 61,177                            |
| 60 - 64    | 492                               | 56,004                            |
| 65 - 69    | 550                               | 47,835                            |
| 70 - 74    | 545                               | 44,840                            |
| 75 - 79    | 427                               | 41,664                            |
| 80 - 84    | 284                               | 36,964                            |
| 85 - 89    | 145                               | 32,114                            |
| 90 & Up    | <u>85</u>                         | 29,600                            |
| Total      | 2,797                             | \$46,286                          |

## Exhibit 4

### Summary of Plan Assets

The summary of plan assets on a Market Value basis as of December 31, 2023 is shown below.

|                                |  |                   |
|--------------------------------|--|-------------------|
| 1. Assets                      |  |                   |
| a. Cash and cash equivalents   |  | \$30,062,253      |
| b. Accounts receivable         |  | 13,850,921        |
| c. U.S. government securities  |  | 94,115,432        |
| d. Corporate bonds             |  | 199,888,627       |
| e. Global bond funds           |  | -                 |
| f. Senior loan fund            |  | 87,898,723        |
| g. Emerging market debt        |  | 44,435,715        |
| h. Domestic equities           |  | 868,865,452       |
| i. Low-volatility equities     |  | 166,534,305       |
| j. International equities      |  | 192,782,484       |
| k. Specialized funds           |  | -                 |
| l. Master limited partnerships |  | 179,743,500       |
| m. Alternative investments     |  | 103,314,039       |
| n. Real estate                 |  | 136,872,581       |
| o. Investment in partnership   |  | <u>45,000,000</u> |
| p. Total                       |  | 2,163,364,032     |
| 2. Liabilities                 |  |                   |
| a. Other liabilities           |  | <u>26,378,521</u> |
| b. Total                       |  | 26,378,521        |
| 3. Total                       |  |                   |
| [(1p) - (2b)]                  |  | \$2,136,985,511   |

## Exhibit 5

### Summary of Income and Disbursements

The change in the Market Value of Assets from December 31, 2022 to December 31, 2023 is shown below.

|    |  |                    |
|----|--|--------------------|
| 1. | Market Value of Assets as of December 31, 2022 | \$1,919,159,263    |
| 2. | Income   |                    |
|    | a. Employer contributions for plan year        | 56,906,044         |
|    | b. Employee contributions for plan year        | 15,955,856         |
|    | c. Net investment income                       | <u>277,450,603</u> |
|    | d. Total                                       | 350,312,503        |
| 3. | Disbursements                                  |                    |
|    | a. Benefit payments to participants            | 129,652,053        |
|    | b. Interest expense                            | 0                  |
|    | c. Administrative expense                      | 533,230            |
|    | d. Bad debt expense                            | 0                  |
|    | e. Investment expense                          | 2,300,972          |
|    | f. Miscellaneous expense                       | <u>0</u>           |
|    | g. Total                                       | 132,486,255        |
| 4. | Net increase / (decrease)                      |                    |
|    | [(2d) - (3g)]                                  | 217,826,248        |
| 5. | Market Value of Assets as of December 31, 2023 |                    |
|    | [(1) + (4)]                                    | \$2,136,985,511    |

## Exhibit 6

### Actuarial Value of Assets

The Actuarial Value of Assets is the Market Value of Assets less a weighted average of asset gains / (losses) over a four-year period (five-year smoothing), but not less than 80% nor more than 120% of the Market Value of Assets. The Actuarial Value of Assets as of January 1, 2024 is determined below.

|    |   |                        |
|----|---|------------------------|
| 1. | Market Value as of December 31, 2023                          | \$2,136,985,511        |
| 2. | Unrecognized asset gains / (losses) for the plan years ending |                        |
|    | Plan Year Ending  | Gain / (Loss) for Year |
|    |   | Percent Unrecognized   |
|    |   | Amount Unrecognized    |
| a. | December 31, 2023   | 142,262,908            |
| b. | December 31, 2022   | (374,797,571)          |
| c. | December 31, 2021   | 176,036,450            |
| d. | December 31, 2020   | 53,816,810             |
| e. | Total   | <u>(29,890,275)</u>    |
| 3. | Preliminary Actuarial Value of Assets as of January 1, 2024   | 2,166,875,786          |
|    | [(1) - (2e)]  |                        |
| 4. | Actuarial Value of Assets as of January 1, 2024               | \$2,166,875,786        |
|    | [(3), but not less than 80% × (1), nor more than 120% × (1)]  |                        |

## Exhibit 7

### Historical Investment Return on Assets

The approximate rate of investment return on plan assets for the last 10 years are below. The valuation investment return assumption is 7.00% effective January 1, 2020.

| Plan Year | Actuarial Value Basis | Market Value Basis |
|-----------|-----------------------|--------------------|
| 2014      | 7.8%                  | 5.9%               |
| 2015      | 5.9%                  | (1.5%)             |
| 2016      | 5.8%                  | 10.2%              |
| 2017      | 7.3%                  | 14.8%              |
| 2018      | 4.9%                  | (5.0%)             |
| 2019      | 6.5%                  | 17.8%              |
| 2020      | 9.1%                  | 10.1%              |
| 2021      | 10.6%                 | 16.3%              |
| 2022      | 5.8%                  | (10.3%)            |
| 2023      | 8.1%                  | 14.5%              |

## Exhibit 8

### Unfunded Actuarial Accrued Liability

The Actuarial Accrued Liability represents that portion of the Present Value of Benefits that is allocated to service before the current plan year. The Unfunded Actuarial Accrued Liability is the excess (deficiency) of the Actuarial Accrued Liability over the Actuarial Value of Assets. The Unfunded Actuarial Accrued Liability as of January 1, 2024 is determined below.

|   |  |                      |
|---|--|----------------------|
| 1. Actuarial Accrued Liability          |  |                      |
| a. Active participants                  |  | \$1,113,613,995      |
| b. Terminated vested participants       |  | 50,255,687           |
| c. Beneficiaries                        |  | 120,941,057          |
| d. Retired participants                 |  | <u>1,346,414,965</u> |
| e. Total                                |  | 2,631,225,704        |
| 2. Actuarial Value of Assets            |  | 2,166,875,786        |
| 3. Reserve for expenses                 |  | 0                    |
| 4. Unfunded Actuarial Accrued Liability |  |                      |
| [(1e) - (2) + (3)]                      |  | \$464,349,918        |

## Exhibit 9

### Normal Cost

The Normal Cost is the amount allocated to the current plan year under the plan's actuarial cost method. The employer Normal Cost as of January 1, 2024 payable during the fiscal year ending 2026 is determined below.

|  |                  |
|--|------------------|
| 1. Normal Cost for benefits                |                  |
| a. Withdrawal                              | \$3,666,052      |
| b. Retirement                              | 51,061,868       |
| c. Death                                   | 362,662          |
| d. Disability                              | <u>1,473,272</u> |
| e. Total                                   | 56,563,854       |
| 2. Load for Administrative Expense         | 556,537          |
| 3. Employee Contributions                  | (17,835,350)     |
| 4. Total Employer Normal Cost <sup>1</sup> |                  |
| [(1e) + (2) + (3)]                         | \$39,285,041     |

(1) Adjusted to reflect interest for mid-year payment in the fiscal year following the valuation year

## Exhibit 10

### Funding Requirements

| Actuarial Valuation Date        | <u>January 1, 2023</u> | <u>January 1, 2024</u> |
|---------------------------------|------------------------|------------------------|
| Funding Contribution*:          |                        |                        |
| 1. Employee                     | \$15,404,766           | \$17,835,350           |
| 2. Employer                     |                        |                        |
| a. Normal Cost                  | 33,907,731             | 39,285,041             |
| b. Amortization Charge/(Credit) | <u>38,865,928</u>      | <u>41,675,931</u>      |
| c. Total (not less than \$0)    | <u>72,773,659</u>      | <u>80,960,972</u>      |
| 3. Total                        | \$88,178,425           | \$98,796,322           |
| [(1) + (2c)]                    |                        |                        |

These contribution amounts consist of normal cost plus amortization of unfunded pension liability over the indicated period above. The employer contribution portion reflects interest for mid-year payment in the fiscal year following the valuation year. Details on the amortization bases as of January 1, 2024 is shown in the table below.

#### Amortization Bases as of January 1, 2024:

| Amortization Initial Set Up<br>Date | Initial Base  | Amortization<br>Years | Beginning of Year<br>Outstanding Balance | Amortization<br>Charge/(Credit) |
|-------------------------------------|---------------|-----------------------|--|---------------------------------|
| January 1, 2017                     | \$357,128,342 | 23 years              | \$324,887,327                            | \$29,982,311                    |
| January 1, 2018                     | (21,217,691)  | 24 years              | (19,629,792)                             | (1,780,402)                     |
| January 1, 2019                     | 20,834,884    | 25 years              | 19,575,695                               | 1,747,424                       |
| January 1, 2020                     | 14,764,840    | 26 years              | 14,070,847                               | 1,237,744                       |
| January 1, 2021                     | (42,129,361)  | 27 years              | (40,695,520)                             | (3,531,727)                     |
| January 1, 2022                     | (27,191,350)  | 28 years              | (26,595,483)                             | (2,279,466)                     |
| January 1, 2023                     | 160,920,381   | 29 years              | 159,216,813                              | 13,490,044                      |
| January 1, 2024                     | 33,520,031    | 30 years              | <u>33,520,031</u>                        | <u>2,810,003</u>                |
| Total                               |               |                       | \$464,349,918                            | \$41,675,931                    |

\*In 2017, a 30-year layered amortization was adopted. The amortization charges/credits are adjusted for expected payment timing. The unadjusted amortization charge/credit produces a single-equivalent amortization period of 25.0 years.

# Appendices

# Appendix A

## Summary of Actuarial Assumptions and Methods

### Plan Sponsor

CPS Energy

The true cost of a pension plan will ultimately be determined by the excess of benefits actually paid and the expenses incurred in its administration over investment income earned on monies set aside for its funding. Thus, the ultimate cost of a plan cannot be known until the last payment has been made to its last participant. The actuarial cost method is the technique adopted by the actuary for establishing the amount and incidence of annual actuarial costs. The actuarial cost method determines the portion of the ultimate cost of a pension plan which should be allocated to each plan year (known as the normal cost). The cost method is thus a budgeting tool which helps to ensure that the pension plan will be adequately and systematically funded.

The annual costs for a pension plan can be determined using any one of several actuarial cost methods. The methods differ in how much of the ultimate cost of the plan is assigned to each prior year, the current year and to each future year. Although the ultimate cost for a pension plan will be determined not by the cost method, but by the benefits and expenses which become payable and the earnings which are obtained on the investments of the plan, the pattern of annual contributions from year to year and the rate of funding for the benefits will vary with the choice of actuarial cost method. In addition, the choice of actuarial assumptions for a given actuarial cost method will affect the current level of contributions and pattern of future contributions.

Annual contributions are also affected by the "asset valuation method" (as well as the plan provisions, actuarial assumptions, and actual plan demographic and investment experience each year).

### Actuarial Cost Method

The actuarial cost method used in the valuation of this Plan is known as the entry age normal cost method. Under this method a projected retirement benefit at assumed retirement age is computed for each participant using anticipated future pay increases. The normal cost for each participant is computed as the level percentage of pay which, if paid from each participant's date of employment by the employer or any predecessor employer (thus, entry age) to his assumed retirement date, would accumulate with interest at the rate assumed in the valuation to an amount sufficient to fund his projected retirement benefit. The normal cost for the plan is the total of the individually computed normal costs for all participants including the costs for any death or disability benefits under the plan.

The accrued liability at any point in time for an active participant is the theoretical fund that would have been accumulated on his behalf from his normal cost payments and the earnings thereon for all prior years if the plan had always been in effect. For persons receiving benefits or entitled to a deferred vested retirement income, the accrued liability cost is equal to the present value of their future benefit payments. The accrued liability for the plan is the total of the individually computed accrued liability for all participants. The unfunded accrued liability for the plan is the excess of the accrued liability over the assets which have been accumulated for the plan. The Plan utilizes a 30-year layered amortization (on a level dollar basis) with the initial year of 2017.

It should be noted that the accrued liability as of any date is not the actuarially computed present value of accrued or accumulated plan benefits as of that date. The accrued liability is the portion of the ultimate cost assigned to prior years by the cost method being used. The actuarially computed present value of accrued or accumulated plan benefits is the present value of retirement benefits which have been accrued or earned to date based only upon service and earnings to date.

The funding cost of the Plan is derived by making certain specific assumptions as to rates of interest, mortality, turnover, etc., which are assumed to hold for many years into the future. Since actual experience may differ somewhat from the assumptions, the costs determined by the valuation must be regarded as estimates of the true costs of the Plan.

## Asset Valuation Method

Starting with 2014, for purposes of applying the actuarial cost method, the assets valuation method is a **five year smoothed market value** method. The actuarial value of assets as of the end of a plan year is equal to the market value of assets minus a gain/loss adjustment factor. This factor is calculated as follows:

1.  $\frac{4}{5}$  of the gain/(loss) during the year just ended; plus
2.  $\frac{3}{5}$  of the gain/(loss) during the prior year; plus
3.  $\frac{2}{5}$  of the gain/(loss) two years prior; plus
4.  $\frac{1}{5}$  of the gain/(loss) three years prior.

The actuarial value of assets is in no case greater than 120% of market value and in no case less than 80% of market value.

## ECONOMIC ASSUMPTIONS

### Investment Return

7.00% per annum, compounded annually. At the direction of CPS Energy, we have used a 7.00% investment return assumption. This assumption is reviewed annually for continued compliance with the relevant actuarial standards of practice. In this assessment, Milliman relies on the expertise of Wilshire and its expected long-term rates of return for the CPS Energy portfolio.

### Interest Rate

7.00% per annum, compounded annually. At the direction of CPS Energy, we have used a 7.00% interest rate assumption. This assumption is reviewed annually for continued compliance with the relevant actuarial standards of practice. In this assessment, Milliman relies on the expertise of Wilshire and its expected long-term rates of return for the CPS Energy portfolio.

### Earnings Progression

2.30% inflation built into annual base salary increase rates. Sample rates listed below. Annual base salary increases and additional pay for nonexempt employees are based on the August 22, 2023 experience study.

| Age | Annual Base Salary Increase* | Additional Pay for Nonexempt Employees |
|-----|------------------------------|--|
| 25  | 11.58%                       | 18.00%                                 |
| 30  | 8.37%                        | 18.00%                                 |
| 35  | 6.56%                        | 19.00%                                 |
| 40  | 5.56%                        | 19.00%                                 |
| 45  | 4.86%                        | 18.60%                                 |
| 50  | 4.56%                        | 17.60%                                 |
| 55  | 4.31%                        | 16.60%                                 |
| 60  | 3.80%                        | 14.90%                                 |
| 65  | 3.55%                        | 13.90%                                 |
| 70  | 3.30%                        | 4.80%                                  |

\*2.30% inflation built into based salary table; 2024 market match valued by increasing base salary increase rates by 3.40% for salaried employees (including executives) for 2024. PTO 2-week buy out valued by loading base salary increase rates by approximately 3.85% for 2025.

Overtime Pay: Annual overtime/shift differential/relief, etc. assumed to equal a percentage of base pay (percentage varies by age; see sample rates) for current non-exempt participants; no overtime assumed for exempt participants. Current exempt/non-exempt status for each participant assumed to continue in future years.

Incentive Pay: Annual incentive pay targets assumed as follows:

| Category               | Incentive Target Percentage of Base Pay |
|------------------------|---|
| Senior Executive       | 35.0%                                   |
| Sr. Director, Director | 25.0%                                   |
| Sr. Manager            | 18.0%                                   |
| Level 2                | 12.0%                                   |
| Level 1 (exempt)       | 9.0%                                    |
| Level 1 (non-exempt)   | 7.0%                                    |
| Wage Scale             | 0.0%                                    |

Percentage of target bonuses paid assumed as follows (based on 2020 incentive payment expectations):

| Category           | Percentage of Employees | Percentage of Target |
|--------------------|-------------------------|----------------------|
| Exceptional        | 14.88%                  | 100%                 |
| Exceeds            | 36.20%                  | 66%                  |
| Meets Expectations | 47.68%                  | 33%                  |
| Needs Improvement  | 1.19%                   | 0%                   |
| Unsatisfactory     | 0%                      | 0%                   |

Incentive pay projections reviewed annually and provided by the Plan Sponsor.

### **Inflation (CPI)**

2.30% per year (IRC Section 415(b) benefit limit). It is based on Milliman's capital market expectations as of December 31, 2023.

### **Postretirement Benefit Increases**

The assumed future annual cost-of-living adjustment is 1.50% per year, compounded annually. This cost-of-living adjustment is based on the August 22, 2023 experience study.

### **Maximum Benefit and Annual Compensation Limitation Increases**

2.30% per year. It is based on Milliman's capital market expectations as of December 31, 2023.

### **Social Security Taxable Wage Base Increases**

2.80% per year. It is based on the assumed inflation assumption of 2.30% per year plus the productivity growth assumption of 0.50% per year.

### **Administrative Expenses**

An allowance of \$500,000 for administrative expenses has been included in the Target Normal Cost (as of the beginning on the plan year). If known, actual administrative expenses are used instead.

## DEMOGRAPHIC ASSUMPTIONS

Except where noted, all demographic assumptions except mortality are based on the August 22, 2023 experience study.

### Decrement Timing

Decrements are assumed to occur at the beginning of the year.

### Mortality

Pri-2012 Private Retirement Plans Mortality Tables projected with Mortality Improvement Scale MP-2021, with employee rates before commencement and healthy annuitant rates after commencement (adopted January 1, 2022). A separate table is used for contingent survivors. As a generational table, it reflects mortality improvements both before and after the measurement date. This mortality table and improvement scale represents the most recent mortality study published by the Society of Actuaries and is not anticipated to produce significant cumulative actuarial gains or losses over the measurement period.

### Disabled Mortality

Pri-2012 Private Retirement Plans Disabled Mortality Table projected with Mortality Improvement Scale MP-2021 (adopted January 1, 2022). As a generational table, it reflects mortality improvements both before and after the measurement date. This mortality table and improvement scale represents the most recent mortality study published by the Society of Actuaries and is not anticipated to produce significant cumulative actuarial gains or losses over the measurement period.

### Retirement

Annual rates of retirement are shown in the following table for active participants who are eligible to retire.

| Age   | <25 Years of Benefit Service | >25 Years of Benefit Service |
|-------|------------------------------|------------------------------|
| 50-53 | N/A                          | 2.5%                         |
| 54    | N/A                          | 15.0%                        |
| 55-57 | 2.5%                         | 22.5%                        |
| 58-60 | 7.5%                         | 22.5%                        |
| 61    | 12.5%                        | 25.0%                        |
| 62-63 | 12.5%                        | 30.0%                        |
| 64    | 22.5%                        | 30.0%                        |
| 65    | 22.5%                        | 50.0%                        |
| 66    | 22.5%                        | 35.0%                        |
| 67    | 35.0%                        | 35.0%                        |
| 68-69 | 35.0%                        | 35.0%                        |
| 70    | 100.0%                       | 100.0%                       |

Terminated vested participants are assumed to commence immediately if terminated within 90 days of the valuation date. Otherwise, terminated vested participants are assumed to defer payment until age 65. The

provisions of the CEO Executive Agreement are reflected in the results and retirement has been assumed to commence at the term of the current agreement.

**Withdrawal**

Annual rates of termination are based on years of service and age. Sample rates for termination prior to 5 years of service are shown in the following table.

| Service | Rates |
|---------|-------|
| 1-2     | 10.0% |
| 2-3     | 10.0% |
| 3-4     | 5.0%  |
| 4-5     | 7.0%  |

Sample rates for termination after the first 5 years of service are shown in the following table.

| Age | Withdrawal |
|-----|------------|
| 25  | 5.53%      |
| 30  | 4.01%      |
| 35  | 2.90%      |
| 40  | 2.26%      |
| 45  | 2.05%      |
| 50  | 2.05%      |
| 54  | 2.05%      |
| 55  | 2.05%      |
| 60  | 2.05%      |

**Disability**

Sample annual rates are shown in the following table.

| Age | Male  | Female |
|-----|-------|--------|
| 25  | 0.03% | 0.03%  |
| 30  | 0.03% | 0.05%  |
| 35  | 0.04% | 0.07%  |
| 40  | 0.07% | 0.10%  |
| 45  | 0.13% | 0.16%  |
| 50  | 0.25% | 0.27%  |
| 55  | 0.48% | 0.42%  |
| 60  | 0.74% | 0.55%  |

## Form of Payment

**For participants in pay status:** Actual forms of payment are included in the census data.

**For participants not in pay status:** The percentages of participants assumed to elect a single life annuity, a 10 year certain and life annuity, a joint and survivor annuity (100%, 75%, or 50%), or a lump sum form of payment are shown in the following table. These percentages are based on plan experience.

| Form of Payment                       | Single Life | 10 Year C&L | 100% J&S | 75% J&S | 50% J&S | Lump Sum |
|---------------------------------------|-------------|-------------|----------|---------|---------|----------|
| Active retirements                    | 15%         | 15%         | 35%      | 13%     | 22%     | 0%       |
| Current terminated vested retirements | 0%          | 0%          | 0%       | 0%      | 0%      | 100%     |
| Current disabled vested retirements   | 0%          | 100%        | 0%       | 0%      | 0%      | 0%       |
| Future terminated vested retirements  | 0%          | 100%        | 0%       | 0%      | 0%      | 0%       |
| Future disability retirements         | 0%          | 100%        | 0%       | 0%      | 0%      | 0%       |
| Future pre-retirement deaths*         | 0%          | 100%        | 0%       | 0%      | 0%      | 0%       |

\*Does not include \$5,000 immediate death benefit paid as lump sum.

## Marital Characteristics

**For participants not in pay status:** 80% of male participants and 55% of female participants are assumed to be married to a spouse of the opposite sex. Males are assumed to be two years older than females.

**For participants in pay status:** Actual birth dates of beneficiaries are included in the census data, where relevant.

**For beneficiaries:** Actual birth dates are included in the census data, where relevant.

## Benefits Not Valued

Active minimum benefit not valued for termination and death benefits.

## CHANGES IN ACTUARIAL METHODS SINCE PRIOR VALUATION

None.

## CHANGES IN ACTUARIAL ASSUMPTIONS SINCE PRIOR VALUATION

**Inflation:** The inflation assumption for the prior valuation was updated from 2.33% to 2.30% per year. It is based on Milliman's capital market expectations as of December 31, 2023.

**Earnings Progression:** The annual base salary increase rates were updated to reflect 2.30% inflation (previously 2.33%). The 2024 market match assumption for salaried employees (including executives) was added to the 2024 annual base salary increase rates.

# Appendix B

## Summary of Plan Provisions

This summary of plan provisions is intended to only describe the essential features of the plan. All eligibility requirements and benefit amounts shall be determined in strict accordance with the plan document itself.

## Definitions

### Accrued Benefit

The Accrued Benefit for each Participant is determined using the same formula which is used to compute such Participant's Normal Retirement Benefit multiplied by a fraction for which the numerator is the total number of Years of Benefit Service as of any given date and the denominator is the potential number of Years of Benefit Service to the Normal Retirement Date.

### Actuarial Equivalent

Actuarial Equivalent means a form of benefit differing in time, period and/or manner of payment from another form of benefit but having the same value when computed based upon the following interest and mortality assumptions:

|            |  |
|------------|--|
| Interest:  | 8.5% per annum, compounded annually                      |
| Mortality: | 1984 Unisex Pension Mortality Table set forward one year |

### Average Monthly Compensation

A Participant's Average Monthly Compensation, as of a given date, is determined by averaging the total Compensation he received during the highest paid 36 months (78 consecutive bi-weekly pay periods) within the last 120 complete calendar months of employment.

### Compensation

For pay periods beginning prior to January 1, 1991, base compensation excluding overtime pay, bonuses, call duty pay, longevity pay, shift differential pay, pay differential between employee's base rate of pay and the rate of pay assigned to a position relief, or any extraordinary severance payments, such as accrued vacation or sick pay.

For pay periods beginning after January 1, 1991, total cash remuneration including salary deferrals, but excluding group life imputed income, auto allowances or commuting expenses, uniform allowance, tuition reimbursement, suggestion awards, or moving expenses.

The Compensation Period is the 12 month period which begins each January 1 and ends each December 31.

### Cost of Living Adjustments

A Participant's in-pay benefit will increase or decrease by 50% of the change in the Consumer Price Index, but it will not increase or decrease by more than 5% a year. In no case will the benefit decrease below its initial level.

### Effective Date

The Effective Date of the Plan is July 1, 1947.

The Plan was last amended and restated effective January 1, 2022.

### Employee Contributions

Participants contribute 5% of Compensation from date of participation until earlier of 44 years of Benefit Service or termination.

Employee Contributions to and vested cash values under the Previous Plan accumulated to the Effective Date of this plan, plus contributions to this plan, accumulated at:

**Employee Contributions (continued)**

5.00% interest from the Effective Date of this plan to December 31, 1998;  
8.50% interest from January 1, 1999 to December 31, 2004;  
8.00% interest from January 1, 2005 to December 31, 2011;  
5.75% interest from January 1, 2012 to December 31, 2014;  
5.50% interest from January 1, 2015 to December 31, 2017; and  
5.25% interest from January 1, 2018 to December 31 2020; and  
5.00% interest after January 1, 2021

**Eligible Employee Classification**

All Employees.

**Limitation Year**

The Limitation Year is the 12 month period beginning January 1 and ending December 31.

**Normal Retirement Age**

A Participant's Normal Retirement Age is age 65.

**Normal Retirement Date**

A Participant's Normal Retirement Date is the first day of the month which coincides with or next follows the date on which the Participant attains Normal Retirement Age.

**Plan Sponsor**

CPS Energy.

**Plan Year**

The Plan Year is the 12 month period beginning January 1 and ending December 31.

**Previous Plan**

The Plan in effect prior to amendment and restatement on September 29, 1982.

**Primary Social Security Benefit**

Estimated old-age insurance benefit payable at age 65, based on Social Security Act in effect on determination date (calculated assuming constant earnings to age 65 if determination is prior to age 65).

**Vested Accrued Benefit**

A Participant's Vested Accrued Benefit as of a given date is equal to the product of his Accrued Benefit multiplied by his Vested Percentage as of that same date.

**Year of Service**

Maximum 44 years of Benefit Service.

***For Benefit Purposes*****For Service prior to Effective Date**

Benefit Service under the Prior Plan, with possible adjustment to give credit from earlier of (a) age 21 and 1 year of Vesting Service, or (b) three years of Vesting Service.

**For Service after Effective Date**

Last period of uninterrupted participation in the plan.

**Year of Service (continued)*****For Vesting Purposes*****For Service prior to Effective Date**

Vesting service under the Prior Plan, measured from date of employment.

**For Service after Effective Date**

Last period of uninterrupted active employment.

**Eligibility for Participation**

An Employee will become a participant in the Plan upon the satisfaction of the following three conditions:

1. Attainment of age 21;
2. Completion of 12 months continuous employment; and
3. Completion of one year of Vesting Service.

**Normal Retirement**

Each Participant who becomes eligible for a Normal Retirement Benefit under the plan will be entitled to receive a monthly retirement pension benefit beginning at the Participant's Normal Retirement Date and payable in the Normal Benefit Form.

**Normal Retirement Benefit:** A Participant's Normal Retirement Benefit is a monthly pension benefit commencing on his Normal Retirement Date payable in the Normal Benefit Form in an amount equal to:

- (a) 2-1/4% of Average Monthly Compensation times years of Benefit Service; minus
- (b) 1-1/4% of Primary Social Security Benefit times years of Benefit Service (maximum 40 years).

**Normal Benefit Form:** Life annuity with 120 monthly payments guaranteed.

**Early Retirement**

**Early Retirement Date:** A Participant's Early Retirement Date is the first day of the month so elected by the Participant which coincides with or next follows the date upon which the Participant satisfies the following requirements:

- (1) Attainment of age 55; and Completion of 10 Years of Benefit Service OR
- (2) Completion of 25 years of Benefit Service

**Early Retirement Benefit:** Monthly benefit, payable at Normal Retirement Date, equal to:

- (a) projected benefit at Normal Retirement Date assuming continued employment, based on Average Monthly Compensation and Primary Social Security Benefit at termination date; times
- (b) the ratio of Benefit Service at termination date to projected Benefit Service at Normal Retirement Date.

Payment of benefits can commence prior to Normal Retirement Date, with the following adjustments to the amount calculated above:

With 25 or more Years of Benefit Service:

- i. the base portion of the benefit (2-1/4% of salary times service) is reduced by 6% for each year that benefit commencement precedes age 55 (no reduction for commencement at age 55 or later);

**Early Retirement Benefit (continued):**

- ii. the offset portion of the benefit (1-1/4% of primary Social Security Benefit times service) is reduced by 1/15 for each of the first 5 years, 1/30 for each of the next 5 years, and actuarial reduction for each additional year that benefit commencement precedes Normal Retirement Date.

With less than 25 years of Benefit Service:

- iii. the base portion of the benefit (2-1/4%, of salary times service) is reduced by 1/15 for each of the first 5 years and 1/30 for each additional year that benefit commencement precedes age 62 (no reduction for commencement at age 62 or later);
- iv. the offset portion of the benefit (1-1/4% of primary Social Security Benefit times service) is reduced by 1/15 for each of the first 5 years and 1/30 for each additional year that benefit commencement precedes Normal Retirement Date.

**Minimum Early Retirement Benefit:** Equal to greater of (a) and (b):

- (a) benefit calculated using Average Monthly Compensation, Primary Social Security Benefit and Benefit Service as of December 31, 1990, and using 2-1/4% per year reduction to base portion of benefit
- (b) benefit calculated using Average Monthly Compensation, Primary Social Security Benefit and Benefit Service as of January 31, 1994, and using 4% per year reduction to base portion of benefit.

**Late Retirement**

An active Participant who continues his employment with the Employer beyond his Normal Retirement Date may begin to receive his Late Retirement Benefit to which he is entitled as of his Late Retirement Date.

**Late Retirement Date:** A Participant's Late Retirement Date is the first day of the month coincident with or next following the date he retires and requests the commencement of his Late Retirement Benefit after he has continued in the employ of the Employer beyond his Normal Retirement Date.

**Late Retirement Benefit:** A Participant's Late Retirement Benefit is equal to the monthly benefit which is based on the Normal Retirement Benefit formula using the Participant's Years of Benefit Service and Compensation through his Late Retirement Date.

**Disability Retirement**

**Disability Retirement Date:** A Participant's Disability Retirement Date is the first day of the month coincident with or next following the date of termination of his employment due to disability provided such Participant has been found to be eligible for a Disability Retirement Benefit.

An Active Participant will be eligible for a Disability Retirement Benefit under the Plan upon the occurrence of permanent disability coincident with or following the date upon which the Participant incurs total and permanent disability at any age.

**Disability Retirement Benefit:** No disability benefits are payable from the plan. However, if Early Retirement is due to disability (participant qualifies for Federal Social Security Act disability payments), the reduction for early commencement of Early Retirement Benefits is modified: for those with 25 or more Years of Benefit Service, the reduction of 6% per year commencement precedes age 55 will not apply; for those with less than 25 Years of Benefit Service, the standard early retirement reduction (1/15 for first five years, 1/30 for additional years that commencement precedes age 62) will be lowered by 10% for each year of Benefit Service in excess of 15 Years.

## Minimum Benefits

Retirement and termination benefits are subject to minimum amounts, equal to (a) plus (b) below:

- (a) For Benefit Service prior to Effective date of this plan (if any):
  - i. Contribution Accumulation as of the Effective Date (accumulated Previous Plan employee contributions plus any additional vested cash values), plus interest to date of determination, converted monthly annuity; plus
  - ii. Additional benefits for those age 60-1/2 or older on the Effective Date (called Special Arrangements Payroll Benefit).
- (b) For Benefit Service after the Effective Date of this plan, the greater of (i) or (ii) plus (iii) below:
  - i. 2-1/4% of Average Monthly Compensation times years of Benefit Service after the Effective Date, minus 1-1/4% of Primary Social Security Benefit times years of Benefit Service after the Effective Date (maximum 40 years); or
  - ii. Contribution Accumulation after the Effective Date (current plan employee contributions plus interest), converted to monthly annuity; plus
  - iii. Total amount of current plan employee contributions (without interest), times vesting percentage, converted to monthly annuity.

## Maximum Benefits

Benefits are limited by the IRS Sections 401(a)(17) and 415. Benefits paid under the restoration plans are not included in this report.

## Optional Benefit Forms

Optional Benefit Forms are available and equal to the Actuarial Equivalent of the Normal Benefit Form and may be in an amount more than or less than that provided by the Normal Benefit Form depending on the option selected. Such distribution may be in one or more of the following forms:

- (a) Life Only - monthly pension benefit, with spousal written consent, payable for the lifetime of the Participant
- (b) 10 Years Certain and Life Option – monthly pension benefit, with spousal written consent, payable for the lifetime of the Participant with payments guaranteed for a specified number of 120.
- (c) Joint & 50% Contingent Survivor Pension - monthly pension benefit payable during the joint lifetime of the Participant and the Joint Annuitant; reduces to 50% of the original amount upon the death of the Participant.
- (d) Joint & 75% Contingent Survivor Pension - monthly pension benefit payable during the joint lifetime of the Participant and the Joint Annuitant; reduces to 75% of the original amount upon the death of the Participant
- (e) Joint & 100% Contingent Survivor Pension - monthly pension benefit payable during the joint lifetime of the Participant and the Joint Annuitant.
- (f) Lump Sum – single sum payment based on actuarial equivalence.

## Pre-Retirement Death Benefit

**Active Employee With 25 Or More Years of Benefit Service:** Benefits Payable to beneficiary equal to:

- (a) Monthly benefit for 120 months, actuarially equivalent to survivor benefit that would have been payable had retirement occurred on date of death under the Joint and 50% Survivor Pension with 120 monthly payments guaranteed (benefit can be converted by a spouse to a life annuity; beneficiary can cash out this benefit based on lump sum value of termination benefit at date of death); plus
- (b) \$5,000 lump sum payment.

**Active Employee with Less Than 25 Years of Benefit Service:** Lump sum payment to beneficiary equal to the lump sum value of the termination benefit at date of death, plus \$5,000.

**Death after Retirement but prior to Benefit Commencement:** Monthly benefits to beneficiary, as if payments to participant had started on date of death and based on annuity form elected by participant (normal form if no election made).

## Termination Benefit

In the event of the termination of a Participant's employment for any reason other than death, disability or retirement, the Participant will become entitled to receive a monthly pension benefit commencing on his Normal Retirement Date.

Monthly benefit earned at date of termination (determined in same manner as Early Retirement Benefit) times vesting percent, payable at Normal Retirement Date.

Benefits can commence on the first of any month after the earlier of attainment of age 62 or the date the employee would have had 25 years of Benefit Service had employment continued, and are reduced for commencement prior to the Normal Retirement Date. The reduction for early commencement is equal to 1/15 for each of the first 5 years, 1/30 for each of the next 5 years, and actuarially thereafter. The value of benefit can be paid out in a lump sum at termination in lieu of a deferred monthly benefit. Vesting percent determined according to the following schedule:

| Years of Vesting Service | Vested Percentage |
|--------------------------|-------------------|
| Less than 3              | 0%                |
| 3                        | 20%               |
| 4                        | 40%               |
| 5                        | 60%               |
| 6                        | 80%               |
| 7 or more                | 100%              |

In addition, all employees are fully vested at age 40.

## CHANGES IN PLAN PROVISIONS SINCE PRIOR VALUATION

**IRC Section 401(a)(17) compensation limit:** The Internal Revenue Code (IRC) Section 401(a)(17) compensation limit increased from \$330,000 to \$345,000.

# Appendix C

## Glossary

## Glossary

**Actuarial Assumptions** - assumptions as to the occurrence of future events affecting pension costs, such as: mortality, withdrawal, disablement and retirement; changes in compensation and national pension benefits; rates of investment earnings and asset appreciation or depreciation; procedures used to determine the actuarial value of assets; and other relevant items.

**Actuarial Cost Method** - a particular technique used to establish the amount and incidence of the annual actuarial cost of plan benefits.

**Accrued Liability** - that portion, as determined by a particular actuarial cost method, of the actuarial present value of plan benefits and expenses which is not provided by future normal costs. The accrued liability at any point in time for an active participant is the theoretical fund that would have been accumulated on his behalf from his normal cost payments and the earnings thereon for all prior years if the plan had always been in effect. For persons receiving benefits or entitled to a deferred vested retirement income, the accrued liability cost is equal to the present value of their future benefit payments. The accrued liability for the plan is the total of the individually computed accrued liability for all participants. Also referred to as Actuarial Accrued Liability.

**Accumulated Plan Benefit** - the amount of an individual's pension benefit (whether or not vested) which has been earned as of a specified date based upon service and compensation to that date. Also referred to as Accrued Benefit.

**Actuarial Equivalent** - of equal actuarial present value, determined as of a given date with each value based upon the same set of actuarial assumptions.

**Actuarial Gain or Loss** - a measure of the difference between actual experience and that which is expected based upon a set of actuarial assumptions, during the period between two actuarial valuation dates, as determined in accordance with a particular actuarial cost method.

**Actuarial Value of Assets** - the value of cash, investments and other property belonging to a pension plan, as used by the actuary for the purpose of an actuarial valuation.

**Amortization Payments** - that portion of the pension plan contribution which is designated to pay interest on and to amortize the unfunded accrued liability or the unfunded frozen actuarial liability.

**Funded Ratio** - the ratio, as of a given date, of the market value of plan assets to the present value of accumulated plan benefits. When the market value of plan assets is equal to the present value of accumulated plan benefits, the funded ratio is equal to 100%. When the funded ratio is less than 100%, there may be sufficient assets to cover the vested accumulated plan benefits but not sufficient assets to cover all of the additional nonvested accumulated plan benefits. At the time that a retirement plan is adopted, the funded ratio is usually substantially less than 100% but usually exceeds 100% after the plan has been funded on an ongoing basis for a period of years (such as ten). The funded ratio may decline from one year to the next, however, as a result of benefit improvements or a relative decline in the amount of assets when measured against the usual increase in the value of accumulated plan benefits from year to year.

**ERISA** - the Employee Retirement Income Security Act of 1974.

**Frozen Actuarial Liability** - that portion of the present value of future benefits which is separated as of a valuation date and frozen under certain actuarial cost methods. Generally this separated portion is the sum of an initial unfunded accrued liability and any increments or decrements in the accrued liability subsequently established as a result of changes in plan benefits or actuarial assumptions.

**Future Benefits** - those pension plan benefit amounts which are expected to be paid at various future times under a particular set of actuarial assumptions, taking into account such items as the effect of advancement in age and past and anticipated future compensation and service credits. Also referred to as Projected Benefits.

**GASB** – Governmental Accounting Standards Board.

**Normal Cost** - that portion of the present value of future pension plan benefits and expenses which is allocated to a valuation year by the actuarial cost method.

**One-year Term Cost** - the actuarial present value of all benefits expected to become payable in the future as a result of an event or events expected to occur during a given valuation year.

**Present Value**- the value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of actuarial assumptions. Also referred to as Actuarial Present Value.

**Unfunded Accrued Liability** - the excess of the accrued liability over the actuarial value of assets.

**Unfunded Frozen Actuarial Liability** - the portion of the frozen actuarial liability remaining after the addition of interest and the deduction of the amortization payments.

**Vested Accumulated Plan Benefit** - the portion of an individual's accumulated plan benefit which is vested. Also referred to as Vested Accrued Benefit.

**Vested Funded Ratio** - the ratio, as of a given date, of the market value of the plan assets to the present value of vested accumulated plan benefits.

# Appendix D

## Risk Disclosure

## Risk Disclosure

The purpose of this appendix is to identify, assess, and provide illustrations of risks that are significant to the Plan, and in some cases to the Plan's participants. Historical data is included.

The results of the actuarial valuation are based on one set of reasonable assumptions. However, it is almost certain that future experience will not exactly match the assumptions. As an example, investments may perform better or worse than assumed in any single year and over any longer time horizon. It is therefore important to consider the potential impacts of these likely differences when making decisions that may affect the future financial health of the Plan, or of the Plan's participants.

In addition, as plans mature they accumulate larger pools of assets and liabilities. This increases the potential risk to plan funding and the finances of those who are responsible for plan funding. As an example, it is more difficult for a plan sponsor to deal with the effects of a 10% investment loss on a plan with \$1 billion in assets and liabilities than if the same plan sponsor is responsible for a 10% investment loss on a plan with \$1 million in assets and liabilities. Since pension plans make long-term promises and rely on long-term funding, it is important to consider how mature the Plan is today, and how mature it may become in the future.

Actuarial Standard of Practice No. 51 (ASOP 51) addresses these issues by providing actuaries with guidance for assessing and disclosing the risk associated with measuring pension liabilities and the determination of pension plan contributions. Specifically, it directs the actuary to:

- Identify risks that may be significant to the Plan.
- Assess the risks identified as significant to the Plan. The assessment does not need to include numerical calculations.
- Disclose plan maturity measures and historical information that are significant to understanding the Plan's risks.

ASOP 51 states that if in the actuary's professional judgment, a more detailed assessment would be significantly beneficial in helping the individuals responsible for the Plan to understand the risks identified by the actuary, then the actuary should recommend that such an assessment be performed.

This appendix uses the framework of ASOP 51 to communicate important information about: significant risks to the Plan, the Plan's maturity, and relevant historical plan data.

## DEFINITION AND IDENTIFICATION LANGUAGE FOR EACH POTENTIAL RISK

### Liquidity Risk

**Definition:** This is the potential that assets must be liquidated at a loss earlier than planned in order to pay for the Plan's benefits and operating costs. This risk is heightened for plans with negative cash flow, in which contributions do not exceed annual benefit payments plus expenses.

**Identification:** This Plan has high cash flow requirements because the sum of benefit payments plus expenses is significantly larger than contributions. The Plan also has a substantial allocation to illiquid assets such as real estate and private equity. As a result, there is a risk that assets may need to be liquidated at a loss before planned in order to pay benefits and expenses.

## Inflation Risk

**Definition:** This is the potential of a pension to lose purchasing power over time due to inflation.

**Identification:** The participants of pension plans without fully inflation-indexed benefits are subject to the risk that their purchasing power will be reduced over time due to inflation.

**Assessment:** Participants in this Plan bear some of the inflation risk for benefits earned in the past, since cost of living increases are assumed to be 50% of CPI.

## Maturity Risk

**Definition:** This is the potential for total plan liabilities to become more heavily weighted toward inactive liabilities over time.

**Identification:** The Plan is subject to maturity risk because as plan assets and liabilities continue to grow, the impact of any gains or losses on the assets or liabilities also becomes larger.

**Assessment:** Currently assets are equal to 6.5 times payroll indicating a one-year asset loss of 10% would be equal to 65% of payroll.

## Retirement Risk

**Definition:** This is the potential for participants to retire and receive subsidized benefits more valuable than expected.

**Identification:** This Plan has valuable early retirement benefits. If participants retire at earlier ages than anticipated by the actuarial assumptions, it is expected that additional funding will be required.

## Contribution Risk

**Definition:** This is the possibility that actual future contributions deviate from expected future contributions.

**Identification:** The Plan is subject to the contribution risk that the actuarially determined contributions will not be made. If contributions are deferred to the future, investment income is lost in the intervening period and the Plan becomes more expensive.

## Investment Risk

**Definition:** The potential that investment returns will be different than expected.

**Identification:** To the extent that actual investment returns differ from the assumed investment return, the Plan's future assets, funding contributions, and funded status may differ significantly from those presented in this valuation.

The Low-Default-Risk Obligation Measure (LDROM) based on the Bond Buyer's 20-year General Obligation Index immediately prior to or coincident with the valuation date of January 1, 2024 (3.31%) is approximately \$4.21 billion actuarial accrued liability and results in a 51.5% funded status for the Plan. The LDROM helps understand the cost of investing in an all-bond portfolio and significantly lowering expected return on assets which reflects the actual investment portfolio. Benefit security for members of the plan relies on a combination of the assets in the plan, the investment returns generated on those assets, and the promise of future contributions from the Plan Sponsor. Since the assets are not invested in an all-bond portfolio, the LDROM does not indicate the funding status or progress, nor provide information on necessary plan contributions or the security of participant benefits. The difference between the plan's Actuarial Accrued Liability and the LDROM can be thought of as representing the expected taxpayer savings from investing in the plan's diversified portfolio compared to investing only in high quality bonds.

## Interest Rate Risk

**Definition:** The potential that interest rates will be different than expected.

**Identification:** The pension liabilities reported herein have been calculated by computing the present value of expected future benefit payments using the interest rate described in [Appendix A](#). If interest rates in future valuations differ from this valuation, future pension liabilities, funding contributions, and funded status may differ significantly from those presented in this valuation. As a general rule, using a higher interest rate to compute the present value of future benefit payments will result in a lower pension liability, and vice versa. One aspect that can be used to estimate the impact of different interest rates is a plan's duration.

**Assessment:** If the interest rate changes by 1%, the estimated percentage change in pension liability is a plan's duration in years. The approximate duration of this Plan is 11.3 years. As such, if the interest rate changes by 1%, the estimated change in pension liability is 11.3%.

## Demographic Risks

**Definition:** The potential that mortality or other demographic experience will be different than expected.

**Identification:** The pension liabilities reported herein have been calculated by assuming that participants will follow patterns of demographic experience (e.g., mortality, withdrawal, disability, retirement, form of payment election, etc.) as described in [Appendix A](#). If actual demographic experience or future demographic assumptions are different from what is assumed to occur in this valuation, future pension liabilities, funding contributions, and funded status may differ significantly from those presented in this valuation. See Exhibits 1, 2, and 3 for details on the census data used in this valuation report.

## Covered Employment Risk

**Definition:** The potential that future covered employment is lower than expected due to a declining workforce in a company or industry, or a temporary workforce reduction due to market forces.

**Identification:** A reduction in the Plan's contribution base can potentially threaten its ability to recover from another market downturn.

**Assessment:** The Plan's active population increased from 2,715 to 3,006 over the past year. There are currently 1.0 inactive participants for every active, and a future decline in the active population may require even higher contributions to be paid on fewer active participants. Reduced contributions will also demand higher investment returns to make up for the contribution shortfall.