

RESOLUTION OF THE
BUDGET AND FINANCE COMMITTEE
OF THE NAVAJO NATION COUNCIL

24TH NAVAJO NATION COUNCIL - Fourth Year, 2022

AN ACT

RELATING TO THE BUDGET AND FINANCE COMMITTEE; APPROVING THE
FISCAL YEAR 2023 FRINGE RATES FOR THE NAVAJO NATION'S
RETIREMENT PLAN

BE IT ENACTED:

SECTION ONE. AUTHORITY

- A. The Navajo Nation established the Budget and Finance Committee as a standing committee of the Navajo Nation Council. As such, the Committee is empowered to promulgate policies and regulations concerning wages, expenditure reimbursement, and fringe benefits for Navajo Nation officials and employees. 2 N.N.C. § 164(A)(9), §300(A), and §301(B)(8).
- B. The Budget and Finance Committee, under the authority delegated in Resolution No. CF-21-73, established the Retirement Plan for Employees of the Navajo Tribe and Certain Tribal Affiliates (the "Retirement Plan") effective July 1, 1973. See Resolution No. BFMY-41-73.
- C. The Navajo Nation Council, the Budget and Finance Committee, and the Health, Education, and Human Services Committee have since approved various amendments and restatements of the Retirement Plan through Resolutions Nos. BFMA-56-74, BFMY-198-77, CMY-26-79, BFJY-101-85, BFJN-71-86, BFS-56-90, BFMY25-91, BFS-98-02, BFMA-34-03, BFMA-05-08, BFCO-16-09, HSCD-13-10, BFJY-16-19, and BFO-34-19, and BFN-37-20.

SECTION TWO. FINDINGS

- A. Pursuant to Article 11.02 of the Retirement Plan, the Retirement Plan Administration Committee has the authority to administer the Retirement Plan, to construe and apply all of

the Retirement Plan provisions, and to arrange for such legal, administrative, consulting, actuarial, investment, accounting, and other professional services related to the Retirement Plan, as the Administration Committee deems proper.

- B. On March 11, 2022, the Administration Committee's actuarial consultant presented an initial report, followed by an updated report on March 23, 2022 outlining the proposed FY 2023 Retirement Fringe Rates for Regular Employees and Council Delegates, Commissioned Law Enforcement Officers, and Judges.
- C. In Resolution No. RPAC-02-22 the Administration Committee approved the use of a 15 year amortization period to calculate the FY 2023 Retirement Fringe Rates for Regular Employees and Council Delegates, Commissioned Law Enforcement Officers, and Judges, and also recommended that based on use of a six point four percent (6.4%) discount rate, the FY 2023 Retirement Fringe Rates should be set as follows: fourteen point five percent (14.5%) for Regular Employees and Council Delegates; eighteen point five percent (18.5%) for Commissioned Law Enforcement Officers; and forty-four point five percent (44.5%) for Judges.
- D. Resolution No. RPAC-02-22 is attached hereto as **EXHIBIT 1**, and the consultant's report dated March 23, 2022, is attached as **Sub-Exhibit A**.
- E. The Administration Committee balanced budgetary considerations, recent investment market volatility, and the need to maintain the funded status of the Retirement Plan.
- F. The Budget and Finance Committee, pursuant to its authority under 2 N.N.C. § 164(A)(9), § 300(A), and § 301(B)(8), finds it in the best interest of the Navajo Nation to approve the recommendations of the Retirement Plan Administration Committee.

SECTION THREE. APPROVAL

For the Navajo Nation's Retirement Plan, the Budget and Finance Committee hereby approves the use of a 15-year amortization period, a six point four percent (6.4%) discount rate, and retirement fringe rates for FY 2023, as follows: fourteen point five percent (14.5%) for Regular Employees and Council Delegates;

eighteen point five percent (18.5%) for Commissioned Law Enforcement Officers; and forty-four point five percent (44.5%) for Judges.

SECTION FOUR. EFFECTIVE DATE

This Legislation shall become effective in accordance with 2 N.N.C. § 301(B) (13).

SECTION FIVE. SAVING CLAUSE

If any provision of this Legislation is determined invalid by the Supreme Court of the Navajo Nation, or by a Navajo Nation District Court without appeal to the Navajo Nation Supreme Court, the remainder of this legislation shall be the law of the Navajo Nation.

CERTIFICATION

I, hereby, certify that the foregoing resolution was duly considered by the Budget and Finance Committee of the Navajo Nation Council at a duly called meeting held by teleconference at which a quorum was present and that the same was passed by a vote of 4 in favor and 0 opposed, this 17th day of May 2022.

A handwritten signature in black ink, appearing to read "Jimmy Yellowhair", is written over the printed name.

Jimmy Yellowhair, Pro Tem Chairperson
Budget and Finance Committee

Motion: Honorable Amber Kanazbah Crotty
Second: Honorable Jamie Henio

EXHIBIT 1

**RESOLUTION OF THE
RETIREMENT PLAN ADMINISTRATION COMMITTEE
OF THE NAVAJO NATION**

Approving and Recommending to the Budget and Finance Committee
the Approval and Adoption of the FY 2023 Retirement Fringe Rates for the
Retirement Plan for Employees of the Navajo Nation and Participating Affiliates

WHEREAS:

1. The Budget and Finance Committee of the Navajo Nation Council (the "Budget and Finance Committee") is empowered to promulgate policies and regulations concerning the fringe benefits for Navajo Nation officials and employees and to conduct oversight of the functions of the Navajo Nation Department of Retirement Services ("NDRS") pursuant to 2 N.N.C. § 301(B)(8) and (13); and
2. The Budget and Finance Committee, under the authority delegated in Resolution No. CF-21-73, initially adopted the Retirement Plan for Employees of the Navajo Tribe and Certain Tribal Affiliates (the "Retirement Plan") effective July 1, 1973, through Resolution No. BFMY-41-73; and
3. The Navajo Nation Council, the Budget and Finance Committee, and the Human Services Committee have since approved various amendments and restatements of the Retirement Plan through Resolution Nos. BFMA-56-74, BFMY-198-77, CMY-26-79, BFJY-101-85, BFJN-71-86, BFS-56-90, BFMY-25-91, BFS-98-02, BFMA-34-03, BFMA-05-08, BFCO-16-09, HSCD-13-10, BFJY-16-19, and BFO-34-19, and BFN-37-20; and
4. The Retirement Plan Administration Committee ("RPAC") is delegated the full power to administer the Retirement Plan and to construe and apply all of the Retirement Plan provisions, including engaging in such legal, administrative, consulting, actuarial, investment, accounting, and other professional services as the RPAC deems proper, pursuant to Article 11.02 of the Retirement Plan; and
5. The RPAC has the authority and responsibility to approve Retirement Fringe Rates for the Nation's contributions to the Retirement Fund and to make a recommendation to the Budget and Finance Committee for final approval and adoption of the Retirement Fringe Rates to be used in the Comprehensive Budget process; and
6. On March 11, 2022, the RPAC's actuarial consultant, Willis Towers Watson, presented a report to the RPAC, and then presented an updated report to the RPAC on March 23, 2022, attached hereto as **Attachment A**, which discusses the proposed FY 2023 Retirement Fringe Rates for Regular Employees and Council Delegates, Commissioned Law Enforcement Officers, and Judges based on a 15-year amortization period; and
7. In balancing budgetary concerns in light of diminishing Navajo Nation revenues,

investment market volatility, and the need to maintain the funded status of the Plan, the RPAC has determined that it is in the best interest of the Nation to use a 15-year amortization period to calculate the Retirement Fringe Rates for Regular Employees and Council Delegates, Commissioned Law Enforcement Officers, and Judges.

NOW THEREFORE BE IT RESOLVED THAT:

1. The Navajo Nation Retirement Plan Administration Committee hereby approves the use of a 15-year amortization period for Regular Employees and Council Delegates, Commissioned Law Enforcement Officers, and Judges. Based on use of a six point four percent (6.4%) discount rate and the amortization period above, the FY 2023 Retirement Fringe Rates shall be as follows: fourteen point five percent (14.5%) for Regular Employees and Council Delegates; eighteen point five percent (18.5%) for Commissioned Law Enforcement Officers; and forty-four point five percent (44.5%) for Judges.
2. The Navajo Nation Retirement Plan Administration Committee hereby recommends to the Budget and Finance Committee of the Navajo Nation Council the approval and adoption of such rates for use in creating the FY 2023 Comprehensive Budget, after which the Navajo Nation Retirement Plan Administration Committee authorizes the Navajo Department of Retirement Services to inform the Office of the Controller and the Office of Management and Budget of these Retirement Fringe Rates.

CERTIFICATION

I hereby certify that the foregoing resolution was duly considered by the Retirement Plan Administration Committee of the Navajo Nation at a duly called meeting in Window Rock, (Navajo Nation) Arizona at which a quorum was present and that same was passed by a vote of 4 in favor, 0 opposed and 0 abstained, this 23rd day of March, 2022.



Jamie Henio, Chairperson
Retirement Plan Administration Committee
THE NAVAJO NATION

Motion: Raymond Smith, Jr., RPAC Member

Second: JoAnn Jayne, RPAC Member

xc: RPAC Resolution file
NDRS Resolution file
Navajo Nation Department of Justice
Navajo Nation Office of Legislative Counsel
Budget and Finance Committee of the 24th Navajo Nation Council

**The Navajo Nation
Defined Benefit (DB) Retirement
Plan – Fringe Rate Analysis for FY
2023**

**Presented by:
Suzanne Wyatt & Bayan Suleman**

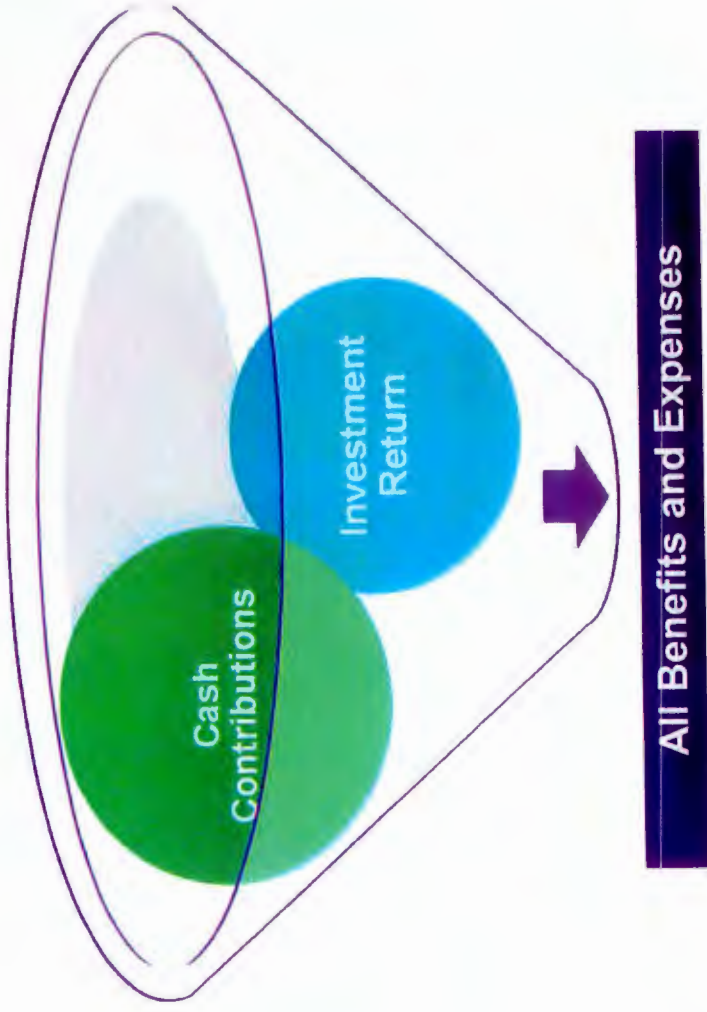
March 23, 2022

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Navajo Nation Fringe Rates

Ultimate cost (cash) of a plan is:

- Benefits paid
- Plus administrative expenses
- **Minus** investment return



Purposes of Navajo Nation plan valuation:

- Determine funding fringe rates
- Determine plan accounting liability and cost under GASB 67/68

Guiding Principles (based on Conference of Consulting Actuaries White Paper from October 2014)

- Policy contributions plus assets sufficient to pay all future benefits for current participants
- Reasonable allocation of cost over service
- Reasonable control of volatility

Navajo Nation Fringe Rates – Funding Policy

Fringe rates for any fiscal year are determined based on the results from the beginning of the prior fiscal year

- Fiscal 2023 rates set based on the results of the most recent valuation, October 1, 2021
- Rates have been updated from the preliminary rates presented December 10, 2021 to reflect:
 - Payroll through February 11, 2022, as provided by the Department of Retirement Services on February 24, 2022
 - Audited asset information as of September 30, 2021, as provided by Noon & Associates on March 16, 2022

Fringe rates are determined as the sum of (1) and (2) below:

- Cost of benefits accruing during the fiscal year (normal cost) divided by expected payroll
 - Explicitly includes non-investment expenses paid from the trust
- An amortization payment to reduce the funding shortfall divided by expected payroll. Historically, the amortization period has varied from 5 to 20 years. This amount includes:
 - Amortization of Unfunded Actuarial Accrued Liability (UAAL) as of October 1, 2016
 - Amortization of gains/losses for each year after October 1, 2016, including plan investment gains/losses relative to the expected return of 6.40%
 - Amortization bases are layered (similar to pension cost amortizations under GASB 68)

Navajo Nation Fringe Rates – A Brief History of Fringe Rates

Amortization Period	FY 2013 10 Years	FY 2014 ¹ 10 Years	FY 2015 10 Years	FY 2016 ² 5 Years	FY 2017 ³ 10 Years	FY 2018 20 Years	FY 2019 20 Years	FY 2020 15 Years	FY 2021 15 Years	FY 2022 15 Years
Employee Group	DR: 8.0%	DR: 8.0%	DR: 8.0%	DR: 8.0%	DR: 7.0%	DR: 7.0%	DR: 6.4%	DR: 6.4%	DR: 6.4%	DR: 6.4%
Regular employees	22.6%	24.4%	23.0%	24.4%	27.1%	18.5%	19.3%	19.3%	18.1%	14.5%
CLEO	29.0%	24.9%	25.0%	21.4%	27.9%	16.9%	19.4%	19.4%	21.4%	18.5%
Judges	52.0%	32.7%	37.0%	35.2%	30.8%	32.2%	38.6%	40.9%	51.7%	44.5%
Funded Status	10/1/2013	10/1/2014	10/1/2015	10/1/2016	10/1/2017	10/1/2018	10/1/2019	10/1/2020	10/1/2021	10/1/2022
Return on Assets	84.8%	76.9%	74.6%	80.2%	82.6%	87.3%	87.0%	93.0%	105.0%	TBD
	15.0%	11.6%	-0.6%	11.4%	13.7%	9.9%	3.5%	9.6%	21.0%	TBD

FY 2014 used an *alternative approach* whereby normal cost was determined separately for each group and amortization rates for each year are determined for the whole plan and applied evenly to all groups. Under usual method, rates would have been 24.0%, 25.9%, and 58.6%, respectively.

FY 2016 rates reflect a fresh start to align with the GASB 68 new funding method, and a 15-year amortization of Unfunded Actuarial Accrued Liability (UAAL).

The discount rate was updated from 8.0% to 7.0% after FY 2016 fringe rates were set, reflected in FY 2017 rates. FY 2017 used an *alternative approach* whereby normal cost was determined separately for each group and amortization rates for each year are determined for the whole plan and applied evenly to all groups. Under usual method, rates would have been 27.2%, 25.8%, and 56.6%, respectively.

Funded Status by Group

	10/1/2021				Estimated 12/31/2021	Estimated 2/28/2022
\$ in millions	Regular (including Affiliated Chapters)	Law Enforcement	Judges	Total	Total	Total
Actuarial Accrued Liability	\$1,028.6	\$118.4	\$16.6	\$1,163.6	\$1,170.8	\$1,180.2
Market Value of Assets*	1,079.9	125.6	16.4	1,221.9	1,257.9	1,219.0
Shortfall/(Surplus)	(\$51.3)	(\$7.1)	\$0.2	(\$58.3)	(\$87.1)	(\$38.8)
Funded Status	105.0%	106.0%	99.2%	105.0%	107.4%	103.3%
Normal Cost	\$10.7	\$1.6	\$0.2	\$12.4		
Payroll	146.6	15.7	1.3	163.6		
Normal Cost as a % of Payroll**	7.3%	9.9%	14.4%	7.6%		
Present Value of Future Benefits	\$1,090.4	\$130.5	\$18.4	\$1,239.3		

- Audited assets as of September 30, 2021 were provided by Noon and Associates on March 16, 2022.
 - Estimated FY2023 payroll is equal to the payroll for the most recent period ended 2/11/22 times 26, the number of pay periods in FY2023.
 - Estimated funded status as of February 28, 2022 revealed a decline in the funded status
 - Markets have continued to decline since February 28, 2022
 - Unfavorable return on assets would result in a further decline in the funded status and increase in contributions
 - Estimated funded status is based on unaudited assets provided by the Navajo Nation
- * Assets are allocated based on contributions/benefit payments and returns for each group
 ** Beginning of year. Normal cost excludes expenses.

Preliminary Fringe Rates

Recommendation from the March 11, 2022 RPAC is to keep the FY23 fringe rates level at the FY22 percentages to reduce the risk of fringe rate volatility.

Discount Rate: 6.40% Based on Current Funding Policy of 15-year amortization	FY 2022 (maintain current year rates)		Preliminary FY 2023 Fringe Rates		Projected FY 2024 Fringe Rates IF Return on Assets during FY 2022 is -15%	
	\$ in 000's	% of Covered Payroll	\$ in 000's	% of Covered Payroll	\$ in 000's	% of Covered Payroll
Covered Payroll						
▪ Regular employees and Council Delegates	\$163,065		\$146,570		\$157,447	
▪ Commissioned Law Enforcement Officers	17,301		15,771		16,636	
▪ Judges	<u>1,240</u>		<u>1,277</u>		<u>1,393</u>	
Total Covered Payroll	\$181,606		\$163,618		\$175,476	
Normal Cost						
▪ Regular employees and Council Delegates	\$12,454	7.6%	\$11,650	7.9%	\$12,437	7.9%
▪ Commissioned Law Enforcement Officers	1,763	10.2%	1,698	10.8%	1,784	10.7%
▪ Judges	<u>191</u>	15.4%	<u>200</u>	15.7%	<u>217</u>	15.6%
Total Normal Cost (with ½ year interest)	\$14,408		\$13,548		\$14,438	
15-Year Amortization of UAL						
▪ Regular employees and Council Delegates	\$11,202	6.9%	\$0	0.0%	\$22,140	14.1%
▪ Commissioned Law Enforcement Officers	1,444	8.3%	0	0.0%	2,355	14.2%
▪ Judges	<u>361</u>	29.1%	<u>117</u>	9.2%	<u>441</u>	31.7%
Total Amortizations of UAL	\$13,007		\$117		\$24,936	
Fringe Rates						
▪ Regular employees and Council Delegates	\$23,656	14.5%	\$11,650	7.9%	\$34,577	22.0%
▪ Commissioned Law Enforcement Officers	3,207	18.5%	1,698	10.8%	4,139	24.9%
▪ Judges	<u>552</u>	44.5%	<u>317</u>	24.8%	<u>658</u>	47.2%
Total Fringe Rate	\$27,415		\$13,665		\$39,374	

Certification

Certification

Except as otherwise provided herein, the results presented are based on the data and asset information provided by The Navajo Nation as of October 1, 2021 and assumptions, methods, models, plan provisions and other information, outlined in the actuarial valuation results for the plan year beginning October 1, 2021 presented on December 10, 2021 and in the October 1, 2021 actuarial valuation report to be delivered in the coming weeks. Therefore, such information, and the reliances and limitations of the valuation report and its use, should be considered part of this report.

In preparing the valuation contained in this presentation, Willis Towers Watson has relied upon information regarding plan provisions, participants, assets, contributions, sponsor funding and accounting policies, and methods provided to us by The Navajo Nation and other persons or organizations designated by The Navajo Nation. We have relied on all the data and information provided as complete and accurate. We have reviewed this information for overall reasonableness and consistency, but have neither audited nor independently verified this information. Based on discussions with and concurrence by the plan sponsor, assumptions or estimates may have been made if data were not available, and the data was adjusted to reflect any significant events that occurred between the date the data was collected and the measurement date.

Except as discussed above, we are not aware of any material errors, omissions or inconsistencies in the data, or adjustments in the data made by us or by others, that would have a significant effect on the results of our calculations. We have relied on all the information provided as complete and accurate. The results presented in this report are directly dependent upon the accuracy and completeness of the underlying data and information. Any material inaccuracy in the information provided to us may have produced results that are not suitable for the purposes of this presentation and such inaccuracies, as corrected by The Navajo Nation, may produce materially different results that could require that a revised presentation be issued.

The undersigned consulting actuaries are members of the Society of Actuaries and meet the "Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States" relating to pension plans. Our objectivity is not impaired by any relationship between the plan sponsor and our employer, Willis Towers Watson US LLC.

Sincerely yours,



Suzanne Wyatt, FSA, EA, FCA
Director, Retirement

Willis Towers Watson



Bayan Suleman, ASA, EA
Senior Associate, Retirement

Glossary of Terminology

Term	Meaning
Actuarial Accrued Liability (AAL)	The portion of the present value of all future benefits attributed by a cost method to employee service rendered before the valuation date. Referred to as Total Pension Liability under GASB.
Cost Method	Entry Age Normal for The Navajo Nation DB plan. Under this method, a normal cost is calculated in a manner to be a level percentage of participant payroll each year.
Discount Rate	The rate of interest used in the valuation to discount the plan's expected cash flows back to a single present value.
Funded Status	Ratio of market value of assets over actuarial accrued liability at a particular point in time.
Market Value of Assets (MVA)	The value of plan assets as reported by the trustee, including receivables and less payables. Referred to as Fiduciary Net Position under GASB.
Normal Cost	That portion of the actuarial present value of pension plan benefits and expenses which is allocated to a valuation year by the cost method .
Participant Payroll	In general, hourly rate as of valuation date multiplied by 2,080 hours. Referred to as valuation payroll or covered payroll.
Present Value of accumulated benefits	The present value of plan benefits earned as of the valuation date by current plan participants.
Present Value of all future plan benefits	The present value of all plan benefits projected to be paid to current plan participants.
Unfunded AAL	Amount of contribution to the plan trust that is required to increase the funded status to 100%.
Vested Benefits	The benefit a participant is entitled to even if employment terminates before retirement. If a participant terminates from The Navajo Nation with less than 4 years of service then they are not vested and forfeit their DB benefit.

BUDGET AND FINANCE COMMITTEE

17 May 2022

Regular Meeting

VOTE TALLY SHEET:

Legislation No. 0095-22: An Act Relating to the Budget and Finance Committee; Approving the Fiscal Year 2023 Fringe Rates for the Navajo Nation's Retirement Plan *Sponsored by Jamie Henio, Council Delegate*

Motion: Amber K. Crotty

Second: Jamie Henio

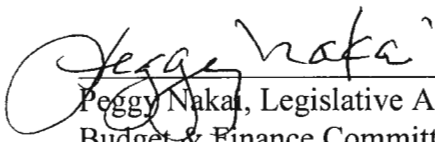
Vote: 4-0, Pro Tem Chairman not voting

Final Vote Tally:

Jamie Henio	yea	
Raymond Smith Jr.	yea	
Elmer P. Begay	yea	
Nathaniel Brown		
Amber K. Crotty	yea	
Jimmy Yellowhair		

Excused: Nathaniel Brown


Jimmy Yellowhair, Pro Tem Chairman
Budget & Finance Committee


Peggy Nakai, Legislative Advisor
Budget & Finance Committee