



DEFINED BENEFIT PLAN FUNDING POLICY

Effective Date: ~~November 22, 2019~~TBD

POLICY AT A GLANCE

PEC is committed to upholding our Value of **Accountability** by responsibly managing the funds contributed to, and invested by, the PEC employee Defined Benefit Plan.

Contributions

- Should be timely and in amounts adequate to meet the minimum funding standards.
- The CEO may recommend adjustments to avoid a significant increase or decrease in the annual contribution for a given year compared to the contribution amounts for other years.

Investments

- Negative investment returns should minimally impact assets available to fund accrued benefit liabilities.
- The long-term horizon should be kept in mind.
- Sufficient liquidity should be maintained to provide, at a minimum, \$400,000 - \$500,000 per month, over a minimum 12 to 24 month period.



1. PURPOSE

- 1.1. The purpose of the Defined Benefit Plan Funding Policy ("Policy") is to establish the manner and objectives for which the assets of the Pedernales Electric Cooperative, Inc. ("PEC" or "Cooperative") Employees' Defined Benefit Retirement Plan ("the Plan") shall be managed.

2. SCOPE

- 2.1. ~~The Defined Benefit Plan Funding Policy ("Policy")~~ This Policy applies to the Board of Directors ("Board"), PEC as the Plan Sponsor, all PEC employees that participate in the Plan Administration Committee, and all the funds allocated to the Plan.

~~3.1. DEFINITIONS~~

~~3.1.1.1. Plan Administration Committee – A committee appointed by the Plan Sponsor, comprised of qualified management employees or other qualified senior level employees, to which the Board of Directors ("Board") has expressly delegated the authority to make only fiduciary decisions for the Pedernales Electric Cooperative, Inc. Employees' 401(K) Savings Plan and Employees' Defined Benefit Retirement Plan.~~

~~3.2.1.1. Plan Sponsor – Pedernales Electric Cooperative, Inc.~~

4.3. POLICY AND IMPLEMENTATION

4.1.3.1. The Plan's Adjusted Funding Target Attainment Percentage ("AFTAP"), as required by the Pension Protection Act of 2006 ("PPA"), for any given plan year will be maintained at a level sufficient to avoid most or all "funding based" restrictions on benefit accruals or payouts pursuant to Internal Revenue Code ("IRC") Section 436. Therefore, the Plan's AFTAP shall be maintained at a minimum of 85%.

4.2.3.2. Contributions will be made timely and in amounts adequate to meet the minimum funding standards for single employer defined benefit pension plans per IRC Section 430 and guidance issued thereunder.

4.3.3.3. In order to reduce fluctuations in the annual contributions from year to year, the Chief Executive Officer ("CEO") may recommend the contribution amount under this Section 4.3 be adjusted for the purpose of avoiding a significant increase or decrease in the annual contribution for a given year compared to the contribution amounts for other years.

4.4.3.4. Plan assets should be invested such that negative investment returns will minimally impact assets available to fund accrued benefit liabilities.

4.5.3.5. Plan assets should be invested with the long-term horizon in mind, though the Board may elect to modify aspects of the Plan and the corresponding time horizon at its discretion.

4.6.3.6. Plan assets should be invested so as to maintain sufficient liquidity to provide, at a minimum, \$400,000 - \$500,000 per month, over a minimum 12 to 24 month period, to support additional benefit payments and other plan expenses.

5. PROCEDURE RESPONSIBILITIES



5.1.3.7. This Policy is effective immediately upon adoption by the Board and shall continue in effect until such time as it may be revised in writing by the Board. Upon its adoption, this Policy shall be delivered to the Plan Administration Committee which shall be guided by it in the development and execution of an the Plan Administration Committee's investment investment Policy policy for the Plan.

4. DEFINITIONS

4.1. Plan – PEC's Employees' Defined Benefit Retirement Plan.

4.2. Plan Administration Committee – A committee appointed by the Plan Sponsor, comprised of qualified management employees or other qualified senior-level employees, to which the Board of Directors ("Board") has expressly delegated the authority to make only fiduciary decisions for both the Pedernales Electric Cooperative, Inc. Employees' 401(K) Savings Plan and Employees' Defined Benefit Retirement Plan. (Only the Plan Administration Committee's obligations with respect to the Plan are referred to in this Policy).

4.3. Plan Sponsor – Pedernales Electric Cooperative, Inc. as plan sponsor of the Plan.

6.5. POLICY ENFORCEMENT

6.1.5.1. The CEO, through the Finance department, shall enforce this Policy and consult with the Plan Administration Committee.

7. ~~SUPERSEDING EFFECT~~

7.1. ~~This Policy supersedes all previous policies and memoranda concerning the subject matter. Only the Approver may authorize exceptions to this Policy.~~

8.6. REFERENCES AND RELATED DOCUMENTS

Pedernales Electric Cooperative, Inc. Employees' Defined Benefit Retirement Plan

Date adopted:	April 19, 2010
Last reviewed:	<u>November 22, 2019TBD</u>
Review frequency:	Every Five <u>Five-Three</u> Years
Amendment dates:	June 16, 2014; June 18, 2016; November 22, 2019; <u>TBD</u>
Effective date:	<u>TBD</u> November 22, 2019
Approver:	Board of Directors
Applies to:	PEC, as Plan Sponsor of the PEC Employees' Defined Benefit Retirement Plan <u>and members of the Plan Administration Committee</u>
Administrator:	<u>Chief Financial Officer</u> Finance
Superseding effect:	This Policy supersedes all previous policies and memoranda concerning the subject matter. Only the Approver may authorize exceptions to this Policy.

