Supplemental Retirement Plan of University Medical Center

Disclosures in Accordance with GASB Statement No. 67

as of August 31, 2023

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February 15, 2024

PERSONAL AND CONFIDENTIAL

Mr. Terrell Thrasher, FHFMA, FACHE
Senior Vice President - Finance
UMC Health System
602 Indiana Ave.
Lubbock, Texas 79415

Re: GASB No. 67 Report for the SERP for the Plan Fiscal Year Ending August 31, 2023

Dear Terrell:

At the request of Ms. Kim Wilkerson, we have prepared an actuarial report providing actuarial information as of the end of the plan fiscal year ending August 31, 2023 based on a measurement date of August 31, 2023 in accordance with Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans. This report is suitable to accompany filings with the Texas State Pension Review Board. **A separate report, prepared under GASB Statement No. 68, will be issued for the purpose of supporting entries for the Health System's financial statements for the company fiscal year ended December 31, 2023.**

Please note that the plan operates with a fiscal year ending the last day of August. GASB No. 67 requires that the measurement date for the Total Pension Liability be the same date as the end of the plan fiscal year. Information presented on the basis of a valuation completed within 24 months preceding the plan fiscal year end is consistent with GASB No. 67.

Note: This report may be provided to third parties only if distributed in its entirety.

Plan Reporting Information

This report provides the pension plan's GASB No. 67 annual accounting information, including the Net Pension Liability (see Section II.C.) and other information reported in the plan's Notes to the Financial Statement and RSI.

Variability in Future Actuarial Measurement

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as 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 additional cost or contribution requirements based on the plan's funded status); and

- Changes in plan provisions, applicable law or applicable accounting standards.

We have not been asked to perform and have not performed any stochastic or deterministic sensitivity analyses of the potential ranges of such future measurements. If you have an interest in the results of any such analysis, please let us know.

Certification of Actuarial Valuation as of December 31, 2022

We have based our valuation on employee data as of December 31, 2022 provided by University Medical Center and asset information as of August 31, 2023 provided by Prosperity Bank. We have used the actuarial methods and assumptions described in Section VI of this report. The actuarial valuation has been performed on the basis of the plan benefits described in Section VII.

To the best of our knowledge, all current employees eligible to participate in the plan as of the valuation date and all other individuals who have a remaining vested benefit under the plan have been included in the valuation. Further, all plan benefits have been considered in the development of plan costs.

The plan sponsor remains solely responsible for the accuracy and comprehensiveness of the data provided. However, to the best of our knowledge, no material biases exist with respect to any imperfections in the data provided by these sources. We have not audited the data provided, but have reviewed it for reasonableness and consistency relative to previously provided information. We have utilized software licensed from Winklevoss Technologies, LLC in the development of the liabilities summarized in this report. We have independently confirmed the model developed by Winklevoss and have sufficiently tested it to ensure the model is an accurate representation of the plan's liabilities.

To the best of our knowledge, the actuarial information supplied in this report is complete, accurate, and in compliance with GASB Statement No. 67. In our opinion each assumption used is reasonable (taking into account the experience of the plan and reasonable expectations) and represents our best estimate of anticipated experience under the plan solely with respect to that individual assumption. We are neither aware of any material inconsistencies among the assumptions nor are we aware of any unreasonable results caused by the aggregation of the assumptions.

We hereby certify that we are members of the American Academy of Actuaries who meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully Submitted,

Timothy B. Seifert, F.S.A.
Enrolled Actuary Number 23-8983
Member of American Academy of Actuaries

Michael J. Muth, F.S.A.
Enrolled Actuary Number 23-3727
Member of American Academy of Actuaries

TBS/MJM:ph
Enclosure
cc: Kim Wilkerson

GASB STATEMENT NO. 67

ACTUARIAL REPORT

AS OF THE

AUGUST 31, 2023

MEASUREMENT DATE

FOR THE PLAN FISCAL YEAR ENDING

AUGUST 31, 2023

RUDD AND WISDOM, INC.
AUSTIN, TEXAS

FEBRUARY 2024

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Section I - Disclosures in Accordance with GASB Statement No. 67 (Single Employer System)

A. Summary of Significant Accounting Policies

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, information about the fiduciary net position of the Supplemental Retirement Plan of University Medical Center and additions to/deductions from the Supplemental Retirement Plan of University Medical Center's fiduciary net position have been determined on the same basis as they are reported by the Supplemental Retirement Plan of University Medical Center. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

B. General Information about the Pension Plan

1. Plan Description

UMC Health System sponsors a public single employer defined benefit pension plan for eligible employees. UMC Health System has appointed Prosperity Bank to serve as Plan Administrator and Prosperity has accepted such appointment. The plan's assets are invested in trust funds with Prosperity Bank serving as plan trustee. Substantive amendments to the plan are made only with the authority of the hospital's Board of Managers.

The Board of Managers of UMC Health System has sole authority to establish or amend the obligations to contribute to the plan by participants or the employer.

2. Benefits Provided

The Supplemental Retirement Plan of University Medical Center provides retirement, disability and death benefits. Retirement benefits for eligible employees are defined dollar amounts specified in Appendices to the plan document. Participants are eligible to retire at their Normal Retirement Date unless an Early Retirement Date is specified in the Appendices to the plan document. Disability retirement benefits and death benefits are determined in the same manner as retirement benefits.

3. Employees Covered by Benefit Terms

At December 31, 2022[1], the following numbers of employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to but not yet receiving benefits	0
Active employees	2
Total	3

[1] Information is presented as of the December 31, 2022 valuation date which is used for the August 31, 2023 measurement date.

4. Contributions

The employer contributions are based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the established amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

5. Pension Plan Investments

Investment policy decisions are established and maintained by the Trustee except where an Investment Manager is appointed.

The annual money weighted rate of return on pension plan investments, net of expenses, which expresses net investment performance adjusted for changing amounts actually invested each month was 1.31% for the 12 months ended August 31, 2023.

The returns, computed as above, for the preceding 10 years*, are shown in the table below:

12 Months Ended	Annual Money Weighted Net Rate of Return
August 31, 2022	(5.38)%
August 31, 2023	1.31%

* **This schedule is required to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.**

C. Net Pension Liability

The Employer's net pension liability was measured as of August 31, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2022 and rolled forward eight months to August 31, 2023. The net pension liability as of August 31, 2023 also reflects an adjustment for the amendment adopted and effective July 20, 2023 which increased benefits for Participant's B and C.

1. Actuarial Assumptions

The total pension liability as of August 31, 2023 was determined by an actuarial valuation as of December 31, 2022 and rolled forward eight months to August 31, 2023 using standard actuarial techniques and the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary increases	3.25 percent
Investment rate of return	4.00 percent, net of pension plan investment expense, including inflation

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	0%	N/A
International equity	0	N/A
Fixed income	100	0.75%
Real estate	0	N/A
Cash	0	0
Total	100%	
Weighted Average		0.75%

2. Discount Rate

The discount rate used to measure the total pension liability was 4.00 percent. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in amounts consistent with the most recent 5-year employer contribution history. Based on those assumptions, the pension plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

D. Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at August 31, 2022[1]	$ 5,461,771	$ 4,808,224	$ 653,547
Changes for the year:			
Service cost	$ 360,342		$ 360,342
Interest	227,614		227,614
Changes of benefit terms	878,501		878,501
Differences between expected and actual experience	(2,085)		(2,085)
Contributions – employer		$ 550,000	(550,000)
Contributions – employee		0	
Net investment income		64,690	(64,690)
Benefit payments, including refunds of employee contributions	(263,526)	(263,526)	
Administrative expense		(12,354)	12,354
Assumption changes	0		0
Other changes	0	0	0
Net changes	$ 1,200,846	$ 338,810	$ 862,036
Balances at August 31, 2023[2]	$ 6,662,617	$ 5,147,034	$ 1,515,583

[1] Measurements for the fiscal year ended August 31, 2022 were taken as of August 31, 2022 as permitted by GASB No. 67.
[2] Measurements for the fiscal year ended August 31, 2023 were taken as of August 31, 2023 as permitted by GASB No. 67.

1. Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Employer, calculated using the discount rate of 4.00 percent, as well as what the Employer's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.00 percent) or 1-percentage-point higher (5.00 percent) than the current rate:

	1% Decrease (3.00%)	Current Discount Rate (4.00%)	1% Increase (5.00%)
Employer's Net Pension Liability	$ 1,954,143	$ 1,515,583	$ 1,117,127

2. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is shown in Sections IV and V of this report.

E. Payable to the Pension Plan

At August 31, 2023, the Employer reported a payable of $0 for the outstanding amount of contributions to the pension plan required for the year ended August 31, 2023.

Section II - Schedules of Required Supplementary Information

Schedule of Changes in the Employer's Net Pension Liability and Related Ratios

Last 10 Fiscal Years[1]
(Dollar amounts in thousands)

	FYE 8/31/2023	FYE 8/31/2022
1. Total Pension Liability		
a. Service cost	$ 360	$ 349
b. Interest	228	215
c. Changes of benefit terms	879	0
d. Differences between expected and actual experience	(2)	32
e. Changes of assumptions	0	0
f. Benefit payments, including refunds of employee contributions	(264)	(343)
g. Net Change in Total Pension Liability	$ 1,201	$ 253
h. Total Pension Liability – Beginning	5,462	5,209
i. Total Pension Liability – Ending	$ 6,663	$ 5,462
2. Plan Fiduciary Net Position		
a. Contributions – employer	$ 550	$ 450
b. Contributions – employee	0	0
c. Net investment income	65	(267)
d. Benefit payments, including refunds of employee contributions	(264)	(343)
e. Administrative expense	(12)	(12)
f. Other	0	0
g. Net Change in Plan Fiduciary Net Position	$ 339	$ (172)
h. Plan Fiduciary Net Position – Beginning	4,808	4,980
i. Plan Fiduciary Net Position – Ending	$ 5,147	$ 4,808
3. Employer's Net Pension Liability – Ending [Item 1(i) – 2(i)]	$ 1,516	$ 654
4. Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.25%	88.03%
5. Covered-Employee Payroll[2]	$ 1,530	$ 1,340
6. Employer's Net Pension Liability as a Percentage of Covered-Employee Payroll	99.05%	48.81%

Notes to Schedule:

1 This schedule is required to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.
2 Total compensation (not just pensionable compensation, if different).

Section III - Schedule of Employer Contributions

Last 10 Fiscal Years[1]
(Dollar amounts in thousands)

	FYE 08/31/2023	FYE 08/31/2022
1. Actuarially determined contribution	$ 516	$ 430
2. Contributions in Relation to the Actuarially Determined Contribution	550	450
3. Contribution Deficiency (Excess) [1. – 2.]	$ (34)	$ (20)
4. Covered-Employee Payroll	$ 1,530	$ 1,340
5. Contributions as a Percentage of Covered-Employee Payroll	35.95%	33.58%

Notes to Schedule:

Valuation Date: January 1

Actuarially determined contribution rates are calculated as the aggregate of the employer's actuarially determined contributions for the portions of the employer's fiscal years that overlap the plan's respective fiscal year.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level Dollar, closed
Remaining amortization period	6 years as of January 1, 2022
Asset valuation method	Fair Value
Inflation	3.25%
Salary increases	Not applicable
Investment rate of return	4.00%, net of pension plan investment expense, including inflation
Retirement age	62 on average
Mortality	None

[1] **This schedule is required to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.**

Section IV - Statement of Fiduciary Net Position

Fiscal Year Ending August 31, 2023
(Dollar amounts in thousands)

Measurement Date	08/31/2023
1. Assets	
a. Cash and deposits	$ 3,120
b. Receivables:	
i. Contributions	$ 0
ii. Due from broker for investments sold	0
iii. Investment income	15
iv. Other	0
v. Total receivables	$ 15
c. Investments:	
i. Domestic fixed income securities	$ 2,012
ii. Domestic equities	0
iii. International equities	0
iv. Real estate	0
v. Total investments	$ 2,012
d. Total assets	$ 5,147
2. Liabilities	
a. Payables:	
i. Investment management fees	$ 0
ii. Due to broker for investments purchased	0
iii. Other	0
b. Total liabilities	$ 0
3. Net position restricted for pensions	$ 5,147

Section V - Statement of Changes in Fiduciary Net Position for the Fiscal Year Ended August 31, 2023[1]

(Dollar amounts in thousands)

Measurement Date	08/31/2023
1. Assets	
a. Contributions	
i. Employer	$ 550
ii. Member	0
iii. Total contributions	$ 550
b. Investment income:	
i. Net appreciation in fair value of investments	$ (27)
ii. Interest and dividends	92
iii. Less investment expense	0
iv. Net investment income	$ 65
c. Other	$ 0
d. Total additions	$ 615
2. Deductions	
a. Benefit payments, including refunds of member contributions	$ 264
b. Administrative expense	12
c. Other	0
d. Total deductions	$ 276
3. Net increase/(decrease) in net position	$ 339
4. Net position restricted for pensions	
a. Beginning of year	4,808
b. End of year	$ 5,147

1 Amounts recognized in the fiscal year represent changes between the current and prior measurement dates.

Section VI - Actuarial Methods and Assumptions

A. Actuarial Methods

1. Actuarial Cost Method

The entry age actuarial cost method has been used in determining the contribution requirements for the plan. The actuarial cost method is the procedure by which the actuary annually identifies a series of annual contributions which, along with current assets and future investment earnings, will fund the expected plan benefits. The entry age cost method compares the excess of the present value of expected future plan benefits over the current value of plan assets. This difference represents the expected present value of current and future contributions that will be paid into the plan. The contributions are divided into two components: an annual normal cost (or current cost) and an amortization charge for the unfunded accrued liability.

The normal cost for the plan is the sum of individually determined normal costs for each active participant. Each active participant's normal cost is the current annual contribution in a series of annual contributions which, if made throughout the participant's total period of employment, would fund his expected benefits from the plan. To determine the actuarially determined contribution, each participant's normal cost is calculated to be a level dollar amount per year of employment. For the Total Pension Liability, each participant's normal cost is calculated to be an annual constant percentage of his expected compensation in each year of employment.

The plan's current accrued liability is the excess of the present value of expected future benefits over the present value of all future remaining normal cost contributions. The unfunded accrued liability is the amount by which the accrued liability exceeds the actuarial value of plan assets. The unfunded accrued liability is recalculated each time a valuation is performed. The unfunded accrued liability is amortized in level dollar annual contributions in accordance with employer funding goals. Experience gains and losses, which represent deviations of the unfunded accrued liability from its expected value based on the prior valuation, are determined at each valuation and are amortized as part of the newly calculated unfunded accrued liability.

2. Actuarial Value of Assets

Assets are valued at market value as determined by the plan trustee, including any receivable contributions made for the prior plan year.

B. Actuarial Assumptions

1. ***Mortality***: The active and retired participants of the plan are expected to exhibit mortality in accordance with the following published mortality tables:

    a. Pre-retirement Mortality: None

    b. Post-retirement Mortality: None

2. ***Withdrawal***: None

3. ***Discount Rate***: The discount rate used to measure the total pension liability was 4.00 percent. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in amounts consistent with the most recent 5-year employer contribution history. Based on those assumptions, the pension plan's fiduciary net position is projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

4. ***Expected Long-Term Rate of Return***: 4.00% per year, net of investment expenses

5. ***Earnings Progression***:

   a. For actuarially determined contribution: Not applicable; plan benefits are not pay-related

   b. For Total Pension Liability: 3.25% per year

6. ***Retirement Age***: A participant is assumed to retire at the attainment of his normal retirement age. Any participant who has attained his expected retirement age and is still working is assumed to retire immediately.

7. ***Disability***: None

8. ***Expenses***: Investment expenses necessary to the operation of this plan are assumed to be paid from plan assets and are considered and reflected in setting the expected long-term rate of return on plan assets. Administration expenses necessary to the operation of this plan are projected to be 0.25% of beginning of year market value of assets.

9. ***Recognition of IRC Benefit and Compensation Limitations***: The benefit limitation under IRC Section 415(b) has been reflected in the determination of plan costs, and this limit is assumed to increase at the rate of 3.25% per year. The compensation limit under IRC Section 401(a)(17) is not applicable since plan benefits are not pay-related.

10. ***Marital Status***: Not applicable since there is no assumed pre-retirement or post-retirement mortality

11. ***Assumed Form of Payment***: 15-year certain annuity since there is no assumed pre-retirement or post-retirement mortality

Section VII - Outline of Principal Plan Eligibility and Benefit Provisions

A. Identifying Data	
Plan Name:	Supplemental Retirement Plan of University Medical Center (SERP)
Type of Plan:	Defined Benefit
Plan Sponsor:	UMC Health System
Plan Year:	September 1 to August 31
B. Participation	
Minimum Age:	None
Maximum Age at Hire:	None
Service:	None
Employee Classification:	Employees holding certain positions on specified dates
Entry Date:	As specified by Board of Managers of UMC Health System
C. Contributions	
Participant:	None required
Employer:	All amounts necessary to adequately finance plan benefits
D. Eligibility for Retirement	
Normal Retirement:	Date specified in Appendices to plan document
Early Retirement:	If applicable, specified in Appendices to plan document
Disability Retirement:	Same as Normal Retirement
E. Retirement Benefit Monthly Amounts	
Normal Retirement:	Defined dollar amounts specified in Appendices to plan document; SERP benefits are limited by IRC Section 415(b)
Late Retirement:	Amount actuarially equivalent to normal retirement benefit at normal retirement age based on 5% interest and Applicable Mortality Table under IRC Section 417(e); SERP benefits are limited by IRC Section 415(b)
Early Retirement:	If applicable, defined dollar amounts specified in Appendices to plan document; SERP benefits are limited by IRC Section 415(b)
Disability Retirement:	Same as Normal Retirement Benefit
F. Form of Monthly Retirement Payment	If participant is unmarried at benefit commencement date, 15-year temporary single life annuity (i.e., benefits cease upon earlier of expiration of 15-year period or death of participant) If participant is married at benefit commencement date, 15-year temporary contingent 100% joint and survivor annuity (i.e., benefits cease upon earlier of expiration of 15-year period or, if participant is still married to same spouse at death of first annuitant prior to expiration of 15-year period, benefits cease upon death of second annuitant; however, if participant is no longer married to original spouse upon participant's death prior to expiration of 15-year period, benefits cease upon participant's death)
G. Pre-retirement Death Benefits	If participant is married at death: Payment of 15-year temporary life annuity benefit to surviving spouse which is equal to normal retirement benefit the participant would have received if participant's date of death was his date of retirement based on the Early Retirement provisions as specified in the Appendices to the plan document (i.e., death benefits cease upon earlier of expiration of 15-year period or widow(er)'s death) If participant is unmarried at death: No benefit payable

Section VIII - Summary of Participant Data

A. Retired Participants as of December 31, 2022

Participant ID (per plan document[1])	Date of Benefit Commencement	Date of Final Payment	Annual SERP Payment	Annual Excess Benefit Plan Payment
A[2]	01/01/2018	12/01/2032	$263,527	N/A[3]

B. Active Participants as of December 31, 2022

Participant ID (per plan document[1])	Date of Birth	Date of Participation	Normal Retirement Date	Annual Normal Retirement Benefit[4]	Annual Early Retirement Benefit[4]
B[5]	06/23/1960	11/18/2013	07/01/2024	$250,000[7]	N/A
C[6]	12/12/1967	11/18/2013	01/01/2028	$150,000[7]	N/A

1. As restated effective September 1, 2022
2. Formerly referred to as Participant B prior to September 1, 2022 plan document restatement.
3. See letter dated October 13, 2017 and accompanying Exhibit.
4. Payable as 15-year temporary 100% joint and survivor annuity if married at benefit commencement date; payable as 15-year temporary single life annuity if unmarried at benefit commencement date.
5. Formerly referred to as Participant C prior to September 1, 2022 plan document restatement.
6. Formerly referred to as Participant D prior to September 1, 2022 plan document restatement.
7. Plan amendment adopted and effective July 20, 2023 increased the Annual Normal Retirement Benefit for Participants B and C to $300,000 and $200,000, respectively.