

# **Chesapeake Utilities Corporation Pension Plan**

## **Accounting Standards Codification 715 Financial Disclosure Report**

**For the Fiscal Year Ending December 31, 2020**

January 2021

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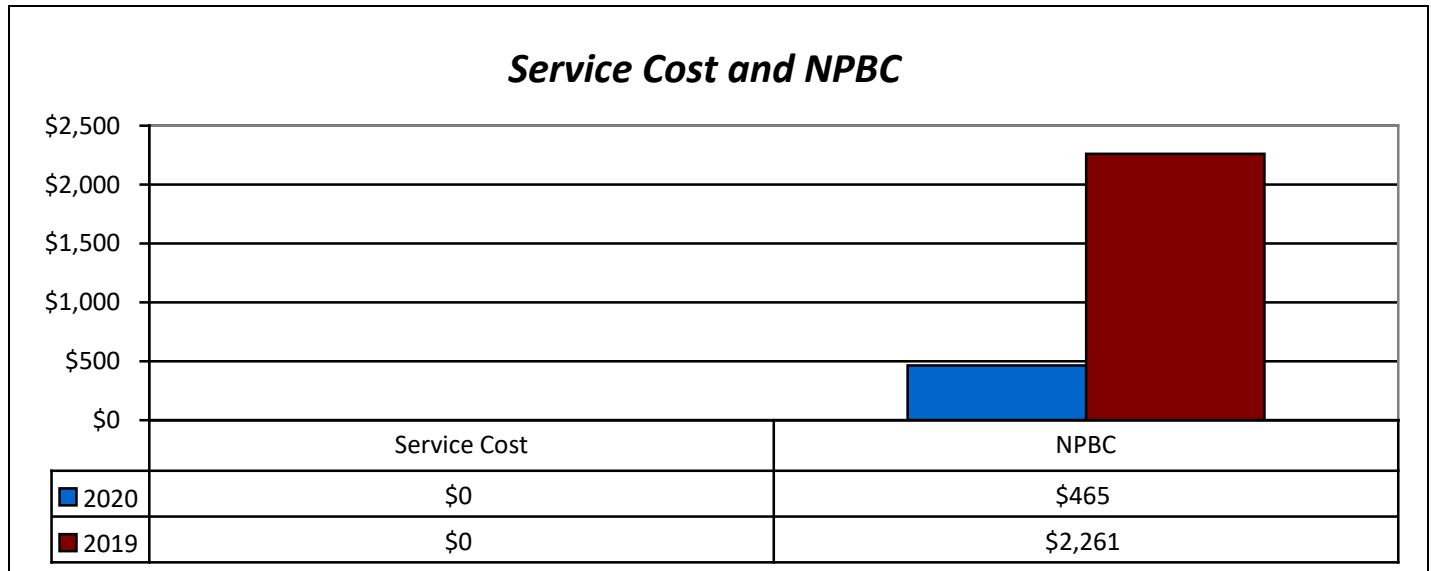
## SUMMARY OF VALUATION RESULTS

The principal results of the actuarial valuations for fiscal years ending December 31, 2020 and 2019 for the Chesapeake Utilities Corporation Pension Plan are summarized below.

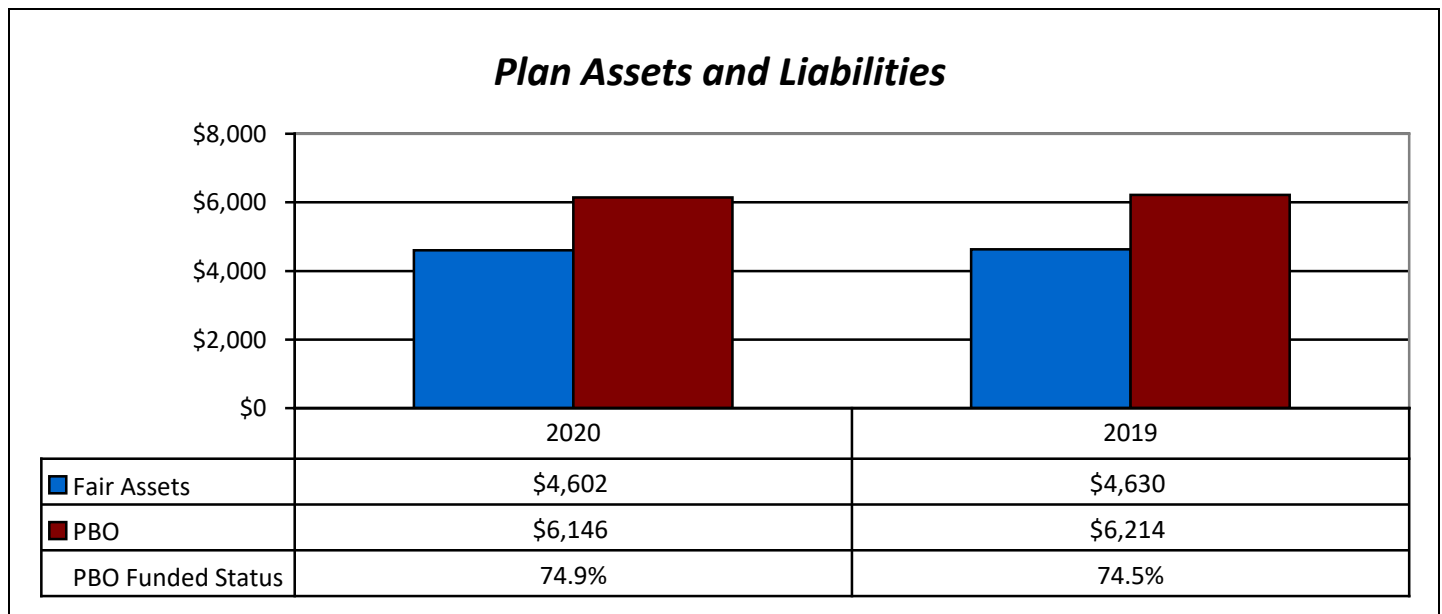
	<u>December 31, 2020</u>	<u>December 31, 2019</u>
<b>Service Cost and Pension Cost for the Fiscal Year Ending</b>		
Service Cost	\$0	\$0
Net Periodic Benefit Cost	\$465,103	\$2,261,343
<b>Asset Information</b>		
Fair Value of Assets	\$4,602,062	\$4,630,474
Market Related Value of Assets	\$4,602,062	\$4,630,474
<b>Liability Information</b>		
Projected Benefit Obligation	\$6,145,620	\$6,213,866
<i>Discount Rate</i>	2.25%	3.00%
PBO Funded Status	(\$1,543,558)	(\$1,583,392)
<i>Using Fair Value of Assets</i>		
Accumulated Benefit Obligation	\$6,145,620	\$6,213,866
Accumulated Other Comprehensive Income	\$2,040,108	\$2,241,406
<b>Participant Information as of</b>		
	<u>January 1, 2020</u>	<u>January 1, 2019</u>
Active Participant Lifecount	14	16
Total Participant Lifecount	52	171

**SUMMARY OF VALUATION RESULTS**

Service Cost represents the value of pension benefits earned during the year. The Net Periodic Benefit Cost (NPBC) is the total pension expense during the year, including the Service Cost, Interest Cost, Expected Return on Assets and Net Amortization/Deferral. The Service Cost and Net Periodic Benefit Cost (NPBC) for the current and prior years are shown below, in thousands.



The Fair Value of Assets is the market value. The Projected Benefit Obligation (PBO) represents the value of all benefits attributable to past service and includes the value of future pay increases. The plan assets and liabilities for the current and prior years are summarized below, in thousands.



## CHANGES SINCE LAST YEAR'S VALUATION

### Changes in Pension Plan Provisions

No changes in pension plan provisions were recognized with this valuation.

### New Legislation or Accounting Standards

No changes in legislation or accounting standards were recognized with this valuation.

### Changes in Actuarial Assumptions

Effective with the December 31, 2020 disclosure, the following assumption changes were recognized:

	<u>12/31/2020</u>	<u>12/31/2019</u>
Discount Rate	2.25%	3.00%
Mortality	Pri-2012 Total Dataset Mortality Table with Scale MP-2020 for current employees and inactives who were former participants	Pri-2012 Total Dataset Mortality Table with Scale MP-2019 for current employees and inactives who were former participants
	Pri-2012 Total Dataset Contingent Survivor Table with Scale MP-2020 for surviving beneficiaries of former participants	Pri-2012 Total Dataset Contingent Survivor Table with Scale MP-2019 for surviving beneficiaries of former participants

### Significant Changes to Benefit Obligation or Plan Assets

- The benefit obligation loss of \$449,746 was primarily due to changes in interest rates (discount rate change and change in lump sum rates).
- Plan assets experienced a gain of \$204,349, due to actual return of \$361,663 exceeding expected return of \$157,314.

**Purpose of Report**

This report presents the results of the actuarial valuation for the Chesapeake Utilities Corporation Pension Plan for the fiscal year ending December 31, 2020. It was prepared for the plan sponsor for the principal purpose of fulfilling the employer accounting requirements under Accounting Standards Codification 715 (ASC 715).

Calculations for other purposes may be significantly different than the results presented in this report. Accordingly, additional calculations should be requested for other purposes such as determining future contributions or settling the obligation.

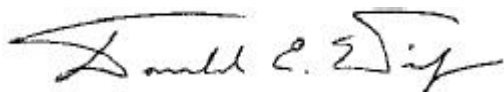
**Methodology**

The report relies on the census data submitted by the plan sponsor, as summarized in "Census Data Summary", and the retirement plan provisions as outlined in "Plan Provisions". It also relies on the plan asset information provided by the trustee. Appropriate tests for consistency and reasonableness were completed on the information relied on to produce this valuation. The liabilities and costs were determined using the method summarized in "Actuarial Cost Method" and the actuarial assumptions described in "Actuarial Assumptions".


The measurements reflect a single assumption scenario, however, the future is uncertain and a range of outcomes can reasonably be expected to occur. Future measurements may differ significantly from the current measurements presented in this report. Due to the limited scope of the assignment, an analysis of the potential range of future measurements was not completed.

**ACTUARY CERTIFICATION****Certification**

The calculations presented in this report are consistent with our understanding of the requirements of ASC 715. The actuarial assumptions were selected by the plan sponsor, and in our opinion, the actuarial assumptions are reasonable. The report was completed in accordance with generally accepted actuarial standards and procedures, and conforms to the Guidelines for Professional Conduct of the American Academy of Actuaries. The undersigned credentialed actuaries meet the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinion contained herein, and maintain no other relationship with the plan or the plan's sponsor which may impair or appear to impair the objectivity of their work.



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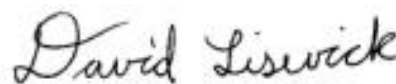


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## DISCLOSURE INFORMATION FOR CORPORATE FINANCIAL STATEMENTS

The Accounting Standards Codification 715 disclosure information for the fiscal years ending December 31, 2020 and 2019 is presented on the following three pages.

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
<b>Change in Projected Benefit Obligation</b>		
Benefit Obligation at Beginning of Year	\$6,213,866	\$10,711,839
Service Cost	0	0
Interest Cost	175,722	375,075
Plan Amendments	0	0
Plan Assumptions	0	0
Actuarial (Gain)/Loss	449,746	1,443,177
Settlement/Curtailment	(611,587)	(5,832,690)
Plan Participant Contributions	0	0
Benefits Paid	<u>(82,127)</u>	<u>(483,535)</u>
Benefit Obligation at End of Year	\$6,145,620	\$6,213,866
<b>Change in Plan Assets</b>		
Fair Value of Plan Assets at Beginning of Year	\$4,630,474	\$8,649,206
Actual Return on Assets	361,663	1,180,313
Employer Contributions	303,639	1,117,180
Settlement/Curtailment	(611,587)	(5,832,690)
Plan Participant Contributions	0	0
Benefits Paid	<u>(82,127)</u>	<u>(483,535)</u>
Fair Value of Plan Assets at End of Year	\$4,602,062	\$4,630,474
Funded Status	(\$1,543,558)	(\$1,583,392)
<b>Amounts Recognized in Statement of Financial Position (before tax effects)</b>		
Noncurrent Assets	\$0	\$0
Current Liabilities	0	0
Noncurrent Liabilities	<u>(1,543,558)</u>	<u>(1,583,392)</u>
Total	(\$1,543,558)	(\$1,583,392)
<b>Amounts Recognized in Accumulated OCI (before tax effects)</b>		
Net (Gain)/Loss	\$2,040,108	\$2,241,406
Net Prior Service (Credit)/Cost	0	0
Net Transition (Asset)/Liability	<u>0</u>	<u>0</u>
Accumulated Other Comprehensive Income	\$2,040,108	\$2,241,406



## DISCLOSURE INFORMATION FOR CORPORATE FINANCIAL STATEMENTS

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
<b>Components of Net Periodic Benefit Cost</b>		
Service Cost	\$0	\$0
Interest Cost	175,722	375,075
Expected Return on Assets	(157,314)	(487,289)
Net Amortization/Deferral		
Amortization of Net (Gain)/Loss	243,694	391,266
Amortization of Net Prior Service (Credit)/Cost	0	0
Amortization of Net Transition (Asset)/Liability	0	0
Settlement/Curtailment	<u>203,001</u>	<u>1,982,291</u>
Net Periodic Benefit Cost	\$465,103	\$2,261,343
<b>Other Changes in Plan Assets and Obligations Recognized in OCI (before tax effects)</b>		
Net (Gain)/Loss incurred in year	\$245,397	\$750,153
Net Prior Service (Credit)/Cost incurred in year	0	0
Net Amortization/Deferral		
Recognition of Net Gain/(Loss)	(446,695)	(2,373,557)
Recognition of Net Prior Service Credit/(Cost)	0	0
Recognition of Net Transition Asset/(Liability)	<u>0</u>	<u>0</u>
Total Recognized in Other Comprehensive Income	(\$201,298)	(\$1,623,404)
Total Recognized in Net Periodic Benefit Cost and Other Comprehensive Income	\$263,805	\$637,939
<b>Estimated Amortization for Next Fiscal Year</b>		
Net (Gain)/Loss	\$241,000	\$260,000
Net Prior Service (Credit)/Cost	0	0
Net Transition (Asset)/Liability	<u>0</u>	<u>0</u>
Total Estimated Amortization for Next Fiscal Year	\$241,000	\$260,000
<b>Expected Contribution for Next Fiscal Year</b>	\$254,000	\$338,000
 <b>Estimated Future Benefit Payments for Next 10 Fiscal Years</b>		
Year 1	\$384,455	\$115,298
Year 2	99,162	367,950
Year 3	980,678	105,589
Year 4	106,488	927,297
Year 5	1,007,061	111,437
Years 6 - 10	1,193,373	2,299,920

## DISCLOSURE INFORMATION FOR CORPORATE FINANCIAL STATEMENTS

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
<b>Weighted Average Assumptions</b>		
Determining Obligation at Year End		
Discount Rate	2.25%	3.00%
Compensation Increase	N/A	N/A
Determining Net Periodic Benefit Cost for Year Ending		
Discount Rate	3.00%	4.00%/3.00%*
Expected Long-Term Return on Plan Assets	3.50%	6.00%
Compensation Increase	N/A	N/A
<b>Amounts Recognized in Statement of Financial Position (before tax effects)</b>		
Net Asset/(Liability)		
PBO Funded Status	(\$1,543,558)	(\$1,583,392)
Charges to Equity Accounts		
Accumulated Other Comprehensive Income	\$2,040,108	\$2,241,406
Net (Asset)/Liability Recognized in Retained Earnings	<u>(496,550)</u>	<u>(658,014)</u>
Total Charges to Equity Recognized	\$1,543,558	\$1,583,392
<b>Accumulated Benefit Obligation</b>	<b>\$6,145,620</b>	<b>\$6,213,866</b>
<b>Weighted Average Asset Allocation</b>		
Equity Securities	0%	0%
Debt Securities	96%	92%
Real Estate	0%	0%
Other	<u>4%</u>	<u>8%</u>
Total	100%	100%

\* The discount rate was remeasured after the annuity purchase and lump sum window events that occurred in 4<sup>th</sup> quarter 2019, which triggered settlement accounting on November 1, 2019 and December 1, 2019.

**NET PERIODIC BENEFIT COST**

The Net Periodic Benefit Costs for the fiscal years beginning January 1, 2020 and 2019 are illustrated below.

	<u>January 1, 2020</u>	<u>January 1, 2019</u>
<b>Components of Net Periodic Benefit Cost</b>		
Service Cost	\$0	\$0
Interest Cost	175,722	375,075
Expected Return on Assets	(157,314)	(487,289)
Net Amortization/Deferral		
Amortization of Net (Gain)/Loss	243,694	391,266
Amortization of Net Prior Service (Credit)/Cost	0	0
Amortization of Net Transition (Asset)/Liability	0	0
Settlement/Curtailment	<u>203,001**</u>	<u>1,982,291</u>
Net Periodic Benefit Cost	\$465,103	\$2,261,343
<b>Liability, Asset, &amp; Cash Flow Information at Beginning of Year</b>		
Projected Benefit Obligation		
Active Participants	\$2,001,356	\$2,563,583
Participants with Deferred Benefits	3,384,097	3,175,949
Participants Receiving Benefits	<u>758,620</u>	<u>5,027,417</u>
Total Projected Benefit Obligation	\$6,144,073	\$10,766,949
Market Related Value of Assets	\$4,630,474	\$8,649,206
Expected Benefit Payments	\$577,616	\$952,859
Expected Contributions	\$303,639	\$1,117,180
<b>Weighted Average Assumptions</b>		
Discount Rate	3.00%	4.00%/3.00%*
Expected Long Term Return on Plan Assets	3.50%	6.00%
Compensation Increase	N/A	N/A

\* The discount rate was remeasured after the annuity purchase and lump sum window events that occurred in 4<sup>th</sup> quarter 2019, which triggered settlement accounting on November 1, 2019 and December 1, 2019.

\*\* See the Settlement Accounting Information page for details.

**AMORTIZATION OF (GAIN)/LOSS**

The development of the (gain)/loss amortization for the fiscal year beginning January 1, 2020 is shown below.

**Development of (Gain)/Loss Amortization**

1.	(Gain)/loss	\$2,171,613
2.	(Gain)/loss not reflected in market related value	
	a. Fair value	4,630,474
	b. Market related value	<u>4,630,474</u>
	c. Amount not reflected in market related value (a - b)	0
3.	(Gain)/loss subject to amortization (1 + 2c)	2,171,613
4.	Projected Benefit Obligation	6,144,073
5.	Greater of 2b or 4	6,144,073
6.	10% of 5	614,407
7.	(Gain)/loss subject to amortization (3 – 6, not < 0)	1,557,206
8.	Average future service of plan participants expected to receive benefits	6.39
9.	Amortization amount (7/8)	\$243,694

## SETTLEMENT ACCOUNTING INFORMATION

The FAS Accounting Codification Standard 715 (formerly FAS #88) for disclosure of settlement accounting for the fiscal year ending December 31, 2020 is presented below.

### Reconciliation of Funded Status

	12/31/2019 Disclosure	December 31, 2020		
		Before Settlement	Effect of Settlement	After Settlement
1. PBO	(6,213,866)	(6,757,207)	611,587	(6,145,620)
2. Fair Value of Plan Assets	4,630,474	5,213,649	(611,587)	4,602,062
3. Funded Status: (1+2)	(1,583,392)	(1,543,558)	0	(1,543,558)
4. Unrecognized Net Transition (Asset)/Obligation	0	0	0	0
5. Unrecognized Prior Service Cost	0	0	0	0
6. Unrecognized Net (Gain)/Loss	2,241,406	2,243,109	(203,001)	2,040,108
7. (Accrued)/Prepaid Pension Cost	658,014	699,551	(203,001)	496,550
Interest Rate	3.00%	2.25%	2.25%	2.25%

**CENSUS DATA SUMMARY**

The following information summarizes the data used in the preparation of this report.

<b>Number of Participants</b>	<b><u>January 1, 2020</u></b>	<b><u>January 1, 2019</u></b>
Active Employees	14*	16
Participants with Deferred Benefits	31*	60**
Participants Receiving Benefits	<u>7</u>	<u>95**</u>
Total	52*	171**

<b>Active Participant Data Summary</b>	<b><u>January 1, 2020</u></b>	<b><u>January 1, 2019</u></b>
Average Age	59.4	58.9
Average Service	29.9	29.9

<b>Non-Active Participant Data Summary</b>	<b><u>January 1, 2020</u></b>	<b><u>January 1, 2019</u></b>
Average Age – Deferred Benefits	58.1	57.4
Average Age – Receiving Benefits	68.1	76.2
Average Monthly Benefit – Deferred Benefits	\$723	\$435
Average Monthly Benefit – Receiving Benefits	\$978	\$437

\*For purposes of December 31, 2020 measurements, 1 active participant and 2 term vested participants were removed from the plan due to the recognition of lump sum payouts during the 2020 fiscal year.

\*\*Effective November 1, 2019, 94 retired participants were removed from the plan due to the recognition of an annuity purchase transaction. Effective December 1, 2019, 25 term vested participants were removed from the plan due to the recognition of lump sum window payouts.

<b>Effective Date</b>	January 1, 1976. The plan was amended effective January 1, 1999 to make lump sum distributions available to participants who elected to cease future accruals under the plan. The plan was then amended effective January 1, 2005 to freeze accrued benefits.
<b>Eligibility</b>	<p>Later of age 21 and date of employment.</p> <p>Plan participation was frozen in 1998. Some active participants elected to transfer to another plan that was terminated in 1999.</p>
<b>Credited Service</b>	Total Service from date of employment. As of December 31, 2004 active participants were granted two additional years of service. As of January 1, 2005, no participant will be credited with future service as the benefits are frozen.
<b>Form of Payment</b>	Active participants and terminated vested participants who terminated after January 1, 2005 are assumed to receive their benefit as an annuity at normal retirement. Death benefits are assumed to be paid as an annuity at the participant's Normal Retirement Age.
<b>Normal Retirement Date</b>	Age 65.
<b>Benefit Formula</b>	
<i>Normal Retirement</i>	1.3% of Final-Average Earnings, plus .625% of Final-Average Earnings in excess of Covered Compensation, multiplied by years of Credited Service not in excess of 35.
<i>Minimum Benefit</i>	<p>The accrued benefit on July 30, 1991 which equals the greater of 2% of Final-Average Earnings, less 1 and 2/3% of Primary Social Security Benefit, multiplied by Years of Credited Service not in excess of 35; or</p> <p>The accrued benefit on December 31, 1975 under the Plan in effect on that date.</p>
<i>Early Retirement</i>	Same as Normal Retirement but the benefit shall be reduced 1/15 for each of the first 5 years, plus 1/30 for each of the next 5 years that payments commence prior to Normal Retirement Date.
<b>Earnings</b>	W-2 compensation plus salary deferrals less fringe benefits.

<b>Final Average Earnings:</b>	Average of Earnings during the highest 60 consecutive months taken from the last 120 months before retirement or termination of employment. Final average earnings were frozen December 31, 2004
<b>Normal Form of Benefit</b>	Payable Monthly for Life.
<b>Optional Form of Benefit</b>	<p>(a) Joint and Survivor Annuity providing to a surviving beneficiary full, 2/3 or 1/2 of the reduced amount payable to the employee.</p> <p>(b) Annuity for 10 years Guaranteed Period and Life thereafter.</p> <p>(c) Lump sum for participants who terminate employment after January 1, 2005, upon attaining retirement age.</p> <p>Lump sums are determined based on 417(e) mortality and lump sum segment rates for the November prior to the plan year of distribution.</p>
<b>Vested Benefit</b>	A benefit calculated according to the Normal Retirement formula based on Credited Service and Earnings as of the date service ceased, payable at Normal Retirement.
<b>Death Benefit</b>	An employee eligible for Early or Normal Retirement has a death benefit payable to his eligible spouse equal to 50% of the benefit that would have been payable under the Joint and 50% Survivor option if the employee retired on the day before the date of his death. Prior to Early Retirement, the benefit is one-half of the anticipated Normal Retirement benefit. This benefit has a minimum annual amount of \$120.
<b>Disability Benefits</b>	Continued accrual of Retirement Benefits while receiving benefits under the Long-Term Disability Plan.



This report was prepared using the methodology summarized below.

### **Actuarial Cost Method**

Projected Unit Credit, as required under Accounting Standards Codification 715.

### **Asset Valuation Method**

The market related value of assets is equal to the fair value of assets.

The Fair Market Value of Assets used for funds invested in the General Account of an Insurance Company is the stated contract value with a market value adjustment factor. This value is an estimate only and not the precise calculation which would be done at contract discontinuance or to measure the impact of excess withdrawals in any calendar year. It does not constitute a final offer by Prudential or a final experience adjustment.

### **Gains and Losses**

Unrecognized net gains/losses that exceed 10% of the greater of the projected benefit obligation or the market related value of assets are amortized over the average remaining service period of active employees expected to receive benefits under the plan.

### **Determination of Liabilities and Assets**

The Net Periodic Benefit Cost was calculated using January 1, 2020 census data, and assets as of January 1, 2020.

The liabilities for the end of year disclosure were calculated using January 1, 2020 census data, advanced as necessary to December 31, 2020 on the basis of the underlying assumptions. The liabilities for the end of year disclosure exclude 3 participants who received a lump sum payout of their full pension benefit during the 2020 fiscal year. Assets for the end of year disclosure reflect assets as of December 31, 2020.

The actuarial assumptions used to compute Plan costs are:

**Mortality:**

12/31/2019 Male and Female	Pri-2012 Total Dataset Mortality Table with Scale MP-2019 for current employees and inactives who were former participants
	Pri-2012 Total Dataset Contingent Survivor Table with Scale MP-2019 for surviving beneficiaries of former participants
12/31/2020 Male and Female	Pri-2012 Total Dataset Mortality Table with Scale MP-2020 for current employees and inactives who were former participants
	Pri-2012 Total Dataset Contingent Survivor Table with Scale MP-2020 for surviving beneficiaries of former participants

**Termination:**

The probabilities that Participants at the ages indicated will terminate before reaching the assumed retirement age are:

<u>Age</u>	<u>Terminations</u> <u>Per 1,000</u>
25	47
30	39
35	30
40	24
45	20
50	14
55	9
60 & over	2

In addition, a decreasing set of factors has been applied to the above rates to reflect the higher incidence of turnover during the first 5 year of employment. These factors are 3.33, 2.67, 2.00, 1.67, 1.33 for years 1 through 5, respectively

**Retirement Age:**

All Participants are assumed to retire at age 65; otherwise attained age if retiring after 65.

**Discount Rate:**

December 31, 2019: 3.00%  
December 31, 2020: 2.25%

**ACTUARIAL ASSUMPTIONS**

<b>Estimated Expenses:</b>	None
<b>Salary Scale:</b>	Not Applicable
<b>Long Term Rate of Return:</b>	3.50%
<b>Marriage and Age of Spouse:</b>	85% of participants are assumed married. Female spouses are assumed to be three years younger than their male spouses.
<b>Lump Sum Conversion:</b>	<p>Annuity benefits are converted to lump sums using the following interest rate and mortality assumptions:</p> <p>12/31/2019: November 2019 lump sum segment rates, and 2020 417(e) mortality table.</p> <p>12/31/2020: November 2020 lump sum segment rates, and 2021 417(e) mortality table.</p>
<b>Form of Payment:</b>	<p>For active participants and terminated vested participants who terminated employment on or after January 1, 2005: 75% are assumed to receive their benefit as a lump sum at normal retirement and 25% are assumed to receive their benefit as an annuity at normal retirement.</p> <p>Terminated vested participants who terminated employment prior to January 1, 2005 are assumed to receive their benefit as an annuity at normal retirement.</p>
<b>Social Security:</b>	
<i>Primary Insurance Amount</i>	Not Applicable
<i>Covered Compensation</i>	Not Available
<b>Disability:</b>	None assumed