



WEST PALM BEACH POLICE PENSION FUND

OFFICE OF RETIREMENT

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To: All Retired & Active DROP Members
From: David M. Williams, Plan Administrator
Subject: Notice of Supplemental Distribution (SPD)
Date: April 8, 2022

Dear Retired & Active DROP Members:

I hope this letter finds you doing well. In an effort to keep you informed, the Board of Trustees wanted a formal notice provided to each of you.

On April 08, 2022, at a public pension meeting, the Board of Trustees met with the Actuary for the Plan. The representative from Gabriel Roeder Smith & Co. presented his findings regarding a potential fresh start of assets and payment of a Supplemental Pension Distribution (SPD) in connection with the September 30, 2021 Actuarial Valuation. There is no requirement for the Board of Trustees to fresh start the assets, but by doing so \$40.7 million of deferred investment gains would be immediately recognized and the cumulative experience position since October 1, 1991, would change from a loss of \$15.0 million to a gain of \$25.7 million. Furthermore, this action would cause a \$19.5 million Supplemental Pension Distribution (SPD) to be paid. As a point of reference, the value of the Plan at the close of fiscal year 2021 was \$483 million dollars.

After weighing all their options, the Board of Trustees elected to fresh start of assets which would trigger an estimated \$19.5 million dollar SPD, along with establishing a \$15.5 million dollar contribution stabilization reserve which may be used to offset future Required City Contributions (RCC). The current RCC will remain a 22.44% of pay for the city. Under this Board option a policy regarding the use of the stabilization reserve will be developed at a future meeting.

So what's next?

The Board of Trustees will meet again in May and formally adopt the Actuarial Valuation. At this juncture, the Board Actuary will begin developing the SPD amount for each person. Once that is completed, another letter (along with an election form) will be sent to you, letting you know the entitlement amount and what your payment options are. In advance of that letter, I can tell you the SPD funds may be paid directly to you¹; rolled into a qualified fund such as an IRA; or deposited into your WPB Police DROP or SHARE Account². You will be required to complete and return your election option form to the Office of Retirement. Once the election forms are received, a formal payment request will go to our custodian (Bank) who will set up the payments. Direct payments will be made to your account on file³.

¹ Direct Payments will result in 20% federal tax withholding.

² Only method of payment for Active DROP Members.

³ The Board of Trustees cannot provide tax or financial advice, and you are highly encouraged to consult with a tax/financial professional.

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As you can see this process has many steps. The target date for payment will be September 1, 2022. Should we be able to accelerate the process, we will let you know.

Kindly refrain for calling or e-mailing the Office of Retirement as the staff will not have any further information to share with you at this juncture. Further written communications will follow as warranted.

The following information was extracted from the Special Act that governs the Plan. It is being provided for informational purposes only.

SPECIAL ACT

(12) Supplemental pension distribution.

(a) The board of trustees shall annually authorize a supplemental pension distribution, the amount of which shall be determined as of each September 30, as applicable.

1. For employees who retired prior to October 1, 1999, the amount of the distribution shall be equal to the actuarial present value of future pension payments to those pensioners, multiplied by the positive difference, if any, between the rate of investment return (not to exceed nine percent (9%)) and seven percent (7%), plus one-half of any investment earnings over nine percent (9%).

2. For those employees who have more than twelve and one-half (12½) years of service on and after October 1, 1999, or who are part of the DROP on or after October 1, 1999, the amount of the distribution shall be equal to the actuarial present value of future pension payments to those pensioners multiplied by the positive difference, if any, between the rate of investment return (not to exceed nine percent (9%)) and seven percent (7%) plus one-half of any investment earnings over nine percent (9%).

3. For those employees who have less than twelve and one-half (12½) years of service as of October 1, 1999, the amount of the distribution shall be equal to the actuarial present value of future pension payments to those pensioners multiplied by the positive difference, if any, between the rate of investment return (not to exceed nine percent (9%)) and eight and one-quarter percent (8.25%), plus one-half of any investment earnings over nine percent (9%). Effective October 1, 2011, the 8.25-percent rate has been changed per the formula contained in subsection (9) because the actuarial assumption rate was changed to eight percent (8%) and the members' multiplier was reduced prospectively to 2.68 percent.

(b) The actuary shall determine whether there may be a supplemental pension distribution based on the following factors:

1. The actuary for the pension fund shall determine the rate of investment return earned on the pension fund assets during the 12-month period ending each September 30. The rate determined shall be the rate reported in the most recent actuarial report submitted pursuant to F.S. ch. 112, pt. VII.

2. The actuary for the pension fund shall, as of September 30, determine the actuarial present value of future pension payments to current pensioners. The actuarial present values shall be calculated using an interest rate of 7 percent a year compounded annually and a mortality table as approved by the board of trustees and as used in the most recent actuarial report submitted pursuant to F.S. ch. 112, pt. VII.

3. The supplemental pension distribution amount shall not exceed accumulated net actuarial experience from all pension liabilities and assets. If the net actuarial experience is favorable, cumulatively, commencing with the experience for the year ended September 30, 1991, after offset for all prior supplemental distributions, the supplemental distribution may be made.

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If the net actuarial experience is unfavorable, cumulatively, commencing with the experience for the year ended September 30, 1991, after offset for all prior supplemental distributions, no supplemental distribution may be made, and the city must amortize the loss until it is offset by cumulative favorable experience.

If an actuarial report submitted as provided in this paragraph is not state accepted prior to distribution, and if a deficiency to the pension fund results, the deficiency shall be made up from the next available supplemental pension distribution, unless sooner made up by agreement between the board of trustees and the city. No such deficiency shall be permitted to continue for a period greater than 3 years from the date of payment of the supplemental pension distribution which resulted in the deficiency.

(c) If the actuary determines there may be a supplemental distribution, the board of trustees shall authorize a "supplemental pension distribution," unless the administrative expenses of distribution exceed the amount available for the distribution.

(d) Eligible persons are:

1. Pensioners.
2. Surviving spouses.
3. Surviving dependent children.
4. Pensioners' estates.

(e) The supplemental pension distribution shall be allocated among eligible persons, based upon years of service in the proportion that the eligible person's years of service bear to the aggregate amount of years of service of all eligible persons. Allocations for surviving spouses and surviving dependent children who are eligible to receive supplemental pension distributions shall be $66\frac{2}{3}$ percent of the years of service earned by the pensioner. Maximum service credits shall be 25 years. Allocations for duty-disability pensioners shall be based upon 25 years of service. Allocations for duty-death beneficiaries (surviving spouse and surviving dependent children) shall be based upon $66\frac{2}{3}$ percent of 25 years of service.

(f) The supplemental pension distribution shall be made as of April 1, 1992, and each April 1 thereafter. Each eligible person shall be paid his or her allocated portion from the preceding September 30. Eligible persons retired for less than one (1) year are entitled to a pro rata share of their supplemental pension distribution based on number of months retired. A pensioner's estate is entitled to a pro rata share of the deceased retirant's supplemental pension distribution based on the number of months that the deceased retirant received a pension during the year ending the September 30 prior to the retirant's death.

Respectfully,



David M. Williams, Plan Administrator

FOR THE BOARD