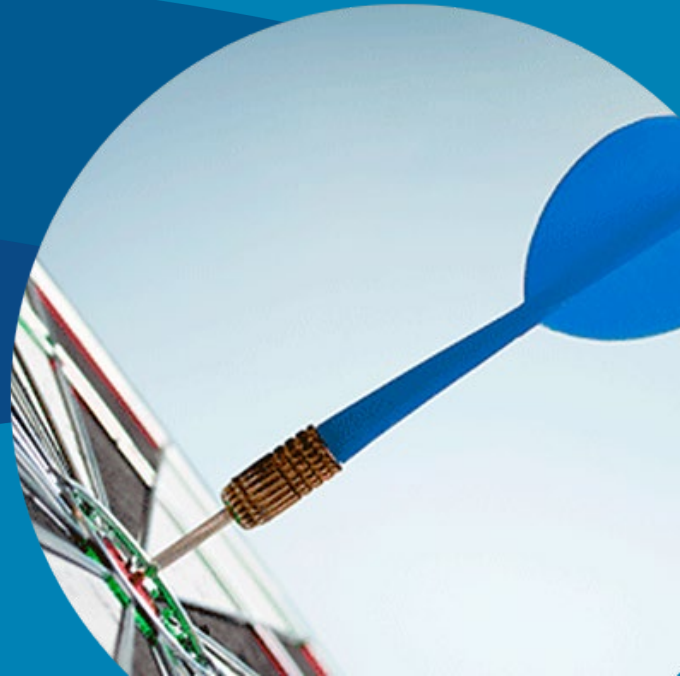




West Palm Beach Police Pension Fund

City Commission Workshop

April 8, 2024



Agenda

- Pension Plan Basics
 - Retirement benefit
 - DROP and Share Plan
- Pension Plan Funding
 - Pension Obligation Bond
 - Current contribution requirements
 - Funded Ratio
 - Supplemental Pension Distribution (SPD)
 - Contribution Stabilization Reserve (CSR)
- Changes reflected in October 1, 2023 Actuarial Valuation Report (AVR)
 - Updates to assumptions based on recent Experience Investigation Report
- Variability of future cost
- Comparison to other Public Safety Plans

Pension Plan Basics

- Plan Provisions
 - 3% benefit multiplier
 - Average Final Compensation (AFC) is determined over the three best years of pensionable earnings
 - Pensionable earnings include base pay plus up to 300 hours of overtime as permitted under Chapter 185
 - Normal Retirement Date is the earliest of age 55 with 10 years of service or age 50 with 20 years of service or 25 years of service regardless of age
 - Member contribution rate is 11% of pensionable earnings

Pension Plan Basics

- Plan Provisions
 - DROP program – Deferred Retirement Option Program
 - Any member eligible for normal retirement may enter the DROP
 - Upon DROP entry the benefit is calculated as if the member has retired
 - Benefits reflect service and pay as of DROP entry
 - Member agrees to terminate employment with the City at the end of the DROP period
 - Maximum participation period in the DROP is the earlier of 5 years or 30 years of service
 - The payments will be accumulated in an account and are credited with investment related earnings
 - In general, 8% per year unless the average annual return on assets since October 1, 2011 is less than 8% in which case the investment earnings will equal 4%
 - The fund would have to have earned less than 0.5% during FYE 2024 in order for the average annual return since 2011 to be less than 8%
 - The IRS code requires minimum distributions from the DROP account after the member turns 73 years old
 - Members pay the administrative expenses associated with the DROP

Pension Plan Basics

– Share Plan

- The Share Plan is funded by annual premium tax revenue
- Amount of annual premium tax revenue is based on tax collections on casualty insurance policies written within the City's limits
- Annual premium tax revenue was approximately \$1.98 million in 2023 for the West Palm Beach Police Pension Fund
- Each active member will receive an equal share of the annual premium tax revenue provided they worked the full year (roughly \$6,700 per active member)
- The annual premium tax revenue for FYE 2012, 2013 and 2015 was used to fund the Pension Plan rather than being used to fund the members' Share Plan accounts
- Interest is calculated based on the fund rate of return for the first ten years of employment; once vested the member may elect the fund return or the 4% to 8% interest crediting rate
- Members pay the administrative expenses associated with the Share Plan

Pension Plan Basics

- Sample Benefit Illustration

- Date of Birth 10/1/1973
 - Age 50 as of 10/1/2023
- Date of Hire 10/1/2003
 - 20 years of service as of 10/1/2023
- AFC as of 10/1/2023: \$90,000
- Member enters a 5 year DROP on 10/1/2023

- Calculation of Pension Benefit

- Current Pension Benefit = $[3.00\% \times 20] \times \$90,000$
- Equals \$54,000 per year or \$4,500 per month
 - This benefit will be paid as a 66.67% Joint and Survivor annuity for married members and as a 10 year certain and life annuity for unmarried members
- The pension benefit will include a COLA starting at age 65
 - The COLA will be based on CPI up to 3% and will reflect simple interest
- The value of this benefit using the valuation assumptions is approximately \$725,000



Pension Plan Basics

- Calculation of DROP Balance after 5 years
 - Pension benefit will be paid into the DROP Plan for five years as the member continues to work for the City
 - Value of the DROP balance at the end of five years will be approximately \$310,000 assuming an average return of 6%
 - Member can withdraw account or leave it in earning between 4% and 8% per year
- Summary of Pension Benefit for Sample Member
 - Member will receive \$4,500 per month starting at age 55
 - This monthly benefit will increase with CPI up to 3% per year starting at age 65
 - This COLA is based on simple interest instead of compound interest
 - The value of this benefit is roughly \$725,000
 - Member's DROP balance will be approximately \$310,000
 - Balance can remain in the fund earning between 4% and 8%
 - Member's Share Plan balance will be approximately \$190,000
 - Balance can remain in the fund earning between 4% and 8%

Pension Plan Basics

- Summary of Pension Benefit for Sample Member (continued)
 - The value of the member contributions paid for the 20 years is approximately \$265,000 assuming a 5% salary scale and assuming that the 11% member contribution was in place since the member was hired
 - The total member contributions for the 20 years are approximately \$135,000
 - The member is not eligible for social security benefits

Pension Plan Funding

- In July, 2016 a \$50 million Pension Obligation Bond (POB) was issued which paid off about 90% of the Unfunded Actuarial Accrued Liability (UAAL)
 - The funded ratio increased from 82.4% to 97.1%
 - The UAAL decreased from \$56.7 million to \$9.5 million as of October 1, 2015
 - The annual amortization payment on the UAAL decreased by \$6.5 million

Pension Plan Funding

- The proceeds from the POB were deposited into the Pension Plan in 2016
 - The investment return on pension plan assets from 2016 through September 30, 2023 averaged about 7.2% per year
- This return is significantly above the amounts paid to bondholders, which is approximately 3.5%
- As of 09/30/2023, since the issuance of the POB:
 - The investment return on the \$50 million deposited into the Pension Plan is about \$31.8 million
 - Interest paid on the bond has been about \$12.5 million
 - The return on the \$50 million in the pension plan exceeds the interest on the bond by about \$19.3 million

Pension Plan Funding

- In addition to the issuance of the POB, the investment returns (with the exception of FYE 2022 and FYE 2015) on the pension plan assets over recent years have put downward pressure on the required contribution

	Investment
Year Ending	Return
9/30/2023	7.7%
9/30/2022	-16.4%
9/30/2021	30.2%
9/30/2020	6.3%
9/30/2019	0.6%
9/30/2018	9.9%
9/30/2017	16.1%
9/30/2016	7.7%
9/30/2015	-2.1%
9/30/2014	10.0%
9/30/2013	16.4%
9/30/2012	23.0%

Pension Plan Funding

- There are two components of the Actuarially Determined Employer Contribution (ADEC)
 - Employer Normal Cost – Represents the value of the accruals from the active members of the Plan
 - Expected to remain a fairly level percentage of covered payroll absent any assumption, method, or plan changes
 - Amortization Payments on the UAAL
 - Changes in the UAAL that occur as a result of a plan change, experience gain / loss, assumption change or method change are not paid for immediately
 - Instead these changes in the UAAL are paid for over a period of time not to exceed 30 years

Pension Plan Funding

- The Actuarially Determined Employer Contributions (ADEC) for the FYE 2024 and 2025 are:

	ADEC for FYE (\$ millions)		
	2025 ²	2025 ¹	2024
Expected Covered Payroll	26.07	26.07	25.18
Employer Normal Cost³			
\$ amount	5.62	5.23	5.07
% of covered payroll	21.54%	20.08%	20.15%
Amortization Payments of the UAL			
\$ amount	4.86	5.02	2.99
% of covered payroll	18.63%	19.27%	11.86%
ADEC (reflecting beginning of year payment)			
\$ amount	10.12	9.92	7.79
% of covered payroll	38.82%	38.03%	30.93%
Application of Contribution Stabilization Reserve			
\$ amount	2.10	1.93	1.99
% of covered payroll	8.06%	7.40%	7.90%
Final Required City Contribution (reflecting beginning of year payment)			
\$ amount	8.02	7.99	5.80
% of covered payroll	30.76%	30.63%	23.03%

¹ Before assumption changes

² After assumption changes

³ Includes administrative expenses



Pension Plan Funding

- Components of ADEC for FYE 2025
 - Normal cost
 - 21.54% of covered payroll or \$5.62 million
 - This includes administrative expenses which are lower in this plan as compared to most other plans
 - This is often referred to as the “operational” cost of the Plan
 - Amortization Payments on the UAAL
 - The annual payment on the UAAL is 18.63% of covered payroll or \$4.86 million
 - The UAAL is \$59.6 million as of October 1, 2023

Pension Plan Funding

- After the UAAL is fully paid off the cost of the Plan will migrate towards the Employer Normal Cost (currently 21.54% of covered payroll) provided:
 - There are no changes in plan provisions, actuarial assumptions and actuarial methods
 - The actuarial gains and losses offset each other
 - More accurate actuarial assumptions will lead to a higher probability of actuarial gains and losses offsetting each other over a long period of time

Pension Plan Funding

- The funded ratio is one measure of the health of a retirement system
 - It represents the percentage of liability covered by assets
 - Based on actuarial assumptions
- The funded ratio as of October 1, 2023 is 89.2%
 - The funded ratio as of October 1, 2015 before the POB was 82.4%
 - The average funded ratio for 130 of our other clients is in the mid 80% range as of October 1, 2023
- The City has been making the ADEC each year and members have been contributing 11% of covered payroll

Pension Plan Funding

- As of October 1, 2023, the Plan is in a \$96.7 million cumulative actuarial loss position measured from 1992
 - No SPD will be paid until this cumulative loss position is reversed
- A \$15.5 million Contribution Stabilization Reserve (CSR) was established on 10/1/21 and will be used to offset Required City Contributions in future years to dampen contribution volatility
 - The Required City Contribution was reduced by \$2.1 million in FYE 2025 due to the application of the credit from the CSR

Changes Reflected in 10/1/2023 AVR

- Changes were made to the below assumptions based on the recent Experience Investigation Report for the 9-Year Period Ended September 30, 2023
 - Salary scale, retirement rates and withdrawal rates were updated to be more in-line with the experience of the plan
 - Loads were added to prefund the gains/losses for the Supplemental Pension Distributions and DROP/Share Plan interest crediting rate

Variability of Future Cost

- There were \$51.5 million of deferred investment losses to recognize as of October 1, 2023
 - Primarily due to the investment losses from FYE 2022 that still need to be recognized
- If these deferred losses were immediately recognized the Required City Contribution would increase by 15.38% of pay.
- Six months into the current FY investment returns are very strong
 - S&P 500 is up about 22%
 - Plan assets are likely up double digits
- If this continues a portion of the deferred investment losses mentioned above will be offset

Comparison to Other Florida Pension Plans

- Comparison of Employer Normal Cost Rates (value of annual accrual less member contribution rate plus administrative expenses):

Plan	Employer Normal Cost Rate in 2022 Valuation Report*
Boynton Beach Fire	23.69%
Boynton Beach Police	21.88%
Bradenton Police	20.90%
Eustis Police	29.61%
Key Biscayne Police and Fire	11.75%
Lake Mary Fire	23.11%
Lake Worth Police	29.48%
Largo Police and Fire	17.02%
Marco Island Fire	34.98%
Miami Springs Police and Fire	14.59%
North Miami Police	24.88%
Palm Beach Gardens Police	29.72%
Plantation Police	25.82%
Riviera Beach Fire	35.85%
Sarasota Police	27.46%
Sunrise Police	22.75%
Tequesta Public Safety	20.72%
West Palm Beach Fire	9.00%
West Palm Beach Police	20.15%
Average	23.33%

* Employer Normal Cost Rates for GRS Public Safety Plans using Entry Age Normal Funding Methods. Based on the demographic composition of the group as of October 1, 2022. The assumptions used to value the normal cost are not the same amongst all plans.

Additional Disclosures

- This presentation is intended to be used in conjunction with the September 30, 2023 Actuarial Valuation Report
- This presentation should not be relied on for any purpose other than the purpose described in the valuation report
- This presentation shall not be construed to provide tax advice, legal advice or investment advice