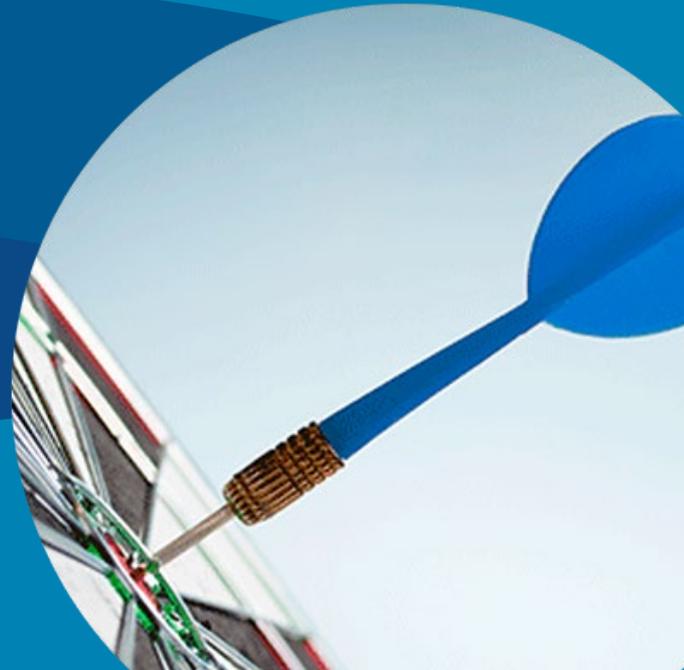




West Palm Beach Police Pension Fund

City Commission Workshop
September 27, 2021



Agenda

- Pension Plan Basics
 - Retirement benefit
 - DROP and Share Plan
- Pension Plan Funding
 - Pension Obligation Bond
 - Recent investment experience
 - Current contribution requirements
 - Investment return assumption
 - What we know about future cost
 - Funded ratio
- Recent Plan Changes
 - Impact of increasing the benefit multiplier to 3% for service from October 1, 2011 through October 1, 2017
 - Comparison to other Public Safety Plans

Pension Plan Basics

- High Level Plan Provisions

- Current benefit multiplier for service*

- after 9/30/2017 is 3.00%
 - between 10/1/2011 and 9/30/2017 is 2.68%
 - before 10/1/2011 is 3.00%

*An Actuarial Impact Statement has been prepared to determine the cost of increasing the benefit multiplier to 3% for service from October 1, 2011 through October 1, 2017

- 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

- 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

- High Level Plan Provisions

- DROP 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 lose 3% during FYE 2021 in order for the average annual return since 2011 to be less than 8%
 - There is no forced distribution of the DROP account when a member terminates employment

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 \$1.598 million in 2021 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 \$5,500 per active member)
- There were 291 active officers (including DROP members) as of October 1, 2020
- 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 calculated the same as shown above for DROP accounts

Pension Plan Basics

- Sample Benefit Illustration

- Date of Birth 10/1/1971
 - Age 50 as of 10/1/2021
- Date of Hire 10/1/2001
 - 20 years of service as of 10/1/2021
- AFC as of 10/1/2021: \$90,000
- Member enters a 5 year DROP on 10/1/2021

- Calculation of Pension Benefit

- Current Pension Benefit = $[3.00\% \times 10 + 2.68\% \times 6 + 3.00\% \times 4] \times \$90,000$
- Equals \$52,272 per year or \$4,356 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 benefit would increase to \$54,000 per year under the proposed benefit formula
- 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 \$700,000

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 \$300,000 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 \$4,356 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 \$745,000
 - Member's DROP balance will be approximately \$300,000
 - Balance can remain in the fund earning between 4% and 8%
 - Member's Share Plan balance will be approximately \$150,000
 - 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 have earned the following rates of return:
 - 6.30% during FYE 2020
 - About 8% per annum since inception
- These returns are significantly above the amounts paid to bondholders, which is approximately 3.5%
- As of 6/30/2021, since the issuance of the POB:
 - The investment return on the \$50 million deposited into the Pension Plan is about \$33.4 million
 - Interest paid on the bond has been about \$8.6 million
 - The return on the \$50 million in the pension plan exceeds the interest on the bond by about \$24.8 million

Pension Plan Funding

- In addition to the issuance of the POB, the investment returns over recent years have put downward pressure on the required contribution

Year Ending	Investment Return
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 current and prior fiscal years are:

	ADEC for FYE (\$ millions)		
	<u>2022³</u>	<u>2022²</u>	<u>2021¹</u>
Employer Normal Cost⁴			
\$ amount	4.32	4.02	4.20
% of covered payroll	17.44%	16.23%	16.25%
Amortization Payments of the UAL			
\$ amount	1.22	1.23	1.95
% of covered payroll	4.94%	4.98%	7.54%
State contribution⁵			
\$ amount	0.00	0.00	0.00
% of covered payroll	0.00%	0.00%	0.00%
ADEC (reflecting quarterly payments)			
\$ amount	5.54	5.25	6.15
% of covered payroll	22.38%	21.21%	23.79%
Expected Covered Payroll	24.78	24.78	25.87
ADEC (reflecting beginning of year payment)			
\$ amount	5.35	5.07	5.93

¹ Reflects lowering the investment return assumption from 7.625% to 7.50%

² Before assumption changes

³ Reflects lowering the investment return assumption from 7.50% to 7.25% and a change in the mortality table

⁴ Includes administrative expenses

⁵ State contributions in FYE 2012, 2013 and 2015 were used to fund the pension plan

Pension Plan Funding

- Components of ADEC for FYE 2022
 - Normal cost
 - 17.44% of covered payroll or \$4.32 million
 - This includes administrative expenses
 - This is often referred to as the “operational” cost of the Plan
 - Amortization Payments on the UAAL
 - The annual payment on the UAAL is 4.94% of covered payroll or \$1.22 million
 - The UAAL is \$17.2 million as of October 1, 2020 – reflects a 7.25% investment return assumption
 - The UAAL was \$56.7 million on October 1, 2015 before the POB

Pension Plan Funding

- After the UAAL is fully paid off the cost of the Plan will migrate towards the Employer Normal Cost (currently 17.44% 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

- Variability of Future Cost
 - As of October 1, 2020 there are \$10.3 million of unrecognized investment losses
 - If we recognize these losses immediately the ADEC would increase by approximately \$880,000
 - As of September 15, 2021 the S&P 500 was +35% FYTD which likely means the Plan's return for the FY is 20% - 25%
 - Based on this there will likely be significant investment gains in our 2021 Actuarial Valuation Report which will reduce the required city contribution.

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, 2020 is 96%
 - The funded ratio as of October 1, 2015 before the POB was 82.4%
 - The average funded ratio for 90 of our other clients is in the mid to upper 80% range
- The City has been making the ADEC each year and members have been contributing 11% of covered payroll

Recent Change to the Special Act

- We prepared a recent study which measured the impact of increasing the benefit multiplier from 2.68% to 3.00% for service accrued from October 1, 2011 to October 1, 2017
 - This resulted in a \$325,000 increase in the Required City Contribution in the first year
- A 3% benefit multiplier is closer to the average of other Public Safety Plans in Florida

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 2020 Valuation Report*
Boynton Beach Fire	23.92%
Boynton Beach Police	21.69%
Bradenton Police	19.60%
Eustis Police	30.39%
Key Biscayne Police and Fire	11.45%
Lake Mary Fire	22.81%
Lake Worth Police	25.49%
Lake Worth Fire	48.07%
Largo Police and Fire	17.19%
Marco Island Fire	40.01%
Miami Springs Police and Fire	12.47%
North Miami Police	24.92%
Palm Beach Gardens Police	25.22%
Plantation Police	26.42%
Riviera Beach Fire	36.84%
Sarasota Police	25.93%
Sunrise Police	22.01%
Tequesta Public Safety	20.92%
West Palm Beach Fire	8.97%
West Palm Beach Police	17.44%
Average	24.09%

* 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, 2020. 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, 2020 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