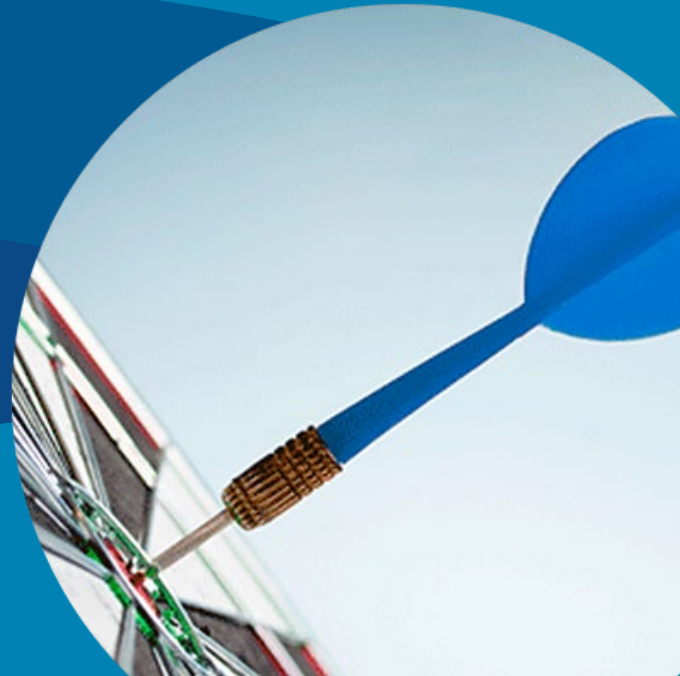




West Palm Beach Police Pension Fund

City Commission Workshop

December 19, 2022



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
- Changes reflected in October 1, 2021 Actuarial Valuation Report (SVR)
 - Lowered the investment return assumption from 7.25% to 7.00%
 - Set the Funding Value of Assets equal to the Market Value of Assets
 - 2021 Supplemental Pension Distribution
 - Contribution Stabilization Reserve
- What we know about 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 lost 15.7% during FYE 2022 in order for the average annual return since 2011 to be less than 8%
 - The gross investment return for FYE 2022 was -9.82% so the 8% interest crediting rate will remain in effect
 - The IRS code requires minimum distributions from the DROP account after the member turns 72 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 \$1.814 million in 2022 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 \$6,300 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 10/1/1972
 - Age 50 as of 10/1/2022
- Date of Hire 10/1/2002
 - 20 years of service as of 10/1/2022
- AFC as of 10/1/2022: \$90,000
- Member enters a 5 year DROP on 10/1/2022

- 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, 2022 averaged about 6.8% per year
- This return is significantly above the amounts paid to bondholders, which is approximately 3.5%
- As of 09/30/2022, since the issuance of the POB:
 - The investment return on the \$50 million deposited into the Pension Plan is about \$25.6 million
 - Interest paid on the bond has been about \$10.8 million
 - The return on the \$50 million in the pension plan exceeds the interest on the bond by about \$14.8 million

Pension Plan Funding

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

	Investment
Year Ending	Return
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 2022 and 2023 are:

	<u>ADEC for FYE (\$ millions)</u>		
	<u>2023²</u>	<u>2023¹</u>	<u>2022</u>
Employer Normal Cost³			
\$ amount	4.79	4.38	4.32
% of covered payroll	19.45%	17.77%	17.44%
Amortization Payments of the UAL			
\$ amount	0.74	0.10	1.22
% of covered payroll	2.99%	0.42%	4.94%
State contribution⁴			
\$ amount	0.00	0.00	0.00
% of covered payroll	0.00%	0.00%	0.00%
ADEC (reflecting quarterly payments)			
\$ amount	5.53	4.48	5.54
% of covered payroll	22.44%	18.19%	22.38%
Expected Covered Payroll	24.65	24.65	24.78
ADEC (reflecting beginning of year payment)			
\$ amount	5.35	4.33	5.35

¹ Before assumption changes

² After Changes - reflects lowering the return assumption to 7%, setting the funding value of assets equal to the market value of assets, payment of a \$19.5 million Supplemental Pension Distribution and establishment of a \$15.5 million contribution stabilization reserve.

³ Includes administrative expenses

⁴ State contributions in FYE 2012, 2013 and 2015 were used to fund the pension plan

Pension Plan Funding

- Components of ADEC for FYE 2023
 - Normal cost
 - 19.45% of covered payroll or \$4.79 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 2.99% of covered payroll or \$0.74 million
 - The UAAL is \$8.2 million as of October 1, 2021
 - The UAAL was \$56.7 million on October 1, 2015 before the POB

Pension Plan Statistics as of 10/1/2021

- After the UAAL is fully paid off the cost of the Plan will migrate towards the Employer Normal Cost (currently 19.45% 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 Statistics as of 10/1/2021

- 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, 2021 is 98.3%
 - 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 upper 80% range as of October 1, 2021
- The City has been making the ADEC each year and members have been contributing 11% of covered payroll

Changes Reflected in 10/1/2021 AVR

- Lowered the investment return assumption from 7.25% to 7.00%
 - This assumption is more in-line with the current capital market forecasts
 - Higher probability of meeting the assumption
 - If the actual investment return averages 7.00% over long periods of time
 - Actuarial gains and losses will offset each other over long periods of time
 - The required city contribution will migrate to the Employer Normal Cost which is currently under 20% of payroll.

Changes Reflected in 10/1/2021 AVR

- The Board set the Funding Value of Assets, which is used to determine the Required City Contribution, equal to the Market Value of Assets as of October 1, 2021
 - This expedited the recognition of \$40.65 million of deferred investment gains
 - Instead of recognizing these gains over the next three years they were immediately recognized on October 1, 2021

Changes Reflected in 10/1/2021 AVR

- The Plan has moved into a cumulative actuarial gain position measured from 1992
 - This triggered a Supplemental Pension Distribution (SPD) Payment of \$19.5 million
 - This is the first SPD payment since made since 2007
 - The Plan will likely be in a cumulative actuarial loss position as of October 1, 2022 due to the investment losses during the year so no SPD will be paid this upcoming year

Changes Reflected in 10/1/2021 AVR

- A \$15.5 million Contribution Stabilization Reserve (CSR) was established as of October 1, 2021
- This reserve will be used to offset Required City Contributions in future years to dampen contribution volatility
 - For example, if the required contribution increases by \$2.0 million in the October 1, 2022 valuation report, it is possible to use \$1.0 million of the CSR so the required city contribution increases by only \$1.0 million
 - The Board is formalizing a policy to determine how the CSR will be used

Variability of Future Cost

- The total plan net return is -10.44% for FYE 2022
 - This is one of the best investment returns I have seen amongst our clients
 - That being said, the return is significantly less than the assumed rate of 7%
 - This shortfall will generate an actuarial loss in the October 1, 2022 valuation report
 - Since we are smoothing the assets only 25% of the loss will be recognized next year
 - This loss will also be amortized over 20 years

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 2021 Valuation Report*
Boynton Beach Fire	24.94%
Boynton Beach Police	22.24%
Bradenton Police	19.16%
Eustis Police	29.84%
Key Biscayne Police and Fire	12.10%
Lake Mary Fire	22.73%
Lake Worth Police	27.04%
Lake Worth Fire	64.47%
Largo Police and Fire	17.05%
Marco Island Fire	35.42%
Miami Springs Police and Fire	14.67%
North Miami Police	26.00%
Palm Beach Gardens Police	28.30%
Plantation Police	26.48%
Riviera Beach Fire	37.00%
Sarasota Police	27.16%
Sunrise Police	22.25%
Tequesta Public Safety	20.99%
West Palm Beach Fire	9.01%
West Palm Beach Police	19.45%
Average	25.32%

* 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, 2021. 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, 2021 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