

CITY OF FORT LAUDERDALE  
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM

ACTUARIAL IMPACT STATEMENT  
July 1, 2015

Attached hereto is a comparison of the impact on the Total Required Contribution (per Chapter 112, Florida Statutes), and the Required City Contributions, resulting from implementation of the following changes:

- 1) For Firefighters hired on or after October 1, 2014:
  - a. The Average Monthly Earnings period will be increased from 2 to 5 years.
  - b. The benefit accrual rate will be decreased from 3.38% to 3.0% for each year of Credited Service.
  - c. The maximum accrual rate will be decreased from 81.0% to 75.0% of Average Monthly Earnings.
  - d. For each month a Firefighter delays entry into DROP following completion of 25 years of Credited Service, the 96 month maximum DROP participation period shall be correspondingly reduced by one month.
  - e. The Normal Form of Benefit will be changed from 60% joint and contingent survivor to 10-Year Certain and Life.
  
- 2) Eliminating the interest component on refunds of Member Contributions for all Firefighters who separate employment with the City on or after October 1, 2014.
  
- 3) Implementing a special formula (described on following page) to determine the amount of Chapter 175 premium tax revenues that the City will be able to utilize to offset its funding requirements, effective for the plan year beginning on October 1, 2014. Additionally, no future premium tax revenues will be transferred to the Firefighters' share plan, but instead will be utilized to reduce the Unfunded Actuarial Accrued Liability.

The cost impact, determined as of October 1, 2014, as applicable to the plan and fiscal year ending September 30, 2016, is as follows:

	Current	Proposed
Valuation Date	10/1/2014	10/1/2014
Applicable Pension Fund Plan Year Ended	9/30/2016	9/30/2016
Applicable City Fiscal Year Ended	<u>9/30/2016</u>	<u>9/30/2016</u>
<b>Assumed City Contribution Date</b>	<b>October 1, 2015</b>	<b>October 1, 2015</b>
Total Required Contribution	\$23,568,049	\$23,566,538
Less Expected Member Contributions	6,059,968	6,059,968
Equals Expected City and State Required Contribution	17,508,081	17,506,570
Less Expected State Contribution <sup>1</sup>	3,313,553	3,798,008
Equals Expected Balance from City <sup>2</sup>	\$14,194,528	\$13,708,562

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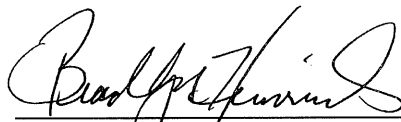
<sup>1</sup> The current column represents allowable State Contributions received in Calendar 2014 based on the traditional interpretation of Chapter 99-1, Florida Statutes. The proposed column represents the proposed special formula that will be utilized for plan years beginning October 1, 2014, which reads as follow:

“The amount of Chapter 175 premium tax revenues to be retained by the Plan and applied to reduce the City’s annual required contribution to the Plan shall be equal to the per capita amount of Chapter 185 premium tax revenues retained by the Plan for each active Police Officer in the Plan as of October 1<sup>st</sup> of each year (excluding the amount in the Chapter 185 premium tax revenue reserve account in the Plan on December 31, 2013), multiplied by the number of active Firefighters in the Plan on the same date. For purpose of this subsection, an ‘active’ Police Officer or Firefighter is an Employee as defined in Section 20-127, including DROP Participants.”

<sup>2</sup> It is important to keep in mind that a slight adjustment to the City’s bottom line funding requirement may be necessary, based on the actual allowable State Monies received.

Additionally, please note that the impact of the benefit changes listed in Item 1 above which affect only new hires is not reflected in the results shown above, as they will have no impact on the first year costs. However, the impact of these changes will be reflected in future valuation reports as future Firefighters begin to enter the system.

The changes presented herein are in compliance with Part VII, Chapter 112, Florida Statutes and Section 14, Article X of the State Constitution. Additionally, the undersigned is familiar with the immediate and long-term aspects of pension valuations and meets the Qualification Standards of the American Academy of Actuaries necessary to render the opinions contained herein.



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Bradley R. Heinrichs, FSA, EA, MAAA  
Enrolled Actuary #14-6901

STATEMENT OF PLAN ADMINISTRATOR

The prepared information presented herein reflects the estimated cost of the proposed improvement.

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Chairman, Board of Trustees

COMPARATIVE SUMMARY OF PRINCIPAL VALUATION RESULTS

	<u>Proposed</u> <u>10/1/2014</u>	<u>Current</u> <u>10/1/2014</u>
<u>A. Participant Data</u>		
Number Included		
Actives	798	798
Service Retirees	745	745
Beneficiaries	144	144
Terminated Vested	19	19
Disability Retirees	25	25
DROP Retirees	89	89
Total	<u>1,820</u>	<u>1,820</u>
Total Annual Payroll	70,629,176	70,629,176
Payroll Under Assumed Ret. Age	69,945,417	69,945,417
Annual Rate of Payments to:		
Service Retirees	34,306,597	34,306,597
Beneficiaries	3,190,954	3,190,954
Terminated Vested	592,348	592,348
Disability Retirees	1,005,654	1,005,654
DROP Retirees	6,426,802	6,426,802
<u>B. Assets</u>		
Actuarial Value	754,116,298	754,116,298
Market Value	760,851,264	760,851,264
<u>C. Liabilities</u>		
Present Value of Benefits		
Active Members		
Retirement Benefits	387,926,529	387,926,529
Disability Benefits	11,443,535	11,443,535
Death Benefits	4,644,633	4,644,633
Vested Benefits	9,789,344	9,789,344
Refund of Contributions	1,689,093	1,715,929
Service Retirees	368,561,011	368,561,011
Beneficiaries	26,038,792	26,038,792
Terminated Vested	5,772,670	5,772,670
Disability Retirees	11,159,699	11,159,699
DROP Retirees	101,510,426	101,510,426
Total	<u>928,535,732</u>	<u>928,562,568</u>

<u>C. Liabilities - (Continued)</u>	<u>Proposed</u> <u>10/1/2014</u>	<u>Current</u> <u>10/1/2014</u>
Present Value of Future Salaries	590,355,256	590,355,256
Normal Cost (Entry Age)		
Retirement Benefits	15,707,751	15,707,751
Disability Benefits	1,207,174	1,207,174
Death Benefits	379,732	379,732
Vested Benefits	697,099	697,099
Refunds	351,075	351,258
Total Normal Cost	<u>18,342,831</u>	<u>18,343,014</u>
Present Value of Future Normal Costs	149,766,665	149,777,477
Actuarial Accrued Liability		
Retirement Benefits	256,251,943	256,251,943
Disability Benefits	3,024,465	3,024,465
Death Benefits	1,329,783	1,329,783
Vested Benefits	4,832,086	4,832,086
Refunds	288,192	304,216
Inactives	513,042,598	513,042,598
Total Actuarial Accrued Liability	<u>778,769,067</u>	<u>778,785,091</u>
Unfunded Actuarial Accrued Liability (UAAL)	24,652,769	24,668,793
 <u>D. Actuarial Present Value of Accrued Benefits</u>		
Vested Accrued Benefits		
Inactives	513,042,598	513,042,598
Actives	125,215,863	125,215,863
Member Contributions	47,959,743	47,959,743
Total	<u>686,218,204</u>	<u>686,218,204</u>
Non-vested Accrued Benefits	38,206,952	38,222,175
Total Present Value Accrued Benefits	<u>724,425,156</u>	<u>724,440,379</u>
Increase (Decrease) in Present Value of Accrued Benefits Attributable to:		
Plan Amendments	(15,223)	
Assumption Changes	0	
New Accrued Benefits	0	
Benefits Paid	0	
Interest	0	
Other	0	
Total:	<u>(15,223)</u>	

Valuation Date	Proposed 10/1/2014	Current 10/1/2014
Applicable Pension Fund Plan Year Ended	9/30/2016	9/30/2016
Applicable City Fiscal Year Ended	<u>9/30/2016</u>	<u>9/30/2016</u>

<b>Assumed City Contribution Date</b>	<b>October 1, 2015</b>	<b>October 1, 2015</b>
<u>E. Pension Cost</u>		
Normal Cost <sup>1</sup>	\$19,186,601	\$19,186,793
Administrative Expenses <sup>1</sup>	647,474	647,474
Payment Required to Amortize Unfunded Actuarial Accrued Liability over 20 years <sup>1</sup>	3,732,463	3,733,782
Applicable Interest <sup>1</sup>	0	0
Total Required Contribution	23,566,538	23,568,049
Less Expected Member Contributions <sup>1</sup>	6,059,968	6,059,968
Equals Expected City and State Contribution	17,506,570	17,508,081
Less Expected State Contributions	3,798,008	3,313,553
<b>Equals Expected City Required Contribution</b>	<b>\$13,708,562</b>	<b>\$14,194,528</b>

<sup>1</sup> Contribution requirements developed above have been adjusted to account for an applicable assumed salary increase component. Additionally, the above stated requirements reflect no interest as a result of the assumed beginning of year City contribution date. If the required contributions are deposited at a later date, additional interest at the assumed 7.5% annual rate must be added.

ACTUARIAL ASSUMPTIONS AND METHODS

Mortality Rates RP-2000 Table projected by Scale AA to 2012.

Disabled Mortality Rates RP-2000 Disabled Table projected by Scale AA to 2012

Interest Rate 7.50% per year compounded annually, net of investment related expenses.

Retirement Rates

Service	Probability of Retirement (Police)	Probability of Retirement (Fire)
20 – 22	45%	40%
23 – 24	50	30
25 – 30	15	15
30+	100	100

No Members are expected to take reduced Early Retirement.

Salary Increases

Service	Annual % Increase*
1 – 6	3.0%
7 – 10	2.5
11 – 25	1.0
26+	0.5

Expected increase in annual salary in addition to 2.75% inflationary component.

Cost of Living Adjustments None.

Funding Method Entry Age Normal Actuarial Cost Method. An interest load to the assumed City contribution date is utilized for determination of the Total Required Contribution. Additionally, beginning with the pension fund’s plan year ended September 30, 2015, a full year salary load based on the current 4.6% assumption is utilized under the projection funding method, as mandated by the Division of Retirement.

Payroll Increases 2.0% per year.

Administrative Expenses

Equal to prior year's expense amount.

Termination Rates

Age	Years of Service	% Separating from Employment Within the Next Year
All Ages	0	10.00%
	1	6.67
	2	6.00
	3	5.33
	4	4.67
25		4.70
30		4.30
35		3.00
40		1.30
45		0.60
50		0.30
55		0.00

Disability Rates

Age	% Become Disabled within Next Year
20	0.14%
25	0.15
30	0.18
35	0.23
40	0.30
45	0.51
50	1.00
55	1.55

It is assumed that 75% of disablements and active Member deaths are service related.

Marital Status

All employed Members and all retired Members are assumed to be married. Females are assumed to be 3 years younger than males.

Actuarial Value of Assets

The Actuarial Value of Assets is calculated by recognizing 20% of the difference between the Market Value of Assets and the expected Actuarial Value of Assets.

## SUMMARY OF PLAN PROVISIONS

<u>Membership</u>	Police officers and firefighters.
<u>Credited Service</u>	Total years and fractional parts of years of years of service of any Member, from the date he first entered employment as a Police Officer or Firefighter until either the date of his DROP Retirement or the date his employment shall be terminated by death, retirement, or discharge.
<u>Compensation</u>	Base pay, assignment pay, and longevity bonuses, including pick-up contributions, and up to forty (40) hours of overtime for police officers.
<u>Average Final Compensation</u>	<i>Firefighters: Average Compensation during the highest 2 years of Credited Service.</i>  <i>Police Officers hired prior to April 1, 2014: Average Compensation during the highest 2 years of Credited Service.</i>  <i>Police Officers hired after March 31, 2014: Average Compensation during the highest 5 years of Credited Service.</i>
<u>Member Contributions</u>	8.25% of Compensation. 8.50% for Members hired after April 18, 2010.
<u>City and State Contributions</u>	Remaining amount required in order to pay current costs and amortize unfunded past service cost, if any, as provided in Part VII, Chapter 112, F.S.
<u>Normal Retirement</u>	
Date	Earlier of: 1) Age 55 with 10 years of Credited Service, or 2) attainment of 20 years of Credited Service, regardless of Age.
Plan 1 Benefit	
Firefighters	3.38% of Average Final Compensation times Credited Service, with a maximum of 81% of Average Final Compensation. Firefighters with 25 or more years of Credited Service on October 1, 2002 are subject to a maximum of 91.26% of Average Final Compensation. Firefighters employed before December 11, 1993 receive an additional 2.0% of Average Final Compensation (excluded from the 81% maximum percentage).



Police Officers	<p><i>Hired prior to April 1, 2014:</i> 3.38% of Average Final Compensation times Credited Service, with a maximum of 81% of Average Final Compensation. Police Officers with 25 or more years of Credited Service on January 1, 2002 are subject to a maximum of 91.26%.</p> <p><i>Hired after March 31, 2014:</i> 3.00% of Average Final Compensation times Credited Service, with a maximum of 75% of Average Final Compensation.</p>
Plan 2 Benefit	<p>3.0% of Average Final Compensation for the first 20 years of Credited Service, plus 2.0% of Average Final Compensation for each year in excess of 20. Firefighters employed before December 11, 1993 receive an additional 2.0% of Average Final Compensation.</p>
Form of Benefit	<p><i>Firefighters:</i> 60% Joint and Survivor, with an additional 40% death benefit during the first year of retirement (Optional forms available).</p> <p><i>Police Officers hired prior to April 1, 2014:</i> 60% Joint and Survivor, with an additional 40% death benefit during the first year of retirement (Optional forms available).</p> <p><i>Police Officers hired after March 31, 2014:</i> 10-Year Certain and Life (Optional forms available).</p>

Early Retirement (Firefighters Only)

Eligibility	Age 50 with 10 years of Credited Service.
Benefit	Accrued benefit, reduced 3.0% per year that the benefit commencement date precedes the Normal Retirement date.

Vesting

Less than 10 Years of Credited Service	Refund of Member contributions. For Police Officers who separate employment with the City on or after December 3, 2013, no interest will be credited when determining the refund amount.
10 years of Credited Service	Accrued benefit deferred to Normal Retirement date.

Disability

Eligibility	Covered from Date of Employment.
Exclusions	Disability resulting from use of drugs, illegal participation in riots, service in military, etc.
Benefit	
Non-Service Connected	50% of Average Final Compensation offset by 100% of Social Security Disability benefits, Workers' Compensation benefits, and earned income.
Service Connected	65% of Average Final Compensation offset by Workers' Compensation benefits and earned income.
Duration	Payable for life or until recovery.

Death Benefits

Eligibility	Covered from Date of Employment.
Benefit	
Non-Service Connected	50% of the Member's monthly Compensation for eight (8) years. For a Member with at least 10 years of Credited Service, not less than the benefits otherwise payable at early or normal retirement age. The minimum benefit payable is four (4) times the rate of the Member's annual compensation.
Service Connected	50% of Member's monthly Compensation to spouse until death or remarriage. Children's benefits of 10% of Member's monthly benefits per child (50% maximum) until age 18, and a maximum of 80% to spouse and children. For Members who are not married and have no children, a 10-year benefit will be paid to the designated beneficiary. The minimum benefit payable is four (4) times the rate of the Member's annual compensation.

COLA

Adjustment Date	July 1st
Eligibility	Receipt of retirement benefits for one year. Additionally, must have entered Retirement status prior to July 1, 2008.

Amount

Lesser of 1) percentage not greater than CPI (all Urban Consumers) for preceding calendar year, or 2) percentage increase limited to present value of which can be funded by excess gains for preceding calendar year. Maximum cost-of-living adjustment is 5.0%.

The COLA increase may be granted only if the System remains in a net positive experience position, determined on a cumulative basis from January 1, 1987 (in State Statute – not in Ordinance)

DROP

Members eligible for Normal Retirement may elect either a Deferred Retirement Option Plan for up to 96 months or a Benefit Actuarially Calculated Deferred Retirement Option Program for up to 36 months, but not both. For Police Officers hired after March 31, 2014, each month a Member delays entry into DROP following completion of 25 years of Credited Service, the 96 month maximum DROP participation period shall be correspondingly reduced by one month.