

Margie Adcock

From: Adam Levinson <adam@robertdklausner.com>
Sent: Tuesday, February 10, 2015 1:47 PM
To: Brinkman, Keith (Keith.Brinkman@dms.myflorida.com); 'Carr, Sarah' (Sarah.Carr@dms.myflorida.com)
Cc: Margie Adcock; Robert Klausner; Pete.Strong@gabrielroeder.com
Subject: Lake Worth Fire response to 1/27 letter
Attachments: Lake_Worth_Fire.pdf; Lake Worth Fire Letter 1-29-2015 - Response to DMS Letter dated 1-27-201.....pdf

Follow Up Flag: Follow up
Flag Status: Flagged

Mr. Brinkman,

The purpose of this email is to acknowledge receipt of Mr. Poppell's attached January 27 letter to Jim Shook, former Chairman of the Lake Worth Firefighters' Retirement System (hereinafter the "Fund").

As set forth in more detail in the attached letter from the Fund's actuary, the Board of Trustees has taken the following steps over the past several years:

- 1) incrementally lowered the Fund's investment earnings assumption from 8.5% to 7.75%;
- 2) phased in the more conservative RP-2000 generational mortality table in place of the 1983 Group Annuity Mortality table;
- 3) shortened the Fund's amortization schedule on the UAL to 18 years, effective October 1, 2014.

The Lake Worth Fire Board of Trustees ("Board") will be meeting this month, at which time the January 27 letter will be discussed. Among other things the Board will consider notifying the membership as requested, by posting information responsive to Mr. Poppell's letter on the Fund's website.

As you know, had the Board not implemented the items discussed above, the Fund would have had a higher funded ratio (using the GASB 25 metric upon which the January 27 letter was based). This is an example of the adage that "no good deed goes unpunished." Nevertheless, while these steps by the Board have resulted in a lower GASB 25 funded ratio, the Board and its professionals believe that these steps were entirely prudent. It is unfortunate that reference to GASB 25 occurs in a vacuum, without consideration of all assumptions and methods employed by the Board. We would also note that GASB 25 has been replaced by GASB 67.

Indeed, the pending 10/1/14 valuation will reflect an improved funded ratio of 50.3% (under GASB 25). The funded ratio is 54.7% using market value rather than smoothed actuarial value. Under the new GASB 67 methodology, the Fund has a 66% funded ratio, in part due to the inclusion of DROP account values.

Please note that Wes Lamb was elected Chairperson in 2014. Please substitute Chairman Lamb for Mr. Shook on all future correspondence.

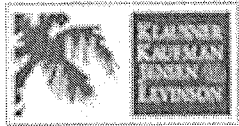
We welcome any additional suggestions by the Division of Retirement.

Thanks,

Adam Levinson
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January 29, 2015

Margaret M. Adcock
The Resource Centers, LLC
4360 Northlake Blvd. Suite 206
Palm Beach Gardens, FL 33410

RE: Lake Worth Firefighters Retirement System – Letter from Florida DMS dated 1/27/2015

Dear Margie:

We have reviewed the letter from the Florida Department of Management Services (DMS) dated January 27, 2015 concerning the City of Lake Worth Firefighters' Retirement System (Plan). In their letter, the DMS says that the Plan should consider taking action to prevent future taxpayers from having to incur costs.

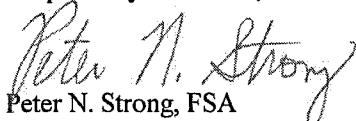
As you are aware, steps have been taken in recent years to improve Plan funding. In 2009, the mortality assumption was based on the 1983 Group Annuity Mortality Table, the investment return assumption was 8.50%, and the unfunded liability was amortized over periods ranging from 24 to 30 years. Beginning October 1, 2010, steps have been taken to improve Plan funding. The mortality assumption was changed to phase in (20% per year) the RP-2000 mortality table with generational mortality improvement projected using Scale AA. As of October 1, 2013, 80% of the RP-2000 generational table was used (and 20% of the 1983 Group Annuity table). RP-2000 will be fully implemented in the October 1, 2014 actuarial valuation. The investment return assumption has also been lowered in 15 basis point increments each year. As of October 1, 2013, the investment return assumption was 7.90% (down from 8.50% as of October 1, 2009), and it is being reduced to 7.75% as of October 1, 2014. Finally, the number of years used to amortize the unfunded actuarial liability (UAL) was reduced to no more than 25 years as of October 1, 2010.

Additional steps to improve Plan funding were taken in 2012. Beginning with the October 1, 2012 actuarial valuation, the remaining period for amortizing the UAL reduces by one extra year each year. This policy will continue through October 1, 2020. The result is that 20 years remain in the UAL amortization period as of October 1, 2013 (instead of 22 years if this policy had not been implemented), and 18 years will remain as of October 1, 2014. The UAL is expected to be fully amortized by October 1, 2026 under this policy.

In our opinion, these changes will continue to improve the near-term and long-term funding of the Plan and prevent future generations of taxpayers from having to incur costs.

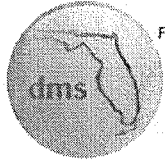
The undersigned actuary is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. The undersigned actuary is independent of the plan sponsor.

Respectfully submitted,


Peter N. Strong, FSA
Senior Consultant and Actuary

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FLORIDA DEPARTMENT OF MANAGEMENT SERVICES

retirement

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Rick Scott, Governor

Chad Poppell, Secretary

January 27, 2015

Mr. James Shook, Chairman
Lake Worth Firefighters' Retirement System
3169 Tropical Trail
Lantana, FL 33462

Dear Mr. Shook:

The Florida Department of Management Services' (DMS) Division of Retirement is responsible for reviewing Florida's local government retirement systems for compliance with applicable statutes and rules. This review consists of assessing each plan's conformance to Part VII of Chapter 112, Florida Statutes, which provides that plans are to be operated and funded in an actuarially sound manner.

Despite routine communication from DMS regarding your plan's actuarial compliance, the most recent actuarial valuation of the City of Lake Worth Firefighters' Retirement System (the plan) on file shows your GASB 25 funded status is below 50 percent. Your unfunded actuarial liability is \$22.7 million and the plan's assets are sufficient to pay no more than 48.8 cents for every dollar of pension benefits owed to its retirees and current employees. Absent any improvements in funded status, the plan's ability to meet its future obligations is doubtful and your members' benefits will be negatively affected.

As a result, your plan should consider taking action to prevent future taxpayers from having to incur costs. Section 112.61, F.S., states in part, "Inherent in this intent is the recognition that the pension liabilities attributable to the benefits promised public employees be fairly, orderly, and equitably funded by the current, as well as future, taxpayers. Accordingly, except as herein provided, it is the intent of this act to prohibit the use of any procedure, methodology, or assumptions the effect of which is to **transfer to future taxpayers any portion of the costs which may reasonably have been expected to be paid by the current taxpayers** (emphasis added)."

Although the City of Lake Worth Firefighters' Retirement System may be working toward or have recently implemented pension reforms, these changes, along with positive market returns in recent years have not had the effect of funding the expected costs of the plan.

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The Department of Management Services requests you immediately notify all active and retired members of the plan regarding the plan's conditions and what actions will be taken to improve it. Based on these concerns, DMS is prepared to offer you any technical assistance that is necessary to address the funding status of your plan. Thank you for your prompt attention to these matters.

Sincerely,

A handwritten signature in black ink, appearing to read 'Chad Poppell', written over the printed name.

Chad Poppell
Secretary

cc: Mr. Nerahoo Hemraj, Finance Director