



# **West Palm Beach Fire Department**

## **Firefighters Pension Fund**

### **Supplemental Pension Distribution**

Retirees and Beneficiaries,

Your pension board recently approved the 2021 Actuarial Valuation Report that resulted in a Supplemental Pension Distribution (SPD). This payment is commonly referred to as the 13<sup>th</sup> and 14<sup>th</sup> checks. The trustees and administrators have been getting some questions regarding this benefit, so we thought a general letter regarding the SPD would be helpful.

#### **What is the Supplemental Pension Distribution?**

The Supplemental Pension Distribution is a retirement benefit that is an additional payment made to eligible retirees and beneficiaries over and above their normal monthly pension benefit. It is not guaranteed and may not result in any payments over long periods.

#### **Who gets a distribution?**

Eligible persons are pensioners, surviving spouses, surviving dependent children, surviving dependent parents, or the pensioners' estates for the year following death only. The special act defines the SPD distribution date as April 1. So, in addition to being an eligible person, retirees must have been receiving a pension for one year prior to the distribution date. For example, to receive this year's SPD, a recipient must have been retired before April 1, 2021.

#### **What determines if a Supplemental Pension Distribution gets paid?**

Two conditions must be met to pay the 13<sup>th</sup> / 14<sup>th</sup> check. During the previous fiscal year, the assets of the Pension Fund must earn more than 7% for participants who retired before October 1, 1998, and 8.25% for those participants who retired after October 1, 1998. Secondly, the net actuarial experience must be favorable, cumulatively since the 13<sup>th</sup> check was established, on September 30, 1985.

#### **Why didn't everyone get the same amount?**

Each eligible recipient's share of the SPD is based on their years of credited service. For each year of service, the recipient is entitled to 3.85 points (basically, percentage points) toward the maximum. Anyone who has served 26 years, or more is eligible to receive the maximum amount, as they will have accumulated 100 points (or 100%). Those members who are line of duty disability pensioners, receive the maximum amount regardless of service years. Non-duty disability pensioners' amount is based on years of credited service. Surviving spouses and surviving dependent children with a normal form of benefit payment receive distributions receive 75% of the points earned by the deceased pension recipient.

### **How do I receive the distribution?**

The pension administrator, Resource Centers, will send out an election form. You may roll the full amount into your drop or share accounts as well as take the money as a lump-sum distribution. Keep in mind that distributions withdrawn from the pension fund may result in tax implications. It is always recommended to seek tax advice before taking withdrawals.

### **What's the difference between the 13<sup>th</sup> and 14<sup>th</sup> checks?**

The 13<sup>th</sup> check is a proxy for investment return from 7% - 9% (for those who retired before October 1, 1998) and from 8.25% - 9% (for those who retired on or after October 1, 1998). The gains resulting from this amount are fully distributed amongst the eligible retirees and beneficiaries.

The 14<sup>th</sup> check is a proxy of investment return in excess of 9%. One-half of the gains resulting from this amount is distributed amongst the eligible retirees and beneficiaries.

### **I heard that the Pension Fund wasn't going to be able to pay an SPD for several years. Why did we get a check?**

As mentioned above, to pay a Supplemental Pension Distribution, the Pension Fund needs to show a positive cumulative gain since the inception of the 13<sup>th</sup> check, September 30, 1985. In addition to earning at least 7%, the Pension Fund still needed to show an additional \$21,574,675 gain to balance out. The fiscal Year 2021 proved to be an outstanding year for the Pension Fund as we realized a net investment return of 23.6%. The pension fund has a four-year smoothing policy, meaning that we split our gains or losses over four years to reduce volatility in the City's contribution to the Pension Fund.

Gabriel, Roeder, and Smith, the Pension Fund's Actuary, approached the board with the concept of a "Fresh Start". By implementing this alternative funding option, the Pension Fund would realize the entire investment return of 23.6%, or \$27,296,457 in the actuarial valuation report. This resulted in "paying off" the \$21.5 million dollar balance and showing a positive cumulative gain since 1985, leaving \$5,721,782 for supplemental pension distribution.

### **Will we get another check next year?**

If you think of how the supplemental pension distribution works, the Pension Fund is paying out anything over a positive cumulative gain and starting from zero. To pay an additional check next year, the Pension Fund would have to earn its 7.5% assumed rate of return and offset all prior supplemental distributions. As you probably are aware, the investment returns for this fiscal year have not been nearly as favorable as last year. While we are hoping for a dramatic turnaround, at this time it does not appear so far there will be funds available for another distribution next year.

As a bit of history, the SPD has been paid five times since 1997. The largest past payment was \$2,300,000 in 1997. The last payment was issued in 2007 for \$1,777,759. This year the Pension Fund has \$5,721,782 available to distribute due to the fresh start.

**I heard the pension board also funded a reserve account. Did this affect the amount of money I received as a distribution?**

At the recommendation of the actuary, the pension board voted to fund a reserve account within the pension fund with \$10,000,000. This amount will be amortized over the next 10 years. The account was already in place within the Pension Fund, it just had never been funded. The purpose of this account is to act as a cushion to offset future adverse market or actuarial experience. The actuary thought this was particularly important to implement in light of the fresh start, realizing that the Pension Fund may not have positive experience over the next four years. The payout of \$5,721,782 may increase the future volatility of City contributions. It was extremely important to the board that the funding of this reserve not impact the amount of the supplemental pension distribution; instead, the new reserve account increased the required City contribution. While the “Fresh Start” allowed *both* the funding of the reserve and the payment of the 13<sup>th</sup> / 14<sup>th</sup> checks, they are not connected in any other way and did NOT reduce the funds available for the SPD.

It has always been the goal of this pension board to serve its retirees and beneficiaries as well as the active members. This Pension Fund excels because of its progressive board and outstanding service providers. While this fresh start approach may have risks due to future market corrections, the board voted unanimously to adopt the alternative funding option to pay benefits for current retirees and beneficiaries as well as help to protect the assets of active members. If you have any further questions or concerns, please feel free to reach out to your pension board trustees or service providers.