West Palm Beach Firefighters Pension Fund
Actuarial Funding Policy
(Adopted: MM DD, 2014)

FUNDING OBJECTIVES

The main funding objective for the defined benefit provisions of the West Palm Beach Firefighters Pension Fund (Fund) is to establish and receive employer (City and State, if any) contributions, expressed as a percentage of active member payroll, which will remain approximately level from year to year and will not have to be increased for future generations of citizens in the absence of benefit changes. This objective is stated in the Plan's Special Act and meets the requirements of Part VII, Chapter 112, Florida Statutes and Chapter 175, Florida Statutes. When the State contributions are not used to fund the defined benefit provisions, they are allocated to the Share Accounts of the active members. The employer contributions along with member contributions are to be used for funding the long-term costs of benefits, provided by the Special Act and collective bargaining agreements, for Fund members and beneficiaries. Additionally, the City is responsible for contributing administrative expenses.

From the perspective of the members and beneficiaries, a funding policy based on actuarially determined contributions has an objective to pay all benefits provided by Fund when due. From the perspective of the contributing plan sponsors and taxpayers, the actuarially determined contributions have the additional objectives of keeping contribution rates relatively stable as a percentage of active member payroll and equitably allocating the costs over the active members' periods of active service. For pension funding, the payment of benefits is supported in part by income earned on investment assets. This actuarial funding policy meets these objectives. It is stipulated by state law and collective bargaining agreements and is implemented through the application of Board adopted governance policies.

Statutory Pension Funding Policy

The Special Act for the Fund sets forth portions of the actuarial funding policy for the Fund.

<u>Special Act Excerpts:</u>

(3) Sources of revenue.-The financing of the Fund shall consist of the following sources of revenue:

(a) Taxes of insurance companies.-The moneys returned to the City as provided by chapter 175, Florida Statutes, shall be used to fund the share account benefit described in paragraph (5)(j). The chapter 175 funds received in calendar years 2012, 2013, and 2014 shall be utilized to reduce the employee contributions to 13.1 percent. Effective beginning calendar year 2015, the chapter 175 funds shall again be used in full to fund the share account benefits provided for in paragraph (5)(j). The City shall not opt out of participation in chapter 175, Florida Statutes, or any similar statutory enactment unless exigent circumstances exist, such as the bankruptcy of the City or changes or amendments to the statute regarding extra benefits by the Legislature. If any statutory changes are made by the Legislature, the City and the Board may renegotiate the impact of such changes, if necessary.

(b) Member contributions.-Effective May 13, 2012, the member shall contribute 25 percent of his or her salary to the Fund. The full amount of the chapter 175 funds received in calendar years 2012 and 2013 shall be used to reduce the employee contributions to 13.1 percent. Effective October 1, 2013, the employee contributions shall be 13.1 percent, which shall be deducted each pay period from the salary of each member in the Department, and the chapter 175 funds received in calendar year 2014 and thereafter shall once again be allocated to the share accounts. If the chapter 175 funds are insufficient to reduce the member's contributions to 13.1 percent, the city shall make up the difference. All amounts of member contributions that are deducted shall be immediately paid over to the Pension Fund. For contributions made on or after May 13, 2012, any contribution amount over 11.1 percent is to be used to purchase eligibility in the postretirement health insurance, excluding the amounts of chapter 175 funds used to offset the member contribution rate.

(c) City contributions.-The City shall contribute to the Fund annually an amount which, together with the contributions from the members and other income sources as authorized by law, will be sufficient to meet the normal cost of the Fund and to fund the actuarial deficiency over a period of not more than 40 years, provided that the net increase, if any, in unfunded liability of the Fund arising from significant amendments or other changes shall be amortized within 30 plan years.

The reference to 40 years is historical. All current and future unfunded liabilities shall be amortized within 30 years.

(22) Actuarial assumptions.-The following actuarial assumptions shall be used for all purposes in connection with this Fund, effective October 1, 1998:

(a) The period for amortizing current, future, and past actuarial gains or losses shall be 20 years.
(b) The assumed investment rate of return shall be 8.25 percent.

Chapter 112, Florida Statutes sets forth portions of the actuarial funding policy for the Fund.

<u>Chapter 112 Excerpts:</u>

112.63 Actuarial Reports and Statements of Actuarial Impact; Review.

(1) Each retirement system or plan subject to the provisions of this act shall have regularly scheduled actuarial reports prepared and certified by an enrolled actuary. The actuarial report shall consist of, but shall not be limited to, the following:

(a) Adequacy of employer and employee contribution rates in meeting levels of employee benefits provided in the system and changes, if any, needed in such rates to achieve or preserve a level of funding deemed adequate to enable payment through the indefinite future of the benefit amounts prescribed by the system, which shall include a valuation of present assets, based on statement value, and prospective assets and liabilities of the system and the extent of unfunded accrued liabilities, if any.

(b) A plan to amortize any unfunded liability pursuant to s. 112.64 and a description of actions taken to reduce the unfunded liability.

(2) The frequency of actuarial reports must be at least every 3 years commencing from the last actuarial report of the plan or system or October 1, 1980, if no actuarial report has been issued within the 3-year period prior to October 1, 1979. The results of each actuarial report shall be filed with the plan administrator within 60 days of certification. Thereafter, the results of each actuarial report shall be made available for inspection upon request. Additionally, each retirement system or plan covered by this act which is not administered directly by the Department of Management Services shall furnish a copy of each actuarial report to the Department of Management Services within 60 days after receipt from the actuary. The requirements of this section are supplemental to actuarial valuations necessary to comply with the requirements of s. 218.39.

(3) No unit of local government shall agree to a proposed change in retirement benefits unless the administrator of the system, prior to adoption of the change by the governing body, and prior to the last public hearing thereon, has issued a statement of the actuarial impact of the proposed change upon the local retirement system, consistent. with the actuarial review, and has furnished a copy of such statement to the division. Such statement shall also indicate whether the proposed changes are in compliance withs. 14, Art. X of the State Constitution and with s. 112.64.

112.64 Administration of Funds; Amortization of Unfunded Liability.

(1) Employee contributions shall be deposited in the retirement system or plan at least monthly. Employer contributions shall be deposited at least quarterly; however, any revenues received from any source by an employer which are specifically collected for the purpose of allocation for deposit into a retirement system or plan shall be so deposited within 30 days of receipt by the employer. All employers and employees participating in the Florida Retirement System and other existing retirement systems which are administered by the Department of Management Services shall continue to make contributions at least monthly.

(2) From and after October 1, 1980, for those plans in existence on October 1, 1980, the total contributions to the retirement system or plan shall be sufficient to meet the normal cost of the retirement system or plan and to amortize the unfunded liability, if any, within 40 years; however, nothing contained in this subsection permits any retirement system or plan to amortize its unfunded liabilities over a period longer than that which remains under its current amortization schedule.

(3) For a retirement system or plan which comes into existence after October 1, 1980, the unfunded liability, if any, shall be amortized within 40 years of the first plan year.

< The reference to 40 years is historical. All current and future unfunded liabilities shall be amortized within 30 years. >

(4) The net increase, if any, in unfunded liability under the plan arising from significant plan amendments adopted, changes in actuarial assumptions, changes in funding methods, or actuarial gains or losses shall be amortized within 30 plan years.

(5)(a) If the amortization schedule for unfunded liability is to be based on a contribution derived in whole or in part from a percentage of the payroll of the system or plan membership, the assumption as to payroll growth shall not exceed the average payroll growth for the 10 years prior to the latest actuarial valuation of the system or plan unless a transfer, merger, or consolidation of government functions or services occurs, in which case the assumptions for payroll growth may be adjusted and may be based on the membership of the retirement plan or system subsequent to such transfer, merger, or consolidation.

(b) An unfunded liability amortization schedule that includes a payroll growth assumption and is in existence on September 30, 1996, or is established thereafter, may be continued using the same payroll growth assumption, or one not exceeding the payroll growth assumption established at the start of the schedule, regardless of the actual 10-year average payroll growth rate, provided that:

1. The assumptions underlying the payroll growth rate are consistent with the actuarial assumptions used to determine unfunded liabilities, including, but not limited to, the inflation assumption; and

2. The payroll growth rate is reasonable and consistent with future expectations of payroll growth.

(c) An unfunded liability amortization schedule that does not include a payroll growth assumption and is in existence on September 30, 1996, or is established thereafter, may be continued or modified to include a payroll growth assumption, provided that such assumption does not exceed the 10-year average payroll growth rate as of the actuarial valuation date such change in the amortization schedule commences. Such schedule may be continued thereafter, subject to the reasonable and consistent requirements in paragraph (b).

(6) Nothing contained in this section shall result in the allocation of chapter 175 or chapter 185 premium tax funds to any other retirement system or plan or for any other use than the exclusive purpose of providing retirement benefits for firefighters or police officers.

112.66 (13) A local government sponsor of a retirement system or plan may not reduce contributions required to fund the normal cost. This subsection does not apply to state-administered retirement systems or plans.

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Board Established Policy Associated with Funding:

Actuarial Cost Method

The Board adopted the use of the entry age normal actuarial cost method to determine contributions requirements for the defined benefit provisions of the Fund. The purpose of this method is to determine the annual Normal Cost for each individual active member, payable from the date of employment to the date of retirement, that is:

(i) Sufficient to accumulate to the value of the member's benefit at the time of retirement, and
(ii) A constant percentage of the member's year by year projected covered pay.

The Actuarial Accrued Liability under this cost method is the accumulation of normal costs accrued prior to the actuarial valuation date. The Actuarial Accrued Liability represents the theoretical amount of assets required to fund benefits earned on members' past service. The Normal Cost represents the cost required to fund benefits accruing during the current year.

Asset Valuation Method

The Actuarial Value of Assets is based on the market value with investment gains and losses smoothed over 4 years. The Actuarial Value of Assets will not consistently be above or below the Market Value and is expected to converge to the Market Value in a relatively short period of time. At any time it may be either greater or less than Market Value. During periods when investment performance exceeds the assumed rate, Actuarial Value of Assets will tend to be less than Market Value. During periods when investment performance is less than the assumed rate, Actuarial Value of Assets will tend to be greater than Market Value. If assumed rates are exactly realized for 3 consecutive years, the Actuarial Value will become equal to Market Value.

Actuarial Value is limited to a 20% corridor around the Market Value. This means that if the preliminary development of the Actuarial Value results in an amount that is greater than 120% of the Market Value (or less than 80% of the Market Value), the final Actuarial Value is limited to 120% (or 80%) of the Market Value. Any gains or losses on the Market Value outside of the 20% corridor are therefore recognized immediately.

Amortization Method

Amortization periods of up to 30 years or the maximum period allowed by standards adopted by the Government Accounting Standards Board (GASB), whichever is less. Under GASB Statements Nos. 25 and 27, the GASB accounting standards provided broad guidelines on plan funding. The GASB Statements Nos. 67 and 68 do not address plan funding and only address financial reporting. This Actuarial Funding Policy does not attempt to comply directly with promulgations of GASB.

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The annual actuarial valuation determining the City contribution rates use 30-year closed periods for amendments and changes in actuarial assumptions or methods and 20-year closed periods for actuarial gains and losses and supplemental pension distributions.

The amortization method uses a level percentage of payroll, subject to the restrictions of Chapter 112.64(5), Florida Statutes.

Contribution Stabilization Reserve

Effective with the October 1, 2021 valuation, the Board established a Contribution Stabilization Reserve ("CSR") of $10 million which is to be used by the Board to help avoid volatility in the City's contribution due to unexpected experience within the Pension Plan. The CSR is intended to be used in conjunction with the already existing actuarial smoothing and the amortization of gains and losses to keep the City's contribution within an annual 2.5% to 3% increase corridor, to the extent possible within the parameters set forth in this paragraph.

- The initial CSR balance is expected to last at least 10 years or until after the delivery of October 1, 2031 valuation.
- The balance in the CSR will be increased annually by the amount of the actuarial assumed rate of return. The CSR balance will be accounted for in the valuation but the actual dollars will be invested with the other assets of the Fund, unless a separate investment account is created for the CSR by the Board.
- Additions to the CSR will be determined based on actual plan experience and with consultation with the Board's actuary.
- The CSR balance will be applied based on the following:
  - 20% of the balance may be applied to stabilize the City's contribution if the balance of the CSR is greater than $5 million, but no more than the amount of the pre-funding for the reserve.
  - 10% of the balance may be applied to stabilize the City's contribution if the balance of the CSR is equal to or less than $5 million, but no more than the amount of the pre-funding for the reserve.

Funding Target

The funding objective is to achieve 100% funding. For this purpose, 100% funding means that the Actuarial Value of Assets equals the Actuarial Accrued Liability. The amortization method allows up to 30 years to achieve this objective.

Risk Management

The main financial objective of this actuarial funding policy is to fund the long-term costs of benefits to plan members and beneficiaries. There are numerous risks that the Fund faces in trying to achieve this objective including funding risk, demographic risk, investment risk, and benefit risk. The Board policies for managing these risks are outlined in this section.

Funding Risk

Frequency of Actuarial Valuations

Regular valuations manage funding risk by allowing employer contribution rates to reflect actual experience as it emerges. Funding valuations are performed every year as of September 30 to determine employer contribution amounts for the fiscal year beginning one year and one day later.

Separate valuations are required for financial reporting under GASB 67 and 68.

Demographic and Investment Risk

Process for Reviewing and Updating Actuarial Assumptions

The Board adopts actuarial assumptions based on recommendations of the actuary. Demographic and investment risks may be managed in part by having regular reviews of the actuarial assumptions. The Board may request the actuary to perform an actuarial investigation into the experience of the System every 5 years or another appropriate period as determined by the Board. Once in receipt of the experience study report, the Board will adopt actuarial assumptions and methods as necessary. If circumstances warrant, the Board may change assumptions more frequently after conferring with the actuary and when investment risks are involved, the investment consultant.

The experience study report shall include, but not necessarily be limited to analysis of and recommendations regarding the following assumptions:

i. Pre-retirement withdrawal rates
ii. Retirement rates
iii. Disability rates
iv. Pay increase rates
v. Mortality rates both before and after retirement
vi. Investment returns considering both real return and inflation, which must be consistent with the investment policy

The actuary shall assume no change in the active member population unless there is compelling evidence to support the expectation of a significant increase or decrease in the workforce covered by the System.

The experience study report will serve as the basis for determinations by the Board regarding whether or not demographic or economic assumptions should be modified for future valuations.

Chapter 112.661 (9), Florida Statutes specifies the investment policy adopted by the Board must include a requirement that the Board shall determine the total expected annual rate of return for the current year, for each of the next several years, and for the long term thereafter. This determination must be filed promptly with the Department of Management Services and with the plan's sponsor and the consulting actuary.

Responding to Favorable/Unfavorable Investment Experience

Investment risk is addressed in the investment consultant's quarterly reports. Annual investment experience other than assumed is reflected in the valuation asset method described above.

Asset Liability Studies

The Board adopts an asset allocation based on recommendations from the investment consultant. The asset allocation approved by the Board may reflect the results of an Asset Liability Study performed every 5 years or another appropriate period as determined by the Board.

Risk Measures

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In order to quantify the risks outlined in this actuarial funding policy, the following metrics will be included in annual valuation reports. These metrics provide quantifiable measurements of risk and its movement over time:

1. Funded ratio (Actuarial Value of Assets divided by Actuarial Accrued Liability).
   - Measures progress towards the funding objective of the 100% target funded ratio.

ii. Actual Total Payroll versus expected Total Payroll.
   - Measures the funding risk associated with receiving contributions as a level percent of payroll.

iii. Dollar standard deviation of investment return divided by Total Payroll
   - Measures the risk associated with negative asset returns r.elative impact on the funded status of the plan. A decrease· in this measure indicates a decrease in investment risk.

1v. Total Unfunded Actuarial Accrued Liability (UAAL)divided by Total Payroll
   - Measures the risk associated with contribution decreases relative impact on the ability to fund the UAAL. A decrease in this measure indicates a decrease in contribution risk.

v. Total Actuarial Accrued Liability (AAL) divided by Total Payroll
   - Measures the risk associated with the ability to respond to liability experience through adjustments in contributions. A decrease in this measure indicates a decrease in experience risk. This also provides a long-term measure of the asset risk in situations where the System has a funded ratio below 100%.

v1. Total Actuarial Value of Assets divided by Total Payroll

   Measures the risk .associated with the ability to respond to asset experience through adjustments in contributions. A decrease in this measure indicates a decrease in asset risk.

Benefit Risk

Benefit risk may be managed as follows:

The Board shall review proposals and legislative changes for the potential legal, administrative, Internal Revenue Code compliance, and funding impact on the Fund. If a proposal has the potential for a meaningful impact on plan funding, the Board shall consult with the actuary to estimate the actuarial impact to the Fund.

The Board does not establish the benefit provisions; it administers them.

<u>Miscellaneous Matters Associated with Funding:</u>

Overall Conformance with Professional Standards of Practice

By law, the actuary shall be an Enrolled Actuary and either a Member of the American Academy of Actuaries or an Associate or a Fellow of the Society of Actuaries. The work of the actuary in connection with this policy shall conform to Actuarial Standards of Practice for public employee retirement plans promulgated by the Actuarial Standards Board and shall satisfy the requirements of the Governmental Accounting Standards Board with respect to the development of information needed by the Fund and by the City for financial reporting purposes.