

CITY OF NAPLES
POLICE OFFICERS' RETIREMENT TRUST FUND

ACTUARIAL VALUATION
AS OF OCTOBER 1, 2019

CONTRIBUTIONS APPLICABLE TO THE
PLAN/FISCAL YEAR ENDING SEPTEMBER 30, 2021

GASB 67/68 DISCLOSURE INFORMATION
AS OF SEPTEMBER 30, 2019



FOSTER & FOSTER
ACTUARIES AND CONSULTANTS

December 11, 2019

Board of Trustees
City of Naples
Police Officers' Retirement Trust Fund

Re: City of Naples Police Officers' Retirement Trust Fund

Dear Board:

We are pleased to present to the Board this report of the annual actuarial valuation of the City of Naples Police Officers' Retirement Trust Fund. Included are the related results for GASB Statements No. 67 and No. 68. The funding valuation was performed to determine whether the assets and contributions are sufficient to provide the prescribed benefits and to develop the appropriate funding requirements for the applicable plan year. The calculation of the liability for GASB results was performed for the purpose of satisfying the requirements of GASB Statements No. 67 and No. 68. Use of the results for other purposes may not be applicable and may produce significantly different results.

The valuations have been conducted in accordance with generally accepted actuarial principles and practices, including the applicable Actuarial Standards of Practice as issued by the Actuarial Standards Board, and reflect laws and regulations issued to date pursuant to the provisions of Chapters 112 and 175, Florida Statutes, as well as applicable federal laws and regulations. In our opinion, the assumptions used in the valuations, as adopted by the Board of Trustees, represent reasonable expectations of anticipated plan experience. Future actuarial measurements may differ significantly from the current measurements presented in this report for a variety of reasons including: changes in applicable laws, changes in plan provisions, changes in assumptions, or plan experience differing from expectations. Due to the limited scope of the valuation, we did not perform an analysis of the potential range of such future measurements.

In conducting the valuations, we have relied on personnel, plan design, and asset information supplied by the City of Naples, financial reports prepared by the custodian bank, and the actuarial assumptions and methods described in the Actuarial Assumptions section of this report. While we cannot verify the accuracy of all this information, the supplied information was reviewed for consistency and reasonableness. As a result of this review, we have no reason to doubt the substantial accuracy of the information and believe that it has produced appropriate results. This information, along with any adjustments or modifications, is summarized in various sections of this report.

The total pension liability, net pension liability, and certain sensitivity information shown in this report are based on an actuarial valuation performed as of October 1, 2018. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ending September 30, 2019 using generally accepted actuarial principles. It is our opinion that the assumptions used for this purpose are internally consistent, reasonable, and comply with the requirements under GASB No. 67 and No. 68.

The undersigned are familiar with the immediate and long-term aspects of pension valuations, and meet the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinions contained herein. All of the sections of this report are considered an integral part of the actuarial opinions.


To our knowledge, no associate of Foster & Foster, Inc. working on valuations of the program has any direct financial interest or indirect material interest in the City of Naples, nor does anyone at Foster & Foster, Inc. act as a member of the Board of Trustees of the Police Officers' Retirement Trust Fund. Thus, there is no relationship existing that might affect our capacity to prepare and certify this actuarial report.

If there are any questions, concerns, or comments about any of the items contained in this report, please


Respectfully submitted,

Foster & Foster, Inc.

By:



Douglas H. Lozen, EA, MAAA
Enrolled Actuary #17-7778



Sara E. Carlson, ASA, EA, MAAA
Enrolled Actuary #17-8546

Enclosures

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SUMMARY OF REPORT

The regular annual actuarial valuation of the City of Naples Police Officers' Retirement Trust Fund, performed as of October 1, 2019, has been completed and the results are presented in this Report. The contribution amounts set forth herein are applicable to the plan/fiscal year ending September 30, 2021. Funding requirements are projected for a lump sum City deposit on October 1, 2019, based on the Board's adoption of a Beginning of Year Funding Method.

The contribution requirements, compared with those set forth in the October 1, 2018 actuarial valuation report, are as follows:

Valuation Date Applicable to Fiscal Year Ending	10/1/2019 <u>9/30/2021</u>	10/1/2018 <u>9/30/2020</u>
Minimum Required Contribution % of Projected Annual Payroll	58.34%	59.76%
Member Contributions (Est.) % of Projected Annual Payroll	4.29%	4.41%
City And State Required Contribution % of Projected Annual Payroll	54.05%	55.35%
State Contribution (Est.) ¹ % of Projected Annual Payroll	\$742,751 15.42%	\$742,751 15.42%
City Required Contribution ² % of Projected Annual Payroll	38.63%	39.93%

¹ Represents the amount received in calendar 2019. As per a Mutual Consent Agreement between the Membership and the City, all State Monies received each year will be available to offset the City's required contribution.

² The required contribution from the combination of City and State sources for the year ending September 30, 2021, is 54.05% of the actual payroll realized in that year. As a budgeting tool, the City may contribute 38.63% of each Member's Salary and then make a one-time adjustment to account for the actual State Monies received. Please note that a shortfall contribution of \$171,407.88 is due in addition to the above stated requirements for the fiscal year ending September 30, 2020.

Plan experience was unfavorable overall on the basis of the plan's actuarial assumptions. Sources of actuarial loss included unfavorable retirement experience and less turnover than expected. There were no significant sources of actuarial gain. However, the contribution requirements decreased when expressed as a percentage of payroll due to the increase in the valuation payroll.

CHANGES SINCE PRIOR VALUATION

Plan Changes

There have been no changes in benefits since the prior valuation.

Actuarial Assumption/Method Changes

The investment return assumption has been lowered from 7.4% to 7.3% per year, net of investment-related expenses.

CONTRIBUTION IMPACT OF ANNUAL CHANGES

(1) Contribution Determined as of October 1, 2018	39.34%
(2) Summary of Contribution Impact by component:	
Change in State Contribution Percentage	0.59%
Change in Normal Cost Rate	-0.17%
Change in Administrative Expense Percentage	-0.24%
Payroll Change Effect on UAAL Amortization	-2.70%
Investment Return (Actuarial Asset Basis)	0.16%
Salary Increases	0.12%
Active Decrements	0.58%
Inactive Mortality	0.19%
Assumption Change	1.58%
Greater than Expected UAAL Decrease	-0.37%
Other	<u>-0.45%</u>
Total Change in Contribution	-0.71%
(3) Contribution Determined as of October 1, 2019	38.63%

COMPARATIVE SUMMARY OF PRINCIPAL VALUATION RESULTS

	New Assump <u>10/1/2019</u>	Old Assump <u>10/1/2019</u>	<u>10/1/2018</u>
A. Participant Data			
Actives	60	60	58
Service Retirees	67	67	62
DROP Retirees	9	9	9
Beneficiaries	6	6	7
Disability Retirees	3	3	3
Terminated Vested	<u>16</u>	<u>16</u>	<u>16</u>
Total	161	161	155
Total Annual Payroll	4,815,509	4,815,509	4,487,912
Annual Rate of Payments to:			
Service Retirees	3,249,293	3,249,293	2,952,894
DROP Retirees	558,589	558,589	612,091
Beneficiaries	145,082	145,082	161,761
Disability Retirees	134,525	134,525	134,525
Terminated Vested	141,913	141,913	175,328
B. Assets			
Actuarial Value (AVA) ¹	54,269,558	54,269,558	52,094,895
Market Value (MVA) ¹	54,544,957	54,544,957	53,954,826
C. Liabilities			
Present Value of Benefits			
Actives			
Retirement Benefits	19,839,398	19,515,034	19,800,181
Disability Benefits	1,272,607	1,253,579	1,154,877
Death Benefits	195,147	191,729	190,600
Vested Benefits	1,040,552	1,014,533	948,156
Refund of Contributions	35,328	35,265	29,310
Service Retirees	40,780,758	40,391,711	36,808,751
DROP Retirees ¹	9,249,009	9,163,670	10,488,428
Beneficiaries	1,537,153	1,524,710	1,663,335
Disability Retirees	1,629,324	1,614,051	1,628,939
Terminated Vested	1,202,997	1,185,882	1,497,827
Share Plan Balances ¹	<u>0</u>	<u>0</u>	<u>0</u>
Total	76,782,273	75,890,164	74,210,404

C. Liabilities - (Continued)	New Assump <u>10/1/2019</u>	Old Assump <u>10/1/2019</u>	<u>10/1/2018</u>
Present Value of Future Salaries	34,992,901	34,806,983	33,156,218
Present Value of Future Member Contributions	1,501,195	1,493,220	1,461,571
Normal Cost (Retirement)	644,600	630,108	602,628
Normal Cost (Disability)	115,601	114,196	101,972
Normal Cost (Death)	10,685	10,473	10,223
Normal Cost (Vesting)	83,287	81,112	72,522
Normal Cost (Refunds)	<u>8,983</u>	<u>8,980</u>	<u>7,615</u>
Total Normal Cost	863,156	844,869	794,960
Present Value of Future Normal Costs	5,630,547	5,477,802	5,307,157
Accrued Liability (Retirement)	15,604,046	15,400,173	15,767,529
Accrued Liability (Disability)	513,669	508,444	469,113
Accrued Liability (Death)	126,643	124,995	123,492
Accrued Liability (Vesting)	506,104	496,699	454,387
Accrued Liability (Refunds)	2,023	2,027	1,446
Accrued Liability (Inactives) ¹	54,399,241	53,880,024	52,087,280
Share Plan Balances ¹	<u>0</u>	<u>0</u>	<u>0</u>
Total Actuarial Accrued Liability (EAN AL)	71,151,726	70,412,362	68,903,247
Unfunded Actuarial Accrued Liability (UAAL)	16,882,168	16,142,804	16,808,352
Funded Ratio (AVA / EAN AL)	76.3%	77.1%	75.6%

D. Actuarial Present Value of Accrued Benefits	New Assump <u>10/1/2019</u>	Old Assump <u>10/1/2019</u>	<u>10/1/2018</u>
Vested Accrued Benefits			
Inactives + Share Plan Balances ¹	54,399,241	53,880,024	52,087,280
Actives	10,533,232	10,356,063	11,076,978
Member Contributions	<u>2,663,382</u>	<u>2,663,382</u>	<u>2,709,112</u>
Total	67,595,855	66,899,469	65,873,370
Non-vested Accrued Benefits	<u>1,676,825</u>	<u>1,648,816</u>	<u>1,627,946</u>
Total Present Value			
Accrued Benefits (PVAB)	69,272,680	68,548,285	67,501,316
Funded Ratio (MVA / PVAB)	78.7%	79.6%	79.9%
Increase (Decrease) in Present Value of Accrued Benefits Attributable to:			
Plan Amendments	0	0	
Assumption Changes	724,395	0	
Plan Experience	0	663,303	
Benefits Paid	0	(4,446,896)	
Interest	0	4,830,562	
Other	<u>0</u>	<u>0</u>	
Total	724,395	1,046,969	

Valuation Date	New Assump 10/1/2019	Old Assump 10/1/2019	10/1/2018
Applicable to Fiscal Year Ending	<u>9/30/2021</u>	<u>9/30/2021</u>	<u>9/30/2020</u>

E. Pension Cost

Normal Cost (with interest)			
% of Total Annual Payroll ²	17.92	17.54	17.71
Administrative Expenses (with interest)			
% of Total Annual Payroll ²	1.71	1.71	1.95
Payment Required to Amortize Unfunded Actuarial Accrued Liability over 20 years (as of 10/1/2019, with interest)			
% of Total Annual Payroll ²	38.71	37.51	40.10
Minimum Required Contribution			
% of Total Annual Payroll ²	58.34	56.76	59.76
Expected Member Contributions			
% of Total Annual Payroll ²	4.29	4.29	4.41
Expected City and State Contribution			
% of Total Annual Payroll ²	54.05	52.47	55.35

F. Past Contributions

Plan Years Ending:	<u>9/30/2019</u>
City and State Requirement	2,691,954
Actual Contributions Made:	
Members (excluding buyback)	206,347
City	1,949,203
State	<u>742,751</u>
Total	2,898,301

G. Net Actuarial (Gain)/Loss

182,399

¹ The asset values and liabilities include accumulated DROP and Share Plan Balances as of 9/30/2019 and 9/30/2018.

² Contributions developed as of 10/1/2019 are expressed as a percentage of total annual payroll at 10/1/2019 of \$4,815,509.

H. Schedule Illustrating the Amortization of the Total Unfunded Actuarial Accrued Liability as of:

<u>Year</u>	<u>Projected Unfunded Actuarial Accrued Liability</u>
2019	16,882,168
2020	16,114,261
2021	15,290,297
2026	10,175,472
2030	4,954,108
2035	323,042
2039	0

I. (i) 5 Year Comparison of Actual and Assumed Salary Increases

	<u>Actual</u>	<u>Assumed</u>
Year Ended 9/30/2019	5.44%	5.07%
Year Ended 9/30/2018	4.70%	5.05%
Year Ended 9/30/2017	7.18%	5.12%
Year Ended 9/30/2016	3.23%	5.17%
Year Ended 9/30/2015	2.97%	5.08%

(ii) 5 Year Comparison of Investment Return on Market Value and Actuarial Value

	<u>Market Value</u>	<u>Actuarial Value</u>	<u>Assumed</u>
Year Ended 9/30/2019	4.01%	7.29%	7.40%
Year Ended 9/30/2018	10.21%	8.78%	7.50%
Year Ended 9/30/2017	11.98%	8.89%	7.50%
Year Ended 9/30/2016	7.89%	9.89%	7.50%
Year Ended 9/30/2015	0.79%	9.52%	7.50%

(iii) Average Annual Payroll Growth

(a) Payroll as of:	10/1/2019	\$4,815,509
	10/1/2009	5,385,931
(b) Total Increase		-10.59%
(c) Number of Years		10.00
(d) Average Annual Rate		-1.11%

STATEMENT BY ENROLLED ACTUARY

This actuarial valuation was prepared and completed by me or under my direct supervision, and I acknowledge responsibility for the results. To the best of my knowledge, the results are complete and accurate, and in my opinion, the techniques and assumptions used are reasonable and meet the requirements and intent of Part VII, Chapter 112, Florida Statutes. There is no benefit or expense to be provided by the plan and/or paid from the plan's assets for which liabilities or current costs have not been established or otherwise taken into account in the valuation. All known events or trends which may require a material increase in plan costs or required contribution rates have been taken into account in the valuation.



Douglas H. Lozen, EA, MAAA
Enrolled Actuary #17-7778

Please let us know when the report is approved by the Board and unless otherwise directed we will provide copies of the report to the following offices to comply with Chapter 112, Florida Statutes:

Mr. Keith Brinkman
Bureau of Local
Retirement Systems
Post Office Box 9000
Tallahassee, FL 32315-9000

Mr. Steve Bardin
Municipal Police and Fire
Pension Trust Funds
Division of Retirement
Post Office Box 3010
Tallahassee, FL 32315-3010

RECONCILIATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITIES

(1)	Unfunded Actuarial Accrued Liability as of October 1, 2018	\$16,808,352
(2)	Sponsor Normal Cost developed as of October 1, 2018	597,043
(3)	Expected administrative expenses for the year ended September 30, 2019	87,292
(4)	Expected interest on (1), (2) and (3)	1,291,229
(5)	Sponsor contributions to the System during the year ended September 30, 2019	2,691,954
(6)	Expected interest on (5)	131,557
(7)	Expected Unfunded Actuarial Accrued Liability as of September 30, 2019 (1)+(2)+(3)+(4)-(5)-(6)	15,960,405
(8)	Change to UAAL due to Assumption Change	739,364
(9)	Change to UAAL due to Actuarial (Gain)/Loss	182,399
(10)	Unfunded Actuarial Accrued Liability as of October 1, 2019	16,882,168

Type of <u>Base</u>	Date <u>Established</u>	Years <u>Remaining</u>	10/1/2019 <u>Amount</u>	Amortization <u>Amount</u>
	10/1/1997	8	902,509	142,500
	10/1/1999	10	1,499,723	201,768
	10/1/2000	11	(709,382)	(89,487)
	10/1/2002	13	3,059,991	347,047
	10/1/2003	14	1,721,944	186,815
Actuarial Loss	10/1/2004	14	1,973,973	214,158
Amendment	10/1/2004	14	(6,893)	(748)
Actuarial Gain	10/1/2005	14	(235,833)	(25,586)
Assum. Change	10/1/2005	14	930,729	100,976
Actuarial Gain	10/1/2006	14	(370,319)	(40,176)
Assum. Change	10/1/2006	14	988,668	107,261
Actuarial Loss	10/1/2007	14	1,394,059	151,243
Assum./Method Change	10/1/2007	14	101,367	10,997
Amendment	10/1/2007	14	677,859	73,542
Actuarial Loss	10/1/2008	14	2,980,900	323,400
Actuarial Loss	10/1/2009	14	2,247,695	243,854
Assumption Changes	10/1/2009	14	1,643,591	178,315
Actuarial Loss	10/1/2010	14	2,533,013	274,809
Actuarial Loss	10/1/2011	14	2,954,665	320,554

Type of <u>Base</u>	Date <u>Established</u>	Years <u>Remaining</u>	10/1/2019 <u>Amount</u>	Amortization <u>Amount</u>
Benefit Changes	10/1/2011	14	(5,730,894)	(621,750)
Actuarial Loss	10/1/2012	14	1,186,636	128,739
Actuarial Gain	10/1/2013	14	(689,424)	(74,796)
Actuarial Gain	10/1/2014	14	(1,094,756)	(118,771)
Assumption Change	10/1/2014	14	123,844	13,436
Actuarial Gain	10/1/2015	14	(535,125)	(58,056)
Actuarial Gain	10/1/2016	14	(812,449)	(88,143)
Assumption Change	10/1/2016	14	578,872	62,802
Actuarial Gain	10/1/2017	14	(591,598)	(64,183)
Actuarial Gain	10/1/2018	9	(1,083,372)	(156,954)
Assump Change	10/1/2018	19	320,412	29,545
Actuarial Loss	10/1/2019	10	182,399	24,539
Assump Change	10/1/2019	20	<u>739,364</u>	<u>66,567</u>
			16,882,168	1,864,217

DETAILED ACTUARIAL (GAIN)/LOSS ANALYSIS

(1) Unfunded Actuarial Accrued Liability (UAAL) as of October 1, 2018	\$16,808,352
(2) Expected UAAL as of October 1, 2019	15,960,405
(3) Summary of Actuarial (Gain)/Loss, by component:	
Investment Return (Actuarial Asset Basis)	56,574
Salary Increases	42,289
Active Decrements	205,380
Inactive Mortality	67,834
Other	<u>(189,678)</u>
Increase in UAAL due to (Gain)/Loss	182,399
Assumption Changes	<u>739,364</u>
(4) Actual UAAL as of October 1, 2019	\$16,882,168

ACTUARIAL ASSUMPTIONS AND METHODS

Mortality Rate

Healthy Active Lives:

Female: RP2000 Generational, 100% Combined Healthy White Collar, Scale BB

Male: RP2000 Generational, 10% Combined Healthy White Collar / 90% Combined Healthy Blue Collar, Scale BB

Healthy Inactive Lives:

Female: RP2000 Generational, 100% Annuitant White Collar, Scale BB

Male: RP2000 Generational, 10% Annuitant White Collar / 90% Annuitant Blue Collar, Scale BB

Disabled Lives:

Female: 60% RP2000 Disabled Female set forward two years / 40% Annuitant White Collar with no setback, no projection scale

Male: 60% RP2000 Disabled Male setback four years / 40% Annuitant White Collar with no setback, no projection scale

The above assumption rates were mandated by Chapter 2015-157, Laws of Florida. This law mandates the use of the assumptions used in either of the two most recent valuations of the Florida Retirement System (FRS). The above rates are those outlined in Milliman's July 1, 2018 FRS valuation report for special risk employees. We feel this assumption sufficiently accommodates future mortality improvements.

Interest Rate

7.30% (prior year 7.40%) per year compounded annually, net of investment related expenses. This is supported by the target asset allocation of the trust and the expected long-term return by asset class.

Payroll Growth

0.00% for purposes of amortizing the Unfunded Actuarial Accrued Liability. This assumption cannot exceed the ten-year average payroll growth, in compliance with Part VII of Chapter 112, Florida Statutes.

Salary Increases

Salary Scale	
Service	Rate
< 1	6.00%
2 - 9	5.50%
10 - 14	5.00%
15 - 19	4.50%
20+	4.00%

These rates were incorporated with the October 1, 2014 valuation as the result of the October 31, 2014

Experience Study.

Normal Retirement Age

Hired prior to 4/1/2012: Earlier of 1) age 50 or 2) the completion of 25 years of credited service. See below table for assumed retirement rates.

Age for Members with less than 25 <u>years of service</u>	Assumed retirement <u>rate</u>
50-54	20%
55 and older	100%

100% assumed retirement upon first eligibility for Members with at least 25 years of Credited Service.

Hired after 3/31/2012: 100% assumed retirement upon the earlier of 1) age 60 with completion of 8 years of credited service, or 2) the completion of 30 years of credited service.

The above rates were adopted as the result of the August 4, 2017 Experience Study.

Early Retirement Age

Hired prior to 4/1/2012: Earlier of 1) age 45 or 2) the completion of 20 years of credited service.

Age for Members with less than 20 <u>years of service</u>	Assumed retirement <u>rate</u>
45-49	0%
50 and older	5%

Hired after 3/31/2012: Attainment of age 45 and the completion of 20 years of credited service. Members are assumed to retire with an immediate subsidized benefit at the rate of 5% per year.

The above rates were adopted as the result of the August 4, 2017 Experience Study.

Termination

% Terminating During the Year		
	Hired Prior to 4/1/12	Hired After 3/31/12
Service	Rate	Rate
0	16.0%	16.0%
1	13.0%	13.0%
2	13.0%	13.0%
3	10.0%	10.0%
4	0.0%	4.0%
5	4.0%	4.0%
6	4.0%	4.0%
7	4.0%	0.0%
8+	4.0%	4.0%

The above rates were adopted as the result of the August 4, 2017 Experience Study.

Disability

% Becoming Disabled During the Year	
Age	Rate
20	0.14%
25	0.15%
30	0.18%
35	0.23%
40	0.30%
45	0.51%
50	1.00%
55	1.55%
59+	2.09%

It is assumed that 75% of Disability Retirements are service-related. This assumption is in line with the national average for municipal defined benefit pension programs.

Post-Retirement COLA

3% per year at ages 55 through 62 for Service Retirees and surviving Beneficiaries. No COLA for Disability Retirees, Vested Terminated Members, or Members hired after 3/31/2012.

Actuarial Asset Method

All assets are valued at market value with an adjustment made to uniformly spread actuarial investment gains and losses (as measured by actual market value investment return against expected market value investment return) over a five-year period.

Administrative Expenses

\$82,492 annually, based on the average of actual expenses incurred in the prior two fiscal years.

Funding Method

Entry Age Normal Actuarial Cost Method.

Amortization Method

New UAAL amortization bases will be amortized according to the following amortization periods:

Experience: 10 Years.

Assumption/Method Changes: 20 Years.

Benefit Changes: 30 Years.

GLOSSARY

Total Annual Payroll is the projected annual rate of pay as of the valuation date of all covered Members.

Present Value of Benefits is the single sum value on the valuation date of all future benefits to be paid to current Members, Retirees, Beneficiaries, Disability Retirees and Vested Terminations.

Normal (Current Year's) Cost is determined for each participant as the present value of future benefits, determined as of the Member's entry age, amortized as a level percentage of compensation over the anticipated number of years of participation, determined as of the entry age.

Entry Age Normal Cost Method - Under this method, the normal cost is the sum of the individual normal costs for all active participants. For an active participant, the normal cost is the participant's normal cost accrual rate, multiplied by the participant's current compensation.

- (a) The normal cost accrual rate equals:
 - (i) the present value of future benefits for the participant, determined as of the participant's entry age, divided by
 - (ii) the present value of the compensation expected to be paid to the participant for each year of the participant's anticipated future service, determined as of the participant's entry age.
- (b) In calculating the present value of future compensation, the salary scale is applied both retrospectively and prospectively to estimate compensation in years prior to and subsequent to the valuation year based on the compensation used for the valuation.
- (c) The accrued liability is the sum of the individual accrued liabilities for all participants and beneficiaries. A participant's accrued liability equals the present value, at the participant's attained age, of future benefits less the present value at the participant's attained age of the individual normal costs payable in the future. A beneficiary's accrued liability equals the present value, at the beneficiary's attained age, of future benefits. The unfunded accrued liability equals the total accrued liability less the actuarial value of assets.
- (d) Under this method, the entry age used for each active participant is the participant's age at the time he or she would have commenced participation if the plan had always been in existence under current terms, or the age as of which he or she first earns service credits for purposes of benefit accrual under the current terms of the plan.

Unfunded Actuarial Accrued Liability (UAAL) is the difference between the actuarial accrued liability (described above) and the actuarial value of assets. Under the Entry Age Normal Actuarial Cost Method, an actuarial gain or loss, based on actual versus expected UAAL, is determined in conjunction with each valuation of the plan.

DISCUSSION OF RISK

ASOP No. 51, Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions, states that the actuary should identify risks that, in the actuary's professional judgment, may reasonably be anticipated to significantly affect the plan's future financial condition.

Throughout this report, actuarial results are determined using various actuarial assumptions. These results are based on the premise that all future plan experience will align with the plan's actuarial assumptions; however, there is no guarantee that actual plan experience will align with the plan's assumptions. It is possible that actual plan experience will differ from anticipated experience in an unfavorable manner that will negatively impact the plan's funded position.

Below are examples of ways in which plan experience can deviate from assumptions and the potential impact of that deviation. Typically, this results in an actuarial gain or loss representing the current-year financial impact on the plan's unfunded liability of the experience differing from assumptions; this gain or loss is amortized over a period of time determined by the plan's amortization method. When assumptions are selected that adequately reflect plan experience, gains and losses typically offset one another in the long term, resulting in a relatively low impact on the plan's contribution requirements associated with plan experience. When assumptions are too optimistic, losses can accumulate over time and the plan's amortization payment could potentially grow to an unmanageable level.

- Investment Return: When the rate of return on the Actuarial Value of Assets falls short of the assumption, this produces a loss representing assumed investment earnings that were not realized. Further, it is unlikely that the plan will experience a scenario that matches the assumed return in each year as capital markets can be volatile from year to year. Therefore, contribution amounts can vary in the future.
- Salary Increases: When a plan participant experiences a salary increase that was greater than assumed, this produces a loss representing the cost of an increase in anticipated plan benefits for the participant as compared to the previous year. The total gain or loss associated with salary increases for the plan is the sum of salary gains and losses for all active participants.
- Demographic Assumptions: Actuarial results take into account various potential events that could happen to a plan participant, such as retirement, termination, disability, and death. Each of these potential events is assigned a liability based on the likelihood of the event and the financial consequence of the event for the plan. Accordingly, actuarial liabilities reflect a blend of financial consequences associated with various possible outcomes (such as retirement at one of various possible ages). Once the outcome is known (e.g. the participant retires) the liability is adjusted to reflect the known outcome. This adjustment produces a gain or loss depending on whether the outcome was more or less favorable than other outcomes that could have occurred.

Impact of Plan Maturity on Risk

For newer pension plans, most of the participants and associated liabilities are related to active members who have not yet reached retirement age. As pension plans continue in operation and active members reach retirement ages, liabilities begin to shift from being primarily related to active members to being shared amongst active and retired members. Plan maturity is a measure of the extent to which this shift has occurred. It is important to understand that plan maturity can have an impact on risk tolerance and the overall risk characteristics of the plan. For example, closed plans with a large amount of retired liability do not have as long of a time horizon to recover from losses (such as losses on investments due to lower than expected investment returns) as plans where the majority of the liability is attributable to active members. For this reason, less tolerance for investment risk may be warranted for highly mature closed plans with a substantial inactive liability. Similarly, mature closed plans paying substantial retirement benefits resulting in a small positive or net negative cash flow can be more sensitive to near term investment volatility, particularly if the size of the fund is shrinking, which can result in less assets being available for investment in the market.

To assist with determining the maturity of the plan, we have provided some relevant metrics in the table following titled “Plan Maturity Measures and Other Risk Metrics”. Highlights of this information are discussed below:

- The Support Ratio, determined as the ratio of active to inactive members, has stayed about the same from October 1, 2016 to October 1, 2019, indicating that the plan's maturity level has not significantly changed during the period.
- The Accrued Liability Ratio, determined as the ratio of the Inactive Accrued Liability, which is the liability associated with members who are no longer employed but are due a benefit from the plan, to the Total Accrued Liability, is 76.5%. With a plan of this maturity, losses due to lower than expected investment returns or demographic factors may result in larger increases in contribution requirements than would be needed for a less mature plan. Please note Chapter 112, Florida Statutes, requires that the plan sponsor contributes the minimum required contribution; thus, there is minimal solvency risk to the plan.
- The Funded Ratio, determined as the ratio of the Actuarial Value of Assets to the Total Accrued Liability, has increased from 69.9% on October 1, 2016 to 76.3% on October 1, 2019, due to net favorable experience realized by the plan during the period.
- The Net Cash Flow Ratio, determined as the ratio of the Net Cash Flow (contributions minus benefit payments and administrative expenses) to the Market Value of Assets, decreased from -0.4% on October 1, 2016 to -2.9% on October 1, 2019. The current Net Cash Flow Ratio of -2.9% indicates that contributions are not currently covering the plan's benefit payments and administrative expenses.

It is important to note that the actuary has identified the risks in this section as the most significant risks based on the characteristics of the plan and the nature of the project, however, it is not an exhaustive list of potential risks that could be considered. Additional advanced modeling, as well as the identification of additional risks, can be provided at the request of the audience addressed on page 2 of this report.

PLAN MATURITY MEASURES AND OTHER RISK METRICS

	<u>10/1/2016</u>	<u>10/1/2017</u>	<u>10/1/2018</u>	<u>10/1/2019</u>
<u>Support Ratio</u>				
Total Actives	58	56	58	60
Total Inactives ¹	90	91	92	94
Actives / Inactives ¹	64.4%	61.5%	63.0%	63.8%
<u>Asset Volatility Ratio</u>				
Market Value of Assets (MVA)	45,732,479	49,670,843	53,954,826	54,544,957
Total Annual Payroll	4,082,422	4,285,903	4,487,912	4,815,509
MVA / Total Annual Payroll	1,120.2%	1,158.9%	1,202.2%	1,132.7%
<u>Accrued Liability (AL) Ratio</u>				
Inactive Accrued Liability	51,037,297	50,985,203	52,087,280	54,399,241
Total Accrued Liability (EAN)	65,968,580	67,232,508	68,903,247	71,151,726
Inactive AL / Total AL	77.4%	75.8%	75.6%	76.5%
<u>Funded Ratio</u>				
Actuarial Value of Assets (AVA)	46,117,717	48,654,757	52,094,895	54,269,558
Total Accrued Liability (EAN)	65,968,580	67,232,508	68,903,247	71,151,726
AVA / Total Accrued Liability (EAN)	69.9%	72.4%	75.6%	76.3%
<u>Net Cash Flow Ratio</u>				
Net Cash Flow ²	(167,960)	(1,510,516)	(813,177)	(1,572,025)
Market Value of Assets (MVA)	45,732,479	49,670,843	53,954,826	54,544,957
Ratio	-0.4%	-3.0%	-1.5%	-2.9%

¹ Excludes terminated participants awaiting a refund of member contributions.

² Determined as total contributions minus benefit payments and administrative expenses.

PARTIAL HISTORY OF PREMIUM TAX REFUNDS

Received During <u>Fiscal Year</u>	<u>Amount</u>	Increase from <u>Previous Year</u>
1998	500,979.37	_____%
1999	521,102.07	4.0%
2000	544,431.81	4.5%
2001	578,886.07	6.3%
2002	679,725.72	17.4%
2003	780,142.25	14.8%
2004	784,882.00	0.6%
2005	726,369.64	-7.5%
2006	773,953.70	6.6%
2007	740,322.92	-4.3%
2008	726,369.64	-1.9%
2009	625,279.98	-13.9%
2010	546,848.13	-12.5%
2011	553,719.90	1.3%
2012	519,408.75	-6.2%
2013	512,283.63	-1.4%
2014	540,981.00	5.6%
2015	551,656.38	2.0%
2016	610,146.10	10.6%
2017	792,677.05	29.9%
2018	718,403.79	-9.4%
2019	742,751.39	3.4%

STATEMENT OF FIDUCIARY NET POSITION
SEPTEMBER 30, 2019

<u>ASSETS</u>	COST VALUE	MARKET VALUE
Cash and Cash Equivalents:		
Checking Account	4,219.07	4,219.07
Money Market	1,240,270.00	1,240,270.00
Cash	4.27	4.27
Total Cash and Equivalents	1,244,493.34	1,244,493.34
Receivables:		
Member Contributions in Transit	7,563.81	7,563.81
Member Buy-Back Contributions	222.37	222.37
Member Contributions	59.54	59.54
Additional City Contributions	171,407.88	171,407.88
State Contributions	742,751.39	742,751.39
Total Receivable	922,004.99	922,004.99
Investments:		
Fixed Income	8,420,963.63	8,599,314.64
Equities	29,339,348.06	36,774,444.68
Mutual Funds:		
Fixed Income	1,063,160.38	1,051,029.71
Pooled/Common/Commingled Funds:		
Hedge	1,160,000.00	1,345,387.30
Real Estate	4,020,695.90	4,608,749.51
Total Investments	44,004,167.97	52,378,925.84
Total Assets	46,170,666.30	54,545,424.17
<u>LIABILITIES</u>		
Prepaid Member Contribution	466.85	466.85
Total Liabilities	466.85	466.85
NET POSITION RESTRICTED FOR PENSIONS	46,170,199.45	54,544,957.32

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2019
Market Value Basis

ADDITIONS

Contributions:

Member	206,124.72
Buy-Back	54,484.62
City	1,949,202.49
State	742,751.39

Total Contributions	2,952,563.22
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Investment Income:

Net Realized Gain (Loss)	1,770,671.13
Unrealized Gain (Loss)	(717,508.76)
Net Increase in Fair Value of Investments	1,053,162.37
Interest & Dividends	1,346,389.35
Less Investment Expense ¹	(240,466.69)

Net Investment Income	2,159,085.03
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Metlife Benefit & ADM Fee Reimbursements	3,071.82
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Total Additions	5,114,720.07
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DEDUCTIONS

Distributions to Members:

Benefit Payments	3,360,375.20
Lump Sum DROP Distributions	1,086,521.12
Refunds of Member Contributions	0.00

Total Distributions	4,446,896.32
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Administrative Expense	77,692.04
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Total Deductions	4,524,588.36
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Net Increase in Net Position	590,131.71
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NET POSITION RESTRICTED FOR PENSIONS

Beginning of the Year	53,954,825.61
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End of the Year	54,544,957.32
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¹Investment related expenses include investment advisory, custodial and performance monitoring fees.

ACTUARIAL ASSET VALUATION

September 30, 2019

Actuarial Assets for funding purposes are developed by recognizing the total actuarial investment gain or loss for each Plan Year over a five year period. In the first year, 20% of the gain or loss is recognized. In the second year 40%, in the third year 60%, in the fourth year 80%, and in the fifth year 100% of the gain or loss is recognized. The actuarial investment gain or loss is defined as the actual return on investments minus the actuarial assumed investment return. Actuarial Assets shall not be less than 80% nor greater than 120% of Market Value of Assets.

Plan Year Ending	Gain/Loss	<u>Gains/(Losses) Not Yet Recognized</u>				
		Amounts Not Yet Recognized by Valuation Year				
		2019	2020	2021	2022	2023
09/30/2015	(2,848,714)	0	0	0	0	0
09/30/2016	207,211	41,443	0	0	0	0
09/30/2017	2,062,839	825,135	412,567	0	0	0
09/30/2018	1,386,356	831,814	554,543	277,272	0	0
09/30/2019	(1,778,741)	(1,422,993)	(1,067,245)	(711,497)	(355,749)	0
Total		275,399	(100,135)	(434,225)	(355,749)	0

<u>Development of Investment Gain/(Loss)</u>	
Market Value of Assets, including Prepaid Contributions, 09/30/2018	54,041,397
Contributions Less Benefit Payments & Admin Expenses	(1,655,058)
Expected Investment Earnings*	3,937,826
Actual Net Investment Earnings	2,159,085
2019 Actuarial Investment Gain/(Loss)	<u>(1,778,741)</u>

*Expected Investment Earnings = $0.074 * [54,041,397 + 0.5 * (1,655,058)]$

<u>Development of Actuarial Value of Assets</u>	
(1) Market Value of Assets, 09/30/2019	54,544,957
(2) Gain/(Loss) Not Yet Recognized	275,399
(3) Actuarial Value of Assets, 09/30/2019, (1) - (2)	<u>54,269,558</u>
(A) 09/30/2018 Actuarial Assets, including Prepaid Contributions:	52,181,466
(I) Net Investment Income:	
1. Interest and Dividends	1,346,389
2. Realized Gain (Loss)	1,770,671
3. Unrealized Gain (Loss)	(717,509)
4. Change in Actuarial Value	1,584,532
5. Investment Expenses	(240,467)
Total	<u>3,743,617</u>
(B) 09/30/2019 Actuarial Assets, including Prepaid Contributions:	54,270,025
Actuarial Assets Rate of Return = $2I/(A+B-I)$:	7.29%
Market Value of Assets Rate of Return:	4.01%
Actuarial Gain/(Loss) due to Investment Return (Actuarial Asset Basis)	(56,574.00)
10/01/2019 Limited Actuarial Assets (not including Prepaid):	54,269,558

CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
SEPTEMBER 30, 2019
Actuarial Asset Basis

REVENUES

Contributions:		
Member	206,124.72	
Buy-Back	54,484.62	
City	1,949,202.49	
State	742,751.39	
Total Contributions		2,952,563.22
Earnings from Investments:		
Interest & Dividends	1,346,389.35	
Net Realized Gain (Loss)	1,770,671.13	
Unrealized Gain (Loss)	(717,508.76)	
Change in Actuarial Value	1,584,532.00	
Total Earnings and Investment Gains		3,984,083.72
Metlife Benefit & ADM Fee Reimbursements		3,071.82

EXPENDITURES

Distributions to Members:		
Benefit Payments	3,360,375.20	
Lump Sum DROP Distributions	1,086,521.12	
Refunds of Member Contributions	0.00	
Total Distributions		4,446,896.32
Expenses:		
Investment related ¹	240,466.69	
Administrative	77,692.04	
Total Expenses		318,158.73
Change in Net Assets for the Year		2,174,663.71
Net Assets Beginning of the Year		52,094,894.61
Net Assets End of the Year ²		54,269,558.32

¹Investment related expenses include investment advisory, custodial and performance monitoring fees.

²Net Assets may be limited for actuarial consideration.

DEFERRED RETIREMENT OPTION PLAN ACTIVITY
October 1, 2018 to September 30, 2019

Beginning of the Year Balance	1,782,593.04
Plus Additions	629,147.37
Investment Return Earned	23,103.55
Less Distributions	(1,086,521.12)
End of the Year Balance	1,348,322.84

Note: Investment Return Earned is not included for one new member.

RECONCILIATION OF CITY'S SHORTFALL/(PREPAID) CONTRIBUTION
FOR THE FISCAL YEAR ENDED (FYE) SEPTEMBER 30, 2019

(1) City and State Required Contribution Rate	56.99%
(2) Pensionable Payroll Derived from Member Contributions	\$4,723,554.80
(3) Required City and State Contribution (1) x (2)	2,691,953.88
(4) Less Allowable State Contribution	<u>(742,751.39)</u>
(5) Equals Required City Contribution for Fiscal 2019	1,949,202.49
(6) Less 2018 Prepaid Contribution	(86,104.30)
(7) Less Actual City Contributions	<u>(1,691,690.31)</u>
(8) Equals City's Shortfall/(Prepaid) Contribution as of September 30, 2019	\$171,407.88

STATISTICAL DATA

	<u>10/1/2016</u>	<u>10/1/2017</u>	<u>10/1/2018</u>	<u>10/1/2019</u>
<u>Actives - Hired on or before March 31, 2012</u>				
Number	41	39	36	33
Average Current Age	42.4	43.3	44.3	44.7
Average Age at Employment	29.2	28.9	28.6	28.6
Average Past Service	13.2	14.4	15.6	16.1
Average Annual Salary	\$73,360	\$79,976	\$85,091	\$91,653
<u>Actives - Hired after March 31, 2012</u>				
Number	17	17	22	27
Average Current Age	34.3	35.2	34.7	37.6
Average Age at Employment	32.4	32.6	32.0	34.6
Average Past Service	1.9	2.6	2.7	3.0
Average Annual Salary	\$63,215	\$68,637	\$64,756	\$66,332
<u>Service Retirees</u>				
Number	57	59	62	67
Average Current Age	61.9	62.2	62.4	62.6
Average Annual Benefit	\$44,004	\$47,440	\$47,627	\$48,497
<u>DROP Retirees</u>				
Number	12	10	9	9
Average Current Age	52.2	52.2	53.2	53.7
Average Annual Benefit	\$71,652	\$65,862	\$68,010	\$62,065
<u>Beneficiaries</u>				
Number	7	7	7	6
Average Current Age	65.2	66.2	67.2	66.1
Average Annual Benefit	\$22,682	\$22,892	\$23,109	\$24,180
<u>Disability Retirees</u>				
Number	3	3	3	3
Average Current Age	48.4	49.4	50.4	51.4
Average Annual Benefit	\$44,842	\$44,842	\$44,842	\$44,842
<u>Terminated Vested</u>				
Number	15	17	16	16
Average Current Age ¹	46.6	59.8	45.4	45.3
Average Annual Benefit ²	\$17,232	\$17,596	\$15,939	\$15,768

¹ The Average Current Age excludes participants awaiting a refund of contributions.

² The Average Annual Benefit excludes participants awaiting a refund of contributions.

AGE AND SERVICE DISTRIBUTION

PAST SERVICE

AGE	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30+	Total
15 - 19	0	0	0	0	0	0	0	0	0	0	0	0
20 - 24	1	2	0	0	0	0	0	0	0	0	0	3
25 - 29	0	0	0	1	0	1	0	0	0	0	0	2
30 - 34	2	2	1	0	1	1	2	0	0	0	0	9
35 - 39	0	0	0	1	3	0	6	1	0	0	0	11
40 - 44	0	1	1	0	1	3	3	1	0	0	0	10
45 - 49	2	0	0	0	0	1	3	2	4	0	0	12
50 - 54	1	0	0	0	0	0	1	3	3	1	0	9
55 - 59	1	1	0	0	0	0	0	0	1	0	0	3
60 - 64	0	0	0	0	0	1	0	0	0	0	0	1
65+	0	0	0	0	0	0	0	0	0	0	0	0
Total	7	6	2	2	5	7	15	7	8	1	0	60

VALUATION PARTICIPANT RECONCILIATION

1. Active lives

a. Number in prior valuation 10/1/2018	58
b. Terminations	
i. Vested (partial or full) with deferred annuity	0
ii. Vested in refund of member contributions only	(2)
iii. Refund of member contributions or full lump sum distribution received	0
c. Deaths	
i. Beneficiary receiving benefits	0
ii. No future benefits payable	0
d. Disabled	0
e. Retired	0
f. DROP	<u>(3)</u>
g. Continuing participants	53
h. New entrants	<u>7</u>
i. Total active life participants in valuation	60

2. Non-Active lives (including beneficiaries receiving benefits)

	Service Retirees, Vested Receiving <u>Benefits</u>	DROP <u>Benefits</u>	Receiving Death <u>Benefits</u>	Receiving Disability <u>Benefits</u>	Vested (Deferred Annuity) <u>Annuit</u>	Vested (Due Refund) <u>Refund</u>	<u>Total</u>
a. Number prior valuation	62	9	7	3	11	5	97
Retired	5	(3)	0	0	(2)	0	0
DROP	0	3	0	0	0	0	3
Vested (Deferred Annuity)	0	0	0	0	0	0	0
Vested (Due Refund)	0	0	0	0	0	2	2
Hired/Terminated in Same Year	0	0	0	0	0	0	0
Death, With Survivor	0	0	0	0	0	0	0
Death, No Survivor	0	0	(1)	0	0	0	(1)
Disabled	0	0	0	0	0	0	0
Refund of Contributions	0	0	0	0	0	0	0
Rehires	0	0	0	0	0	0	0
Expired Annuities	0	0	0	0	0	0	0
Data Corrections	0	0	0	0	0	0	0
b. Number current valuation	67	9	6	3	9	7	101

SUMMARY OF CURRENT PLAN

<u>Eligibility</u>	Full-time employees who are classified as full-time sworn Police Officers participate in the Plan as a condition of employment.
<u>Credited Service</u>	Total years and completed months of uninterrupted service with the City as a Police Officer.
<u>Salary</u>	Total pay, plus additional compensation received. Effective 3/31/2012, future accrued leave lump sum payouts shall not exceed the lesser of \$6,700 and the value accrued prior to 10/1/2011.
<u>Final Average Compensation</u>	Average Salary for the best three (3) years of service. Benefits accrued after 3/31/2012 shall be based on Average Salary for the best eight (8) years of service, however, in no event will the future Final Average Compensation be less than the amount determined as of 3/31/2012 under the prior 3 year average definition.
<u>Normal Retirement</u>	
Date	<u>Hired prior to 4/1/2012:</u> Earlier of age 50 or 25 years of Credited Service, regardless of age. <u>Hired after 3/31/2012:</u> Earlier of age 60 with the completion of 8 years of Credited Service, or the completion of 30 years of Credited Service, regardless of age.
Benefit	<u>Hired prior to 4/1/2012:</u> Frozen accrued benefit as of 3/31/2012, plus a future service benefit of 3.0% of Final Average Compensation for each year of Credited Service beyond 3/31/2012 <u>Hired after 3/31/2012:</u> 3.0% of Final Average Compensation for all years of Credited Service.
Form of Benefit	Ten Year Certain and Life Annuity (options available).

Early Retirement

Date	<u>Hired prior to 4/1/2012:</u> Earlier of age 45 or 20 years of Credited Service, regardless of age. <u>Hired after 3/31/2012:</u> Attainment of age 45 and the completion of 20 years of Credited Service.
Benefit	Accrued benefit, reduced 3% (5% for Members hired after 3/31/2012) for each year prior to Normal Retirement.

Vesting

Schedule	100% after 5 years (8 years for Members hired after 3/31/2012) of Credited Service.
Benefit Amount	Member will receive the vested portion of his (her) accrued benefit payable at the otherwise Normal Retirement Date. Non-vested members receive a refund of member contributions accumulated with 5.5% interest.

Disability

Eligibility	Total and permanent as determined by the Board of Trustees. Members are covered from Date of Employment.
Benefit	Accrued benefit to date of disability but not less than 42% of Final Average Compensation (Service Incurred), or 25% of Final Average Compensation (Non-Service Incurred).
Duration	Payable for life with 10 years certain or until recovery (as determined by the Board).

Death Benefits

Pre-Retirement

Vested

Actuarially reduced accrued benefit payable to designated beneficiary for life with 10 years certain.

Non-Vested

Refund of member contributions, with 5.5% interest.

Post-Retirement

Benefits payable to beneficiary in accordance with option selected at retirement.

Member Contributions

5.0% of Salary. Members hired after 3/31/2012 contribute 3.0% of Salary.

City and State Contributions

Remaining amount required in order to pay current costs and amortize unfunded past service cost, if any, over 30 years.

Cost of Living Adjustment

Eligibility

Normal and Early service Retirees and Beneficiaries. COLA is not payable to Disability, Vested Terminated Retirees, or any Member hired after 3/31/2012.

Amount

3.0% increase per year following one year of payments and the retiree's 55th birthday, ceasing on the retiree's 62nd birthday.

Chapter 185 Share Plan

Established by way of Mutual Consent between the Membership and City. The Share Plan is not currently funded.

Board of Trustees

Two Council appointees, two Members of the Plan elected by the membership, and a fifth Member elected by other 4 and appointed by Council as a ministerial duty.