

CITY OF HALLANDALE BEACH
POLICE OFFICERS' AND FIREFIGHTERS'
PERSONNEL RETIREMENT TRUST

ACTUARIAL IMPACT STATEMENT

July 25, 2013

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

A. Police Officers – Tier 1

1. The annual accrued benefit shall not exceed \$95,000 (based on the life annuity with 10 years certain Normal Form), but not less than the greater of (1) The accrued benefit, determined as of March 20, 2013, and (2) The Chapter 185 minimum accrued benefit, based on a 2% benefit rate for all years of Credited Service, using a five-year averaging period for pensionable pay.
2. A limitation on the current cost-of-living adjustment (COLA) to 8 adjustments once the \$95,000 maximum is realized. In other words, the maximum Normal Retirement Benefit, after adjustment for COLAs, is \$111,307.64. Please note that the Chapter 185 minimum benefit is payable, even if greater than \$111,307.64.

For Police Officers who participate in the DROP, the first COLA is payable upon DROP exit.

Exceptions

The above provisions are not applicable to Police Officers who were eligible for Normal Retirement as of March 20, 2013, or had completed at least 24 years of Credited Service as of March 20, 2013.

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A. Police Officers – Tier 2

Police Officers hired on and after March 20, 2013, will accrue benefits according to the following structure:

| <u>Benefit</u> | <u>Provision</u> |
|-----------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Average Final Compensation Period | 5 Years |
| COLA | None |
| Benefit Accrual Rate | 3% for all years of Credited Service, not exceeding 75% of Average Final Compensation. Additionally, the \$95,000 maximum benefit described on the prior page is applicable. |
| DROP | Not Available. |

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B. Firefighters – Tier 1

1. The annual accrued benefit shall not exceed \$95,000 (based on the life annuity with 10 years certain Normal Form), but not less than the greater of (1) The accrued benefit, determined as of August 7, 2013, and (2) The Chapter 175 minimum accrued benefit, based on a 2% benefit rate for all years of Credited Service, using a five-year averaging period for pensionable pay.
2. A limitation on the current cost-of-living adjustment (COLA) to 8 adjustments once the \$95,000 maximum is realized. In other words, the maximum Normal Retirement Benefit, after adjustment for COLAs, is \$111,307.64. Please note that the Chapter 175 minimum benefit is payable, even if greater than \$111,307.64.

For Firefighters who participate in the DROP, the first COLA is payable upon DROP exit.

Exceptions

The above provisions are not applicable to Firefighters who are eligible for Normal Retirement as of August 7, 2013, or will complete at least 24 years of Credited Service as of December 28, 2013.

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B. Firefighters – Tier 2

Firefighters hired on and after August 7, 2013, will accrue benefits according to the following structure:

| <u>Benefit</u> | <u>Provision</u> |
|-----------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Average Final Compensation Period | 5 Years |
| COLA | None |
| Benefit Accrual Rate | 3% for all years of Credited Service, not exceeding 75% of Average Final Compensation. Additionally, the \$95,000 maximum benefit described on the prior page is applicable. |
| DROP | Not Available. |

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The cost impact, determined as of October 1, 2012 (and compared to results of the June 10, 2013 Actuarial Impact Statement), as applicable to the fiscal year ending September 30, 2014, is as follows:

| | <u>Current</u> | <u>Proposed</u> |
|---------------------------------------------|----------------|-----------------|
| Total Required Contribution | \$10,255,812 | \$9,961,987 |
| Less Member Contributions (est.) | 1,310,180 | 1,310,180 |
| City and State Required Contribution | 8,945,632 | 8,651,807 |
| Less State Contribution (est.) ¹ | 635,011 | 635,011 |
| Balance from City ¹ | \$8,310,621 | \$8,016,796 |

¹ For purposes of this Impact Statement, the "frozen" State Contribution was lowered from \$1,534,241 to \$924,551.

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The changes presented herein are in compliance with Part VII, Chapter 112, Florida Statutes and Section 14, Article X of the State Constitution.



Douglas H. Lozen, EA, MAAA
Enrolled Actuary #11-7778

STATEMENT OF PLAN ADMINISTRATOR

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

Board of Trustees

Comparative Summary of Principal Valuation Results

| | <u>Proposed</u> <u>10/1/2012</u> | <u>6/10/13 AIS</u> <u>10/1/2012</u> |
|--------------------------------|-------------------------------------|----------------------------------------|
| A. Participant Data | | |
| Number Included | | |
| Actives | 161 | 161 |
| Service Retirees | 133 | 133 |
| Beneficiaries | 13 | 13 |
| Terminated Vested | 4 | 4 |
| Disability Retirees | 9 | 9 |
| DROP Retirees | 11 | 11 |
| | 331 | 331 |
| Total Annual Payroll | \$13,244,476 | \$13,244,476 |
| Payroll Under Assumed Ret. Age | 12,443,197 | 12,443,197 |
| Annual Rate of Payments to: | | |
| Service Retirees | 6,524,416 | 6,524,416 |
| Beneficiaries | 329,467 | 329,467 |
| Terminated Vested | 68,928 | 68,928 |
| Disability Retirees | 315,618 | 315,618 |
| DROP Retirees | 851,829 | 851,829 |
| B. Assets | | |
| Actuarial Value ¹ | 97,793,889 | 97,793,889 |
| Market Value ¹ | 101,230,756 | 101,230,756 |
| C. Liabilities | | |
| Present Value of Benefits | | |
| Active Members | | |
| Retirement Benefits | 57,314,590 | 60,108,803 |
| Disability Benefits | 1,825,087 | 1,850,571 |
| Death Benefits | 514,227 | 521,909 |
| Vested Benefits | 4,067,435 | 4,100,618 |
| Refund of Contributions | 788,867 | 788,867 |
| Service Retirees | 81,170,610 | 81,170,610 |
| Beneficiaries | 2,420,564 | 2,420,564 |
| Terminated Vested | 603,302 | 603,302 |
| Disability Retirees | 2,749,293 | 2,749,293 |
| DROP Retirees ¹ | 32,546,353 | 32,546,353 |
| Excess State Monies Reserve | 0 | 0 |
| | 184,000,328 | 186,860,890 |

| | <u>Proposed</u> <u>10/1/2012</u> | <u>6/10/13 AIS</u> <u>10/1/2012</u> |
|------------------------------------------------------------------------------|-------------------------------------|----------------------------------------|
| C. Liabilities - (Continued) | | |
| Present Value of Future Salaries | 83,589,086 | 83,589,086 |
| Present Value of Future Member Cont. | 7,940,963 | 7,940,963 |
| Normal Cost (Entry Age) | | |
| Service Ret | 1,571,068 | 1,682,138 |
| Dis Benefits | 163,638 | 165,431 |
| Death Benefits | 40,825 | 41,356 |
| Vest Benefits | 259,978 | 262,297 |
| Refunds | 109,226 | 109,226 |
| Total Normal Cost | <u>2,144,734</u> | <u>2,260,449</u> |
| Present Value of Future Normal Costs | 13,716,060 | 14,720,918 |
| Actuarial Accrued Liability | | |
| Service Ret | 46,988,857 | 48,821,709 |
| Dis Benefits | 730,008 | 737,829 |
| Death Benefits | 242,199 | 244,699 |
| Vest Benefits | 2,515,630 | 2,528,161 |
| Refunds | 317,452 | 317,452 |
| Inactives ¹ | 119,490,122 | 119,490,122 |
| Excess State Monies Reserve | 0 | 0 |
| Total Actuarial Accrued Liability | <u>170,284,268</u> | <u>172,139,972</u> |
| Unfunded Actuarial Accrued Liability | 72,490,379 | 74,346,083 |
| D. Actuarial Present Value of Accrued Benefits | | |
| Vested Accrued Benefits | | |
| Inactives ¹ | 119,490,122 | 119,490,122 |
| Actives | 15,138,629 | 15,138,629 |
| Member Contributions | 10,130,704 | 10,130,704 |
| Total | <u>144,759,455</u> | <u>144,759,455</u> |
| Non-vested Accrued Benefits | <u>6,306,650</u> | <u>6,306,650</u> |
| Total Present Value Accrued Benefits | 151,066,105 | 151,066,105 |
| Increase (Decrease) in Present Value of Accrued Benefits Attributable to: | | |
| Plan Amendments | 0 | |
| Assumption Changes | 0 | |
| New Accrued Benefits | 0 | |
| Benefits Paid | 0 | |
| Interest | 0 | |
| Other | 0 | |
| Total: | <u>0</u> | |

| Valuation Date Applicable to Fiscal Year Ending | Proposed 10/1/2012 <u>9/30/2014</u> | 6/10/13 AIS 10/1/2012 <u>9/30/2014</u> |
|----------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|----------------------------------------------|
| E. Pension Cost | | |
| Normal Cost ² % of Total Annual Payroll | \$2,377,108 | \$2,505,360 |
| Administrative Expense ² % of Total Annual Payroll | 143,840 | 143,840 |
| Payment Required to Amortize Unfunded Actuarial Accrued Liability over 30 years (as of 10/1/12) ² % of Total Annual Payroll | 7,441,039 | 7,606,612 |
| Total Required Contribution % of Total Annual Payroll | 9,961,987 | 10,255,812 |
| Expected Member Contributions ² % of Total Annual Payroll | 1,310,180 | 1,310,180 |
| Expected City & State Contrib. % of Total Annual Payroll | \$8,651,807 | \$8,945,632 |

¹ The asset values and liabilities for DROP Members include accumulated DROP Balances as of 09/30/2012.

² Contributions developed as of 10/1/2012 displayed above have been adjusted to account for assumed salary increase and interest components

ACTUARIAL ASSUMPTIONS AND METHODS

| | | | | | | | | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|---|-----|---|-----|---|------|--|
| <u>Mortality Rate</u> | <p>RP2000, Combined Healthy Mortality Table without projection. Disabled Members set forward 5 years.</p> <p>Based on a study of over 650 public safety funds, this table reflects a 10% margin for future mortality improvements.</p> | | | | | | | | |
| <u>Interest Rate</u> | 7.75% per year compounded annually, net of investment related expenses. | | | | | | | | |
| <u>Retirement Rates</u> | | | | | | | | | |
| Early Retirement | Upon attainment of Early Retirement eligibility (age 45 with 10 years of Credited Service), Members are assumed to retire at the rate of 15% per year. | | | | | | | | |
| Normal Retirement | | | | | | | | | |
| <table border="0"> <tr> <td style="text-align: center;"><u>Number of Years after First Eligibility for Normal Retirement</u></td> <td style="text-align: center;"><u>Probability of Retirement</u></td> </tr> <tr> <td style="text-align: center;">0</td> <td style="text-align: center;">50%</td> </tr> <tr> <td style="text-align: center;">1</td> <td style="text-align: center;">50%</td> </tr> <tr> <td style="text-align: center;">2</td> <td style="text-align: center;">100%</td> </tr> </table> | <u>Number of Years after First Eligibility for Normal Retirement</u> | <u>Probability of Retirement</u> | 0 | 50% | 1 | 50% | 2 | 100% | |
| <u>Number of Years after First Eligibility for Normal Retirement</u> | <u>Probability of Retirement</u> | | | | | | | | |
| 0 | 50% | | | | | | | | |
| 1 | 50% | | | | | | | | |
| 2 | 100% | | | | | | | | |
| <u>Disability Rate</u> | See table on the following page. 75% of disabilities are assumed to be service-incurred. | | | | | | | | |
| <u>Termination Rate</u> | See table on the following page. | | | | | | | | |
| <u>Salary Increases</u> | 10.0% for less than 10 years of Credited Service. For 10 or more years of Credited Service, the assumption is 4.5%. | | | | | | | | |
| <u>Post Retirement COLA</u> | 2% per year for Normal Retirement. | | | | | | | | |
| <u>Payroll Growth</u> | 4.24% per year for all bases created prior to 2011, 0.0% for all bases created thereafter. | | | | | | | | |
| <u>Administrative Expenses</u> | \$129,779. | | | | | | | | |

Funding Method

Entry Age Normal Actuarial Cost Method. The following loads are utilized for determination of the Total Required Contribution:

- Interest – A half-year, based on the current 8.0% assumption.
- Salary – A full-year, based on the current 6.7% average increase assumption.

Actuarial Asset Method

The Actuarial Value of Assets utilizes a five-year smoothing methodology. The annual difference between expected and actual investment earnings (Market Value, net of investment-related expenses), is phased-in over a five-year period.

| <u>Age</u> | <u>% Becoming Disabled During the Year</u> | <u>% Terminating During the Year</u> |
|------------|------------------------------------------------|------------------------------------------|
| 20 | 0.14% | 12.0% |
| 25 | 0.15% | 10.4% |
| 30 | 0.18% | 10.0% |
| 35 | 0.23% | 7.6% |
| 40 | 0.30% | 5.2% |
| 45 | 0.51% | 3.2% |
| 50 | 1.00% | 1.6% |
| 55 | 1.00% | 0.6% |

SUMMARY OF PLAN PROVISIONS

| | |
|-------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>Eligibility</u> | Full-time employees who are classified as Police Officers or Firefighters participate as a condition of employment. |
| <u>Credited Service</u> | Total years and fractional parts of years of employment with the City as a Police Officer or Firefighter. |
| <u>Pensionable Earnings</u> | Base salary, including Pick-Up Amounts, for all straight time hours worked, overtime, assignment pay, premium pay, state educational incentive payments and payments received for vacation, sick leave and bereavement leave taken in lieu of pay for actual services rendered. Basic Compensation shall not include bonuses, commissions, uniform or expense allowance, Outside Service Duty Detail Compensation, or payments for accrued sick leave, vacation, sick leave buyback amounts, or compensatory leave paid as a lump sum upon separation of service. |
| <u>Final Average Compensation</u> | Average of Pensionable Earnings for the two most recent completed calendar years prior to retirement or termination with the City. |
| <u>Member Contributions</u> | 9.5% of Salary. |
| <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 52 with 10 years of Credited Service, or 2) the completion of 25 years of Credited Service, regardless of age. |

| | |
|-----------------|------------------------------------------------------------------------|
| Benefit | 3.20% of Final Average Compensation for all years of Credited Service. |
| Maximum Benefit | 80% of Final Average Compensation. |
| Form of Benefit | Ten Year Certain and Life Annuity (options available). |

Early Retirement

| | |
|-------------|------------------------------------------------------------------------------------------|
| Eligibility | Age 45 with 10 years of Credited Service. |
| Benefit | Accrued benefit, reduced 6% per year that the benefit commencement date precedes age 52. |

Vesting

| | |
|-------------------|------------------------------------------------------------------------------------------------------------------------------|
| Less than 5 Years | Refund of Member contributions without interest. |
| 5-10 years | Refund of Member contributions with 3% interest through the termination date. |
| 10 or more years | Greater of a refund of Member contributions with 3% interest and the accrued benefit, payable at the Normal Retirement Date. |

Disability

| | |
|----------------------|---------------------------------------------------------------------------------------------------|
| Eligibility | |
| Service Incurred | Covered from Date of Employment. |
| Non-Service Incurred | 10 years of Credited Service. |
| Exclusions | Disability resulting from use of drugs, illegal participation in riots, service in military, etc. |

Benefit

Service Incurred

75% of Pensionable Earnings, less 64% of Social Security Disability Benefits received, further reduced by 33% of Workers' Compensation Benefits received, plus outside income to the extent that the sum of the Workers' Compensation Benefit and Disability Retirement benefit exceed 100% of Basic Compensation.

In no case will the Disability Retirement Benefit be less than the greater of the accrued Normal Retirement Benefit and 42% of Basic Compensation.

Non-Service Incurred

Accrued Benefit, less 64% of Social Security Disability Benefits received.

In no case will the Disability Retirement Benefit be less than 25% of Final Average Compensation, nor more than 50% of Final Average Compensation as of the date of disability.

Duration

Payable for life (with 120 payments guaranteed) or until recovery (as determined by the Board). Optional forms of payment are available.

Death Benefits

Eligibility

Service Incurred

Covered from Date of Employment.

Non-Service Incurred

10 years of Credited Service.

Benefit (Pre-Retirement)

Service Incurred

Accrued Benefit, but not less than 30% of Basic Compensation.

Non-Service Incurred

Accrued Benefit.

Benefit (Post-Retirement)

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

Form of Benefit

10 Year Certain and Life Annuity.

Health Care Stipend

Eligibility

Date of Employment prior to January 1, 1996.

The stipend is payable for all types of retirement benefits; DROP retirees do not receive the stipend while participating in the DROP.

Benefit

\$10 per month for each year of Credited Service, up to a maximum of \$200 per month.

Form of Benefit

Payable for the life of the retiree and any survivor, if a joint and survivor option is chosen by the Retiree.

Cost of Living Increases

Up to 2% increase or decrease effective each January 1st in accordance with the Consumer Price Index, applied to Normal and DROP Retirees. The Health Care Stipend is not subject to the COLA.

Deferred Retirement Option Plan

Eligibility

Earlier of: 1) Age 52 with 20 years of Credited Service, 2) the completion of 25 years of Credited Service, regardless of age, or 3) the date when the maximum benefit is earned.

Participation

Not to exceed 60 months.

Rate of Return

Plan Earnings, less 0.5% per year for administrative expenses. A one-time election to credit DROP accounts with the valuation assumption for investment return has been allowed since 2002. Upon exit from the DROP, interest credit reverts to Plan earnings on DROP balances.

Form of Distribution Cash lump sum (options available) at termination of employment.