NORTH MIAMI
FLORIDA
776 N.E. 125 Street, North Miami, Florida 33161

# Council Report

To: The Honorable Mayor and Council Members

From: Guithele Ruiz-Nicolas, Personnel Administration Manager

Date: March 25, 2014

Subject: **Ordinance Providing for the North Miami Police Pension Plan Employee Retirement Incentive Program**

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## RECOMMENDATION

It is recommended that the Mayor and Council amend the Code of Ordinances and authorize the City Manager to implement a Voluntary Retirement Incentive Program for eligible officers who are members of the North Miami Police Pension Plan. Association.

## BACKGROUND

A voluntary retirement incentive program can be useful in reducing personnel costs. Such a plan tends to result in vacated positions held by long tenured employees who are usually paid at the top pay range. Vacancies created by those who retire allow for the City to reorganize, consolidate positions and promote existing employees. It is also an opportunity to hire new employees at lower pay steps and eliminate or freeze certain positions. Most importantly, the voluntary retirement incentive program will enable the City to put more emphasis on hiring police officers, enhancing the safety of the citizens of the City of North Miami.

## SUMMARY

The North Miami Police Pension Plan Employee Retirement Incentive Plan will be made to full-time employees who meet the following eligibility criteria:

- Has a total of at least 19 years of Credited Service as defined by Section 15-101 of the City's Code of Ordinance as of January 1, 2014 OR
- Is at least age 50 with at least 10 years of Total Credited Service as of January 1, 2014.

The Retirement Incentive Program includes:

- Increase of the multiplier for benefits from up to 4% for the last 20 years.

- All benefits currently available upon normal retirement (e.g. payouts, retiree badge and leave payouts), but shall only be entitled to a monthly retiree health insurance subsidy pursuant to Article 30 of CBA if they were eligible to retire as of 12/31/12.

**Attachment(s)**
Ordinance

**ORDINANCE NO. _____**

**AN ORDINANCE OF THE MAYOR AND CITY COUNCIL OF THE CITY OF NORTH MIAMI, FLORIDA, AMENDING CHAPTER 15 OF THE CITY OF NORTH MIAMI CODE OF ORDINANCES, BY CREATING SECTION 15-138, ENTITLED "RETIREMENT INCENTIVE PROGRAM" IN ARTICLE IV "NORTH MIAMI POLICE PENSION PLAN", TO ESTABLISH A RETIREMENT INCENTIVE PROGRAM FOR CERTAIN ELIGIBLE MEMBERS OF THE POLICE PENSION PLAN; PROVIDING FOR CONFLICTS, SEVERABILITY, CODIFICATION AND AN EFFECTIVE DATE.**

**WHEREAS**, the City of North Miami ("City") has a Police Pension Plan (the "Plan") for members of the Plan as defined in Section 15-101 of the City's Code of Ordinances ("Members"); and

**WHEREAS**, the City desires to amend the Plan to offer and implement a voluntary retirement incentive to Members who meet certain eligibility requirements ("Retirement Incentive Program"); and

**WHEREAS**, the Plan includes City police officers who are in a bargaining unit represented by the Dade County Police Benevolent Association (the "PBA"); and

**WHEREAS**, the PBA ratified a Memorandum of Understanding with the City on March 12, 2014, which sets forth the PBA's consent to the creation and implementation of the Retirement Incentive Program; and

**WHEREAS**, the City Council has received and reviewed an actuarial impact statement related to implementing the Retirement Incentive Program; and

**WHEREAS**, the Mayor and the City Council find that it is in the best interest of the City and its employees to amend the City Code and to implement the aforementioned changes.

**NOW THEREFORE, BE IT ORDAINED BY THE MAYOR AND CITY COUNCIL OF THE CITY OF NORTH MIAMI, FLORIDA, THAT:**

**Section 1. Recitals Adopted.** Each of the above stated recitals is hereby adopted and confirmed.

**Section 2.** **Amendment to City Code.** The Mayor and City Council of the City of North Miami, Florida, hereby create Section 15-138 "Retirement Incentive Program" in Article IV "North Miami Police Pension Plan" to establish a Retirement Incentive Program for certain eligible members of the City's Police Pension Plan:

## CHAPTER 15. PENSIONS AND RETIREMENT

* * * * * * * * *

## ARTICLE IV. NORTH MIAMI POLICE PENSION PLAN

* * * * * * * * *

DIVISION 5. BENEFITS

* * * * * * * * *

**Sec. 15-138. Retirement Incentive Program.**

(1) *Creation.* There is hereby created a Retirement Incentive Program to provide an inducement for certain eligible members of the System to terminate their employment with the City and begin retirement within a prescribed window, in accordance with the terms and conditions hereinafter set forth.

(2) *Eligibility requirements.*

a. In order to qualify for the Retirement Incentive Program, a member must meet one of the following on or before January 1, 2014:

i. He/she has a total of at least nineteen (19) years of Total Credited Service, which includes Credited Service as defined in Section 15-101 plus any military credited service purchased by the employee in accordance with Sections 15-126 – 15-126.2 and any prior law enforcement credit purchased in accordance with Section 15-126.3 (hereinafter, "Total Credited Service"); or

ii. He/she is at least age 50 with at least 10 years of Total Credited Service.

b. By no later than April 30, 2014, the member must submit to the City, on forms promulgated by the City: (i) a notice of election to participate in the Retirement Incentive Program; (ii) an irrevocable resignation of employment setting forth the member's voluntarily elected last day of employment on or before May 31, 2014; and (iii) a waiver and release of all claims against the City, the System, the System's Board of Trustees, the Police Officers' Retirement Fund (Ord. 592.1.1)(aka the Special Police Officers' Fund) and the Special Police Officers' Fund Committee that arose prior to the member's retirement date. The member shall continue to accrue service credit through the member's last day of employment.

If a member does not meet the above-specified eligibility requirements, the member is not eligible to participate in the Retirement Incentive Program.

(3) *Retirement Incentive Program Benefit.*

a. *Benefit amount.* Members who meet the eligibility requirements set forth in Section 15-138(2) above and who elect to participate in the Retirement Incentive Program shall receive an immediately payable monthly retirement benefit. Members eligible for early retirement only who elect to participate in the Retirement Incentive Program may only receive an immediate monthly benefit pursuant to Section 15-129(3)(b) and not a deferred monthly benefit as set forth in Section 15-129(3)(a)). Members who have nineteen (19) years of Total Credited Service but are not currently eligible for early retirement under Section 15-128 may participate in the Retirement Incentive Program provided that they receive an immediate monthly benefit as set forth in Section 15-129(3)(b) and not a deferred monthly benefit as set forth in Section 15-129(3)(a). The immediate payable monthly retirement benefit for members who meet the eligibility requirements set forth in Section 15-138(2) above shall be calculated as follows:

i. Four percent (4%) of the member's average final compensation for each of the last twenty (20) years of Credited Service as well as to any member's military service after the member commenced employment with the City.

ii. The 4% shall not apply to pre-City employment military service purchased under the System and to prior law enforcement service purchased under the System. The regular retirement benefit for pre-City employment military service purchased under the System and for prior law enforcement service purchased under the System shall be calculated in accordance with Section 15-129.

*b.* *Form of benefit.* In selecting the method of retirement payment under the System, a member participating in the Retirement Incentive Program may not elect the single lump sum payment option or the partial lump sum/annuity option set forth in Section 15-134. As such, the normal form of benefit for the Retirement Incentive Program shall be a 10 Year Life & Certain as detailed in Section 15-129, unless the member elects one of the following optional forms below:

i. *Joint and last survivor option.* A member may elect to receive a decreased retirement benefit which provides a lifetime continuation of this benefit to another person, designated a "joint pensioner." The retiree will have the power to change such designation from time to time but any change shall be deemed a new election and will be subject to approval by the pension board. The amount of retirement income payable shall be actuarially redetermined taking into account the ages and sex of the previous joint pensioner, the new joint pensioner and the employee. The previous joint pensioner must be alive at the time the retiree elects to make a change.

ii. *Five (5) or ten (10) years certain basis.* A member may elect to take a reduced benefit on a basis providing that such benefit shall be payable for a period of life and five (5) or ten (10) years certain in any event.

iii. *Social security option.* A member retiring under either early or normal retirement provisions and not for disability may elect to receive an increased benefit from the system until such time as social security benefits commence and a reduced benefit thereafter in order to provide, to as great extent as possible, a more level retirement allowance throughout the period of his retirement.

c. *Compliance with the Internal Revenue Code.* The Retirement Incentive Program is meant to comply with all provisions of the Internal Revenue Code, and the City and the Board will take no action that would jeopardize the tax qualification of the System including the right to accelerate payments to comply with Section 401(a)(9) of the Internal Revenue Code and the right to defer payments to comply with Section 415 of the Internal Revenue Code.

* * * * * * * * * * * * * * * * * * * *

**Section 3. Conflicts.** All ordinances or parts of ordinances in conflict or inconsistent with the provisions of this Ordinance are hereby repealed.

**Section 4. Severability.** The provisions of this Ordinance are declared to be severable, and if any section, sentence, clause or phrase of this Ordinance shall for any reason be held to be invalid or unconstitutional, such decision shall not affect the validity of the remaining sections, sentences, clauses, and phrases of this Ordinance but they shall remain in effect, it being the legislative intent that this Ordinance shall stand notwithstanding the invalidity of any part.

**Section 5. Codification.** The provisions of this Ordinance may become and be made a part of the Code of Ordinances of the City of North Miami, Florida. The sections of the Ordinance may be renumbered or re-lettered to accomplish such, and the word "ordinance" may be changed to "section," "article" or any other appropriate word.

**Section 6. Effective Date.** This Ordinance shall become effective immediately upon adoption on second reading.

**PASSED AND ADOPTED** by a _____ vote of the Mayor and City Council of the City of North Miami, Florida, on first reading this _____ day of _____, 2014.

**PASSED AND ADOPTED** by a _____ vote of the Mayor and City Council of the City of North Miami, Florida, on second reading this _____ day of _____, 2014.

LUCIE M. TONDREAU
MAYOR

ATTEST:

MICHAEL A. ETIENNE, ESQ.
CITY CLERK

APPROVED AS TO FORM AND
LEGAL SUFFICIENCY:

REGINE M. MONESTIME
CITY ATTORNEY

SPONSORED BY: CITY ADMINISTRATION

Moved by: _____

Seconded by: _____

**Vote:**

| | |
|---|---|
| Mayor Lucie M. Tondreau | _____ (Yes)_____ (No) |
| Vice Mayor Philippe Bien-Aime | _____ (Yes)_____ (No) |
| Councilperson Scott Galvin | _____ (Yes)_____ (No) |
| Councilperson Carol Keys, Esq. | _____ (Yes)_____ (No) |
| Councilperson Marie Erlande Steril | _____ (Yes)_____ (No) |

Additions shown by underlining. Deletions shown by overstriking.

NORTH MIAMI
FLORIDA
776 N.E. 125 Street, North Miami, Florida 33161

# Council Report

To: The Honorable Mayor and City Council

From: Stephen E. Johnson
City Manager

Date: March 25, 2014

RE: Employee Retirement Incentive Program (ERIP) – Police Department

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Please find attached a synopsis of salary and employee benefits savings that is expected from the deployment of Employee Retirement Incentive Program (ERIP) on April 30, 2014. There are 25 eligible employees with FY13/14 salaries budgeted at $2,040,672 and a payout (vacation and sick time accrued) of $1,247,061.

Staff sees the likely separation rate to be approximately 33%. This translates into eight employees choosing early retirement, a payout of $411,530, and a negative net of $191,301. The following year, a positive net is forecasted at $233,568 after payouts are settled and new employees are hired at a lower, entry grade.

The savings will be used to fund the rehiring of replacement staff after thorough analysis of each position and reorganizing of resources for maximum efficiency.

**Attachment(s)**

Resolution

# Police Department:
# Early Retirement Incentive Plan (ERIP)
# Analysis

northmiamifl.gov

# Projections and Financial Impact

**Police Department FY 2013 - 2014 Salary and Payout**

| 25 Eligible Employees | Sick Payout | Vacation Payout | Sick and Vac Payout | Total Annual Salaries | Salaries Oct-April | Current Salaries May-Sep | Replacement Salaries May-Sept |
|---|---|---|---|---|---|---|---|
| Total | 522,620 | 724,441 | 1,247,061 | 2,040,672 | 1,177,311 | 863,361 | 196,000 |

## FY 13-14 Projections and Financial Impact

| ERIP Selection | 100% | 75% | 50% | 45% | 33% | 25% | 15% |
|---|---|---|---|---|---|---|---|
| Number Choosing ERIP | 25 | 19 | 13 | 11 | 8 | 6 | 4 |
| Total FY13/14 Salaries | ($2,040,672) | ($1,530,504) | ($1,020,336) | ($918,303) | ($673,422) | ($510,168) | ($306,101) |
| FY13/14 Savings with New Hires and Promotions (May - Sep) | $667,361 | $500,521 | $333,681 | $300,313 | $220,229 | $166,840 | $100,104 |
| Total ERIP Payout | ($1,247,061) | ($935,295) | ($623,530) | ($561,177) | ($411,530) | ($311,765) | ($187,059) |
| FY13-14 Net | ($579,699) | ($434,774) | ($289,850) | ($260,865) | ($191,301) | ($144,925) | ($86,955) |

Staff Projection

# FY 14-15
# Projections and Financial Impact

| ERIP Selection | 100% | 75% | 50% | 45% | 33% | 25% | 15% |
|---|---|---|---|---|---|---|---|
| Number Choosing ERIP | 25 | 19 | 13 | 11 | 8 | 6 | 4 |
| FY13/14 Current Salaries | $2,040,672 | $1,530,504 | $1,020,336 | $918,302 | $673,422 | $510,168 | $306,101 |
| FY14/15 Replacement Salaries | ($1,274,000) | ($955,500) | ($637,000) | ($573,300) | ($420,420) | ($318,500) | ($191,100) |
| Promotions | ($58,890) | ($44,168) | ($29,445) | ($26,501) | ($19,434) | ($14,723) | ($8,834) |
| FY14-15 Net | $707,782 | $530,837 | $353,891 | $318,502 | $233,568 | $176,946 | $106,167 |

Staff Projection

GRS
Gabriel Roeder Smith & Company
Consultants & Actuaries
One East Broward Blvd.
Suite 505
Ft. Lauderdale, FL 33301-1804
954.527.1616 phone
954.525.0083 fax
www.gabrielroeder.com

February 17, 2014

Mr. Miguel A. Codorniu
Pension Plan Administrator
City of North Miami
776 Northeast 125th Street
North Miami, Florida 33161

**Re: North Miami Police Pension Plan**
**Actuarial Impact Statement – Employee Retirement Incentive Program**

Dear Miguel:

As requested, we have prepared the enclosed Actuarial Impact Statement for the proposed ordinance which would amend the Plan by offering an Employee Retirement Incentive Program (ERIP). The ERIP would be offered to members who have at least 19 years of service as of January 1, 2014, including purchased prior military and police service, or who have attained at least age 50 with at least ten years of service as of January 1, 2014. Members would need to elect to participate in the ERIP by March 14, 2014 and separate from service no later than April 30, 2014.

The ERIP would provide a 4% benefit multiplier for the last 20 years of credited service. The 4% benefit multiplier would not apply to pre-City employment military or police service purchased under the Plan, but it would apply to intervening military service earned after being employed by the City. As directed, we reflected the current early retirement factor (1% or 3% per year) for members not yet eligible for normal or early retirement.

We have not yet been provided with a copy of the proposed ordinance. If the ERIP benefit enhancements, eligibility requirements, or application of the early retirement factor detailed in the final ordinance are different than described above, our Actuarial Impact Statement would need to be revised. Please note that we recommend that the ordinance include language regarding the treatment of the early retirement factor for members not yet eligible for normal or early retirement as described above.

The results are based on census and asset data as of September 30, 2012 as well as the replacement employee information provided by the City detailed below.

There are 24 police officers who would be eligible for the ERIP as of January 1, 2014. We have prepared the calculations for the proposed ERIP described above under four alternatives for the assumed percentage of eligible members who elect to participate in the ERIP:

1. Assuming 25% of the 24 eligible members would participate in the program.
2. Assuming 50% of the 24 eligible members would participate in the program.
3. Assuming 75% of the 24 eligible members would participate in the program.
4. Assuming 100% of the 24 eligible members would participate in the program.

To estimate the impact of 25%, 50%, or 75% of the members electing to retire under the ERIP, we recognized 25%, 50%, or 75%, respectively, of the increase in liability. This may not be the same as if 25%, 50%, or 75% of the members actually elect to retire under the ERIP as the liability could vary significantly depending on which specific members elect to retire.

As directed by the City our calculations reflect the following assumptions:

- All members who retire under the ERIP are assumed to be replaced with employees who are hired at age 33 with salaries equal to 30% less than the members they are replacing. These new employees would enter the Plan with the same benefit provisions as for current members.
- The calculations do not reflect additional increases in pay for promotions that may occur to fill positions of members retiring under the ERIP.
- It is important to note that if the assumed pay for replacement employees is understated or there are promotions as a result of the ERIP, the cost would be greater than the results shown and the payroll savings would be less than the results shown.

We previously provided some information concerning ERIP's as published by the Government Finance Officers Association to help with this decision. As recommended by the GFOA, the increase in actuarial accrued liability resulting from the proposed amendment is being amortized over five years.

**Summary of Findings**

If all 24 eligible members elect to participate in the ERIP:

- The required employer contribution in the first year would increase by $1,063,938, from $3,092,566 to $4,156,504. This increase will last for five years.
- The required employer contribution would increase by 16.34% of covered payroll, from 36.38% to 52.72%.
- There would be an increase in the Unfunded Actuarial Accrued Liability (UAAL) of approximately $4,100,000. As stated above, this increase is being amortized over five years.
- The Plan's funded ratio (assets divided by actuarial accrued liability) would decrease from 68.4% to 64.4%.
- Estimated pensionable payroll savings in the first year would be approximately $617,000. The length of time the payroll savings would last is a function of when the ERIP participants would have otherwise retired without the ERIP. A risk to the City is the possibility that a majority of the members who retire under the ERIP would have retired without the ERIP. If this is the case, the payroll savings would last for a short period of time only.
- The savings in payroll do not reflect the cost of additional benefits paid by the City for employees. As directed by the City Manager, if we assume that 50% of salaries is added to payroll to account for the cost of additional benefits paid by the City, the payroll savings would be approximately $926,000.
- The cost of the ERIP in the Pension Plan and the payroll savings is highly dependent on **which** employees elect to retire under the ERIP.
  - ➢ It is more likely that members at normal retirement age would elect to retire under the ERIP. The cost in the Pension Plan is higher for these members and the payroll savings is lower for these members since there is a higher probability that they will retire in the near future without the enhancement of the ERIP.

**Other Cost Considerations**

- This impact statement does not measure the cost of any other benefits that may be included in the ERIP package (such as severance pay or covered medical premiums).

- As of October 1, 2012 the Actuarial Value of Assets exceeds the Market Value of Assets by approximately $4,000,000. This difference will be gradually recognized over the next several years. In turn, the computed employer contribution rate will increase by 3% of covered payroll in the absence of offsetting gains.
- The investment return assumption was 8.40% as of October 1, 2012. This rate will be lowered by 0.1% each year until reaching 8.00%, resulting in an increase in the required contribution of approximately 1% of covered payroll for each of the next four years.
- For purposes of financing the Unfunded Actuarial Accrued Liability, total payroll is assumed to grow at 4% per year. Under the Florida Statutes, this assumption is limited to the actual 10-year average payroll growth which is 3.28% before reflecting the ERIP and 2.51% if all 24 eligible members elect to participate in the ERIP. A lower payroll growth rate results in greater amortization payments in the short term.

**Additional Disclosures**

This report was prepared at the request of the City of North Miami with approval by the Pension Board and is intended for use by the City and the Pension Board and those designated or approved by the City or Board. This report may be provided to other parties only in its entirety and only with the permission of the City and Board.

The purpose of this report is to describe the financial effect of the proposed plan changes on the Plan. This report should not be relied on for any purpose other than the purpose described above. Potential effects on other benefit plans were not considered. No statement in this report is intended to be interpreted as a recommendation in favor of the changes, or in opposition to them.

The calculations in this report are based upon information furnished by the Plan Administrator and our October 1, 2012 Actuarial Valuation concerning Plan benefits, financial transactions, plan provisions and active members, terminated members, retirees and beneficiaries. We did not audit the data.

The calculations are based upon assumptions regarding future events, which may or may not materialize. They are also based on the assumptions, methods, and plan provisions outlined in our October 1, 2012 Actuarial Valuation Report with exceptions as noted in this report. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law.

If you have reason to believe that the assumptions that were used are unreasonable, that the plan provisions are incorrectly described, that important plan provisions relevant to this proposal are not described, or that conditions have changed since the calculations were made, you should contact the author of this report prior to relying on information in the report.

If you have reason to believe that the information provided in this report is inaccurate, or is in any way incomplete, or if you need further information in order to make an informed decision on the subject matter of this report, please contact the author of the report prior to making such decision.

The undersigned actuaries are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. The undersigned actuaries are independent of the plan sponsor.

This report has been prepared by actuaries who have substantial experience valuing public employee retirement systems. To the best of our knowledge the information contained in this report is accurate and fairly presents the actuarial position of the Plan as of the valuation date. All calculations have been made in conformity with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board and with applicable statutes.

We welcome your questions and comments.

Respectfully submitted,

Jeffrey Amrose, MAAA
Enrolled Actuary No. 11-6599

Trisha Amrose, MAAA
Enrolled Actuary No. 11-8010

Enclosures

cc: Robert Bage

**NORTH MIAMI POLICE PENSION PLAN**

**Impact Statement – February 17, 2014**

**Description of Amendments**

The proposed ordinance would amend the Plan by offering an Employee Retirement Incentive Program (ERIP). The ERIP would be offered to members who have at least 19 years of service as of January 1, 2014, including purchased prior military and police service, or who have attained at least age 50 with at least ten years of service as of January 1, 2014. Members would need to elect to participate in the ERIP by March 14, 2014 and separate from service no later than April 30, 2014.

The ERIP would provide a 4% benefit multiplier for the last 20 years of credited service. The 4% benefit multiplier would not apply to pre-City employment military or police service purchased under the Plan, but it would apply to intervening military service earned after being employed by the City. The current early retirement factor (1% or 3% per year) is reflected for members not yet eligible for normal or early retirement.

**Funding Implications of Amendment**

An actuarial cost estimate is attached.

**Certification of Administrator**

I believe the amendment to be in compliance with Part VII, Chapter 112, Florida Statutes and Section 14, Article X of the Constitution of the State of Florida.

_____

For the Board of Trustees
as Plan Administrator

# SUPPLEMENTAL ACTUARIAL VALUATION REPORT

**Plan**

North Miami Police Pension Plan

**Valuation Date**

October 1, 2012

**Date of Report**

February 17, 2014

**Report Requested by**

City of North Miami

**Prepared by**

Jeffrey Amrose

**Group Valued**

All active and inactive members of the Plan.

**Benefit Provisions Being Considered for Change**

An Employee Retirement Incentive Program (ERIP) would be offered to all members who have at least 19 years of service as of January 1, 2014, including purchased prior military and police service, or who have attained at least age 50 with at least ten years of service as of January 1, 2014. Members would need to elect to participate in the ERIP by March 14, 2014 and separate from service no later than April 30, 2014. The ERIP would provide a 4% benefit multiplier for the last 20 years of credited service. The 4% benefit multiplier would not apply to pre-City employment military or police service purchased under the Plan, but it would apply to intervening military service earned after being employed by the City. The current early retirement factor (1% or 3% per year) is reflected for members not yet eligible for normal or early retirement.

Participants Affected

There are 24 members who would be eligible for the ERIP as of January 1, 2014.

**Actuarial Assumptions and Methods**

Same as October 1, 2012 Actuarial Valuation Report. Some of the key assumptions/methods are:

| | |
|---|---|
| Investment Return | 8.4% per year |
| Salary Increase | 3.5% - 9.4% per year, based on service |
| Cost Method | Entry Age Normal |

Additionally, we have prepared the calculations for the proposed ERIP described above under four alternatives for the assumed percentage of eligible members who elect to participate in the ERIP:

1. Assuming 25% of the 24 eligible members would participate in the program.
2. Assuming 50% of the 24 eligible members would participate in the program.
3. Assuming 75% of the 24 eligible members would participate in the program.
4. Assuming 100% of the 24 eligible members would participate in the program.

To estimate the impact of 25%, 50%, or 75% of the members electing to retire under the ERIP, we recognized 25%, 50%, or 75%, respectively, of the increase in liability. This may not be the same as if 25%, 50%, or 75% of the members actually elect to retire under the ERIP as the liability will vary depending on which specific members elect to retire.

**Actuarial Assumptions and Methods (continued)**

As directed by the City, 100% of the members who retire under the ERIP are assumed to be replaced with employees who are hired at age 33 with salaries equal to 30% less than the members they are replacing.

**Amortization Period for Any Change in Actuarial Accrued Liability**

5 years

**Summary of Data Used in Report**

See attached page. Same as data used for the October 1, 2012 Actuarial Valuation Report and the replacement employee information provided by the City.

**Actuarial Impact of Proposal(s)**

See attached page(s)

**Special Risks Involved with the Proposal That the Plan Has Not Been Exposed to Previously**

None

**Other Cost Considerations**

The recognition of previous asset losses in future years will likely increase the required contribution over the next several fiscal years whether or not the proposed changes are adopted. Additionally, the investment return assumption was 8.40% as of October 1, 2012. This rate will be lowered by 0.1% each year until reaching 8.00%, resulting in an increase in the required contribution of approximately 1% of covered payroll for each of the next four years.

For purposes of financing the Unfunded Actuarial Accrued Liability, total payroll is assumed to grow at 4% per year. Under the Florida Statutes, this assumption is limited to the actual 10-year average payroll growth which is 3.28% before reflecting the ERIP and 2.51% if all 24 eligible members elect to participate in the ERIP. A lower payroll growth rate results in greater amortization payments in the short term.

## ANNUAL REQUIRED CONTRIBUTION (ARC)

| | October 1, 2012 *Valuation* | October 1, 2012 *Proposed ERIP* | | | |
|---|---|---|---|---|---|
| | | *25% Participation* | *50% Participation* | *75% Participation* | *100% Participation* |
| A. Valuation Date | | | | | |
| B. ARC to Be Paid During Fiscal Year Ending | 9/30/2014 | 9/30/2014 | 9/30/2014 | 9/30/2014 | 9/30/2014 |
| C. Assumed Date of Employer Contrib. | 10/1/2013 | 10/1/2013 | 10/1/2013 | 10/1/2013 | 10/1/2013 |
| D. Annual Payment to Amortize Unfunded Actuarial Liability | $ 1,410,144 | $ 1,661,806 | $ 1,915,303 | $ 2,170,640 | $ 2,429,325 |
| E. Employer Normal Cost | 1,642,964 | 1,643,972 | 1,644,984 | 1,645,994 | 1,647,005 |
| F. ARC as of the Valuation Date: D+E | 3,053,108 | 3,305,778 | 3,560,287 | 3,816,634 | 4,076,330 |
| *Valuation Date* | *10/1/2012* | *10/1/2012* | *10/1/2012* | *10/1/2012* | *10/1/2012* |
| G. ARC as % of Covered Payroll | 37.35 % | 41.19 % | 45.20 % | 49.38 % | 53.77 % |
| H. Assumed Rate of Increase in Covered Payroll to Contribution Year | 4.00 % | 4.00 % | 4.00 % | 4.00 % | 4.00 % |
| I. Covered Payroll for Contribution Year | 8,501,333 | 8,346,981 | 8,192,628 | 8,038,276 | 7,883,924 |
| J. ARC if Paid on the First Day of the Next Fiscal Year (Before Credit for State Contribution): G x I | 3,175,248 | 3,438,121 | 3,703,068 | 3,969,301 | 4,239,186 |
| *First Day of Next Fiscal Year* | *10/1/2013* | *10/1/2013* | *10/1/2013* | *10/1/2013* | *10/1/2013* |
| K. ARC if Paid Quarterly throughout the Next Fiscal Year (Before Credit for State Contribution) | 3,336,858 | 3,613,110 | 3,891,542 | 4,171,326 | 4,454,947 |
| L. Estimate of State Revenue in Contribution Year | 82,682 | 82,682 | 82,682 | 82,682 | 82,682 |
| M. Required Employer Contribution (REC) in Contribution Year: J - L * | 3,092,566 | 3,355,439 | 3,620,386 | 3,886,619 | 4,156,504 |
| N. REC as % of Covered Payroll in Contribution Year: M ÷ I * | 36.38 % | 40.20 % | 44.19 % | 48.35 % | 52.72 % |
| **O. Change in REC for Contribution Year *** | | **262,873** | **527,820** | **794,053** | **1,063,938** |
| **Change as % of Covered Payroll** | | **3.82 %** | **7.81 %** | **11.97 %** | **16.34 %** |
| **N. Change in Covered Payroll** | | **(154,352)** | **(308,705)** | **(463,057)** | **(617,409)** |

** Assuming the contribution is paid on the first day of the next fiscal year.*

## ACTUARIAL VALUE OF BENEFITS AND ASSETS

| | October 1, 2012 *Valuation* | October 1, 2012 *Proposed ERIP* | | | |
|---|---|---|---|---|---|
| | | *25% Participation* | *50% Participation* | *75% Participation* | *100% Participation* |
| A. Valuation Date | | | | | |
| B. Actuarial Present Value of All Projected Benefits for | | | | | |
| 1. Active Members | | | | | |
| a. Service Retirement Benefits | $ 48,665,227 | $ 45,733,595 | $ 42,801,962 | $ 39,870,330 | $ 36,938,697 |
| b. Vesting Benefits | 3,667,708 | 3,669,038 | 3,670,368 | 3,671,698 | 3,673,028 |
| c. Disability Benefits | 2,949,693 | 3,026,226 | 3,102,759 | 3,179,291 | 3,255,824 |
| d. Preretirement Death Benefits | 521,349 | 527,943 | 534,538 | 541,132 | 547,726 |
| e. Return of Member Contributions | 47,834 | 62,851 | 77,868 | 92,885 | 107,902 |
| f. Total | 55,851,811 | 53,019,653 | 50,187,495 | 47,355,336 | 44,523,177 |
| 2. Inactive Members | | | | | |
| a. Service Retirees & Beneficiaries | 26,213,600 | 26,213,600 | 26,213,600 | 26,213,600 | 26,213,600 |
| b. Disability Retirees | 1,417,836 | 1,417,836 | 1,417,836 | 1,417,836 | 1,417,836 |
| c. ERIP Retirees | 0 | 5,180,677 | 10,361,354 | 15,542,031 | 20,722,708 |
| d. Total | 27,631,436 | 32,812,113 | 37,992,790 | 43,173,467 | 48,354,144 |
| 3. Total for All Members | 83,483,247 | 85,831,766 | 88,180,285 | 90,528,803 | 92,877,321 |
| C. Actuarial Accrued (Past Service) Liability per GASB No. 25 | 65,146,979 | 66,177,333 | 67,207,686 | 68,238,040 | 69,268,393 |
| D. Actuarial Value of Accumulated Plan Benefits per FASB No. 35 | N/A | N/A | N/A | N/A | N/A |
| E. Plan Assets | | | | | |
| 1. Market Value | 40,612,069 | 40,612,069 | 40,612,069 | 40,612,069 | 40,612,069 |
| 2. Actuarial Value | 44,577,607 | 44,577,607 | 44,577,607 | 44,577,607 | 44,577,607 |
| F. Unfunded Actuarial Accured Liability | 20,569,372 | 21,599,726 | 22,630,079 | 23,660,433 | 24,690,786 |
| G. Actuarial Present Value of Projected Covered Payroll | 63,903,159 | 67,519,123 | 71,135,087 | 74,751,051 | 78,367,015 |
| H. Actuarial Present Value of Projected Member Contributions | 7,355,254 | 7,771,451 | 8,187,649 | 8,603,846 | 9,020,043 |
| I. Funded Ratio: E2 ÷ C | 68.4% | 67.4% | 66.3% | 65.3% | 64.4% |

## CALCULATION OF EMPLOYER NORMAL COST

| | October 1, 2012 *Valuation* | October 1, 2012 *Proposed ERIP* | | | |
|---|---|---|---|---|---|
| | | *25% Participation* | *50% Participation* | *75% Participation* | *100% Participation* |
| A. Valuation Date | | | | | |
| B. Normal Cost for | | | | | |
| 1. Service Retirement Benefits | $ 1,732,365 | $ 1,728,960 | $ 1,725,557 | $ 1,722,156 | $ 1,718,752 |
| 2. Vesting Benefits | 271,566 | 262,015 | 252,463 | 242,912 | 233,360 |
| 3. Disability Benefits | 231,612 | 232,432 | 233,252 | 234,071 | 234,891 |
| 4. Preretirement Death Benefits | 36,659 | 36,783 | 36,907 | 37,030 | 37,154 |
| 5. Return of Member Contributions | 30,167 | 29,074 | 27,982 | 26,889 | 25,796 |
| 6. Total for Future Benefits | 2,302,369 | 2,289,264 | 2,276,161 | 2,263,058 | 2,249,953 |
| 7. Assumed Amount for Administrative Expenses | 117,976 | 117,976 | 117,976 | 117,976 | 117,976 |
| 8. Total Normal Cost | 2,420,345 | 2,407,240 | 2,394,137 | 2,381,034 | 2,367,929 |
| 9. Total as a % of Covered Payroll | 29.61 % | 29.99 % | 30.39 % | 30.81 % | 31.24 % |
| C. Expected Member Contribution (9.51%) | 777,381 | 763,267 | 749,153 | 735,039 | 720,924 |
| D. Employer Normal Cost: B8-C | 1,642,964 | 1,643,973 | 1,644,984 | 1,645,995 | 1,647,005 |
| E. Employer Normal Cost as a % of Covered Payroll | 20.10 % | 20.48 % | 20.88 % | 21.30 % | 21.73 % |

| PARTICIPANT DATA | | | | | |
|---|---|---|---|---|---|
| | October 1, 2012 *Valuation* | October 1, 2012 *Proposed ERIP* | | | |
| | | *25% Participation* | *50% Participation* | *75% Participation* | *100% Participation* |
| **ACTIVE MEMBERS** | | | | | |
| Number | 108 | 108 | 108 | 108 | 108 |
| Covered Annual Payroll | $ 8,174,358 | $ 8,025,943 | $ 7,877,527 | $ 7,729,112 | $ 7,580,696 |
| Average Annual Payroll | $ 75,689 | $ 74,314 | $ 72,940 | $ 71,566 | $ 70,192 |
| Average Age | 39.8 | 39.0 | 38.2 | 37.4 | 36.6 |
| Average Past Service | 11.7 | 10.6 | 9.4 | 8.3 | 7.1 |
| Average Age at Hire | 28.1 | 28.4 | 28.8 | 29.1 | 29.5 |
| **ERIP PARTICIPANTS** | | | | | |
| Number | N/A | 6 | 12 | 18 | 24 |
| Annual Benefits | $ N/A | $ 412,992 | $ 825,984 | $ 1,238,976 | $ 1,651,968 |
| Average Annual Benefit | $ N/A | $ 68,832 | $ 68,832 | $ 68,832 | $ 68,832 |
| Average Age | N/A | 47.5 | 47.5 | 47.5 | 47.5 |
| **RETIREES & BENEFICIARIES** | | | | | |
| Number | 28 | 28 | 28 | 28 | 28 |
| Annual Benefits | $ 2,015,950 | $ 2,015,950 | $ 2,015,950 | $ 2,015,950 | $ 2,015,950 |
| Average Annual Benefit | $ 71,998 | $ 71,998 | $ 71,998 | $ 71,998 | $ 71,998 |
| Average Age | 55.8 | 55.8 | 55.8 | 55.8 | 55.8 |
| **DISABILITY RETIREES** | | | | | |
| Number | 4 | 4 | 4 | 4 | 4 |
| Annual Benefits | $ 150,404 | $ 150,404 | $ 150,404 | $ 150,404 | $ 150,404 |
| Average Annual Benefit | $ 37,601 | $ 37,601 | $ 37,601 | $ 37,601 | $ 37,601 |
| Average Age | 59.7 | 59.7 | 59.7 | 59.7 | 59.7 |
| **TERMINATED VESTED MEMBERS** | | | | | |
| Number | 0 | 0 | 0 | 0 | 0 |
| Annual Benefits | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| Average Annual Benefit | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| Average Age | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |