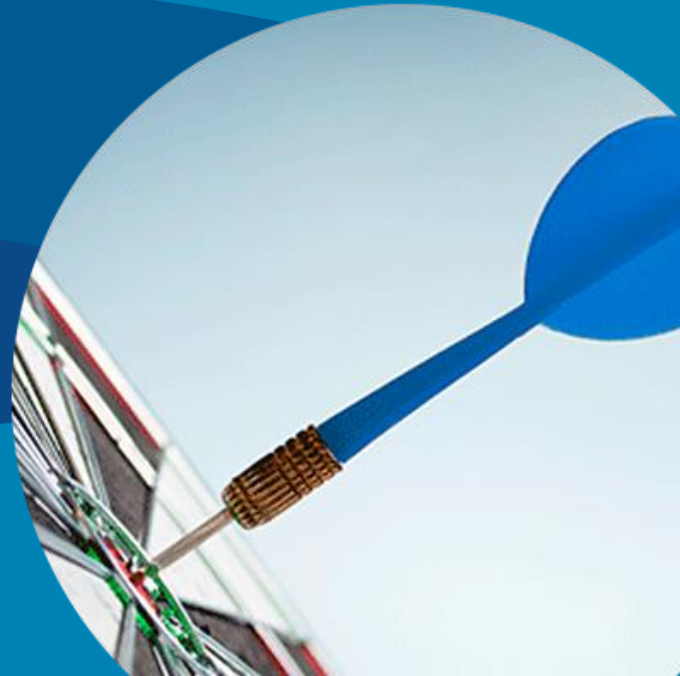




# FPPTA Virtual Learning Series - Prudent Risks & Governance for Florida Public Pension Plans

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# Governance – an Overview

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- **Goal of good governance is to maximize the efficiency of the pension plan**
  - deliver accurate and timely benefits with minimum cost and risk to City, members, and tax payers
- **Pension board trustees are fiduciaries**
  - Must act solely in the interest of plan members

# Governance – an Overview (continued)

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- **Board responsibilities include making strategic decisions to ensure optimal plan operation**
  - selecting and monitoring service providers, setting investment policy, setting a funding policy, approving contribution rates, setting actuarial assumptions

# Experience Study – an Overview

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- Actuarial assumptions impact the **timing** of contributions
- Actuarial assumptions do **not** impact the **overall cost** of the plan

Once upon a time there  
were two very similar  
pension plans...



Jeff (*el Jefe*) - Sole  
Trustee of the  
Metropolis Employees  
Retirement System



Nicolas (*the Cage*) - Sole  
Trustee of the Gotham  
Employees Retirement  
System



Shelly (A-Team Consulting)  
Actuary for both plans



Dina (A-Team Consulting)  
Actuary for both plans

# The Plans – 2020

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Both plans were in the same financial position in 2020:

	<b>Gotham Employees Retirement System</b>	<b>Metropolis Employees Retirement System</b>
Funded Ratio (FR)	70.0%	70.0%
Actuarially Determined Employer Contribution (ADEC)	\$ 3.6 M	\$ 3.6 M
ADEC as a percent of Covered Payroll	34.1%	34.1%

Then the plans' actuaries  
performed an experience  
study and assumptions  
review...

# Demographic Assumptions and Salary Scale - Background

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- Inputs used to model future plan member experience
- Typically recommended by the actuary
- Exception is State mandated mortality
- Subject to Board approval
- Boards should rely on the expertise of their actuaries

# Demographic Assumptions and Salary Scale - Recommendations

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- Normal and early retirement rates
- Duty and non-duty disability rates
- Withdrawal rates
- Merit and seniority salary raises

# Demographic Assumptions and Salary Scale - Deliberation and Action

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- **Deliberation**

- Maybe we should keep the assumptions the same and revisit this in the future
- Should we adopt all the recommended assumption changes or only some of them

# Demographic Assumptions and Salary Scale - Deliberation and Action (continued)

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- **Action**

- Metropolis: Keep assumptions unchanged for now, timing not good
- Gotham: Follow actuary's recommendation

# Amortization Policy - Background

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- **Plans use 30 year amortization period with level percentage of payroll amortization method**
  - longer amortization period = lower payment
  - higher payroll growth assumption = more backloading

## Amortization Policy – Background (continued)

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- **Level dollar amortization method also an option:**
  - similar to fixed rate mortgage payment
  - amortization amount for each UAAL base remains the same dollar amount each year

## Amortization Policy – Background (continued)

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- **30 years is maximum period allowed by Florida Statutes**
- **Payroll growth assumed to be 3.00% but is limited under F.S. Ch. 112.64(5)(a) by 10 year history of actual payroll growth**
  - Changes each year, may create volatility

# Amortization Policy – Recommendation

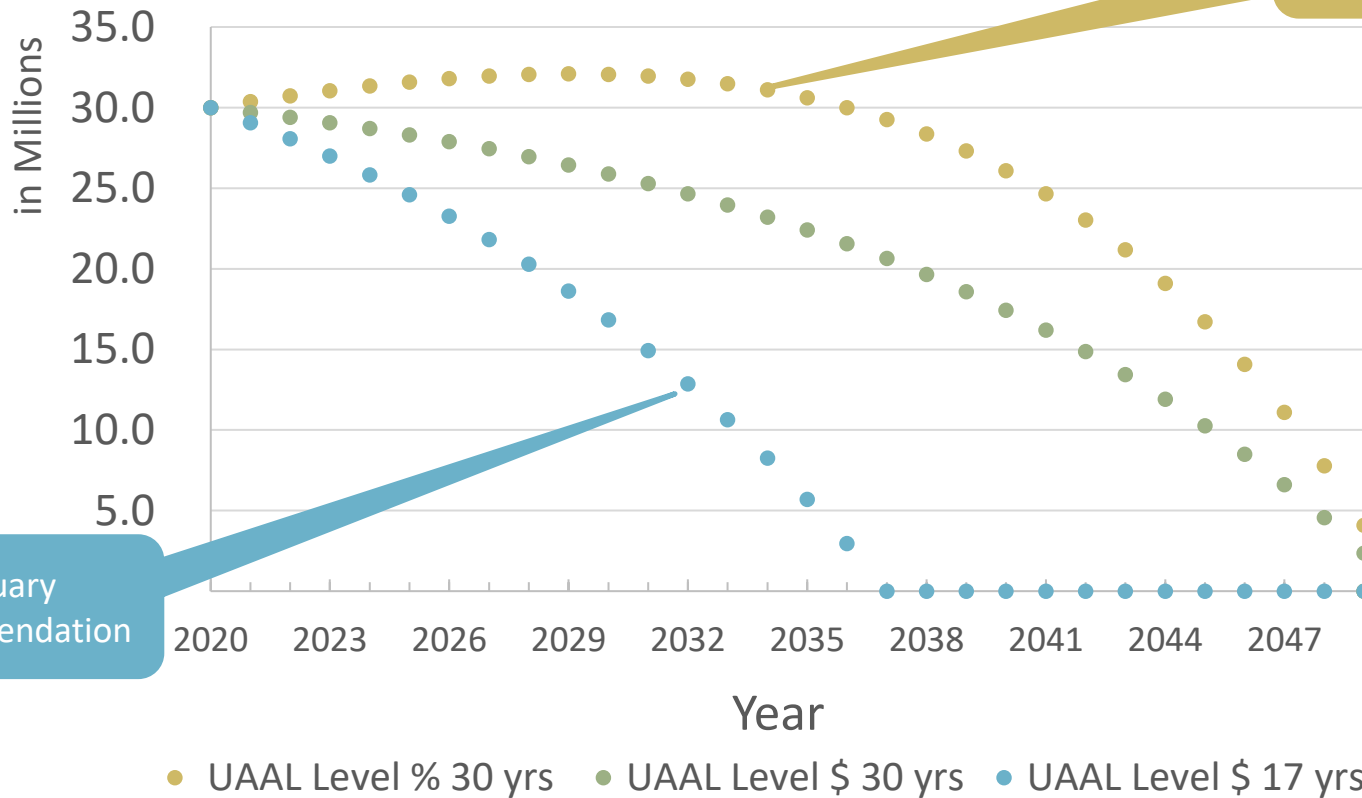
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- **Switch to level dollar**
- **Use 15/20 year hybrid amortization policy**
  - 15 years for experience & benefit changes; 20 years for assumption changes
  - In line with SOA's best practice recommendation for these plans<sup>1</sup>

<sup>1</sup> <https://www.soa.org/globalassets/assets/Files/Newsroom/brp-report.pdf>

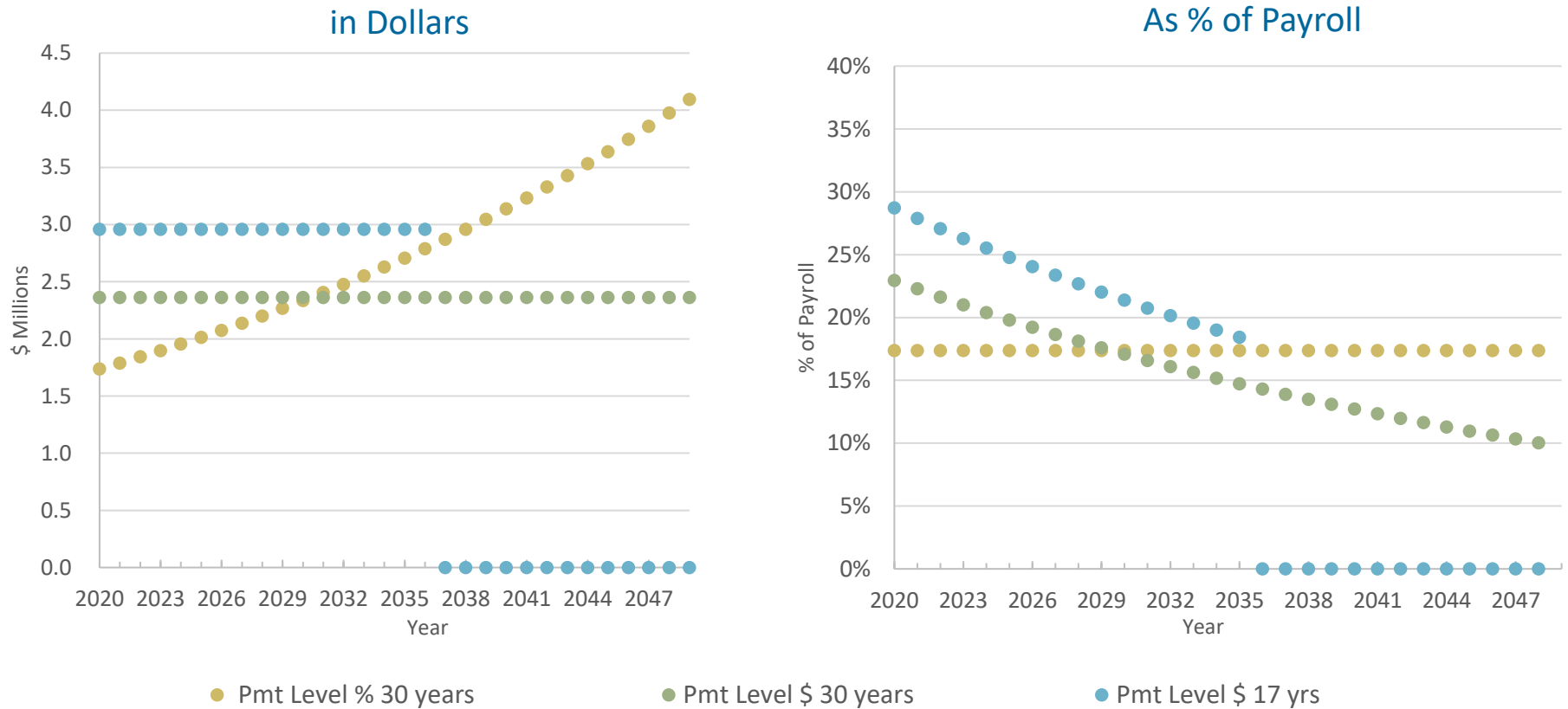
# Amortization Policy – Recommendation (continued)

UAAL Sample Projection by Year  
Different Amortization Methods



# Amortization Policy – Recommendation (continued)

## Amortization Payment Example



# Amortization Policy – Deliberation & Action

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- **Deliberation**

- Switching to a level dollar amortization period and a shorter amortization period will impact the required City contribution
- If we switch to a level dollar amortization period and a shorter amortization period the City will pay less interest and the plan will be better funded

# Amortization Policy – Deliberation & Action (continued)

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- **Action**

- Metropolis: Keep amortization policy unchanged for now, timing not good to make a change
- Gotham: Follow actuary's recommendation

# Investment Return Assumption - Background

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- Can be defined as the future rate of earnings expected to be generated by the portfolio
- Should take into account:
  - Capital market assumption expectations from independent professional forecasters
  - Plan asset allocation
  - Plan investment expenses

## Investment Return Assumption – Background (continued)

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- Higher assumed investment return will lower the required contributions in the short-term (and vice versa)

# Investment Return - Recommendation

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- Investment return assumption has been at 8.0% for several years
- Recommendation from the Actuary is to lower the investment return assumption to 7.0%
  - Would be more in line with future expectations

# Investment Return - Deliberation & Action

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- **Deliberation**

- Lowering the investment return assumption will increase the required City contribution in the short term
- Lowering the assumption will put us more in line with the experts forecasts

# Investment Return - Deliberation & Action (continued)

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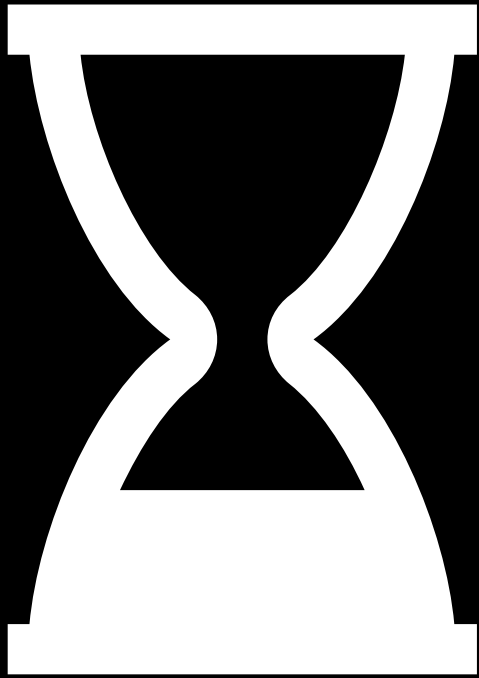
- **Action**

- Metropolis keeps the investment return assumption at 8.0%
- Gotham reduces the investment return assumption to 7.0%

# Impact of Recommended Assumption Changes – 2020

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	Gotham Before Assumption and Method Changes	Gotham After Assumption and Method Changes
Funded Ratio (FR)	70.0%	62.9%
Actuarially Determined Employer Contribution (ADEC) Amount	\$ 3.6 M	\$ 7.1 M
ADEC as a percent of Covered Payroll	34.1%	66.3%



5 years later...

# Financial Positions – Snapshot 2025

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	<b>Gotham Employees Retirement System</b>	<b>Metropolis Employees Retirement System</b>
Funded Ratio (FR)	72.4%	69.5%
Actuarially Determined Employer Contribution (ADEC) Amount	\$ 8.1 M	\$ 4.6 M
ADEC as a percent of Covered Payroll	60.2%	34.1%

# Metropolis reconsiders

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- Five years later the Metropolis Board reconsiders the actuaries' recommendations
- Another experience study is performed. The same assumptions and methods previously recommended still apply and are proposed for board approval

## Metropolis reconsiders (continued)

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- After much deliberation, Jeff adopts all assumption and method changes originally recommended by the A-team.

# Impact of Recommended Assumption Changes – 2025

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- Because of the delay in implementing the actuaries' recommendations, the impact of the changes is greater in 2025:

	Metropolis Before Assumption and Method Changes	Metropolis After Assumption and Method Changes
Funded Ratio (FR)	69.5%	60.1%
Actuarially Determined Employer Contribution (ADEC) Amount	\$ 4.6 M	\$ 9.2 M
ADEC as a percent of Covered Payroll	34.1%	69.0%

# Financial Positions – Snapshot 2025

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- **Metropolis had a lower required contribution and higher funded ratio than Gotham from 2020 through 2025**
  - This was artificial as these metrics were calculated using aggressive actuarial assumptions

## Financial Positions – Snapshot 2025 (continued)

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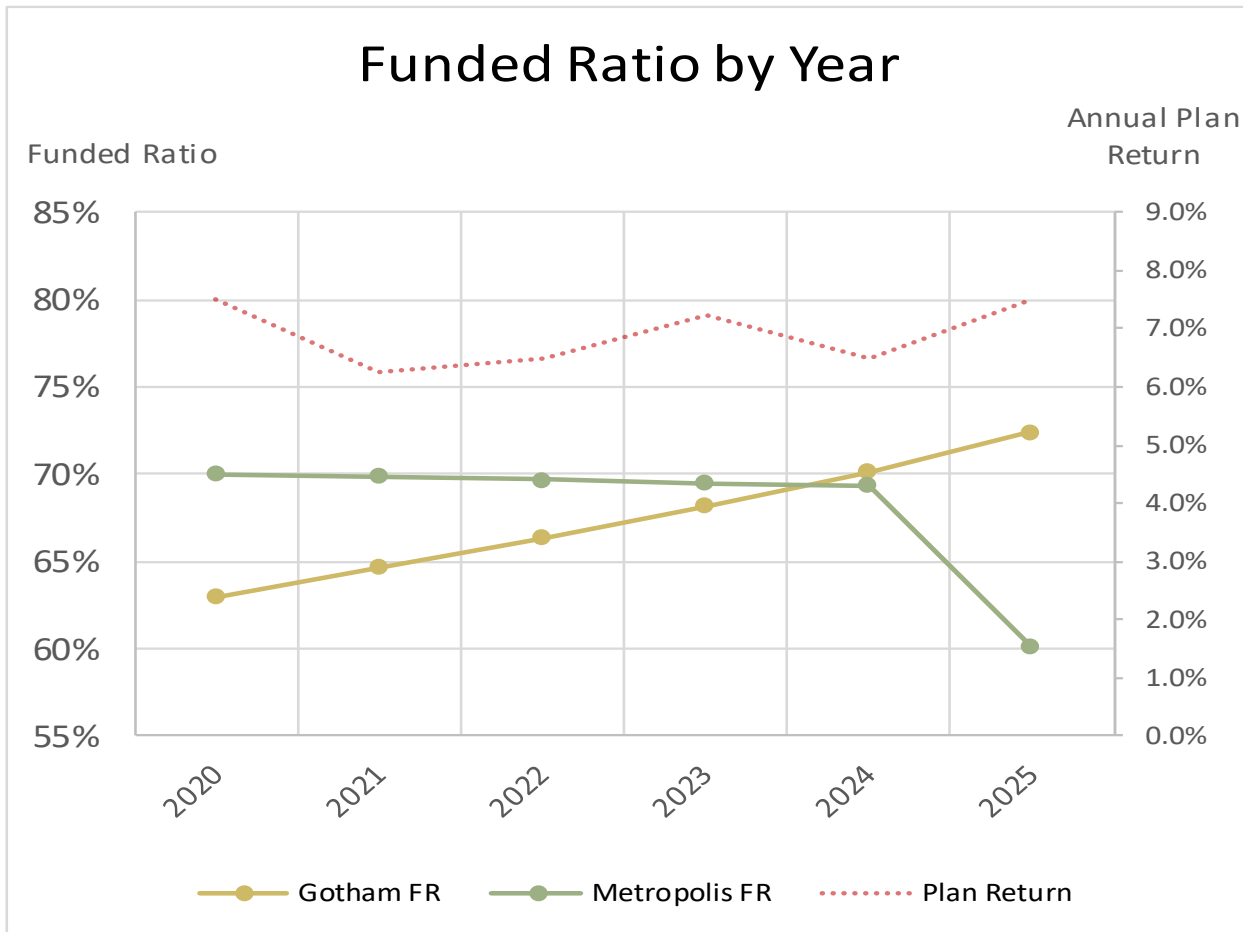
- **After the new assumptions were adopted in 2025 Metropolis had a higher required contribution and lower funded ratio compared to Gotham**
  - The higher contributions and lower funded ratio for Metropolis is expected to continue in future years

# Financial Positions – Snapshot 2025 (continued)

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	<b>Gotham Employees Retirement System</b>	<b>Metropolis Employees Retirement System</b>
Funded Ratio (FR)	72.4%	60.1%
Actuarially Determined Employer Contribution (ADEC) Amount	\$ 8.1 M	\$ 9.2 M
ADEC as a percent of Covered Payroll	60.2%	69.0%

# Financial Positions – Historical



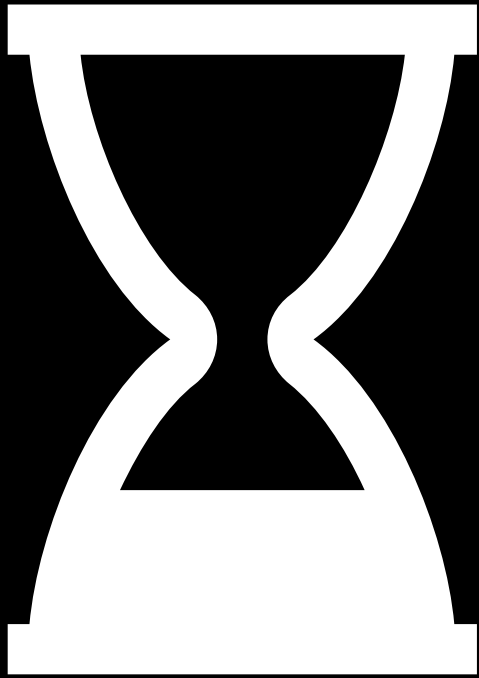
Year 2026: NEWS FLASH!!!

Metropolis issues a \$53M  
Pension Obligation Bond to  
bring their Funded Ratio to  
100%

# Pension Obligation Bonds aka POBs

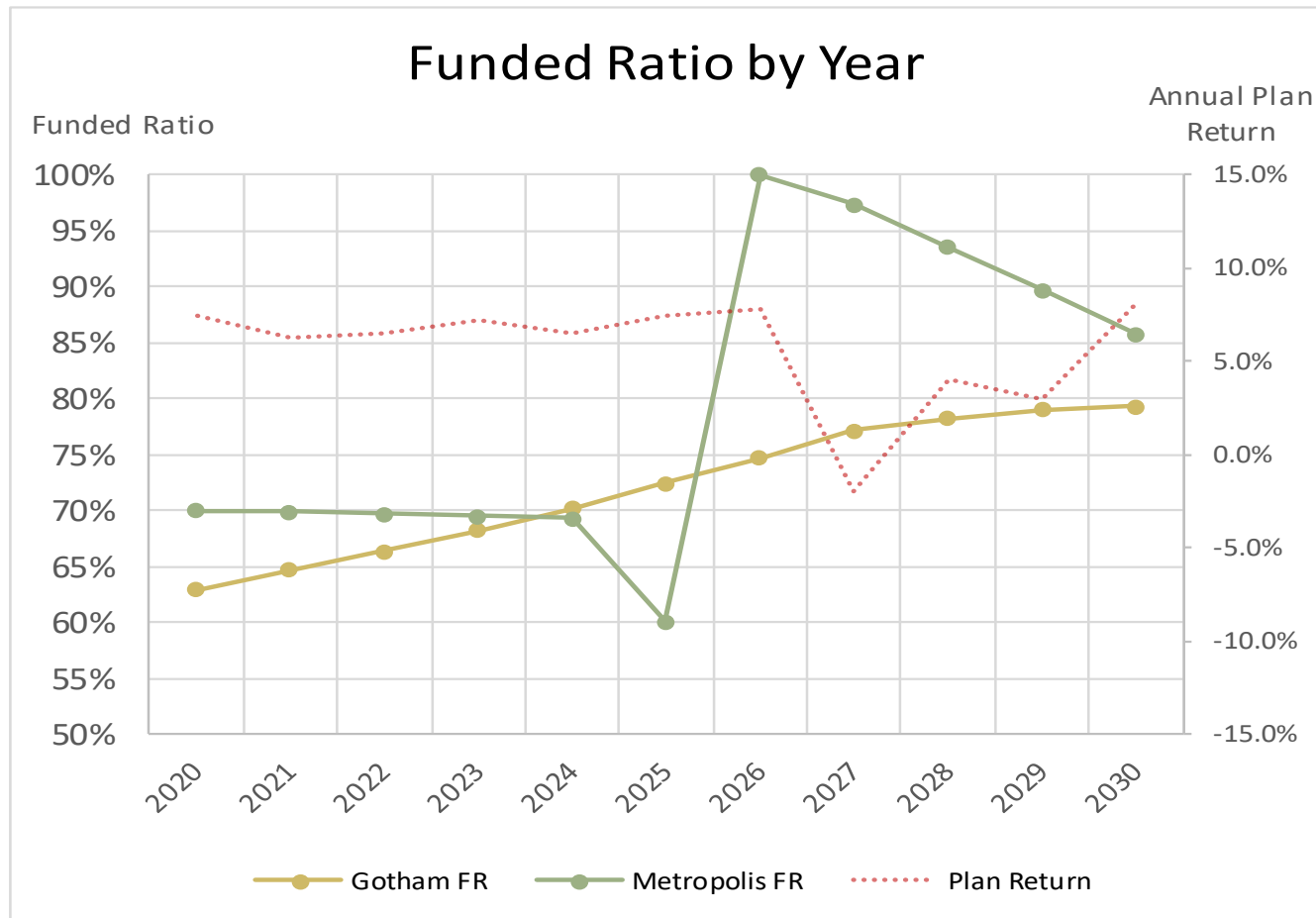
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- Plan Sponsor initiated and issued to pay off the Unfunded Accrued Liability (UAL)
- The proceeds arrive in a very large lump sum
- Akin to market timing versus dollar cost averaging
- The repayment of the POB is not the Retirement System's responsibility



4 years later...

# Financial Positions – Historical



# Financial Positions – Snapshot 2030

	Gotham Employees Retirement System	Metropolis Employees Retirement System
Funded Ratio (FR)	79.3%	85.8%
Actuarially Determined Employer Contribution (ADEC) Amount	\$ 9.7 M	\$ 7.2 M
ADEC as a percent of Covered Payroll	58.4%	43.1%
Pension Obligation Bond Original Loan Amount (20 year bond issued in 2026)	N/A	\$ 52.8 M
Pension Obligation Bond Loan Outstanding Balance (16 years remaining)	N/A	\$ 45.1 M
Pension Obligation Bond Annual Payment	N/A	\$ 3.7 M

# Financial Positions – Snapshot 2030 (continued)

	Gotham Employees Retirement System	Metropolis Employees Retirement System
10-year Total of City Contributions and Annual POB Payments	\$ 79.7 M	\$ 63.7 M
Pension-Related Debt in 2030 (UAL + amount owed on POB)	\$ 34.2 M	\$ 68.5 M
Total	\$ 113.9 M	\$ 132.2 M

# The Takeaways

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- Trends carry the day and Gotham is declared victorious!!
- Good governance requires wearing only one hat – the plan fiduciary hat
- Make the right decision for the plan members at the right time; it costs more to wait

## The Takeaways (continued)

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- Consider the risks associated with each alternative – not just the expected outcome
- Consistently practicing good governance is key, slow and steady wins the race!

# Disclaimers

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- This presentation shall not be construed to provide tax advice, legal advice or investment advice.
- Readers are cautioned to consult with subject matter experts before making decisions related to the subject matter of this presentation.
- This presentation expresses the views of the authors and does not necessarily express the views of Gabriel, Roeder, Smith & Company.