

FPPTA PENSION PLAN DATA CENTER:

Overview and Financial Personality – FY2019

Report to the FPPTA membership to help understand the FPPTA members' pension plan statistics and to compare FPPTA plans to all the local defined benefit plans across the State of Florida. The report includes statistical data for three years from FY 2019, 2018 and FY 2017.

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Florida Public Pension Trustees Association (FPPTA)
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INTRODUCTION

The Florida Public Pension Trustees Association (FPPTA) membership represents 284 of the 482 local defined benefit retirement plans across the state of Florida. Our member trustees often ask: How does our plan compare to other plans in the FPPTA plans and the Florida local plans?

This report analyzes and compares three fiscal years: Fiscal Year 2019 (October 1, 2018 – September 30, 2019), Fiscal Year 2018 (October 1, 2017 – September 30, 2018) and Fiscal Year 2017 (October 1, 2016 – September 30, 2017). These are the latest data available. The publication attempts to illustrate the financial personality of a pension plan by looking at several elements, and comparing FPPTA member plans to the all the local defined benefit plans. The statistics in this publication will look at the following plan fundamentals:

- Plan Name and Employee Group
- Number of Plan Participants
- Plan Status
- Actuarial Value of Plan Assets
- Actuarial Accrued Liability (AAL)
- Unfunded Accrued Liability (UAL)
- Market Value of Assets as of 9/30
- Funded Ratio – Current Valuation
- Actual Market Value Rate of Return
- Assumed Rate of Return
- Funding Requirement as Percentage of Payroll
- Percentage of Payroll Contributed by Employees
- Valuation Basis Total Dollar Contribution
- Employees Covered by Social Security

FPPTA members are encouraged to view their plan and compare to similar plans in the tables on the FPPTA website (fppta.org). All of the data come from the reports filed by each retirement system with the Florida Department of Management Services.

The Bureau of Local Retirement Systems in the Department of Management Services' Division of Retirement is responsible for monitoring Florida's local government defined benefit pension plans for compliance with Florida law and Florida Administrative Code. These responsibilities are divided between the Local Retirement Section and the Municipal Police Officers and Firefighters' Retirement Trust Funds Office.

FPPTA is not responsible for the accuracy of the data – if your plan data are wrong, please contact the Bureau of Local Retirement Systems.

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INTRODUCTION TO FPPTA

The FPPTA is a membership organization, founded in 1984, as a not-for-profit organization. FPPTA is established for the purpose of providing education and information for and about the Florida public pension systems, and advocating for defined benefit pension plans. FPPTA member plans represent 63% of the total membership of the local defined benefit plan participants in Florida, and our members manage over \$33 billion in assets, representing 78% of the actuarial value of all local defined benefit plans. FPPTA plans are well funded (most above 80 percent) and have responded to the changes in economic times by lowering their assumed rate of return, while employee contributions have increased.

Education is FPPTA's primary mission. We safeguard public retirement plans by offering a rigorous education program designed to prepare trustees to perform their duties with confidence, expertise and fiduciary responsibility. Ethics and best practices are dominant in our programs. Our Certified Public Pension Trustee (CPPT) designation is nationally recognized by industry professionals and continuing education is required to maintain certification.

FPPTA Trustee Schools are offered twice a year and run two and one-half days, and offer Certified Public Pension Trustee program sessions, as well as continuing education sessions. Each Trustee School offers classes including lectures, continuing education workshops, panel discussions, and "break out" sessions with a focus on group discussion and participation.

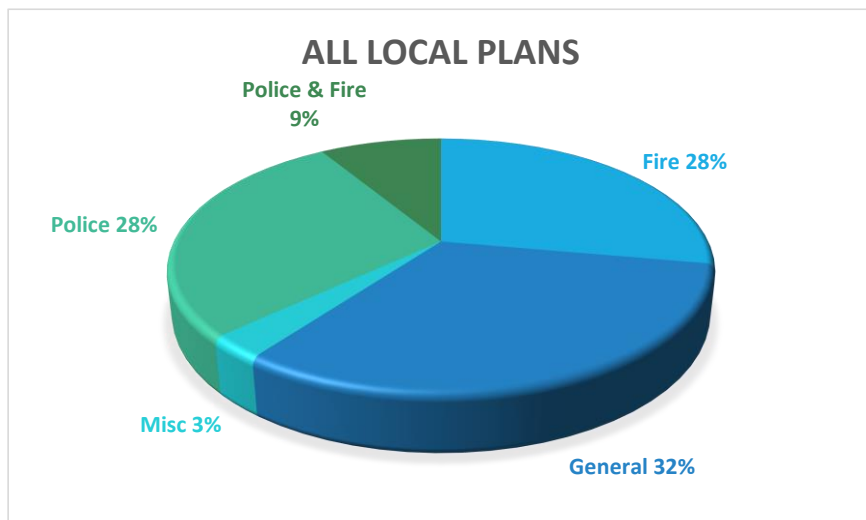
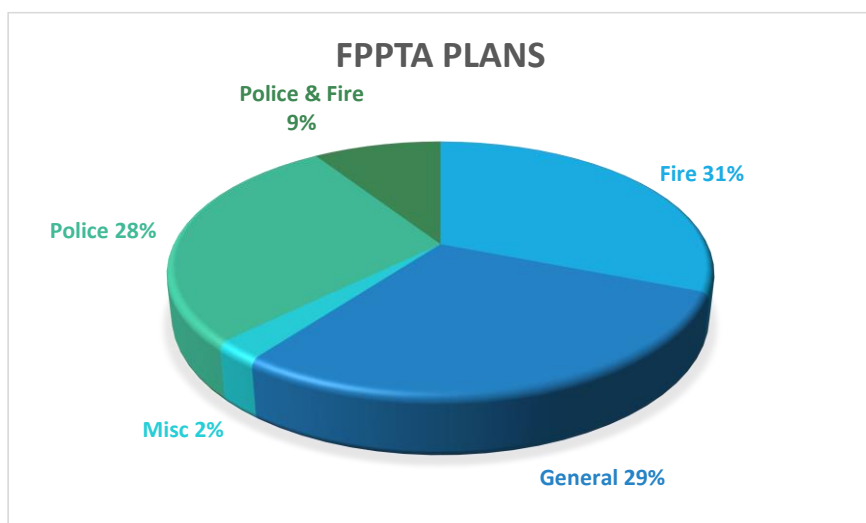
The FPPTA Annual Conference focuses on a macro-perspective of the industry and public pension landscape over two and one-half days of speakers, panels and discussions.

FPPTA: The **VOICE** of Florida's Public Pensions
 The **ADVOCATE** for Defined Benefit Pensions

As of June 1, 2021, FPPTA members represent 284 local defined benefit plans. The following data analyses are based on these member plans. All of the data were collected from reports issued by the Bureau of Local Retirement Systems in the Department of Management Services' Division of Retirement, and they are responsible for the accuracy of the data. Their data come from the annual reports all retirement plans are required to file with the state.

EMPLOYEE GROUPS

Definition: Local public sector employees in Florida (those working for cities) are mostly covered by the local retirement system, while state and county employees, including teachers, are mostly covered by the Florida Retirement System (FRS). These local plans cover general employees, police officers, firefighters, and some miscellaneous employees. Some plans only represent one group of employees, while others may represent a combination of these employees.



The data show that the composition of the employee groups for the FPPTA plans and all local defined benefit plans are quite similar.

NUMBER OF PLAN PARTICIPANTS

Definition: The total number of plan participants includes active members (currently employed), retired members (former employees currently receiving benefits from the plan), beneficiaries of deceased members (collecting benefits on behalf of deceased employees), and terminated vested members (former employees who are eligible to receive benefits from the plan upon retirement). These numbers do not show the ratio of whether the plan is a younger plan (more active members than retired) or a mature plan (more retirees than active members). The plan status is either active (new hires are enrolled in the plan) or closed ((meaning that new employees are not eligible to enroll the plan). In those cases, the new employees are either covered by a defined contribution account – usually a 401(a) account, or covered by the Florida Retirement System (FRS).

ALL LOCAL DB PLANS			
	FY 2017	FY 2018	FY 2019
Number of plan participants	190,173	191,007	191,166
FPPTA PLANS			
	FY 2017	FY 2018	FY 2019
Number of plan participants	116,043	117,020	120,978

Statewide in FY19, there are 191,166 participants covered by the 482 local defined benefit plans. The FPPTA plans represent a total of 120,978 plan participants in FY19 that are covered by a defined benefit plan. Overall, FPPTA represents 63% of the total local plan participants statewide. Statewide, there are 94,225 active members, 77,196 retirees and beneficiaries, 4,699 DROP members, and 16,599 terminated and vested.

PLAN STATUS

Definition: Continuing plan status is either active (new hires are enrolled in the plan) or closed (new employees are not eligible to enroll the plan). In closed plans, the new employees are either covered by the Florida Retirement System (FRS) or participate in a defined contribution account, such as a 401(a) account. Frozen plans are closed plans where current accrued benefits are “frozen” with no additional defined benefit accruals for continuing service.

ALL LOCAL DB PLANS				
	Active	Closed	Frozen	% Active
Plan status	369	100	13	77%
FPPTA PLANS				
	Active	Closed	Frozen	% Active
Plan status	223	56	5	79%

Across Florida, of the 482 local defined benefit plans, 100 are closed to new hires, but those in the plan continue to contribute and accrue pension benefits. Within FPPTA, there are 56 closed plans as members. Within the FPPTA, the distribution of plans is as follows:

FPPTA PLANS				
Plan Status	Active	Closed	Frozen	TOTAL
Fire	75	12	1	88
General	54	26	3	83
Police	64	15	1	80
Police and Fire	24	3		27
Other	6			6
TOTAL	223	56	5	284

Police and firefighter plans have the highest percentage of active plans at 88.9%. Following that are firefighter plans at 85.2%, police plans at 80.0% and general employees at 65.1%. Employers tend to find it easier to recruit new general employees than public safety officers. There have been several examples of where the employer closed the public safety plan, suffered in recruitment and retentions, increased trainings costs, and eventually had to reopen or create a new defined benefit plan for public safety. This is one reason why general employee plans have been hit harder when it comes to closing plans to new hires and switching to either a defined contribution plan or joining the Florida Retirement System.

ACTUARIAL VALUE OF PLAN ASSETS

Definition: This is the smoothed value of the plan's assets that is used for performing an actuarial valuation to determine the amount of pension contributions the employer will have to make each year to fund the actuarial liability. The Actuarial Value of Assets (AVA) is calculated by starting with the market value of assets in the trust and using a formula to spread the recognition of prior years' asset gains and losses over a period of years. The method smooths the effects of large fluctuations in the market value and dampens the changes in the employer's contribution from one year to the next.

ALL LOCAL DB PLANS			
	FY 2017	FY 2018	FY 2019
Actuarial Value of Plan Assets	\$39.6 billion	\$42.6 billion	\$44.6 billion
FPPTA PLANS			
	FY 2017	FY 2018	FY 2019
Actuarial Value of Plan Assets	\$30.5 billion	\$33.0 billion	\$34.8 billion

The increase in total AVA includes plan contributions and investment returns and the net impact of asset smoothing from prior years.

Over the three years, the all local plans AVA increased from \$39.6 billion to \$44.6 billion – an increase of 12.6%. The total FPPTA plan AVA increased 14.1%, from \$30.5 billion to \$34.8 billion. FPPTA plans represent 78% of the actuarial value of plan assets of all local DB plans.

ACTUARIAL ACCRUED LIABILITY (AAL)

Definition: The portion of the present value of the plan's total projected pension benefits attributable to service already credited as of the valuation date. This includes all of the present value of benefits for retirees and beneficiaries currently receiving benefits and inactive members who have not yet commenced their benefits.

ALL LOCAL DB PLANS			
	FY 2017	FY 2018	FY 2019
Actuarial Accrued Liability	\$50.1 billion	\$53.5 billion	\$55.8 billion
FPPTA PLANS			
	FY 2017	FY 2018	FY 2019
Actuarial Accrued Liability	\$39.7 billion	\$40.4 billion	\$44.8 billion

The increase in Actuarial Accrued Liability reflects benefit accruals and the increase in service credits, and changes in actuarial assumptions, such as possibly lowering of the discount rate used to calculate the present value of benefits.

From FY19, the Actuarial Accrued Liability increased for both groups. For all local plans, the liability increased from \$50.1 billion to \$55.8 billion – a 11.4% increase. For the FPPTA plans, the increase was from \$39.7 billion to \$44.8 billion – a 12.8% increase.

UNFUNDED ACCRUED LIABILITY (UAL)

Definition: For funding purposes, the amount by which the actuarial accrued liability (AAL) exceeds the actuarial value of assets (AVA) accumulated to finance the obligation.

ALL LOCAL DB PLANS			
	FY 2017	FY 2018	FY 2019
Unfunded Accrued Liability	\$10.6 billion	\$10.9 billion	\$11.2 billion
FPPTA PLANS			
	FY 2017	FY 2018	FY 2019
Unfunded Accrued Liability	\$9.1 billion	\$9.4 billion	\$10.0 billion

The increase in the Unfunded Accrued Liability (UAL) may be due to the actual asset investment returns during the period being lower than the expected investment returns. These numbers represent the unfunded liability of a pension plan – something discussed frequently in the news media that generates great misunderstandings about the funding of public pension plans. The term UAL is often used interchangeably with terms such as “unfunded liabilities,” “unfunded actuarially accrued liabilities” (UAAL), or “net pension liability” (NPL). However, different terms may mean different things, especially for accounting purposes.

The Unfunded Accrued Liability of all local plans increased from \$10.6 billion to \$11.2 billion – a 5.7% increase. For the FPPTA plans, the increase was from \$9.1 billion to \$10. billion – a 7.5% increase.

MARKET VALUE OF ASSETS (MVA)

Definition: The fair market value of assets, including DROP accounts, is the last reported price of an asset in the market in which it is traded as measured the last day of the fiscal year (usually September 30).

ALL LOCAL DB PLANS			
	FY 2017	FY 2018	FY 2019
Market Value of Plan Assets	\$39.8 billion	\$41.2 billion	\$42.9 billion
FPPTA PLANS			
	FY 2017	FY 2018	FY 2019
Market Value of Plan Assets	\$30.9 billion	\$32.4 billion	\$33.2 billion

The increase in the market value of assets was due to plan contributions and investment returns for the three-year period.

The market value of the pension funds increased from FY17 to FY19. For all local plans, the increase was from \$39.8 billion to \$42.9 billion – an increase of 7.8%. For the FPPTA plans, the increase was from \$30.9 billion to \$33.2 billion – an increase of 7.4%.

FUNDED RATIO – CURRENT VALUATION

Definition: It is the ratio, expressed as a percentage, of the assets of a pension plan to its liabilities. The ratio is the market value of plan assets divided by actuarial accrued liability (AAL). It is referred to as the pre-funded ratio – meaning it is the percentage of funds on hand now to play for present and future pension obligations.

ALL LOCAL DB PLANS			
	FY 2017	FY 2018	FY 2019
Funded Ratio - Current Valuation	93.9%	96.4%	96.5%
FPPTA PLANS			
	FY 2017	FY 2018	FY 2019
Funded Ratio - Current Valuation	83.9%	86.9%	85.5%

The pre-funded ratio of assets to liabilities for all local plans increased from 93.9% to 96.5% – an increase of 2.8%. If one plan is removed (with a pre-funded ratio of 1713.07%), the rate for all plans drops to 93.1%. Using the median helps correct for such large numbers. For the same period, the FPPTA plans pre-funded ratio increased from 83.9% to 85.5% - an increase of 1.9%, with a decrease from FY18 to FY19.

FPPTA PRE-FUNDED RATIO	FY18	FY19	FY19 PERCENTAGE
Over 100%	37	30	10.6%
90 - 99%	57	61	21.5%
80 - 89%	71	90	31.7%
70 - 79%	52	67	27.6%
60 - 60%	22	30	10.6%
Under 60%	5	6	2.1%

The funded ratio ranges from a high of 152.8% pre-funded (closed plan) to a low of 38.7%. Pre-funded at 80% or above are 64% of the FPPTA plans; 91% pre-funded at 70% or above. Eleven of the funds pre-funded below 70% are either closed or frozen plans. There are 30 plans pre-funded greater than 100%.

Funded ratio appears frequently in the media – used to claim that public pension funds are underfunded (and mostly called unfunded – which is a completely different term). The data show that a large majority (91%) are pre-funded at 70% or better. The health of a pension plan depends upon much more than a single point in time comparison of assets and liabilities.

ACTUAL MARKET VALUE RATE OF RETURN

Definition: This is a measure of the total investment performance of the portfolio over the fiscal year. It is expressed as a percentage, reflecting the gain on investment as a percentage of the market value of assets. The gain in investments is calculated by starting with the increase in asset value from beginning to end of period, and adjusting for investment expenses, contributions, benefit payments, and administrative expenses.

ALL LOCAL DB PLANS			
	FY 2017	FY 2018	FY 2019
Actual Market Value Rate of Return	10.8%	8.3%	4.7%
FPPTA PLANS			
	FY 2017	FY 2018	FY 2019
Actual Market Value Rate of Return	11.4%	8.8%	4.1%

From FY17 to FY19, all plans' rate of return declined from 10.8% to 4.7% - a decrease of 56.5%. The range of returns was from a high of 21.6% to a low of a negative 5.4%. The FPPTA plans, during the same period, saw their return on investments decline from 11.36% to 4.1% - a decline of 64%. The range of returns was from a high of 21.6 to a low of a negative 4.2%.

Over the three-year period, the average actual rate of return for all plans is 7.9% and for FPPTA plans is 8.1%.

The decline in actual rates of return is consistent with the capital markets' performance during the same time period.

ASSUMED RATE OF RETURN

Definition: This is an estimated measure of the long-term investment performance of the pension fund invested assets. The investment return assumption reflects the anticipated returns on the plan's current asset allocation as reflected in the Investment Policy Statement. This assumption is typically constructed by considering various factors including the time value of money, and growth in earnings, dividends, and interest. It is based on long-term expectations of the rate of return of the different asset classes which make up the pension plan's investment portfolio. Assumed rate of return is often used interchangeably with the terms Expected Return on Assets and Discount Rate.

ALL LOCAL DB PLANS			
	FY 2017	FY 2018	FY 2019
Assumed Rate of Return	7.3%	7.3%	7.2%
FPPTA PLANS			
	FY 2017	FY 2018	FY 2019
Assumed Rate of Return	7.5%	7.4%	7.3%

For all local plans, the decrease in the average assumed rate of return was continues the long-term downward trend. It decreased from 7.3% to 7.2% - a reduction of 10 basis point. The range in assumed rate of return goes from a high of 8.5% to a low of 1.0%. However, for the FPPTA plans, the average assumed rate of return decreased from 7.5% to 7.3% - a reduction of 20 basis points. The range in assumed rate of return goes from a high of 8.5% to a low of 3.0%. The decrease for the FPPTA plans is broadly consistent with the lowering of the assumption for public sector plans across the country.

The lower assumed rate of return is the fact retirement boards have voted to reduce their assumed rate in response to market returns and, in an effort, to give more funding and stability to their plans. Most realize that the traditional 7.5% or higher rate of return is no longer obtainable in the current market environment, therefore, they have taken positive actions.

When considering whether to lower the assumed rate of return, an issue brief from NASRA provides excellent guidance. "The process for evaluating a pension plan's investment return assumption should include abundant input and feedback from investment experts and actuarial professionals." (NASRA Issue Brief, "Public Pension Plan Investment Return Assumptions," updated February 2020)

FUNDING REQUIREMENT AS PERCENTAGE OF PAYROLL

Definition: Total required contribution (employer and employees) divided by total payroll of active participants. There is no interest adjustment included.

ALL LOCAL DB PLANS		
	Average	Median
Funding as Percentage of Payroll	57.96%	31.85%
FPPTA PLANS		
	Average	Median
Funding as Percentage of Payroll	65.90%	37.72%

These averages are not necessarily representative of all plans due to several factors. In both groups, there are extreme numbers that skew the averages. These extreme numbers tend to come from closed plans, frozen plans, or in one case a volunteer firefighter plan. Some are very small, with just a couple of members.

Among the FPPTA members plans, 14 of the 284 plans are closed, frozen or volunteer firefighter, thus having a zero-funding requirement as a percentage of their payroll. When these plans are excluded along with all closed plans, the data show that the average funding requirement as a percentage of payroll is 65.9%. The range is from 7.74% to 118.86%.

The median is a better indicator of the real funding requirement. It is the midpoint from the highest to the lowest: half of the fund are above this amount and half are below this amount. In the case of FPPTA member plans, the median is 37.72% compared to all local DB plan median of 31.85%, with a range from .31% of payroll to 1,354.84% of payroll. Both the average and median exclude plans with zero percentage of payroll.

One issue to think about is if a plan has DROP members who don't make a contribution, is their pay included in the total payroll. If it is, then the funding requirement as a percentage of payroll is skewed.

Another issue to consider is that a large portion of plan liabilities are for members who are already retired. Since retirees are not part of payroll, the cost of unfunded liabilities as a percentage of payroll produces a high percentage. Perhaps a better indicator of the budget impact of pensions is to consider the cost of pension as a percent of General Fund revenue instead of payroll.

PERCENTAGE OF PAYROLL CONTRIBUTED BY EMPLOYEES

Definition: The percentage of pay deducted from the employees' salary as their contribution to the pension plan's funding. Almost all Florida local plans require a contribution by the employees. The exceptions in the database are excess plans, DROP plans, 175/185 share plans, volunteer firefighter plans and some closed plans.

ALL LOCAL DB PLANS			
	FY 2017	FY 2018	FY 2019
% of Payroll contributed by employee	6.7%	6.7%	6.6%
FPPTA PLANS			
	FY 2017	FY 2018	FY 2019
% of Payroll contributed by employee	6.9%	7.0%	7.3%

For all local plans, the change was small, going from 6.7% to 6.6% - a decrease of 10 basis points. For the FPPTA plans, the increase was from 6.9% to 7.3% - an increase of 40 basis points over three years. The data show that FPPTA plan employees are contributing more toward their pensions over the past three years.

It is important to keep in mind that public employees not covered by Social Security tend to contribute a higher amount to make up for the loss of a Social Security benefit at retirement.

VALUATION BASIS TOTAL DOLLAR CONTRIBUTION

Definition: The required total annual contribution from all sources to fund the pension plan. These funds come from employee contributions, employer contribution, return on investments, and state funding (if it is a police or firefighter plan, called 185 or 175 contributions). Contributions will vary based on the Florida Statute Chapter assumption.

ALL LOCAL DB PLANS			
	FY 2017	FY 2018	FY 2019
Valuation Basis Total Dollar Contribution	\$2.0 billion	\$2.1 billion	\$2.2 billion
FPPTA PLANS			
	FY 2017	FY 2018	FY 2019
Valuation Basis Total Dollar Contribution	\$1.6 billion	\$1.7 billion	\$1.8 billion

The amount needed to fully fund the retirement plans increased from FY17 to FY19. The increase for all local plans went from \$2.0 billion to \$2.2 billion – an increase of 10%. For the FPPTA plans, the increase went from \$1.6 billion to \$1.8 billion – an increase of 12.5%. The increase in Actuarially Determined Employer Contributions is attributable to the increase in the Unfunded Accrued Liability (UAL) discussed on page 10.

EMPLOYEES COVERED BY SOCIAL SECURITY

Definition: When Social Security was established in 1935, state and local government employees were excluded from coverage. Over the years, these plans were given the option to opt-into Social Security coverage for their employees. Nationwide, about 75 percent of state and local retirement systems have opted for coverage, with about 25% still not covered. The majority of that 25% are police, firefighter and teacher retirement plans. The database lists coverage as TRUE – meaning the plan participants are covered by Social Security, and FALSE meaning they are not covered.

ALL LOCAL DB PLANS			
	FY 2017	FY 2018	FY 2019
Employees covered by Social Security	75%	75%	75%
FPPTA PLANS			
	FY 2017	FY 2018	FY 2019
Employees covered by Social Security	78%	78%	78%

Of all local defined benefit plans, 75% of the plans include mandatory Social Security coverage for their plan participants. The count is 362 plans covered and 120 plans not covered by Social Security. For the FPPTA plans, 78% of the plans include mandatory Social Security coverage. The count is 221 plans covered and 63 not covered.

SUMMARY

Below are charts showing a summary of the data presented in the previous pages. The first chart represents the **statistics of all local defined benefit plans** – over three years. The second chart represents the **statistics of the FPPTA defined benefit plan** members for the same period.

ALL LOCAL DB PLANS

	FY 2018	FY 2019
Number of plan participants	191,007	191,166
Actuarial Value of Plan Assets	\$42.6 billion	\$44.6 billion
Actuarial Accrued Liability	\$53.5 billion	\$55.8 billion
Unfunded Accrued Liability	\$10.9 billion	\$11.2 billion
Market Value of Plan Assets	\$42.2 billion	\$42.9 billion
Funded Ratio - Current Valuation	96.1%	96.3%
Actual Market Value Rate of Return	8.3%	4.7%
Assumed Rate of Return	7.3%	7.2%
Funding Requirement as % of Payroll (median)	Not Available	31.9%
% of Payroll contributed by employee	6.7%	6.6%
Valuation Basis Total Dollar Contribution	\$2.1 billion	\$2.2 billion
Employees covered by Social Security	75%	75%

FPPTA PLANS

	FY 2018	FY 2019
Number of plan participants	117,020	120,978
Actuarial Value of Plan Assets	\$33.0 billion	\$34.8 billion
Actuarial Accrued Liability	\$40.4 billion	\$44.8 billion
Unfunded Accrued Liability	\$9.4 billion	\$10 billion
Market Value of Plan Assets	\$32.4 billion	\$33.2 billion
Funded Ratio - Current Valuation	86.9%	85.5%
Actual Market Value Rate of Return	8.8%	4.1%
Assumed Rate of Return	7.4%	7.3%
Funding Requirement as % of payroll (median)	Not Available	37.7%
% of Payroll contributed by employee	7.0%	7.3%
Valuation Basis Total Dollar Contribution	\$1.6 billion	\$1.8 billion
Employees covered by Social Security	78%	78%

CONCLUSIONS

FPPTA is an educational organization that schools public pension trustees and administrators on the best practices for successfully operating a pension plan for public employees. Their goal is to ensure that plan participants (and beneficiaries) receive their pension benefits for life. The 284 local pension plans participating in FPPTA are committed to safeguarding the retirement security of their plan participants. Trustees ensure each month the retirement benefits are paid to those who have earned it.

The data in this study show that FPPTA is the voice of Florida's public pensions. FPPTA's membership represents over 63% of the total plan participants and over 78% of the Actuarial Value and 77% of the Market Value of Plan Assets under investment in FY19.

ALL LOCAL DEFINED BENEFIT PLANS	
	FPPTA SHARE
Number of plan participants	63%
Actuarial Value of Plan Assets	78%
Market Value of Plan Assets	77%

One issue that continues to trouble trustees, based on media reports and public reactions, is the funded ratio of assets to liabilities. Misunderstanding of funded ratio and a popular perception that anything below 100% (most media report 80%) is unacceptable are used to indicate the pension plan is financially or actuarially unsound. The American Academy of Actuaries defines funded ratio best:

A funded ratio of 80% should not be used as a criterion for identifying a plan as being either in good financial health or poor financial health. No single level of funding should be identified as a defining line between a "healthy" and an "unhealthy" pension plan. Pension plans should have a strategy in place to attain or maintain a funded status of 100% or greater over a reasonable period of time. (American Academy of Actuaries, Issue Brief, July 2012)

Credit rating agencies, whose rating helps determine the borrowing rates for cities, look at pension funding ratios as one of the criteria for setting the bond rate. "Fitch generally considers a funded ratio of 70% or above to be adequate and less than 60% to be weak, while noting that the funded ratio is one of many factors considered in Fitch's analysis of pension obligations." ("Enhancing the Analysis of U.S. State and Local Government Pension Obligations," Feb.17, 2011)

FPPTA plans have responded to changes in the economy and markets by voting to lower their assumed rate of return. Some have done it in one step, while most have phased in the reduction over several years. The average assumed rate of return has declined from 7.46% in FY17 to 7.27% in FY19, a reduction of 19 basis points. At the same time, employee contributions increased from 6.9% of payroll to 7.3%, an increase of 40 basis points.

The table below shows the FPPTA plans with all local plans on three key components of pension plans. It shows the average (total divided by total number of plans) and the median (number at which half the plans are above and half are below).

	FPPTA AVERAGE	FPPTA MEDIAN	ALL PLANS AVERAGE	ALL PLANS MEDIAN
Pre-Funded ratio	85.5%	85.5%	96.3%	87.3%
Assumed rate of return	7.3%	7.3%	7.2%	7.3%
Market return	4.1%	3.8%	4.7%	4.1%

When looking at the pre-funded ratios, in both cases some extraordinary numbers will distort both the average and median. For example, the all plans have 83 retirement systems where the pre-funded level is over 100%. The highest is 1713.1% pre-funded – which is an active plan – and a low of 21.9% pre-funded, which is an active plan. The median pre-funded level is 87.3%. FPPTA membership has 30 plans that are pre-funded over 100%; the two highest (152.8 and 150.7) are both closed plans. The highest active plan is pre-funded at 140.8 and the lowest active plan is pre-funded at 38.7%. The median for FPPTA plan members is 85.5% - the same as the average.

When the economy and investment markets are booming, pension plans see the benefits through return on investments, greater assets, and declining unfunded liabilities, resulting in the plan sponsor making a smaller annual contribution. When the economy and markets experience a crisis and/or go into a recession, the opposite occurs. The increased employer contribution (during city declining revenues) puts pressure on pension plans (trustees) and often ignites calls to reform or replace defined benefits plans with defined contribution accounts. Trustees know a bull market will eventually become a bear market, and a bear market will eventually become a bull market. Their investment policies should be designed to take advantage of both markets.

Given all of the above, trustees are often held answerable for any and all changes in the pension plan: increased contributions, downturns in the markets, poor performance, and the economy. In truth, trustees have no control over any of these. Their control comes in two areas:

1. Setting the assumed rate of return (as this rate declines, the required contribution from the plan sponsor increases),
2. Investing the funds in a diversified portfolio (in a market they don't control) to obtain reasonable returns with a prudent amount of risk – a portfolio that is rebalanced to adjust for changes in asset classes and to comply with the investment policy asset class targets.

Being a trustee is not an easy job. However, with all the expertise trustees and administrators possess about a difficult subject (that others have little understanding), it is their job to educate the plan sponsor, the media, plan active members, retired members (including beneficiaries) and terminated vested members about how a public pension operates and the advantages of a guaranteed pension benefit to the city and its residents.

ACKNOWLEDGEMENTS

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We acknowledge the support and encouragement from the FPPTA Board of Directors and CEO Kim Prior.

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We acknowledge the technical support provided by Sean McKinstry, FPPTA Director of Research.

APPENDIX

The FPPTA established the **Pension Plan Data Center** whereby members can view important plan data from their plan as well as other FPPTA members' plans and all the local defined benefit plans across Florida. All of the data were collected from reports issued by the Bureau of Local Retirement Systems in the Department of Management Services' Division of Retirement, and they are responsible for the accuracy of the data. Their data come from the annual reports all retirement plans are required to file with the state.

The data center has expanded to include additional data that will be useful to trustees and administrators. These files can be found by logging into your FPPTA account at: fppta.org

RESEARCH REPORTS:

"OVERVIEW AND FINANCIAL PERSONALITY – FY2019"

An analysis of the FY2019 data, comparing the financial personality of FPPTA plans to all local defined benefit plans in Florida for the past three years.

"OVERVIEW AND FINANCIAL PERSONALITY – FY2018"

An analysis of the FY2018 and FY2017 data, comparing the financial personality of FPPTA plans to all local defined benefits plans in Florida.

"PENSION PLAN ASSET ALLOCATION – FY2019"

An analysis of the asset classes of investments for all local defined benefit plans compared to FPPTA member plans for FY2019. The breakdown is by five major asset classes: equities (domestic and international), fixed income (domestic and international), real estate, alternative investments and cash.

DATA FILES:

FY2019 FPPTA MEMBER DATA:

The FY19 actuarial data used for the study for each of the FPPTA member plans. These data can be viewed as a pdf or Excel spreadsheet.

FY2018 FPPTA MEMBER DATA:

The FY18 actuarial data used for the study for each of the FPPTA member plans. These data can be viewed as a pdf or Excel spreadsheet.

FY2017 FPPTA MEMBER DATA:

The FY17 actuarial data used for the study for each of the FPPTA member plans. These data can be viewed as a pdf or Excel spreadsheet.

ACTUARIAL FACT SHEET:

A one-page summary sheet for each local defined benefit plan, along with additional data as it relates to GASB 67 and actuarial disclosures required by section 112.664, *Florida Statutes*. The summary sheet also has a link to the plan's latest actuarial valuation. A sample of the one-page summary can be found on pages 26-27.

ASSET ALLOCATION FY2019:

The table provides the dollar asset allocation of investments of FPPTA member plan across eight asset classes, including DROP account balances where applicable.

RETIREMENT BENEFIT SUMMARY:

The table provides a description and data for all plans about the retirement benefits: retirement benefit rate, normal retirement age description, normal form of benefit, years to vest, and other benefits such as COLA and DROP.

OTHER RETIREMENT BENEFITS:

The table provides a description and data for all plans about disability retirement, death benefits, and early retirement benefits.

INVENTORY OF MUNICIPALITIES:

The table provides data for all plans about the municipalities and an inventory of the cities by type of retirement plan: defined benefit, defined contribution, Florida Retirement System, and Social Security coverage. Each employee group is shown by type of plan.

POPULATION DATA:

The table provides data about the local retirement plans showing city population, county name, county population, and plan members by active, retired, DROP and terminated member.

2020 FIREFIGHTER 175 FUNDING:

The table shows the reimbursement from the state to firefighter pension plans for the insurance premium tax in 2020.

2020 POLICE 185 FUNDING:

The table shows the reimbursement from the state to police pension plans for the insurance premium tax in 2020.

SAMPLE ACTUARIAL FACT SHEET

City/District Name: Boynton Beach

Employee group(s) covered: Police

Current actuarial valuation date: 10/1/2019

Plan Status: Active

Date prepared: 1/14/2021

Number of plan participants:	295	GASB 67 Reporting	
Actuarial Value of Plan Assets (AVA):	\$108,078,649	Discount Rate	7.25%
Actuarial Accrued Liability (AAL):	\$152,640,260	Total Pension Liability	151,965,967
Unfunded Accrued Liability (UAL):	\$44,561,611	Market Value of Plan Assets	107,146,116
Market Value of Plan Assets (MVA):	\$107,300,912	Net Pension Liability	44,819,851
		GASB 67 Funded Ratio	70.51%
MVA Funded Ratio (5-year history):		Averages for all plans with 2019 current actuarial valuation date	
Current valuation	70.30%	86.62%	*
1 year prior	70.18%	88.75%	*
2 years prior	69.00%	85.83%	*
3 years prior	68.16%	82.35%	*
4 years prior	66.30%	82.16%	*
Rate of Return: Actuarial Value, Actual (2019 Plan Year)	6.73%	7.12%	
Market Value, Actual	5.17%	3.94%	
Assumed	7.25%	7.19%	
Funding requirement as percentage of payroll:	63.19%	59.70%	**
Percentage of payroll contributed by employee:	7.00%	6.47%	**
Funding requirement as dollar amount:	7,092,483	N/A	

Benefit Formula Description: 3.00% X AFC X SC

AFC Averaging Period (years): 5

Employees covered by Social Security? Yes

Additional actuarial disclosures required by section 112.664, Florida Statutes:

Florida Statute Chapter	Discount Rate	Pension Liability	Market Value of Plan Assets	Net Pension Liability	Years assets sustain benefit payments	Total Dollar Contribution	Total % of Pay Contribution
112.664(1)(a)	7.25%	151,965,967	107,146,116	44,819,851	17.42	7,269,849	63.19
112.664(1)(b)	5.25%	188,389,240	107,146,116	81,243,124	14.17	10,967,475	95.33
Valuation Basis	7.25%	N/A	N/A	N/A	17.42	7,269,849	63.19

Link to annual financial statements:

<https://frs.fl.gov/forms/LOC5340083PDF10012019N1.pdf>

*Adjusted by excluding plans from average whose Funded Ratios were not within two standard deviations from the mean

**Excludes plans with zero payroll

(For explanation of terms, see glossary on page 2)

Actuarial Summary Fact Sheet – Glossary of Terms

Actuarial Value of Plan Assets (AVA):	Assets calculated under an asset valuation method smoothing the effects of volatility in market value of assets. Used to determine employer contribution.
Actuarial Accrued Liability (AAL):	Portion of Present Value of Fully Projected Benefits attributable to service credit earned as of the current actuarial valuation date.
Unfunded Accrued Liability (UAL):	The difference between the actuarial accrued liability and the actuarial value of assets accumulated to finance the obligation.
Market Value of Plan Assets (MVA):	The fair market value of assets, including DROP accounts.
MVA Funded Ratio:	Market Value of Plan Assets divided by Actuarial Accrued Liability (GASB)
Rate of Return (Assumed):	Assumed long-term rate of return on the pension fund assets.
Funding requirement as percentage of payroll:	Total Required Contribution (employer and employee) divided by total payroll of active participants. No interest adjustment is included.
AFC:	Average Final Compensation or some variant of compensation (e.g., AME [Average Monthly Earnings], FAC [Final Average Compensation], FMC [Final Monthly Compensation] etc.)
SC:	Service Credit

Section 112.664 – Glossary of Terms

Florida Statute Chapter:	<p>112.664(1)(a) – uses mortality tables used in either of the two most recently published FRS valuation reports, with projection scale for mortality improvement</p> <p>112.664(1)(b) – uses same mortality assumption as 112.664(1)(a) but using an assumed discount rate equal to 200 basis points (2.00%) less than plan's assumed rate of return.</p> <p>Valuation Basis – uses all the assumptions in the plan's valuation as of the current actuarial valuation date.</p>
Discount Rate:	Rate used to discount the liabilities. Typically the same as assumed rate of return on assets.
Total Pension Liability:	Actuarial Accrued Liability measured using the appropriate assumptions as specified above and the Traditional Individual Entry Age Normal Cost
Net Pension Liability:	Total Pension Liability minus Market Value of Plan Assets.
Years assets sustain benefit payments:	Assuming no future contributions from any source, the number of years the market value of assets will sustain payment of expected retirement benefits. The number of years will vary based on the Florida Statute Chapter assumption.
Total Dollar Contribution:	Required contribution from all sources (i.e., employee and sponsor). Contribution will vary based on the Florida Statute Chapter assumption.
Total % of Pay Contribution:	Total Dollar Contribution divided by total payroll of active participants
Annual financial statements:	A report issued which covers a local government retirement system or plan to satisfy the financial reporting requirements of section 112.664(1), F.S.