Retirement Funding Formula

Contributions + Investment Income = Benefits + Expenses

$$C + I = B + E$$

How we fund it = What it costs

Let’s Talk about the Benefits Side First

Contributions + Investment Income = Benefits + Expenses

B + E = Benefits + Expenses

“The ultimate cost”

Palm Beach Gardens Police Case Study: Benefits

- This Plan is fairly young compared to most other municipal pension plans in Florida (started in 1994)
- So most of the ultimate cost of the Plan has not been paid out yet (Plan Assets are accumulating to pay benefits in future years).

Palm Beach Gardens Police Case Study: Benefits

- Benefit Levels Pre-2012:
  - 3.5% Benefit Multiplier
  - NRD: Age 52 with 10 Years of Service or Completion of 20 Years Regardless of Age
  - Definition of Compensation = Gross Pay (Including OT)
  - 5-Year Final Average Pay

Palm Beach Gardens Police Case Study: Benefits

- Benefit Levels Changed Effective 9/13/2012:
  - 2.75% Benefit Multiplier Post-9/13/2012
  - NRD for Members with Less Than 10 Years of Service as of 9/13/2012: Age 55 with 10 Years of Service or 25 Years Regardless of Age
  - Definition of Compensation = Base Pay Only (but no less than Gross Pay during the Year Ending 9/13/2012)
  - Still 5-Year Final Average Pay

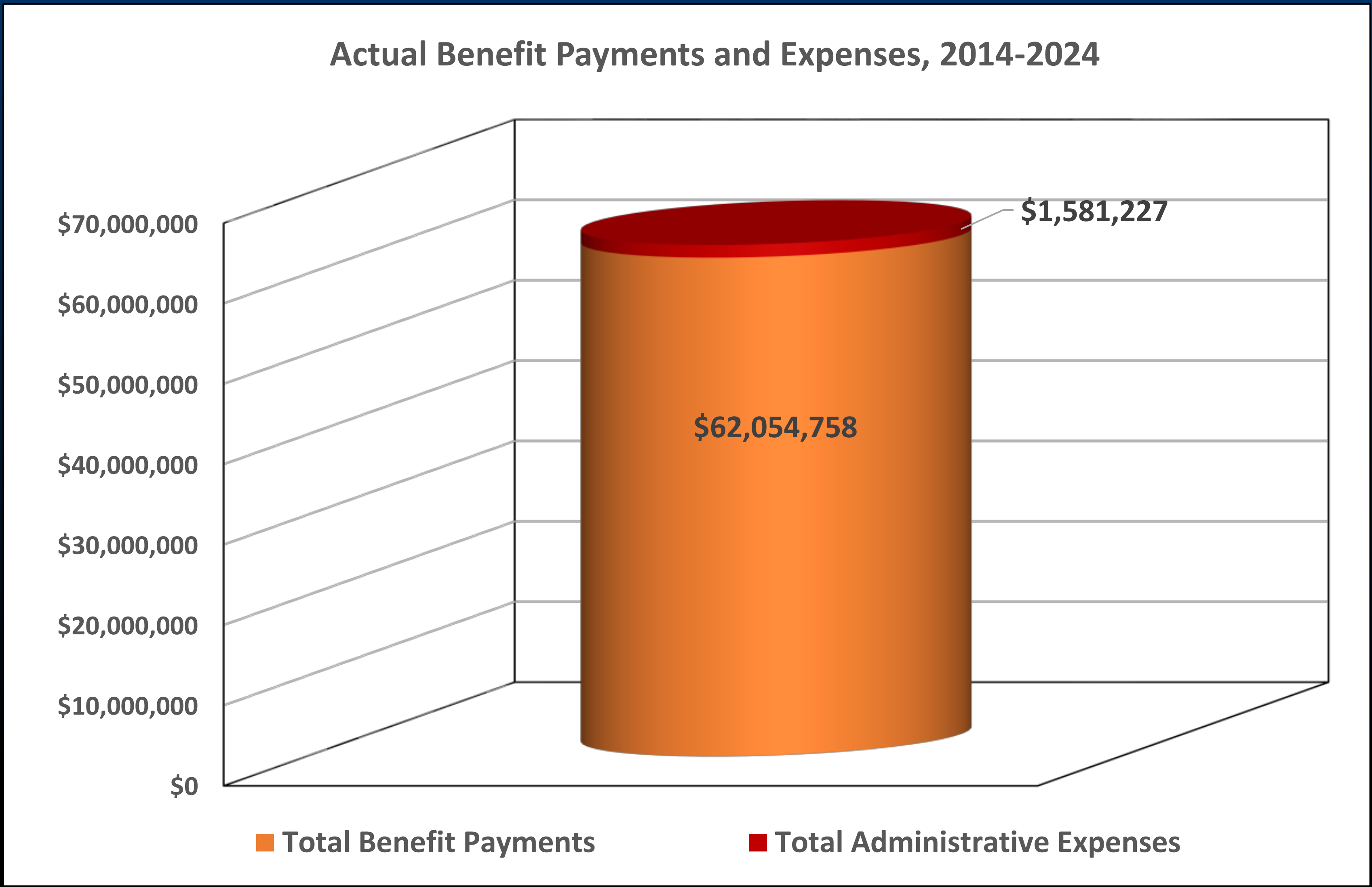
Palm Beach Gardens Police Case Study: Benefits

- Share Plan added in 2017:
  - Funded by 50% of Chapter 185 State Money in excess of 2012 Amount of $475,215
  - Total Contributions into Share Plan through 9/30/2025 = $1.8 Million
    - About $16,500 on average per active member

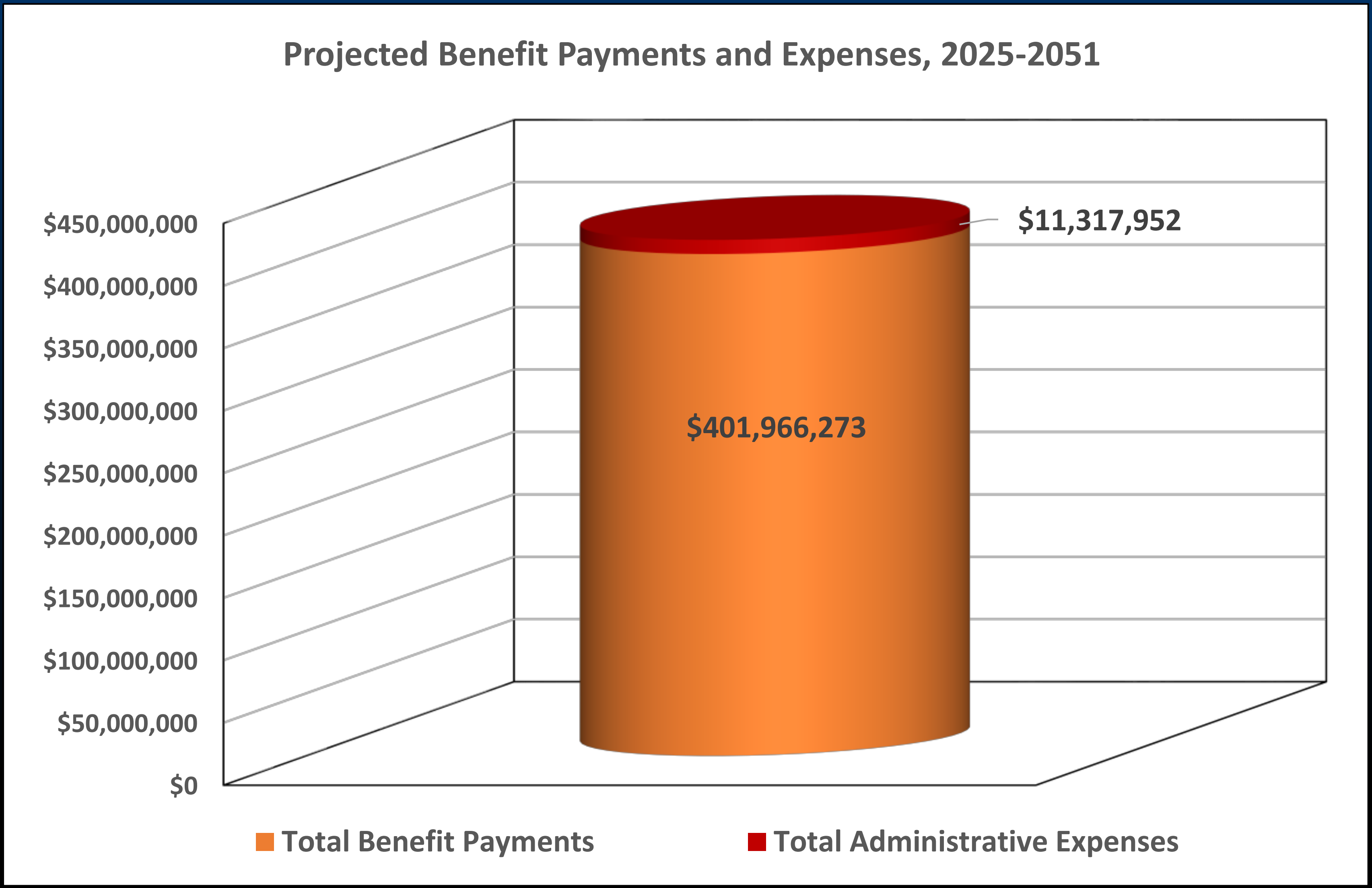
Palm Beach Gardens Police Case Study: Benefits

- Benefit Levels Changed Again Effective 10/1/2019:
  - 3.0% Benefit Multiplier Post-10/1/2019
  - NRD back to Age 52&10 or 20 Years of Service Regardless of Age for All Active Members
  - Now the Benefit is calculated as follows:
    - (Pre-9/13/2012 Service) x 3.5% + (Service from 9/13/2012-9/30/2019) x 2.75% + (Service Post-9/30/2019) x 3.0% x (Final Average Pay)

Palm Beach Gardens Police Case Study: Benefits



Palm Beach Gardens Police Case Study: Benefits



Palm Beach Gardens Police Case Study: Benefits

- 1.5% Annual COLA negotiated / agreed to in 2022 Collective Bargaining Agreement
  - Ordinance implementing COLA not adopted until 2025, so not reflected in liabilities in 2024
  - COLA Increases start on October 1st following separation from employment (DROP Exit or Retirement without entering DROP)
  - Increase in Present Value of Future Benefits = $15.5 M
  - Increase in Required Contribution = $1.59 M

Now Let's Talk about the Funding Side

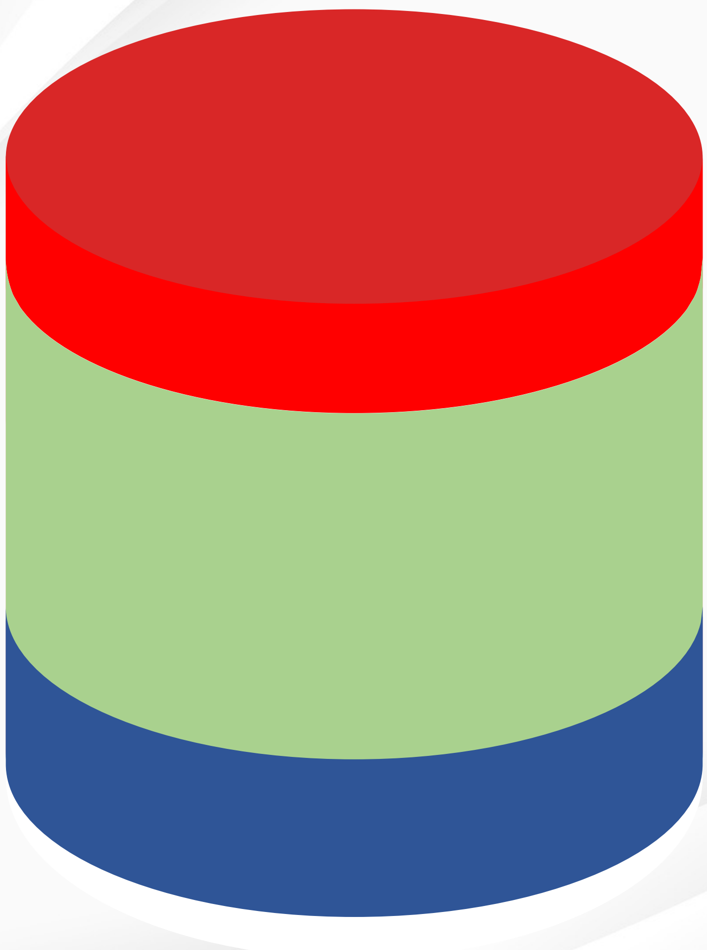
Contributions + Investment Income = Benefits + Expenses

C + I = Contributions + Income

"How the ultimate cost is paid for"

C + I = B + E

ntributions + Investment Income = How to Pay for the Benef



City Contribution

Normal Costs + Unfunded Liability

Investment Earnings

ROI

Dividends and Interest

Appreciation

Employee Contributions

+ P&F 175/185 State Funding

C + I = B + E

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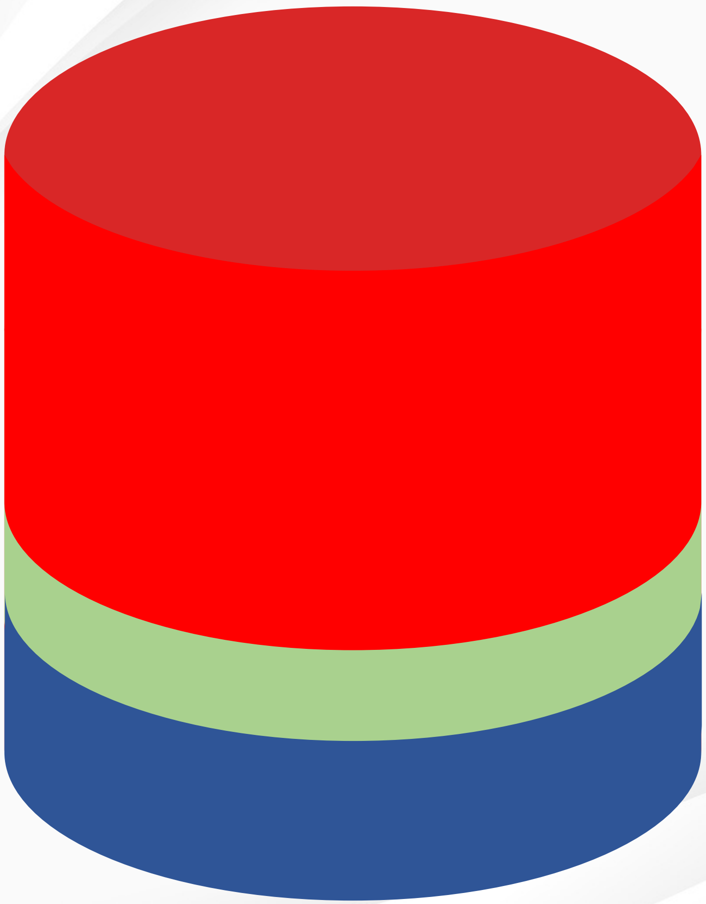

City Contribution

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Palm Beach Gardens Police Case Study: History

- ❖ Let's begin 20 years ago - as of 10/1/2005:
  - ➢ Actuarial Accrued Liability = \$35.0 M
  - ➢ Actuarial Value of Assets = \$18.9 M
  - ➢ Funded Ratio = 54%
  - ➢ Investment Return Assumption was 8.5%
  - ➢ Benefit Levels:
    - ➢ 3.5% benefit multiplier, 20 & Out, covered compensation was gross pay (including OT)

Palm Beach Gardens Police Case Study: History

- 10/1/2006: Investment Return Assumption Lowered from 8.5% to 7.5%
  - Actuarial Accrued Liability Increased from $35.0M to $46.5 M
  - Actuarial Value of Assets = $22.7 M
  - Funded Ratio = 48.9%
    - This was the Lowest Funded Ratio the Plan has ever had

Palm Beach Gardens Police Case Study: History

- After the Great Financial Crisis hit in 2008-09:
  - Required contributions increased from 40% of pay as of 10/1/2007 to over 60% of pay by the time the asset decline was fully phased into the actuarial value of assets (by 2012).
  - Pension reform in 2012
    - Benefit multiplier cut from 3.5% to 2.75%
    - Definition of Comp changed to Base Pay only
    - New tier for NR eligibility (55&10, 25&Out)

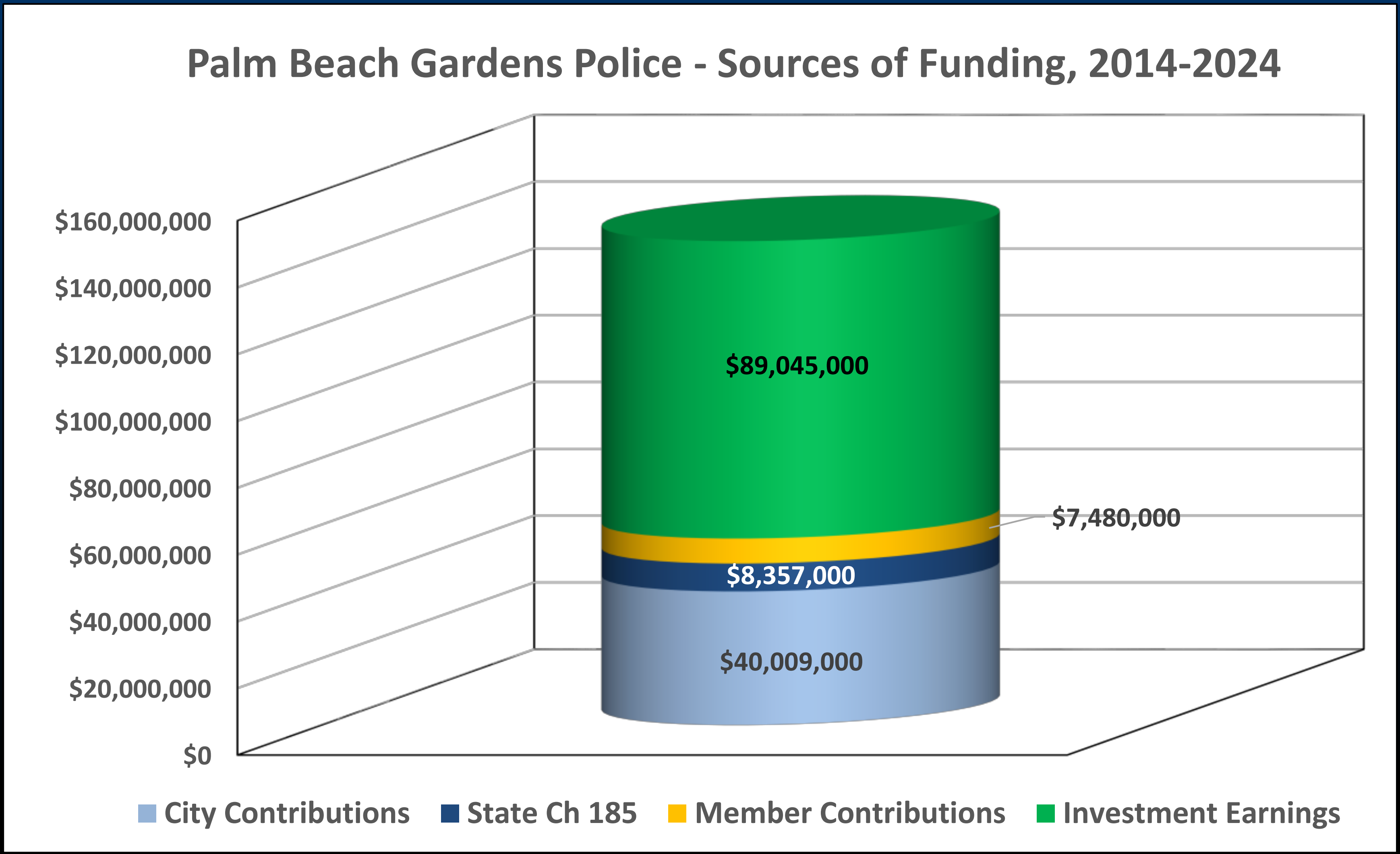
Palm Beach Gardens Police Case Study: History

- ❖ Methods and Assumptions were changed to be more conservative
  - ➢ New amortization bases amortized over 15 years starting in 2008
  - ➢ Investment return assumption lowered 10 to 15 bps per year starting 10/1/2011, despite contrib. increases and funded ratio pressure; reached final target of 6.0% as of 10/1/2022
  - ➢ Amortization periods for all pre-2008 bases reduced to no more than 15 years in 2017; many older bases are now close to being paid off.

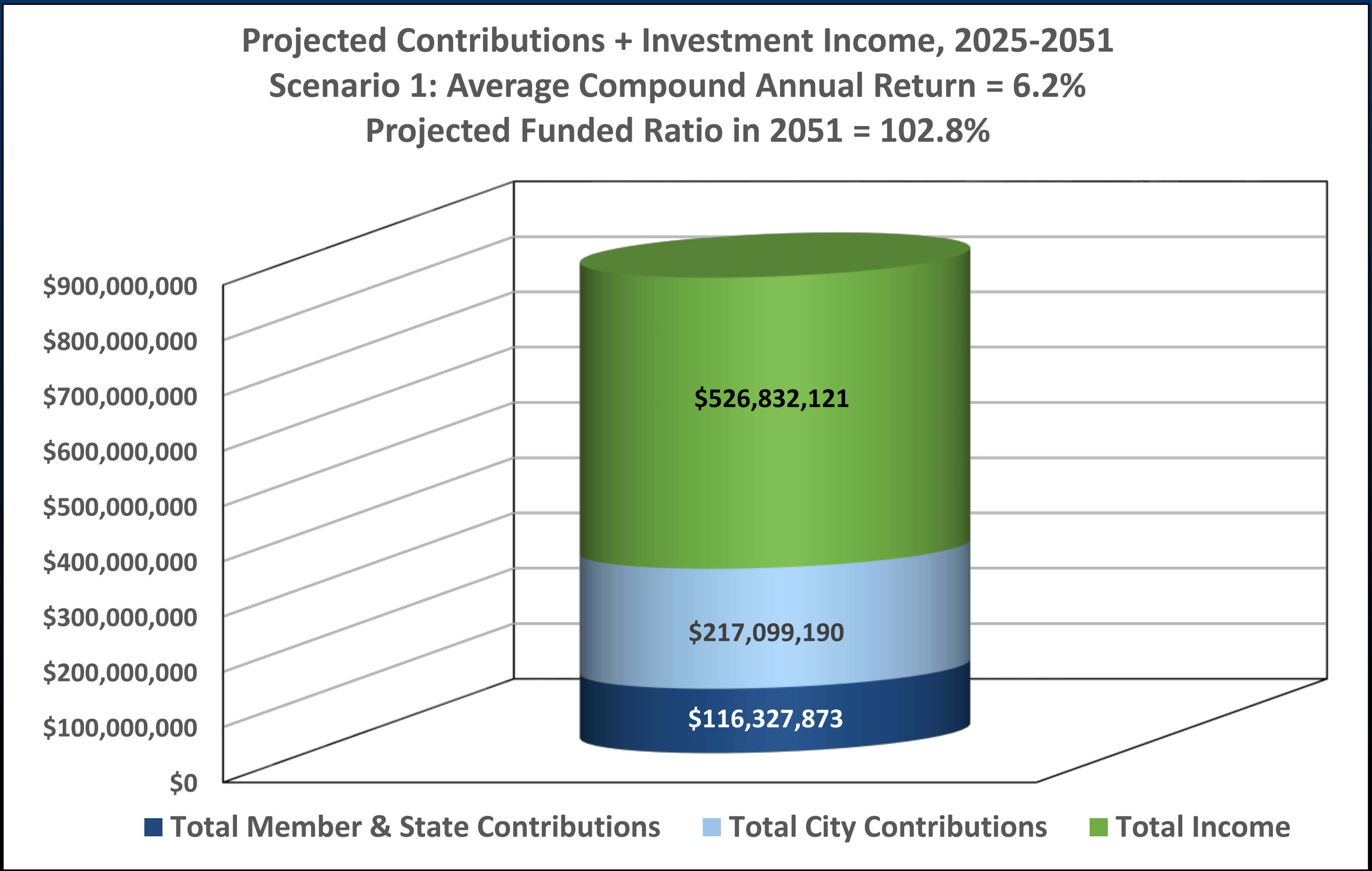
Palm Beach Gardens Police - Funding History

- Funded Ratio at 10/1/2006 = 49%
- Funded Ratio at 10/1/2015 = 72%
- Funded Ratio at 10/1/2024 = 88% (99% on a rolled forward market value basis as of 9/30/2024 under GASB 67)

Where has the Total Funding Come From?



Where will Future Funding Come From?



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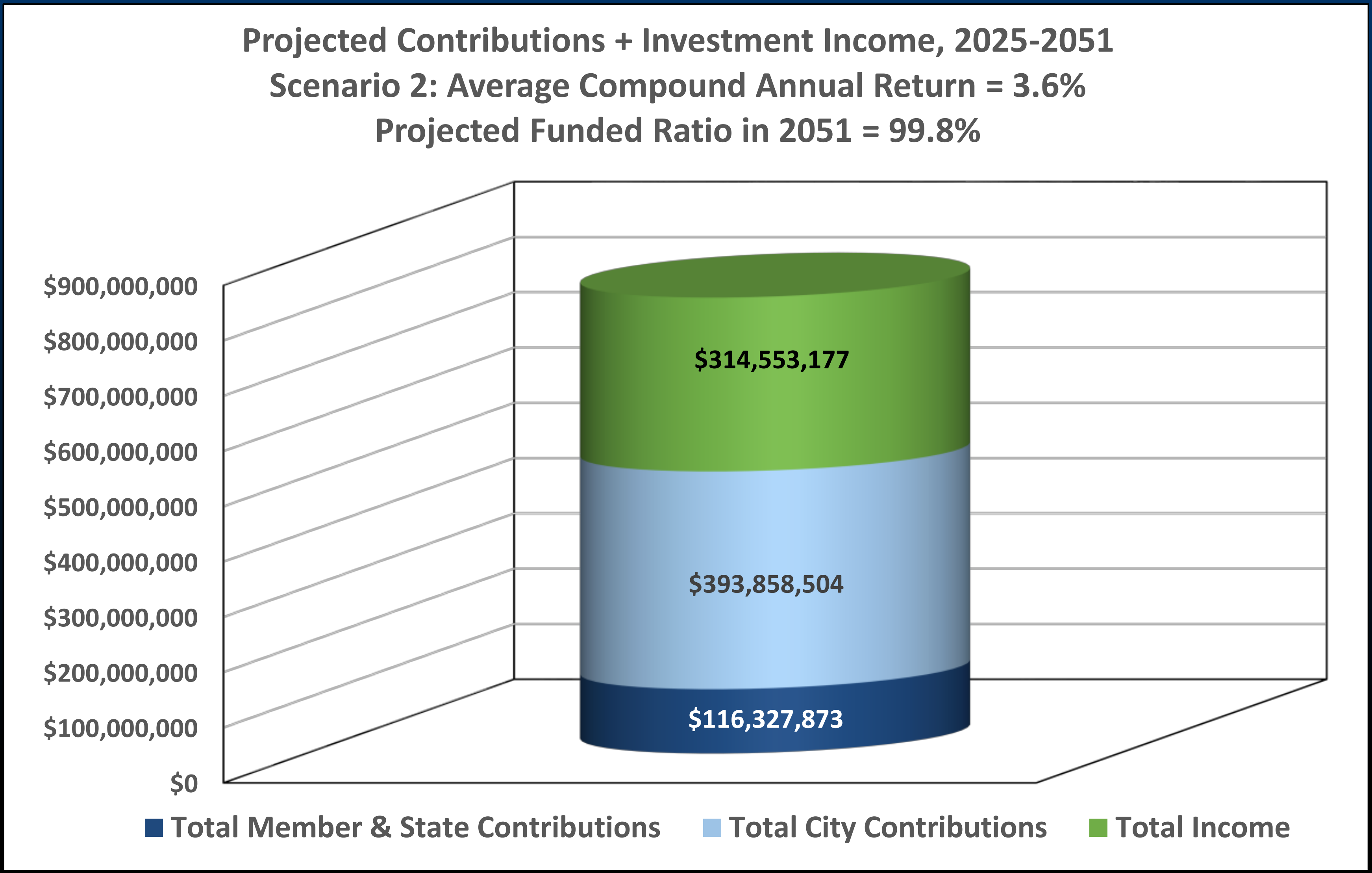

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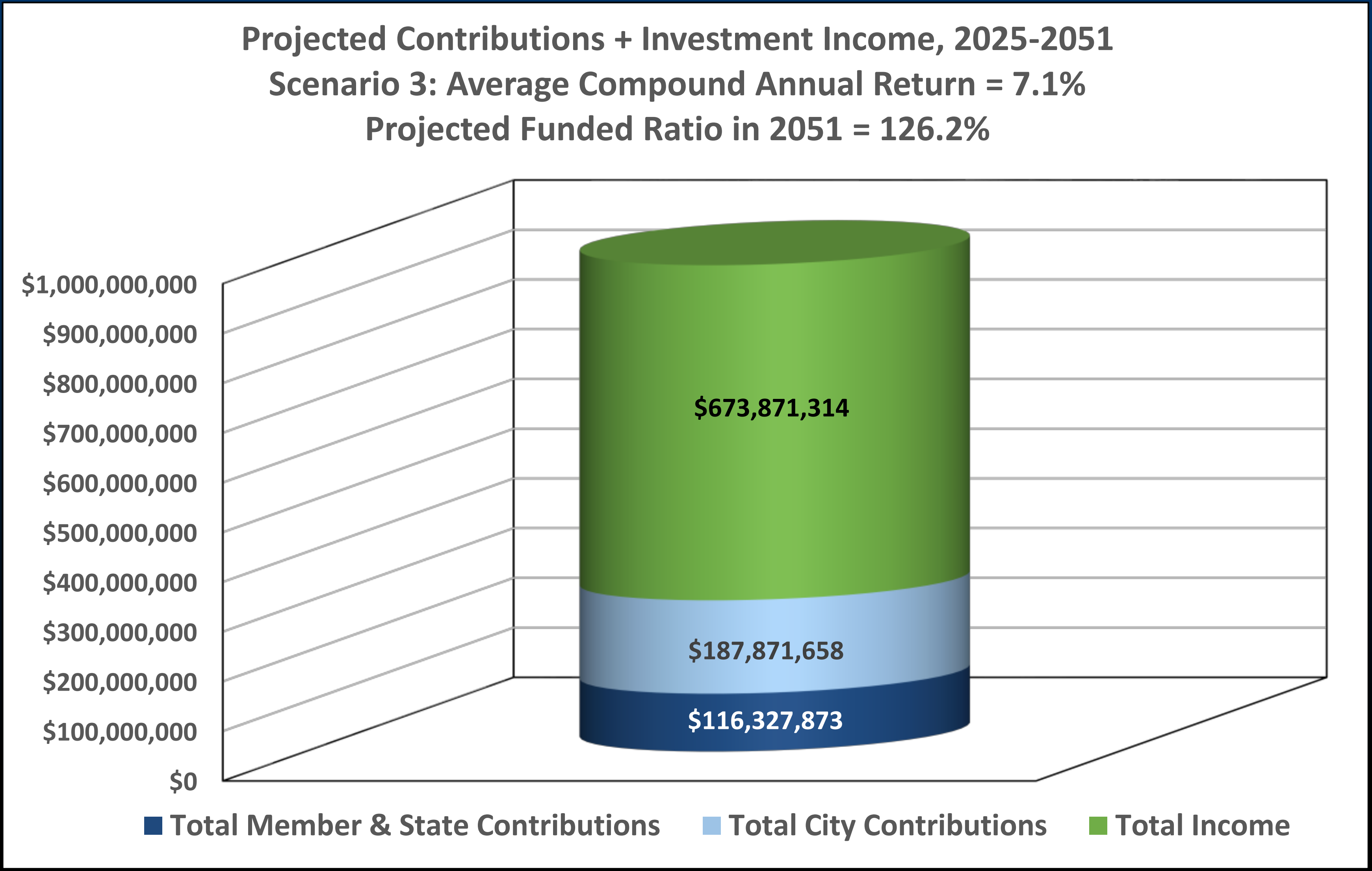

Range of Future Outcomes

- After 500 randomized simulations…
  - Projected Funded Ratio at 10/1/2051 varies from 61% to 402%
  - Median Projected Funded Ratio at 10/1/2051 = 120.4%
  - Projected Funded Ratio at 10/1/2051 is over 100% in 70% of the simulations