



**Cavanaugh Macdonald**  
CONSULTING, LLC

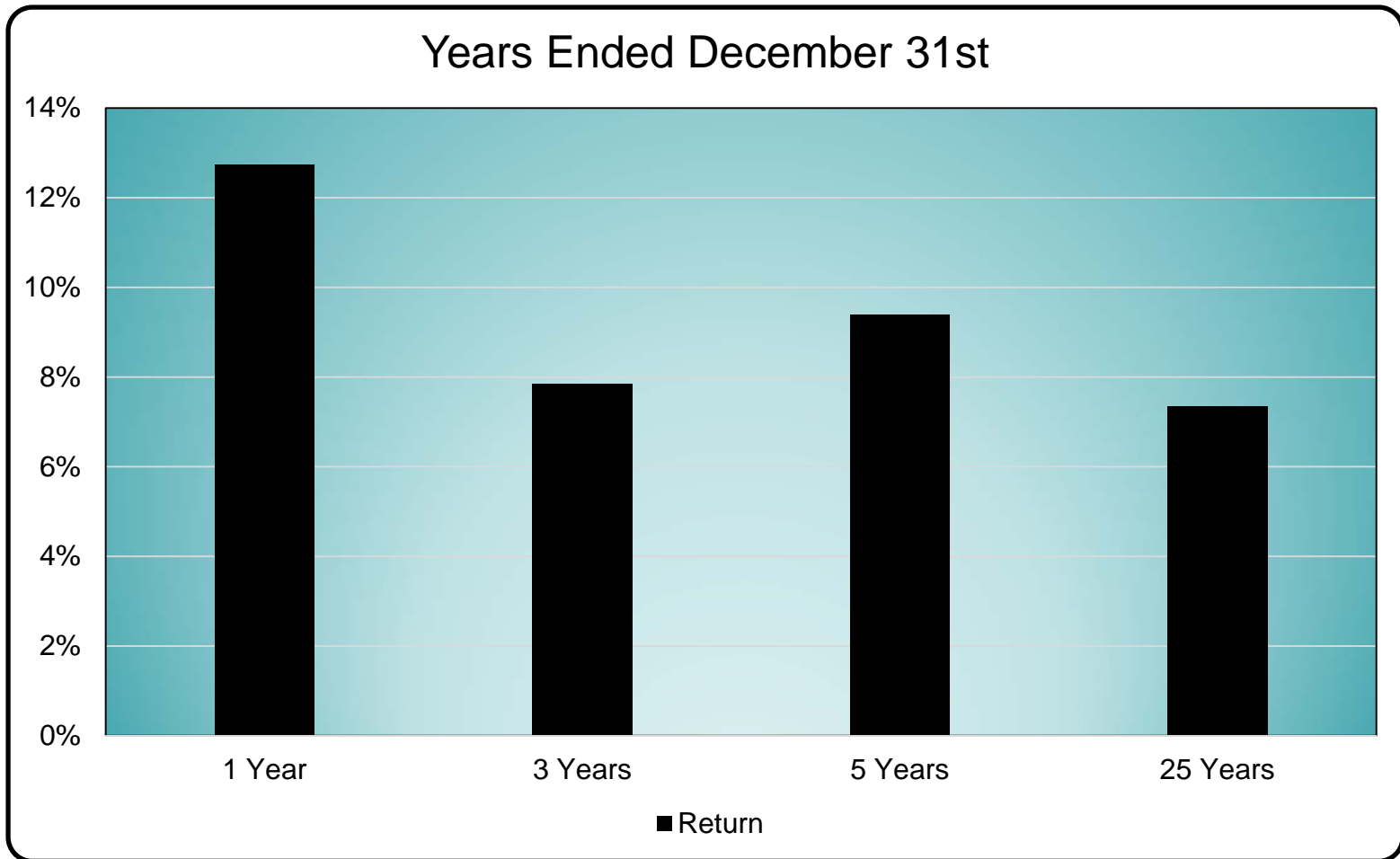
*The experience and dedication you deserve*



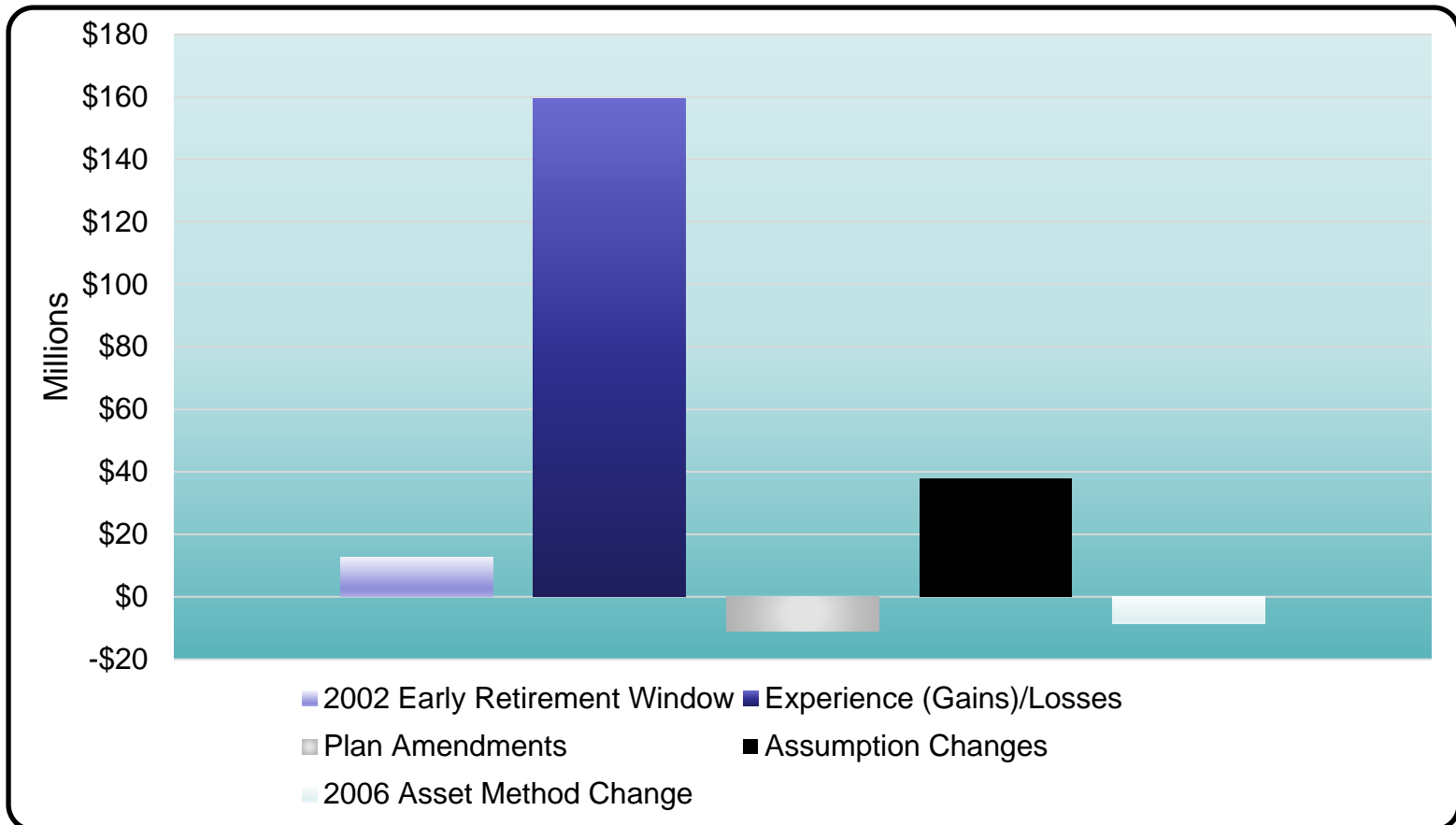
Hollywood Police Officers' Retirement System  
City Commission Fiscal Retreat  
April 11, 2018



# Recent Investment Return History



# Sources of Unfunded Actuarial Accrued Liability



# Sources of Unfunded Actuarial Accrued Liability



- 84% is due to Experience Losses
- 16% is due to Assumption Changes, Plan Amendments, Early Retirement Window, and Asset Method Change
- If the System was 100% funded and State compliant, the annual cost would be \$2.3 million.

# State Premium Tax Distributions



- Currently, State of Florida withholding the System's premium tax distributions of \$1,308,509, \$1,375,501, \$1,418,050 and \$1,418,050 (estimate) for 2014, 2015, 2016 and 2017 respectively, pending resolution of issues related to the Supplemental Distribution (13<sup>th</sup> check) (Total amount is \$5.5 million)
- According to the State's October 2, 2015 letter, the distribution of premium tax moneys requires
  - The pre-funding of future 13<sup>th</sup> check distributions, and
    - Effective with the October 1, 2015 valuation, the required contribution includes prefunding of 13<sup>th</sup> check
  - The lump sum payment to the System of the 2014 and 2015 13<sup>th</sup> check distributions of \$1.9 million and \$2.2 million for a total of \$4.1 million

# State Premium Tax Distributions, cont.



- As of March 1, 2018 a City contribution shortfall exists of \$3.9 million.
- If the City contributes the estimated \$4.1 million attributed to the 2014 and 2015 13<sup>th</sup> check distributions, the State can release the \$5.5 million 2014, 2015, 2016 and 2017 premium tax distributions which will eliminate the City's required contribution shortfall.

# State Premium Tax Distributions, cont.



- Finally, if the City contributes \$4.1 million to satisfy States October 2, 2015 Letter, the City will be able to use future premium tax distributions to reduce the City's required contribution, by \$1.4 million

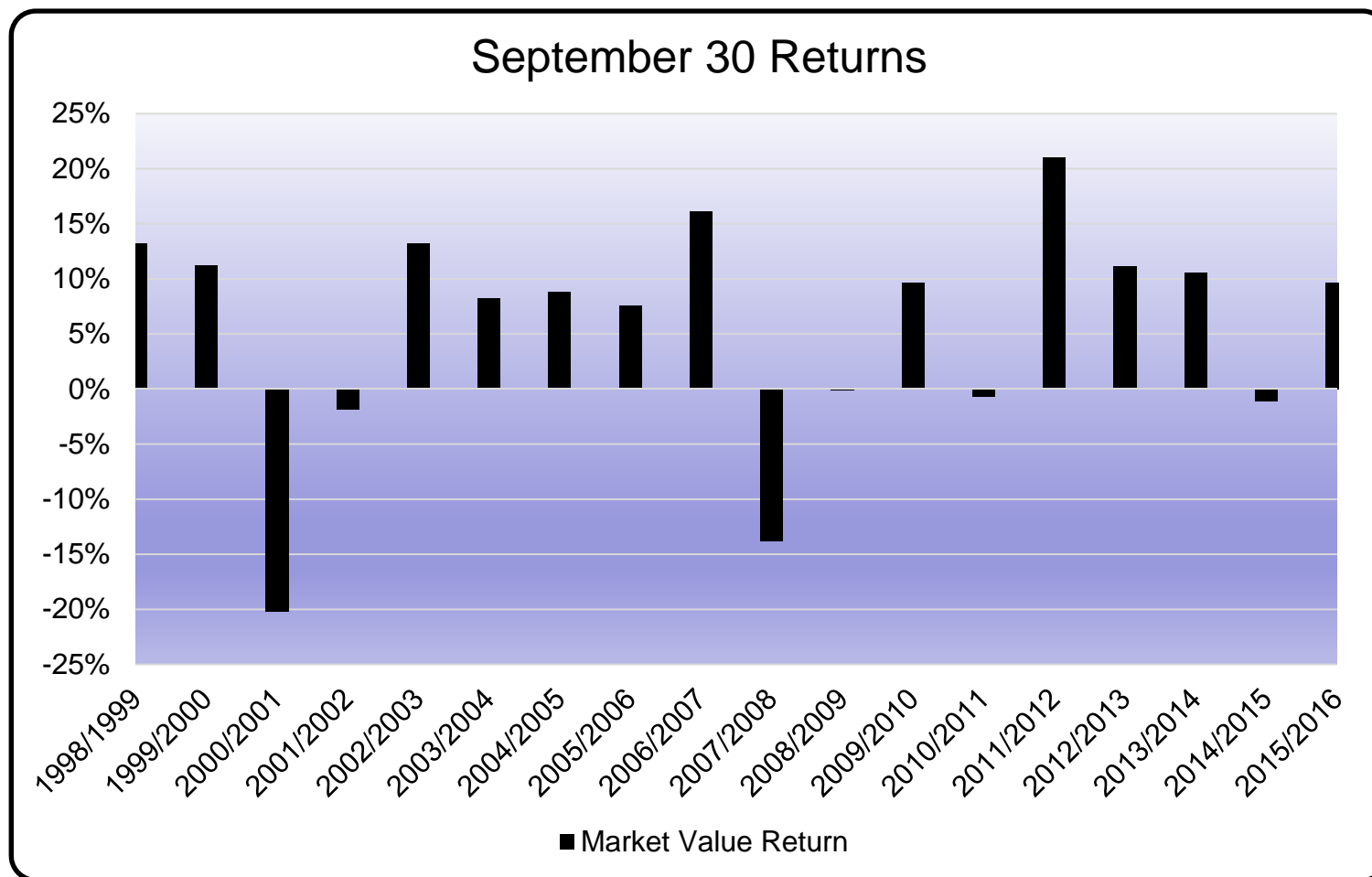
# Recent Significant State Mandated Changes in Actuarial Assumptions



- FRS mortality tables
  - Mortality assumption was updated to comply with Florida Statute 112.63(1)(f)
- Adjustment to the method to pre-fund the Supplemental Distribution (13<sup>th</sup> check)
- Approximately \$38.8 million increase in the unfunded accrued liability



# Market Value of Assets Returns



# Review of Assumed Investment Return Rate

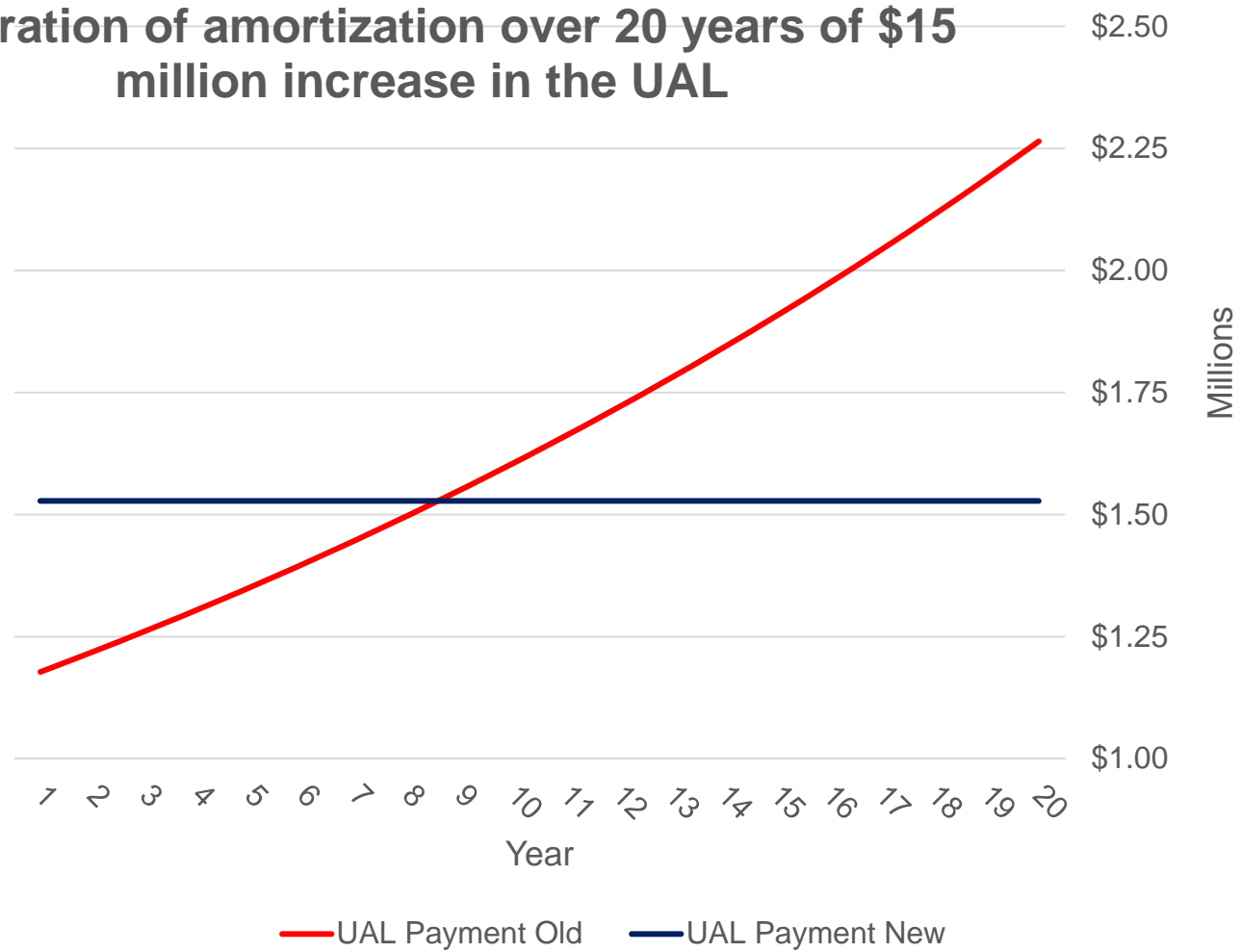


- Assumed investment return rate
  - Currently 8%
  - Average return for period ended September 30, 2016
    - Average 5 year return: 10.0%
    - Average 10 year return: 5.8%
    - Average 15 year return: 6.2%
  - Option to lower to 7.5% phased-in in steps of 0.1% over five years – i.e., 7.9% (2017), 7.8% (2018) ... 7.5% (2021)
  - Each 0.1% reduction in the assumed rate of return increases the City's required contribution by \$280,000

# Illustration of Method to Amortize the Unfunded Accrued Liability (UAL)



Illustration of amortization over 20 years of \$15 million increase in the UAL



# Amortization of Unfunded Actuarial Accrued Liability



- Method to amortize the unfunded accrued liability
  - Currently amortization payments increase at 3.5% each year for years prior to 2017
  - 20 year level dollar amortization – same amortization payment each year – for future (2017 and after) changes in the unfunded accrued liability



# Snapshot of Historical Concessions

## The effects on the fiscal year basis:

- FY 2000/2001 City Saved 1,600,000

Fresh Start - Sanctioned by the City

- FY 2001/2002

Former City Manager (Finz) asked that no valuation report be completed.

- FY 2002/2003 City Saved 1,500,000

As a result of no actuary valuation requested by the former city manager, city contributed the same amount as prior fiscal year.

- FY 2003/2004 City Saved 2,800,000

The city's Senior Buy-Out Program: This program cost 730K annually to fund on the pension side, but the city initially saved on the payroll and benefit side.