

July 20, 2011

Ms. Cathy Swanson-Rivenbark
Interim City Manager
City of Hollywood
P.O. Box 229045
Hollywood, Florida 33022-9045

Dear Ms. Swanson-Rivenbark:

**CITY OF HOLLYWOOD POLICE OFFICERS' RETIREMENT SYSTEM
ACTUARIAL IMPACT STATEMENT – PROPOSED PLAN FREEZE AND ADOPTION
OF RESTRUCTURED PLAN**

Attached is a Statement of Actuarial Impact relating to plan changes for City of Hollywood Police Officers' Retirement System under proposed Ordinance No. PO-2011-23.

The City of Hollywood has retained Actuarial Concepts to perform the actuarial analysis and prepare this impact statement. This Statement of Actuarial Impact was prepared and completed by us or under our direct supervision, and we acknowledge responsibility for the results. To the best of our knowledge the results are complete and accurate, and in our opinion, the techniques and assumptions used are reasonable and meet the requirements and intent of Part VII, Chapter 112, Florida Statutes. The use of the results of the Statement of Actuarial Impact for financial or administrative purposes, other than to estimate the impact of the indicated Plan improvements, is not recommended without an advance review by Actuarial Concepts of the appropriateness of such application.

After review, the enclosed Statement should be signed by an authorized representative and sent to the State, along with a copy of the proposed Ordinance, in the usual manner.

Members of our staff are available to discuss this Statement of Actuarial Impact and its related issues.

Sincerely,



Michael J. Tierney

**CITY OF HOLLYWOOD
POLICE OFFICERS' RETIREMENT SYSTEM**

Statement of Actuarial Impact

Proposed Plan Freeze and Adoption of Restructured Plan

The City is considering adoption of an Ordinance amending the City of Hollywood Police Officers' Retirement System. Proposed Ordinance No. PO-2011-23 contains the following changes in plan provisions that differ from those that served as the basis of the latest actuarial review of the Plan as of October 1, 2009. The Statement of Actuarial Impact measures the impact on the Plan of making the proposed changes as described below:

Effective September 30, 2011, the Police Officers' Retirement System will be frozen. All employees will be vested in benefits accrued to that date and payable under the terms and conditions of plan provisions then in effect. However, DROP and Supplemental Distribution will not apply to those who retire on or after October 1, 2011. No additional benefits of any kind shall accrue under this set of plan provisions.

Effective October 1, 2011, a new set of plan provisions shall be applicable as outlined below. For purposes of determining benefit eligibility, all pensionable service shall be counted, whether before or after October 1, 2011. In cases where minimum or maximum benefit percentages are involved, the benefits payable under the frozen plan will be taken into account (two minimums or maximums are not applicable). The following set of provisions shall be revised.

Plan Provision Changes

Normal Retirement Eligibility

Current – Age 50 + 10 years or 22 years of service.

Proposed – Age 55 + 10 years or age 52 + 25 years of service.

Average Final Compensation (AFC)

Current – Average final 3 year compensation; base pay including 400 hours overtime.

Proposed – Average final 5 year compensation, base pay, no hours overtime, no accrual payouts.

Normal Retirement Benefit

Current – 3% of AFC for service less than 20 years plus 4% for service more than 20 years; maximum 80% (12% earned in year 22).

Proposed – 2% of AFC per year of service plus 0.5% of AFC per year of service up to age 62.

DROP

Current – Yes, 8 years.

Proposed – No.

Cost of Living Increase

Current – 2% deferred 3 years.

Proposed – None.

Employee Contribution

Current – 9% of salary (will rise to 9.25% in 10/2010 and 9.5% in 10/2011).

Proposed – 9.25% of salary.

Supplemental Distribution

Current-Hired <7/16/2009 – Yes.

Current-Hired >7/16/2009 – Yes.

Proposed – No.

Actuarial Assumption Changes

As part of the analysis, we took into account the 12.5% reduction in salaries recently put into place, and also modified the actuarial assumptions appropriate with the proposed changes. We assumed employees currently eligible for normal retirement would retire. Also, we adjusted the assumed rate of investment return downward to anticipate likely changes required by the State, and lowered the assume rate of future salary increases to reflect lower future expectations of increases in salaries. We also assumed that Premium Tax Refunds would not be available to offset City contribution requirements effective for fiscal years after fiscal year ending 2011.

Interest Rate

Current – 8.00%.

Revised – 7.75%.

Salary Increase Rate

Current – 5%.

Revised – Graded scale from 8% to 4%; representative rates are shown below.

| <u>Age</u> | <u>Rate</u> |
|------------|-------------|
| Under 20 | 8.00% |
| 25 | 7.50% |
| 30 | 5.25% |
| 35 | 4.30% |
| 40 | 4.10% |
| 41 + | 4.00% |

Retirement Rates

Current – Members are assumed to retire at the earlier of 55 years old or when they attain 22 years of service.

Proposed – Representative rates are shown below.

| <u>Age</u> | <u>Years of Service</u> | | |
|------------|-------------------------|--------------|----------------|
| | <u>0-21</u> | <u>22-26</u> | <u>>=27</u> |
| <=39 | 0% | 0% | 0% |
| 40-51 | 0% | 0% | 100% |
| 52 | 0% | 50% | 100% |
| 53-54 | 0% | 30% | 100% |
| >=55 | 100% | 100% | 100% |

The impact of implementing the changes outlined above is based on a pro forma valuation as of October 1, 2010, based on 2009 employee data with updated earnings. Retiree liabilities were not updated, but would have no impact regarding the estimated impact on plan contribution requirements. Since the undersigned is not responsible for preparing the official 2009 actuarial review, the Statement of Actuarial Impact presents an independent actuarial analysis of the proposed changes to the current plan applicable to active members. Actuarial assumptions used for this analysis are comparable and in most cases identical to those used by the Plan actuary in order to achieve consistency of results. However, the results are not intended to match or necessarily be consistent with the official review.

Since the State actuary has challenged the actuarial basis for the 2009 valuation, we have revised the assumed rate of investment return and assumed future salary increases to take into account that possible impact. In addition, we have updated the membership data to June 2011. This updated basis is labeled "Update 2010, June 2011 Data, Salary, Revised Assumptions." Next, we present the 2010 pro forma results assuming the new plan is adopted. Finally, we took into account the recently implemented 12.5% salary decreases. The "Net Changes" column shows the difference between the original Actuarial Concepts pro forma 2010 baseline and the plan as proposed including the effect of the revised assumptions and the updated data.

The estimated impact is as follows:

CITY OF HOLLYWOOD
POLICE OFFICERS' RETIREMENT SYSTEM
Statement of Actuarial Impact
Proposed Plan Freeze and Adoption of Restructured Plan

| | 2009 CM Report (1) | 2010 pro forma Baseline (2) | Updated 2010 June 2011 Data, Salary, Revised Assumptions (3) | 2010 Study Plan Freeze, New Plan (4) | 2010 Study Plan Freeze, New Plan, 12.5% Pay Cut (5) | Net Changes (6)=(5)-(2) |
|---|--------------------------|--------------------------------------|---|---|---|-------------------------------|
| 1. Number of Active Participants | 230 | 236 | 232 | 232 | 232 | (4) |
| 2. Active Valuation Payroll | \$ 18,445,452 | \$ 18,736,928 | \$ 18,138,643 | \$ 17,377,766 | \$ 15,205,545 | \$ (3,531,383) |
| Actuarial Present Value of Future Valuation Payroll | 139,934,156 | 147,424,794 | 163,005,623 | 178,560,485 | 156,240,425 | 8,815,631 |
| 3. Actuarial Present Value of Benefits | | | | | | |
| (a) Actives | | | | | | |
| -- Retirement | 113,346,802 | 112,208,725 | 77,762,894 | 66,614,412 | 63,416,841 | (48,791,884) |
| -- Withdrawal | 2,217,821 | 2,455,576 | 2,213,335 | 1,942,415 | 1,865,204 | (590,372) |
| -- Death | 4,904,321 | 4,690,856 | 4,563,312 | 5,201,118 | 4,960,754 | 269,898 |
| -- Disability | 4,129,081 | 3,825,518 | 3,798,706 | 3,809,293 | 3,666,041 | (159,477) |
| -- Total | \$ 124,598,025 | \$ 123,180,675 | \$ 88,338,247 | \$ 77,567,238 | \$ 73,908,840 | \$ (49,271,835) |
| (b) Contribution Refunds | 341,691 | 341,691 | 349,208 | 349,208 | 349,208 | 7,517 |
| (c) Retirees & Beneficiaries* | 208,399,334 | 208,399,334 | 218,165,327 | 218,165,327 | 218,165,327 | 9,765,993 |
| (d) Disableds* | 8,890,341 | 8,890,341 | 9,085,929 | 9,085,929 | 9,085,929 | 195,588 |
| (e) Vested Terminateds & Limited Participants* | 737,306 | 737,306 | 753,527 | 753,527 | 753,527 | 16,221 |
| (f) Total | \$ 342,966,697 | \$ 341,549,347 | \$ 316,692,238 | \$ 305,921,229 | \$ 302,262,831 | \$ (39,286,516) |
| 4. Actuarial Value of Assets* | 161,780,132 | 161,780,132 | 161,780,132 | 161,780,132 | 161,780,132 | Same |
| 5. Unfunded Actuarial Accrued Liability (UAAL)** | 140,763,258 | 136,642,647 | 123,415,544 | 129,450,965 | 127,570,394 | (9,072,253) |
| 6. City Normal Cost (Including Expenses) | 6,181,041 | 5,722,583 | 4,173,940 | 1,936,809 | 1,774,863 | (3,947,720) |
| City Normal Cost Rate | 32.38% | 29.51% | 22.23% | 10.77% | 11.28% | -18.23% |
| 7. Amortization of UAAL | \$ 9,934,226 | \$ 9,667,442 | \$ 8,568,639 | \$ 8,947,237 | \$ 8,829,270 | (838,171) |
| 8. Total City Required Contribution | 16,115,267 | 15,390,025 | 12,742,579 | 10,884,047 | 10,604,133 | (4,785,891) |
| Percentage of Payroll | 84.41% | 79.36% | 67.88% | 60.51% | 67.38% | -11.98% |
| 9. Expected Participant Contributions | \$ 1,765,921 | \$ 1,793,827 | \$ 1,736,548 | \$ 1,663,704 | \$ 1,455,741 | (338,086) |
| Percentage of Payroll | 9.25% | 9.25% | 9.25% | 9.25% | 9.25% | 0.00% |
| 10. Expected Chapter 185 Contributions | \$ 1,212,981 | \$ 1,212,981 | \$ 1,212,981 | \$ - | \$ - | (1,212,981) |
| Percentage of Payroll | 6.35% | 6.25% | 6.46% | 0.00% | 0.00% | -6.25% |
| 11. Net City Required Contribution*** | \$ 13,136,365 | \$ 12,383,217 | \$ 9,793,050 | \$ 9,220,343 | \$ 9,148,393 | \$ (3,234,824) |
| Percentage of Payroll | 68.81% | 63.85% | 52.16% | 51.26% | 58.13% | -5.72% |
| 12. Expected Payroll for Contribution Year | \$ 19,091,043 | \$ 19,392,720 | \$ 18,773,496 | \$ 17,985,988 | \$ 15,737,739 | \$ (3,654,981) |
| Net City Required Contribution \$ for Contribution Year*** | 13,136,365 | 12,383,217 | 9,793,050 | 9,220,343 | 9,148,393 | (3,234,824) |
| Net City Contribution Percentage of Payroll for Contribution Year | 68.81% | 63.85% | 52.16% | 51.26% | 58.13% | -5.72% |

* Inactive liabilities not revalued; used liabilities from 2009 actuarial valuation report; does not affect study results. Assets not recalculated; used valuation assets from 2009 actuarial valuation report.

** Calculated in accordance with the Individual Entry Age Actuarial Cost Method.

*** Assumed payable monthly starting October 1, 2011.

This Statement of Actuarial Impact has been prepared pursuant to Chapter 112, Section 112.63(3) of Florida Statutes, and in our opinion, the proposed changes are in compliance with Part VII, Chapter 112, Florida Statutes, and Section 14, Article X, of the State Constitution.

Date: July 20, 2011

By: 

Michael J. Tierney
ASA, MAAA, FCA, EA #11-01337

The proposed changes, as described above, to the best of our knowledge and belief, are in compliance with Part VII, Chapter 112, Florida Statutes, and Section 14, Article X, of the State Constitution.

Date: _____

By: _____

Plan Representative