



April 30, 2024

Mr. Robert Miracle
Deputy Town Manager
Town of Palm Beach
360 S. County Road
Palm Beach, Florida 33480

Re: Town of Palm Beach Preservation of Benefits (Excess) Plan – Actuarial Impact Statement

Dear Bob:

We have reviewed the proposed Ordinance which amends Section 82-119, *Deferred retirement option program for police officers*, of the Town's Code of Ordinances with regard to the Town of Palm Beach Retirement System. This Ordinance would amend the DROP participation period for any Police Officer who is appointed town manager from 10 months (10 years) to 144 months (12 years).

As of September 30, 2023, there is currently one Police Officer who is an appointed Town Manager and is participating in the DROP. Under the current Retirement System provisions, this member is projected to be in excess of the 415(b) limit when he exits the DROP. Pension benefits under the Retirement System are limited by IRC Section 415(b) with future pension benefits which are in excess of the adjusted annual 415(b) limit being paid from the Preservation of Benefits (Excess) Plan. This member, Kirk Blouin, is currently one of two members participating in the Excess Plan.

The approximate liability impact of the plan change to the Preservation of Benefits (Excess) Plan is **an increase of \$575,000** assuming the Town Manager participates in the DROP for the maximum 12-year period and his DROP balance earns an average investment return of 6.5% per year. Because this Ordinance will be in effect after the September 30, 2023 measurement date, this impact will not be reflected in the Town's financial statements until fiscal year ending September 30, 2024, based on the GASB No. 73 Disclosure Information for reporting year ending September 30, 2024.

Disclosures

Please note that the true impact of the plan change depends on how long the Town Manager remains in the DROP and on how large his DROP account balance is at retirement. We have projected the DROP account balance for the affected Police Officer assuming annualized investment earnings in the DROP of 6.5% per annum through the maximum 12-year participation period. The amount of the DROP distribution is converted to an equivalent annuity, and that amount is used to reduce the limit on future benefits paid from the Town of Palm Beach Retirement System. If actual average DROP account investment earnings are higher than 6.5%, the resulting adjusted annual 415(b) limit at DROP exit will be lower and more benefits will be payable from the Excess Plan. We have also projected IRC Section 415 limits into the future assuming annual inflation increases will be 2.0% per year and there will be no changes in the applicable prescribed mortality and segment interest rate assumptions after 2023. Actual published 415(b) limits and applicable segment interest rates and mortality tables will need to be taken into account at retirement.

The Town's Preservation of Benefits (Excess) Plan is not funded in a GASB-qualifying trust. In valuing the Total Pension Liability under GASB No. 73, projected benefit payments are required to be discounted to their actuarial present values using a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. For the purpose of this calculation, the municipal bond rate is 4.63%, the latest interest rate used in the GASB Statement No. 73 Disclosure Information for Reporting Year Ending for fiscal year ending September 30, 2023. The source of this rate is Fidelity Investments' 20-Year "Municipal GO AA Index" as of September 29, 2023. Please refer to the GASB No. 73 report, dated February 29, 2024, for all actuarial assumptions, methods and disclosures.

It should be noted that the reduction in the net 415(b) limit in the Town of Palm Beach Retirement System caused by the proposed DROP extension does not increase or decrease the future annual retirement benefits payable to the current Town Manager from a combination of the Town of Palm Beach Retirement System and the Preservation of Benefits (Excess) Plan – it just shifts the source of future payments.

Additional Disclosures

This report was prepared at the request of the Town of Palm Beach and is intended for use by the Town of Palm Beach and those designated or approved by the Town. This report may be provided to parties other than the Town only in its entirety and only with the permission of the Town.

The purpose of this report is to describe the expected immediate financial effect of the proposed plan change. This report should not be relied on for any purpose other than the purpose described above.

This report complements the actuarial valuation report that was previously provided to the System and Town and should be considered in conjunction with that report. Please refer to the Town of Palm Beach Retirement System Actuarial Valuation Report as of September 30, 2023, dated March 11, 2014 for additional discussion of the nature of actuarial calculations and more information related to participant data, economic and demographic assumptions, and benefit provisions.

The calculations were prepared based on our interpretation of the Retirement System Ordinance, and on what we believe are reasonable approaches to testing benefits under IRC Section 415(b) and the final regulations. We have also assumed that there are no System actuarial equivalence factors for converting the DROP account balance to an equivalent single life annuity because "actuarial equivalent" is not defined in the System Ordinance. However, we are neither tax attorneys nor tax professionals and the above information should not be construed as legal or income tax advice or opinion. There is no guarantee that the IRS would agree with the approaches used. If there is any doubt about these points, legal counsel should be consulted.

The calculations are based upon assumptions regarding future events, which may or may not materialize. They are also based on the assumptions, methods, and plan provisions outlined in this report. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic

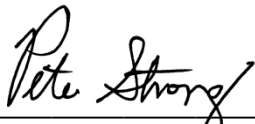


assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. If you have reason to believe that the assumptions that were used are unreasonable, that the plan provisions are incorrectly described, that important plan provisions relevant to this proposal are not described, or that conditions have changed since the calculations were made, you should contact the author of the report prior to relying on information in the report.

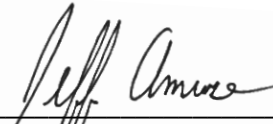
This report has been prepared by actuaries who have substantial experience valuing public employee retirement systems. To the best of our knowledge the information contained in this report is accurate and fairly presents the actuarial position of the Town of Palm Beach Preservation of Benefits Plan as of the valuation date. All calculations have been made in conformity with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board and with applicable statutes.

Peter N. Strong and Jeffrey Amrose are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. The signing actuaries are independent of the plan sponsor.

Respectfully submitted,



Peter N. Strong, FSA, MAAA, FCA
Enrolled Actuary No. 23-06975



Jeffrey Amrose, MAAA, FCA
Enrolled Actuary No. 23-06599