



April 22, 2024

Ms. Edemir K. Estrada
Pension Administrator
Gabriel, Roeder, Smith & Company
One East Broward Blvd., Suite 505
Fort Lauderdale, Florida 33301-1804

Re: Town of Palm Beach Retirement System Annual Report – 9/30/2023 Actuarial Summary

Dear Edemir:

The funded status of the plan is determined after the fiscal year end, and after the system's actuary, Gabriel, Roeder & Smith (GRS), collects the system's updated census and financial information and analyzes the demographic and economic experiences during the fiscal year. The experience is compared to the actuarial assumptions (investment return, retirements/DROPs, terminations, mortality, wage increases, etc.). The funded status and required Town contributions are determined after completing a full analysis and valuation of the updated actuarial liabilities. The system's current funded status is based on the most recent September 30, 2023 actuarial valuation, and it will change again after the end of fiscal year 2024 after the analysis for the 2024 fiscal year valuation is completed.

Town Council adopted a policy beginning in October 2017 to appropriate \$5.42 million each year in extra payments toward the unfunded actuarial accrued liability (UAAL). This represents a payment above what the actuary annually determines as the Town's required contribution (the actuarial determined employer contributions, or ADEC). The ADEC developed in the annual valuation is payable in the second fiscal year following the valuation date. Thus, the ADEC payable during fiscal year 2025 is identified in the 9/30/2023 actuarial valuation. In the year that begins October 1, 2024 (FY 2025), the ADEC rate is 55.57% of covered payroll, or \$14,469,556, if payments are distributed evenly throughout the fiscal year. However, the actuary determined that if the Town chooses to pay the full amount at the beginning of the 2025 fiscal year (i.e., on or near October 1, 2024), as it did for fiscal year 2024, the ADEC rate will be reduced to 53.97% of covered payroll, or \$14,054,076. The early lump-sum payment represents a savings of \$415,480 in interest cost.

The funded ratio of the retirement system as of 9/30/2023 is 74.0%, which is a decrease from 75.2% as of 9/30/2022. The UAAL (the unfunded actuarial accrued liability) as of 9/30/2023 is \$98,335,829, versus \$91,096,064 as of 9/30/2022. Based on the market value of assets, the retirement system is 68.0% funded as of 9/30/2023 (versus 66.1% as of 9/30/2022).

A revision was made to the actuarial assumptions as of 9/30/2023 that increased the UAAL and future contributions. The assumed investment return used in the 2023 valuation (for the year ending 9/30/2024) is 6.2%, reduced from 6.4% last year. The assumed rate of return is scheduled to be

reduced one more time to 6.0% in the 9/30/2024 actuarial valuation (please note that the increases in the ADEC and UAAL attributable to each future 0.2% reduction are approximately \$700,000 and \$8.5 million, respectively).

The assumption change as of 9/30/2023 had the net effect of increasing the required Town contribution for fiscal year 2025 by approximately \$702,000 and increasing the Plan's UAAL as of 9/30/2023 by approximately \$8.41 million, causing the funded ratio to decline by 1.7% (from 75.7% to 74.0%).

The overall retirement system experience during fiscal year 2023 resulted in a net actuarial experience loss of approximately \$6.98 million. Investment experience caused an actuarial loss of about \$7.28 million (after reflecting asset smoothing). The rate of investment return on the actuarial value of assets during fiscal year 2023 was +3.76% (versus the assumed return during the period of 6.4%). The return on the market value of assets during fiscal year 2023 was +8.63%. Demographic (liability-related) experience resulted in an offsetting experience gain of about \$0.30 million, primarily due to favorable retirement experience, offset by higher than expected salary increases. The net actuarial experience loss caused the required Town contribution for FY 2025 to increase by approximately \$615,000.

The funded ratio was over 100% in the year 2000, whereas it is currently 74.0% (68.0% based on the market value of assets). The decline has primarily been the result of lower compound average investment returns than assumed during the 23-year period from 10/1/2000 through 9/30/2023. The compound average investment return on the market value of assets during this 23-year period was 4.7%. Recent changes in assumptions have also had a reducing effect on the funded ratio, but to a lesser extent than cumulative investment experience.

Several positive steps have been taken to address the funded status, including strengthening the actuarial assumptions, reducing the UAAL amortization periods to 15-20 years, and the commitment from the Town to make additional contributions of \$5.42 million per year (starting in 2017) towards the UAAL until the Plan becomes 100% funded. The Town's cap on total contributions (including the extra \$5.42 million) was also removed in March 2024. These changes have already had a positive impact, helping the Plan absorb a (15.5%) loss on the market value of assets during FY 2022. Despite the significant negative return during FY 2022, the Plan's current funded ratio based on the market value of assets (68.0%) is still higher than it was as of 9/30/2016 (64.3%) even as the investment return assumption has been lowered from 7.4% to 6.2% over the same 7-year period. It is anticipated that these changes will continue to have a significant increasing effect on the funded ratio over the next several years.

In a "what if" scenario in which all assumptions are realized (and the additional \$5.42 million Town contributions continue), the retirement system is projected to become 96.2% funded in 10 years (as of 9/30/2033). If actual average investment earnings are 5% per year or 3% per year (instead of matching



Ms. Edemir K. Estrada
Town of Palm Beach Retirement System
April 22, 2024
Page 3

the long-term assumption of 6.2% grading down to 6.0%), the retirement system is projected to become 90% funded or 80% funded, respectively, as of 9/30/2033. Assuming all assumptions are realized, the total Town contributions to the Retirement System, including the extra Town contributions of \$5.42 million per year, are expected to be in the range of \$14.2 to \$21.2 million over the next 10 years. Town contributions are projected to steadily increase over the next three years as the FY 2022 market loss is phased into the actuarial value of assets and the investment return assumption is lowered to 6.0%, leading to a peak of \$21.2 million for FY 2028, and then subsequently decline until reaching \$14.2 million for FY 2035.

If there are any questions, please let us know.

Respectfully submitted,

A handwritten signature in black ink that reads "Peter Strong". The signature is written in a cursive, flowing style.

Peter N. Strong, FSA, EA, MAAA
Senior Consultant and Actuary

The above communication shall not be construed to provide tax advice, legal advice or investment advice.

