

# TOWN OF PALM BEACH

Information for Town Council Meeting on: September 10, 2019

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To: Mayor and Town Council

Via: Kirk Blouin, Town Manager

From: Jane Le Clainche, Finance Director

Re: **Resolution No. 112-2019**  
Amendments to the Town's Investment Policy for the Retirement System

Date: August 30, 2019

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## **STAFF RECOMMENDATION**

Staff recommends that the Town Council approve Resolution No. 112-2019 adopting the amendments to the Town's Investment Policy for the Retirement System.

## **BOARD OR COMMISSION RECOMMENDATION**

The Retirement Board of Trustees unanimously voted at the August 16, 2019 meeting, to recommend that the Town Council approve the revision to the Town's Investment Policy for the Retirement Trust, which reduces the assumed rate of investment return to an ultimate rate of 6% effective with the September 20, 2025 actuarial valuation.

## **GENERAL INFORMATION**

Retirement Board of Trustees are recommending reducing the investment assumption to an ultimate rate of 6% which, if adopted by the Town Council, will be included in the Town's Investment Policy for the Retirement System. An analysis was prepared by the Board's actuary reducing the assumption by .1% each year until the 7% is achieved with the September 30, 2020 actuarial valuation shown as Scenario 1A in the attached report from GRS. Scenario 2A further reduces the assumption with the actuarial valuation dated September 30, 2021 by 20 basis points to 6.8% with a further decrease of 20 basis points each year thereafter until the assumed rate reaches 6% effective with the September 30, 2025 actuarial valuation. In Scenario 2B the results are stress tested at an actual return of 5%.

The total annual Town contributions for each of these scenarios are summarized in the table on the following page. The Town's funding policy for the retirement system sets a maximum contribution limit at \$16,000,000 indexed after 2017 at 2.75% per annum. The first column shows the funding policy limit. The second column shows the actual payments for FY17 – FY19, the FY20 budget, and the forecast with the assumption reduced to an ultimate 7% (Scenario 1A). The third column shows the Town contributions at the proposed reduction to an

ultimate assumption rate of 6% (Scenario 2A) and the final column shows the same ultimate 6% assumption but stress tested at a potential 5% return each year (Scenario 2B).

FY	Funding Policy Limit	Current Forecast with Assumption Reduced to 7%	Proposed Contributions with Ultimate 6% Assumption	Proposed Contributions Stress tested at 5% Actual Return
2017	\$ 16,000,000	\$ 11,123,780		
2018	\$ 16,440,000	\$ 14,079,251		
2019	\$ 16,892,100	\$ 15,601,437	\$ 15,601,437	\$ 15,601,437
2020	\$ 17,356,633	\$ 16,143,328	\$ 16,143,328	\$ 16,143,328
2021	\$ 17,833,940	\$ 17,213,077	\$ 17,213,077	\$ 17,291,948
2022	\$ 18,324,374	\$ 17,366,610	\$ 17,377,791	\$ 17,621,280
2023	\$ 18,828,294	\$ 17,094,311	\$ 17,812,925	\$ 18,310,238
2024	\$ 19,346,072	\$ 16,848,523	\$ 18,386,526	\$ 19,223,018
2025	\$ 19,878,089	\$ 16,549,743	\$ 18,970,449	\$ 19,878,088
2026	\$ 20,424,736	\$ 16,148,588	\$ 19,508,332	\$ 20,424,736
2027	\$ 20,986,417	\$ 15,584,911	\$ 19,961,444	\$ 20,986,416
2028	\$ 21,563,543	\$ 14,428,676	\$ 19,167,266	\$ 21,563,542
2029	\$ 22,156,540	\$ 13,664,319	\$ 18,802,167	\$ 22,006,238
2030	\$ 22,765,845	\$ 12,829,028	\$ 18,416,569	\$ 22,114,762

In the stress tested model, during years 2025 – 2028 the contributions are capped at the Town's funding policy limit for the Retirement System.

The 7% assumption forecast results in a funded ratio of 95.4% with the September 30, 2028 valuation date if all assumptions are met. The proposed reduction to an ultimate assumption rate of 6% results in a funded ratio of 86% if all assumptions are met and the stress test results show a 77.8% funded ratio at September 30, 2028.

The changes to the Investment Policy attached as Exhibit A to Resolution 112-2019 are underlined below and shown in section III of the Investment Policy.

On an absolute basis, the objective is that the return of the total portfolio will equal or exceed the actuarial earnings assumption as scheduled (effective with the September 30, 2016 actuarial valuation, the assumed rate of investment return will be decreased to 7.4 %, and will further decrease by 10 basis points each year thereafter until the assumed rate reaches 7.0% effective with the September 30, 2020 actuarial valuation. Effective with the September 30, 2021 actuarial valuation, the assumed rate of investment return will be decreased 20 basis points to 6.80%, with a further decrease of 20 basis points each year thereafter until the assumed rate reaches 6.0% effective with the September 30, 2025 actuarial valuation). The assumed rate of return will provide inflation protection by meeting Consumer Price Index plus at least 3%.

### **TOWN ATTORNEY REVIEW**

The Investment Policy and Resolution No. 112-2019 have been drafted by the Retirement Board's Legal Counsel, Janice Rustin and Jim Linn with Lewis Longman and Walker.

### **FUNDING/FISCAL IMPACT**

The table on the prior page outlines the fiscal impact of the change in investment assumption in future years.

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cc: Retirement Board of Trustees  
Dave West, Andco Consulting