



May 23, 2022

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 – 9/30/2021 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, 2021 actuarial valuation, and it will change again after the end of fiscal year 2022 after the analysis for the 2022 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 2023 is identified in the 9/30/2021 actuarial valuation. In the year that begins October 1, 2022 (FY 2023), the ADEC rate is 55.30% of covered payroll, or \$11,818,189, 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 2023 fiscal year (i.e., on or near October 1, 2022), as it did for fiscal year 2022, the ADEC rate will be reduced to 53.61% of covered payroll, or \$11,457,243. The early lump-sum payment represents a savings of \$360,946 in interest cost.

The funded ratio of the retirement system as of 9/30/2021 is 76.1%, which is an increase from 72.7% as of 9/30/2020. The UAAL (the unfunded actuarial accrued liability) as of 9/30/2021 is \$85,333,977, versus \$94,163,607 as of 9/30/2020. Based on the market value of assets, the retirement system is 82.4% funded as of 9/30/2021.

Revisions were made to the actuarial assumptions as of 9/30/2021 that have increased the UAAL and future contributions. The assumed investment return used in the 2021 valuation (for the year ending 9/30/2022) is 6.6%, reduced from 6.8% last year. The assumed rate of return is scheduled to be

reduced to 6.4% in the 9/30/2022 actuarial valuation, and then by an additional 0.2% for two more years thereafter until reaching an ultimate assumed rate of return of 6.0% in the 9/30/2024 actuarial valuation (please note that the increases in the ADEC and UAAL attributable to each 0.2% reduction are approximately \$700,000 and \$8 million, respectively).

In addition, the assumed DROP participation period for the Town Manager was changed from 7 years to 10 years. This change increased the projected DROP balance at DROP exit for the Town Manager, which reduced the projected net maximum annual benefit limit under Section 415(b) of the Internal Revenue Code (IRC). This effectively reduces the projected annual benefit amount payable to the Town Manager from the Retirement System, and thus reduces the liability for his benefit under the Retirement System.

The changes in assumptions effective 9/30/2021 had the net effect of increasing the required Town contribution for fiscal year 2023 by approximately \$594,000 and increasing the Plan's UAAL as of 9/30/2021 by approximately \$7.22 million.

The retirement system experience during fiscal year 2021 resulted in a net actuarial experience gain of approximately \$6.72 million. Investment experience caused an actuarial gain of about \$6.14 million. The rate of investment return on the actuarial value of assets during fiscal year 2021 was 9.2% (versus the assumed return during the period of 6.8%). The return on the market value of assets during fiscal year 2021 was 20.7%. Demographic (liability-based) experience resulted in an additional experience gain of about \$576,000, primarily due to favorable termination and retirement experience and somewhat lower than expected salary increases for General Employees. The net actuarial experience gain caused the required Town contribution for FY 2023 to decrease by approximately \$606,000.

The funded ratio was over 100% in the year 2000, whereas it is currently 76.1%. This decline was primarily the result of lower compound average investment returns than assumed during the 20-year period from 10/1/2000 through 9/30/2020. The compound average investment return on the market value of assets during this 20-year period was 4.84%. Recent changes in assumptions have also had a reducing effect on the funded ratio, but to a much 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. These changes have already had a positive impact, as the funded ratio has increased from 68.4% as of September 30, 2016 to 76.1% as of September 30, 2021, even as the investment return assumption was lowered from 7.4% to 6.6% over the same time 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 101.0% funded in 10 years (as



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of 9/30/2031). If actual average investment earnings are 5% per year (instead of matching the long-term assumption of 6.6% grading down to 6.0%), the retirement system is projected to be approximately 95% funded in 10 years (as of 9/30/2031). 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 \$13 to \$17 million over the next 8 years, and are then projected to decline to around \$5.0 to \$5.5 million once the Retirement System becomes fully funded.

If there are any questions, please let us know.

Respectfully submitted,

A handwritten signature in black ink that reads "Pete Strong". The signature is fluid and cursive, with the first name "Pete" and last name "Strong" clearly legible.

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.*

