



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 Retirement System – Actuarial Impact Statement for Police Officers

Dear Bob:

As requested, 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 (Plan). We are enclosing an Actuarial Impact Statement showing the impact of the proposed change in Plan provisions on the September 30, 2023 actuarial valuation results for Police Officers.

Please refer to the enclosed exhibits for details. The following is a brief description of the proposed change included in this Actuarial Impact Statement:

- Current Plan – Same plan provisions as described in the September 30, 2023 Actuarial Valuation Report. For any Police Officer who is appointed town manager while participating in the Deferred Retirement Option Program (DROP), the maximum participation period in the DROP is 120 months (10 years).
- Plan Change – For any Police Officer who is appointed town manager while participating in the DROP, the maximum participation period in the DROP is 144 months (12 years).

Summary of Findings

Pension benefits under this Plan are limited by IRC Section 415(b). The 415(b) limitation on annual benefits must be reduced to account for DROP distributions at DROP exit. Future pension benefits which are in excess of the adjusted annual 415(b) limit cannot be paid from this plan and instead will need to be paid from the Preservation of Benefits (Excess) Plan. As a result, the impact of the above Plan Change depends on how long the Town Manager remains in the DROP (and on how large his DROP account balance is at retirement). The enclosed exhibits present results which assume the Town Manager remains in the DROP for 12 years.

- As a result of the Plan change, the required employer contribution rate for Police Officers decreases by 0.70% of covered payroll (from 81.44% to 80.74%), or a total dollar amount of \$37,878 for the fiscal year ending September 30, 2025 (assuming October 1st payment timing), 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.
- As a result of the Plan change, the funded ratio (actuarial value of assets divided by actuarial accrued liability) for Police Officers increases by 0.3%, from 75.2% to 75.5%, assuming the Town Manager participates in the DROP for the maximum 12-year period. Under this scenario, the unfunded liability decreases by \$449,998.

Please note that as of September 30, 2023, there is currently one Police Officer who is an appointed Town Manager and is participating in the DROP. Under current plan provisions, this member's benefit is projected to be in excess of the 415(b) limit when he exits the DROP. No other members are expected to be affected by this proposed Ordinance in the foreseeable future. However, if other members become affected in future years, the impact of the plan changes would be greater than presented above.

It should be noted that the current Town Manager is not the only member in the Plan who is impacted by the 415(b) limits. Also, the stricter limitation on the amount of benefits payable from the Plan due to 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.

We have projected the DROP account balance for the affected Police Officer assuming investment earnings in the DROP accrue at a rate of 6.5% per annum. 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 present values shown herein are based on the interest rate of 6.20% and mortality assumptions used in the September 30, 2023 valuation. If a lower interest rate or higher life expectancy assumption was used, the present values shown would be higher.

Risk assessment may include scenario, sensitivity, or stress tests, stochastic modeling, and a comparison of the present value of benefits at low-risk discount rates. We are prepared to perform such assessment to aid the Town in the decision making process. Please refer to the September 30, 2023 Actuarial Valuation Report dated March 11, 2024 for additional discussion regarding the risks associated with measuring the accrued liability and actuarially determined contribution.

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 the Retirement System and those designated or approved by the Town or the System. This report may be provided to parties other than the System only in its entirety and only with the permission of the Town or Board of Trustees.

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 September 30, 2023 Actuarial Valuation Report previously delivered to the Plan Administrator and the Town and should be considered in conjunction with that report. The results in this report are based on census and asset data as of September 30, 2023, as provided by the Town for the September 30, 2023 Actuarial Valuation concerning Plan benefits, financial transactions, plan provisions and active members, terminated members, retirees and beneficiaries. We reviewed this information for internal and year-to-year consistency, but did not otherwise audit the data. We are not responsible for the accuracy or completeness of the information provided by the Town. Refer to the September 30, 2023 Actuarial Valuation report, dated March 11, 2024, for all actuarial assumptions, methods and disclosures.

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 Retirement System 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.



Mr. Robert Miracle

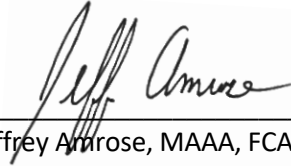
April 30, 2024

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Respectfully submitted,



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



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



**TOWN OF PALM BEACH RETIREMENT SYSTEM
POLICE OFFICERS**

Impact Statement – April 30, 2024

Description of Amendments

The proposed Ordinance amends the Plan as follows:

- For any Police Officer who is appointed town manager while participating in the DROP, the maximum participation period in the DROP is 144 months (12 years).

Funding Implications of Amendment

An actuarial cost estimate is attached.

Certification of Administrator

I believe the amendment to be in compliance with Part VII, Chapter 112, Florida Statutes and Section 14, Article X of the Constitution of the State of Florida.

For the Board of Trustees
as Plan Administrator

SUPPLEMENTAL ACTUARIAL VALUATION REPORT

Plan

Town of Palm Beach Retirement System – Police Officers

Valuation Date

September 30, 2023

Date of Report

April 30, 2024

Report Requested by

Board of Trustees

Prepared by

Peter N. Strong

Group Valued

All active and inactive Police Officers

Change in Plan ProvisionsPresent Provision Before Change

For any Police Officer who is appointed Town Manager while participating in the Deferred Retirement Option Program (DROP), the maximum participation period in the DROP is 120 months (10 years).

Proposed Provision After Change

For any Police Officer who is appointed Town Manager while participating in the DROP, the maximum participation period in the DROP is 144 months (12 years). To value this change, the assumed DROP participation period for the Town Manager was increased from 10 years to 12 years.

Changes in Actuarial Assumptions and Methods

With the exception of the assumption change described above (the change in the assumed DROP participation period for the Town Manager from 10 years to 12 years), all other actuarial assumptions and methods are the same as those used in the September 30, 2023 Actuarial Valuation Report.

Some of the key assumptions/methods are:

Investment Return – 6.20% per year

Payroll Growth Assumption – 2.75% per year

Internal Revenue Code (IRC) Section 415 Limitation – IRC Section 415 limits are projected into the future assuming annual inflation increases of 2.0% per year and no changes in the

applicable prescribed mortality assumptions. For the purposes of valuing the liability for applicable Plan members whose benefits are currently limited under IRC Section 415 and who are currently in the DROP, monthly benefit payments and investment earnings will continue to accumulate in the DROP until the assumed DROP exit date. Investment earnings in the DROP are projected to be 6.5% per year for this purpose. The projected DROP distribution is then converted to an equivalent annuity, and that amount is used to reduce the limit on future benefits paid from the System.

Amortization Period for New Changes in Actuarial Accrued Liability

15 years (for changes in plan provisions).

Actuarial Impact of Changes

See attached page(s).

Special Risks Involved with the Changes That the Plan Has Not Been Exposed to Previously

None

ACTUARIALLY DETERMINED CONTRIBUTION (ADC)			
A. Valuation Date	September 30, 2023	September 30, 2023	
	<i>Police Officers Valuation</i>	<i>Police Officers Plan Change</i>	<i>Change</i>
B. ADC to Be Paid During Fiscal Year Ending	9/30/2025	9/30/2025	
C. Covered Annual Payroll (expected)	\$ 5,571,117	\$ 5,571,117	\$ 0
D. Annual Payment to Amortize Unfunded Actuarial Liability Rate As Illustrative \$	61.27 % 3,413,423	60.57 % 3,374,426	(0.70) % (38,997)
E. Total Employer Normal Cost Rate As Illustrative \$	20.17 % 1,123,694	20.17 % 1,123,694	0.00 % 0
F. Total Unadjusted Contribution Rate Employer Normal Cost Amortization Total	20.17 % <u>61.27</u> 81.44	20.17 % <u>60.57</u> 80.74	0.00 % <u>(0.70)</u> (0.70)
G. Adjustments to Computed Contribution			
a. Town funding for additional premium tax revenue shortfall in prior fiscal year	0.00 %	0.00 %	0.00 %
b. Additional Member Cost Sharing	0.00	0.00	0.00
c. Full funding credit	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
d. Total Adjustments As Illustrative \$	0.00 0	0.00 0	0.00 0
H. Total Adjusted ADC as % of Covered Payroll	81.44 %	80.74 %	(0.70) %
I. Total Adjusted ADC as Illustrative \$	\$ 4,537,117	\$ 4,498,120	\$ (38,997)
J. Total Adjusted ADC if Contributed October 1st	\$ 4,406,838	\$ 4,368,960	\$ (37,878)

ACTUARIAL VALUE OF BENEFITS AND ASSETS			
A. Valuation Date	September 30, 2023	September 30, 2023	
	<i>Police Officers Valuation</i>	<i>Police Officers Plan Change</i>	<i>Change</i>
B. Actuarial Present Value of All Projected Benefits for			
1. Active Members			
a. Service Retirement Benefits	\$ 25,981,259	\$ 25,981,259	\$ -
b. Vesting Benefits	1,160,786	1,160,786	-
c. Disability Benefits	1,155,309	1,155,309	-
d. Preretirement Death Benefits	463,866	463,866	-
e. Return of Member Contributions	238,544	238,544	-
f. Total	28,999,764	28,999,764	-
2. Inactive Members			
a. Retired Members & Beneficiaries	97,107,213	96,657,215	(449,998)
b. Terminated Vested Members	4,108,278	4,108,278	-
c. DROP and Share Account Balances	3,466,326	3,466,326	-
d. Total	104,681,817	104,231,819	(449,998)
3. Total for All Members	133,681,581	133,231,583	(449,998)
C. Actuarial Present Value of Future Normal Costs	15,216,734	15,216,734	-
D. Actuarial Accrued (Past Service) Liability	118,464,847	118,014,849	(449,998)
E. Plan Assets			
1. Market Value	81,920,847	81,920,847	-
2. Actuarial Value	89,135,074	89,135,074	-
F. Unfunded Actuarial Accrued Liability:	29,329,773	28,879,775	(449,998)
G. Funded Ratio: E2/D	75.2 %	75.5 %	0.3 %
H. Actuarial Present Value of Projected Covered Payroll	57,073,356	57,073,356	-
I. Actuarial Present Value of Projected Member Contributions	4,851,236	4,851,236	-
J. Accumulated Value of Active Member Contributions	2,796,126	2,796,126	-

CALCULATION OF EMPLOYER NORMAL COST						
A. Valuation Date	September 30, 2023		September 30, 2023			
	<i>Police Officers Valuation</i>		<i>Police Officers Plan Change</i>		<i>Change</i>	
B. Normal Cost for						
1. Service Retirement Benefits	\$ 1,158,120	21.91%	\$ 1,158,120	21.91%	\$ -	0.00%
2. Vesting Benefits	61,549	1.16%	61,549	1.16%	-	0.00%
3. Disability Benefits	86,299	1.63%	86,299	1.63%	-	0.00%
4. Preretirement Death Benefits	37,111	0.71%	37,111	0.71%	-	0.00%
5. Return of Member Contributions	47,548	0.90%	47,548	0.90%	-	0.00%
6. Total for Future Benefits	1,390,627	26.31%	1,390,627	26.31%	-	0.00%
7. Assumed Amount for Administrative Expenses	124,758	2.36%	124,758	2.36%	-	0.00%
8. Total Normal Cost	1,515,385	28.67%	1,515,385	28.67%	-	0.00%
C. Expected Member Contribution	449,342	8.50%	449,342	8.50%	-	0.00%
D. Employer Normal Cost: B8-C	1,066,043	20.17%	1,066,043	20.17%	-	0.00%
E. Employer Normal Cost as a % of Covered Payroll	20.17 %		20.17 %		0.00 %	

PARTICIPANT DATA		
	September 30, 2023 <i>Police Officers Valuation</i>	September 30, 2023 <i>Police Officers Plan Change</i>
ACTIVE MEMBERS		
Number	59	59
Covered Annual Payroll	\$ 5,348,964	\$ 5,348,964
Average Annual Payroll	\$ 90,660	\$ 90,660
Average Age	39.4	39.4
Average Past Service	7.4	7.4
Average Age at Hire	32.0	32.0
RETIREES, BENEFICIARIES & DROP		
Number	104	104
Annual Benefits	\$ 6,663,210	\$ 6,663,210
Average Annual Benefit	\$ 64,069	\$ 64,069
Average Age	67.0	67.0
DISABILITY RETIREES		
Number	4	4
Annual Benefits	\$ 179,974	\$ 179,974
Average Annual Benefit	\$ 44,994	\$ 44,994
Average Age	56.3	56.3
TERMINATED VESTED MEMBERS		
Number	21	21
Annual Benefits	\$ 300,139	\$ 300,139
Average Annual Benefit	\$ 14,292	\$ 14,292
Average Age	48.5	48.5