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April 21, 2025

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 – 9/30/2024 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, 2024 actuarial valuation, and it will change again after the end of fiscal year 2025 after the analysis for the 2025 fiscal year valuation is completed.

The 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 2026 is identified in the 9/30/2024 actuarial valuation. In the year that begins October 1, 2025 (FY 2026), the ADEC rate is 56.79% of covered payroll, or $16,732,871, 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 2026 fiscal year (i.e., on or near October 1, 2025), as it has done in recent years, the ADEC rate will be reduced to 55.16% of covered payroll, or $16,252,401. The early lump-sum payment represents a savings of $480,470 in interest cost.

The funded ratio of the retirement system as of 9/30/2024 is 73.8%, which is a small increase from the revised funded ratio of 73.6% as of 9/30/2023 (which was revised downward from 74.0% after reflecting changes in plan benefits which were implemented subsequent to completion of 9/30/2023 actuarial valuation report). The UAAL (the unfunded actuarial accrued liability) as of 9/30/2024 is $104,135,219, versus a revised final UAAL of $100,637,904 as of 9/30/2023 (after reflecting last year's benefit changes). Based on the market value of assets, the retirement system is 76.0% funded as of 9/30/2024 (versus 67.6% as of 9/30/2023, after reflecting last year's benefit changes).

A revision was made to the actuarial assumptions as of 9/30/2024 that increased the UAAL and future contributions. The assumed investment return used in the 2024 valuation (for the year ending 9/30/2025) is 6.0%, reduced from 6.2% last year. This was the final step of a multi-year phase-in approach to lower the investment return assumption to 6.0%. This assumption change had the net effect of increasing the required Town contribution for fiscal year 2026 by approximately $788,000 and increasing the Plan's UAAL as of 9/30/2024 by approximately $8.95 million, causing the funded ratio to decline by 1.7% (from 75.5% to 73.8%).

The overall retirement system experience during fiscal year 2024 resulted in a net actuarial experience loss of approximately $2.3 million. Investment experience, reflecting asset smoothing, caused an actuarial gain of about $0.3 million. The rate of investment return on the actuarial value of assets during fiscal year 2024 was +6.3% (versus the assumed return during the period of 6.2%). The return on the market value of assets during fiscal year 2024 was +18.9%. Demographic (liability-related) experience resulted in an experience loss of about $2.6 million, primarily due to higher than expected salary increases. The net actuarial experience loss caused the required Town contribution for FY 2026 to increase by approximately $200,000.

Overall covered payroll for the Plan increased 13.2% from 9/30/2023 to 9/30/2024. The normal cost for the Plan (i.e., the cost of benefits earned each year) remains a relatively constant percentage of covered payroll from year to year, and it is one of the two primary components of the required Town contribution. As such, the increase in covered payroll has caused the dollar amount of the Plan's normal cost and required Town contribution amount to increase by more than $700,000.

The funded ratio was over 100% in the year 2000, whereas it is currently 73.8% (76.0% based on the market value of assets). The decline has primarily been the result of lower average investment returns than assumed during the 24-year period from 10/1/2000 through 9/30/2024. The compound average investment return on the market value of assets during this 24-year period was 5.2%. 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 (including reducing the investment return assumption to 6.0%), 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. The Board has also approved an experience study to be performed, to examine/analyze experience and evaluate all of the Plan's actuarial assumptions, prior to the next actuarial valuation date. 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” projection scenario in which all assumptions are realized (and the additional $5.42 million Town contributions continue), the retirement system is projected to become 88.9% funded in 5 years (as of 9/30/2029) and 100.6% funded in 10 years (as of 9/30/2034). If the additional $5.42 million Town contributions are no longer made, these projected funded ratios would change to 82.9% in 5 years and 92.8% in 10 years, with higher required Town contributions along the way. The additional $5.42 million Town contributions pay down more of the unfunded actuarial liability sooner, which causes future required Town contributions to be lower. 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 projected to sum to $216.6 million through October 2035. If the additional $5.42 million Town contributions are no longer made, the total required Town contributions would instead be projected to sum to $203.5 million through October 2035 -- just $13.1 million less, or an average of $1.2 million per year over that 11-year period, but resulting in an 8% lower funded ratio as of 9/30/2034.

If there are any questions, please let us know.

Respectfully submitted,

Pete Strong

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.