

nyhart

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# Original

Request for Proposal  
for Pension Review Services  
**City of Hollywood, FL**

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# Qualifications and Experience

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## Firm Experience

Nyhart serves over 225 pension clients across the United States. We have served villages, towns, cities, districts, counties, townships, and states. We have worked for schools, colleges, tech schools, universities, BOCES, and many police and fire plans. We have extensive experience working with all types of pension and postretirement medical plans – public, church, single employer, multi-employer, and multiple-employer plans. We work with clients in the manufacturing business, the education field, the religious sector, public municipalities, cooperatives, etc. Because of the wide variety of our clients, we have a great deal of experience upon which to draw that allows us to assist our clients when they experience something out of the ordinary.

Nyhart has provided actuarial services to public pension plans for over 30 years and we currently serve approximately 80 public pension plans.

Our philosophy for providing actuarial consulting services is based on our desire to be a value-added resource and trusted advisor to our clients. We believe this is achieved by consistently performing requested services at a level that meets or exceeds the client's expectations. It is through this kind of relationship that excellent service becomes routine.

## Team Experience and Qualifications

The team identified for the City of Hollywood has over 25 years of combined experience. We have extensive experience working on plans and projects similar to the scope defined in the request for quotation. We have the ability to observe and advise on a broad range of pension plan topics including plan design, assumptions, pension sustainability, pension solutions, and defined contribution plans which balance the needs of several stakeholders.

Tayt Odom, our National Account Management Leader, and Lawrence Watts, our Southeast Operations Director will complete the analysis. Tayt has over 15 years of experience and has been involved with such reviews for over 30 plans. Both Tayt and Lawrence are Fellows of the Society of Actuaries and Lawrence is also an Enrolled Actuary. They have the technical and consulting skills needed to make this project a success.

## Examples of Relevant Experience

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Case #1

We worked with a firefighters' plan where the annual contribution was based on assessed property values in their district. Given the downturn in the economy at the time, the expected contributions were going to be lower than the recommended contribution for the considerable future. Since we provide a multi-year projection with the valuation results each year, we were able to demonstrate how

this contribution shortfall would impact the financial health of the plan. This allowed the Board to understand the implications years in advance and to apply small changes to plan benefits to avoid a large pension shortfall in the future. We were able to work with the Board to develop a plan change to ensure plan sustainability for future generations and still provide a competitive benefit. As part of this process, we developed and participated in employee meetings to share with employees why change was needed and how the change impacted them.

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Case #2

The pension plan was bringing in less in contributions than the value of annual accruals. The financial market collapse of 2008 changed this imbalance from a long-term concern to an immediate concern. The plan's funded percentage had eroded and was expected to continue to fall as the 2007 and 2008 investment losses were gradually reflected in the plan's smoothed value of assets. The plan had been around for decades and with the number of retirees exceeding the number of current employees, the plan's liability was several times larger than the payroll that supported it. An underfunded plan in such a position needed an excellent investment performance, steadily increased annual contributions, and/or a reduced prospective benefit promise to avoid ruin.

Given the Board's desire to protect benefits as much as possible for participants, we developed a plan to make gradual changes to plan benefits and monitor progress of improving the plan's financial health by reviewing multi-year projections annually. The first round of benefit changes included suspension of the COLA and increased employee contributions and the second round was increasing the unreduced retirement age for new hires only. By assessing cost projections via Nyhart's Pension Financial Manager, the Board was able to observe the impact of these changes over the long-term. Also, we were able to review cost sensitivity due to asset return volatility "on the fly" during our meetings.

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Case #3

In this example, contributions from both employees and employers were large enough to cover benefit accruals; however, the plan was a mature plan and underfunded. In fact, over half of the plan's liability was associated with retirees and terminated vesteds while active employee liability made up less than half. Projection of the plan's funded percentage indicated that the situation was not likely to improve, partially because the employee population was expected to stay level or decline, thus reducing contribution levels.

Using 25-year cost projections, we were able to show that moderately increased contributions improved the likelihood of sound long-term funding significantly. The most effective approach to increase contributions gradually was to change the plan from voluntary to mandatory for future hires. Given a growing active population, payroll, and contribution stream, the plan's long-term health was improved and put on a path of sustainability, without reducing benefits for any current participants.

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Case #4

We work with a county police pension plan that has appeared for years to be relatively well funded. However, following the large asset losses in 2008 the plan's asset return and mandated contributions were no longer sufficient to cover both accruals and interest on the unfunded liability. This was further

aggravated by a paid time off (PTO) buyout option that substantially inflated each individual's benefit at retirement. We have been able to work with the police department to find additional sources of funding, while also redesigning certain portions of the pension plan to improve the future outlook for the plan. Most recently, following demonstrations of the value of the PTO buyout provisions of the plan and extensive projection work showing the impact of the buyout over a 30 year time horizon, we were able to work with the client to revise the buyout provision to mitigate the impact of this provision on the plan's future.

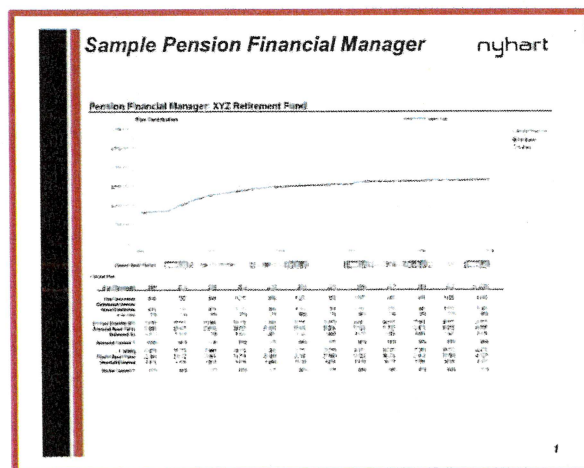
In addition to helping manage the plan's funding, we have been able to use the data for the valuation to identify potential obstacles for the plan. Most notably, we were able to point out the fact that a large percentage of their workforce will be able to retire in the next several years necessitating planning on the department's part in the near future.

## Innovation and Tools

Nyhart is always looking to "Do Better. Do Different.". Our focus on technology and innovation has led to many tools and services to assist plan sponsors in challenging times. Here are two examples of such tools that we may use during this project:

### Pension Financial Manager

This tool helps our clients make well-informed yet difficult decisions by providing results of projected costs for several years under multiple different economic scenarios. The tool's modeling ability and flexibility ultimately leads to improved financial management of the plan, an elimination of surprises, and cost savings for our clients.



How will Nyhart's Pension Financial Manager help the City of Hollywood?

Our Pension Financial Manager can help answer questions like the following...

- How much will need to be contributed over the next five years to meet minimum funding requirements?
- How much will need to be expensed under current accounting rules over the next five years?
- How much will costs increase if investment returns are poor?
- If we increase contributions, how does it impact the unfunded accrued liability?
- What are the impacts of benefit changes on contribution requirements?

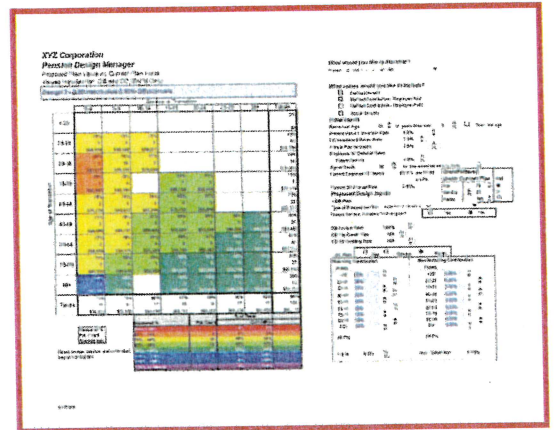
Another key tool Nyhart's clients often use is our Pension Design Manager. This tool focusses on evaluating plan design and helping plans understand things like pay replacement and plan value at various age and service combinations.

## Pension Design Manager

This design-modeling tool illustrates the benefit value being delivered to current plan participants. It can demonstrate the benefit delivered through a defined benefit plan, through a defined contribution plan, and through Social Security, in pieces or in total. This tool is extremely helpful if you are considering plan changes that would impact current participants.

Our Pension Design Manager can answer questions like...

- For current participants, what percent of pre-retirement income will be replaced if they retire at age 65? What if they retire at age 62?
- How much will that change if they increase their personal savings rates by 2%?
- How sensitive are the results to investment return performance in the defined contribution plan?
- Which participants would be hurt and which ones would be helped if the plan design was changed? By how much?



## Certification / Education / Training

To ensure future success for Nyhart, we strongly believe in continuing education for all our employees. For our actuaries and pension plan administrators, we provide monthly training sessions through the Conference of Consulting Actuaries and attendance at state and national conferences. Each year our actuaries are completing 30 hours or more of continuing education. Our investment in this national training ensures that our actuaries are in touch with the changing requirement and the latest trends.

We also provide internal training sessions to help our new professionals grow in their career that cover detailed pension topics to consulting skills.

We ensure our employees have the proper training and education for the services being provided. We also invest heavily in ongoing education for our employees so we are able to bring the latest topics and thinking to our clients.

# Project Approach / Proposed Solution

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## Our Suggested Approach

Given the scope defined in the Request for Quotation, our suggested approach is the following:

1. Kick-off meeting to define timing, deliverables, review specific tasks outlined in the RFP, and request data needed for the project. We would like to hear the types of plans and design items that are of interest to the City. We will pursue those options along with bringing to the City designs and options that we think might be a good fit for the situation.
2. Comprehensive review of current results and future expected costs. As part of this process, we will replicate the actuarial results provided by the plan's actuary. This will essentially be an audit of current results and we will present our findings and identify areas that may require further review.

In addition to producing valuation results, we will conduct a 30-year projection to better assess the plan's sustainability assuming the current employee and employer contributions. This analysis will be critical defining the magnitude of changes required to make the plan sustainable over the long-term.

The cost projections will include sensitivity analysis of the actual market rate of return falling short of the expected return. During our kick-off meeting, we will identify economic scenarios that the Board wants us to consider.

This analysis will be summarized in the report for the Board and will include the following:

- Review of best practices for funding public pension plans;
  - Long-term sustainability of the plan with no changes highlighting the plan's funded ratio over a 30-year period under different economic scenarios;
  - Determine change in employee and employer costs needed to reduce the unfunded accrued liability to \$0;
  - Identify plan changes needed to reduce the unfunded accrued liability to \$0 (assuming no changes to employee or employer contributions);
  - Calculate cost impact of different asset returns;
  - Calculate cost impact of various plan design scenarios and adding/subtracting various provisions from the plans
3. Deliver report and present results to Board to explain findings, answer questions, and provide recommendations for the Board's consideration.



# Fee Schedule

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This project would be based on a time and materials billing schedule. The following rates would apply for the project:

Senior Actuaries: \$325

Actuaries: \$275

Actuarial Analyst: \$225

Based on the scope detailed below, we agree that the maximum fee billed for this project will not exceed \$45,000. This does not include travel costs, but we would only expect to hold one in-person meeting where travel costs will be incurred. Travel will be billed at cost.

Scope: We have been asked to make a recommendation for each of the Fire, Police, and General Employees' Pension plans for the City of Hollywood. This recommendation is to be for new hires starting 2020 or 2021, depending on the plan. This recommendation will be based on the City of Hollywood maintaining a sustainable, competitive retirement benefit for its employees. Consideration of the potential impact of joining the Florida Retirement System will be included. We will deliver a report that details the structure, expected cost, and relative competitiveness of the suggested plan.

This scope does not include any kinds of costing scenarios with the unions, any kind of analysis on existing members of any of the three plans, multiple revisions or variations to the plan design, revisions or corrections based on inaccurate data or information provided by the client, or multiple, in-person meetings.

# Agreement Template

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Please see the attached file as our template for an agreement for this project. We will meet the city liability requirement for this effort if an agreement is executed.

# Actuarial Team

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## Tayt V. Odom

FSA, FCA, MAAA, MBA

### Account Manager /Actuary

Tayt Odom is one of fourteen Principals of our company. He is also our National Account Management Practice Leader. Tayt will act as the Account Manager / Actuary for Hollywood and will oversee the overall client relationship and ensure that Nyhart is delivering exceptional consulting and value to Hollywood.



### Education

**B.S. in Mathematics, University of Notre Dame**

**M.B.A., University of California at Los Angeles**

### Corporate Role

- Manages teams across all departments and responsible for ensuring that each line of business functions appropriately across multiple locations
- Oversees overall operational staffing and talent management
- Consults with clients concerning retirement issues including plan design and funding strategies

### Current Work Assignments

- Works with twenty actuarial clients
- Manages Nyhart's Consumer Driven Healthcare group

# Lawrence Watts, Jr.

FSA, EA, CFA, MAAA

## Southeast Operations Director / Actuary

Lawrence recently joined Nyhart after nearly nine years consulting to public pension plans and legislative bodies. He has expertise in legislative analysis and modeling and is especially familiar with governmental plans in the South. He has worked with public clients in Georgia, Florida, Louisiana, Arkansas, Tennessee, and Kentucky.



Lawrence is located in our Atlanta office and will be one of your consulting actuaries.

### Education

**A.B. Mathematics, Princeton University**  
**Master of Business Administration, Smartly**

### Corporate Role

- Director of Southeast Operations; oversees Atlanta Office
- Manages and provides consulting services to public clients
- Provides peer review for other engagements, as needed

### Specialties

- Pension valuations and assumption setting
- Plan design and financial modeling
- Legislative analysis and impact statements

