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February 18, 2019

Mr. David M. Williams
Administrator
City of Hollywood Police Officers'
Retirement System
4205 Hollywood Blvd., Suite 4
Hollywood, FL 33021

Actuarial Impact Statement Proposed Benefit Changes

Dear Dave:

We are writing to report on the actuarial impact to the City of Hollywood Police Officers' Retirement System ("System") of proposed benefit changes. We have attached a table with the results of our studies. The proposed changes provide different levels of benefits based on the member groups as follows:

1) **Group 1 Restored Members** – Members currently employed who were hired on or before September 30, 2011 and will reach their normal retirement date (age 50 or 22 years of service) on or before September 30, 2020.
2) **Group 2 Restored Members** – Members currently employed who were hired on or before September 30, 2011 and will reach their normal retirement date (age 50 or 22 years of service) after September 30, 2020.
3) **Group 3 Members** – Members hired after September 30, 2011.

The proposed benefit structure for **Group 1 and 2 Restored Members** include:

1) Normal retirement is defined as the earlier of the following:
    a. Age 50, or
    b. Any age upon attainment of 22 years of service
2) Monthly accrued benefit is equal to 3% of average monthly earnings multiplied by service to 20 years plus 4% multiplied by service over 20 years with a maximum of 80% of average monthly earnings. The full 80% is earned at 22 years of service (resulting in a 12% of earnings increase in benefit at the moment the member attains 22 years of service).

3) Average Final Compensation equals the average of the highest three years of compensation prior to retirement or termination. Earnings include salary, overtime pay not to exceed 300 hours per year, longevity pay, assignment pay, payments for accrued holiday time, payments for accrued blood time, and payments for accrued compensatory time, but shall **not** include payments for unused sick time or for unused vacation time.
4) A member may enter the DROP upon attainment of normal retirement age for up to eight years. Any member who attained age 50 or 22 years of continuous service and who is not already participating in the reformed plan retirement option who wants to participate retroactively in the DROP plan, must submit his/her irrevocable written election/decision within 60 days to participate retroactively in the DROP starting on or after the date the member attained age 50 or 22 years of continuous service. Any member who was already participating in the reformed plan retirement option and who wants to change from the reformed planned retirement benefit to the DROP plan must submit his/her irrevocable written election/decision within 60 days starting on or after the date the member attained age 50 or 22 years of continuous service.
5) Cost of Living Adjustments of 2% per annum will apply to entire benefit received by a member. Adjustments commence the later of the date the participant leaves the DROP and three years after the DROP entry date. For members who do not enter the DROP, the adjustments will commence three years after their date of retirement.
6) Only Group 1 Restored Members are currently participating in the PRB and have 22 years of service as of February 22, 2019 are eligible for the supplemental distribution upon retirement.
7) Employee contributions are equal to 9.50% of pensionable earnings.

The proposed benefit structure for **Group 3 Members** include:

1) Normal retirement is defined as the earlier of the following:
    a. Age 55 with 10 years of service, or
    b. Any age upon attainment of 22 years of service
2) Monthly accrued benefit is equal to 3% of average monthly earnings multiplied by service to 21 years plus an additional 12% upon completion of 22 years of service. The maximum 75% is earned at 22 years of service.
3) Average Final Earnings equals the average of the highest 60 consecutive months of the last 120 months of credited service prior to retirement or termination. Earnings shall include salary, longevity pay and assignment pay. Earnings shall **not** include overtime pay, payments for accrued holiday time, accrued blood time, annual "cash-

out" payments for accrued vacation time, payments for accrued compensatory time and payments for unused sick time or for unused vacation time which is paid upon retirement or termination.

4) A member may enter the Reformed Planned Retirement Benefit (RPRB) upon attainment of normal retirement age for up to eight years. During the period of participation in the RPRB, members will contribute 0.5% of pensionable earnings.
5) Members are not eligible for Cost of Living Adjustments.
6) Employee contributions are equal to 9.50% of pensionable earnings.

The methods and assumptions used in our studies are outlined below:

(1) The studies are based on the October 1, 2017 actuarial valuation of the System.
(2) The assumed valuation interest rate (investment return) is 8% per year.
(3) The retirement rates were revised to evaluate the impact of the change in eligibility for normal retirement. All active members are assumed to retire, enter the DROP (or RPRB) at the earlier of:
    a. Age 55 with 10 years of service
    b. Any age with 22 years of service
(4) All Group 1 and 2 members who are in the Reformed Planned Retirement Benefit (RPRB) Program become members of the DROP program. Estimated RPRB balances of $7 million were deducted from the actuarial value of assets and treated as separate DROP accounts.
(5) Benefits for Group 1 and 2 members who are participating in the RPRB were recalculated based on the valuation data for the affected members. Estimated retroactive benefit payments of $883,000 were deducted from the actuarial value of assets and treated as separate DROP accounts.
(6) The pre-funding liability for future Supplemental Distribution was recalculated based on the expectation that Group 1 restored members that are currently participating in the PRB and have 22 years of service as of February 22, 2019 will be eligible for future distributions. The estimated pre-funding liability increased from $21.8 million to $24.0 million.
(7) Cost estimate does not reflect the impact the restoration of any pay cuts would have on restored pension benefits.
(8) The results presented in the attachment assume State money will be received and used to offset the City's contribution. According to the State's October 2, 2015 letter this would require the City to deposit a lump sum payment of approximately $4.1 million for the total 2014 and 2015 Supplemental Distributions. If no State money is received, the required employer contributions will need to be revised.

(9) The City provided historical pay data to value the impact of including overtime earnings in the definition of pensionable earnings. On average, for the three years ended with the fiscal year ended September 30, 2018 employees worked an average of 75 hours of overtime per year. Therefore, we have assumed that police officers will continue to work 75 hours of overtime per year in the future.

(10) The increase in the unfunded liability due to the plan amendment is amortized as a level percentage of payroll over a 19 year period assuming payroll grows at 3.50% per year.

Future actuarial results may differ significantly from the current results presented in this impact statement due to such factors as the plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and 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 applicable law).

This actuarial study was prepared and completed by myself or under my direct supervision and I acknowledge responsibility for the results. To the best of my knowledge, the results are complete and accurate and, in my opinion, the techniques and assumptions used are reasonable and comply with the requirements and intent of s. 14, Art. X of the State Constitution, with Part VII, Chapter 112, and s. 112.64, Florida Statutes.

Please do not hesitate to contact us if you have any questions.

Sincerely,

Todd B. G

Todd B. Green, ASA, FCA, MAAA
Principal and Consulting Actuary

Micki R. Taylor

Micki R. Taylor, ASA, EA, FCA, MAAA
Consulting Actuary
Enrolled Actuary No. 17-5975

Encs.

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City of Hollywood Police Officers' Retirement System
Impact of Proposed Plan Changes
Based on October 1, 2017 Actuarial Valuation

	10/1/2017 Valuation	Proposed Ordinance – Restored Benefits for Group 1 and 2 Members; Enhanced Benefits for Group 3 Members+
Required City Contribution*	$19,393,477	$24,520,240
Unfunded Actuarial Accrued Liability (UAAL)	$191,638,478	$240,771,266
Increase in Required City Contribution vs. Valuation		$5,126,763
Increase in UAAL vs. Valuation		$49,132,788
Funded Ratio	51.0%	44.3%

* Assumes State money will be received and used to offset the City's contribution. According to the State's October 2, 2015 letter this would require that the City to deposit a lump sum payment of approximately $4.1 million for the total 2014 and 2015 Supplemental Distributions. If no State money is received, the required employer contributions will need to be revised. The cost noted above amortizes the $49.1 million increase in the UAAL over 19 years using level percentage of pay financing assuming payroll grows at 3.5% per year. If the increase in the unfunded actuarial accrued liability were financed over 18, 17, 16, 15, or 14 years instead of 19 years the City's required contribution will increase by $5.3 million, $5.4 million, $5.6 million, $5.9 million or $6.1 million respectively. The Board's adopted funding policy amortizes increases in the UAAL over 20 years on a level dollar basis. Under this approach the City's required contribution will increase by $6.2 million.

Under the level percentage of payroll amortization method, the amortization payments grow by 3.50% per year over the amortization period. The amortization cost will grow from $4.0 million to $7.4 million over the 19 year amortization period in order to completely amortize the UAAL over the 19 year period. Under the level dollar amortization method the amount necessary to amortize the UAAL does not increase. If the increase in the UAAL was amortized using the Board's adopted funding policy, the amount required to amortize the UAAL is $5.0 which does not change over the 20 year amortization period.

\+ Assets reduced by $7.9 million to reflect estimated DROP balances and recalculated benefit payments.