

April 10, 2023

Ms. Alicia Gaither
City of Ocala
110 S.E. Watula Ave.
Ocala, FL 34471

Re: City of Ocala General Employees' Pension Plan

Dear Board:

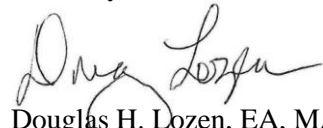
Enclosed is the following material, which has been prepared in support of the proposed changes to the Fund:

1. Three (3) copies of the required Actuarial Impact Statement, which outlines the costs associated with implementing the changes.
2. Draft of transmittal letters to the Bureau of Local Retirement Systems.

It will be necessary for the Chairman to sign each copy of the Actuarial Impact Statement as the Plan Administrator and forward the Impact Statement, along with a copy of the proposed Ordinance, to the Bureau prior to final reading.

If you have any questions concerning the enclosed material, please let us know.

Sincerely,



Douglas H. Lozen, EA, MAAA
DHL/lke

Enclosures

Mr. Keith Brinkman
Bureau of Local Retirement Systems
Division of Retirement
3189 S. Blair Stone Rd.
Tallahassee, FL 32301

Re: Actuarial Impact Statement

Dear Mr. Brinkman:

The City of Ocala is considering the implementation of amended retirement benefits for its General Employees. The changes are described in the enclosed material.

Pursuant to Section 22d-1.04 of the Agency Rules, we are enclosing the required Actuarial Impact Statement (AIS) and a copy of the proposed Ordinance for your review.

If you have any questions or if additional information is needed, please contact us.

Sincerely,

CITY OF OCALA
GENERAL EMPLOYEES' PENSION PLAN

ACTUARIAL IMPACT STATEMENT

April 10, 2023
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Attached hereto is a comparison of the impact on the Minimum Required Contribution (per Chapter 112, Florida Statutes) and the Required City Contribution, resulting from the implementation of the following changes:

An increase in the benefit accrual rate from 1.00% to 1.30% for all years of Credited Service after October 1, 2013. The increase is applicable to all current and future retirees, including DROP participants and Vested Terminated members with any portion of their benefit based on the variable multiplier.

The cost impact, determined as of October 1, 2022, applicable to the fiscal year ending September 30, 2024, is as follows:

	<u>Proposed</u>	<u>Current</u>
Minimum Required Contribution	\$8,497,360	\$7,987,156
Member Contributions (Est.)	450,431	450,431
City Required Contribution ¹	\$8,046,929	\$7,536,725

¹ Please note that the City has access to a prepaid contribution of \$1,726,950.61 that is available to offset a portion of the above stated requirements for the fiscal year ending September 30, 2023.

CITY OF OCALA
GENERAL EMPLOYEES' PENSION PLAN

ACTUARIAL IMPACT STATEMENT

April 10, 2023
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Unless otherwise noted, all data, assumptions, methods and plan provisions are the same as in the October 1, 2022 actuarial valuation report. It should be noted that changes to retirement benefits could potentially affect participants' retirement or termination behavior. We will monitor and advise of any recommended changes with future experience studies.

Future actuarial measurements may differ significantly from the current measurements presented in this report for a variety of reasons including: changes in applicable laws, changes in plan provisions, changes in assumptions, or plan experience differing from expectations. Due to the limited scope of the analysis, we did not perform an analysis of the potential range of such future measurements.

Please note that contents of this analysis and the October 1, 2022 actuarial valuation report are considered an integral part of the actuarial opinions. In reviewing the results presented in this study, it should be noted that there are risks that may not be inherently apparent to the reader that should be carefully considered. For key risks, please see the Discussion of Risk section of the October 1, 2022 actuarial valuation report.

In performing the analysis, we used third-party software to model (calculate) the underlying liabilities and costs. These results are reviewed in the aggregate and for individual sample lives. The output from the software is either used directly or input into internally developed models to generate the costs. All internally developed models are reviewed as part of the process. As a result of this review, we believe that the models have produced reasonable results. We do not believe there are any material inconsistencies among assumptions or unreasonable output produced due to the aggregation of assumptions.

The changes presented herein are in compliance with Part VII, Chapter 112, Florida Statutes and Section 14, Article X of the State Constitution. The undersigned is familiar with the immediate and long-term aspects of pension valuations and meets the Qualification Standards of the American Academy of Actuaries necessary to render the opinions contained herein.



Douglas H. Lozen, EA, MAAA
Enrolled Actuary #23-7778

STATEMENT OF PLAN ADMINISTRATOR

The prepared information presented herein reflects the estimated impact of the proposed Ordinance.

Chairman, Board of Trustees

COMPARATIVE SUMMARY OF PRINCIPAL VALUATION RESULTS

	New Benefits <u>10/1/2022</u>	Old Benefits <u>10/1/2022</u>
A. Participant Data		
Actives	119	119
Service Retirees	688	688
DROP Retirees	17	17
Beneficiaries	103	103
Disability Retirees	3	3
Terminated Vested	<u>249</u>	<u>249</u>
Total	1,179	1,179
Payroll Under Assumed Ret. Age	8,666,299	8,666,299
Annual Rate of Payments to:		
Service Retirees	13,498,079	13,449,075
DROP Retirees	596,509	578,065
Beneficiaries	1,063,842	1,063,738
Disability Retirees	25,910	25,910
Terminated Vested	1,902,225	1,879,974
B. Assets		
Actuarial Value (AVA) ¹	187,336,004	187,336,004
Market Value (MVA) ¹	164,488,736	164,488,736
C. Liabilities		
Present Value of Benefits		
Actives		
Retirement Benefits	29,572,878	27,042,341
Disability Benefits	849,157	849,157
Death Benefits	122,826	122,826
Vested Benefits	1,898,528	1,641,953
Refund of Contributions	0	0
Service Retirees	174,359,032	173,798,023
DROP Retirees ¹	12,438,002	12,215,151
Beneficiaries	9,819,183	9,817,994
Disability Retirees	430,819	430,819
Terminated Vested	<u>18,453,919</u>	<u>18,373,598</u>
Total	247,944,344	244,291,862

C. Liabilities - (Continued)	New Benefits <u>10/1/2022</u>	Old Benefits <u>10/1/2022</u>
Present Value of Future Salaries	48,022,196	48,022,196
Present Value of Future Member Contributions	2,401,110	2,401,110
Normal Cost (Retirement)	403,961	364,333
Normal Cost (Disability)	31,596	31,596
Normal Cost (Death)	5,466	5,466
Normal Cost (Vesting)	147,481	138,724
Normal Cost (Refunds)	0	0
Total Normal Cost	<u>588,504</u>	<u>540,119</u>
Present Value of Future Normal Costs	2,790,957	2,488,141
Accrued Liability (Retirement)	27,575,048	25,293,433
Accrued Liability (Disability)	690,438	690,438
Accrued Liability (Death)	98,882	98,882
Accrued Liability (Vesting)	1,288,064	1,085,383
Accrued Liability (Refunds)	0	0
Accrued Liability (Inactives) ¹	<u>215,500,955</u>	<u>214,635,585</u>
Total Actuarial Accrued Liability (EAN AL)	<u>245,153,387</u>	<u>241,803,721</u>
Unfunded Actuarial Accrued Liability (UAAL)	57,817,383	54,467,717
Funded Ratio (AVA / EAN AL)	76.4%	77.5%

D. Actuarial Present Value of Accrued Benefits	New Benefits <u>10/1/2022</u>	Old Benefits <u>10/1/2022</u>
Vested Accrued Benefits		
Inactives ¹	215,500,955	214,635,585
Actives	27,490,462	26,125,006
Member Contributions	<u>4,981,792</u>	<u>4,981,792</u>
Total	247,973,209	245,742,383
Non-vested Accrued Benefits	<u>0</u>	<u>0</u>
Total Present Value Accrued Benefits (PVAB)	247,973,209	245,742,383
Funded Ratio (MVA / PVAB)	66.3%	66.9%
Increase (Decrease) in Present Value of Accrued Benefits Attributable to:		
Plan Amendments	2,230,826	
Benefit Changes	0	
Plan Experience	0	
Benefits Paid	0	
Interest	0	
Other	<u>0</u>	
Total	2,230,826	

Valuation Date	New Benefits	Old Benefits
Applicable to Fiscal Year Ending	<u>10/1/2022</u>	<u>10/1/2022</u>
	<u>9/30/2024</u>	<u>9/30/2024</u>
E. Pension Cost		
Normal Cost ²	\$611,750	\$561,454
Administrative Expenses ²	204,171	204,171
Payment Required to Amortize Unfunded Actuarial Accrued Liability over 15 years (as of 10/1/2022) ²	7,681,439	7,221,531
Minimum Required Contribution	8,497,360	7,987,156
Expected Member Contributions ²	450,431	450,431
Expected City Contribution	8,046,929	7,536,725

¹ The asset values and liabilities include accumulated DROP Plan Balances as of 9/30/2022.

² Contributions developed as of 10/1/2022 displayed above have been adjusted to account for assumed salary increase components.

ACTUARIAL ASSUMPTIONS AND METHODS

Mortality Rate

Healthy Active Lives:

Female: PubG.H-2010 (Above Median) for Employees.

Male: PubG.H-2010 for Employees, set back one year.

Healthy Retiree Lives:

Female: PubG.H-2010 for Healthy Retirees.

Male: PubG.H-2010 for Healthy Retirees, set back one year.

Beneficiary Lives:

Female: PubG.H-2010 (Below Median) for Healthy Retirees.

Male: PubG.H-2010 for Healthy Retirees, set back one year.

Disabled Lives:

PubG.H-2010 for Disabled Retirees, set forward three years.

All rates are projected generationally with Mortality Improvement Scale MP-2018. We feel this assumption sufficiently accommodates future mortality improvements.

The previously described mortality assumption rates were mandated by Chapter 2015-157, Laws of Florida. This law mandates the use of the assumptions used in either of the two most recent valuations of the Florida Retirement System (FRS). The above rates are those outlined in Milliman's July 1, 2021 FRS valuation report for non-special-risk employees, with appropriate adjustments made based on plan demographics.

Interest Rate

6.8% per year compounded annually, net of investment related expenses. This assumption is mandated by City Ordinances.

Payroll Growth

0.00% for purposes of amortizing the Unfunded Actuarial Accrued Liability. This assumption cannot exceed the ten-year average payroll growth, in compliance with Part VII of Chapter 112, Florida Statutes.

Salary Increases

<u>Salary Scale</u>	
<u>Service</u>	<u>Rate</u>
0	14.00%
1-2	6.50%
3-4	5.50%
5-14	4.50%
15-24	3.50%
25+	4.50%

This assumption was adopted based on the May 5, 2017 actuarial experience study.

Administrative Expenses

\$196,413 annually, based on the average of actual expenses incurred in the prior two fiscal years.

Amortization Method

New UAAL amortization bases are amortized over 10 years.

Bases established prior to the valuation date are adjusted proportionally to match the Expected Unfunded Actuarial Accrued Liability as of the valuation date, in order to align prior year bases with the portion of the current year UAAL associated with prior year sources.

Disability Rates

<u>Age</u>	<u>% Becoming Disabled During the Year</u>
20	0.051%
30	0.058
40	0.121
50	0.429
60	1.611

Termination Rates

<u>Service</u>	<u>Termination Rate</u>
0	20.00%
1-4	15.00
5-9	7.50
10-19	4.00
20+	6.50

These rates were adopted based on the May 5, 2017 actuarial experience study.

Normal Retirement

<u>Age</u>	<u>Probability of Retirement</u>
65	50%
66	33%
67	33%
68	100%

Members with at least 30 years of Credited Service are assumed to retire immediately. This assumption was adopted based on the May 5, 2017 actuarial valuation report.

Early Retirement

<u>25 or more Years of Credited Service</u>		<u>Less than 25 Years of Credited Service</u>	
<u>Credited Service</u>	<u>Assumption</u>	<u>Age</u>	<u>Assumption</u>
25	10.50%	55-60	5.75%
26	5.50%	61	6.50%
27	11.50%	62	12.00%
28	7.50%	63	5.00%
29	4.00%	64	3.00%

This assumption was adopted based on the May 5, 2017 actuarial experience study.

Funding Method

Entry Age Normal Actuarial Cost Method. The following loads are applied for determining the minimum required contribution:

Interest - None, based on a beginning of year funding methodology.

Salary - A full year, based on current 3.95% assumption.

Asset Smoothing Methodology

The Actuarial Value of Assets is based upon 5- year straight line recognition of the difference between expected earnings on the net market value of assets and actual earnings on the net market value of assets. The net market value of assets shall be the total fiduciary net position as defined by GASB 67/68, excluding any reserves held which are not designated for currently adopted plan benefits valued as part of the plan liabilities. The resulting value shall be adjusted if it does not fall between 120% and 80% of the market value of assets. This change shall be made assuming that this 5-year recognition method applies to differences between the expected and actual investment returns for the years ending September 30, 2009 and later. This method is mandated by Ordinance 2013-48.

SUMMARY OF CURRENT PLAN
(Through Ordinance 2022-20)

Variable Benefit and Contribution Program

All Members who are employed and not participating in the DROP on September 30, 2013 and do not fall in the Grandfathered group (see below) shall earn benefits for credited service on and after October 1, 2013 in accordance with the variable benefit and contribution program.

Average Final Compensation	Average final salary of the 8 highest years of the last 10 years prior to termination.
Salary	Effective October 1, 2013 salary means base wages and overtime payments up to 300 hours per calendar year, including all tax deferred, tax sheltered or tax-exempt items of income derived from elective employee payroll deductions or salary reductions, but excluding management deferred compensation and all other compensation.
Normal Form	Life Annuity
Member Contribution Rate	Minimum: 3% Maximum 5% Current: 5%
Multiplier	Minimum: 1.0% Maximum 2.55% Current: 1.0%
Normal Retirement Date	Same as old plan.
Early Retirement Date	Same as old plan.
Vesting	5 Year Cliff.
Cost of Living Adjustment	None for benefits earned on and after October 1, 2013.

The Member Contribution Rate and Multiplier will be adjusted as necessary so that the Target Total Employer Contribution Percentage is within the mandated corridors.

Provisions in Effect for Grandfathered Members within 5 years of Retirement as of September 30, 2013. All other Members have benefits frozen as of that date.

Credited Service	Years and fractional parts of years of continuous uninterrupted service with the City as a General Employee.
Salary	Total compensation reported on the W-2, but excluding accumulated sick leave and vacation pay and special bonuses, plus all tax deferred, tax sheltered, or tax exempt items of income.
Average Final Compensation	Average of Salary paid during the highest three (3) years of the last five (5).
Normal Retirement	
Date	First of the month following the earlier of: 1) age 65 and the completion of 5 years of Credited Service, or 2) 30 years of Credited Service, regardless of age.
Benefit	2.55% of Average Final Compensation (AFC) times Credited Service plus \$100 supplement.
Form of Benefit	10 Year Certain and Life Annuity (options available).
Early Retirement	
Date	Earlier of: 1) age 55 and the completion of 5 years of Credited Service, or 2) the completion of 25 years of Credited Service, regardless of age.
Benefit	Same as for Normal Retirement but reduced 3% for each year that Early Retirement precedes Normal Retirement.
Vesting (Termination of Employment)	
Less than 5 years	Refund of Member Contributions without interest.
5 years of more	Vested accrued benefit (determined as for Normal Retirement) paid beginning at the otherwise Normal Retirement Date, or a refund of Member Contributions without interest.

Disability

Eligibility	After completion of 5 years of Credited Service, or from date of hire if service incurred.
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Benefit	\$50, plus 1% of AFC times Credited Service. Minimum benefit is \$100 per month.
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Form of Benefit	Paid until earlier of death or recovery (with 120 payments guaranteed).
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Cost-of-Living Adjustment

All Retirees, including Normal, Early, Disability, DROP, and Vested Terminated participants, and their joint pensioners and Beneficiaries (but excluding pre-retirement death Beneficiaries) shall receive a 3% automatic lifetime COLA, beginning the first October 1 after one year of benefit payments.

Pre-Retirement Death Benefits

Non-vested	Refund of Member Contributions without interest.
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Vested or Eligible to Retire	Accrued benefit payable to beneficiary for 10 years.
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Supplemental Benefit

\$100.00 per month, payable for life, to all retirees (including disability retirees).

Contributions

Members	8.18% of Salary, beginning October 1, 2008.
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City	Remaining amount necessary to pay the Normal Cost and fund the accrued, past service liability as provided in Part VII of Chapter 112, Florida Statutes.
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Deferred Retirement Option Plan

Eligibility	Satisfaction of Normal Retirement requirements (earlier of (1) Age 65 and 5 years of Credited Service, or (2) 30 years of Credited Service, regardless of age).
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Participation	Not to exceed 96 months (60 months for Members entering DROP after January 31, 2011).
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Rate of Return	6.5% or actual net rate of investment return (total return net of brokerage commissions and transaction costs) credited each fiscal quarter.
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Form of Distribution

Cash lump sum (options available) at termination of employment.