City of Ocala Firefighters' Retirement Plan

Administrative Updates and Cost Analyses

June 9, 2025

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DROP

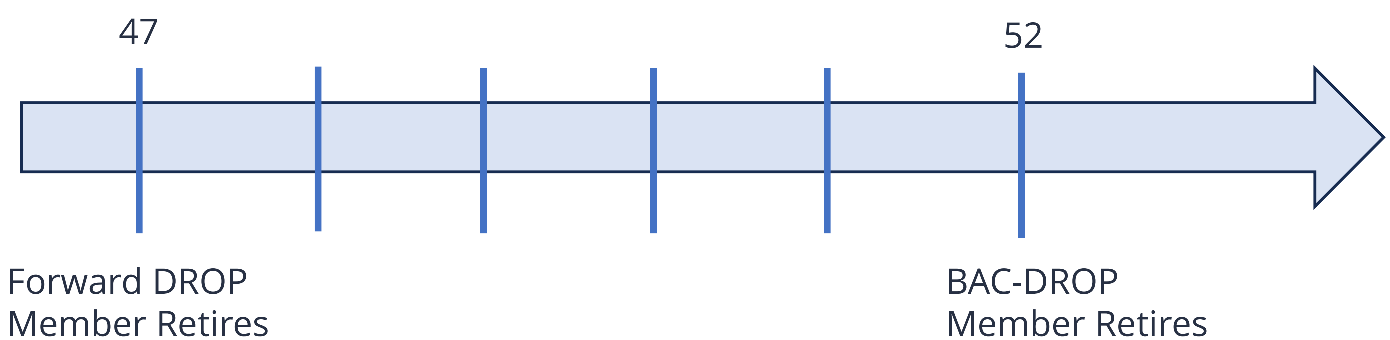
DROP Updates

- BAC-DROP Policy
  - Approved by board February 2024
  - Designed to mirror Forward DROP
  - One affirmative election so far
- Experience Study
  - Assumptions selected by board December 2024; reflected in 10/1/2024 valuation
  - New retirement rates adopted; no explicit assumed DROP participation since Forward DROP acts like retirement
    - BAC-DROP participation may be included in study next time
    - Forward DROP is elected by approximately 80% of retirees
- Component B Forward DROP Interest Schedule
  - Approved by board February 2025
  - Component B interest is based on a ten-year average of plan asset returns, bound by 1% and 3%
  - Policy establishes details on timing treatment and calculation of average

Impact Statement

Extend DROP Period to 6, 7, or 8 Years

- The valuation treats participants in Forward DROP like regular retirees. There is no explicit assumption for BAC-DROP. As a result, under the current valuation model, changing the DROP period has no effect on the current calculated liability of the plan. This does **not** necessarily mean there is no cost associated.
- However, changing the DROP period is likely to influence participant retirement timing over time.
  - A longer Forward-DROP period could result in earlier retirements
  - A longer BAC-DROP period could delay retirements.
- From the perspective of the valuation, a member retires:
  - At Forward DROP Begin Date
  - At BAC-DROP End Date



Component B
Incentive Pay

Impact Statement
Incentive Pay for Component B

- We were asked to estimate the impact of including Incentive Pay for Component B members in pensionable compensation.

10/1/2024	Valuation	Valuation with Incentive Pay for Component B	Increase/ (Decrease)
Covered Payroll	$ 11,393,168	$ 11,627,811	$ 234,643
Accrued Liability	$ 111,565,632	$ 112,638,055	$ 1,072,423
Actuarial Value of Assets	80,861,587	80,861,587	0
Unfunded Liability	$ 30,704,045	$ 31,776,468	$ 1,072,423
Funded Ratio	72.5%	71.8%	(0.7%)
Present Value of Future Benefits	$151,704,890	$153,443,375	$1,738,485

Impact Statement
Incentive Pay for Component B

- Estimated contribution impact is shown below:

10/1/2024	Valuation	Valuation with Incentive Pay for Component B	Increase/ (Decrease)
Normal Cost	$3,370,017	$3,431,342	$61,325
Administrative Expenses	217,711	217,711	0
Amortization of Unfunded Liability	3,114,606	3,191,360	76,754
Interest	393,422	401,528	8,106
Total Recommended Contribution	**$7,095,756**	**$7,241,941**	**$146,185**
State Contribution	(200,000)	(200,000)	0
Expected Member Contributions	(873,856)	(891,853)	(17,997)
City Contribution*	**$6,021,900**	**$6,150,088**	**$128,188**
Covered Payroll	$11,393,168	$11,627,811	$234,643
City Contribution as % of Payroll	52.86%	52.89%	0.03%

* Ignoring the impact of direct-rate smoothing currently in place for the 10/1/2024 valuation.

Service Purchase

Policy Considerations
Service Purchase (Buyback)

We recently updated the service purchase factors to reflect the new plan assumptions. It is a good time to revisit some policy concerns. How does one determine full actuarial cost to the member? Two main questions to consider:

1. Is the entry age reserve method (based on “already accrued liability”) the most fair way to calculate the liability?
2. Should members be allowed to purchase service at any time during their careers?

Example to illustrate current method based on Accrued Liability:

	Member at 1 Year of Service	**Member at 25 Years of Service**
Annual Benefit Earned to-date	$1,500	$75,000
Accrued Liability	$11,700	$908,000
Accrued Liability with 1 Extra Year of Service	$12,200	$944,000
Price to Purchase 1 Year of Service	**$500**	**$36,000**

Policy Considerations
Service Purchase (Buyback)

Example to illustrate issues with timing of service purchase: Actual pay increases were more than expected at the time of purchase.

	No Service Purchase	Purchase 5 Years (Salary increases as expected)	Purchase 5 Years (Salary increases greater than expected)
Current Age	25	25	25
Current Pay	$50,000	$50,000	$50,000
Projected Retirement Age	50	50	50
Projected Service at Retirement	25	30	30
Projected Pay at Retirement	$170,000	$170,000	$200,000
Projected Benefit at Retirement	**$127,500**	**$153,000**	**$180,000**
Annual Gain from Purchase		**$25,500**	**$52,500**

If the purchase was made early in the member's career, the purchase price would have been based on an annual gain of $25,500.

If the purchase is made at the end of the career, the price is based on annual gain of $52,500, a difference of $27,000 per year.

COLA Fund Interest Policy Reminder

Current COLA Design
Interest on COLA Fund

- Section 43-35(b)(3) of the Ordinance describes how interest should be awarded to the COLA Fund:

  The COLA fund shall be credited with the same market rate of investment return as the pension fund for each plan year, net of all investment-related expenses, ***but not less than zero percent or more than seven percent***.

  Monies in excess of seven percent, ***determined as the ten-year average of annual plan returns***, shall be applied to reduce the unfunded actuarial accrued liability of the pension fund, until the pension fund reaches a funded ratio of 90 percent.

- Based on the board's interpretation/past policy, the 0% - 7% corridor has not applied, and the COLA Fund has been awarded the full investment return or loss of the pension fund.

- Next year's COLA valuation will be year ten. Nyhart will need direction from board on how to calculate interest for the year ending 9/30/2025 and going forward. Policy regarding any transfers to the main fund to reduce the unfunded liability also need to be solidified.

Certification

This report has been prepared for the primary purpose of summarizing estimated impacts for the City of Ocala Firefighter Pension Fund as of October 1, 2024. These estimates are based on assumptions and methods as described in the October 1, 2024, valuation report and this report is an integral part of this actuarial communication.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such facts 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 other additional cost or contribution requirement based on the plan's funded status); and changes in plan provisions of applicable law. The scope of our assignment did not include an analysis of the potential range of future measurements.

In preparing these results, Nyhart used ProVal valuation software developed by Winklevoss Technologies, LLC. This software is widely used for the purpose of performing pension valuations. We coded the plan provisions, assumptions, methods and participant data summarized in this report, and reviewed the liability and cost outputs for reasonableness. We are not aware of any weakness or limitations in the software and have determined it is appropriate for performing this valuation.

Neither Nyhart nor any of its employees have any relationship with the plan or its sponsor which could impair or appear to impair the objectivity of this report. To the extent that this report or any attachment concerns tax matters, it is not intended to be used and cannot be used by a taxpayer for the purpose of avoiding penalties that may be imposed by law.

The undersigned are compliant with the continuing education requirements of the Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States.

To our knowledge there have been no significant events prior to the current year's measurement date or as of the date of this report which could materially affect the results contained herein.

Nyhart

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June 9, 2025