August 14, 2025

Board of Trustees
City of Ocala Firefighters' Retirement Plan
Attn: Ms. Alicia Gaither
3001 Northeast 21st Street
Ocala, FL 34470-4889

Actuarial Impact Statement: Extend Maximum DROP Period from 5 Years to 8 Years

Dear Board Members:

The purpose of this letter is to provide an Actuarial Impact Statement for changes to the City of Ocala Firefighters' Retirement Plan ("Plan"). Section 112.63(3) of the Florida Statutes specifies that an actuarial impact statement is to be issued before a change to retirement benefits is adopted and that a copy of such statement is to be forwarded to the Division of Retirement. This letter was not intended for the benefit of any other party and should not be relied upon by any additional party. It is our understanding that the City of Ocala is considering:

> An amendment to Sections 43-27(k) (for Forward DROP) and (r) (for BAC-DROP) concerning the length of the DROP period. The current language states that eligible members may participate in the DROP for a period not to exceed 60 months. The proposed change would increase this period to 96 months.

The analysis we performed is calculated based on assumptions and methods disclosed in the October 1, 2024 valuation report unless specified otherwise in this analysis; that report is an integral part of this actuarial communication. The impact was calculated as if the provisions were implemented October 1, 2024 using demographic and asset data as of October 1, 2024.

Actuarial Treatment

The valuation treats Forward DROP participants like regular retirees, the monthly payment made to the hypothetical DROP account is released from the liability like a benefit payment made to an actual retiree. BAC-DROP participants are valued as active until the time of retirement. There is no explicit assumption for Forward or BAC-DROP participation. Therefore, under the current assumptions, extending the maximum Forward and BAC-DROP period from 5 years to 8 years has no effect on the calculated liability of the plan under the current actuarial model. **Note that this does not necessarily mean that there is no cost associated with adjusting the length of the DROP period. Please consider the following analysis and notes carefully.**

DROP Period from 5 to 8 Years

The estimated impact of changing provisions of DROP under the current assumptions and actuarial model is detailed below:

Estimated Based on 10/1/2024 Valuation	Increase/ (Decrease)
Accrued Liability	$0
City Contribution	$0

That being said, offering a longer DROP period is likely to influence participant behavior.

- For participants electing Forward DROP, we would expect an increase in retirements earlier in participants' careers to optimize the length of their DROP period.

- For participants electing BAC-DROP, the opposite may occur. Offering a longer DROP period may delay retirement as participants maximize the length of their DROP period.

Lengthening DROP periods, especially with the availability of BAC-DROP, also provides more opportunity for anti-selection against the plan (relative to the plan's assumptions). Participants generally have a better idea about their own longevity, likelihood of future promotions, and health status of beneficiaries than the plan or its actuaries do. For this reason, even if assumptions are monitored closely, the availability of additional choice and agency in electing benefits can result in higher ultimate costs to the plan that are not easily captured by standard actuarial techniques. Longer DROP periods also increase the likelihood that highly-compensated participants could face 415-related benefit limit issues, especially if retiring early.

For purposes of this estimate, our analysis only considers Forward DROP participation. The BAC-DROP has only been elected by one participant in recent years; consequently, there is not currently a BAC-DROP participation assumption in the valuation. The Forward DROP has been elected by approximately 80% of the new retirees in the past five years.

Retirement Rate Changes
We believe changing the retirement rate assumptions at each Rule of 70 eligibility is a reasonable way to estimate the potential impact of the proposed extended DROP periods. We have illustrated the potential impact of extending the eligible DROP period by one year by adjusting the current age-and-service rates upwards at each "point" – roughly equivalent to participants being assumed to retire six months earlier than they otherwise might have under the current assumptions. Sample adjusted retirement rates for 6-, 7-, and 8-year hypothetical DROP periods are illustrated below.

	Maximum DROP Period			
Age + Service	5	6	7	8
70	10%	10%	10%	10%
71	10%	10%	10%	20%
72	10%	10%	20%	20%
73	10%	20%	20%	25%
74	20%	20%	25%	25%
75	20%	25%	25%	35%
76	25%	25%	35%	35%
77	25%	35%	35%	100%
78	35%	35%	100%	100%
79	35%	100%	100%	100%
80+	100%	100%	100%	100%

DROP Period from 5 to 8 Years with Retirement Rate Assumption Changes
The estimated impact of changing provisions of DROP is detailed below:

Estimated Based on 10/1/2024 Valuation	**Increase/ (Decrease)**
Accrued Liability	$744,927
First Year City Contribution	($35,566)
Employer Normal Cost	($86,632)
Employer Normal Cost (as % of pay)	0.76%

Note that the contribution impact shown above ignores the impact of direct-rate smoothing in effect for the October 1, 2024 valuation. Note also that the estimated first year city contribution decreasing is a result of timing and the demographic profile of the current active population: using the updated assumptions results in additional participants being assumed to retire who are currently assumed to continue working. The normal cost as a percentage of pay increases. Taken together, we would caution against concluding that this would serve to reduce long-term cost: as retiring firefighters are replaced, the higher normal cost rate suggests that future costs would likely be larger. Note also that lengthening DROP periods also exposes the plan to more interest rate risk associated with DROP balances, though this is mitigated somewhat by Component B's banded interest provisions.

This analysis has been prepared in accordance with generally accepted actuarial principles and practice. Future actuarial measurements may differ significantly from the current measurements presented in this analysis due to such factors 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; and
- changes in plan provisions or applicable law.

We did not perform an analysis of the potential range of future measurements due to the limited scope of our engagement. The undersigned is compliant with the continuing education requirements of the Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States.

Pending final ordinance language, in our opinion, this change would be in compliance with Section 14, Article X of the State Constitution and with Section 112.64 Florida Statutes.

Sincerely,

Lawrence Watts Jr.

Lawrence Watts, Jr., FSA, CFA, EA, MAAA
Actuary

Kerry Sipe

Kerry Sipe, ASA, EA
Actuary

cc: Rob Davis, Chairman (RDavis@Ocalafl.org)

APPENDIX

	10/1/2024 Valuation	Impact Statement: Extend Maximum DROP Period to 8 Years, Modify Retirement Rates
Funded Position		
Entry age accrued liability	$111,565,632	$112,310,559
Actuarial value of assets	80,861,587	80,861,587
Unfunded actuarial accrued liability (UAAL)	30,704,045	31,448,972
Funded Ratio	72.5%	72.0%
Present Value of Future Benefits	$151,704,890	$150,458,764
Employer Contributions		
Normal Cost		
Total normal cost	$3,370,017	$3,224,948
Expected participant contributions	(873,856)	(815,419)
Net normal cost	$2,496,161	$2,409,529
Administrative expenses	217,711	217,711
Amortization of UAAL	3,114,606	3,167,921
Applicable interest	393,422	391,173
Total required contribution	$6,221,900	$6,186,334
Expected state contribution	(200,000)	(200,000)
Total recommended contribution	$6,021,900	$5,986,334
Impact of Direct-Rate Smoothing	(1,371,559)	(1,347,849)
City Contribution	$4,650,341	$4,638,485
Covered Payroll	$11,393,168	$10,631,272