

# Jacksonville Police and Fire Pension Fund



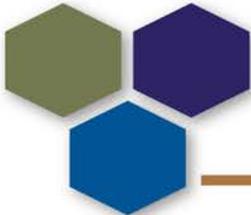
## Finalist Presentation Actuarial Consulting Services

October 12, 2016

Pete Strong  
Jeff Amrose

**GRS**

**Gabriel Roeder Smith & Company**  
Consultants & Actuaries  
[www.gabrielroeder.com](http://www.gabrielroeder.com)

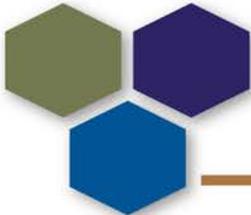


# *Jacksonville Police and Fire Pension Fund (JPFPF)*

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## Agenda

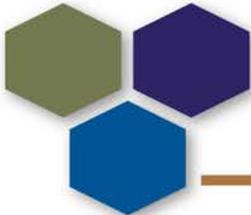
- ◆ Introductions
- ◆ Distinguishing Qualities of GRS
- ◆ The GRS Team for JPFPF
- ◆ Current Consulting Topics for JPFPF, including the Pension Liability Surtax
- ◆ Actuarial Assumptions and Methods



# *Introductions*

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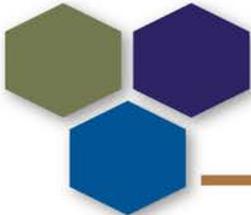
- ◆ Pete Strong, FSA, MAAA, FCA, EA
  - ▶ Lead Pension Actuary and Consultant
  - ▶ Over 20 Years of Pension Experience
  - ▶ Frequent Speaker at FPPTA and Other Venues
  - ▶ Clients include: Cities of Tallahassee, Clearwater, and Coral Gables
  
- ◆ Jeff Amrose, EA, MAAA
  - ▶ Co-Lead Consultant
  - ▶ Over 22 Years of Pension Experience
  - ▶ Speaker at FPPTA and Other Venues
  - ▶ Clients include: Cities of Lakeland, Hollywood and Fort Lauderdale



# *Distinguishing Qualities of GRS*

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- ◆ Similar Qualities (to some other actuarial firms)
  - ▶ Experienced Consultants
  - ▶ Credentialed Actuaries
- ◆ **Distinguishing Qualities**
  - ▶ Particularly in areas that should matter to you
  - ▶ Hopefully, you will appreciate the added value GRS could provide



# *Distinguishing Qualities of GRS*

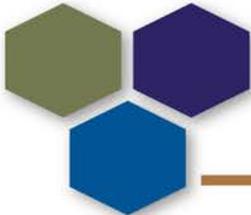
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## 1. Corporate Specialty = The Public Sector

- ▶ GRS is the largest provider of actuarial services to the public sector in the country and has more credentialed actuaries specializing in the public sector than any other firm
- ▶ We are not merely a small unit of a large corporation – it is essentially all we do

## 2. Florida Pension Experience

- ▶ Approximately 120 Florida pension clients
- ▶ We have seen just about every type of benefit structure
- ▶ We have an established solid working relationship with most of the major players (trustees, attorneys, investment consultants, finance directors, auditors, actuaries)
- ▶ This puts us “in the loop” with “ears to the ground”



# *Distinguishing Qualities of GRS*

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## **3. Corporate Stability and Focus**

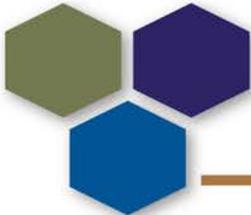
- ▶ Consistent corporate ownership and leadership since 1938
- ▶ GRS has never been bought or sold
- ▶ GRS is Employee-Owned, so all Employees have a real sense of ownership in the firm and are committed to serving our clients

## **4. GASB Expertise**

- ▶ GRS Consultants have served on GASB committees advising the GASB on new standards and implementation guides
- ▶ GRS Consultants have been frequent speakers at FPPTA, GFOA, NASRA, and NCPERS on GASB 67/68

## **5. Personnel and Client Stability**

- ▶ Very low turnover among consultants and clients
- ▶ Long-term transition to other consultants when consultants approach retirement



# *Distinguishing Qualities of GRS*

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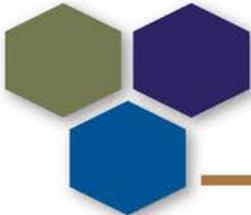
## **6. Depth in the Florida Office and Nationally**

### Florida Office:

- ▶ 15 credentialed actuaries with a total staff of 33
- ▶ Your Florida-based GRS team will add value

### Nationally:

- ▶ Over 50 credentialed actuaries in the company (120 employees)
- ▶ Our clients benefit from the filter-down and information-sharing of our actuaries (monthly conference calls; portal for exchanging ideas; annual conference; cooperative spirit)
- ▶ Depth ensures timely deliverables, better internal quality control, better ideas, ability to stay current on industry changes, and more



# *Distinguishing Qualities of GRS*

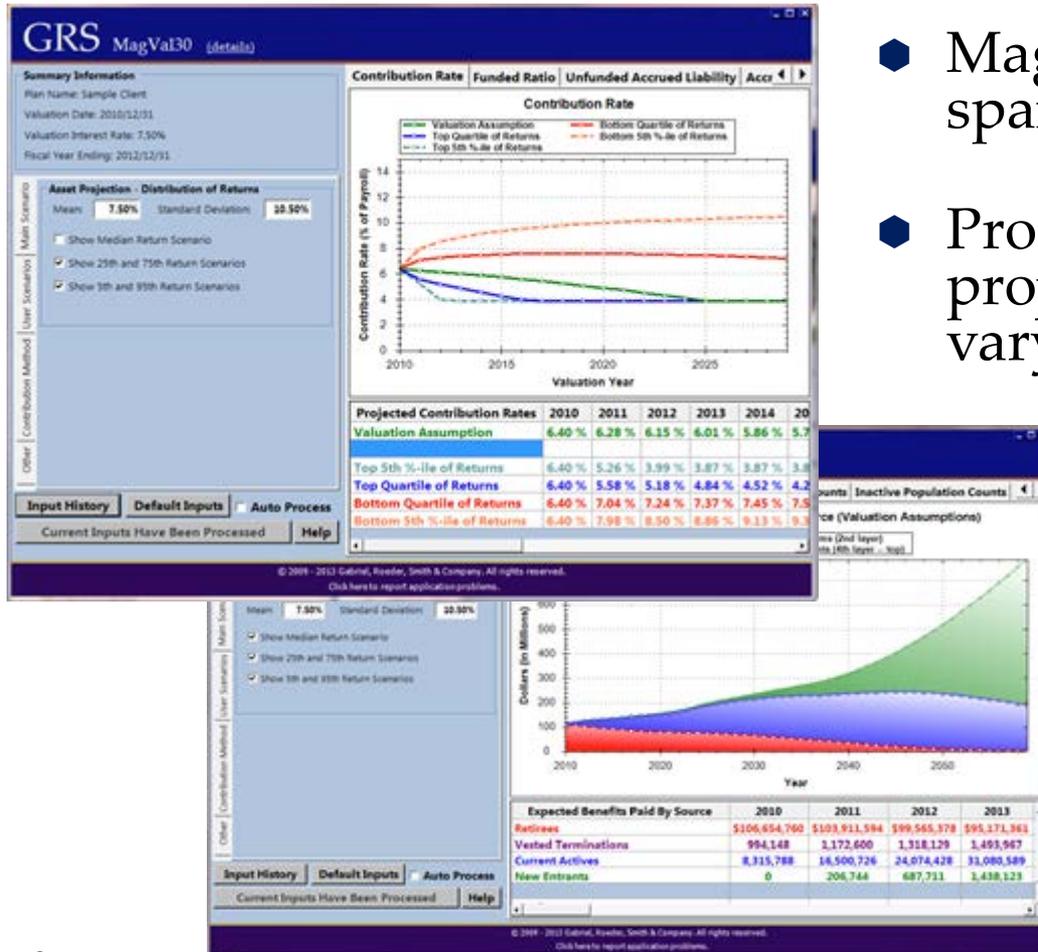
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## 7. GRS is Well-Connected and Proactive in Statutory and Regulatory Matters

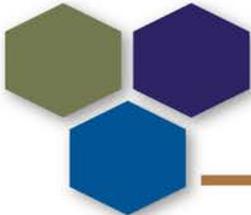
- ▶ Florida Legislature and Florida Division of Retirement (DOR)
- ▶ U.S. House and Senate
- ▶ GASB accounting standards
- ▶ ASB actuarial standards
- ▶ Other national entities (CCA, GFOA, NASRA, etc.)
- ▶ GRS conducts research and regularly prepares newsletters, special reports and white papers
- ▶ GRS is an effective means of representing your interests
- ▶ GRS clients are *“part of the process.”*

# Distinguishing Qualities of GRS

## 8. Projection Technology



- ◆ MagVal™ 30 projection results span decades
- ◆ Produce a range of probable projected outcomes based on varying economic scenarios
- ◆ Results used for budget forecasts, risk management strategies, and to gain insight on the impact of future realized rate of return and inflation



# *Distinguishing Qualities of GRS*

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## 9. *Online Technology – GRS Advantage™*

Services Available to All of Our Clients (Included Automatically):

- ▶ *Trendline™* (benchmarking your plan against others)
- ▶ GRS Dashboards
- ▶ Research publications, current events, articles, educational training, etc.
- ▶ Death Checks
- ▶ *GRS Exchange Navigator™* (secure file transfer)

Add-On Services Available:

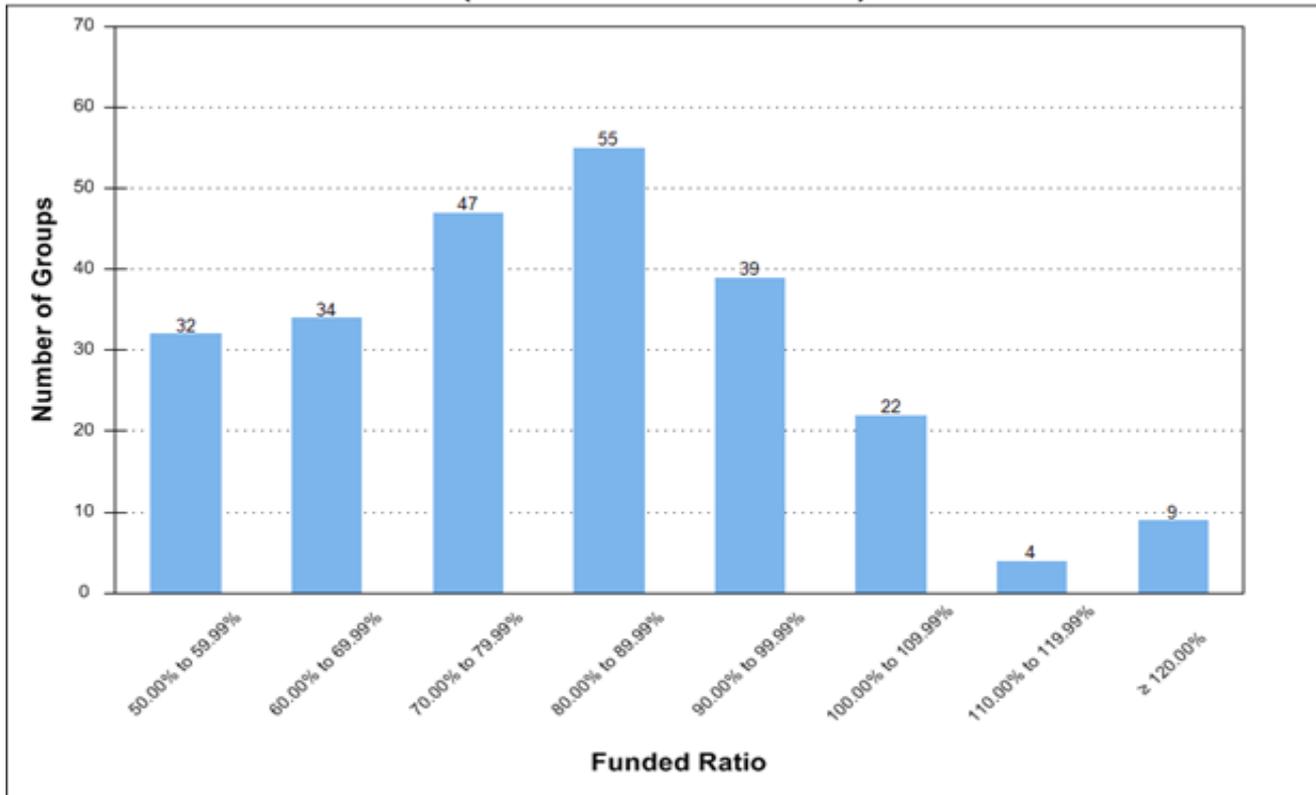
- ▶ Benefit Calculators
- ▶ Projection Tools
- ▶ Plan Administration Co-Sourcing

<https://advantage.gabrielroeder.com/Home.aspx>

# Distinguishing Qualities of GRS

## Sample of GRS Trendline:

Distribution of Funded Ratio (Actuarial Value of Assets)



This exhibit was generated using the following criteria: Valuation Date: 09/30/2014, 12/31/2014, 06/30/2015, 09/30/2015, 12/31/2015, 06/30/2016; Type of Employees: General, Public Safety, Teachers, Legislative/Judicial, Other (Mixed); Amount of Assets: < \$100 Million, \$100 to \$999.9 Million, \$1.0 to \$9.9 Billion, \$10.0+ Billion; Number of Members (Active and Retired): < 1,000, 1,000 to 49,999, 50,000 to 99,999, 100,000+; Group Status: Open, Closed; State: Alabama, Arkansas, Arizona, California, Colorado, Florida, Hawaii, Illinois, Maryland, Michigan, Minnesota, Missouri, New Hampshire, New Mexico, Ohio, Oklahoma, Rhode Island, South Dakota, Texas, Virginia, Washington, West Virginia, Wyoming; Level of Government: City.

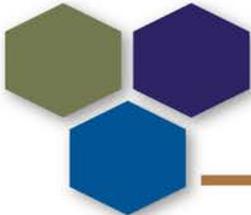
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# Distinguishing Qualities of GRS

## Sample Screen Shot of GRS Dashboard:

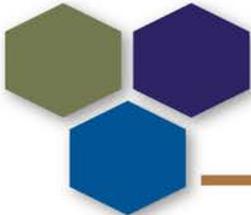




## *The GRS Team for JPFPPF*

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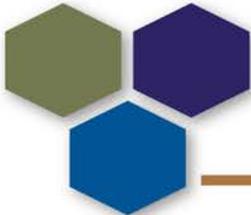
- ◆ If hired, our main goal will be to help the Board administer the Pension Plan in a way that protects the members of the Plan
  - ▶ To do this, the actuary must understand how the funding of the Plan works
  - ▶ The JPFPPF is complex and has many moving parts
- ◆ We pride ourselves on the feedback received from Boards on our presentations
  - ▶ We have been told that we are able to explain complex topics in an easy to understand way



## *The GRS Team for JPFPPF*

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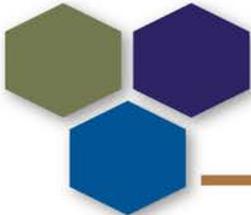
- ◆ It isn't typical that we would discuss the details of a plan during a finalist presentation
  - ▶ We'd like to take this opportunity to get to know each other so you can see our consulting style and what we could bring to the table
- ◆ We'd like to review some of the issues we think are current consulting topics, including the Pension Liability Surtax
  - ▶ As Board members you need to have a good understanding of these items in order to fulfill your fiduciary responsibility



## *The GRS Team for JPFPPF*

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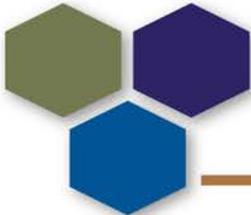
- ◆ We have researched the JPFPPF and understand the issues surrounding the Plan
- ◆ The Board has many decisions to make regarding the funding of the Plan
- ◆ GRS can help the Board navigate through the challenges in the coming years
- ◆ With the issues the Board will face regarding the Pension Liability Surtax, which is unprecedented in Florida, you will need advisors you can trust to give you expert advice.



# *Consulting Topics for JPFPPF*

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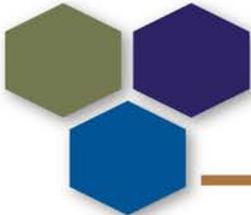
- ◆ Plan Funding
- ◆ Reserve Accounts / Premium Tax Revenue
- ◆ Pension Liability Surtax (PLS)
- ◆ Ordinance 2015-304-E – Plan Changes
- ◆ Actuarial Assumptions / Methods



# *Plan Funding: Required City Contribution*

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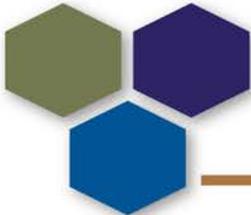
- ◆ Required City Contribution – Two Components:
  - ▶ Employer Normal Cost (\$42 million)
    - Value of each year’s annual benefit accruals plus expenses
    - Represents “Operational Expense” of the Plan
  - ▶ Amortization payments on UAAL (\$125 million)
    - Plan pays installment payments for changes in UAAL due to gains/losses, assumption changes and plan changes
    - Represents legacy cost of Plan
    - Even if Plan is closed, the UAAL needs to be paid
  
- ◆ Final Required City Contribution as of October 1, 2015 is \$159 million after subtracting the State contribution



# *Funded Ratio*

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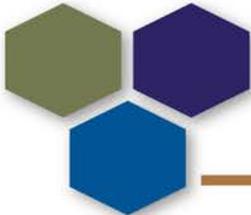
- ◆ Percentage of Accrued Liability covered by Plan Assets
- ◆ Funded Ratio is 42.6% as of October 1, 2015
  - ▶ Excludes reserve amounts in Unfunded Liability Payment Account (UALPA) and dedicated money from Pension Liability Surplus
- ◆ Funded Ratio increases by 1% for each additional \$31.4 million in Plan Assets
- ◆ Funded Ratio is impacted by assumptions



# *Premium Tax Revenues (Ch. 175/185)*

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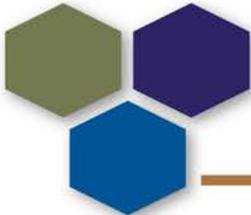
- ◆ 2015 Premium Tax Revenue was \$10.6 million
- ◆ 50% (\$5.3 million) used to offset the Required City Contribution
- ◆ 50% (\$5.3 million) deposited into Enhanced Benefit Account (EBA)
  - ▶ Board can use this money to:
    - Pay down the UAAL
    - Fund the Share Plan
    - Pay holiday bonus



## *Reserve Accounts*

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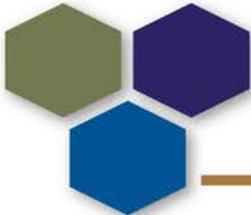
- ◆ City Budget Stabilization Account (CBSA)
- ◆ Enhanced Benefit Account (EBA)
- ◆ Unfunded Actuarial Liability Payment Account (UALPA)



# *City Budget Stabilization Account (CBSA)*

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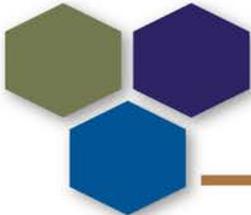
- ◆ Comprised of City contributions in excess of minimum required amounts starting in 1992
- ◆ May be used to offset future Required City Contributions
- ◆ CBSA balance at 10/1/2014 was \$45.9 million
  - ▶ Full balance transferred to UALPA Account
  - ▶ \$5.09 million transferred to CBSA Account 9/30/15
- ◆ CBSA balance at 10/1/2015 was \$5.09 million



## *Enhanced Benefit Account (EBA)*

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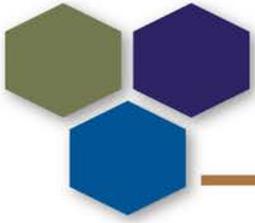
- ◆ EBA comprised of State Premium Tax Revenue in excess of base amount used to fund the Pension Plan
- ◆ The EBA is used to provide extra benefits or Share Plan allocations
- ◆ EBA balance at 10/1/2014 was \$33.2 million
  - ▶ Full balance transferred to the UALPA
  - ▶ \$5.12 million deposit in 2015
- ◆ EBA balance 10/1/2015 is \$5.12 million



# *Unfunded Actuarial Liability Payment Account (UALPA)*

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- ◆ UALPA will be used to write down the UAL according to a specified schedule
  - ▶ Payments will only be made in years the City makes contributions in excess of the minimum required amount
- ◆ UALPA originally funded by CBSA (\$45.9 million) and EBA (\$33.2 million)
  - ▶ Total balance as of 10/1/2015 is \$82.6 million

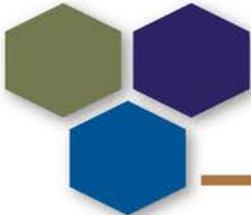


# *Unfunded Actuarial Liability Payment Account (UALPA)*

- ◆ Scheduled payments from the City (above the minimum) and the UALPA:

Fiscal Year	Extra City Payment	UALPA Payment
2016	\$5 million	\$5 million
2017	\$10 million	\$10 million
2018	\$15 million	\$15 million
2019 – 2028	\$32 million	\$8 million
<b>Total</b>	<b>\$350 million</b>	<b>\$110 million</b>

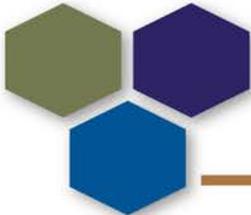
- ◆ These payments will pay off approximately 25% of the current UAAL



# *Pension Liability Surtax*

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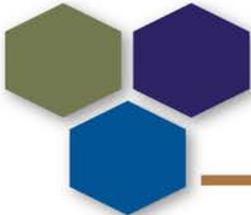
- ◆ Section 212.055 of F.S. permits a County to levy a Pension Liability Surtax (PLS) at a rate no greater than 0.5%
  - ▶ Proceeds are dedicated to paying down the UAAL of Defined Benefit Pension Plan(s)
- ◆ PLS estimated to secure ~\$100 million annually for the three City of Jacksonville pension plans starting in 2030 (when current infrastructure sales tax expires)
  - ▶ PLS terminates at the later of when Plan is 100% funded or 2060



# *Pension Liability Surtax*

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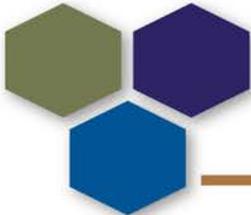
- ◆ The County may impose the surtax only if:
  - ▶ At least one of the three City Pension Plans is closed to new entrants
    - Proceeds will be given to one plan if the other two remain open
  - ▶ Member contribution rate is at least 10%
  - ▶ Pension Board prohibited from participating in collective bargaining process
  - ▶ County currently has an infrastructure tax which is set to expire and is not subject to renewal
  - ▶ PLS does not take effect until infrastructure tax expires
  - ▶ Successful voter referendum
  - ▶ Plan must be <80% funded when ordinance is passed



# *Pension Liability Surtax*

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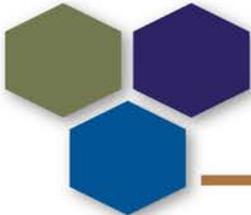
- ◆ The PLS will have a major impact on how the current UAAL is paid
  - ▶ UAAL as of 10/1/2015 is \$1.8 billion
  - ▶ Amortization payments on UAAL are \$125 million
- ◆ As a result of the PLS, the amortization period on the current UAAL must be amortized over 30 years
  - ▶ The longer it takes to pay off UAAL, the more interest will be paid



# *Pension Liability Surtax*

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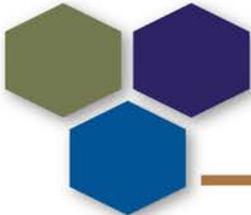
- ◆ Currently the JPPPF uses a 3.25% Payroll Growth Assumption (PGA) to determine UAAL payments
  - ▶ Goal of using level percent of pay amortization method is to keep Required City Contribution level as percent of pay
  - ▶ In closed plans, the Required City Contribution will increase as a percent of covered payroll because covered payroll no longer increases by 3.25%
    - As a result, level percent of pay amortization is traditionally not appropriate for a closed plan



# *Pension Liability Surtax*

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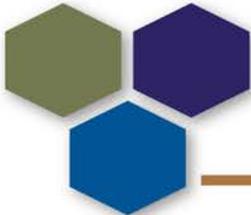
- ◆ Based on Section 112.64(6)(b) of the F.S., the payroll growth assumption must be adjusted to reflect the payroll of all employees in classifications covered by the closed plan
  - ▶ Plan Experience may not support the current 3.25% assumption
    - Average annual payroll increase over 10-year period ending 9/30/2015 was 0.18% per year
  - ▶ This needs to be studied further



# *Pension Liability Surtax*

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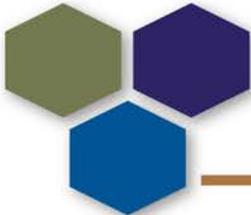
- ◆ Issues Board should understand regarding UAAL payments
  - ▶ Impact of increasing the amortization period for current bases to 30 years (prescribed by new law)
  - ▶ How proceeds from PLS will impact the amount of interest paid on UAAL



# *PLS – 30 Year Amortization Period*

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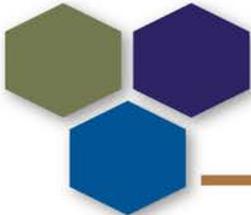
- ◆ Increasing amortization period to 30 years combined with paying off UAAL as a level percentage of pay
  - ▶ Generally not recommended - results in negative amortization (i.e. payments don't cover interest in early years)
- ◆ We reviewed the transcript of the January 5, 2016 Board workshop meeting
  - ▶ It is our understanding Mr. Welch recommended using City contributions above the required amount plus UALPA payments (~\$460 million) plus interest to pay off remaining amortization bases in years 20 through 30



## *PLS – 30 Year Amortization Period*

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- ◆ Following this recommendation would result in the following:
  - ▶ Extra city contributions above the required amount and contributions from UALPA would need to be placed in a separate reserve rather than reducing future Required City Contributions
  - ▶ Decrease the funding period on the current UAAL to roughly 20 years instead of 30 years
- ◆ If hired, we could prepare a study showing the advantages and disadvantages of this strategy



# PLS – Interest Paid on the UAAL

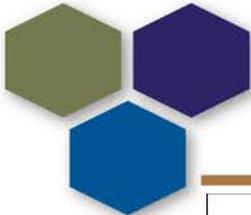
## ◆ Present Value of Expected Proceeds from PLS:

### Assumptions

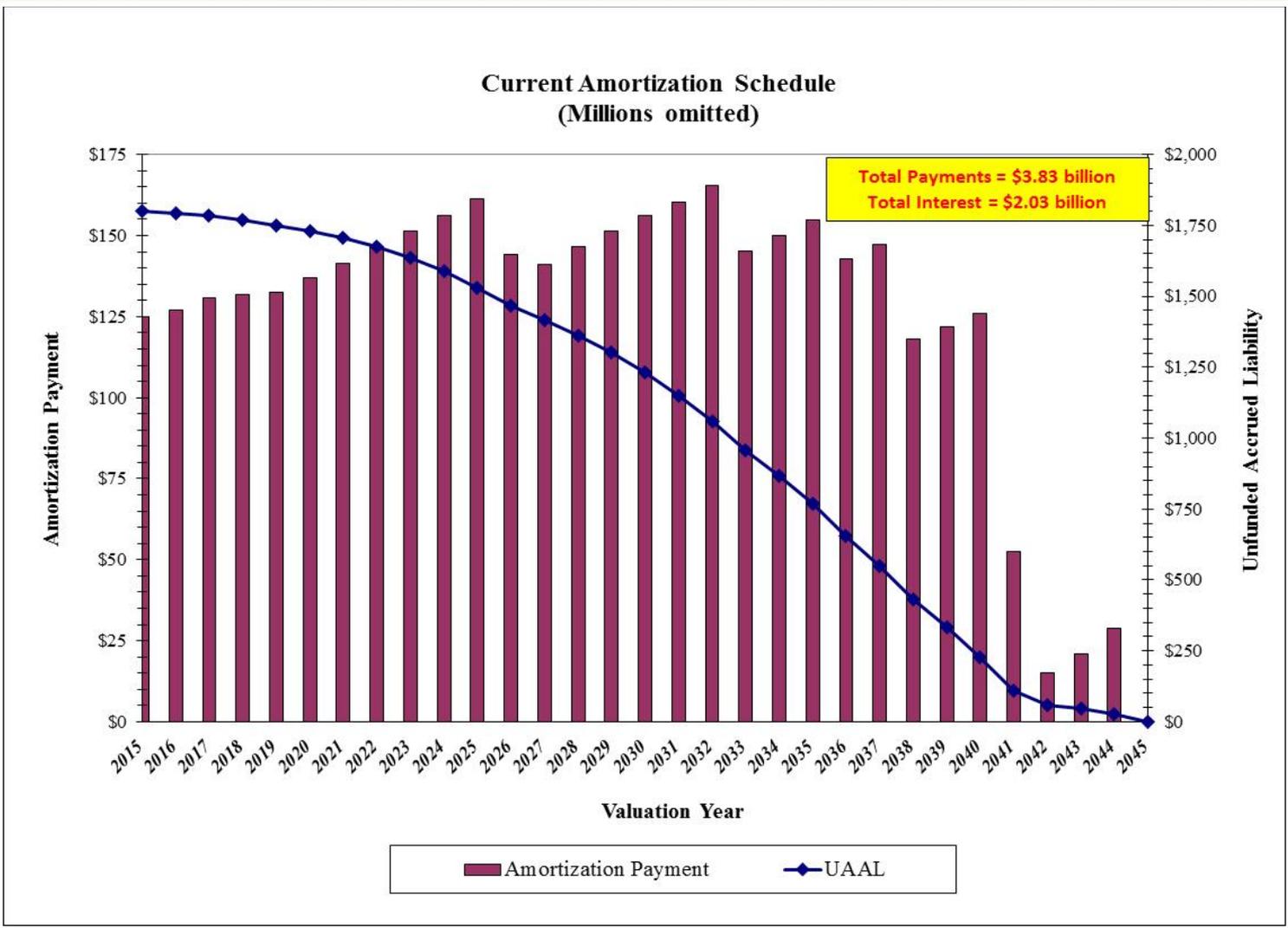
Estimated Annual Amount for all Three Plans	\$ 100,000,000
Estimated Annual Amount for P&F Plan	\$ 50,000,000
Start Year	2030
End Year	2060
Increase in PLS starting in 2031	2.50%

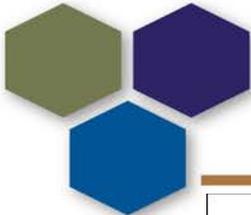
<b>Total Present Value</b>	<b>\$ 339,365,858</b>
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Year	Proceeds	Year	Proceeds
2016 - 2029	0	2045	72,414,908
2030	50,000,000	2046	74,225,281
2031	51,250,000	2047	76,080,913
2032	52,531,250	2048	77,982,936
2033	53,844,531	2049	79,932,509
2034	55,190,645	2050	81,930,822
2035	56,570,411	2051	83,979,093
2036	57,984,671	2052	86,078,570
2037	59,434,288	2053	88,230,534
2038	60,920,145	2054	90,436,297
2039	62,443,148	2055	92,697,205
2040	64,004,227	2056	95,014,635
2041	65,604,333	2057	97,390,001
2042	67,244,441	2058	99,824,751
2043	68,925,552	2059	102,320,370
2044	70,648,691	2060	104,878,379

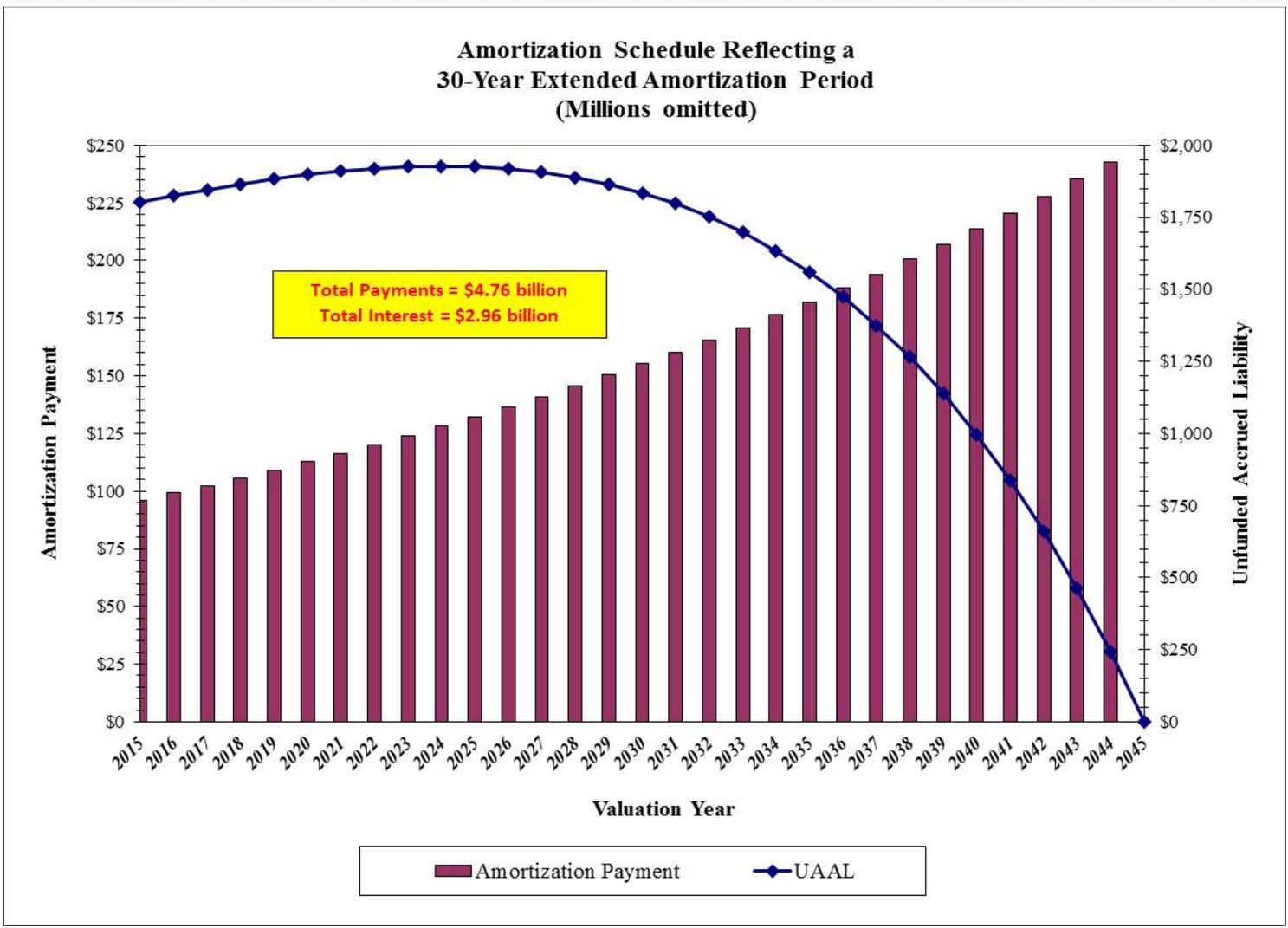


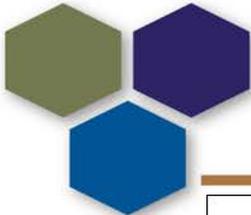
# PLS – Interest Paid on the UAAL



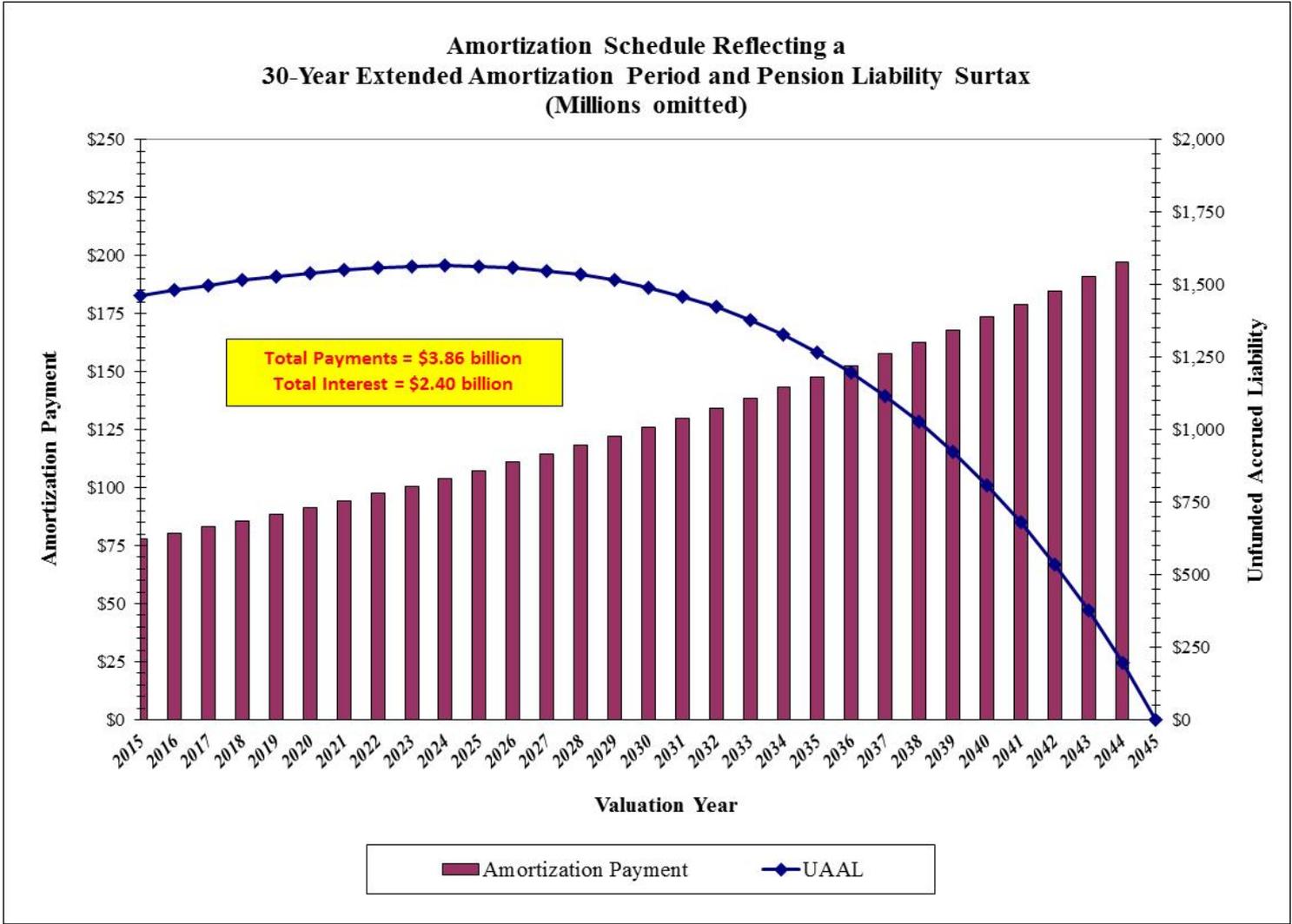


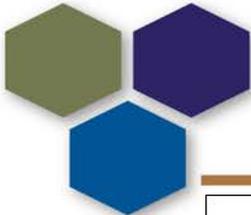
# PLS – Interest Paid on the UAAL



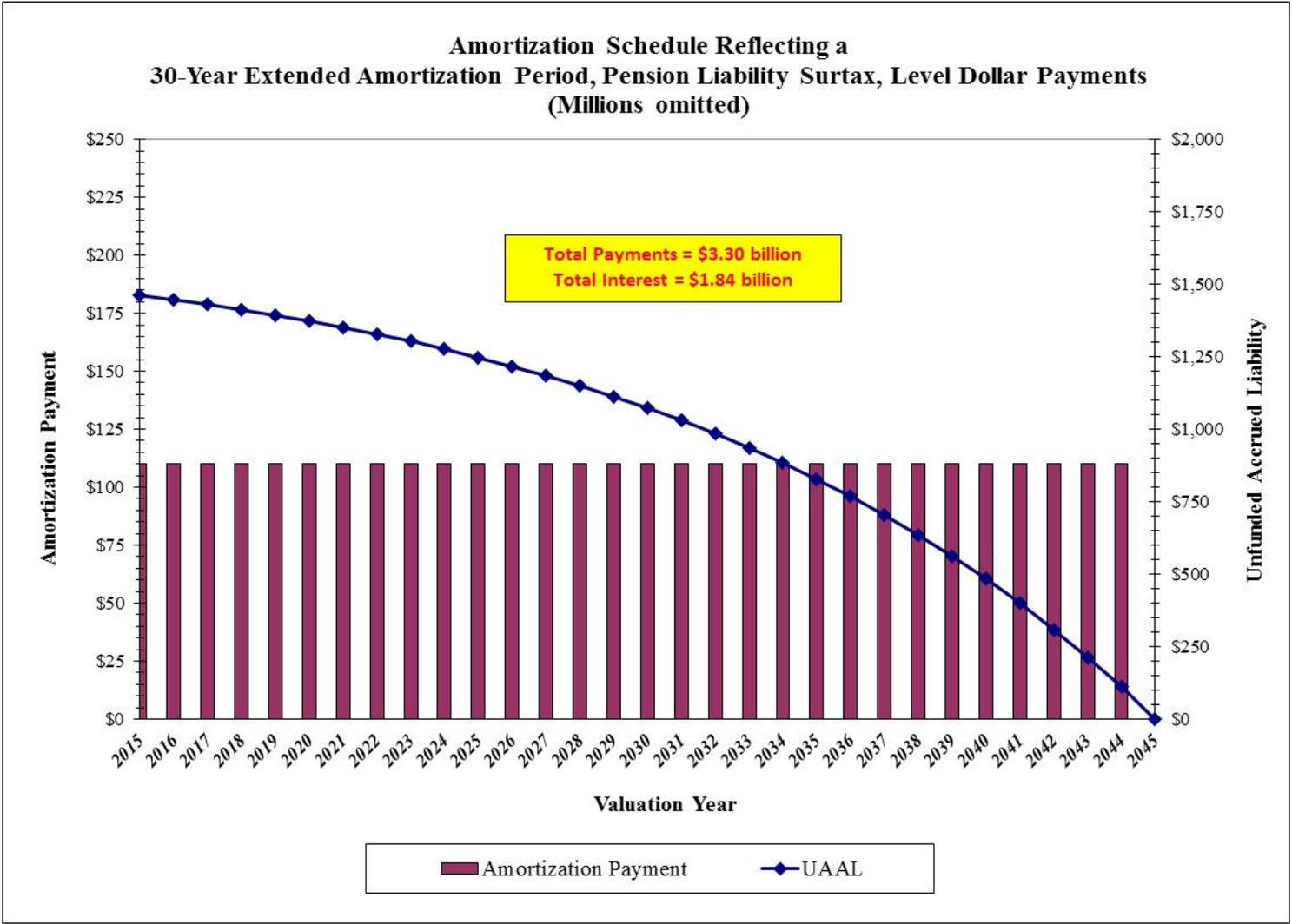


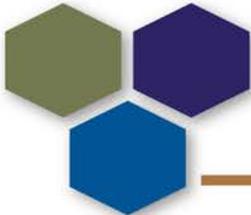
# PLS – Interest Paid on the UAAL





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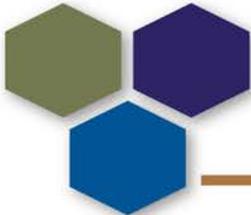




# *Recent Plan Changes*

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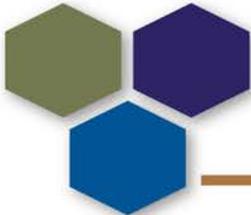
- ◆ Benefit Changes for Group 1 (active 6/19/15)
  - ▶ 4 year AFC (increased from 2 year) for employees with less than 5 years of service
  - ▶ Member contribution rate increases from 7% to 8% (increases to 10% when certain pay increases occur)
  - ▶ COLA equal to the Social Security COLA instead of 3% fixed COLA
    - 3% COLA on accrued benefit is protected
- ◆ These Plan changes reduce the cost of the plan immediately



# *Recent Plan Changes*

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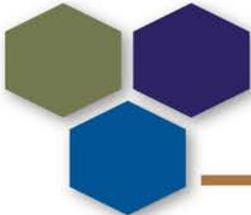
- ◆ Group 2 (hired after 6/18/15)
  - ▶ Normal retirement increased from “20 and out” to “30 and out”
  - ▶ 5 year AFC
  - ▶ Social Security COLA (1.5% Maximum)
  - ▶ 10% member contribution rate
  - ▶ 2.5% benefit multiplier
  - ▶ Terminated vested members start benefit at age 62 with a 2% benefit multiplier
- ◆ These changes will lower the annual cost over time as new employees are hired



# *Actuarial Assumptions / Methods*

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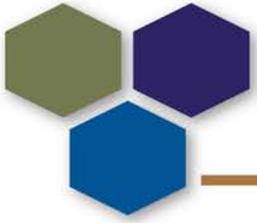
- ◆ Actuarial assumptions and methods impact the timing of when contributions are required
- ◆ 7% investment return assumption gross of investment expenses
  - ▶ Investment expenses are ~50 bp's
  - ▶ Target Asset Allocation – 55% equity, 22.5% fixed income, 15% real estate, 7.5% MLP's
  - ▶ Proper way to set assumption
- ◆ Entry Age Normal Funding Method
  - ▶ Used by most plans in Florida and most of our plans
  - ▶ Transparent method – separate amortization of gains and losses



# *Actuarial Assumptions / Methods*

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- ◆ No Asset Smoothing - Market Value of Assets (MVA) used to determine funding requirements (i.e. no asset smoothing)
  - ▶ Using MVA is more transparent than using a smoothed asset value
  - ▶ Fund invests more money in poor investment years since Required Contribution increases so much (buy low!)
- ◆ Nearly all of our plans use asset smoothing to reduce contribution volatility



# Questions and Answers?