Report on the Long-range Projected Finances of the City's Pension Plans

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Projection of Unfunded Actuarial Accrued Liability

The purpose of this report is to enable the City to better understand the pattern of emerging pension costs and liabilities due to proposed benefit and financing changes. The projections contained herein are for illustration purposes only. This project is not intended to provide precise projections of current or future costs; the plans’ actuaries will prepare annual actuarial valuations which will be the basis for the City’s actual contributions. Differences between our projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. Actual experience will not conform exactly to the assumptions made for this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience. Future actuarial measurements may differ significantly from the current measurements presented in this report 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 (such as the end of an amortization period or additional cost or contribution requirements based on the plan’s funded status), and changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of such future measurements.

Our projections are based on a deterministic model that assumes emerging plan experience always exactly matches the actuarial assumptions; in particular the market returns will match the assumed rate year in and year out. Actual experience will not match the actuarial assumptions each and every year. Actual variation in the plans’ experience will have a significant impact on the financial health of the plans, the liquidity constraints on plan assets, and the City’s future contribution levels. We highly recommend that stochastic projections be prepared that would enable the City to understand the potential range of future results based on the expected variability in investment returns.

Milliman’s work is prepared solely for the internal business use of the City of Jacksonville. To the extent that Milliman’s work is not subject to disclosure under applicable public records laws, Milliman’s work may not be provided to third parties without Milliman’s prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work product, and Milliman may include a legend on its reports so stating. Milliman’s consent to release its work product to any third party may be conditioned on the third party signing a Release, subject to the following exceptions: the City may provide a copy of Milliman’s work, in its entirety, to the City’s professional service advisors who are subject to a duty of confidentiality and who agree to not use Milliman’s work for any purpose other than to benefit the City, and the City may provide a copy of Milliman’s work, in its entirety, to other governmental entities, as required by law. No third party recipient of Milliman’s work product should rely upon Milliman’s work product. Milliman recommends that third parties be aided by their own actuary or other qualified professional when reviewing the Milliman work product.

I am a member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

[Signature]
Rebecca A. Sieman, FSA
Principal and Consulting Actuary

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City of Jacksonville

Police and Fire Pension Fund - Long-Range Forecast Based on October 1, 2015 Valuation

Enable the City to better understand the pattern of emerging costs and liabilities due to proposed benefit and financing changes. This project is not intended to provide precise projections of current or future costs; the plan's actuary will prepare annual actuarial valuations which will be the basis for the City's actual contributions.

Purpose of the project

Basis for projections

This project is based on Milliman's replication of the October 1, 2015 actuarial valuation prepared by Pension Board Consultants Inc. (PBC), as described in their report dated January 29, 2016. We have relied on the valuation results and actuarial methods and assumptions described by PBC in their October 1, 2015 actuarial valuation report and on the consensus data that PBC supplied to us. We make no judgment as to the appropriateness of PBC's actuarial methods or assumptions. Note that we explicitly valued the cost of the DROP and BACKDROP features, whereas PBC indirectly valued them via a load factor. We assumed 100% of employees would elect the DROP.

Projection assumptions

The number of active employees remain constant, terminating and retiring active members will be replaced by new members with the same age/sex/race/ethnicity characteristics as members who were hired during the past few plan years. New members will be subject to the plan changes that were contained in Ordinance 2015-304-E.

Allocations from Chapter 175/185 Funds are assumed to grow by 2% per year. Court fines are assumed to be equal to 0.58% of payroll for all active employees (including future new hires who may be covered by a DC plan). Based on data provided for members currently in DROP, we estimated current DROP balances and the outstanding balances for those who are past the DROP period. We assumed this remaining balance would be paid out over a period of 15 years. Projected plan experience will exactly follow the actuarial assumptions, except 100% of retiring members are assumed to select DROP or BackDROP, respectively. In particular, the investments will earn the assumed rate of return every year.

The City always pays the minimum contribution (offset by 50% of Chapter Funds for 15 years and by Court Fines) plus the additional amounts required by Ordinance 2015-304-E (e.g. $50k/$10m/$15m/$32m). Surplus funds in the Enhanced Benefits Account are used to fund annual retiree bonuses and/or share plan contributions such that the balance of the account remains at the October 1, 2015 level. The mortality assumption will be updated effective with the October 1, 2016 valuation to match the Special Risk mortality assumptions that were used in the July 1, 2014 valuation of the Florida Retirement System.

There are no other plan changes, assumption changes, funding method changes, or actuarial gains/losses, except as described herein.

Employee contribution increase

Effective April 1, 2017, the employee contribution rate may be increased to 10%.

Plan closing

Effective October 1, 2018, the DB plan may be closed and new hires thereafter may be covered by a plan which will cost the City 12% of pay. Such changes are subject to the collective bargaining process.

Resetting amortization bases

Effective with the October 1, 2017 valuation, all existing amortization bases may be combined and reamortized over 30 years. The City always pays the minimum contribution (offset by 50% of Chapter Funds for 15 years and by Court Fines) plus the additional amounts required by Ordinance 2015-304-E (e.g. $50k/$10m/$15m/$32m). Surplus funds in the Enhanced Benefits Account are used to fund annual retiree bonuses and/or share plan contributions such that the balance of the account remains at the October 1, 2015 level.

The Conference of Consulting Actuaries in their 2014 "Actuarial Funding Policies and Practices for Public Pension Plans" labels amortization periods longer than 25 years as a "Non-recommended Practice". Although combining and reamortizing bases reduces City contributions in the short term, this should not be considered a savings, but rather a deferral of contributions. Funding a pension plan is a "pay now or pay more later" proposition.

Limitations on our analysis

Our projections are based on a deterministic model that assumes emerging plan experience always exactly matches the actuarial assumptions; in particular the market returns will match the assumed rate in year and year out.

We highly recommend that stochastic projections be prepared that would enable the City to understand the potential range of future results based on the expected variability in investment returns.

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Rebecca A. Sielman, FSA
Principal and Consulting Actuary

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Milliman
City of Jacksonville

Police and Fire Pension Fund - Long-Range Forecast Based on October 1, 2015 Valuation

06/24/2016

Updates from Milliman’s prior projection model

Census data
Prior model was based on October 1, 2012 census data with some updates to reflect certain 2013 demographic experience; current model reflects October 1, 2015 census data
- Active population very comparable in demographic composition
- Little or no pay increases
- Retiree population has grown by about 200 members
- Members in DROP are about the same

Investment performance
Prior model was based on October 1, 2013 balance; current model reflects October 1, 2015 balance
- Return for 2013-14 was +10.73%
- Return for 2014-15 was -3.95%

Plan changes
Prior model and current model both reflect plan changes made per Ordinance 304-E; prior model assumed 2.8% COLA for employees with < 20 years of service; current model reflects PBC’s assumption of 2.5%

Assumption changes
Prior model reflected PBC’s implicit recognition of the impact of the DROP and BACKDROP provisions via a load; current model explicitly values these provisions
- 2013 2% load added to reflect value of DROP - note our analysis indicates that 2% is somewhat conservative
- 2015 Salary increases lowered from 4.0% to 3.5%
- 2015 Turnover rates increased 50%
- 2015 Mortality base table updated; longevity improvement projections extended and strengthened
- 2016 Mortality assumption will be further updated to reflect the 2014 change in the Florida Retirement System valuation assumptions

Prior model assumed DROP accounts for current post-DROP members would be paid out over 5 years; current model uses 15 year period

Prior model assumed administrative expenses would increase by 2.5% per year; current model assumes 3.25%

Financing changes
Early versions of the prior model reflected 2012 valuation’s combination/amortization of bases over 23 years; latest versions and the current model reflect 2015 valuation’s change back to individual bases

Prior model assumed the new 50% Chapter 175/185 allocation would be a flat $5m/year starting in FYE2015; current model reflects actual FYE2015 allocation of $5.3m with 2% increases thereafter

Prior model reflected 2012 valuation’s development of a mid-year contribution that was payable 2 fiscal years later; current model reflects 2015 valuation’s application of 1 year of payroll growth plus 2 months of interest; models also differ in whether adjustments for timing are applied before or after reductions for Chapter 175/185 allocation and Court Fines

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Estimated Unfunded Actuarial Accrued Liability ($ millions)

Baseline Projection

Increase Employee Contributions to 10% @ 4/1/17

10% Contributions; New Plan; Reset Amortization Bases @ 10/1/17

10% Contributions; 12% Plan for New Hires @ 10/1/18

-1,500 -1,000 -500 0 500 1,000 1,500 2,000


1,801 1,829 1,773 1,713 1,642 1,558 1,454 1,334 1,208 1,067 938 828 726 642 551 451 342 221 115 -123 -241 -368 -471 -567 -653 -721 -742 -748 -748 -748 -748 -748

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City of Jacksonville

Police and Fire Pension Fund - Long-Range Forecast Based on October 1, 2015 Valuation

06/24/2016

This projection is for illustration purposes only, based on Milliman’s replication of the October 1, 2015 valuation. This projection assumes that the number of active employees remains constant, terminating and retiring active members are replaced by new members with the same age/gender characteristics as members who were hired during the past five years. The City always pays the contribution; the investments earn the assumed rate of return. There are no plan changes, assumption changes, funding method changes, or actuarial gains/losses. Differences between our projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. Actual experience will not conform exactly to the assumptions made for this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.

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Estimated benefit payments ($ millions)

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<th>10% Contributions; 12% Plan for New Hires @ 10/1/18</th>
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Estimated assets ($ millions)

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Enable the City to better understand the pattern of emerging costs and liabilities due to proposed benefit and financing changes.

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We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete and our calculations may need to be revised.

The number of active employees remains constant; terminating and retiring active members will be replaced by new members with the same age/service/gender characteristics as members who were hired during the past few plan years.

The mortality assumption will be updated effective with the October 1, 2016 valuation to match the non-Special Risk mortality assumptions that were used in the July 1, 2014 valuation of the Florida Retirement System.

Differences between our projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. Actual experience will not conform exactly to the assumptions made for this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience. Future actuarial measurements may differ significantly from the current measurements presented in this report 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 (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status) and changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of such future measurements.

Effective April 1, 2017, the employee contribution rate may be increased to 10%.

Effective October 1, 2018, the DB plan may be closed and new hires thereafter may be covered by a plan which will cost the City 8% of pay. Such changes are subject to the collective bargaining process.

We highly recommend that stochastic projections be prepared that would enable the City to understand the potential range of future results based on the expected variability in investment returns.

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I am a member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Rebecca A. Sielman, FSA
Principal and Consulting Actuary

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City of Jacksonville

General Employees Retirement Plan - Long-Range Forecast Based on October 1, 2015 Valuation  

06/24/2016

This projection is for illustration purposes only, based on Millman’s replication of the October 1, 2015 valuation. This projection assumes that the number of active employees remains constant, terminating and retiring active members are replaced by new members with the same age/service/ gender characteristics as members who were hired during the past few plan years; the City always pays the contribution; the investments earn the assumed rate of return; there are no plan changes, assumption changes, funding method changes, or actuarial gains/losses. Differences between our projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. Actual experience will not conform exactly to the assumptions made for this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.

We have relied on the valuation results and actuarial methods and assumptions used by Segal Consultants in their October 1, 2015 actuarial valuation report. We make no judgment as to the appropriateness of Segal’s actuarial methods or assumptions.

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This projection is for illustration purposes only, based on Milliman's replication of the October 1, 2015 valuation. This projection assumes that the number of active employees remains constant, terminating and retiring active members are replaced by new members with the same age / service / gender characteristics as members who were hired during the past few plan years; the City always pays the contribution; the investments earn the assumed rate of return; there are no plan changes, assumption changes, funding method changes, or actuarial gains / losses. Differences between our projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. Actual experience will not conform exactly to the assumptions made for this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.

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City of Jacksonville

General Employees Retirement Plan - Long-Range Forecast Based on October 1, 2015 Valuation 06/24/2016

This projection is for illustration purposes only, based on Milliman's replication of the October 1, 2015 valuation. This projection assumes that the number of active employees remains constant; terminating and retiring active members are replaced by new members with the same age / service / gender characteristics as members who were hired during the past few plan years; the City always pays the contribution; the investments earn the assumed rate of return; there are no plan changes, assumption changes, funding method changes, or actuarial gains / losses. Differences between our projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. Actual experience will not conform exactly to the assumptions made for this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.

We have relied on the valuation results and actuarial methods and assumptions used by Segal Consultants in their October 1, 2015 actuarial valuation report. We make no judgment as to the appropriateness of Segal’s actuarial methods or assumptions.

We recommend that third parties be aided by their own actuary or other qualified professional when reviewing this Milliman work product.

Estimated Funded Ratio
Baseline Projection
Increase Employee Contributions to 10% @ 4/1/17
10% Contributions; 8% Plan for New Hires @ 10/1/18
10% Contributions; New Plan; Reset Amortization Bases @ 10/1/17

Milliman
City of Jacksonville

General Employees Retirement Plan - Long-Range Forecast Based on October 1, 2015 Valuation

06/24/2016

This projection is for illustration purposes only, based on Milliman’s replication of the October 1, 2015 valuation. This projection assumes that the number of active employees remains constant, terminating and retiring active members are replaced by new members with the same age, service, and gender characteristics as members who were hired during the past few plan years, the City always pays the contribution; the investments earn the assumed rate of return, there are no plan changes, assumption changes; funding method changes, or actuarial gains/losses. Differences between our projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. Actual experience will not conform exactly to the assumptions made for this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.

We have relied on the valuation results and actuarial methods and assumptions used by Segal Consultants in their October 1, 2015 actuarial valuation report. We make no judgment as to the appropriateness of Segal’s actuarial methods or assumptions.

Estimated benefit payments ($ millions)
Baseline Projection
Increase Employee Contributions to 10% @ 4/1/17
10% Contributions; 8% Plan for New Hires @ 10/1/18
10% Contributions; New Plan; Reset Amortization Bases @ 10/1/17

Estimated assets ($ millions)
Baseline Projection
Increase Employee Contributions to 10% @ 4/1/17
10% Contributions; 8% Plan for New Hires @ 10/1/18
10% Contributions; New Plan; Reset Amortization Bases @ 10/1/17

Liquidity Ratio: Estimated Market Value of Assets / Estimated Benefit Payments

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Purpose of the project

Enable the City to better understand the pattern of emerging costs and liabilities due to proposed benefit and financing changes.

This project is not intended to provide precise projections of current or future costs; the plan's actuary will prepare annual actuarial valuations which will be the basis for the City's actual contributions.

Basis for projections

This project is based on Milliman's replication of the October 1, 2015 actuarial valuation prepared by Segal Consultants, as described in their report dated March 22, 2016. We have relied on the valuation results and actuarial methods and assumptions described by Segal in their October 1, 2015 actuarial valuation report and on the census data that Segal supplied to us. We make no judgment as to the appropriateness of Segal's actuarial methods or assumptions. Note that Segal did not explicitly value this plan's DROP provision.

We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment. If the underlying data or information is inaccurate or incomplete, our calculations may need to be revised.

Projection assumptions

The number of active employees remains constant; terminating and retiring active members will be replaced by new members with the same age / service / gender characteristics as members who were hired during the past few plan years.

The City always pays the minimum contribution.

The payroll growth assumption will grade over the next ten years from the rate used for the October 1, 2015 valuation (0.68%) to the ultimate pay growth assumption (2.75%).

Emerging plan experience will exactly follow the actuarial assumptions. In particular, the investments will earn the assumed rate of return every year.

The mortality assumption will be updated effective with the October 1, 2016 valuation to match the Special Risk mortality assumptions that were used in the July 1, 2014 valuation of the Florida Retirement System.

There are no other plan changes, assumption changes, funding method changes, or actuarial gains / losses, except as described herein.

Differences between our projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. Actual experience will not conform exactly to the assumptions made for this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience. Future actuarial measurements may differ significantly from the current measurements presented in this report 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 method used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status), and changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of such future measurements.

Employee contribution increase

Effective April 1, 2017, the employee contribution rate may be increased to 10%.

Plan closing

Effective October 1, 2018, the DB plan may be closed and new hires thereafter may be covered by a new plan which will cost the City 6% of pay. Such changes are subject to the collective bargaining process.

Resetting amortization bases

Effective with the October 1, 2017 valuation, all existing amortization bases may be combined and reamortized over 30 years.

The salaries of both current plan members as well as new hires who will be covered by the new plan may be included for purposes of determining the payroll growth assumption that is used to calculate the amortization payments.

Note that 30 years is longer than the expected working lifetime of members covered by this plan, and therefore falls outside recommended actuarial practice.

The Conference of Consulting Actuaries in their 2014 “Actuarial Funding Policies and Practices for Public Pension Plans” labels amortization periods longer than 25 years as a “Non-recommended Practice”.

The City should therefore be prepared for a long period when the Unfunded Actuarial Accrued Liability may potentially increase as a dollar amount and the funded ratio may potentially make very little progress towards 100%, until towards the end of the amortization period. Although combining and reamortizing bases reduces City contributions in the short term, this should not be considered a savings, but rather a deferral of contributions. Funding a pension plan is a “pay now or pay more later” proposition.

Limitations on our analysis

Our projections are based on a deterministic model that assumes emerging plan experience always exactly matches the actuarial assumptions; in particular the market returns will match the assumed rate in year and year out. Actual experience will not match the actuarial assumptions each and every year. In the past ten years, for instance, market returns for this plan have varied from -15.61% to +18.14%.

Such variation will have a significant impact on the financial health of the plan, the liquidity constraints on plan assets, and the City's future contribution levels. We highly recommend that stochastic projections be prepared that would enable the City to understand the potential range of future results based on the expected variability in investment returns.

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Rebecca A. Selman, FSA
Principal and Consulting Actuary

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City of Jacksonville

Corrections Officers Retirement Plan - Long-Range Forecast Based on October 1, 2015 Valuation 06/24/2016

This projection is for illustration purposes only, based on Milliman's replication of the October 1, 2015 valuation. This projection assumes that the number of active employees remains constant, terminating and retiring active members are replaced by new members with the same age / service / gender characteristics as members who were hired during the past few plan years; the City always pays the contribution; the investments earn the assumed rate of return; there are no plan changes, assumption changes, funding method changes, or actuarial gains / losses. Differences between our projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. Actual experience will not conform exactly to the assumptions made for this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.

We have relied on the valuation results and actuarial methods and assumptions used by Segal Consultants in their October 1, 2015 actuarial valuation report, with the exception that we explicitly valued the cost of the DROP feature, whereas Segal did not. We make no judgment as to the appropriateness of Segal’s actuarial methods or assumptions.

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<th>City Contribution</th>
<th>Baseline Projection</th>
<th>Increase Employee Contributions to 10%</th>
<th>10% Contributions; New Plan; Reset Amortization Bases</th>
<th>Combined impact of all changes from baseline</th>
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Estimated City Contribution ($ millions)

This projection is for illustration purposes only, based on Milliman's replication of the October 1, 2015 valuation. This projection assumes that the number of active employees remains constant, terminating and retiring active members are replaced by new members with the same age / service / gender characteristics as members who were hired during the past few plan years; the City always pays the contribution; the investments earn the assumed rate of return; there are no plan changes, assumption changes, funding method changes, or actuarial gains / losses. Differences between our projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. Actual experience will not conform exactly to the assumptions made for this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.

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Estimated Unfunded Accrued Liability

Baseline Projection
Increase Employee Contributions to 10%
10% Contributions; New Plan; Reset Amortization Bases
10% Contributions; 8.00% Plan for New Hires

$ millions


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Estimated Funded Ratio

Baseline Projection

Increase Employee Contributions to 10%

10% Contributions: 8.00% Plan for New Hires

10% Contributions; New Plan; Reset Amortization Bases

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City of Jacksonville

Corrections Officers Retirement Plan - Long-Range Forecast Based on October 1, 2015 Valuation 06/24/2016

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We have relied on the valuation results and actuarial methods and assumptions used by Segal Consultants in their October 1, 2015 actuarial valuation report, with the exception that we explicitly valued the cost of the DCERS feature, whereas Segal did not. We make no judgment as to the appropriateness of Segal's actuarial methods or assumptions.

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All Three Plans - Long-Range Forecast Based on October 1, 2015 Valuation

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<td>Increase Employee Contributions to 10% @ 4/1/17</td>
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<td>Decrease Employee Contributions to 10% @ 4/1/17</td>
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This work was prepared solely for the City of Jacksonville for the purposes described herein and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. Milliman recommends that third parties be aided by their own actuary or other qualified professional when reviewing the Milliman work product.
Estimated Unfunded Accrued Liability

Baseline Projection

Increase Employee Contributions to 10% @ 4/1/17

10% Contributions; New Plan for New Hires @ 10/1/18

10% Contributions; New Plan; Reset Amortization Bases @ 10/1/17

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