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Mr. Jeffery Snyder, CPA
Finance Director
City of Venice
401 West Venice Avenue
Venice, FL

Re: Costs of Proposed Plan Amendments

Dear Jeff:

As requested, I have reviewed the potential costs associated with the proposed ordinance amending the City of Venice Municipal Firefighters' Pension Trust Fund, as transmitted to the City by Christiansen & Dehner on June 14, 2013. Here are my observations based on that review:

- (1) The transmittal letter indicates that "these amendments ... are mandatory ... to ensure the continuation of the plan's tax qualified status", and my review relies on counsel's opinion in that regard.
- (2) The letter further indicates that the amendments are intended to "clarify language" and counsel requests that the plan's actuary, Foster & Foster, provide a letter indicating there is "no cost associated with the adoption of this ordinance". However, the actuary's letter, dated June 17, 2013, states that they "have determined that adoption of these changes will have no impact on the assumptions used in determining the funding requirements of the program". The term "cost" can have two meanings in regard to pension programs: (a) the incidence of cost, meaning the contribution pattern prescribed for the plan by the actuary, or (b) the ultimate cost of the program, which is based on the actual benefits delivered. It is incidence of cost to which the actuary's letter refers in declaring "Because the changes do not result in a change in the valuation results, it is our opinion that a formal Actuarial Impact Statement is not required in support of its adoption". However, to the extent that the amendments affect benefits delivered under this plan, the ultimate cost is affected. Therefore, my review has examined whether any of the amendments affect ultimate cost.
- (3) The proposed ordinance details amendments in Sections 1, 2 and 3, so we consider each section separately in relation to benefit delivery and ultimate cost.
- (4) In Section 1, the definition of Credited Service is amended retroactively to January 1, 2009 to include differential wage payments as compensation. To the extent the City has

made such payments or makes them in the future, to the extent that these payments were not previously recognized, Credited Service for affected individuals may increase, thus increasing their plan benefit.

- (5) In Section 2, additional language is added concerning acceptable investment options to the trust. This does not alter the benefits paid under the plan, and so does not alter ultimate cost. The only potential cost impact would occur when the new language caused the board to make a different investment decision than it would have under the previous language, and investment gains or losses occur relative to what the original investment decision would have been.
- (6) In Section 3, changes are made to the maximum benefit limitations. This will have an impact on benefit delivery and ultimate cost only to the extent that there is any individual under the plan affected by the maximum benefit limits under either the current or proposed rules; if no one is affected under either set of rules, then there is no impact on benefit delivery or ultimate cost.

If any participant is affected under the current or proposed rules, then there is a potential impact on benefit delivery and ultimate cost to the extent the change in rules affects the limits. Increases in the limit raise benefit delivery, while decreases reduce benefit delivery. Looking at the additional language proposed (underlined), examples of an increase in the limits are 50-95(a) (excluding after-tax employee contributions) and 50-95(c)(3) (excluding qualified joint and survivor annuities). An example of a decrease in the limits would be 50-95(h) (proration of the \$10,000 annual limit for credited service of less than 10 years).

In summary, the changes proposed in the amendment (Sections 1 through 3) have an impact on ultimate cost to the extent they affect actual benefit delivery. If (a) the City has made no differential wage payments since 2008 and does not make any such payments in the future; and (b) no plan participant now or in the future is affected by the maximum benefit limitations, then the proposed amendment will not affect benefit delivery or ultimate cost. If however there any plan participants now or in the future with differential wage payments or who are affected by the maximum benefit limitations, these amendments will affect the ultimate cost of the plan. Given counsel's representation that the amendments are mandatory, you may decide not to have additional analysis performed on the ultimate cost unless you have reason to believe the items mentioned in the last sentence significantly impact the plan.

In regard to the actuarial assumptions, the valuation report transmitted to the City on November 19, 2012, is instructive. When assumptions are performing properly, over time gains and losses relative to the assumptions should roughly offset one another. The schedule of amortization bases on page 13 of the report shows only experience losses – a summary item for years prior to 10/1/2002 is a loss as is the entry for each of the past 10 years (2003-2012). The only gain shown on the schedule during this period is an assumption change 10/1/2009 which decreased contribution requirements (that is, lowered the contribution pattern in the face of continual large losses); there was an assumption change effective the following year which increased the assumption pattern in roughly the same amount as the 2009 decrease. So, effectively there has

been no adjustment in the actuarial assumptions over the past 10 years despite consistent experience losses. This strongly indicates that the actuarial assumptions understate the plan's incidence of cost (that is, the annual contributions required for level funding), and do not reasonably represent anticipated plan experience.

While the report does not provide sufficient historical information to be sure, the underperformance appears mainly due to the plan's investment performance relative to the long-term interest assumption, currently at 7.75%. This rate is commonly used in public pension plan disclosures; however, many public pension plans are invested very heavily in equities. The investment schedule on page 19 of the actuarial report indicates that about 35% of the plan's assets are invested in bonds, cash, or receivables. Since a significant portion of the plan's assets are not invested in equities, a lower interest assumption would appear to be prudent.

An actuarial study would need to be completed to determine the financial impact of such an assumption change. As a very rough estimate, a 1% decrease in the interest assumption might raise contribution requirements by 10% or more annually. Thus, for example, a decrease of the interest assumption from 7.75% to 6% might raise the contribution requirements by 17.5% or more. A 17.5% increase would raise the total annual contribution from 80.54% of payroll to 94.63% of payroll, and the City's portion from 60.56% of payroll to 74.65% of payroll (a 23% increase).

Please let me know if you have any questions concerning this review, or if I can be of additional assistance to the City.

Best regards,

Jeff Furnish, FCA, ASA, MAAA
Consulting Actuary