

CITY OF VENICE
POLICE AND FIREFIGHTER PENSION PLANS
CHANGES IN ACTUARIAL ASSUMPTION AND METHOD
SUMMARY

Issue: The City learned in October 2015 that the police and firefighter pension boards had approved revised investment earnings assumptions for both plans, lowering the assumed rate of return to 7.0% (previously the earnings assumption was 7.9% for the police plan and 7.75% for the fire plan). The investment earnings assumption is a key assumption, and a reduction of this amount produces a large increase in pension liabilities and in the City's required pension contributions. The police and fire pension boards also approved a change in actuarial methodology from percent of payroll to dollar amount funding.

Result: The change in the earnings assumption and methodology produced an increase in combined pension liabilities of more than \$6.3 million (\$3.3 million for police and \$3 million for fire), and an increase in the City's annual required pension contribution of \$1.28 million (\$514K increase for police and \$762K increase for fire).

Timing: The revised City contributions are for the current fiscal year, which began on October 1, 2015.

Problem: Because the City did not become aware of the assumption and method changes until after the City's budget for the 2015-16 fiscal year was adopted, the increased contribution amounts are not included in the City's budget.

Possible Options:

1. Amend the budget and pay the increased pension contributions by transferring funds from reserves or other budget categories.
2. Request that the police and fire pension boards reconsider the assumption and method changes, and phase-in the change in the earnings assumption over a period of 3 to 5 years. The State would have to approve either change, but the State has approved similar phase-in periods for changes in the earnings assumption of other pension plans. A 3 year phase-in would reduce the amount of the City contribution increase for the current fiscal year by about \$477K. It is also possible that the salary adjustment on the City contribution can be removed, which would reduce the City contribution by another \$315K (meaning the overall increase would be about \$490K instead of \$1.28 million this year). Another possibility would be to revise the October 1, 2014 actuarial valuations to take into account the actual elections by members who chose to enter the Florida Retirement System (FRS) for future benefits. This change alone would reduce the City contributions for the current fiscal year by about \$830K.

3. Don't pay the increased contributions. This is not a legally viable option because the state statute on pension plan funding requires the City to pay the actuarially determined contribution.

Pension Plan Funding Details:

1. City Pension Contributions for FY 2014-15 (based on 10/1/13 valuations - before the 2014 plan changes):

Police: \$1.971 million

Fire: \$1.857 million

Total: \$3.828 million

2. City Pension Contributions for FY 2014-15 (after the 2014 plan changes):

Police: \$1.729 million

Fire: \$1.696 million

Total: \$3.425 million

3. City Pension Contributions for FY 2015-16 (based on the original 10/1/14 actuarial valuations, assumptions and methods):

Police: \$1.575 million

Fire: \$1.602 million

Total: \$3.177 million

4. City Pension Contributions for FY 2015-16 (based on revised impact statement/valuation and revised assumptions and methods):

Police: \$2.089 million

Fire: \$2.364 million

Total: \$4.453 million [\$1.276 more than original amount]

5. Revised Assumptions/Methods:

Police – investment earnings assumption reduced from 7.9% to 7.0%

Fire – investment earnings assumption reduced from 7.75% to 7.0%.

Both: amortization method changed from percent of pay to dollar amount, but salary increase assumption retained.

Also: Police officers and firefighters who elected to join FRS are not reflected (29 police officers and 18 firefighters joined FRS on 10/1/14).