

MEMORANDUM

Date: July 5, 2016

TO: Town Commission

FROM: Dave Bullock, Town Manager

SUBJECT: Ordinance 2016-22, Amending Chapter 34, Providing an Election for Refund of Accumulated Contributions or Actuarial Present Value of Frozen Accrued Benefit

The Town froze the General Employees' and Firefighters' pension on September 30, 2013 and the Police Officers' pension on February 1 2014. Any member of the system who was employed and had less than ten years of credited service on a date certain could elect to receive a refund of their accumulated contributions or the actuarial present value of their frozen accrued benefit, in lieu of any other benefit under the system.

In May 2015, the Town hired Doug Lozen of Foster & Foster to perform an impact study to determine what would happen if we allowed current Active Members with greater than ten years of credited service, the opportunity to cash out their actuarial accrued benefits.

Each Plan was analyzed for two types of scenarios:

Scenario A. All active Plan Members receive the lump sum equivalent of their accrued benefit (or accumulated Member Contributions, if greater); and

Scenario B. 50% of the active Plan Members with the largest liabilities received the lump sum equivalent of their accrued benefit (or accumulated Member Contributions, if greater).

In the worst case, Scenario A, a lump sum payment of \$6.6 million would take place, which reduces the market value of assets from \$32.7 million to \$26.2 million. The actuarial accrued liability (AAL) for each Member is roughly equal to the cash-out amount since the benefit is frozen. So, while the AAL decreases by the cash-out amount, Plan assets also decrease by the same amount, hence little change in the UAAL (Unfunded AAL).

At the July 22, 2015 Pension Board Meeting, the Board, by consensus of the Trustees, expressed no objection for the Town to move forward with a cash out offer to additional members of the Retirement System.

These studies were updated by Foster & Foster to include "terminated vested" members as well as a sensitivity analysis to the lowering of the actuarial equivalent rate to 7% for all three plans. The interest rate used for lump sum payments is based on the Plan's definition of Actuarial Equivalence. The lower the actuarial equivalent rate, the higher the payout to the employee.

The rate of return for investment purposes which determines annual contributions is 7%.
The actuarial equivalent rate is defined in the following sections as follows:

Section 34.13 Police	7.5%
Section 34.73 General	7.75%
Section 34.43 Fire	8.0%

At the June 20, 2016 Workshop, the Town Commission agreed to move forward with a cash out offer for active members as well as terminated vested members. Terminated vested members are those who have left employment but are not yet collecting benefits. The Town Commission did not agree to reduce the actuarial equivalent rate of interest to 7%. The estimated impact of lowering the interest rates to 7% was \$500,000. Proposed Ordinance 2016-22 was amended to eliminate the modification of these sections and read aloud for first reading.

The Ordinance before you amends Sections 34.12, 34.42 and 34.72 providing for a one-time irrevocable election, on or before October 1 2016, to receive a refund of accumulated contributions or the actuarial present value of frozen accrued benefits, in lieu of any other benefit under the system. Ordinance 2016-22 was prepared and reviewed by the Town's Pension Counsel, Jim Linn.

In Summary,

- } Allowing this cash out transfers interest rate risk from the Town to the individual and reduces the number of pensioners.
- } There is a risk transfer from the Town to the Employee for future life expectancy for any cash outs.
- } Graystone Investment Advisor, sees no significant issues for the three plans under both worst case scenarios.
- } All investments in the plan are liquid.
- } If a sizable reduction in plan assets were to occur, no immediate change in the current 7% rate of return is required.
- } Most active members are more than 5-10 years away from normal retirement date, therefore expected benefit payments will not change significantly over next 5-10 years under both scenarios.

The Original Study using current actuarial equivalent rates of:

Police 7.5%, General 7.75%, Fire 8.0%

October 1 2014 Valuation Data

SCENARIO A - All active Members					
October 1 2014	Asset value- Current	Asset Value- Actuarial	Unfunded Accrued Actuarial Liability	Expected Net Cash Flow (Annual)	Town Contribution (Annual)
General	\$ 10,203,725	\$ 9,775,235	\$ 5,126,147	\$ (321,797)	\$ 738,676
Fire	\$ 15,707,549	\$ 15,026,121	\$ 13,703,215	\$ (216,305)	\$ 1,758,137
Police	\$ 6,858,039	\$ 6,429,064	\$ 4,741,178	\$ (231,728)	\$ 623,019
TOTAL	\$ 32,769,313	\$ 31,230,420	\$ 23,570,540	\$ (769,830)	\$ 3,119,832
SCENARIO A					
Lump Sum Payment	\$ (6,612,281)	\$ (6,611,281)	\$ (318,798)	\$ 66,460	\$ (82,340)
AFTER PAYOUT					
General	\$ 7,473,452	\$ 7,045,962	\$ 4,821,734	\$ (343,788)	\$ 706,625
Fire	\$ 12,973,059	\$ 12,291,631	\$ 13,554,879	\$ (246,216)	\$ 1,725,459
Police	\$ 5,710,521	\$ 5,281,546	\$ 4,875,129	\$ (246,286)	\$ 605,408
TOTAL	\$ 26,157,032	\$ 24,619,139	\$ 23,251,742	\$ (836,290)	\$ 3,037,492

SCENARIO B - 50% of Active (most Expensive Members)					
October 1 2014	Asset value- Current	Asset Value- Actuarial	Unfunded Accrued Actuarial Liability	Expected Net Cash Flow (Annual)	Town Contribution (Annual)
General	\$ 10,203,725	\$ 9,775,235	\$ 5,126,147	\$ (321,797)	\$ 738,676
Fire	\$ 15,707,549	\$ 15,026,121	\$ 13,703,215	\$ (216,305)	\$ 1,758,137
Police	\$ 6,858,039	\$ 6,429,064	\$ 4,741,178	\$ (231,728)	\$ 623,019
TOTAL	\$ 32,769,313	\$ 31,230,420	\$ 23,570,540	\$ (769,830)	\$ 3,119,832
SCENARIO B					
Lump Sum Payment	\$ (5,233,584)	\$ (5,232,584)	\$ (311,723)	\$ 39,736	\$ (53,288)
AFTER PAYOUT					
General	\$ 7,942,649	\$ 7,515,159	\$ 4,891,673	\$ (336,234)	\$ 714,218
Fire	\$ 13,619,025	\$ 12,937,597	\$ 13,581,211	\$ (237,417)	\$ 1,734,849
Police	\$ 5,974,055	\$ 5,545,080	\$ 4,785,933	\$ (235,915)	\$ 617,477
TOTAL	\$ 27,535,729	\$ 25,997,836	\$ 23,258,817	\$ (809,566)	\$ 3,066,544

The Updated Study using current actuarial equivalent rates of 7%
October 1 2015 Valuation Data

Summary of Lump Sum Payouts SCENARIO A - All active Members					
	Scenario A Oct 1 2014 Valuation Using Old Interest Rates	Scenario A Oct 1 2015 Valuation Using 7%	Increase in Cost	Scenario A Oct 1 2015 Valuation Using 7% Add Terminated Vested	Incremental Cost of Terminated Vested
LUMP SUM PAYOUT					
General	\$ 2,730,273	\$ 2,775,050	\$ 44,777	\$ 3,813,940	\$ 1,038,890
Fire	\$ 2,734,490	\$ 3,526,254	\$ 791,764	\$ 3,764,939	\$ 238,685
Police	\$ 1,147,518	\$ 1,229,662	\$ 82,144	\$ 1,287,377	\$ 57,715
TOTAL	\$ 6,612,281	\$ 7,530,966	\$ 918,685	\$ 8,866,256	\$ 1,335,290
Estimated Interest rate impact			(200,000)		(300,000)
Impact of October 1 2015 valuation data			\$ 718,685		\$ 1,035,290
Summary of Lump Sum Payouts SCENARIO B - 50% of Active (most Expensive Members)					
	Scenario B Oct 1 2014 Valuation Using Old Interest Rates	Scenario B Oct 1 2015 Valuation Using 7%	Increase in Cost	Scenario B Oct 1 2015 Valuation Using 7% Add Terminated Vested	Incremental Cost of Terminated Vested
LUMP SUM PAYOUT					
General	\$ 2,261,076	\$ 2,202,370	\$ (58,706)	\$ 3,241,260	\$ 1,038,890
Fire	\$ 2,088,524	\$ 2,667,425	\$ 578,901	\$ 2,906,111	\$ 238,686
Police	\$ 883,984	\$ 875,168	\$ (8,816)	\$ 932,883	\$ 57,715
TOTAL	\$ 5,233,584	\$ 5,744,963	\$ 511,379	\$ 7,080,254	\$ 1,335,291

The estimated lump sum payout if ALL active Members made the election is \$7.3 million. If all terminated vested made the election, then an additional lump sum payout of \$1 million is possible.

It is important to note that results of this analysis are estimates using October 1 2015 valuation data, with the resulting true impact dependent on which Members elect to receive cash outs if provided by the Town by way of Plan amendment.

This item was considered at the June 20, 2016 Regular Workshop Meeting and June 20, 2016 Special Meeting for first reading and forwarded to the July 5, 2016 Regular Meeting for second reading and public hearing.

Please feel free to contact me if you have any questions.

ORDINANCE 2016-22

AN ORDINANCE OF THE TOWN OF LONGBOAT KEY, FLORIDA, AMENDING THE CONSOLIDATED RETIREMENT SYSTEM FOR EMPLOYEES OF THE TOWN OF LONGBOAT KEY BY AMENDING SECTION 34.12, PLAN FREEZE AND PARTICIPATION IN DEFINED CONTRIBUTION PLAN; PROVIDING FOR AN ELECTION TO RECEIVE A REFUND OF ACCUMULATED CONTRIBUTIONS OR ACTUARIAL PRESENT VALUE OF FROZEN ACCRUED BENEFIT; AMENDING SECTION 34.42, PLAN FREEZE AND ENROLLMENT IN THE FLORIDA RETIREMENT SYSTEM; PROVIDING FOR AN ELECTION TO RECEIVE A REFUND OF ACCUMULATED CONTRIBUTIONS OR ACTUARIAL PRESENT VALUE OF FROZEN ACCRUED BENEFIT; AMENDING SECTION 34.72; PROVIDING FOR AN ELECTION TO RECEIVE A REFUND OF ACCUMULATED CONTRIBUTIONS OR ACTUARIAL PRESENT VALUE OF FROZEN ACCRUED BENEFIT; PROVIDING FOR SEVERABILITY; REPEALING ALL ORDINANCES IN CONFLICT HEREWITH; PROVIDING AN EFFECTIVE DATE.

BE IT ORDAINED BY THE TOWN COMMISSION OF THE TOWN OF LONGBOAT KEY, FLORIDA, THAT:

SECTION 1. Section 34.12, Plan freeze and participation in defined contribution plan, is amended to read as follows:

Sec. 34.12. Plan freeze and participation in defined contribution plan.

Notwithstanding any other provision of the system:

- (A) The accrued benefits of all members of this system who are employed and not participating in the DROP on February 1, 2014, shall be frozen on that date. All members shall be fully vested in their frozen accrued benefit. The value of each member's frozen accrued benefit shall be calculated in accordance with the provisions of the system in effect on January 25, 2014, based on the member's credited service and average final compensation on that date. The frozen accrued benefit shall be payable to the member upon termination of town employment and attaining age 55 with ten years of credited service, 25 years of credited service regardless of age, or age 60 regardless of years of credited service, whichever occurs first. In applying the preceding sentence, credited service shall include all credited service as a member of this system prior to February 1, 2014, and all periods of employment as a full-time police officer with the Town of Longboat Key on and after February 1, 2014. For the purpose of determining a member's frozen accrued benefit in accordance with this subsection (A), salary shall include any payments of accrued leave that would have been included in the member's salary if the member retired prior to February 1, 2014. Notwithstanding the preceding sentence, upon separation

from employment, the amount of accrued leave included in a member's salary for the purpose of determining the member's frozen accrued benefit shall be the lesser of the amount of leave accrued at the time of separation from employment, or the amount of accrued leave that would have been included in the member's salary if the member retired prior to February 1, 2014, and the member's frozen accrued benefit shall be adjusted accordingly.

- (B) No benefits shall be accrued under this system on or after February 1, 2014, and no member contributions to this system shall be required on or after that date. The town shall continue to make contributions to the system in accordance with subsection 34.17(C), and the board shall continue to administer the system in accordance with sections 34.13 through 34.41 until all accrued benefits have been paid to all eligible members and beneficiaries.
- (C) Any member of this system who is employed on January 25, 2014 and has less than ten years of credited service on that date may elect to receive a refund of their accumulated contributions or the actuarial present value of their frozen accrued benefit, in lieu of any other benefit under the system.
- (D) Effective February 1, 2014, all current and future police officers of the Town of Longboat Key shall participate in a defined contribution retirement plan established by the Town of Longboat Key, and shall be eligible for benefits and make contributions to the defined contribution plan for all service as a police officer with the town on and after that date, in accordance with the defined contribution plan, as it may be amended from time to time.
- (E) Members of this system who retired, entered the DROP or terminated town employment with the right to a deferred vested benefit prior to February 1, 2014 shall be entitled to receive benefits from the system in accordance with the provisions of the system in effect on the date of their retirement, DROP entry, or termination of employment.
- (F) Effective July 5, 2016, any member of this system with the right to receive a deferred vested benefit who has not begun to receive a benefit may, on or before October 1, 2016, make a one-time irrevocable election on a form provided by the Town to receive a refund of their accumulated contributions or the actuarial present value of their frozen accrued benefit, in lieu of any other benefit under the system. For the purpose of determining the actuarial present value of the frozen accrued benefit, such benefit shall include the lesser of the amount of leave accrued as of July 5, 2016, or the amount of accrued leave that would have been included in the member's salary if the member retired prior to February 1, 2014.

SECTION 2. Section 34.42, Plan freeze and enrollment in the Florida Retirement System, is amended to read as follows:

Sec. 34.42. Plan freeze and enrollment in the Florida Retirement System.

Notwithstanding any other provision of the system:

- (A) The accrued benefits of all members of this system who are employed and not participating in the DROP on September 30, 2013, shall be frozen on that date. All members shall be fully vested in their frozen accrued benefit based on their length of service as of September 30, 2013. The value of each member's

frozen accrued benefit shall be calculated in accordance with the provisions of the system in effect on September 30, 2013, based on the member's credited service and average final compensation on that date. The frozen accrued benefit shall be payable to the member upon termination of town employment and attaining age 55 with ten years of credited service, 25 years of credited service regardless of age, or age 60 regardless of years of credited service, whichever occurs first. In applying the preceding sentence, credited service shall include all credited service as a member of this system prior to October 1, 2013, and all periods of employment as a full-time firefighter with the Town of Longboat Key on and after October 1, 2013. For the purpose of determining a member's frozen accrued benefit in accordance with this subsection (A), salary shall include any payments of accrued leave that would have been included in the member's salary if the member retired prior to October 1, 2013. Notwithstanding the preceding sentence, upon separation from employment the amount of accrued leave included in a member's salary for the purpose of determining the member's frozen accrued benefit shall be the lesser of the amount of leave accrued at the time of separation from employment, or the amount of accrued leave that would have been included in the member's salary if the member retired prior to October 1, 2013, and the member's frozen accrued benefit shall be adjusted accordingly.

- (B) No benefits shall be accrued under this system on or after October 1, 2013, and no member contributions to this system shall be required on or after that date. The town shall continue to make contributions to the system in accordance with subsection 34.47(C), and the board shall continue to administer the system in accordance with sections 34.43 through 34.67, until all accrued benefits have been paid to all eligible members and beneficiaries.
- (C) Any member of this system who is employed on September 30, 2013, and has less than ten years of credited service on that date may elect to receive a refund of their accumulated contributions or the actuarial present value of their frozen accrued benefit, in lieu of any other benefit under the system.
- (D) Effective October 1, 2013, all current and future firefighters of the Town of Longboat Key shall be enrolled in the Florida Retirement System, and shall accrue benefits under and make contributions to the Florida Retirement System for all service as a firefighter with the town on and after that date, in accordance with the state statutes and rules applicable to the Florida Retirement System, as those statutes and rules may be amended from time to time.
- (E) Members of this system who retired, entered the DROP or terminated town employment with the right to a deferred vested benefit prior to October 1, 2013, shall be entitled to receive benefits from the system in accordance with the provisions of the system in effect on the date of their retirement, DROP entry, or termination of employment. Members who retire or enter the DROP prior to October 1, 2013, shall not be eligible for reemployment with the town after that date, except at the exclusive option of the town.
- (F) Effective July 5, 2016, any member of this system with the right to receive a deferred vested benefit who has not begun to receive a benefit may, on or before October 1, 2016, make a one-time irrevocable election on a form provided by the Town to receive a refund of their accumulated contributions or the actuarial present value of their frozen accrued benefit, in lieu of any other

benefit under the system. For the purpose of determining the actuarial present value of the frozen accrued benefit, such benefit shall include the lesser of the amount of leave accrued as of July 5, 2016, or the amount of accrued leave that would have been included in the member's salary if the member retired prior to October 1, 2013.

SECTION 3. Section 34.72, Plan freeze and participation in defined contribution plan, is amended to read as follows:

Sec. 34.72. Plan freeze and participation in defined contribution plan.

Notwithstanding any other provision of the system:

- (A) The accrued benefits of all members of this system who are employed and not participating in the DROP on September 30, 2013, shall be frozen on that date. All members shall be fully vested in their frozen accrued benefit based on their length of service. The value of each member's frozen accrued benefit shall be calculated in accordance with the provisions of the system in effect on September 30, 2013, based on the member's credited service and average final compensation on that date. The frozen accrued benefit shall be payable to the member upon termination of town employment and attaining age 55 with 30 years of credited service or age 62 regardless of years of credited service, whichever occurs first. Alternatively, a member who is employed and not participating in the DROP on September 30, 2013, may elect to receive the frozen accrued benefit, reduced in accordance with subsection 34.78(D), upon termination of town employment and attaining age 50 with 15 years of credited service. In applying the preceding two sentences, credited service shall include all credited service as a member of this system prior to October 1, 2013, and all periods of employment with the Town of Longboat Key on and after October 1, 2013. For the purpose of determining a member's frozen accrued benefit in accordance with this subsection (A), salary shall include any payments of accrued leave that do not exceed the member's accrued leave balance as of July 1, 2011, and that would have been included in the member's salary if the member retired prior to October 1, 2013. Notwithstanding the preceding sentence, upon separation from employment the amount of accrued leave included in a member's salary for the purpose of determining the member's frozen accrued benefit shall be the lesser of the amount of leave accrued at the time of separation from employment, or the amount of accrued leave that would have been included in the member's salary if the member retired prior to October 1, 2013, and the member's frozen accrued benefit shall be adjusted accordingly.
- (B) No benefits shall be accrued under this system on or after October 1, 2013, and no member contributions to this system shall be required on or after that date. The town shall continue to make contributions to the system in accordance with subsection 34.77(B), and the board shall continue to administer the system in accordance with sections 34.73 through 34.98, as modified by this section 34.72, until all accrued benefits have been paid to all eligible members and beneficiaries.

- (C) Any member of this system who is employed on September 30, 2013 and has less than ten years of credited service on that date may elect to receive a refund of their accumulated contributions or the actuarial present value of their frozen accrued benefit, in lieu of any other benefit under the system. Such election must be made in writing on a form provided by the town on or before December 13, 2013, and if a member does not make a timely election he/she shall retain the frozen accrued benefit and shall not be eligible for a refund of accumulated contributions or the actuarial present value of their frozen accrued benefit, except as otherwise provided in the plan.
- (D) Effective October 1, 2013, all current and future general employees of the Town of Longboat Key shall participate in a defined contribution retirement plan established by the Town of Longboat Key, and shall be eligible for benefits and make contributions to the defined contribution plan for all service as a general employee with the town on and after that date, in accordance with the defined contribution plan, as it may be amended from time to time.
- (E) Members of this system who retired, entered the drop or terminated town employment with the right to a deferred vested benefit prior to October 1, 2013 shall be entitled to receive benefits from the system in accordance with the provisions of the system in effect on the date of their retirement, DROP entry, or termination of employment. Members who retire or enter the DROP prior to October 1, 2013 shall not be eligible for reemployment with the town after that date, except at the exclusive option of the town.
- (F) Notwithstanding the provisions of subsection 34.96(B)(1), a member who as of June 1, 2013 is within five years of the normal retirement date, may enter the DROP without penalty or enhancements on the first day of any month prior to September 30, 2013. Any member entering DROP pursuant to this provision must execute a voluntary resignation irrevocable for any reason to be effective at the end of the member's participation in the DROP, and which provides that the member shall not be eligible for reemployment with the town, except at the exclusive option of the town.
- (G) Effective July 5, 2016, any member of this system with the right to receive a deferred vested benefit who has not begun to receive a benefit may, on or before October 1, 2016, make a one-time irrevocable election on a form provided by the Town to receive a refund of their accumulated contributions or the actuarial present value of their frozen accrued benefit, in lieu of any other benefit under the system. For the purpose of determining the actuarial present value of the frozen accrued benefit, such benefit shall include the lesser of the amount of leave accrued as of July 5, 2016, or the amount of accrued leave that would have been included in the member's salary if the member retired prior to October 1, 2013.

SECTION 4. All other ordinances of the Town of Longboat Key, Florida, or parts thereof which conflict with this or any part of this Ordinance are hereby repealed.

SECTION 5. If any section, subsection, sentence, clause, phrase of this ordinance, or the particular application thereof shall be held invalid by any court, administrative agency or other body with appropriate jurisdiction, the remaining section, subsection, sentences, clauses, or phrase under application shall not be affected thereby.

SECTION 6. This Ordinance shall take effect upon adoption.

Passed on the first reading the 20th day of June, 2016.

Adopted on the second reading and public hearing the day of , 2016.

Jack G. Duncan, Mayor

ATTEST:

Trish Granger, Town Clerk



PROPOSED ORDINANCE 2016-22

PENSION CASH OUT

REGULAR WORKSHOP AND SPECIAL MEETING

JULY 5, 2016



PENSION CASH OUT

- At the time of the freeze, members with less than 10 years of service were allowed an opportunity to cash out their accrued benefit in the Plan.
- The plan defines the method of payment if a member cashes out.
- An actuarial analysis was completed in May 2015 and updated June 2016 for all three plans to understand the impact on the funds if members with greater than 10 years of service were allowed to cash out.
- Town Manager asked Pension Board to offer an opinion on the impact to the funds.



PENSION CASH OUT

- At the July 22, 2015 Pension Board Meeting, the Board, by consensus of the Trustees, expressed no objection for the Town to move forward with a cash out offer to additional members of the Retirement System.
- On June 20, 2016 Workshop, the Town's actuary, Doug Lozen was invited to explain the actuarial impact.
- First reading was held on June 20, 2016 at a Special Meeting following the Workshop.



LUMP SUM PAYMENTS DEFINED

- A lump sum payment is equal to the present value of accrued benefits.
- Interest Rate used for lump sum payments are based on the Plan's definition of Actuarial Equivalence:
 - Firefighters – 8%
 - General Employees – 7.75%
 - Police Officers – 7.5%

Note: This is different than the Investment Rate of Return Assumption (Now 7% for all three plans). This is the valuation funding assumption approved by the Pension Board of Trustees in conjunction with the October 1, 2015 valuations.

- **At the June 20, 2016 Workshop, the Commission did NOT approve of changing the definition of Actuarial Equivalence.**



HISTORICAL CHANGES IN RATES

	<u>Actuarial Equivalent</u>		<u>Rate of Return Assumption</u>	
Police			10/1/15	7.0%
			10/1/14	7.5%
			10/1/13	8.0%
	9/23/13	7.5%		
Fire			10/1/15	7.0%
			10/1/14	7.5%
		8.0%	10/1/13	8.0%
General Employees			10/1/15	7.0%
			10/1/14	7.0%
			10/1/13	7.0%
	9/23/13	7.75%	10/1/12	7.75%



ACTUARIAL IMPACT ANALYSIS

- Scenario A – What would happen to the pension plan if all active members receive the lump sum equivalent of their accrued benefit (or accumulated Member Contributions, if greater)?; and
- Scenario B – What if only 50% of the most expensive active Plan members took the offer?



ACTUARIAL IMPACT ANALYSIS PERFORMED MAY 2015

- Data as of October 1 2014 Valuation
- Current Actuarial Equivalent Rates
 - General 7.75%
 - Fire 8%
 - Police 7.5%



**ACTUARIAL IMPACT ANALYSIS- SCENARIO A- ALL ACTIVE MEMBERS
AS OF OCTOBER 1 , 2014**

Actuarial Equivalent Rates:

General 7.75%

Fire 8%

Police 7.5%

SCENARIO A - All active Members

October 1 2014	Asset value- Current	Asset Value- Actuarial	Unfunded Accrued Actuarial Liability	Expected Net Cash Flow (Annual)	Town Contribution (Annual)
General	\$ 10,203,725	\$ 9,775,235	\$ 5,126,147	\$ (321,797)	\$ 738,676
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AFTER PAYOUT					
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TOTAL	\$ 26,157,032	\$ 24,619,139	\$ 23,251,742	\$ (836,290)	\$ 3,037,492



**ACTUARIAL IMPACT ANALYSIS- SCENARIO B- 50% ACTIVE MEMBERS
AS OF OCTOBER 1, 2014**

Actuarial Equivalent Rates:

General 7.75%					
SCENARIO B - 50% of Active (most Expensive Members)					
Fire 8%			Unfunded		
Police 7.5%	Asset value-	Asset Value-	Accrued	Expected Net	Town
October 1 2014	Current	Actuarial	Actuarial	Cash Flow	Contribution
			Liability	(Annual)	(Annual)
General	\$ 10,203,725	\$ 9,775,235	\$ 5,126,147	\$ (321,797)	\$ 738,676
Fire	\$ 15,707,549	\$ 15,026,121	\$ 13,703,215	\$ (216,305)	\$ 1,758,137
Police	\$ 6,858,039	\$ 6,429,064	\$ 4,741,178	\$ (231,728)	\$ 623,019
TOTAL	\$ 32,769,313	\$ 31,230,420	\$ 23,570,540	\$ (769,830)	\$ 3,119,832
SCENARIO B					
Lump Sum Payment	\$ (5,233,584)	\$ (5,232,584)	\$ (311,723)	\$ 39,736	\$ (53,288)
AFTER PAYOUT					
General	\$ 7,942,649	\$ 7,515,159	\$ 4,891,673	\$ (336,234)	\$ 714,218
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Police	\$ 5,974,055	\$ 5,545,080	\$ 4,785,933	\$ (235,915)	\$ 617,477
TOTAL	\$ 27,535,729	\$ 25,997,836	\$ 23,258,817	\$ (809,566)	\$ 3,066,544



PENSION CASH OUT

The actuarial accrued liability for each Member is roughly equal to the cash-out amount since the benefit is frozen. So while the accrued liability decreases by the cash out amount, plan assets also decrease by the same amount, hence little change in the Unfunded accrued liability.

	* Before	Cash Out	After
Plan Assets	\$ 32,749,715	\$ (1,000,000)	\$ 31,749,715
Total pension liability	\$ 57,642,811	\$ (1,000,000)	\$ 56,642,811
Unfunded Liability	\$ (24,893,096)		\$ (24,893,096)

* As of 9/30/2015



WHY WOULD WE ALLOW A CASH OUT?

- ▶ It transfers interest rate risk from the Town to the individual
- ▶ It reduces the number of pensioners and potentially reduces the life of the pension plan.
- ▶ There is a risk transfer from the Town to the Employee for future life expectancy for any cash outs.
- ▶ Graystone, Investment Advisor, sees no significant issues for the three plans under both worst case scenarios.
- ▶ All investments in the plan are liquid.
- ▶ If a sizable reduction in plan assets were to occur, no immediate change in the current 7% rate of return is required.
- ▶ Most active members are more than 5-10 years away from normal retirement date, therefore expected benefit payments will not change significantly over next 5-10 years under both scenarios.



ACTUARIAL IMPACT ANALYSIS

UPDATED JUNE 2016

- Most recent Valuation report October 1 2015
- Change the Actuarial Equivalent Rate to match the Investment Rate of Return Assumption of 7% (Estimated impact \$500,000)
- Quantify the Potential Payout of Adding Terminated Vested Members



ACTUARIAL IMPACT ANALYSIS SUMMARY

Summary of Lump Sum Payouts					
<u>SCENARIO A - All active Members</u>					
	Scenario A Oct 1 2014 Valuation Using Old Interest Rates	Scenario A Oct 1 2015 Valuation Using 7%	Increase in Cost	Scenario A Oct 1 2015 Valuation Using 7% Add Terminated Vested	Incremental Cost of Terminated Vested
LUMP SUM PAYOUT					
General	\$ 2,730,273	\$ 2,775,050	\$ 44,777	\$ 3,813,940	\$ 1,038,890
Fire	\$ 2,734,490	\$ 3,526,254	\$ 791,764	\$ 3,764,939	\$ 238,685
Police	\$ 1,147,518	\$ 1,229,662	\$ 82,144	\$ 1,287,377	\$ 57,715
TOTAL	\$ 6,612,281	\$ 7,530,966	\$ 918,685	\$ 8,866,256	\$ 1,335,290
Estimated Interest rate impact			(200,000)		(300,000)
Impact of October 1 2015 valuation data			\$ 718,685		\$ 1,035,290
Summary of Lump Sum Payouts					
<u>SCENARIO B - 50% of Active (most Expensive Members)</u>					
	Scenario B Oct 1 2014 Valuation Using Old Interest Rates	Scenario B Oct 1 2015 Valuation Using 7%	Increase in Cost	Scenario B Oct 1 2015 Valuation Using 7% Add Terminated Vested	Incremental Cost of Terminated Vested
LUMP SUM PAYOUT					
General	\$ 2,261,076	\$ 2,202,370	\$ (58,706)	\$ 3,241,260	\$ 1,038,890
Fire	\$ 2,088,524	\$ 2,667,425	\$ 578,901	\$ 2,906,111	\$ 238,686
Police	\$ 883,984	\$ 875,168	\$ (8,816)	\$ 932,883	\$ 57,715
TOTAL	\$ 5,233,584	\$ 5,744,963	\$ 511,379	\$ 7,080,254	\$ 1,335,291



PROPOSED ORDINANCE 2016-22

Proposed Ordinance

- Amends Sections 34.12 Police
34.42 Fire
34.72 General Employees
- Allows all three plans the cash out option for current employees with greater than 10 years vesting.
- **Allows terminated vested members the cash out option.**
- Sets a fixed election period of 90 days (Oct 1, 2016).
- Makes this a one time only election.
- ~~Amends Actuarial Equivalent Definition~~



PENSION CASH OUT

It is important to note that results of this analysis are estimates using October 1 2015 valuation data, with the resulting true impact dependent on which Members elect to receive cash outs if provided by the Town by way of Plan amendment.



Questions?



End of Agenda Item