

## M E M O R A N D U M

**To:** Town Manager  
**From:** Sue Smith, Finance Director  
**Report date:** August 30, 2022  
**Meeting date:** September 12, 2022  
**Subject:** Amendment to Consolidated Retirement System Investment Policy

### **Recommended Action**

Approve Amendment to Consolidated Retirement System Investment Policy.

### **Background**

The Consolidated Retirement System (CRS) Board has been monitoring and discussing the assumed rate of return for its investments and a desire to lower the current rate over time. The current rate is 7%. Over the past several years the market has fluctuated from 20% plus returns to negative returns. The Board currently uses a 4 year smoothing approach to minimize impacts to the highs and lows that can be associated with a single year of returns but there has been some interest in lowering the assumed rate of return. The Board had also received feedback from the State of Florida recommending a decrease in the assumed rate of return for the Town's frozen plans. At their August 17, 2022 Quarterly Meeting of the Consolidated Retirement System Board, the Trustees voted to reduce the assumed rate of return for its investments by 0.25% from 7% to 6.75%, at the recommendation of the Town's actuary, Doug Lozen (Foster & Foster).

The current CRS Board Investment Policy includes the 7% assumed rate of return. The Town's CRS Ordinance requires the Town Commission to approve any changes to the Investment Policy. As a result of this change by the CRS Board, the Commission will need to consider amending the CRS Investment Policy to reflect the new assumed rate of return. The Finance Director and Town Manager have reviewed the CRS Board action and support the change to the Policy.

The Commission is being asked to approve the Investment Policy now to allow for the rate to be timely implemented with the upcoming valuation measurement date of October 1, 2022. The actual effect of the change will impact the Town's pension contributions starting in October of 2023 (FY24).

The change to the assumed rate of return is estimated to increase the annual budgetary required contribution to the Plan by approximately \$122,000 annually beginning with the FY24 Budget and increase the Unfunded Actuarial Accrued Liability by \$1.5 million, however the Consolidated Retirement System Board and the Town's actuary believe that this is a more reasonable return expectation over the long term than the current 7% assumption.

The liability will increase because future benefit payments are discounted to today's dollars using the new rate and, therefore, requires larger contributions today to cover payments of future benefits if we expect a lower return on future investment earnings. The remaining amortization period is 20 years.

This is based on an actuarial study performed in November of 2020, which was recently updated using October 1, 2021 valuation data. These estimates are subject to change based on updated October 1, 2022 data which could include market losses that exist on the measurement date.

Attached is a redlined Investment Policy with the updated assumed rate of return.

In addition, attached is a memorandum and PowerPoint presentation from Steve Branham, Chair of the CRS, who will also appear before the Commission at their September 12, 2022 Regular Meeting to help update Commissioners and answer any questions.

### **Staff Recommendation**

Approve Amendment to Consolidated Retirement System Investment Policy.

### **Attachments (Available in the Town Clerk's Office)**

- A. Revised Consolidated Retirement System Board Investment Policy
- B. Memo from Steve Branham, Chair, Consolidated Retirement System Board
- C. PowerPoint Presentation

**End of Agenda Item**