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City of Rockledge

Police Employees Retirement Plan

Actuarial Valuation as of October 1, 2018

APPROVED BY POLICE EMPLOYEES' RETIREMENT BOARD
FEBRUARY 22, 2019 *KJR*



February 4, 2019

REPORT TO DETERMINE MINIMUM FUNDING REQUIREMENTS
FOR THE PLAN AND FISCAL YEAR
BEGINNING OCTOBER 1, 2019



February 4, 2019

Board of Trustees
City of Rockledge Police Employees Retirement Plan
Rockledge, Florida

RE: Actuarial Valuation as of October 1, 2018

Dear Board Members:

We are pleased to present the actuarial valuation as of October 1, 2018 for the City of Rockledge Police Employees Retirement Plan (the Plan). This report provides a review of the current funded status of the Plan, establishes the minimum funding requirements for the fiscal year ending September 30, 2020, and provides an analysis of experience since the last valuation. In addition to providing the summary and derivation of actuarial findings, this report describes the data, assumptions, and methods used to create these results.

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.

Statement by Enrolled Actuary:

"This actuarial valuation and/or cost determination was prepared and completed by me or under my direct supervision, and I acknowledge responsibility for the results. To the best of my knowledge, the results are complete and accurate, and in my opinion, the techniques and assumptions used are reasonable and meet the requirements and intent of Part VII, Chapter 112, Florida Statutes. There is no benefit or expense to be provided by the plan and/or paid from the plan's assets for which liabilities or current costs have not been established or otherwise taken into account in the valuation. All known events or trends which may require a material increase in plan costs or required contribution rates have been taken into account in the valuation."

Please let us know when we may present these results to you in person and answer any questions you may have.

Sincerely,

A handwritten signature in black ink, appearing to read 'Chad M. Little'.

Chad M. Little, ASA, EA
Partner, Consulting Actuary
Enrollment Number 17-6619

A handwritten signature in black ink, appearing to read 'Paula C. Freiman'.

Paula C. Freiman, ASA, EA
Partner, Consulting Actuary
Enrollment Number 17-5796

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Section

1

Board Summary

A summary of the key valuation findings are compared with the results of the prior valuation below.

Summary of Principal Valuation Results

Fiscal Year Ending September 30,	2019	2020
Minimum Funding Requirements		
<u>Minimum Funding Requirement</u>		
Minimum Required City Contribution	\$238,901	\$223,878
Estimated State Contribution	<u>195,099</u>	<u>216,318</u>
Total Minimum Funding Requirement (City plus State)	\$434,000	\$440,196
Minimum Required City Contribution	11.98%	10.73%
Estimated State Contribution	<u>9.78%</u>	<u>10.37%</u>
Total Minimum Funding Requirement (City plus State)	21.76%	21.10%

Notes: (1) \$434,000 is the minimum funding requirement for fiscal 2019 including both contributions from the City and those from the State of Florida. We have estimated the City portion as \$238,901 which must be deposited on December 15, 2018. The annual contribution paid by the City should take into account the actual amount of premium tax revenues received from the State of Florida that may be applied toward the actuarially determined contribution so that the total deposit for fiscal 2019 is at least \$434,000.

(2) \$440,196 is the minimum funding requirement for fiscal 2020 including both contributions from the City and those from the State of Florida. We have estimated the City portion as \$223,878 which must be deposited on December 15, 2019. The annual contribution paid by the City should take into account the actual amount of premium tax revenues received from the State of Florida that may be applied toward the actuarially determined contribution so that the total deposit for fiscal 2020 is at least \$440,196.

Funded Status

Valuation as of October 1,	2017	2018
Accrued Liability (AL)	\$13,925,025	\$15,168,036
Actuarial Value of Assets	<u>(13,235,067)</u>	<u>(14,500,525)</u>
Unfunded Accrued Liability (UAL)	\$689,958	\$667,511
Funded Percentage	95.05%	95.60%

Key Assumptions

Valuation as of October 1,	2017	2018
Assumed Investment Return, Net of Expenses	8.00%	7.80%
Salary Increase Assumption	6.00%	6.00%

Summary of Significant Events

Determination of the funded status of the Plan and minimum funding requirements are based on funding policy, participant data, asset information, Plan provisions, actuarial methods and assumptions, as well as contributions made to the Plan by the State of Florida. Any significant events associated with these items are discussed in the following.

In preparing our report we relied, without audit, on information (some oral and some written) supplied by the Plan Administrator and the City. This information includes, but is not limited to, statutory provisions, employee census, and financial information. In our examination of these data, we have found them to be reasonably consistent and comparable with data used for other purposes. Since the valuation results are dependent on the integrity of the data supplied, the results can be expected to differ if the underlying data is incomplete or missing. It should be noted that if any data or other information is inaccurate or incomplete, our calculations may need to be revised.

Participant Data

During the year active membership changed from 45 to 44 members due to 4 new hires, 1 DROP entrant, and 4 non-vested terminations. The following provides a summary comparing the actual and expected pay increases for the 12-month periods ending on the date specified.

Year Ended September 30,	Individual		Total Payroll Increase
	Actual	Expected	
2018	2.6%	6.0%	(0.7%)
2017	1.8%	6.0%	(8.0%)
2016	5.2%	6.0%	2.0%
2015	4.1%	6.0%	(3.3%)
2014	5.3%	6.0%	10.1%
2013	6.0%	6.0%	(7.5%)
2012	(6.7%)	6.0%	(5.7%)
2011	5.3%	6.0%	4.5%
2010	0.3%	6.0%	1.4%
2009	2.4%	6.0%	5.8%
Average:	2.6%	6.0%	(0.3%)

Pay increases were less than expected with the actual average pay increase amongst continuing actives at 2.6% in comparison to the 6.0% salary increase assumption. In addition, total payroll decreased 0.3% on average over the last 10 years. Florida Statutes 112.64(5)(a) requires that the payroll growth assumption not exceed the average payroll growth for the prior ten years. This requirement is met in that the Unfunded Accrued Liability is amortized as a level dollar amount.

Overall, there was a demographic gain primarily due to pay increases less than expected. Should a pattern of consistent gains or losses develop, assumptions will be adjusted as needed. We recommend a review of actuarial experience be conducted.

Assets

The investment return on the Market Value of Assets was 9.93% and the return on the Actuarial Value of Assets was 8.69%, each in comparison to the 8.0% rate of return assumed for the fiscal year ending September 30, 2018. Because the return on the Actuarial Value of Assets was more than the net

assumed investment return, there was an actuarial investment gain for the year ending September 30, 2018.

Note only a portion of actual investment gains or losses are recognized in the current year Actuarial Value of Assets with the remainder recognized over the next four years. Even if all assumptions are realized in the next several years, the Plan will experience changes in the required contribution rate until prior gains and losses are fully recognized.

The table below provides a comparison of the investment return on the Market Value of Assets and the Actuarial Value of Assets in comparison to the investment return assumed in the valuation of the Plan.

12-Month Period Ended September 30,	% Market Return	% Actuarial Return	% Assumed Return
2018	9.93 %	8.69 %	8.0 %
2017	12.80 %	8.08 %	8.0 %
2016	9.68 %	7.51 %	8.0 %
2015	0.11 %	4.77 %	8.0 %
2014	9.65 %	7.59 %	8.0 %
2013	8.84 %	5.84 %	8.0 %
2012	12.43 %	0.96 %	8.0 %
2011	(2.80) %	0.57 %	8.0 %
2010	7.44 %	2.13 %	8.0 %
2009	0.78 %	2.10 %	8.0 %
Average	6.76 %	4.78 %	8.0 %

Investment returns less than the assumed rate of return result in increased annual minimum required contributions in the future.

Plan Provisions

There were no changes in Plan provisions since the prior valuation of the Plan.

Methods

There have been no changes in Methods since the prior valuation of the Plan.

Assumptions

The net assumed rate of investment return was revised from 8.0% used in the October 1, 2017 actuarial valuation to 7.8% for this October 1, 2018 actuarial valuation of the Plan as directed by the Board of Trustees. The 7.8% net assumed return is a prescribed assumption as defined by Actuarial Standard of Practice No. 27 (ASOP 27), as it is set by the Board. The prescribed assumption significantly conflicts with our judgment regarding what would constitute a reasonable assumption for the purpose of the measurement as discussed in ASOP 27. As discussed with the Board we recommend lowering the net assumed return further.

State Contributions

The Estimated Minimum Required City Contribution shown on page 1 assumes that the premium tax money received from the State will be in the same amount received in the prior year. Should the amount received in the fiscal year ending September 30, 2019 or 2020 be less than expected, or should a portion of the State contribution be used towards the DC component of the Plan, the City will need to contribute any potential shortfall to the Plan.

Section 2 Results Derivation

In this section, the assets and liabilities of the Plan are shown in detail. Assets and liabilities are then compared to determine the funded status and minimum funding requirements.

While asset information is based on the fair market value of assets, along with any techniques used to smooth out market fluctuations, liabilities are determined through a combination of the benefit provisions, participant census data which contains information for the members who will receive those benefits, and the methods and assumptions used with regard to how benefits will be paid to members. A summary of participant data, an outline of the benefit provisions, and a description of the methods and assumptions used in this valuation are described in Section 4.

Financial Information

Over the life of the Plan, the majority of assets are typically generated from investment return. In this section, we describe how the assets of the Plan are invested, show how the actuarial value of assets is derived, and review the investment results since the prior valuation.

Investment Allocation

Valuation Date	October 1, 2017		October 1, 2018	
Stocks	\$10,037,567	74%	\$11,478,337	77%
Fixed Income Securities	2,508,481	19%	2,437,184	16%
Cash and Cash Equivalents	308,194	2%	349,798	2%
Real Estate	641,007	5%	685,275	5%
Net Receivables	<u>13,908</u>	<u>0%</u>	<u>15,234</u>	<u>0%</u>
Fair Market Value of Assets	\$13,509,157	100%	\$14,965,828	100%

Reconciliation of Market Value of Assets

Year Ending September 30,	2017	2018
1. Market Value of Assets at Beginning of Year	\$11,860,589	\$13,509,157
2. Contributions		
a. Employer	\$218,130	\$259,625
b. State	195,099	216,318
c. Plan Members	<u>155,403</u>	<u>151,048</u>
d. Total Contributions	\$568,632	\$626,991
3. Investment Income		
a. Realized Appreciation (Depreciation)	\$(7,203)	\$(22,322)
b. Unrealized Appreciation (Depreciation)	1,275,652	1,042,939
c. Interest plus Dividends	296,190	362,938
d. Investment Expense	<u>(38,698)</u>	<u>(37,192)</u>
e. Net Investment Income	\$1,525,941	\$1,346,363
4. Deductions		
a. Benefits	\$(373,818)	\$(417,707)
b. Refund of Contributions	(9,133)	(36,198)
c. DROP Balance Disbursement	0	0
d. Administrative Expense	<u>(63,054)</u>	<u>(62,778)</u>
e. Total Deductions	\$(446,005)	\$(516,683)
5. Net Increase	<u>\$1,648,568</u>	<u>\$1,456,671</u>
6. Market Value of Assets at End of Year	\$13,509,157	\$14,965,828
7. Return on Market Value of Assets = 2I / (A + B - I)	12.80%	9.93 %

Development of Actuarial Value of Assets

The Market Value of Assets is adjusted to recognize investment earnings greater than (or less than) the assumed net investment return over a five-year period. The Actuarial Value of Assets is no more than 120% and no less than 80% of the Market Value of Assets.

1.	Market Value of Assets as of October 1, 2018			\$14,965,828
2.	Phase-In Gains (Losses) Over Five Year Period			
	<u>Year Ending</u>	<u>Original Gain (Loss)</u>	<u>Percent Unrecognized</u>	<u>Unrecognized Gain (Loss)</u>
a.	September 30, 2018	\$263,486	80%	\$210,789
b.	September 30, 2017	577,029	60%	346,217
c.	September 30, 2016	188,731	40%	75,492
d.	September 30, 2015	(835,973)	20%	<u>(167,195)</u>
e.	Total			\$465,303
3.	Preliminary Actuarial Value of Assets			\$14,500,525
4.	Corridor Around Market Value			
a.	Minimum = 80% of Market Value of Assets			\$11,972,662
b.	Maximum = 120% of Market Value of Assets			\$17,958,994
c.	Corridor Adjustment to Preliminary Actuarial Value			\$0
5.	Actuarial Value of Assets as of October 1, 2018			\$14,500,525

Development of Historical Gain or Loss on Market Value of Assets

Fiscal Year End	2018	2017
1. Market Value of Assets - Beginning of Year	\$13,509,157	\$11,860,589
2. Expected Interest on Assets	1,080,733	948,847
3. Contributions	626,991	568,632
4. Benefit Payments + Administrative Expenses	(516,683)	(446,005)
5. Interest on items (3) and (4)	<u>2,144</u>	<u>65</u>
6. Expected Value of Assets at End of Year	\$14,702,342	\$12,932,128
7. Market Value of Assets - End of Year	\$14,965,828	\$13,509,157
8. Gain (Loss) for Plan Year = (7) - (6)	\$263,486	\$577,029

Fiscal Year End	2016	2015
1. Market Value of Assets - Beginning of Year	\$10,698,704	\$10,674,501
2. Expected Interest on Assets	855,896	853,960
3. Contributions	568,265	553,522
4. Benefit Payments + Administrative Expenses	(448,165)	(540,777)
5. Interest on items (3) and (4)	<u>(2,842)</u>	<u>(6,529)</u>
6. Expected Value of Assets at End of Year	\$11,671,858	\$11,534,677
7. Market Value of Assets - End of Year	\$11,860,589	\$10,698,704
8. Gain (Loss) for Plan Year = (7) - (6)	\$188,731	\$(835,973)

Historical Asset Values

<u>Year Ending September 30,</u>	<u>Actuarial Value of Assets</u>	<u>Market Value of Assets</u>	<u>% Market Return</u>	<u>% Actuarial Return</u>	<u>% Assumed Return</u>
2018	\$14,500,525	\$14,965,828	9.93 %	8.69 %	8.00 %
2017	13,235,067	13,509,157	12.80 %	8.08 %	8.00 %
2016	12,127,770	11,860,589	9.68 %	7.51 %	8.00 %
2015	11,164,802	10,698,704	0.11 %	4.77 %	8.00 %
2014	10,643,865	10,799,501	9.65 %	7.59 %	8.00 %
2013	9,402,198	9,694,311	8.84 %	5.84 %	8.00 %
2012	8,736,203	8,762,060	12.43 %	0.96 %	8.00 %
2011	8,414,417	7,566,604	(2.80)%	0.57 %	8.00 %
2010	8,262,345	7,614,445	7.44 %	2.13 %	8.00 %
2009	8,021,574	6,963,511	0.78 %	2.10 %	8.00 %

Historical Contribution Amounts

<u>Year Ending September 30,</u>	<u>Employer</u>	<u>State</u>	<u>Members</u>	<u>Total</u>
2018	\$259,625	\$216,318	\$151,048	\$626,991
2017	218,130	195,099	155,403	568,632
2016	214,124	191,152	162,989	568,265
2015	218,903	175,977	158,642	553,522
2014	175,170	175,891	158,054	509,115
2013	170,374	170,685	202,692	543,751
2012	176,060	174,478	162,601	513,139
2011	167,856	166,718	167,856	502,430
2010	159,519	162,716	159,519	481,754
2009	161,204	167,324	161,204	489,732

Historical Deductions from Fund

<u>Year Ending September 30,</u>	<u>Benefits</u>	<u>Refunds</u>	<u>Administrative Expense</u>	<u>Total</u>
2018	\$417,707	\$36,198	\$62,778	\$516,683
2017	373,818	9,133	63,054	446,005
2016	357,372	37,934	52,859	448,165
2015	414,338	56,004	70,435	540,777
2014	241,507	35,759	69,739	347,005
2013	241,507	93,581	57,516	392,604
2012	242,060	2,045	28,833	272,938
2011	247,648	38,828	48,140	334,616
2010	247,648	61,665	44,177	353,490
2009	211,230	8,015	30,998	250,243

Historical State Contributions

Year Ending September 30	State Contributions
2018	\$216,318
2017	195,099
2016	191,152
2015	175,977
2014	175,891
2013	170,685
2012	174,478
2011	166,718
2010	162,716
2009	167,324
2008	166,345
2007	169,433
2006	164,202
2005	155,180
2004	144,978
2003	110,868
2002	101,126
2001	85,770
2000	78,865
1999	79,929
1998	80,871

Present Value of Benefits

Valuation as of October 1,	2017	2018
1. Active Members		
a. Retirement Benefits	\$8,287,709	\$8,871,509
b. Deferred Benefits	520,919	546,338
c. Survivor Benefits	184,286	189,454
d. Disability Retirement	<u>301,288</u>	<u>310,825</u>
e. Total for Active Members	\$9,294,202	\$9,918,126
2. Inactive Members		
a. Retired Members	\$7,155,453	\$8,131,681
b. Terminated members	1,061,588	855,295
c. Beneficiaries	0	0
d. Disability Retirement	<u>135,984</u>	<u>136,294</u>
e. Total for Inactive Members	\$8,353,025	\$9,123,270
3. Present Value of Benefits	\$17,647,227	\$19,041,396

Accrued Liability

Valuation as of October 1,	2017	2018
1. Active Members		
a. Retirement Benefits	\$5,326,168	\$5,783,165
b. Deferred Benefits	50,683	58,012
c. Survivor Benefits	76,381	80,044
d. Disability Retirement	<u>118,768</u>	<u>123,545</u>
e. Total for Active Members	\$5,572,000	\$6,044,766
2. Inactive Members		
a. Retired Members	\$7,155,453	\$8,131,681
b. Terminated members	1,061,588	855,295
c. Beneficiaries	0	0
d. Disability Retirement	<u>135,984</u>	<u>136,294</u>
e. Total for Inactive Members	\$8,353,025	\$9,123,270
3. Accrued Liability	\$13,925,025	\$15,168,036

Normal Cost

Valuation as of October 1,		2017	2018
1.	Preliminary Normal Cost		
a.	Retirement Benefits	\$307,579	\$320,763
b.	Deferred Benefits	47,546	49,363
c.	Survivor Benefits	11,013	11,187
d.	Disability Retirement	<u>19,283</u>	<u>19,857</u>
e.	Total	\$385,421	\$401,170
2.	Total Normal Cost		
a.	Preliminary Normal Cost	\$385,421	\$401,170
b.	Estimated Administrative Expense	<u>63,054</u>	<u>62,778</u>
c.	Total Normal Cost	\$448,475	\$463,948
d.	Total Normal Cost as a Percent of Pay	21.34%	22.24%
3.	Employer Normal Cost		
a.	Preliminary Normal Cost	\$385,421	
b.	Actual Administrative Expense	62,778	
c.	Actual Employee Contributions	<u>(151,048)</u>	
d.	Employer Normal Cost	\$297,151	
4.	Valuation Payroll	\$2,101,925	\$2,086,482

Unfunded Accrued Liability

Derivation of Unfunded Accrued Liability (UAL)

Unfunded Accrued Liability

1. Accrued Liability	\$15,168,036
2. Actuarial Value of Assets	<u>(14,500,525)</u>
3. Unfunded Accrued Liability	\$667,511

Determination of Expected Unfunded Accrued Liability

1. Unfunded Accrued Liability as of Prior Year	\$689,958
2. Interest for a full year on (1)	55,197
3. Employer Normal Cost (Including Administrative Expenses) as of Prior Yr.	297,151
4. Interest for a full year on (3)	23,772
5. City Plus State Contribution	(475,943)
6. Interest on Contribution for Time on Deposit	(16,769)
7. Change in Plan, Methods or Assumptions	<u>321,084</u>
8. Expected Unfunded Accrued Liability	\$894,450

Calculation of (Gain) or Loss

1. Actual Unfunded Accrued Liability	\$667,511
2. Expected Unfunded Accrued Liability	<u>894,450</u>
3. Total (Gain) or Loss	\$(226,939)

Reconciliation of Unfunded Accrued Liability

1. Unfunded Accrued Liability as of Prior Year	\$689,958
2. Total Change in Unfunded Accrued Liability	
a. Expected Change in Unfunded Accrued Liability	\$(116,592)
b. Change in Plan, Methods or Assumptions	321,084
c. Change Due to (Gain) or Loss	
i. Portion of (Gain) / Loss Due to Investments	\$(94,201)
ii. Portion of (Gain) / Loss Due to Demographic Experience	<u>(132,738)</u>
iii. Total (Gain) or Loss	\$(226,939)
d. Total Change in Unfunded Accrued Liability	\$(22,447)
3. Unfunded Accrued Liability	\$667,511

Amortization of Unfunded Liability

The Unfunded Actuarial Accrued Liability is being amortized as a level dollar amount based on the interest assumption. Changes in the Unfunded Actuarial Accrued Liability due to plan changes, assumption changes, method changes, or gains and losses are all amortized over a 25-year period.

Amortization Bases

	Effective 10/1	Source	Original Balance	Remaining Balance	Adjusted Remaining Balance	Years Remain	Level \$ Amortization
1.	2005	Method Change	\$(129,220)	\$(64,545)	\$(54,493)	17	\$(5,468)
2.	2006	Actuarial Gain	(154,247)	(77,295)	(65,253)	18	(6,369)
3.	2007	Actuarial Gain	(538,306)	(269,823)	(227,788)	19	(21,687)
4.	2008	Actuarial Loss	1,693,799	837,184	706,761	20	65,786
5.	2008	Method Change	7,606	3,803	3,211	20	299
6.	2008	Method Change	(1,183,820)	(591,981)	(499,757)	20	(46,518)
7.	2009	Actuarial Loss	449,531	223,736	188,881	21	17,224
8.	2010	Actuarial Loss	46,391	22,933	19,360	22	1,733
9.	2011	Actuarial Loss	489,026	239,636	202,304	23	17,802
10.	2012	Actuarial Gain	(278,260)	(134,935)	(113,914)	24	(9,870)
11.	2012	Asmp/Method Chg	363,487	176,266	148,806	24	12,893
12.	2013	Actuarial Loss	22,767	10,909	9,210	25	787
13.	2013	Assumption Change	10,161	4,866	4,108	25	351
14.	2014	Actuarial Loss	42,565	40,155	33,899	26	2,858
15.	2014	Assumption Change	11,211	10,578	8,930	26	753
16.	2015	Actuarial Loss	217,978	203,385	171,700	22	15,368
17.	2015	Assumption Change	11,608	10,831	9,144	22	818
18.	2016	Actuarial Gain	(108,646)	(106,960)	(90,297)	23	(7,946)
19.	2016	Assumption Change	226,678	223,159	188,394	23	16,578
20.	2017	Actuarial Gain	(79,994)	(78,899)	(66,607)	24	(5,771)
21.	2017	Assumption Change	(3,883)	(3,830)	(3,233)	24	(280)
22.	2018	Actuarial Gain	(226,939)	(226,939)	(226,939)	25	(19,385)
23.	2018	Assumption Change	321,084	321,084	321,084	25	27,427
Scheduled Amortization Payment							\$57,383
Outstanding Bases				\$773,318	\$667,511		

Projected Unfunded Accrued Liability and Amortization Payments

Plan Year Beginning October 1	Total Outstanding Bases	Total Amortization Payment
2018	\$667,511	\$57,383
2019	657,718	57,382
2020	647,162	57,383
2021	635,782	57,384
2022	623,513	57,383
2023	610,288	57,384
2024	596,031	57,383
2025	580,662	57,383
2026	564,095	57,385
2027	546,233	57,384
2028	526,980	57,381
2029	506,227	57,385
2030	483,852	57,383
2031	459,734	57,381
2032	433,736	57,380
2033	405,712	57,384
2034	375,497	57,380
2035	342,931	62,851
2036	301,926	69,215
2037	250,863	90,910
2038	172,429	71,338
2039	108,977	54,116
2040	59,140	36,193
2041	24,736	9,765
2042	16,139	12,788
2043	3,612	3,612

Actions Taken to Reduce Unfunded Actuarial Accrued Liability

The required contributions calculated each year include a payment for the amortization of the unfunded actuarial accrued liability. This payment is designed to reduce the unfunded actuarial accrued liability in an orderly fashion over the next 26 years.

Minimum Funding Requirements

Determination of Required Contribution

Valuation as of October 1, Funding for Year Ending September 30,	2017 2019	2018 2020
1. Minimum Required Contribution		
a. Total Normal Cost	\$448,475	\$463,948
b. Amortization of Unfunded Accrued Liability	<u>61,095</u>	<u>57,383</u>
c. Beginning of Year Contribution	\$509,570	\$521,331
d. Interest	<u>64,015</u>	<u>64,919</u>
e. Minimum Required Contribution	\$573,585	\$586,250
f. Percent of Pay	28.76 %	28.10 %
2. Expected Member Contributions		
a. Expected Member Contributions	\$139,585	\$146,054
b. Percent of Pay	7.00 %	7.00 %
3. Expected Contributions from State		
a. Expected State Contribution	\$195,099	\$216,318
b. Percent of Pay	9.78 %	10.37 %
4. City Policy Contribution		
a. City Policy Contribution	\$238,901	\$223,878
b. Percent of Valuation Payroll	11.98 %	10.73 %
5. Valuation Payroll	\$1,994,069	\$2,086,482

Note: The \$238,901 minimum funding requirement for fiscal 2019 must be deposited on December 15, 2018. The \$223,878 minimum funding requirement for fiscal 2020 must be deposited on December 15, 2019. The actual premium tax distributions for the fiscal years ending September 30, 2019 and 2020 are not yet known. If state contributions are less than expected the City contributions must be increased to make up the difference.

Reconciliations

Reconciliation of Funded Status

Change in Funded Percentage

	Unfunded Actuarial Accrued Liability	Funded Percentage	Change in Unfunded Actuarial Accrued Liability	Change in Funded Percentage
As of Prior Valuation	\$689,958	95.05 %		
Changes in due to:				
Normal Operation of Plan	573,366	96.17 %	\$(116,592)	1.12 %
Investment Experience	479,165	96.80 %	(94,201)	0.63 %
Demographic Experience	346,427	97.67 %	(132,738)	0.87 %
Net Assumed Return 7.8%	667,511	95.60 %	<u>321,084</u>	<u>(2.07)%</u>
Total Changes			\$(22,447)	0.55 %
As of Current Valuation	\$667,511	95.60 %		

Reconciliation of City Minimum Funding Requirement

	Dollar Amount	% of Pay
City Required Contribution for Fiscal 2019	\$238,901	11.98 %
Changes in Contribution due to:		
Normal Operation of Plan	\$0	0.00 %
Change in Expenses	(303)	(0.01)%
Change in State \$	(19,950)	(1.01)%
Investment Experience	(8,961)	(0.45)%
Demographic Experience	(31,923)	(1.99)%
Net Assumed Return 7.8%	<u>46,114</u>	<u>2.21 %</u>
Total Changes	\$(15,023)	(1.25)%
City Required Contribution for Fiscal 2020	\$223,878	10.73 %

Note: The City required contributions shown above must be deposited on December 15.

Section
3

Accounting Information

Information Required by GASB 67/68

A supplemental report provides information under the Governmental Accounting Standards Board No. 67/68.

Statement of Accumulated Plan Benefits

The present value of accrued benefits is an estimate of the liability for all benefits accrued to date.

Valuation as of October 1,	2017	2018
1. Actuarial present value of accumulated benefits		
a. Participants currently receiving benefits	\$7,291,437	\$8,267,975
b. Other participants	<u>4,890,736</u>	<u>5,082,277</u>
c. Vested participants	\$12,182,173	\$13,350,252
d. Nonvested participants	<u>661,096</u>	<u>692,037</u>
e. Total	\$12,843,269	\$14,042,289
2. Change in actuarial present value of accumulated benefits		
a. Actuarial present value of accumulated benefits beginning of year		\$12,843,269
b. Increase (decrease) during year attributable to:		
i. Plan amendment		\$0
ii. Change in assumptions or methods		302,465
iii. Increase for interest and probability of payment due to decrease in discount period and benefits accrued		1,350,460
iv. Benefits paid		(453,905)
v. Other		<u>0</u>
vi. Net increase (decrease)		\$1,199,020
c. Actuarial present value of accumulated benefits end of year		\$14,042,289

Other Disclosures Required by the State of Florida

Valuation as of October 1,	2017	2018
Present value of active member:		
Future salaries (attained age)	\$21,131,617	\$20,945,840
Future contributions (attained age)	\$1,479,213	\$1,466,209
Balance of contributions with interest for actives	\$1,686,325	\$1,794,150

Required Disclosure Under F.S. 112.664(1)

As required under F.S. Section 112.664(1) we have produced the following information:

- (a) Total pension liability calculated based on mortality used in one of the last two Florida Retirement System (FRS) valuations. This actuarial valuation assumes mortality as used in the July 1, 2016, 2017 and 2018 actuarial valuations for special risk members of FRS.
- (b) Total pension liability calculated using an assumed interest rate that is 200 basis points lower than that assumed in the valuation of the Plan.
- (c) Determination of the number of months or years for which the current market value of assets is adequate to sustain the payment of expected retirement benefits.
- (d) Recommended contribution to the Plan using the most recent valuation and the contributions necessary prepared pursuant to (a) and (b) stated as a dollar amount and % of payroll.

	2% Decrease (5.80%)	Current Discount Rate (7.80%)	2% Increase (9.80%)
Total pension liability	\$19,124,585	\$15,168,036	\$12,409,189
Plan fiduciary net position	<u>(14,965,828)</u>	<u>(14,965,828)</u>	<u>(14,965,828)</u>
Net pension liability	<u>\$4,158,757</u>	<u>\$202,208</u>	<u>\$(2,556,639)</u>
 Plan fiduciary net position as a percentage of the total pension liability	 78.25%	 98.67%	 120.60%
 Years of benefit payments:			
Expected for current members:	100	100	100
Paid for with current assets:	18.56	24.43	100.00
 City Plus State Contribution Requirement, Plus Expected Employee Contributions			
Dollar Amount	\$1,106,330	\$586,250	\$388,284
Percent of Payroll	53.02%	28.10%	18.61%

Required Disclosure Under F.S. 112.664(2)(b)2.

F.S. Section 112.664(2)(b)2. - For the previous five years, beginning with 2013, a side-by-side comparison of the plan's assumed rate of return compared to the actual rate of return, as well as the percentages of cash, equity, bond and alternative investments in the plan portfolio.

Year Ending September 30,	2018	2017	2016	2015	2014
Assumed rate of return	8.0%	8.0%	8.0%	8.0%	8.0%
Actual rate of return	9.9%	12.8%	9.7%	0.1%	9.6%
Percentages of assets in:					
Cash	2%	2%	1%	1%	2%
Equity	77%	74%	71%	66%	66%
Bond	16%	19%	21%	31%	29%
Alternative	5%	5%	7%	2%	3%
Total	100%	100%	100%	100%	100%

Section 4 Supplementary Information

Summary of Participant Data

Member Statistics

Valuation as of October 1,	2017	2018
<u>Active Participants</u>		
Number	45	44
Average Age	38.4	38.7
Average Credited Service	9.1	9.7
Percent Male	75.6	72.7
Average Valuation Salary	\$47,944	\$48,696
Total Valuation Salary	\$2,157,464	\$2,142,606
Payroll Covered in Valuation	\$2,101,925	\$2,086,482
<u>Terminated with Rights to Deferred Benefits</u>		
Number	5	4
Average Age	44.8	44.2
Percent Male	80.0	75.0
Average Monthly Benefit	\$2,117	\$2,137
<u>Retirements (DROP and Service Retirees)</u>		
Number	15	17
Average Age	59.9	59.9
Percent Male	100.0	100.0
Average Monthly Benefit	\$3,386	\$3,251
Total of DROP Account Balances September 30	\$185,925	\$445,646
<u>Beneficiaries</u>		
Number	0	0
Average Age	0.0	0.0
Percent Male	0.0	0.0
Average Monthly Benefit	\$0	\$0
<u>Disability Retirements</u>		
Number	1	1
Average Age	56.1	57.1
Percent Male	100.0	100.0
Average Monthly Benefit	\$1,239	\$1,239

Number of Active Members by Age and Service as of October 1, 2018

Age	< 1	< 5	< 10	< 15	< 20	< 25	< 30	< 35	Total
< 20									
< 25	1	3							4
< 30		6	1						7
< 35	2	3	1	2					8
< 40		1	2	3					6
< 45			2	3	2				7
< 50			2				2		4
< 55			1	1	1	2	1		6
< 60						1			1
< 65					1				1
Total	3	13	9	9	4	3	3		44

Active Valuation Pay by Age and Service as of October 1, 2018

Age	< 1	< 5	< 10	< 15	< 20	< 25	< 30	< 35	Total
< 20									
< 25	36,500	37,943							37,583
< 30		38,329	40,643						38,660
< 35	36,500	39,354	56,027	56,300					44,961
< 40		39,786	43,656	49,585					45,976
< 45			43,797	46,329	52,283				47,307
< 50			46,986				70,337		58,661
< 55			99,471	49,302	51,591	61,228	82,400		67,537
< 60						58,978			58,978
< 65					56,124				56,124
Total	36,500	38,589	51,669	49,961	53,070	60,478	74,358		48,696

Reconciliation of Plan Participants

	Active	Retired	DROP	Deferred Vested	Disabled	Survivor	Total
October 1, 2017	45	10	5	5	1	0	66
Retired		1		(1)			0
DROP Entrant	(1)		1				0
Nonvested Termination	(4)						(4)
Additions	4	0	0	0	0	0	4
October 1, 2018	44	11	6	4	1	0	66

Outline of Plan Provisions

Plan Type: Single-employer Defined Benefit Pension Plan

Effective Date: November 1, 1969. Amended and restated effective October 1, 1999 and subsequently amended by Ordinance No. 1222-2000, 1262-2001, 1336-2004, 1366-2005, 1492-2008, 1509-2008, 1520-2009, 1545-2010, 1546-2010, 1570-2010, 1588-2011, 1589-2011, 1630-2013, 1645-2014, 1662-2014, 1672-2015, 1687-2016, and 1709-2017.

Plan Administrator: The Board of Trustees

Board Composition: Two members are elected from among the police employees of the City, who are members of the plan, two city residents appointed by the Commission and one person is chosen by a majority of the previous four members.

Funding Requirements: Employer contributions are actuarially determined and subject to State statute. Employee contributions are as described below and may be amended by ordinance.

Plan Year: The 12-month period from October 1st to the next September 30th.

Member: Full-time police officers participate in the Plan immediately upon hire.

Credited Service: Employee service computed in years and completed calendar months. Military service purchases up to five years are allowed.

Vesting: Members become 100% vested after earning 10 years of Credited Service.

Basic Compensation: Total compensation actually paid in a Plan Year by the City including tax deferred compensation, as well as educational incentive monies, and excluding overtime in excess of 300 hours, commissions, bonuses, expense allowances and payment for accrued annual leave, accrued sick leave, and accrued compensatory leave.

Employee Contributions: 7.0% of Basic Compensation credited with 5% interest compounded annually. Members receive benefits under the Plan no less than the value of their accumulated Employee Contributions with interest.

Members who terminate non-vested are entitled to the return of Employee Contributions accumulated with interest at 5% to the first day of the month in which termination occurs.

Average Monthly Compensation: The sum of the highest five successive Plan Years of Basic Compensation in the last ten Plan Years of employment divided by 60.

Normal Retirement Date: The first day of the month coincident with or next following attainment of age 52 and 10 years of Credited Service.

Accrued Benefit: For Members hired before January 2, 2013, the amount of monthly retirement income payable at the Normal Retirement Date is determined according to the following formula:

3% x Average Monthly Compensation x Credited Service up to 25 years

Plus

1.5% x Average Monthly Compensation x Credited Service between 25 and 35 years

FLA

FREIMAN LITTLE ACTUARIES

For Members hired on or after January 2, 2013, the amount of monthly retirement income payable at the Normal Retirement Date is determined according to the following formula:

$$3\% \times \text{Average Monthly Compensation} \times \text{Credited Service up to 25 years}$$

The Accrued Benefit is payable in the form of a 10-year certain and continuous annuity. However, any member with a spouse shall receive an actuarially equivalent 50% joint and survivor annuity unless the member chooses another Optional Form of Retirement Income with spousal consent.

Members who terminate employment 100% vested prior the Normal Retirement Date are eligible to receive their Accrued Benefit once the age requirements for the Normal Retirement Date are met, provided Employee Contributions remain in the Plan.

Late Retirement Benefit: The amount of monthly retirement income payable to a Member who retires after the Normal Retirement Date is the greater of (i) the monthly retirement income which can be provided by the single-sum value of the Accrued Benefit payable if he had retired at the Normal Retirement Date, accumulated with interest from the Normal Retirement Date to the date the monthly retirement income payments are to commence, and (ii) the monthly retirement income computed as described for the Accrued Benefit using Credited Service and Average Monthly Compensation determined at the Member's actual retirement date.

Early Retirement Date: The first day of the month coincident with or next following the date an employee retires prior to the Normal Retirement Date after the earlier of attainment of age 44 and 25 years of Credited Service or age 50 and 10 years of Credited Service.

Early Retirement Benefit: The Accrued Benefit is reduced for commencement earlier than the Normal Retirement Date at a rate of 3/12% per month. However, the minimum monthly retirement income for a Member who retires before the Normal Retirement Date with 25 years Credited Service is 50% x Average Monthly Compensation.

Members who terminate employment 100% vested prior to reaching the Early Retirement Date age requirements may elect to receive an Early Retirement Benefit once the age requirements are met, provided Employee Contributions remain in the Plan.

Members who terminate employment 100% vested prior the Normal Retirement Date but on or after their Early Retirement Date but do not commence receipt of an Early Retirement Benefit at that time will receive a monthly retirement income not less than the monthly retirement income which can be provided by the single-sum value of the monthly early retirement income which would have been payable if he had retired immediately upon termination, accumulated with interest from termination to the date the monthly retirement income payments are to commence.

Members who recover from Disability Retirement and who were eligible for an Early Retirement Benefit at the date of disability may elect to receive this benefit upon recovery from disability.

Disability Retirement: This benefit is payable from the first day of the month coincident with or next following the date the Retirement Committee approves the Member's Disability Retirement. The benefit is payable in the form of a 10 year certain and continuous annuity. The last payment is that due next preceding the earlier of (1) the date of recovery prior to the Normal Retirement Date and (2) the later of the date of death or the 120th payment. The amount of monthly retirement income is determined as follows:

- (a) Non-Line of Duty: Members with less than 10 years of Credited Service upon disability receive a monthly retirement income which can be provided by the greater of (i) the single-sum value of the Accrued Benefit and (ii) 2 x Basic Compensation paid in the Plan Year immediately preceding disability. The monthly retirement income which can be provided by (ii) is limited to 60% x Anticipated Monthly Retirement Income at the Normal Retirement

Date. In no event shall the benefit payable be less than the benefit required under section 185.18 of the Florida Statutes.

- (b) Non-Line of Duty: Members with 10 years of Credited Service or more upon disability receive a monthly retirement income which is the greater of (i) the monthly retirement income which can be provided by the single-sum value of the Accrued Benefit and (ii) 30% x Basic Compensation paid in the Plan Year immediately preceding disability where the single-sum value of this monthly amount does not exceed 100 x the Anticipated Monthly Retirement Income at the Normal Retirement Date. In no event shall the benefit payable be less than the benefit required under section 185.18 of the Florida Statutes.
- (c) Line of Duty: Members receive a monthly retirement income which is 50% x Basic Compensation paid in the Plan Year immediately preceding disability where the single-sum value of this monthly amount does not exceed 100 x the Anticipated Monthly Retirement Income at the Normal Retirement Date. In no event shall the benefit payable be less than the benefit required under section 185.18 of the Florida Statutes.

Members who recover from disability and re-enter the service of the City within 30 days of recovery will be deemed to have continuous service except that the period beginning with the first month for which Disability Retirement income was received and ending with the date of service re-entry is not considered as Credited Service.

Anticipated Monthly Retirement Income at the Normal Retirement Date: Determined as described for the Accrued Benefit, but instead using Anticipated Credited Service and Anticipated Average Monthly Compensation. Anticipated Credited Service is employee service computed in years and completed calendar months as if the member remains employed to the Normal Retirement Date. Anticipated Average Monthly Compensation is computed assuming that the last complete Plan Year of Basic Compensation is paid in each Plan Year, without change, to the Normal Retirement Date.

Survivor Benefit at Death of Disabled Member Prior to Disability Retirement: The designated beneficiary of a disabled Member who dies prior to receipt of Disability Retirement benefits is eligible to receive a monthly retirement income payable in the form of a 10 year certain and continuous annuity payable commencing on the first of the month coincident with or next following the date of the disabled Member's death. The designated beneficiary will receive a monthly retirement income which can be provided by the greater of (i) the single-sum value of the Accrued Benefit and (ii) 2 x Basic Compensation paid in the Plan Year immediately preceding disability not more than 100 x Anticipated Monthly Retirement Income at the Normal Retirement Date.

Survivor Benefit at Death of Vested Terminated Members: The designated beneficiary of vested Member who dies prior to retirement is eligible to receive a monthly retirement income payable in the form of a 10 year certain and continuous annuity payable commencing on the first of the month coincident with or next following the Member's death, which can be provided by the single-sum value of the Member's Accrued Benefit or Early Retirement Benefit.

Survivor Benefit at Death of Active Employee Prior to Normal Retirement Date: The designated beneficiary of a Member who dies while in active service prior to the Normal Retirement Date is eligible to receive, commencing on the first of the month coincident with or next following the Member's death, a monthly retirement income (payable in the form of a 10 year certain and continuous annuity) which can be provided by the greater of (i) the single-sum value of the Accrued Benefit as of the date of death, not less than the single-sum value of the Early Retirement Benefit which would have been payable if the Member had retired early on the date of death, and (ii) 2 x Basic Compensation paid in the Plan Year immediately preceding death not more than 100 x Anticipated Monthly Retirement Income at the Normal Retirement Date.

Survivor Benefit at Death of Active Employee After Normal Retirement Date: The designated beneficiary of a Member who dies while in active service after the Normal Retirement Date is eligible to receive,

commencing on the first of the month coincident with or next following the Member's death, a monthly retirement income (payable in the form of a 10 year certain and continuous annuity) which can be provided by the single-sum value of the Late Retirement Benefit.

Optional Forms of Retirement Income: In addition to the 10 year certain and continuous form of annuity, also available under the terms of the Plan are the life only annuity and the joint and 50%, 66 2/3%, 75%, or 100% survivor annuity. With the joint and survivor options, the member may also elect the pop-up feature. The Plan also allows for other amounts and forms of retirement income that will meet the circumstances of the Participant, in the opinion of the Retirement Committee, and will not substantially affect the actuarial soundness of the Plan.

Deferred Retirement Option Program (DROP): Members are eligible to enter the DROP at the Normal Retirement Date. The Accrued Benefit is frozen and no further Employee Contributions are payable at DROP entry. The Accrued Benefit accumulates with interest in the DROP account and is payable as a single-lump sum (or as an actuarially equivalent annuity) upon DROP exit. The DROP account earns interest at a rate equal to the funds net rate of investment return minus 1% in administration fees, unless the DROP participant, as a one-time irrevocable option, elects a self-directed DROP as approved by the board of trustees. The maximum DROP participation duration is 5 years and participation will end if the employee resigns, dies or is terminated with cause prior to completion of the 5 years.

Defined Contribution (DC) Component: Ordinance 1709-2017 was adopted effective June 7, 2017 creating a DC component which will be funded by a portion of the premium tax revenues if the City and the collective bargaining representative do not reach mutual consent to use the premium tax revenues for an alternative means.

Description of Assumptions and Methods

Assumed Rate of Investment Return: 7.8% per year net of investment expenses (revised from 8.0% in the prior valuation)

Inflation: 2.5% per year

Salary Increase – Individual: 6.0% per year (It is assumed that overtime hours are not increased at the end of the member's career.)

Salary Increase – Total Payroll: Based on individual salary increase assumptions and other decrements assumed in the valuation of Plan liabilities.

Mortality: The mortality table is that used for special risk employees in the valuation of FRS as of July 1, 2016, 2017 and 2018, as required by state statute. The mortality rates are as follows:

Healthy mortality (Pre-retirement):

Males: 10% RP-00 Combined Healthy White Collar +
90% RP-00 Combined Healthy Blue Collar
Females: 100% RP-00 Combined Healthy White Collar
Both male and female rates fully generational using Scale BB

Healthy mortality (Post-retirement):

Males: 10% RP-00 Annuitant White Collar +
90% RP-00 Annuitant Blue Collar
Females: 100% RP-00 Annuitant White Collar
Both male and female rates fully generational using Scale BB

Disabled mortality:

Males: 60% RP-00 Disabled Retiree Set Back 4 Years +
40% RP-00 Annuitant White Collar
Females: 60% RP-00 Disabled Retiree Set Forward 2 Yrs +
40% RP-00 Annuitant White Collar
No mortality improvement is assumed for disabled lives.

Retirement: Unisex rates based on the experience of the Rockledge police officers from 1999 through 2005 (and expectations of the future), as follows:

Age	Rate	Age	Rate
52	0.250	57	0.350
53	0.300	58	0.400
54	0.300	59	0.500
55	0.300	60	1.000
56	0.300		

Termination: Unisex rates based on the experience of the Rockledge police officers from 1999 through 2005, as follows:

Service	Rate	Service	Rate	Service	Rate	Service	Rate
0	0.0600	7	0.0425	14	0.0250	21	0.0150
1	0.0575	8	0.0400	15	0.0200	22	0.0150
2	0.0550	9	0.0375	16	0.0175	23	0.0150
3	0.0525	10	0.0350	17	0.0150	24	0.0150
4	0.0500	11	0.0325	18	0.0150	>=25	0.0000
5	0.0475	12	0.0300	19	0.0150		
6	0.0450	13	0.0275	20	0.0150		

Disability: Sex distinct rates as used for special risk employees in the Florida Retirement System actuarial valuation report as of July 1, 2005. Linear interpolation has been used between the rates shown in five year age increments, as follows:

Age	Line-of-Duty		Age	Not Line-of-Duty	
	Male	Female		Male	Female
20	0.012%	0.008%	20	0.037%	0.036%
25	0.012%	0.008%	25	0.037%	0.036%
30	0.017%	0.016%	30	0.043%	0.046%
35	0.029%	0.037%	35	0.055%	0.075%
40	0.051%	0.068%	40	0.087%	0.118%
45	0.087%	0.106%	45	0.140%	0.259%
50	0.138%	0.153%	50	0.292%	0.318%
55	0.215%	0.230%	55	0.446%	0.492%
60	0.301%	0.285%	60	0.628%	0.597%
65+	0.231%	0.143%	65+	0.698%	0.380%

Funding Method: Entry Age Normal (level percent of salary)

Glossary of Actuarial Terms

Present Value of Benefits (PVB): The present value, as of the valuation date, of all benefits that will become payable by the Plan for the current group of members in the census.

Normal Cost (NC): The value of the portion of the total benefit for active members which accrues in the year following the valuation date. Under the Entry Age Normal (Level Percent of Salary) funding method, the NC is a constant fraction of salary from the member's date of entry into the Plan to the member's assumed date of termination, retirement, disability or death.

Accrued Liability (AL): This is the portion of the PVB attributable to the past at the valuation date. For active members, AL is the annual NC accumulated from date of entry to the valuation date for each member. For retired and terminated members, the PVB and the AL are equal. The AL is the estimated liability owed by the pension fund at the valuation date.

Unfunded Accrued Liability (UAL): Any excess of the Accrued Liability over the fund assets. A negative UAL indicates fund assets are greater than the Accrued Liability, otherwise known as a surplus.

Actuarial Value of Assets: The value of assets used in the actuarial valuation of the Plan which is compared to the AL to determine the UAL and minimum funding requirements. A method may be used to smooth out short term volatility in the fair market value of assets.