

MEMORANDUM

May 20, 2013

TO: City Council

FROM: Chairman William Tomlinson / Sanibel Board of Trustees of the
Municipal Police Officers' Retirement Trust Fund

REF: Pension Plan Actuarial Assumptions

At the May 8, 2013 Sanibel Board of Trustees of the Municipal Police Officers' Retirement Trust Fund quarterly meeting, Douglas Lozen from Foster and Foster, presented a special actuarial report (Attachment A) based upon the Boards' request to give historical data regarding two actuarial assumptions that appeared to be inconsistent with historical experience. The two assumptions analyzed were the investment return and officer turnover components.

The assumption analysis showed that the plan had not met the investment return component assumption of 8% or the turnover component assumptions over the long term.

Based upon the analysis and presentation, the Board of Trustees' voted to make two assumption changes to the plan if there was City Council support. The assumption changes recommended by the Board are: Investment Return 7.5% and a reduction of officer turnover calculation.

The changes to the assumptions will have an upfront cost to the plan which will require increased funding. The Investment return component will require an estimated increased annual contribution of \$109,131 and the turnover component will require an estimated annual contribution of \$85,413; which will change the annual City contribution from \$917,528 to \$1,112,072. Additionally, the change will add to the unfunded actuarial liability in the amount of \$1,273,235 unless this UAAL amount is paid upon execution of the changes.

The Board is requesting City Council approval of the changes and believes they will more accurately reflect the costs and funding requirements of the Pension and reduce the long term unfunded actuarial liability.

CC: City Manager



May 2, 2013

Via Hand Delivery and Email

Board of Trustees
City of Sanibel Municipal Police Officers'
Retirement Trust Fund
800 Dunlop Road
Sanibel, FL 33957-4096

Re: City of Sanibel
Municipal Police Officers' Retirement Trust Fund
Actuarial Assumption Analysis

Dear Board:

As requested at the February 13, 2013, Board meeting, we have performed a special actuarial analysis to determine the change in the Plan's liabilities and funding requirements resulting from modification of the following two assumptions:

- Investment Return – Lower from 8.0% to either 7.5%, or 7.0%.
- Turnover – Modify to reflect recent experience.

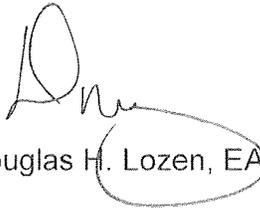
The impact on the City's funding requirements, determined as of October 1, 2012 (as applicable for the funding year beginning October 1, 2013), is shown on the attached schedule.

For purposes of this study, the change in the Unfunded Actuarial Accrued Liability has been amortized as a level percentage of payroll over a twenty-year period for each scenario, utilizing the current 2.8% payroll growth assumption.

Also attached are updated exhibits of historical investment returns and turnover experience for your Plan. We recommend that you work closely with your investment consultant regarding the choice of investment return assumption going forward.

If you have any questions, please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Lozen". The signature is written in a cursive style with a large initial "D" and a long horizontal stroke extending to the right.

Douglas H. Lozen, EA, MAAA

DHL/lke

Enclosures

Assumption Analysis

Investment Return

As can be seen in Exhibit A, the net of fees investment returns during the last 21 years have fallen short of the current 8% assumption.

It is important to note that the State's reviewing actuary advised that review of the Plan's 8% assumption be made prior to continued use; this letter was in reference to all actuarial reports through October 1, 2010. As of the October 1, 2012 valuation, the following shows a partial history of your Plan's investment return performance:

<u>Averaging Period</u>	<u>Net-of-Fees Average</u>
3	8.3%
5	2.7%
10	7.2%
21	6.8%

Given the above information, it is important to keep in mind that past performance may not be indicative of future results. If the Board wishes to amend this assumption for future valuations, it is recommended that the advice of the investment consultant be sought in order to determine whether the current asset allocation and anticipated returns for the capital markets justifies any revision.

Exhibit A

City of Sanibel Municipal Police Officers' Retirement Trust Fund

Investment Return History (Net-of-Fees)
October 1, 1991 through September 30, 2012

<u>Year Ending</u>	<u>Market Investment Return *</u>	<u>Investment Return Assumption</u>
9/30/2012	16.7%	8.0%
9/30/2011	-1.4%	8.0%
9/30/2010	10.3%	8.0%
9/30/2009	2.3%	8.0%
9/30/2008	-12.0%	8.0%
9/30/2007	13.6%	8.0%
9/30/2006	10.6%	8.0%
9/30/2005	11.8%	8.0%
9/30/2004	12.9%	8.0%
9/30/2003	10.4%	8.0%
9/30/2002	-4.2%	8.0%
9/30/2001	-5.6%	8.0%
9/30/2000	6.2%	8.0%
9/30/1999	11.4%	8.0%
9/30/1998	7.4%	8.0%
9/30/1997	20.4%	8.0%
9/30/1996	8.1%	8.0%
9/30/1995	15.9%	8.0%

Exhibit A

**City of Sanibel
Municipal Police Officers' Retirement Trust Fund**

Investment Return History (Net-of-Fees)
October 1, 1991 through September 30, 2012

<u>Year Ending</u>	<u>Market Investment Return *</u>	<u>Investment Return Assumption</u>
9/30/2012	16.7%	8.0%
9/30/1994	-3.8%	8.0%
9/30/1993	8.3%	8.0%
9/30/1992	9.3%	8.0%
21-Year Average	6.8%	8.0%

* Market Return, net of investment related expenses.

Experience Analysis

Turnover

While the number of non-vested terminations has slightly exceeded the assumption in total over the last five years, there have been experience losses for turnover due to no terminations in fiscal 2011 or 2012.

Review of terminations by age and service (see Exhibit B) shows that all terminations have occurred in the first five years of employment since fiscal 2008. Accordingly, we are proposing adoption of the following revised turnover table:

Credited Service	Assumed Probability of Termination
0-1	15%
2-4	10%
5 or more	0%

Exhibit B

City of Sanibel
Municipal Police Officers' Retirement Trust Fund

Turnover Data by Age and Credited Service
(October 1, 2007 - September 30, 2012)

	Years of Credited Service						20+ Grand Total	Current Assumption
	0	1	2 - 4	5 - 9	10 - 14	15 - 19		
20 - 29								
Number of Members	4	4	7				15	
Number of Terminations	0	1	1				2	
Average	0.0%	25.0%	22.2%				13.3%	15.0%
30 - 39								
Number of Members	2	3	14	4	3	2	28	
Number of Terminations	0	0	1	0	0	0	1	
Average	0.0%	0.0%	10.0%	0.0%	8.3%	0.0%	3.6%	8.2%
40 - 49								
Number of Members	4	2	5	6	8	11	51	
Number of Terminations	1	1	0	0	0	0	2	
Average	40.0%	0.0%	0.0%	9.1%	0.0%	0.0%	3.9%	4.0%
50+								
Number of Members	2	2	5				9	
Number of Terminations	0	0	1				1	
Average	0.0%	66.7%	0.0%				11.1%	2.7%
Total Number of Members	12	11	31	10	11	13	103	
Total Number of Terminations	1	2	3	0	0	0	6	
Total Turnover	8.3%	18.2%	9.7%	0.0%	0.0%	0.0%	5.8%	5.3%

City of Sanibel
Municipal Police Officers' Retirement Trust Fund
Investment Return and Turnover Assumption Analysis

Determined as of October 1, 2012

Plan	Investment Return Assumption	Turnover Assumption	Funded Ratio		UAAL	Annual City Contribution	
			GASB 25	FASB 35		% Payroll	Dollars (est.)
Current	8.0%	current	63.26%	73.75%	6,430,214	66.75%	\$917,528
A	8.0%	proposed	62.47%	73.47%	6,649,561	72.46%	996,127
B	7.5%	current	59.69%	69.63%	7,475,447	74.66%	1,026,659
C	7.5%	proposed	58.97%	69.32%	7,703,449	80.87%	1,112,072
D	7.0%	current	56.20%	65.57%	8,626,690	83.15%	1,143,593
E	7.0%	proposed	55.54%	65.24%	8,863,091	89.89%	1,236,305

* Each scenario reflects a twenty-year level percent amortization of the change in the UAAL. Additionally, the disclosed Dollar amount are based on a State-recommended funding methodology.

Prepared by: Foster & Foster, Inc.
April 30, 2013