City of Delray Beach General Employees' Retirement Plan
Update to Actuarial Assumptions used in the October 1, 2018 Actuarial Valuation Report

- On June 24, 2019 the Board of Trustees for the Pension Plan voted to adopt new actuarial assumptions to be used in the October 1, 2018 Actuarial Valuation Report.
    - The trustees wanted to keep the City commissioners informed as this decision will impact the City's budget for fiscal year ending September 30, 2020.
    - Updates were made to the assumptions regarding salary scale, investment return, retirement rates, withdrawal rates and disability rates.
    - The most impactful update was a lowering of the investment return assumption from 7.25%, net of investment-related expenses, to 6.75%, net of investment-related expenses.

- While the change in actuarial assumption impacts the timing of when the City makes their required contributions, it does not change the overall cost of the Plan.
    - Changing the actuarial assumptions will not change the benefit amount paid to members of the Plan upon retirement.
    - The amount members will receive at retirement is determined by the Plan provisions (i.e. the benefit multiplier, normal retirement date…).

- The trustees take their role as fiduciaries to the Plan very seriously.
    - The trustees are constantly discussing the actuarial assumptions with their consultants and discussed the recent Experience Study Report for several hours before adopting a final assumption set.
    - Section 112.656(1) states "A fiduciary shall discharge his or her duties with respect to a plan solely in the interest of the participants and beneficiaries for the exclusive purpose of providing benefits to participants and their beneficiaries."
        - Using overly aggressive actuarial assumption is not in the interest of the participants and beneficiaries as it will defer the real cost of the Plan (i.e. kick the can down the road).

- The use of overly aggressive actuarial assumptions will impact the Plan as follows:
    - The required City contribution will be understated and the funded ratio will be overstated.
    - The Plan is more likely to generate actuarial losses which will increase future required City contributions instead of having the City pay the true cost of the Plan now.
        - Future generations of taxpayers pay more of the cost than they should as a result of the Board adopting overly aggressive assumptions.

- The following factors led the Trustees to lower the net investment return assumption to 6.75%.
    - The 6.75% rate was supported by the forecasts of 12 large investment consulting firms including JP Morgan, Bank of New York, Mercer and NEPC.
        - The full analysis of this assumption is included in the Experience Study Report.

        - These forecasts reflect the capital market expectations of each of the 12 Investment Consultants based on the target asset allocation of the Plan.
    - The investment return for this Plan has not been lowered since 2006.
    - The state's actuary, the State Board of Administration (SBA), and the SBA's financial consultant Aon Hewitt Investment Consultants (AHIC) recommended a reduction in the investment return assumption for the Florida Retirement System (FRS) to somewhere in a range from 6.4% to 6.6%.
    - CalPERS recently lowered their investment return assumption to 7.0% and is considering further reductions.

- The required City contribution for fiscal year ending September 30, 2019 in the October 1, 2017 Actuarial Valuation Report was $2.36 million (assuming an October 1, 2018 payment date).

- The required City contribution for fiscal year ending September 30, 2020 in the October 1, 2018 Actuarial Valuation Report, before any of the assumption changes are reflected, was $2.31 million (assuming an October 1, 2019 payment date).
    - As a result of the assumption changes, the required City contribution for fiscal year ending September 30, 2020 will increase by about $570,000, from $2.31 million to about $2.88 million.

- The funded ratio in our October 1, 2018 Actuarial Valuation Report, before any of the assumption changes are reflected, was 98.3%.
    - As a result of the assumption changes the funded ratio will decrease by 5.2%, from 98.3% to 93.1%.
    - The funded ratio for this Plan is higher than many of Florida Plans and this Plan received a high ranking in the Leroy Collins Institute Report.

- We have included electronic copies of the following reports:
    - Experience Study Report covering the 8-year period ending September 30, 2018
    - Actuarial Valuation Report as of October 1, 2018 before reflecting any assumption changes
    - Leroy Collins Institute Report