

March 30, 2010

Board of Trustees
City of Fort Lauderdale
Police and Firefighters' Retirement System
c/o Lynn Wenguer, Administrator (LWenguer@fortlauderdale.gov)

City of Fort Lauderdale
c/o Jose I. Fernandez, ASA, (JoseF@CavMacConsulting.com)

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Actuarial Impact Statement:
Extension of DROP
and Related Changes

The purpose of this letter and Tables is to report the results of our calculation of the expected Actuarial Impact for the following changes in Ordinance No. 6-10-XX, approved on first reading on March 16, 2010, scheduled for second reading on April 6, 2010:

(A) Extension of maximum DROP period from 60 months to 96 months: Actuarial Impact:	+ 1.2% (Table 3)
(B) Increase member contributions from 7% to 8.25%: Actuarial Impact:	-1.2% (Table 4)
(C) Extension of maximum DROP period of 60 months to 72 or 84 months: Actuarial Impact: (included under (A))	0.0%
(D) Leave DROP balances in System; Actuarial Impact: (no quantifiable impact)	0.0%
(E) Reduction in guaranteed rate of interest on DROP accounts from 7.75% per annum to a range of 3.00% to 6.00% per annum based on the plan's net rate of investment return: Actuarial Impact: (not quantifiable)	0.0%
(F) Provide member contributions of 8.5%, for all members hired after April 18, 2010: Actuarial Impact: (no immediate impact)	0.0%
(G) Extend maximum Bac-DROP from 36 months to 60 months: Actuarial Impact: (no quantifiable impact)	0.0%
(H) Permit additional service before Extended DROP entry: Actuarial Impact: (no quantifiable impact)	0.0%

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City of Fort Lauderdale
Police and Firefighters' Retirement System
Re: Actuarial Impact Statement: Extension of DROP and Related Changes
March 30, 2010
Page Two

These cost calculations are as of January 1, 2009 and are based on the asset information and member data as of that date. With the exception of changes to the retirement assumptions for this study, the actuarial assumptions and methods are the same as those used in our January 1, 2009 Actuarial Valuation Report.

(A) EXTENSION OF MAXIMUM DROP PERIOD FROM 60 MONTHS TO 96 MONTHS

2002-2006 Experience Study and Current Retirement Assumptions

For the purpose of actuarial valuations, members in DROP are treated the same as regular retirees. When DROP provisions are adopted or amended, it is typically the change in expected retirement incidence (DROP entry) that determines the estimated change in costs. Table 1 shows the current retirement assumptions for the System.

Table 1: Current Retirement Assumptions

<u>Service</u>	<u>Police</u>	<u>Fire</u>
20-22	35%	30%
23-24	50%	30%
25-30	15%	15%
30+	100%	100%

These rates were developed as a result of the 2002-2006 experience study (Attachment A).

These assumptions result in expected service at retirement of approximately 21.7 years for police officers and 22.4 years for firefighters. These averages compare to 21.1 years for police and 21.7 for firefighters during the 5-year experience study period.

To determine the cost of changing the maximum DROP duration, any expected changes in retirement incidence (DROP entry) must be predicted.

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Police and Firefighters' Retirement System
Re: Actuarial Impact Statement: Extension of DROP and Related Changes
March 30, 2010
Page Three

Recent Retirement Experience (Attachment B)

During the two years since the 2002-2006 Experience Study, there have been 28 police officer retirements or DROPS with an average service of 20.7 years. There have also been 24 firefighter retirements or DROPS with an average service of 20.8 years.

Assumption Adjustment For 96-month DROP

Retirement experience has shown that police officers are retiring with average service amounts between 20.5 and 21 years of service. Because these average service amounts are close to the 20 year minimum service requirement for retirement, these averages cannot decrease significantly.

Consequently, we have adjusted our retirement assumptions for the 20-22 years of service period from 35% to 45% for police officers and from 30% to 40% for firefighters as seen in Table 2.

Table 2: Service Based Rates for 96-Month DROP

<u>Service</u>	<u>Police</u>	<u>Fire</u>
20-22	45%	40%
23-24	50%	30%
25-30	15%	15%
30+	100%	100%

These changes to the retirement decrements decrease the average expected years of service at retirement for police officers from 21.7 years to 21.2 years. For firefighters, the average expected years of service at retirement decrease from 22.4 years to 21.7 years.

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 Police and Firefighters' Retirement System
 Re: Actuarial Impact Statement: Extension of DROP and Related Changes
 March 30, 2010
 Page Four

The change in liabilities and costs from revising the retirement assumption to anticipate increased retirements due to the extension of the maximum DROP period only, are shown in Table 3.

Table 3: Expected Impact of Adjusted Retirement Rates for 8-year DROP

	<u>Valuation</u> <u>Report</u>	<u>Adjusted</u> <u>Retirement</u> <u>Rates</u>	<u>Increase</u>
	-\$-	-\$-	-\$-
Present Value of Benefits	743,894,617	745,471,451	1,576,834
Entry Age Accrued Liability	614,037,958	617,789,060	3,751,102
Amortization Payment (BOY)	15,513,308	15,813,840	300,532
Gross Normal Cost (BOY)	14,137,059	14,405,741	268,682
City Contribution (10/15)	25,366,206	25,970,344	604,138
City Contribution (Percent of Pay)	48.0%	49.2%	+1.2%

As will be noted, the estimated Actuarial Impact would be increases of approximately \$600,000 or 1.2% of payroll.

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 City of Fort Lauderdale
 Police and Firefighters' Retirement System
 Re: Actuarial Impact Statement: Extension of DROP and Related Changes
 March 30, 2010
 Page Five

(B) INCREASE MEMBER CONTRIBUTIONS

For members in employ on April 18, 2010, increase member contribution rates from 7% to 8%, retroactive to October 4, 2009 and to 8.25%, with increase effective October 1, 2011.

If the employee contribution rate were increased from 7% to 8.25% at the same time as the increase in the retirement assumption, the change in liabilities and costs would be as shown in Table 4. As will be noted, there would be a slight decrease in the dollar amount of the City contribution and no impact as a percentage of pay.

Table 4: Expected Impact of Increased Member Contributions and Adjusted Retirement Rates

	<u>Valuation Report</u>	<u>Adjusted Retirement Rates</u>	<u>Increased Member Contributions</u>	<u>Cumulative Increase Over Valuation</u>
	-\$-	-\$-	-\$-	-\$-
Present Value of Benefits	743,894,617	745,471,451	745,563,569	1,668,952
Entry Age Accrued Liability	614,037,958	617,789,060	617,789,060	3,751,102
Amortization Payment (BOY)	15,513,308	15,813,840	15,813,840	300,532
Gross Normal Cost (BOY)	14,137,059	14,405,741	14,434,566	297,507
City Contribution	25,366,206	25,970,344	25,340,614	(25,592)
City Contribution (Percent of Pay)	48.0%	49.2%	48.0%	+0.0%
Increase in City Contribution Percentage	--	+1.2%	-1.2%	+0.0%

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Police and Firefighters' Retirement System
Re: Actuarial Impact Statement: Extension of DROP and Related Changes
March 30, 2010
Page Six

(C) EXTEND MAXIMUM DROP TO 72 OR 84 MONTHS

All cost calculations were made for an extension of the maximum DROP participation period from 60 to 96 months. The most appropriate estimated impact of an extension from 5 to 6 or 7 years should be linear. This means that the 1.2% cost increase in Table 3 for an extension to 8 years may be interpolated for 6 or 7 years, producing estimated cost increases of .4% for 6 years and .8% for 7 years. These estimated costs are covered by the cost impact reported in Table 3.

Actuarial Impact: None

(D) LEAVE DROP BALANCES IN SYSTEM

Currently, DROP balance must be distributed when a member terminates employment. The alternative is to permit inactive members' balances to remain in the System.

From the System's perspective, any cost impact of this alternative would be associated with a comparison of the rates of investment return earned by the Trust to the rates credited to the DROP accounts and perhaps to an extent, the associated administrative and fiduciary duties.

For these reasons, we have not attempted to define or quantify any impact of this change.

Actuarial Impact: Not Quantifiable

Board of Trustees
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Jack Lokeinsky, President FOP Lodge 31
City of Fort Lauderdale
Police and Firefighters' Retirement System
Re: Actuarial Impact Statement: Extension of DROP and Related Changes
March 30, 2010
Page Seven

(E) REDUCTION IN RATE OF INTEREST CREDITED ON DROP ACCOUNTS

There is currently no explicit actuarial assumption regarding the interest rate paid on DROP accounts. The implicit assumption is that plan assets will return 7.75% per annum overall. Reducing the DROP account rate of return to a range of 3.00% to 6.00% would increase the return on the rest of the assets. To estimate this we used the following data and approximations.

DROP Account Balances 12/31/2009: \$13,683,921
Assumed Annual Increase Due to Higher Pay of new drop entrants: 5.0%
Assumed Average Interest Rate: 5.5%

Based on a 10 year forecast of the expected new retiree payrolls, the interest savings from reducing the credited rate from 7.75% to an assumed 5.50% would be expected to average approximately \$300 thousand per year, ranging from \$35 thousand in the first year to \$500 thousand in the tenth year. To the extent that DROP members choose to withdraw more (less) from their accounts than in the past, the savings would be reduced (increased).

It should be noted that this estimated cost savings is based on a DROP rate which is 2.25% less than the funding assumption. If the funding assumption were decreased (increased) with no change in the DROP rate, the cost savings would be decreased (increased).

These estimated savings would be realized as they occur through the investment return experience. Therefore, there is no immediate actuarial impact.

(F) PROVIDE FOR MEMBER CONTRIBUTIONS OF 8.5%, FOR ALL MEMBERS HIRED AFTER APRIL 15, 2010

This change can be expected to have no immediate actuarial impact. As future members enter the System and are reflected in the annual actuarial valuations, the annual City costs will gradually decrease by .25% as current members are replaced.

Therefore, there is no immediate actuarial impact.

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 Police and Firefighters' Retirement System
 Re: Actuarial Impact Statement: Extension of DROP and Related Changes
 March 30, 2010
 Page Eight

(G) EXTEND ACTUARIALLY EQUIVALENT BAC-DROP FROM 36 MONTHS TO 60 MONTHS

For members who were eligible for DROP on or before April 17, 2010, the maximum Bac-DROP period is extended from 36 months to 60 months, provided member terminates employment not later than October 1, 2012. In our opinion, this change will not accelerate retirements. In fact, it could delay some retirements (and Bac-DROP) for the eligible group.

Actuarial Impact: Not Quantifiable

(H) ADDITIONAL SERVICE REQUIREMENTS FOR EXTENDED DROP

The DROP could be changed as follows:

<u>Service</u> (years)	<u>Maximum DROP Period</u>
20 to 22	72
22 to 23	84
23 to 23.96	96

Previously, the 60-month maximum DROP period was reduced when credited service exceeded 22 years.

In our opinion, this change can be expected to result in some degree of increased service and deferred DROP entries. However, the degree of increased service is unpredictable and can best be predicted after suitable experience has emerged.

Actuarial Impact: Not Quantifiable

Board of Trustees
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 City of Fort Lauderdale
 Police and Firefighters' Retirement System
 Re: Actuarial Impact Statement: Extension of DROP and Related Changes
 March 30, 2010
 Page Nine

Summary and Conclusion

The impact of the various proposed changes, as a percentage of pay, is summarized in Table 5 below.

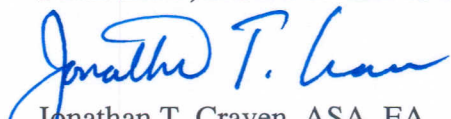
Table 5: <u>Summary of Impact of Proposed Changes</u>		
<u>Proposed Change</u>	<u>Change Due to Item</u>	<u>Cumulative Change</u>
8-year DROP (Increase in Retirement Decrements)	+1.2%	+1.2%
Member Contribution Increase from 7% to 8.25%	-1.2%	+0.0%

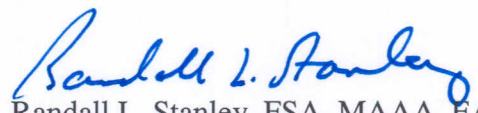
Increased Service Requirement for DROP Extension Reduction in DROP interest Credit from 7.75% to 6.5%	0.0%	0.0%
	-0.0%	+0.0%

If you have questions or comments, or if we may help further, please let us know.

Respectfully submitted,

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JTC/RLS/FC/di
 FtLaud01-50B

- A: Retirement Experience (2002-2006 Experience Study)
- B: Retirement Experience (2007-2008)
- C: Actuarial Assumptions and Methods

RETIREMENT EXPERIENCE
2002 - 2006

<u>Service</u>	<u>Police</u>		<u>Fire</u>		<u>Total</u>	
	<u>Expected</u>	<u>Actual</u>	<u>Expected</u>	<u>Actual</u>	<u>Expected</u>	<u>Actual</u>
<=20	16.90	69.00	4.35	24.00	21.25	93.00
21	10.60	20.00	4.50	9.00	15.10	29.00
22	8.50	11.00	4.95	13.00	13.45	24.00
23	6.80	14.00	2.00	5.00	8.80	19.00
24	2.45	3.00	2.95	3.00	5.40	6.00
25	1.75	0.00	2.10	1.00	3.85	1.00
26	2.10	0.00	2.80	1.00	4.90	1.00
27	1.40	2.00	2.45	3.00	3.85	5.00
28	0.70	1.00	1.75	0.00	2.45	1.00
29	0.70	0.00	1.40	0.00	2.10	0.00
>=30	<u>1.75</u>	<u>1.00</u>	<u>2.80</u>	<u>1.00</u>	<u>4.55</u>	<u>2.00</u>
Total	53.65	121.00	32.05	60.00	85.70	181.00
Average Service		21.06		21.73		21.28

RETIREMENT EXPERIENCE
2007 - 2008

<u>Service</u>	<u>Police</u>		<u>Fire</u>		<u>Total</u>	
	<u>Expected</u>	<u>Actual</u>	<u>Expected</u>	<u>Actual</u>	<u>Expected</u>	<u>Actual</u>
<=20	14.30	19.00	11.35	12.00	25.65	31.00
21	2.45	7.00	3.60	11.00	6.05	18.00
22	0.70	0.00	0.00	0.00	0.70	0.00
23	1.00	1.00	0.00	0.00	1.00	1.00
24	0.00	0.00	0.00	0.00	0.00	0.00
25	0.35	0.00	0.35	0.00	0.70	0.00
26	0.15	0.00	0.15	0.00	0.30	0.00
27	0.70	0.00	0.35	0.00	1.05	0.00
28	0.65	0.00	0.15	1.00	0.80	1.00
29	0.15	0.00	0.70	0.00	0.85	0.00
>=30	<u>3.35</u>	<u>1.00</u>	<u>4.70</u>	<u>0.00</u>	<u>8.05</u>	<u>1.00</u>
Total	23.80	28.00	21.35	24.00	45.15	52.00
Average Service		20.71		20.79		20.75

**CITY OF FORT LAUDERDALE
POLICE AND FIREFIGHTERS'
RETIREMENT SYSTEM**

Summary of Actuarial Basis

Valuation Date: January 1, 2009 for Plan Year beginning January 1, 2009 and Fiscal Year beginning October 1, 2009.

Valuation Method: Individual Entry Age Normal Cost Method; Closed Group; Initial amortization period is 20 years; payment increase 2% per year.

Asset Valuation Method: 20% Write-Up method: Actuarial value of assets is equal to expected value (using last year actuarial value of assets, cash flow, and valuation interest) plus or minus 20% of the difference between the expected actuarial value of assets and the market value of assets. The result cannot be greater than 120% of market value or less than 80% of market value.

Actuarial Assumptions:

**Investment Discount/
Investment Return:** 7.75% compounded annually.

Salary Increases: 3.25% inflation plus service based rates according to the following schedule:

<u>Service</u>	<u>-%-</u>
1-6	7.5 year
7-10	2.5 year
11-25	1.0 year
26+	0.5 year

An additional 4.5% is included in the year of retirement, primarily to reflect retirements throughout that year.

Mortality: 1994 Group Annuity Mortality Table for healthy lives and the same table set forward five years for disabled lives, producing following specimen rates:

<u>Age</u>	<u>Healthy Male</u>	<u>Healthy Female</u>	<u>Disabled Male</u>	<u>Disabled Female</u>
20	.0507%	.0284%	.0661%	.0291%
30	.0801%	.0351%	.0851%	.0478%
40	.1072%	.0709%	.1578%	.0973%
50	.2579%	.1428%	.4425%	.2294%
60	.7976%	.4439%	1.4535%	.8636%
70	2.3730%	1.3730%	3.7211%	2.2686%

**CITY OF FORT LAUDERDALE
POLICE AND FIREFIGHTERS'
RETIREMENT SYSTEM**

Summary of Actuarial Basis
(Continued)

Retirement: Service based rates as follows:

<u>Service</u>	<u>Police</u>	<u>Fire</u>
20-22	35%	30%
23-24	50%	30%
25-30	15%	15%
30+	100%	100%

Turnover and
Disability:

Specimen rates are shown below:

<u>Age</u>	<u>Disability</u>	<u>Turnover*</u>
20	.0014	*
25	.0015	.047
30	.0018	.043
35	.0023	.030
40	.0030	.013
45	.0051	.006
50	.0100	.003
55	.0155	.000

* Select turnover rates apply at all ages for the first five years of employment according to the table below:

<u>Service</u>	<u>-%-</u>
0	10.00
1	6.67
2	6.00
3	5.33
4	4.67

Type of Disability: No turnover or disability assumed after 20 years of service. 75% of the disabilities are expected to be service connected disabilities, and 25% are expected to be non-service connected.

Recovery: No probabilities of recovery are used.

**CITY OF FORT LAUDERDALE
POLICE AND FIREFIGHTERS
RETIREMENT SYSTEM**

Summary of Actuarial Basis
(Continued)

Disability Offsets:	It is assumed that there are no offsets for service-incurred or non-service incurred disabilities of active Members; benefits valued for disability retirees are net of all current offsets.
Type of Death:	75% of the assumed deaths are expected to be service connected deaths and 25% are assumed to be non-service connected.
Remarriage:	No probabilities of remarriage are used.
Spouse's Ages:	Females are assumed to be 3 years younger than males.
Marital Status:	All employed Members and all retired Members are assumed to be married.
State Contributions:	Premium tax refunds under Chapters 175 and 185 are assumed to be the same as in prior year.
Administrative Expenses:	One-year term cost method, based on expected expenses for the year.
Withdrawal of Employee Contributions:	It is assumed that employees withdraw their contribution balances upon employment termination, if not vested. If vested, employees are assumed to not withdraw contributions, with monthly benefit deferred to the time at which 20 years of service would have been completed.
Sources of Data:	Draft audit reports and membership data were furnished by Plan Administrator.
DROP Participation:	No distinction is made between retirement and DROP entry.
Changes Since Prior Valuation:	None.