

October 1, 2014

Mr. Dave Williams, Administrator
Sunrise Police Officers Pension Board
13790 N. W. 4th Street, Suite 105
Sunrise, Florida 33325

Re: Service Purchase Provision

Dear Dave:

Based on Section 11-3 of the Ordinance, members of the City of Sunrise Police Officers' Retirement System may purchase up to four years of active service in the U.S. armed forces or full-time employment as a police officer with another city prior to employment by the City of Sunrise. The cost of purchasing this service is the full actuarial cost. Currently, payment for the service purchase may not be made through payroll deductions. The only options available to pay for the service purchase are a lump sum payment or a direct transfer from the member's 457 Plan account.

As requested, we have listed some of the advantages and disadvantages of allowing members to be able to pay for their service purchase over time through payroll deductions. Many other Florida plans allow service purchases to be paid through payroll deductions over a period of time. The length of the payment period is typically the amount of time the member is purchasing or five years, whichever is greater. The bi-weekly payment amount is commonly calculated using the interest rate used to determine the funding requirements in the valuation.

Advantages

- Allowing members to pay for service purchases through payroll deductions may help with recruitment. New police officers may find it attractive to be able to pay for prior military or police service through payroll deductions if the lump sum payment for this service purchase is not accessible.
- Since the member is paying the full actuarial cost for the service purchase, there is no cost for allowing members to pay for the purchase through payroll deductions.
- Allowing a member to pay for the service purchase through payroll deductions would likely enable more members to purchase service which may help with retaining current police officers. Currently, it is likely difficult for members to have access to the lump sum payment needed to pay the full actuarial cost for a service purchase.

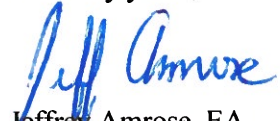
Disadvantages

- There is an increase in risk associated with a service purchase. If allowing payroll deductions to pay for a service purchase results in more officers purchasing service, there will be an increase in risk. The full actuarial cost of the service purchase is based on the current actuarial assumptions. If these assumptions are not met, the payment from the member may not be enough to cover the cost of the service purchase. For example, we currently assume that the money paid for the service purchase earns 8% per year. If Plan assets earn 7% per year instead of 8%, the amount of money paid for the service purchase would be less than the actual cost. Conversely, if Plan assets earn 9% per year instead of 8%, the amount of money paid for the service purchase would be greater than the actual cost.

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We welcome your questions and comments.

Sincerely yours,



Jeffrey Amrose, EA
Senior Consultant & Actuary

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