FLA

FREIMAN LITTLE ACTUARIES

May 9, 2024

Via Email

Board of Trustees
City of Sunrise Police Officers' Retirement Plan
c/o Dave Williams
Plan Administrator

Dear Trustees:

Re: Review of Proposed Assumptions from Plan and City Actuaries

This letter is being written to provide a discussion with regard to the assumptions proposed for the City of Sunrise (the City) Police Officers' Retirement Plan (the Plan). Below is our understanding of the proposed changes.

Summary of Changes

	Current Assumptions	Plan Actuary	City Actuary
Rate of Investment Return	7.00%	6.50%	7.00%
Payroll Growth Rate	0.44%	Level Dollar	0.00%

Please note that Retirement Rates have been excluded from this comparison as both actuaries are in agreement on this assumption change.

Analysis of Investment Returns

According to Actuarial Standard of Practice (ASOP) No. 27, an assumption is reasonable if it has the following characteristics:

a. it is appropriate for the purpose of the measurement;

b. it reflects the actuary's professional judgment;

c. it takes into account current and historical data that is relevant to selecting the assumption for the measurement date, to the extent such relevant data is reasonably available;

d. it reflects the actuary's estimate of future experience, the actuary's observation of the estimates inherent in market data (if any), or a combination thereof; and

e. it is expected to have no significant bias (i.e., it is not significantly optimistic or pessimistic), except when provisions for adverse deviation or plan provisions that are difficult to measure are included (as discussed in section 3.5.1) or when alternative assumptions are used for the assessment of risk, in accordance with ASOP No. 51, Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions.

The report from the Plan Actuary discusses the use of forward-looking Capital Market Assumptions. We agree that this approach is in keeping with ASOP 27. The Plan Actuary's 50th percentile rate for short term geometric return is 6.55% (5-15 years)and their 50th percentile rate for long term geometric return is 6.72% (20-30 years). Based on these projections, the Actuary has recommended a rate of 6.50% which is reasonable according to the requirements of ASOP 27.

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Conversely, the City's Actuary has proposed a 7.00% Assumed Investment Return, citing that this rate falls below the historical average. However, relying solely on historical averages does not comply with ASOP 27. While it is acknowledged that actuaries tend toward conservatism, it is also grounded in years of real-world experience with public plans. Actuarial losses can have longer term effects. As an example, after the market downturn of 2008, many plans established additional tiers in their plans with lower benefits to help accommodate for the losses.

Analysis of Payroll Growth Assumption

According to State Statutes, an unfunded liability amortization schedule that includes a payroll growth assumption and is in existence on September 30, 1996, or is established thereafter, may be continued using the same payroll growth assumption, or one not exceeding the payroll growth assumption established at the start of the schedule, regardless of the actual 10-year average payroll growth rate, provided that:

1. The assumptions underlying the payroll growth rate are consistent with the actuarial assumptions used to determine unfunded liabilities, including, but not limited to, the inflation assumption; and
2. The payroll growth rate is reasonable and consistent with future expectations of payroll growth.

While the payroll growth assumption is currently close to zero (or level dollar), moving to a level dollar method puts the Plan in a position where the City's contribution always pays down a portion of the Unfunded Liability. Depending on the amortization period selected, a level percent of payroll method would not guarantee this. The City's actuary has stated that it is unreasonable to assume that payroll stays flat in the future. While it is reasonable to assume that payroll will grow in the future, we believe the better practice is to adopt a level dollar approach so it doesn't need to change in the future and there is always a payment made on the unfunded. It should be noted the current amortization periods do not appear to cause any negative amortization.

We look forward to discussing these assumptions with you in person. Please let us know if you have any questions or need additional information.

Sincerely,

Chad M. Little, ASA, EA
Partner, Consulting Actuary