



# ***TOWN OF PALM BEACH***

## ***GENERAL EMPLOYEES RETIREMENT SYSTEM***

# ***SUMMARY ANNUAL REPORT***

June 2010

Town of Palm Beach General Retirement System  
Summary Annual Report

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The Town of Palm Beach General Retirement System is a defined benefit pension plan administered by a Board of Trustees. It was created by Town Ordinance No. 568 and restated by Town Ordinance No. 22-85 and thereafter amended by Town Ordinances pertaining to this system. It is intended to be administered under Chapter 112, F.S. The plan year ends on September 30, and records are maintained on a plan year basis.

The Board of Trustees are responsible for the general administration, management, and proper operation of the retirement system. The following individuals are members of the Board of Trustees:

Al Parven, Chairman  
James Karmen, Vice Chairman  
Brett Madison, Secretary  
Peter Elwell  
Jonathan Luscomb

The Board of Trustees is the agent for the services of legal process. Their address is:

360 South County Road  
Palm Beach, Florida 33480

As of September 30, 2009, there were 152 retired participants and beneficiaries of deceased participants receiving benefits from the Retirement System. Active and vested terminated members totaled 220 with an annual payroll of \$13,303,562.

A summary of valuation results, benefits provisions, contributions, and plan experience gain and/or loss information is provided herein. A copy of the annual audit report is available for inspection in the office of the Human Resources Department.

Board of Trustees

## Summary of Valuation Results September 30, 2009

### FUNDING OBJECTIVE

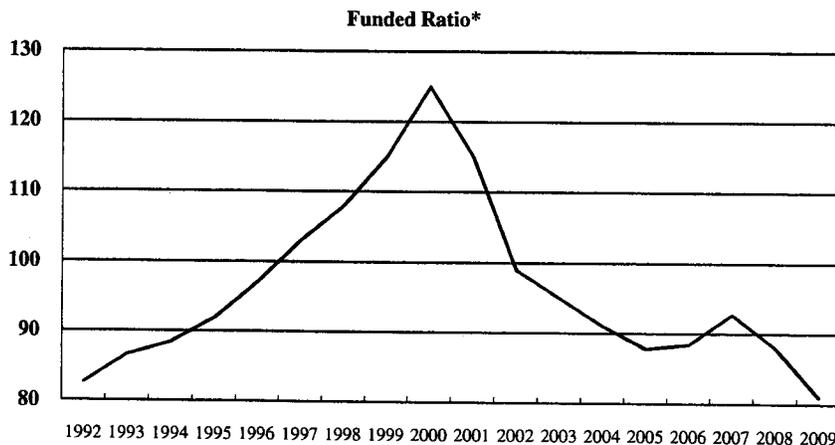
The basic funding objective of the Retirement System is to avoid transfer of the cost of benefit obligations between generations of taxpayers. This objective is implemented by contributions sufficient to:

- ◆ pay for costs allocated to the current year on account of service rendered by active non-DROP participants in the current year (Normal Cost).
- ◆ pay for costs allocated to prior years on account of service rendered by participants in prior years (Unfunded Actuarial Accrued Liability) over 30-year closed periods.

The annual actuarial valuation measures the relationship between Retirement System obligations and assets and determines the contribution rates for the ensuing year. The Retirement System is supported by member contributions, Town contributions, and investment income from Retirement System assets.

### VALUATION RESULTS - FUNDING PROGRESS INDICATORS

The September 30, 2009 actuarial valuation indicates that the actuarial accrued liabilities of the Retirement and Benefit System, measured in accordance with Statement No. 25 of the Governmental Accounting Standards Board, are 81% funded by valuation assets. Last year's funded ratio was 88%. Although not historically referred to, the ratio of the market value of assets to the actuarial accrued liabilities is 67% compared to 73% last year.



\* Years prior to 2000 include Public Safety.

## VALUATION RESULTS - CONTRIBUTION REQUIREMENT

The percent of active member payroll contribution requirements for the 2010-2011 fiscal year are:

|                | General | Ocean Rescue |
|----------------|---------|--------------|
| Member portion | 6.47 %  | 7.21 %       |
| Public portion | 20.95   | 33.37        |

The aggregate public contribution requirement increased 2.30% of payroll since last year due to experience during the year.

Comparative contribution information is shown on page B-3. Composition of the current contribution rate is shown on page B-1.

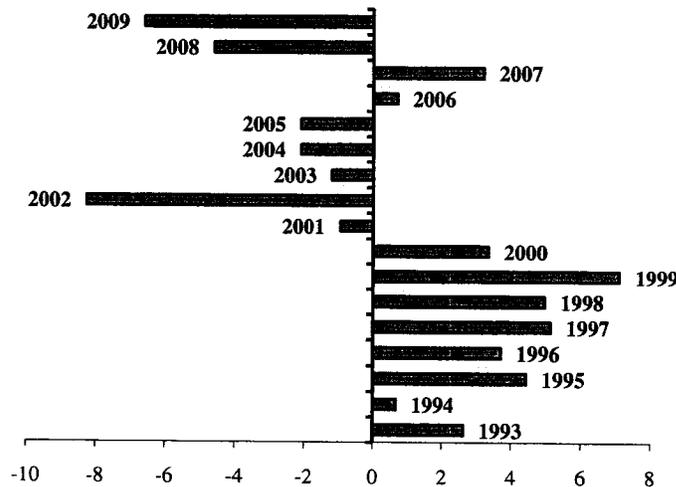
## VALUATION RESULTS - LAST YEAR'S EXPERIENCE INDICATORS

The funding value of the assets of the Retirement System increased less than projected by the long-term investment income funding assumption during the last year. Note that each year's investment experience is spread over five years in equal dollar installments to reduce the effect of market volatility on contribution rates (please refer to page B-7). The return on the funding value of assets was (1.23)%, net of investment expenses. The projected return was 8.00%.

The aggregate effect of all system experience was a loss of \$6,743,301, caused mostly by lower than expected recognized investment return, offset somewhat by lower than expected pay increases. Other experience was mixed, but close to expectations.

Year-to-year experience variations are expected and normal in the operation of a retirement system as members vary their activities and economic conditions change. The expectation is that the plus years and minus years will tend to cancel over 5 to 10-year periods. Of the last 17 years, 10 have produced favorable experience and 7 have produced unfavorable experience. On net balance, experience has been slightly favorable. However, the last 9 years have been substantially unfavorable (see also page B-9).

**Experience Gains and Losses**  
(Amounts in Millions)



## NEXT YEAR'S EXPERIENCE INDICATORS

Due to the Board's use of a five-year smoothed market asset valuation method and the State actuary's policy of a 120% corridor (see items F6 and K on page B-7), approximately 64% of the lower than expected market returns for the year ending September 30, 2009 was recognized, and combined with the scheduled phase-in of the prior four years unrecognized investment income. Investment losses are scheduled for the next four years attributable to the recognition of net losses from the 2006-2009 fiscal years. (Please see page B-7 for details). This will exert significant and sustained upward pressure on future computed employer contribution rates and downward pressure on the funded ratio in the next few reports in the absence of considerable future gains. We recognize that investment markets have recovered somewhat and outperformed expectations for new money invested in the last year, but this has yet to reach a point where assets held for longer periods can be considered recovered.

## SUPPLEMENTAL PENSION DISTRIBUTION

There is no supplemental pension distribution payable this year. The accumulated System experience since October 1, 2000 is negative (see page B-9) and therefore, the Florida Statutes restrict this provision.

## RECOMMENDATIONS

The Retirement Ordinance requires reserve account transfers from the Employer Reserve Fund to the Retirement Reserve Fund which will establish a match between assets allocated to the Retirement Fund and liabilities associated with current retired lives. The balances in the Retirement Reserve Fund as of October 1, 2009 following the transfers should be as follows:

| <u>Division</u> | <u>Retirement Reserve Fund</u> |
|-----------------|--------------------------------|
| General         | \$40,181,564                   |
| Ocean Rescue    | <u>2,781,294</u>               |
|                 | \$42,962,858                   |

## CERTIFICATION

This actuarial valuation was prepared and completed by me or under my direct supervision, and I acknowledge responsibility for the results. To the best of my knowledge, the results are complete and accurate, and in my opinion, the techniques and assumptions used are reasonable and meet the requirements and intent of Part VII, Chapter 112, Florida Statutes. There is no benefit or expense to be provided by the plan and/or paid from the plan's assets for which liabilities or current costs have not been established or otherwise taken into account in the valuation. All known events or trends which may require a material increase in plan costs or required contribution rates have been taken into account in the valuation.

5/4/2010

Date



Brad Lee Armstrong, E.A. [08-5614]

**Contributions to Finance Benefits of the Retirement System  
For the Plan Year Beginning October 1, 2010  
to be Contributed During the Fiscal Year Beginning October 1, 2010**

| <b>Contributions for</b>                   | <b>Contributions Expressed as<br/>Percents of UnDROPEd Active Member Payroll</b> |                     |
|--|--|---------------------|
|  | <b>General</b>   | <b>Ocean Rescue</b> |
| Normal Cost                                |  |                     |
| Service pensions                           | 19.22 %  | 26.01 %             |
| Disability pensions                        | 0.55   | 0.87                |
| Death in service pensions                  | 1.14   | 1.04                |
| Deferred service pensions                  | 0.65   | 1.38                |
| Refunds of member contributions            | 1.13   | 0.76                |
| Total Normal Cost                          | <u>22.69</u>   | <u>30.06</u>        |
| Unfunded Actuarial Accrued Liability *     |  |                     |
| Retired members and beneficiaries          | 0.00   | 0.00                |
| Active and vested terminated members       | 4.36   | 7.49                |
| Total Unfunded Actuarial Accrued Liability | <u>4.36</u>  | <u>7.49</u>         |
| Administrative Expenses                    | 0.37   | 0.37                |
| Total Unadjusted Computed Contribution     | 27.42  | 37.92               |
| Adjustments to Computed Contribution       |  |                     |
| FS 112.64(5) Compliance                    | 0.00   | 2.66                |
| Full funding credit                        | 0.00   | 0.00                |
| Total adjustments                          | <u>0.00</u>  | <u>2.66</u>         |
| Total Adjusted Contribution Requirement    | 27.42  | 40.58               |
| Member portion                             | 6.47   | 7.21                |
| Public portion                             | 20.95  | 33.37               |

**Experience Gain/(Loss)  
Year Ended September 30, 2009**

|  | <u>Division</u> |                     |
|--|-----------------|---------------------|
|  | <u>General</u>  | <u>Ocean Rescue</u> |
| <b>DERIVATION</b>  |                 |                     |
| (1) UAAL at start of year                                  | \$9,330,984     | \$694,426           |
| (2) Employer normal cost for year                          | 2,146,729       | 94,736              |
| (3) Employer contributions                                 | 2,319,374       | 100,754             |
| (4) Interest accrued:<br>.08 x [(1) + 1/2 ((2)-(3))]       | 739,573         | 55,313              |
| (5) Expected UAAL before changes:<br>(1) + (2) - (3) + (4) | 9,897,912       | 743,721             |
| (6) Effect of timing/accounting differences                | (90,468)        | (6,371)             |
| (7) Effect of assumption/method changes                    | 0               | 0                   |
| (8) Effect of benefit changes                              | 0               | 0                   |
| (9) Addition to supplemental<br>pension reserve            | 0               | 0                   |
| (10) Expected UAAL after changes                           | 9,807,444       | 737,350             |
| (11) Actual UAAL   | 16,157,732      | 1,130,363           |
| (12) Gain/(loss): (10) - (11)                              | (6,350,288)     | (393,013)           |

UAAL represents Unfunded Actuarial Accrued Liability.

## **Summary of Benefit Provisions (September 30, 2009)**

### **NORMAL RETIREMENT:**

**Eligibility - General:** 30 or more years of service, regardless of age; or, age 55 with 10 or more years of service.

**Ocean Rescue:** Age 50 with 10 or more years of service. Members with at least 10 years of service who retire after 2/9/93 are eligible when the individual's age plus credited service totals 65 years or more.

#### **Pension Amount**

**General:** Average final compensation times the sum of a) 2.75% for service earned after 9/30/90, to a maximum of 82.5%, plus 2.35% for service earned on or before 9/30/90 for the first 30 years of service, plus, b) 1.0% for service in excess of 30 years.

**Ocean Rescue:** Average final compensation times the sum of a) 2.85% for the first 25 years of service with a maximum of 71.25% of AFC, plus, b) 1.0% for service in excess of 25 years.

The normal form of pension is a pension payable for life. Also, see Automatic Death Benefit After Retirement heading.

#### **Type of Average Final Compensation**

Highest 2 consecutive years within the member's last 5 years of credited service.

### **DROP RETIREMENT:**

**Eligibility** – Same as Normal Retirement, election must be made within 7 years of the date the member first reaches normal retirement eligibility.

**Pension Amount** – 98% of the member's accrued benefit at the date of election to participate in DROP.

### **EARLY RETIREMENT (GENERAL):**

**Eligibility** - Age 50 with 10 or more years of service.

**Pension Amount** - Computed as a normal retirement benefit but reduced 6/10 of 1% (3/10 of 1% if service credit is 20 or more years) for each month early retirement precedes the member's projected normal retirement date.

### **DEFERRED RETIREMENT (VESTED TERMINATION BENEFIT):**

**Eligibility** - 10 or more years of service. Pension begins upon meeting requirement for normal retirement. Contributions must be left on deposit in the System; failure to do so results in forfeiture of the vested benefit.

**Pension Amount** - Computed as for normal retirement, based upon service and average final compensation at time of termination.

### **DUTY DISABILITY RETIREMENT:**

**Eligibility** - No age or service requirements.

**Pension Amount** - To earliest normal retirement eligibility date: Computed as a regular retirement with additional service credit granted from date of disability to earliest normal retirement eligibility date. Minimum benefit is 60% of average final compensation. At earliest normal retirement eligibility date: computed as a regular retirement. The minimum shall be applicable for at least 5 years if the member attains such age for retirement less than 5 years after duty disability benefits commence.

### **NON-DUTY DISABILITY BEFORE RETIREMENT:**

**Eligibility** - 10 or more years of service.

**Pension Amount** - Computed as for normal retirement.

### **DUTY DEATH BEFORE RETIREMENT:**

**Eligibility** - No age or service requirements.

**Pension Amount** - A pension to each surviving child of 25% of the member's average final compensation not to exceed 50% or equal share of 75% of the member's AFC when there are 4 or more surviving children being paid. A pension to the widow of the difference, if any, between 75% of the retirant's AFC and the aggregate amount paid to children for the month.

### **NON-DUTY DEATH BEFORE RETIREMENT:**

**Eligibility** - 10 or more years of service.

**Pension Amount** - 75% of normal retirement benefit to a surviving spouse or equal shares of 75% of the normal retirement benefit to surviving unmarried children under 18.

**AUTOMATIC DEATH AFTER RETIREMENT PENSION:**

**To Surviving Child(ren):** 25% of the retirants pension payable to age 18, not to exceed an equal share of 75% of the retirants pension. Payments to surviving children may be paid to age 25 if no spouse benefits are payable.

**To Surviving Spouse:** The difference, if any, between 75% of the deceased retirants pension and the aggregate amount paid to any surviving children for the month.

**POST-RETIREMENT COST-OF-LIVING ADJUSTMENTS:**

Members who retire after 9-30-68 and prior to 10/1/90 receive an annual 1.0% increase computed on the base benefit. Other adjustments have been made periodically. Pensions effective after 9/30/90 will be increased 2.0% annually based on the total pension payable subsequent to an initial 3-year deferral period.

**SUPPLEMENTAL PENSION DISTRIBUTION:**

Amount determined on investment return, if any, after expenses, between 8.0% and 10.0% of assets, subject to accumulated gains/(losses) limitation.

**MEMBER CONTRIBUTIONS:**

| <u>% of Annual Compensation</u> |       |
|---------------------------------|-------|
| General:                        | 6.47% |
| Ocean Rescue:                   | 7.21% |

**TOWN CONTRIBUTIONS:** Actuarially determined amounts which together with member contributions are sufficient to cover the requirements of the funding objective stated on page A-1.

**PRIOR GOVERNMENTAL SERVICE ELSEWHERE:** During the first five years of employment by the Town, the years or fractional parts of years that a member previously served for any other municipal, county, or state government or district may be added to years or fractional parts of years of credited service provided that the member contributes the sum that would have been contributed to the retirement plan to pay the full actuarial cost.

**PURCHASE OF SERVICE CREDIT:** A vested member who has not purchased service credit under Prior Governmental Service Elsewhere may purchase years or fractional parts of years of service to be added to years of credited service provided that the member contributes the sum that would have been contributed to the retirement plan to pay the full actuarial cost.

**CLAIMS PROCEDURE:** Claims for benefits should be filed with the Board of Trustees at the Human Resources Department. If a claim is denied, you will be notified and informed of the procedure to request a hearing before the Board of Trustees. Claim denials are generally limited to failure to meet the eligibility requirements for a benefit.

# Accounting Information Utilized for Valuation

## REVENUES AND EXPENDITURES

|   | <u>Year Ended</u><br><u>September 30, 2009</u> | <u>Year Ended</u><br><u>September 30, 2008</u> |
|---|--|--|
| <b>Revenues:</b>                              |  |  |
| a. Member contributions: - General            | \$ 863,445                                     | \$ 832,252                                     |
| - Ocean Rescue                                | 27,582   | 27,320   |
| b. Town contributions: - General              | 2,319,374                                      | 2,488,986                                      |
| - Ocean Rescue                                | 100,754  | 125,916  |
| c. Investment income:                         |  |  |
| 1. Interest                                   | 6,106  | 22,022   |
| 2. Dividends                                  | 59,781   | 49,175   |
| 3. Amortization of premiums/discounts         | 0  | 0  |
| 4. Gain or (loss) on sales                    | 8,358,248                                      | 273,568  |
| 5. Other – unrealized gain (loss)             | (8,829,807)                                    | (14,955,425)                                   |
| d. Total revenues                             | <u>2,905,483</u>                               | <u>(11,136,186)</u>                            |
| <b>Expenditures:</b>                          |  |  |
| a. Refunds of member contributions: - General | 100,068  | 93,685   |
| - Ocean Rescue                                | 0  | 0  |
| b. Benefits paid - General                    | 3,375,398                                      | 2,933,548                                      |
| - Ocean Rescue                                | 242,479  | 205,764  |
| c. Supplemental pension distribution          | 0  | 0  |
| d. Administrative expenses                    | 49,359   | 46,838   |
| e. Investment expenses                        | 273,257  | 518,161  |
| f. Other                                      | 0  | 0  |
| g. Total expenditures                         | <u>4,040,561</u>                               | <u>3,797,996</u>                               |
| <b>Reserve Increase:</b>                      |  |  |
| Total revenues minus total expenditures       | <u>\$(1,135,078)</u>                           | <u>(\$14,934,182)</u>                          |

## Summary of Assets (Market Value)

|                                | September 30, 2009  | September 30, 2008  |
|--------------------------------|---------------------|---------------------|
| Cash                           | \$ 801,002          | \$ 998,833          |
| Accrued interest and dividends | 7,501               | 5,077               |
| Other short-term               | 0                   | 148,234             |
| Bonds - government             | 0                   | 0                   |
| - corporate                    | 0                   | 0                   |
| - mutual funds                 | 15,071,703          | 14,110,109          |
| - mortgage                     | 0                   | 0                   |
| Stocks - common                | 7,356,621           | 7,340,020           |
| - preferred                    | 0                   | 0                   |
| Stock mutual funds             | 30,044,660          | 31,812,152          |
| Accounts payable               | (44,515)            | (250,399)           |
| Other                          | 7,071,641           | 7,279,665           |
| <b>Total Assets</b>            | <b>\$60,308,613</b> | <b>\$61,443,691</b> |

The preceding summary briefly describes the principal benefits of the Retirement System. Said summary is not binding and should not be relied upon in any action concerning your participation in the retirement system or benefits thereunder. Detailed benefit conditions and limitations are contained in the Pension Ordinance which established the System. Interpretations of the Ordinance are made by the Board of Trustees. The Ordinance and Board interpretations govern the operation of the System and should be consulted before you take any action concerning your participation or benefits. Copies and consultation are available at the Human Resources Department.