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May 29, 2025

Ms. Patti McLauchlin
Administrator, City of Key West
Employee's Retirement Plan
16073 Thornwood Dr.
Fort Myers, Florida 33908

Re: Actuarial Study as of October 1, 2023
Retirement Plan for Employees of the City of Key West

Dear Patti:

As requested, we have performed an Actuarial Study as of October 1, 2023 to determine the financial effect of the proposed benefit changes to the Retirement Plan for Employees of the City of Key West (Plan). This is a follow-up of our prior study dated October 1, 2024.

Background – Currently, the Plan does not provide an automatic annual cost of living adjustment (COLA). Effective January 1, 2006, members receiving benefits received a 2.0% *ad hoc* (one time) COLA increase.

Proposed Changes – We understand the Board wishes to determine the financial effect of the following proposed changes in benefit provisions:

> Current retirees who retired with twenty (20) or more years of service, with a monthly benefit less than $1,000 shall receive a monthly benefit of $1,000 during their lifetime.
>
> Current and future retirees including DROP members and respective beneficiaries, who retire / retired or enter / entered the DROP on or after attaining their normal retirement date, members retiring due to disability and survivor beneficiaries of members active at time of death will receive an annual automatic 2% COLA increase payable each January 1st commencing at the later of January 1, 2026 or following receipt of benefits (or DROP entry) for five (5) years. DROP members will not receive the COLA while participating in the DROP.

Members who retired under early retirement and deferred retirement and their respective beneficiaries are not considered for any COLA benefits under this Study.

Results – The attached Exhibit sets out the key financial results of our Actuarial Study. The following table shows the projected annual increase in net City Minimum Funding Payment as a dollar amount and as a percentage of expected covered payroll ($19,043,205). As a reference, the City required contribution as of the October 1, 2023 Actuarial Valuation was

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$1,904,321 (10.0% as a percentage of payroll).

Item	Increase in City Minimum Funding Payment
Proposed Changes – Increase monthly benefit to $1,000 for current retirees who retired with 20 or more years of service with a monthly benefit less than $1,000. Provide an annual automatic 2% COLA increase at the later of January 1, 2026 or following receipt of benefit or DROP entry for 5 years for current and future retirees including DROP members and respective beneficiaries, who retire/retired or enter/entered DROP on or after attaining normal retirement date, members retiring due to disability and survivor beneficiaries of members active at time of death. DROP members will not receive the COLA while participating in the DROP.	$ 895,030 (4.7%)

Actuarial assumptions and methods, Plan provisions, financial data and member census data – The actuarial assumptions and methods, financial data and member census data employed for purposes of our Actuarial Study are the same actuarial assumptions and methods, financial data and member census data utilized for the October 1, 2023 Actuarial Valuation with the exception of following:

- Members are assumed to participate in the DROP for five (5) years.

Plan provisions employed for purposes of our Actuarial Study are the same Plan provisions utilized for the October 1, 2023 Actuarial Valuation with the exception of the proposed benefit changes described above.

Other Considerations – Under Governmental Accounting Standards Board (GASB) Statement Number 68, we understand the full cost of benefit changes must be recognized immediately in the Pension Expense (for accounting, not for funding).

Risk Assessment – Risk assessment may include scenario tests, sensitivity, or stress tests, stochastic modeling, and a comparison of the present value of benefits at low-risk discount rates. We are prepared to perform such assessment to aid the Board in the decision making process. Please refer to the October 1, 2023 Actuarial Valuation Report dated August 27, 2024 for additional discussion regarding the risks associated with measuring the accrued liability and the minimum funding payment.

This Actuarial Study is intended to describe the estimated future financial effects of the proposed benefit change on the Plan and is not intended as a recommendation in favor of the benefit change nor in opposition to the benefit change.

If all actuarial assumptions are met and if all current and future minimum required contributions are paid, Plan assets will be sufficient to pay all Plan benefits, future contributions are expected to remain relatively stable as a percent of payroll and the funded status is expected to improve. Plan minimum required contributions are determined in compliance with the requirements of the Florida Protection of Public Employee Retirement Benefits Act with normal cost determined as a level percent of covered payroll and a level percent amortization payment of the unfunded actuarial accrued liability using an initial amortization period of 20 years.

The Unfunded Actuarial Accrued Liability (UAAL) and the Funded Ratio may not be appropriate for assessing the sufficiency of Plan assets to meet the estimated cost of settling benefit obligations but may be appropriate for assessing the need for or the amount of future contributions. The UAAL and Funded Ratio would be different if they reflected the market value of assets rather than the actuarial value of assets.

These calculations are based upon assumptions regarding future events. However, the Plan's long term costs will be determined by actual future events, which may differ materially from the assumptions made. These calculations are also based upon present Plan provisions that are outlined or referenced in the Actuarial Valuation.

All actuarial assumptions used in this Actuarial Study are reasonable for the purposes of this study. The combined effect of the assumptions is expected to have no significant bias (i.e. not significantly optimistic or pessimistic). All actuarial assumptions and methods used in the study follow the guidance in the applicable Actuarial Standards of Practice.

If you have reason to believe the assumptions used are unreasonable, the Plan provisions are incorrectly described or referenced, important Plan provisions relevant to this Actuarial Study are not described or that conditions have changed since the calculations were made, you should contact the undersigned prior to relying on information in this Actuarial Study.

If you have reason to believe that the information provided in this Actuarial Study is inaccurate, or is in any way incomplete, or if you need further information in order to make an informed decision on the subject matter of this report, please contact the undersigned prior to making such decision.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: Plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period) and changes in Plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of such future measurements.

This Actuarial Study should not be relied on for any purpose other than the purpose described in the primary communication. Determinations of the financial results associated with the benefits described in this report in a manner other than the intended purpose may produce significantly different results.

This report was prepared using our proprietary valuation model and related software which in our professional judgment has the capability to provide results that are consistent with the purposes of the valuation and has no material limitations or known weaknesses. We performed tests to ensure that the model reasonably represents that which is intended to be modeled.

This Actuarial Study has been prepared by actuaries who have substantial experience valuing public employee retirement systems. To the best of our knowledge the information contained in this report is accurate and fairly presents the actuarial position of the Plan as of the valuation date. All calculations have been made in conformity with generally accepted actuarial principles and practices, with the Actuarial Standards of Practice issued by the Actuarial Standards Board and with applicable statutes.

This Actuarial Study was prepared at the request of the Board and is intended for use by the Board and those designated or approved by the Board. This Actuarial Study may be provided to parties other than the Board only in its entirety and only with the permission of the Board. GRS is not responsible for unauthorized use of this Study.

The signing actuaries are independent of the Plan sponsor.

The undersigned are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

If you should have any question concerning the above or if we may be of further assistance with this matter, please do not hesitate to contact us.

Sincerely
Gabriel, Roeder, Smith & Company

Michelle Jones Jennifer Borregard

Shelly L. Jones, A.S.A., E.A.	Jennifer M. Borregard, E.A.
Consultant and Actuary	Consultant and Actuary

Enclosure

Actuarial Study as of October 1, 2023

	Actuarial Valuation				Proposed Changes			
	Current Plan				Current retiree who retired with 20 or more years of service, with a monthly benefit less than $1,000 shall receive a monthly benefit of $1,000 during their lifetime. Current and future retirees including DROP and respective beneficiaries, who retire/retired or enter/entered the DROP on or after attaining normal retirement date, members retiring due to disability and survivor beneficiaries of members active at time of death will receive an annual automatic 2% COLA increase at the later of January 1, 2026 or following receipt of benefit for 5 years. DROP members will not receive the COLA while participating in the DROP.			
		Cost Data	% of Annual Payroll			Cost Data	% of Annual Payroll	
A. Members								
1. Active Members		287	N/A			287	N/A	
2. Terminated vested Members		12	N/A			12	N/A	
3. Receiving benefits (including DROPs)		187	N/A			187	N/A	
4. Annual payroll of active Members	$	17,948,355	100.0%		$	17,948,355	100.0%	
5. Projected annual payroll of active Members	$	19,043,205	106.1%		$	19,043,205	106.1%	
B. Total Normal Costs	$	2,561,124	14.3%		$	2,834,981	15.8%	
C. Present Value of Future Benefits	$	89,453,073	498.4%		$	100,941,372	562.4%	
D. Total Actuarial Accrued Liability	$	73,948,134	412.0%		$	83,580,242	465.7%	
E. Smoothed Actuarial Value of Assets	$	69,632,866	388.0%		$	69,632,866	388.0%	
F Unfunded Actuarial Accrued Liability (D. - E.)	$	4,315,268	24.0%		$	13,947,376	77.7%	
G. Funded Ratio (E. / D.)		94.2%	N/A			83.3%	N/A	
H. City Minimum Funding Payment	$	1,904,321	10.0%	*	$	2,799,351	14.7%	*
I. Increase / (Decrease) in City Minimum Funding Payment		N/A	N/A		$	895,030	4.7%	*

* Percent of expected 2024-2025 covered payroll ($19,043,205)