GRS Retirement Consulting

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July 10, 2017

Ms. Patti McLauchlin, Administrator
City of Key West Employees' Retirement Plan
City of Key West
3102 Flagler Avenue
Key West, Florida 33040

Re: Retirement Plan for Employees of the City of Key West
Actuarial Study as of October 1, 2015

Dear Patti:

As requested, we are pleased to enclose ten (10) copies of our Actuarial Study as of October 1, 2015 to determine the financial effect of proposed benefit changes to the City of Key West Employees' Retirement Plan (Plan).

Background – The Plan does not currently 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.

Proposed Change – The Board is interested in analyzing the financial impact of the following proposed change in benefit provisions:

- Effective January 1, 2017, current retirees who retired on or after reaching normal retirement, disabled members and survivor beneficiaries of members active at time of death and respective beneficiaries shall receive a 3.0% *ad hoc* COLA.

Results – Based upon the results of our Actuarial Study, the proposed change increases the first year minimum annual required City contribution by $102,978 (0.9%). The figure in parentheses is the City cost expressed as a percentage of projected covered payroll ($11,441,982).

Other Considerations – The Consumer Price Index (CPI) has increased approximately 23.4% since the prior *ad hoc* COLA of 2.0% was provided effective January 1, 2006.

Under Governmental Accounting Standards Board (GASB) Statement Number 68, we understand the cost of benefit changes must be recognized immediately in pension expense (accounting not funding). Therefore, the pension expense is expected to increase the first year and then is expected to return to lower levels in fiscal years following initial recognition of the benefit change.

Actuarial Assumptions and Methods, Plan Provisions, Financial Data, 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, 2015 Actuarial Valuation unless otherwise specified herein. Additional information regarding current inactive members who retired on or after normal retirement was provided by the Board in order to complete the analysis.

The Plan provisions employed for purposes of our Actuarial Study are the same Plan provisions utilized for the October 1, 2015 Actuarial Valuation as modified above.

This Actuarial Study is intended to describe the estimated future financial effects of the proposed benefit changes on the Plan, and is not intended as a recommendation in favor of the benefit changes or in opposition of the benefit changes.

If all actuarial assumptions are met and if all future minimum required contributions are paid, Plan assets will be sufficient to pay all Plan benefits. 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.

The Unfunded Entry Age Normal Actuarial Accrued Liability (UAAL) 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 would be different if it reflected the market value of assets rather than the smoothed actuarial value of assets.

The Funded Percentage shown in Item G of the Exhibit is for informational purposes and is not appropriate for assessing the sufficiency of Plan assets to cover the estimated cost of settling the Plan's benefit obligations but may be appropriate for assessing the need for or the amount of future contributions.

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 referenced in this Actuarial Study.

If you have reason to believe the assumptions used are unreasonable, the Plan provisions are incorrectly described as referenced, important Plan provisions relevant to this proposed 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.

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 the actuary's assignment, the actuary 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 Actuarial Study has been prepared by actuaries who have substantial experience valuing public employee retirement plans. 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 Study 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 may be provided to parties other than the Board only in its entirety and only with the permission of an approved representative of the Board.

The signing actuaries are independent of the Plan sponsor.

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.

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.

Sincerest regards,

L. F. Wilson

Jennifer Borregard

Lawrence F. Wilson, E.A., A.S.A.
Senior Consultant and Actuary

Jennifer M. Borregard, E.A.
Consultant and Actuary

Enclosures

Retirement Plan for Employees of the City of Key West

Actuarial Study as of October 1, 2015

	Actuarial Valuation		Actuarial Study	
	Current Plan		Effective January 1, 2017, current normal retirees, disableds and beneficiaries shall receive a 3.0% *ad hoc* COLA	
	Cost Data	% of Annual Compensation	Cost Data	% of Annual Compensation
A. Participants				
1. Active Employees	250	N/A	250	N/A
2. Terminated Vested	13	N/A	13	N/A
3. Receiving Benefits (including DROPs)	143	N/A	143	N/A
4. Annual Payroll of Active Employees	$ 11,339,923	100.0%	$ 11,339,923	100.0%
5. Projected Annual Payroll of Active Employees	$ 11,441,982	100.9%	$ 11,441,982	100.9%
B. Total Present Value of Future Benefits	$ 54,579,004	481.3%	$ 55,225,901	487.0%
C. Total Entry Age Normal Actuarial Actuarial Accrued Liability	$ 46,751,976	412.3%	$ 47,398,873	418.0%
D. Plan Assets				
1. Smoothed Value	$ 47,501,146	418.9%	$ 47,501,146	418.9%
2. Market Value	$ 47,155,911	415.8%	$ 47,155,911	415.8%
E. Unfunded Entry Age Normal Actuarial Accrued Liability (Smoothed Value)	$ (749,170)	(6.6%)	$ (102,273)	(0.9%)
F. Total Normal Costs (including expenses)	$ 1,289,184	11.4%	$ 1,391,244	12.3%
G. Funded Percentage (Market Value)	100.9%	N/A	99.5%	N/A
H. Minimum Required Contribution				
1. City	$ 663,635	5.8%	$ 766,613	6.7%
2. Member	$ 686,519	6.0%	$ 686,519	6.0%
3. Total	$ 1,350,154	11.8%	$ 1,453,132	12.7%
I. Increase / (Decrease) in Net City Cost	N/A	N/A	$ 102,978	0.9%