

CITY OF PALMETTO  
GENERAL EMPLOYEES' RETIREMENT SYSTEM

ACTUARIAL VALUATION  
AS OF OCTOBER 1, 2020

CONTRIBUTIONS APPLICABLE TO THE  
PLAN/FISCAL YEAR ENDING SEPTEMBER 30, 2022

GASB 67/68 DISCLOSURE INFORMATION  
AS OF SEPTEMBER 30, 2020



**FOSTER & FOSTER**  
ACTUARIES AND CONSULTANTS

November 23, 2020

Board of Trustees  
City of Palmetto  
General Employees' Pension Board

Re: City of Palmetto General Employees' Retirement System

Dear Board:

We are pleased to present to the Board this report of the annual actuarial valuation of the City of Palmetto General Employees' Retirement System. Included are the related results for GASB Statements No. 67 and No. 68. The funding valuation was performed to determine whether the assets and contributions are sufficient to provide the prescribed benefits and to develop the appropriate funding requirements for the applicable plan year. The calculation of the liability for GASB results was performed for the purpose of satisfying the requirements of GASB Statements No. 67 and No. 68. Use of the results for other purposes may not be applicable and may produce significantly different results.

The valuations have been conducted in accordance with generally accepted actuarial principles and practices, including the applicable Actuarial Standards of Practice as issued by the Actuarial Standards Board, and reflect laws and regulations issued to date pursuant to the provisions of Chapter 112, Florida Statutes, as well as applicable federal laws and regulations. In our opinion, the assumptions used in the valuations, as adopted by the Board of Trustees, represent reasonable expectations of anticipated plan experience.

The funding percentages and unfunded accrued liability as measured based on the actuarial value of assets will differ from similar measures based on the market value of assets. These measures, as provided, are appropriate for determining the adequacy of future contributions, but may not be appropriate for the purpose of settling a portion or all of its liabilities. Future actuarial measurements may differ significantly from the current measurements presented in this report for a variety of reasons including: changes in applicable laws, changes in plan provisions, changes in assumptions, or plan experience differing from expectations. Due to the limited scope of the valuations, we did not perform an analysis of the potential range of such future measurements.

In conducting the valuations, we have relied on personnel, plan design, and asset information supplied by the City of Palmetto, financial reports prepared by the custodian bank, and the actuarial assumptions and methods described in the Actuarial Assumptions section of this report. While we cannot verify the accuracy of all this information, the supplied information was reviewed for consistency and reasonableness. As a result of this review, we have no reason to doubt the substantial accuracy of the information and believe that it has produced appropriate results. This information, along with any adjustments or modifications, is summarized in various sections of this report.

The total pension liability, net pension liability, and certain sensitivity information shown in this report are based on an actuarial valuation performed as of October 1, 2019. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ending September 30, 2020 using generally accepted actuarial principles. It is our opinion that the assumptions used for this purpose are internally consistent, reasonable, and comply with the requirements under GASB No. 67 and No. 68.

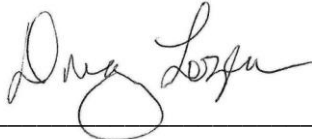
The undersigned are familiar with the immediate and long-term aspects of pension valuations, and meet the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinions contained herein. All of the sections of this report are considered an integral part of the actuarial opinions.


To our knowledge, no associate of Foster & Foster, Inc. working on valuations of the program has any direct financial interest or indirect material interest in the City of Palmetto, nor does anyone at Foster & Foster, Inc. act as a member of the Board of Trustees of the General Employees' Retirement System. Thus, there is no relationship existing that might affect our capacity to prepare and certify this actuarial report.

If there are any questions, concerns, or comments about any of the items contained in this report, please contact us at 239-433-5500.

Respectfully submitted,

Foster & Foster, Inc.

By:   
\_\_\_\_\_  
Douglas H. Lozen, EA, MAAA  
Enrolled Actuary #20-7778

By:   
\_\_\_\_\_  
Kevin H. Peng, ASA, EA, MAAA  
Enrolled Actuary #20-7783

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Enclosures

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## SUMMARY OF REPORT

The regular annual actuarial valuation of the City of Palmetto General Employees' Retirement System, performed as of October 1, 2020, has been completed and the results are presented in this Report. The contribution amounts set forth herein are applicable to the plan/fiscal year ending September 30, 2022.

The contribution requirements, compared with those set forth in the October 1, 2019 actuarial valuation report, are as follows:

Valuation Date Applicable to Fiscal Year Ending	10/1/2020 <u>9/30/2022</u>	10/1/2019 <u>9/30/2021</u>
Minimum Required Contribution % of Projected Annual Payroll	20.03%	19.92%
Member Contributions (Est.) % of Projected Annual Payroll	5.00%	5.00%
City Required Contribution % of Projected Annual Payroll	15.03%	14.92%

As you can see, the Minimum Required Contribution shows an increase when compared to the results determined in the October 1, 2019 actuarial valuation report. The increase is attributable to the unfunded actuarial accrued liability (UAAL) Fresh Start Amortization Impact. The increase was offset in part by favorable actuarial experience as described in the next paragraph, an assumption change and greater than expected reductions in UAAL.

Plan experience was favorable overall on the basis of the plan's actuarial assumptions. Sources of actuarial gain included more turnover than expected, inactive mortality experience, and an investment return of 7.58% (Actuarial Asset Basis) which exceeded the 7.00% assumption. There were no significant sources of actuarial loss.

## CHANGES SINCE PRIOR VALUATION

### Plan Changes

There have been no changes in benefits since the prior valuation.

### Actuarial Assumption/Method Changes

In conjunction with this valuation of the plan, the following changes were made:

1. Method change: A Fresh Start for the UAAL. The amortization period for the combined UAAL (including the 2020 experience Gain) is amortized over 1 year.

All future new UAAL bases are amortized over 15 years level dollar. Previously, the amortization period for all changes to the UAAL were as follows:

- Experience: 10 Years
  - Assumption/Method Changes: 20 Years
  - Benefit Changes: 30 Years
2. Assumption change: As mandated by Chapter 2015-157, Laws of Florida, the assumed rates of mortality were changed to the rates used in the July 1, 2019 actuarial valuation for non-special-risk lives, with appropriate risk and collar adjustments made based on plan demographics.

## CONTRIBUTION IMPACT OF ANNUAL CHANGES

(1) Contribution Determined as of October 1, 2019	14.92%
(2) Summary of Contribution Impact by component:	
Change in Normal Cost Rate	-0.03%
Change in Administrative Expense Percentage	0.10%
Payroll Change Effect on UAAL Amortization	0.44%
UAAL Fresh Start Amortization Impact	3.36%
Investment Return (Actuarial Asset Basis)	-0.38%
Salary Increases	-0.31%
Active Decrements	-0.54%
Inactive Mortality	-0.42%
Assumption Change	-0.99%
Greater than Expected Reduction in the UAAL	-1.44%
Other	<u>0.32%</u>
Total Change in Contribution	0.11%
(3) Contribution Determined as of October 1, 2020	15.03%

COMPARATIVE SUMMARY OF PRINCIPAL VALUATION RESULTS

	New Asmp/Mthd <u>10/1/2020</u>	Old Asmp/Mthd <u>10/1/2020</u>	<u>10/1/2019</u>
A. Participant Data			
Actives	73	73	80
Service Retirees	41	41	43
DROP Retirees	2	2	3
Beneficiaries	7	7	7
Disability Retirees	2	2	3
Terminated Vested	<u>10</u>	<u>10</u>	<u>8</u>
Total	135	135	144
Total Annual Payroll	\$3,300,207	\$3,300,207	\$3,524,826
Payroll Under Assumed Ret. Age	3,188,402	3,188,402	3,416,462
Annual Rate of Payments to:			
Service Retirees	707,467	707,467	707,260
DROP Retirees	39,007	39,007	81,262
Beneficiaries	89,708	89,708	76,534
Disability Retirees	33,778	33,778	37,324
Terminated Vested	64,020	64,020	52,680
B. Assets			
Actuarial Value (AVA) <sup>1</sup>	16,243,902	16,243,902	15,442,994
Market Value (MVA) <sup>1</sup>	16,045,522	16,045,522	15,327,211
C. Liabilities			
Present Value of Benefits			
Actives			
Retirement Benefits	7,895,359	8,003,159	7,626,312
Disability Benefits	295,286	276,207	296,168
Death Benefits	57,205	80,003	83,158
Vested Benefits	547,088	569,758	688,984
Refund of Contributions	215,478	214,787	240,021
Service Retirees	6,977,632	7,086,845	7,054,391
DROP Retirees <sup>1</sup>	516,750	524,389	1,131,842
Beneficiaries	960,374	971,920	828,881
Disability Retirees	363,842	361,121	383,562
Terminated Vested	<u>527,511</u>	<u>547,704</u>	<u>452,729</u>
Total	18,356,525	18,635,893	18,786,048



C. Liabilities - (Continued)	New Asmp/Mthd <u>10/1/2020</u>	Old Asmp/Mthd <u>10/1/2020</u>	<u>10/1/2019</u>
Present Value of Future Salaries	20,768,092	20,721,857	23,427,302
Present Value of Future Member Contributions	1,038,405	1,036,093	1,171,365
Normal Cost (Retirement)	253,661	255,800	268,143
Normal Cost (Disability)	15,309	14,338	16,028
Normal Cost (Death)	3,084	4,340	4,722
Normal Cost (Vesting)	39,225	40,913	48,183
Normal Cost (Refunds)	<u>35,602</u>	<u>35,544</u>	<u>40,028</u>
Total Normal Cost	346,881	350,935	377,104
Present Value of Future Normal Costs	2,105,464	2,127,749	2,415,333
Accrued Liability (Retirement)	6,294,581	6,389,390	5,831,127
Accrued Liability (Disability)	193,067	181,196	184,041
Accrued Liability (Death)	37,731	53,267	52,448
Accrued Liability (Vesting)	324,693	337,513	393,754
Accrued Liability (Refunds)	54,880	54,799	57,940
Accrued Liability (Inactives) <sup>1</sup>	<u>9,346,109</u>	<u>9,491,979</u>	<u>9,851,405</u>
Total Actuarial Accrued Liability (EAN AL)	16,251,061	16,508,144	16,370,715
Unfunded Actuarial Accrued Liability (UAAL)	7,159	264,242	927,721
Funded Ratio (AVA / EAN AL)	100.0%	98.4%	94.3%

D. Actuarial Present Value of Accrued Benefits	New Asmp/Mthd <u>10/1/2020</u>	Old Asmp/Mthd <u>10/1/2020</u>	<u>10/1/2019</u>
Vested Accrued Benefits			
Inactives <sup>1</sup>	9,346,109	9,491,979	9,851,405
Actives	3,455,109	3,526,852	3,007,920
Member Contributions	<u>1,119,817</u>	<u>1,119,817</u>	<u>1,071,863</u>
Total	13,921,035	14,138,648	13,931,188
Non-vested Accrued Benefits	<u>500,729</u>	<u>511,146</u>	<u>524,296</u>
Total Present Value			
Accrued Benefits (PVAB)	14,421,764	14,649,794	14,455,484
Funded Ratio (MVA / PVAB)	111.3%	109.5%	106.0%
Increase (Decrease) in Present Value of Accrued Benefits Attributable to:			
Plan Amendments	0	0	
Assumption Changes	(228,030)	0	
Plan Experience	0	344,985	
Benefits Paid	0	(1,123,245)	
Interest	0	972,570	
Other	<u>0</u>	<u>0</u>	
Total	(228,030)	194,310	

	New Asmp/Mthd	Old Asmp/Mthd	
Valuation Date	10/1/2020	10/1/2020	10/1/2019
Applicable to Fiscal Year Ending	<u>9/30/2022</u>	<u>9/30/2022</u>	<u>9/30/2021</u>

E. Pension Cost

Normal Cost (with interest) % of Total Annual Payroll <sup>2</sup>	11.26	11.39	11.42
Administrative Expenses (with interest) % of Total Annual Payroll <sup>2</sup>	1.05	1.05	0.95
Payment Required to Amortize Unfunded Actuarial Accrued Liability over 15 years (as of 10/1/2020, with interest) % of Total Annual Payroll <sup>2</sup>	7.72	5.22	7.55
Minimum Required Contribution % of Total Annual Payroll <sup>2</sup>	20.03	17.66	19.92
Expected Member Contributions % of Total Annual Payroll <sup>2</sup>	5.00	5.00	5.00
Expected City Contribution % of Total Annual Payroll <sup>2</sup>	15.03	12.66	14.92

F. Past Contributions

Plan Years Ending:	<u>9/30/2020</u>
Total Required Contribution	796,603
City Requirement	626,896
Actual Contributions Made:	
Members (excluding buyback)	169,707
City	<u>626,894</u>
Total	796,601

G. Net Actuarial (Gain)/Loss (332,594)

<sup>1</sup> The asset values and liabilities include accumulated DROP Plan Balances as of 9/30/2020 and 9/30/2019.

<sup>2</sup> Contributions developed as of 10/1/2020 are expressed as a percentage of total annual payroll at 10/1/2020 of \$3,188,402.

H. Schedule Illustrating the Amortization of the Total Unfunded Actuarial Accrued Liability as of:

<u>Year</u>	<u>Projected Unfunded Actuarial Accrued Liability</u>
2020	7,159 <sup>1</sup>

I. (i) 5 Year Comparison of Actual and Assumed Salary Increases

	<u>Actual</u>	<u>Assumed</u>
Year Ended 9/30/2020	2.80%	4.77%
Year Ended 9/30/2019	4.82%	4.94%
Year Ended 9/30/2018	5.51%	4.85%
Year Ended 9/30/2017	7.10%	4.81%
Year Ended 9/30/2016	4.49%	7.44%

(ii) 5 Year Comparison of Investment Return on Market Value and Actuarial Value

	<u>Market Value</u>	<u>Actuarial Value</u>	<u>Assumed</u>
Year Ended 9/30/2020	7.09%	7.58%	7.00%
Year Ended 9/30/2019	2.81%	8.09%	7.00%
Year Ended 9/30/2018	10.07%	7.93%	7.00%
Year Ended 9/30/2017	11.78%	7.12%	7.00%
Year Ended 9/30/2016	8.18%	7.55%	7.50%

(iii) Average Annual Payroll Growth

(a) Payroll as of:	10/1/2020	\$3,188,402
	10/1/2010	2,979,233
(b) Total Increase		7.02%
(c) Number of Years		10.00
(d) Average Annual Rate		0.68%

<sup>1</sup> The UAAL is expected to be negative for fiscal 2021 and later. Due to the statutory Normal Cost minimum requirement, the sponsor may not offset its funding requirement with a negative amortization payment. Accordingly, a projection of the UAAL for fiscal 2021 and later is not provided.

STATEMENT BY ENROLLED ACTUARY

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.



Douglas H. Lozen, EA, MAAA  
Enrolled Actuary #20-7778

Please let us know when the report is approved by the Board and unless otherwise directed we will provide a copy of the report to the following office to comply with Chapter 112 Florida Statutes:

Mr. Keith Brinkman  
Bureau of Local  
Retirement Systems  
Post Office Box 9000  
Tallahassee, FL 32315-9000

RECONCILIATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITIES  
(Before Assumption/Method Change)

(1)	Unfunded Actuarial Accrued Liability as of October 1, 2019	\$927,721
(2)	Sponsor Normal Cost developed as of October 1, 2019	206,281
(3)	Expected administrative expenses for the year ended September 30, 2020	31,197
(4)	Expected interest on (1), (2) and (3)	80,472
(5)	Sponsor contributions to the System during the year ended September 30, 2020	626,894
(6)	Expected interest on (5)	21,941
(7)	Expected Unfunded Actuarial Accrued Liability as of September 30, 2020 (1)+(2)+(3)+(4)-(5)-(6)	596,836
(8)	Change to UAAL due to Assumption Change	0
(9)	Change to UAAL due to Actuarial (Gain)/Loss	(332,594)
(10)	Unfunded Actuarial Accrued Liability as of October 1, 2020	264,242

Type of <u>Base</u>	Date <u>Established</u>	Years <u>Remaining</u>	10/1/2020 <u>Amount</u>	Amortization <u>Amount</u>
Fresh Start	10/1/2015	4	1,086,144	299,682
Assumption Change	10/1/2015	15	268,166	27,517
Assumption Change	10/1/2016	16	21,307	2,108
Actuarial Gain	10/1/2016	6	(138,281)	(27,113)
Actuarial Gain	10/1/2017	7	(47,291)	(8,201)
Actuarial Gain	10/1/2018	8	(295,791)	(46,295)
Actuarial Gain	10/1/2019	9	(297,418)	(42,663)
Actuarial Gain	10/1/2020	10	<u>(332,594)</u>	<u>(44,256)</u>
			264,242	160,779

RECONCILIATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITIES  
(After Assumption/Method Change)

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(6)	Expected interest on (5)	21,941
(7)	Expected Unfunded Actuarial Accrued Liability as of September 30, 2020 (1)+(2)+(3)+(4)-(5)-(6)	596,836
(8)	Change to UAAL due to Assumption Change	(257,083)
(9)	Change to UAAL due to Actuarial (Gain)/Loss	(332,594)
(10)	Unfunded Actuarial Accrued Liability as of October 1, 2020	7,159

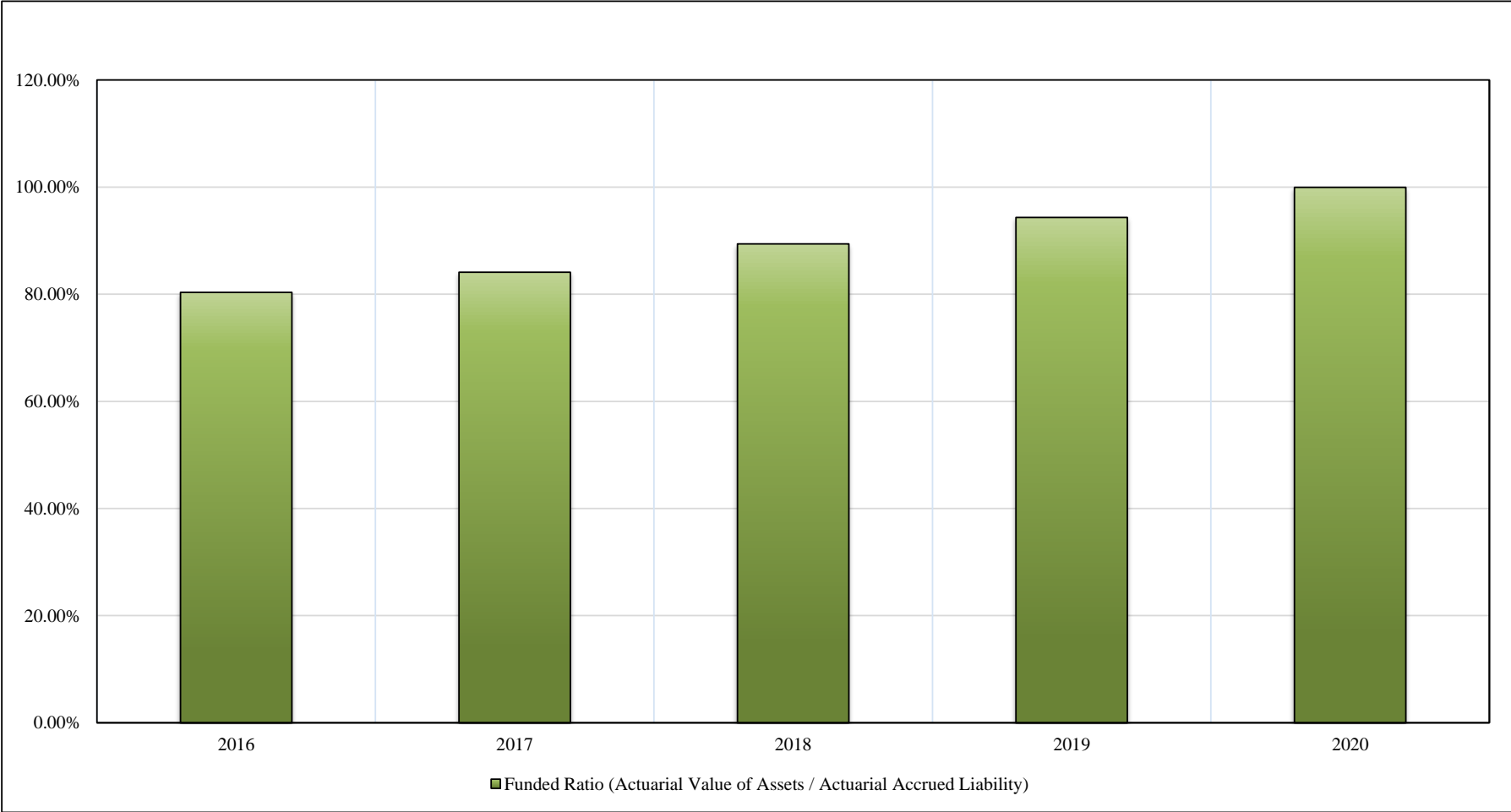
<u>Type of Base</u>	<u>Date Established</u>	<u>Years Remaining</u>	<u>10/1/2020 Amount</u>	<u>Amortization Amount</u>
Consolidation Base	10/1/2020	1	264,242	264,242
Assumption Change	10/1/2020	15	<u>(257,083)</u>	<u>(26,380)</u>
			\$7,159	\$237,862

## DETAILED ACTUARIAL (GAIN)/LOSS ANALYSIS

(1) Unfunded Actuarial Accrued Liability (UAAL) as of October 1, 2019	\$927,721
(2) Expected UAAL as of October 1, 2020	596,836
(3) Summary of Actuarial (Gain)/Loss, by component:	
Investment Return (Actuarial Asset Basis)	(88,837)
Salary Increases	(72,708)
Active Decrements	(124,943)
Inactive Mortality	(97,140)
Other	<u>51,034</u>
Increase in UAAL due to (Gain)/Loss	(332,594)
Assumption Changes	(257,083)
(4) Actual UAAL as of October 1, 2020	\$7,159



# HISTORY OF FUNDING PROGRESS



## ACTUARIAL ASSUMPTIONS AND METHODS

### Mortality Rate

#### *Healthy Active Lives:*

**Female:** PubG.H-2010 for Employees. Prior year assumption: RP2000 Generational, 100% White Collar, Scale BB.

**Male:** PubG.H-2010 (Below Median) for Employees, set back one year. Prior year assumption: RP2000 Generational, 50% White Collar / 50% Blue Collar, Scale BB.

#### *Healthy Retiree Lives:*

**Female:** PubG.H-2010 (Below Median) for Healthy Retirees. Prior year assumption: RP2000 Generational, 100% Annuitant White Collar, Scale BB.

**Male:** PubG.H-2010 (Below Median) for Healthy Retirees, set back one year. Prior year assumption: RP2000 Generational, 50% Annuitant White Collar / 50% Annuitant Blue Collar, Scale BB.

#### *Beneficiary Lives:*

**Female:** PubG.H-2010 (Below Median) for Healthy Retirees. Prior year assumption: RP2000 Generational, 100% Annuitant White Collar, Scale BB.

**Male:** PubG.H-2010 (Below Median) for Healthy Retirees, set back one year. Prior year assumption: RP2000 Generational, 50% Annuitant White Collar / 50% Annuitant Blue Collar, Scale BB.

#### *Disabled Lives:*

PubG.H-2010 for Disabled Retirees, set forward three years.

Prior year assumption (Female): 100% RP2000 Disabled Female set forward two years.

Prior year assumption (Male): 100% RP2000 Disabled Male set back four years.

All rates are projected generationally with Mortality Improvement Scale MP-2018.

The previously described mortality assumption rates were mandated by Chapter 2015-157, Laws of Florida. This law mandates the use of the assumptions used in either of the two most recent valuations of the Florida Retirement System (FRS). The above rates are those outlined in Milliman's July 1, 2019 FRS valuation report for special risk employees, with appropriate risk and collar adjustments made based on plan demographics. We feel this assumption sufficiently accommodates future mortality improvements.

Interest Rate

7.00% per year compounded annually, net of investment related expenses.

Salary Increases

<u>Salary Scale</u>	
<u>Service</u>	<u>Rate</u>
0-2	6.00%
3-9	4.50%
10+	4.00%

The above rates were adopted by the Board as the result of an Experience Study for the period October 1, 2009 through September 30, 2015.

Payroll Growth

0.00% for purposes of amortizing the Unfunded Actuarial Accrued Liability.

Terminal Leave Pay

<u>Credited Service as of October 1, 2012</u>	<u>Liability Load</u>
10 or more years	4.50%
At least 5, less than 10 years	3.00%
Less than 5 years	0.00%

The above assumption is based on data provided by the City.

Administrative Expenses

\$32,226 annually, based on the average of actual expenses incurred in the prior two fiscal years.

Funding Method

Entry Age Normal Actuarial Cost Method.

Actuarial Value of Assets

The Actuarial Value of Assets utilizes a four-year smoothing methodology. The annual difference between expected and actual investment earnings (Market Value, net of investment-related expenses), is phased-in over a four-year period.

Amortization Method

New UAAL amortization bases are amortized over 15 years. Previously, the amounts are established according to the following amortization periods:

Experience: 10 Years.  
Assumption/Method Changes: 20 Years.  
Benefit Changes: 30 Years.

Termination Rates

The below rates were adopted by the Board as the result of an Experience Study for the period October 1, 2009 through September 30, 2015.

Disability Rates

Age-based table shown below, previously adopted by the Board as the result of a prior Experience Study.

<u>% Terminating During the Year</u>		<u>% Becoming Disabled During the Year</u>	
<u>Service</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>
0-3	15.0%	20	0.08%
4-9	8.5%	25	0.09%
10-14	7.5%	30	0.12%
15-19	5.0%	35	0.14%
20+	0.0%	40	0.25%
		45	0.35%
		50	0.55%
		55	0.74%
		60	0.97%
		65	1.19%

Normal Retirement

<u>Service</u>	<u>Age</u>	<u>Probability of Retirement</u>
10 – 29	60 – 63	80%
	64 – 69	25%
	70+	100%
30	All	33%
31	All	33%
32+	All	100%

The above rates were adopted by the Board as the result of an Experience Study for the period October 1, 2009 through September 30, 2015.

Early Retirement

A 10% probability of early retirement is assumed for each year of early retirement eligibility between the ages of 55 and 59. This assumption was approved by the Board as the result of an Experience Study for the period October 1, 2009 through September 30, 2015.

## GLOSSARY

Actuarial Value of Assets is the asset value used in the valuation to determine contribution requirements. It represents the plan's Market Value of Assets (see below), with adjustments according to the plan's Actuarial Asset Method. These adjustments produce a "smoothed" value that is likely to be less volatile from year to year than the Market Value of Assets.

Entry Age Normal Cost Method - Under this method, the normal cost is the sum of the individual normal costs for all active participants. For an active participant, the normal cost is the participant's normal cost accrual rate, multiplied by the participant's current compensation.

(a) The normal cost accrual rate equals:

(i) the present value of future benefits for the participant, determined as of the participant's entry age, divided by

(ii) the present value of the compensation expected to be paid to the participant for each year of the participant's anticipated future service, determined as of the participant's entry age.

(b) In calculating the present value of future compensation, the salary scale is applied both retrospectively and prospectively to estimate compensation in years prior to and subsequent to the valuation year based on the compensation used for the valuation.

(c) The accrued liability is the sum of the individual accrued liabilities for all participants and beneficiaries. A participant's accrued liability equals the present value, at the participant's attained age, of future benefits less the present value at the participant's attained age of the individual normal costs payable in the future. A beneficiary's accrued liability equals the present value, at the beneficiary's attained age, of future benefits. The unfunded accrued liability equals the total accrued liability less the actuarial value of assets.

(d) Under this method, the entry age used for each active participant is the participant's age at the time he or she would have commenced participation if the plan had always been in existence under current terms, or the age as of which he or she first earns service credits for purposes of benefit accrual under the current terms of the plan.

Market Value of Assets is the fair market value of plan assets as of the valuation date. This amount may be adjusted to produce an Actuarial Value of Assets for plan funding purposes.

Normal (Current Year's) Cost is the current year's cost for benefits yet to be funded. Under the Entry Age Normal cost method, it is determined for each participant as the present value of future benefits, determined as of the Member's entry age, amortized as a level percentage of compensation over the anticipated number of years of participation, determined as of the entry age.

Present Value of Benefits is the single sum value on the valuation date of all future benefits to be paid to current plan participants.

Total Annual Payroll is the projected annual rate of pay for the fiscal year beginning on the valuation date of all covered Members.

Total Required Contribution is equal to the Normal Cost plus an amount sufficient to amortize the Unfunded Accrued Liability over no more than 30 years. The required amount is adjusted for interest according to the timing of contributions during the year.

Unfunded Actuarial Accrued Liability (UAAL) is the difference between the actuarial accrued liability (described above) and the Actuarial Value of Assets. Under the Entry Age Normal Actuarial Cost Method, an actuarial gain or loss, based on actual versus expected UAAL, is determined in conjunction with each valuation of the plan.

## DISCUSSION OF RISK

ASOP No. 51, Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions, states that the actuary should identify risks that, in the actuary's professional judgment, may reasonably be anticipated to significantly affect the plan's future financial condition.

Throughout this report, actuarial results are determined using various actuarial assumptions. These results are based on the premise that all future plan experience will align with the plan's actuarial assumptions; however, there is no guarantee that actual plan experience will align with the plan's assumptions. It is possible that actual plan experience will differ from anticipated experience in an unfavorable manner that will negatively impact the plan's funded position.

Below are examples of ways in which plan experience can deviate from assumptions and the potential impact of that deviation. Typically, this results in an actuarial gain or loss representing the current-year financial impact on the plan's unfunded liability of the experience differing from assumptions; this gain or loss is amortized over a period of time determined by the plan's amortization method. When assumptions are selected that adequately reflect plan experience, gains and losses typically offset one another in the long term, resulting in a relatively low impact on the plan's contribution requirements associated with plan experience. When assumptions are too optimistic, losses can accumulate over time and the plan's amortization payment could potentially grow to an unmanageable level.

- Investment Return: When the rate of return on the Actuarial Value of Assets falls short of the assumption, this produces a loss representing assumed investment earnings that were not realized. Further, it is unlikely that the plan will experience a scenario that matches the assumed return in each year as capital markets can be volatile from year to year. Therefore, contribution amounts can vary in the future.
- Salary Increases: When a plan participant experiences a salary increase that was greater than assumed, this produces a loss representing the cost of an increase in anticipated plan benefits for the participant as compared to the previous year. The total gain or loss associated with salary increases for the plan is the sum of salary gains and losses for all active participants.
- Demographic Assumptions: Actuarial results take into account various potential events that could happen to a plan participant, such as retirement, termination, disability, and death. Each of these potential events is assigned a liability based on the likelihood of the event and the financial consequence of the event for the plan. Accordingly, actuarial liabilities reflect a blend of financial consequences associated with various possible outcomes (such as retirement at one of various possible ages). Once the outcome is known (e.g. the participant retires) the liability is adjusted to reflect the known outcome. This adjustment produces a gain or loss depending on whether the outcome was more or less favorable than other outcomes that could have occurred.

### Impact of Plan Maturity on Risk

For newer pension plans, most of the participants and associated liabilities are related to active members who have not yet reached retirement age. As pension plans continue in operation and active members reach retirement ages, liabilities begin to shift from being primarily related to active members to being shared amongst active and retired members. Plan maturity is a measure of the extent to which this shift has occurred. It is important to understand that plan maturity can have an impact on risk tolerance and the overall risk characteristics of the plan. For example, closed plans with a large amount of retired liability do not have as long of a time horizon to recover from losses (such as losses on investments due to lower than expected investment returns) as plans where the majority of the liability is attributable to active members. For this reason, less tolerance for investment risk may be warranted for highly mature closed plans with a substantial inactive liability. Similarly, mature closed plans paying substantial retirement benefits resulting in a small positive or net negative cash flow can be more sensitive to near term investment volatility, particularly if the size of the fund is shrinking, which can result in less assets being available for investment in the market.

To assist with determining the maturity of the plan, we have provided some relevant metrics in the table following titled “Plan Maturity Measures and Other Risk Metrics”. Highlights of this information are discussed below:

- The Support Ratio, determined as the ratio of active to inactive members, has increased from 119.7% on October 1, 2017 to 130.4% on October 1, 2020, indicating that the plan has experienced a significant growth in active population.
- The Accrued Liability Ratio, determined as the ratio of the Inactive Accrued Liability, which is the liability associated with members who are no longer employed but are due a benefit from the plan, to the Total Accrued Liability, is 57.5%. With a plan of this maturity, losses due to lower than expected investment returns or demographic factors may result in larger increases in contribution requirements than would be needed for a less mature plan. Please note Chapter 112, Florida Statutes, requires that the plan sponsor contributes the minimum required contribution; thus, there is minimal solvency risk to the plan.
- The Funded Ratio, determined as the ratio of the Actuarial Value of Assets to the Total Accrued Liability, has increased from 84.1% on October 1, 2017 to 100.0% on October 1, 2020, due to net favorable experience realized by the plan during the period.
- The Net Cash Flow Ratio, determined as the ratio of the Net Cash Flow (contributions minus benefit payments and administrative expenses) to the Market Value of Assets, decreased from 0.2% on October 1, 2017 to -2.2% on October 1, 2020. The current Net Cash Flow Ratio of -2.2% indicates that contributions are not currently covering the plan's benefit payments and administrative expenses.

It is important to note that the actuary has identified the risks in this section as the most significant risks based on the characteristics of the plan and the nature of the project, however, it is not an exhaustive list of potential risks that could be considered. Additional advanced modeling, as well as the identification of additional risks, can be provided at the request of the audience addressed on page 2 of this report.

## PLAN MATURITY MEASURES AND OTHER RISK METRICS

	<u>10/1/2017</u>	<u>10/1/2018</u>	<u>10/1/2019</u>	<u>10/1/2020</u>
<u>Support Ratio</u>				
Total Actives	73	75	80	73
Total Inactives <sup>1</sup>	61	60	59	56
Actives / Inactives <sup>1</sup>	119.7%	125.0%	135.6%	130.4%
 <u>Asset Volatility Ratio</u>				
Market Value of Assets (MVA)	13,784,575	14,961,271	15,327,211	16,045,522
Total Annual Payroll	3,109,138	3,300,971	3,524,826	3,300,207
MVA / Total Annual Payroll	443.4%	453.2%	434.8%	486.2%
 <u>Accrued Liability (AL) Ratio</u>				
Inactive Accrued Liability	10,017,520	9,780,928	9,851,405	9,346,109
Total Accrued Liability (EAN)	16,024,426	16,035,894	16,370,715	16,251,061
Inactive AL / Total AL	62.5%	61.0%	60.2%	57.5%
 <u>Funded Ratio</u>				
Actuarial Value of Assets (AVA)	13,477,670	14,335,968	15,442,994	16,243,902
Total Accrued Liability (EAN)	16,024,426	16,035,894	16,370,715	16,251,061
AVA / Total Accrued Liability (EAN)	84.1%	89.4%	94.3%	100.0%
 <u>Net Cash Flow Ratio</u>				
Net Cash Flow <sup>2</sup>	22,302	(202,713)	(50,511)	(356,462)
Market Value of Assets (MVA)	13,784,575	14,961,271	15,327,211	16,045,522
Ratio	0.2%	-1.4%	-0.3%	-2.2%

<sup>1</sup> Excludes terminated participants awaiting a refund of member contributions.

<sup>2</sup> Determined as total contributions minus benefit payments and administrative expenses.



STATEMENT OF FIDUCIARY NET POSITION  
SEPTEMBER 30, 2020

<u>ASSETS</u>	COST VALUE	MARKET VALUE
Cash and Cash Equivalents:		
Prepaid Benefits	69,865.37	69,865.37
Money Market	354,760.76	354,760.76
Cash	1,403.22	1,403.22
Total Cash and Equivalents	426,029.35	426,029.35
Receivables:		
From Broker for Investments Sold	71,325.21	71,325.21
Investment Income	21,249.21	21,249.21
Total Receivable	92,574.42	92,574.42
Investments:		
U. S. Bonds and Bills	1,137,602.54	1,204,439.79
Federal Agency Guaranteed Securities	73,287.84	75,927.61
Corporate Bonds	1,018,134.77	1,043,479.49
Stocks	5,553,085.82	7,287,966.07
Mutual Funds:		
Fixed Income	751,483.57	800,101.94
Equity	3,333,670.62	3,676,571.10
Pooled/Common/Commingled Funds:		
Real Estate	1,205,229.51	1,464,669.30
Total Investments	13,072,494.67	15,553,155.30
Total Assets	13,591,098.44	16,071,759.07
<u>LIABILITIES</u>		
Payables:		
To Broker for Investments Purchased	26,236.83	26,236.83
Total Liabilities	26,236.83	26,236.83
NET POSITION RESTRICTED FOR PENSIONS	13,564,861.61	16,045,522.24

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FOR THE YEAR ENDED SEPTEMBER 30, 2020  
Market Value Basis

ADDITIONS

Contributions:

Member	169,706.65	
City		626,893.62

Total Contributions		796,600.27
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Investment Income:

Net Realized Gain (Loss)	1,240,547.69	
Unrealized Gain (Loss)	(371,447.53)	
Net Increase in Fair Value of Investments		869,100.16
Interest & Dividends		312,891.52
Less Investment Expense <sup>1</sup>		(107,218.20)

Net Investment Income		1,074,773.48
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Total Additions		1,871,373.75
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DEDUCTIONS

Distributions to Members:

Benefit Payments	819,556.31	
Lump Sum DROP Distributions		233,351.09
Refunds of Member Contributions		70,337.65

Total Distributions		1,123,245.05
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Administrative Expense		29,817.44
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Total Deductions		1,153,062.49
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Net Increase in Net Position		718,311.26
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NET POSITION RESTRICTED FOR PENSIONS

Beginning of the Year		15,327,210.98
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End of the Year		16,045,522.24
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<sup>1</sup>Investment related expenses include investment advisory, custodial and performance monitoring fees.

ACTUARIAL ASSET VALUATION  
September 30, 2020

Actuarial Assets for funding purposes are developed by recognizing the total actuarial investment gain or loss for each Plan Year over a four year period. In the first year, 25% of the gain or loss is recognized. In the second year 50%, in the third year 75%, and in the fourth year 100% of the gain or loss is recognized. The actuarial investment gain or loss is defined as the actual return on investments minus the actuarial assumed investment return. Actuarial Assets shall not be less than 80% nor greater than 120% of Market Value of Assets.

Plan Year Ending	Gain/(Loss)	<u>Gain/Loss Not Yet Recognized</u>			
		Amounts Not Yet Recognized by Valuation Year			
		2020	2021	2022	2023
09/30/2017	580,908	0	0	0	0
09/30/2018	421,584	105,396	0	0	0
09/30/2019	(629,070)	(314,534)	(157,266)	0	0
09/30/2020	14,344	10,758	7,172	3,586	0
Total		(198,380)	(150,094)	3,586	0

Development of Investment Gain/(Loss)

Market Value of Assets, 09/30/2019	15,327,211
Contributions Less Benefit Payments & Admin Expenses	(356,462)
Expected Investment Earnings *	1,060,429
Actual Net Investment Earnings	1,074,773
09/30/2020 Actuarial Investment Gain/(Loss)	14,344

\*Expected Investment Earnings = 0.07 \* [15,327,211 + 0.5 \* (356,462)]

Development of Actuarial Value of Assets

(1) Market Value of Assets, 09/30/2020	16,045,522
(2) Gain/(Losses) Not Yet Recognized	(198,380)
(3) Actuarial Value of Assets, 09/30/2020, (1) - (2)	16,243,902

(A) 09/30/2019 Actuarial Assets: 15,442,994

(I) Net Investment Income:

1. Interest, Dividends and Miscellaneous Income	312,892
2. Realized Gain (Loss)	1,240,548
3. Unrealized Gain (Loss)	(371,448)
4. Change in Actuarial Value	82,597
5. Investment Expenses	(107,218)
Total	1,157,370

(B) 09/30/2020 Actuarial Assets: 16,243,902

Actuarial Assets Rate of Return = 2I/(A+B-I): 7.58%  
Market Value of Assets Rate of Return: 7.09%

Actuarial Gain/(Loss) due to Investment Return (Actuarial Asset Basis) 88,837

10/01/2020 Limited Actuarial Assets: 16,243,902

CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS  
 SEPTEMBER 30, 2020  
 Actuarial Asset Basis

REVENUES

Contributions:		
Member	169,706.65	
City	626,893.62	
 Total Contributions		 796,600.27
Earnings from Investments:		
Interest & Dividends	312,891.52	
Net Realized Gain (Loss)	1,240,547.69	
Unrealized Gain (Loss)	(371,447.53)	
Change in Actuarial Value	82,597.00	
 Total Earnings and Investment Gains		 1,264,588.68

EXPENDITURES

Distributions to Members:		
Benefit Payments	819,556.31	
Lump Sum DROP Distributions	233,351.09	
Refunds of Member Contributions	70,337.65	
 Total Distributions		 1,123,245.05
Expenses:		
Investment related <sup>1</sup>	107,218.20	
Administrative	29,817.44	
 Total Expenses		 137,035.64
 Change in Net Assets for the Year		 800,908.26
 Net Assets Beginning of the Year		 15,442,993.98
 Net Assets End of the Year <sup>2</sup>		 16,243,902.24

<sup>1</sup>Investment related expenses include investment advisory, custodial and performance monitoring fees.

<sup>2</sup>Net Assets may be limited for actuarial consideration.

DEFERRED RETIREMENT OPTION PLAN ACTIVITY  
October 1, 2019 to September 30, 2020

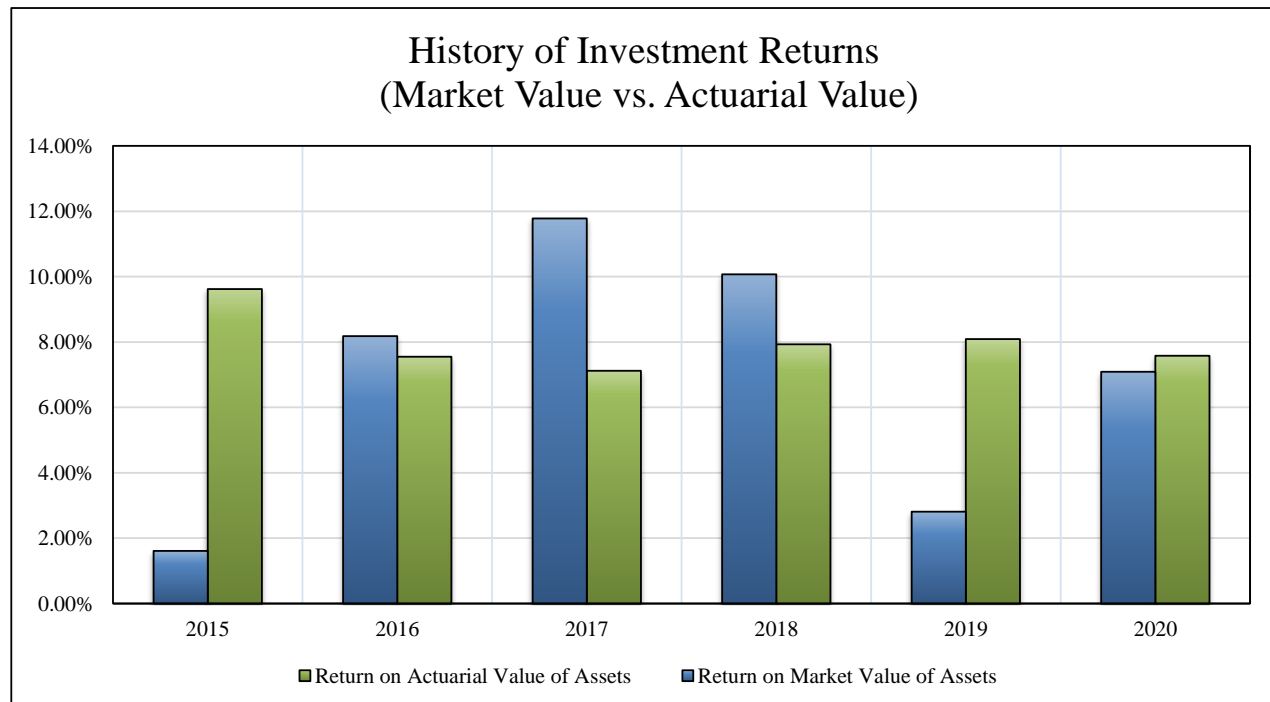
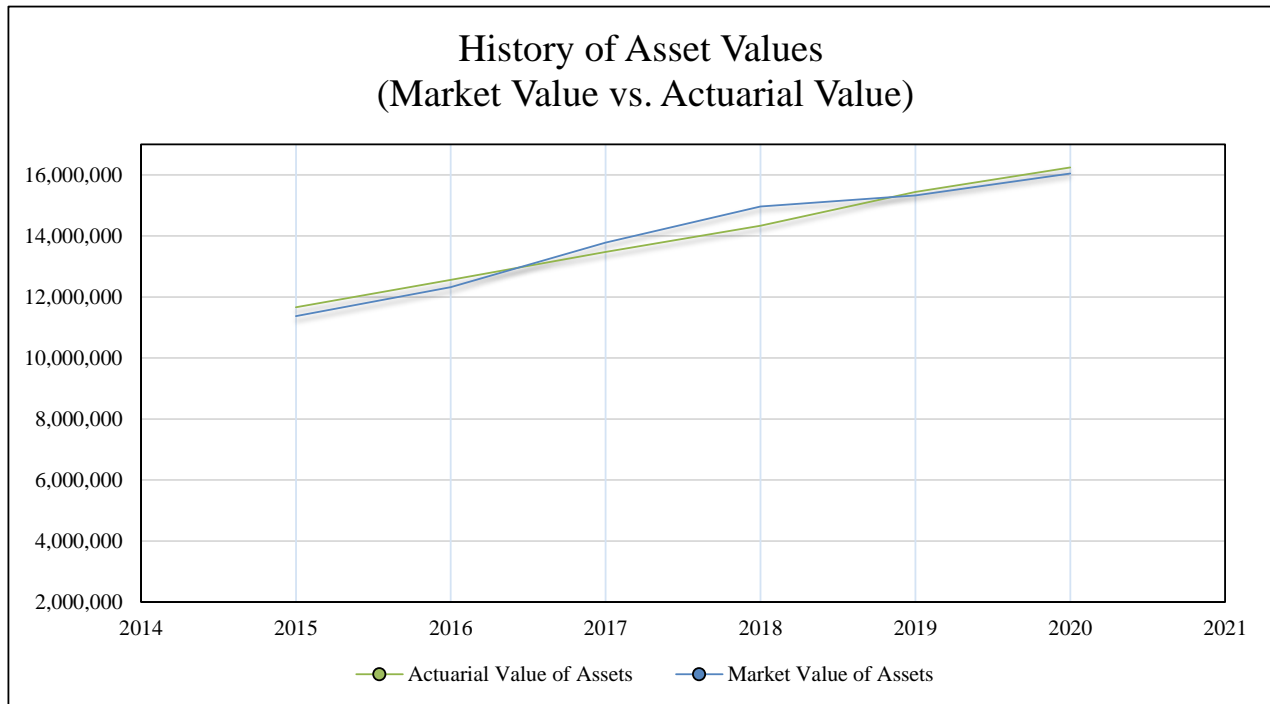
Beginning of the Year Balance	207,637.44
Plus Additions	70,698.54
Investment Return Earned	11,268.31
Less Distributions	(233,351.09)
End of the Year Balance	56,253.20

RECONCILIATION OF CITY'S SHORTFALL/(PREPAID) CONTRIBUTION  
FOR THE FISCAL YEAR ENDED (FYE) SEPTEMBER 30, 2020

(1) Total Required Contribution Rate	23.47%
(2) Pensionable Payroll Derived from Member Contributions	\$3,394,133.00
(3) Total Required Contribution (1) x (2)	796,603.02
(4) Less Actual Member Contributions	(169,706.65)
(5) Equals Required City Contribution for Fiscal 2020	626,896.37
(6) Plus 2019 Shortfall Contribution	3.14
(7) Less Actual City Contributions	<u>(626,896.76)</u>
(8) Equals City's Shortfall/(Prepaid) Contribution as of September 30, 2020 <sup>1</sup>	\$2.75

<sup>1</sup> The shortfall will be captured with the first City deposit made in the fiscal year beginning October 1, 2020.

# HISTORY OF ASSET VALUES AND INVESTMENT RETURNS



## STATISTICAL DATA

	<u>10/1/2017</u>	<u>10/1/2018</u>	<u>10/1/2019</u>	<u>10/1/2020</u>
<u>Actives</u>				
Number	73	75	80	73
Average Current Age	43.3	44.0	43.5	45.8
Average Age at Employment	35.9	36.6	36.4	37.8
Average Past Service	7.4	7.4	7.1	8.0
Average Annual Salary	\$42,591	\$44,013	\$44,060	\$45,208
<u>Service Retirees</u>				
Number	45	46	43	41
Average Current Age	72.1	72.8	73.5	73.1
Average Annual Benefit	\$15,691	\$16,082	\$16,448	\$17,255
<u>DROP Retirees</u>				
Number	2	1	3	2
Average Current Age	62.5	63.1	62.3	62.5
Average Annual Benefit	\$41,312	\$42,255	\$27,087	\$19,504
<u>Beneficiaries</u>				
Number	8	7	7	7
Average Current Age	71.7	70.9	71.9	69.7
Average Annual Benefit	\$10,153	\$10,933	\$10,933	\$12,815
<u>Disability Retirees</u>				
Number	3	3	3	2
Average Current Age	66.0	67.0	68.0	62.5
Average Annual Benefit	\$12,441	\$12,441	\$12,441	\$16,889
<u>Terminated Vested</u>				
Number	8	8	8	10
Average Current Age <sup>1</sup>	49.5	50.5	51.5	49.2
Average Annual Benefit <sup>2</sup>	\$17,560	\$17,560	\$17,560	\$16,005

<sup>1</sup> Effective 10/1/2018, the Average Current Age excludes participants awaiting a refund of contributions.

<sup>2</sup> The Average Annual Benefit excludes participants awaiting a refund of contributions.



## AGE AND SERVICE DISTRIBUTION

### PAST SERVICE

AGE	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30+	Total
15 - 19												0
20 - 24	2	2				1						5
25 - 29	2	2	2	1	1	2						10
30 - 34		4	1			1	1					7
35 - 39		2	1				1					4
40 - 44			1	1	1		1		1			5
45 - 49					1	3		2				6
50 - 54	1		1		1	3	1	4				11
55 - 59	1	1	1	1	1		2	1	1	1	1	11
60 - 64	1	2		1		4	2	1		1		12
65+			1							1		2
Total	7	13	8	4	5	14	8	8	2	3	1	73

## VALUATION PARTICIPANT RECONCILIATION

### 1. Active lives

a. Number in prior valuation 10/1/2019	80
b. Terminations	
i. Vested (partial or full) with deferred annuity	(1)
ii. Vested in refund of member contributions only	(3)
iii. Refund of member contributions or full lump sum distribution received	(10)
c. Deaths	
i. Beneficiary receiving benefits	0
ii. No future benefits payable	0
d. Disabled	0
e. Retired	(1)
f. DROP	<u>0</u>
g. Continuing participants	65
h. New entrants	<u>8</u>
i. Total active life participants in valuation	73

### 2. Non-Active lives (including beneficiaries receiving benefits)

	Service Retirees, Vested Receiving	DROP Benefits	Receiving Death Benefits	Receiving Disability Benefits	Vested (Deferred Annuity)	Vested (Due Refund)	<u>Total</u>
a. Number prior valuation	43	3	7	3	3	5	64
Retired	2	(1)	0	0	0	0	1
DROP	0	0	0	0	0	0	0
Vested (Deferred Annuity)	0	0	0	0	1	0	1
Vested (Due Refund)	0	0	0	0	0	3	3
Hired/Terminated in Same Year	0	0	0	0	0	0	0
Death, With Survivor	(1)	0	1	0	0	0	0
Death, No Survivor	(3)	0	(1)	(1)	0	0	(5)
Disabled	0	0	0	0	0	0	0
Refund of Contributions	0	0	0	0	0	(2)	(2)
Rehires	0	0	0	0	0	0	0
Expired Annuities	0	0	0	0	0	0	0
Data Corrections	0	0	0	0	0	0	0
b. Number current valuation	41	2	7	2	4	6	62

SUMMARY OF CURRENT PLAN  
(Through Ordinance 2019-02)

<u>Latest Amendment</u>	April 1, 2019.
<u>Eligibility</u>	Actively employed persons (except Police Officers) in the regular full-time service of the City.
<u>Salary</u>	Total compensation reportable on form W-2, plus tax deferred, tax sheltered, and tax-exempt items of income.  Effective July 1, 2011, Salary shall not include overtime pay in excess of 300 hours per calendar year. Additionally, lump sum payments of unused sick and vacation pay shall not utilize hours in excess of those accrued as of July 1, 2011.
<u>Average Final Compensation</u>	Average of the five (5) best years of the final 10 years of service prior to termination or retirement.
<u>Credited Service</u>	Years and fractional parts of years of service with the City as a General Employee with Member Contributions, when required.
<u>Normal Retirement</u>	
Date	Earlier of: 1) the attainment of age 60 with 10 years of Credited Service (the service component is 5 years for participants hired prior to January 1, 1995), or 2) the completion of 30 years of Credited Service, regardless of age.
Benefit	2.50% of Average Final Compensation <u>times</u> Credited Service.
Form of Benefit	Life Annuity (options available).
<u>Early Retirement</u>	
Date	Age 55 with the completion of 10 years of Credited Service. The service component is 5 years for participants hired prior to January 1, 1995.
Benefit	Determined as for Normal Retirement and reduced 3.00% for each year the Early Retirement Date precedes the otherwise Normal Retirement Date, determined as if the Member had continued employment.
Form of Benefit	Life Annuity (options available).

### Death Benefit

#### Pre-Retirement

Not Vested

Refund of Member Contributions, with interest.

Vested

Accrued benefit, payable for 10 years at the Member's otherwise Normal Retirement Date (unreduced), at the otherwise Early Retirement Date (reduced as for Early Retirement), or immediately (actuarially reduced from the Early Retirement Date).

#### Post-Retirement

According to optional form of benefit selected at retirement.

### Disability Benefit

Date

Completions of 10 years of Credited Service (5 year requirement for participants hired prior to January 1, 1995).

Benefit

2.50% of Average Final Compensation times Credited Service, payable as of the date the Board determines such entitlement.

Form of Benefit

Life Annuity (options available).

### Termination of Employment

Less than ten years

Refund of Member Contributions with 4.00% interest per annum.

Ten or more years

Refund of Contributions, with interest, or vested accrued benefit payable at Normal (unreduced) or Early (reduced) Retirement Date, determined as if the Member had continued employment.

### Member Contributions

Amount

5.00% of Salary.

Interest

4.00% per year.

## Deferred Retirement Option Plan

Eligibility	Satisfaction of Normal Retirement requirements.
Participation	Not to exceed the date which is 5 years from the date on which the Member first becomes eligible for Normal Retirement.
Rate of Return	At Member's election:  (1) Actual net rate of investment return (total return net of brokerage commissions, management fees and transaction costs) credited each fiscal quarter, or  (2) 6.50% per annum compounded monthly.  Members may elect to change the form of return once while participating in the DROP.
Form of Distribution	Cash lump sum (options available) at termination of employment.

STATEMENT OF FIDUCIARY NET POSITION  
SEPTEMBER 30, 2020

<u>ASSETS</u>	MARKET VALUE
Cash and Cash Equivalents:	
Prepaid Benefits	69,865
Money Market	354,761
Cash	1,403
Total Cash and Equivalents	426,029
Receivables:	
From Broker for Investments Sold	71,325
Investment Income	21,249
Total Receivable	92,574
Investments:	
U. S. Bonds and Bills	1,204,440
Federal Agency Guaranteed Securities	75,928
Corporate Bonds	1,043,480
Stocks	7,287,966
Mutual Funds:	
Fixed Income	800,102
Equity	3,676,571
Pooled/Common/Commingled Funds:	
Real Estate	1,464,669
Total Investments	15,553,156
Total Assets	16,071,759
<u>LIABILITIES</u>	
Payables:	
To Broker for Investments Purchased	26,237
Total Liabilities	26,237
NET POSITION RESTRICTED FOR PENSIONS	16,045,522

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FOR THE YEAR ENDED SEPTEMBER 30, 2020  
Market Value Basis

ADDITIONS

## Contributions:

Member	169,707	
City	626,893	
Total Contributions		796,600
Investment Income:		
Net Increase in Fair Value of Investments	869,100	
Interest & Dividends	312,892	
Less Investment Expense <sup>1</sup>	(107,218)	
Net Investment Income		1,074,774
Total Additions		1,871,374

DEDUCTIONS

## Distributions to Members:

Benefit Payments	819,556	
Lump Sum DROP Distributions	233,351	
Refunds of Member Contributions	70,338	
Total Distributions		1,123,245
Administrative Expense		29,818
Total Deductions		1,153,063
Net Increase in Net Position		718,311

## NET POSITION RESTRICTED FOR PENSIONS

Beginning of the Year		15,327,211
End of the Year		16,045,522

<sup>1</sup>Investment related expenses include investment advisory, custodial and performance monitoring fees.

**NOTES TO THE FINANCIAL STATEMENTS**  
(For the Year Ended September 30, 2020)

*Plan Administration*

The City of Palmetto General Employees' Retirement System is a single-employer defined benefit pension plan administered by a Board of Trustees which acts as the administrator of the plan. The Board consists of 7 Trustees, 2 of whom are legal residents of the City who are appointed pursuant to City Charter, 2 of whom are members of the plan who are elected by a majority of the General Employees who are members of the plan, one of whom is the City Clerk, and a sixth and seventh Trustee who are chosen by a majority of the first 5 Trustees.

*Plan Membership as of October 1, 2019:*

Inactive Plan Members or Beneficiaries Currently Receiving Benefits	56
Inactive Plan Members Entitled to But Not Yet Receiving Benefits	8
Active Plan Members	80
	<u>144</u>

*Benefits Provided*

The Plan provides retirement, termination, disability and death benefits.

A summary of the benefit provisions can be found in the October 1, 2019 Actuarial Valuation Report for the City of Palmetto General Employees' Retirement System prepared by Foster & Foster Actuaries and Consultants.

*Contributions*

Member Contributions: 5.00% of Salary.

Interest: 4.00% per year.

Remaining amount required in order to pay current costs and amortize unfunded past service cost, if any, as provided in Chapter 112, Florida Statutes.

*Investment Policy:*

The following was the Board's adopted asset allocation policy as of September 30, 2020:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic Equity	50.00%
International Equity	10.00%
Fixed Income	15.00%
Global Fixed Income	5.00%
Hedge Funds	7.50%
Real Estate	12.50%
Total	<u>100.00%</u>

*Concentrations:*

The Plan did not hold investments in any one organization that represent 5 percent or more of the Pension Plan's Fiduciary Net Position.

*Rate of Return:*

For the year ended September 30, 2020, the annual money-weighted rate of return on Pension Plan investments, net of Pension Plan investment expense, was 7.09 percent.

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.



## GASB 67

### Deferred Retirement Option Program

Eligibility: Satisfaction of Normal Retirement requirements.

Participation: Not to exceed the date which is 5 years from the date on which the Member first becomes eligible for Normal Retirement.

Rate of Return: At Member's election:

(1) Actual net rate of investment return (total return net of brokerage commissions, management fees and transaction costs) credited each fiscal quarter, or

(2) 6.50% per annum compounded monthly.

Members may elect to change the form of return once while participating in the DROP.

The DROP balance as September 30, 2020 is \$56,253.

NET PENSION LIABILITY OF THE SPONSOR

The components of the Net Pension Liability of the Sponsor on September 30, 2020 were as follows:

Total Pension Liability	\$ 16,268,154
Plan Fiduciary Net Position	<u>\$ (16,045,522)</u>
Sponsor's Net Pension Liability	<u>\$ 222,632</u>
Plan Fiduciary Net Position as a percentage of Total Pension Liability	98.63%

*Actuarial Assumptions:*

The Total Pension Liability was determined by an actuarial valuation as of October 1, 2019 updated to September 30, 2020 using the following actuarial assumptions:

Inflation	2.30%
Salary Increases	Service based
Discount Rate	7.00%
Investment Rate of Return	7.00%

*Mortality Rate Healthy Active Lives:*

Female: PubG.H-2010 for Employees.

Male: PubG.H-2010 (Below Median) for Employees, set back one year.

*Mortality Rate Healthy Retiree Lives:*

Female: PubG.H-2010 (Below Median) for Healthy Retirees.

Male: PubG.H-2010 (Below Median) for Healthy Retirees, set back one year.

*Mortality Rate Beneficiary Lives:*

Female: PubG.H-2010 (Below Median) for Healthy Retirees.

Male: PubG.H-2010 (Below Median) for Healthy Retirees, set back one year.

*Mortality Rate Disabled Lives:*

PubG.H-2010 for Disabled Retirees, set forward three years.

All rates are projected generationally with Mortality Improvement Scale MP-2018.

The above described mortality assumption rates were mandated by Chapter 2015-157, Laws of Florida. This law mandates the use of the assumptions used in either of the two most recent valuations of the Florida Retirement System (FRS). The above rates are those outlined in Milliman's July 1, 2019 FRS valuation report for non-special risk employees, with appropriate risk and collar adjustments made based on plan demographics. We feel this assumption sufficiently accommodates future mortality improvements.

The most recent actuarial experience study used to review the other significant assumptions was dated August 26, 2016.

The Long-Term Expected Rate of Return on Pension Plan investments can be determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Pension Plan investment expenses and inflation) are developed for each major asset class.

For 2020 the inflation rate assumption of the investment advisor was 1.80%.

These ranges are combined to produce the Long-Term Expected Rate of Return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

## GASB 67

Best estimates of geometric real rates of return for each major asset class included in the Pension Plan's target asset allocation as of September 30, 2020 are summarized in the following table:

<u>Asset Class</u>	<u>Long Term Expected Real Rate of Return<sup>1</sup></u>
Domestic Equity	5.62%
International Equity	4.20%
Fixed Income	1.45%
Global Fixed Income	1.42%
Hedge Funds	2.02%
Real Estate	5.19%

<sup>1</sup> Source: Morgan Stanley, based on secular annualized return and volatility estimates are based on a 20-year-plus time horizon.

Please note that long term expected return of the total portfolio is greater than simply multiplying each of the above "Long Term Expected Real Rate of Returns" by their target allocation % and adding them together. Not only is the time horizon longer for an actuarial valuation relative to the time horizon over which the above projected returns were generated, but also there is an additional correlation resulting from a diversified portfolio that will provide additional returns.

### Discount Rate:

The Discount Rate used to measure the Total Pension Liability was 7.00 percent.

The projection of cash flows used to determine the Discount Rate assumed that Plan Member contributions will be made at the current contribution rate and that Sponsor contributions will be made at rates equal to the difference between actuarially determined contribution rates and the Member rate. Based on those assumptions, the Pension Plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the Long-Term Expected Rate of Return on Pension Plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

	1% Decrease	Current Discount Rate	1% Increase
	6.00%	7.00%	8.00%
Sponsor's Net Pension Liability	\$ 2,040,944	\$ 222,632	\$ (1,301,716)

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
Last 2 Fiscal Years

	<u>09/30/2020</u>	<u>09/30/2019</u>
Total Pension Liability		
Service Cost	391,459	376,299
Interest	1,136,455	1,126,047
Changes of benefit terms	-	-
Differences between Expected and Actual Experience	(276,753)	(357,867)
Changes of assumptions	(265,003)	-
Benefit Payments, including Refunds of Employee Contributions	<u>(1,123,245)</u>	<u>(898,657)</u>
Net Change in Total Pension Liability	(137,087)	245,822
Total Pension Liability - Beginning	16,405,241	16,159,419
Total Pension Liability - Ending (a)	<u>\$ 16,268,154</u>	<u>\$ 16,405,241</u>
Plan Fiduciary Net Position		
Contributions - Employer	626,893	721,806
Contributions - Employee	169,707	160,975
Net Investment Income	1,074,774	416,451
Benefit Payments, including Refunds of Employee Contributions	(1,123,245)	(898,657)
Administrative Expense	<u>(29,818)</u>	<u>(34,635)</u>
Net Change in Plan Fiduciary Net Position	718,311	365,940
Plan Fiduciary Net Position - Beginning	15,327,211	14,961,271
Plan Fiduciary Net Position - Ending (b)	<u>\$ 16,045,522</u>	<u>\$ 15,327,211</u>
Net Pension Liability - Ending (a) - (b)	<u>\$ 222,632</u>	<u>\$ 1,078,030</u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	98.63%	93.43%
Covered Payroll	\$ 3,394,133	\$ 3,219,489
Net Pension Liability as a percentage of Covered Payroll	6.56%	33.48%

**Notes to Schedule:***Changes of assumptions:*

For measurement date 09/30/2020, as mandated by Chapter 2015-157, Laws of Florida, the assumed rates of mortality were changed to the rates used in the July 1, 2019 actuarial valuation for non-special-risk lives, with appropriate risk and collar adjustments made based on plan demographics.

**SCHEDULE OF CONTRIBUTIONS**  
Last 2 Fiscal Years

Fiscal Year Ended	Actuarially Determined Contribution	Contributions in relation to the Actuarially Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll <sup>1</sup>	Contributions as a percentage of Covered Payroll
09/30/2020	\$ 626,896	\$ 626,893	\$ 3	\$ 3,394,133	18.47%
09/30/2019	\$ 721,809	\$ 721,806	\$ 3	\$ 3,219,489	22.42%

Notes to Schedule

Valuation Date: 10/01/2018

Actuarially determined contribution rates are calculated as of October 1, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates can be found in the October 1, 2018 Actuarial Valuation for the City of Palmetto General Employees' Retirement System prepared by Foster & Foster Actuaries and Consultants.

SCHEDULE OF INVESTMENT RETURNS  
Last 2 Fiscal Years

Fiscal Year Ended	Annual Money-Weighted Rate of Return Net of Investment Expense
09/30/2020	7.09%
09/30/2019	2.81%

NOTES TO THE FINANCIAL STATEMENTS  
(For the Year Ended September 30, 2020)

*Plan Description*

The City of Palmetto General Employees' Retirement System is a single-employer defined benefit pension plan administered by a Board of Trustees which acts as the administrator of the plan. The Board consists of 7 Trustees, 2 of whom are legal residents of the City who are appointed pursuant to City Charter, 2 of whom are members of the plan who are elected by a majority of the General Employees who are members of the plan, one of whom is the City Clerk, and a sixth and seventh Trustee who are chosen by a majority of the first 5 Trustees.

Eligible for the Plan are actively employed persons (except Police Officers) in the regular full-time service of the City.

*Plan Membership as of October 1, 2019:*

Inactive Plan Members or Beneficiaries Currently Receiving Benefits	56
Inactive Plan Members Entitled to But Not Yet Receiving Benefits	8
Active Plan Members	80
	144

*Benefits Provided*

The Plan provides retirement, termination, disability and death benefits.

A summary of the benefit provisions can be found in the October 1, 2019 Actuarial Valuation Report for the City of Palmetto General Employees' Retirement System prepared by Foster & Foster Actuaries and Consultants.

*Contributions*

Member Contributions: 5.00% of Salary.

Interest: 4.00% per year.

Remaining amount required in order to pay current costs and amortize unfunded past service cost, if any, as provided in Chapter 112, Florida Statutes.

**Net Pension Liability**

The measurement date is September 30, 2020.

The measurement period for the pension expense was October 1, 2019 to September 30, 2020.

The reporting period is October 1, 2019 through September 30, 2020.

The Sponsor's Net Pension Liability was measured as of September 30, 2020.

The Total Pension Liability used to calculate the Net Pension Liability was determined as of that date.

*Actuarial Assumptions:*

The Total Pension Liability was determined by an actuarial valuation as of October 1, 2019 updated to September 30, 2020 using the following actuarial assumptions:

Inflation	2.30%	
Salary Increases	Service based	
Discount Rate	7.00%	
Investment Rate of Return	7.00%	

*Mortality Rate Healthy Active Lives:*

Female: PubG.H-2010 for Employees.

Male: PubG.H-2010 (Below Median) for Employees, set back one year.

*Mortality Rate Healthy Retiree Lives:*

Female: PubG.H-2010 (Below Median) for Healthy Retirees.

Male: PubG.H-2010 (Below Median) for Healthy Retirees, set back one year.

*Mortality Rate Beneficiary Lives:*

Female: PubG.H-2010 (Below Median) for Healthy Retirees.

Male: PubG.H-2010 (Below Median) for Healthy Retirees, set back one year.

*Mortality Rate Disabled Lives:*

PubG.H-2010 for Disabled Retirees, set forward three years.

All rates are projected generationally with Mortality Improvement Scale MP-2018.

The above described mortality assumption rates were mandated by Chapter 2015-157, Laws of Florida. This law mandates the use of the assumptions used in either of the two most recent valuations of the Florida Retirement System (FRS). The above rates are those outlined in Milliman’s July 1, 2019 FRS valuation report for non-special risk employees, with appropriate risk and collar adjustments made based on plan demographics. We feel this assumption sufficiently accommodates future mortality improvements.

The most recent actuarial experience study used to review the other significant assumptions was dated August 26, 2016.

The Long-Term Expected Rate of Return on Pension Plan investments can be determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Pension Plan investment expenses and inflation) are developed for each major asset class.

For 2020 the inflation rate assumption of the investment advisor was 1.80%.

These ranges are combined to produce the Long-Term Expected Rate of Return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of geometric real rates of return for each major asset class included in the Pension Plan's target asset allocation as of September 30, 2020 are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return <sup>1</sup>
Domestic Equity	50.00%	5.62%
International Equity	10.00%	4.20%
Fixed Income	15.00%	1.45%
Global Fixed Income	5.00%	1.42%
Hedge Funds	7.50%	2.02%
Real Estate	12.50%	5.19%
Total	100.00%	

<sup>1</sup> Source: Morgan Stanley, based on secular annualized return and volatility estimates are based on a 20-year-plus time horizon.

Please note that long term expected return of the total portfolio is greater than simply multiplying each of the above “Long Term Expected Real Rate of Returns” by their target allocation % and adding them together. Not only is the time horizon longer for an actuarial valuation relative to the time horizon over which the above projected returns were generated, but also there is an additional correlation resulting from a diversified portfolio that will provide additional returns.

**Discount Rate:**

The Discount Rate used to measure the Total Pension Liability was 7.00 percent.

The projection of cash flows used to determine the Discount Rate assumed that Plan Member contributions will be made at the current contribution rate and that Sponsor contributions will be made at rates equal to the difference between actuarially determined contribution rates and the Member rate. Based on those assumptions, the Pension Plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the Long-Term Expected Rate of Return on Pension Plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.



## CHANGES IN NET PENSION LIABILITY

	Increase (Decrease)		
	Total Pension	Plan Fiduciary	Net Pension
	Liability	Net Position	Liability
	(a)	(b)	(a)-(b)
Balances at September 30, 2019	\$ 16,405,241	\$ 15,327,211	\$ 1,078,030
Changes for a Year:			
Service Cost	391,459	-	391,459
Interest	1,136,455	-	1,136,455
Differences between Expected and Actual Experience	(276,753)	-	(276,753)
Changes of assumptions	(265,003)	-	(265,003)
Changes of benefit terms	-	-	-
Contributions - Employer	-	626,893	(626,893)
Contributions - Employee	-	169,707	(169,707)
Net Investment Income	-	1,074,774	(1,074,774)
Benefit Payments, including Refunds of Employee Contributions	(1,123,245)	(1,123,245)	-
Administrative Expense	-	(29,818)	29,818
Net Changes	(137,087)	718,311	(855,398)
Balances at September 30, 2020	\$ 16,268,154	\$ 16,045,522	\$ 222,632

*Sensitivity of the Net Pension Liability to changes in the Discount Rate.*

	Current Discount		
	1% Decrease	Rate	1% Increase
	6.00%	7.00%	8.00%
Sponsor's Net Pension Liability	\$ 2,040,944	\$ 222,632	\$ (1,301,716)

*Pension Plan Fiduciary Net Position.*

Detailed information about the pension Plan's Fiduciary Net Position is available in a separately issued Plan financial report.

GASB 68

PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED  
INFLOWS OF RESOURCES RELATED TO PENSIONS

For the year ended September 30, 2020, the Sponsor will recognize a Pension Expense of -\$68,731.

On September 30, 2020, the Sponsor reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	-	353,072
Changes of assumptions	-	198,753
Net difference between Projected and Actual Earnings on Pension Plan investments	81,150	-
Total	<u>\$ 81,150</u>	<u>\$ 551,825</u>

Amounts reported as Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions will be recognized in Pension Expense as follows:

Year ended September 30:	
2021	\$ (358,501)
2022	\$ (96,811)
2023	\$ (12,494)
2024	\$ (2,869)
2025	\$ -
Thereafter	\$ -

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
Last 2 Fiscal Years

	09/30/2020	09/30/2019
Total Pension Liability		
Service Cost	391,459	376,299
Interest	1,136,455	1,126,047
Changes of benefit terms	-	-
Differences between Expected and Actual Experience	(276,753)	(357,867)
Changes of assumptions	(265,003)	-
Benefit Payments, including Refunds of Employee Contributions	(1,123,245)	(898,657)
Net Change in Total Pension Liability	(137,087)	245,822
Total Pension Liability - Beginning	16,405,241	16,159,419
Total Pension Liability - Ending (a)	<u>\$ 16,268,154</u>	<u>\$ 16,405,241</u>
Plan Fiduciary Net Position		
Contributions - Employer	626,893	721,806
Contributions - Employee	169,707	160,975
Net Investment Income	1,074,774	416,451
Benefit Payments, including Refunds of Employee Contributions	(1,123,245)	(898,657)
Administrative Expense	(29,818)	(34,635)
Net Change in Plan Fiduciary Net Position	718,311	365,940
Plan Fiduciary Net Position - Beginning	15,327,211	14,961,271
Plan Fiduciary Net Position - Ending (b)	<u>\$ 16,045,522</u>	<u>\$ 15,327,211</u>
Net Pension Liability - Ending (a) - (b)	<u>\$ 222,632</u>	<u>\$ 1,078,030</u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	98.63%	93.43%
Covered Payroll	\$ 3,394,133	\$ 3,219,489
Net Pension Liability as a percentage of Covered Payroll	6.56%	33.48%

**Notes to Schedule:***Changes of assumptions:*

For measurement date 09/30/2020, as mandated by Chapter 2015-157, Laws of Florida, the assumed rates of mortality were changed to the rates used in the July 1, 2019 actuarial valuation for non-special-risk lives, with appropriate risk and collar adjustments made based on plan demographics.

**SCHEDULE OF CONTRIBUTIONS**  
Last 2 Fiscal Years

Fiscal Year Ended	Actuarially Determined Contribution	Contributions in relation to the Actuarially Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll <sup>1</sup>	Contributions as a percentage of Covered Payroll
09/30/2020	\$ 626,896	\$ 626,893	\$ 3	\$ 3,394,133	18.47%
09/30/2019	\$ 721,809	\$ 721,806	\$ 3	\$ 3,219,489	22.42%

Notes to Schedule

Valuation Date: 10/01/2018

Actuarially determined contribution rates are calculated as of October 1, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates can be found in the October 1, 2018 Actuarial Valuation for the City of Palmetto General Employees' Retirement System prepared by Foster & Foster Actuaries and Consultants.

EXPENSE DEVELOPMENT AND AMORTIZATION SCHEDULES

**The following information is not required to be disclosed but is provided for informational purposes.**

**COMPONENTS OF PENSION EXPENSE**  
**FISCAL YEAR SEPTEMBER 30, 2020**

	Net Pension Liability	Deferred Inflows	Deferred Outflows	Pension Expense
Beginning balance	\$ 1,078,030	\$ 814,157	\$ 503,256	\$ -
Total Pension Liability Factors:				
Service Cost	391,459	-	-	391,459
Interest	1,136,455	-	-	1,136,455
Changes in benefit terms	-	-	-	-
Differences between Expected and Actual Experience with regard to economic or demographic assumptions	(276,753)	276,753	-	-
Current year amortization of experience difference	-	(237,595)	-	(237,595)
Change in assumptions about future economic or demographic factors or other inputs	(265,003)	265,003	-	-
Current year amortization of change in assumptions	-	(66,250)	-	(66,250)
Benefit Payments, including Refunds of Employee Contributions	(1,123,245)	-	-	-
Net change	<u>(137,087)</u>	<u>237,911</u>	<u>-</u>	<u>1,224,069</u>
Plan Fiduciary Net Position:				
Contributions - Employer	626,893	-	-	-
Contributions - Employee	169,707	-	-	(169,707)
Projected Net Investment Income	1,060,429	-	-	(1,060,429)
Difference between projected and actual earnings on Pension Plan investments	14,345	14,345	-	-
Current year amortization	-	(218,296)	(125,814)	(92,482)
Benefit Payments, including Refunds of Employee Contributions	(1,123,245)	-	-	-
Administrative Expenses	(29,818)	-	-	29,818
Net change	<u>718,311</u>	<u>(203,951)</u>	<u>(125,814)</u>	<u>(1,292,800)</u>
Ending Balance	<u>\$ 222,632</u>	<u>\$ 848,117</u>	<u>\$ 377,442</u>	<u>\$ (68,731)</u>

AMORTIZATION SCHEDULE - INVESTMENTS

Increase (Decrease) in Pension Expense Arising from the Recognition of the of Differences Between Projected and Actual Earnings on Pension Plan Investments

Plan Year Ending	Differences Between Projected and Actual Earnings	Recognition Period (Years)	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
2020	\$ (14,345)	5	\$ (2,869)	\$ (2,869)	\$ (2,869)	\$ (2,869)	\$ (2,869)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2019	\$ 629,070	5	\$ 125,814	\$ 125,814	\$ 125,814	\$ 125,814	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2018	\$ (421,584)	5	\$ (84,317)	\$ (84,317)	\$ (84,317)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2017	\$ (580,908)	5	\$ (116,182)	\$ (116,182)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2016	\$ (74,641)	5	\$ (14,928)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Increase (Decrease) in Pension Expense			\$ (92,482)	\$ (77,554)	\$ 38,628	\$ 122,945	\$ (2,869)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -





