

Statement from the Board of Trustees of the City of Pompano Beach General Employees' Retirement System

Recent changes in Florida law have required us to disclose the results of certain hypothetical calculations. These disclosures can be hard to understand and confusing. They can also give an inaccurate portrayal of the financial health of the Plan. The Board of Trustees is tasked by law to make sure that the Plan is actuarially sound, meaning that it can always pay benefits when they are due. The purpose of this Statement is to assure the reader that the Plan is in excellent financial shape. We know you hear stories about huge benefits being paid and certain Pension Plans not being able to meet their commitments. That is most assuredly not the case here.

The Board of Trustees employs numerous professionals to assist it. One such professional is an actuary, who helps the Board determine the funding needs of the Plan. The Plan assumes its investments will earn 8.0% per year, which is a middle-of-the-road assumption and is certainly in line with the national average. In fact, the national average investment actually realized return for the past 25 years has been closer to 9% per year by the average pension fund.

The Board of Trustees also employs investment professionals. The Plan is invested in stocks and bonds, both in the United States and abroad. The Plan is required by law to be diversified. It has chosen numerous types of investments and it does not put its money in one place. It does not speculate. In diversifying its investments, we increase the chance that the Plan will do well despite changes in the market. The Board of Trustees has hired registered investment companies to decide which stocks and bonds to invest in. As you can see from the chart below, the Plan has exceeded its assumed rate of return of 8.0% for the past 5 years with an annual return average of 10.01% per year, over that period of time. The rate of return that the Plan has adopted is reasonable and the investments have done well.

2014	Plan Rate of Return: 8.0%	Actual Return: 8.8%
2013	Plan Rate of Return: 8.0%	Actual Return: 16.9%
2012	Plan Rate of Return: 8.0%	Actual Return: 16.9%
2011	Plan Rate of Return: 8.0%	Actual Return: 0.8%
2010	Plan Rate of Return: 8.0%	Actual Return 7.5%

State law requires that we disclose the financial health of the Plan assuming we earn 2% lower than our assumed rate of return, or 6.0%. In the interest of presenting a balanced report, we have also reported as if we will earn 2% more than our assumed rate of return, or 10.0%. When we use either the 2% over rate of return or the 2% under rate of return, it gives a false picture of the present financial status of the Plan, and of expected future events.

Florida law also requires that the Plan performs an actuarial report, detailing the funding needs of the Plan, at least once every three years. This Board of Trustees receives an actuarial valuation every year, so that it can continually monitor the Plan's funding. Each year, the Board adopts a report that tells the City how much money needs to be contributed to the Plan by the City so that the Plan will always be able to pay benefits as and when they become due. The City

always makes the required contribution, and makes it on time. This is very important to the financial health of a plan. As an example, you may hear or read about the difficulties of certain plans, like those of the State of New Jersey or Illinois. Those States do not make their required contributions and the Plans become underfunded. That is not the case here. State law requires that the sponsor of the Plan make all required contributions and the City has consistently demonstrated its willingness to protect your pensions, by making the required contributions.

Defined benefit pension benefits are paid monthly over a retiree's or beneficiary's lifetime. As a result, the Board of Trustees invests with a long term investment horizon. By law, Florida governmental plans are permitted to amortize their liabilities over thirty years. While the *funded ratio* of many Florida governmental plans is currently less than 100%, it is anticipated the Plan will be 100% funded at the end of the 30-year amortization period. The Plan's current funded ratio on a market value of assets basis is 76.9%. By State Law, the remaining 23.1% is required to be funded through a series of annual payments which are similar to a mortgage. The maximum amortization period of this mortgage is restricted to 30 years. The remaining balance on one's mortgage is usually less important than the ability to pay the full monthly payments.

You may also see that the Plan is required to report a run-out date, a date when it will run out of money. This date is in a sense, "fictitious," because *this will not happen* as long as the actuarially determined contributions are made. This fictitious run-out date is the date that the Plan will run out of money if there were no future employer or employee contributions. But Florida law and the City Ordinance require the contributions be made, and everyone involved recognizes their solemn responsibility to keep the Plan funded. It is like saying that your new car will only run for 400 miles, because then it will run out of gas. The reality is that as long as you put gas in it, it will keep running. The same is true of a pension Plan. As the Board of Trustees is required to make sure benefits are paid and the City and employees are *required by law* to contribute to the Plan whatever amount is necessary for the Plan to be funded. The State of Florida mandates employer funding in two ways:

- The State Constitution: Article X, Section 14 states that governmental pension benefits are required to be funded on a sound actuarial basis; and,
- Florida Statutes: Chapter 112.64 requires that a plan sponsor's contributions to a retirement system be sufficient to meet the normal cost of the plan and to amortize the unfunded liability.

What this means is that the employer must contribute the amount that our Plan actuary says is necessary in order to fund its normal costs and be able to continue to pay benefits. You may read about pensions being in jeopardy in other states, but we are here to assure you that cannot happen in Florida because Florida requires that pensions be funded.