



November 15, 2024

**HONORABLE CITY COUNCIL:**

**Re: Memorandums of Understanding Modifying Certain Retirement Benefits for Detroit Police Command Officers Association (DPCOA), Detroit Police Lieutenants and Sergeants Association (DPLSA), Detroit Police Officers Association (DPOA), and Detroit Fire Fighters Association (DFFA)**

City of Detroit Labor Relations previously submitted the Memorandums of Understanding (MOUs) modifying certain retirement benefits administered by the Police and Fire Retirement System (PFRS) to City Council for approval of a Resolution authorizing the related changes to the Combined Plan Document for PFRS.

The Resolution submitted indicated that each executed MOU will only become effective based on a number of conditions being satisfied, specifically:

1. Ratification by the members of DPCOA, DPLSA, DPOA and DFFA of their respective MOUs;
2. Approval by the Detroit City Council of each MOU and Exhibit A;
3. Approval by the Bankruptcy Court of each MOU and Exhibit A;
4. The transfer of the amount identified on the actuarial funding valuation as of June 30, 2024 of the PFRS Component I Rate Stabilization Fund (which is currently estimated to be approximately \$14.1 million) to the Pension Accumulation Fund for use in reducing the PFRS Component I Unfunded Actuarial Accrued Liability.
5. Satisfaction of compliance with State law mcl Act 314 of 1965 which requires that a system (PFRS) shall provide a supplemental actuarial analysis before adoption of pension benefit changes. The supplemental actuarial analysis must be provided to the board of the particular system (PFRS) and to the decision-making body (City Council) that will approve the pension benefit change at least 7 days before the proposed benefit changes are adopted.

With respect to item 5 above, please see the attached supplemental actuarial analysis prepared by Gabriel Roeder, a firm of independent actuaries. Page 12 of this analysis indicates that the ongoing estimated annual employer contribution increase for these changes will be \$5.3 million for the PFRS Component I plan and an additional \$1.1 million for the PFRS Component II plan,



for a total increase of \$6.4 million per year. The required transfer of the PFRS Component I plan Rate Stabilization Fund outlined in item 4 above, will decrease the estimated annual employer contribution by \$1.4 million. So, the net effect of these changes will be an increase in the estimated annual employer contribution of \$5 million, which matches the amount budgeted for such workforce investments in the City's adopted FY 2025 Budget. As indicated in item 5 above, under State law this supplemental actuarial analysis must be provided to the decision-making body (City Council) at least 7 days before the proposed benefit change can be adopted. The Resolution previously submitted was voted out of the City Council Internal Operations Committee on November 13, 2024 with a recommendation for approval by the Detroit City Council. So, to comply with State law, City Council is required to wait 7 days before the adoption of the Resolution after receipt of the attached supplemental actuarial valuation.

Respectfully submitted,

Handwritten signature of Valerie A. Colbert-Osamuede.

Valerie A. Colbert-Osamuede  
Labor Relations Deputy Director

Attachments:

Gabriel Roeder PFRS Supplemental Actuarial Valuation



November 13, 2024

CONFIDENTIAL

Detroit Fire Fighters Association, Local 344  
Attention: Mr. Jeff Pegg, Vice President  
333 West Fort Street, Suite 1420  
Detroit, Michigan 48226

**Re: Supplemental Actuarial Valuation  
of Proposed Changes to the Police and Fire Retirement System of the City of Detroit**

Dear Mr. Pegg:

Enclosed is a supplemental actuarial valuation report regarding the financial effects of proposed changes to the Police and Fire Retirement System of the City of Detroit (PFRS). This report is an update to the supplemental actuarial valuations dated September 6, 2024. Specifically, removing Scenario 4, which increased the potential maximum interest on the Component II (Legacy) Annuity Savings Fund and the Component I (Hybrid) Voluntary Employee Contribution Fund. The changes are described in detail on the following page.

This report may be shared with other parties, but only in its entirety and only with the permission of the Detroit Fire Fighters Association. This report should not be used for any purpose other than the purpose stated above. GRS is not responsible for unauthorized use of this report. The actuaries issuing this report are independent of the plan, the plan sponsor, and the party requesting this study.

Judith A. Kermans, and James R. Sparks are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

Please contact us if you have any questions.

Sincerely,  
Gabriel, Roeder, Smith & Company

A handwritten signature in black ink, appearing to read "Judith A. Kermans".

Judith A. Kermans, EA, FCA, MAAA

A handwritten signature in black ink, appearing to read "James R. Sparks".

James R. Sparks, ASA, FCA, MAAA

JAK/JRS:rmn  
Enclosure

cc: David Cetlinski, City of Detroit Retirement Systems  
Jason T. Taylor, GRS

# Police and Fire Retirement System of the City of Detroit

## Supplemental Actuarial Valuation

### as of June 30, 2023

---

**Requested By:** Detroit Fire Fighters Association, Local 344  
Attn: Jeff Pegg, Vice President

**Date:** November 13, 2024

**Submitted By:** Judith A. Kermans, EA, FCA, MAAA  
James R. Sparks, ASA, FCA, MAAA  
Gabriel, Roeder, Smith & Company

---

This report contains an actuarial valuation of proposed changes for members of the Police and Fire Retirement System of the City of Detroit (PFRS). Changes from the current benefits include:

- Scenario 1 (pages 3-4): Increase Component I (Hybrid) multiplier for service accrued during the period 7/1/14-6/30/24 for active members hired before July 1, 2024 from 2.0% to 2.4% for current active Fire members (excluding current DROP members) and 2.0% to 2.37% for current active Police members (including current DROP members). For Police DROP members, the benefit change impacts future DROP deposits only.
- Scenario 2 (pages 5-6): Eliminate minimum retirement age of 50 requirement in the Component I (Hybrid) plan for active members hired before July 1, 2014.
- Scenario 3 (pages 7-9): Increase *future* amounts deposited into DROP accounts from 75% to 85% of accrued benefits for members hired before July 1, 2014.
- **Scenario 4: Removed for this Supplemental Valuation.**
- Scenario 5 (pages 10-11): Change the calculation period of the Average Final Compensation from 5 years to 3 years for Component I (Hybrid) for active Fire members hired before July 1, 2014 (excluding current DROP members).
- Combined (Page 12): Combined results if all four scenarios above are adopted.

**It is very important to remember that the results of separate scenarios cannot generally be added together to produce a correct estimate of the combined effect of all of the changes.**

**It was assumed that retired and inactive members were not eligible for any of the changes listed above and they were excluded from this analysis.**



## Police and Fire Retirement System of the City of Detroit Supplemental Actuarial Valuation as of June 30, 2023

---

**The date of the valuation was June 30, 2023.** This means that the results of the supplemental valuations indicate what the June 30, 2023 valuations would have shown if the proposed benefit changes **had been in effect on that date**. Supplemental valuations do **not** predict the result of future actuarial valuations. Rather, supplemental valuations give an indication of the probable long-term cost of the **benefit change only** without comment on the complete end result of the future valuations.

Actuarial assumptions and methods were consistent with those used in the regular actuarial valuation of the Retirement System on the valuation date, unless otherwise noted. For additional information, please see the June 30, 2023 actuarial valuation of Component II (Legacy) and the June 30, 2023 actuarial valuation of Component I (Hybrid). Actuarial assumptions are adopted by the Retirement Board of Trustees and the Investment Committee (unless mandated by the plans). In particular:

- The assumed rate of investment return was 6.75% (currently mandated by the Plan of Adjustment through the June 30, 2023 valuation); and
- The assumed rate of wage inflation was 3.00%.

A brief summary of membership data used for this supplemental valuation can be found in the Appendix (pages 16-17) of this report.

**Scenario 1**  
**Component I (Hybrid) Plan Members Hired Before July 1, 2014.**  
**Multiplier of 2.4% for Fire Active and 2.37% for Police Active and DROP**  
**for Service Accrued Between 7/1/14 and 6/30/24**

---

**Provisions of Interest - Current Component I (Hybrid) Benefits**

**Normal Retirement Amount:** The retirement allowance payable to a member who retires on or after the normal retirement age is 2.0% times Average Final Compensation times Credited Service (earned after June 30, 2014).

**Provisions of Interest - Proposed Component I (Hybrid) Benefits**

**Normal Retirement Amount:** The retirement allowance payable to a member who retires on or after the normal retirement age is 2.0% times Average Final Compensation times Credited Service (earned after June 30, 2014).

**For active non-DROP FIRE members hired before July 1, 2014,** the retirement allowance payable to a member who retires on or after the normal retirement age is **2.4%** times Average Final Compensation times credited Service earned after June 30, 2014 and prior to June 30, 2024.

**For active POLICE and POLICE DROP members hired before July 1, 2014,** the retirement allowance payable to a member who retires on or after the normal retirement age is **2.37%** times Average Final Compensation times credited Service earned after June 30, 2014 and prior to June 30, 2024. **For POLICE DROP members,** the 2.37% multiplier impacts future DROP deposits only.

**Scenario 1**  
**Component I (Hybrid) Plan Members Hired Before July 1, 2014.**  
**Multiplier of 2.4% for Fire Active and 2.37% for Police Active and DROP**  
**for Service Accrued Between 7/1/14 and 6/30/24**

**Actuarial Statement**  
**(\$ Millions)**

	<u>Before</u> <u>Changes</u>	<u>With</u> <u>Proposed</u> <u>Changes</u>	<u>Increase /</u> <u>Decrease</u>
<b>Component I (Hybrid)</b>			
Actuarial Information			
Actuarial Accrued Liability (AAL)	\$ 343.4	\$ 376.4	\$ 33.0
Funding Value of Assets	330.3	330.3	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>13.1</u>	<u>46.0</u>	<u>33.0</u>
Funded Ratio	96.19%	87.77%	-8.43%
Total Normal Cost Rate	19.18%	19.18%	0.00%
Average Member Contribution Rate	<u>7.20%</u>	<u>7.20%</u>	<u>0.00%</u>
Employer Normal Cost Rate	11.98%	11.98%	0.00%
Employer Contributions			
\$0 Minimum UAAL + RSF Contribution (14 Remaining Amortization Years)	1.23%	2.78%	1.55%
Normal Cost Contribution	<u>11.98%</u>	<u>11.98%</u>	<u>0.00%</u>
Total Contribution %	<u>13.21%</u>	<u>14.76%</u>	<u>1.55%</u>
<b>Estimated FY 2025 Employer Contribution \$</b>	<b><u>\$ 27.7</u></b>	<b><u>\$ 31.0</u></b>	<b><u>\$ 3.3</u></b>
<b>Component II (Legacy)</b>			
Actuarial Information			
Actuarial Accrued Liability (AAL)	\$ 3,191.6	\$ 3,191.6	\$ -
Funding Value of Assets	<u>2,309.6</u>	<u>2,309.6</u>	<u>-</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>881.9</u>	<u>881.9</u>	<u>-</u>
Funded Ratio	72.37%	72.37%	0.00%
Employer Contributions			
Adopted Board Policy (20-yr Lvl Dollar with layers)	\$ 84.2	\$ 84.2	\$ -
<b>Closed 30-yr (Beginning in FY 2024) Lvl Principal</b>	<b>\$ 89.6</b>	<b>\$ 89.6</b>	<b>\$ -</b>
Closed 30-yr (Beginning in FY 2024) Lvl Dollar	\$ 71.9	\$ 71.9	\$ -

The results shown above assume the benefit provision change would have no impact on the behavior of active participants in the plan (i.e., incidence of retirement or termination). Increasing benefits may result in a temporary increase in retirements (a rush-to-the-door). For an indication of the impact of a doubling of the likelihood of retirement over the next 5 years, the impact on the Component I (Hybrid) plan would be minimal while in the Component II (Legacy) plan, the AAL and UAAL would increase by \$13.5 million, the funded ratio would decrease by 0.30% and the employer contribution would increase by \$1.1 million to \$1.5 million, depending on the funding policy adopted. Even though the Legacy plan is not impacted by the change in multiplier being proposed, the Hybrid plan members who have service in the Legacy plan would be impacted by an increase in retirement rates.



**Scenario 2**  
**Component I (Hybrid) Plan Members Hired Before July 1, 2014.**  
**Remove Minimum Retirement Age Requirement**

---

**Provisions of Interest - Current Component I (Hybrid) Benefits**

**Normal Retirement Eligibility:** The Normal Retirement eligibility is age 50 with 25 or more years of Credited Service (including prior service).

**Provisions of Interest - Proposed Component I (Hybrid) Benefits**

**Normal Retirement Eligibility:** The Normal Retirement eligibility is age 50 with 25 or more years of Credited Service (including prior service).

**For members hired before July 1, 2014 and active on June 30, 2024,** members are eligible to retire upon attaining 25 or more years of Credited Service (including prior service) regardless of age.



**Scenario 2**  
**Component I (Hybrid) Plan Members Hired Before July 1, 2014.**  
**Remove Minimum Retirement Age Requirement**

**Actuarial Statement**  
**(\$ Millions)**

	Before Changes	With Proposed Changes	Increase / Decrease
<b>Component I (Hybrid)</b>			
Actuarial Information			
Actuarial Accrued Liability (AAL)	\$ 343.4	\$ 350.6	\$ 7.2
Funding Value of Assets	<u>330.3</u>	<u>330.3</u>	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>13.1</u>	<u>20.3</u>	<u>7.2</u>
Funded Ratio	96.19%	94.21%	-1.98%
Total Normal Cost Rate	19.18%	19.18%	0.00%
Average Member Contribution Rate	<u>7.20%</u>	<u>7.20%</u>	<u>0.00%</u>
Employer Normal Cost Rate	11.98%	11.98%	0.00%
Employer Contributions			
\$0 Minimum UAAL + RSF Contribution (14 Remaining Amortization Years)	1.23%	1.57%	0.34%
Normal Cost Contribution	<u>11.98%</u>	<u>11.98%</u>	<u>0.00%</u>
Total Contribution %	<u>13.21%</u>	<u>13.55%</u>	<u>0.34%</u>
<b>Estimated FY 2025 Employer Contribution \$</b>	<b><u>\$ 27.7</u></b>	<b><u>\$ 28.4</u></b>	<b><u>\$ 0.7</u></b>
<b>Component II (Legacy)</b>			
Actuarial Information			
Actuarial Accrued Liability (AAL)	\$ 3,191.6	\$ 3,195.2	\$ 3.6
Funding Value of Assets	<u>2,309.6</u>	<u>2,309.6</u>	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>881.9</u>	<u>885.6</u>	<u>3.6</u>
Funded Ratio	72.37%	72.28%	-0.08%
Employer Contributions			
Adopted Board Policy (20-yr Lvl Dollar with layers)	\$ 84.2	\$ 84.6	\$ 0.4
<b>Closed 30-yr (Beginning in FY 2024) Lvl Principal</b>	<b>\$ 89.6</b>	<b>\$ 90.0</b>	<b>\$ 0.4</b>
Closed 30-yr (Beginning in FY 2024) Lvl Dollar	\$ 71.9	\$ 72.2	\$ 0.3

The results shown above assume the benefit provision changes would result in some active participants retiring at earlier ages than otherwise expected under the current plan provisions. This resulted in increased liabilities for both the Component I (Hybrid) and Component II (Legacy) Plans. See the comments section of this supplemental for the assumed rates of retirement used under the proposed benefit provisions.



**Scenario 3**  
**All Members Hired Before 2014**  
**Increase the DROP Deposit from 75% to 85% of the Accrued Benefit**

---

**Provisions of Interest – Current Component I (Hybrid) Benefits**

***Deferred Retirement Option Program “DROP”***

**Amount:** Upon entry into the DROP, the member ceases to accrue additional retirement benefits and must elect the optional form under which the retirement allowance will ultimately be paid. **Seventy-five percent (75%)** of that amount, including VPIF, is paid into the DROP account.

DROP accounts are currently held outside of the Plan.

**Provisions of Interest – Proposed Component I (Hybrid) Benefits**

***DROP Plan***

**Amount:** Upon entry into the DROP, the member ceases to accrue additional retirement benefits and must elect the optional form under which the retirement allowance will ultimately be paid. **Eighty-five percent (85%)** of that amount, including VPIF, is paid into the DROP account. For members in the DROP plan on June 30, 2024, the 85% would be on a future basis only.

DROP accounts are currently held outside of the Plan.

**Provisions of Interest – Current Component II (Legacy) Benefits**

***DROP Plan***

Members with 25 years (20 years for DPOA members) of service may elect to participate in the DROP. When a DROP election is made, the member ceases to accrue any further age and service retirement benefits. **Seventy-five percent (75%)** of the member's benefit (accrued to their DROP date) is contributed to a DROP account (a Defined Contribution Account).

DROP accounts are currently held outside of the Plan.

**Provisions of Interest – Proposed Component II (Legacy) Benefits**

***DROP Plan***

Members with 25 years (20 years for DPOA members) of service may elect to participate in the DROP. When a DROP election is made, the member ceases to accrue any further age and service retirement benefits. **Eighty-five percent (85%)** of the member's benefit (accrued to their DROP date) is contributed to a DROP account (a Defined Contribution Account). For members in the DROP plan on June 30, 2024, the 85% would be on a future basis only.

**Current DROP accounts are held outside of the Plan and were not part of this analysis.**



**Scenario 3**  
**All Members Hired Before 2014**  
**Increase the DROP Deposit from 75% to 85% of the Accrued Benefit**

**Actuarial Statement**  
**(\$ Millions)**

	Before Changes	With Proposed Changes	Increase / Decrease
<b>Component I (Hybrid)</b>			
Actuarial Information			
Actuarial Accrued Liability (AAL)	\$ 343.4	\$ 349.8	\$ 6.4
Funding Value of Assets	<u>330.3</u>	<u>330.3</u>	<u>-</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>13.1</u>	<u>19.5</u>	<u>6.4</u>
Funded Ratio	96.19%	94.44%	-1.76%
Total Normal Cost Rate	19.18%	19.18%	0.00%
Average Member Contribution Rate	<u>7.20%</u>	<u>7.20%</u>	<u>0.00%</u>
Employer Normal Cost Rate	11.98%	11.98%	0.00%
Employer Contributions			
\$0 Minimum UAAL + RSF Contribution (14 Remaining Amortization Years)	1.23%	1.53%	0.30%
Normal Cost Contribution	<u>11.98%</u>	<u>11.98%</u>	<u>0.00%</u>
Total Contribution %	<u>13.21%</u>	<u>13.51%</u>	<u>0.30%</u>
<b>Estimated FY 2025 Employer Contribution \$</b>	<b><u>\$ 27.7</u></b>	<b><u>\$ 28.4</u></b>	<b><u>\$ 0.6</u></b>
<b>Component II (Legacy)</b>			
Actuarial Information			
Actuarial Accrued Liability (AAL)	\$ 3,191.6	\$ 3,198.0	\$ 6.5
Funding Value of Assets	<u>2,309.6</u>	<u>2,309.6</u>	<u>-</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>881.9</u>	<u>888.4</u>	<u>6.5</u>
Funded Ratio	72.37%	72.22%	-0.15%
Employer Contributions			
Adopted Board Policy (20-yr Lvl Dollar with layers)	\$ 84.2	\$ 84.9	\$ 0.6
<b>Closed 30-yr (Beginning in FY 2024) Lvl Principal</b>	<b>\$ 89.6</b>	<b>\$ 90.3</b>	<b>\$ 0.7</b>
Closed 30-yr (Beginning in FY 2024) Lvl Dollar	\$ 71.9	\$ 72.4	\$ 0.6

The results shown above assume the benefit provision change would have no impact on the behavior of active participants in the plan (i.e., incidence of retirement or termination).

The contribution for the Component I (Hybrid) plan under the current structure assumes payroll will increase by 3% and that the contributory (non-DROP) active population will remain constant. The changes proposed for the DROP plan may result in a permanent increase in the DROP population and a permanent decrease in the contributory (non-DROP) active population. This may result in the contributory (non-DROP) payroll increasing at a lower rate than assumed which would put upward pressure on the Component I (Hybrid) Employer UAAL contribution as a percent of payroll.



**Scenario 3**  
**All Members Hired Before 2014**  
**Increase the DROP Deposit from 75% to 85% of the Accrued Benefit**  
**(Concluded)**

---

For an indication of the impact of a doubling of the likelihood of members entering the DROP, the impact on the Component I (Hybrid) plan: the AAL and UAAL would further increase by \$5.9 million (in addition to the \$6.4 million increase shown on the prior page); and the funded ratio would further decrease by 1.54% (in addition to the 1.76% decrease shown on the prior page). This would put upward pressure on the Component I (Hybrid) contribution in the future.

For an indication of the impact of a doubling of the likelihood of members entering the DROP, the impact on the Component II (Legacy) plan: the AAL and UAAL would further increase by \$10.9 million (in addition to the \$6.5 million shown on the prior page); the funded ratio would further decrease by 0.25%; and the employer contribution would further increase by \$0.9 million to \$1.2 million (in addition to the \$0.6 million to \$0.7 million shown on the prior page), depending on the funding policy adopted.

DROP accounts are held outside of the Retirement System. If any adjustments are made to DROP account balances as a result of changes that are adopted, additional costs may result. We have no information on DROP account balances and did not consider any such adjustments in this analysis.

## Scenario 5

### Component I (Hybrid) FIRE Plan Members Hired Before July 1, 2014. Three Year Final Average Compensation Period

---

#### Provisions of Interest – Current Component I (Hybrid) Benefits – Fire Only

**Average Final Compensation:** The average of the compensation received during the **5 consecutive years** of Credited Service (including Prior Service) immediately preceding the date of the members last termination of City employment as a Firefighter. If the member has less than **5 years** of Credited Service (including Prior Service), the Average Final Compensation is the average of the compensation received during all years of Credited Service.

#### Provisions of Interest – Proposed Component I (Hybrid) Benefits

**Average Final Compensation:**

**For members hired after June 30, 2014 and active on June 30, 2024,** the average of the compensation received during the **5 consecutive years** of Credited Service (including Prior Service) immediately preceding the date of the members last termination of City employment as a Firefighter. If the member has less than **5 years** of Credited Service (including Prior Service), the Average Final Compensation is the average of the compensation received during all years of Credited Service.

**For members hired before July 1, 2014 and active on June 30, 2024,** the average of the compensation received during the **3 consecutive years** of Credited Service (including Prior Service) immediately preceding the date of the members last termination of City employment as a Firefighter. If the member has less than **3 years** of Credited Service (including Prior Service), the Average Final Compensation is the average of the compensation received during all years of Credited Service.

**Scenario 5**  
**Component I (Hybrid) FIRE Plan Members Hired Before July 1, 2014.**  
**Three Year Final Average Compensation Period**

**Actuarial Statement**  
**(\$ Millions)**

	Before Changes	With Proposed Changes	Increase / Decrease
<b>Component I (Hybrid)</b>			
Actuarial Information			
Actuarial Accrued Liability (AAL)	\$ 343.4	\$ 347.2	\$ 3.8
Funding Value of Assets	<u>330.3</u>	<u>330.3</u>	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>13.1</u>	<u>16.9</u>	<u>3.8</u>
Funded Ratio	96.19%	95.14%	-1.05%
Total Normal Cost Rate	19.18%	19.18%	0.00%
Average Member Contribution Rate	<u>7.20%</u>	<u>7.20%</u>	<u>0.00%</u>
Employer Normal Cost Rate	11.98%	11.98%	0.00%
Employer Contributions			
\$0 Minimum UAAL + RSF Contribution (14 Remaining Amortization Years)	1.23%	1.41%	0.18%
Normal Cost Contribution	<u>11.98%</u>	<u>11.98%</u>	<u>0.00%</u>
Total Contribution %	<u>13.21%</u>	<u>13.39%</u>	<u>0.18%</u>
<b>Estimated FY 2025 Employer Contribution \$</b>	<b><u>\$ 27.7</u></b>	<b><u>\$ 28.1</u></b>	<b><u>\$ 0.4</u></b>
<b>Component II (Legacy)</b>			
Actuarial Information			
Actuarial Accrued Liability (AAL)	\$ 3,191.6	\$ 3,191.6	\$ -
Funding Value of Assets	<u>2,309.6</u>	<u>2,309.6</u>	-
Unfunded Actuarial Accrued Liability (UAAL)	<u>881.9</u>	<u>881.9</u>	-
Funded Ratio	72.37%	72.37%	0.00%
Employer Contributions			
Adopted Board Policy (20-yr Lvl Dollar with layers)	\$ 84.2	\$ 84.2	\$ -
<b>Closed 30-yr (Beginning in FY 2024) Lvl Principal</b>	<b>\$ 89.6</b>	<b>\$ 89.6</b>	<b>\$ -</b>
Closed 30-yr (Beginning in FY 2024) Lvl Dollar	\$ 71.9	\$ 71.9	\$ -

The results shown above assume the benefit provision change would have no impact on the behavior of active participants in the Plan (i.e., incidence of retirement or termination).



## Combined Results If Scenarios 1, 2, 3 and 5 Are Adopted

### Actuarial Statement (\$ Millions)

	Before Changes	With Proposed Changes	Increase / Decrease
<b>Component I (Hybrid)</b>			
Actuarial Information			
Actuarial Accrued Liability (AAL)	\$ 343.4	\$ 397.2	\$ 53.8
Funding Value of Assets	<u>330.3</u>	<u>330.3</u>	<u>-</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>13.1</u>	<u>66.9</u>	<u>53.8</u>
Funded Ratio	96.19%	83.16%	-13.04%
Total Normal Cost Rate	19.18%	19.18%	0.00%
Average Member Contribution Rate	<u>7.20%</u>	<u>7.20%</u>	<u>0.00%</u>
Employer Normal Cost Rate	11.98%	11.98%	0.00%
Employer Contributions			
\$0 Minimum UAAL + RSF Contribution (14 Remaining Amortization Years)	1.23%	3.75%	2.52%
Normal Cost Contribution	<u>11.98%</u>	<u>11.98%</u>	<u>0.00%</u>
Total Contribution %	<u>13.21%</u>	<u>15.73%</u>	<u>2.52%</u>
<b>Estimated FY 2025 Employer Contribution \$</b>	<b><u>\$ 27.7</u></b>	<b><u>\$ 33.0</u></b>	<b><u>\$ 5.3</u></b>
<b>Component II (Legacy)</b>			
Actuarial Information			
Actuarial Accrued Liability (AAL)	\$ 3,191.6	\$ 3,201.8	\$ 10.3
Funding Value of Assets	<u>2,309.6</u>	<u>2,309.6</u>	<u>-</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>881.9</u>	<u>892.2</u>	<u>10.3</u>
Funded Ratio	72.37%	72.14%	-0.23%
Employer Contributions			
Adopted Board Policy (20-yr Lvl Dollar with layers)	\$ 84.2	\$ 85.2	\$ 1.0
<b>Closed 30-yr (Beginning in FY 2024) Lvl Principal</b>	<b>\$ 89.6</b>	<b>\$ 90.7</b>	<b>\$ 1.1</b>
Closed 30-yr (Beginning in FY 2024) Lvl Dollar	\$ 71.9	\$ 72.8	\$ 0.9

**The Component I (Hybrid) Increase/Decrease in the Estimated FY 2025 Employer Contribution \$ amount of \$5.3 million appears to be the same as the September 6, 2024 Supplemental Actuarial Valuation because the numbers are rounded. The estimated increase in the Component I (Hybrid) contribution for this Supplemental Actuarial Valuation is lower than the estimated increase as presented in the Combined Results of the September 6, 2024 Supplemental Actuarial Valuation.**

The results shown above assume the benefit provision changes would have no impact on the behavior of active participants in the plan (i.e., incidence of retirement or termination). Increasing benefits may result in a temporary increase of retirements (a rush-to-the-door). For an indication of the impact of a doubling of the likelihood of retirement over the next 5 years, the impact on the Component I (Hybrid) plan would be minimal while in the Component II (Legacy) plan, the AAL and UAAL would increase by \$15.7 million (in addition to the \$10.3 million increase shown above); the funded ratio would decrease by 0.35% (in addition to the 0.23% decrease shown above); and the employer contribution would increase by \$1.3 million to \$1.7 million (in addition to the \$0.9 million to \$1.1 million shown above), depending on the funding policy adopted. Even though the Legacy plan is not impacted by the change in multiplier being proposed, the Hybrid plan members who have service in the Legacy plan would be impacted by an increase in retirement rates.



## Comments

---

**Comment 1** – We have not assessed the impact that these changes may have on Section 9.5 (Fiscal Responsibility) of the Component I (Hybrid) plan. Changes that result in a reduction of the Component I (Hybrid) funded ratio would reduce the likelihood of the VPIF being paid under Section 9.5 and would increase the likelihood of the remedial actions of Section 9.5 being triggered. The impact of the remedial actions of Section 9.5 being triggered may result in a partial offset to the calculated employer contributions in this report. Upon request, we can consider the proposals in this report in conjunction with the actions required under Section 9.5 of the Component I (Hybrid) plan. The impact of the proposals on the need for remedial actions of Section 9.5 would be significantly dependent upon future actuarial valuation results, which cannot be known in advance.

**Comment 2** – This is a complicated proposal involving the restructuring of benefits and eligibility. It requires assumptions regarding future human behavior which cannot be determined in advance (for example, early and normal retirement under the new conditions and incidence of entering the DROP). We believe that the assumptions and approximations that we have made to complete this study lead to results that are reasonably representative of the financial effect of the proposal; however, different actuaries operating with the same data could arrive at materially different conclusions.

**Comment 3** – If the actual implemented benefits differ from those valued in this report, results could be different than presented herein. If this proposal is adopted, we recommend details be determined and additional modeling and analysis be performed.

**Comment 4** – For purposes of this supplemental valuation, it was assumed that the proposal would be effective on June 30, 2023. A different effective date may result in different costs than shown in this report. For example, if the changes are adopted in 2024, the new benefits will first be reflected in the June 30, 2024 valuation. Member demographics will be different than they were in the June 30, 2023 valuation. Some members will have retired or moved from active to DROP and those that remained active will have accrued an additional year of service and likely received a pay increase. The annual increase in employer contributions related to the adopted changes will reflect the experience of the prior year, including demographic experience, as described, and investment experience.

**Comment 5** – DROP accounts are held outside of the Retirement System. If any adjustments are made to DROP account balances as a result of changes that are adopted, additional costs may result. As we understand it, the proposed benefits changes described in this report do not impact current DROP account deposits.

**Comment 6** – A determination of the plan sponsor's ability to make contributions when due (before and/or after the proposed changes) was outside our scope of expertise and was not performed.

**Comment 7** – We have not evaluated whether or not the Plan of Adjustment (POA) would be operative at this time and/or would allow for implementation of these changes.

**Comment 8** – The reader of this report should keep in mind that actuarial calculations are mathematical estimates based on current data and assumptions about future events (which may or may not materialize). Please note that actuarial calculations can and do vary from one valuation year to the next, sometimes significantly if the group valued is very small (less than 30 lives). As a result, the cost impact of the benefit changes may fluctuate over time, as the demographics of the group changes



## Comments (Continued)

**Comment 9** – Under Scenario 2 (the removal of the retirement age requirement), our modeling assumes that more members would retire prior to age 50. This modeling assumption also results in Component II (Legacy) benefits being paid out sooner (at retirement, prior to age 50) which causes an increase to the Component II (Legacy) liabilities, as shown. In order to value the proposed changes, we modified the assumption for incidence of normal retirement to include retirement probabilities for Fire members at earlier ages in order to recognize that the age requirement would be removed from normal retirement eligibility.

The retirement assumptions used in this supplemental for some of the proposed benefit changes are stated below:

Age	Percent of Eligible Active Members Retiring or Entering DROP within Next Year	
	Police	Fire
35	20%	15%
36	20%	15%
37	20%	15%
38	20%	15%
39	20%	15%
40	20%	15%
41	20%	15%
42	20%	15%
43	20%	15%
44	20%	15%
45	20%	15%
46	20%	15%
47	20%	15%
48	20%	15%
49	20%	15%
50	30%	20%
51	30%	20%
52	30%	20%
53	30%	20%
54	30%	20%
55	30%	20%
56	30%	20%
57	30%	20%
58	30%	20%
59	30%	20%
60	30%	100%
61	30%	100%
62	30%	100%
63	30%	100%
64	30%	100%
65	100%	100%

See the additional commentary in the Actuarial Statement section of Scenario 1 and the Combined results for potential increased costs associated with a temporary increase of retirements (a rush-to-the-door).

## Comments (Concluded)

---

**Comment 10** – The calculations are based upon present and proposed plan provisions that are outlined in this report. If you have reason to believe that the assumptions that were used are unreasonable, that the plan provisions are incorrectly described, that important plan provisions relevant to this proposal are not described, or that conditions have changed since the calculations were made, you should contact the authors of this report prior to relying on information in this report.

**Comment 11** – The entry-age actuarial cost method was used in determining liabilities and normal cost for the Component I (Hybrid) plan. Under this method, each individual's normal cost is determined as a level percent of pay based on a replacement life normal cost. The normal cost for each member is based on the ongoing proposed plan benefits and eligibilities applicable to the member and is determined to be the level percent of payroll from hire date to the age of last decrement or DROP necessary to fund the benefits. This method was selected for consistency with the current Hybrid plan. The application of this method differs for accounting purposes.

**Comment 12** – If you have reason to believe that the information provided in this report 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 authors of the report prior to making such decision.

**Comment 13** – No statement in this report is intended to be interpreted as a recommendation in favor of the proposed plan changes, or in opposition to them.

**Comment 14** – In the event that more than one plan change is being considered, it is very important to remember that the results of separate actuarial valuations cannot generally be added together to produce a correct estimate of the combined effect of all of the changes. The total can be considerably greater than the sum of the parts due to the interaction of various plan provisions with each other, and with the assumptions that must be used. In particular, the combined scenario study in this report includes different assumptions for the incidence of retirement than were used in the separate scenario studies.

**Comment 15** – This report is intended to describe the financial effect of the proposed plan changes on the Retirement System. Except as otherwise noted, potential effects on other benefit plans were not considered.

**Comment 16** – 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.

## Appendix – Summary of Membership Data by Category (Excluding Disability Retirees)

	<u>Legacy</u>	<u>Hybrid</u>
<b>Active Members (Excluding DROP)</b>		
Number	1,097	2,732
Average age (years)	47.1	37.2
Average benefit service (years)	11.5	5.6
Average vesting service (years)	20.3	10.4
Average salary		\$ 74,608
Total payroll supplied, annualized		\$ 203,829,938
<b>Members in DROP</b>		
Number	609	123
Average age (years)	55.6	56.4
Total annual benefits	\$ 14,402,952	\$ 961,929
Average annual benefit	\$ 23,650	\$ 7,821
<b>Vested Inactive Members</b>		
Number	384	792
Average age (years)	50.5	51.5
Total annual deferred benefits	\$ 6,730,193	\$ 3,961,221
Average annual deferred benefit	\$ 17,527	\$ 5,002
<b>Service Retirees</b>		
Number	4,873	274
Average age (years)	69.8	58.3
Total annual benefits	\$ 184,006,674	\$ 1,431,018
Average annual benefit	\$ 37,760	\$ 5,223
<b>Beneficiaries (Including Death-in-Service)</b>		
Number	1,445	9
Average age (years)	74.2	25.3
Total annual benefits	\$ 41,093,676	\$ 96,477
Average annual benefit	\$ 28,439	\$ 10,720

NOTE: The Legacy plan includes only members hired prior to 2014 and benefits based on service earned for those members as of 2014 as required under the POA. The Hybrid plan includes all active Legacy plan members plus any members hired after 2014 and benefits based on service earned for those members after 2014.

## Appendix – Summary of Membership Data by Category (Disability Retirees)

---

	<u>Legacy</u>	<u>Hybrid</u>
<b>Pre-2014 Pre-Conversion Duty Disability</b>		
Number	275	
Average age (years)	54.0	
Total annual benefits (pre-conversion)	\$ 9,871,119	
Average annual benefit (pre-conversion)	\$ 35,895	
<b>Post-2014 Pre-Conversion Duty Disability</b>		
Number	88	99
Average age (years)	50.9	48.9
Total annual benefits (pre-conversion)		\$ 3,810,793
Average annual benefit (pre-conversion)		\$ 38,493
Total annual benefits (post-conversion)	\$ 1,937,782	\$ 2,280,300
Average annual benefit (post-conversion)	\$ 22,020	\$ 23,033
<b>Other Disability Retirees</b>		
Number	1,029	13
Average age (years)	73.9	56.7
Total annual benefits	\$ 34,667,925	\$ 318,700
Average annual benefit	\$ 33,691	\$ 24,515