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October 8, 2019

Mr. David M. Williams, Plan Administrator
West Palm Beach Police Pension Fund
2100 N. Florida Mango Road
West Palm Beach, Florida 33409

Re: West Palm Beach Police Pension Fund

Dear Dave:

We have reviewed the June 28, 2019 audit letter prepared by Fase 2 regarding the audit for the West Palm Beach Police Pension Fund. As stated in this letter, "the September 30, 2018 actuarial valuation and report prepared by GRS is reasonable and is in accordance with generally accepted actuarial standards of practice." Our letter will provide commentary on the comments and suggestions Mr. Fernandez made for consideration in future valuation reports.

Data

Based on the audit letter, the Fund data and the data used by GRS were reconciled and the few differences were not material and were justified and reasonable.

Funding Value of Assets

The asset smoothing method used in our September 30, 2018 actuarial valuation report is commonly used in the industry. Under this method, the actuarial value of assets will not exactly match the market value of assets if the actual return matches the expected return over the next three years, but it will converge to this amount as required under the Actuarial Standards of Practice. The current method dampens volatility slightly more than the method suggested in the audit letter which bases the expected investment return on the market value of assets rather than the actuarial value of assets.

We recommend the Board continue to use the current method considering the four year smoothing period being used. If this is approved by the Board, we will change the language on page C-13 of our future reports to match our procedure as noted in the audit letter.

Actuarial Liabilities

The audit letter suggests breaking out the actuarial experience during the year by source (i.e. investment, mortality, retirement, salary, termination and disability). While we agree that a full gain loss analysis could be beneficial, it is not a State requirement and other Boards find it to be cost prohibitive. Most of our other clients find a break-down of investment and non-investment experience to be sufficient. To help the Board in determining the validity of the demographic assumptions (i.e. mortality, retirement, termination, disability), our report includes the table on page B-16 which shows the actual versus expected experience on a year by year basis.

If requested, we would be happy to include a detailed analysis of the actuarial experience by source in our valuation report. Our fee for this would be $2,500. Alternatively, we can include a breakdown of the experience by investment and non-investment experience and use the information on page B-16 (actual versus expected demographic experience) already shown in our report to monitor how well the assumptions are matching the actual experience of the plan. There would be no additional cost for this alternative.

Determination of Required Contribution

GRS is not understating the City's contribution toward the unfunded liability by approximately 3.7%. The audit letter states that the amortization payment is divided by the payroll projected to April 1, 2019 and should reflect an adjustment for the expected payment to be made in the following fiscal year. We agree that the April 1, 2019 amortization payment is divided by the expected payroll for fiscal year ending 2019. However, the resulting percentage is applied to the fiscal year ending 2020 covered payroll to account for the contribution being made in the following fiscal year.

Specifically, the expected covered payroll for fiscal year ending September 30, 2019 was $24,322,866. This amount is not explicitly shown in our report and we believe including it will avoid any confusion in future reports. The amortization payment reflecting an April 1, 2019 payment is $1,464,596 as shown on page A-11 of our report or 6.01% of covered payroll ($1,464,596 / $24,322,866). In determining the required City contribution the 6.01% is applied to the expected payroll for fiscal year ending September 30, 2020 which is $25,417,395 as shown on page A-2 of our report. Based on this, we have applied the percentage of payroll amortization payment to the expected payroll for the following fiscal year.

Actuarial Assumptions and Methods

The audit letter states that the actuarial assumptions and methods adopted by the Board and used in the 2018 valuation report are reasonable. As discussed previously, we recommend lowering the investment return assumption to 7.5% in the 2019 actuarial valuation report and monitoring it prospectively.

Valuation Report

The items listed below were listed as suggestions for the Board to consider in the audit letter.

- We will update our description of the payroll that is calculated for the contribution year as shown on page A-3.
- The discussion regarding a full gain/loss analysis is covered in the Actuarial Liability section above.
- We agree that we can provide other risk metrics that are outside of the scope of the actuarial valuation report. One such item, as listed in the audit letter, would be a Supplemental Actuarial Valuation Report which would stress test the system by determining the impact on the required city contribution in a low investment-return environment. Please let us know if the Board would

like us to prepare such a study.

- We agree that the risk metric of Market Value of Assets to Payroll is elevated in this Plan compared to other plans. As discussed at prior meetings, this indicates that investment experience will cause a more significant amount of volatility in the City contribution rate than in other plans with a lower ratio. I agree we should include additional commentary to this section in future valuation reports.
- We agree that the language referencing "five years after disability" in the duty disability section should be removed.
- We will provide more detail in future valuation reports indicating that members may elect the Fund's investment return or a fixed return between 4% and 8% on members' Share Plan and DROP Accounts.
- For the Unfunded Actuarial Accrued Liability (UAAL) amortization periods, we will explicitly state the amortization period for different sources of change such as actuarial experience, assumption changes, method changes and plan changes in future valuation reports.
- Comment C on page A-6 already explicitly states the payroll growth assumption that is used for purposes of amortizing the UAAL. In our 2018 report, the payroll growth assumption used for this purpose was 1.07%. We will add this to the Actuarial Assumptions Used for the Valuation section of the report.
- We will add to future reports a description of our roll forward method of the Total Pension Liability for the GASB No. 67 actuarial disclosures.

We welcome your questions and comments.

Sincerely yours,

Jeffrey Amrose, EA
Senior Consultant & Actuary

Enclosures

This communication shall not be construed to provide tax advice, legal advice or investment advice.