

November 1, 2012

(via e-mail)

Privileged & Confidential

Retirement Board  
City of Coral Gables Retirement System  
c/o Ms. Kimberly V. Groome  
Retirement System Administrator  
405 Biltmore Way  
Coral Gables, Florida 33134

2013 COLA

Dear Board Members:

The purpose of this letter is to provide you with the results of our review of the investment results of the System for the year ended September 30, 2012, and of the cost of living increase provisions in Ordinance Section 50-230(c). The most recent cost of living increase was granted as of January 2008, based on the investment results for the year ending September 30, 2007.

Background

Section 50-230(c) of the City Ordinances provides for a cost of living increase as of January 1, if certain conditions are met as of the preceding September 30. The cost of living increase will be equal to half of the increase in the Consumer Price Index (CPI-W) from the previous September 30. The resulting increase may not be less than zero or greater than 2.75%.

The cost of living increase will be granted only if the return on the market value of assets for the year ended September 30 is ten percent or more. However, if no cost of living increase was granted under this provision in the preceding year(s), there is an additional requirement that the return on market value since the last time a cost of living increase was granted must be greater than zero.

If a cost of living increase is granted after one or more years in which no increase was granted, the upper limit on the increase is the lesser of 2.75% multiplied by the number of years since the last increase was granted, and 8%.

The Attachment shows the history of cost of living increases granted under this provision.

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### Return on Assets

Asset information was received from the Administrator. Based on this information, the return on assets for the twelve months ended September 30, 2012 was calculated to be 16.7%. Since this return exceeds 10 percent and the return since the last cost of living increase exceeds zero percent, a cost of living increase would become effective on January 1, 2013.

### Cost of Living Adjustment

The percentage increase would be 50% of the increase in the Consumer Price Index (CPI-W) from September 2007 to September 2012. As shown on the Attachment, the increase in the CPI from September 2007 to September 2012 was 11.9%, resulting in a preliminary cost of living increase of 5.95%. This is less than 8%, and does not exceed 2.75% per year. Therefore, based on the provisions of Ordinance Section 50-230(c), a 5.95% cost of living increase would be granted on January 1, 2013, to all those who have been receiving monthly benefits for all of 2012.

### Estimated Annual Cost

The liabilities calculated for the October 1, 2011 valuation were used to estimate the new unfunded liability due to the 5.95% cost of living increase on January 1, 2013. Consistent with past practice, this liability was amortized over 30 years, resulting in an annual cost of approximately \$1,616,000, as shown in the table below.

#### 5.95% Cost of Living Increase

<u>Unfunded Liability</u>	<u>30-Year Amortization</u>	<u>15-Year Amortization</u>
-\$-	-\$-	-\$-
20,068,971	1,615,588	2,142,905

The actual amortization cost would be based on the Unfunded liability as of October 1, 2012.

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Since the liabilities are for benefits payable to current retirees and beneficiaries with an average age of 65 as of October 1, 2011, it would be desirable to amortize the liabilities over a shorter period, in line with the average life expectancy of the group. Using the RP 2000 Mortality table (projected to 2012) from the actuarial valuation, the life expectancy for an individual 65 would be approximately 18 years. Therefore, a 15-year amortization would be in line with the expected payout period of these cost of living increases. As shown in the table above, a 15-year amortization payment would be approximately \$2,143,000 or about \$527,000 per year more than the 30-year amortization.

#### Cumulative Experience Position

For the past several years we have questioned whether the current COLA provisions meet the spirit of the State's rules under Chapter 60-T. We began calculating a cumulative gain/loss position as of October 1, 2006. The cumulative loss as of September 30, 2011 is \$82,799,575.

In our opinion, there are 2 (and possibly 3) approaches to administering the current COLA provision:

- (1) Amend the ordinance each time a COLA is granted. This approach would be subject to Commission approval each time.

When each cost of living increase is granted, a new unfunded actuarial liability is set up and funded through annual amortization payments. In principle, no funding is provided directly by experience gains. Therefore, it would seem to follow that the provisions of Chapter 112.61 of Title X of the Florida Statutes would not apply, and that there would be no need to consider whether the System remains in a cumulative experience gain position after the cost of living increase is granted. This approach would require an Actuarial Impact Statement and Commission approval for any new COLA.

- (2) Grant new COLAs only when the System is in a net positive cumulative experience position: This approach may well be closest to the original intent. However, there is a potential negative ramification from having granted COLAs in past years without observance of the experience position, and the position might not have supported new COLAs in recent years.

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In addition, there is a logistical problem with the determination of the cumulative experience position in time for the January 1 COLA effective date. A possible solution to this issue would be to reserve excess returns as of a given September 30 for COLAs to be granted on the second subsequent January 1 (e.g. reserve return at September 30, 2012 for new COLA on January 1, 2014). A more straightforward solution would be to accelerate the September 30 bookkeeping and accounting processes, so that the COLA determination could be final before the subsequent January 1.

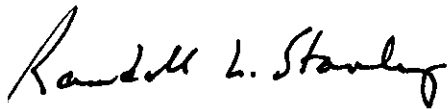
- (3) Request that the Commission approve, on a one-time basis, all future COLAs, without reference to experience position: It is unclear whether the Division of Retirement would approve this approach.

#### Conclusions and Summary

Subject to the caveats summarized in earlier sections of this letter, effective January 1, 2013, the members and beneficiaries who have been receiving monthly benefits since January 1, 2012 or before would receive a 5.95% increase in monthly benefits. This would be expected to increase the annual deposit by approximately \$1,616,000.

Please let us know if you have any comments or questions.

Sincerely,



Randall L. Stanley, FSA, FCA, MAAA, EA  
Actuary



Frans Christ, FSA, MAAA, EA  
Actuary



David D. Harris, ASA, MAAA, EA  
Actuary

RLS/FC/DDH/di  
500501/790

Attachments (2)

CITY OF CORAL GABLES RETIREMENT SYSTEM										
History of Cost of Living Increases										
Calendar Year Starting	Fiscal Year Ending	Fiscal Year Fund Return	Prior Fiscal Year CPI-W	Current Fiscal Year CPI-W	One Year Change in CPI-W	50% of Change in CPI-W	Change in CPI-W since Last Change	50% of Change in CPI-W since Last Change	COLA Granted	
1/1/1989										
01/01/1990	09/30/1989	14.9%	118.500	123.600	4.30%	2.15%	4.30%	2.15%	2.15%	
01/01/1991	09/30/1990	4.1%	123.600	131.100	6.10%	3.05%	6.10%	3.05%	0.00%	
01/01/1992	09/30/1991	17.7%	131.100	135.200	3.10%	1.55%	9.40%	4.70%	4.70%	
01/01/1993	09/30/1992	11.9%	135.200	139.100	2.90%	1.45%	2.90%	1.45%	1.45%	
01/01/1994	09/30/1993	9.7%	139.100	142.600	2.50%	1.25%	2.50%	1.25%	0.00%	
01/01/1995	09/30/1994	5.7%	142.600	146.900	3.00%	1.50%	5.60%	2.80%	0.00%	
01/01/1996	09/30/1995	18.3%	146.900	150.600	2.50%	1.25%	8.20%	4.10%	4.10%	
01/01/1997	09/30/1996	13.8%	150.600	155.100	3.00%	1.50%	3.00%	1.50%	1.50%	
01/01/1998	09/30/1997	23.6%	155.100	158.300	2.10%	1.05%	2.10%	1.05%	1.05%	
01/01/1999	09/30/1998	8.7%	158.300	160.200	1.20%	0.60%	1.20%	0.60%	0.00%	
01/01/2000	09/30/1999	11.9%	160.200	164.700	2.80%	1.40%	4.00%	2.00%	2.00%	
01/01/2001	09/30/2000	7.9%	164.700	170.400	3.50%	1.75%	3.50%	1.75%	0.00%	
01/01/2002	09/30/2001	-7.1%	170.400	174.800	2.60%	1.30%	6.10%	3.05%	0.00%	
01/01/2003	09/30/2002	-13.1%	174.800	177.000	1.30%	0.65%	7.50%	3.75%	0.00%	
01/01/2004	09/30/2003	19.0%	177.000	181.000	2.30%	1.15%	9.90%	4.95%	4.95%	
01/01/2005	9/30/2004	10.8%	181.000	185.400	2.40%	1.20%	2.40%	1.20%	1.20%	
01/01/2006	9/30/2005	11.4%	185.400	195.000	5.20%	2.60%	5.20%	2.60%	2.60%	
01/01/2007	9/30/2006	8.0%	195.000	198.400	1.70%	0.85%	1.70%	0.85%	0.00%	
01/01/2008	9/30/2007	12.9%	198.400	203.889	2.80%	1.40%	4.60%	2.30%	2.30%	
01/01/2009	9/30/2008	-15.5%	203.889	214.935	5.40%	2.70%	5.40%	2.70%	0.00%	
01/01/2010	9/30/2009	-1.4%	214.935	211.322	-1.70%	-0.85%	3.60%	1.80%	0.00%	
01/01/2011	9/30/2010	9.1%	211.322	214.306	1.40%	0.70%	5.10%	2.55%	0.00%	
01/01/2012	9/30/2011	3.7%	214.306	223.688	4.40%	2.20%	9.70%	4.85%	0.00%	
01/01/2013	9/30/2012	16.7%	223.688	228.184	2.00%	1.00%	11.90%	5.95%	5.95%	

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CITY OF CORAL GABLES  
RETIREMENT SYSTEM

Attachment B

Year Ended	09/30/2012	09/30/2011	09/30/2010	09/30/2009	09/30/2008	09/30/2007	09/30/2006	09/30/2006 (w/ O/S City Cont)
MV BoY	240,166,746.69	236,131,665.41	219,307,435.33	220,893,086.14	263,559,204.67	238,208,712.84	218,240,138.39	242,127,338.39
BV BoY	243,408,338.09	229,093,368.59	226,685,923.38	247,029,555.01	246,544,702.48	226,265,165.99	202,399,943.92	226,287,143.92
Receipts	85,575,988.46	114,315,198.23	75,237,866.66	56,960,796.47	70,741,497.75	82,816,165.22	81,878,739.77	83,545,091.77
Income	6,491,738.25	6,944,964.27	5,845,977.87	5,947,492.75	8,051,201.82	7,597,023.85	6,913,402.15	6,913,402.15
Realized G/L	5,611,061.37	12,391,904.97	842,731.02	(27,801,984.66)	(5,470,737.90)	18,539,453.25	14,630,960.38	14,630,960.38
Disbursements	(93,808,673.70)	(119,337,097.97)	(79,680,829.42)	(55,449,936.20)	(72,831,109.14)	(88,680,594.28)	(79,557,880.23)	(79,557,880.23)
BV EoY	247,278,452.47	243,408,338.09	228,931,669.51	226,685,923.38	247,035,555.01	246,537,214.03	226,265,165.99	251,818,717.99
Error Check	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unrealized G/L	27,226,210.25	(10,713,472.90)	13,048,765.26	18,757,980.82	(43,156,971.06)	4,312,190.56	(3,896,647.62)	(3,896,647.62)
MV EoY	271,263,071.32	239,733,162.01	234,601,946.72	219,307,435.33	220,893,086.14	262,792,951.44	238,208,712.84	263,762,264.84
Error Check	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MV EoY	271,263,071.32	239,733,162.01	234,601,946.72	219,307,435.33	220,893,086.14	262,792,951.44	238,208,712.84	263,762,264.84
Contributions	85,575,988.46	114,315,198.23	75,237,866.66	56,960,796.47	70,741,497.75	82,816,165.22	81,878,739.77	83,545,091.77
Distributions	(93,808,673.70)	(119,337,097.97)	(79,680,829.42)	(55,449,936.20)	(72,831,109.14)	(88,680,594.28)	(79,557,880.23)	(79,557,880.23)
MV BoY	240,166,746.69	236,131,665.41	219,307,435.33	220,893,086.14	263,559,204.67	238,208,712.84	218,240,138.39	242,127,338.39
Gross Return	39,329,009.87	8,623,396.34	19,737,474.15	(3,096,511.08)	(40,576,507.14)	30,448,667.66	17,647,714.91	17,647,714.91
Rate of Return	16.7%	3.7%	9.1%	-1.4%	-15.5%	12.9%	8.0%	7.2%

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Year Ended	09/30/2005	09/30/2004	09/30/2003	09/30/2002	09/30/2001
MV BoY	196,492,460.99	181,364,086.82	158,763,278.00	192,436,622.66	215,341,148.87
BV BoY	188,048,057.85	177,648,923.30	184,817,789.49	199,831,752.10	201,986,666.03
Receipts	46,547,967.31	49,955,909.29	12,409,528.51	6,070,421.62	4,034,798.56
Income	5,911,522.17	4,547,515.72	3,944,834.70	4,992,462.34	6,459,990.11
Realized G/L	9,036,392.53	10,137,459.81	(4,214,990.20)	(10,959,180.02)	(670,846.77)
Disbursements	(47,143,995.94)	(54,241,750.27)	(19,283,773.02)	(15,117,666.55)	(11,978,856.83)
BV EoY	202,399,943.92	188,048,057.85	177,673,389.48	184,817,789.49	199,831,752.10
Error Check	0.00	0.00	0.00	0.00	(1.00)
Unrealized G/L	7,395,791.33	4,729,239.62	29,769,675.01	(18,659,382.05)	(20,749,610.28)
MV EoY	218,240,138.39	196,492,460.99	181,388,553.00	158,763,278.00	192,436,622.66
Error Check	0.00	0.00	0.00	0.00	1.00
MV EoY	218,240,138.39	196,492,460.99	181,388,553.00	158,763,278.00	192,436,622.66
Contributions	46,547,967.31	49,955,909.29	12,409,528.51	6,070,421.62	4,034,798.56
Distributions	(47,143,995.94)	(54,241,750.27)	(19,283,773.02)	(15,117,666.55)	(11,978,856.83)
MV BoY	196,492,460.99	181,364,086.82	158,763,278.00	192,436,622.66	215,341,148.87
Gross Return	22,343,706.03	19,414,215.15	29,499,519.51	(24,626,099.73)	(14,960,467.94)
Rate of Return	11.4%	10.8%	19.0%	-13.1%	-7.1%