

October 15, 2015

Ms. Diana M. Gomez  
Finance Director  
City of Coral Gables  
405 Biltmore Way, 1st Floor  
Coral Gables, Florida 33134

Dear Ms. Gomez:

**CITY OF CORAL GABLES RETIREMENT SYSTEM**  
**EXTRA PAYMENT SHORTENING OF AMORTIZATION SCHEDULE**

You have asked us to estimate how many years it will take to pay off the current UAAL if the City continues to pay extra toward reducing the UAAL in the same manner as currently proposed.

The current UAAL consists of many "bases" or "mortgages" that each have their own period remaining before being paid off; the majority of the liability is at or near 25 years. So many of the "mortgages" will be paid off within the next 10 to 15 years, but those that are around 25 are the ones that will be paid off last.

So we estimate that those 25 year mortgages would be paid off in around 17 years, and that's when the current UAAL is estimated to be eliminated.

Of course, this is based on many assumptions; but the purpose is to estimate how quickly the UAAL might be discharged if the City were to make extra payments in addition to the regular payments that are part of the contribution requirements of the Plan.

It is important to note that there are "gain" bases in addition to the "loss" bases we are trying to pay off. These operate as "negative mortgages" and currently operate as credits against the otherwise requirement. So the requirement increases when these credit bases drop off. For example, contribution requirements will increase next year due to a "gain" amortization dropping off of \$230,000, increasing the requirement by a like amount. There are also gain bases in the 11 to 15 year period that, when they drop off, will also increase contributions around \$1,600,000. So while gains decrease contributions, when they are finished, the contribution requirement resumes its higher level.

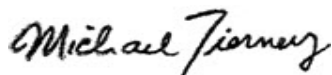
So the City's proposed extra funding policy, of paying \$26 million indexed by inflation irrespective the funding requirement, should generate a significant reduction in the

UAAL repayment period, even though the plan's cost is also expected to escalate. (Plan funding is based on percentage of payroll and as payroll increases, the City pension cost increases.)

Of course, many things can change this estimate, in either direction. How many years the City's extra funding strategy can be maintained is the major factor. For example, if the contribution requirement increases above the \$26 million plus inflation target, the funding plan will break down. But some plan is better than no plan, and the current estimated acceleration of repayment of UAAL to 17 years would be an impressive accomplishment.

Note that funded status would also be accelerated, and should approach 100% when the current UAAL is fully discharged. (But note that there are other events that will affect funded status between now and then).

Sincerely,



Michael J. Tierney