

# CITY OF CORAL GABLES

## - MEMORANDUM -

**TO:** Mayor and Members  
Of the City Commission

**DATE:** October, 2018

**FROM:** Diana M. Gomez  
Finance Director

**SUBJECT:** 2018 COLA  
Recommendation

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At the Pension Board meeting of October 11, 2018, the Board voted to approve the 2018 COLA to GAP employees and those former city employees who opted out ("Opt-Outs") of the class in the Murhee v. City of Coral Gables. This memo is being provided in advance of the Alternative Dispute Resolution Mechanism Hearing to be held on October 23, 2018. In accordance with the terms of the settlement agreement, at the hearing, the City Commission, in its sole discretion may, by a supermajority 4/5 vote, reject the Retirement Board's determination or reduce the amount of the proposed COLA.

As the Finance Director of the City of Coral Gables, it is my recommendation that the City Commission reject the 2018 COLA for GAP members and Opt-Outs.

My recommendation is in line with the factors listed in the Ordinance (see attached Ordinance Sec. 8.3 A through G) which are to be considered by the City Commission in making its determination, specifically:

- A. The present value of the proposed COLA will exceed the net actuarial experience of the Retirement System. The current cumulative experience loss is approximately \$203 million as of September 30, 2017. (See page 25 of attached Valuation Report)
- B. The Unfunded Actuarial Accrued Liability has increased from the previous year by approximately \$2.2 million. This is due primarily to the impact of the COLA lawsuit settlement. (See page 45 of attached Valuation Report)
- C. Providing for the proposed 2018 COLA would increase the current Unfunded Actuarial Accrued Liability of \$227 million by \$1.57 million and will increase the current annual required contribution of \$25.1 million by \$214,000. (See attached 2018 COLA determination letters)
- D. The Opt-Outs as well as any eligible GAP members received a retroactive permanent COLA for 2013 and/or 2014. This COLA was paid on October 11, 2018. GAP members who were not eligible did not receive a retroactive payment. The last COLA they would have received was on 1/1/2008.
- E. The Opt-Outs as well as any eligible GAP members received a 2.975% COLA for 2013 and/or a .25% COLA for 2014. This COLA was paid on October 11, 2018. GAP members who were not eligible did not receive a retroactive payment. The last COLA they would have received was on 1/1/2008 which was 2.3%.

F. The Net Actuarial Experience over the preceding seven years is a loss of \$27,496,096.

The single-year Actuarial Experience of the Retirement System for each of the seven years preceding the proposed COLA is as follows (See page 40 of attached Valuation Report):

1.	9/30/2017	\$8,574,453 (gain)
2.	9/30/2016	\$4,713,880 (gain)
3.	9/30/2015	\$3,038,952 (gain)
4.	9/30/2014	\$1,436,491 (gain)
5.	9/30/2013	\$1,608,800 (loss)
6.	9/30/2012	\$22,681,760 (loss)
7.	9/30/2011	\$20,969,312 (loss)

G. The increase of the Consumer Price Index is 4.5% since the last granted COLA. (See attached 2018 COLA Determination letter)

These factors support rejection of the 2018 COLA for the GAP members and the Opt-Outs as the cost associated with granting the COLA would adversely impact the Pension System.

Although not one of the factors of consideration of the Ordinance, it should be noted that the COLA Lawsuit Class Members were not granted the 2018 COLA and granting it to these two groups would create an imbalance among all groups. Additionally, the City Commission has passed a resolution instituting a policy to budget a higher than required amount to the pension fund annually in order that the excess over the required contribution pay down the unfunded liability quicker than the normal amortization. The annual payment amount for FY2019 is just over \$27.5 million and has allowed for additional funds of almost \$13.2 million since FY2015 to be sent to pension fund. Should the 2018 COLA be granted for the GAP employees and Opt-Outs, the annual required contribution will increase by just over \$200,000, reducing the amount available next year to pay down the unfunded liability.

For your information and for reference, attached is a schedule which shows the estimated effect of granting various percentages of the 2018 COLA to GAP members and Opt-Outs on the Unfunded Actuarial Accrued Liability and the effect Annual Required Contributions.

Should you have any questions or need additional information, please contact me.

c: Peter Iglesias, City Manager  
Miriam Soler Ramos, City Attorney

**Effect of granting 2018 COLA to GAP members  
and Opt-Outs on the Unfunded Actuarial  
Accrued Liability (UAAL) and the  
Annual Required Contribution**

<b>COLA Percentage</b>	<b>Increase to UAAL</b>	<b>Increase to Annual Contribution</b>
2.25%	\$ 1,570,937	\$ 214,058
2.00%	\$ 1,396,388	\$ 190,274
1.75%	\$ 1,221,840	\$ 166,490
1.50%	\$ 1,047,291	\$ 142,705
1.25%	\$ 872,743	\$ 118,921
1.00%	\$ 698,194	\$ 95,137
0.75%	\$ 523,646	\$ 71,353
0.50%	\$ 349,097	\$ 47,568
0.25%	\$ 174,549	\$ 23,784

Mechanism by requesting a hearing before the City Commission within sixty (60) days of the Retirement Board's determination. Within sixty (60) days of the City Attorney's request, the City Commission must hold a hearing. At the hearing, the City Commission in its sole discretion may, by a supermajority 4/5 vote, reject the Retirement Board's determination or reduce the amount of the proposed COLA, considering the following factors:

A. Whether the present value of the proposed COLA exceeds the net Actuarial Experience of the Retirement System accumulated from all sources of gains and losses since July 1, 1994;

B. The amount of the Unfunded Actuarial Accrued Liability and whether it has been declining or increasing and the amount of such decline or increase;

C. The amount of the Unfunded Actuarial Accrued Liability and the amount by which it will increase if the proposed COLA is granted;

D. The number of years since the last COLA was granted;

E. The percentage increase of the last COLA that was granted;

F. The single-year Actuarial Experience of the Retirement System for each of the seven years preceding the proposed COLA, and the net Actuarial Experience over the preceding seven years; and

G. The increase or decrease of the Consumer Price Index issued by the U.S. Bureau of Labor Statistics.

8.3.1 If the Commission fails to obtain the supermajority 4/5 vote, then the Retirement Board's determination shall be considered approved by the Commission.

8.3.2 If the Commission obtains the supermajority 4/5 vote specified, then the Commission's decision shall not be overturned unless it is arbitrary and capricious.

8.3.3 Any decision of the Commission to reject the Retirement Board's determination or reduce the amount of the proposed COLA based on the factor specified in ¶ 8.3(A), alone, and regardless of the other factors specified in ¶ 8.3(B)-(G), will not be considered arbitrary or capricious.

8.3.4 The intent of the Alternative Dispute Resolution Mechanism is to comply with law and accomplish the purposes of Chapter 112, Part VII, Florida Statutes, which include maintaining the actuarial soundness of the Retirement System, maximizing the protection of public employee retirement benefits, and prohibiting the use of any procedure the effect of which is to transfer to future

## Cumulative Experience Gain/(Loss)

### As Measured From 1994

<u>Plan Year Ending</u>	<u>Experience Gain/(Loss)</u>
December 31, 1994	\$ (6,035,838)
December 31, 1995	12,826,310
December 31, 1996	(942,133)
December 31, 1997	14,413,961
December 31, 1998	9,828,307
December 31, 1999	(1,889,769)
December 31, 2000	(26,457,751)
December 31, 2001	(13,298,945)
December 31, 2002	(46,662,623)
December 31, 2003	(23,736,342)
December 31, 2004	(20,236,223)
September 30, 2005	(15,261,034)
September 30, 2006	(7,371,714)
September 30, 2007	19,235,295
September 30, 2008	(27,415,318)
September 30, 2009	(27,577,164)
September 30, 2010	(15,074,929)
September 30, 2011	(20,969,312)
September 30, 2012	(22,681,760)
September 30, 2013	(1,608,800)
September 30, 2014	1,436,491
September 30, 2015	3,038,952
September 30, 2016	4,713,880
September 30, 2017	8,574,453

**Total from 1994 to Valuation Date    \$ (203,152,006)**

Recent History of Valuation Results								
Valuation Date	Number of		Covered Annual Payroll	Actuarial Value of Assets	JAAL	Funded Ratio	Total Normal Cost	
	Active Members	Inactive Members					Amount	% of Payroll
1/1/2000	764	569	\$32,792,227	\$221,616,352	(\$10,470,328)	105.0 %	\$4,594,136	14.01 %
1/1/2001	765	585	36,079,840	227,724,737	1,900,063	99.2	5,480,700	15.19
1/1/2002	755	609	40,076,259	228,682,300	15,129,093	93.8	6,292,874	15.70
1/1/2003	753	615	40,840,669	194,878,768	83,533,529	70.0	6,420,291	15.72
1/1/2004	762	651	42,380,291	195,058,670	126,868,280	60.6	6,646,712	15.68
1/1/2005	726	650	44,782,104	197,516,417	145,862,261	57.5	7,724,072	17.25
10/1/2005	758	680	48,011,978	206,804,749	157,437,777	56.8	8,418,556	17.53
10/1/2006	781	692	51,043,831	237,825,593	161,018,543	59.6	9,449,437	18.51
10/1/2007	761	715	46,125,613	258,488,666	144,584,515	64.1	9,222,398	19.99
10/1/2008	781	728	53,451,877	265,381,290	168,522,940	61.2	9,899,872	18.52
10/1/2009	755	768	52,692,558	262,434,347	197,974,718	57.0	8,776,789	16.66
10/1/2010	672	817	46,949,522	265,080,873	195,653,796	57.5	8,196,034	17.46
10/1/2011	614	853	40,863,780	264,628,498	226,570,157	53.9	6,951,139	17.01
10/1/2012	595	889	38,843,813	265,431,205	244,027,058	52.1	6,364,084	16.38
10/1/2013 *	565	920	37,158,283	288,832,252	243,372,636	54.3	6,419,393	17.28
10/1/2014 **	557	965	37,013,103	313,297,551	239,939,061	56.6	6,007,692	16.23
10/1/2015 ***	572	965	38,301,821	332,327,655	226,729,657	59.4	6,200,674	16.19
10/1/2016 ****	588	986	38,659,035	349,225,598	224,896,425	60.8	6,299,172	16.29
10/1/2017	599	974	41,314,804	365,878,904	226,839,817	61.7	6,726,494	16.28

Recent History of Required and Actual Contributions										
Valuation Date	End of Year to which Valuation Applies	Required Contributions <sup>#</sup>						Actual Contributions		
		Employer & State		Estimated State		Net Employer		Employer	State	Total
		Amount	% of Payroll	Amount*	% of Payroll	Amount	% of Payroll			
10/1/2009	9/30/2011	\$21,774,775	41.32 %	\$145,830	0.28 %	\$21,628,945	41.05 %	\$21,628,945	\$ 145,830	\$21,774,775
10/1/2010	9/30/2012	23,146,379	49.30	145,830	0.31	23,000,549	48.99	23,000,549	145,830	23,146,379
10/1/2011	9/30/2013	23,592,738	57.74	145,830	0.36	23,446,908	57.38	23,446,908	145,830	23,592,738
10/1/2012	9/30/2014	25,678,422	66.11	145,830	0.38	25,532,592	65.73	25,554,746	145,830	25,700,576
10/1/2013	9/30/2015 *	24,288,466	65.37	136,610	0.37	24,151,856	65.00	28,228,636	145,830	28,374,466
10/1/2014	9/30/2016 **	23,838,224	64.41	136,610	0.37	23,701,614	64.04	26,975,010	145,830	27,120,840
10/1/2015	9/30/2017 ***	23,082,353	60.26	136,610	0.35	22,945,743	59.91	26,293,017	145,830	26,438,847
10/1/2016	9/30/2018 ****	23,281,270	60.22	136,610	0.35	23,144,660	59.87	---	---	---
10/1/2017	9/30/2019	25,220,376	61.04	136,721	0.33	25,083,655	60.71	---	---	---

<sup>#</sup> Reflects an interest discount to the beginning of the year starting with the 10/1/2013 valuation.

\* Reflects all Actuarial Impact Statements through September 2014.

\*\* Reflects Actuarial Impact Statement dated September 16, 2015.

\*\*\* Reflects Actuarial Impact Statement dated June 30, 2016.

\*\*\*\* Reflects Actuarial Impact Statement dated March 14, 2018.



June 1, 2018

Ms. Kimberly Groome  
Coral Gables Retirement System  
405 Biltmore Way  
Coral Gables, FL 33134

**Re: City of Coral Gables Retirement System  
2018 COLA for Class Members and "Gap Members"**

Dear Kimberly:

We have prepared calculations for the City of Coral Gables Retirement System ("Plan") to determine the first-year financial impact of the cost-of-living adjustment (COLA) of 2.25% effective January 1, 2018 if granted to Class Members and "Gap Members" who have been in receipt of benefits for the full year preceding January 1, 2018.

"Gap Members" refer to members of the Plan who retired, entered the DROP or became eligible for normal retirement after January 1, 2013 and before February 10, 2015 and signed a settlement agreement with the City, or the designated beneficiaries of such members, as described in the proposed Ordinance which would amend Section 46-253(c)(6) of the Code of the City of Coral Gables to include such members in the COLA determination provisions for the fiscal year ending September 30, 2017 and for each year thereafter (which currently applies to Class Members only).

### Summary of Findings

- The required employer contribution for the fiscal year ending September 30, 2019 (payable October 1, 2018) would increase by \$1,232,686 (from \$25,083,654 to \$26,316,340). **For Class Members, the required employer contribution for the fiscal year ending September 30, 2019 (payable October 1, 2018) would increase by \$1,029,335.** For "Gap Members," the required employer contribution for the fiscal year ending September 30, 2019 (payable October 1, 2018) would increase by \$203,351.
- The unfunded actuarial accrued liability (UAAL) as of October 1, 2017 would increase by \$9,046,481 (from \$226,839,817 to \$235,886,298). **For Class Members, the UAAL as of October 1, 2017 would increase by \$7,554,125.** For "Gap Members," the UAAL as of October 1, 2017 would increase by \$1,492,356.

The calculations are based on our 2018 COLA determination letter dated November 3, 2017 and on the preliminary results of the October 1, 2017 actuarial valuation, as shown in our draft October 1, 2017 actuarial valuation report dated May 11, 2018, updated to reflect the normal form of payment as a Life Annuity for General Employee active members, as directed by the Board of Trustees.



August 31, 2018

Ms. Kimberly Groome  
Coral Gables Retirement System  
147 Alhambra Circle, Suite 215  
Coral Gables, FL 33134

**Re: City of Coral Gables Retirement System  
Actuarial Impact Statement – Proposed Ordinance**

Dear Kimberly:

We have prepared this Actuarial Impact Statement for the City of Coral Gables Retirement System ("Plan") to measure the first-year financial impact of the proposed Ordinance which would amend Section 46-253(c)(6) of the Code of the City of Coral Gables to allow the four former City employees who opted-out of the Class to be treated in the same manner as Class Members, and to provide them the same retroactive and permanent COLA and alternative dispute resolution mechanism as was provided to Class Members.

#### Summary of Findings

- **The required City contribution for the fiscal year ending September 30, 2019 (payable October 1, 2018) increases by \$10,707, from \$25,083,655 to \$25,094,362.**
- As a percentage of covered payroll, the required City contribution for the fiscal year ending September 30, 2019 increases by 0.03% of covered payroll, from 60.71% to 60.74%.
- **The unfunded actuarial accrued liability as of October 1, 2017 increases by \$78,581, from \$226,839,817 to \$226,918,398,** reflecting both the present value as of October 1, 2017 of the total retroactive cost-of-living adjustment (COLA) lump sum payments scheduled to be made mid-September 2018 (which total \$33,461) and of the increased monthly benefits payable thereafter (assuming no future COLAs are paid).

We note that if the proposed Ordinance for the four former City employees who opted-out of the Class is approved, then the COLA determination provisions of Section 46-253(c)(6), which provides for future COLAs to be granted to Class Members (and "Gap Members") if the rate of return on the market value of assets during a fiscal year exceeds 10%, would be extended to these four former employees of the City. The City Commission can prevent a future COLA from being granted (or reduce it) by a 4/5 supermajority vote. We recommend incorporating an assumption into the actuarial valuation for future COLAs. However, the likelihood that the City Commission will prevent or reduce future COLAs is currently unknown, so if a future COLA assumption is not adopted, we recommend monitoring the actual experience of future COLA decisions made by the City Commission over a period of 3 to 5 years, and then taking action with regard to a future COLA assumption based on this experience.



2.43 **“Unfunded Actuarial Accrued Liability”** shall mean the difference between Actuarial Accrued Liability and Actuarial Value of Assets.

2.44 **“2013 Relief”** shall mean, as set forth in ¶ 8.1, (1) a lump-sum payment equal to the product of (x) the recipient’s monthly retirement benefit as of January 1, 2013; by (y) 2.975% and; by (z) the number of months that the Class Member received monthly retirement benefits from January 1, 2013 until the Lump-Sum Payment Date or the date on which the Class Member’s monthly retirement benefits terminated (whichever is sooner); and (2) **a permanent COLA of 2.975%** to his or her monthly retirement benefit beginning on the Lump-Sum Payment Date and ending when the Class Member’s monthly retirement benefits terminate.

2.45 **“2014 Relief”** shall mean, as set forth in ¶ 8.1, (1) a lump-sum payment equal to the product of (x) the recipient’s monthly retirement benefit as of January 1, 2014; by (y) 0.25%; and by (z) the number of months that the Class Member received monthly retirement benefits from January 1, 2014 until the Lump-Sum Payment Date or the date on which the Class Member’s monthly retirement benefits terminated (whichever is sooner); and (2) **a permanent COLA of 0.25%** to his or her monthly retirement benefit beginning on the Lump-Sum Payment Date and ending when the Class Member’s monthly retirement benefits terminate.

### 3. **CLASS CERTIFICATION**

3.1 In the Class Certification Order, dated February 26, 2016, the Court defined the class as: “All those persons who are in receipt of benefits from the Coral Gables Retirement System for a period of at least one year prior to January 1, 2013, or their

The annual experience (gains)/losses in previous years have been as follows:

<b>Year Ending</b>	<b>Experience (Gain)/Loss</b>
12/31/1987	1,553,614
12/31/1988	(1,274,382)
12/31/1989	(2,127,490)
12/31/1990	4,224,229
12/31/1991	(6,086,043)
12/31/1992	2,997,588
12/31/1993	1,619,324
12/31/1994	6,035,838
12/31/1995	(12,826,310)
12/31/1996	942,133
12/31/1997	(14,413,961)
12/31/1998	(9,828,307)
12/31/1999	1,889,769
12/31/2000	26,457,751
12/31/2001	13,298,945
12/31/2002	46,662,623
12/31/2003	23,736,342
12/31/2004	20,236,223
9/30/2005	15,261,034
9/30/2006	7,371,714
9/30/2007	(19,235,295)
9/30/2008	27,415,318
9/30/2009	27,577,164
9/30/2010	15,074,929
<b>9/30/2011</b>	<b>20,969,312</b>
<b>9/30/2012</b>	<b>22,681,760</b>
<b>9/30/2013</b>	<b>1,608,800</b>
<b>9/30/2014</b>	<b>(1,436,491)</b>
<b>9/30/2015</b>	<b>(3,038,952)</b>
<b>9/30/2016</b>	<b>(4,713,880)</b>
<b>9/30/2017</b>	<b>(8,574,453)</b>

**Attachment A.1:  
City of Coral Gables Retirement System  
History of Cost of Living Adjustments (COLA) for Class Members (Pre-1/2/2013 Retirees/Beneficiaries)**

COLA Effective Date	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 COLA Granted	50% of Change in CPI-W since Last COLA Granted	Formula-Based COLA	Actual COLA Granted
1/1/1995	9/30/1994	5.7%	142.600	146.900	3.0%	1.50%	5.6%	2.80%	0.00%	0.00%
1/1/1996	9/30/1995	18.3%	146.900	150.600	2.5%	1.25%	8.2%	4.10%	4.10%	4.10%
1/1/1997	9/30/1996	13.8%	150.600	155.100	3.0%	1.50%	3.0%	1.50%	1.50%	1.50%
1/1/1998	9/30/1997	23.6%	155.100	158.300	2.1%	1.05%	2.1%	1.05%	1.05%	1.05%
1/1/1999	9/30/1998	8.7%	158.300	160.200	1.2%	0.60%	1.2%	0.60%	0.00%	0.00%
1/1/2000	9/30/1999	11.9%	160.200	164.700	2.8%	1.40%	4.0%	2.00%	2.00%	2.00%
1/1/2001	9/30/2000	7.9%	164.700	170.400	3.5%	1.75%	3.5%	1.75%	0.00%	0.00%
1/1/2002	9/30/2001	-7.1%	170.400	174.800	2.6%	1.30%	6.1%	3.05%	0.00%	0.00%
1/1/2003	9/30/2002	-13.1%	174.800	177.000	1.3%	0.65%	7.5%	3.75%	0.00%	0.00%
1/1/2004	9/30/2003	19.0%	177.000	181.000	2.3%	1.15%	9.9%	4.95%	4.95%	4.95%
1/1/2005	9/30/2004	10.8%	181.000	185.400	2.4%	1.20%	2.4%	1.20%	1.20%	1.20%
1/1/2006	9/30/2005	11.4%	185.400	195.000	5.2%	2.60%	5.2%	2.60%	2.60%	2.60%
1/1/2007	9/30/2006	8.0%	195.000	198.400	1.7%	0.85%	1.7%	0.85%	0.00%	0.00%
1/1/2008	9/30/2007	12.9%	198.400	203.889	2.8%	1.40%	4.6%	2.30%	2.30%	2.30%
1/1/2009	9/30/2008	-15.5%	203.889	214.935	5.4%	2.70%	5.4%	2.70%	0.00%	0.00%
1/1/2010	9/30/2009	-1.4%	214.935	211.322	-1.7%	-0.85%	3.6%	1.80%	0.00%	0.00%
1/1/2011	9/30/2010	9.1%	211.322	214.306	1.4%	0.70%	5.1%	2.55%	0.00%	0.00%
1/1/2012	9/30/2011	3.7%	214.306	223.688	4.4%	2.20%	9.7%	4.85%	0.00%	0.00%
1/1/2013	9/30/2012	16.7%	223.688	228.184	2.0%	1.00%	11.9%	5.95%	5.95%	2.975% *
1/1/2014	9/30/2013	16.1%	228.184	230.537	1.0%	0.50%	1.0%	0.50%	0.50%	0.25% *
1/1/2015	9/30/2014	9.9%	230.537	234.170	1.6%	0.80%	1.6%	0.80%	0.00%	0.00%
1/1/2016	9/30/2015	2.0%	234.170	232.661	-0.6%	-0.30%	0.9%	0.45%	0.00%	0.00%
1/1/2017	9/30/2016	8.4%	232.661	235.495	1.2%	0.60%	2.2%	1.10%	0.00%	0.00%
1/1/2018	9/30/2017	14.5%	235.495	240.939	2.3%	1.15%	4.5%	2.25%	2.25%	TBD

\* Pending final settlement