

- D R A F T -

March 18, 2008

(Via e-mail)

Retirement Board
City of Coral Gables Retirement System
Police and Firefighters' Retirement System
405 Biltmore Way
Coral Gables, Florida 33134

Attention: Kimberly V. Groome
Retirement System Administrator

Actuarial Impact Statement:
Ordinance Scheduled for
Second Reading on March 25, 2008

Dear Kimberly:

The purpose of this letter is to respond to your February 20 e-mail, which included a copy of this ordinance and requested that an Actuarial Impact Statement be prepared, and to Don Nelson's telephone call last Thursday. This draft is intended for review by you and appropriate City management, prior to our providing the final Actuarial Impact Statement.

My understanding is that the ordinance:

- (1) Extends the maximum period for participation in DROP from 5 years to 8 years for members of the fire department who are not members of IAFF Local 1210;
- (2) Extends the provision to include a maximum of 600 hours of overtime in annual "total earnings" for purposes of "highest three-year average earnings" to police participants who are not members of FOP Lodge No. 7;
- (3) Extends the provision for no member contributions to members of the police department who are not members of FOP Lodge No. 7, effective prospectively from March 25, 2008; and
- (4) Extends DROP eligibility to the earlier of Rule of 70 or 25 years of service to members of the Fire Department who are not members of IAFF Local 121.

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An actuarial impact is created when benefits are changed, leading to a measurable cost difference, with no changes in actuarial assumptions. An actuarial impact is also created when a change in ordinance provisions leads to a change in actuarial assumptions and an impact on funding requirements. An actuarial impact is not created when a change is made which is not covered by the actuarial assumptions, and for which a change in assumptions is not dictated.

With respect to item (1), the DROP provision is intended to be cost neutral, and our actuarial cost calculations for determining funding requirements are based on assumed retirement dates (or DROP entry dates). Therefore, the maximum DROP period has no measurable direct impact on the funding of the Retirement System.

With respect to item (2), projected compensation and funding are based on the application of the salary increase assumptions to the most recently reported compensation, with no distinction between types of compensation. Our understanding is that the affected group are salaried employees, who are not paid overtime or other special compensation. Therefore, there would be no impact on System costs due to this change.

With respect to item (3), our understanding is that members of the police department who are not members of FOP lodge No. 7 have been contributing 5% of compensation to the Retirement System since 2004. However, our actuarial cost calculations have not anticipated member contributions by any police members. Therefore, the prospective elimination of unanticipated member contributions can be expected to eliminate this source of experience gains. Based on a current payroll level for the 4 members who are not in DROP of approximately \$400,000, the magnitude of the reduction in potential annual experience gains is \$20,000. If the additional 4 members who are in DROP were not in DROP, the \$20,000 amount would be approximately \$42,000, including the 4 members who are not in DROP.

With respect to item (4), the retirement assumptions were refined as a part of the October 1, 2006 Actuarial Valuation, to include retirement decrements for firefighters of 30%/year between 70 and 74 points and 100% at 75 points or later. If this ordinance change results in any acceleration of DROP entry, a future additional refinement may be desirable. However, the magnitude of any such adjustment will be known only after sufficient experience has emerged. Therefore, in our judgment there is no immediate or quantifiable actuarial impact due to this change.

In our opinion these changes are in compliance with Section 14, Article X of the State Constitution and with Section 112.64, Florida Statutes.

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The final Actuarial Impact Statement should be provided to the City and submitted to the Division of Retirement prior to the final public hearing.

Respectfully submitted,

Stanley, Holcombe & Associates, Inc.

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Consulting Actuary and Principal

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Vice President and Consulting Actuary

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Cc: Alan Greenfield, Esq. (via e-mail)
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