

June 8, 2016

VIA EMAIL

Board of Trustees  
City of Ocala  
Pension Office  
2100 NE 30 Avenue Building E  
Ocala, FL 34470

Re: City of Ocala  
General Employees' Retirement System  
Corridor Test for Target Total Employer Contribution Percentage  
October 1, 2015 Valuation

Dear Board:

As requested, we have performed a special actuarial analysis for the purpose of determining if any adjustments to the Variable Benefit Multiplier are required pursuant to the provisions of Ordinance 2013-48. The study has been updated based on results of the October 1, 2015 actuarial valuation.

While Ordinance 2013-48 refers to the preliminary Defined Benefit Contribution Percentage for the year, the Board approved a funding methodology change from percentage of payroll to fixed dollar in conjunction with the October 1, 2015 valuation. Accordingly, the preliminary Defined Benefit Contribution Percentage for the fiscal year ending September 30, 2017 is simply the ratio of the fixed dollar amount divided by the Projected Defined Benefit Valuation Salary.

The City's required contribution for the year ending September 30, 2017, based on results of the October 1, 2015 actuarial valuation, is \$15,394,950. Based on the language in Ordinance 2013-48, we are required to compute the Total Employer Contribution Percentage. In order to do this, we completed a one-year open group projection based on a stable workforce. The results of this analysis are as follows:

Projected Defined Benefit Valuation Salary	\$13,849,195
Projected Defined Contribution Valuation Salary	<u>\$16,029,464</u>
Total Salary	\$29,878,659
Projected City Defined Benefit Contribution	\$15,394,950 (fixed dollar amount)
Projected City Defined Contribution	<u>\$16,029,464 * 8.00% = 1,282,357</u>
Total Projected City Contribution	\$16,677,307
Total Employer Contribution Percentage	55.8%

Ordinance 2013-48 provides that for the Contribution Year ending September 30, 2017, the Target Total Employer Contribution Percentage is between 38% and 53%. Since 55.8% falls outside the corridor, the first benefit adjusted is the Variable Benefit Multiplier for service earned on and after October 1, 2013. Next, the Member Contribution Rate is increased (if approved by City Council) up to 5% of payroll.

Lowering the Variable Benefit Rate to 1.0% retroactively to October 1, 2013 and increasing the Member Contribution Rate to 5.0% reduces the City's required contribution for the fiscal year ending September 30, 2017 to \$14,802,319.

Projected Defined Benefit Valuation Salary	\$13,849,195
Projected Defined Contribution Valuation Salary	<u>\$16,029,464</u>
Total Salary	\$29,878,660
Projected City Defined Benefit Contribution	\$14,802,319 (fixed dollar amount)
Projected City Defined Contribution	<u>\$16,029,464 * 8.00% = 1,282,357</u>
Total Projected City Contribution	\$16,084,676
Total Employer Contribution Percentage	53.8%

Thus, a reduction in the Variable Benefit Multiplier to 1.0% is required. Based on Ordinance 2013-48 the Variable Benefit Multiplier should be adjusted beginning October 1, 2016 for all service retroactively to October 1, 2013. This means that any Retirees receiving a benefit under the Variable Benefit Design (that did not elect the fixed multiplier option) should have their monthly benefits adjusted effective with the October 1, 2016 payment. This new multiplier will be in effect until September 30, 2017 at which point another analysis will need to be completed to determine if an adjustment to the multiplier is required.

It is our understanding that either a Final October 1, 2015 Actuarial Valuation Report or an Actuarial Impact Statement may be required in order to satisfy the State requirements to lower the City's required contribution based on the reduction in the Variable Benefit Multiplier.

Please note that changes to the multiplier and Member Contribution rates were computed based on the Assumptions and Methods used in the October 1, 2015 actuarial valuation report and the mandated amortization period of 10 years as outlined in Ordinance 2013-48. The Salary projection was based on the census data provided as of October 1, 2015 from the City for both the Defined Contribution and Defined Benefit Members. New hires were assumed to have the same profile as those Members hired during the Fiscal 2015 year.

As you can see, the City's required contribution still exceeds the 53% maximum corridor. Since these are the maximum adjustments, however, the \$14,802,319 will be the City's required contribution for the fiscal year ending September 30, 2017. As a reminder, this \$14,802,319 city contribution requirement assumes an increase in the Member Contribution rate from 3% to the maximum 5% for Members not grandfathered as defined in Ordinance 2013-48.

Results of the above analysis will remain in effect until October 1, 2017 at which point another analysis (based on the results of the October 1, 2016 actuarial valuation report) will need to be completed to determine if an adjustment to the multiplier and Member Contribution Rate is allowable.

Board of Trustees  
June 8, 2016  
Page 3

The undersigned is familiar with the immediate and long-term aspects of pension valuations, and meets the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinions contained herein. All of the sections of the October 1, 2015 valuation report are considered an integral part of the actuarial opinions.

If you have any questions, please let me know.

Sincerely,

A handwritten signature in cursive script, appearing to read "Douglas H. Lozen".

Douglas H. Lozen, EA, MAAA  
DHL/lke