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January 14, 2009

Board of Trustees
c/o Ms. Ellen Leonard, Chairperson
City of Palmetto Retirement Plan
516 8th Avenue West
Palmetto, FL 34220

**Re: City of Palmetto Retirement Plan**

Dear Board of Trustees:

As you are aware, the global equity markets have contracted significantly from the levels attained in late 2007. This period of poor returns will have serious implications for the annual required contributions necessary to keep the City's retirement plan actuarially sound. Most funds lost between 10% and 20% in the fiscal year ending September 30, 2008, and we estimate that there have been additional losses of 15% to 25% so far since October 1, 2008.

In 2001 and 2002 most funds had two consecutive years of poor returns. For plans that smooth their asset gains and losses over a four or five year period the cost increased for many years as the poor returns were fully recognized. The returns for the fiscal years ending in 2008 and 2009 will most likely be worse and will cause the cost to increase more than it did due to the 2001 and 2002 asset losses. We have done projections for some cities that show the estimated 2008 and 2009 returns will cause the annual cost to increase significantly.

For many plans, our annual valuation report determines the required contribution for the following fiscal year. This is done to aid in the City's budgeting process. It is important to understand that there is a lag from the time asset losses occur to when they actually impact the cost of the plan. For example, the asset losses in the 2007/2008 fiscal year will not impact the cost until the 2009/2010 fiscal year, and the asset losses in the 2008/2009 fiscal year will not impact the cost until the 2010/2011 fiscal year. In other words, the contribution that is being paid in the current fiscal year does not reflect any of the asset losses since October 1, 2007.

It is our goal to help the Board in any way possible during these difficult times. As long as the required contributions are made each year the plan will continue to remain actuarially sound. However, these contributions may increase significantly over the next few years and may become extremely expensive for the City during an already financially challenging time. Some cities may be tempted to freeze or terminate the defined benefit pension plan due to the increased costs. We would like to work with the Board now to help develop a plan rather than wait until the costs have already increased which could force impulsive decisions to be made.

As a first step we would recommend that the Board authorize us to perform a five year projection which will show the impact the poor asset returns will have on the required contributions. Our fee for this would be between $1,500 and $3,000. We would then like the opportunity to meet with the Board and the City to discuss ways to maintain the actuarial soundness of the defined benefit pension plan.

Please contact us if we can provide any additional information.

Sincerely,

Steve Palmquist

J. Stephen Palmquist, ASA, MAAA
Senior Consultant & Actuary

Jeff Amrose

Jeff Amrose, MAAA
Consultant

cc: Diane Ponder