

TAB 3



August 2, 2010

CONFIDENTIAL

Ms. Diane Ponder
Deputy City Clerk
City of Palmetto
516 8th Avenue West
Palmetto, Florida 34221

Re: Palmetto Police Officers' Retirement Plan

Dear Diane:

As requested by the Board of Trustees, we are enclosing a Supplemental Actuarial Valuation Report illustrating the impact of changes in certain actuarial assumptions for the City of Palmetto Police Officers' Retirement Plan. The results are based on census and asset data as of October 1, 2009.

In an actuarial valuation it is necessary to evaluate key economic and demographic assumptions occasionally to keep the assumptions in line with the true experience of the Plan. These assumptions include future investment returns and the life expectancy of the members of the Plan. We recommend lowering the investment return assumption to more accurately reflect Plan costs and liabilities. We also recommend updating the Plan's assumed rates of mortality to RP 2000 Generational Mortality to reflect increased longevity.

The following scenarios were developed to illustrate the effect of the assumption changes:

- Scenario 1 – Same assumption set as the October 1, 2009 Valuation.
- Scenario 2 – Same as Scenario 1 but lower the assumed investment rate of return from 8.0% per year net of investment expenses to 7.75%.
- Scenario 3 – Same as Scenario 1 but lower the assumed investment rate of return from 8.0% per year net of investment expenses to 7.5%.
- Scenario 4 – Same as Scenario 1 but update the assumed mortality rates from the 1983 Group Annuity Mortality table to RP 2000 Generational Mortality table (Please see the enclosed table comparing life expectancies for various ages).
- Scenario 5 – Combination of changes described in Scenarios 2 and 4.
- Scenario 6 – Combination of changes described in Scenarios 3 and 4.

Quite a few retirement systems are making changes like these, but not all at once. For example, some systems are grading in the cost differences over five years so that there is not a large cost increase. This approach could be used for your System as well.

Regarding the assumed rate of investment return, we recommend that you obtain an opinion from the Plan's Investment Consultant. We believe that 7.5% or less is appropriate, but the Investment Consultant's input is necessary on this issue.

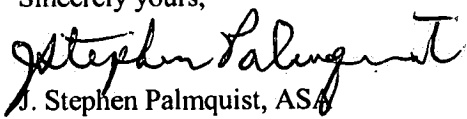
The calculations are based upon assumptions regarding future events, which may or may not materialize. They are also based upon present plan provisions. If you have reason to believe that the assumptions that were used are unreasonable, that the plan provisions are incorrectly described, that important plan provisions relevant to this proposal are not described, or that conditions have changed since the calculations were made, you should contact the author of this report prior to relying on information in the report.

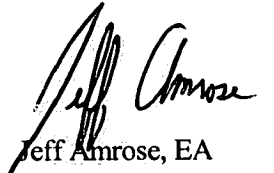
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If you have reason to believe that the information provided in this report is inaccurate, or is in any way incomplete, or if you need further information in order to make an informed decision on the subject matter of this report, please contact the author of the report prior to making such decision.

We welcome your questions and comments.

Sincerely yours,


J. Stephen Palmquist, ASA
Senior Consultant & Actuary


Jeff Amrose, EA
Consultant & Actuary

JSP/rb

Enclosure

SUPPLEMENTAL ACTUARIAL VALUATION REPORT

Plan

City of Palmetto Police Officers' Retirement Plan

Valuation Date

October 1, 2009

Date of Report

August 2, 2010

Report Requested by

Board of Trustees

Prepared by

J. Stephen Palmquist

Group Valued

All active and inactive Police Officers

Plan Assumptions and Methods Being Considered for Change

- Lower the assumed investment rate of return from 8.0% per year net of investment expenses to 7.75% per year net of investment expenses (Scenario 2).
- Lower the assumed investment rate of return from 8.0% per year net of investment expenses to 7.50% per year net of investment expenses (Scenario 3).
- Change in assumed mortality rates from the 1983 Group Annuity Mortality table to the RP 2000 Generational Mortality table (Scenario 4).
- Combination of the changes made in Scenarios 2 and 4.
- Combination of the changes made in Scenarios 3 and 4.

Actuarial Assumptions and Methods

Same as October 1, 2009 Actuarial Valuation Report with exceptions as noted above.

Some of the key assumptions/methods are:

Investment Return – 8.0%

Salary increase – 4.0% to 9.4% per year depending on service

Cost Method – Entry Age Normal

Amortization Period for Any Change in Actuarial Accrued Liability

30 years

Summary of Data Used in Report

See attached page.

Actuarial Impact of Proposal(s)

See attached page(s).


Special Risks Involved with the Proposal That the Plan Has Not Been Exposed to Previously

None


Possible Conflicts with IRS Qualification Rules

None

As indicated below, the undersigned are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.



J. Stephen Palmquist, ASA, MAAA, FCA
Enrolled Actuary No. 08-1560



Jeff Amrose, MAAA
Enrolled Actuary No. 08-06599

**Comparison of Life Expectancies under
Old Mortality Table and New Mortality Table**

Old Mortality Table - 1983 Group Annuity Mortality Table

Sample Ages	Life Expectancy	
	Male	Female
50	29.18	34.92
55	24.82	30.24
60	20.64	25.67
65	16.69	21.29
70	13.18	17.13

New Mortality Table - RP-2000 Generational Mortality Table

Sample Ages	Life Expectancy							
	2007		2012		2017		2022	
	Male	Female	Male	Female	Male	Female	Male	Female
50	33.58	35.23	34.04	35.48	34.49	35.73	34.92	35.98
55	28.47	30.28	28.92	30.52	29.36	30.76	29.78	31.00
60	23.58	25.52	24.00	25.75	24.42	25.98	24.82	26.21
65	19.02	21.05	19.41	21.27	19.79	21.49	20.16	21.71
70	14.90	16.95	15.24	17.16	15.57	17.36	15.89	17.57

ANNUAL REQUIRED CONTRIBUTION (ARC)

	October 1, 2009 Valuation	October 1, 2009 Valuation With 7.75% Interest	October 1, 2009 Valuation With 7.5% Interest	October 1, 2009 Valuation With Generational Mortality	October 1, 2009 Valuation With Generational Mortality and 7.75% Interest	October 1, 2009 Valuation With Generational Mortality and 7.5% Interest
A. Valuation Date	9/30/2011	9/30/2011	9/30/2011	9/30/2011	9/30/2011	9/30/2011
B. ARC to Be Paid During Fiscal Year Ending	Continuously	Continuously	Continuously	Continuously	Continuously	Continuously
C. Assumed Date of Employer Contrib.						
D. Annual Payment to Amortize Unfunded Actuarial Liability	\$ 104,385	\$ 122,642	\$ 140,893	\$ 131,964	\$ 151,243	\$ 170,551
E. Employer Normal Cost	308,969	326,108	344,238	331,766	350,841	371,093
F. ARC if Paid on the Valuation Date: D+E	413,354	448,750	485,131	463,730	502,084	541,644
G. ARC Adjusted for Frequency of Payments	429,252	465,490	502,666	481,566	520,814	561,221
H. ARC as % of Covered Payroll	24.67 %	26.75 %	28.89 %	27.68 %	29.93 %	32.25 %
I. Assumed Rate of Increase in Covered Payroll to Contribution Year	4.00 %	4.00 %	4.00 %	4.00 %	4.00 %	4.00 %
J. Covered Payroll for Contribution Year	1,809,615	1,809,615	1,809,615	1,809,615	1,809,615	1,809,615
K. ARC for Contribution Year: H x J	446,432	484,072	522,798	500,901	541,618	583,601
L. Estimate of State Revenue in Contribution Year	101,867	101,867	101,867	101,867	101,867	101,867
M. Required Employer Contribution in Contribution Year	344,565	382,205	420,931	399,034	439,751	481,734
N. REC as % of Covered Payroll in Contribution Year: M ÷ J	19.04 %	21.12 %	23.26 %	22.05 %	24.30 %	26.62 %
O. Cost Increase	NA	37,640	76,366	54,469	95,186	137,169
As % of Covered Payroll	NA	2.08 %	4.22 %	3.01 %	5.26 %	7.58 %

ACTUARIAL VALUE OF BENEFITS AND ASSETS

A. Valuation Date	October 1, 2009 Valuation	October 1, 2009 Valuation With 7.75% Interest	October 1, 2009 Valuation With 7.5% Interest	October 1, 2009 Valuation With Generational Mortality	October 1, 2009 Valuation With Generational Mortality and 7.75% Interest	October 1, 2009 Valuation With Generational Mortality and 7.5% Interest
B. Actuarial Present Value of All Projected Benefits for						
1. Active Members						
a. Service Retirement Benefits	\$ 6,500,243	\$ 6,802,600	\$ 7,123,963	\$ 6,931,287	\$ 7,267,196	\$ 7,625,217
b. Vesting Benefits	255,287	273,112	292,388	277,207	297,265	319,029
c. Disability Benefits	475,097	493,453	512,823	504,169	524,601	546,223
d. Preretirement Death Benefits	126,384	132,047	138,068	63,937	66,768	69,779
e. Return of Member Contributions	39,054	39,275	39,497	38,272	38,489	38,706
f. Total	<u>7,396,065</u>	<u>7,740,487</u>	<u>8,106,739</u>	<u>7,814,872</u>	<u>8,194,319</u>	<u>8,598,954</u>
2. Inactive Members						
a. Service Retirees & Beneficiaries	4,790,199	4,894,979	5,004,053	4,894,140	5,004,148	5,118,786
b. Disability Retirees	232,014	236,012	240,137	244,061	248,468	253,021
c. Terminated Vested Members	465,889	481,602	498,075	489,207	506,417	524,503
d. Total	<u>5,488,102</u>	<u>5,612,593</u>	<u>5,742,265</u>	<u>5,627,408</u>	<u>5,759,033</u>	<u>5,896,310</u>
3. Total for All Members	12,884,167	13,353,080	13,849,004	13,442,280	13,953,352	14,495,264
C. Actuarial Accrued (Past Service) Liability per GASB No. 25	9,569,617	9,825,879	10,093,201	9,904,931	10,181,164	10,469,749
D. Actuarial Value of Accumulated Plan Benefits per FASB No. 35	N/A	N/A	N/A	N/A	N/A	N/A
E. Plan Assets						
1. Market Value	6,786,334	6,786,334	6,786,334	6,786,334	6,786,334	6,786,334
2. Actuarial Value	8,159,830	8,159,830	8,159,830	8,159,830	8,159,830	8,159,830
F. Unfunded Actuarial Accrued Liability:	1,409,787	1,666,049	1,933,371	1,745,101	2,021,334	2,309,919
G. Actuarial Present Value of Projected Covered Payroll	16,373,542	16,610,532	16,853,880	16,442,390	16,680,972	16,925,964
H. Actuarial Present Value of Projected Member Contributions	818,677	830,527	842,694	822,120	834,049	846,298
I. Funded Ratio: E2/C	85.27 %	83.04 %	80.84 %	82.38 %	80.15 %	77.94 %

CALCULATION OF EMPLOYER NORMAL COST

A. Valuation Date	October 1, 2009 Valuation	October 1, 2009 Valuation With 7.75% Interest	October 1, 2009 Valuation With 7.5% Interest	October 1, 2009 Valuation With Generational Mortality	October 1, 2009 Valuation With Generational Mortality and 7.75% Interest	October 1, 2009 Valuation With Generational Mortality and 7.5% Interest
B. Normal Cost for						
1. Service Retirement Benefits	\$ 289,067	\$ 303,758	\$ 319,294	\$ 311,856	\$ 328,350	\$ 345,862
2. Vesting Benefits	16,025	17,091	18,240	17,570	18,793	20,108
3. Disability Benefits	37,910	39,033	40,204	40,087	41,356	42,687
4. Preretirement Death Benefits	6,689	6,995	7,315	3,093	3,232	3,375
5. Return of Member Contributions	5,840	5,793	5,747	5,722	5,672	5,623
6. Total for Future Benefits	<u>355,531</u>	<u>372,670</u>	<u>390,800</u>	<u>378,328</u>	<u>397,403</u>	<u>417,655</u>
7. Assumed Amount for Administrative Expenses	40,439	40,439	40,439	40,439	40,439	40,439
8. Total Normal Cost	<u>395,970</u>	<u>413,109</u>	<u>431,239</u>	<u>418,767</u>	<u>437,842</u>	<u>458,094</u>
As % of Covered Payroll	22.76 %	23.74 %	24.78 %	24.07 %	25.16 %	26.33 %
C. Expected Member Contribution	87,001	87,001	87,001	87,001	87,001	87,001
As % of Covered Payroll	5.00 %	5.00 %	5.00 %	5.00 %	5.00 %	5.00 %
D. Net Employer Normal Cost: B8-C	308,969	326,108	344,238	331,766	350,841	371,093
As % of Covered Payroll	17.76 %	18.74 %	19.78 %	19.07 %	20.16 %	21.33 %

PARTICIPANT DATA		
	October 1, 2009 <i>Valuation</i>	October 1, 2009 <i>After Changes</i>
ACTIVE MEMBERS		
Number	34	34
Covered Annual Payroll	\$ 1,740,014	\$ 1,740,014
Average Annual Payroll	\$ 51,177	\$ 51,177
Average Age	38.5	38.5
Average Past Service	8.6	8.6
Average Age at Hire	29.9	29.9
RETIREES, BENEFICIARIES & DROP		
Number	19	19
Annual Benefits	\$ 438,327	\$ 438,327
Average Annual Benefit	\$ 23,070	\$ 23,070
Average Age	62.9	62.9
DISABILITY RETIREES		
Number	2	2
Annual Benefits	\$ 25,376	\$ 25,376
Average Annual Benefit	\$ 12,688	\$ 12,688
Average Age	63.8	63.8
TERMINATED VESTED MEMBERS		
Number	4	4
Annual Benefits	\$ 64,141	\$ 64,141
Average Annual Benefit	\$ 16,035	\$ 16,035
Average Age	47.0	47.0