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Benefits, Actuarial, Investment & Compensation Consulting

CITY OF TAKOMA PARK

Police Employees' Retirement Plan

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BACKGROUND



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BACKGROUND

- Police employees were originally in State of Maryland plan (pool) and provided same benefits as all other employees
- In 2001, the Town decided to give Police employees a separate plan with earlier retirement ages, higher benefits, and higher employee contributions
- The Town decided not to join State's LEOPS plan
- Nine years ago, we lowered the investment return assumption from 8.0% to 7.5%. In 2017, the return assumption was lowered to 7.25%. We could lower further.

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BACKGROUND

- **Current Provisions**
 - Can retire after 25 years with 50% of pay
 - Can retire early with reduced benefits at age 55 if have 15 years, but not 25
 - Retirees get COLAs capped at 3%/year in aggregate (7% CPI change in 2022)
 - Disability benefits provided, which depend on hire date and disability severity/type
 - Employees contribute 7% of pay
 - DROP feature available (effective march 1, 2021)

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2022 VALUATION RESULTS





Valuation Results

- **Valuation Results**
 - July 1, 2022, valuation for FY24 contributions
 - Funded ratio declined
- **Contribution expressed as a percentage of payroll:**
 - Contribution rate: 47.27% of covered payroll
- **Contribution Expressed As Dollar Amount:**
 - \$1,483,212
- **Primary Drivers:**
 - Investment returns (-14.5% return versus 7.25% assumed)
 - COLA higher than assumed
 - Lower headcount and total payroll (higher average pay)

Actuarial Costs

		7/1/2021		7/1/2022
Valuation Discount Rate		7.25%		7.25%
Number of Participants				
Active Participants (not in DROP)		42		38
Active Participants (in DROP)		0		1
Retired Participants		27		29
Vested Terminated Participants		6		6
Refund of Contributions Due		8		10
Total		83		84
Active Payroll	\$	3,368,703	\$	3,137,727
Actuarial Accrued Liability				
Active Participants (not in DROP)	\$	10,667,851	\$	9,215,732
Active Participants (in DROP)		0		1,227,592
Retired Participants and Beneficiaries		8,592,562		10,073,238
Disabled Participants		6,738,653		7,777,396
Vested Terminated Participants		961,609		1,155,898
Refund of Contributions Due		97,746		121,003
Total	\$	27,058,421	\$	29,570,859
Actuarial Value of Assets		21,534,416		23,094,143
Unfunded Actuarial Liability	\$	5,524,275	\$	6,476,716
Amortization of Unfunded Liability		551,361		656,537
Amortization of Unfunded as a Percentage of Payroll		16.37%		20.92%
Employer Normal Cost		780,576		826,675
Employer Normal Cost as a Percentage of Payroll		23.17%		26.35%
Total Employer Contribution	\$	1,331,937	\$	1,483,212
Total Employer Contribution as a Percentage of Payroll		39.54%		47.27%



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GASB RESULTS FOR FY22





GASB 68

- **GASB 68 Applied For The First Time In FY2015**
 - GASB 68 defines pension expense (which is not the same as the cash contribution)
 - GASB 68 defines the balance sheet liability

GASB 68 Information as of 6/30/2022

- Provided to City 8/12/2022
- Based on GASB 7.25% “net” Discount Rate
- Key Results:

Total Pension Liability		\$ 27,873,945
Plan Fiduciary Net Position		(20,843,961)
City's Net Pension Liability		\$ 7,029,984
Plan Fiduciary Net Position As A Percentage of the Total Pension Liability		74.78%

- For FY21 the GASB 68 Expense was \$(123,777)
- For FY22 the GASB 68 Expense is \$556,478



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CHANGES IN THE PENSION WORLD

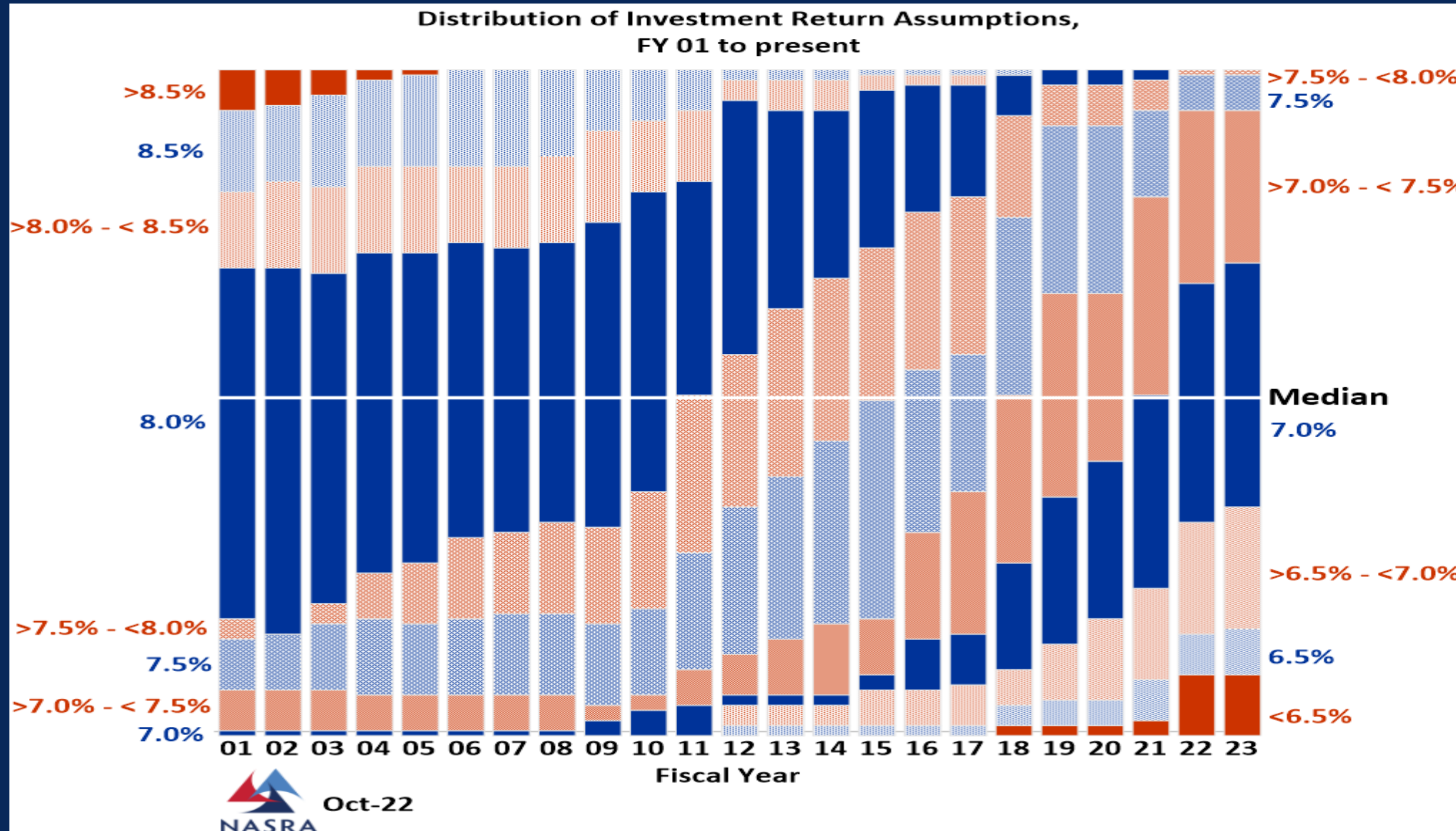
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Changes in the Pension World

- **Current Assumptions Do Not Reflect Long-Term Impact Of COVID-19**
- **Retention Challenges**
- **Inflation Challenges**
- **More Focus On Disclosure Of Risk**
- **Non-Maryland Plans With Serious Problems**
- **Benefit Design Changes/Litigation**
- **Review Assumptions In Light Of Experience**

Change in Distribution of Public Pension Investment Return Assumptions



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ASSUMPTIONS AND METHODS

- In preparing this presentation, we relied without audit, on information supplied by the City of Takoma Park Government.
- The actuarial assumptions, data and methods (except where specified as being changed) are those used in the preparation of the latest actuarial valuation report prepared for this plan as of July 1, 2022, and the FY22 GASB report.
- The assumptions reflect our understanding of the likely future experience of the Plan and the assumptions as a whole represent our best estimate for the future experience of the Plan. The results of this report are dependent upon future experience conforming to these assumptions. To the extent that future experience deviates from the actuarial assumptions, the true cost of the plan could vary from our results.
- Because the long-term net impact of COVID-19 on mortality, salary increases, and changes in turnover and retirement behavior is not possible to estimate at this time, we have made no adjustments to any of the assumptions selected before the COVID-19 pandemic.



ASSUMPTIONS AND METHODS

- We certify that, to the best of our knowledge, this report and its contents, which are work products of Bolton Partners, Inc. are complete and accurate and have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this report. This report does not address any contractual or legal issues. We are not attorneys, and our firm does not provide any legal services or advice.
- Bolton Partners' report was prepared exclusively for the City of Takoma Park Government for a specific and limited purpose. It is not for the use or benefit of any third party for any purpose. The term third party does not include the Client's auditor, attorney, third party administrator or other professional, when providing professional services to the Client, or any governmental agency to which this certification is required to be submitted by law or regulation. Any third-party recipient of Bolton Partners' work product who desires professional guidance should not rely upon Bolton Partners' work product but should engage qualified professionals for advice appropriate to its own specific needs.

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