

Statement from the Board of Trustees of the City of Stark Police Officer's Retirement System

Recent changes in Florida law have required us to disclose the results of certain hypothetical calculations. These disclosures can be hard to understand and confusing. They can also give an inaccurate portrayal of the financial health of the System. The Board of Trustees is tasked by law to make sure that the System is actuarially sound, meaning that it can always pay benefits when they are due. The purpose of this Statement is to assure the reader that the System is in excellent financial shape. We know you hear stories about huge benefits being paid and certain Pension Plans not being able to meet their commitments. That is most assuredly not the case here.

The Board of Trustees employs numerous professionals to assist it. One such professional is an actuary, who helps the Board determine the funding needs of the System. The System assumes its investments will earn 8%, per year, which is a conservative assumption and less than the national average. The National Association of State Retirement Administrators points out that the median public pension annualized investment return for the 25 years ended December 31, 2013, was 9%.

The Board of Trustees also employs an investment professional. The Fund is invested in mutual funds, both foreign and domestic. The Fund is required by law to be diversified. It does not put its money in one place. It does not speculate. In diversifying its investments, we increase the chance that the System will do well despite changes in the market. The Board of Trustees has hired registered investment company to decide which mutual fund to invest in.

State law requires that we disclose the financial health of the System assuming we earn 2% lower than our assumed rate of return, or 5.5%. In the interest of presenting a balanced report, we have also reported as if we will earn 2% more than our assumed rate of return, or 9.5%. When we use either the 2% over rate of return or the 2% under rate of return, it gives a false picture of the financial status of the System. (Same as Starke Fire.)

Florida law also requires that the System performs an actuarial report, detailing the funding needs of the System, at least once every three years. This Board of Trustees receives an actuarial valuation every year, so that it can continually monitor the System's funding. Each year, the Board adopts a report that tells the Board of Trustees how much money needs to be contributed to the System by the Utility Board so that the System will always be able to pay benefits as and when they become due. The Utility Board always makes the required contribution, and makes it on time. This is very important to the financial health of a plan. As an example, you may hear or read about the difficulties of certain plans, like those of the State of New Jersey or Illinois. Those States do not make their required contributions and the Plans become underfunded. That is not the case here. State law requires that the sponsor of the System make all required contributions and the Utility Board has consistently demonstrated its willingness to protect your pensions, by making the required contributions.

Defined benefit pension benefits are paid monthly over a retiree's or beneficiary's lifetime. As a result, the Board of Trustees invest with a long term investment horizon. By law,

Florida governmental plans are permitted to amortize their liabilities over thirty years. While the *funded ratio* of many Florida governmental plans is currently less than 100%, it is anticipated the System will be 100% funded at the end of the 30-year amortization period. The System's current funded ratio on a market value of assets basis is 102.02%. This is excellent as there is more than enough money to pay all allocated benefits.

You may also see that the System is required to report a *fictitious* run-out date, or when it will run out of money. This date is in a sense, "fictitious," because this will not happen as long as the actuarially determined contributions are made. This fictitious run-out date is the date that the System will run out of money if there were no future Utility Board contributions. But Florida law requires the contributions be made, and everyone involved recognizes their solemn responsibility to keep the System funded. This fictitious run-out date is like saying that your new car will only run for 400 miles, because then it will run out of gas. The reality is that as long as you put gas in it, it will keep running. The same is true of a pension plan. As the Board of Trustees is required to make sure benefits are paid and the Utility Board is *required by law* to contribute to the System whatever amount is necessary for the System to be funded. The State of Florida mandates employer funding in two ways:

- The State Constitution: Article X, Section 14 states that governmental pension benefits are required to be funded on a sound actuarial basis; and,
- Florida Statutes: Chapter 112.64 requires that a plan sponsor's contributions to a retirement system be sufficient to meet the normal cost of the plan and to amortize the unfunded liability.

What this means is that the employer must contribute the amount that our fund actuary says is necessary in order to fund its normal costs and be able to continue to pay benefits. You may read about pensions being in jeopardy in other states, but we are here to assure you that cannot happen in Florida because Florida requires that pensions be funded.