GRS
Gabriel Roeder Smith & Company
Consultants & Actuaries
One East Broward Blvd.
Suite 505
Ft. Lauderdale, FL 33301-1804
954.527.1616 phone
954.525.0083 fax
www.gabrielroeder.com

December 13, 2016

Mr. Dave Williams, Administrator
Sunrise Police Officers Pension Board
13790 N. W. 4th Street, Suite 105
Sunrise, Florida 33325

Re: City of Sunrise Police Officers' Retirement System
Excess Benefit Plan Study

Dear Dave:

As requested, we have prepared the enclosed exhibits showing a 30-year projection of the estimated benefits in excess of the IRC Section 415 limits for active members and inactive members including those participating in the DROP in the City of Sunrise Police Officers' Retirement System as of October 1, 2015. This information will be useful in the City's consideration of whether to establish an Excess Benefit Plan under which the City would pay benefits that exceed the 415 limits.

The exhibits have been prepared under two different scenarios relating to the treatment of the Plan's COLA when determining the 415 limit:

- **Scenario 1: The 415 limit is reduced by the value of the Plan's COLA.** In preparing these calculations, we included the value of the automatic COLA under the Plan when testing the benefit against the 415 limit. This will create a lower 415 limit when an employee retires, and therefore, more benefits will shift from the Qualified Plan to the Excess Plan. Under this method, the 415 limit will increase each year by the increase in the statutory limit and also by the Plan's COLA. This is the methodology that is currently used in our 415 benefit calculations. Since the total benefit is increasing with COLA and the 415 limit is increasing with COLA and the statutory increase, the excess benefit will decrease over time.

- **Scenario 2: The 415 limit is not reduced by the value of the Plan's COLA.** In preparing these calculations, we excluded the value of the automatic COLA under the Plan when testing the benefit against the 415 limit. This will create a larger 415 limit when an employee retires, and therefore, more benefits will be covered under the Qualified Plan. Under this method, the 415 limit will increase each year by the increase in the statutory limit only and will not increase by the Plan's COLA.

In order to exclude the reduction in the 415 limit by the value of the Plan's COLA, it is our opinion that the Ordinance would need to be amended to describe the specific manner in which the COLA provision applies by detailing that the value of the Plan's COLA will not be used to reduce the 415 limit and that the 415 limit will increase each year by the increase in the statutory limit only and will not increase by the Plan's COLA. You may want to discuss this matter with the plan attorney.

Impact of Establishing an Excess Benefit Plan

Currently, the liability for the City of Sunrise Police Officers' Retirement System is based on a member receiving their calculated benefit without regard to the 415 limit. In the rare case a member's benefit at retirement is limited by the 415 limit, the Plan will pay out less than assumed and there will be an actuarial gain.

If the City establishes an Excess Benefit Plan and the 415 limit is reflected in the City of Sunrise Police Officers' Retirement System, there will be no change in the liability for the City as a whole. In other words, the reduction in liability for the City of Sunrise Police Officers' Retirement System will be picked up by the Excess Benefit Plan.

While there will be no change in the total liability due to the establishment of an Excess Benefit Plan the timing of City contributions can be impacted (i.e., the contribution reduction in the City of Sunrise Police Officers' Retirement System may not be aligned with the City's Excess Benefit Plan payments in a particular year). The reduction in the required City contribution to the City of Sunrise Police Officers' Retirement System due to reflecting the 415 limit will immediately generate actuarial gains which will be amortized over 30 years. Under a pay-as-you-go method the timing of the City's Excess Benefit Plan payments will be based on when a member receives payments from this plan.

Assumptions, Methods, and Plan Provisions

This study is based on the assumptions, methods, and plan provisions shown in the October 1, 2015 Actuarial Valuation Report, with the following exceptions:

- Active employees are assumed to enter the DROP at their earliest Normal Retirement Dates and elect a Life Annuity or a qualified Joint and Survivor Annuity. The members are assumed to participate in the DROP for the maximum period of seven years and earn interest at the current interest crediting rate of 6% per year. The 415 limit is reduced by the projected DROP account balance after it has been converted to a hypothetical annuity.

- Current DROP members are assumed to participate in the DROP for the maximum period of seven years. Estimated DROP account balances are projected using the 6% interest crediting rate. The 415 limit is reduced by the projected DROP account balance after it has been converted to a hypothetical annuity.

- We did not reflect after tax member contribution balances into our calculations for active members. If a portion of a member's contributions has funded the benefit on an after tax basis, these contributions will not be limited by the 415 limit. For employees who have made after tax member contributions, the Excess Benefit Plan payments will be less than what is shown on the exhibit.

- We assumed no changes in plan provisions, including the Plan's definition of actuarial equivalence, or the current regulations related to 415 calculations.

If the Excess Benefit Plan is actually established, the actual excess benefits may differ from what is shown on the exhibit. Below are some examples of reasons:

- Actual salary increases will differ from what we have assumed. We assumed salary increases of 4.2% to 7.5% per year depending on age, as shown in the tables in the October 1, 2015 Actuarial Valuation Report. If employees' salaries increase by less than these rates there will be less benefits paid from the Excess Benefit Plan, and if salaries increase more rapidly than expected there will be more benefits paid from the Excess Benefit Plan.

- All employees will not retire on their earliest normal retirement date. Some employees will terminate, become disabled or die before normal retirement and some will delay retirement, generating a different benefit pattern.

- The annual increase in the 415 limit will differ from what we have assumed. We assumed annual increases in the 415 limit based on the inflation assumption in the October 1, 2015 Actuarial Valuation Report of 2.5% per year. If the 415 limit increases by less than this amount there will be more benefits paid from the Excess Benefit Plan, and if the 415 limit increases more rapidly than expected there will be less benefits paid from the Excess Benefit Plan.

- Our calculations do not reflect future hires. There could be new hires whose projected benefits may exceed the limits. Although, given the current benefit multiplier and normal retirement date provisions for new employees, it is less likely they will receive Excess Benefit Plan payments.

Excess benefit plans are typically not prefunded. Part of the reason for not prefunding is due to the uncertainty as indicated above. Another reason for not prefunding is to avoid current taxation for amounts that would be set aside on behalf of employees who might exceed the 415 limit in future years. Such employees would be considered to have taxable income equal to the amounts set aside on their behalf.

Required Disclosures

The calculations were prepared based on what we believe are reasonable approaches to testing benefits under IRC Section 415(b) and the final regulations. However, we are neither tax attorneys nor tax professionals and the above information should not be construed as legal or income tax advice or opinion. There is no guarantee that the IRS would agree with the approaches used. We recommend qualified legal counsel review this report.

This report was prepared at the request of the Board, and is intended for use by the Retirement System and those designated or approved by them. This report may be provided to parties other than the Retirement System only in its entirety and only with their permission.

This report is intended to describe the financial effect of the proposed plan changes. No statement in this report is intended to be interpreted as a recommendation in favor of the changes, or in opposition to them. This report should not be relied on for any purpose other than the purpose described above.

The calculations in this report are based upon information furnished by the Plan Administrator for the October 1, 2015 Actuarial Valuation concerning Plan benefits, financial transactions, plan provisions and active members, terminated members, retirees and beneficiaries. We reviewed this information for internal and year-to-year consistency, but did not otherwise audit the data. We are not responsible for the accuracy or completeness of the information provided by the Plan Administrator.

The calculations are based upon assumptions regarding future events, which may or may not materialize. They are also based on the assumptions, methods, and plan provisions outlined in this report. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. 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 the report prior to relying on information in the report.

Jeffrey Amrose is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. The undersigned actuary is independent of the plan sponsor.

This report has been prepared by actuaries who have substantial experience valuing public employee retirement systems. To the best of our knowledge the information contained in this report is accurate and fairly presents the actuarial position of the Plan as of the valuation date. All calculations have been made in conformity with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board and with applicable statutes.

We welcome your questions and comments.

Respectfully submitted,

Jeff Amrose

Jeffrey Amrose, MAAA
Enrolled Actuary No. 14-6599

Enclosures

This communication shall not be construed to provide tax advice, legal advice or investment advice.

City of Sunrise Police Officers' Retirement System

Estimation of Excess Benefit Payments

Scenario 1: 415 Limit is Reduced by the Value of the Plan's COLA

Year	Estimated Excess Benefits
2017	$ 17,689
2018	52,399
2019	49,797
2020	48,056
2021	44,105
2022	36,886
2023	33,500
2024	52,094
2025	38,920
2026	22,514
2027	13,321
2028	8,792
2029	-
2030	-
2031	-
2032	-
2033	-
2034	-
2035	-
2036	-
2037	-
2038	-
2039	-
2040	-
2041	-
2042	-
2043	-
2044	-
2045	-
2046	-
2047	-
Total	$ 418,073
Present Value Using 7.8%	$ 300,574

Please refer to the attached letter for details regarding the data, assumptions, and plan provisions used.

City of Sunrise Police Officers' Retirement System

Count of Retirees with Excess Benefit Payments

Scenario 1: 415 Limit is Reduced by the Value of the Plan's COLA

Year	Count of Members with Excess Benefits
2017	1
2018	1
2019	1
2020	2
2021	1
2022	1
2023	1
2024	3
2025	3
2026	2
2027	1
2028	1
2029	0
2030	0
2031	0
2032	0
2033	0
2034	0
2035	0
2036	0
2037	0
2038	0
2039	0
2040	0
2041	0
2042	0
2043	0
2044	0
2045	0
2046	0
2047	0

Please refer to the attached letter for details regarding the data, assumptions, and plan provisions used.

City of Sunrise Police Officers' Retirement System

Estimation of Excess Benefit Payments

Scenario 2: 415 Limit is Not Reduced by the Value of the Plan's COLA

Year	Estimated Excess Benefits
2017	$ -
2018	18,253
2019	16,977
2020	15,793
2021	14,705
2022	8,715
2023	7,825
2024	7,037
2025	6,355
2026	781
2027	318
2028	-
2029	-
2030	-
2031	-
2032	-
2033	-
2034	-
2035	-
2036	-
2037	-
2038	-
2039	-
2040	-
2041	-
2042	-
2043	-
2044	-
2045	-
2046	-
2047	-

Total	$	96,759
Present Value Using 7.8%	$	74,202

Please refer to the attached letter for details regarding the data, assumptions, and plan provisions used.

City of Sunrise Police Officers' Retirement System

Count of Retirees with Excess Benefit Payments

Scenario 2: 415 Limit is Not Reduced by the Value of the Plan's COLA

Year	Count of Members with Excess Benefits
2017	0
2018	1
2019	1
2020	1
2021	1
2022	1
2023	1
2024	1
2025	1
2026	1
2027	1
2028	0
2029	0
2030	0
2031	0
2032	0
2033	0
2034	0
2035	0
2036	0
2037	0
2038	0
2039	0
2040	0
2041	0
2042	0
2043	0
2044	0
2045	0
2046	0
2047	0

Please refer to the attached letter for details regarding the data, assumptions, and plan provisions used.

Gabriel, Roeder, Smith & Company
December 13, 2016