Statement from the Board of Trustees of the City of Sunrise Police Officers' Pension Fund

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 Plan. The Board of Trustees is tasked by law to make sure that the Plan is actuarially sound, meaning that it can always pay benefits when they are due provided the employer makes the required contributions. 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 Plan. The Plan assumes its investments will earn 8%, per year. 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 investment professionals. The Plan is invested in stocks and bonds, both in the United States and abroad. The Plan is required by law to be diversified. It has chosen numerous types of investments and it does not put its money in one place. It does not speculate. In diversifying its investments, we increase the chance that the Plan will do well despite changes in the market. The Board of Trustees has hired registered investment companies to decide which stocks and bonds to invest in. As you can see from the chart below, the Plan has exceeded its rate of return for the past 5 years with an average rate of return of 10.01%. The rate of return that the Plan has adopted is reasonable and the investments have done well.

2014	Plan Rate of Return: 8%	Actual Return: 8.72%
2013	Plan Rate of Return: 8.1%	Actual Return: 13.36%
2012	Plan Rate of Return: 8.2%	Actual Return: 17.85%
2011	Plan Rate of Return: 8.3%	Actual Return: .85%
2010	Plan Rate of Return: 8.4%	Actual Return 9.29%

State law requires that we disclose the financial health of the Plan assuming we earn 2% lower than our assumed rate of return, or 6%. 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 10%. When we use either the 2% over rate of return or the 2% under rate of return, it gives an extreme view of the present financial status of the Plan, and of expected future events.

Florida law also requires that the Plan performs an actuarial report, detailing the funding needs of the Plan, at least once every three years. This Board of Trustees receives an actuarial valuation every year, so that it can continually monitor the Plan's funding. Each year, the Board adopts a report that tells the Board of Trustees how much money needs to be contributed to the Plan by the employer so that the Plan will always be able to pay benefits as and when they become due. The employer 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 Plan make all required contributions and the employer 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 Plan will be 100% funded at the end of the 30-year amortization period. Many professionals consider the amortization schedule to be similar to a 30-year mortgage. The remaining balance on one's mortgage is usually less important than the ability to pay the full monthly payments.

You may also see that the Plan is required to report a *fictitious* run-out date, or when it will run out of money. We use the word "fictitious" because *this can never happen* as long as the employer continues to pay the actuarially required contributions. This fictitious run-out date is the date that the Plan will run out of money if there were no future contributions from the employer, employee or state. But Florida law requires the contributions be made, and everyone involved recognizes their solemn responsibility to keep the Plan 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 well 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 employer is *required by law* to contribute to the Plan whatever amount is necessary for the Plan 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 Plan 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 plan 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.