**NOTE 20 – OTHER POST-EMPLOYMENT BENEFITS**

A. SUPPLEMENTAL PAYMENTS LIABILITY FOR CERTAIN POLICE OFFICERS'

Background

Certain police officers who retired from March 2008 through February 2011 were paid benefits from the Police Officers’ Retirement System (“PORS”) that exceeded the amount under the terms of the Retirement System due to inclusion of extra compensation in the determination of benefits. For certain retirees who have elected to participate, the City will continue to pay directly to the retiree an amount in excess of the corrected benefit payable under the PORS (“supplemental payments”). There are 52 members receiving supplemental payments, including 46 retired members, 3 disabled members, and 3 beneficiaries.

Liability

The City obtained an actuarial valuation for the liability as of September 30, 2017. The City's long term obligation as of September 30, 2017 associated with the supplemental payments for participating police officers is $1,174,000, as reported in the Statement of Net Position.

Actuarial Assumptions

The liability is based on a discount rate of 4.50% and the mortality table used by the Florida Retirement System for individuals classified as special risk. The mortality table is one required by the State of Florida (Chapter 2015-157) to be used for liability calculations effective January 1, 2016 and is the same table used for the October 1, 2017 actuarial valuation for the Police Retirements System (same mortality tables as the Police Retirement System October 1, 2016 actuarial valuation). The calculations were based on member census data provided by the City for the police officers receiving the supplemental payments.

B. POST-RETIREMENT HEALTH BENEFITS

Plan Description:

The City follows GASB Statement 45, "*Accounting and Financial Reporting by Employers for Post-employment Benefits other than Pensions"* to account for certain post-retirement health benefits provided by the City. A separate audited GAAP basis post retirement plan report is not prepared for this defined benefit plan. The City sponsors a single employer defined benefit “other post-employment benefit” (“OPEB”) plan. Benefits are stipulated resolutions approved by City Council and through union agreements with the employees and any changes to the benefits must be addressed through union negotiations. Retirees who meet certain age and service requirements may elect coverage for themselves and dependents in one of three health plans: two preferred provider organizations (“PPOs”) and an exclusive provider organization (EPO). After age 65, retirees have the additional choice of two Medicare Advantage plans. The City currently pays an explicit subsidy equal to 75% of the blended (active and retired) rate for the lowest cost PPO (or the total premium, if less), plus the implicit subsidy equal to the difference between the actual retiree cost (“ARC”) and the blended rate. Beginning January 1, 2010, the maximum dollar amount of the explicit employer subsidy was frozen for employees who retire after 2009. These retirees will pay the full cost of any increases in the blended premium in excess of the frozen maximum subsidy.

**NOTE 20 – OTHER POST-EMPLOYMENT BENEFITS** - **(Continued)**

Funding Policy

All of the above benefit plans are provided through insurance companies or health maintenance organizations (HMO). Some health plan premiums are based on the benefits paid during the plan period ending March 31. The City recognizes the cost of providing benefits by expensing monthly premiums, on a pay-as-you-go basis. There are no plans at this time to fund the OPEB liability and therefore there are no plan assets. For the fiscal year ended September 30, 2017, the cost of retiree health care for 1,120 participants was $13,241,865 of which $4,811,974 was paid by the retirees. The City offers vision, dental and AD&D policies paid for entirely by active and retired employees.

Annual OPEB Cost and OPEB Obligation

The City received the current year results of an actuarial valuation report for retiree health benefits as of October 1, 2016 for fiscal year 2017. The valuation was completed under the requirements of GASB Statement 45. The development of the Net OPEB Obligation is listed below for the fiscal year ended September 30:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | 2017 |  | 2016 |  |  | 2015 |
| Annual Required Contribution | $ | 15,664,000 | $ | 16,447,000 |  | $ | 13,555,000 |
| Interest on the Net OPEB Obligation |  | 3,255,002 |  | 2,805,000 |  |  | 2,438,000 |
| Adjustment on the ARC |  | (4,440,000) |  | (3,603,000) |  |  | (2,812,000) |
| Annual OPEB Costs |  | 14,479,002 |  | 15,649,000 |  |  | 13,181,000 |
| Less: Contributions made |  | (6,050,000) |  | (5,643,000) |  |  | (5,041,000) |
| Increase in Net OPEB Obligation |  | 8,429,002 |  | 10,006,000 |  |  | 8,140,000 |
| Net OPEB Obligation – beginning of year |  | 72,330,000 |  | 62,324,000 |  |  | 54,184,000 |
| Net OPEB Obligation – end of year | $ | 80,759,002 | $ | 72,330,000 |  | $ | 62,324,000 |
|  |  |  |  |  |  |  |  |

Percentage of Annual OPEB Cost Contributed and Net OPEB Obligation

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Fiscal Year |  | Annual OPEB Cost |  | Contribution |  | Percentage of Annual OPEB Cost Contributed |  | Net OPEB Obligation |
| 9/30/17 |  | 14,479,000 |  | 6,050,000 |  | 42% |  | 80,759,000 |
| 9/30/16 |  | 15,649,000 |  | 5,643,000 |  | 36% |  | 72,330,000 |
| 9/30/15 |  | 13,181,000 |  | 5,041,000 |  | 38% |  | 62,324,000 |
| 9/30/14 |  | 12,923,000 |  | 7,085,000 |  | 55% |  | 54,184,000 |
| 9/30/13 |  | 13,868,000 |  | 6,253,000 |  | 45% |  | 48,346,000 |
| 9/30/12 |  | 13,503,000 |  | 6,274,000 |  | 47% |  | 40,731,000 |
| 9/30/11 |  | 13,247,000 |  | 5,471,000 |  | 41% |  | 33,502,000 |
| 9/30/10 |  | 12,525,000 |  | 6,187,000 |  | 49% |  | 25,726,000 |

Funded Status and Funding Progress

As of September 30, 2017, the actuarial accrued liability for benefits was $199,781,000, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Plan) was $143,194,193 and the ratio of unfunded actuarial accrued liability (UAAL) to covered payroll is 139.5%.

**NOTE 20 – OTHER POST-EMPLOYMENT BENEFITS** - **(Continued)**

Actuarial valuations reflect a long-term perspective and involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The schedule of government contributions and two year trend information along with the schedule of funding progress for the current year and two years prior (the dates of the actuarial valuations as required) can be found in the Required Supplementary Information.

Actuarial Methods of Assumptions

Calculations are based on the types of benefits provided under the terms of the substantive plan, including the method of sharing of costs between the employer and plan members.

In the October 1, 2016 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 3% inflation rate, 4.5% investment rate of return (net of administrative expenses), and aggregate compensation is assumed to increase 1.50% per year for the Police Plan, 0.2% per year for the ERS/401a Plan, and 0.00% for the Fire Plan. Annual healthcare cost trend rates are based on actual premium rate increases from April 1, 2016 to April 1, 2017 as follows; 4% for all health plans pre-65, 3.2% for future retirees and existing retirees who are currently under 65, -.08% for existing retirees over 65 currently enrolled and -5.0% for existing retirees over 65 currently enrolled. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll over an open 30 year period.

Changes from the prior actuarial valuation October 1, 2014 assumptions are as follows: assumed per capita health plan costs, retiree contributions and total premiums were updated to reflect the most recent experience; the assumptions for mortality were updated to reflect recent research; healthcare cost trend rates updated to reflect industry expectations on increases; aggregate compensation has been updated; and DROP period length and participation, plan participation and the percentage of future retirees covering dependents were updated to reflect the last two years of experience.