Florida Public Pensions:
A Case Study of Excellence in Governance and Sustainability
Case Study: Town of Palm Beach

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FPPTA Fall Trustee School

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History of Town of Palm Beach Ret System

- Established in 1947
- Covers General Employees, Ocean Rescue, Police Officers and Firefighters (one combined plan).
- For Police/Fire, benefit multiplier was 2.75% pre-1995
  - Increased to 3.0% in 1995, 3.25% in 2001, 3.5% in 2005.
- In 2001, normal retirement eligibility for Police/Fire reduced from “25 and out” to “20 and out”.

History of Town of Palm Beach Ret System

- Financial market downturns in 2001-02 and 2008-09, combined with benefit increases, caused steep decline in Funded Ratio and steep increase in required contributions.
  - Funded ratio declined from over 110% in 2000 to 78% in 2010.
  - Required contribution increased from $1.1 million for FY 2002 to $8.5 million for FY 2011.

History of Town of Palm Beach Ret System

- Significant pension reform followed…
  - Pension benefits using the 3.5% benefit multiplier were frozen as of May 1, 2012.
  - Withdrew from Chapter 175/185.
  - DB/DC Hybrid established: Pension benefits post-5/1/2012 received 1.25% benefit multiplier with normal retirement at age 65; Plus 401(a) Plan with matching employer contributions.

History of Town of Palm Beach Ret System

- Reaction by Police Officers and Firefighters was swift.
  - Significant exodus / high turnover after 5-1-2012...
    - 42 Vested terminations (pre-retirement eligible) during 2012-2015 period vs. 2 during 2008-2011.
    - Total turnover during 4 years post-5/1/2012 was quadruple what it was during 4 years pre-5/1/2012.
    - Recruitment and retention of new hires suffered.
    - Active Police/Fire headcount fell from 140 to 97.

History of Town of Palm Beach Ret System

- Town Council partially restored benefits in 2016
  - Benefit multiplier increased from 1.25% to 2.75%; NR age changed from 65 to 56; Employee contrib. rate ⬆ to 10%.
  - Recruitment and retention improved over next few years, but not back to pre-2012 levels; staff shortages remained.
- In 2024, more benefit improvements approved
  - Benefit multiplier increased to 3.0%; Vesting changed to 8 Years, NR age to “55 & 8” or “25 and out”; Employee contribution rate decreased to 8%.

Town of Palm Beach Retirement System Actuarial Assumptions and Methods

- Unfunded Actuarial Liability (UAL) Amortization Period
  - 30 years for all new bases prior to 2017.
  - As of 10/1/2017, reduced to no more than 25 years;
  - As of 10/1/2018, reduced to 20 years for assumption/ method changes and 15 years for experience gains/losses and benefit changes.

Town of Palm Beach Retirement System Extra Town Contributions

- After joint meetings with Pension Board and Town Council in 2017, the Town Council agreed to begin making extra contributions to the retirement system.
  - Extra $5.42 million (in excess of required contribution) deposited each October, starting in October 2017.
  - Board was phasing in ROR assumption changes; also, 2015 MV loss being smoothed into AVA; $5.42 million was expected annual increase in UAL due to these two items.

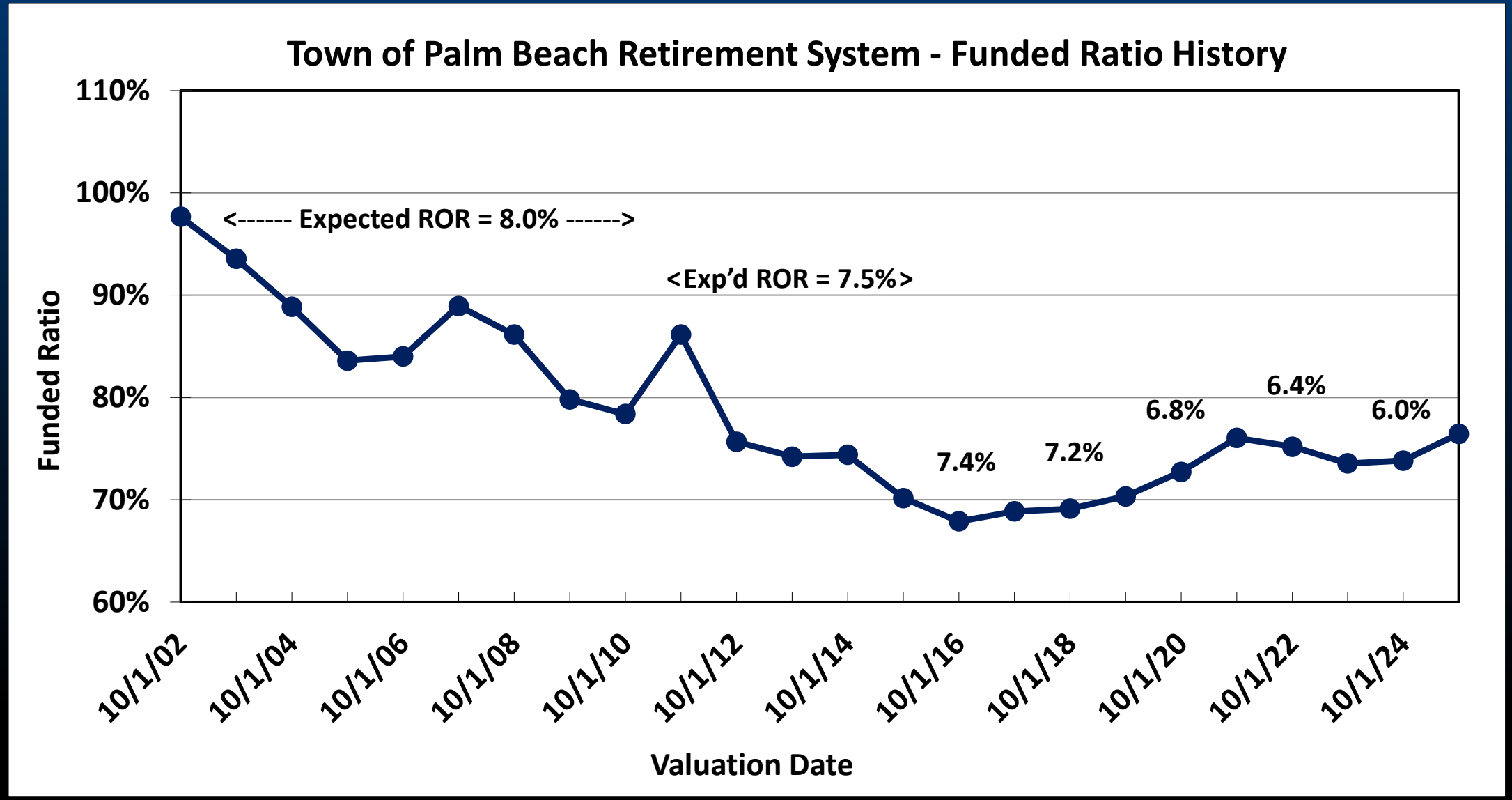
Town of Palm Beach Retirement System

- In 2019, the Board, with the Town Council's blessing, changed the target investment return assumption (being phased into) from 7.0% to 6.0%.
  - And instead of reducing it by 0.1% per year, they started reducing it by 0.2% per year (got to 6.0% in 2024).
  - Liability and required contributions increased more quickly.
  - But lower amortization period, extra Town contributions, and investment gains help offset increases in UAL; UAL as of 10/1/2025 (at 6%) LOWER than at 10/1/2016 (at 7.4%).

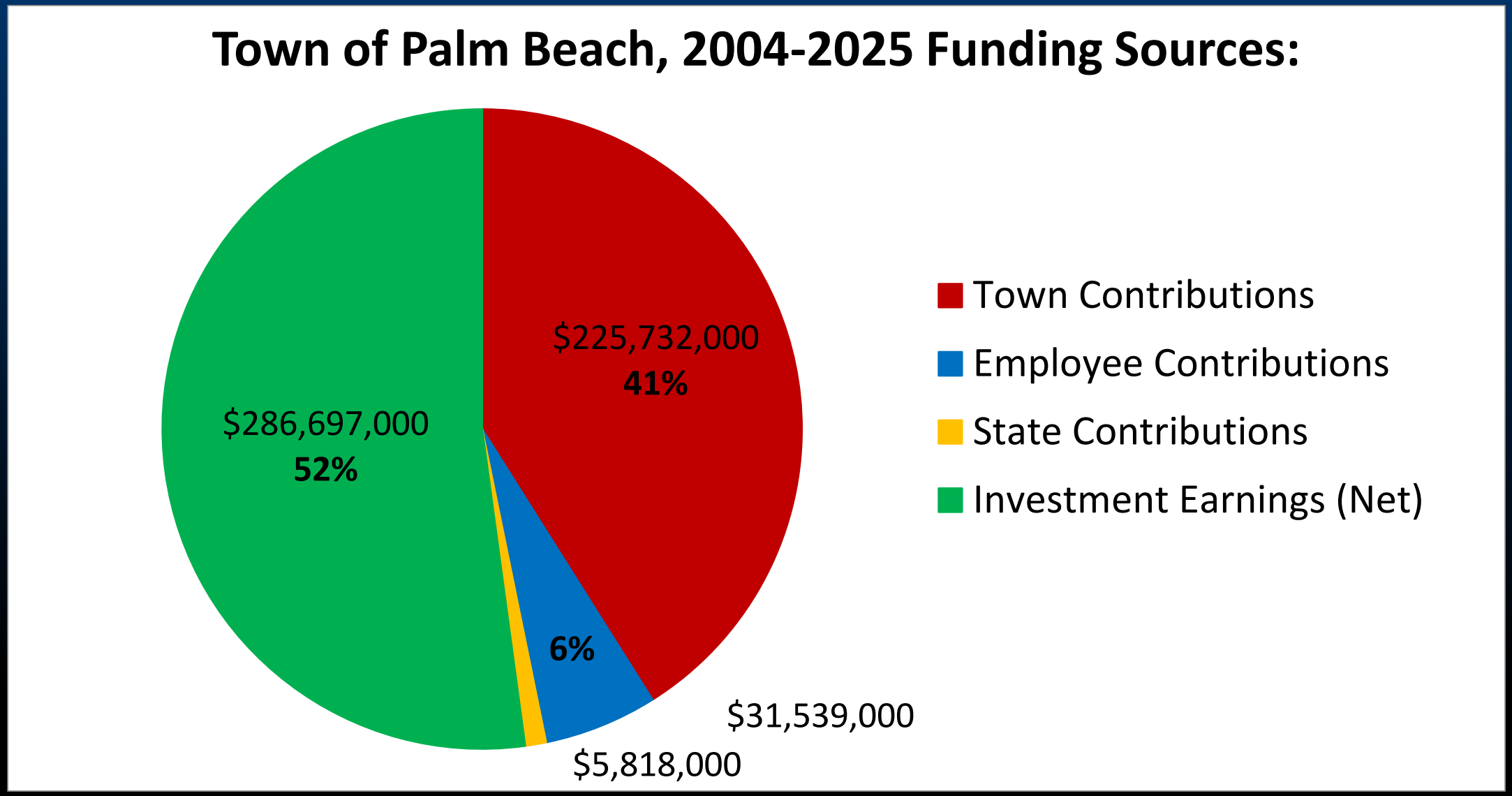
Town of Palm Beach Retirement System Actuarial Assumptions and Methods

- Investment Return Assumption
  - 8.0% prior to 2011; 7.5% as of 10/1/2011 - 10/1/2015;
  - 7.4% as of 10/1/2016; 7.3% as of 10/1/2017;
  - 7.2% as of 10/1/2018; 7.1% as of 10/1/2019;
  - 6.8% as of 10/1/2020; 6.6% as of 10/1/2021;
  - 6.4% as of 10/1/2022; 6.2% as of 10/1/2023;
  - 6.0% as of 10/1/2024.

Funded Ratio History



Where Has the Total Funding Come From?



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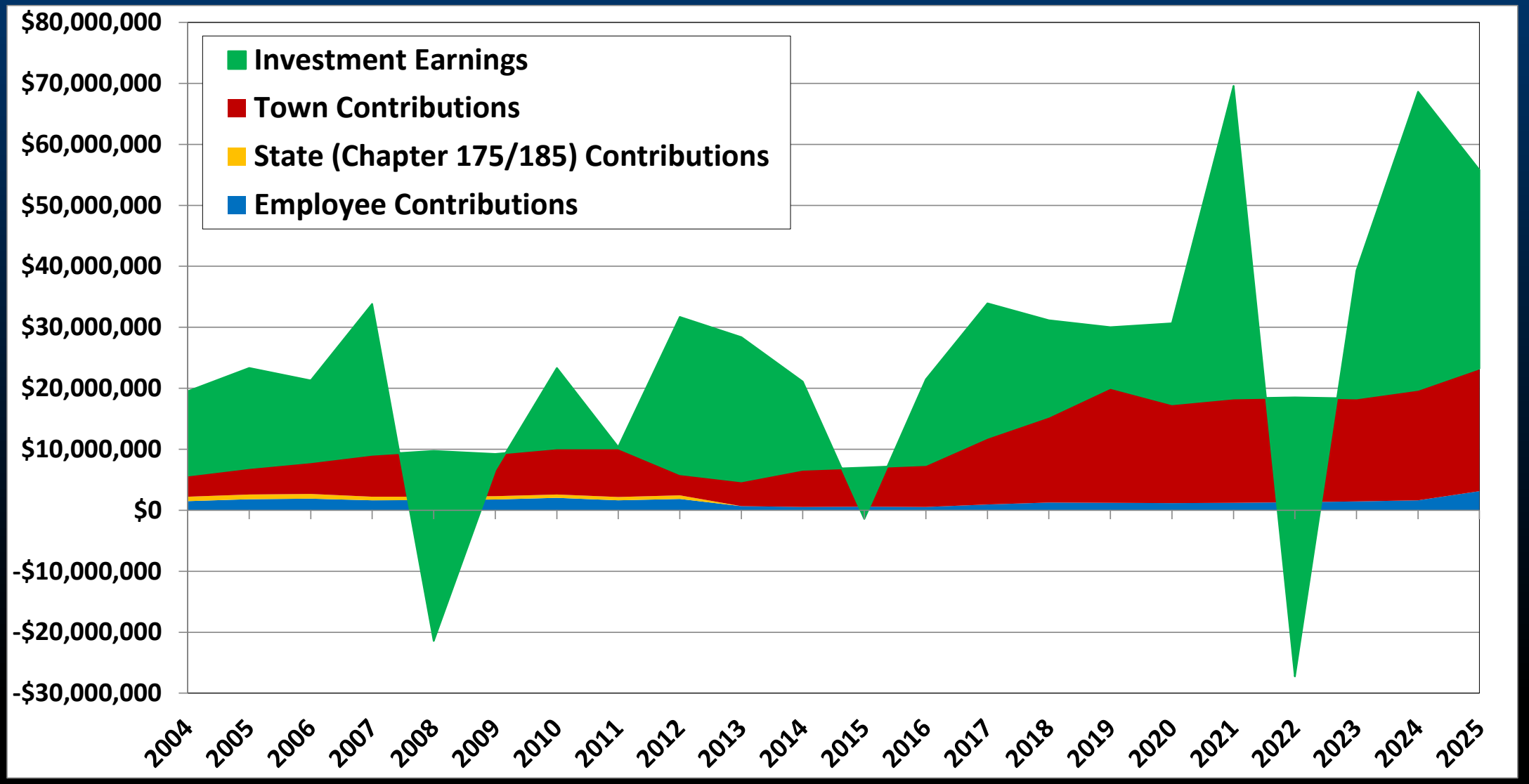
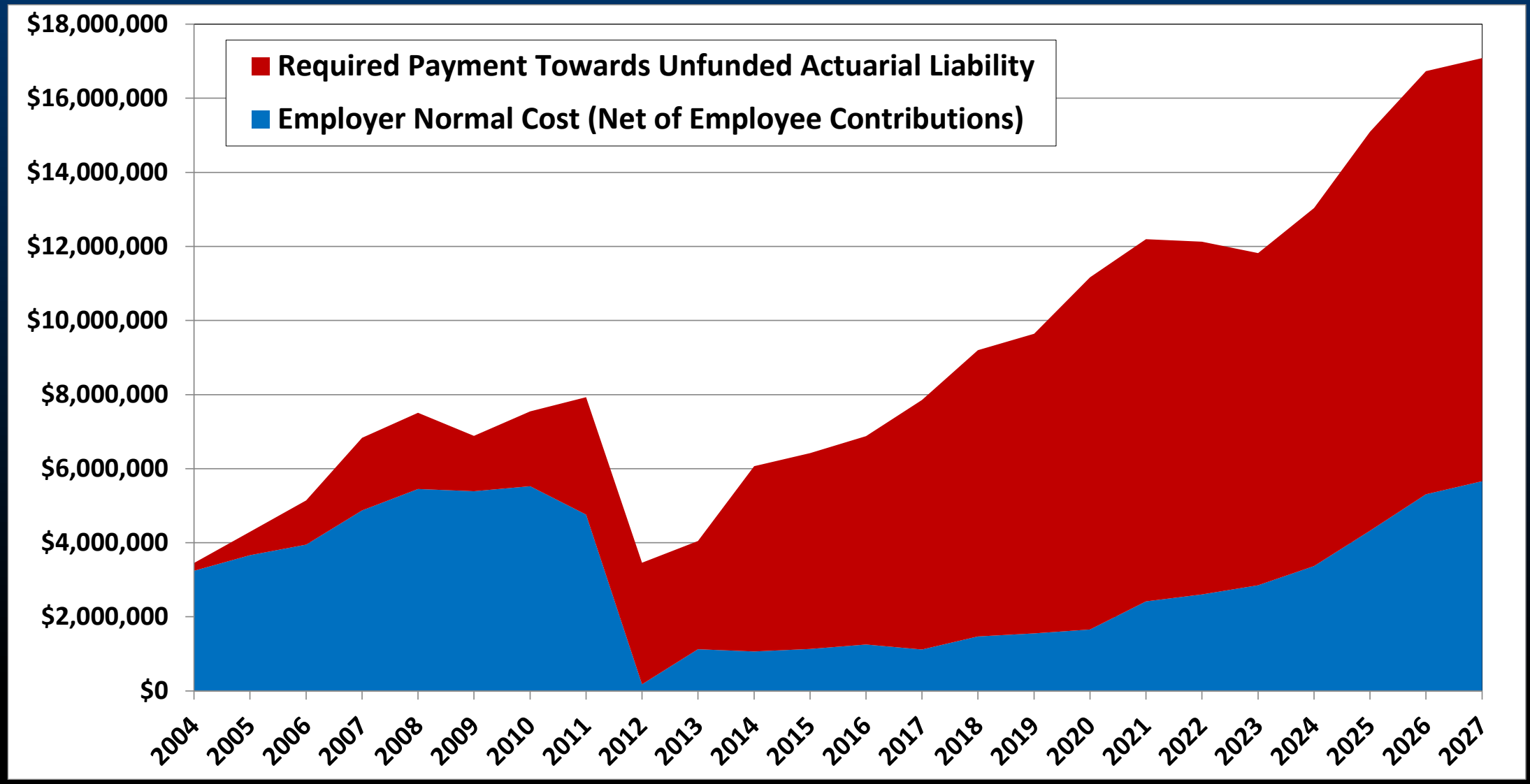


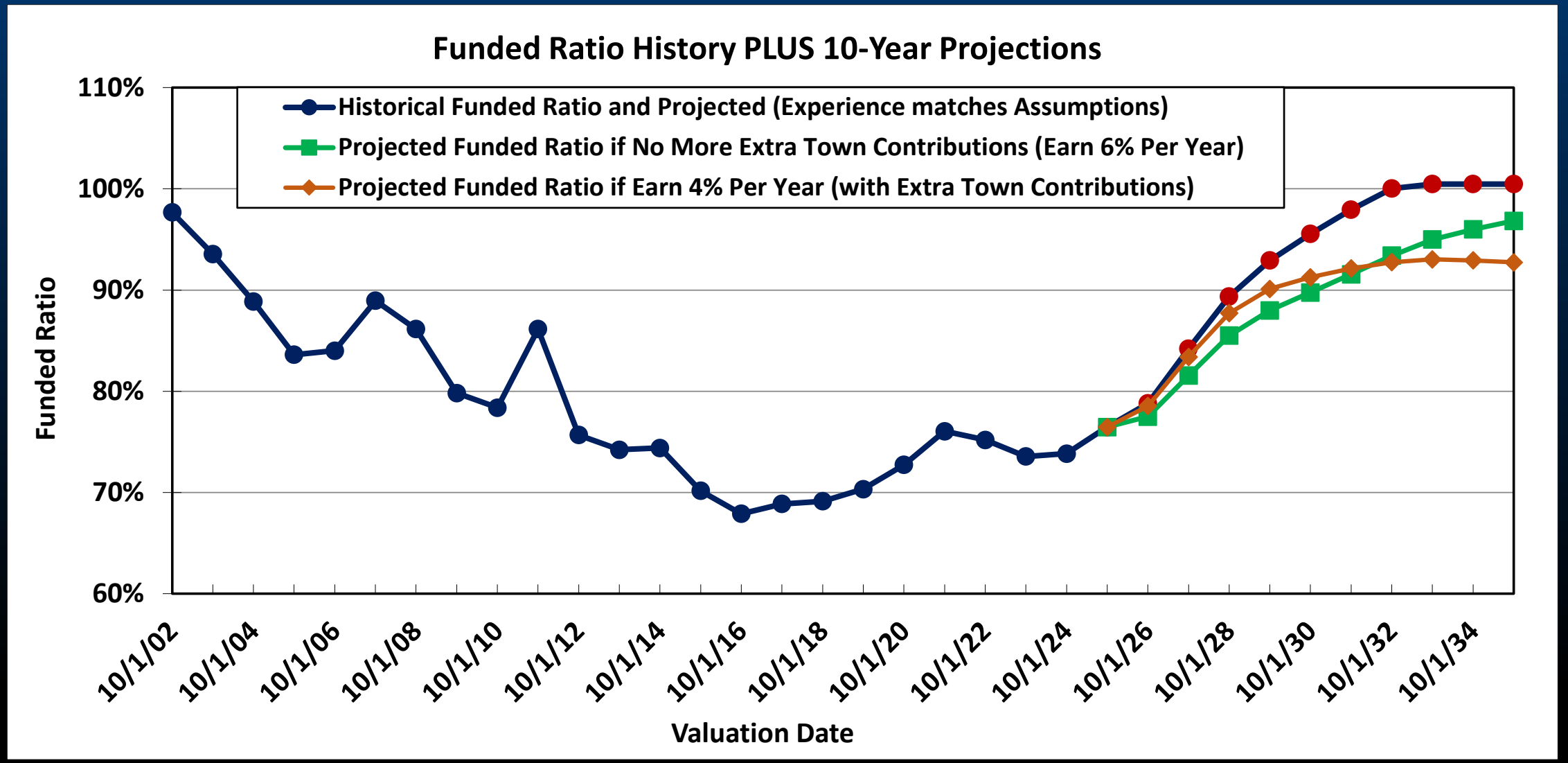
Breakdown of Required Town Contributions



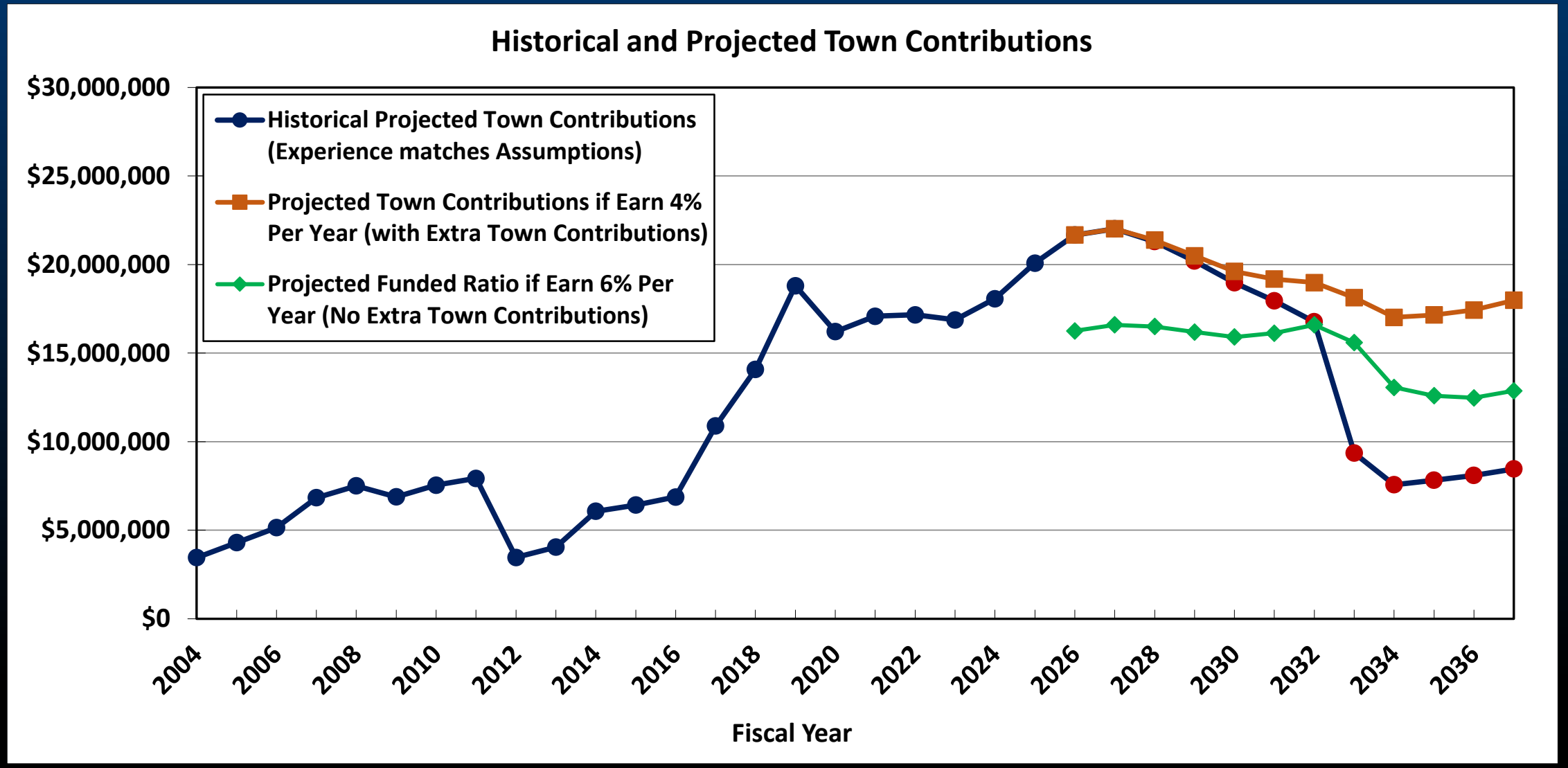
Town of Palm Beach Retirement System

- Hard part is finished (phase in to 6% ROR assumption completed; 15-20 Year UAL Amortization; recent benefit changes have made benefits more competitive).
- Funded Ratio on a Market Value basis = 81% (76.5% on a smoothed Actuarial Value basis).
- If extra Town contributions continue through fiscal year 2032 and investment returns are 6% per year, the pension plan is projected to be fully funded by 2032.

Funded Ratio History with Projections



Historical and Projected Town Contributions



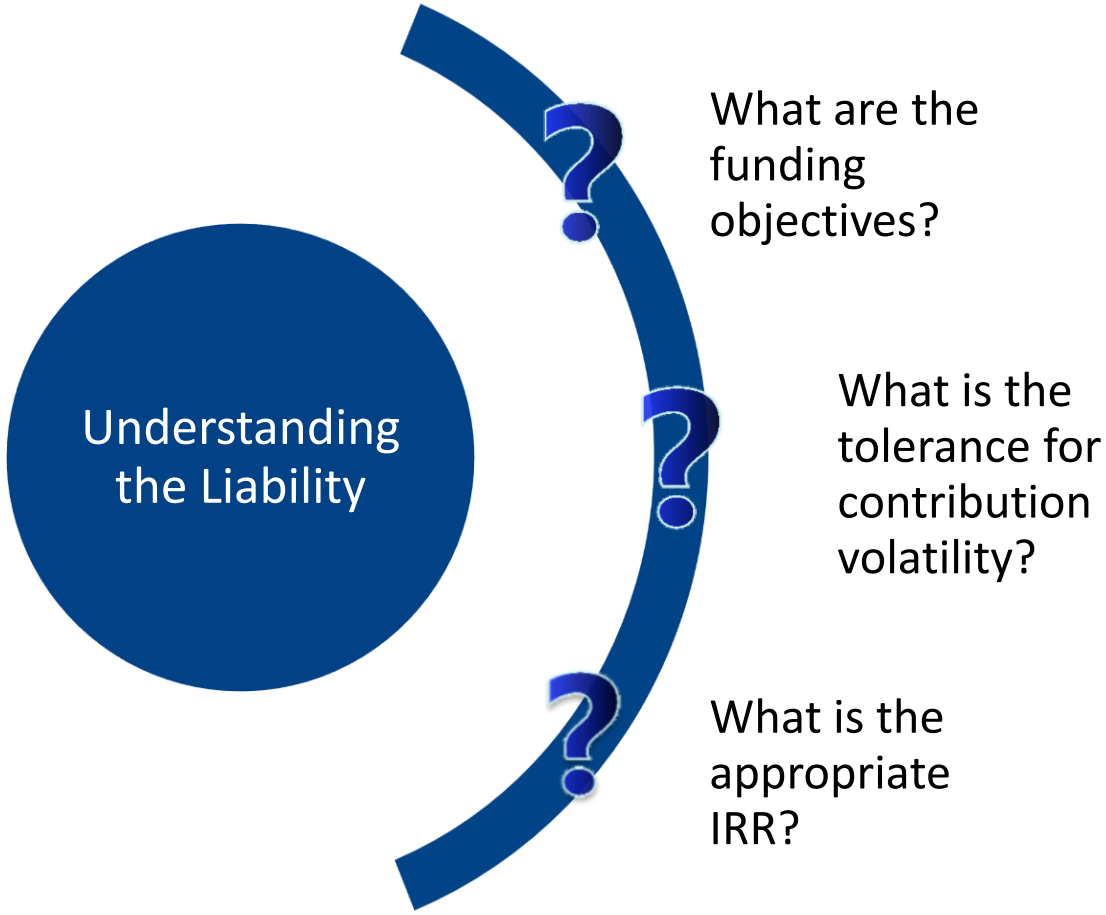
Investment Program Forensics

- **Investment performance failed to deliver the level of contribution embedded in actuarial expectations,** resulting in a disconnect between assumed and realized investment outcomes.

- **The Board of Trustees and Town Management reassessed the Plan's funding objectives,** including the appropriate and sustainable contribution expected from the investment program.

- **The assumed rate of return and strategic asset allocation were subsequently recalibrated and better synchronized,** aligning actuarial expectations, portfolio construction, and the Plan's long-term funding objectives.

Liability Review & Considerations



Implementation

- **Pragmatic Approach**
  - **Balance "Academic" and "Pragmatic" in forecasting portfolio solutions**
  - **Implement cycle aware asset allocation decisions**
  - **Identify exogenous market risk concentrations**
  - **Manage allocations to a low absolute yield environment**
  - **Allocate active strategies where alpha generation is most likely to occur**
  - **Allocate passive strategies intelligently**

Investment Program Forensics

- **Equities: Relatively Low U.S. Equity Allocation**
  - Target total Equity allocation: 40%
  - Target US Equity allocation: 15% of all equities.
  - Target Developed allocation: 10%
  - Emerging Markets comprise 10% of the Target portfolio. That equates to 25% of all equities, a significant weighing.
- **Commodities/Inflation Hedging: Portfolio bias to increasing inflation expectations**
  - 17% of the fund's investments correlated with commodities and/or inflation.
- **Fixed Income: Historically, high duration exposure**
  - Target total Domestic Core allocation 17.5%
  - Significant exposure with Aggregate benchmarking
- **Alternatives/Hedge Fund of Funds:**
  - Illiquid investments constitute 27.5% of the portfolio
- **Private Investments: Significant capital commitments**
  - Allocations requiring pacing management
- **Liquidity Management:**
  - No dedicated program to meet actuarially forecasted cash burn rate
  - Risk to investment program returns in the event of required asset liquidation in adverse market cond

Investments Repositioned to New Funding Objectives

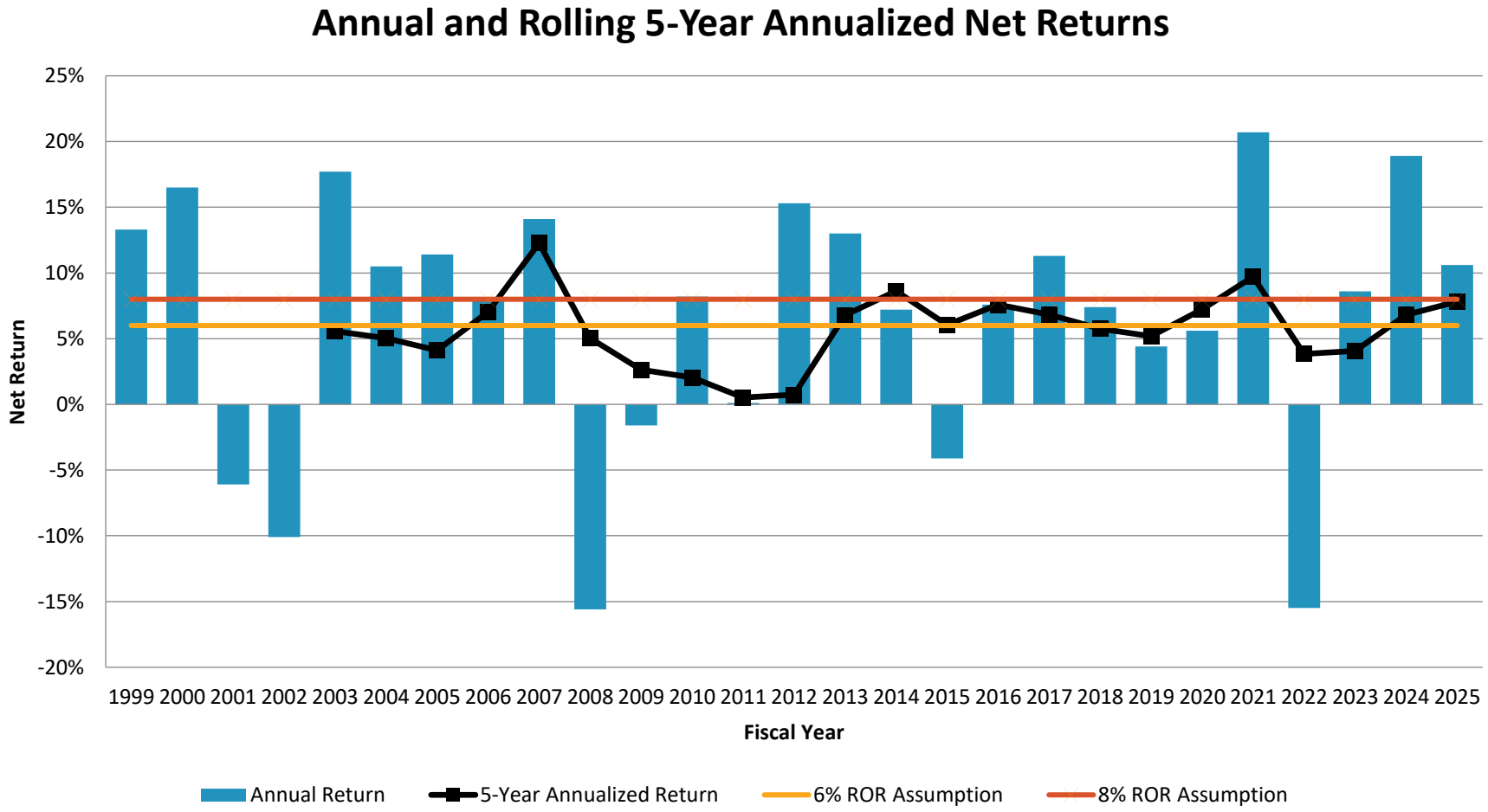
- **Equities:**
  - Total target equity allocation increased materially
  - US Equity established as the majority of total exposure
  - International Equity representation reduced.
  - Passive strategies deployed opportunistically
- **Commodities/Inflation Hedging:**
  - Investment allocations reduced or eliminated minimizing portfolio bias toward inflation-sensitive assets
- **Fixed Income:**
  - Target mandate repositioned to Intermediate and high quality thereby reducing interest rate exposure and providing better liquidity as an allocation offset to Equities.
- **Alternatives/Hedge Fund of Funds:**
  - Investment allocations reallocated to more complimentary strategies designed to improve portfolio diversification
- **Private Investments: Significant capital commitments**
  - Legacy commitment strategy shifted to a managed run-off of existing commitments
  - Allocations to middle market debt increased opportunistically where attractive risk-adjusted opportunities were identified.
- **Liquidity Management:**
  - Liquid Investment Policy allocation targets established to provide for more opportunistic deployment.
  - Formal liquidity management program established to support funding requirements while reducing the risk of forced asset liquidation.

Key Concepts

- **Alignment of Investment Strategy and Rate-of-Return (ROR) Expectations**

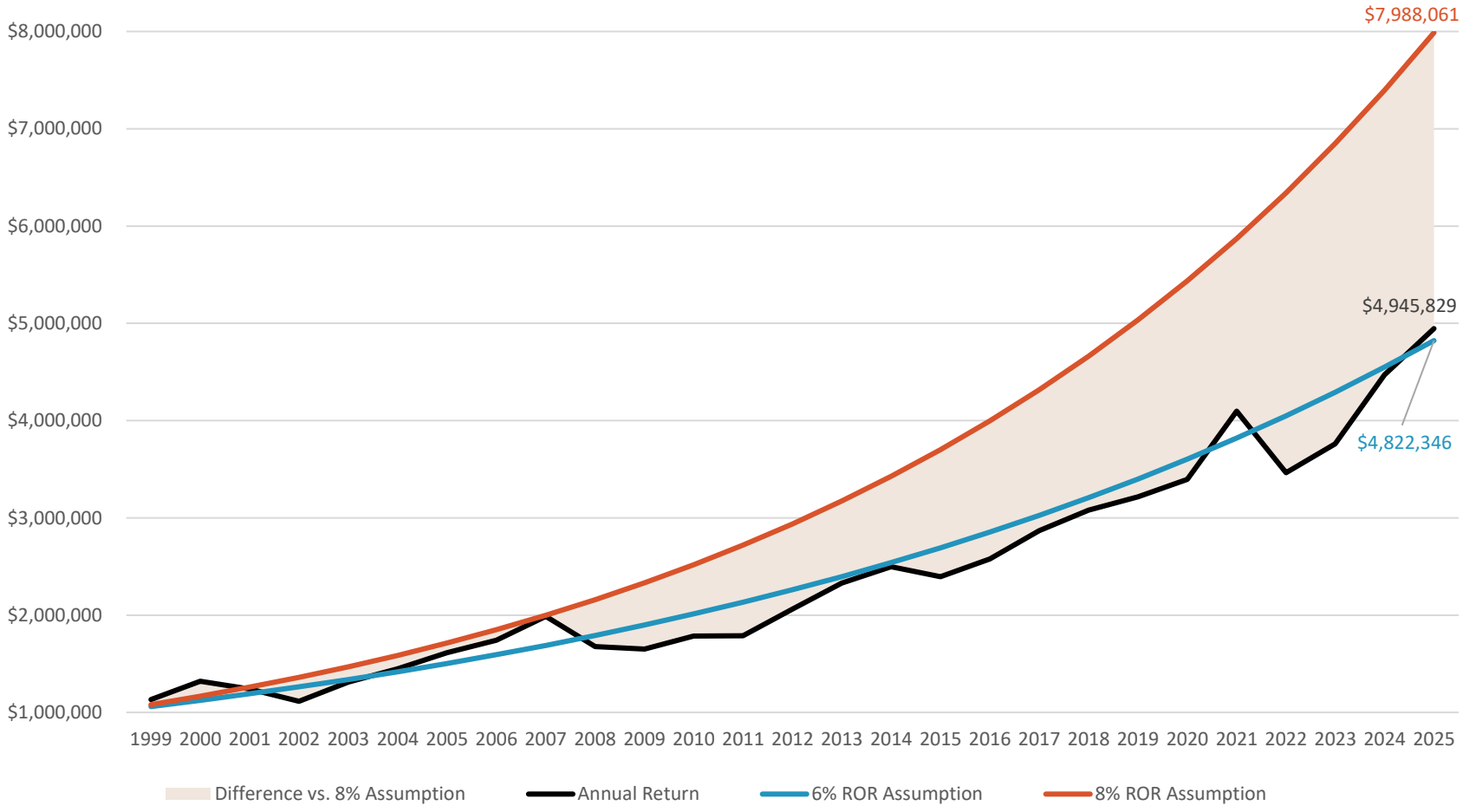
- **Importance of Maintaining a Strong Funded Position to Maximize Assets Available for Investment**

Returns vs. Assumptions



Note: Strictly hypothetical, not representative of actual results.
Source: Plan return data GRS.

Growth of $1,000,000



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