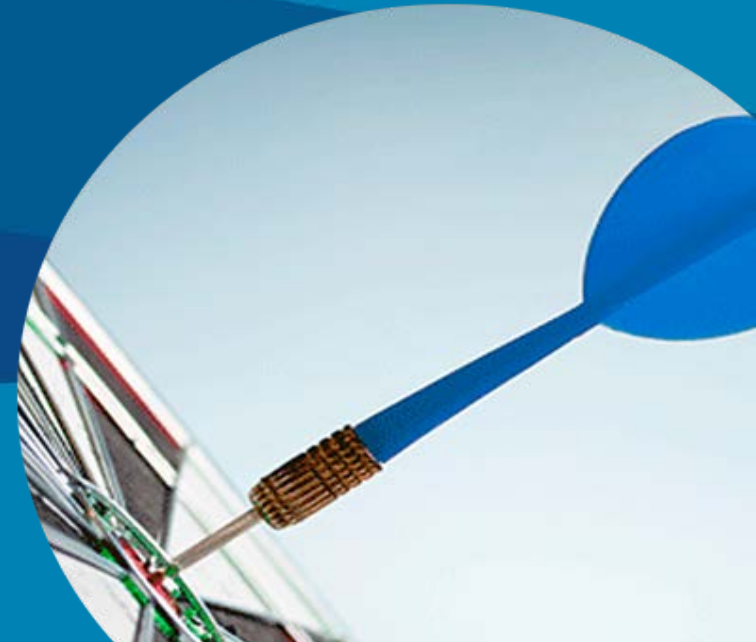




# City of Clearwater Employees' Pension Plan

Experience Investigation for the Five-Year  
Period Ending December 31, 2022



# Purpose of an Experience Study

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- To review actual experience compared to the assumptions used to value pension plan liabilities and recommend updates to the assumptions based on the experience.
- Assumptions studied include:
  - Investment return assumption
  - Salary increase and inflation assumptions
  - Rates of retirement, separation from employment, and disability
  - Probability of marriage and age difference for beneficiaries

# Credibility of Experience

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- 7,700 exposures over the past 5 years
  - An “exposure” is the experience of one active member from one year to the next year.
- 7,700 exposures is sufficient to provide partial credibility to the observed experience, but not full credibility.
  - Therefore, some weight is given to current assumptions and some weight is given to past 5 years of experience when developing proposed new assumptions.

# Highlights of Experience Study

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- **Investment return assumption: No change recommended to the current 6.50% investment return assumption** based on current forward-looking expectations (long-term forecasts are now a little higher than 6.50%; they were a little lower than 6.50% five years ago).
- **Inflation** averaged ~4% per year over the past 5 years; forecasts are 2.4% to 2.6% on average (over the next 20 years).
  - **Recommendation: Change long-term future inflation assumption from 2.25% to 2.40%.**

# Highlights of Experience Study

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- **Salary increase assumption:** Observed real salary increases, (net of actual inflation), were higher than assumed over the past 5 years, and continue to vary by years of service.
- Average ***real*** salary increases (net of inflation) observed for each group:
  - Firefighters: 4.28% versus 3.32% assumed (on average)
  - Police Officers: 3.67% versus 3.31% assumed (on average)
  - Non-Haz Employees: 4.49% versus 1.88% assumed (on average)

# Highlights of Experience Study

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- **Retirement Rates:** Observed retirement rates for retirement-eligible members were lower than expected.
- **Separation Rates:** Observed separation rates were lower than expected for firefighters and higher than expected for police officers and non-hazardous employees.
- **Disability Rates:** Observed disability rates were lower than expected.
- **Recommendation:** Modify above rates to reflect experience.

# Highlights of Experience Study

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- **Marriage Rates and Age Differences:** Observed marriage rates for male retirees were 76% versus 75% assumed; for female retirees, they were 53% versus 75% assumed. Male retirees were observed to be 1.2 years older, on average, than their beneficiaries. Female retirees were observed to be 0.8 years younger, on average, than their beneficiaries.
  - Recommend changing marriage rate assumption for females to 65%.
  - Recommend changing assumed age difference from 3 years to 2 years.

# Financial Impact of Proposed Assumption Changes

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- **Salary Increases and Inflation:** \$2,351,295 increase in City contribution.
- **Retirement Rates:** \$91,905 decrease in City contribution.
- **Separation Rates:** \$540,781 decrease in City contribution.
- **Disability Rates:** \$194,719 decrease in City contribution.
- **Marriage and Age Difference Assumptions:** \$51,612 decrease in City contribution.
- **All Changes Combined:** \$1,432,403 increase in City contribution.

# Disclaimers

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- This presentation is intended to be used in conjunction with the experience investigation report issued on September 29, 2023. This presentation should not be relied on for any purpose other than the purpose described in the experience investigation report.
- This presentation shall not be construed to provide tax advice, legal advice or investment advice.