



GABRIEL, ROEDER, SMITH & COMPANY

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February 28, 2005

Board of Trustees
Retirement System for General Employees of
The Utility Board of the City of Key West
Key West, Florida 33040

The fundamental financial objective of the Retirement System for General Employees of the Utility Board of the City of Key West is to provide benefits that are properly funded. An actuarial valuation is prepared annually to determine the Utility Board minimum contribution under the requirements of Florida State law. The contribution rate is developed using the entry age normal actuarial cost method as a level percentage of payroll, plus operating expenses. Gains and losses are reflected in unfunded actuarial accrued liabilities and amortized as level dollar amounts.

The information being provided is compiled from annual actuarial valuations, including the most recent as of January 1, 2005. In performing these valuations, the Utility Board staff provides certain data and the plan auditor submits financial statements. We rely on the accuracy of this information.

The data being provided includes the following:

- Summary of actuarial assumptions and methods
- Schedule of active and retired member data
- Solvency tests
- Analysis of financial experience
- Summary of plan provisions and changes
- Schedule of funding progress and employer contributions
- Schedule of benefit expenses by type
- Schedule of retired members by type of benefit
- Schedule of average benefit payments

We compiled all of the above information.

To the best of our knowledge, the assumptions and methods being utilized conform to the Government Accounting Standards Board (GASB) Statements No. 25 and No. 27.

On the basis of the January 1, 2005 Actuarial Valuation, it is our opinion that the Retirement System for General Employees of the Utility Board of the City of Key West continues in sound financial condition under generally accepted actuarial principles.

Sincerest regards,

Lawrence F. Wilson, A.S.A.
Senior Consultant and Actuary

Summary of Actuarial Assumptions and Methods

- A. **Mortality**- The 1983 Group Annuity Table was used with separate rates for males and females.
- B. **Investment Return**- 8.0% compounded annually.
- C. **Allowances for Expenses or Contingencies**- Estimated annual expenses based upon prior year's experience.
- D. **Employee Withdrawal Rates**- Withdrawal rates were used in accordance with tables per the following illustrative example:

<u>Age</u>	<u>Withdrawal Rates</u> <u>Per 100 Employees</u>	
	<u>Males</u>	<u>Females</u>
20	19.9	29.9
25	11.9	19.9
30	5.9	11.9
35	1.9	5.9
40	0	1.9
45	0	0
50	0	0
55	0	0
60 & Over	0	0

- E. **Disability Benefits**- Class (01) Inter-Company modified disability rates for males were used. Rates for females were doubled. No Workers' Compensation benefits are assumed to be payable.
- F. **Salary Increase Factors**- Current salary was assumed to increase at a rate equal to 5.5% per year, including 3.5% for inflation. Prior to January 1, 2003, current salary was assumed to increase at a rate equal to 6.0% per year.
- G. **Assumed Retirement Age**-

<u>Age</u>	<u>Rate of Retirement</u>
55	10%
56	20%
57	40%
58	60%
59	80%
60	100%

Summary of Actuarial Assumptions and Methods (Continued)

Employees who attain age 60 or age 50 with 30 years of service after the valuation date are assumed to retire no later than age 60 or age 50 with 30 years of service. Employees who have reached age 60 or age 50 with 30 years of service as of the valuation date are assumed to remain employed for an additional year.

H. **Death Benefits-**

- 1) The assumed incidence of deaths is 90% service incurred and 10% as non- service incurred.
- 2) There are no children assumed eligible for future children's benefits.
- 3) 90% of participants are assumed to be married.
- 4) No remarriage assumed.

I. **Assumption for Valuing Disability Benefits-** No Workers' Compensation benefits are payable.

J. **Valuation of Assets-** The method used for determining the actuarial value of assets phases in the deviation between the expected and actual return on assets at the rate of one-fifth per year. The actuarial value of assets will be further adjusted to the extent necessary to fall within the corridor whose lower limit is 80% of the fair market value of plan assets and whose upper limit is 120% of the fair market value of plan assets. Prior to January 1, 2003, the actuarial value of assets was market value.

K. **Cost Methods-** Normal Retirement Benefit, Termination, Disability and Death Benefit: Entry-Age-Actuarial Cost Method. Under this method the normal cost for each active employee is the amount that is calculated to be a level percentage of pay that would be required annually from his age at hire to his assumed retirement age to fund his estimated benefits, assuming the Plan had always been in effect. The actuarial accrued liability as of any valuation date for each active employee or inactive employee who is eligible to receive benefits under the Plan is in excess of the actuarial present value of estimated current and future normal costs. The unfunded actuarial accrued liability as of any valuation date is the excess of the actuarial accrued liability over the actuarial value of the assets of the plan.

L. **Treatment of Actuarial Gains and Losses-** Gains and losses are amortized over a period of 30 years.

M. **Changes Since Pervious Valuation-** None.

N. **Choice of Assumptions and Methods-** The actuarial assumptions and methods are recommended by the actuary and adopted by the Board of Trustees at various times. Unless otherwise indicated (above) the actuarial assumptions were adopted prior to 1998. The recommendations are based on a review of actual plan experience, although no formal experience study has been performed.

Resolutions Passed (Beginning 1998)

Resolution No. 56- Amending the Benefit Factor from 2.2% to 2.4%. Passed by the Board of Trustees May 18, 1998

Resolution No. 57- Extending pre-retirement survivor benefits to domestic partners. Passed by the Board of Trustees May 18, 1998

Resolution No. 58- Reducing Maximum Credited Service from 35 Years to 30 Years. Passed by the Board of Trustees November 20, 1998

Resolution No. 60- Increasing the Cost of Living Adjustment from 2% to 3% per year. Passed by the Board of Trustees September 28, 2000

Resolution No. 62- Increasing the Non-Service Death Benefit from 60% to 75% of the anticipated normal retirement benefit. Passed by the Board of Trustees August 14, 2002

Resolution No. 63- Providing for Plan amendment and termination rights. Passed by the Board of Trustees February 13, 2003

Resolution No. 64- Creating a probationary period prior to membership for employees hired after October 1, 2003. Passed by the Board of Trustees February 17, 2004

Resolution No. 65- Eliminating an optional payment method for receiving benefit payments (any other payment form requested by member agreeable to Board of Trustees.) Passed by the Board of Trustees February 17, 2004

Resolution No. 66- Amending the definition of pensionable earnings to use the member's base hourly rate each pay period, multiplied by 80 hours, less any hours that are considered leave without pay. Passed by the Board of Trustees on May 18, 2004

Resolution No. 67- Allowing certain employees to sign checks and make internet transfers online. Passed by the Board of Trustees November 16, 2004

Schedule of Active and Retiree Valuation Data

Active Members					
Valuation Date	Number	Annual Payroll	Average Pay	% Increase	Inflation Increase % (CPI)
01/01/1996	165	\$ 5,783,423	\$ 35,051	3.1%	2.6%
01/01/1997	164	5,865,524	35,765	2.0%	2.9%
01/01/1998	164	6,037,925	36,817	2.9%	2.3%
01/01/1999	160	6,126,555	38,291	4.0%	1.6%
01/01/2000	157	6,167,798	39,285	2.6%	2.2%
01/01/2001	155	6,397,560	41,275	5.1%	3.4%
01/01/2002	155	6,763,524	43,636	5.7%	1.6%
01/01/2003	154	6,845,370	44,450	1.9%	2.4%
01/01/2004	148	6,897,648	46,606	4.9%	1.9%
01/01/2005	139	6,933,885	49,884	7.0%	3.3%

Retirant and Beneficiary Data			Annual Allowances							Retiree Lives as Portion of Active Members	
Valuation Date	Number Added	Number Removed	Number	Added to Roll*	Removed from Roll*	COLA*	Benefit Adjustment	Total	% Increase in Annual Allowances	Number of Lives	Allowances/Active Pays
01/01/1996	20	8	126	N/A	N/A	N/A	N/A	\$ 1,454,301	40.4%	76.4%	25.1%
01/01/1997	7	6	127	N/A	N/A	N/A	N/A	1,524,282	4.8%	77.4%	26.0%
01/01/1998	10	10	129	N/A	N/A	N/A	N/A	1,582,819	3.8%	78.7%	26.2%
01/01/1999	11	2	138	N/A	N/A	N/A	N/A	1,901,222	20.1%	87.9%	31.3%
01/01/2000	10	10	138	N/A	N/A	N/A	N/A	2,037,032	7.1%	87.9%	33.0%
01/01/2001	6	2	142	N/A	N/A	N/A	N/A	2,164,009	6.2%	91.6%	33.8%
01/01/2002	7	6	143	153,528	98,067	64,463	N/A	2,283,933	5.5%	92.3%	33.8%
01/01/2003	9	3	149	157,841	66,021	67,505	N/A	2,443,258	7.0%	96.8%	35.7%
01/01/2004	10	5	154	163,562	62,107	74,317	N/A	2,619,030	7.2%	104.1%	38.0%
01/01/2005	11	2	163	222,305	15,047	78,209	(110,784)	2,793,713	6.7%	117.3%	40.3%

*Information prior to January 1, 2002 not available

Solvency Test

Valuation Date	(1) Active Member Contributions	(2) Retirants and Beneficiaries	(3) Active Members (Employer Financed Portion)	Actuarial Value of Assets	Portion of Accrued Liability Covered by Assets		
					(1)	(2)	(3)
01/01/1996	\$ 440,933	\$ 16,483,021	\$ 15,265,818	\$ 30,143,204	100.0%	100.0%	86.6%
01/01/1997	410,404	17,018,884	16,045,678	34,435,674	100.0%	100.0%	100.0%
01/01/1998	368,911	17,508,360	16,948,875	40,932,860	100.0%	100.0%	100.0%
01/01/1999	333,959	20,600,759	19,360,253	48,031,711	100.0%	100.0%	100.0%
01/01/2000	273,780	21,915,406	19,586,431	53,398,335	100.0%	100.0%	100.0%
01/01/2001	239,334	25,057,879	23,349,127	52,329,142	100.0%	100.0%	100.0%
01/01/2002	216,625	26,641,717	23,861,847	49,513,555	100.0%	100.0%	94.9%
01/01/2003	175,931	28,516,151	23,741,406	50,458,881	100.0%	100.0%	91.7%
01/01/2004	152,915	30,734,020	24,521,288	51,439,056	100.0%	100.0%	83.8%
01/01/2005	117,921	32,683,883	24,709,690	53,036,477	100.0%	100.0%	81.9%

Analysis of Financial Experience

Year	Gain (or Loss) During Year From Financial Experience	Gain (or Loss) During Year Due To Liabilities	Composite Gain (or Loss) During Year
1995	\$ 3,749,569	\$ 889,731	\$ 4,639,300
1996	2,279,174	430,526	2,709,700
1997	4,284,414	585,177	4,869,591
1998	4,597,385	434,063	5,031,448
1999	2,576,082	676,288	3,252,370
2000	(3,842,311)	(107,604)	(3,949,915)
2001	(5,700,919)	856,995	(4,843,924)
2002	(10,249,011)	752,571	(9,196,440)
2003	(1,694,583)	(291,507)	(1,986,090)
2004	(1,381,687)	(445,053)	(1,826,740)

Summary of Plan Provisions and Changes

- A. Effective Date-** April 9, 1954, as amended and restated as of September 28, 1983, and further amended through Resolution No. 67 effective November 16, 2004.
- B. Eligibility Requirements-** All regular and permanent employees of the Utility Board shall become members of the System immediately upon completion of the probationary period. All regular and permanent employees of the Utility Board prior to October 2, 2003, became members of the System immediately upon employment.
- C. Member Contributions-** Eliminated effective October 1, 1985 (October 1, 1983 for management members.)
- D. Utility Board Contributions-** The Utility Board shall contribute an amount that will be determined annually by decision of the Utility Board.
- E. Credited Service-** Credited Service is service performed subject to a maximum of 30 years. However, any member with more than 30 years of credited service as of November 20, 1998 will be *grandfathered* under the prior 35-year cap.
- F. Average Final Compensation-** Average Final Compensation (AFC) equals the average annual pensionable earnings received during a period of the five highest years out of the last ten years of service immediately preceding retirement. Pensionable earnings are calculated using the member's base hourly rate each pay period, multiplied by 80 hours, less any hours that are considered *leave without pay*.
- G. Normal retirement-**
 - 1. Eligibility- Earliest of
 - a) Attainment of Age 60.
 - b) Completion of 30 years of credited service.With approval of the Utility Board, a member may remain in active employment beyond his normal retirement date.
 - 2. Benefit- 2.4% times AFC times years of credited service.
- H. Early Retirement**
 - 1. Eligibility
 - a) Attainment of age 55 with completion of 10 years of credited service.
 - b) Completion of 20 years of credited service.
 - 2. Benefit- Benefit as calculated for normal retirement based on credited service and AFC as of early retirement date. The member may elect to defer receipt of the benefit until the normal retirement date or alternatively, may elect a benefit reduced 5% for each year the benefit commencement date precedes normal retirement date.
- I. Disability Benefit**
 - 1. Eligibility- Totally and permanently disabled as defined under the Plan and completion of five years of credited service as of our date of disability.

Summary of Plan Provisions and Changes (Continued)

2. Benefit- Benefit as calculated for normal retirement based on credited service and average basic compensation during the three years immediately preceding disability, minimum benefit of 20% of final three-year average basic compensation at date of disability. These benefits will be offset by any benefits payable under Workers' Compensation or similar injury or disability benefit payments.

J. Pre-Retirement Death Benefit- In the case of death of a member while currently employed, the spouse or domestic partner, or children under the age of 21 if no spouse, shall receive 75% of the projected benefit which such member would have received had the member continued employment until normal retirement date at the current rate of pay. Within 90 days from the date of death, a spouse or domestic partner with children under 21 years of age may elect to continue this benefit for life of the spouse or domestic partner, or alternatively, may elect to receive 100% of the projected retirement benefit such member would have received until the youngest child is 21 years of age. Upon attainment of age 21 by the youngest child, the benefits payable to an eligible surviving spouse or domestic partner shall be reduced to 60% of the projected retirement benefit.

K. Termination Benefit- Upon termination prior to normal or early retirement date a participant shall be entitled to choose (1) or (2) below, where:

(1) is a refund of member contributions plus 1% if termination with 5 years or less of service, or 3% if termination after 5 years of service; and,

(2) is (a) x (b), where (a) is the benefit as calculated for normal retirement, based on AFC and credited service at date of termination, and (b) is a percentage as shown on the following table:

Years of Credited Service	Percentage
Less than 5	0%
5	25%
6	30%
7	40%
8	60%
9	80%
10	100%

Actuarial Section

If this option is selected, unreduced vested benefits commence as of the terminated employee's normal retirement date. Alternatively, the member may elect to commence receiving a reduced vested benefit any time after early retirement eligibility requirements are met. Such benefit is reduced 5% for each year that commencement of benefits precedes the date that the member would have been eligible for normal retirement.

- L. Normal Form of Payment-** Monthly life annuity with final payment due in month in which death occurs. Effective January 1, 1986, the monthly benefit is increased annually by 2%. The increase was changed to 3% per annum, effective January 1, 2001.
- M. Changes Since Last Valuation-** None