



San Benito Firemen's Relief and Retirement Fund

GASB 67/68 Report for
Year Ended September 30, 2016

Prepared by
Retirement Horizons Inc.
February 19, 2018



February 19, 2018

Board of Trustees
San Benito Firemen's Relief and Retirement Fund
P. O. Box 1870
San Benito, Texas 78586

Re: 2016 GASB 67 AND 2017 GASB 68 Measurements

Ladies and Gentlemen:

The Board of Trustees for the San Benito Firemen's Relief and Retirement Fund retained Retirement Horizons Inc. (RHI) to provide financial accounting and disclosure information in accordance with GASB Nos. 67 and 68 with results organized as follows:

- Section 1 – Valuation Highlights
- Section 2 – Actuarial Exhibits
- Section 3 – Valuation Basis

The net pension liability was \$2.661 million (52.9% funded status) as of September 30, 2016, compared to \$2.154 (60.5% funded status) as of December 31, 2015. The measurement date has been changed from December 31st to September 30th to align with the change in the Fund's fiscal year.

We certify the amounts presented in this report have been determined according to the actuarial assumptions and methods selected by the Board of Trustees, with review and concurrence by RHI. However, it is important to note that future results may be materially different if actual plan experience varies significantly from the underlying valuation basis. Differences could occur for a number of reasons such as plan experience differing from underlying demographic and economic assumptions, changes in the plan provisions, or changes in the law or accounting standards. Due to the limited scope of this report, an analysis of the potential range of impact on results from any such future measurements has not been performed.

The September 30, 2016 GASB 67 measurement was completed using a roll-forward of the December 31, 2015 actuarial valuation which was based upon member census data, financial information and plan provisions as provided by the Plan Administrator, with financial information provided as of September 30, 2016. We relied on the member census data provided, and performed testing as needed to assure the reasonableness of the underlying input and the results of the study, but RHI did not perform a full audit of the member census data. This measurement was also used to develop the September 30, 2017 GASB 68 measurement. These GASB 67 and 68 measurements were prepared in accordance with generally accepted actuarial principles and practices including compliance with applicable Actuarial Standards of Practice issued by the Actuarial Standards Board.

Information contained in this report was prepared for the Board of Trustees, the City of San Benito, and the respective auditors of the GASB No. 67 and 68 financial disclosure information. It is not intended for any other purposes, and it should not be distributed to any outside party without the express written consent of RHI, as significantly different results from those contained in this report may be needed for other purposes.

Board of Trustees
February 19, 2018

Please note the measurements of funded status contained in this report should not be relied upon for assessing the need for or amount of future contributions or for assessing the sufficiency of plan assets for settlement of plan liabilities for plan termination.

The undersigned has met the “Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States” and is available to respond to any questions regarding the information contained in this report or provide further details or explanations as needed, respectfully submitted by Retirement Horizons Inc.



David A. Sawyer
Fellow of the Society of Actuaries
Member of the American Academy of Actuaries

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1. Valuation Highlights

GASB 67 PLAN ACCOUNTING DISCLOSURE	December 31, 2015	September 30, 2016
Total Pension Liability	\$5,455,731	\$5,648,797
Plan Fiduciary Net Position	\$3,301,643	\$2,987,515
Fund Net Pension Liability	\$2,154,088	\$2,661,282
Effective Discount Rate	7.50%	7.50%

GASB 68 EMPLOYER ACCOUNTING DISCLOSURE	September 30, 2016	September 30, 2017
Total Pension Liability	\$5,455,731	\$5,648,797
Plan Fiduciary Net Position	\$3,301,643	\$2,987,515
Net Pension Liability	\$2,154,088	\$2,661,282
Measurement Date	December 31, 2015	September 30, 2016
Pension Expense	\$217,282	\$245,493
Effective Discount Rate	7.50%	7.50%

DEMOGRAPHICS	December 31, 2015
Active	25
Terminated with Deferred Benefits	1
Retirees and Beneficiaries in Pay	10
Total	<u>36</u>
Valuation Compensation	\$1,374,573
Average Pay	\$54,983
Average Age	36.4
Average Service	10.9

ASSUMPTIONS	
Investment Return	7.50%
Salary Scale	5.50%
Payroll Growth	4.00%

2.1 GASB 67 Accounting Information

Schedule of Changes in San Benito Firemen's Relief and Retirement Fund Net Pension Liability and Related Ratios

	<u>December 31, 2015</u>	<u>September 30, 2016</u>
Total Pension Liability		
Service Cost	\$183,882	\$136,151
Interest	\$387,907	\$300,047
Changes of benefit terms	\$0	\$0
Differences between expected and actual experience	\$35,434	\$0
Changes of assumptions	(\$387,461)	\$0
Benefit payments, including refunds of member contributions	(\$243,336)	(\$243,132)
Net change in total pension liability	(\$23,574)	\$193,066
Total pension liability - beginning	\$5,479,305	\$5,455,731
Total pension liability - ending (a)	\$5,455,731	\$5,648,797
Plan fiduciary net position		
Contributions - employer	\$173,862	\$124,833
Contributions - member	\$173,862	\$124,833
Net investment income	(\$54,606)	(\$300,446)
Benefit payments, including refunds of member contributions	(\$243,336)	(\$243,132)
Administrative expense	(\$16,031)	(\$20,216)
Other	\$0	\$0
Net change in plan fiduciary net position	\$33,751	(\$314,128)
Plan fiduciary net position - beginning	\$3,267,892	\$3,301,643
Plan fiduciary net position - ending (b)	\$3,301,643	\$2,987,515
Fund's net pension liability - ending (a) - (b)	\$2,154,088	\$2,661,282
Plan fiduciary net position as a percentage of the total pension liability	60.5%	52.9%
Covered-employee payroll	\$1,448,850	\$1,040,275
Fund's net position liability as a percentage of covered employee payroll	148.7%	193.4%

Notes to Schedule: Covered-employee payroll is estimated using firefighter contributions divided by the contribution percentage. The Fund's FY 2016 net pension liability as a percentage of covered employee payroll was based on the annual compensation for the twelve month period ending September 30, 2016 rather than the nine months of payroll shown above.

2.1 GASB 67 Accounting Information (continued)

Schedule of San Benito's Contributions

	<u>December 31, 2015</u>	<u>September 31, 2016</u>
Actuarially determined contribution	\$347,724	\$249,666
Contributions in relation to the actuarially determined contribution	\$347,724	\$249,666
Contribution deficiency (excess)	\$0	\$0
Covered-employee payroll	\$1,448,850	\$1,040,275
Contributions as a percentage of covered-employee payroll	24.0%	24.0%

Notes to Schedule

Valuation date: December 31, 2015

Contributions to the fund are based on negotiations between the members and the City rather than an actuarially determined rate. The funding policy of the San Benito Firemen's Relief and Retirement Fund requires contributions from both the City and the firefighters. The City's contribution rate is currently 12.00% of member payroll with each active member contributing 12.00% of member payroll.

There were no changes to assumptions, methods or plan provisions since the prior valuation.

Inflation:	2.50%
Payroll Growth:	4.00%
Salary Increases:	5.5% per annum.
Investment Rate of Return	7.50% net of pension plan investment expenses
Mortality:	RP-2014 mortality tables with blue collar adjustment, projected back to 2006 using Scale MP-2014 and forward generationally using Scale MP-2015

2.1 GASB 67 Accounting Information (continued)

Notes to Schedule

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocations as of September 30, 2016 (see the discussion of the pension plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity	6.5%
Fixed Income	4.0%
Cash	0.0%

Discount rate: The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that the City contribution would equal the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension investments was applied to all period of benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the Discount rate: The following presents the net pension liability of the City, calculated using the discount rate of 7.50% as well as what the City's net pension liability would be if it were to be calculated using the discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
City's net pension liability	\$3,444,335	\$2,661,282	\$2,013,665

Schedule of Investment Returns

Fiscal Year Ending

	<u>12/31/2015</u>	<u>9/30/2016</u>
Annual money-weighted rate of return, net of investment expense	-1.65%	-11.98%

2.2 GASB 68 Accounting Information

Changes in Net Pension Liability

The Net Pension Liability amounts shown below assume the City will use a measurement date equal to the Fund's prior fiscal year end. Please note: The Fund changed its fiscal year from calendar year to one ending September 30, 2016. Under this method, the City's fiscal year end September 30, 2016 reporting period would use the Fund's December 31, 2015 valuation results, but the City's fiscal year end September 30, 2017 reporting period would use the Fund's September 30, 2016 valuation results.

	Increase (Decrease)		
	Total Pension Liability (TPL)	Plan Fiduciary Net Position	Net Pension Liability (NPL)
Balance at 9/30/2016	\$5,455,731	\$3,301,643	\$2,154,088
Changes for the year:			
Service Cost	136,151		136,151
Interest	300,047		300,047
Experience	-		-
Employer Contributions		124,833	(124,833)
Member Contributions		124,833	(124,833)
Net Investment Income		(300,446)	300,446
Benefit Payments	(243,132)	(243,132)	-
Administrative Expense		(20,216)	20,216
Assumption Changes	-		-
Net Change	193,066	(314,128)	507,194
Balance at 9/30/2017	<u>\$5,648,797</u>	<u>\$2,987,515</u>	<u>\$2,661,282</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate.

The following presents the net pension liability, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease 6.50%	Current Discount Rate of 7.50%	1% Increase 8.50%
Firefighters' Fund Net Pension Liability	\$3,444,335	\$2,661,282	\$2,013,665

2.2 GASB 68 Accounting Information (continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension Expense Components	FYE 9/30/2017
Service Cost	\$ 136,151
Interest on TPL	300,047
Differences between expected and actual experience	2,986
Changes in Assumptions	(32,651)
Changes in Benefit Terms	-
Employee Contributions	(124,833)
Projected Earnings on Pension Plan Investments	(185,333)
Differences between projected and actual earnings on plan investments	128,910
Pension Plan Administrative Expenses	20,216
Other Changes in Fiduciary Net Position	-
Total Pension Expense	<u>\$ 245,493</u>

For the year ended September 30, 2017, the City recognized pension expenses of \$245,493. At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	28,467	-
Changes in assumptions	-	311,275
Net difference between projected and actual investment earnings	638,327	-
City Contributions subsequent to Measurement Date	<u>To be determined</u>	<u> </u>
Total	To be determined	311,275

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30:	
2018	\$132,325
2019	\$132,325
2020	\$119,248
2021	\$71,925
2022	(\$15,266)
Thereafter	(\$85,038)

3.1 Demographic Summary

	<u>December 31, 2013</u>	<u>December 31, 2015</u>
A. Active Members		
1. Number	25	25
2. Valuation Compensation	\$1,220,173	\$1,374,573
3. Average pay	\$48,807	\$54,983
4. Average age	36.4	36.4
5. Average service	11.4	10.9
B. Terminated Vested Members - Deferred Contribution Refund		
1. Number	1	1
2. Total benefits	\$3,035	\$5,112
3. Average Annual benefits	\$3,035	\$5,112
4. Average Age	25.9	27.0
C. Terminated Vested Members - Deferred Annuity		
1. Number	1	0
2. Total benefits	\$31,452	\$0
3. Average Annual benefits	\$31,452	N/A
4. Average Age	51.0	N/A
D. Retired and Disabled Members		
1. Number	8	10
2. Total benefits	\$166,761	\$230,816
3. Average Annual benefits	\$20,845	\$23,082
4. Average Age	60.5	61.4
E. Beneficiaries		
1. Number	0	0
2. Total benefits	\$0	\$0
3. Average Annual benefits	N/A	N/A
4. Average Age	N/A	N/A

3.2 Data Reconciliation

	<u>Active</u>	Deferred <u>Inactive</u>	<u>Disabled</u>	<u>Retired</u>	<u>Total</u>
Included in December 31, 2013 Valuation	25	2	1	7	35
Change Due To:					
New hires and rehires	9	(1)	0	0	8
Termination (Vested)	(1)	1	0	0	0
Termination (Nonvested)	0	0	0	0	0
Retirement	(1)	(1)	0	2	0
Disability	0	0	0	0	0
Death without beneficiary	0	0	0	0	0
Death with beneficiary	0	0	0	0	0
Cashouts	(7)	0	0	0	(7)
Data corrections	0	0	0	0	0
Net change	<u>0</u>	<u>(1)</u>	<u>0</u>	<u>2</u>	<u>1</u>
Included in December 31, 2015 Valuation	<u>25</u>	<u>1</u>	<u>1</u>	<u>9</u>	<u>36</u>

3.3 Active Members by Age and Service

Attained Age	Years of Service as of December 31, 2015							Total
	0-4	5-9	10-14	15-19	20-24	25-29	30 & up	
Under 25	4	0	0	0	0	0	0	4
25-29	4	0	0	0	0	0	0	4
30-34	2	2	0	0	0	0	0	4
35-39	0	0	5	0	0	0	0	5
40-44	0	0	2	1	0	0	0	3
45-49	0	0	0	0	2	0	0	2
50-51	0	0	0	0	1	0	0	1
52-54	0	0	0	0	0	0	0	0
55-59	0	0	0	0	0	1	1	2
60 & up	0	0	0	0	0	0	0	0
Total	10	2	7	1	3	1	1	25

Not Vested	Vested	Retirement Eligible
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3.4 Assumptions and Methods

Economic Assumptions

Interest Rates:

- Investment Return 7.50% per annum (net of investment expenses).
- Administrative Expense 0.75% per annum.
- Salary Increases 5.50% per annum.
- Total Payroll Growth 4.00% per annum.

Demographic Assumptions

- Mortality
 - Healthy RP-2014 Blue Collar Mortality tables adjusted backward to 2006 with Scale MP-2014 and projected with Scale MP-2015.
 - Disabled Disabled firefighters are assumed to experience higher mortality during their disability as based on the RP-2014 Disabled Mortality tables adjusted backward to 2006 with Scale MP-2014 and projected with Scale MP-2015.
- Termination Custom table based on service of firefighter.

Sample rates per 100 firefighters:

<u>Service</u>	<u>Rate</u>
1	10.70
6	5.40
11	2.80
16	1.80

3.4 Assumptions and Methods (continued)

- **Disability** Active firefighters are assumed to incur disabilities based on experience firefighter rates that vary by age as shown below, assuming 50% of future disabilities are duty related and 50% non-duty related. Sample rates per 100 firefighters are shown below:

<u>Age</u>	<u>Rate</u>
25	0.06
30	0.08
35	0.10
40	0.23
45	0.39
50	0.70

- **Retirement** Custom table based on age of the firefighter, resulting in an average retirement age of 54.2:

<u>Age</u>	<u>Rate</u>
52-59	20%
60	100%

- **Marital Status** 80% of all active firefighters are assumed to be married at the time benefits commence. Males are assumed to be two years older than their spouses.

- **Changes in Assumptions** There have been no changes in actuarial assumptions from the prior valuation.

3.4 Assumptions and Methods (continued)

Methods

Valuation Date	December 31, 2015
Valuation Compensation	Valuation Compensation is equal to the actual pension eligible compensation for the current active members projected one year into the future using the salary scale.
Asset Valuation Method	Actual Market Value
Entry Age Normal Actuarial Cost Method	<p>The <u>Entry Age Normal Actuarial Cost Method</u> is a method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age. The portion of this actuarial present value allocated to a valuation year is called the <i>normal cost</i>. The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is called the <i>actuarial accrued liability</i>.</p>
Changes in Methods	There have been no changes in the actuarial methods from the prior valuation.

3.5 Plan Provisions

Effective Date

The Plan was most recently amended to increase the benefit formula with an effective date of December 1, 2013.

Eligibility

A firefighter shall become a participant when he first becomes employed with the San Benito Fire Department.

Service

A firefighter receives credit for the number of years and months of continuous employment with the Fire Department. The records of the Fire Department will determine service prior to 1990. After January 1, 1990, service will be credited for each month the firefighter holds a position in the Department and contributes to the plan.

Compensation

Compensation includes all elements of pay except lump sum distributions for unused sick leave or vacation.

Highest 60-Month Average Salary is the average of the firefighter's total pay for the highest 260 weekly pay periods with the department during which his total pay was the highest multiplied by 4.333.

Contributions

The City contributes 12.00% of compensation. Active firefighters contribute 12.00% of their compensation.

The City may elect to contribute amounts that exceed those required amounts.

3.5 Plan Provisions (continued)

Service Retirement

The retirement eligibility date is the attainment of age 52 and the completion of 20 years of service.

Each firefighter who retires on or after his retirement eligibility date receives a monthly retirement income equal to the sum of (a) and (b), where:

- (a) A base benefit of 45.00% of the Highest 60-Month Average Salary; plus
- (b) A longevity benefit equal to \$70 per month for each whole year of service in excess of 20 years. Partial credit will be given to a year based on the number of completed months of service.

Disability Retirement

An active firefighter is eligible for a disability benefit if he becomes disabled from any cause and is unable to perform the duties of a position offered to him in the fire department at an equal or higher pay level.

The disability allowance will commence after the expiration of all vacation and sick leave, and will continue as long as the participant remains disabled as defined above.

The monthly benefit for duty-related disability is determined in the same manner as Service Retirement as defined above. The monthly benefit for non-duty-related disability is determined as 5% of the duty-related disability benefit for each completed year and fractional year of service (maximum 100%).

The Board of Trustees shall have the ability to continue, to terminate, to reduce or to reinstate a firefighter's disability benefit based on prescribed conditions as defined in the plan document.

3.5 Plan Provisions (continued)

Termination Benefit

Upon a firefighter's termination, he is eligible for a deferred benefit if he has completed at least 10 years of service and agrees to leave his contributions in the Fund.

The monthly benefit is equal to his service retirement benefit determined as of the date of separation from service multiplied by the Vested Percentage based on his years and completed months of service at time of termination, as illustrated in the following schedule:

Years of Service	Vested Percentage
10	50%
11	55%
12	60%
13	65%
14	70%
15	75%
16	80%
17	85%
18	90%
19	95%
20	100%

Full benefits may not commence prior to the end of the month of attainment of age 52.

Refund of Contributions

If a firefighter terminates with less than 10 years of service, he will receive an amount equal to the excess of his own contributions to the fund over the amount of benefits that he has previously received from the fund. A firefighter with 10 or more years of service may elect a refund of his own contributions, however he will forfeit his right to all future benefits he otherwise would have been entitled to receive.

3.5 Plan Provisions (continued)

Pre-Retirement Death Benefit

Upon the death of an active firefighter, a benefit is payable to his beneficiaries commencing at the end of the month of death.

➤ Spouse

The duty-related death benefit payable to the eligible surviving spouse of a firefighter who was not yet eligible for retirement is equal to 2/3 of the Service Retirement Benefit the firefighter would have been entitled to receive as of the date of death (using the maximum of service at date of death or 20 years). This benefit shall be paid as long as the surviving spouse is living and does not remarry. The not duty-related death benefit payable to the eligible surviving spouse of a firefighter is equal to 5% of the on-duty death benefit for each completed year and fractional year of service (maximum 100%).

➤ Child

Each surviving unmarried child under age 18 shall receive a monthly benefit equal to 7.6% of the Highest 60-Month Average Salary of the firefighter as of the date of death. If there is no surviving spouse, an unmarried child will receive 15.2% of the Service Retirement Benefit the firefighter would have been entitled to receive. This death benefit shall be paid until age 18, or continue until age 25 as long as the child remains a full-time student. In addition, benefits are payable after age 17 for as long as a child remains totally disabled.

Post-Retirement Death Benefit

Upon the death of a service retiree or disabled retiree, a benefit is payable to his beneficiaries commencing at the end of the month of death.

➤ Spouse

The benefit payable to the eligible surviving spouse of a service retiree or disabled retiree is equal to 2/3 of the Service Retirement or Disability Retirement Benefit the firefighter was receiving as of the date of death. This benefit shall be paid until the spouse's death or remarriage.

➤ Child

Same as Pre-Retirement Child Death Benefit.

3.5 Plan Provisions (continued)

Limitation on Death Benefits

The sum of all death benefits payable on behalf of a retired firefighter may not exceed the benefit he was receiving as of the date of his death. The sum of all death benefits payable on behalf of a non-retired firefighter may not exceed the retirement benefit that he would have been entitled to receive as of his date of death. In the event this limit is exceeded, each beneficiary's benefit is reduced pro-rata until the limit is met.

Partial Lump Sum Option (PLSO)

A firefighter eligible for normal service retirement who is at least age 55 with at least 23 years of service can elect the PLSO option. At retirement the firefighter will receive a reduced monthly benefit based on the service retirement benefit formula multiplied by a percentage factor based on the firefighter's age at retirement and the number of months included in the PLSO lump sum elected by the retiring firefighter. In addition, the firefighter will receive a lump sum amount based on the reduced monthly benefit multiplied by the number of applicable months elected.

Changes in plan provisions

There were no changes in plan provisions since the prior valuation.