

ALABAMA PEACE OFFICERS'

514 SOUTH MCDONOUGH STREET

MONTGOMERY, AL 36102-2186



ANNUITY & BENEFIT FUND

P. O. BOX 2186

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Update on Annuity Fund's Legislative Efforts

March 17, 2015

- HB 65 (sponsored by Representative Connie Rowe of Jasper) and SB 173 (sponsored by Senator Jimmy Holley of Elba) have been introduced in the 2015 Regular Session.
- HB 65 has come out of the Public Safety Committee in the House of Representatives and passed the House of Representatives on 3/17/2015 by a 97-0 vote and SB 173 has come out of the Governmental Affairs Committee in the Senate.
- Please see the attached copies of the bills, talking points of the Fund's efforts, and a copy of the Fund's legislative efforts, and a copy of the Fund's letter from the Actuary which is the basis for the Fund's legislative efforts.
- The Fund will update the website as the Legislation moves forward through the legislative process. Thank you for your interest and please encourage your legislators (Representatives and Senators) to support the respective bills (HB 65 and SB 173).

Talking Points for HB 65 and SB 173

- The Alabama Peace Officers' Annuity & Benefit Fund is a State of Alabama Agency (Board) created by the Legislature in 1969. The Fund provides retirement, disability, and death benefits to full time peace officers that choose to join (voluntary) the Fund.
- The Annuity Fund is funded through member contribution (currently \$20 a month) and fees from court costs in Municipal, Circuit, and District Court.
- As the internal costs of the Annuity Fund and all retirement plans continued to increase and the amount the Fund receives from cities and the state has been erratic, the Actuary has told the Board of Commissioners they SHALL (per the Fund's Code have to do one of two things:
 - a) Alter the membership contributions up to \$30 per month
 - b) Cut all benefits by 15%
- This legislation asks the legislature to allow the Board of Commissioners to set the membership contribution rate a rate recommended by the Actuary (indicated to be \$30) up to \$40 and gives the authority to adjust if needed.
- The legislation also address on page 4 a clause suggested by the Funds' Attorney in the Attorney General's office which would confirm the Fund's legal immunity should they have to adjust the benefits as recommended by the Actuary.

1 HB65
2 164663-2
3 By Representative Rowe
4 RFD: Public Safety and Homeland Security
5 First Read: 03-MAR-15

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8 SYNOPSIS: Under existing law, applicants for
9 membership in the Alabama Peace Officers' Annuity
10 and Benefit Fund pay an initial fee of \$20 and \$20
11 per month for as long as they maintain their
12 membership.

13 This bill would authorize the board to
14 charge an initial fee and a monthly fee of up to
15 \$40 based on the recommendation of an actuary
16 employed by the board taking into consideration the
17 cost of operating the fund.

18 Under existing law, the actuary employed by
19 the board determines what adjustments to the
20 proposed payments, annuities, and benefits may be
21 paid if the fund is to be kept on an actuarially
22 sound basis, and the board adjusts benefits up or
23 down as recommended by the actuary.

24 This bill would clarify the manner in which
25 adjustments are made.

26
27 A BILL

1 TO BE ENTITLED

2 AN ACT

3
4 To amend Sections 36-21-68 and 36-21-73 of the Code
5 of Alabama 1975, to provide that the membership fees for the
6 Alabama Peace Officers' Annuity and Benefit Fund would be set
7 by the board up to a certain amount based on the
8 recommendation of the actuary of the board; and to clarify
9 that adjustments to benefits are calculated based on the
10 recommendation of the actuary.

11 BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

12 Section 1. Sections 36-21-68 and 36-21-73 of the
13 Code of Alabama 1975, are amended to read as follows:

14 "\$36-21-68.

15 "Nothing in this article shall be construed as
16 requiring that any member of the fund become a member of the
17 association or the order, or that any member of the
18 association or the order become a member of the fund.

19 "Each peace officer who becomes a member shall pay
20 to the fund a regular fee ~~of twenty dollars (\$20) per calendar~~
21 month in an amount of up to forty dollars (\$40) to be
22 determined by the Board of Commissioners based upon the
23 recommendation of the actuary, to be paid on or before the
24 tenth calendar day of each month so long as he or she is a
25 member or until he or she becomes entitled to benefits
26 hereunder. A member who has 30 years of qualified service in
27 the fund and having met all other requirements of the law and

1 thereby having earned maximum benefits provided will no longer
2 be required to make monthly contributions for his or her
3 membership and will retain all of the rights and privileges as
4 provided any other member.

5 ~~"Six months from the passage of this section, all~~
6 All applicants for membership must join the fund with the
7 initial fee ~~of twenty dollars (\$20) and twenty dollars (\$20)~~
8 ~~per month~~ as determined by the board based on the
9 recommendation of the actuary and a monthly fee set by the
10 board in the same manner as long as they maintain their
11 membership, with no regard given for law enforcement service
12 prior to the date of application.

13 "If any member shall not pay the monthly fee for 60
14 days after its due date, the board shall give him or her
15 notice of termination of his or her membership in the fund and
16 of his or her right to a refund and unless he or she makes
17 application for a refund pursuant to Section 36-21-74 within
18 60 days after the mailing of the notice, all amounts
19 heretofore paid by him or her to the fund shall be returned to
20 him or her in accordance with Section 36-21-74. Any member so
21 terminated who later applies for membership in the fund shall
22 lose credit for all of his or her qualified service up to the
23 time of such termination and, upon approval of his or her new
24 application, will become a new member in the fund.

25 "§36-21-73.

26 "The board shall have appointed and employed an
27 actuary to make an actuarial valuation every three years or

1 earlier, if deemed required, of the receipts and income
2 accruing to the fund based on age, expected mortality,
3 disability, and retirement status of the members and the
4 qualified service and membership service of members and to
5 determine what percentage of the proposed payments, annuities,
6 and benefits set forth in this article may be paid if the fund
7 is to be kept on an actuarially sound basis and in an actuarially
8 solvent condition. Upon receipt of the report of the actuary,
9 the executive director shall present it to a meeting of the
10 board which shall have the power and shall be required to make
11 adjustments of annuities and benefits, up or down, as are
12 recommended by the actuary. Any increase or reduction in
13 benefits resulting from any actuarial study or from any
14 subsequent amendment of this article shall be applicable to
15 all persons then receiving such benefits, even though such
16 persons had theretofore received benefits at a different rate.

17 "In no event shall the board, the fund, the
18 association, the order, or any member, officer, director, or
19 employee of any thereof or the state or any subdivision
20 thereof or any municipality therein be liable to any member or
21 any beneficiary or any representative of any member or any
22 beneficiary of the fund for any deficiency in payments made
23 pursuant to this article and pursuant to any ~~pro-rata~~
24 ~~reduction of annuities or benefits~~ adjustments of annuities
25 and benefits, up or down, as are recommended by the actuary."

1 Section 2. This act shall become effective
2 immediately following its passage and approval by the
3 Governor, or its otherwise becoming law.

1 SB173
2 164663-2
3 By Senator Holley
4 RFD: Governmental Affairs
5 First Read: 10-MAR-15

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14 subsequent amendment of this article shall be applicable to
15 all persons then receiving such benefits, even though such
16 persons had theretofore received benefits at a different rate.

17 "In no event shall the board, the fund, the
18 association, the order, or any member, officer, director, or
19 employee of any thereof or the state or any subdivision
20 thereof or any municipality therein be liable to any member or
21 any beneficiary or any representative of any member or any
22 beneficiary of the fund for any deficiency in payments made
23 pursuant to this article and pursuant to any ~~pro rata~~
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Cavanaugh Macdonald

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The experience and dedication you deserve

February 24, 2015

Mr. John Hixon
Executive Director
Alabama Peace Officers'
Annuity and Benefit Fund
Montgomery, AL 36102-2186

Re: Recommendation to the Board

Dear John:

In a prefunded pension system, there are two constraints in regard to the system's ability to meet its obligations. The first is the money coming into the plan in the form of member and employer contributions, which is invested to develop a pool of assets and the second is the benefit payments which will be paid from the pool of assets as members retire. Over the long run these two amounts must be equal. If contributions to the System along with anticipated investment income are not sufficient to support the benefit payments, one of three things must occur. The contributions must be increased, the investment income must be increased or the benefit payments must be decreased to maintain the balance. Since it is not reasonable to assume the anticipated investment income will increase, increasing contributions or reducing benefits are the only two options available.

As you know, the Fund receives revenue from two sources. The first is member contributions which are contributed on a monthly basis until the member has 30 years of qualified service. The member contributions are currently set in statute and are equal to \$20 dollars per month. The second source is from the State in the form of court fees based on a flat dollar schedule for different types of court fees, CDL application fees and vehicle reinstatement fees. Based on the most recent actuarial valuation as of October 1, 2014, dated January 26, 2015, the Fund received a total of \$3,667,421 from the State for the fiscal year ended September 30, 2014.

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As part of the annual valuation, a 30 year projection of the Fund's assets and liabilities was performed under varying levels of State contributions ranging from \$3.4 million to \$4.0 million to determine the actuarial health of the Fund. Unfortunately, the results indicated that if the fund continued receive \$3,667,421 from the State, the projected funded ratio will decline from 33% to 16% over the next 30 years which will eventually lead to insolvency. Clearly, this is a situation where the contributions coming into the Fund are not sufficient to support the long term benefit obligation of the Fund. As a result, contributions must be increased or the Board must take action to reduce benefits by September 30, 2015.

In the past, there have been efforts to increase contributions payable by the State either through legislation or special appropriations. These efforts have either not been permanent, in the case of special appropriations, or the actual revenue did not match the anticipated revenue in regard to legislative increases. At this point, the only other source of additional funding available to the Fund is to increase the member contribution rate. It is our understanding that the Board is seeking legislation that would allow the Board to set the member contribution rate to any amount less than or equal to \$40 dollars per month as recommended by the Board's Actuary. Based on this, we recommend a \$10 per month increase to the member contribution rate to \$30 per month. This would considerably improve the long term outlook of the fund. The funded ratio is projected to increase from 33% to 70% over the next 30 years with the increase of the member monthly contribution rate. If the member contribution rate is not increased by \$10 then we recommend a 15% across the board reduction in benefits for current and future retirees of the Fund. Keep in mind, the recommended increased member contribution rate or the recommended across the board benefit reduction is in response to the current financial status of the Fund. If the financial status of the Fund were to improve more quickly than anticipated over the next thirty years it could be possible to reverse these changes based upon current statute and possible proposed legislation.

The projections presented to the Board and the basis for our recommendation are designed to identify anticipated trends and to compare various scenarios rather than predicting some future state of events. The projections are based on the Funds estimated financial status on October 1, 2014, and project future events using one set of assumptions out of a range of many possibilities. A different set of assumptions would lead to different results. The projections do not predict the Fund's financial condition or their ability to pay benefits in the future and do not provide any guarantee of future financial soundness of the Systems. Over time, a defined benefit plan's total cost will depend on a number of factors, including the amount of benefits paid, the number of people paid benefits, the duration of the benefit payments, plan expenses, and the amount of earnings on assets invested to pay benefits. These amounts and other variables are uncertain and unknowable at the time the projections were prepared. Because not all of the assumptions will unfold exactly as expected, actual results will differ from the projections. To the extent that actual experience deviates significantly from the assumptions, results could be significantly better or significantly worse than indicated in this study.

If you have any question, please give me a call.

Respectfully submitted,

Todd B. Green, ASA, FCA, MAAA
Principal and Consulting Actuary

ALABAMA PEACE OFFICERS'

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March 6, 2015

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Dear Member:

As mentioned in prior letters, the Alabama Peace Officers' Annuity and Benefit Fund has struggled with the fluctuation of our primary source of funding from Court Costs (municipal, district, and circuit court). As the costs for funding retirement benefits has continued to rise, the erratic nature of Fund revenue has continued to concern the Board of Commissioners for the past several years.

As city and state resources have diminished since the recent recession **the volume of tickets written and paid, which is the largest contributor to the Annuity Fund receipts, has substantially declined.** Cavanaugh Macdonald Consultants, the Fund's Actuary, has suggested the Board of Commissioners adjust the active member contributions to an amount to be set by the Actuary (approximated at \$30 per month) through legislation in the 2015 Regular Legislative Session. If that can't be accomplished, Cavanaugh Macdonald Consulting has recommended a 15% reduction in benefits effective 9/30/15 (to include retirement, disability & death benefits).

The Board will inform you of any steps they are compelled to take later in the year. Alabama Code 36-21-73 states "the Board shall have the power and **shall be required to make adjustments of annuities, up or down, as recommended by the actuary.**" This action would be done to assure the continued solvency of the Fund and have the benefits available for generations to follow and would also allow the Board the flexibility to return the member contributions or benefits to current levels if the funding conditions allow.

Please refer to the Fund's website, www.apoabf.alabama.gov for information and updates on legislative activity as it is available.

Please know the Board of Commissioners is constantly searching legislatively and otherwise for new and recurring revenue sources and will continue to work diligently to continue your benefits.

Sincerely,

John E. Hixon, Jr.
Executive Director

JEH:nb