

CITY OF ATLANTIC BEACH

PENSION BOARDS' OF TRUSTEES

SPECIAL MEETING

PUBLIC NOTICE

NOTICE IS HEREBY GIVEN THAT THE ATLANTIC BEACH GENERAL EMPLOYEES' AND ATLANTIC BEACH POLICE OFFICERS PENSION BOARDS' OF TRUSTEES WILL MEET AS FOLLOWS:

PLACE: COMMISSION CHAMBERS
800 Seminole Road
Atlantic Beach, FL 32233

DATE: March 21, 2011

TIME: 8:00 A.M.

THE ABOVE SPECIAL MEETING IS OPEN TO THE PUBLIC.

In accordance with the Americans with Disabilities Act, persons needing a special accommodation to participate in this proceeding should contact Finance Department, Nelson Van Liere at 247-5807 or at City Hall, 800 Seminole Road.

FOR ADDITIONAL INFORMATION OR QUESTIONS CONTACT:

CITY OF ATLANTIC BEACH
FINANCE DEPARTMENT
PHONE 247-5807

Notice Posted: 03/16/11
Posted by: Nelson Van Liere

CITY OF ATLANTIC BEACH
BOARD OF TRUSTEES OF THE ATLANTIC BEACH PENSION FUNDS
BOARDS' SPECIAL MEETING AGENDA FOR
March 21, 2011 at 8:00 A.M.

1. Call to Order both boards
2. Adopt recommended assumption changes for the General Employees' & Police Officers' Pension form Gabriel, Roeder Smith & Company
3. Any New Business
4. Adjournment – General
5. Adjournment – Police



March 8, 2011

Mr. Nelson Van Liere
Administrator
City of Atlantic Beach Police Officers Retirement System
800 Seminole Road
Atlantic Beach, Florida 32233

Re: Follow-up on Actuarial Experience Study for Police Officers Retirement System

Dear Mr. Van Liere:

Gabriel, Roeder, Smith & Company (GRS) was engaged by the Police Officers Retirement System Board of Trustees to perform an actuarial experience study (aka: a comprehensive assumption review). As previously discussed, an actuarial experience study is recommended to be performed every five years or so (recommended by GRS, by the Government Finance Officers Association and by others).

We are writing to follow up on our formal report concerning the actuarial experience study. The Board did not come to any final decisions at its meeting held on February 17. We are writing to suggest that the Board reconvene after now having more time to digest the report and consider the issues, so that it can make some final decisions concerning the actuarial assumptions. The regular annual actuarial valuation report (as of October 1, 2010) needs to be completed and approved based on any changes to the assumptions adopted by the Board.

The purpose of an actuarial experience study is to provide the actuary with data and trends so that he or she can recommend to a pension board whether any changes in actuarial assumptions are justified. The annual actuarial valuation process projects the retirement plan's covered membership and their salaries and benefits for many years (decades) into the future. Based on these projections, the actuary determines (a) how much the city must contribute in the next year in order to stay on a sound actuarial path toward discharging its funding obligation to the plan and (b) where the plan currently stands on that path. While each year's actuarial valuation report is self-correcting in its recognition of each year's new census, salaries and fund value, the actuarial valuation is based upon assumptions and projections of many moving parts for many years into the future.

The actuary's role in an actuarial experience study is to serve as the subject matter expert to advise the Board members of the methods and results of the analysis, and to give the Board guidance by way of recommendations regarding these actuarial assumptions. There is some amount of judgment involved and the final decisions rest with the Board. Annual actuarial valuations are only as good as the assumptions employed. Board members have a fiduciary responsibility to re-visit the actuarial assumptions periodically to ensure that the assumptions used continue to be reasonable. The city manager and finance director must also have confidence that the actuarial assumptions are reasonable since they are responsible for issuing financial statements that are in conformance with generally acceptable accounting principles. Therefore, the demographic and economic assumptions must be reviewed periodically to ensure they are reasonable.

In order to project the plan's membership and benefits for many years into the future, certain *demographic assumptions* must be made regarding future employee turnover and retirement rates, disability and mortality rates, future salary increases and price inflation (although these two might be more properly considered economic assumptions). These assumptions must be reasonable, reflecting: (a) to some extent national demographic trends (particularly for mortality rates), (b) to some extent the recent past experience of the plan's own membership, and (c) to some extent management's expectations of future workforce and salary trends with consideration given as to whether the future might likely be similar or different from what we see in the recent past. We consider the demographic assumptions presented and labeled in our report as "recommended" as being reasonable demographic assumptions to employ. We recommend the Board adopt them for use beginning with the October 1, 2010 actuarial valuation. These demographic assumptions discussed in our report are not intended to serve as a menu from which the Board can pick and choose. The Board should simply adopt reasonable best estimates for each assumption.

In addition to demographic assumptions, the most important *economic assumption* employed in the actuarial valuation process is the long-term expected rate of return of the pension fund. The ongoing and long-term cost to taxpayers depends to a large degree upon the effectiveness of the pension fund to generate earnings over a long period of time. The pension fund's long-term actual rate of return significantly affects the cost to taxpayers. Consequently, the contributions paid by the city (taken from taxes) and the liability reflected in the city's financial statements should reflect a reasonable expectation of the pension fund's long-term rate of return. Both the contributions and the financial statements need to reflect the expected cost to taxpayers. Some argue that the Board's decision about the long-term expected rate of return (and demographic assumptions) should be their collective best estimate, based on all the facts and opinions available.

This particular assumption is unique because there are many others in the investment profession, more qualified than actuaries, to provide the Board with portions of the input regarding its decision. Accordingly, GRS maintains a survey of the long-term expected rates of return published and employed by various investment experts (all with substantial experience providing investment consulting services to pension funds). We provided the expected returns of ten investment experts in our report. Based on central tendency and consensus of these ten investment experts and based on the pension fund's current investment policy on asset allocation (50/50), we recommended a range of 6.50% to 7.25% for the Board's consideration of its assumption as to the long-term expected rate of return, down from the current 8%. The top end of that range, 7.25%, would be a reasonable choice until reviewed again in five years. Of course, any assumption can be changed prior to the next experience study if advisable.

The most common long-term expected rate of return used in actuarial valuations nationally has been 8%, like yours. There appears to be some movement among actuaries, investment consultants and Boards across Florida (and the country) that reductions from 8% to something down in the 7.X% range are appropriate.

Following are a few options for the Board to consider regarding the long-term expected rate of return:

1. The Board may feel comfortable with a more optimistic view of the future, resulting in the selection of long-term expected rate of return that is higher than the upper end of our recommended range. That is okay if it is the Board's collective view of the future.
2. If the Board wishes to rely more on the forecasts of its own investment consultant (MSSB) than on those of several others, and lean more on the 50th percentile of MSSB's forecasts, that's fine too. That 50th percentile is 8.00%, as shown on page 27 of our report.
3. It has been suggested that the Board could start with the Geometric Net Nominal Return of MSSB and adopt an assumption that is one standard deviation from their forecast. That would result in an assumption of 6.18%.
4. Actuarial Standards of Practice No. 27 defines a range of reasonableness as lying between a 25th percentile and a 75th percentile. This range of reasonableness is 6.78% to 9.23% if based on MSSB's forecasts, or is 5.03% to 7.88% if based on the average of 10 investment consultants' ranges of reasonableness.
5. Given all the possibilities and options, our recommended range was 6.50% to 7.25%, with 7.25% being a reasonable choice until reviewed again.
6. Some Boards are choosing to adopt a lower rate, but take a few years to get down to it. In this case, for example, the Board could adopt the 7.25% as its ultimate goal, but get to that end by adopting a ramp-down schedule of 7.75% for this 2010 valuation, 7.5% for 2011 and 7.25% for the 2012 valuation. Alternatively, the Board could adopt 7.85% for 2010, 7.70% for 2011, 7.55% for 2012, reaching the ultimate goal of 7.25% for 2013 valuation. Other Boards have adopted this approach merely to grade into the higher contribution requirement that is considered too high to absorb all in one step. This may be simply delaying the inevitable, but we mention it because some Boards have adopted this ramp-down approach.

We wish there were a generally accepted and disciplined process that would lead us and the Board to a nice, packed, single answer for the long-term expected rate of return. But there cannot be such a process because no process or person can know the future with any certainty. No one has a crystal ball to know for sure how the demographic rates will play out over the long term or what the long-term *actual* rate of return will be. So the actuary must apply the best science available and generally acceptable and commonly employed to inform the Board for its decision.

Board members should not permit the resulting contribution requirement or the resultant funded ratio to have any significant influence over what it collectively considers a best estimate of the future. The Board should think of its decision about its best estimate of the future as independent of the end result. Some may argue that this is too much of a purist position, and that a Board cannot

Mr. Nelson Van Liere
March 8, 2011
Page 4

ignore the implications of its decisions about assumptions especially since there is no single right answer. We recognize that practical reality. However, our role is to provide our recommendations and the reasons and process, while the Board's role is to make the final decisions.

We recommend erring on the side of conservatism in setting these assumptions, i.e., adopt assumptions that produce contribution results that are a little on the higher side.

In any event the Board should meet to make a final decision on the whole set of assumptions as soon as possible so that we can complete our regular annual valuation report.

The undersigned is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. Circular 230 Notice: Pursuant to regulations issued by the IRS, to the extent this communication (or any attachment) concerns tax matters, it is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or (ii) marketing or recommending to another party any tax-related matter addressed within. Each taxpayer should seek advice based on the individual's circumstances from an independent tax advisor. This communication shall not be construed to provide tax advice, legal advice or investment advice.

Sincerely,



James J. Rizzo, ASA, MAAA, FCA
Senior Consultant & Actuary

25

Actuarial Experience Study for the City of Atlantic Beach Police Officers' Pension Plan as of September 30, 2010

**CITY OF ATLANTIC BEACH
POLICE OFFICERS' PENSION PLAN**

ACTUARIAL EXPERIENCE STUDY AS OF SEPTEMBER 30, 2010

February 15, 2011

Board of Trustees
City of Atlantic Beach Police Officers' Pension Plan
800 Seminole Road
Atlantic Beach, Florida 32233

Re: Actuarial Experience Study Concerning
Demographic and Economic Assumptions for Annual Actuarial Valuations

Dear Board Members:

We are pleased to present herein our Actuarial Experience Study concerning the primary demographic and economic actuarial assumptions used in your annual actuarial valuations. We have included our recommendations as to certain changes in these actuarial assumptions for use in the Annual Actuarial Valuation performed as of September 30, 2010 and later.

The data used for the Study of the demographic assumptions and the salary increase assumptions were derived from the annual data file provided to us by the City for the purpose of performing the Plan's annual actuarial valuations over the last 10 years. As with the annual actuarial valuation, although this information was not audited by us, we did review it for reasonableness and comparability to successive years.

Gabriel, Roeder, Smith & Company will be pleased to answer questions pertaining to the valuation and to meet with you to review this Report.

Respectfully submitted,

GABRIEL, ROEDER, SMITH & COMPANY



James J. Rizzo, ASA, MAAA
Senior Consultant and Actuary



Piotr Krekora, ASA, MAAA, PhD
Actuary and Senior Analyst

Purpose of Actuarial Valuations

In a defined benefit pension plan, an employer makes a promise to its employees of a lifetime pension. The amount of the monthly pension is determined by a “benefit formula” which is often based upon a multiplier percentage and the number of years of service and the average final earnings of the employee.

The employer must design and follow a systematic plan for advance-funding this obligation. That is accomplished by establishing a pension fund and performing annual actuarial valuations to measure the liabilities associated with the obligation, and to calculate how much the employer must contribute to the pension fund in order to make good on its promise.

The calculations in the actuarial valuation are performed each year to re-measure the liabilities. The stakeholders need to know how the plan is doing in its goal of systematically financing the promised benefits. So it is important to make the actuarial calculations in accordance with the professional actuarial standards of practice and the accounting standards.

Role of Actuarial Assumptions

The nature of the pension promise and its systematic funding require long term projections of the employee workforce (using demographic assumptions) and long term projections of the salaries and investment returns (using economic assumptions). The whole actuarial valuation process depends on the selection and use of reasonable actuarial assumptions as to future demographics and future economics. There are many different actuarial assumptions employed in an actuarial valuation. But the primary ones include:

1. Rates of Termination of Employment
2. Rates of Retirement
3. Rates of Mortality
4. Rates of Disability
5. Long-term Price Inflation
6. Rates of Salary Increases
7. Long-term Payroll Growth Rate
8. Rates of Investment Return

The actuary and plan management must be comfortable with the actuarial assumptions. The assumptions must be reasonable. Without a level of confidence in the reasonableness of the actuarial assumptions, the stakeholders and users of the valuation results cannot have confidence in the results. However, there is no way to have confidence in the actuarial assumptions unless an actuarial experience study is performed to assess the reasonableness of the current assumptions or to change them to be somewhat in line with past experience and, most importantly, with future expectations.

It is for this reason that the pension board has authorized us to undertake an actuarial experience study to recommend any changes to the actuarial assumptions used in the annual actuarial valuation. It is prudent fiduciary management to perform such an actuarial experience study once every 5 to 7 years, in order to ensure the assumptions are based on the current best estimates.

Rates of Termination of Employment

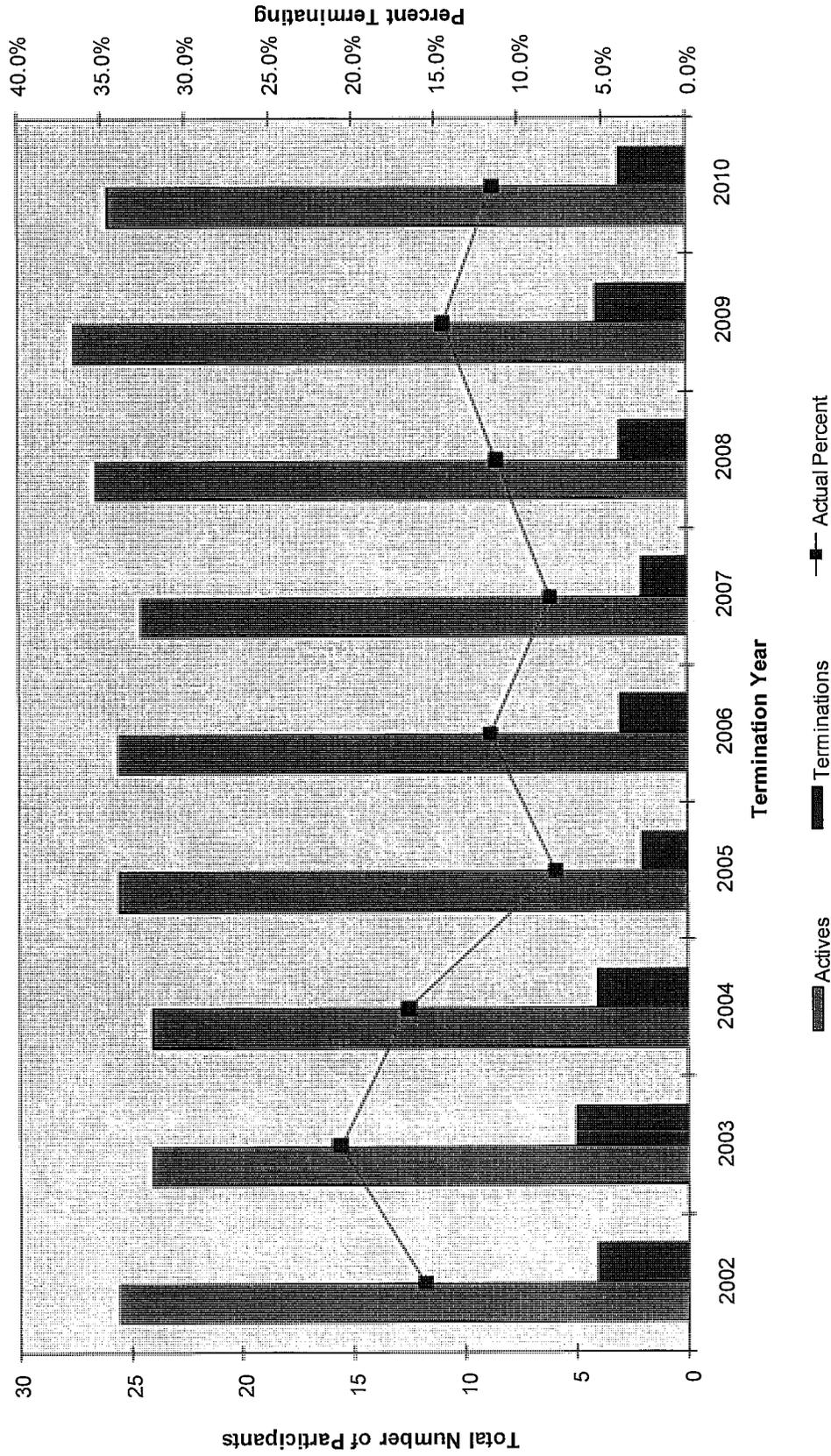
Current employees continue accruing retirement benefits only if they remain in employment until satisfying the retirement eligibility requirements. Therefore, when funding for future benefits we must make certain assumptions as to what proportion of current employees will terminate employment before reaching retirement eligibility.

Currently, these assumptions take the form of a select and ultimate table of annual rates of termination: that is the rates are attributed by service for all employees with less than 5 years of service and by age for all other for all employees not yet eligible for retirement. As the actuarial model projects the current population of active employees, one at a time, it subjects the employees to the table of termination rates at each age or service, whichever applies.

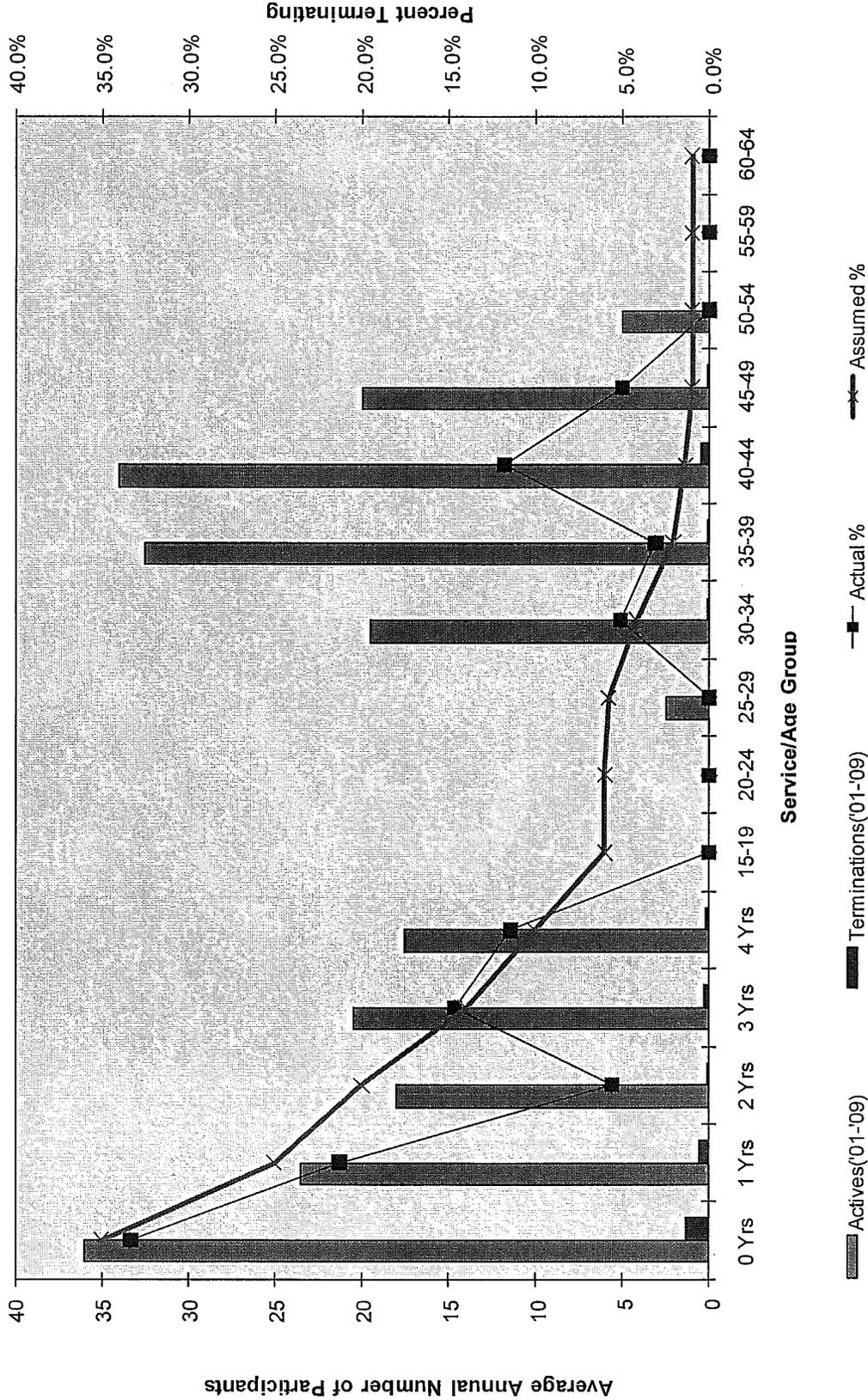
The actuarial model calculates the value of the vested deferred benefits payable based on the probabilities that the employees might terminate at each age prior to reaching retirement eligibility. So only a fraction of the employees will actually reach retirement eligibility, and that probability is reflected in the value of the ultimate retirement benefits payable.

Following Charts present results of our study analyzed and displayed different ways. In addition to this purely statistically analysis, we consulted with the City's HR Director to ensure that our recommendations would include input from his own forecast of the future.

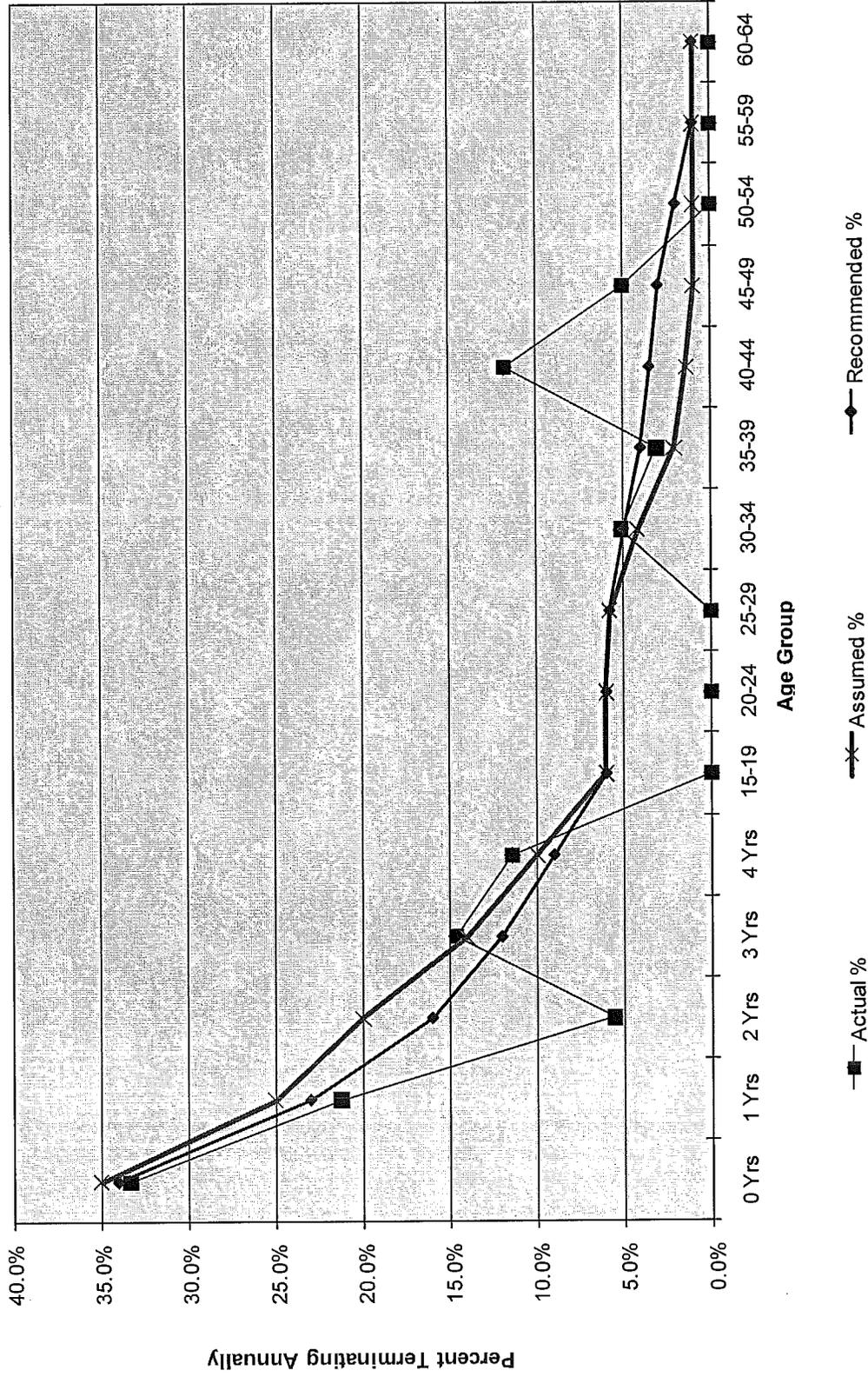
ATLANTIC BEACH POLICE OFFICERS' PENSION PLAN
Actual % Terminating By Year (2002-2010)
(Other Than Normal Retirements)



ATLANTIC BEACH POLICE OFFICERS' PENSION PLAN
Actual and Assumed % Termination By Age Group (2002-2010)



ATLANTIC BEACH POLICE OFFICERS' PENSION PLAN
Actual, Assumed and Recommended % Terminations By Age Group (2002-2010)



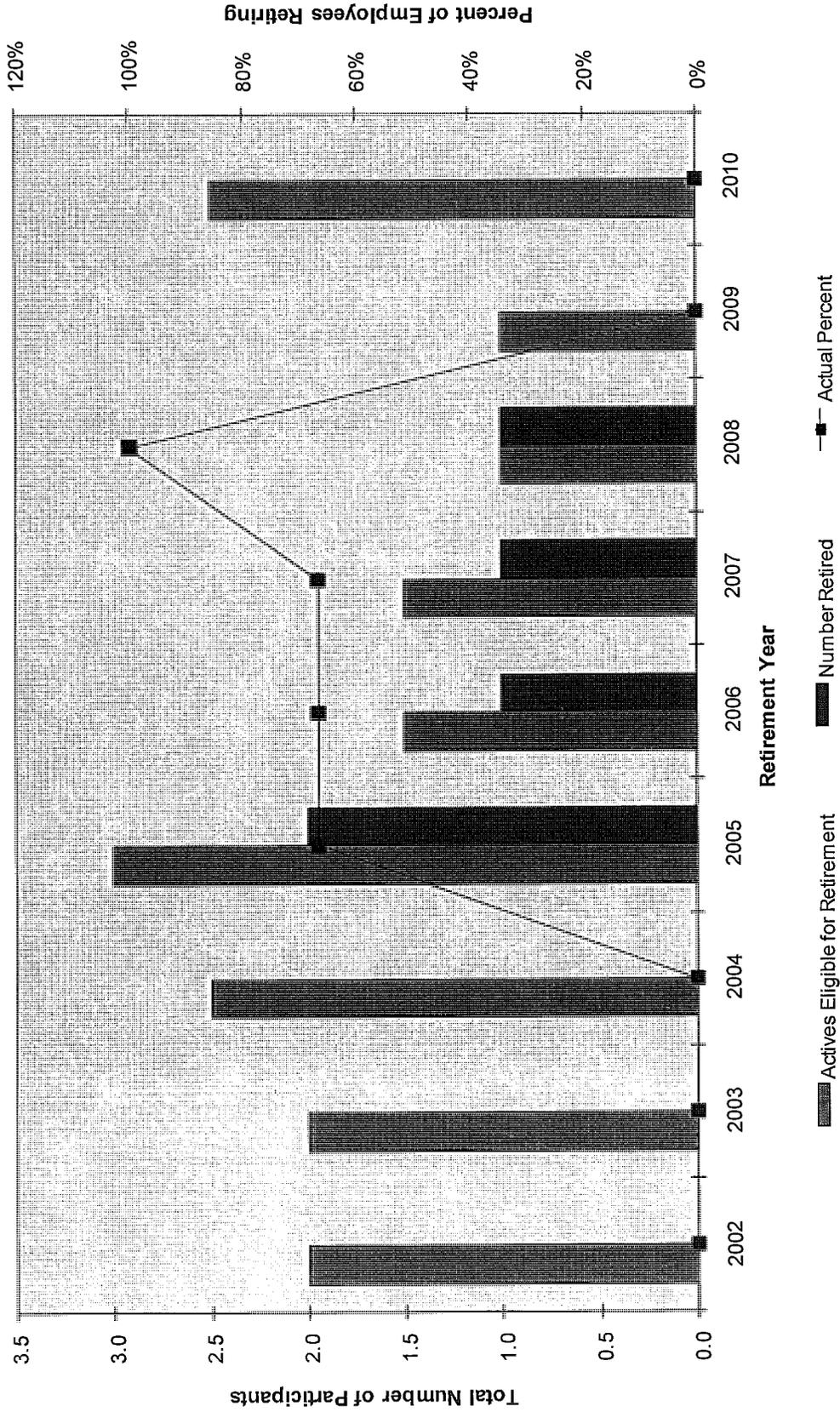
Rates of Retirement

Currently, these assumptions take the form of a table of annual rates of termination by age for all employees eligible for normal retirement. As the actuarial model projects the current population of active employees, one at a time, it subjects the employees to the table of retirement rates at each age.

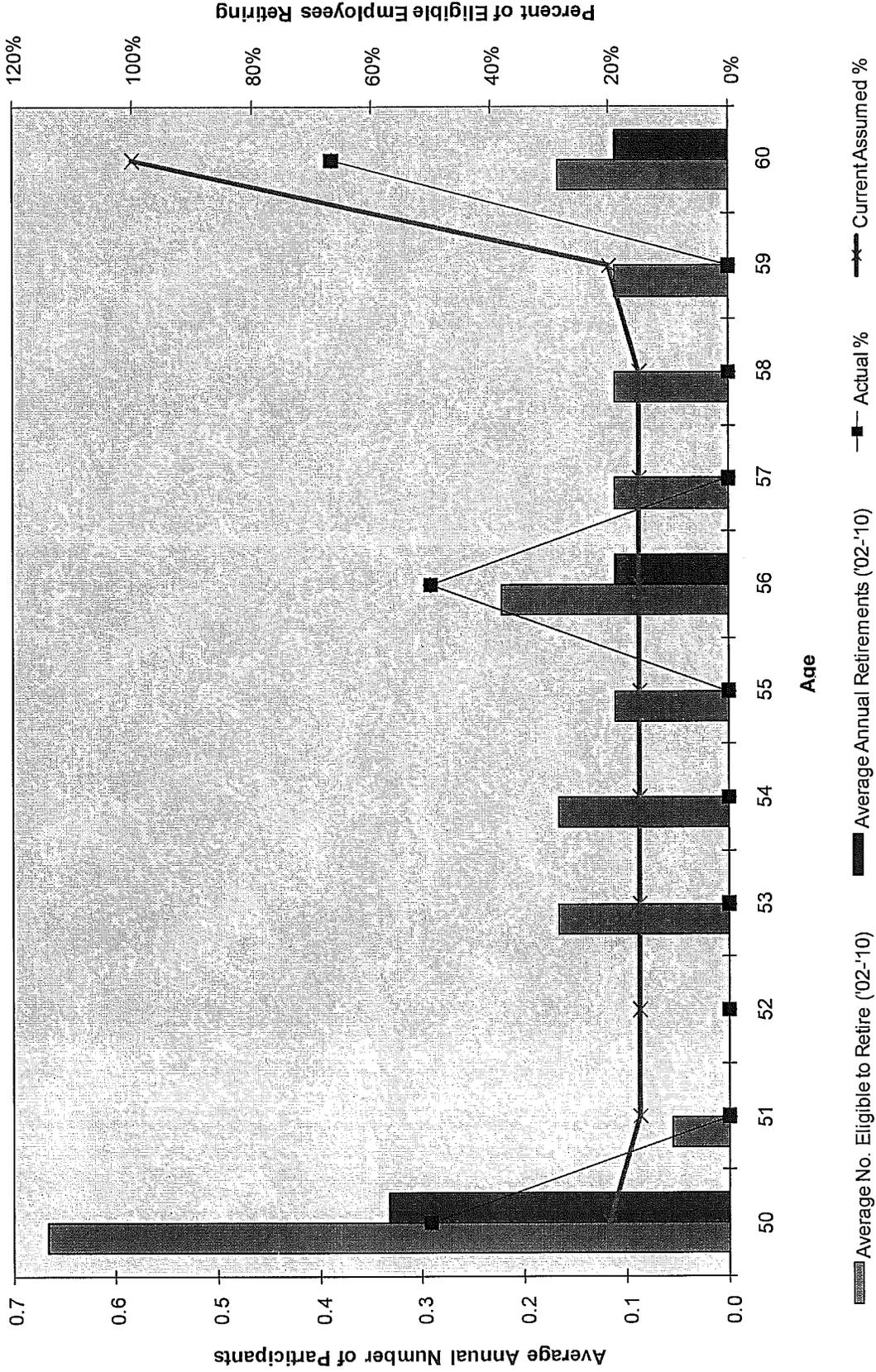
We recommend changing to retirement rates based on year of eligibility..

Following Charts present results of our study, analyzed and displayed different ways.

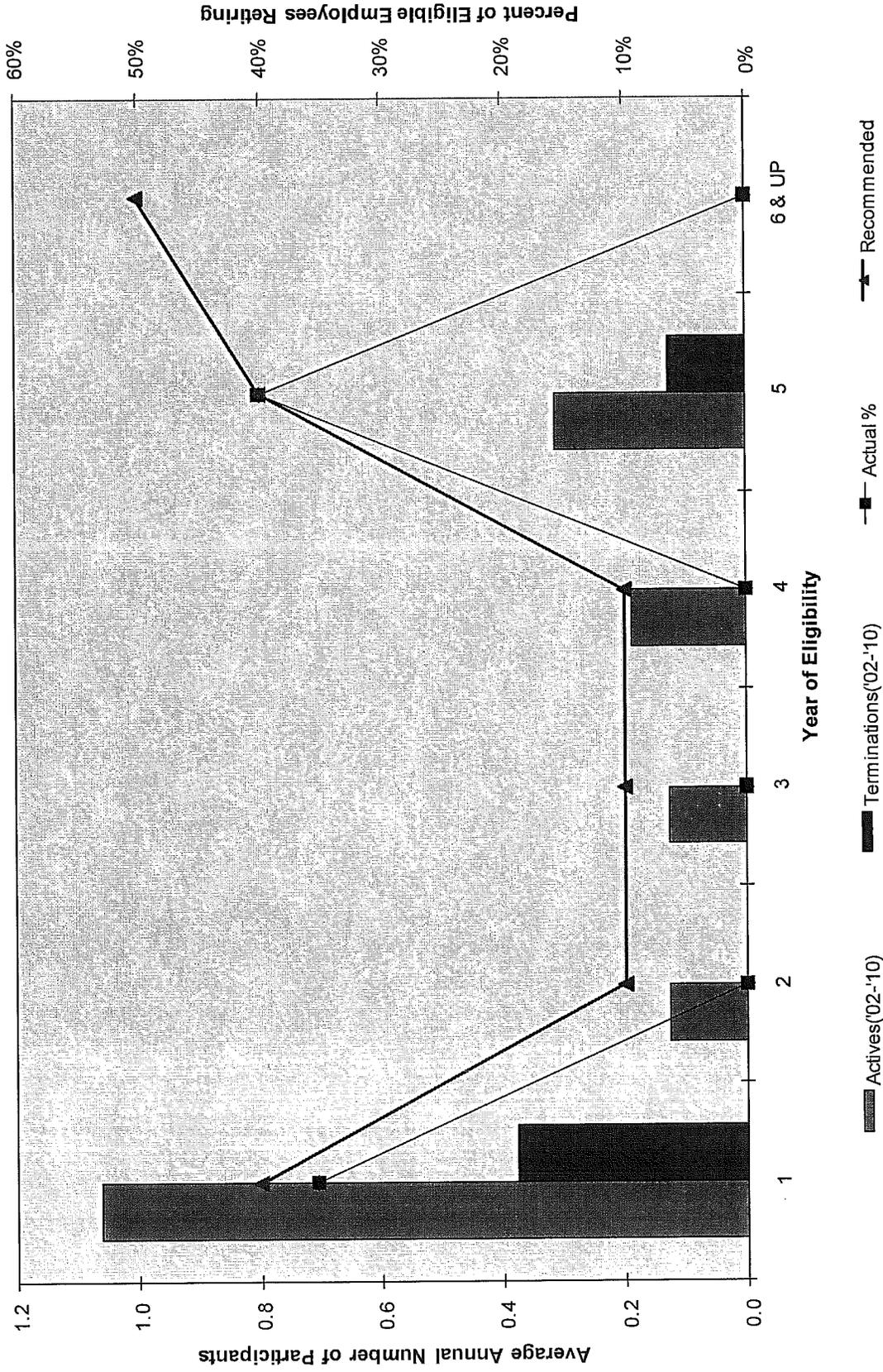
ATLANTIC BEACH POLICE OFFICERS' PENSION PLAN
Eligible Participants (2002-2010)
% of Those Eligible Who Retired (Normal Retirements)



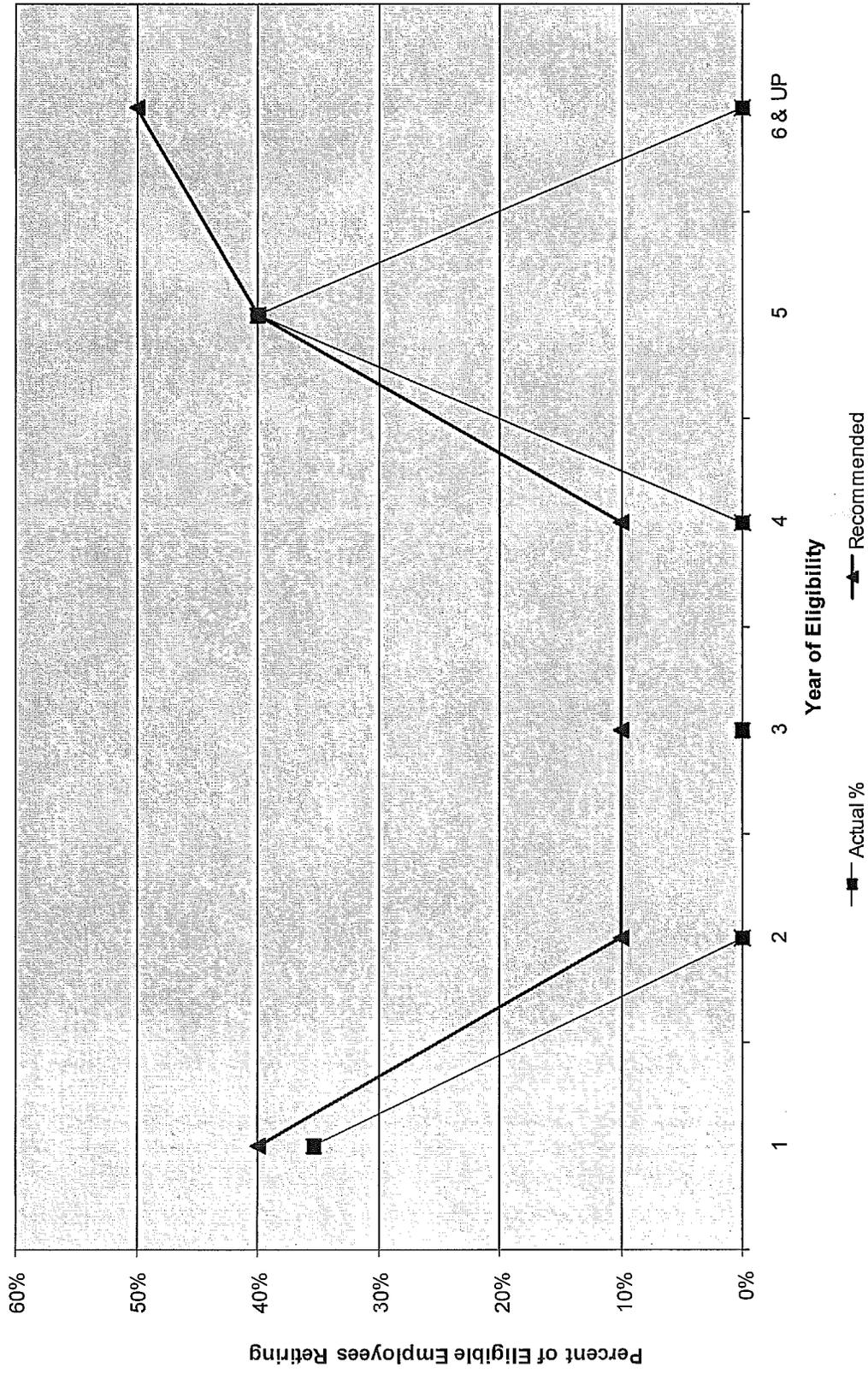
ATLANTIC BEACH POLICE OFFICERS' PENSION PLAN
Normal Retirements Grouped by Age (2002-2010)



ATLANTIC BEACH POLICE OFFICERS' PENSION PLAN
Normal Retirements Grouped by Age (2002-2010)



ATLANTIC BEACH POLICE OFFICERS' PENSION PLAN
Normal Retirement Rates By Age (2002-2010)



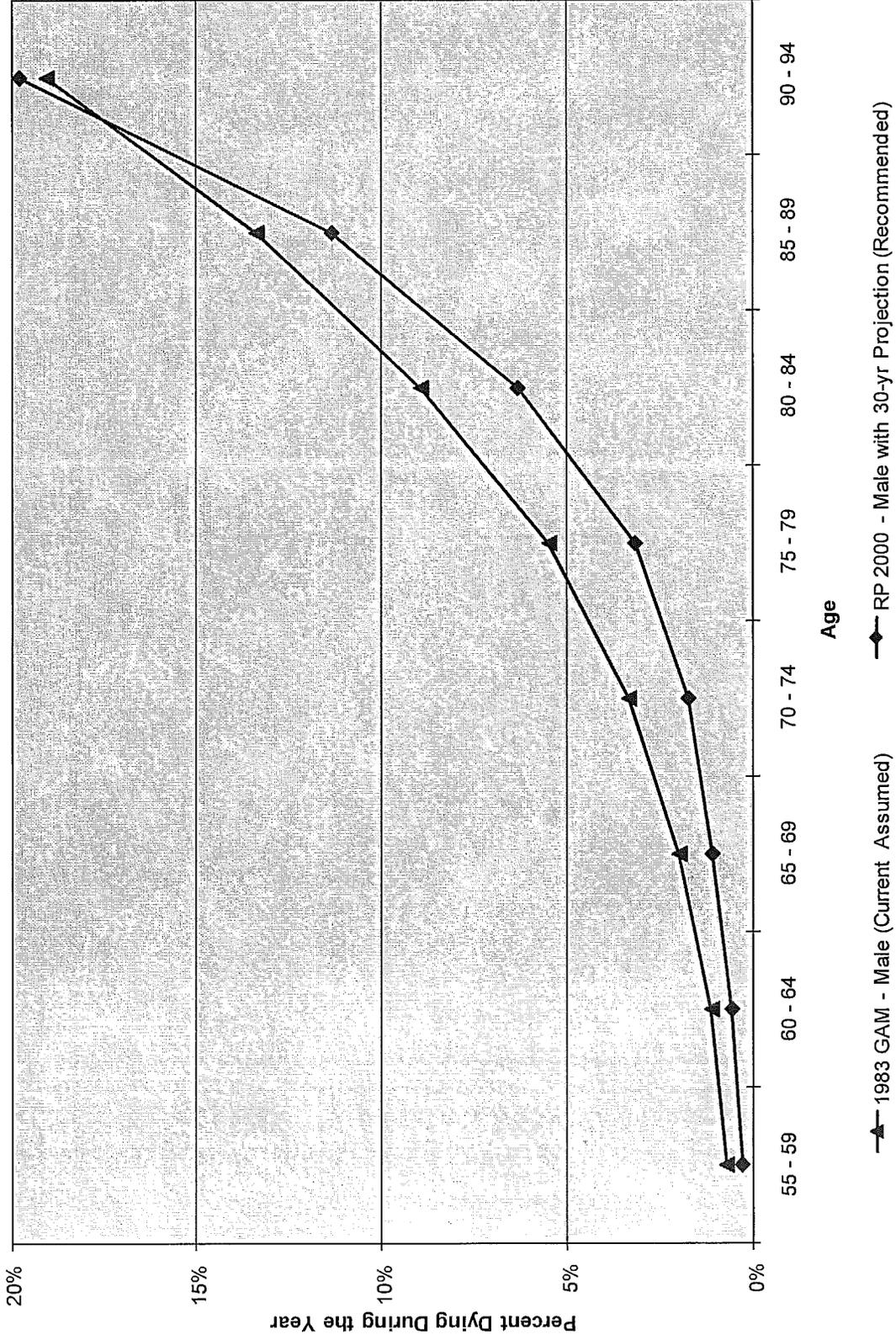
Rates of Mortality

Currently, a mortality table (annual rates of mortality by age) is used in the actuarial valuation. These rates of mortality are used to calculate the value of the retirement benefits, considering the probability of living (receiving benefits payments) or dying (not receiving payments) at each age until age 120. The table is also used to calculate the value of the death benefit provided to survivors of active or retired employees.

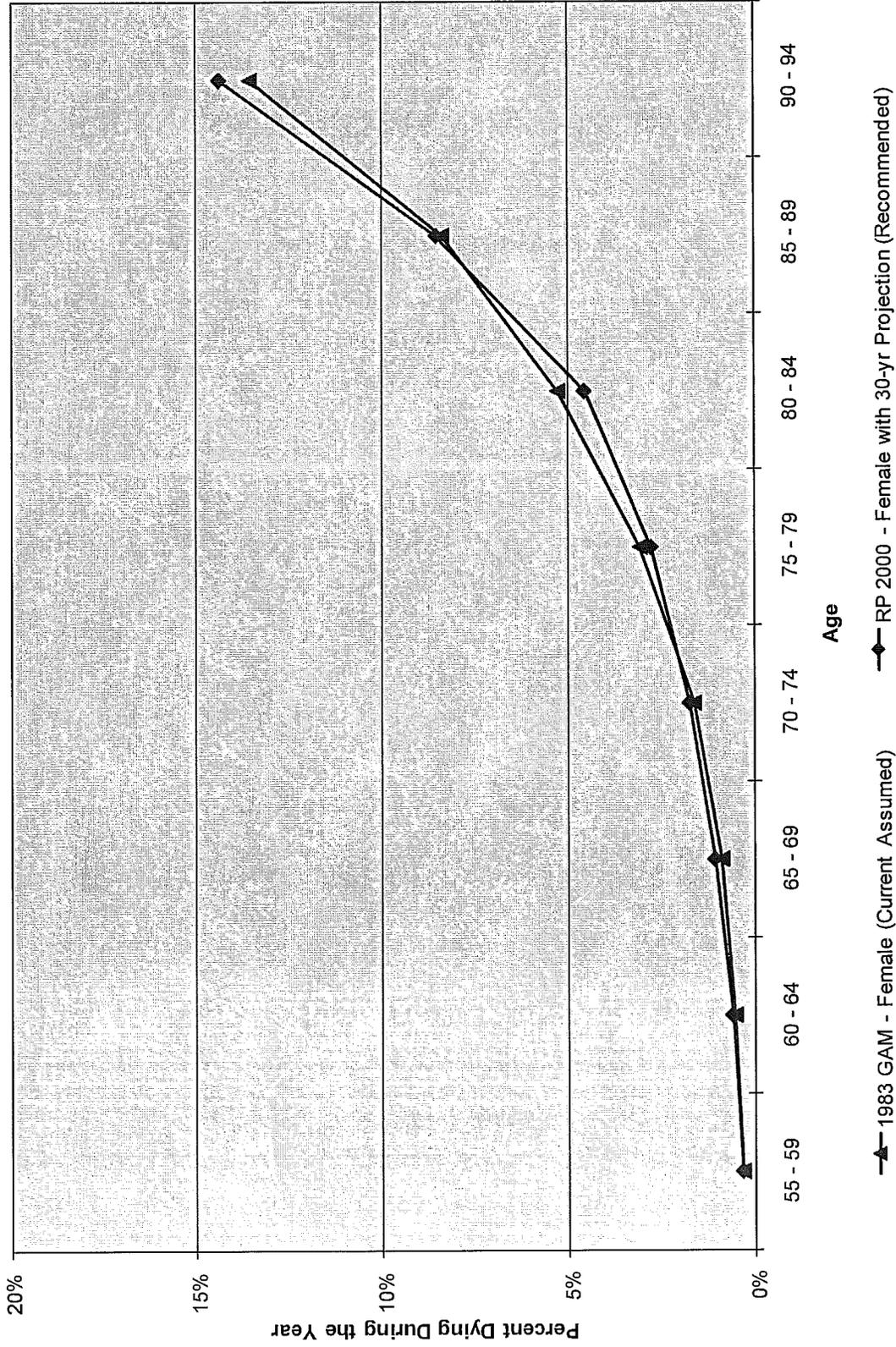
Currently the mortality table (annual rates of mortality by age) used in the actuarial valuation has been the 1983 Group Annuity Mortality Table. The number of plan participants is too small to develop a mortality table based on experience of the group; so we turn to recently published tables. There is a newer table we recommend for the actuarial valuation. It is called the RP-2000 Mortality Table for Healthy Males and Females and was developed by the Society of Actuaries. In order to recognize some expectation of improved mortality over time, we recommend projecting this table using The Society of Actuaries' Scale AA for gradual improvement in these static mortality rates over time.

Following is a Chart illustrating the difference between the two sets of mortality tables (male and female). For the purpose of illustrating the general effects of this recommendation, rates from the RP-2000 Mortality Table were projected to 2030 using Scale AA and presented in the following Chart.

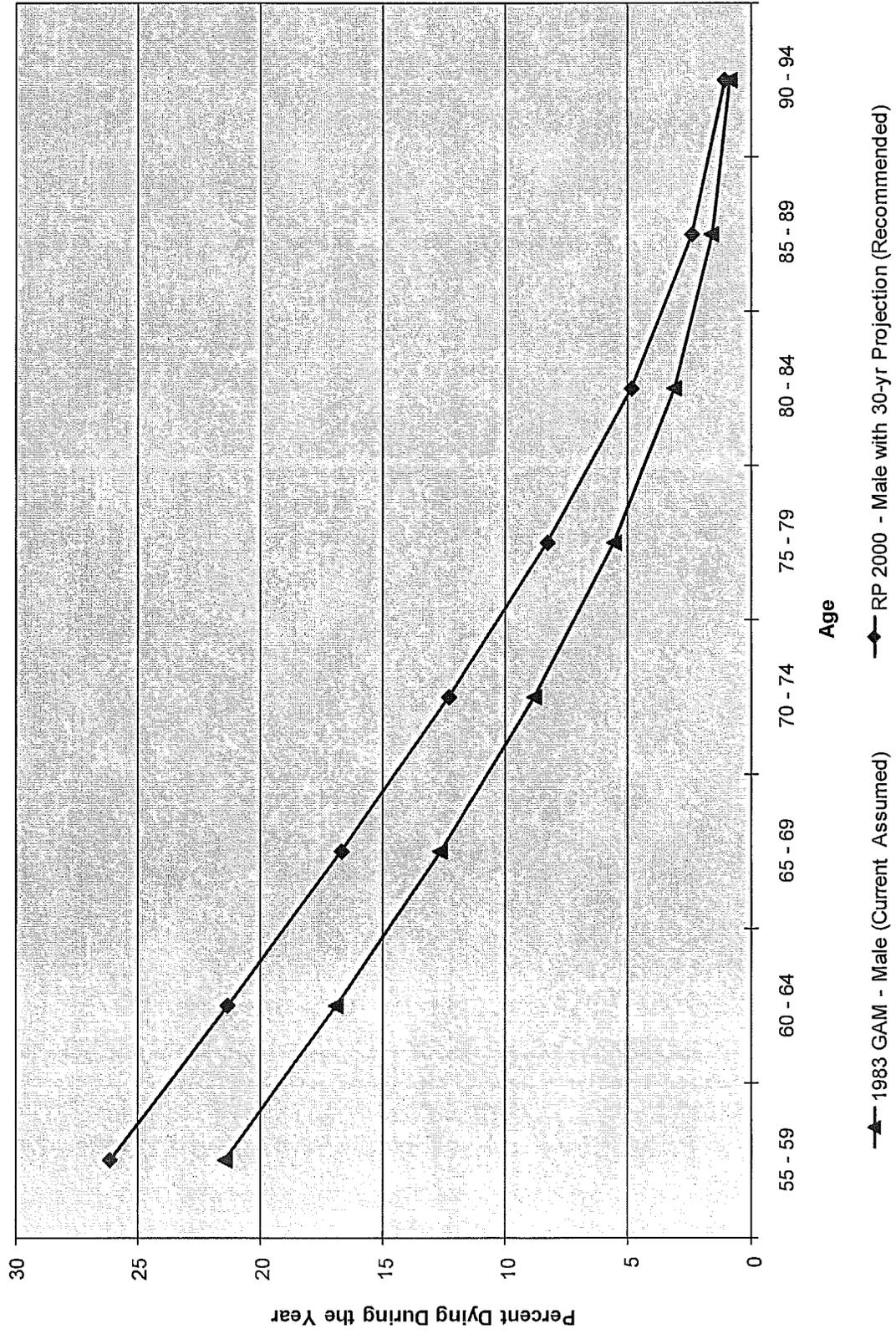
ATLANTIC BEACH POLICE OFFICERS' PENSION PLAN
Male Mortality Rates Grouped by Age



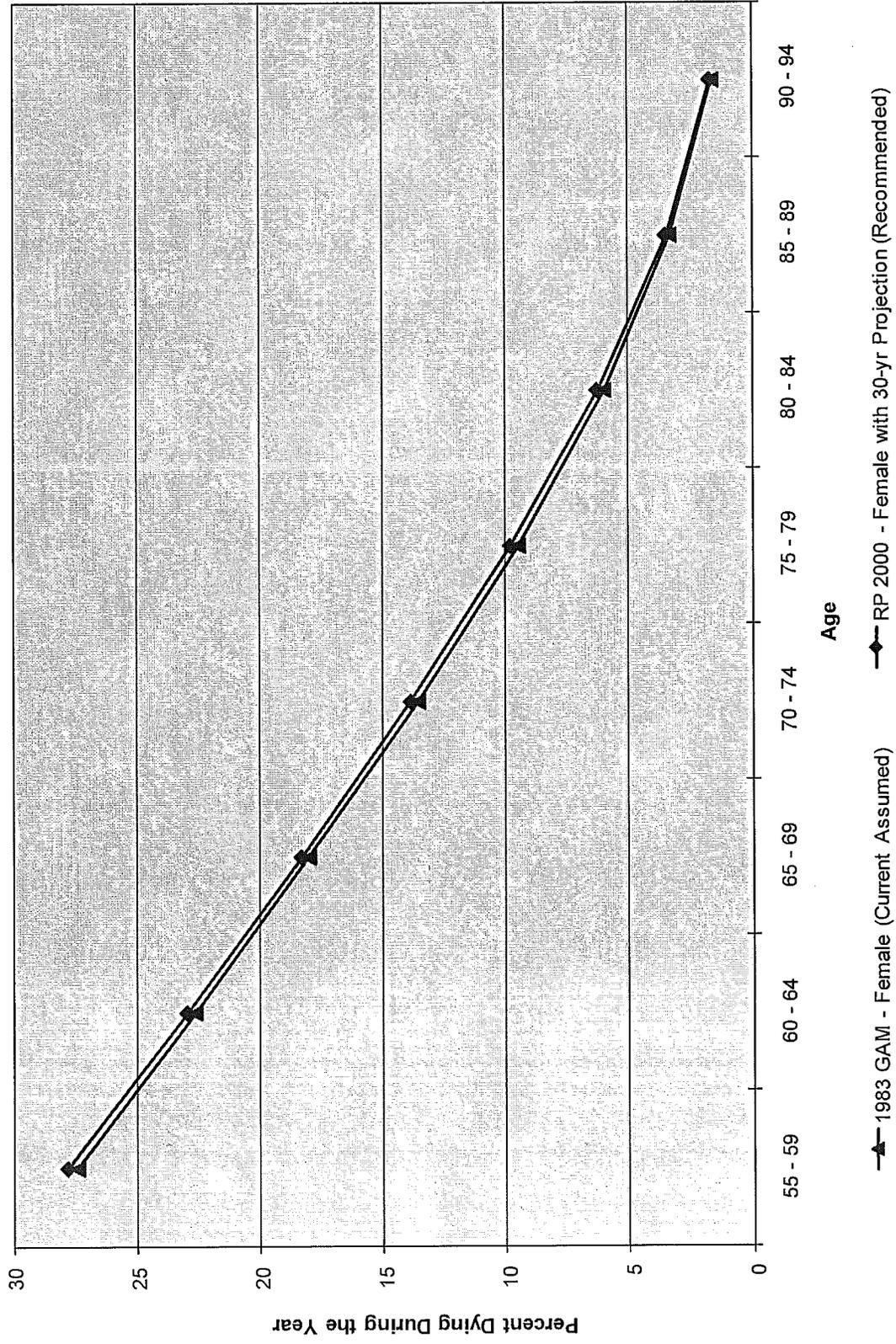
ATLANTIC BEACH POLICE OFFICERS' PENSION PLAN
Female Mortality Rates Grouped by Age



ATLANTIC BEACH POLICE OFFICERS' PENSION PLAN
Male Life Expectancy Grouped by Age



ATLANTIC BEACH POLICE OFFICERS' PENSION PLAN
 Female Life Expectancy Grouped by Age



Disability Rates

For analyzing disability incidence rates, the group is too small for its own historical data to be credible. Generally speaking, probability rates currently used for modeling police officers becoming disabled for pension purposes are lower than commonly used for police pension plans. Consequently, we recommend changing disability rates as illustrated in the following table and use the same probabilities regardless of the gender as illustrated below.

Sample Ages	Currently Used		Recommended	
	Men	Women	Men	Women
20	0.07%	0.03%	0.14%	0.14%
25	0.09%	0.05%	0.15%	0.15%
30	0.10%	0.07%	0.18%	0.18%
35	0.14%	0.13%	0.23%	0.23%
40	0.21%	0.19%	0.30%	0.30%
45	0.32%	0.28%	0.51%	0.51%
50	0.52%	0.45%	1.00%	1.00%
55	0.92%	0.76%	1.55%	1.55%

Long Term Price Inflation

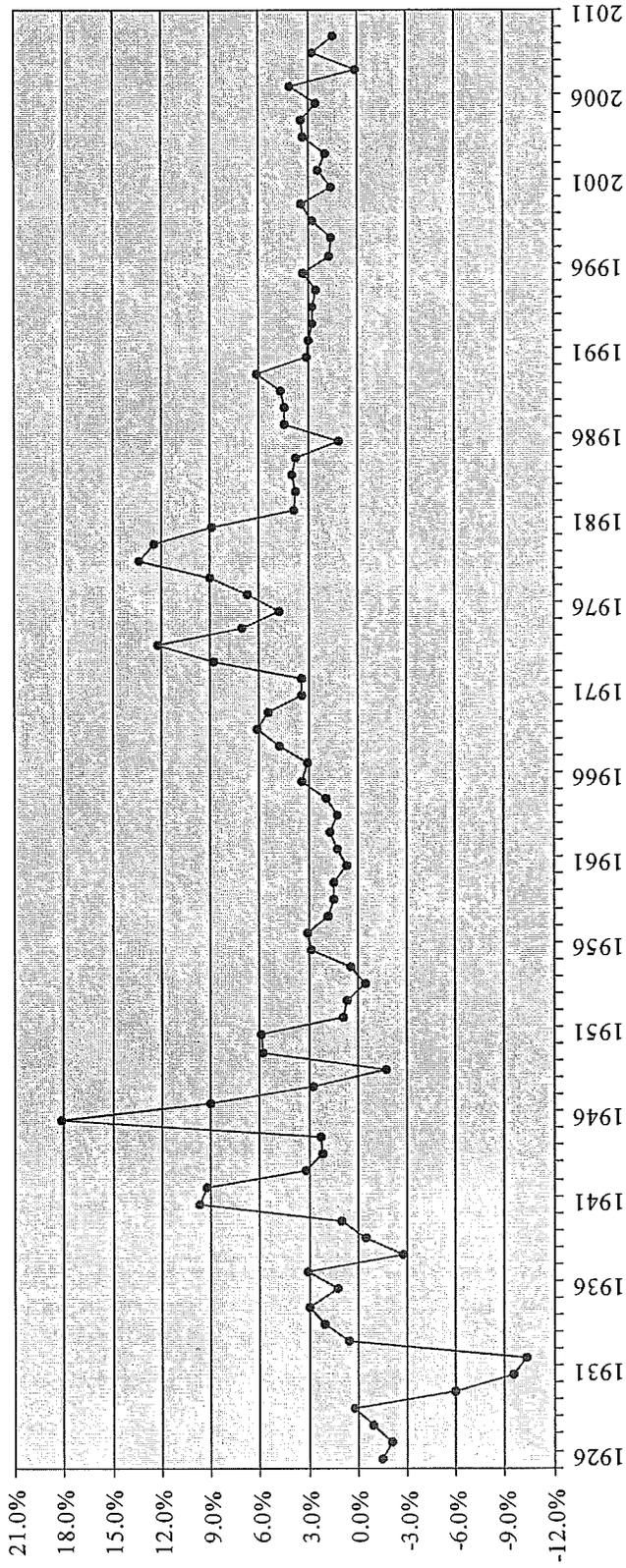
Future changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI) will affect the wages and average earnings, and thus affecting the projected retirement benefits. Price inflation also affects the rate of return realized over time. Actual and expected inflation is built into yields and bond prices and influences stock market returns. The long-term expected price inflation embedded within the salary increase assumptions should be consistent with the expectation embedded in the long-term expected rate of return as well.

Historically, the CPI increased at an average annual rate of 4.6 percent for the 40 years from 1968 to 2008, the result of average annual increases of 6.5, 6.0, 3.2, and 2.8 percent for the 10-year periods 1968-78, 1978-88, 1988-98, and 1998-2008, respectively. For 2009, the annual change was -0.7 percent. These historical data have been updated and expanded in the Charts that follow. However, expected future rates of price inflation should not be derived solely by looking at the past.

Annual reports prepared for the Social Security Administration usually consider three scenarios of future inflation. In the Social Security Trustees' 2010 report, the ultimate annual increases in the CPI are assumed to be 1.8, 2.8, and 3.8 percent for the low-cost, intermediate, and high-cost assumptions, respectively. These rates of increase are the same as those used in the 2009 report, and reflect a belief that future inflationary shocks will likely be offset by succeeding periods of relatively slow inflation due to persistent international competition, and that future monetary policy will be similar to that of the last 20 years with its strong emphasis on holding the growth rate in prices to relatively low levels. As the economy moves on a path toward fuller employment, the annual change is assumed to increase gradually from 1.7 percent in 2011 to the ultimate growth rate of 2.8 percent in 2014 and later. These forward-looking assumptions are in line with a historical data as illustrated on the following pages.

Consequently we recommend using 3% for the assumed long term inflation rate.

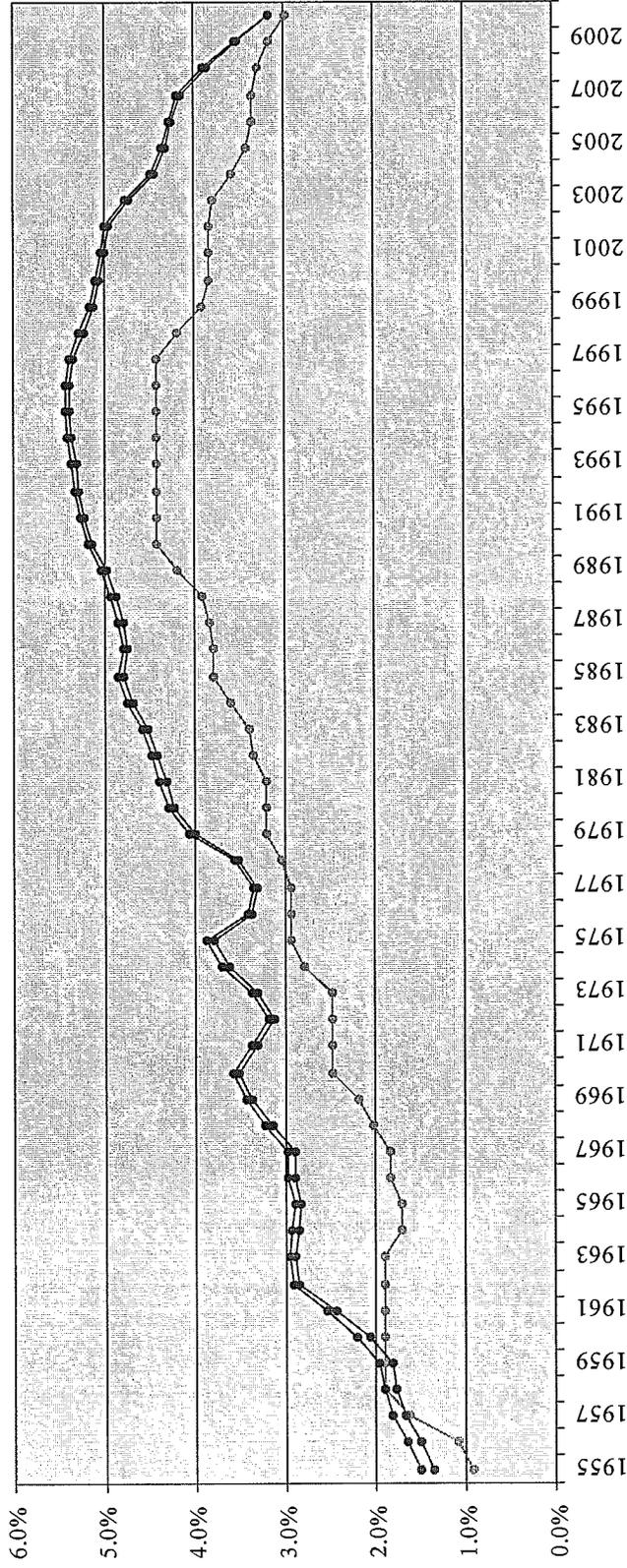
Annual Rates of U.S. Inflation for 1926 through 2010



Inflation Rates for 1926 - 2010
 Median Rate - 2.8%
 Average Rate - 3.1%
 Compound Rate - 3.0%

Source: Stocks, Bonds, Bills, Inflation
 Morningstar, Inc.

Annualized Rates of Inflation for Rolling 30-Year Periods Ending 12/31 (1926 through 2010)
 (For example, Compound Rate for 1/1/1981 - 12/31/2010 was 3.2%)



Inflation Rates for 1926 - 2010
 Median Rate - 2.8%
 Average Rate - 3.1%
 Compound Rate - 3.0%

Source: Stocks, Bonds, Bills, Inflation
 Morningstar, Inc.

— Median Rate for 30 Years Ending 12/31
 — Average Rate for 30 Years Ending 12/31
 — Compound Rate for 30 years Ending 12/31

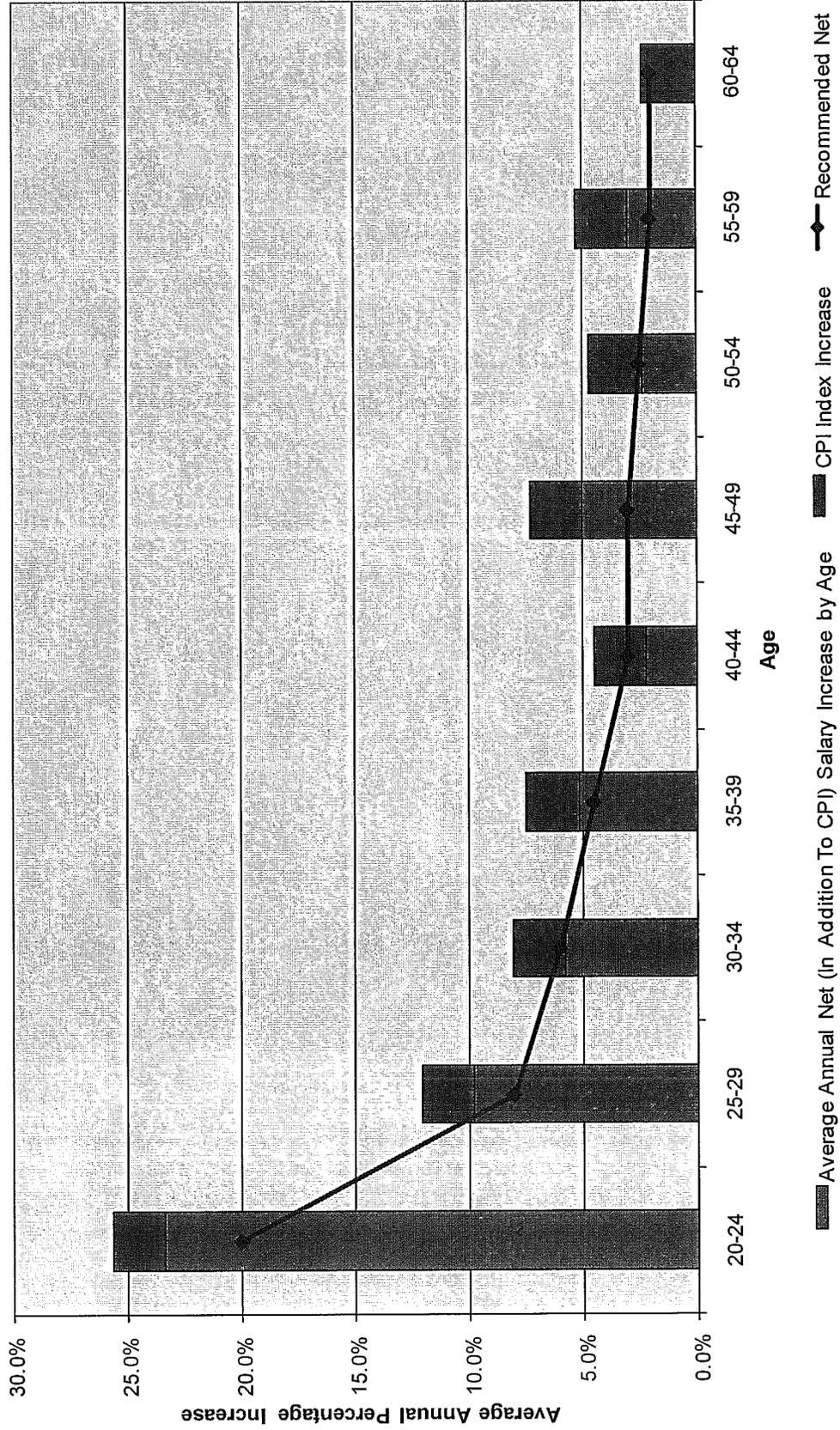
Rates of Salary Increase

Retirement benefits are based upon employees' average final earnings. Therefore, the actuarial model must make certain assumptions as to how fast the employees salaries will likely increase over time, projecting them to the years just prior to their expected retirement dates.

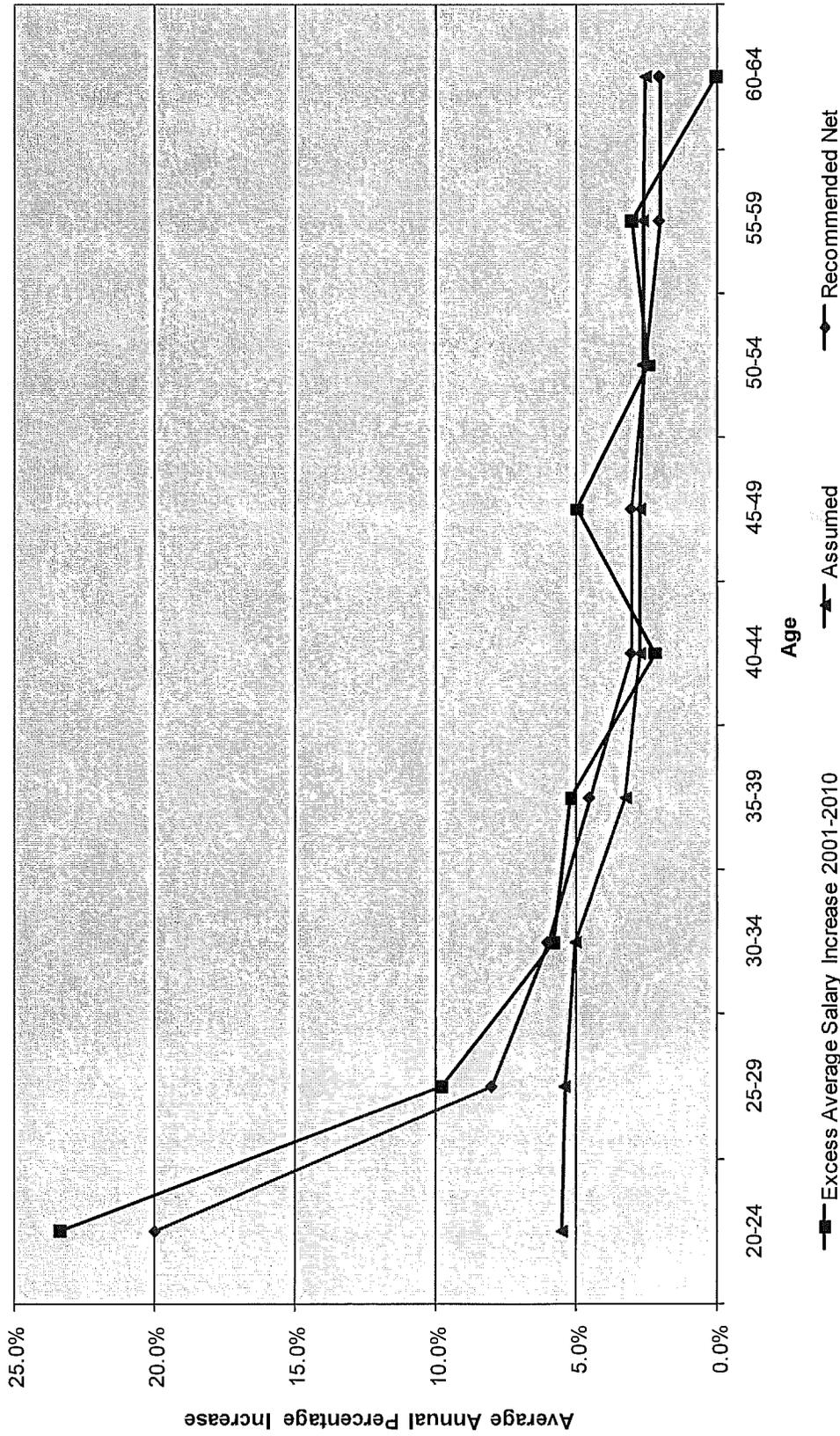
Currently, the rate of salary increase has been assumed to depend on the age of an employee. In our study we separated out a portion of the total salary increase rates we observed for each individual each year representing the increase in the CPI for such year, leaving the excess rate of salary increase above the CPI. These excess (or "net") salary increases were analyzed by age.

Following are Charts presenting the results of our study of salary increases.

ATLANTIC BEACH POLICE OFFICERS' PENSION PLAN
Average Annual Salary Increases (2001 - 2010) By Age
Total, CPI portion and Net (Above CPI) Increase



ATLANTIC BEACH POLICE OFFICERS' PENSION PLAN
Average Annual Salary Increases (2001 - 2010) By Age
Total, CPI portion and Net (Above CPI) Increase



Rates of Payroll Increase

Unlike the salary increases, payroll increases have no direct effect on the plan's liability. This is an assumption that needs to be made whenever the Unfunded Actuarial Liabilities are amortized as a level percent of pay. Therefore, the actuarial model must make certain assumptions as to how fast the payroll will likely increase over time, often projecting them beyond the expected working lifetime of current employees.

Typically, the payroll increase assumption has some common components with the assumed salary scale but is an independent assumption closely tied to the assumed long-term wage inflation (different, and higher, than price inflation). In a stable economy, the payroll growth for a constant-size workforce is expected to exceed the inflation to reflect constantly improving productivity and merit/promotions.

Consequently, we recommend a 4% payroll growth rate of increase.

Rates of Investment Return

The pension fund is invested for the long term. Its investment income over the years will pay a substantial portion of all the pension benefits paid to plan members. This keeps the employer (taxpayer) and employees from having to pay for every dollar of benefit.

Therefore, we must make an assumption as to how much the pension fund will earn over a long period of time in order to determine a reasonable level of cost and liability to be borne by the City (taxpayers). Short term gains and losses are not nearly as relevant as the actual and expected long-term earnings of the portfolio being managed. This expectation is strongly influenced by the investment policy of the fund (on paper and in practice), particularly the asset allocation among the relevant asset classes.

The long-term rates of return for each such asset class, as expected by the economists and investment consultants can vary over time and vary in different economic conditions and cycle. So it is best to re-visit the investment return assumption (used in actuarial valuations) periodically to ensure that it reflects the experts' current best estimates.

As part of the actuarial experience study, we have a model for developing the appropriate investment return assumption for the plan. This is based upon current capital market assumptions (provided by the plan's current investment consultant and other reputable investment consultants) and the portfolio's current investment policy for asset allocation:

- 40% Domestic Stocks, further diversified as follows:
 - 24% Large Cap Equity (60% of 45%)
 - 8% Mid Cap Equity (20% of 45%)
 - 8% Small Cap Equity (20% of 45%)
- 10% International Stock
- 50% Fixed Income.

The current long-term investment rate of return assumption used in the actuarial valuations has been 8% per year compounded annually net of investment-related fees. Although actuaries have substantial background in economics, we are not licensed to provide investment advice or financial forecasting services. Instead, we rely on the expert advice of professionals consulting in this area. For the purpose of recommending the rate of return we have analyzed and reviewed forecasts from ten (10)

investment consultants providing advice to pension plan sponsors and administrators. It is important to keep in mind that all forecasts of future investment returns are opinions, not facts.

As illustrated on the following pages, the consensus among these advisors falls below the currently assumed 8% and leads us to recommending the assumed rate of return (net of expenses) to be in a range between 6.5% and 7.25%.

We are basing our recommendation on capital market assumptions obtained from the following ten investment advisors:

- Callan Associates
- Ennis, Knupp and Associates / Hewitt
- J. P. Morgan
- NEPC
- MorganStanley-SmithBarney
- Pension Consulting Alliance
- R.V. Kuhns & Associates
- SunGard
- Strategic Investment Solutions
- Towers Watson

On the following pages we are presenting charts illustrating various aspects of this analysis. Please note that the order in which we are listing our sources above does not correspond to the order in which we are presenting their recommendations below. We are required to maintain the confidentiality of the specific forecasts from the name of the investment consultant.

The 25th and 75th percentile illustrated below represent a “best-estimate range” — the narrowest range within which the experts reasonably anticipate that the actual results, compounded over the measurement period, are more likely than not to fall.

Investment Consultant	Investment Consultant Expected Nominal Return	Investment Consultant Inflation Assumption	Expected Real Return (2)-(3)	Actuary Inflation Assumption	Expected Nominal Return (4)+(5)	Plan Incurred Expense Assumption	Expected Nominal Return Net of Expenses (6)-(7)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	6.58%	3.25%	3.33%	3.00%	6.33%	0.58%	5.76%
2	6.68%	3.00%	3.68%	3.00%	6.68%	0.58%	6.10%
3	6.97%	3.00%	3.97%	3.00%	6.97%	0.58%	6.40%
4	6.72%	2.50%	4.22%	3.00%	7.22%	0.58%	6.65%
5	6.25%	2.00%	4.25%	3.00%	7.25%	0.58%	6.68%
6	7.00%	2.50%	4.50%	3.00%	7.50%	0.58%	6.93%
7	7.26%	2.75%	4.51%	3.00%	7.51%	0.58%	6.93%
8	7.08%	2.50%	4.58%	3.00%	7.58%	0.58%	7.01%
9	7.63%	2.02%	5.61%	3.00%	8.61%	0.58%	8.03%
10	8.18%	2.30%	5.88%	3.00%	8.88%	0.58%	8.31%
Average	7.04%	2.58%	4.45%	3.00%	7.45%	0.58%	6.88%

Investment Consultant	Distribution of 30-Year Average Geometric Net Nominal Return			Probability of falling short of 8.00% *
	25th	50th	75th	
(1)	(2)	(3)	(4)	(5)
1	4.05%	5.38%	6.72%	94.5%
2	4.28%	5.68%	7.10%	91.1%
3	4.32%	5.87%	7.45%	86.7%
4	4.74%	6.19%	7.66%	84.4%
5	4.94%	6.28%	7.65%	85.0%
6	5.13%	6.51%	7.92%	80.9%
7	5.11%	6.51%	7.93%	80.6%
8	5.35%	6.65%	7.96%	80.3%
9	5.62%	7.37%	9.16%	61.5%
10	6.78%	8.00%	9.23%	50.1%
Average	5.03%	6.44%	7.88%	79.5%

*Plan's current return assumption net of expenses.

The highlighted entries represent forecasts based off recommendations from the ABP Plan's investment advisor.

Asset Allocation Analysis

Investment Alternatives

February 11, 2011

Atlantic Beach Police Officers' Retirement System

<u>Asset Class</u>	<u>ABP Plan</u>
Fixed Income Intern	25.00%
Fixed Income Core	25.00
Large Value Stocks	12.00
Large Growth Stocks	12.00
Small Value Stocks	4.00
Small Growth Stocks	4.00
Mid Cap Stocks	8.00
International Stocks	10.00
Return	6.88%
Std Deviation	9.49%
Yield	3.73%
Sharpe Ratio	0.41

Scenario Assumptions

February 11, 2011

Atlantic Beach Police Officers' Retirement System

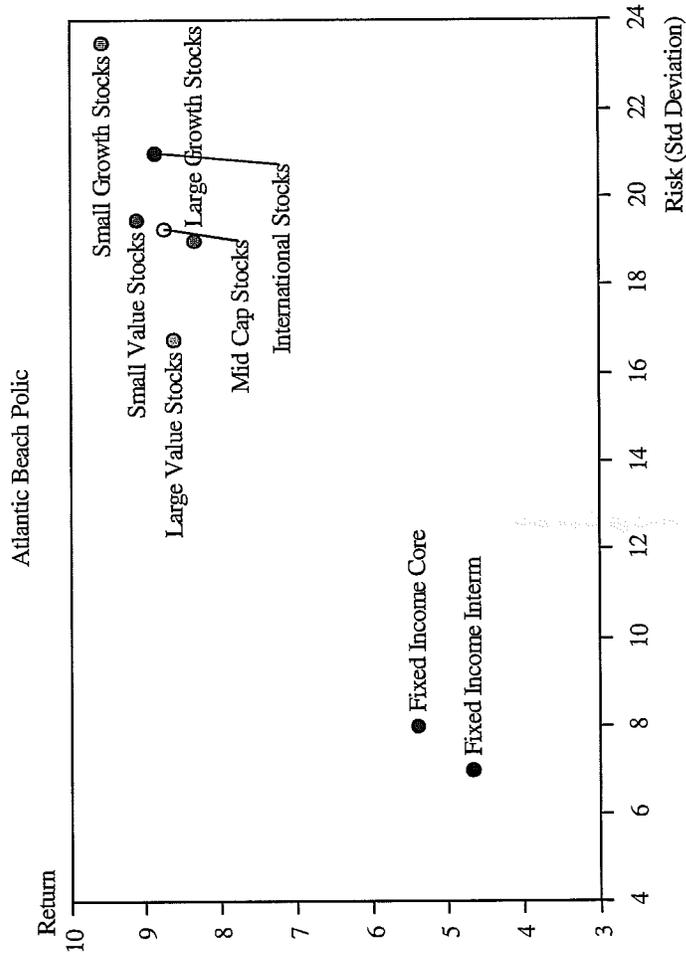
Atlantic Beach Polic

Asset Class	Proxy	Return	Risk	Yield	Mgmt Fees
Fixed Income Interm	BarCap IntGovt/Credit	5.15%	7.00%	5.15%	0.50%
Fixed Income Core	BarCap Govt/CreditBnd	5.90	8.00	5.90	0.50
Large Value Stocks	RUSS 1000 Value	9.25	16.75	2.40	0.65
Large Growth Stocks	RUSS 1000 Growth	9.00	19.00	1.65	0.65
Small Value Stocks	RUSS 2000 Value	9.75	19.50	2.25	0.65
Small Growth Stocks	RUSS 2000 Growth	10.20	23.50	1.50	0.65
Mid Cap Stocks	RUSS MidCap Index	9.40	19.25	2.00	0.65
International Stocks	MSCI EAFE Index-\$	9.50	21.00	1.75	0.65
Inflation		3.00			

Scenario Assumptions

February 11, 2011

Atlantic Beach Police Officers' Retirement System

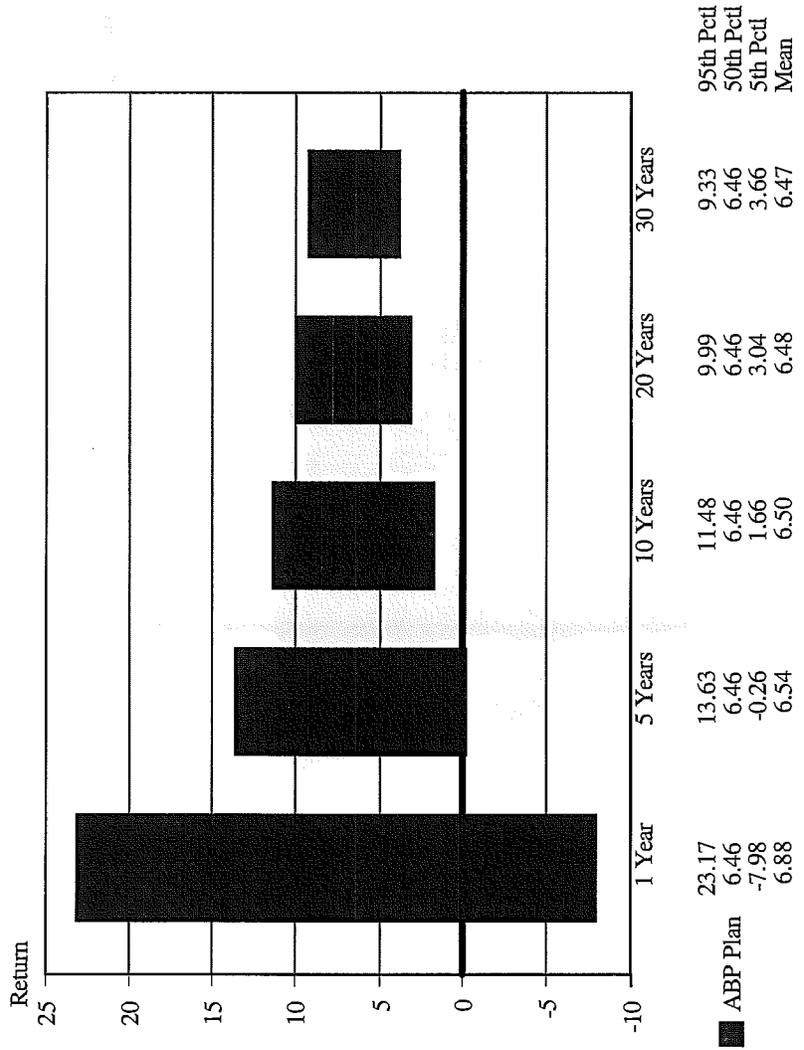


Asset Allocation Analysis

Distribution of Annual Returns

February 11, 2011

Atlantic Beach Police Officers' Retirement System

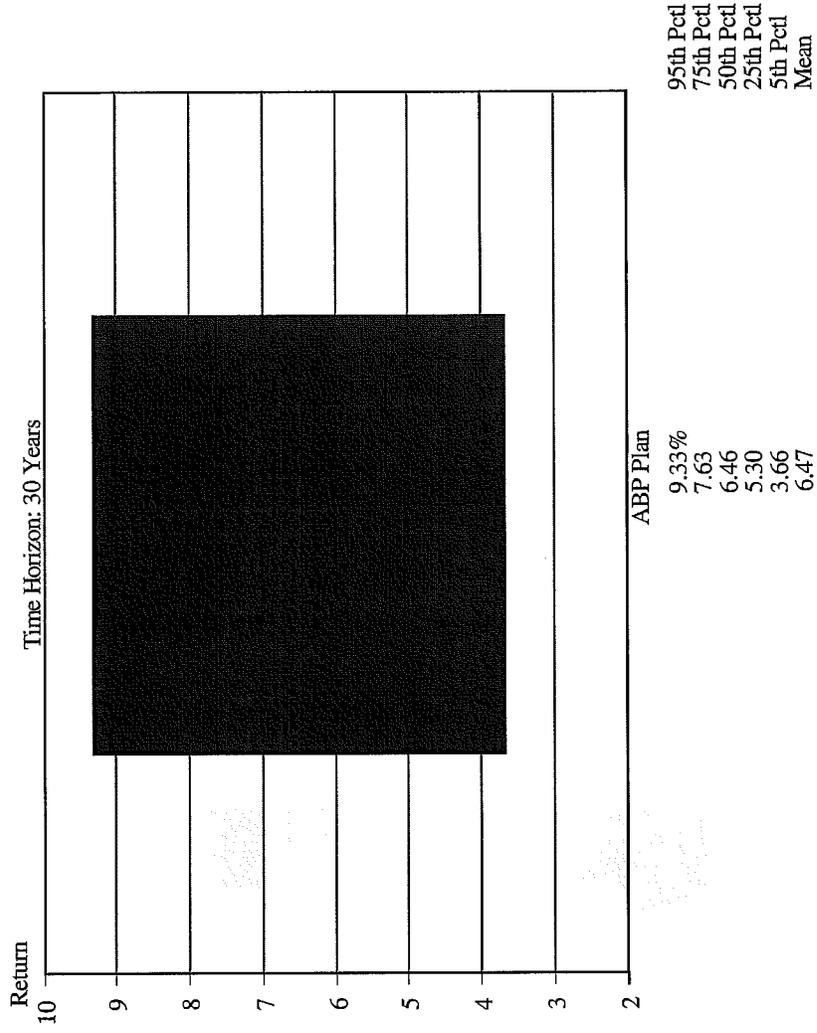


Asset Allocation Analysis

Distribution of Annual Returns

February 11, 2011

Atlantic Beach Police Officers' Retirement System



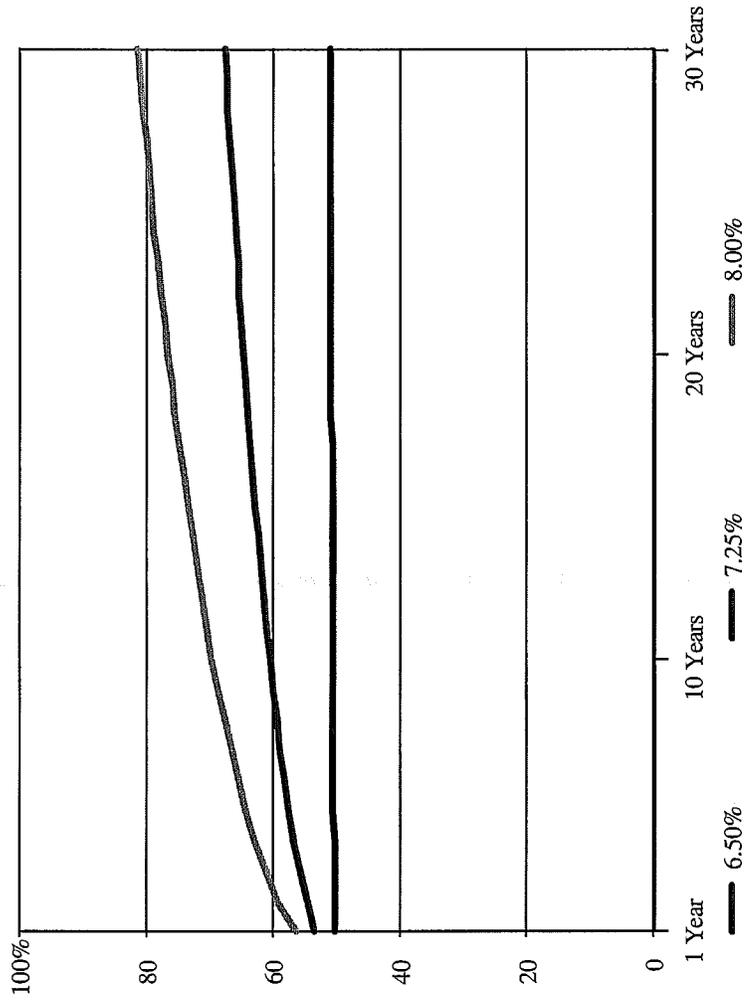
Asset Allocation Analysis

Target Returns

February 11, 2011

Atlantic Beach Police Officers' Retirement System

Probability of Falling Below Target Return for ABP Plan



**ATLANTIC BEACH POLICE OFFICERS' PENSION PLAN
SUPPLEMENTAL INFORMATION TO ACTUARIAL EXPERIENCE STUDY**

	Baseline *		New Demographic and Salary Assumptions	
	Before Assumption Changes	8.00%	7.25%	6.50%
A. Valuation Date	9/30/2010	9/30/2010	9/30/2010	9/30/2010
B. ARC to Be Paid During Fiscal Year Ending	9/30/2012	9/30/2012	9/30/2012	9/30/2012
C. Actuarial Accrued (Past Service) Liability	8,818,683	9,449,190	10,314,563	11,308,081
D. Actuarial Value of Assets	6,164,332	6,164,332	6,164,332	6,164,332
E. Funded Ratio	69.9%	65.2%	59.8%	54.5%
G. Required Employer Contribution in the Contribution Year				
as a \$ Amount	487,931	537,960	651,849	784,613
<i>Change from the Baseline</i>	N/A	50,029	163,918	296,683
as a % of Covered Payroll	27.47%	30.29%	36.70%	44.17%
<i>Change from the Baseline</i>	N/A	2.82%	9.23%	16.70%

* Preliminary draft Valuation results before any assumption changes

GRS

Gabriel Roeder Smith & Company



March 8, 2011

Mr. Nelson Van Liere
Administrator
City of Atlantic Beach General Employee Retirement System
800 Seminole Road
Atlantic Beach, Florida 32233

Re: Follow-up on Actuarial Experience Study for General Employee Retirement System

Dear Mr. Van Liere:

Gabriel, Roeder, Smith & Company (GRS) was engaged by the General Employee Retirement System Board of Trustees to perform an actuarial experience study (aka: a comprehensive assumption review). As previously discussed, an actuarial experience study is recommended to be performed every five years or so (recommended by GRS, by the Government Finance Officers Association and by others).

We are writing to follow up on our formal report concerning the actuarial experience study. The Board did not come to any final decisions at its meeting held on February 17. We are writing to suggest that the Board reconvene after now having more time to digest the report and consider the issues, so that it can make some final decisions concerning the actuarial assumptions. The regular annual actuarial valuation report (as of October 1, 2010) needs to be completed and approved based on any changes to the assumptions adopted by the Board.

The purpose of an actuarial experience study is to provide the actuary with data and trends so that he or she can recommend to a pension board whether any changes in actuarial assumptions are justified. The annual actuarial valuation process projects the retirement plan's covered membership and their salaries and benefits for many years (decades) into the future. Based on these projections, the actuary determines (a) how much the city must contribute in the next year in order to stay on a sound actuarial path toward discharging its funding obligation to the plan and (b) where the plan currently stands on that path. While each year's actuarial valuation report is self-correcting in its recognition of each year's new census, salaries and fund value, the actuarial valuation is based upon assumptions and projections of many moving parts for many years into the future.

The actuary's role in an actuarial experience study is to serve as the subject matter expert to advise the Board members of the methods and results of the analysis, and to give the Board guidance by way of recommendations regarding these actuarial assumptions. There is some amount of judgment involved and the final decisions rest with the Board. Annual actuarial valuations are only as good as the assumptions employed. Board members have a fiduciary responsibility to re-visit the actuarial assumptions periodically to ensure that the assumptions used continue to be reasonable. The city manager and finance director must also have confidence that the actuarial assumptions are reasonable since they are responsible for issuing financial statements that are in conformance with generally acceptable accounting principles. Therefore, the demographic and economic assumptions must be reviewed periodically to ensure they are reasonable.

Mr. Nelson Van Liere
March 8, 2011
Page 2

In order to project the plan's membership and benefits for many years into the future, certain *demographic assumptions* must be made regarding future employee turnover and retirement rates, disability and mortality rates, future salary increases and price inflation (although these two might be more properly considered economic assumptions). These assumptions must be reasonable, reflecting: (a) to some extent national demographic trends (particularly for mortality rates), (b) to some extent the recent past experience of the plan's own membership, and (c) to some extent management's expectations of future workforce and salary trends with consideration given as to whether the future might likely be similar or different from what we see in the recent past. We consider the demographic assumptions presented and labeled in our report as "recommended" as being reasonable demographic assumptions to employ. We recommend the Board adopt them for use beginning with the October 1, 2010 actuarial valuation. These demographic assumptions discussed in our report are not intended to serve as a menu from which the Board can pick and choose. The Board should simply adopt reasonable best estimates for each assumption.

In addition to demographic assumptions, the most important *economic assumption* employed in the actuarial valuation process is the long-term expected rate of return of the pension fund. The ongoing and long-term cost to taxpayers depends to a large degree upon the effectiveness of the pension fund to generate earnings over a long period of time. The pension fund's long-term actual rate of return significantly affects the cost to taxpayers. Consequently, the contributions paid by the city (taken from taxes) and the liability reflected in the city's financial statements should reflect a reasonable expectation of the pension fund's long-term rate of return. Both the contributions and the financial statements need to reflect the expected cost to taxpayers. Some argue that the Board's decision about the long-term expected rate of return (and demographic assumptions) should be their collective best estimate, based on all the facts and opinions available.

This particular assumption is unique because there are many others in the investment profession, more qualified than actuaries, to provide the Board with portions of the input regarding its decision. Accordingly, GRS maintains a survey of the long-term expected rates of return published and employed by various investment experts (all with substantial experience providing investment consulting services to pension funds). We provided the expected returns of ten investment experts in our report. Based on central tendency and consensus of these ten investment experts and based on the pension fund's current investment policy on asset allocation (60/40), we recommended a range of 6.75% to 7.5% for the Board's consideration of its assumption as to the long-term expected rate of return, down from the current 8%. The top end of that range, 7.5%, would be a reasonable choice until reviewed again in five years. Of course, any assumption can be changed prior to the next experience study if advisable.

The most common long-term expected rate of return used in actuarial valuations nationally has been 8%, like yours. There appears to be some movement among actuaries, investment consultants and Boards across Florida (and the country) that reductions from 8% to something down in the 7.X% range are appropriate.

Following are a few options for the board to consider regarding the long-term expected rate of return:

1. The Board may feel comfortable with a more optimistic view of the future, resulting in the selection of long-term expected rate of return that is higher than the upper end of our recommended range. That is okay if it is the Board's collective view of the future.
2. If the Board wishes to rely more on the forecasts of its own investment consultant (MSSB) than on those of several others, and lean more on the 50th percentile of MSSB's forecasts, that's fine too. That 50th percentile is 8.34%, as shown on page 26 of our report.
3. It has been suggested that the Board could start with the Geometric Net Nominal Return of MSSB and adopt an assumption that is one standard deviation from their forecast. That would result in an assumption of 6.23%.
4. Actuarial Standards of Practice No. 27 defines a range of reasonableness as lying between a 25th percentile and a 75th percentile. This range of reasonableness is 6.93% to 9.77% if based on MSSB's forecasts, or is 5.17% to 8.43% if based on the average of 10 investment consultants' ranges of reasonableness.
5. Given all the possibilities and options, our recommended range was 6.75% to 7.5%, with 7.5% being a reasonable choice until reviewed again.
6. Some Boards are choosing to adopt a lower rate, but take a few years to get down to it. In this case, for example, the Board could adopt the 7.5% as its ultimate goal, but get to that end by adopting a ramp-down schedule of 7.75% for this 2010 valuation and 7.5% for 2011. Alternatively, the Board could adopt 7.9% for 2010, 7.8% for 2011 and so on until reaching an assumption of 7.5% for 2014 valuation. Other Boards have adopted this approach merely to grade into the higher contribution requirement that is considered too high to absorb all in one step. This may be simply delaying the inevitable, but we mention it because some Boards have adopted this ramp-down approach.

We wish there were a generally accepted and disciplined process that would lead us and the Board to a nice, packed, single answer for the long-term expected rate of return. But there cannot be such a process because no process or person can know the future with any certainty. No one has a crystal ball to know for sure how the demographic rates will play out over the long term or what the long-term *actual* rate of return will be. So the actuary must apply the best science available and generally acceptable and commonly employed to inform the Board for its decision.

Board members should not permit the resulting contribution requirement or the resultant funded ratio to have any significant influence over what it collectively considers a best estimate of the future. The Board should think of its decision about its best estimate of the future as independent of the end result. Some may argue that this is too much of a purist position, and that a Board cannot

Mr. Nelson Van Liere
March 8, 2011
Page 4

ignore the implications of its decisions about assumptions especially since there is no single right answer. We recognize that practical reality. However, our role is to provide our recommendations and the reasons and process, while the Board's role is to make the final decisions.

We recommend erring on the side of conservatism in setting these assumptions, i.e., adopt assumptions that produce contribution results that are a little on the higher side.

In any event the Board should meet to make a final decision on the whole set of assumptions as soon as possible so that we can complete our regular annual valuation report.

The undersigned is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Circular 230 Notice: Pursuant to regulations issued by the IRS, to the extent this communication (or any attachment) concerns tax matters, it is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or (ii) marketing or recommending to another party any tax-related matter addressed within. Each taxpayer should seek advice based on the individual's circumstances from an independent tax advisor.

This communication shall not be construed to provide tax advice, legal advice or investment advice.

Sincerely,

A handwritten signature in black ink that reads "James J. Rizzo". The signature is written in a cursive style with a large, stylized initial "J".

James J. Rizzo, ASA, MAAA, FCA
Senior Consultant & Actuary

February 15, 2011

Board of Trustees
City of Atlantic Beach General Employees' Pension Plan
800 Seminole Road
Atlantic Beach, Florida 32233

Re: Actuarial Experience Study Concerning
Demographic and Economic Assumptions for Annual Actuarial Valuations

Dear Board Members:

We are pleased to present herein our Actuarial Experience Study concerning the primary demographic and economic actuarial assumptions used in your annual actuarial valuations. We have included our recommendations as to certain changes in these actuarial assumptions for use in the Annual Actuarial Valuation performed as of September 30, 2010 and later.

The data used for the Study of the demographic assumptions and the salary increase assumptions were derived from the annual data file provided to us by the City for the purpose of performing the Plan's annual actuarial valuations over the last 10 years. As with the annual actuarial valuation, although this information was not audited by us, we did review it for reasonableness and comparability to successive years.

Gabriel, Roeder, Smith & Company will be pleased to answer questions pertaining to the valuation and to meet with you to review this Report.

Respectfully submitted,

GABRIEL, ROEDER, SMITH & COMPANY



James J. Rizzo, ASA, MAAA
Senior Consultant and Actuary



Piotr Krekora, ASA, MAAA, PhD
Actuary and Senior Analyst

Purpose of Actuarial Valuations

In a defined benefit pension plan, an employer makes a promise to its employees of a lifetime pension. The amount of the monthly pension is determined by a “benefit formula” which is often based upon a multiplier percentage and the number of years of service and the average final earnings of the employee.

The employer must design and follow a systematic plan for advance-funding this obligation. That is accomplished by establishing a pension fund and performing annual actuarial valuations to measure the liabilities associated with the obligation, and to calculate how much the employer must contribute to the pension fund in order to make good on its promise.

The calculations in the actuarial valuation are performed each year to re-measure the liabilities. The stakeholders need to know how the plan is doing in its goal of systematically financing the promised benefits. So it is important to make the actuarial calculations in accordance with the professional actuarial standards of practice and the accounting standards.

Role of Actuarial Assumptions

The nature of the pension promise and its systematic funding require long term projections of the employee workforce (using demographic assumptions) and long term projections of the salaries and investment returns (using economic assumptions). The whole actuarial valuation process depends on the selection and use of reasonable actuarial assumptions as to future demographics and future economics. There are many different actuarial assumptions employed in an actuarial valuation. But the primary ones include:

1. Rates of Termination of Employment
2. Rates of Retirement
3. Rates of Mortality
4. Rates of Disability
5. Long-term Price Inflation
6. Rates of Salary Increases
7. Long-term Payroll Growth Rate
8. Rates of Investment Return

The actuary and plan management must be comfortable with the actuarial assumptions. The assumptions must be reasonable. Without a level of confidence in the reasonableness of the actuarial assumptions, the stakeholders and users of the valuation results cannot have confidence in the results. However, there is no way to have confidence in the actuarial assumptions unless an actuarial experience study is performed to assess the reasonableness of the current assumptions or to change them to be somewhat in line with past experience and, most importantly, with future expectations.

It is for this reason that the pension board has authorized us to undertake an actuarial experience study to recommend any changes to the actuarial assumptions used in the annual actuarial valuation. It is prudent fiduciary management to perform such an actuarial experience study once every 5 to 7 years, in order to ensure the assumptions are based on the current best estimates.

Rates of Termination of Employment

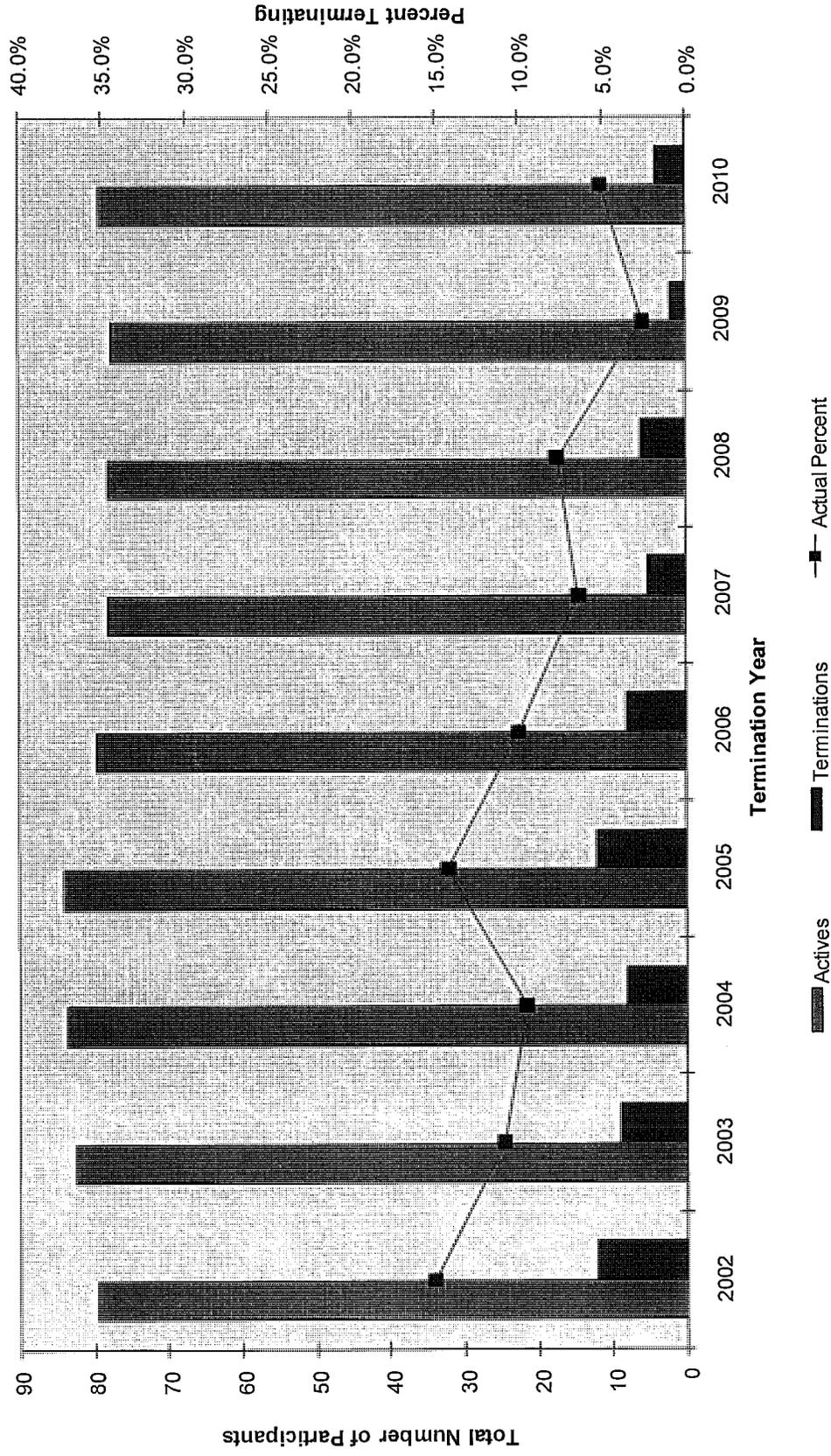
Current employees continue accruing retirement benefits only if they remain in employment until satisfying the retirement eligibility requirements. Therefore, when funding for future benefits we must make certain assumptions as to what proportion of current employees will terminate employment before reaching retirement eligibility.

Currently, these assumptions take the form of a select and ultimate table of annual rates of termination: that is, the rates are attributed by service for all employees with less than 5 years of service and by age for all other for all employees not yet eligible for retirement. As the actuarial model projects the current population of active employees, one at a time, it subjects the employees to the table of termination rates at each age or service, whichever applies.

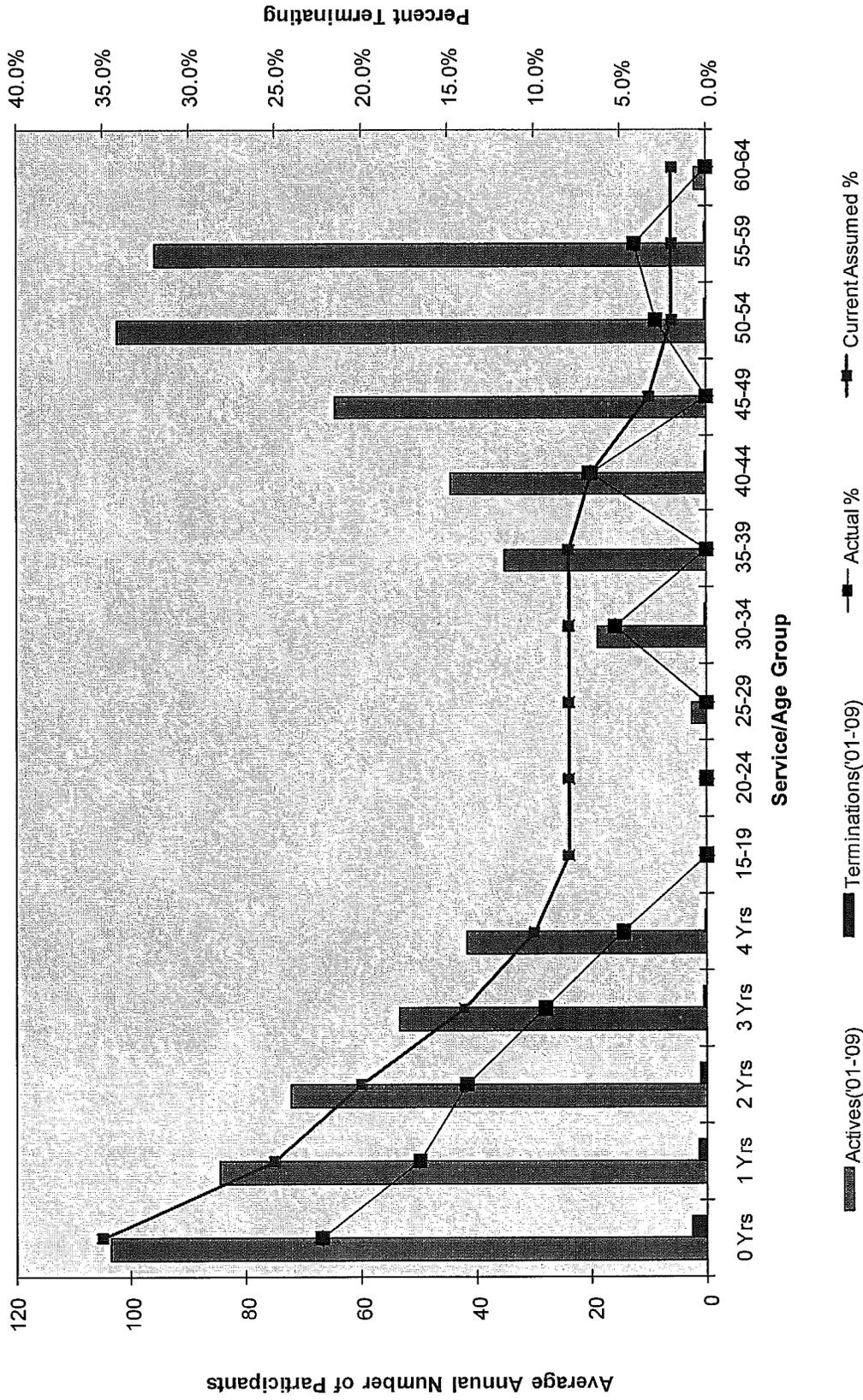
The actuarial model calculates the value of the vested deferred benefits payable based on the probabilities that the employees might terminate at each age prior to reaching retirement eligibility. So only a fraction of the employees will actually reach retirement eligibility, and that probability is reflected in the value of the ultimate retirement benefits payable.

Following Charts present results of our study analyzed and displayed different ways. In addition to this purely statistically analysis, we consulted with the City's HR Director to ensure that our recommendations would include input from his own forecast of the future.

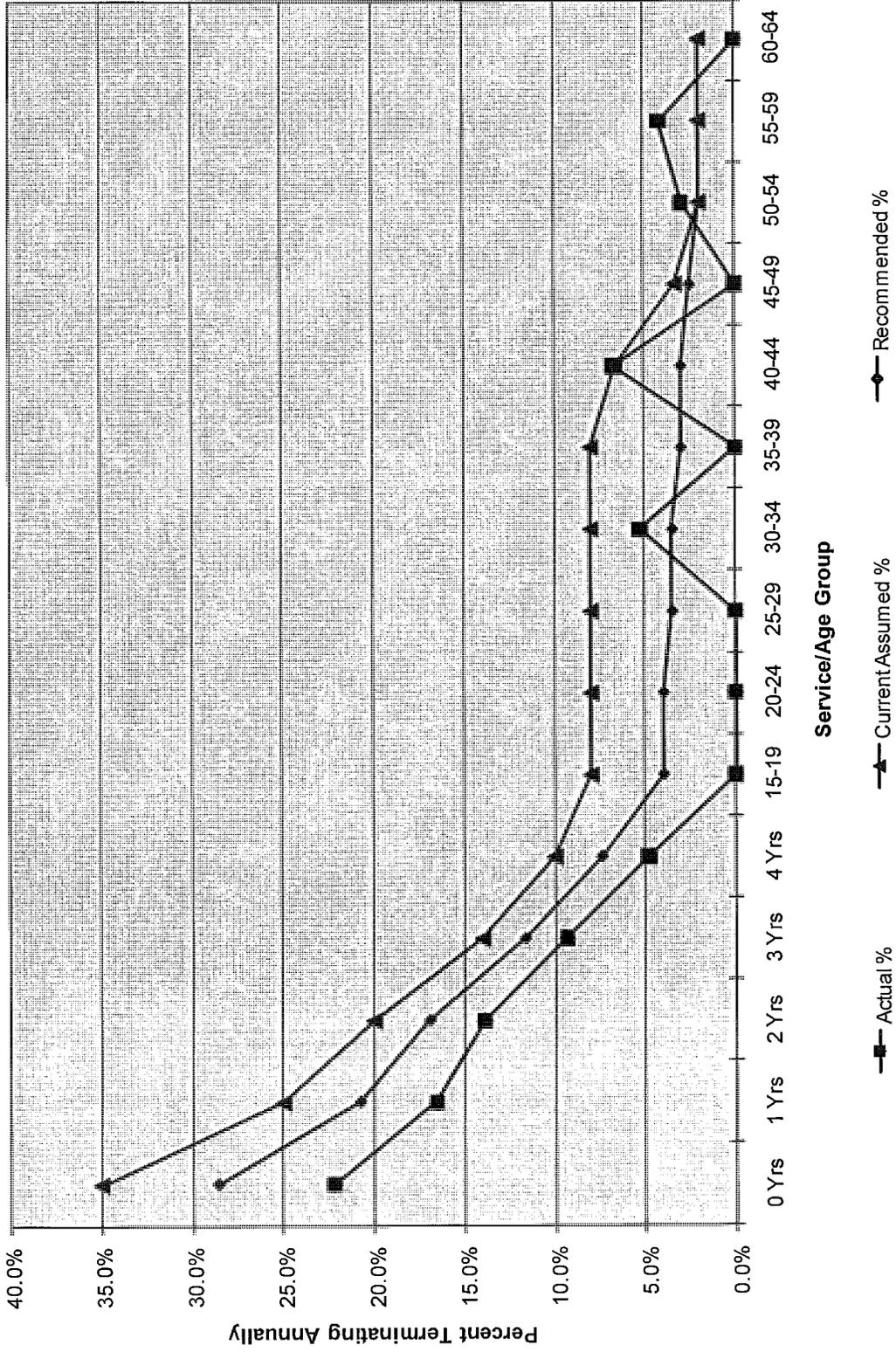
**Atlantic Beach General EMPLOYEES' Pension Plan
Actual % Terminating By Year (2002-2010)
(Other Than Normal or Disability Retirements)**



**Atlantic Beach General Employees' Pension Plan
Actual and Assumed % Terminating By Age Group (2002-2010)**



**Atlantic Beach General Employees' Pension Plan
Actual, Assumed and Recommended % Terminating By Age Group (2002-2010)**



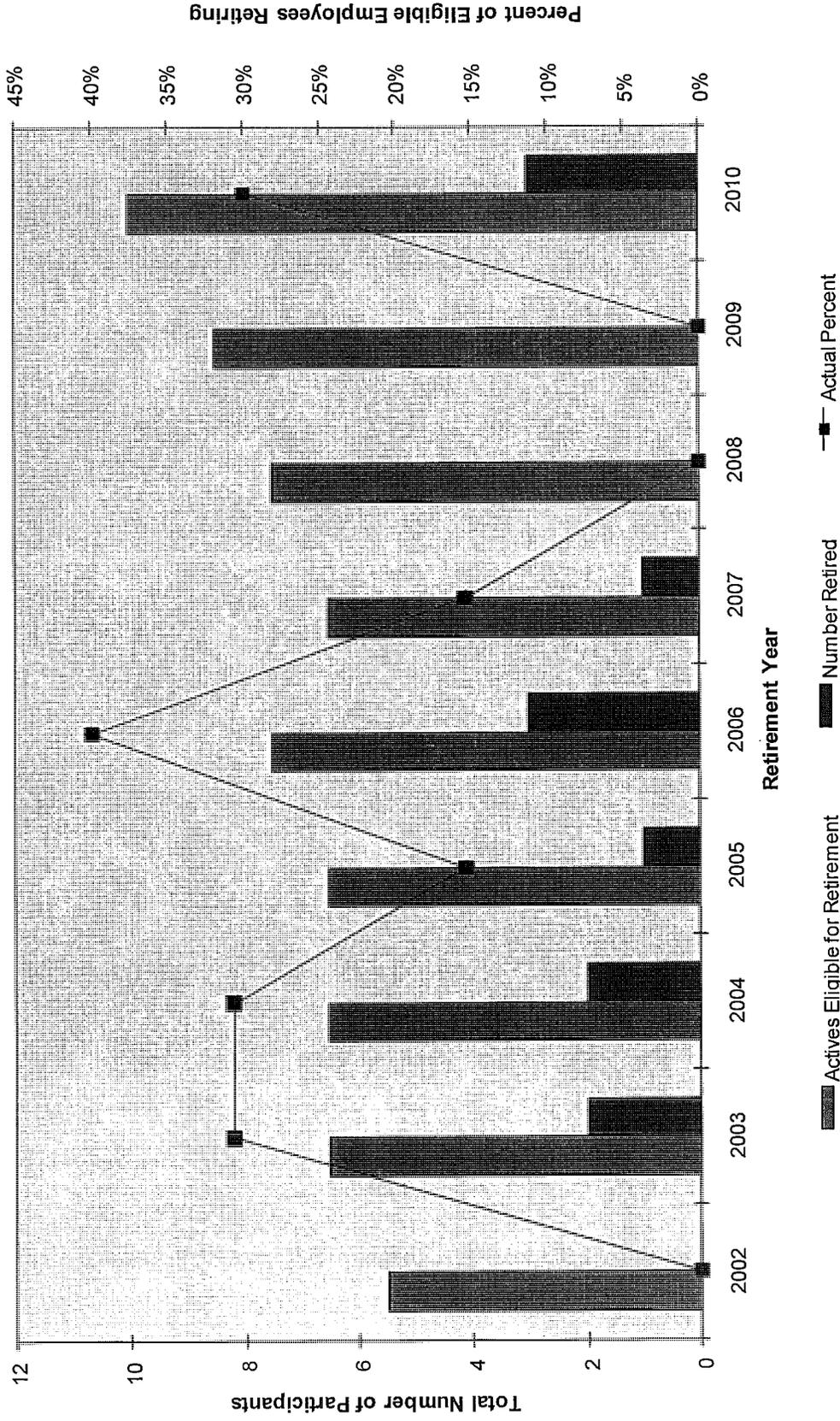
Rates of Retirement

Currently, these assumptions take the form of a table of annual rates of termination by age for all employees eligible for normal retirement. As the actuarial model projects the current population of active employees, one at a time, it subjects the employees to the table of retirement rates at each age.

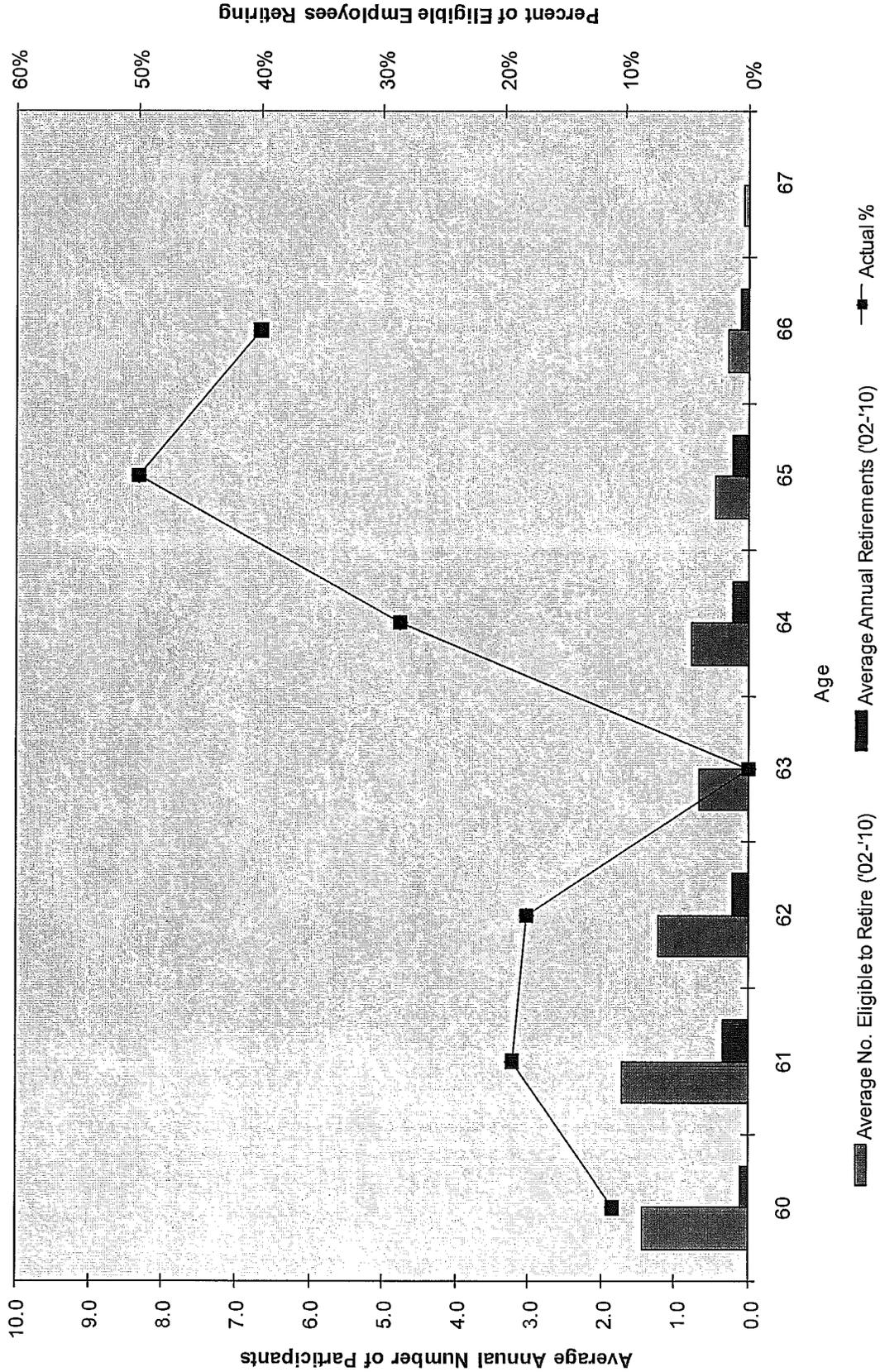
We continue to use the age-based table with revised retirement rates.

Following Charts present results of our study, analyzed and displayed different ways.

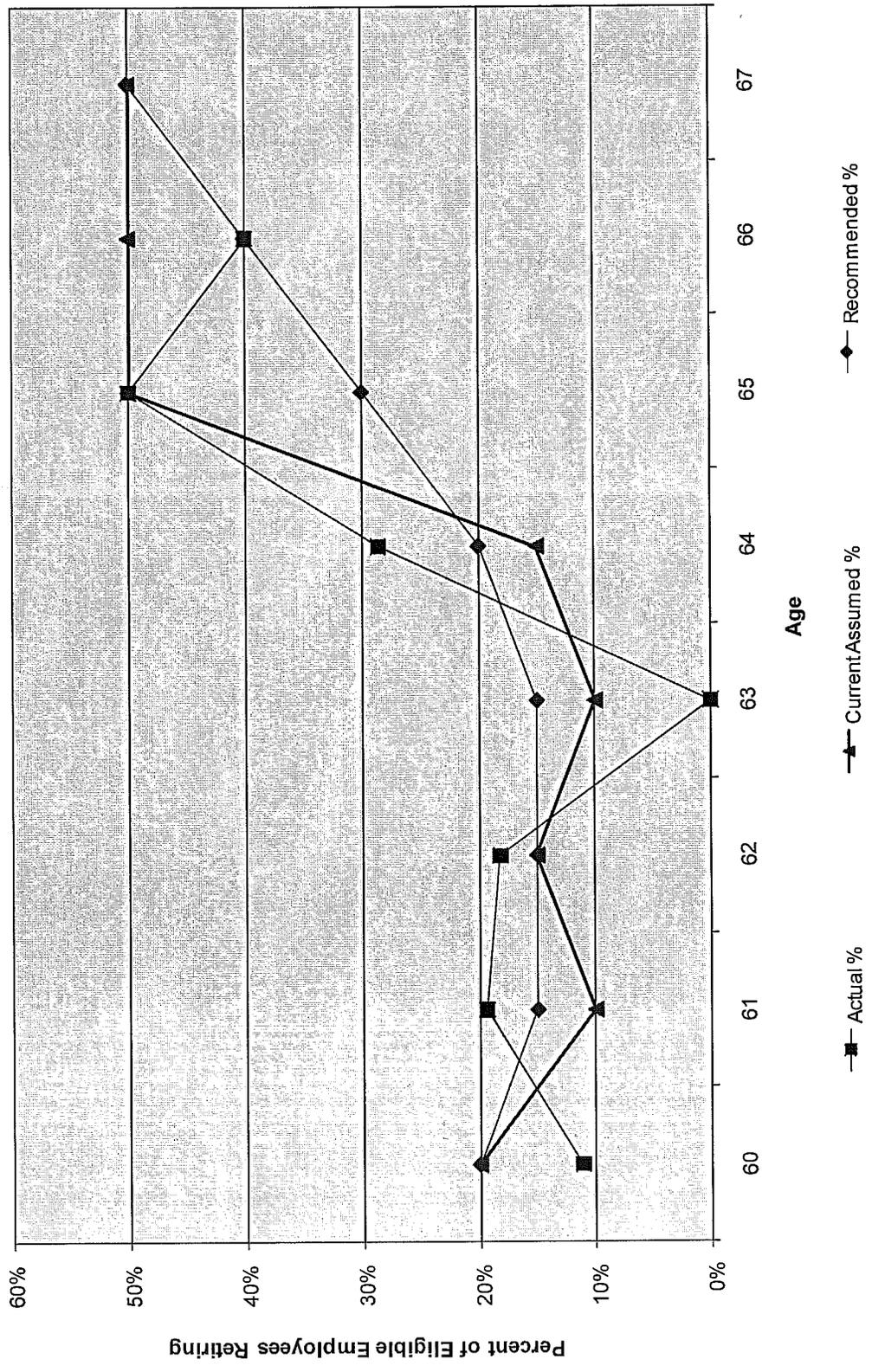
ATLANTIC BEACH GENERAL EMPLOYEES' PENSION PLAN
Eligible Participants (2002-2010)
% of Those Eligible Who Retired (Normal Retirement)



ATLANTIC BEACH GENERAL EMPLOYEES' PENSION PLAN
Normal Retirements Grouped by Age (2002-2010)



ATLANTIC BEACH GENERAL EMPLOYEES' PENSION PLAN
Normal Retirement Rates By Age (2002-2010)



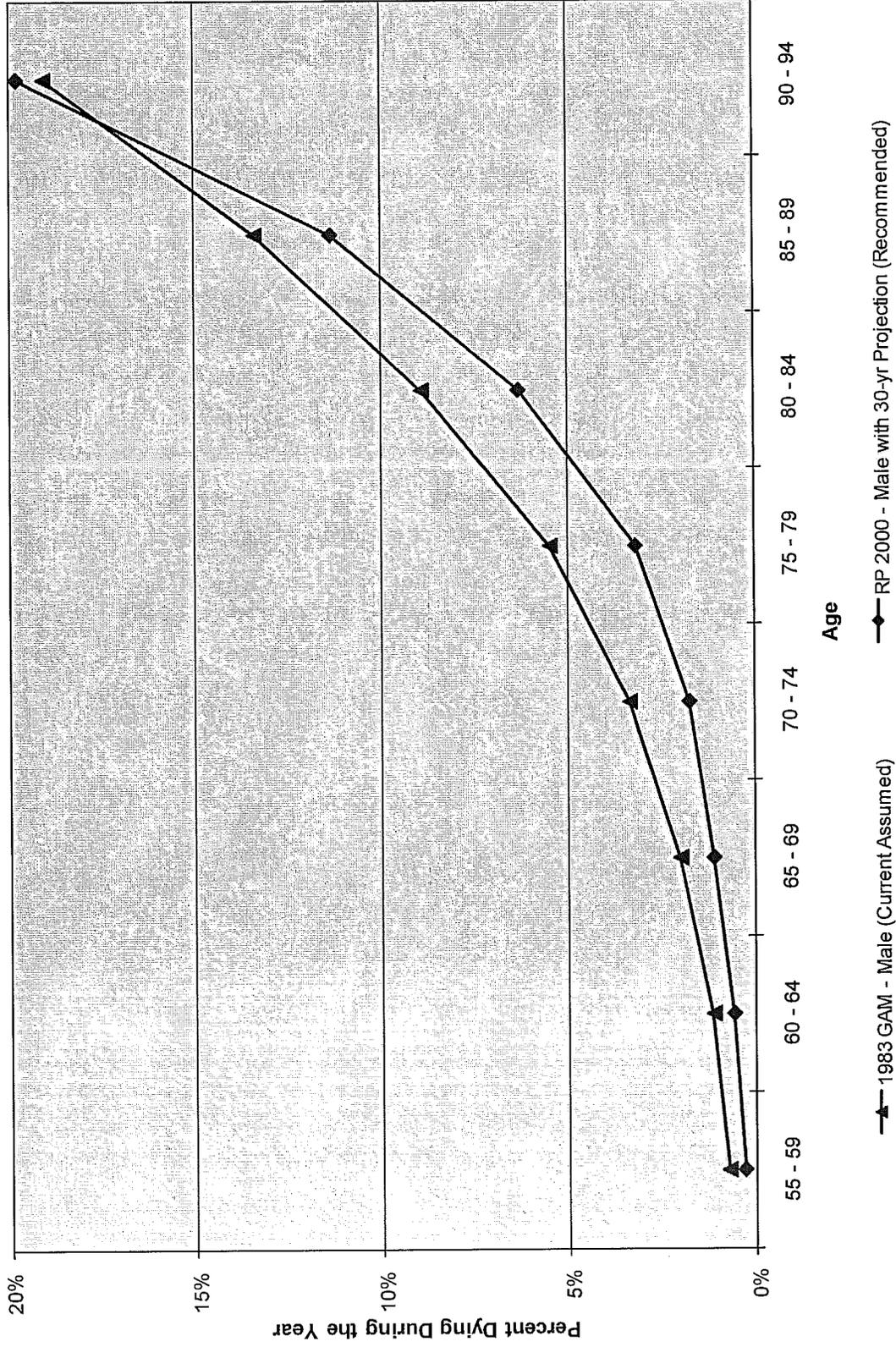
Rates of Mortality

Currently, a mortality table (annual rates of mortality by age) is used in the actuarial valuation. These rates of mortality are used to calculate the value of the retirement benefits, considering the probability of living (receiving benefits payments) or dying (not receiving payments) at each age until age 120. The table is also used to calculate the value of the death benefit provided to survivors of active or retired employees.

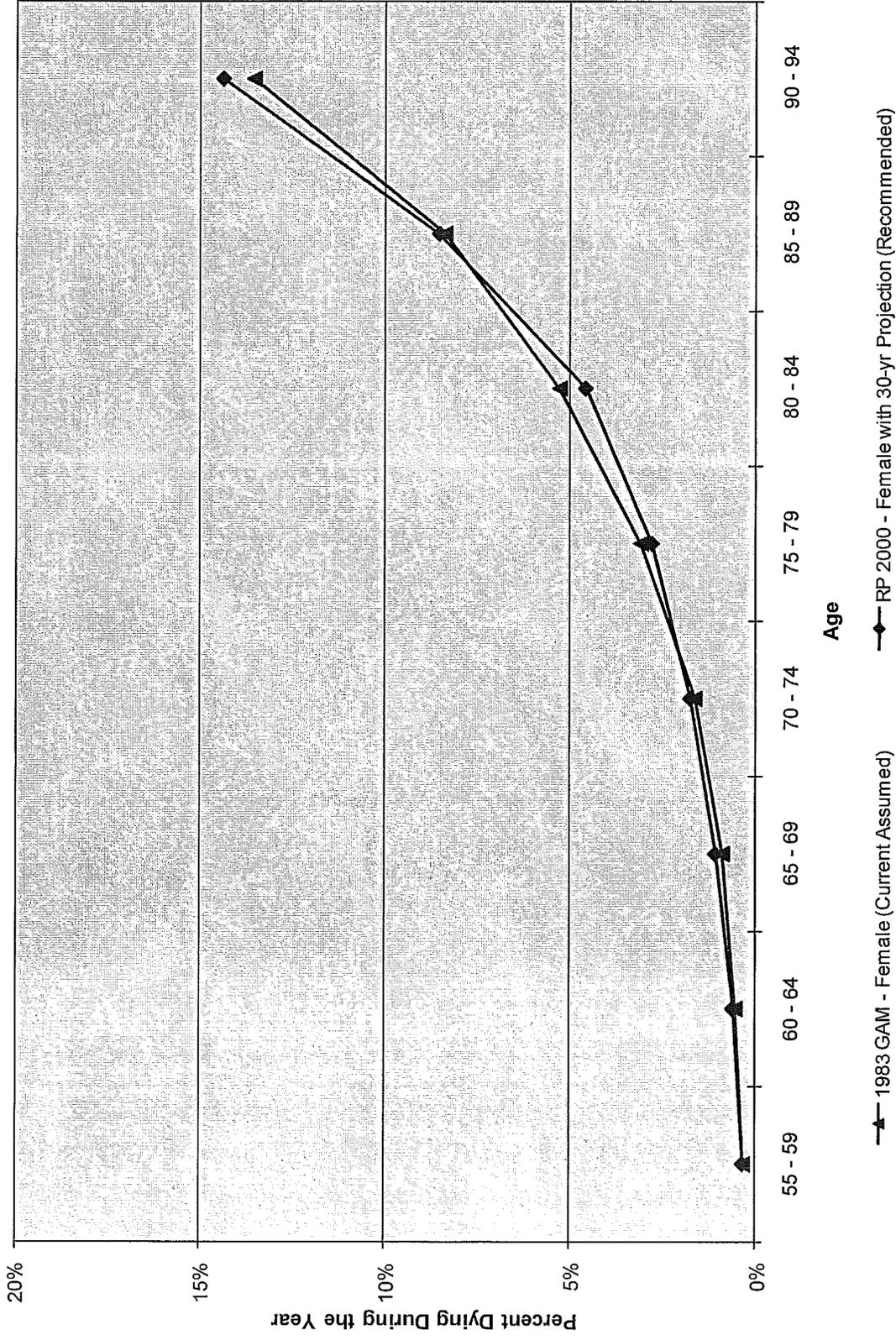
Currently the mortality table (annual rates of mortality by age) used in the actuarial valuation has been the 1983 Group Annuity Mortality Table. The number of plan participants is too small to develop a mortality table based on experience of the group; so we turn to recently published tables. There is a newer table we recommend for the actuarial valuation. It is called the RP-2000 Mortality Table for Healthy Males and Females and was developed by the Society of Actuaries. In order to recognize some expectation of improved mortality over time, we recommend projecting this table using The Society of Actuaries' Scale AA for gradual improvement in these static mortality rates over time.

Following is a Chart illustrating the difference between the two sets of mortality tables (male and female). For the purpose of illustrating the general effects of this recommendation, rates from the RP-2000 Mortality Table were projected to 2030 using Scale AA and presented in the following Chart.

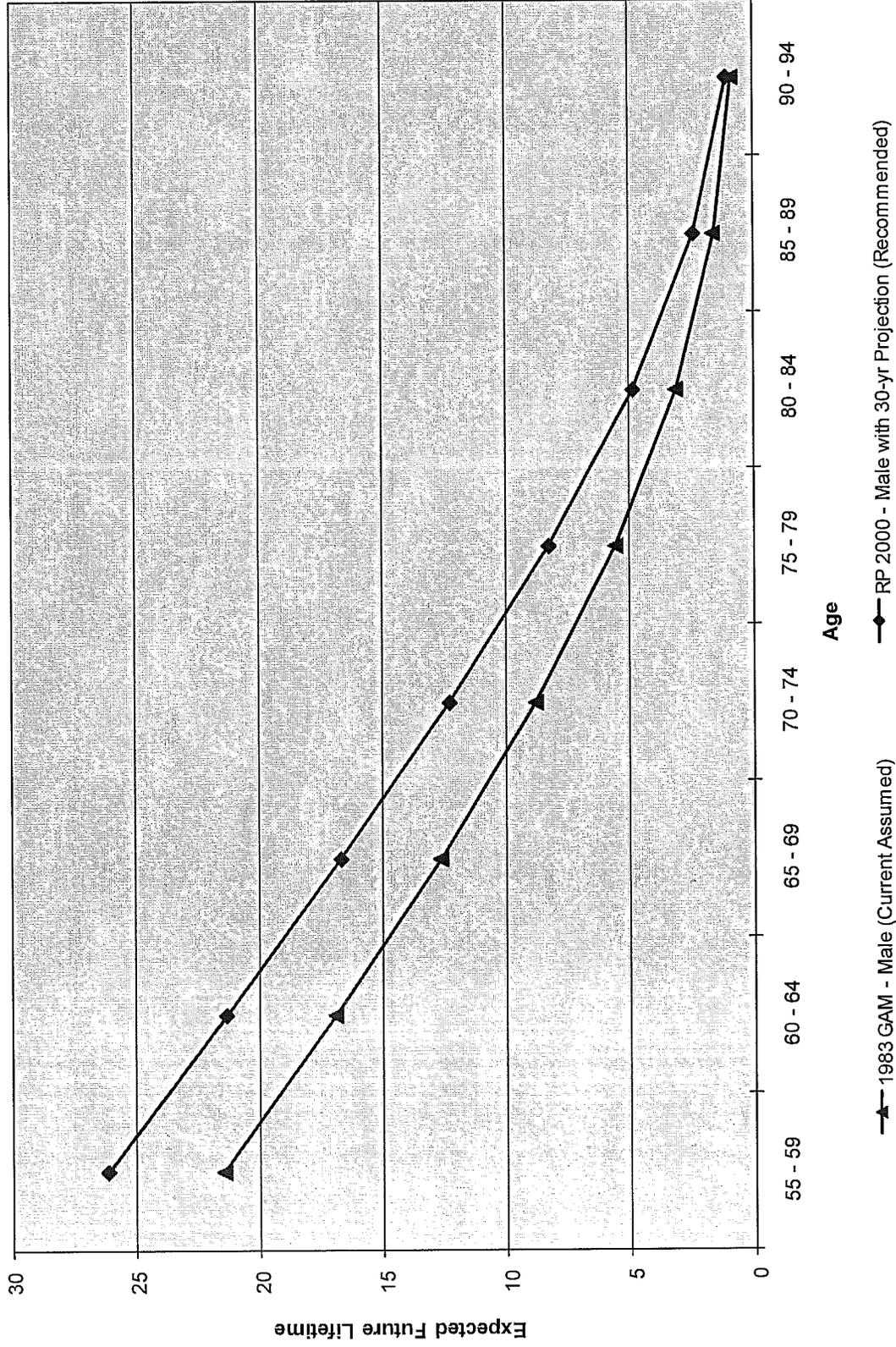
ATLANTIC BEACH GENERAL EMPLOYEES' PENSION PLAN
Male Mortality Rates Grouped by Age



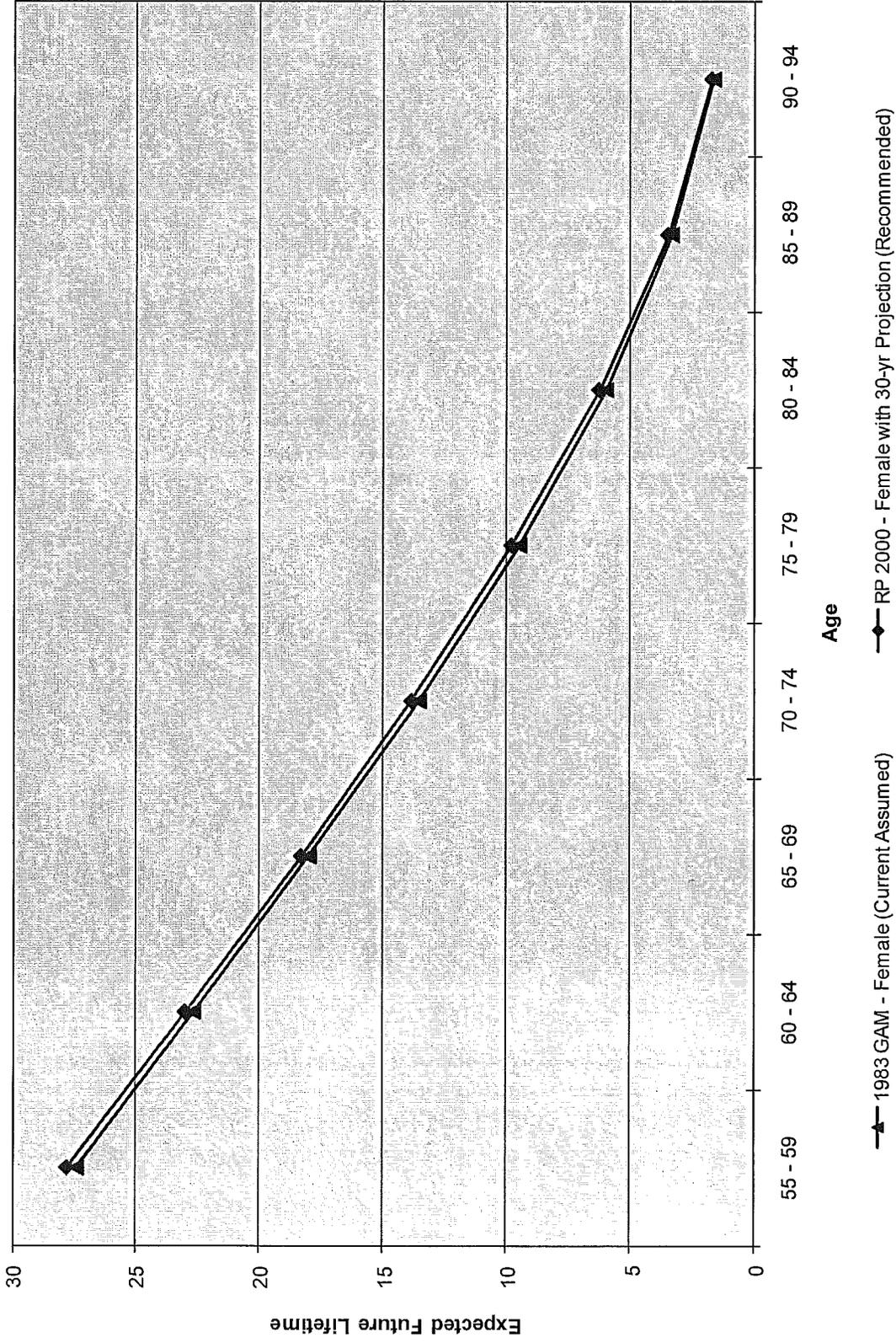
ATLANTIC BEACH GENERAL EMPLOYEES' PENSION PLAN
Female Mortality Rates Grouped by Age



ATLANTIC BEACH GENERAL EMPLOYEES' PENSION PLAN
Male Expected Future Lifetime Grouped by Age



ATLANTIC BEACH GENERAL EMPLOYEES' PENSION PLAN
Female Expected Future Lifetime Grouped by Age



Disability Rates

For analyzing disability incidence rates, the group is too small for its own historical data to be credible. Generally speaking, we consider the current table of probabilities of male employees becoming disabled for pension purposes as generally reasonable. However, rates currently used for female employees seem lower than commonly used for general employees. Consequently, we recommend continuing using rates from this table and apply them to all employees regardless of their gender as illustrated below.

Sample Ages	Percent Becoming Disabled Within the Next Year		Recommended	
	Currently Used Men	Currently Used Women	Men	Women
20	0.07%	0.03%	0.07%	0.07%
25	0.09%	0.05%	0.09%	0.09%
30	0.10%	0.07%	0.10%	0.10%
35	0.14%	0.13%	0.14%	0.14%
40	0.21%	0.19%	0.21%	0.21%
45	0.32%	0.28%	0.32%	0.32%
50	0.52%	0.45%	0.52%	0.52%
55	0.92%	0.76%	0.92%	0.92%

Long Term Price Inflation

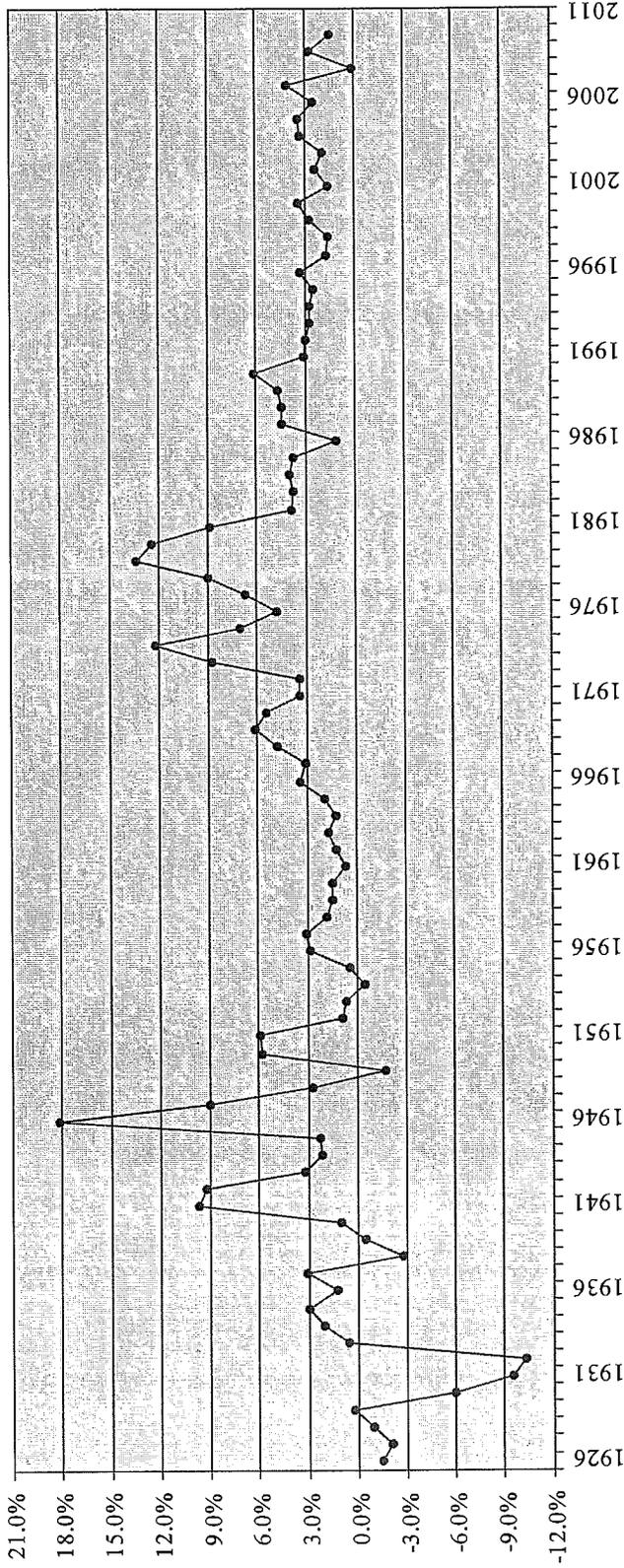
Future changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI) will affect the wages and average earnings, and thus affecting the projected retirement benefits. Price inflation also affects the rate of return realized over time. Actual and expected inflation is built into yields and bond prices and influences stock market returns. The long-term expected price inflation embedded within the salary increase assumptions should be consistent with the expectation embedded in the long-term expected rate of return as well.

Historically, the CPI increased at an average annual rate of 4.6 percent for the 40 years from 1968 to 2008, the result of average annual increases of 6.5, 6.0, 3.2, and 2.8 percent for the 10-year periods 1968-78, 1978-88, 1988-98, and 1998-2008, respectively. For 2009, the annual change was -0.7 percent. These historical data have been updated and expanded in the Charts that follow. However, expected future rates of price inflation should not be derived solely by looking at the past.

Annual reports prepared for the Social Security Administration usually consider three scenarios of future inflation. In the Social Security Trustees' 2010 report, the ultimate annual increases in the CPI are assumed to be 1.8, 2.8, and 3.8 percent for the low-cost, intermediate, and high-cost assumptions, respectively. These rates of increase are the same as those used in the 2009 report, and reflect a belief that future inflationary shocks will likely be offset by succeeding periods of relatively slow inflation due to persistent international competition, and that future monetary policy will be similar to that of the last 20 years with its strong emphasis on holding the growth rate in prices to relatively low levels. As the economy moves on a path toward fuller employment, the annual change is assumed to increase gradually from 1.7 percent in 2011 to the ultimate growth rate of 2.8 percent in 2014 and later. These forward-looking assumptions are in line with a historical data as illustrated on the following pages.

Consequently we recommend using 3% for the assumed long term inflation rate.

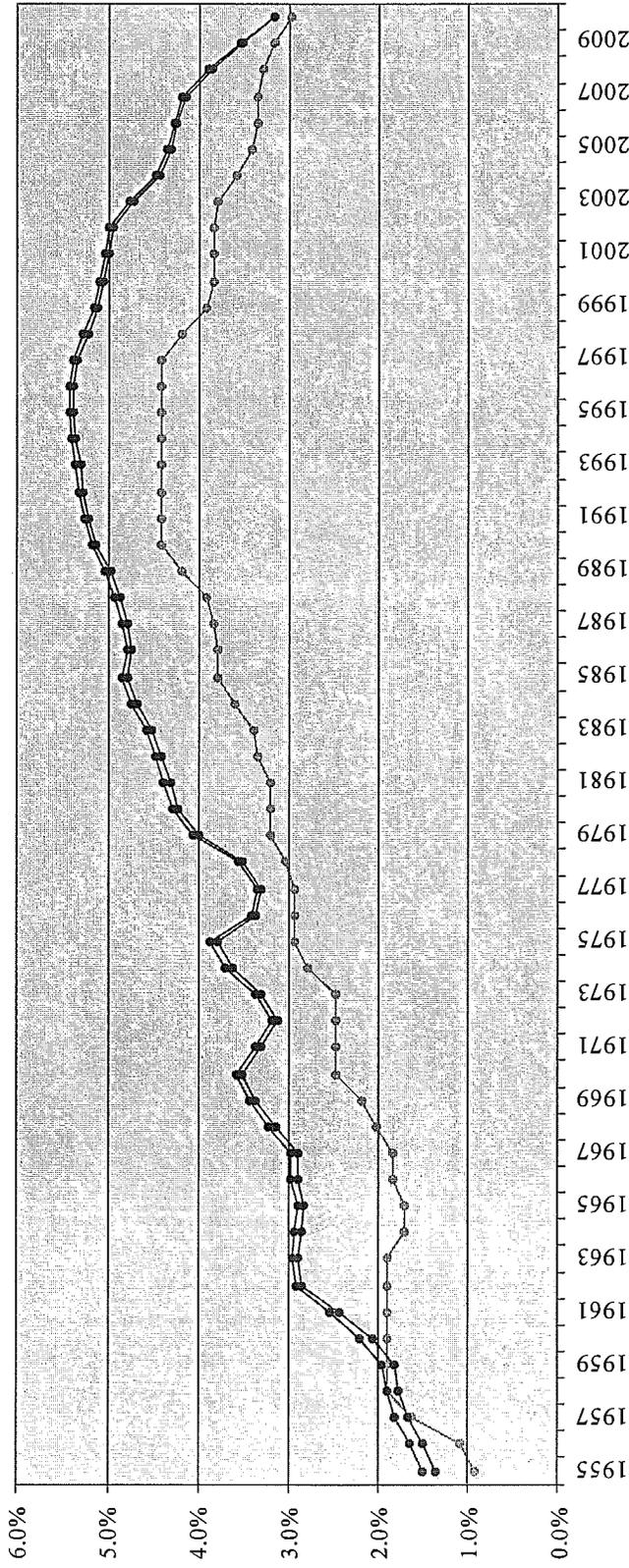
Annual Rates of U.S. Inflation for 1926 through 2010



Inflation Rates for 1926 - 2010
 Median Rate - 2.8%
 Average Rate - 3.1%
 Compound Rate - 3.0%

Source: Stocks, Bonds, Bills, Inflation
 Morningstar, Inc.

Annualized Rates of Inflation for Rolling 30-Year Periods Ending 12/31 (1926 through 2010)
 (For example, Compound Rate for 1/1/1981- 12/31/2010 was 3.2%)



Inflation Rates for 1926 - 2010
 Median Rate - 2.8%
 Average Rate - 3.1%
 Compound Rate - 3.0%

Source: Stocks, Bonds, Bills, Inflation
 Morningstar, Inc.

○ Median Rate for 30 Years Ending 12/31
 ● Average Rate for 30 Years Ending 12/31
 ■ Compound Rate for 30 years Ending 12/31

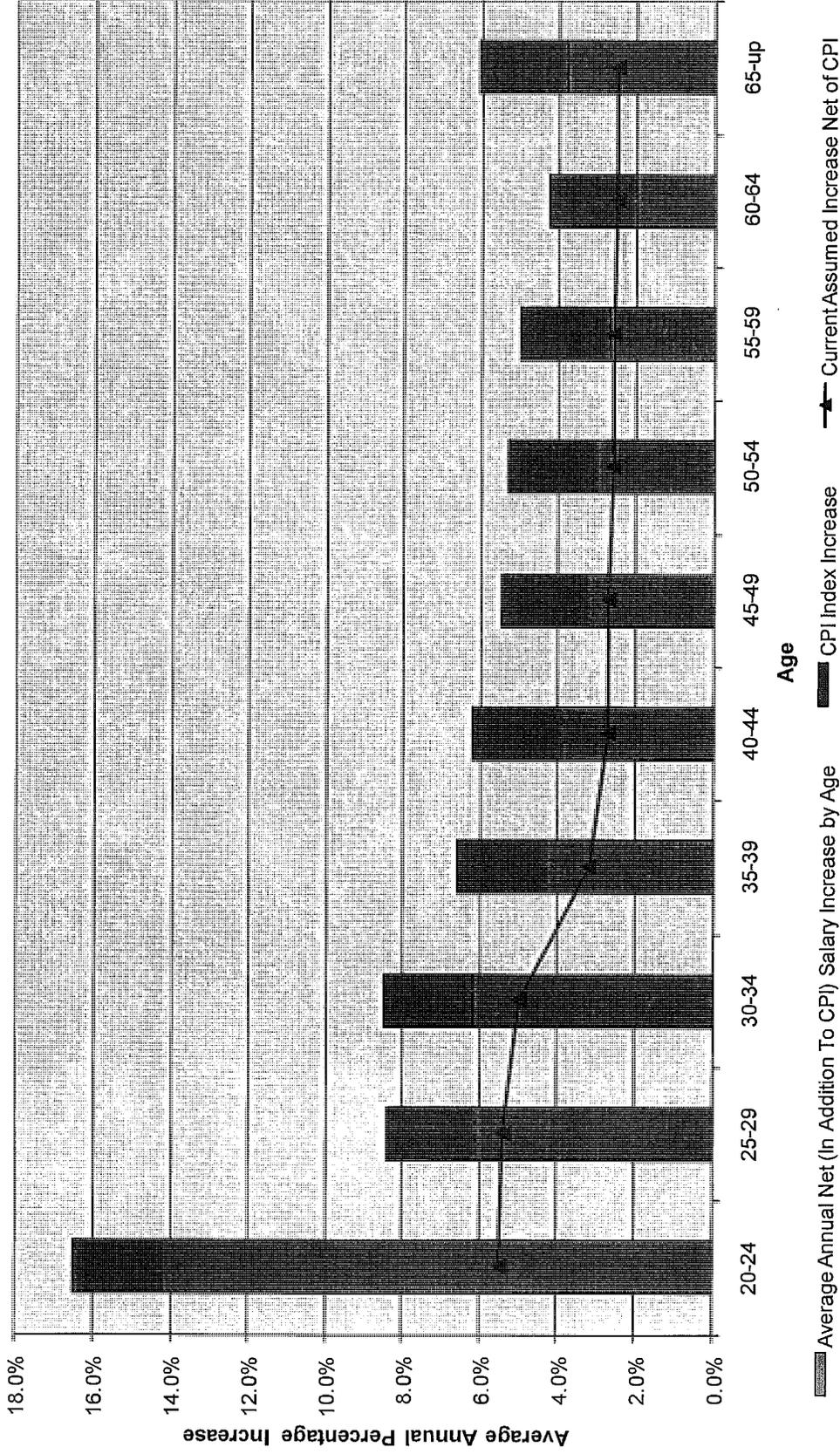
Rates of Salary Increase

Retirement benefits are based upon employees' average final earnings. Therefore, the actuarial model must make certain assumptions as to how fast the employees salaries will likely increase over time, projecting them to the years just prior to their expected retirement dates.

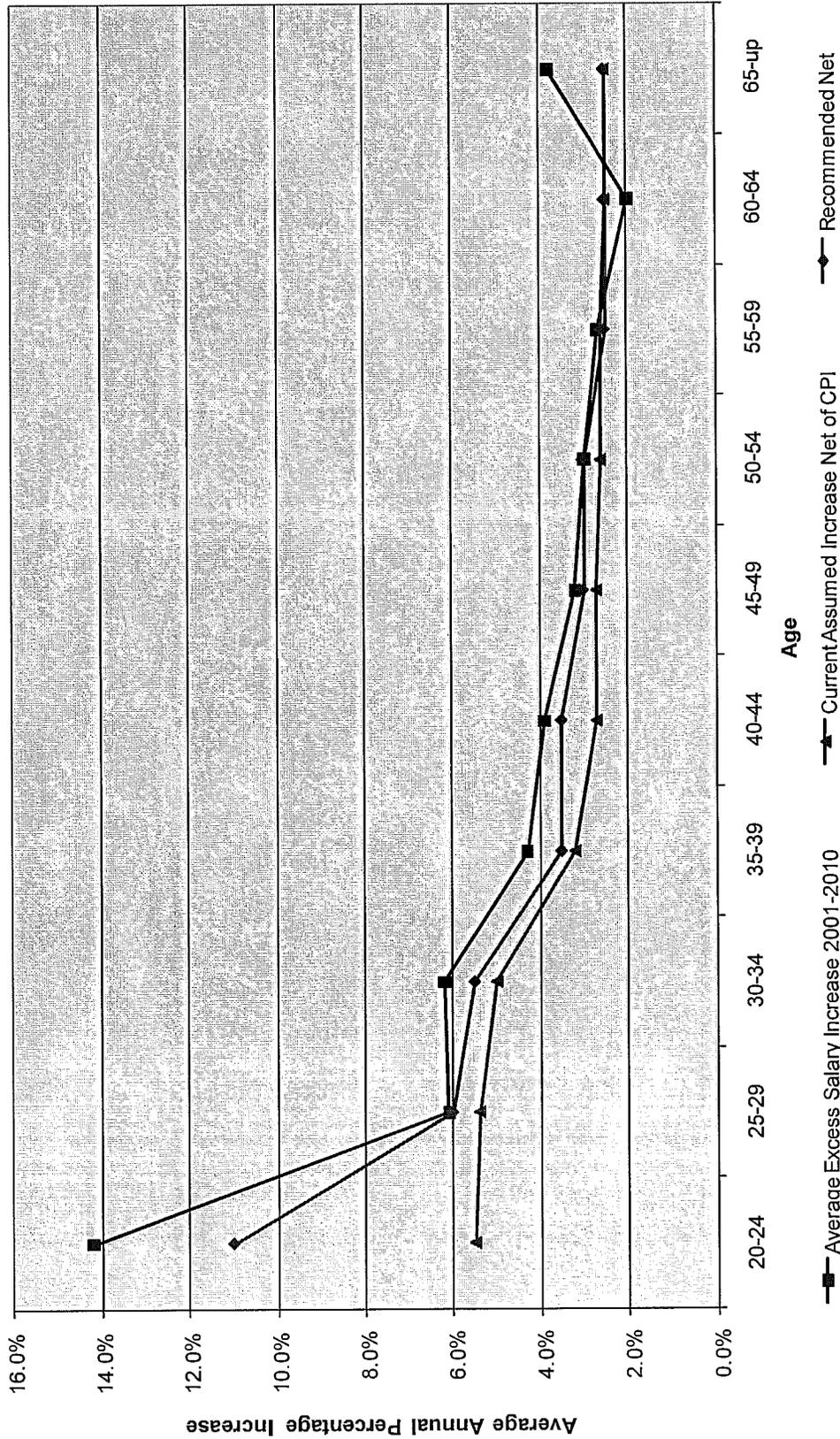
Currently, the rate of salary increase has been assumed to depend on the age of an employee. In our study we separated out a portion of the total salary increase rates we observed for each individual each year representing the increase in the CPI for such year, leaving the excess rate of salary increase above the CPI. These excess (or "net") salary increases were analyzed by age.

We recommend a long-term expected rate of price inflation to be 3%. Following are Charts presenting the results of our study of salary increases.

ATLANTIC BEACH GENERAL EMPLOYEES' PENSION PLAN
Average Annual Salary Increases (2001 - 2010) By Age
Total, CPI portion and Net (Above CPI) Increase



ATLANTIC BEACH GENERAL EMPLOYEES' PENSION PLAN
Average Annual Salary Increases (2001 - 2010) By Age
Total, CPI portion and Net (Above CPI) Increase



Rates of Payroll Increase

Unlike the salary increases, payroll increases have no direct effect on the plan's liability. This is an assumption that needs to be made whenever the Unfunded Actuarial Liabilities are amortized as a level percent of pay. Therefore, the actuarial model must make certain assumptions as to how fast the payroll will likely increase over time, often projecting them beyond the expected working lifetime of current employees.

Typically, the payroll increase assumption has some common components with the assumed salary scale but is an independent assumption closely tied to the assumed long-term wage inflation (different, and higher, than price inflation). In a stable economy, the payroll growth for a constant-size workforce is expected to exceed the inflation to reflect constantly improving productivity and merit/promotions.

Consequently, we recommend a 4% payroll growth rate of increase.

Rates of Investment Return

The pension fund is invested for the long term. Its investment income over the years will pay a substantial portion of all the pension benefits paid to plan members. This keeps the employer (taxpayer) and employees from having to pay for every dollar of benefit.

Therefore, we must make an assumption as to how much the pension fund will earn over a long period of time in order to determine a reasonable level of cost and liability to be borne by the City (taxpayers). Short term gains and losses are not nearly as relevant as the actual and expected long-term earnings of the portfolio being managed. This expectation is strongly influenced by the investment policy of the fund (on paper and in practice), particularly the asset allocation among the relevant asset classes.

The long-term rates of return for each such asset class, as expected by the economists and investment consultants can vary over time and vary in different economic conditions and cycle. So it is best to re-visit the investment return assumption (used in actuarial valuations) periodically to ensure that it reflects the experts' current best estimates.

As part of the actuarial experience study, we have a model for developing the appropriate investment return assumption for the plan. This is based upon current capital market assumptions (provided by the plan's current investment consultant and other reputable investment consultants) and the portfolio's current investment policy for asset allocation:

- 45% Domestic Stocks, further diversified as follows:
 - 27% Large Cap Equity (60% of 45%)
 - 9% Mid Cap Equity (20% of 45%)
 - 9% Small Cap Equity (20% of 45%)
- 15% International Stock
- 40% Fixed Income.

The current long-term investment rate of return assumption used in the actuarial valuations has been 8% per year compounded annually net of investment-related fees. Although actuaries have substantial background in economics, we are not licensed to provide investment advice or financial forecasting services. Instead, we rely on the expert advice of professionals consulting in this area. For the purpose of recommending the rate of return we have analyzed and reviewed forecasts from ten (10)

investment consultants providing advice to pension plan sponsors and administrators. It is important to keep in mind that all forecasts of future investment returns are opinions, not facts.

As illustrated on the following pages, the consensus among these advisors falls below the currently assumed 8% and leads us to recommending the assumed rate of return (net of expenses) to be in a range between 6.75% and 7.5%.

We are basing our recommendation on capital market assumptions obtained from the following ten investment advisors:

- Callan Associates
- Ennis, Knupp and Associates / Hewitt
- J. P. Morgan
- NEPC
- MorganStanley-SmithBarney
- Pension Consulting Alliance
- R.V. Kuhns & Associates
- SunGard
- Strategic Investment Solutions
- Towers Watson

On the following pages we are presenting charts illustrating various aspects of this analysis. Please note that the order in which we are listing our sources above does not correspond to the order in which we are presenting their recommendations below. We are required to maintain the confidentiality of the specific forecasts from the name of the investment consultant.

The 25th and 75th percentile illustrated below represent a “best-estimate range” — the narrowest range within which the experts reasonably anticipate that the actual results, compounded over the measurement period, are more likely than not to fall.

Investment Consultant	Investment Consultant Expected Nominal Return	Investment Consultant Inflation Assumption	Expected Real Return (2)-(3)	Actuary Inflation Assumption	Expected Nominal Return (4)+(5)	Plan Incurred Expense Assumption	Expected Nominal Return Net of Expenses (6)-(7)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	7.28%	3.25%	4.03%	3.00%	7.03%	0.59%	6.44%
2	7.23%	3.00%	4.23%	3.00%	7.23%	0.59%	6.64%
3	7.07%	2.50%	4.57%	3.00%	7.57%	0.59%	6.98%
4	7.57%	3.00%	4.57%	3.00%	7.57%	0.59%	6.98%
5	6.70%	2.00%	4.70%	3.00%	7.70%	0.59%	7.11%
6	7.38%	2.50%	4.88%	3.00%	7.88%	0.59%	7.29%
7	7.45%	2.50%	4.95%	3.00%	7.95%	0.59%	7.36%
8	7.80%	2.75%	5.05%	3.00%	8.05%	0.59%	7.46%
9	8.09%	2.02%	6.07%	3.00%	9.07%	0.59%	8.48%
10	8.65%	2.30%	6.35%	3.00%	9.35%	0.59%	8.76%
Average	7.52%	2.58%	4.94%	3.00%	7.94%	0.59%	7.35%

Investment Consultant	Distribution of 30-Year Average Geometric Net Nominal Return			Probability of falling short of 8.00%*
	25th	50th	75th	
(1)	(2)	(3)	(4)	(5)
1	4.40%	5.93%	7.49%	86.4%
2	4.45%	6.07%	7.71%	83.4%
3	4.71%	6.38%	8.08%	78.5%
4	4.59%	6.33%	8.10%	78.2%
5	5.20%	6.66%	8.13%	77.4%
6	5.19%	6.76%	8.36%	73.9%
7	5.38%	6.88%	8.40%	72.9%
8	5.27%	6.90%	8.55%	71.0%
9	5.60%	7.61%	9.66%	56.3%
10	6.93%	8.34%	9.77%	42.2%
Average	5.17%	6.79%	8.43%	72.0%

*Plan's current return assumption net of expenses.

The highlighted entries represent forecasts based on recommendations from the ABG Plan's investment advisor.

Asset Allocation Analysis

Investment Alternatives

February 11, 2011

Atlantic Beach General Employees' Retirement Sys.

<u>Asset Class</u>	<u>ABG Plan</u>
Fixed Income Core	40.00%
Large Value Stocks	13.50
Large Growth Stocks	13.50
Small Value Stocks	4.50
Small Growth Stocks	4.50
Mid Cap Stocks	9.00
<u>International Stocks</u>	<u>15.00</u>
Return	7.35%
Std Deviation	10.60%
Yield	3.40%
Sharpe Ratio	0.41

Scenario Assumptions

February 11, 2011

Atlantic Beach General Employees' Retirement Sys.

Atlantic Beach Gen

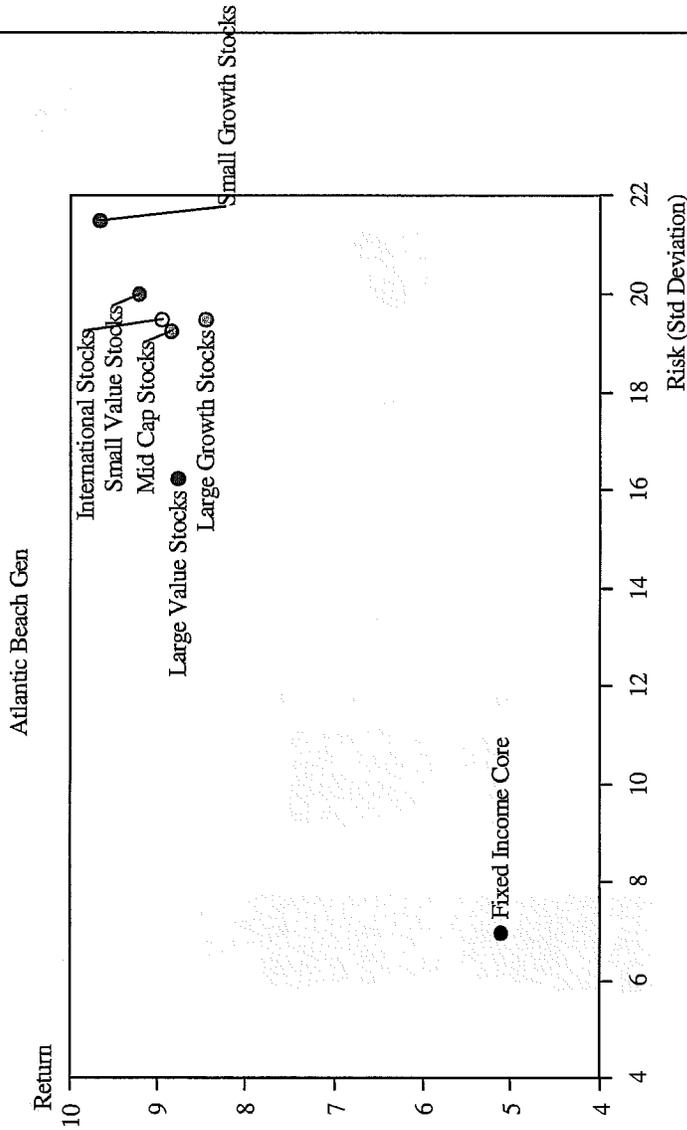
Asset Class	Proxy	Return	Risk	Yield	Mgmt Fees
Fixed Income Core	BarCap Gvt/CreditBnd	5.60%	7.00%	5.60%	0.50%
Large Value Stocks	RUSS 1000 Value	9.40	16.25	2.40	0.65
Large Growth Stocks	RUSS 1000 Growth	9.10	19.50	1.65	0.65
Small Value Stocks	RUSS 2000 Value	9.85	20.00	2.25	0.65
Small Growth Stocks	RUSS 2000 Growth	10.30	21.50	1.50	0.65
Mid Cap Stocks	RUSS MidCap Index	9.50	19.25	2.00	0.65
International Stocks	MSCI EAFE Index-\$	9.60	19.50	1.75	0.65
Inflation		3.00			

Asset Allocation Analysis

Scenario Assumptions

February 11, 2011

Atlantic Beach General Employees' Retirement Sys.

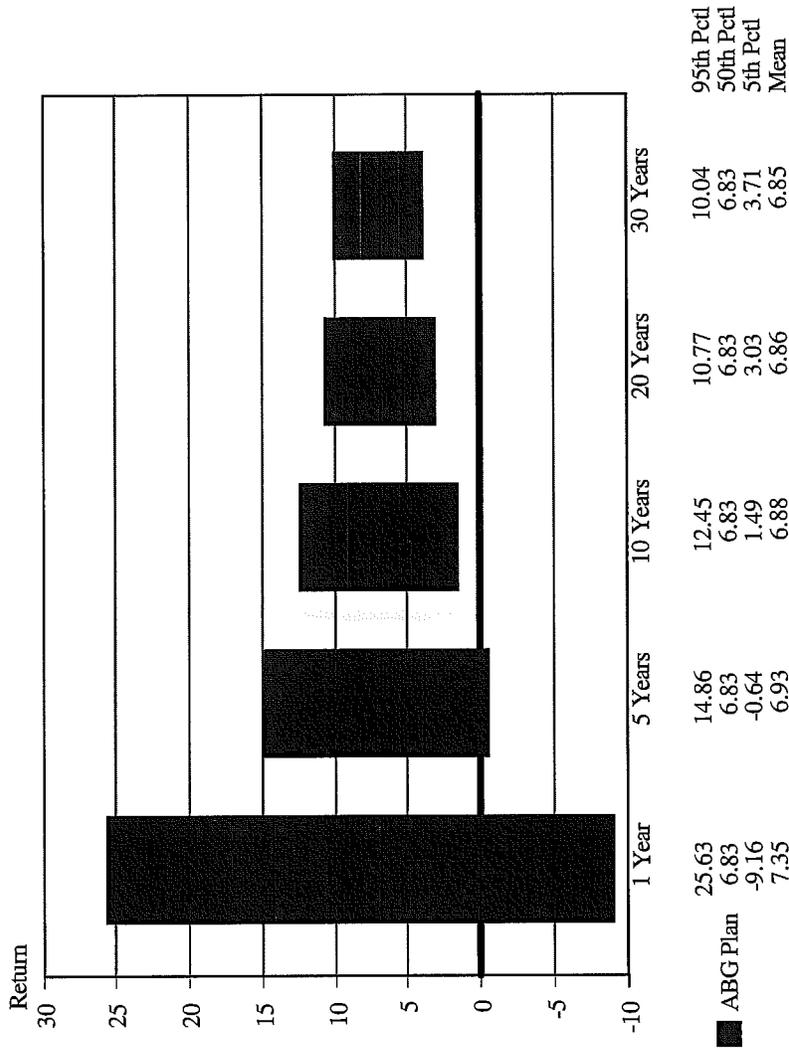


Asset Allocation Analysis

Distribution of Annual Returns

February 11, 2011

Atlantic Beach General Employees' Retirement Sys.

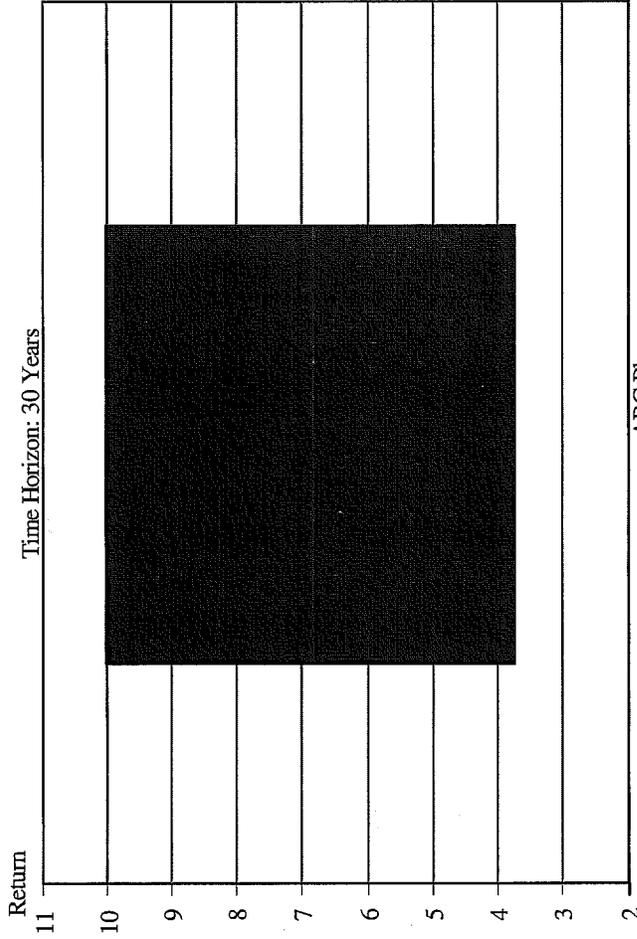


Asset Allocation Analysis

Distribution of Annual Returns

February 11, 2011

Atlantic Beach General Employees' Retirement Sys.



ABG Plan

10.04%
8.13
6.83
5.54
3.71
6.85

95th Pctl
75th Pctl
50th Pctl
25th Pctl
5th Pctl
Mean

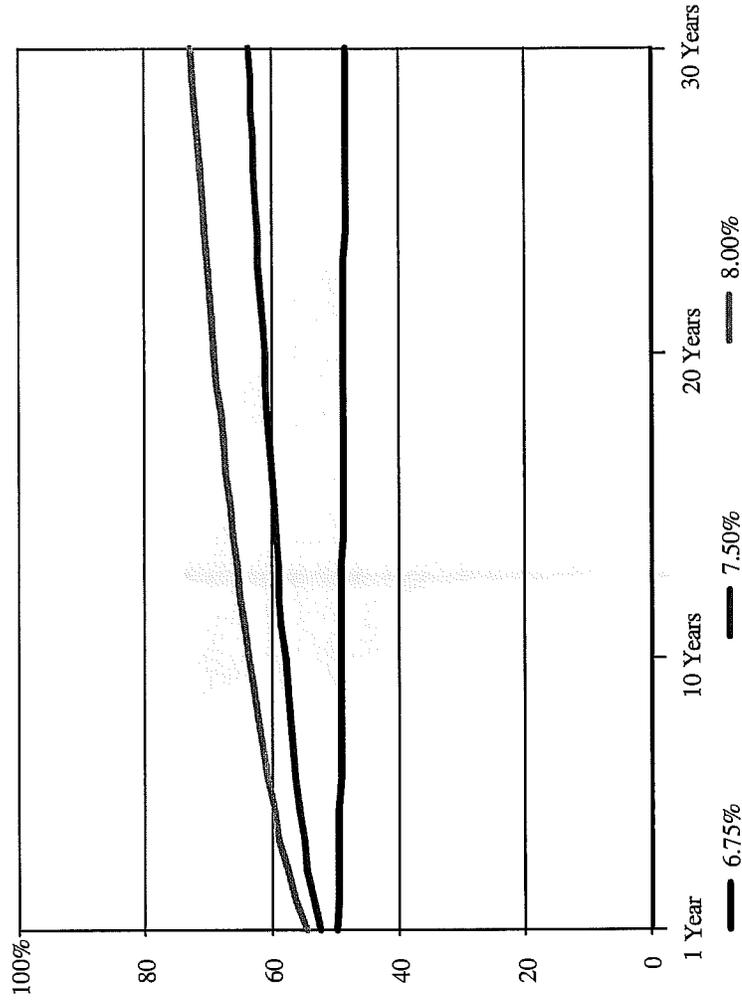
Asset Allocation Analysis

Target Returns

February 11, 2011

Atlantic Beach General Employees' Retirement Sys.

Probability of Falling Below Target Return for ABG Plan



**ATLANTIC BEACH GENERAL EMPLOYEES' PENSION PLAN
SUPPLEMENTAL INFORMATION TO ACTUARIAL EXPERIENCE STUDY**

	Baseline * Before Assumption Changes	New Demographic and Salary Assumptions		
		8.00%	7.50%	6.75%
A. Valuation Date	9/30/2010	9/30/2010	9/30/2010	9/30/2010
B. ARC to Be Paid During Fiscal Year Ending	9/30/2012	9/30/2012	9/30/2012	9/30/2012
C. Actuarial Accrued (Past Service) Liability	14,654,092	15,179,961	16,051,868	17,497,708
D. Actuarial Value of Assets	10,618,038	10,618,038	10,618,038	10,618,038
E. Funded Ratio	72.5%	69.9%	66.1%	60.7%
G. Required Employer Contribution in the Contribution Year as a \$ Amount <i>Change from the Baseline</i>	807,189 N/A	949,124 141,935	1,085,586 278,398	1,255,683 448,494
as a % of Covered Payroll <i>Change from the Baseline</i>	19.41% N/A	22.82% 3.41%	26.11% 6.69%	30.20% 10.79%

* Preliminary draft Valuation results before any assumption changes.

GRS

Gabriel Roeder Smith & Company

