January, 2013

POLICE AND FIREFIGHTERS' PENSION BOARD
REGULAR BOARD MEETING
WEDNESDAY, JANUARY 9, 2013, 11:00 A.M.

Present
Michael Dew, Chair
Ken Rudominer, Vice Chair
Richard Fortunato, Secretary
J. Scott Bayne, Trustee
Jeff Cameron, Trustee
Dennis Hole, Trustee
Jim Naugle, Trustee
Steve Cypen, Cypen & Cypen, Board Attorney
Lynn Wenguer, Administrator

Also Present
Amanda Cintron, Assistant Administrator
Laurie DeZayas, Pension Secretary
Douglas R. Wood, Finance Director (arr. 11:30)
Kevin Schmid, CapTrust
Steve Schott, CapTrust
Anthony Cesar, IT Department
Lisa Edmondson, Recording Secretary, Prototype, Inc.

Walt Courtney, President, Retirees' Association
Fred Nesbitt, Director of Media Relations
Paul DeBold, Retirees' Association
Bill Paton, Retirees' Association
Frank Colleran, Retirees' Association
Linda Soloman-Duffey, Retirees' Association
Rick Schulze, Retirees' Association
Fuzzy Larkin, Retirees' Association
George Farrell, Retirees' Association
Al Scott, Retirees' Association
Bob Oelke

Communication to the City Commission

The Board has selected the firm of Foster & Foster as the new Plan actuary.

Police Officer Richard Fortunato was re-elected as a Trustee.

Pursuant to authority of Ordinance C-00-34, Article II, this regular meeting of the Police & Firefighters' Pension Board convened at 11:00 A.M., Wednesday, January 9, 2013, in the Pension Board Conference Room, 888 S. Andrews Avenue, Suite 202, Ft. Lauderdale, Florida 33316.

Pledge of Allegiance / Moment of Silence

Chair Dew called the meeting to order at 11:00 a.m. and roll was called. All present recited the Pledge of Allegiance and observed a moment of silence.

ELECTION OF OFFICERS

Mr. Hole nominated Michael Dew as Chair. Motion made by Mr. Hole, seconded by Mr. Fortunato, to close nominations. In a voice vote, Chair Dew was unanimously re-elected.

Chair Dew nominated Ken Rudominer as Vice Chair. Motion made by Mr. Hole, seconded by Mr. Bayne, to close nominations. In a voice vote, Vice Chair Rudominer was unanimously re-elected.

Mr. Hole nominated Richard Fortunato as Secretary. Motion made by Vice Chair Rudominer, seconded by Mr. Bayne, to close nominations. In a voice vote, Mr. Fortunato was unanimously re-elected.

MINUTES: Regular Meeting: December 12, 2012

Motion made by Vice Chair Rudominer, seconded by Mr. Hole, for the waiving of the minutes as documented for December 12, 2012 [as corrected].

Mr. Cameron noted the following corrections:
P. 11: the paragraph beginning "Mr. Cameron suggested" should be changed to reflect this statement was made by Vice Chair Rudominer.
P.12: the motion authorizing the Administrator to make certain decisions was made by Vice Chair Rudominer.

In a voice vote, the motion passed unanimously.

BENEFITS:
Police Department:
New Retiree (Term. of DROP): Kevin S. Shults
Vested Retirement: Jeffrey Hendricks
Lump Sum Refund: Shane A. Sadr

Motion made by Vice Chair Rudominer, seconded by Mr. Fortunato, for the benefits of the Police Department. In a voice vote, the motion passed unanimously.

BILLS:

CapTrust	$20,000.00
Nyhart	$9,722.00
Milliman	$9,000.00
Klausner, Kaufman	$1,000.00
Klausner, Kaufman	$375.00
Holland & Knight	$100.00

Chair Dew noted that the $375.00 for Klausner, Kaufman was a clerical error and should not be included in the bills.

Motion made by Vice Chair Rudominer, seconded by Mr. Cameron, for the payment of the bills [as corrected]. In a voice vote, the motion passed unanimously.

INPUT FROM ACTIVE & RETIRED POLICE OFFICERS & FIREFIGHTERS:

Chair Dew reported that a City Commission memo scheduling the first reading of the remarriage/survivor ordinance for January 28, 2013 will be forwarded to the Retirees' Association. He encouraged as many retirees as possible to attend this reading.

The following Item was taken out of order on the Agenda.

CAPTRUST: Monthly Investment Review Steve Schott, Kevin Schmid

Mr. Schmid advised that while the fourth quarter performance review would be presented at the next meeting, a rough estimate for the year was 11.5%. He added that the dates have been finalized for the upcoming investment workshop, and asked if the Trustees had any specific topics they would like to see included on the workshop's agenda. Mr. Hole requested an update on infrastructure.

Mr. Schott advised that J.P. Morgan has a program that is believed to be ahead of the benchmark at present; in general, he noted, the twelve-month period that ended in September 2012 reflected better performance than the last twelve months of the calendar year.

Chair Dew requested side notes on this topic, as well as additional information on K2, which had contributed to the Plan's underperformance during the past year. He explained that if these issues are identified up front, it is less likely that the City Commission would lose confidence in the Plan.

Mr. Schmid observed that if volatility is truncated over the long term, it will result in better performance. He pointed out that during negative quarters, the Plan has significantly outperformed other pension plans for this reason. He also noted that a comparison of the Plan and the general employees' fund would not involve the same time period, as the fiscal year for general employees ends in September.

Mr. Schott added that during negative and "sideways" markets, the Plan should outperform the general employees' fund; in strong markets, however, the general employees' fund was likely to outperform the Plan. He emphasized, however, that stronger performance during negative markets would provide a better result in the end.

Mr. Hole asked for an update on fee reviews of consultants, as well as updates on Intech and Thornburg International. Mr. Schmid replied that they had not received positive responses with regard to fee reductions. The CapTrust analysts who are reviewing Intech have not yet made any recommendations. He added that in the case of Thornburg, which is a commingled fund, the increase in assets reflects the transition of additional monies due to the pension obligation bond.

Chair Dew asked to schedule a conference call on January 16 in order to prepare for the upcoming workshop. He asked if the workshop format would be similar to that of the previous year. Mr. Schmid advised that due to the number of managers attending, two to three managers would be scheduled at the same time in order to fit within the time frame. Chair Dew asked that the Trustees prepare any questions they might have ahead of time in order to show strong participation. He also recommended extending invitations to the City Commission as a whole, Finance Director Douglas R. Wood, City Auditor John Herbst, and other City officials who have some level of involvement with the Plan.

Mr. Schmid noted that the CapTrust team had sent a list of possible questions to consider during the actuary interviews. He said they would be willing to work in partnership with any of the firms scheduled for interviews.

ACTUARY INTERVIEWS

Ms. Wenguer stated that five firms were invited to present to the Board; prior to scheduling the interviews, Mr. Cypen and Ms. Bieler had reviewed these firms' contracts and were unable to reach an agreement with Milliman, which had subsequently declined to present. Earlier in the week, a principal at Milliman had contacted Ms. Wenguer to apologize for any disagreement, as he felt it might have been possible for both parties to arrive at an agreement. Mr. Cypen added that Milliman would have been allowed to make a presentation if they wished. He noted, however, that Milliman is also the Board's software provider, and pointed out that it might not be advisable for the same firm to provide these two services, as it could constitute a potential conflict of interest.

Mr. Bayne requested more information regarding the discussion of Milliman's contract. Mr. Cypen explained that the firm had been intransigent with regard to items he had advised were non-negotiable. They were informed the previous week that they did not meet the Plan's contractual standard. Ms. Wenguer recalled that they had ultimately agreed to be a fiduciary, and had agreed that their limits of liability could be renegotiated. Mr. Cypen advised that he would not recommend the Board accept a professional contract that included limited liability.

Ms. Wenguer continued that another actuary, Cheiron, has agreed to merge with EFI. Chair Dew stated that the Board had left EFI off its short list of potential actuaries because the firm was not widely perceived as being friendly to public pension plans. Ms. Wenguer added that EFI had not met the Plan's basic needs, and suggested that Cheiron should be asked to clarify if they are being absorbed by EFI or if EFI is being absorbed by Cheiron, as this could make a difference.

She concluded that she had compiled a list of five basic questions to be asked of all the presenting firms. Vice Chair Rudominer proposed that they also be asked how they would deal with the reinterpretation of 175-185. Mr. Cypen recommended against this, as he felt it could be an unfair question at this point.

Chair Dew confirmed that each firm would be asked to give a 20-minute presentation, followed by a 25-minute question-and-answer session with the Board.

Buck Consultants: Joe Griffin, Tim Bowen, Edward DeLuryea, Kip Kahleen

Mr. Kahleen stated that Buck Consultants is a wholly owned subsidiary of Xerox, which now functions as a human resources and benefits outsourcing company rather than a document company. They serve approximately 10 million retirees and process two of every three health care transactions in the United States. Buck Consultants was acquired by Xerox two years ago.

Mr. Griffin stated that he primarily serves the Florida market, including major Police and Firefighters' plans throughout the state. Buck Consultants was founded over 95 years ago to serve the public sector, and developed the funding methods that were applied to the first pension systems in the state of New York. Since its inception, the firm has developed specific public sector-related consultants, expertise, and resources, and works closely with the Florida Division of Retirement.

He stated that they are well-suited to take over the Plan's actuarial needs, as they work to tailor their presentations and valuations to individual clients and make them easy to understand. Buck serves over 40 state systems, and has helped clients understand the implications of issuing pension obligation bonds for actuarial reporting purposes. This helps clients see what the results of pension obligation bonds look like both before and after the process of these bonds. Mr. Griffin asserted that the firm is uniquely well-positioned to help the Plan move forward as it realizes the impact of the recent pension obligation bond.

Mr. DeLuryea emphasized two services in particular: transition activities are included at no cost, and education of the Board on specific GASB accounting standards would also be included.

He continued that some items not considered part of core services include impact statements, experience studies, and projections. These services would be provided at a fixed fee, depending upon their scope. He also noted that Buck recognizes the Board's preference for no limited liability within the contract; the financial support provided by Xerox in terms of technology and product development, and internal support from the firm's legal staff and technical experts, allow Buck to draw upon a great deal of resources. However, he clarified that as part of a larger firm, Buck is required to place some limit on liability, as do most firms of similar size.

Mr. Bowen moved on to discuss transition between actuaries, noting that Buck performs this transition very well due to the resources they can allocate to this phase. One goal of the transition phase is to continue to meet the clients' deadlines; they also seek to minimize the necessary efforts on the part of the Board and the Administrator so there is no disruption to Board business. They strive to minimize costs from the Board's prior actuary during this phase.

He noted that during the transition phase, many boards hire independent firms to prepare actuarial audits. This is actually part of Buck Consultants' transition process: they review assumptions used by the prior actuary and strive to replicate their results. These results are shared with the Board. He referred the members to a sample transition plan, which included data collection and reconciliation, system coding, performing the audit itself, and reporting results to the Board. He noted that results can typically be replicated within an acceptable range.

Mr. Bowen concluded that Buck is a very deep, large firm that works in both the public and private sectors. The firm is dedicated to keeping a group that specializes in the public sector, such as the group headed by Mr. Griffin from the Atlanta office. Public sector work is part of the core competency of Buck Consultants.

Mr. Griffin stated that he regularly works within the Florida market and has a deep understanding of the unique nature of Police and Firefighters' plans, including 175-185 issues. He urged the Board to contact the firm's references.

Cheiron: Ken Kent, Kevin Woolrich

Mr. Kent stated that Cheiron is an independent firm that is not a subsidiary of any other corporation. Their focus is on multi-employer and public sector plans, for which they provide both pension and health care consulting services. They recently acquired EFI Consulting, which allowed them to add new U.S. offices. While the firm is only 10 years old, they have grown at a rate of 30%-40% per year.

Cheiron assigns two lead consultants to each major client, which allows them to be readily available and up-to-date for their clients. These leads are high-quality, fully accredited actuaries who are capable of communicating easily with clients. Mr. Kent advised that Cheiron is able to add value during the transition process, which audits what was done in the past and enhances the value of what they can do in the future.

He continued that the firm's focus is on where the fund is going and the risks it may face. Cheiron has developed models to compare benefits between different systems, show the financial status of a plan, and analyze cash flow risk.

Mr. Woodrich stated that Cheiron reviews each plan from a historical perspective by analyzing the assets and liabilities of the past ten years, as well as the plan's funded status, historical contribution rates, and actuarial and market values. Each year's gain or loss is measured to determine its effect on liabilities.

Mr. Kent advised that in order to determine where the plan is headed, Cheiron provides a detailed evaluation report. He showed the Board an example of this report, including future analysis with projections for the next 15 years if the Plan's assumption of 7.5% is returned. The resulting contribution rate, which takes into account a 2% payroll growth and 20-year amortization of experience, is also reflected, based on the employee contributions, state contribution, and most recent valuation.

Mr. Woodrich noted that the sample report, which was created using a proprietary model, shows the Plan's layered amortization base, which adds a new base each time an unfunded liability is created. There are different approaches to this that may be taken, such as using a rolling or fixed base, changing the amortization period to 25 years, or changing the annual amortization percentage. He concluded that alternative funding assumptions are sensitive to the Plan's funding policy, which will be increasingly more important as the impact of GASB on the Plan's funding and the City's disclosure of unfunded liability.

He concluded that the Plan is very unlikely to earn 7.5% each year due to the volatility of different markets and sensitivity of future costs. The biggest driver of the fund is the return on assets; based upon the first six months' returns for a given year, Cheiron can predict what returns will be for the rest of the year and give an estimate of the Plan's funded status. The Plan's sensitivity to different percentages of return can be calculated on this basis.

Mr. Woodrich stated that over time, the firm learns what each client's interests are, such as benefit structure, contributions, funding policy, or GASB disclosure, and builds "buttons" into the model to show the implications of these interests. He noted that a button could be created to show the implications of the recent pension obligation bond. This allows Cheiron to answer questions related tot these topics right away rather than having to delay a response until further research can be conducted.

The Board took a brief recess until 1:34 p.m.

Foster & Foster: Brad Heinrichs, Doug Lozen

Mr. Heinrichs stated that Foster & Foster is a Florida-based firm, headquartered in Fort Myers. They work predominantly with the public sector, with 12 credentialed actuaries on staff. He advised that if the firm is selected, he would act as lead consultant for the Plan. He is the firm's CEO and has presented at FPPTA and speaks at town hall meetings to defend public pension funds in the state of Florida.

While the firm has several different departments, 100% of their revenue comes from actuarial consulting services. Foster & Foster works with approximately 150 police and firefighters' pension boards in the state of Florida, and performs 800 actuarial evaluations for these plans across the country, with clients of all sizes.

Mr. Heinrichs noted that actuaries are typically evaluated according to the "extras" a firm can perform for its clients, what their client retention is like, accuracy and responsiveness, cost, and communication with the major constituents of a given plan. He explained that Foster & Foster works to educate trustees about pensions, conducts membership meetings for unions and boards to promote greater understanding of their plans, and has its own pension plan in lieu of a 401(K). They work closely with the Division of Retirement, and are sometimes contacted when a new bill is introduced in the state legislature.

He advised that they have a large public sector database, which helps to set assumptions and aids in comparison of plans during the collective bargaining process. This database is available to clients at no additional charge. With regard to the pension obligation bond, Foster & Foster has experience in this area as well.

Mr. Heinrichs noted that the firm has benefit calculations, DROP calculators, prior service purchases, and other tools available online to assist the Board. They also work with the media, particularly with respect to correcting misinformation and helping "control the message" about public pension plans. They also include acting as a fiduciary as part of their contracts.

In addition to the annual actuarial evaluation and quarterly reports from investment consultants, Foster & Foster provides a one-page document on a quarterly basis. This document pulls the investment and actuarial information together and shows the effect it is expected to have on the following year's funding requirements. In the case of Fort Lauderdale, for example, the document would reflect how the Plan is performing relative to its benchmarks and how current and updated GASB rules would affect the pension obligation bond. This report is provided at a charge, usually $1500 per quarter, depending upon the information the client would like included. The charge covers the update of the Plan's six-year funding costs.

Mr. Heinrichs continued that since 2005, the firm has never been fired for cause by a client, and has gained several clients during this time. At least three credentialed actuaries would be assigned to the Plan's account. While he declined to say Foster & Foster could make more accurate calculations than any other firm, the work they provide is checked and reviewed after it is calculated in order to ensure the highest quality.

The firm's organizational goals, including generating meaningful results and exceeding client expectations, also include making each client feel as if they are the only client. This is achieved through responsiveness and availability to meet the client's needs. They perform their own asset reconciliation, which double-checks the Plan's pension audit team and also allows Foster & Foster to perform their work more quickly and provide the actuarial report within a shorter time period. Benefit calculations and buybacks are guaranteed to be generated in 10 days or less.

He advised that the firm has less overhead than most, which makes their fees less expensive than their competitors' in many cases. They seek to ensure the boards are fully educated about their plans, and typically provide a summary of the evaluation report as well as the full report. There is very low turnover among employees, and no actuary has left the firm on his/her own since 2005. Proposed fees are $20,000 for the actuarial evaluation, in addition to hourly rates, benchmarking tools and the completion of page 6A for the state report are provided at no charge.

Nyhart: Randall Stanley, David Harris, Heath Merlak

Mr. Stanley stated that as of May 2011, his firm of Stanley, Holcombe merged with Nyhart, which is now in 48 states. No clients were lost following this merger. He noted that Nyhart's fee proposal is $22,000/year, which is consistent with what has been charged in the past. He has served as the Board's actuary for 10 years, during which time three five-year experience studies have been conducted. He has also conducted ten annual actuarial evaluations, detailed gain/loss analyses, multiple actuarial impact studies, and work on the recent pension obligation bond. He concluded that Nyhart's pricing and history are in their favor.

Mr. Stanley distributed copies of an email dated December 12, 2012, which he explained had arisen from a question about changing actuaries. The email had asked if Nyhart would agree to do the 2013 annual evaluation. He advised that he would be willing to do this, hopefully in the role of an ongoing relationship. He noted that the current contract extends until it is terminated.

Mr. Stanley pointed out that any other firm would be coming in with no experience with the Board or the Plan. He emphasized Nyhart's willingness to be as flexible as possible, and to address any issues that may be of concern with the Board. He asserted that their intent is to perform quality work.

He continued that there is presently some turmoil surrounding public sector pensions, as some entities appear to wish to limit benefits. Contract negotiations are also scheduled to begin in the next few months. He stated that in this environment, it would seem that a more experienced actuary would be the best choice to advise the Board. Should the Board elect to work with another firm, however, Nyhart would assist in this transition. Mr. Stanley added that if the Board wished to work with an actuary other than himself, this could also be accommodated. He recalled that he had introduced Nyhart's president to the Board prior to the completion of the merger between Stanley, Holcombe and Nyhart.

Mr. Harris advised that Nyhart was proposing a three-person response to the Board, which provided them with multiple credentialed actuaries to oversee the Plan. This would serve as a risk reduction measure. He added that having more than one point of contact is part of Nyhart's model, so if one individual is not available, another is knowledgeable about the Plan and can provide continuity. In addition, this would allow for a very methodical transition within a firm that has some history with the Plan and can reach out to Mr. Stanley as a potential resource.

Nyhart has also expanded its abilities to provide the Board with additional concepts. Mr. Merlak said his corporate role is as one of the ten principals who manage the firm, as well as an area of focus on maintenance and development of new tools, such as the pension financial manager and the pension design manager. These tools can be used to show the impact of certain changes on the Plan's benefits.

The Board took a brief recess until 3:15 p.m.

Chair Dew asked Mr. Schmid if he would like to offer any comments on the actuary interviews. Mr. Schmid said all the firms were likely to work with the same systems, which meant the choice was less about the selection of a firm and more about the selection of people. He noted that the cost differences were minimal, and he was confident that CapTrust could work with any of the firms.

Mr. Naugle observed that the email presented by Nyhart suggested that they would be paid to do the 2013 annual evaluation.

Mr. Bayne commented that he was concerned with other entities, such as the City, which might feel that a particular actuary was not sufficiently responsive to their needs; he did not feel that this should create an issue for the Board, but should be between that entity and the actuary.

Chair Dew agreed that issues such as this should not involve the Board; however, he pointed out that these concerns were brought to his attention as Chair, and it was his responsibility to make the Board members aware of them, as the issue ultimately needed to be resolved. He stated that this issue was not the reason for initiating the actuary RFP: they had done so because Mr. Stanley, who had acted as actuary for several years, would soon be retiring, and the Board should learn more about the individuals who would ultimately take his place. The RFP allowed them to perform due diligence and select an actuary with whom they feel they can work well.

It was suggested that the Board consider the possibility of extending the current contract until Mr. Stanley retires. Chair Dew said this would make it less likely for the next actuary RFP to generate many responses. He expressed concern that the Board could lose credibility if this happened.

Ms. Wenguer said while she was very concerned with regard to making a change in 2013, she would like to do so by 2014.

Motion made by Mr. Hole, seconded by Mr. Bayne, to continue the relationship with Nyhart as the actuary.

Mr. Hole noted that if issues arose, the Board had the option of meeting with Nyhart to discuss them; the Board would also be able to terminate the contract at any time. He felt either a continuation of the current contract or a new three-year contract would be acceptable. Chair Dew disagreed, stating that they should take action on a new contract rather than delaying a decision.

Mr. Bayne stated he felt this was poor timing for the Board.

In a roll call vote, the motion failed 3-4 (Chair Dew, Vice Chair Rudominer, Mr. Cameron, and Mr. Naugle dissenting).

Motion made by Mr. Naugle, seconded by Mr. Cameron, for accepting Foster & Foster as the new actuary.

It was clarified that this would be for a three-year contract. Chair Dew noted that fee information was available in the materials presented. Mr. Hole said he felt it was imperative that the Trustees who had not served on the RFP Committee have the opportunity to review these materials. Chair Dew noted that the materials have been present for approximately one month.

In a roll call vote, the motion passed 5-2 (Mr. Bayne and Mr. Hole dissenting).

Mr. Naugle left the meeting at this time (3:55 p.m.).

Chair Dew said he would call the candidates and inform them of the Board's decision. Mr. Cypen agreed to work on the contract with Foster & Foster.

COMMUNICATION DIRECTOR'S REPORT:

Mr. Nesbitt said he had no report at this time.

ADMINISTRATOR'S REPORT:
Service Provider Evaluation Cypen & Cypen

Ms. Wenguer said these evaluation forms were sent out with the Agenda for today's meeting. She asked that any complete forms be returned to her.

Chair Dew asked what would be the next step when these forms were returned. Mr. Bayne said the information would be compiled in order to provide feedback from the Board to the provider. Ms. Wenguer said she and Ms. Cintron would compile the information and the Board could then make a decision on their next step. It was agreed that these forms would be returned by the February Board meeting and the information would be compiled by March.

Trustee Elections

It was noted that Mr. Fortunato was re-elected as a Trustee.

Investment Workshop

Ms. Wenguer recalled that the workshop was scheduled for February 28, with dinner to be served on February 27.

Ms. Wenguer noted that a copy of the revised 2013 budget is included in the members' information packets.

NEW BUSINESS

Mr. Hole asked for an update on late payment of bills by the City. Ms. Wenguer said this still needs to be addressed, as the City had not made any of the Board's payments to vendors. She has discussed the issue with Mr.

Wood, who advised that the City is working to correct this; however, she did not know what the solution might be at present. Chair Dew said he would meet with Mr. Wood and potentially with the City Manager.

OLD BUSINESS

Mr. Hole thanked Ms. Wenguer for providing a copy of the class action/SEC filings which detailed the monies received by the Plan.

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