

July, 2012

POLICE AND FIREFIGHTERS' PENSION BOARD
REGULAR BOARD MEETING
WEDNESDAY, JULY 11, 2012, 12:30 P.M.

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Present

Ken Rudominer, Vice Chair
Richard Fortunato, Secretary
J. Scott Bayne, Trustee
Dennis Hole, Trustee
Steve Cypen, Cypen & Cypen, Board Attorney
Lynn Wenguer, Administrator

Absent

Michael Dew, Chair
Jim Naugle, Trustee
Jeff Cameron, Trustee

Also Present

Amanda Cintron, Assistant Administrator
Laurie DeZayas, Pension Secretary
Doug Wood, Finance Director
Kirk Buffington, Deputy Finance Director
John Herbst, City Auditor
Kevin Schmid, CapTrust
Lisa Edmondson, Recording Secretary, Prototype, Inc.
John Stuber, President, Retirees' Association
Fred Nesbitt, Director of Media Relations
Fuzzy Larkin, Retirees' Association
George Farrell, Retirees' Association
Bill Paton, Retirees' Association
Linda Soloman-Duffey, Retirees' Association
Gregg Gurdak, Retirees' Association
Alan Summersgill, Retirees' Association

Pursuant to authority of Ordinance C-00-34, Article II, this regular meeting of the Police & Firefighters' Pension Board convened at 12:30 P.M., Wednesday, July 11, 2012, in the Pension Board Conference Room, 888 S. Andrews Avenue, Suite 202, Ft. Lauderdale, Florida 33316.

Communications to City Commission

None.

Pledge of Allegiance / Moment of Silence

Vice Chair Rudominer called the meeting to order at 12:30 p.m. and roll was called. All present recited the Pledge of Allegiance and observed a moment of silence.

MINUTES: Regular Meeting: June 13, 2012

Motion made by Mr. Hole, seconded by Mr. Bayne, to approve the minutes of the meeting of June 13, 2012 as corrected. In a voice vote, the motion failed 0-5.

It was determined that the June 13, 2012 minutes would be revised at the Administrator's request, and further discussion and/or approval would be deferred until the Board's August 2012 meeting.

BENEFITS:

Fire Department:

New Retiree (Term. of DROP):

Albert LeMay

DROP Retiree:

Charles McGuire

Police Department:

New Retiree:

Henry M. Cubillas

DROP Retiree:

Carmelo Colon, Jr.

Rodrick L. McGowan

Vesting:

Colin Cowderoy

Motion made by Mr. Bayne, seconded by Mr. Fortunato, for the acceptance of the benefits as stated.

Ms. Wenguer noted that Mr. LeMay received a share distribution of \$58,873.07 in addition to the DROP distribution. Mr. Fortunato added that Mr. McGowan's benefit (p.27) should refer to the date of DROP retirement rather than the date of separation.

In a voice vote, the motion passed unanimously.

BILLS:

Nyhart: \$25,000.00

Nyhart: \$21,200.00

CapTrust: \$20,000.00

Dr. Barnea: \$1500.00

Dr. Barnea: \$100.00

Dr. Kurlander: \$1400.00

Ellen Schaffer: \$1016.00

Marcum: \$816.00

Holland & Knight: \$100.00

Motion made by Mr. Hole, seconded by Mr. Fortunato, for the acceptance of the bills as stated.

Mr. Hole noted that p.29, which refers to bills submitted by Nyhart, lists the senior actuary's rate as \$310/hr, while the rate listed on p.30 specifies \$300/hr. Ms. Wenguer said she would look into this rate difference to determine whether or not an adjustment was necessary. She pointed out that the actuarial cost for the annual actuarial report is capped at \$25,000.

In a voice vote, the motion passed unanimously.

INPUT FROM ACTIVE & RETIRED POLICE OFFICERS & FIREFIGHTERS:

John Stuber, President of the Retirees' Association, stated he would like to thank Chair Dew for inviting retirees to attend the recent workshop with the City Commission. He felt the current City Commission was more receptive to the remarriage clause, and commented that he did not see how this clause would cost the City more money. John Herbst, City Auditor, explained that he wished the record to accurately reflect any costs, and it would not be factually correct to state that there was no cost associated with the remarriage clause. He advised that until an actuary has looked into this issue and arrived at a figure, a fully informed decision could not be made.

Mr. Stuber said he had believed the actuary said there was no cost associated with this change. Mr. Herbst said the actuary assumes that there would be no one taking advantage of the clause, which is not the same as stating there is no cost associated with it: if an individual remarries, it would be considered an experience gain.

Vice Chair Rudominer agreed that the City Commission had given a favorable response to this clause by their willingness to hear the discussion. Ms. Wenguer advised that the Board would provide the Commission with a

letter stating there was no change in the actuary's opinion: as the actuary assumes no remarriage, there would be no associated costs.

Mr. Herbst said the City would still need to know what positive experience is associated with remarriage. Ms. Wenguer noted that only one individual has remarried thus far. Mr. Herbst said if the City is provided with the cost of this experience gain, it would provide a starting point.

Mr. Stuber said he and other retirees had been concerned when a City Commissioner had asked why the General Employees' Retirement Plan is currently making more money than the Police and Firefighters' Plan. Vice Chair Rudominer said the figures presented from the General Employees' Plan and the Police and Firefighters' Plan were from two entirely different time periods. Mr. Herbst said the General Employees' Plan is positioned more aggressively, with a higher allocation to equities and lower allocation to fixed income and alternative investments. The Police and Firefighters' Plan, which is less aggressively positioned, is designed to hold up better during periods of market stress. This means, however, that during a positive market trend, its performance would not be as strong as a more aggressive plan's performance.

George Farrell, retiree, referred to the recent workshop, stating that Chair Dew had described three choices for members who had joined the Plan since 2001. He asked to know what these three choices were. Ms. Wenguer explained that there is a standard benefit, under which all members retired prior to 2000, which meant retirees received 100% of their pension; in the event of a death, spouses received 100% of the pension for the first year, 60% for the duration of the spouse's life, and 20% for each child under the age of 18. After 2000, the State mandated that alternatives to this standard benefit be offered, such as a life annuity or a decreased benefit.

Vice Chair Rudominer advised that the Board is authorized to administer the Plan, with a benefit determined by the City Commission and State statute. He stated that Chair Dew is working to try to change the remarriage clause, and would provide the City Commission with any necessary documents that might bring about this change. Mr. Cypen observed that the remarriage clause refers specifically to a spouse's benefit, while the statute change refers to a survivor's benefit, which does not have to go to a spouse. It was clarified that the statute change does not fall under the Me Too benefit enhancement.

Vice Chair Rudominer suggested that the actuary's letter could be modified to include language explaining the term "no cost."

Linda Soloman-Duffey, retiree, asked what the modified wording might need to include in order to provide the City with the information they need to approve the remarriage clause. Vice Chair Rudominer said the City Commission had instructed the Retirees' Association and the Board to discuss the issue further.

Ms. Soloman-Duffey advised that should any widows receiving spousal benefits choose to remarry, the benefit had already been factored in for their lifetimes in any case. Mr. Herbst said this is the same as an assumption in the Plan that states survivor benefits will be paid for a specific number of years: should an individual die in less time, this would result in an experience gain and a benefit to the Plan. This meant while there might be only a very minimal cost associated with this experience gain, it would be incorrect to say there is no cost at all.

Mr. Bayne reiterated that the Board would ask the actuary to pass the appropriate information on to the City Commission and City Auditor. Vice Chair Rudominer added that neither the Board nor the City Auditor may take an official position on this issue; however, the Board would do whatever it could in order to help the Retirees' Association in this pursuit. He asked that any requests from retirees come through the Retirees' Association office in writing for reasons of clarity.

CAPTRUST:

Investment Review Kevin Schmid

Mr. Schmid reported that information is still being collected for the second quarter of 2012. Thus far, there appears to be a mixed performance from domestic equity managers, a relatively strong performance from international managers, and a positive performance from real estate funds. Fixed income managers also showed positive returns. He estimated that the total returns would be slightly negative for the quarter.

With regard to alternative investments, he recalled that at the June meeting, he had been asked to reach out to Entrust and SSARIS to determine if there was an opportunity to negotiate fees, as well as to gauge their willingness and ability to engage in side letters. Mr. Schmid stated that Entrust has "most favored nation" clauses with many of its clients, as they feel it is their fiduciary duty to treat all investors the same; as a result, they were not able to negotiate on fees. He advised that Entrust offers several different fee schedule options; the best available management fee starts at 1.4%, with a break point of 1.3% after the first \$10 million invested. SSARIS's management fee is 1%; they are also unable to reduce this fee, as they feel it is competitive in the marketplace. They did, however, indicate that they are willing to convert a portion of their management fee into an incentive fee. Mr. Schmid cautioned that CapTrust does not typically recommend this option, as it can ultimately be more expensive than a set management fee.

Mr. Bayne asked for more information on the break point of the proposed incentive fee. Mr. Schmid replied that SSARIS stated they were willing to negotiate this option; however, he had not explored this possibility in detail, as CapTrust does not recommend incentive fees. He concluded that he could run these figures and report them back to the Board. He recalled that all returns presented at the June meeting were net of fees, and reiterated that the straight management fees for both Entrust and SSARIS appeared to be the best options for the Plan.

He moved on to the issue of side letters, stating that both Entrust and SSARIS are willing to negotiate these. Both managers had replied they have never had an issue in which a side letter could not be successfully negotiated.

Mr. Hole asked if consideration is still being given to moving \$22 million from K2 to a new manager or managers. Mr. Schmid confirmed this, adding that should more funds be available through a pension obligation bond, this figure may increase.

Motion made by Mr. Hole, seconded by Mr. Fortunato, that the Board enters into a contract, subject to the approval of the attorney, moving the money from the K2 holding to the Entrust, using the standard management fee as presented.

Mr. Bayne pointed out that the funds from K2 will not be available for transfer until September 30. Mr. Schmid estimated that the majority of these funds would be available in October, with the caveat that K2 will retain 10% of the funds until they have completed their year-end audit.

Mr. Bayne asked how much involvement research analyst Jonathan Woodruff had had with this process. He noted that Mr. Woodruff has left CapTrust to join a hedge fund manager. Mr. Schmid stated that Mr. Woodruff was the analyst assigned to alternative investments, and had done many of the initial reviews of due diligence questionnaires and scoring. He advised that he himself is also actively involved in the alternative investment research process.

Mr. Bayne stated that he had received information on a firm called Titan. He asked to know what information CapTrust might have on this firm. Mr. Schmid said he has met with Titan in the past. He did not recall why Titan had not been recommended along with Entrust and SSARIS, but advised that when CapTrust adds a manager to their recommended list, they are typically looking for something that differentiates that particular fund from others in the same class.

Vice Chair Rudominer said he would prefer to wait until August, when the full Board is present, to vote on the addition of a new manager, as the allocation to alternative investments would be a large sum. Mr. Hole withdrew his motion.

Vice Chair Rudominer asked if it would be possible for CapTrust to advise the Board on Titan before funds become available for reallocation. He suggested that because he had not met with representatives of Titan since 2010-11, they could be conditionally invited to make a presentation in August, depending upon the results of further review by CapTrust.

Vice Chair Rudominer recommended that the Board should proceed with making a decision on Entrust and/or SSARIS in August. As there may be an influx of funds in the future, a larger allocation could be made to alternative investments, and Titan could be invited to present to the Board once they have completed CapTrust's vetting process.

Mr. Hole requested that CapTrust consider Cushing as a possible manager in infrastructure, and that they also consider MLP as a potential new asset class. Mr. Schmid said one reason CapTrust has not presented this class is their potential to generate unrelated business tax income (UBTI) without the tax blocking strategy typically available to hedge funds.

Vice Chair Rudominer observed that the Board would discuss a pension obligation bond later on in the Agenda, and asked how the Plan's asset allocation would change in the event of a corresponding increase in funds. Mr. Schmid said the allocation itself would remain the same at the asset class level, with the possible exception of alternative investments. He advised that there is currently \$50 million in the Pimco All Asset Fund, some of which is the core allocation to this fund, while the remainder serves as a placeholder for future alternative investments. He estimated that the only other potential change would come in real estate if more money was added to the Plan.

Vice Chair Rudominer asked if CapTrust would recommend investing in a separate vehicle with less risk, or if a potential influx of funds should be commingled with current funds in existing managers. Mr. Schmid said he would not recommend compartmentalizing the available funds, but would invest them as any other Plan asset, in accordance with the allocation.

Vice Chair Rudominer recalled that at the June meeting, the Chair had asked to know the Plan's chances of its current asset allocation reaching a 5% return. Mr. Schmid advised that the asset allocation is designed to meet the long-term actuarial rate of return of 7.5%; based on the current actuarial assumptions and asset allocation, the Plan should be capable of exceeding 5% over the long term. With respect to specific time periods, such as one, three, or five years, he estimated that for a one-year period, the figures were between 55%-60% in terms of their ability to exceed 5%. He noted that the percentage reaches the 65% range over a five-year period.

Vice Chair Rudominer recalled that at the Board's workshop with the City Commission, several documents were presented to the Commission by an outside observer of the Plan. While most of these documents did not require a response from the Board, one fact that was presented referred to how fees have increased over the years. He advised that he has provided this document to Mr. Schmid to investigate the possibility of whether or not "expense creep" has occurred, and whether or not the Board can do anything to combat this.

It was decided that Titan would be invited to make a presentation to the Board at the August 2012 meeting if they were approved by Captrust for this mandate.

COMMUNICATION DIRECTOR'S REPORT:

Mr. Nesbitt stated he had nothing to report at this time.

ADMINISTRATOR'S REPORT:

Pension Obligation Bond

City Finance Director Doug Wood reported that at their July 10 meeting, the City Commission directed the administration to proceed with the issuance of pension obligation bonds at a 75% funding. The unfunded accrued actuarial liability (UAAL) is \$218.7 million; 75% of this would be roughly \$164 million. The bond would need to be issued at \$165,590,000 to cover the cost of issuance. The current plan is to bring all the necessary documentation to the City Commission at their August 21 meeting. The money would be expected to be in-hand before the end of the current fiscal year.

He continued that at the recent workshop, the changes in the Plan's actuarial rate of return and the mortality table were discussed, along with a request to change the Trustees' terms to four years. Cypen & Cypen has drafted an Ordinance to address both issues, which has been reviewed by Mr. Wood and has been sent to Chair Dew for further review. It will then be sent to the City Attorney's Office for formatting. A first reading will be made at the August 21 City Commission meeting as well.

Mr. Wood asserted that two things are necessary for the issuance of the pension obligation bond to proceed: the Board's actuary must make new calculations for 2013, assuming the pension funds will be in hand, and Mr. Wood

must be advised of the last day that the City's annual required contribution may be paid without incurring any interest charges. Ms. Wenguer advised that she had spoken with the actuary, who informed her that interest would accrue beginning on January 1.

Mr. Hole asked if authorization was required to instruct the actuary to make additional calculations. Ms. Wenguer confirmed this would be necessary for the recalculations related to both the pension obligation bond and the remarriage clause.

Motion made by Mr. Bayne, seconded by Mr. Fortunato, to have Nyhart do the work for both the remarriage issue as well as the annual required contribution for the City, not to exceed \$3100. In a voice vote, the motion passed unanimously.

Ms. Wenguer continued that there will be restrictions associated with the issuance of the pension obligation bond. Mr. Herbst said there are two risks to consider: The bond may not achieve a rate of return that is at least equal to its borrowing costs; and Once the Plan is fully funded, additional benefit enhancements will be granted, which may result in a new unfunded liability in the future.

In order to limit the City's exposure to these risks, language may be incorporated into the bond issuance that limits the ability of a future City Commission to grant benefit enhancements. Mr. Herbst noted that the language will need to be crafted in a manner that will not conflict with collective bargaining issues. He suggested that one way to accomplish this would be to state that any benefit enhancements granted by the Commission must be fully paid for in the same year. He explained that this is necessary due to an intergenerational equity issue: the City would not want to grant benefits for prior service that must be paid for by future taxpayers.

Mr. Cypen requested clarification that these restrictions would occur at the City Commission level rather than the Board level. Mr. Herbst said they would be included in the indenture of the bond and would not affect the Board.

Ms. Wenguer recalled that the recent cost of living adjustment (COLA) discussion determined that individuals who retired before 2008 had collectively bargained for this adjustment, and expressed concern that the proposed language could prevent granting COLA in the future. Mr. Cypen stated that increasing benefits and granting COLA are not the same. Mr. Herbst said if granting a COLA that has not been previously funded increases the unfunded liability, this benefit would have to be paid for when COLA is granted.

Mr. Cypen asserted that the State statute dictates COLA may not be paid until the Plan is in a positive position with regard to experience. Mr. Herbst said if the Plan is fully funded, and a positive experience position occurs in the same year, there is the potential for granting COLA. He explained that the City wishes to ensure there is no COLA granted simply because the pension obligation bond has fully funded the Plan.

Vice Chair Rudominer requested clarification of what is affected by bond covenants or State statute. Mr. Cypen replied that the bond covenants would affect the City Commission by requiring them to pay for any enhancements before they can be granted. The Plan will continue to follow its Ordinance.

Ms. Wenguer concluded that she felt it was important for the Board to be fully informed of any issues that may be related to the pension obligation bond, such as the City's inability to grant a future COLA without paying for it in the same year.

Mr. Bayne asked what would happen if the Plan underwent a positive experience gain over a future smoothing period, resulting in the ability to grant COLA. Mr. Cypen said in this case, COLA would still be paid, regardless of the bond covenant. He advised, however, that according to Mr. Herbst's interpretation, this could constitute a violation of the covenant.

Mr. Herbst pointed out that the State statute addressing COLA is already in effect, regardless of what may occur with regard to the bond. He explained if the bond results in more assets in the Plan, this will increase the experience gain; if no assets are added, it is less likely that there will be positive experience in the near future. He concluded that the City is concerned that the addition of assets from bonded debt could result in a positive experience gain.

Mr. Herbst explained that there is pressure on the City Commission to not issue the pension obligation bond, as this could potentially increase exposure to the City at a later date. In order to address this potential risk, limits must be set on future Commissions' ability to grant unfunded benefit enhancements.

At this time the Board took a brief intermission from 1:45 to 1:47 p.m.

Milliman

Ms. Wenguer reported that some questions have arisen with regard to the implementation of the new Milliman software. These issues are out of scope with the original request for proposal. She referred the Board members to a list of these items on p.39 of the information packets, including the ability to prepare standard reports, additional details related to DROP distribution, and tracking AIP and disability offsets. The total cost for these items would be \$9000.

Motion made by Mr. Fortunato, seconded by Mr. Hole, to approve the out-of-scope expenditure for the software update.

Ms. Wenguer confirmed that this expense would be a one-time event, and the overall cost of the software remains less than the initial budgeted amount.

In a voice vote, the motion passed unanimously.

House Bill 401

Mr. Cypen advised that the constitutionality of this legislation is questionable, as it would void all elections made for ex-spouses before July 1, 2012, even though these elections were legally made. The bill would require individuals who want their ex-spouses to be their beneficiaries under the Plan to reaffirm this intent on a new beneficiary form after July 1. This step will not be necessary for future retirees.

Mr. Cypen recommended that a blanket letter be sent to all retirees advising them of the need to reaffirm this survivor benefit.

Contribution Arrears Report

Ms. Wenguer stated that Ms. Bieler had finalized the arrears policy, which is included on p.49 of the members' information packet. She noted that Chair Dew will need to sign the document.

Mr. Hole observed that p.18 of the June 13, 2012 minutes referred to the need to finalize the Annual Actuarial Report. Ms. Wenguer stated that this document had been finalized, and copies of this report and the Audit are now available.

New Business

Vice Chair Rudominer asked that any members who have not filled out the administrator's annual review do so and send these documents to the Chair.

Mr. Bayne recommended that an RFP be sent out each year for service providers for the Plan, including the attorney, actuary, and consultant. This would ensure regular review of service providers in order to determine what other options are available.

Motion made by Mr. Bayne, seconded by Mr. Fortunato, to revisit service providers on a rotating basis to see what other options are out there.

Mr. Fortunato stated that he was not in favor of "micromanaging," and had not filled out the administrator's annual review for this reason. He asserted that this was the Chair's job.

Mr. Bayne explained that the rotating basis for review would mean, for example, the Board would put forth an RFP for its actuary in 2013, its attorney in 2014, and its consultant in 2015. This would mean one of the three providers would be reviewed each year. He emphasized the need to find out what options are available in a competitive market.

Ms. Wenguer noted that an RFP is typically sent out when the Board feels a need to make a change, such as following an audit. She added that putting forth an RFP each year would be very labor-intensive. Mr. Fortunato agreed, and Ms. Wenguer added that if RFPs are regularly sent out for service providers but no changes are made, there were likely to be fewer responses the next time an RFP is issued.

Mr. Bayne explained that he was concerned the Board may grow complacent with respect to its service providers if they are not aware of what other providers may offer. Ms. Wenguer suggested that a review of service providers might be scheduled for a future meeting. Mr. Bayne said part of his intent was to gather basic information from other providers regarding what their services include.

Vice Chair Rudominer commented that the Board could establish a review policy for its professionals. Mr. Fortunato proposed that this policy could appear on the Board's schedule each year. Ms. Wenguer agreed that this would be a better option, and stated she would bring back a potential plan for this policy at the August meeting.

Mr. Bayne withdrew his motion, with the request that a draft policy be provided for review at the next meeting.

The Board agreed by consensus that there would be no communication to the City Commission.

There being no further business to come before the Board at this time, the meeting was adjourned at 2:10 p.m.

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