

July, 2015

POLICE AND FIREFIGHTERS' PENSION BOARD
 REGULAR BOARD MEETING
 888 South Andrews Avenue, Suite 202
 Fort Lauderdale, FL 33316
 Wednesday, July 15, 2015, 12:30 p.m.

BOARD'S COMMUNICATION TO THE CITY COMMISSION**Items that may be of interest to the City Commission:**

The Board adopted new actuarial assumptions and methods to develop costs that are stable, predictable and represent the best estimate of anticipated experience

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Present

Michael Dew, Chair
 Ken Rudominer, Vice Chair
 Jim Naugle, Trustee
 Scott Bayne, Trustee
 Richard Fortunato, Secretary
 Dennis Hole, Trustee
 Kirk Buffington, Director of Finance
 Lynn Wenguer, Executive Director
 Steve Cypen, Board Attorney
 Robert Klausner, Board Attorney

Absent:

Jeff Cameron, Trustee

Also Present

Amanda Cintron, Deputy Director
 Kevin Schmid, CapTrust
 John Herbst, City Auditor
 Al Scotti, Police Department
 Laura Garcia, Finance Department
 Juana Carreras, Retirees' Association
 Bill Sharp, Retirees' Association
 Anne Lindie-McNeil, Retirees' Association
 Paul DeBold, Retirees' Association Vice President
 Jim Ingersoll, Retirees' Association President
 Fred Nesbitt, Communication Director
 Lisa Edmondson, Recording Secretary, Prototype Inc.

Note: Items were discussed out of order.

ROLL CALL/CALL TO ORDER

Chair Dew called the meeting to order at 12:31 p.m. Roll was called and a quorum was determined to be present.

PLEDGE OF ALLEGIANCE/MOMENT OF SILENCE

The Pledge of Allegiance was followed by a moment of silence.

MINUTES:

Regular Meeting: June 3, 2015

Motion made by Mr. Hole, seconded by Mr. Naugle, to approve the minutes of the June 3, 2015 meeting. In a voice vote, the motion passed unanimously.

COMMENTS FROM PUBLIC

None.

NEW HIRES

Chair Dew recognized the new hires.

BENEFITS

POLICE DEPARTMENT:	New Retiree: (Term of DROP)	Allan S. Lerner
	Vested Retirement: DROP Retiree:	George Bowlin Thomas Ferri, Jr. Quintin Waters
FIRE DEPARTMENT:	New Beneficiary:	Barbara A. Block

Motion made by Mr. Rudominer, seconded by Mr. Bayne, to approve payment of the benefits as stated. In a voice vote, the motion passed unanimously.

BILLS:	Northern Trust	\$40,317.34
	CapTrust	\$21,250.00
	Holland & Knight	\$7,500.00
	Holland & Knight	\$6,000.00
	Klausner, Kaufman	\$3,990.00
	Klausner, Kaufman	\$1,608.75
	Foster & Foster	\$1,663.00

Mr. Klausner stated the Klausner and Kaufman bill would be credited \$1,625 for duplication of fees.

Mr. Rudominer asked for clarification of CapTrust's services and Mr. Schmid described them. Mr. Bayne recalled carving out the in-service distribution expenses from the Holland & Knight bill. Chair Dew stated this would be done. Ms. Wenguer agreed to ask Holland & Knight to itemize the bill to show this figure.

Motion made by Mr. Rudominer, seconded by Mr. Naugle, to approve payment of the bills as amended. In a voice vote, the motion passed unanimously.

INPUT FROM ACTIVE & RETIRED POLICE OFFICERS & FIREFIGHTERS

Mr. Ingersoll stated he would hold his questions until after the presentations from Mr. Heinrichs and Mr. Schmid.

FOSTER & FOSTER: Experience Study Brad Heinrichs

Mr. Heinrichs distributed copies of the study to Board members and explained that it was done to see how the plan performed relative to the series of assumptions made in setting funding requirements. He said the assumptions he used were the property of the Board. The goal was for the City to have a contribution rate that paid for the benefits as a level percentage of pay over time.

Mr. Heinrichs felt the asset valuation method needed to be changed. He believed the current method violated the standard practice #44. Mr. Heinrichs explained how the asset valuation method should be done, how the current method did not conform with these rules and how they could change the method to meet the rules. The proposed technique met the three pillars following the standards of practice.

Mr. Heinrichs described the impact of changing each component of the method. He noted that the changes would improve the funded status by \$6.75 million.

Mr. Heinrich reported that one of the new requirements for the Governmental Accounting Standards Board Standard #67 was to list capital market assumptions by asset class, which CapTrust had done. The accounting standards also required assumptions of expected earnings before and after inflation. Mr. Heinrich stated the national average of state-wide plans was 7.75% and this fund was more conservative than that. Mr. Schmid noted that lowering the assumed return from 7.5% to 7.25 would make it easier to beat year-in and year-out but they would pay up front costs. At 7.5%, it would be harder to beat year-in and year-out and there would be more annual actuarial losses built in; it was a matter of when they wanted to pay for the return difference. Mr. Schmid stated the expected return was in line with the asset allocation. Mr. Heinrichs said the assumption they were making was in line with the model that the investment consultants had put together.

Regarding the salary increase assumption, Mr. Heinrich did not recommend any change. He said the payroll growth assumption of 2% was conservative and the actual average increase in covered payroll was 4.5% per year since 2004 and 2.7% since 2006.

Mr. Heinrichs stated the mortality assumption was “irrelevant” because the State legislature had passed HB 1309, which mandated that as of January 2016, they must use the table used by the Florida Retirement System’s actuary. He anticipated that implementing this new table would result in costs increasing \$1.5 million per year but he hoped that if that information was passed on to unions and leagues of cities, this would be abolished in the next session. Mr. Heinrichs said they could increase the amount sooner, which would increase the costs right away by \$500,000, but make for a less steep increase in 2016.

Chair Dew asked about changing the asset valuation method and Mr. Heinrichs said he had summarized the suggested changes and the intended impacts.

Mr. Heinrichs informed the Board that their current assumption was that no one would retire prior to 20 years of service but 6.8% actually had. He recommended assuming 5%, but noted this would increase costs.

Regarding the termination rates, Mr. Heinrichs said they currently assumed 10% of new hires did not make it to the end of year one, but for the last 6 years, 16.1% did not make it. He recommended increasing this assumption, which would lower costs. All other actual termination rates were less than their assumptions, and he recommended lowering them. Making these changes would result in an increase in costs of approximately \$732,000 per year.

Mr. Heinrichs stated they had anticipated 9 disabilities for Police officers in the last 6 years but there had only been 3, so he suggested lowering this assumption. For Firefighters, the actual and assumption were very close. If they lowered the Police disability assumption to 3, it would save the City \$135,000 per year.

Mr. Heinrichs said their assumption that female spouses were three years younger than their husbands was accurate so he did not recommend a change.

Mr. Heinrichs was “most passionate” about the asset valuation method; he felt his other recommendations should also be considered.

Mr. Klausner advised that the Board must evaluate what was reasonable. It was the Board’s responsibility to run the plan efficiently, to the benefit of all stakeholders, focusing on members and beneficiaries.

Mr. Klausner stated they had one year to address the HB1309 mortality table requirement. The other assumptions were not affected by an external factor and when they set their next actuarial valuation, these were the assumptions the actuary would bring them.

Mr. Heinrichs said the study was good because the assumptions allowed them to justify what they were doing. It could be bad if they ignored it, because then they had no justification. Mr. Klausner recommended leaving mortality and the assumed rate of return alone and making the other changes Mr. Heinrichs recommended.

Mr. Hole said they had discussed two items that could be incorporated into the fiscal policy they had never finished creating. He noted this policy would provide justification for their decisions. Mr. Hole stated he would leave the investment rate of return alone and accept Mr. Heinrichs’ other suggestions. Mr. Heinrichs said

accepting all the changes he recommended and not altering the investment rate of return would result in a savings of \$1.6 million.

Mr. Bayne felt the withdrawal rate assumption needed to be addressed and he did not want to act on this until they decided on the proper change. Mr. Heinrichs anticipated the Board would not revise the last actuarial evaluation with these assumptions; he thought they would use them to develop the 2016 evaluation. They did not need to make any changes today. Chair Dew was concerned about not changing the asset valuation immediately, since it was not within the standards. Mr. Heinrichs stated they should enact the change in the asset valuation for the next evaluation and they could decide on the other changes at a later date. Regarding the withdrawal assumption, Mr. Heinrichs said the Board should be able to provide justification for not altering it.

Motion made by Mr. Hole, seconded by Mr. Rudominer, to accept the Mr. Heinrich's recommendations regarding assumptions, including early implementation of the mortality table change, except leaving the investment rate of return alone, and that the changes would be effective with the 2015 valuation study. Chair Dew thought the mortality table requirement in HB 1309 might be resolved legislatively and therefore did not want to early adopt the mortality table. The Board discussed the ramifications of early implementation versus waiting for the mortality table requirement to become mandatory.

Mr. Hole withdrew his motion.

Motion made by Mr. Naugle, seconded by Mr. Hole to approve combination #1: to eliminate the smoothing, to adopt the new asset valuation method and to not adopt the new mortality rate table. In a roll call vote, motion passed 4-2 with Mr. Bayne and Mr. Fortunato opposed.

Mr. Heinrichs had conducted an actuarial impact statement regarding the Firefighters' contract. Mr. Bayne noted that there had been a change in straight time/overtime. Mr. Heinrichs stated he would need to know the impact on each individual's pay if the new rule had been effective for the past 12 months.

CAPTRUST:

Kevin Schmid

Monthly Investment Review

Mr. Cypen suggested the Vaughn Nelson Small Cap Value contract require best execution in all circumstances. The current contract contained different language and Vaughn Nelson wanted the Board to override that requirement. Ms. Wenguer noted that this requirement was not applied to all managers. Mr. Schmid felt Vaughn Nelson's language went "above and beyond the call of duty" by including an elaborating paragraph regarding best execution. He said their soft dollar trading policy was similar to three of the other equity managers' policies. Vaughn Nelson had also indicated they did not need to use soft dollars; they could work around it. Mr. Schmid stated there was a safe harbor provision in Section 28e that prohibited soft dollar trading if it would materially harm the client by resulting in higher brokerage costs. Vaughn Nelson indicated approximately 40% of the portfolio at any given time was acquired with soft dollars and their commissions averaged under \$.02 per share, which was not excessively high.

Mr. Rudominer explained that if the use of soft dollars resulted in excessive trading fees, it would show up in performance, and even with the use of soft dollars, Vaughn Nelson was still the best performing manager of the three from which the Board would pick. Chair Dew suggested the motion language include that Vaughn Nelson would provide an accounting of how the fund's dollars were spent.

Mr. Bayne thought the issue was the definition of best execution and he felt they should create a definition so this issue did not arise with other contracts. Mr. Schmid stated this was possible, but noted that best execution was "a little bit of a judgment call." Mr. Klausner said this could be included in the investment policy.

Motion made by Mr. Rudominer, seconded by Mr. Hole to approve the contract with Vaughn Nelson, with the requirement that Vaughn Nelson would furnish the Board with a report of how the fund's dollars were spent. In a voice vote, motion passed unanimously.

Active/Passive Report (under separate cover)

Mr. Schmid had considered various scenarios involving using fewer managers because someone had mentioned at the FPPTA that they had too many. He referred to page 5 of the report he had distributed and said if they used all

indexed, the plan would save 2 basis points and the return would be slightly less than it was now, on a cost-adjusted basis. Mr. Schmid said they were currently 24% indexed and 76% active and they were indexed where they felt it made sense, such as in the large and midcap areas of the domestic equity market. He explained that in aggregate, large cap managers had added value. Mr. Schmid added that indexed strategies tended to do better in a rising market and managed strategies tended to do better in choppy or negative markets.

Chair Dew asked the impact the Greek economy would have on the stock market and Mr. Schmid said there had been a short-term blip down but he did not expect a significant long-term effect.

COMMUNICATION DIRECTOR'S REPORT Fred Nesbitt

Mr. Nesbitt reported now that the labor contracts had been settled he would update the Power Point presentations. He was working on a presentation on disability hearings for the FPPTA October school.

EXECUTIVE DIRECTOR'S REPORT

Member Buy-back Request

Ms. Wenguer reported they had informed affected members that they must pay it back within 90 days of going into the DROP. A Police officer wanted to go into the DROP at the end of the month and had started the buy-back 18 months ago with \$1,500 remaining. The officer did not want to wait another 90 days to enter the DROP and the Board needed to waive this.

Motion made by Mr. Bayne, seconded by Mr. Rudominer to remove the 90-day provision, provided the buy-back was paid in full prior to a member's retirement. In a voice vote, motion passed unanimously.

Vaughn Nelson Contract

Discussed earlier with Mr. Schmid.

Celladon Class Action Suit

Mr. Cypen said this was a class action suit regarding a biomedical product. They had until August to file the application to join the suit and Mr. Cypen said the only cost would be the staff time for working on the application.

Motion made by Mr. Bayne, seconded by Mr. Rudominer to authorize the Board to join the pending action or initiate action as appropriate. In a voice vote, motion passed unanimously.

COLA Lookback

Mr. Klausner had not heard back from the Retirees' Association's attorney, Ron Cohen, but Mr. Cohen wished to attend the August Pension Board meeting. Mr. Cypen said there was a lawsuit stemming from the fact that the city of Hollywood had determined that a 13th check could not be paid due to current circumstances but the Hollywood pension board had done the calculations and disagreed. The board had received authorization from the State to issue the checks and paid them. A lawsuit had been filed against the Hollywood Police and Fire boards.

Mr. Klausner clarified that these were not the same issues they had in Fort Lauderdale. The people based on the 1972 formula who were eligible to retire prior to July 1986 could be paid if they met the 1972 formula test.

Ms. Wenguer recalled the Board had asked for a list of members affected by Mr. Klausner's presentation on the COLA, but she wished Mr. Heinrich to go through the list first. Mr. Heinrichs estimated this would cost less than \$1,500, but agreed to contact Ms. Wenguer and postpone action if it appeared it would take more time.

Motion made by Mr. Bayne, seconded by Mr. Rudominer, to authorize Mr. Heinrichs to review the list of members affected by the COLA presentation and determine what amount would be available, with a cost cap of \$1,500. In a voice vote, motion passed unanimously.

IRS Determination Ordinance Change

Ms. Wenguer confirmed that the information had been submitted.

In-Service Distributions

Chair Dew said the City and unions had a tentative agreement in principle and language was being written for presentation to the unions. Chair Dew had also discussed with Bob Friedman the 20 members that received letters but had no direction yet. Mr. Friedman had spoken with the City's attorney and they were considering the IRS language to determine if it would limit the liabilities of the members. The original group would meet to discuss when the members' meeting should occur. Mr. Klausner stated the Treasury and IRS had discretion regarding penalties but not on taxes and interest.

Mr. Buffington said the City had been ready to issue 1099s for affected employees the previous week but there was still uncertainty regarding the interpretation of the code used during the reporting period, so they were waiting until the City's attorney provided confirmation on the proper interpretation.

Retirement Accounting/Payroll

Ms. Wenguer reported the City would charge them \$40,000 to do the retiree payroll and another \$13,000 to do the bookkeeping. They would continue to review other options but would continue to use the City's services for now. Once staff was in place, they would re-address it.

Administrative Assistant

Ms. Wenguer stated they had found a great candidate for the administrative assistant position who had 22 years of experience in the New York State retirement system.

The Board discussed pension options for the pension system staff with Mr. Klausner.

Motion made by Mr. Bayne, seconded by Mr. Rudominer, to allow the Executive Director to hire the new Administrative Assistant. In a voice vote, motion passed unanimously.

Deputy Director's Annual Review

Ms. Wenguer reported the Deputy Director had a wonderful review. Ms. Wenguer had also conducted a salary survey and determined the Deputy Director was underpaid. Ms. Wenguer recommended increasing Ms. Cintron's pay.

Motion made by Mr. Rudominer, seconded by Mr. Hole to accept the recommendation of the Executive Director. In a voice vote, motion passed unanimously.

September/November Meeting Dates

Meetings dates were altered as follows:

September 9 changed to September 16

November 18 changed to November 16

Investment Seminar

The Board discussed dates for the seminar and agreed to discuss it next month.

PENDING ITEMS

New Business

Fire Ordinance Impact Statement

Mr. Bayne stated the contract had been approved by the City Commission on first reading. The second reading would be in August 18. Ms. Wenguer said the impact statement would be revised.

Boyd Watterson Fee Reduction

Ms. Wenguer said the fee had dropped from 17 basis points to 15 basis points.

Spousal Benefits

Mr. Ingersoll had a question about surviving spousal benefits. Ms. Wenguer stated for members retired prior to December 31, 1999, the surviving spouse would receive benefits after remarriage. For members retired after December 31, 1999, the member had an option to choose another benefit, which, if selected, would deny the surviving spouse benefits if remarried.

Old Business

Schedule A

No discussion.

Communications to the City Commission

The Board adopted new actuarial assumptions and methods to develop costs that are stable, predictable and represent the best estimate of anticipated experience.

FOR YOUR INFORMATION:

Fire Ordinance & Impact Statement

Boyd Watterson Fee Amendment

HB 1309

Knight

Ordinance C-15

Agreement

Cypen Newsletter

Recapture Summary May/2015

There being no further business to come before the Board at this time, the meeting was adjourned at 3:56 p.m.

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