May, 2013

POLICE AND FIREFIGHTERS' PENSION BOARD
REGULAR BOARD MEETING

WEDNESDAY, MAY 8, 2013, 12:30 P.M.

Present
Michael Dew, Chair
Ken Rudominer, Vice Chair
Richard Fortunato, Secretary
Jeff Cameron, Trustee
Dennis Hole, Trustee
Jim Naugle, Trustee
Lynn Wenguer, Administrator
Alison Bieler, Cypen & Cypen, Board Attorney

Also Present
Amanda Cintron, Assistant Administrator
Laurie DeZayas, Pension Secretary
Douglas R. Wood, Finance Director
John Herbst, City Auditor
Linda Logan-Short, City Controller
Steve Schott, CapTrust
Michael Futterman, Marcum
Jorge Herrera, Marcum
Brad Heinrichs, Foster & Foster
Lisa Edmondson, Recording Secretary, Prototype, Inc.

Walt Courtney, President, Retirees' Association
Ann Lindie-MacNeil, Secretary/Treasurer, Retirees' Association
Fred Nesbitt, Director of Media Relations
Juana Carreras, Retirees' Association
Bill Paton, Retirees' Association
Paul DeBold, Retirees' Association
Al Scotti, Retirees' Association
Fuzzy Larkin, Retirees' Association
Linda Soloman-Duffey, Retirees' Association
Bruce MacNeil, Retirees' Association
Frank Colleran, Retirees' Association
Gregg Gurdak, Retirees' Association
Aaron Lally
Bob Oelke

Communication to City Commission

None.

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, May 8, 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 12:28 p.m. and roll was called. All present recited the Pledge of Allegiance and observed a moment of silence.

MINUTES: Regular Meeting: April 10, 2013

Motion made by Mr. Hole, seconded by Vice Chair Rudominer, for the waiving of the reading of the minutes as documented [as amended].

Chair Dew noted a correction on p.4, paragraph 4: remove first use of "had" from the first sentence.

In a voice vote, the motion passed unanimously.

BENEFITS:
Police Department:

New Retiree/Term. of DROP:	Jerald E. Fuller
	Thomas Harrington
Vesting:	Bryan P. Barnhart
Lump Sum Refund:	Anthony Agular
	Thomas F. Torres

Fire Department:

New Retiree/Term. of DROP:	Lois Bowman

Motion made by Vice Chair Rudominer, seconded by Mr. Cameron, for the approval of the benefits for the Police and Fire. In a voice vote, the motion passed unanimously.

BILLS:

Lee Munder	$61,515.69
Sawgrass	$40,339.00
Boyd Watterson	$35,047.00
InTech	$23,551.60
Rhumbline	$16.127.00
Eagle Asset Management	

Motion made by Vice Chair Rudominer, seconded by Mr. Cameron, for the payments of the bills as documented.

In a voice vote, the motion passed unanimously. In a voice vote, the motion passed unanimously.

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

2012 AUDITED FINANCIAL STATEMENTS: Marcum, LLP Michael Futterman, Jorge Herrera

Mr. Futterman advised that the Auditor's Report clarifies what was audited and states that a clean opinion was issued by the auditors. The financial statements, presented on a comparative basis, show the change in the amount of total net assets held in pension benefits between 2011 and 2012; the reason for this change is primarily the issuance of the pension obligation bond by the City. Net investment loss in 2012 was $1.4 million, while net investment income was $60.4 million.

Chair Dew asked if the total percentage change on net investment income loss was 4255%, as reflected on p.8. Mr. Futterman replied that this percentage calculation would be double-checked for accuracy.

He continued that the schedule of funding progress, which covers the last six fiscal years and latest actuarial evaluation, shows a funding ratio of 69.8% as of January 1, 2012. When the 2013 audit is performed, this ratio will be significantly larger, as it will include the funds added by the pension obligation bond. The percentage contributed to the plan in 2012 was not calculated because of this bond, but was included in a note describing the City's contribution through the pension obligation bond.

He concluded that Marcum's report on internal controls and compliance reporting was included on pp.29-30. Only one finding was reported, which was related to the accounting and reconciliation between the City and the Plan. Mr. Futterman noted that this information had not been properly addressed prior to the audit. He recommended that this be addressed by clarifying which entity is responsible for supplying specific information.

Chair Dew requested clarification of a letter submitted by Marcum. Mr. Futterman explained that this letter summarizes the audit process for the Board, although it does not include a summary of the audit numbers. He reiterated that there were no unrecognized significant transactions, or difficulties in dealing with the City or Plan management, during the audit.

Chair Dew asked if the City's issues regarding the provision of accurate and timely information were due to difficulties in the Finance or IT Departments, and whether or not Marcum had any strong recommendations on how to address this issue. Mr. Wood replied that this may be related to the City's and Plan's issues with Northern Trust, as the City had been required to make adjustments due to inaccurate and delayed information from this company. He asserted that the City's books are closed in a timely manner on September 30, when its fiscal year ends.

Mr. Wood suggested that City and Plan representatives should discuss the end of the Plan's fiscal year in more depth, as the City now pays the Plan on a different cycle, which could result in additional differences. He noted that a change to the Plan's fiscal year, aligning it with the City's fiscal year, would provide a partial solution to the underlying issue. It was noted that the General Employees' Plan operates on the same fiscal year schedule as the City, from October 1 to September 30.

Mr. Hole observed that a note on p.16 refers to the expiration of a cost of living adjustment (COLA) for future benefits for members retiring after 1986. He recalled that the last COLA extension expired in 2008. Mr. Futterman pointed out that this is corrected in a more recent draft of the report. Ms. Wenguer clarified that all figures in the Board's draft were correct, although two notes have been changed.

Vice Chair Rudominer requested clarification of a reference to increased benefits, stating that this appeared to refer to an increase in benefit payments to retirees, which was incorrect. Mr. Futterman agreed this would be clarified. Vice Chair Rudominer added that the Plan's sponsor has, historically, paid at least 100% of its required contribution, which should be reflected in the report. He also noted a correction on p.21, which refers to information provided by the Board and the Administrator, and stated that this should refer only to the Board.

Walt Courtney, President of the Retirees' Association, noted a reference to COLA increases on p.16, which stated that COLA increases may be granted if the system remained in a net positive experience position as determined by the actuary on a cumulative basis. He also noted that p.9 states the system's share plan contained net asset increases over the last five years, with the exceptions of 2008 and 2011, and asked if this constituted a cumulative basis. Chair Dew recommended that this question be asked of the actuary, as it refers to an actuarial determination. He pointed out that one statement refers to COLA, while the other refers to the net assets of the Plan. Vice Chair Rudominer added that the audit addresses tangible dollars, while the actuarial report addresses actuarial gains. Mr. Wood advised that Section 16 of the pension obligation bond documents makes it very difficult for a COLA gain to be realized.

It was clarified that the reference to a 4255% gain, as mentioned earlier, was correct.

Motion made by Vice Chair Rudominer, seconded by Mr. Naugle, to accept the report with the noted changes.

Mr. Futterman said all changes would be submitted to Ms. Wenguer for final approval.

In a voice vote, the motion passed unanimously.

2013 ACTUARIAL VALUATION: Foster & Foster Brad Heinrichs

Mr. Heinrichs, retirement plan actuary, stated that his objective had been to match the prior actuary's 2012 valuation by using the same assumptions and methods to attempt to reach the same figures. A number within 5% of the prior actuary's calculation is considered to meet the industry standard. He concluded that his calculation was

.5% different from the previous actuary's figures on the present value of benefits. Regarding future benefits, there was a difference of .49%; there was a difference of 1.64% in the allocation of present value of benefits to the past, or $12 million less.

Mr. Heinrichs distributed electronic and paper copies of the full report, noting that he had been unable to provide advance copies due to difficulty in receiving the correct data. Chair Dew thanked him for Foster & Foster's efforts in completing the report in a timely manner.

Mr. Heinrichs briefly reviewed the document, stating that for the current fiscal year, the fund needs $17,391,099. State monies are estimated at just under $3 million. Any monies above this threshold are set aside for extra benefits. The City can expect to pay $14.4 million into this year's pension fund.

Chair Dew asked if roughly $4 million in monies owed to the City by the Plan would come out of the City's contribution. Ms. Wenguer confirmed this.

Mr. Heinrichs moved on to discuss the experience of the Plan, pointing out that in the absence of the pension obligation bond, contribution requirements would have been only slightly higher than the previous year. This means the pension obligation bond has done a great deal to drive down costs.

Chair Dew asked if the reference to the pension obligation bond on p.5 could be worded differently in order to reflect the correct amount of the bond, which was $173 million. Mr. Heinrichs said while this amount would be correct, only $170 of the bond's funds were above the actual required contribution (ARC).

Mr. Wood stated that the City had prepaid the ARC in December 2011 with the intent of saving interest. This payment had been $28 million, and had saved 7% interest on $30 million. It was noted that further clarification would be necessary to show that the ARC would not have been underpaid in the absence of the pension obligation bond funds. It was noted that the early payment of the ARC, as well as the pension obligation bond, had resulted in an ARC figure that was less than $34 million.

Mr. Heinrichs continued that the 2013 figures on p.5 of the report would not change, nor would the 96.6% funding noted on p.32. The $14.4 contribution listed on p.32 is also solid. He explained that the money contributed by the City went into the assets to be invested for purposes of paying future benefits: regardless of the total amount of last year's ARC, the amount to be received in 2013 would not change.

Mr. Wood pointed out that it is the City's policy to pay 100% of the ARC every year; his concern was that none of the figures be mislabeled in a way that suggested otherwise. Mr. Heinrichs asserted that any necessary changes would be made in order to accurately reconcile and reflect the proper the figures. He reiterated that 2013 funding to the Plan is not affected.

He continued that p.14 showed a reconciliation of gains and losses in the Plan. There was a $14.8 million gain in 2012, which means the Plan was better-funded than anticipated, based on assumptions; however, an investment loss, which is a smoothed figure, was approximately a $4.8 million loss relative to 7.5%. He reviewed several of the losses and gains reported in the document, concluding that the unfunded liability as of January 1, 2013 was $24.7 million.

Mr. Heinrichs referred to p.8 of the document, noting that the actuarial value of assets reflects the smoothed value of assets according to the Plan's valuation method. This value is higher than the market value of the Plan's assets, which he found surprising, as most Plans' values are close to equal. He explained that he had reviewed the actuarial evaluation method used to make this determination, and suggested changing this method to one that, over a period of time, would cause the market and actuarial asset values to converge. At present, if the same method is used, the actuarial value will continue to be higher than the market value in the absence of extraordinary returns, resulting in an artificially lower funding requirement.

Mr. Hole recalled that Mr. Heinrichs had first recommended changing the actuarial evaluation method during Foster & Foster's presentation to the Board some months ago. Mr. Heinrichs confirmed this, explaining that the current standards of practice, as well as the Florida Division of Retirement, both want convergence of these two values.

Mr. Naugle requested examples of actuarial evaluation methods. Mr. Heinrichs explained the current method, which brings the two returns closer by 20% but does not bring them to convergence. He recommended a method that would make this measurement relative to 7.5%; if a higher percentage is earned, it is extended over four or five years in order to bring the values into convergence. He pointed out that funding requirements are developed using the actuarial value of assets.

He continued that assets have risen faster than liabilities over the current year, primarily due to the pension obligation bond; total assets net of bond funds rose by $55 million, while total liabilities increased by $25 million. This means even if there was no pension obligation bond, the year would still reflect positive growth. Mr. Heinrichs added that the unfunded liability is presently $24.7 million, and would also be reduced if there was no bond. The actuarial present value of accrued benefits as of January 1, 2013, based on service and pay to-date, is $679 million, a $10 million increase from the previous year. He concluded that the Plan is very close to being 100% funded in market value and over 100% funded in actuarial value.

It was noted that some information in the report was marked “not available.” Mr. Heinrichs said this was because it had not been specified in the previous actuary’s report, although it was included in the totals. This would not recur in the future.

Mr. Heinrichs advised that the Division of Retirement allows the use of a technique known as the projection method, which allows the 1/1/13 valuation to reflect the funding requirements for both the current and the next fiscal years of the Plan. Should the Board adopt this method, the City would know its funding requirements for both these years, which would be helpful in the development of its budget.

Mr. Wood pointed out that this could result in a significant unfunded increase for the City. Mr. Heinrichs explained that some clients have felt this method was more convenient and have adopted it for this reason. Ms. Logan-Short said she was familiar with the projection method, but added that it is not relevant in the Plan’s case, as the City typically receives its information regarding the 2014 contribution in ample time to develop its 2013-14 budget. She said the method would be more useful, however, if the Plan’s fiscal year became the same as the City’s fiscal year.

Chair Dew commented that if the Plan’s fiscal year was changed at the City’s request, he felt the Board would not object to this method if it was the City’s preference.

Mr. Heinrichs continued by showing a projection over multiple years, showing what the unfunded liability would be over time if actuarial assumptions are met and minimum required contributions were made; he noted that it would disappear entirely by the year 2033. He also reviewed the potential COLA based on the Plan’s cumulative gain/loss position, which would place the Plan at $141 million in the loss position. This means $141 million would have to be made up before any COLA could be paid.

He advised that p.23 shows the development of a reserve account on the Police side, which earned roughly $15,000 in interest. This account has been used in the past to increase the overtime hours that can be included in pensionable compensation. Transfers to the Firefighters’ share plan were $2.6 million, none of which were reserved: excess Firefighters’ State monies go into a share plan and are set aside for its individual members rather than used to lower any funding requirements. These funds may not be used retroactively.

Mr. Heinrichs concluded that Senate Bill 1128 requires the actuary to disclose the present value of accrued benefits in accordance with the Florida Retirement System (FRS) interest rate of 7.75%. Senate Bill 534/House Bill 599 has also passed, however, which eliminates the requirement to comply with Senate Bill 1128. It also requires cities to record the unfunded liability on their books, beginning in 2015. Ms. Logan-Short pointed out that this is will offset the pension obligation bond debt, resulting in a smaller liability.

Mr. Heinrichs continued that the Department of Management Services will require all GASB 67-68 disclosures to use a mortality table that assumes indefinite mortality improvements; this will increase the liability shown by the Plan. An interest rate of 2% less than used in the current valuation will also be used, which will also result in a significant liability increase. Only the FRS plan is exempt from these requirements in the State of Florida, which can make other plans look less sufficiently funded in comparison to this plan.

In addition to these extra disclosures, another requirement is an infinite projection, which would show how many years it would take for the Plan to run out of money, assuming no contributions.

Mr. Hole recalled that an experience study was performed in 2012, and asked if another such study would be necessary due to Bill 1128. Mr. Heinrichs replied that this would not be necessary, as the standards of practice require an experience study every three to five years. He added that he would be glad to discuss assumptions further with the Board at their request.

Mr. Wood noted that the current $17.3 million owed by the City includes $1.29 million in interest, and recalled that last year's payment had been roughly $14 million. He pointed out that there should be no interest included in this figure, as the Board has already had this cash since December 2011. Mr. Heinrichs said the contribution due in October 2013 is not likely to change. Mr. Wood asserted that based on the overstatement of interest costs, it should change when the City provides a revised calculation, as most of the contribution has already been paid. Mr. Heinrichs said if this figure changed based on revised information, it would be reported to the Board. He requested any further documentation that might illustrate this revision.

Mr. Herbst asked if it would be possible to include the market rate of return in addition to the assumed and actuarial rates of return. He explained that the smoothed actuarial rate of 6.2% gives the appearance of underperformance by the Plan, although the market rate of return is 10.6% according to the actuarial valuation. Mr. Heinrichs agreed that this could be added.

Mr. Nesbitt asked if the City's percentage of total payroll could be shown along with its percentage of covered payroll. Mr. Heinrichs said this calculation had not been made, as the actuary did not have the information on all participants in DROP. He agreed to include this information, although he pointed out that the City has always based its contribution on a dollar amount rather than a percentage.

It was clarified that the following corrections and additions would be made:
Add revised ARC, including the City's interest;
Revise GASB statement;
Add the actual market return from the consultant from the last five years, and clarify that "actual" refers to smoothed actual;
Show the percentage of total payroll.

Motion made by Mr. Fortunato, seconded by Vice Chair Rudominer, for the acceptance of the actuarial report with the corrections and additions. In a voice vote, the motion passed unanimously.

Chair Dew requested further discussion of the proposed change to the actuarial method.

Mr. Heinrichs advised that changing any method or assumption effective for the actuarial valuation would result in a change to the calculations and figures included in the report, unless the Board wished to make them prospectively for the 2014 report. He recommended that the Board consider changing to an asset valuation method that would provide "a fresh start," reiterating that the present method would continually result in the actuarial value being greater than the market value, which would mean the Plan appeared artificially underfunded. He stated if the goal was for a plan earning 7.5%, these two values would be the same; if a lower percentage is earned, the actuarial value would be higher, while a higher earned percentage would be reflected in a higher market value. A fresh start would bring the actuarial value into line with the market value.

Ms. Wenguer added that taking a fresh start is allowed once every 10 years. Chair Dew recalled that the Plan had already done this approximately five years ago. Mr. Heinrichs said the method taken at that time was probably in favor with the actuarial profession; however, it would not meet the current actuarial standards of practice, as the values do not converge to the market. He urged the Board to consider this change in either 2013 or 2014.

Chair Dew asked if a fresh start was necessary, or if an approach resulting in gradual convergence could be used instead. Mr. Heinrichs replied that it was possible to phase in this approach.

Mr. Wood recalled that approximately $200 million was provided to the pension system in October 2012, and asked what amount of these funds were not invested as of December 31, 2012. He pointed out that retaining any cash could affect market value.

Mr. Heinrichs also recommended changing from a mortality table that assumes improvements each year, as this is likely to increase the costs by 1%-2% of payroll. He also recommended changing the assumption that all Plan members are married at retirement, with husbands typically three years older than wives. He pointed out that this affects the present value of the Plan if it is not accurate, and suggested reviewing the accuracy of this assumption.

Mr. Heinrichs proposed preparing a report that reflected changing these three assumptions individually and in aggregate, as well as adding the projection method if the Board wished. He added that the valuation method could be calculated both using a fresh start and using a phased approach. These could be presented at a future meeting, at which the Board could make a determination on what they wished to do. Chair Dew suggested that this be prepared for presentation at the August Board meeting, which would allow the Board members time to review the changes before they are presented. The Board members agreed by consensus to this approach.

INPUT FROM ACTIVE & RETIRED POLICE OFFICERS & FIREFIGHTERS:

Mr. Courtney, President of the Retirees' Association, asked if the Board could provide answers to questions raised in a letter he had sent. Chair Dew recommended that Mr. Courtney review some of the information disseminated by the Board in the past. He asserted that the Board has been very open and supportive in addressing concerns raised by the Retirees' Association regarding COLA, and recalled that these concerns were addressed in a Chairman's Report in 2010 and 2011, as well as a financial study on COLA and explanation of related Ordinances, conducted by Board attorneys Steve Cypen and Ms. Bieler.

Chair Dew continued that the issue of COLA has been discussed several times by the Board. He explained that the current Ordinance, as well as the pension obligation bond, would make it very unlikely that a COLA could be paid. If the required actuarial assumptions are met, it is possible that a COLA could be paid to those individuals who retired prior to July 15, 2008. He concluded that he felt the letter sent to the Board was accusatory, and cautioned against the dissemination of any incorrect information, noting that accurate information on this issue was available from any Board or Staff member, as well as Mr. Cypen, Ms. Bieler, or attorney Robert Klausner.

Chair Dew emphasized that he did not intend this caution to harm the Board's relationship with the Retirees' Association, as the Board has worked to be an active partner with the Association. He acknowledged that there have been stressful issues in the past, and that mistakes in addressing these issues may have been made.

Mr. Courtney stated that when he had first attended Board meetings, he had requested that both COLA and smoothing be looked into; this was done by Mr. Cypen. He said since this time, the Retirees' Association felt they were not receiving what was promised them, and that there were disagreements with regard to the smoothing practice.

Chair Dew advised that smoothing is beyond the Board's control, as it is a City Commission issue. Mr. Courtney said he was raising the issue with the Board because he did not feel smoothing applied to the retirees. He requested an explanation of how this process would apply, adding that the retirees had retired under the assumption that there would be COLAs in the future. He added that the retirees had not had any input on the pension obligation bond process, which affected the possibility of COLA.

Chair Dew stated that the last amendment to the Ordinance regarding how COLA was determined occurred in July 1996. He explained that the pension obligation bond was the result of a City Commission decision for the betterment of the City's financial welfare; it has also been helpful to the Plan. He concluded that in July 1996, it was stated by an actuary that the Plan's gains would have to be substantial in order for COLA to be paid again in the future. The Board did not have the authority to override this requirement.

Mr. Courtney said a member of the Association had wished to know why he had not received a COLA if a profit of 12.1% had been realized by the Plan. Chair Dew replied that due to past losses, the Plan would need to make up $141 million before a COLA could be paid. Mr. Courtney said the original Ordinance related to COLA does not include a reference to making up past losses. Chair Dew did not agree, affirming that this was part of the Ordinance. It was also noted that if these losses were made up and the Board recommended payment of COLA, this payment would still require the approval of the City Commission.

Vice Chair Rudominer advised that there may be some confusion regarding actuarial dollars and market dollars, and explained that the Ordinance requires an actuarial gain rather than a real gain. If an actuarial gain occurs in the future, the Board would be able to recommend payment of COLA, as the Board is not held by the covenants governing the pension obligation bond.

Mr. Courtney said the retirees' interpretation of the Ordinance was that COLA would be considered on a year-to-year basis; he also stated that there was no mention of smoothing in the Ordinance. He asked why an individual retiree would not receive a COLA under this interpretation. Ms. Bieler replied that the original COLA, and subsequent amendments, were always contingent upon sharing actuarial gains, which meant losses must be made up before gains accumulate sufficiently to award a COLA. This meant while the Plan might have experienced positive investment returns, the accumulated losses have not been overcome sufficiently to result in actuarial gains. She noted that State law also requires that all losses be made up before COLA can be paid. She added that this law was another aspect over which the Board did not have control.

Mr. Herbst advised that the pension obligation bond does not prohibit COLA: it states that if a future City Commission decides to award COLA, it must be funded as part of the budget so it will not put the City in debt.

Mr. Courtney asserted that this was not how the original Ordinance had been written, and stated again that payment of COLA must be revisited on a year-to-year basis. Ms. Bieler said this was not correct. Mr. Courtney stated that the retirees see a 12.1% gain by the Plan and do not know why this does not mean they should receive COLA. Chair Dew said while he understood this point of view and sympathized with the retirees who were struggling financially, the Board's hands were tied by the Ordinance and State law. He reiterated that Mr. Courtney's letter to the Board constituted dissemination of incorrect information.

Ann Lindie-MacNeil, Secretary/Treasurer of the Retirees' Association, asked if the benefits of individuals who retired prior to a given Ordinance would be affected by that Ordinance. Ms. Bieler said when an individual retires, that person is entitled to the benefit that is in place at the time of retirement; these benefits may not be taken away. She reiterated that COLA is always a contingent benefit, which means its payment is contingent upon certain requirements that must be met. If they are not met, COLA may not be paid.

Ms. Lindie-MacNeil said if smoothing occurred in 1996, this should not affect an individual who retired prior to that date. Mr. Naugle explained that smoothing means there were some years in which the City's contribution was lowered and some years in which they were raised. Ms. Bieler said the formula for calculating COLA changed in 1996; what did not change, however, was the fact that this benefit was contingent for everyone. These contingencies must always be met in order to pay COLA, regardless of any changes to the formula. She referred the retirees to a memo provided the previous year by Cypen & Cypen, which set forth the reasons the contingencies have not been met.

Ms. Lindie-MacNeil asked if this meant COLA was not part of a benefit with which an individual might have retired. Ms. Bieler stated if the COLA benefit had been written in a different manner, it would not have been contingent upon anything else, such as investment returns or net actuarial gains. This was why other municipalities may be able to offer COLA benefits, as these municipalities may not have contingencies attached. Mr. Hole recalled that at one point, the Board's previous actuary had made the recommendation that the Board try to change the wording of the Ordinance; however, they were only able to suggest this to the City Commission.

Gregg Gurdak, retiree, asked if the State statute that required losses to be made up before COLA could be paid was written in 1987, and if this meant individuals who retired before this time were affected by the change. Ms. Bieler said State law preempted all other laws related to the Plan, and applied the contingency to the payment of the benefit. It supersedes the Pension Ordinance.

She continued that the retirees may pursue the possibility of an ad hoc COLA by making a direct request of the City Commission, perhaps pointing out that COLAs are paid by other cities and asking the Commission to consider a similar payment. She pointed out that the City Commission may not be aware of the difficulty faced by individuals who had retired several years ago, and might be able to pass an Ordinance allowing an ad hoc COLA payment.

Mr. Gurdak asked if it would be best for the retirees to take this request before the City Commission as a group. Chair Dew asked if the Board could act as a partner in this effort. Ms. Bieler said the Board could offer their support before the City Commission as well, perhaps recommending a one-time COLA payment or another way to address the COLA issue.

Mr. Naugle asked if it would be possible for the City Commission to grant a benefit to older retirees only. Ms. Bieler said there may be multiple ways to accomplish this goal, and reiterated that the City Commission could make this decision, while the Board could not.

Mr. Courtney said he was not averse to approaching the City Commission, but could not understand how the Ordinance was not sufficient, as it did not refer to a contingency for a benefit. Chair Dew recommended that Mr. Courtney and other retirees reach out to Ms. Bieler, Mr. Cypen, or Association attorney Alan Eichenbaum in order to arrive at a clearer understanding of the issue.

Mr. Courtney explained that he did not want any animosity with the Board, but had been asked to follow up on an issue for an individual retiree, as that individual had not received a timely response to his inquiries from Mr. Cypen. Chair Dew said the issue of timeliness had been addressed by the Board.

Paul DeBold, retiree, said at the recent Retirees' Annual Meeting, the discussion of COLA had been raised by an individual, because there had been a good deal of confusion regarding COLAs in recent times. He felt the primary issue was that the individual wished to know whether or not he was entitled to a COLA. He asked if it was possible to determine which individuals were or were not affected by the sunset. Mr. DeBold said at this meeting, Mr. Cypen had advised that he was working to compile this information, but had not yet provided a response. He felt this may have contributed to the issue as it was presented today.

Chair Dew stated that the individual who had raised the issue was eligible for COLA if one could be paid. Only individuals who had retired after the sunset of COLA, on July 15, 2008, would not be eligible. He reiterated that this information had been disseminated by the Board, but may have been misinterpreted or misunderstood, and recommended that the retirees reach out to their attorney, the Board's attorney, or other resources for a better understanding of the issue.

Ms. Lindie-MacNeil reported that the Retirees' Association now has a website, www.flpfra.org . She invited all present to visit the site, and concluded that she welcomed any suggestions.

CAPTRUST: Quarterly Investment Review Steve Schott

Mr. Schott stated that the capital market review ending March 31, 2013 was a good time period for the market in general and the equity markets in particular. Treasury yields remain at two basis points, with extremely low yields in the short term. For this reason, money was moved into the intermediate side in order to reduce risk. The return on these investments during the first quarter was .26%, with a negative return on the longer-term bonds from which money had been moved.

Mr. Schott continued that fixed income is still necessary as a source of liquidity and as a "shock absorber" in comparison to the rest of the Plan, as it is not a good idea to invest 100% into risk assets. He noted that equity markets are up 10.1% for the quarter. He added that there is a historic trend to sell stocks in May and reinvest later in the year, such as in October.

Markets are presently trading heavily on "forward-looking" earnings. While many companies are reporting better earnings than expected, revenues are actually decreasing, which suggests that these earnings may be coming from cost-cutting maneuvers rather than new sales. Mr. Schott noted that there has been a trend toward risk assets over the past year as investors seek returns by going into equity markets and real estate. The stocks performing well at present are those that have had less consistent earnings and more risk.

He continued that large cap is up nearly 11% for the quarter, while mid cap is up almost 13% and small cap is up 12.4%. International is up by 5.23%, and its five-year number is still negative on average. Mr. Schott noted that internationals are currently cheaper than domestics, which may present taxable opportunities.

The market has continued its upward trend, moving up 3% since March 31. The bond market remains relatively flat. More recent reports show that total equities have outperformed real estate, which has been successful for the Plan, as funds were placed in equities as a proxy while awaiting the availability of real estate. Based upon current valuations and cash flow needs, Mr. Schott stated that CapTrust recommends rebalancing the Plan's real estate allocation back to its target and subtracting some of the funds held in other allocations as a proxy back into cash.

He continued that the total fund as of March 31 was nearly $729 million; at present, the Plan is $738,112,000. The current quality owned by managers is not being rewarded as well as some riskier stocks; active managers are not expected to perform as well as lower-quality managers in a market up nearly 10%. InTech remains in line with its past year, exceeding its benchmark; Rhumbline is also in line with the past year's performance. Sawgrass experienced a strong quarter, while Systematic was the only large cap manager that underperformed. CapTrust is currently in conversations with this firm.

In small cap, Eagle Asset Management was 12.55% against a benchmark of 13.20%, while Lee Munder was 12.67% against 11.63%. Rhumbline remained relatively in line. The international equity composite reflected a challenge in terms of return: while Lazard outperformed its benchmark and is having a very good year, Thornburg experienced a difficult quarter, due in part to being underweight to Japan and due to its stock selection as well. Mr. Schott advised that this firm has been disappointing and needs to improve.

He continued that both Agincourt and Boyd Watterson, which moved to intermediate, outperformed their benchmark and remain both consistent and high-quality. He stated that both real estate funds presented a challenge: both core and Prudential are at 2% against 2.5%, with Prudential, which is riskier, outperforming core real estate, which emphasizes quality and is more conservative. There are signs that the riskier market may be "overheating," with unrealistic valuations, and Mr. Schott advised caution in this market.

Entrust is over its benchmark in the long term, while K2 did not add to its current position. Pimco experienced a disappointing quarter, although its performance over the past year has been strong. Mr. Schott stated that he had met with that firm's co-CIO and was comfortable with them, as they are tactically managed and have a strong long-term track record.

It was asked how much Pimco's position had hurt the Plan in the past quarter. Mr. Schott stated that they are typically a more consistent player, although they experienced a slower quarter. He noted that their long-term numbers remain strong. He advised that the portfolio's structure shows that in a 10% up market, the Plan is not likely to beat its benchmarks, as it is structured for stronger performance in down or sideways markets.

Chair Dew asked when K2 would provide the Plan with the rest of its cash due from this manager. Ms. Wenguer replied that $2 million is expected at the end of the second quarter.

Chair Dew asked if it is the Plan's policy or managers that create difficulty with ranking. He referred to p.20 of the report, noting that there is an average 25-point difference between actual net returns and policy, and asked if the Plan's manager selection was appropriate. Mr. Schott said the Plan is in the 56th percentile, or in the middle, although it was expected that over time this would place the Plan in the top quartile due to consistency. Chair Dew pointed out that while the Plan's ranking is better than it has been in the past, he still felt it was a concern.

Mr. Schott said in the past year, 75 basis points could be attributed to the underperformance of several managers; the decisions of active managers play a predominant part in this ranking. Asset allocation also plays a part, as a more aggressive allocation might have placed the Plan in the top quartile or higher. The allocation of more fixed income is another reason for the lower ranking.

Chair Dew asked if some active managers, such as Systematic, might be reconsidered, as their performance has been inconsistent. While he agreed that there must be risk controls, he emphasized that there are also concerns about performance. Vice Chair Rudominer pointed out that some specific managers, such as Sawgrass, have had periods of underperformance in the past but have rebounded strongly since then, such as in the first quarter.

Vice Chair Rudominer asked for clarification of the term "alpha measure," as reflected on p.23. Mr. Schott said this referred to what managers have or have not added, relative to the benchmark, over the past few years. Vice Chair Rudominer observed that according to this measurement, the Plan has been negative by 9 basis points over the past five years. Mr. Schott confirmed this. Vice Chair Rudominer asked if there was a component of asset allocation in the alpha designation. Mr. Schott said because it considers the total portfolio, the timings of cash flow and rebalancing will also have an effect on this designation. He advised that a negative performance of 9 basis points, net of fees, is basically flat.

Mr. Heinrichs asked if the total fund composite since inception of 7.29% against a benchmark of 7.31%, as shown on p.18, differed from the alpha designation that stated the fund is .04% ahead of the benchmark. Mr. Schott said he would reconfirm these calculations to determine that both are net of fees. He also pointed out that the alpha designation takes other parts of a formula into consideration to calculate the performance of a portfolio.

Mr. Herbst noted that the return of funds since inception was 7.09%, and asked what impact this has on the actuarial assumption of a 7.5% rate of return. Mr. Schott replied that these are independent of one another: 7.5% is a prospective assumption of what will happen, while 7.09% shows what has occurred historically. Mr. Herbst asked if the evaluation of prospective performance was a concern due to this historical performance, which is typically indicative of performance over a 20-year period. Mr. Schott said the comparison of 7.5% and 7.09% was sufficiently close to be of little concern, as these figures are within .5%.

Mr. Herbst explained that his concern was for the long-term integrity of the Plan, in the interest of protecting the City's workforce. He added that he wished to ensure that the Plan is in a sustainable position, with realistically achievable assumptions. Mr. Schott said if the Plan continues to earn in the future what it has earned in the past, the two figures would remain very close.

Mr. Schott continued that Pimco believes rates will increase in the longer term, and noted that they are overweight in emerging markets and underweight in the U.S. market. He added that the comparison of active and indexing has resulted in "a wash" over the long term.

Chair Dew advised that the Plan's 7.3% overall performance during a very difficult decade shows that it is sustainable.

Mr. Hole requested that the Plan's investment policy be included in future reports. Mr. Schott agreed to this.

Infrastructure Education

Mr. Schott recommended that this presentation be postponed until a later meeting in the interest of time, as it includes a full report, including suggestions. He provided copies of this report for the members.

He continued that World Class Capital Group, a real estate company mentioned at a previous meeting, has not returned CapTrust's calls. Atlantic Creek, however, plans to meet with the firm in New York. Chair Dew stated that World Class Capital Group should not be pursued further.

Mr. Schott added that another issue on which he had attempted to follow up for the Board, procedures for transferring assets, has not resulted in communication from Northern Trust thus far. Chair Dew recommended that if there has been no response, CapTrust should contact Northern Trust's Chicago office directly, as the firm has not been responsive on the local level, which is not suitable to the Board.

Mr. Schott concluded that the IPS commission recapture does not appear to have been harmful or helpful to the Plan. Ms. Wenguer said GTS plans to present on this topic at next month's meeting.

Chair Dew concluded that at the next investment workshop, the Board hopes to provide an idea of what an investment manager does for the Plan, including cost of fees and possible returns. He explained that the intent is to show what a given manager does for the Plan to add value, net of fees. This would provide a scorecard that the Board could consult each month and quarter. He thanked Mr. Schott for CapTrust's assistance on this, stating that CapTrust representative Kevin Schmid has been very helpful in compiling the information.

Mr. Naugle left the meeting at 3:30 p.m.

Vice Chair Rudominer asked a question regarding the duration of bonds. Mr. Schott replied that there was longer duration with Agincourt; shortening bonds will shorten both the duration and the index. Boyd Watterson has a slight tactical overweight toward the index on duration, as they expect rates to increase soon. Vice Chair Rudominer recalled that there had been discussion of shortening the duration of bonds, although both these managers have a longer duration than the index. Mr. Schott said these managers have moved to intermediate, and can go into longer duration as long as they are within the guidelines, as they believe rates will not increase in the near term.

COMMUNICATION DIRECTOR'S REPORT:

Mr. Nesbitt stated that he had nothing to report at present. He advised that work on the annual report newsletter is underway.

Chair Dew said he and Mr. Nesbitt planned to make a presentation to the City Commission now that actuarial information is available for inclusion.

ADMINISTRATOR'S REPORT:

Milliman

Ms. Wenguer reported that the installation phase of the software is still underway. Milliman has compiled a proposal of some items requested by the plan that they feel are out of scope. She has continued to negotiate with the company regarding what is or is not included in the scope. She concluded that the company is very easy to work with and has been helpful during the installation phase.

She provided the Board members with the revised list of items, stating that she is requesting $4000 for out of scope items; one item, however, is related to the way that DROP is accounted for and funded. She expressed concern with spending the necessary $3500 on this item, as she hoped the way DROP is taken care of will change, such as to quarterly distributions. Chair Dew advised that negotiations have just begun on this topic and he could not predict how this issue might be decided.

It was determined that it would be more prudent to purchase the item as described, in addition to the other items that were considered out of scope, for a total cost of $7500. Ms. Wenguer clarified that this cost would include the purchase of Items 1, 3, 4, and 7 as included on the list.

Motion made by Mr. Fortunato, seconded by Vice Chair Rudominer, for $7500. In a voice vote, the motion passed unanimously.

Joint & Survivor Annuitants

Ms. Wenguer advised that Foster & Foster has confirmed there were only three individuals affected by the change in policy, and all three are participants in DROP. A process by which these individuals will be notified is underway, along with additional legal review.

Retiree Verification

Ms. Wenguer explained that statements are typically sent to Plan beneficiaries at this time of the year. She recalled that in the past, the primary reason for these statements was to determine whether or not beneficiaries had remarried; however, since remarriage is no longer an issue, she asked the Board if the statements were still necessary.

It was determined by consensus that the mailing was no longer necessary.

Funds Transfer Procedure

Ms. Wenguer recalled that there had been discussion at previous meetings regarding how funds would be transferred in the future in order to avoid any further issues such as the recent problem with Eagle Asset

Management. She provided a draft of this procedure for the members which had been compiled with the assistance of Kevin Schmid of CapTrust.

She added that a $12 million transfer was recently confirmed multiple times according to this procedure.

Chair Dew requested that Ms. Wenguer work with Mr. Schott in addressing the Plan's issue with Northern Trust, as this has contributed to the problem with funds transfers.

Ms. Wenguer advised that the new procedure requests that account numbers and wire instructions be provided for greater clarity.

Chair Dew referred to a letter from Northern Trust, requesting clarification of the procedure to be followed. He requested that procedure "B," as listed in the letter, be followed due to recent concerns regarding Northern Trust. Vice Chair Rudominer suggested that the document's references to CapTrust and Northern Trust instead be changed to "consultant" and "custodian" respectively.

Disability Application

Ms. Wenguer advised that a disability application would appear on the Board's June meeting agenda, and that Dr. Cornel Lupu wished to send the applicant to a specialist. Because it is not typical procedure to send an applicant to an additional doctor after the applicant has been seen by Dr. Lupu, Ms. Wenguer explained that she had brought this decision before the Board.

Ms. Bieler advised that Dr. Lupu's recommendation that the applicant see a specialist should be followed. Ms. Wenguer said the appointment had already been made and was pending approval by the Board.

Motion made by Vice Chair Rudominer, seconded by Mr. Cameron, to accept the additional doctor that Dr. Lupu was requesting. In a voice vote, the motion passed unanimously.

Ms. Wenguer reported that a box where documents were placed in advance of shredding may have been broken into before shredding could occur. These documents include benefit and other secure information. The Police were called and are investigating the issue.

Chair Dew stated that an email was sent to active members to advise them of the possible breach and inform them that protective measures are in place. He has also requested that a shredder be purchased so Staff may shred documents instead of contracting with an outside company for this service. A lock will also be placed on the door and the cleaning crew has been asked to schedule its work during the day when Staff is present. All security alarms will be responded to by Police in the future as well.

Ms. Wenguer clarified that no retirees' information was believed to be compromised, and only a very few active members may have been affected by the breach. She noted that the new software system does not include personal information, such as full Social Security numbers.

PENDING ITEMS:
New Business

Ms. Bieler stated that Mr. Cypen had spoken to representatives of Eagle Asset Management to arrive at a settlement agreement. She provided copies of a letter from Eagle, which rescinded any requirement for a settlement agreement or a release. The Plan's fees from the past two quarters have been credited. After March 31, 2013, the credit balance is roughly $61,000.

Old Business

Mr. Hole requested an update on the Employee Handbook. Chair Dew replied that this was still in process.

Mr. Hole asked for an update on the Bear Stearns issue (agenda p.37). Ms. Bieler said there has been no decision thus far.

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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