CITY COMMISSION JOINT WORKSHOP 12:10 P.M. June 29, 2012

Present:	Mayor John P. "Jack" Seiler Commissioners Bruce G. Roberts, Charlotte E. Rodstrom, Bobby B. DuBose and Romney Rogers	
Also Present:	City Manager	Lee R. Feldman
	City Auditor	John Herbst
	City Clerk	Jonda K. Joseph
	City Attorney	Harry A. Stewart

Also Present: <u>General Employees Retirement System Board of Trustees, Members</u>

John "Le" Bucci, Chair
Mark Darmanin, Vice Chair
Greg Slagle
Julie K. Cameron
Dave Desmond, Pension Administrator

Absent: Darlene Pfeiffer
Sean F. Jones
Paul Tanner

<u>Police And Firefighters Retirement System Board of Trustees, Members</u>

Michael Dew, Chair
Ken Rudominer, Vice Chair
Scott Bayne
Jeffrey Cameron
Dennis Hole
Steve Cypen, Cypen & Cypen, Board Attorney
Lynn Wenguer, Pension Administrator

Absent: Rich Fortunato
Jim Naugle

1. Mayor Seiler called the meeting to order. Introductions were made.

2. Overview of Pension Plans

A. General Employees Retirement System – Chairman Bucci

Chairman Bucci read a prepared statement that is attached to these minutes. Chairman Bucci confirmed for Mayor Seiler that he did not consult with his fellow trustees concerning this prepared statement. Chairman Bucci asked the members to comment on anything that they may disagree with in his statement.

Ms. Pfeiffer indicated that the board has been without a seventh member since January. Mayor Seiler advised that an appointment will be made in July. There was someone that he had contemplated but there was some back and forth with respect to whether the individual's

CITY COMMISSION JOINT WORKSHOP WITH GENERAL EMPLOYEES RETIREMENT SYSTEM BOARD OF TRUSTEES AND POLICE AND FIREFIGHTERS RETIREMENT SYSTEM BOARD OF TRUSTEES

City Hall
8th Floor Conference Room
100 North Andrews Avenue
Fort Lauderdale, Florida

Friday, June 29, 2012
12 noon – 2 p.m.

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1. Call to Order by Mayor Seiler and introduction of Board Members

2. Overview of Pension Plans

   A. General Employees Retirement System - Chairperson Bucci
      a. Basic Benefit Structure
      b. Actuarial Study
      c. Contribution Rates

   B. Police Fire Pension Plan - Chairperson Dew
      a. Basic Benefit Structure
      b. Actuarial Study/Experience Study
      c. Contribution Rates
      d. Use of Chapter 175 and Chapter 185 funds

   C. Defined Contribution Plans -Assistant City Manager Hawthorne/Assistant City Attorney Dunckel
      a. Contribution Rates

3. Cost saving strategies – City Manager Feldman

   A. Advance Funding of Police Fire Pension Annual Contribution
   B. Pension Obligation Bonds
   C. Other

4. Discussion

5. Adjournment

If any person decides to appeal any decision made with respect to any matter considered at this public meeting or hearing, he/she will need to ensure that a verbatim record of the proceedings is made, which record includes the testimony and evidence upon which the appeal is to be based.

Auxiliary Services: If you desire auxiliary services to assist in viewing or hearing the meeting or reading the agenda and minutes for the meeting, please contact the City Clerk's Office at 954-828-5002 and arrangements will be made to provide these services for you.

Posted at City Hall Jun 25, 2012

employer would agree to such a commitment. He asked the board to submit names of people they would like to be considered.

In response to Mayor Seiler, Chairman Bucci presumed that his recommendation about allowing appointments of retired employees would be for the employee membership category. They would stand an election.

B. Police and Fire Pension Plan – Chairman Dew

Chairman Dew read a prepared statement that is attached to these minutes. He reviewed slides on the plan. A copy of the slides is attached to these minutes. He introduced Joe Bogdahn, president of The Bogdahn Group and a member of the Florida Public Pension Trustee Association, to discuss the topic of asset allocation, risk and reward. Mr. Bogdahn pointed out that the S & P 500 has averaged a return of over twenty percent over the past three years, even though the media has painted doom and gloom. He highlighted the country's economic history from the credit crisis in 1907. He believed the country is on the upturn. He stressed the importance of buying when the price is low. Lowering the earnings assumption percentage will increase the City's funding costs today, which is a time when cities are not flush with cash. This is not the time to do this; it is the most expensive time. The goal in pension plan portfolios is less volatility. There are pension plans in other parts of the country that are in trouble because contributions have not been made for years. He emphasized that history repeats itself. A copy of slides used during Mr. Bogdahn's presentation is attached to these minutes. He contended that the portfolios are being managed as they are supposed to be. Although it is expensive now, it will get less costly.

Regarding the survivor – remarriage provision, Chairman Dew indicated for any member who retired prior to 2000, survivors are not allowed to re-marry (and continue to receive pension benefits). This has the potential to impact 115 surviving spouses. This is a group whose size will shrink. There is absolutely no cost to change this provision. The City Auditor contended there must be an associated cost because individuals could choose to re-marry and forfeit the pension. Chairman Dew confirmed that the actuary has factored-in an assumption that no one re-marries. The City Auditor pointed out the City foregoes the opportunity for savings, which is in effect still a cost.

Chairman Dew addressed the length of trustee term and indicated the request is for a four-year term. This will facilitate education and securing trustees that are genuinely committed to the position.

Vice Mayor Rodstrom noted that the City's contribution has increased by over $2 million from $30 million in 2011 to $32.2 million in 2012. Chairman Dew indicated that the mortality table changed and the return on investment assumption was reduced from 7.75 to 7.5 percent for $1.3 million. The remainder is a result of investment return. He confirmed that lowering the return assumption percentage means the City has to make a larger contribution. The City Manager indicated that the percentage is a policy decision of the Board of Trustees. Vice Mayor Rodstrom noted that, if the policies continue on this trend, the Commission must be sure to budget funds accordingly as it ultimately makes the policy decision for budgeting pension contributions. Chairman Dew indicated that this matter was discussed with the Finance Director and Assistant City Manager and well debated. The City Auditor advised that, if the actuarial assumptions are reduced, it does not cost more. Rather the City must fund more upfront. The cost over the long-term has to do with actual returns achieved. Vice Mayor Rodstrom was concerned with the short-term funding aspect.

Chairman Dew confirmed for Mayor Seiler the history of the survivor – remarriage provision that was enacted by the legislature in 1999 requiring optional retirement benefits and subsequently adopted by the City.

A general discussion ensued about cycle length and long-term view. Chairman Dew commented on the slow methodical changes being made now to their conservative portfolio to be ready realize more return. More money management firms have been hired.

Regarding the survivor – remarriage provision change request, Mayor Seiler requested the City Auditor's opinion as to cost. The City Auditor indicated that the cost may be diminimus with it being factored in their funding calculation, but there must be some. The City would be foregoing an experience gain that would reduce future contributions.

Chairman Dew confirmed for Mayor Seiler that the statute provides for trustee terms to be either two or four years. Mayor Seiler agreed with four years, recognizing the certification period of time. He asked that this change be presented to the Commission for their consideration.

The City Manager advised that an ordinance relating to mortality table adjustments will also be presented to the Commission for their consideration. Chairman Dew noted that it needs to be updated.

Mayor Seiler noted that the actuary's letter on the survivor - remarriage topic is from 2002. Commissioner Roberts agreed with the requested change philosophically, but needed to be able to review the associated numbers. Commissioner Rogers mentioned that there are actual and actuarial costs. Vice Mayor Rodstrom agreed. Chairman Dew agreed to meet with the City Auditor.

Vice Mayor Rodstrom pointed out that, as the Board of Trustees moves to a riskier portfolio, the City's costs will increase. Chairman Dew indicated that their goal is to have higher gains and reduce the City's cost. Vice Mayor Rodstrom thought this goal is admirable. Chairman Dew noted that the Board wants to be in a position to reap the benefits of the market when it starts to change. He confirmed for Vice Mayor Rodstrom that the Board makes comparisons with other asset allocation managers. Vice Mayor Rodstrom asked about the plan of action if the market does not turn around as quickly as anticipated while riskier investments are being made. Chairman Dew advised that the Board will stay within the policy. The plan is to be in a neutral position and be prepared to actively manage funds when they are available, but not lose money. Vice Mayor Rodstrom did not question that this is the Board's responsibility and decision. However, she must view this from a policy setter's standpoint in terms of whether the budget is adequately funded as she has a fiduciary responsibility to ensure there are funds for retiring employees. Commissioner DuBose asked, over the ten-year period of time, what is the indicator that would cause the Board to come to the conclusion that what they anticipated would happen in the market as presented today was not happening. Chairman Dew felt this is a question for their performance manager. Mr. Bogdahn elaborated upon how investment managers make choices on specific investments and offset risk, counter-balancing. The City Auditor advised that the last three to four years have upset the correlation of asset classes. The correlations of the past have changed substantially. For example, real estate went down with equities which is typically not the case. The question is whether the last three or four years is being considered an anomaly. Mr. Bogdahn contended that it is not so much that cycles are not behaving as they have, but rather that time frames are compressed because of all of the available information. He agreed with Vice Mayor Rodstrom that this may be considered the new normal.

Vice Mayor Rodstrom asked what percentage of the Board's portfolio was in the stock market before the 2008 nosedive. Chairman Dew explained that the Board started moving toward a more conservative approach in 2008. He noted that it takes about six months in order for the Board of Trustees to take some action and then see the results. Vice Mayor Rodstrom pointed out that the Board hires professionals to forecast the market, and asked who was the first to suggest taking action. Chairman Dew indicated that the asset consultant was replaced in January of 2011 after some concerns. In response to Commissioner Roberts, Chairman Dew elaborated upon the transition when the asset consultant was changed along with several money managers. Mayor Seiler was interested in knowing the results since the plan has become closed. Chairman Bucci indicated that they follow the investment policy through up and down markets. He cautioned against trying to time the market. They have a fairly conservative portfolio. Their money managers are evaluated on a regular basis. Their investment manager reports to the Board every three months. The investment manager tracks the batting average Out of the last twenty-one quarters observed, the plan beat the index seventeen times. The money managers are evaluated every month. They did not panic in 2008. The market came back with a roar. Commissioner Rogers asked if their investment policy was changed after the plan became closed. Chairman Bucci advised yes. He, along with Member Darlene Pfeiffer, explained that more asset classes were added that are more on the fixed side. The City Auditor referred to a Wall Street Journal article speaking of an assumed rate of return of 8 percent over the last ten years in a 60/40 portfolio. Some of the return was generated from bonds and some from stocks. He agreed that there is probably a zero return on bonds in the next decade which implies one needs to achieve fourteen percent in the equity portion in order to achieve an average rate of 8 percent. Mr. Bogdahn felt that it should work based on about 15 percent in stocks. Also, that is when the fixed income allocation should be reduced because the 60/40 premise is based on that historic average. The City Auditor noted that then volatility is increased, that is, depending on equities for 8 percent. Equities are a much more volatile asset class. Mr. Bogdahn suggested re-balancing and adding commercial real estate which should generate about 3 percent. It will minimize volatility of the stocks. The portfolio will have incrementally more volatility but not as much as it would if stocks were simply added. The City Auditor pointed out that bonds have historically generated 6 percent, whereas real estate is expected to generate 3 percent. Mr. Bogdahn clarified that in addition to appreciation of 3 percent, it is income-producing at about 6 percent. Overall, the target has been reduced to 8 percent. Member Rudominer commented on the care, education and commitment of each trustee and input sought before investment decisions are made. Mr. Bogdahn suggested an annual workshop with the Commission to review investments made during the year.

C. Defined Contribution Plans

Concerning the contribution rate and in response to Mayor Seiler, the City Manager indicated that a menu of recommendations will be ready for the Commission's consideration. He noted that this system has been in place since 2003. Vice Mayor Rodstrom pointed out that, if this system continues, it will become the City's responsibility this year. She and Mayor Seiler requested a recommendation from the City Manager and City Auditor be presented as soon as possible. Vice Mayor Rodstrom suggested there be options set out in the recommendation document.

3. Cost Saving Strategies

The City Manager noted there have been discussions about pension obligation bonds in the current year budget. Staff has been waiting on preparation of actuarial reports that are now completed. He is now ready to make a presentation to the Commission on this strategy. There is a gap in the budget and this is one of the methods proposed to remedy it. Vice Mayor Rodstrom expressed opposition. The City Manager indicated that, if the market out-performs the actuarial rate of return, it would be a homerun. The question is when is it a bad decision in terms of risk; viewing it as borrowing at roughly 3.7 percent interest. As long as the return over the term of twenty years is in excess of 3.7 percent, the City would be in the black. The pension boards are estimating returns in the 7 percent range, which is in excess of 3.7 percent. As such, he believes it is a good investment. Vice Mayor Rodstrom pointed out that the 3.7 percent is an actual fixed amount because it is a loan, whereas the 7 percent reference is a fictitious, actuarial number. In response to her question, the City Manager advised that next year's budget includes $5.6 million from pension obligation bonds. In response to Mayor Seiler, the City Auditor advised that this was examined last year and he was cautiously supportive of it. The City Manager's comment is accurate, that is, if the rate of interest being paid on the bonds and all interest costs are achieved, it is neutral. This is why timing is important. This is the best estimate as to what is going to happen in the next twenty years. Vice Mayor Rodstrom did not think pension obligation bonds would be considered at all if there was no budget shortfall. The City Manager advised that, regardless of whether there was a shortfall, he would still be making this recommendation because it would free up other resources.

In response to Commissioner DuBose, the City Auditor elaborated upon the potential risk. He explained that there are two primary risks. One is that the fixed rate on the bonds is not achieved. The unfunded liability used to be a footnote disclosure in the financial statement. When bonds are issued, they become a real liability on the balance sheet. The argument has been not to book the liability because it impacts the City's financial position. GASB (Governmental Accounting Standards Board) has just ratified their proposal requiring it to be shown. Lastly, when the City is at a fully funded level, it will be difficult for the Commission to refuse cost of living adjustment (COLA) requests which would add to the unfunded liability; it is a moral hazard so to speak. Commissioner Rogers believed that the ordinance has a profit qualifier associated with granting a COLA; however, the City Auditor indicated it is for any given year and is not cumulative. Commissioner Roberts indicated it is not really a COLA, but rather a one-time payment based on market return. The City Auditor noted that, in 2000, when the plans were at a 105 percent level, there were benefit enhancements made.

Mayor Seiler felt now is the best window for pension obligation bonds. But, he is concerned about to what extent. It is an increased debt burden. It could impact future financing flexibility and credit ratings for the City. The City Auditor advised that GASB is now prohibiting use of the assumed rate of return on the pension plan to discount back the actuarial unfunded liability. It will be the rate at which the City is borrowing. In other words, the unfunded liability amount will be larger because the interest rate that will be used will be less. If the unfunded liability is paid off with the pension obligation bonds, there is that liability on the books; however the unfunded liability no longer has to be discounted back at the lower percentage. So, in effect, there is a smaller number on the balance sheet than would be the case without the bonds. It actually improves the City's financial position. Ed Stull, of First Southwest, City's Financial Advisor, agreed with the City Auditor. Once the GASB standards are fully implemented in 2015, it will be a consideration. Mayor Seiler asked about the capacity aspect. Mr. Stull did not think the City's financial rating will change. The City Manager indicated that the rating agencies are already looking at the fact that the City is paying interest on the unfunded liability. If anything, the City is creating more capacity by paying it at a lower rate. Commissioner Rogers asked how the decision was reached on the amount of unfunded liability to pay off with bonds. The City Manager indicated he decided upon the 75 percent level. With the GASB ruling, the City may wish to look at a higher amount which would increase the City's savings and make the unfunded liability number smaller on the City's books, however, there is the moral hazard or risk to consider. He would like to explore adding covenants to these bonds prohibiting the addition of lots of benefits while the bonds are outstanding.

In response to Vice Mayor Rodstrom, Mr. Stull indicated that bank loans are part of the comprehensive annual financial report (CAFR), so they are a consideration with respect to the rating agencies. The City Manager commented that it was included in the City's presentation to the rating agencies. He went on to comment that the $30 million could be borrowed on a longer term basis and still achieve a savings, although not as much. It would then not be necessary to go through this every year. When interest rates climb again, the City will already be caught up.

Commissioners Roberts and Rogers were comfortable with the concept of pension obligation bonds. Mayor Seiler wanted to see a mix; a balance on the amount and the timing needs to be struck. The City Manager indicated that the amortization for the existing unfunded liability would be matched month for month. In response to Commissioner Rogers, Mr. Stull indicated the period of time for the police and fire is to 2030 and for the general employees to 2041, based on amortization of the unfunded liability. As a closed plan, the City Auditor questioned whether there should be consideration toward making the period of time shorter. Bob Oelke, member, Audit Advisory Board, indicated since the GERS plan was closed, the actuaries have requested that the amortization schedule be shifted downward. Under this amortization schedule, the last employee in the plan will have thirty years of service and be seventy years old by the time the bonds are paid off. He urged that this point be discussed with the Board of Trustees.

Vice Mayor Rodstrom indicated that she is not comfortable with pension obligation bonds. Commissioner DuBose felt more information is needed as there are many variables. He wanted to hear from the City Attorney. Mayor Seiler wanted feedback from both boards on the timing and the overall concept. He requested that this be on their July agendas. He also wanted an opinion from the City Attorney on the suggested policies. He asked for the City Auditor to be on top of this matter. As to the contribution rate for the Defined Contribution Plan, this item should come back to the Commission. He felt there is agreement that it is too high.

John Stuber indicated that he retired in 1987. He was concerned about the survivor – remarriage provision. Mayor Seiler indicated that more information is needed on this item. He emphasized that he would not favor anything that will cost the taxpayers anything. When this item is brought back to the Commission, he will welcome comments.

There being no other matters to come before the City Commission, the meeting was adjourned at 2:04 p.m.

6-29-12
JOINT WORKSHOP

Good afternoon, my name is John LeRoy Bucci and I am Chairman of the City of Fort Lauderdale General Employees' Retirement System Board of Trustees. I've served as an employee elected Trustee for over 10 years of which 4 ½ of those years have been as Chairman and the previous 3 as Vice Chairman.

I'd like to extend a THANK YOU to the Mayor, each Commissioner, and the City Manager for inviting me & the GERS Board to participate in this workshop.

One Disclaimer to announce - What I say here today may or may not be the opinion or position of GERS' Board of Trustees. I speak as their chosen representative but do not represent myself to speak for each individual Trustee. My remarks were drafted by me and have not been shared with the other Trustees.

Our Plan has seven **(7) Trustees** – **4 elected** by member employees. **3 appointed** by the Mayor and approved by the City Commission. The **Finance Director** sits as a **non-voting** member.

We currently have about $360 million in assets and each Trustee is a Fiduciary – We are held to a highest legal and ethical standard that requires us to act at all times for the sole benefit and interest of those who benefit from the Trust. Each Trustees' loyalties lie with those who derive a benefit or promised benefit from the assets of the Trust.

I'd like to introduce the other Trustees in attendance and our staff:

- **Mark Darmanin** – Vice Chair – An Employee Elected Trustee
- Sean Jones – Secretary – A Mayoral and City Commission Appointed Trustee
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- Darlene Pfieffer – An Employee Elected Trustee
- Julie Cameron – A Mayoral and City Commission Appointed Trustee
- **Greg Slagle** – An Employee Elected Trustee
- David Desmond – Pension Administrator
- Jane Dyar – Pension Recording Secretary
- Jackie Thomas – Part Time Receptionist

Handle the day to day operations of the Pension Office

I'd like to take a moment to recognize the GERS staff for their efforts in processing the 134 Bonus Retirement Incentive participants. There were well over 400 eligible candidates and almost all of them inquired about the specifics of the incentive program. Processing the 134 that took advantage of the Incentive Program was a monumental task and I'm happy to report, it went smoothly. Not only did they fulfill the duties of processing the GERS portion but they also worked closely with the Board's Attorney Bob Dunckel, the City's Human Resources Department, Risk Management, and Finance Department.

They essentially made the GERS Pension Office a one stop retirement shop by having the Incentive participants complete both the City required forms as well as the Pension Office's forms in one place.

I'd also like to complement the City Commission and City Manager for providing a 5 year funding schedule for the Bonus Retirement Incentive Program. Previous Plan enhancements were funded over a 30 year period. Just to give you an idea of that impact:

- Benefit Changes in 2001 and 2003 have a remaining balance of $36,741,232 or this year represent a required Contribution of $3,529,279 (Page B-8).
- The Retirement Incentive Program contribution this coming fiscal year is $4,207,120 (Page B-8).

27%

Together these Benefit changes amount to almost $7 ¾ million of the $28 million the City is scheduled to contribute for fiscal year 2012/2013.

GERS is a Defined Benefit Plan that provides a service incurred and non service incurred death benefit, a service incurred and non service incurred disability benefit, and a retirement benefit. GERS Employees contribute 6% of their gross salary. There are some variations to computing a monthly retirement benefit but basically a retirement benefit is calculated by multiplying 3% or 2 ½% times the years of service, then multiplying that product times the average monthly salary.

Since the latter part of 2007, new employees have been put into a Defined Contribution Plan. Most newer City employees receive a 9% contribution from the City into a self directed 401A Plan. It does not have a disability or death benefit except for the value of the account at the time of death or disability.

Each year GERS' Plan Actuary compiles a report detailing the Plan's known & perceived liabilities and compares that with the Plan's assets at a specific point in time. In GERS' case that is each September 30th. Keep in mind that this is just a snapshot of assets and liabilities at a particular point in time and by the time the Actuarial Study is competed which is about 4-5 months later, many things have already changed.

This study determines among other things, the Plan Sponsor's contribution amount for the next fiscal year. It is based on known data as well as many assumptions. Some of the assumptions include (section D 4-9):

- Investment Return – Currently 7 ¾% - Just an example of an adjustment to this assumption:

- Each ¼% reduction in this Assumed Rate of Return – dropping it from 7 ¾ to 7 ½% would result in:
  - A $1.4 million increase in the City's contribution
  - Raise the Unfunded Liability by $14.2 million.
  - Reduce the Funding Ratio from 66.3% to 64.6%

Other Assumptions used to compute the Plan Sponsors contribution amount:

- Inflation Rate – Currently we use 3 ¼%
- Future Salary Increases – Currently 3 ¼%
- Mortality Rates
- Separation Rates
- Number of Disabilities
- Rates of Retirement – # expected to retire within next year
- Group Size
- Marital Status

GERS is in the process of contracting for an Experience Study to see if our assumptions are in line. This is on our July 12, 2012 agenda.

It is also important to know that we use a five year smoothing method. This feature spreads any given annual gain or loss over a five year period.

Since we are a closed Plan our membership continues to shrink. Therefore, our percentage of payroll costs are expected to dramatically increase. This is nothing new nor nothing unexpected. Very Importantly – the percentage of payroll is calculated on employees in the Plan, not on total General Employee head count. GERS has gone from 1,437 Active Members when the Plan was closed in to 2007 to 1,035 active members (Page C-18).

Also, because our Plan was closed in 2007 and our membership is shrinking, there is also a diminishing pool of candidates eligible to sit as an Employee Elected Trustee. I suggest to you today that the Ordinance governing GERS be amended to allow former City Employees to stand for election to the Board of Trustees. The Plan Ordinance only allows current member employees to stand for election.

Managing a portfolio or Administering a Pension Ordinance is quite different than managing money or people. It is a completely different skill set and not everyone has the background, education, knowledge, or initiative to succeed in this arena. It takes dedication and discipline to acquire and stay abreast of Legislative Activities, the Financial Markets, World Events, and the successes and failures of others in the Industry.

The Florida Public Pension Trustees Association has an excellent structured Educational and Certification Program. I'm pleased to report that all Employee Elected Trustees have completed this rigorous educational program and achieved Certification. The Mayoral Appointees are close to achieving it.

You may find comfort in knowing that I don't touch the money, don't pick the stocks, bonds, or investments - We are not market timers, we're not short term investors. We generally have a 30 year investment time horizon and GERS' liabilities will most likely stretch well beyond the year 2050. We have professionals that help us manage the financial portfolio.

Some of the Professionals that GERS uses in managing and administering the Plan are:

- **Money Managers**: There is a specialized Money Manager for each asset class and style of investment. Primarily we look for

Alpha – that is the value active management adds over a passive investment in an Indexed Fund. We currently have a well diversified portfolio consisting of about 13 money managers.

- **Plan Custodian**: GERS uses the Bank of New York – Custodian is a qualified bank that holds the cash and securities of the fund and performs a wide array of financial and clerical services for the fund.
- **Board Attorney**: In our case it has been the very capable Bob Dunckel for the last 18 or so years
- **Plan Actuary**: An expert who uses demographics and economic statistics to determine how much needs to be contributed each year for the plan to provide promised benefits. Steve Palmquist of Gabriel Roeder Smith & Company.
- **Plan Auditor**: Does a yearly check up on our reported numbers – Marcum, LLC
- **Investment Consultant**: He reports on our asset allocation, diversification and how each of our fund managers performed. Ranks them according to their peers and offers advice about asset reallocation. In our case we use Dahab Associates

  - Our Investment Consultant recently reported that for the quarter ending March 31, 2012, our portfolio returned 9.9% which ranked in the top 6% of the public fund universe.
  - For the first two quarters of fiscal year 2011/2012 the portfolio returned 18.2% which ranked in the top 5% of the public fund universe.
  - And for the previous 3 year period ending March 31, 2012, the portfolio's average annual return was **18.8%** which ranked in the top 9% of the public fund universe (Page 7).
  - If the Actuarial Report were based on March 31st figures, it would paint an entirely different picture.

GERS plans to maintain a neutral position on the Pension Obligation Bonds. We would welcome the influx of funds but also realize that the City has never missed making their required contribution and has always turned over the employees contributions on schedule.

As a suggestion of the things that I'd like to see addressed:

- Make-up of the Board - since it is a closed plan with diminishing pool of candidates I'd like to see the Ordinance amended to allow retired employees to sit as Trustees on the Board.
- Structured mechanism for GERS' Board to grant a COLA.
- I ask that PERC Exempt employees be made whole – With no salary increase since 2008 they have not only lost earnings but lost significant real dollar amounts on their pensions when compared to their union represented counterparts. It is simply not fair and can be easily corrected.
- We have Affiliated Agency employees who were allowed admission into the Plan in 2003. They were led to believe that they would be permitted to receive credit for their past service at some future point in time. That has never happened. I'd like to see this matter resolved at some point in the not too distant future.
- Like to see the remarriage penalty of our Plan removed. It encourages our aged beneficiaries to forestall marriage and cohabitate.
- Last but not least important – Right now you are in an employer's market – This tide will turn and after it does - before you can do anything about it this City will experience a phenomenon known as dysfunctional turnover and an inability to attract quality personnel. I therefore ask that the City consider re-opening the Defined Benefit Plan at some point in the not too distant future, perhaps on a modified basis.

I'd like to extend an invitation to each of you to attend any of our monthly meetings – usually its the first Thursday of each month – July's meeting happens to be on the 12th because of the Holiday.

I am accessible either by cellular phone or through our Pension Office. If you have any questions, comments, or concerns, please don't hesitate to contact me or David Desmond.

We maintain a website full of information about our Plan:

- **WWW.CityPension.com** (Summary Plan Description, Agenda, Minutes, Snapshot of our Portfolio, and Download Forms)

If you would like a text version of my remarks, please let me know.

Thank you for your attention and I'll be available for questions.

Chairman Dew (Statement) 6-29-12 JOINT WORKSHOP 5

Good Afternoon I thank Mayor Seiler and the Commissioners for hosting this workshop and the inviting the Police and Fire Board of Trustees. We appreciate the opportunity to add our perspective to this workshop.

The future of retirement is a subject that continues to provoke impassioned discussion and debate in city halls, and living rooms across this country. More and more, defined benefit public pension plans, such as ours, are in the crosshairs.

If you only read the news accounts and editorials, you would conclude that all our defined benefit pensions are costly and unsustainable.

As the Chairman of the Police and Firefighters' Retirement Board, I find that broad stroke of misrepresentation inaccurate and harmful to a thoughtful debate.

The truth is this police and firefighters' pension plan is sustainable for the long term, despite the recent spike in the city's contribution. I believe the strength and endurance of our city's pension plan serves as powerful counterweights to the relentless and misleading argument that public pensions are unsustainable.

Like all investors, our fund must confront the extraordinary market volatility and a tepid recovery from the recession. However, we remain strong and more than ready to meet our current and future obligations to the city and retirees.

Our conservative actuarial method continues to ensure that we will always be well funded.

Importantly, we just lowered our assumed rate of return from 7.75% to 7.5 % and updated the actuarial mortally table effective January 2012. We invited a member of the Florida Public Pension Trustee Association Mr. Joe Bogdahn, the president of the Bogdahn Group, to make a very short presentation to you on Asset Allocation, Risk and Reward.

I am proud of our strong ethics, transparency and accountability which is crucial to the strength of any organization. Over the past few years, substantive changes to our corporate governance and management have strengthened the plan putting more eyes and more scrutiny on the investment transactions and decisions we make. These key reforms and others have transformed our plan into a better, more accountable organization – one up to the task of protecting and sustaining the retirement benefits.

As we all know Much of what we're confronting today is the continued fallout from the market losses of 2008 – 2009 and 2011. The fact is that no pension reforms enacted today is ~~are~~ going to undo what happened during those years. Working together, we can take steps to deal with challenges and continue retirement security

The Trustees are committed to working with the city commission and city management to reduce the plan's costs, promote retirement security for our members, and attain fiscal soundness for our retirement system.

After Mr. Bogdahn's presentation, I would like to present an over view of our plan, ~~the Actuarial Equivalency Ordinance Revision and~~ then very briefly raise two additional issues: surviving spouse remarriage for members who retired prior to January 2000 and the term of Office for the trustees.

We look forward to today's discussions and many more in the future.

Thank you for your continuous support and cooperative relationship.

Mr. Bogdahn.

6-29-12
JOINT WORKSHOP
PRESENTED BY
CHAIRMAN DEW

Venice of America

City of Fort Lauderdale
Police and Firefighters' Retirement System

June 2012

Public Safety Pensions

Fort Lauderdale
Police and Firefighters'
Retirement Plan

(1)

Public Pension Coordinating Council

Recognition Award for Funding 2011

Presented to

City of Fort Lauderdale Police & Firefighters' Retirement System

In recognition of meeting professional standards for
plan funding as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle

Alan H. Winkle
Program Administrator

The plan has received this recognition for two consecutive years.

Key Elements

- ☐ Established by City in 1973
- ☐ Covers approximately 502 police officers and 382 firefighters
- ☐ Provides benefits to 970 retirees and beneficiaries
- ☐ Assets of $525.8 million (market value as of 3-30-2012)

(2)

Administering the Plan

Administered by 7-member board of trustees:

- ☐ 2 elected by police officers
- ☐ 2 elected by firefighters
- ☐ 2 appointed by mayor
- ☐ 1 consensus trustee approved by City Commission

(3)

Current Trustees

1. Lieutenant Michael Dew (police), Chairman
2. Officer Richard Fortunato (police), Secretary
3. Battalion Chief Ken Rudominer (fire), Vice Chairman
4. Firefighter J. Scott Bayne (fire)
5. Jeff Cameron (appointed by Mayor)
6. Jim Naugle (appointed by Mayor)
7. Dennis Hole (consensus trustee approved by City Commission)

Finance Director (city) ex-officio member

Funding the Plan

Funding comes from 4 sources

- ☐ Employee Contribution: 8.5% of pay
  Those hired before 4-18-10 pay 8.25%
- ☐ State Contribution: tax on casualty and property insurance premiums
- ☐ City Contribution: determined by plan actuary to maintain benefits
- ☐ Investment Income: return on assets invested in securities

City's Contribution

- 41.7% of $77.2 million total payroll
- Pension Contribution $32.2 million*
- Employee Contribution $5.4 million
- Net Investment Income $375,629
- Fund Market Value Lost (.5%)**

*City potentially saved over $4 million by not having to pay pension contributions on the salaries of officers participating in the DROP program

**Fund 4th quarter returns have been negative only five times during the past 21 years due to market downturn

Pension Reform in 2010

- ✓ Increase current 7% employee contribution to 8.25% and new hire contribution to 8.5%
- ✓ Extend DROP period to 8 years with later entry into DROP and option to leave funds after termination
- ✓ Reduce interest on DROP accounts from 7.75% to between 3% to 6% simple interest based on plan earnings for DROP years 6-8

(7)

Pension Reform Savings

Increase Employee Contribution – increases plan assets approximately $1 million per year without increasing pension liabilities

Extend DROP to 8 years – decreases hiring costs and after 22 years officers can work up to 8 years at regular salary with no city pension contribution during DROP period*

Later entry into DROP – reduces benefit payouts and maximum service increases from 27 to 31.96 years**

Lower interest on DROP – benefits plan when rate of return on plan assets exceeds 6%

Leave funds after DROP – reduces plan investment costs

* Potential DROP pension savings over 8 years to city could be $32 million

** *2007-2011 Experience Study shows fewer retirements than expected, resulting in* an annual gain of $774,934.

Retirement Formula

- **YEARS**:

  20 years service or 10 years and age 55

- **BENEFIT ACCRUAL**:

  3.38% credited toward each year of work

- **FINAL SALARY**:

  average of 2 highest years of pensionable earnings

(9)

Sample Retirement

- 20 years of service
- Benefit Accrual 3.38%
- Final 2 years pensionable earnings

20 X .0338 X pensionable earnings = $41,070 per year or $3,422 per month*

* Average retiree benefit per the "2012 Actuarial Report"

Benefit Options

Retirees can select a retirement payment in order to provide benefits to their spouses, children or designated beneficiaries upon the death of the retired public safety officer

Death of an Active Officer

- Beneficiary is entitled to receive survivorship benefits whether the public safety officer's death is service-related or non-service related.

(12)

Deferred Retirement Option Plan (DROP)

- After 22 years* of service
- Public safety officers retire and monthly benefit is frozen
- City does not make pension contribution during DROP period
- Monthly pension benefit placed in tax-deferred account

*As part of pension reform officers hired after 4/18/2010; 20 years for officers hired before

During DROP Period

- If disabled, not eligible for disability pension
- At end of DROP – terminate employment and start receiving monthly pension check directly
- DROP account receives 6% simple interest for 60 months; variable thereafter (between 3% to 6%)
- If the plan's return is greater than 6%, the city benefits from the excess return

City Benefits from DROP

- ☐ City saves **pension contributions** on officers while in DROP program (potentially saves over $4 million per year)
- ☐ City saves money on pensions as the benefits are frozen at time of DROP
- ☐ City saves money on recruitment and training of new employees ($200,000 per new employee)*
- ☐ City saves money by keeping experienced employees

*Costs include first year salary, recruitment, hiring, academy, and on-job training

Disability Pension Benefit

Service-Related Disability Pension:

disability on the job or related to job duties – 65% of current salary (reduced by workers' comp)

Non-Service Related Disability Pension:

disability is not job related – 50% of current salary (reduced by workers' comp, Social Security disability or other earned income)

(16)

Overtime

Police – 40 hours of overtime per year count toward retirement (funded by the casualty insurance premium tax and is no cost to the city)

Firefighters – overtime does not count toward retirement

(17)

Unused Leave

Unused sick and annual leave **do not** count toward retirement benefits – cannot increase monthly pension benefit

Firefighters Supplemental Share Plan

- Established by the City in 2005
- Paid by property insurance premium tax
- Any extra premium tax revenue each year is allocated into individual accounts
- After 10 years service, firefighters receive a lump sum payable upon termination, retirement, death or disability*

* If officer suffers service-related death or disability with less than 10 years service, the account balance is paid

Pension Plan Statistics

- ☐ Average Annual Pension Benefit $41,070 ($3,422 per month, fully taxable)*
- ☐ Plan had positive investment returns 16 of past 22 years: 21 year average = 8.79%
- ☐ 77% of retirees live in Florida
- ☐ Each dollar of pension benefits creates $1.42 in local economic activity**

* "2012 Actuarial Report" for fiscal year ending December 31, 2011
**National Institute on Retirement Security, Study of Florida pension benefits

Police and Firefighters' Pension Plan

Defined benefit pension provides a lifetime benefit to all retirees who served the City of Fort Lauderdale. It ensures financial security and dignity each day to police officers and firefighters, including survivors of officers, who gave their lives to protect our citizens.

Police and Firefighters' Pension Plan

- ☐ Provides public safety officers with competitive retirement, death, disability, and survivor pension benefits
- ☐ It is simply good economic, public policy

PROVIDED BY JUN 29, 2012 5

Asset Allocation, Risk and Reward

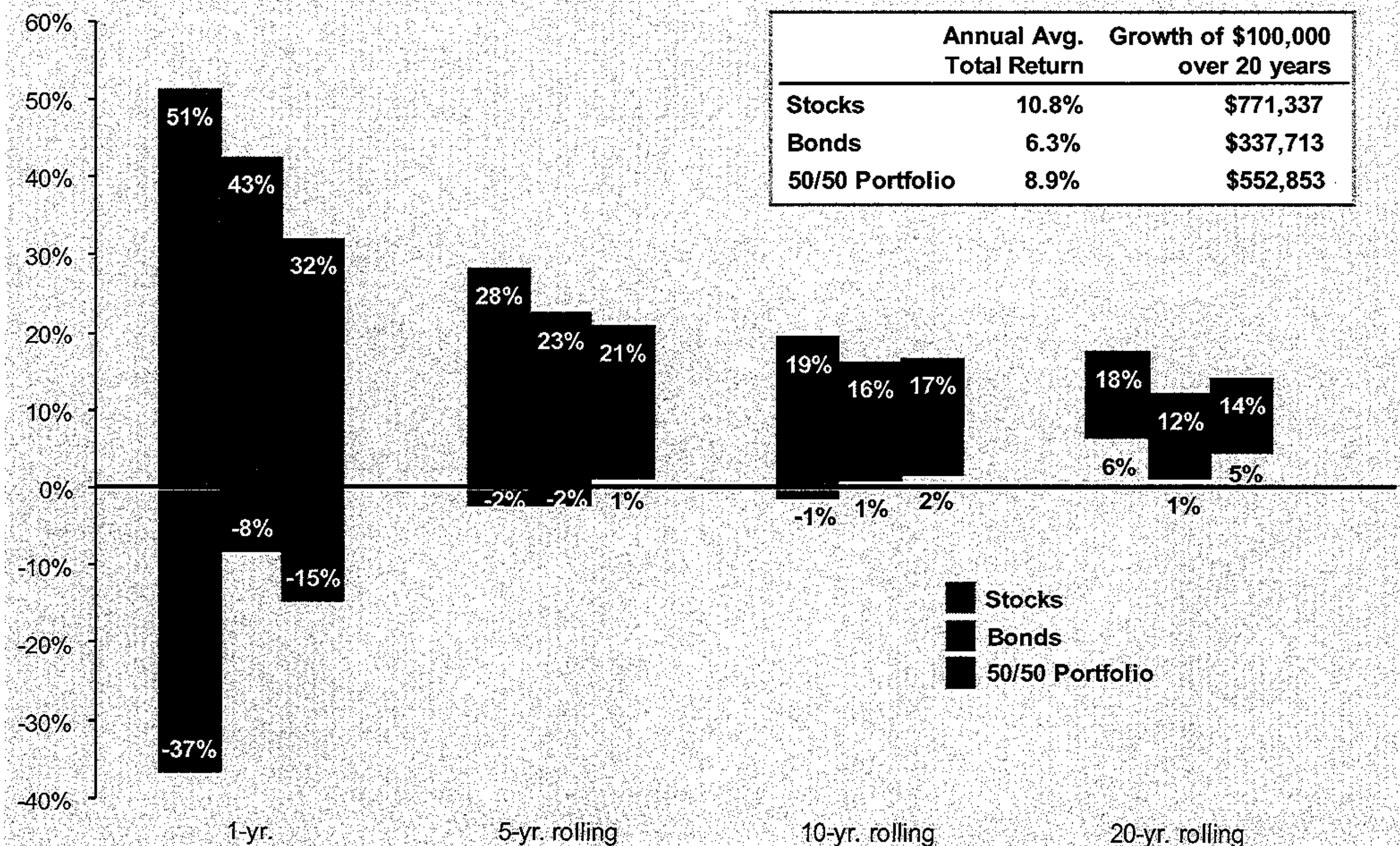
The path to the assumed rate of return

Fort Lauderdale City Commission Workshop
June, 2012

The Bogdahn Group
simplifying your investment and fiduciary decisions

WWW.BOGDAHNGROUP.COM

Range of Stock, Bond and Blended Total Returns
Annual total returns, 1950–2011

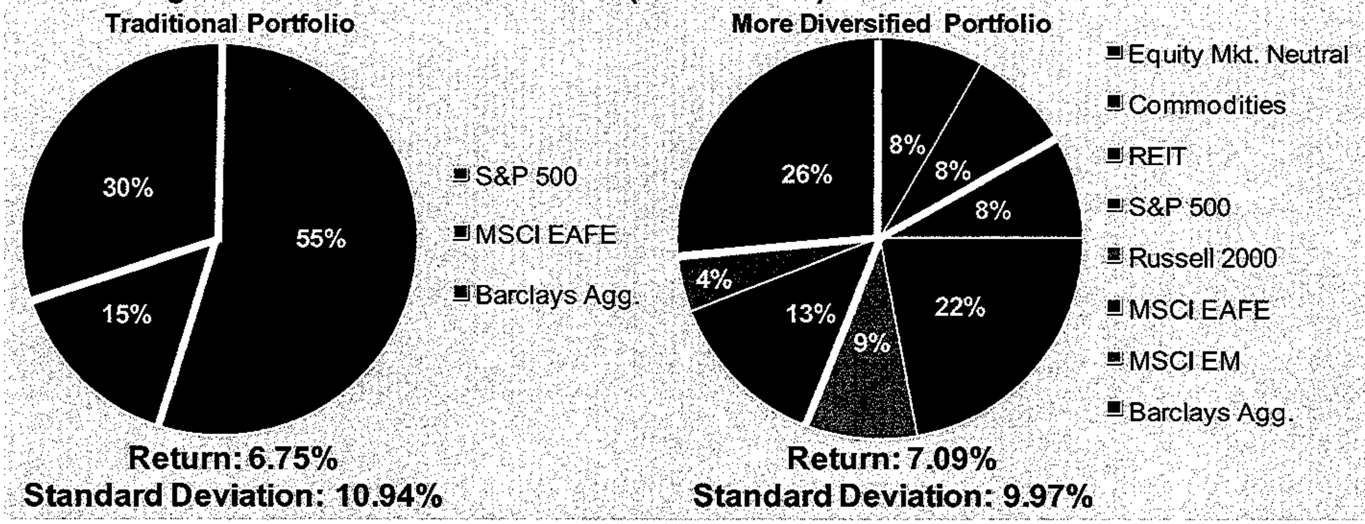


	Annual Avg. Total Return	Growth of $100,000 over 20 years
Stocks	10.8%	$771,337
Bonds	6.3%	$337,713
50/50 Portfolio	8.9%	$552,853

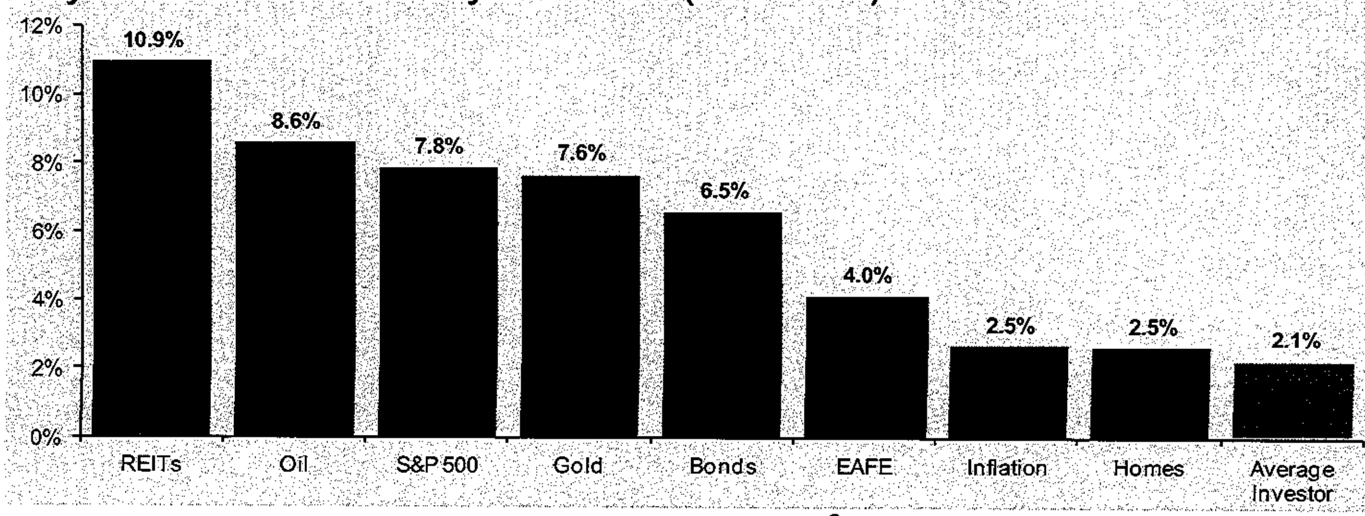
Sources: Barclays Capital, FactSet, Robert Shiller, Strategas/Ibbotson, Federal Reserve, J.P. Morgan Asset Management.
Data are as of 3/31/12.

Diversification and the Average Investor

Maximizing the Power of Diversification (1994 – 2011)



20-year Annualized Returns by Asset Class (1992 – 2011)



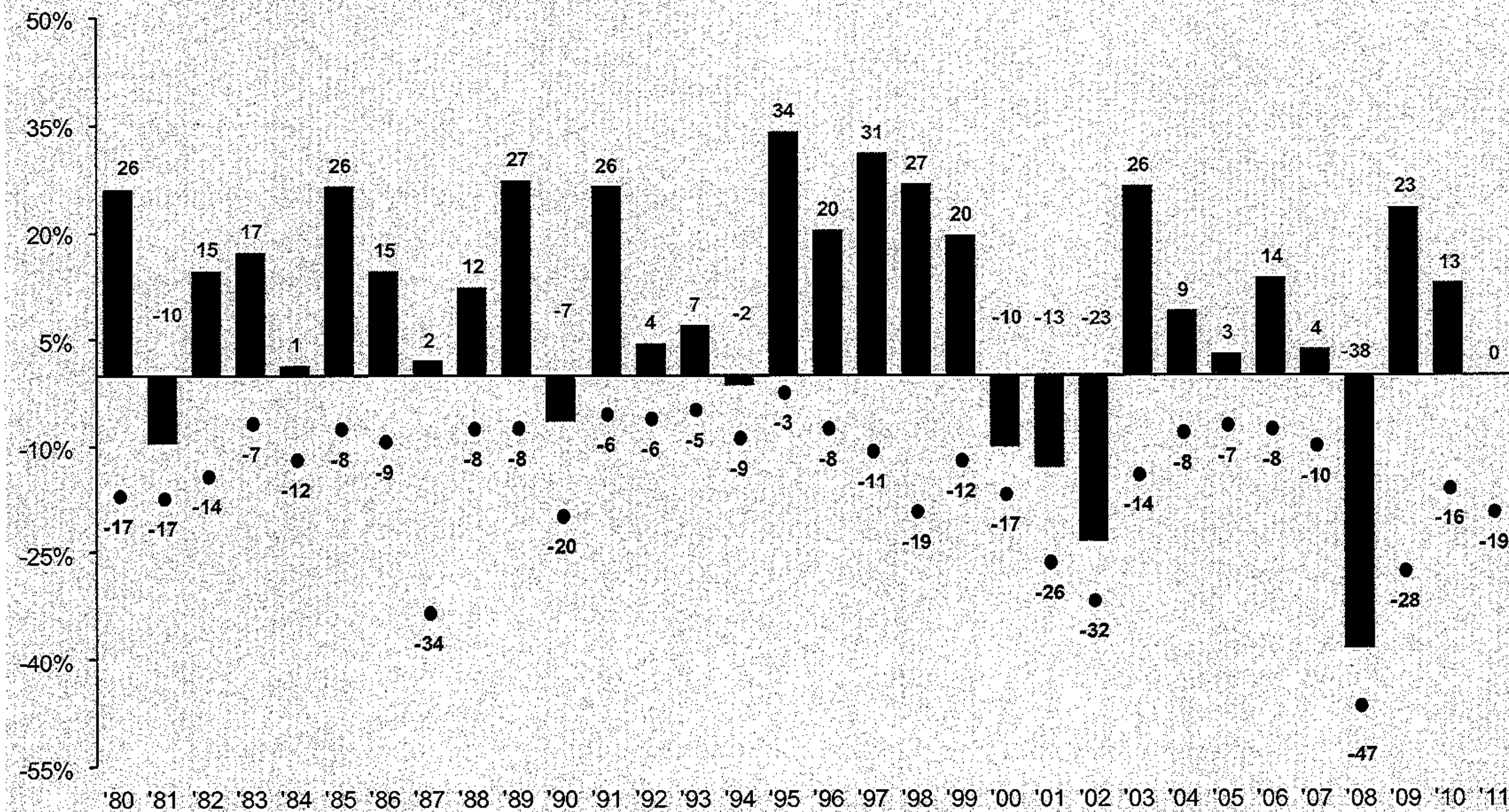
(Top) Indexes and weights of the traditional portfolio are as follows: U.S. stocks: 55% S&P 500, U.S. bonds: 30% Barclays Capital Aggregate. International stocks: 15% MSCI EAFE. Portfolio with 25% in alternatives is as follows: U.S. stocks: 22.2% S&P 500, 8.8% Russell 2000; International Stocks: 4.4% MSCI EM, 13.2% MSCI EAFE; U.S. Bonds: 26.5% Barclays Capital Aggregate; Alternatives: 8.3% CS/Tremont Equity Market Neutral, 8.3% DJ/UBS Commodities, 8.3% NAREIT Equity REIT Index. Return and standard deviation calculated using Morningstar Direct.
Charts are shown for illustrative purposes only. Past returns are no guarantee of future results. Diversification does not guarantee investment returns and does not eliminate risk of loss. Data are as of 12/31/11.

(Bottom) Indexes used are as follows: REITS: NAREIT Equity REIT Index, EAFE: MSCI EAFE, Oil: WTI Index, Bonds: Barclays Capital U.S. Aggregate Index, Homes: median sale price of existing single-family homes, Gold: USD/troy oz, Inflation: CPI. Average asset allocation investor return is based on an analysis by Dalbar Inc., which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. Returns are annualized (and total return where applicable) and represent the 20-year period ending 12/31/11 to match Dalbar's most recent analysis.

Asset Class

Intra-year Declines vs. Calendar Year Returns

Despite average intra-year drops of 14.5%, annual returns positive in 25 of 32 years

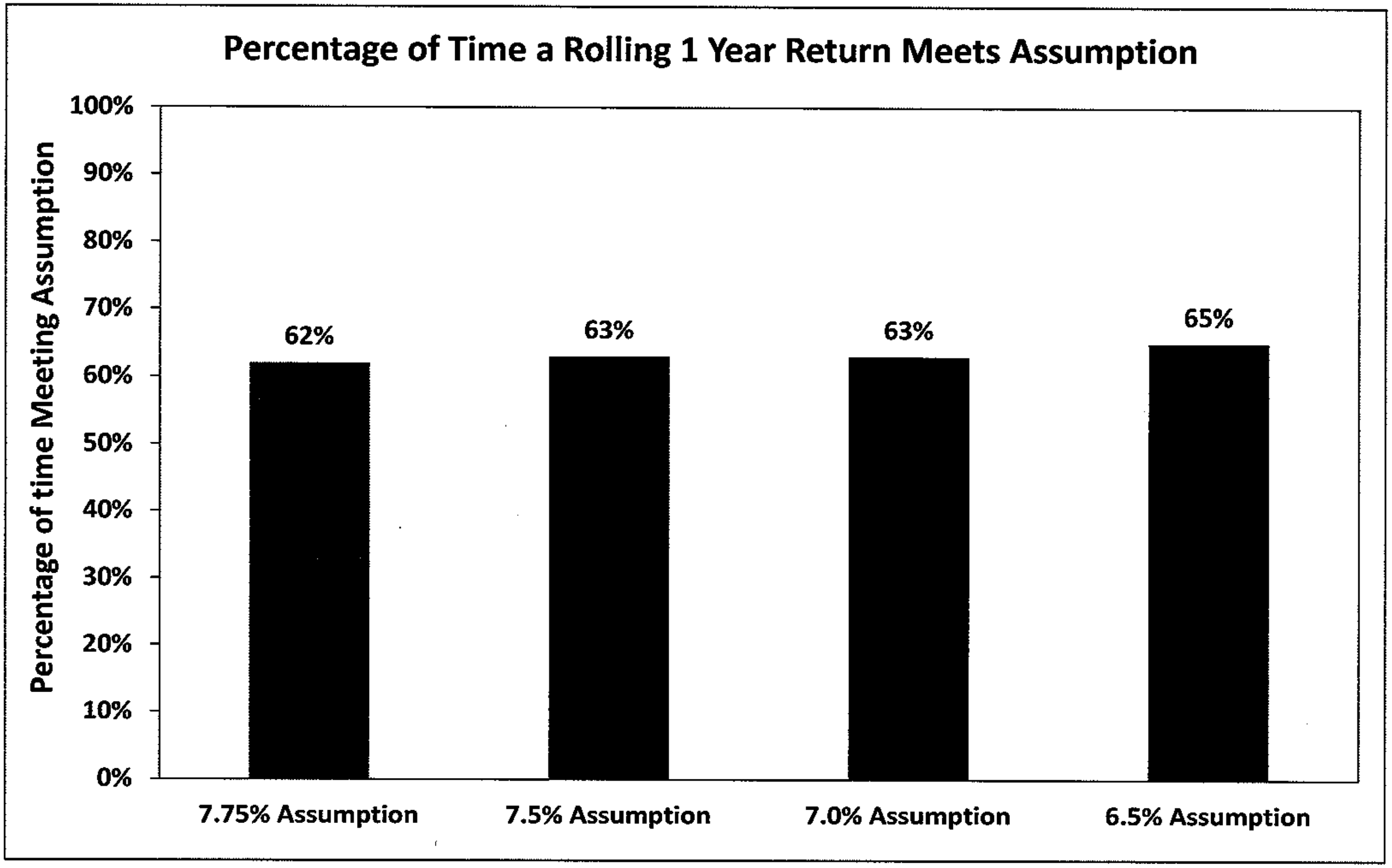


Source: Standard and Poor's, FactSet, J.P. Morgan Asset Management.

Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops over periods of 6 months or less. For illustrative purposes only.

Data are as of 3/31/12.

Rolling Assumption Comparison

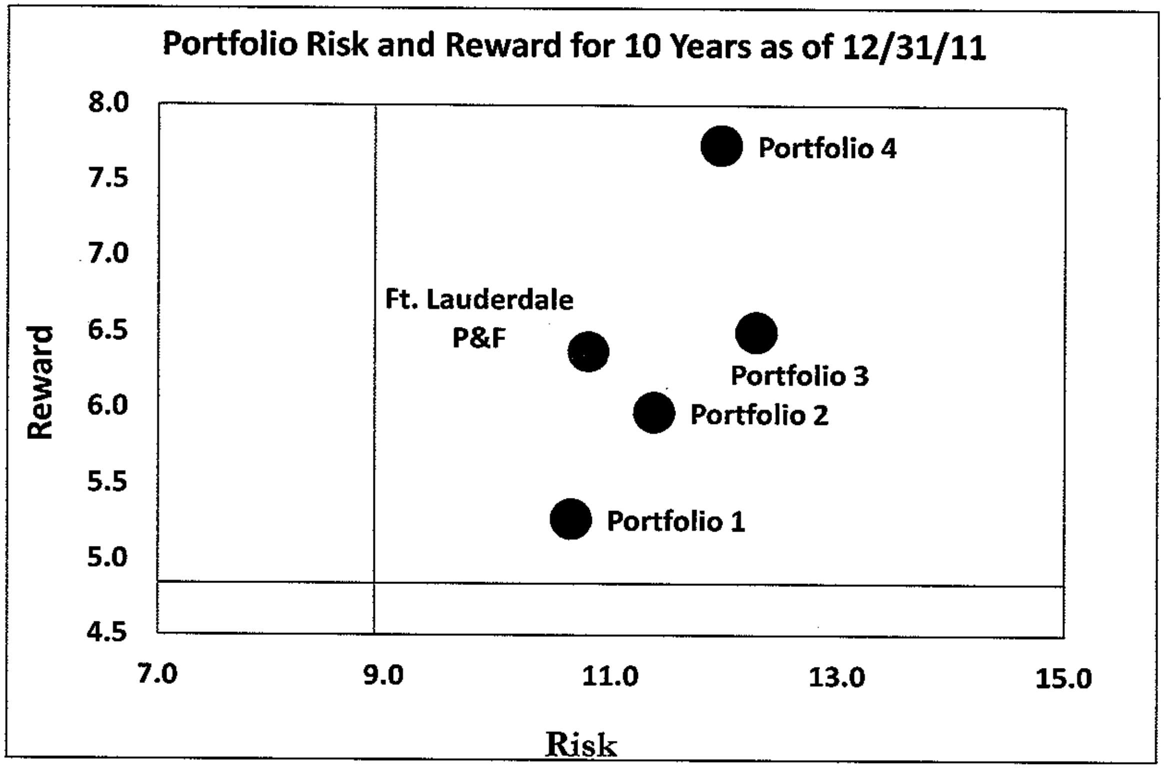


60% S&P500 / 40% Barclays Aggregate Portfolio; January 1979 - December 2011 (12-Month Moving Windows, Computed Quarterly).
Percentages calculated by taking periods beating assumption divided by total periods.

Portfolio Allocations

[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Equity:					
All Cap Domestic	60%	45%	35%	25%	
Large Cap Domestic					17.5%
SMID Cap Domestic			10%	10%	12.5%
Developed International		15%	15%	10%	15.0%
Emerging International				5%	
Fixed Income:					
Domestic Core	40%	30%	20%	10%	30.0%
TIPS			5%	5%	
High Yield			5%	5%	
Global				5%	
Alternative					
Real Estate		10%	10%	10%	10.0%
Private Equity				10%	
Fund of Hedge Funds				5%	
Long/Short					5.0%
Global Tactical Asset Alloc.					10.0%

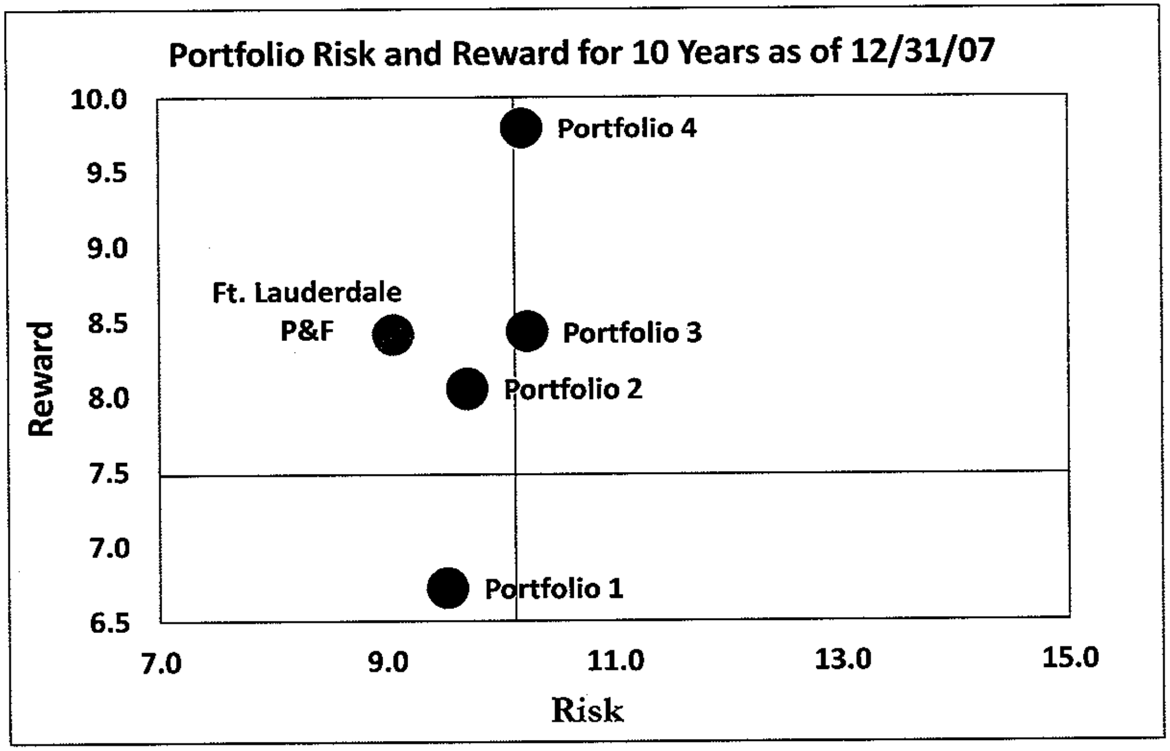
Risk and Return



Return	5.3	6.0	6.5	7.7	6.4
Standard Deviation	10.7	11.4	12.3	12.0	10.8
Beta	.58	.61	.66	.64	.58
Sharpe	.32	.36	.38	.49	.42
Treynor	5.9	6.7	7.0	9.3	7.8

Benchmark data and ratios calculated and gathered from Investment Metrics PARIS

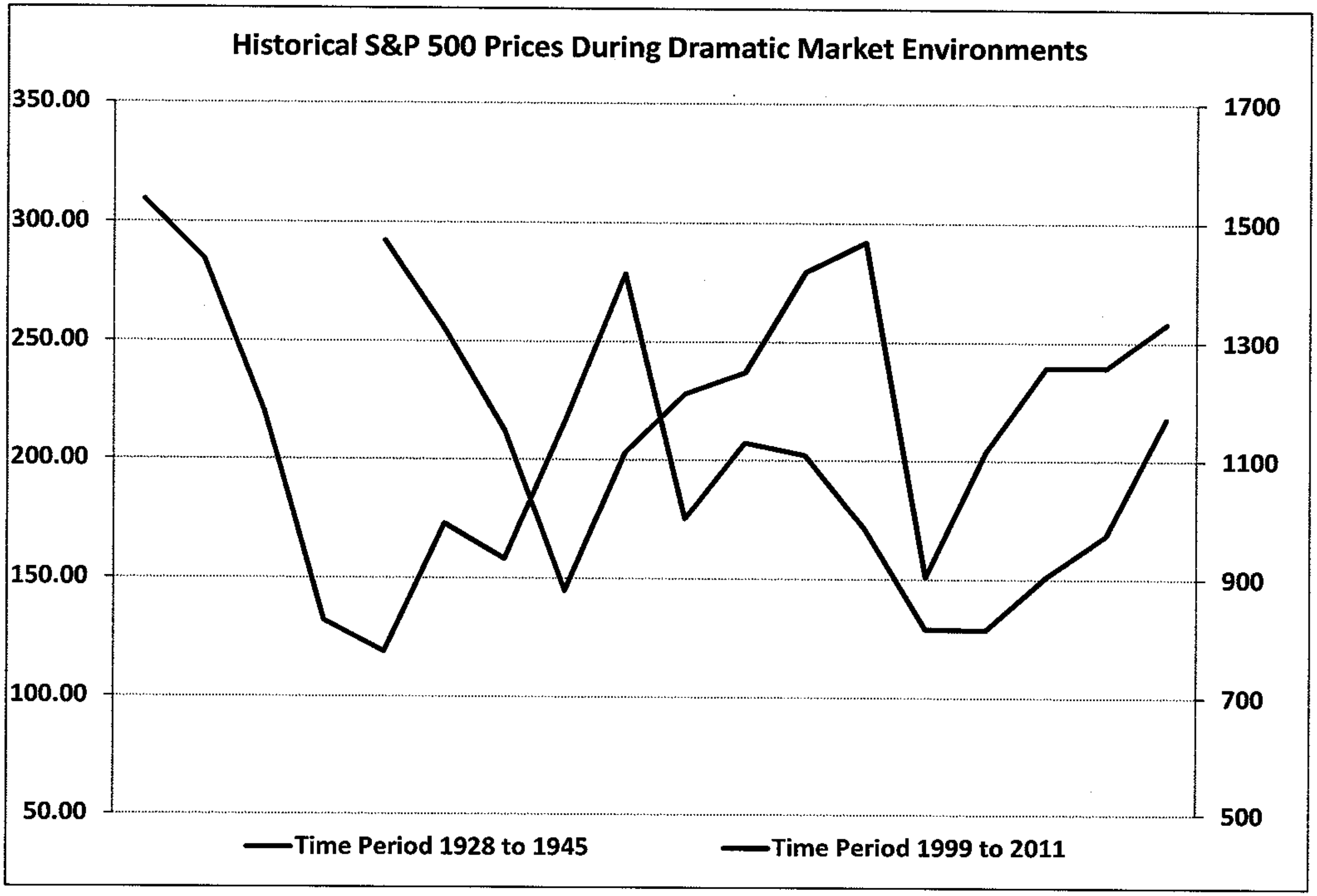
Risk and Return



Statistic	Portfolio 1	Portfolio 2	Portfolio 3	Portfolio 4	Ft. Lauderdale P&F
Return	6.7	8.1	8.4	9.8	8.4
Standard Deviation	9.5	9.7	10.2	10.2	9.1
Beta	.56	.57	.59	.58	.52
Sharpe	.33	.46	.47	.60	.53
Treynor	5.54	7.77	8.07	10.64	9.1

Benchmark data and ratios calculated and gathered from Investment Metrics PARIS

Worst Case Market Periods



Source: S&P 500 prices obtained from Standard and Poor's

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