

April 12, 2017

**POLICE AND FIREFIGHTERS' PENSION BOARD
REGULAR BOARD MEETING
888 South Andrews Avenue, Suite 202
Fort Lauderdale, FL 33316
Wednesday, April 12, 2017, 12:30 P.M.**

Communication to the City Commission:

- The Board received and approved the Actuarial Valuation Report as of October 1, 2016.

Present

Michael Dew, Chair
Scott Bayne, Trustee
Jeff Cameron, Trustee
Richard Fortunato, Trustee
Dennis Hole, Trustee
Jim Naugle, Trustee
Lynn Wenguer, Executive Director

Absent

Ken Rudominer, Vice Chair

Also Present

Alexandra Goyes, Deputy Director
Jazmin Elliott, Administrative Aide
Fred Nesbitt, Communication Director, Retirees Association
Ash Benzo, City Treasurer
Robert Klausner, Board Attorney
Anna Klausner Parish, Board Attorney
Brad Heinrichs, Foster and Foster
Drew Ballard, Foster and Foster
Kevin Schmid, Cap Trust [by phone]
Linda Logan-Short, Deputy Director/CFO
Paul DeBold, Retirees' Association
Derek Joseph, Fort Lauderdale Police Department
Jim Ingersoll, President, Retirees Association
Jamie Opplerlee, Recording Secretary, Prototype Inc.

ROLL CALL/CALL TO ORDER

Chair Dew called the meeting to order at 12:30 p.m. Roll was called and a quorum was determined to be present.

PLEDGE OF ALLEGIANCE/MOMENT OF SILENCE

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

MINUTES:

Regular Meeting: March 8, 2017

Chair Dew noted a change to the minutes.

Motion made by Mr. Bayne, seconded by Mr. Naugle, to approve the minutes of the March 8, 2017 meeting. In a voice vote, the motion passed unanimously.

COMMENTS FROM THE PUBLIC

None.

NEW HIRES

Chair Dew recognized the new hires.

BENEFITS: **FIRE DEPT:** **New Retiree:** (Term of Sherry Richter
DROP)
DROP Retirement: Sebastian C Tuff
Mark J. Khayata
Patrick Scartozzi

POLICE DEPT: **New Retiree:** (Term of Marc A. Decarlo
DROP)
Service Retirement: Joseph Mogavero Jr.
Vested Retirement: Colin K. Cowderoy
Member Termination: Bryan K. Doroban
Lump Sum Refund: William Hernandez
Survivor Death: Muriel Junne

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

BILLS:	Cap Trust	\$21,250.00	20
	Milliman	\$5,000.00	21
	Marcum	\$1,467.00	22

Motion made by Mr. Hole, seconded by Mr. Fortunato, to approve payment of the bills as documented. In a voice vote, the motion passed unanimously.

ATTORNEY’S REPORT

Mr. Klausner reported the State Legislature was creating more havoc with pensions. He said tax reform from Congress may also have an impact because the Joint Committee on Tax Policy had been targeting items they felt would increase revenue, like eliminating pickup contributions, and the public safety exemptions.

Mr. Klausner informed the Board that Mr. Brutus has filed his lawsuit for declaratory relief. Mr. Klausner reminded the Board that he had taken the position that Mr. Brutus was not eligible for disability because he could never qualify. Mr. Brutus’s lawyer was compiling a list of undisputed facts and if Mr. Klausner agreed, they would file for summary judgment and there would be a decision.

Trustee Training Program

Mr. Klausner said succession planning was critical and he had submitted a plan that was a low cost way to accomplish it. Mr. Hole referred to the proposal and asked about the number of meetings a trainee should be required to attend. Mr. Klausner suggested specifying 50% of meetings in each year. Mr. Bayne and Mr. Hole discussed how difficult it could be for a firefighter to get time off to attend a meeting.

The Board discussed the evaluation period and decided to strike that requirement. Chair Dew noted that the City Commission appointed two of the city trustees. Mr. Klausner suggested limiting travel expenses to in-state educational travel, as approved by the Board.

Mr. Klausner recommended advertising the same way they did for elections and then interviewing prospective trainees. They should address per diems in the travel policy.

Ms. Wenguer agreed to update the trainee plan and bring back the travel policy for Board review.

INPUT FROM ACTIVE & RETIRED POLICE OFFICERS & FIREFIGHTERS

Mr. Ingersoll reported Joe Stanhope, a retiree, was blind and had not received a COLA in over 16 years. He said he was happy the pension plan had grown so much - \$106 million in the past three and a half years - and felt the COLA, which would cost \$1 million, was a de minimis amount to the plan.

Mr. Ingersoll stated they had met with the City Manager and Mayor Seiler last year and planned to meet with the City Manager again soon to discuss the COLA.

FOSTER & FOSTER:**Brad Heinrichs, Drew Ballard****2016 Actuarial Valuation**

Mr. Heinrichs said the State Legislature had passed a law that forced them to adopt the Florida Retirement System (FRS) mortality table, which hurt them this year. He remarked that the City's contribution had increased from \$17.4 million to 19.3 million, 2.4% of payroll, despite the fact that they had experience actuarial gains of \$3.5 million.

Mr. Heinrichs explained that the FRS table assumed indefinite improvement in life expectancy at all ages. This was despite the fact that studies showed mortality had actually gotten worse. He said a static mortality table made the most sense.

Mr. Heinrichs drew the Board's attention to page 8 and noted there were 28 more people in the fund, for a total of 1,821 and payroll had increased by \$2 million. He said the portfolio had performed well compared to their assumptions, with a return of over 8%. The change in mortality table had changed the total present value of benefits from \$994,719,835 to \$1,014,141,424. Also, the funded ratio had decreased because of the mortality table and the unfunded liability had increased. The funded ratio was 91.5% instead of 93.3%.

Mr. Heinrichs referred to page 14 and said \$1.3 million of the gains were from investment performance and salaries had increased by \$200,000 but those increases had gone to lower-salaried, lower liability employees. Chair Dew asked if overtime affected this. Mr. Heinrichs stated this was only pensionable pay.

Mr. Naugle asked the difference between the mortality table they had been using and the one the State was requiring them to use and Mr. Heinrichs stated it was a difference in life expectancy of approximately 2 to 3 years. He said the Society of Actuaries would develop a public funds mortality table in the next few years and he anticipated it would show mortality worse than the old table they had been using. Mr. Klausner was concerned about using a mortality table that was not relevant to their work force, causing them to seriously overfund.

Mr. Nesbitt asked pension costs as a percentage of covered payroll and of total payroll. Mr. Heinrichs said the percentage of covered payroll was on page 5. Mr. Ballard stated it was difficult to get an accurate number for the DROP payroll so they had left it out but Mr. Heinrichs agreed to calculate it.

Motion made by Mr. Bayne, seconded by Mr. Fortunato, to accept the Actuarial Valuation Report with the addition of the calculation regarding total covered payroll. In a voice vote, motion passed unanimously.

Assumed Rate of Return Options

Mr. Heinrichs referred to his April 11 letter in response to the Board's request for ideas to lower the assumed rate of return. He had drafted a table showing the impact on the City's contribution of lowering the assumed rate of return by certain increments.

Mr. Heinrichs stated the Board could simply vote to lower the assumed rate of return. Or, they could buy it down over time when there were excess investment earnings. He and Mr. Ballard had determined that a 10 basis point reduction required \$16 million (roughly 2%) in excess investment earnings in a year.

Mr. Bayne remarked that this amounted to beating the assumption rate in order to lower the assumption rate. Chair Dew pointed out that this would ensure the plan's consistent funding and allow them to pay off the unfunded liability sooner. This would also help avoid an adversarial situation with the City.

Mr. Heinrichs explained that they could set a threshold at which to buy down the rate. Mr. Benzo remarked that if they did not beat the assumed rate of return, the contribution would increase every year. Mr. Heinrichs said this was what the Board was trying to avoid. Mr. Klausner knew of some firms that created a reserve fund with additional investment gains that could be used when they failed to make the rate of return and avoid impact to the plan sponsor.

Chair Dew said what they really needed to address was the \$122 million unfunded liability that was causing suffering for retirees. Mr. Heinrichs stated they could also use excess investment returns to directly buy down the unfunded liability.

Chair Dew stated in the future, higher returns would be harder to achieve and they must address this. Mr. Heinrichs said one choice was to reduce the assumed rate now and increase the City's contribution. Or, they could wait until they had extra monies to do it.

Mr. Klausner stated they needed to draft a policy to allow the Board to take this action. Chair Dew wanted to discuss this with City representatives and get their input first.

Mr. Heinrichs asked Mr. Schmid what they would need to lower the assumed rate of return to in order to be 75% certain they could attain it. Mr. Schmid said they would need to lower it to 4.8%.

Chair Dew confirmed for Mr. Klausner that Mr. Heinrichs would attend the meeting with the City representatives to explain.

Mr. Klausner said there was a bill in the State legislature that would mandate a 25 basis point reduction in the assumed rate of return until a plan's assumed rate matched the actual rate.

Chair Dew asked Ms. Wenguer to coordinate meeting dates with Mr. Heinrichs, Mr. Klausner and the City Commission. Mr. Klausner said if they noticed it for the Board of Trustees, more than one could attend the meeting and be in compliance with the Sunshine Law.

Mr. Hole asked Mr. Heinrichs about the funding policy. Mr. Heinrichs felt they were a great idea, especially for a pension fund outside the State of Florida, in states that did not have all of the rules that Florida had. This fund's policy would probably reiterate policies that were already dictated by State law. But they could also include the policy to reduce the assumed rate of return, which would be unique to them. They could also memorialize that they amortized a gain or loss over a 20-year period instead of the maximum allowed, which was 30. Mr. Hole wanted the funding policy because it would help explain some of the Board's actions.

CAPTRUST

Kevin Schmid, Cap Trust

Monthly Investment Review

Mr. Schmid reported the S&P 500 was up 6% for the quarter; small-cap equities were up 2.5%; international equities were up more than U.S. equities. He said this was a good start to the calendar year and he was optimistic about their position so far and they were on track to meet or exceed the actuarial return.

InTech Fee Proposal

Mr. Schmid said InTech's proposal would reduce the base fee considerably and reward excess performance. He pointed out that InTech had underperformed last year and he did not want to go to a performance-based fee with a manager that had just underperformed because this increased the likelihood they would outperform this year. He had talked to InTech and they had agreed to give them a one-year free option on the performance-based fee. If they felt it would be beneficial, they could then lock it in. Mr. Schmid recommended trying it for one year.

Mr. Schmid said he was still exploring alternate vehicles at Lazard. One option was a collective trust with a lower fee. This trust also had more flexibility to invest in emerging markets.

Motion made by Mr. Hole, seconded by Mr. Naugle to accept the InTech fee proposal for one year. In a voice vote, motion passed unanimously.

Mr. Schmid announced that EnTrust was beginning the fund raising period for their Special Opportunities Fund IV and asked of the Board wanted to hear a presentation.

Ms. Wenguer said they would probably re-schedule the May meeting to May 3. Chair Dew suggested they hear the presentation from EnTrust in May.

COMMUNICATION DIRECTOR'S REPORT:

Mr. Nesbitt announced they were ready to put the annual report together and he hoped to have it out by May 1.

EXECUTIVE DIRECTOR'S REPORT:

InTech Agreement

Mr. Klausner had reviewed this and stated the new ownership was not problematic.

Motion made by Mr. Fortunato, seconded by Mr. Hole to accept the InTech agreement. In a voice vote, motion passed unanimously.

Trustee Training Program

Ms. Wenguer agreed to bring the Board some guidelines.

Office Staff Evaluations

Ms. Wenguer informed the Board that she had conducted a 6-month evaluation for Ms. Elliot and a yearly evaluation for Ms. Goyes. She had given Ms. Elliot a small increase in salary and Ms. Goyes an annual increase of 3%. She remarked they were both doing a fantastic job and she received a lot of compliments on their performance.

Ms. Wenguer said it had been a while since they did affidavits for retirees and they had been mailed out.

Mr. Hole asked about the annual Social Security check. Ms. Parish reported the rules for the death master list were the same but it was now more expensive to gain access. Ms. Wenguer said they performed a check of the list every week. She said the affidavit would request emails and cell phone numbers and Mr. Klausner suggested they request retirees provide a copy of any medical proxy or durable power of attorney, as well as a family member's contact information.

May Meeting Date Change

The Board agreed to hold the meeting on May 3 at 12:30.

PENDING ITEMS:

New Business:

None.

Old Business:

Schedule A

None.

There being no further business to come before the Board at this time, the meeting was adjourned at 2:40 p.m.

FOR YOUR INFORMATION:

KCG Recapture Statement

Recapture Summary/February 2017

Secretary

Chairman

Any written public comments made 48 hours prior to the meeting regarding items discussed during the proceedings have been attached hereto.

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