

CORAL GABLES RETIREMENT SYSTEM  
 Minutes of January 8, 2015  
 Youth Center Theater/Auditorium  
 405 University Drive  
 8:00 a.m.

| MEMBERS:                 | F  | M  | A-10 | A-18 | M  | J  | A  | S  | O  | N  | J  | APPOINTED BY:                     |
|--------------------------|----|----|------|------|----|----|----|----|----|----|----|-----------------------------------|
|                          | 14 | 14 | 14   | 14   | 14 | 14 | 14 | 14 | 14 | 14 | 15 |                                   |
| Andy Gomez               | P  | E  | E    | P    | P  | P  | P  | E  | E  | P  | E  | Mayor Jim Cason                   |
| Manuel A. Garcia-Linares | P  | P  | P    | E    | E  | P  | P  | P  | E  | P  | P  | Vice Mayor William H. Kerdyk, Jr. |
| Appt. Needed             | -  | -  | -    | -    | -  | -  | -  | -  | -  | -  | -  | Commissioner Patricia Keon        |
| Rene Alvarez             | -  | -  | -    | -    | -  | -  | -  | -  | -  | P  | P  | Commissioner Vince Lago           |
| James Gueits             | P  | P  | P    | P    | P  | P  | P  | P  | P  | P  | P  | Commissioner Frank C. Quesada     |
| Joshua Nunez             | E  | E  | P    | P    | P  | P  | E  | P  | P  | P  | P  | Police Representative             |
| Randy Hoff               | P  | P  | P    | P    | P  | P  | P  | P  | P  | P  | P  | Member at Large                   |
| Donald R. Hill           | P  | P  | P    | P    | P  | P  | P  | P  | P  | P  | P  | General Employees                 |
| Troy Easley              | P  | P  | P    | P    | P  | P  | P  | P  | P  | P  | P  | Fire Representative               |
| Diana Gomez              | P  | P  | P    | P    | P  | P  | P  | P  | P  | P  | P  | Finance Director                  |
| Elsa Jaramillo-Velez     | P  | P  | P    | P    | P  | P  | P  | P  | P  | P  | P  | Human Resources Director          |
| Keith Kleiman            | -  | -  | -    | -    | -  | P  | P  | P  | P  | P  | P  | City Manager Appointee            |
| Pete Chircut             | -  | -  | -    | -    | -  | P  | P  | P  | P  | P  | P  | City Manager Appointee            |

STAFF:

Kimberly Groome, Administrative Manager  
 Alan E. Greenfield, Board Attorney  
 Dave West, The Bogdahn Group  
 Pete Strong, Gabriel Roeder Smith

P = Present  
 E = Excused  
 A = Absent

GUESTS:

Craig Leen, City Attorney  
 Jim Linn, Attorney  
 Thad Ovarich, Fire Department  
 Dan Thornhill, Fire Department  
 Cathy Swanson-Rivenbark, City Manager  
 John Baublitz, FOP

Chairperson James Gueits calls the meeting to order at 8:13 a.m. There was a quorum present. He informs that Mr. Campbell has resigned. They will miss him. He was a good Board member who had a lot of good insight.

1. Roll call.
2. Consent Agenda.

*All items listed within this section entitled "Consent Agenda" are considered to be self-explanatory and are not expected to require additional review or discussion, unless a member*

*of the Retirement Board or a citizen so requests, in which case, the item will be removed from the Consent Agenda and considered along with the regular order of business. Hearing no objections to the items listed under the "Consent Agenda", a vote on the adoption of the Consent Agenda will be taken.*

- 2A. The Administrative Manager recommends approval of the Retirement Board meeting minutes and Executive Summary minutes for November 13, 2014.
- 2B. The Administrative Manager recommends approval of the Report of the Administrative Manager.
1. For the Board's information, there was a transfer in the amount of \$2,400,000.00 from the Northern Trust Cash Account to the City of Coral Gables Retirement Fund for the payment of monthly annuities and expenses at the end of November for the December 2014 benefit payments.
  2. For the Board's information, there was a transfer in the amount of \$2,600,000.00 from the Northern Trust Cash Account to the City of Coral Gables Retirement Fund for the payment of monthly annuities and expenses at the end of December for the January 2015 benefit payments.
  3. For the Board's information, the following Employee Contribution check was deposited into the Retirement Fund's SunTrust Bank account:
    - Payroll ending date November 2, 2014 in the amount of \$173,977.64 was submitted for deposit on November 10, 2014.
    - Payroll ending date November 16, 2014 in the amount of \$179,408.99 was submitted for deposit on November 20, 2014.
    - Payroll ending date November 30, 2014 in the amount of \$184,063.49 was submitted for deposit on December 8, 2014.
    - Payroll ending date December 14, 2014 in the amount of \$175,661.93 was submitted for deposit on December 18, 2014.
  4. Copies of the detailed expense spreadsheets for the months of November 2014 and December 2014 are attached for the Board's information.
  5. A copy of the Analysis of Dollar Volume for the 3<sup>rd</sup> quarter of 2014 is attached for the Board's information.
  6. For the Board's information the Northern Trust Securities Lending Summary Earnings Statement for November 2014 is attached.
  7. For the Board's information, a letter is attached dated December 9, 2014 from Richmond Capital stating that they are in compliance with Florida Statute 215.473.

8. For the Board's information the Northern Trust class actions report for the 3<sup>rd</sup> quarter of 2014 is attached.
  9. A copy of the December 2014 FPPTA Newsletter is attached for the Board's information.
- 2C. The Administrative Manager recommends approval for the following invoices:
1. GRS invoice #410563 dated November 13, 2014 for actuarial consulting services for the month of October 2014 in the amount of \$12,864.00.
  2. GRS invoice #411172 dated December 12, 2014 for actuarial consulting services for the month of November 2014 in the amount of \$12,213.00.
  3. The Bogdahn Group invoice no. 11142 dated December 3, 2014 for Performance Evaluation and Consulting Services from October 1, 2014 to December 31, 2014 in the amount of \$36,250.00. This invoice is in accordance with the contract between The Bogdahn Group and Coral Gables Retirement System signed on June 1, 2008 and in accordance with the fee increase approved by the Board and signed by the Chairperson on April 28, 2011.
  4. The City of Coral Gables invoice for period ending September 30, 2014 in the amount of \$14,430.61 for expenses of the retirement system paid out of the general ledger account of the City.

**A motion was made by Vice-Chairperson Hoff and seconded by Ms. Gomez to approve the consent agenda. Motion unanimously approved (11-0).**

Craig Leen, City Attorney, informs that there is an Executive Session on Tuesday, January 13<sup>th</sup>, regarding the COLA which will be at the end of the Commission meeting. Regarding the actuary lawsuit, they had moved to strike defenses and the actuary's counsel reformulated their defenses and they filed them. Now the case is basically at issue but discovery needs to be done. That case is proceeding. He remembers at one of the prior Commission meetings the Commission said they wanted to have a workshop with the Board. Mr. Garcia-Linares asks if they should wait to have the workshop considering there is an election in April. They know at least one Commissioner will be different. Mr. Leen states that he would be curious to know the Board's thoughts. It was his understanding that one of the things they will be considering today is to pre-fund the COLA.

3. Attendance of Pete Strong from Gabriel Roeder Smith presenting the Board the 2008-2014 Experience Study. (*Agenda Item 8*).

Pete Strong informs that they completed their six-year experience study. He goes straight to the COLA assumption. They looked at the average benchmark for determining the COLA and that average has been 2.63% a year over the last 20 years. The gross average investment returns assumption has been 7.8% which is in line with the 7.75% actuarial rate of return. The net would be lower than that after expenses taken out. The number of times the COLA has been triggered or the times they have had a gross investment return greater than 10% has been 11 out of 20 years. Keeping in mind the cumulative investment return only has to be 0% or greater since the last COLA was given. That shows it is going to be triggered most of the time when the return is greater than 10%. Given the volatility of the fund you are going to have a lot

of years that are greater than 10% and a lot of years that are near zero or less. That is just inherent in volatility. Half the time you are expected to have a COLA be triggered with an investment return that is up in the double digit range. The average formula based COLA for the past 20 years has been 1.33%. Keeping in mind the last three years have not been granted, the average actual granting COLA has been about 1%. If the last three years had been granted it would have been 1.33%. Given that experience they believe current inflation is running at 2.5% on average and looking forward most investment consultants and economists believe 2.5% is a realistic inflation assumption. Half of the CPI is what is granted when a COLA is triggered and over the long run you will have a COLA that can be triggered roughly half the time. So 1.3% looks like a decent COLA assumption and looks like what experience is indicating, that an average COLA over the next 20 years would be 1.3% a year. That is their recommendation for funding the advanced COLAs that will be granted in the future unless the ordinance is changed. Based on the Hollywood letter the State's position is that if you have something that is formula based COLA in their ordinance and it doesn't specifically state that the COLA could only be paid when you have cumulative net experience gains. Their ordinance does not specifically state that. State law says it but the ordinance just says it is triggered whenever you have a 10% return and cumulative returns greater than 0%. So when cumulative returns only need to be greater than 0% if your cumulative returns are .01% it is greater than zero it would indicate that you are in a net loss position if your cumulative returns are .01% instead of 7.75%. The crux of the matter is he believes the COLA needs to be prefunded if the ordinance is not changed. If the ordinance is changed then they comply with what the ordinance says but if the ordinance is left the way it is under the Hollywood letter they believe it needs to be prefunded.

Chairperson Gueits remembers that at the last meeting they had a large debate of what it meant to prefund and there is an ongoing uncertainty as to what is meant by that. Mr. Strong explains that it means funding in advance for COLAs that have not been granted and having an assumption that future COLAs will be granted whenever the 10% market value return is triggered. The average return could be 7.75% but you will still have outlying years that are greater than 10% and that is when the COLA is triggered according to the terms of the current ordinance. Funding in advance for years when that is triggered and it is expected to occur about 40% or 50% of the time based on the volatility and inherent standard deviation of returns. Having an advanced assumption of that occurring approximately two out of five years or maybe three out of six years over the next 20 years is actuarially sound otherwise every time a COLA is granted you are decreasing the funded ratio because you are immediately increasing the liability just when the COLA is granted and funding it retrospectively. The responsible thing is to fund it in advance. He believes this should have been done originally when the COLA was first implemented but it wasn't. Given that the State has now confirmed if this is the intent of the plan to pay whenever this COLA is triggered regardless of cumulative experience gains and losses then it needs to be prefunded.

Mr. Leen states that what they have raised in the litigation is that there is an additional condition that is not mentioned here which is the cumulative net experience of the plan has to be in a positive position. Because it is not they believe it is read into the ordinance by State Statute so they believe the COLA has not been triggered. That is what is at issue in the case. He understands that the Board has stayed that issue; they have tabled it until the litigation is over. He will share this with the Commission. He does believe that ultimately the City has to

make a sovereign decision on this. He does not believe the Board can make the decision. There are a number of ordinances that come into play here. There is an ordinance that says it cannot come out of general revenue. The Statute says it can't come from the pension fund because of the actuarial experience issue. The retirees have a different legal position. He thinks the motion from the Board can be a recommendation to the City Commission. Mr. Garcia-Linares thinks they are talking about two different things. He thinks the issue of the past has been stated and the City has taken the position that the Board cannot grant one of the past COLAs. He thinks that what the actuary is telling them is the way the ordinance reads based on the letter from Hollywood is that the Board needs to fund the future. They aren't talking about the last three. The \$6 million is to fund the future COLAs based upon the way he reads the ordinance. Has he looked at the Hollywood letter? How does Hollywood compare to this plan? Mr. Leen informs that he has looked at the Hollywood letter. The fact is many of the COLAs that have been given have been discretionary. That is a fundamental legal issue. His position as the City Attorney is if the Board believes it should be prefunded then they need to recommend it to the Commission to be considered. He doesn't believe the Board has the authority to award the COLA. They would be taking from general revenue to pay the COLA. The COLA should have been prefunded the date the ordinance was approved.

Vice-Chairperson Hoff thinks that what Mr. Leen is saying is the Board does not have the right to enact this assumption. As he understands it what they are talking about is the future and it is no different than when they talked about the mortality tables or anything else. He asks the Board Attorney if the Board has the right to say that this is an assumption they have to consider because it is an obligation to be fiduciarily responsible. Mr. Greenfield responds that he disagrees with Mr. Leen. He believes that under the ordinance the Board has the obligation to accept, reject or modify the report of the actuary and if the actuary recommends a particular item and if the Board accepts it then that becomes binding upon the City under the ordinance. If you accept the idea of the prefunding then that is something the Board has passed obviously the City has the right to look at it under the ordinance and it goes to the Commission and the Commission with good cause can overturn the Board. He thinks to directly answer the question; the Board has the right and the obligation to accept an actuarial study which now is binding. Chairperson Gueits asks if Mr. Greenfield agrees that the provisions of the State Statute are read into the local ordinance. Mr. Greenfield replies that he is not the judge in the case. Mr. Garcia-Linares states that they need a decision from the Court as to whether or not the State Statute is read into their ordinance. If it is not then the cost of living adjustment analysis by the actuary is correct and if it is then it is not correct because that one item is missing. They need a decision on that issue in order to determine the future. Mr. Strong informs that the cost of living analysis is correct in that it correctly reflects the past 20 years of actuarial experience. Mr. Garcia-Linares thinks that whether or not the COLA kicks in automatically is an issue. Mr. Strong agrees that is what is being disputed. Mr. Garcia-Linares states that if the Court says the COLA does not kick in automatically then would they still at that point recommend they prefund the COLA. Mr. Strong informs that he would recommend a lower prefunding. Then you would have to take into account when you are going to get out of the hole of the deficit of actuarial losses and the long term assumption would be lower. He is looking at the numbers and what experience has shown and they believe the future will represent. Mr. Greenfield believes the City could take care of it by amending the ordinance. Mr. Garcia-Linares assumes that as part of any resolution the ordinance is going to be amended to clarify a decision. Mr. Leen thinks that as part of any resolution or settlement that they

would address the ordinance and adopt something new but he can't promise that. The reason why he believes the Statute is read into the ordinance is that Statute 112-62 states "The provisions of this part supplement and, to the extent there are conflicts, prevail over the provisions of existing laws and local ordinances relating to such retirement systems or plans". He is looking at this as a supplement in his view. If it is an additional benefit, in his opinion, but it is not this Board's prerogative to add an additional benefit. His suggestion would be to recommend it to the Commission. Mr. Greenfield states that the only difference between what Mr. Leen is saying and what the Board has done in the past is the Board in the past has taken the position that this is not an additional benefit but that this is a benefit that is provided for in the ordinance so there is a question whether Statute 112 would apply. That is the issue before the Court. He thinks it is best left for the Court to determine that particular issue. You can see the dynamics of the arguments of whether it is an additional benefit or whether it is not an additional benefit and whether Statute 112 applies or not.

Chairperson Gueits is interested to hear of the outcome of the meeting. He doesn't have a problem recommending to the Commission they look at this because it is an issue. He thinks they should approach this holistically and try to deal with everything at once, past and present. He wonders if they are being asked to vote on anything. Is it an assumption they are being asked to adopt? Mr. Strong responds that it is a recommendation if the current ordinance is not subject to Statute 112.62. It is contingent on the legal decision. Ms. Gomez informs that they just received this report on Tuesday morning and barely have had a chance to read through it. She doesn't think they should make any decision on this report today, period. She thinks they need a chance to digest it. The City hasn't had the chance to review it.

Mr. Hill comments that he will motion to table this until May which will be after the elections. Ms. Gomez states that her feelings to the Board is that they should not make any decisions. Mr. Strong informs that the other assumptions could impact the 10/1/2014 Actuarial Valuation. The other assumptions are more time sensitive so they can proceed with the 10/1/2014 Actuarial Valuation. Chairperson Gueits asks if they can carve out the portion of the report that deals with the COLA and table that. Mr. Strong answers affirmatively.

**A motion was made by Mr. Hill and seconded by Ms. Gomez to table the COLA assumption portion of the Experience Study and deal with that issue at a further date. Motion approved (10-1) with Vice-Chairperson Hoff dissenting.**

Mr. Strong informs that the other assumptions they studied are the main assumptions that affect the liability and valuation of the plan. These include salary increase rates long term, mortality rates, rates of separation from employment for other reasons not including disability or retirement or mortality; rates of retirement; rates of disability. These are the main assumptions that affect the ongoing experience valuation of the plan. There are some minor assumptions they took a high level look at and some of those include the rates of duty related disability versus non-duty related disability. In their opinion the amount of experience they had was not sufficient to make a solid determination of the validity versus non-validity of assumptions so they looked at experience of aggregate. The number of deaths and disabilities they had was minor with little experience that to separate it further between duty and non-duty they felt that the current assumption is adequate.

Mr. Strong informs that the first assumption they studied was salary increase. The salary increase has been very low over the past six years. He thinks they have been in a historically low salary increase environment.

Chairperson Gueits left the meeting at this time.

Mr. Strong continues. They looked at basic inflation because you have to have a building block methodology for your salary increase assumption. Basic inflation has been running for the past 20 years at 2.36% a year. Economic forecasts are anywhere between 2.25% to 2.6% long term. Inflation could ramp up if interest rates were to spike up but as the economy currently sits they believe 2.5% is a realistic inflation assumption. The wage inflation assumption in the past has been 3.75% with an added portion to that. They are recommending changing that assumption to 2.5% plus experienced based schedules for merit, seniority, promotion, etc. Experience indicated that they had significant differences, enough of a difference between non-excludable and excludable general employees to have separate assumptions. In the past they have had the same assumptions for salary increases for all general employees whether they were non-excludable or excludable. The salary increases seem to indicate strongly enough that there is a difference between the two groups to have a separate assumption for the two groups. They are recommending to go to a service based selected ultimate table where salary increases are expected to be highest in early years of service and ramp down as promotions are more likely to happen during the first years of service and then salaries tend to level out in the later years. Rather than an age based table that they are currently using they are recommending based on experience to go to a service based table which is across the board for all general employees, police and fire.

Ms. Gomez informs that in the new police contract the tables will increase significantly. Should that be factored into these numbers? Mr. Strong explains that this is a long term assumption. If there are significant salary increases expected for the next three years that would be more of a short term. Ms. Gomez states that the overall range will be increased for the police. Mr. Strong explains that they looked at six years of experience which are what actual promotions and step increases have been. They actually took into consideration that the last six years were historically low. Their proposed rate is much higher than what the actual six years have been. They recommended going down towards what the actual experience has been but not all the way there. Ms. Gomez asks if the current assumption was higher than what they are proposing the assumption to be. Wouldn't the fact be that there is higher starting salaries? Mr. Strong responds that starting salaries won't affect this because when someone comes in they are making "x" and that is when they enter the valuation. It is from there where their salaries will increase by these amounts from thereon. Their starting salary is not considered until they are hired. That is what starts off the projections. Ms. Jaramillo-Velez asks if Mr. Strong looked at the police contract. Mr. Strong informs that they did not have a copy of the Police contract. Ms. Gomez thinks that they should look at the police contract in order to make this assumption a more solid assumption going forward. Mr. Easley points out that Mr. Strong said they were not going down but only a slight drop that would take into the account the difference so they can give room. Mr. Strong agrees. They give room for a cushion because they recognized it was a very low inflationary salary increase environment. Mr. Garcia-Linares asks if they think they should look at the police contract. Mr. Strong responds that he is not sure if it would make significant difference because they are looking at a contract that

spells out what future steps are going to be and they are looking at experience. Looking at what a contract says going forward covers two to three years so it is not a long term assumption. Also, if the contract is not significantly different from what their assumption recommendation is he thinks it will still fall in line with what they are recommending. He doesn't think it would make the assumption change significant. They do note that experience has been historically low so if inflation ramps up in the future, if actual salary increases are significantly higher than their assumption it will need to be revisited but that won't need to be done for another few years. If it would make the Board more comfortable he can look at the police contract and come up with a recommendation in light of review of the contract. Ms. Gomez informs that she needs more time to digest all this information. Mr. Strong states that if police is the only group that has a contract in place and contracts are going to be put into place over time there are going to be new contracts every couple of years and you aren't going to revise the assumption every time there is a contract.

Mr. Easley asks about the other cities they deal with when union groups have gotten a raise or things have gotten better as economic forecasts have gotten better. Mr. Strong explains that given the revised inflation assumption they can argue that merit and seniority is higher than it used to be. They are only going down .8% but they had a 1.2% drop in the inflation assumption. He thinks the 1990s and 2000s is probably not going to be repeated with seeing 8% to 9% salary increases. He believes the way with inflation is right now 3% to 5% salary increases is going to be the average norm. They do recommend doing an experience study every five years so these assumptions should be revisited every five years. A lot of analysis has gone into this study and he thinks it is a reasonable assumption. Vice-Chairperson Hoff points out that the actuary spent looking at in perpetuity and they are talking about a small percent. He is willing to go with the actuary's experience over the long haul. If it is half a percent here and half a percent there the actuary is the one he is going to trust to make that recommendation. Ms. Gomez agrees. She just wanted to make sure that everything is being considered. Mr. Strong informs that he is willing to look at what the current contract is like before the Board takes action if the Board would collectively feel more comfortable with that. Mr. Easley thinks the cushion is already built in. Vice-Chairperson Hoff understood that Mr. Strong was hoping to get the assumptions approved. Mr. Strong informs that they would like to have them implemented for the 10/1/2014 valuation. Waiting until the next Board meeting to adopt these assumptions could delay the valuation report completion. They are targeting completing the valuation in March and this might delay it until April. Mr. Easley thinks they need to look at everything today. Ms. Gomez would like to understand it before going forward.

Vice-Chairperson Hoff welcomes the new City Manager, Cathy Swanson-Rivenbark, to the Board meeting.

Mr. Strong continues. The proposed salary increase assumptions would actually decrease the contribution by about \$600,000 and would create a slight increase to the unfunded ratio. It would help offset some of the other sources of increase that they are also recommending. He reviews the retirement rate. Again, they saw differences enough between the two general employee groups to recommend splitting those rates. In the past there has been one assumption for the general employees. They looked at the experience in about 50 different ways after tabulating it all and they found the best fit based on looking at number of years since obtaining eligibility because there is more than Rule of 70. There is also age and service combinations

that can cause eligibility for normal retirement. When someone becomes eligible for retirement it varies based on how many years of service that person has. You can become eligible but continue increasing your benefit because you are young enough to keep working and you are less likely to retire. Their recommendation is to go to age, years of service and years of eligibility determinations for their assumption. Ultimately, you go to 100% by the time someone has over 27 years of service. Experience showed that if you were had 24-27 years of service more than 50% are likely to retire.

Mr. Easley asks for Mr. Strong to define excludable and non-excludable employees for the members of the Board who do not work for the City. Mr. Strong informs that excludable employees are employees not covered by the Union and non-excludable are covered by the Union and tend to be more rank and file employees and paid hourly versus excludable being management and supervisory salaried employees. The Police officers' current assumption for retirement is 40% or 100% based on how many points you had. Experience has shown it is based on how many years of service people had. In the aggregate generally they saw higher observed rates of retirement than expected but they were different by age and service than the current assumption dictated. It shifts when they retire but the overall instance of retirement is still a little higher and a little lower for general excludable employees. The overall affects for excludable employees there is a decrease in the contribution rate because people are assumed to work longer and retire later. For the others there is a slight increase in the contribution. In the aggregate it is about a \$200,000 increase in the contribution.

Mr. Strong explains that they studied the separation rates and disability rates very carefully. Their recommendations are to make slight adjustments to them to change the termination rates to an ultimate table where terminations are assumed to be higher during early years of service because that is what experience showed. They saw much higher termination during years one, two and three than someone who has been working for a while. That is the trend you see across the board. It is more likely for someone to change their job in the first couple of years and once they have been there a while they start getting vested and they are comfortable and stay longer. Rates of termination are much lower with later years of service regardless of age.

Ms. Gomez asks about the disability assumption. Mr. Strong explains that they showed experience in the aggregate. The table that has been used is an industry standard table so they are recommending an adjustment to the industry standard table but only for general employees. For police and firefighters they felt the table was in line. They had no disabilities for firefighters and two for police. The overall expected is about 2 ½ and they had 2. Given the lack of the volume of experience they feel like that is in line enough to not touch the assumption. For general employees they saw what they believe is significantly lower disability experience than expected. They had 3 disabilities and they expected 7 ½. That is why they reduced the disability assumption. The proposed was to take 40% off the disability rates and go down to 60% of what the current rates are for general employees which leads to expected disabilities at 4 ½ which is down from 7 ½ so you have 3. They are splitting the difference. Because disabilities have a low occurrence it doesn't have that much of an impact on the contribution.

Mr. Strong reports on the mortality rate. One of the biggest trends besides mortality improvement being projected in the future is to recognize the fact that mortality has improved

over the last 60 years significantly in each decade. One of the other trends is to say that mortality differs significantly if you are an active employee or an annuitant. The philosophy behind that is if you are an active employee staying active your probability of death is smaller than if you are retiree who is more sedentary and the probability of mortality is actually higher once you are in retirement status than an active employee. They looked at that and the instance of mortality of actives, retirees and beneficiaries separately. Mortality for actives is pretty much in line in the aggregate for this plan. They are using the RP 2000 table projected to 2012. Given that mortality has improved significantly from 1950 to 1960 and from 1960 to 1970, etc. It is expected to continue improving. There has been a lot articles written and studies done and the Social Security Administration has done studies that said that they believe mortality will continue improving. This trend is expected to continue. They recommend implementing a generational improvement assumption. It is not just projected to 2012 and then have static rates going to out to 2100 at the 2012 level but to incorporate that annual improvement into the assumptions. They assume that mortality rates will improve in the future all the way to 2100. It is a more robust assumption and captures current experience but also projects the improvement into the future. There is a new table coming out called the RP 2014 table which is adopted by the Society of Actuaries and formally implemented in October 2014. This table was developed using private sector pension plan data. Because it is private sector pension fund data and not public sector pension fund data they believe there are a few issues applying it to all public sector employees particularly to police officers and firefighters. They also came up with a blue collar version of that table called RP 2014-Blue Collar. What that does is only focus on these people overall sample size they collected and look at people doing blue collar type jobs. He thinks a blue collar adjustment could be warranted for people that are more blue collar type jobs. They are recommending a 50% blue collar adjustment for non-excludable general employees because a lot of them are working out in the field outside in blue collar conditions and also for police officers and firefighters. By applying that adjustment, you have a little higher expected mortality than the current assumption but in the long run it will go down because you are going to have generational improvement assumption to say that rates will keep improving each year from now on. They are recommending for excludable employees, because they are white collar, to be in line with what RP 2014 suggests without a blue collar adjustment. They are recommending no blue collar adjustment for excludable general employees. Ms. Gomez asks if they have to make a change to the table. Mr. Strong replies that they have to keep in mind that the unfunded liability can keep climbing without having reasonable long term assumptions in place. Ms. Gomez asks how was the unfunded liability impacted over the last few years because of the mortality table they have been using. Mr. Strong responds that it takes a while for mortality experience to play out because you only have a few deaths a year and a few deaths expected a year. It takes a while for cumulative gains and losses for mortality experience to play out. Two days ago he got an email from Tallahassee on legislative updates. Senator Brandis just drafted and got into Committee hearings a bill, Senate Bill 242. If it gains traction and gets adopted it is calling for all municipal plans in the State of Florida to use the same mortality assumption as used by Florida Retirement System for funding of their valuation. It is a blended table of white collar and blue collar rates extending from RP 2000 fully generational.

Ms. Jaramillo-Velez comments that the last time they changed the mortality table it had an effect on the Teamster employees' contributions due to the cost-sharing. Will this do the same thing? Mr. Strong informs that it would increase the excludable employees' contribution more

than the non-excludable employee contributions. Vice-Chairperson Hoff asks how much different would the table the State is currently using be than what is proposed to this Board. Mr. Strong replies that he hasn't done the numbers and it is a more complex table.

Vice-Chairperson Hoff informs that they will take a month to digest this study. Mr. Strong points out that the total increase for all the assumption changes not counting the COLA assumption would be over \$1.1 million. They also did a 30 year projection of what the City's cost would be if they implement all the assumption changes not including the 1.3% COLA assumption. They also have a 30 year projection with the 1.3% COLA assumption. You can see that as long as all the assumptions were met they are phasing in some gains in the actuarial value of assets. That will drag down the contribution requirement in the next few years. There would be an initial \$1.1 million increase but that increase would be as of 10/1/14. The 2015 contribution requirement would be expected to be \$23.9 million and that includes the \$1.1 million increase. Mr. Garcia-Linares comments that they had talked about that \$25 million contribution minimum requirement at one point. Mr. Strong informs that they also assumed the current cap of 15% contributions for non-excludable employees and that the 15% cap would be applied every year.

4. The Board's Actuary, Gabriel Roeder Smith, recommends that the Board authorize GRS to provide new disclosure information in the October 1, 2014 Actuarial Valuation Report required by Florida State Senate Bill 534 for the quoted fee range of \$5,500 to \$6,500. (*Deferred from the November 13, 2014 Board meeting*). (*Agenda Item 7*).

Mr. Strong informs that Senate Bill 534 required additional disclosure information that wasn't previously required. It requires not only issuing a separate document to the State which shows a number of things. It shows the liabilities and what the assumed contribution would be using the RP 2000 fully generational table. It also shows what the impact would be by using an assumed rate of return that is 200 basis points lower than the actuarial rate of return. Given there are five groups in this plan that is a total of 10 additional valuations that have to be run. Then there is also a requirement to show a run out date calculation under all the assumptions that shows how many years until benefits will exhaust all the money in the plan. This is a very meaningless number because all it is doing is calculating if you earned no more money in investment return and have no more contributions coming into the plan and subtract the benefits that are in place then how many years do you have until you run out of money. It is basically a ratio. There have been two hearings at Division of Retirement in Tallahassee which are proposed rulemaking workshops to try and come up with what exactly the rules are for implementation of these items in the Senate Bill 534. The rules are still not final. The rules had not even been drafted at the time they submitted their proposal to be the Board's actuary a year and a half ago. They put that into their contract that there was a lot of uncertainties surrounding Senate Bill 534. Over the last few months they have looked at what the proposed rules are and started to think about how much it would cost to do the work. Over the past few months they have evaluated how much work it would take to comply with the rules. They are going to do separate reporting outside the valuation reports because it is a separate disclosure requirement that needs to be submitted to the State. There is also website reporting that is required to put on the City's website. They are trying to work with the Boards with the costs. It is an unfunded mandate and they are hoping it will be repealed. The reason they have a range of costs is because there is a lot of concern that this is only showing one side of the

sensitivity in the disclosure requirement and that is what is the effect on the valuation if you show 5.75% and to get a full view of sensitivity some boards are also showing a plus 200 basis points at 9.75% to show that affect. They can do both sides for that and not exceed \$6,500.00.

**A motion was made by Mr. Easley and seconded by Mr. Nunez to approve the fee up to \$6,500.00 addressing the State Senate Bill 534 work conducted by GRS and include both sides of the sensitivity range. Motion unanimously approved (10-0).**

Mr. Strong addresses the differences between the actuary's rate of return calculation and the investment consultant's rate of return calculation. He explains that Ms. Groome sends them the Northern Trust consolidated statement market reconciliation. They received previous determinations that were done by Nyhart to see how it was done in the past. By piecing together what Nyhart has done for the past couple of years using the market value reconciliation from previous years they continued that practice. They used a gross return based on a standard level cost increase. They assumed that cash flows were evenly distributed throughout the year and did not worry about the cash flows. That is the standard actuarial calculation for determining an approximate return on assets. They also don't worry about expenses and do a gross return. That is what Nyhart had been doing so they continued that practice. The way the investment consultant calculates the return is more intricate. Mr. West explains that they provide much more detailed analysis of what happened with the cash flows in the portfolio. If the City contribution comes in a lump sum in October, they are time weighting when that money gets put to work. In case where a pension system is very cash flow intensive like this plan is, there are big swings in cash flow and that can result in differences between the two methodologies. When you have big swings in the market that will also result in difference in the returns. Both are correct. Both are following industry standards but the methods are very different. Mr. Strong informs that the ordinance does not specifically address the methodology to use in calculating the return. Because there are different ways to calculate the return they just followed the practice established by Nyhart. Mr. Easley asks if Mr. Strong thinks that is a false number because it is based on the gross and excludes all expenses. Ms. Groome informs this is the process they have followed since she has been the Administrator to the plan. Mr. Strong states that in about 5% of the cases it will be like it is this year if it makes a difference if the COLA is triggered or not. In those 5% of cases when it does make a difference this is when it is in the spotlight. If he was starting the process from scratch since the return is compared to the expected return of 7.75% on a net basis that is what you compare to. The 7.75% is a net return assumption. He knows that is the more conservative route and 5% of cases prevents the 10% from being triggered but he thinks that would be more proper way to do it. He thinks it would require Board approval to change the methodology. They can change it going forward. Ms. Gomez would like to change it so the 2015 COLA calculation can be revisited.

**A motion was made by Ms. Gomez and seconded by Mr. Garcia-Linares to recalculate the January 1, 2015 COLA calculation based on the methodology that uses net investment and to use that methodology going forward.**

**Discussion:**

Mr. Strong informs that on a net basis they got 9.9% which is different than the 9.6% that the consultants got.

**Motion unanimously approved (10-0).**

Mr. Strong informs that he read through the minutes of the November meeting and it was mentioned that the City may consider a pension obligation bond. His personal feeling is that is a gamble and a huge risk. It is a fixed bond payment that you are on the hook for the next 20 or 30 years and can still end up with losses on the pension plan and continue to accumulate if they don't achieve the returns. He warns to tread with caution into that arena. Vice-Chairperson Hoff thinks that they will be discussing that issue at the pension workshop. Mr. Strong states that the worst thing that can happen if they do that and invest the money into the stock market and then have a 20% correction in the stock market.

5. Election of a Chairman for the Retirement Board [Retirement Ordinance Section 50-88(a)].
6. Election of a Vice-Chairman for the Retirement Board [Retirement Ordinance Section 50-88(b)].
7. Election of Investment Committee members [Retirement Ordinance Section 50-121]. 2014 Investment Committee members: Donald Hill, Randy Hoff, Robert Campbell, Troy Easley, Pete Chircut.

**A motion was made by Ms. Gomez and seconded by Mr. Garcia-Linares to defer the three elections for the Retirement Board until the next meeting. Motion unanimously approved (10-0).**

8. Items from the Board attorney.  
Mr. Greenfield informs that they have had the usual kind of quiet holiday season. They have worked on things internally. On the COLA he wanted to point out that the lawsuit was started back in June 2013 and it was at issue in May 2014 which means there is an answered filed that can then go to trial. There was some request for discovery. It was completed in September and since September there has been nothing except it appears that two of the plaintiffs have withdrawn from the lawsuit. The lawsuit has been stagnant. On the Nyhart case he received a copy of the amended answer. They can go online and see the information but they can't get a copy online but he requested from the attorneys and they sent him a copy. Nyhart has nine defenses and five of the nine defenses say that when they bought Stanley Holcombe they bought the assets and not the liabilities so they are not to be in the case. Two of the defenses are statutes of limitations dealing with the fact that back in 2008 they had given an opinion and given some direction so they knew as early as 2008 which is within that five year statute of limitation so they raised that and the duty to mitigate. It seems to be crawling along too. It is not going forward at any fast pace.
9. Investment Issues.  
Dave West reports that at the Investment Committee they reviewed hedge fund of funds and global tactical allocation strategies. Those are two separate strategies. The purpose of the meeting was to review and get the wheels in motion so they can begin looking at alternative investments in the event that the PIMCO Disco II investment does sunset or when they do start to sunset they have an alternative investments in place so they can move the funds. PIMCO is

scheduled to attend the March meeting and they will give them an official position on whether they are going to continue the Disco fund. They are trying to work in advance with the changes and the Committee opted to move forward with some interviews with a couple of candidates that were discussed. Also, Dan Johnson, from the Bogdahn Group, will be assisting Troy Brown and himself in the management and service of this relationship. They are not changing their coverage they are just adding Dan to their team.

Mr. West reviews investment performance. Fiscal year to date they are looking at a 2.3% rate of return. The domestic equity blend of managers is ahead of the benchmark at 3.85%. International equity is also ahead of the benchmark at -2.18%. Domestic fixed income came in at benchmark and the global fixed income outperformed their benchmark down -1.3%. They had an almost 5% market correction between the last meeting and now. Those strategies were affected by that down market trade. They are already looking at a snap back. They have been following Wells Capital Management and their performance and he is happy to report that for the quarter the Wells strategy is ahead of the benchmark and they had a good month. For the quarter they are seeing a turn in that strategy. From a PIMCO organizational update they had them in their offices the week before Christmas and got an update. The firm is still on watch and he is speculating that the Bogdahn Group will remove the internal watch status from the organization probably no later than two quarters. One of the alternative strategies they reviewed happened to be a PIMCO strategy. Given what has transpired and the handling of the money flow at the firm and reorganization of personnel happens to be working well.

Mr. Easley comments that the benchmarks they are using are passive comparisons. He reached out to Troy Brown and Mr. Brown provided him with a listing of where this fund sits in relationship to the Bogdan's universe of funds that are actively managed. They aren't near the top. The reason why they find themselves in the lower percentile is because they have taken a very conservative stance in regards to equities. It is his opinion that he thinks they need to be more aggressive in regards to looking at equities versus sitting on the sidelines and having more in fixed income. Vice-Chairperson Hoff informs that they talked about this at the Investment Committee meeting and he thinks that discussion would be better if they had everyone at the meeting since they have had some members who have already left the meeting. Mr. Easley understands. He would like for this to be a discussion item at the next meeting. Mr. West states that what they ran at Mr. Easley's request is that they did rank this fund with other Bogdahn clients with no screening for size, open plan or closed plan and on a return basis the plan was in the 58<sup>th</sup> percentile. Some periods were higher but it was around the 50<sup>th</sup> percentile for Bogdahn clients. They use a more conservative asset allocation for this fund specifically in regard to equity. The second thing they ran was the plan's ranking from a risk standpoint which is volatility from a return measure. That was the flip side where this plan ranked very high in the Bogdahn universe meaning that the risk management effort has worked and they had a much lower volatility of return and ended up getting an average return. The volatility was much lower than the average Bogdahn client. They view that as a confirmation that the program they implemented worked.

10. Old Business – both items were previously discussed.
  1. Comparison of Investment Consultant rate of return calculation versus Actuarial rate of return calculation Fiscal Year 2003-2004 through Fiscal Year 2013-2014.

2. Copy of State of Florida letter to City of Hollywood regarding the “13<sup>th</sup> check”.
11. New Business.  
There was no new business.
12. Public Comment.  
There was no public comment.
13. Adjournment.

The next scheduled Retirement Board meeting is set for Thursday, February 12, 2015 at 8:00 a.m. in the Youth Center Auditorium.

Meeting adjourned at 10:28 a.m.

APPROVED

RANDY HOFF  
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME  
ADMINISTRATIVE MANAGER