

City of Miramar Firefighters' Retirement Plan

MINUTES OF MEETING HELD

May 17, 2012

James Estep called the meeting to order at 9:05 AM in the Conference Room of Fire Station 100 located at 2800 SW 184th Avenue, Miramar, FL. Those persons present were:

TRUSTEES PRESENT

James Estep, Chairman
Manuel Esparza, Secretary
Orlando Segarra; Trustee
Andrew Tomchik; Trustee
Leo Nunez; Advisory Comm
Susan Finn; Advisory Comm
Chris Armstrong; Advisory Comm

OTHERS PRESENT

Denise McNeill & JC Louissaint; Resource Center; Administrator
Bonni Jensen; Perry & Jensen; Counsel
Don Dulaney; Dulaney & Company; Actuary
Greg McNeillie; Dahab & Associates, Consultant
Ian Thomas; City of Miramar
Members of the Plan

ATTORNEY REPORT

FORM 1 FILING: Mrs. Jensen reminded the Trustees that their Form 1 Filing was due July 1, 2012 and must be filed with the Supervisor of Elections in the county in which the Trustee resides. She explained the Commission on Ethics had clarified the requirements for the financial filing noting the Trustees must report specific stock held if the amount of that single stock is over the threshold (\$10,000 or 10% of net worth). She noted that many Trustees have changed to 10% of their net worth for the filing. She then noted that some Trustees are attaching copies of their individual statements and redacting the personal information.

LEGAL UPDATES: Mrs. Jensen then addressed a tax law update regarding a Private Letter Ruling (PLR) from the IRS. In this case, the IRS ruled regarding a matter involving certain early retirement subsidies that were being eliminated so many employees "retired" to take advantage of the benefits. The employer allowed the employees to do so, and then rehired them the next day. According to the PLR, such retirements violate the Internal Revenue Code 401(a) and could result in disqualification or penalties to a Plan. She noted they can do in service distributions as long as the Plan has a required normal retirement age (for Public Safety that age is 50). She explained the rule will be applied to this Plan January 1, 2015 and everyone in the Plan would be allowed the option. Discussion followed regarding the re-hire matter and she explained there is no clear guidance however she believes it applies to the Plan Sponsor who in this case, is the City. It was noted that if rehired, the member would need to contribute to the Plan; however this also increases the City's cost to the Plan for funding.

Bonni Jensen explained the House did not pass specific pension fund provisions however they did pass a couple of rules that will affect the Plan. Mrs. Jensen then addressed the beneficiary matter effective July 1, 2012 for any deaths. She noted the dissolution of marriage will now delineate a beneficiary's eligibility at the death of the member which complicates matters for the Board. She explained the Pension Board must now look at the death certificate and if divorced, cannot pay to the designated beneficiary unless certain criteria has been met. Mrs. Jensen recommended updating the beneficiary form and developing procedures for gathering records. She noted that upon the death of a member who has divorced, she expects the research will be an issue. Mrs. Jensen recommended the Plan renew efforts to collect revised beneficiary forms annually. She explained there are affidavits provided by the State that can be used in the event of such a member's death and divorce matter. Mrs. Jensen recommended the City HR Department add the form to their

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process for open enrollment changes. She reviewed the detailed changes regarding the confidentiality for members which now extends to their spouses and children. She provided an updated confidentiality form for both active and retired members. She explained the employee's signature invokes the privacy on behalf of their family.

TAX OPINION: Mrs. Jensen explained the City had requested the Pension Fund enlist the opinion of a tax attorney to address the matter regarding the sick and vacation payouts that are rolled into the DROP. Mrs. Jensen reported the cost would be \$3,000 to have the matter reviewed and to receive a qualified opinion from Tarcza & Associates.

- Manuel Esparza made a motion to hire Tarcza & Associates to provide the necessary opinion to the Plan for the cost of \$3,000. The motion received a second by Andrew Tomchik and was approved by the Trustees 4-0.

Discussion followed regarding the front load DROP contributions. Mr. Thomas explained there should be no federal withholding on the funds; however the City is applying Medicare /Social Security taxes.

MERRILL LYNCH CLASS ACTION: Mrs. Jensen reported on a Class Action suit filed by the Defined Benefit Plans in the City of Lake Worth against Merrill Lynch. She explained the suit settled for over \$8M and she explained the net settlement amount is in pro-rata basis in proportion to the fees paid. She explained the administrator and chairman should receive the notice which should be forthcoming in the next week.

INVESTMENT CONSULTANT REPORT

Greg McNeillie appeared before the Board on behalf of Dahab & Associates to present the portfolio's performance report for the quarter ending March 31, 2012. Mr. McNeillie noted that Dahab is fee based only and there are no issues related to their firm relative to the Merrill Lynch class action suit. Mr. McNeillie reviewed the quarterly report in detail noting it was a good quarter. He reported the Plan was up 11% for the quarter and 19.6% for the fiscal year to date. He reported the Plan ranks number two in their public fund universe, mostly due to the high equity allocation. Mr. McNeillie explained he would like to back the Plan down from the 80% equity allocation and he is looking for return without as much risk. He noted the passive portion of the portfolio is helping to keep costs down. Mr. McNeillie went on to review the quarter explaining the large cap equity portfolio was up 15%, beating the S&P 500 Index's return of 12.6%; domestic equities were up 14.6% beating the index of 12.9%; SMID cap equities were up 13.8% beating the index of 13%; international was up 12.2% and real assets were up 2.1%. Mr. McNeillie explained some of the recent changes to the portfolio and the correlating adjusted indexes. The Trustees inquired into various items such as adding alpha to the Fund. Mr. McNeillie explained alpha can be added by changing the allocation or addressing it directly with the managers. He explained alpha has been added through allocation and it can also be done through different asset classes. Mr. McNeillie may recommend more of an active international strategy at some point. Mr. McNeillie reviewed details of each manager's portfolios and the positive and negative holdings of each for the quarter. He explained Lee Munder had undergone significant changes three years ago, then implemented a new growth team and the changes seem to be working however he will continue to monitor their performance. He reminded the

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Trustees that Northern Trust and Wilshire will not provide details of the stocks held and that is one of the reasons why he does not like using Northern Trust due to the lack of transparency. Mr. McNeillie noted there was a glitch in the funding transfer to CS McKee, the Northern Trust fixed income was to be transferred to CS McKee however the international was sold and transferred instead. He explained it was immediately caught the same day and the end result was that the fund was out of the international investment for one day and international happened to be down that particular day so the transaction worked out well for the Plan. Mr. McNeillie reported the Hancock capital calls were on track to be funded the following week. Lengthy discussion followed regarding the current allocation. Mr. McNeillie recommended moving \$1M each to Rushmore and Herndon. He explained there is currently a positive cash flow into the Plan and as funds are needed, they can be taken from Northern Trust since those assets are passive and liquid. Mrs. Jensen reported that she had spoken with the class action attorney and Lee Munder regarding the Abovenet stock in the Lee Munder portfolio. She explained the stock was given a tender and Lee Munder felt it was above what the stock was worth. The class action attorney felt it would be worth more; however Lee Munder had voted "yes" for the tender. Mrs. Jensen explained the price is already experienced in the "unrealized gain" in the Plan's returns.

- Manuel Esparza made a motion to move \$2M from cash and transfer \$1M each to Rushmore and Herndon. The motion received a second by Andrew Tomchik and was approved by the Trustees 4-0.

Mr. McNeillie reported that he has set up a schedule to invite managers to each meeting he is scheduled to attend. The list was presented to the Trustees in their meeting packets.

Mr. McNeillie presented a proposal for a fee increase from the current \$16,500 to \$22,000 annually effective October 1, 2012. He noted the Plan has grown by 51% over the past 4.5 years and he feels he has added considerable alpha to the portfolio. He explained that most of his other clients are billed on an asset basis instead of a fixed fee.

- Manuel Esparza made a motion to approve the fee increase to Dahab & Associates to \$22,000 annually effective October 1, 2012. The motion received a second by Andrew Tomchik and was approved by the Trustees 4-0.

ACTUARY REPORT

Mr. Dulaney reported that he had received a letter from an actuary appointed by the State to review the Plan's valuation reports. He had responded to the inquiry and received no further response until April. The response advised the October 1, 2010 report was not accepted. The amortization referred to 20 years and should have been 19 years. Mr. Dulaney provided a revised 2010 valuation report. He reviewed the matter with the Trustees explaining when he was hired and completed the first valuation for the Plan for 2005, he was surprised to see the funded ratio at only 51% and that was due to the funding methodology used. He had compared that methodology to using an entry age method and found that it would increase the cost to the Plan so he kept the prior process which had been adopted by the prior actuary in 1999. He went on to review the differences in detail with the Trustees noting that he felt freezing the funding

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at 20 years seemed reasonable; however the State did not agree and wants the report revised. Mr. Dulaney explained he reviewed the numbers to see if it would be beneficial to re-smooth the amortization and he found that such a change would not help with the current situation. He recommended changing to the entry age normal process at the point when it will not have a significant cost impact to the Plan. He explained in the average age normal entry process, he would amortize over 30 years however the current process continues to reduce by one year each year from the original 30 year basis. Leo Nunez acknowledged the current process, while aggressive, would pay off the unfunded liability sooner; however the cost could be significant to the employer. Mr. Dulaney had revised the 2010 report and will correct the 2011 report with the same methodology. He noted that a few good years of investment returns could help to alleviate the cost of such a methodology transition. He explained the current process creates the environment for larger shock increases toward the end of the 30 year clock. Bonni Jensen departed the meeting at 10:45 AM.

- Manuel Esparza made a motion to accept the revised October 1, 2010 report. The motion received a second by Andrew Tomchik and was approved by the Trustees 4-0.

NEW BUSINESS

Mr. Louissaint reported the next set of capital calls had been received from Hancock and Molpus and were scheduled to be processed. Mr. McNeillie advised that if funds were not available in cash, then the funds should be raised from the Northern Trust S&P500 account as it is currently a bit overweight.

Mr. Estep inquired into having pension board shirts made for Trustees attending conferences. Discussion followed regarding the cost.

- Orlando Segarra made a motion to authorize ordering one dress shirt and two polo shirts for each Trustee and for the total cost not to exceed \$400. The motion received a second by Andrew Tomchik and was approved by the Trustees 4-0.

OLD BUSINESS

Denise McNeill reported that the data setup request had been provided to the City for the new payroll vendor. She explained that the outstanding payroll files had not been received and no further payroll has been posted to the administrator's system for the current fiscal year for the group.

MINUTES

Minutes of the April 5, 2012 meeting were presented in the Trustee packets for review.

- Manuel Esparza made a motion to approve the April 5, 2012 minutes as presented. The motion received a second by Andrew Tomchik and was approved by the Trustees 4-0.

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FINANCIAL STATEMENTS

The Financial Statements for the period ending March 31, 2012 were presented in the Trustee packets for review.

DISBURSEMENTS

JC Louissaint presented a disbursement report for approval with two additions including reimbursements for the receipt for the meeting food and payment to Jason Swaiden for the FPPTA reimbursement.

- Manuel Esparza made a motion to approve the disbursements as amended. The motion received a second by Andrew Tomchik and was approved by the Trustees 4-0.

Denise McNeill reported that JC Louissaint would be leaving the Resource Centers and would be transitioning back to retirement recordkeeping for a company in Miramar. She explained that she will be the Plan's main administrator going forward.

- Manuel Esparza made a motion to adjourn the meeting at 10:58 AM. The motion received a second by Orlando Segarra and was approved by the Trustees 4-0.
- Manuel Esparza made a motion to rescind the prior motion to adjourn. The motion received a second by Orlando Segarra and was approved by the Trustees 4-0.

James Estep explained the Union may have a need for a few hours of the actuary's services.

- Manuel Esparza made a motion to approve a few actuarial hours for the Union if the service is needed. The motion received a second by Andrew Tomchik and was approved by the Trustees 4-0.

ADJOURNMENT

The Trustees acknowledged their next meeting date, previously set for August 16, 2012. There being no further business,

- Manuel Esparza made a motion to adjourn the meeting at 11:00 AM. The motion received a second by Andrew Tomchik and was approved by the Trustees 4 -0.

Respectfully submitted,

Manuel Esparza, Secretary