

MINUTES

**GENERAL EMPLOYEES' RETIREMENT COMMITTEE
AND
POLICE OFFICERS' & FIREFIGHTERS'
RETIREMENT COMMITTEE MEETING**

FRIDAY - OCTOBER 1, 2010 - 1:00 PM

PRESENT

Sgt. Mo Asim
Sgt. Leo Socorro
Chief Linda Loizzo
Larry Gordon
Councilwoman Beth Spiegel
Councilwoman Barbara Kramer
Vic Espinal

ALSO PRESENT

Pedro Herrera – Plan Attorney
Darcee Siegel – City Attorney
Martin Lebowitz – Pension Administrator
McKenzie Fleurimond – Resident

ABSENT

Councilman John Julien
Councilman Frantz Pierre
Lori Helton

DEPARTMENT REPRESENTATIVES

Bill Dresback - Retired Firefighter
Janice Coakley – Pub Services

The meeting was called to order at 1:07 p.m. by Sgt. Socorro and was followed by a roll call of Trustees.

I. REAL ESTATE INVESTMENT MANAGERS PRESENTATIONS

- UBS TRUMBULL PROPERTY FUND – Maria Bascetta
- JPMCB STRATEGIC PROPERTY FUND - J. D. Sitton and Greg Pittenger

Following discussion, motion by Larry Gordon, seconded by Victor Espinal, to invest 7 ½ % of the total portfolio of the General Employees' Retirement Plan in Real Investment which would come from the Bond Fund.

Motion carried.

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Police & Fire Retirement Committee Meeting
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Following discussion, motion by Larry Gordon, seconded by Victor Espinal, to hire UBS Trumbull Property Fund for the Real Estate Investment Manager for the General Employees' Retirement Plan.

Motion carried

Following discussion, motion by Councilwoman Spiegel, seconded by Chief Loizzo, 5% of the total portfolio of the Police & Fire Retirement Plan in Real Investment which would come from the Bond Fund.

Motion Carried

Following discussion, motion by Councilwoman Spiegel, seconded by Chief Loizzo, to hire UBS Trumbull Property Fund for the Real Estate Investment Manager for the Police & Fire Retirement Plan.

Motion carried

II. EXPERIENCE STUDY - EDUCATION –

Tom Lowman provided the results of an experience study which covers period from October 1, 2005 through September 30, 2009. The purpose of an experience study is to review the actual results over a period of time to determine if the actuarial assumptions used for the Plan are up-to-date. The Annual Valuation Report uses these assumptions in order to plan for the obligations needed to keep the fund financially sound in order to provide current and future retirement benefits. Please see attached Experience Study Report.

Following discussion, motion by Sgt. Asim, seconded by Sgt. Socorro to table this issue until November 18, 2010 meeting.

Motion carried.

III. DIGITAL RECORDER – RECORD MINUTES OF MEETING

Martin Lebowitz reported that we can use City Clerks Digital Recorder to record the minutes of our pension meeting. Martin Lebowitz will be trained on how to use the recorder.

Meeting was adjourned at 3:50 p.m.

Martin Lebowitz, Pension Administrator

City of North Miami Beach Police and Fire Employees' Retirement Plan

Experience and Assumption Study



September 15, 2010

Prepared by:
Bolton Partners, Inc.
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Section 1 – Introduction

This report reviews the experience of the City of North Miami Beach Police and Fire Employees' Retirement Plan over the period October 1, 2005 through September 30, 2009 in order to determine potential changes in actuarial valuation assumptions. The Trustees are responsible for managing and administering the plans. A part of this responsibility is having an actuary perform annual valuations to determine the recommended cash contributions to the plans. Having these valuations based on reasonable assumptions is important. It is our understanding that the Trustees are responsible for adopting the mortality and other tables and interest rates to be used for plan funding (which are also currently used for accounting). The study has been prepared to help the Trustees make such decisions.

Section 10 of the report shows the cost impact of proposed changes to the City's annual contribution.

The actual long-term cost of the plan is not based on assumptions. The actual cost is based on the benefits paid, the investment return and the other expenses paid. However, to orderly set aside money to prefund benefits, assumptions must be made about future events. To determine the current expense to prefund the pension plan requires that a number of assumptions be made about future events. As actual experience differs from these assumptions, the cost of the plan will gradually change. Ideally, the assumptions will be close to this experience. However, some assumptions (e.g., investment return) will commonly vary materially from year to year.

While the expense of the plan will "self adjust" to reflect actual experience, it is important to review and reset the assumptions from time to time to minimize experience gains and losses.

When considering our recommendations, we also considered the current assumptions which we assumed were based in part on prior experience. Some experience was consistent with the prior period and some (e.g., investment returns) changed materially. Some experience differed materially within the four most recent years being studied. This shows up clearly on the salary increases. These reflect the impact of the recession. Often we will recommend new demographic rates which fall between the current assumption and current experience.

Certain economic assumptions (i.e., inflation) are not based solely on the plan's experience during the past four years, and therefore require a longer period of experience to be considered. Three of the key assumptions are tied to the economy. They are (1) the investment assumption, (2) CPI increases and (3) salary increases. We are generally recommending that these all be lowered.

While the cost impact is based on a comparison to the 10/1/2009 valuation results, any change in assumptions would be prospective and would not apply until the 10/1/2010 valuation (FY 2012 contribution).

Section 1 – Introduction

(continued)

In preparing this study, we have relied primarily upon annual actuarial valuation data provided to us by the City of North Miami Beach. The City also supplied some data specifically for this study.

The undersigned credentialed actuary meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report. We are not aware of any direct or material indirect financial interest or relationship, including investments or other services that could create a conflict of interest that would impair the objectivity of our work.

If you have any questions, please feel free to contact us.

Sincerely,

BOLTON PARTNERS, INC.

A handwritten signature in black ink, appearing to read 'T. Lowman', with a long horizontal flourish extending to the right.

Thomas B. Lowman, FSA

Section 2 – Retirement Assumption

Retirement experience is dependent on the plan provisions. The following are the key provisions:

Normal retirement with unreduced benefits can occur at the earlier of the attainment of age 52 or the completion of 20 years of service. Early retirement can occur at the earlier of the attainment of age 45 with 15 years of service, or the attainment of age 50 with 10 years of service.

The current assumptions (probability of retiring) are tied to years of service and are as follows:

1. 75% of participants retire upon reaching the later of age 40 and 20 years of service. Participants continue retiring at a rate of 50% each year until age 52 or 25 years of service. Upon reaching age 52 or 25 years of service, 100% retirement is assumed.
2. 50% of retirements are assumed to join DROP. Joining DROP is treated like a retirement. Those joining DROP are assumed to stay in DROP for five years (this impacts when the 2.5% COLA starts).

Actual experience showed that from 2005-2009, (1) about 73% retired (or elected DROP) before they had 21 years of service and (2) 69% of all retirements were DROP retirements.

We are not recommending any assumption changes. We should note that some retire by purchasing enough service to get to 20 years and then retired or elected DROP (e.g. retired after 16 years and purchased 4 years and retired).

Section 3 – Termination Assumption

This assumption is important since the plan cost depends very much on the likelihood of staying employed until retirement age. The plan assumption about turnover is very low, probably due in part to the good pension benefits. The current assumed termination rates are based on service only. They are as follows:

Years of Service	Termination Rates
0 - 1	12.00%
1-5	6.00%
5 +	0.75%

The following tables summarize the termination experience (over the years ending September 30) from 2006 through 2009:

Service Group	Expected Terminations				
	2006	2007	2008	2009	Total
0	0.5	0.8	0.8	0.0	2.1
1	0.4	0.2	0.5	0.4	1.5
2	0.1	0.4	0.2	0.6	1.3
3	0.0	0.1	0.4	0.2	0.7
4	0.3	0.0	0.0	0.4	0.7
5-9	0.2	0.2	0.2	0.1	0.7
10-14	0.2	0.2	0.2	0.2	0.8
15-19	0.2	0.2	0.2	0.2	0.8
20+	0.0	0.0	0.0	0.0	0.0
Total	1.9	2.1	2.5	2.1	8.6

Section 3 – Termination Assumption
 (continued)

Service Group	Actual Terminations					Actual vs. Expected
	2006	2007	2008	2009	Total	
0	2	0	0	0	2	95%
1	0	0	0	0	0	0%
2	1	1	1	0	3	231%
3	0	0	0	0	0	0%
4	0	0	0	0	0	0%
5-9	0	0	0	0	0	0%
10-14	1	0	0	0	1	125%
15-19	0	0	0	0	0	0%
20+	0	0	0	0	0	NA
Total	4	1	1	0	6	70%

Overall the experience was somewhat below the expected values, but the overall counts are very small. We suggest a slight decrease for years after five as shown below:

Years of Service	Assumption Change
0-1	No change
2-4	No change
5+	Change from 0.75% to 0.5%

Section 4 – Disability Assumption

The following table summarizes the disability experience (over the years ending September 30) from 2006 through 2009:

Expected Disablements	Actual Disablements	Actual vs. Expected
1.2	2	167%

The experience is close enough (and the numbers small enough) that we recommend no change in the assumption.

Section 5 – Mortality Assumption

The current assumed pre-retirement and post-retirement mortality rates for healthy males and healthy females are based on the RP 2000 Mortality Table with generational mortality improvements. The current assumed disabled mortality rates for males and females are based on different rates.

The following table summarizes the pre-retirement mortality experience for active participants over the plan years ending September 30, 2006 through September 30, 2009:

Expected Deaths	Actual Deaths	Actual vs. Expected
0.1	0	0%

The following table summarizes the post-retirement mortality experience for healthy retirees, disabled retirees, and surviving spouses over the same 2006-2009 period:

Group	Expected Deaths	Actual Deaths	Actual vs. Expected
Fire and Police Combined	8.3	4	48%

Overall, the retiree mortality was 48% of the expected rate. However, (1) the plan is not large enough to base their assumption just on their own experience and (2) the table being used is generally considered a best practices table since it is both current and includes generational improvements. We recommend no change in the table.

Section 6 – COLA Assumption

Some but not all benefits are adjusted by a COLA. Where there is a COLA adjustment, the increase is a fixed 2.5%/year. Since this is not variable, we value the future annual 2.5% increases and there is no need to set an assumption.

While there is no COLA assumption, there is a cost of living assumption which needs to tie into the investment assumption and salary assumptions (i.e. it is a building block). That assumption is currently 4%. We propose to lower it to 3%.

Section 7 – Investment Rate of Return Assumption

The current investment rate of return assumption on the market value of assets is 8.0%, after investment expense. This rate is used to discount liabilities.

The following table summarizes the rates of return on the market value of assets over the period from October 1, 2004 through September 30, 2009:

Plan	Actual Rates of Return on Market Value of Assets					
	2005	2006	2007	2008	2009	5-Year Average
Fire and Police	10.8%	7.0%	13.9%	(14.9%)	2.5%	3.86%

To state the obvious, experience has been less than the 8% assumption. However, the future is expected to produce returns higher than 3.86% (simple Arithmetic average).

The investment assumption is often determined using a building block approach. This looks at the inflation assumption, investment mix, expected real rates of return by asset class and investment expenses. The Plan's investment advisor (Morgan Stanley) has provided us with information on rates of return (including inflation and net of investment fees) which we have added to the following chart.

Asset Class	Rate of Return	Asset Mix	Product
US Bonds	5.3%	40.0%	2.12%
Real Estate	7.3%	0.0%	0.00%
US Large Cap	8.7%	40.0%	3.48%
US Mid Cap	9.2%	5.0%	0.46%
US Small Cap	9.8%	5.0%	0.49%
International Equities	8.9%	8.5%	0.76%
Emerging Markets	10.7%	1.5%	0.16%
		100.0%	
Forecast of Expected Arithmetic Gross Return on Market Value			7.47%

Section 7 – Investment Rate of Return Assumption

(continued)

The net expected return of 7.47% is also lower than the current net 8% assumption. If we assume investment fees of about 0.5% the 7.47% return is close to an 8% gross return assumption.

However, 7.47% is an arithmetic average return which is the expected average return. It may be important to understand that the average and the median (geometric) return are not the same. The median return expected is smaller by about 50 to 60 basis points. If we set a gross assumption based on the arithmetic gross rate it would be 8% and on a geometric gross rate it would be 7.5%. If the assumption is more than 7.5%, the fund will have more than a 50% chance of underperforming the assumption over a long time period. We are recommending a 7.75% rate which is between the expected arithmetic and geometric returns.

We recommend the following two changes:

1. Add a load of 0.5% of the market value of assets (about \$300,000) to the annual City contribution to cover investment expenses
2. Lower what would now be a net rate from 8% to 7.75%

Section 8 – Salary and Payroll Growth Assumptions

This section has three parts:

1. **Salary Scale:** The first is about the assumed rate of growth in an employee's pensionable compensation. The current assumption is higher for the first 12 years of service.
2. **Overtime Spiking:** The amount of overtime tends to increase during the years immediately before retirement. Currently, there is no explicit assumption for this situation.
3. **Growth in Total Payroll:** This is about the assumption used to determine the amortization factor which is applied to the unfunded liability. Currently payroll is assumed to grow by 5% annually.

1. Salary Scale

The current assumption assumes higher increases in the early part of an employee's career. The following graded schedule is currently used:

Years of Service	Salary Scale
0 – 4	8.70%/yr
5 – 9	8.70%/yr
10 – 12	8.70%/yr
13 – 19	5.50%/yr
20 – 24	5.50%/yr
25 +	5.50%/yr

These rates include an inflation component of 4.0% compounded annually.

Because salaries include all overtime, it is possible for salaries to decline even if base pay does not change. The following tables summarize the salary increase experience from 10/1/2005 to 9/30/2009:

Years of Service	Expected Salary Increases				
	2006	2007	2008	2009	Average
0-4	8.70%	8.70%	8.70%	8.70%	8.70%
5-9	8.70%	8.70%	8.70%	8.70%	8.70%
10-14	6.89%	7.19%	7.53%	7.94%	7.39%
15-19	5.50%	5.50%	5.50%	5.50%	5.50%
20-24	5.50%	5.50%	5.50%	5.50%	5.50%
25+	NA	NA	NA	NA	NA
Average	7.32%	7.20%	7.31%	7.50%	7.33%

Section 8 – Salary and Payroll Growth Assumptions

(continued)

Years of Service	Actual Salary Increases					Actual vs. Expected
	2006	2007	2008	2009	Average	
0-4	22.82%	14.29%	19.13%	12.29%	17.13%	197%
5-9	6.37%	10.80%	2.82%	-0.06%	4.98%	57%
10-14	8.69%	8.83%	4.36%	2.97%	6.21%	84%
15-19	9.97%	5.79%	2.26%	-1.90%	4.03%	73%
20-24	3.89%	3.58%	0.09%	4.01%	2.89%	53%
25+	NA	NA	NA	NA	NA	NA
Average	8.72%	8.70%	5.41%	3.02%	6.46%	88%

We recommend the following changes:

Years of Service	Current Salary Scale	Proposed Salary Scale
0 – 4	8.70%/yr	12.00%/yr
5 – 9	8.70%/yr	6.00%/yr
10 – 12	8.70%/yr	5.50%/yr
13 – 19	5.50%/yr	4.00%/yr
20 – 24	5.50%/yr	3.00%/yr
25 +	5.50%/yr	3.00%/yr

2. Overtime Spiking

The plan's definition of compensation includes an unlimited amount of overtime. Florida law essentially requires that the plan include at least 300 hours per officer per calendar year¹. Members will naturally want to increase the amount of overtime as they near retirement age so as to increase their lifetime pension. The ability to do this is somewhat limited since the pension is based on a five-year average. For 16 recent retirees, we looked at the percentage of total pension compensation which overtime represented. We found that overtime accounted for 13%² of pensionable compensation in the final 60 month average. While 13% was the increase that impacted benefits, members (and the City) contributed throughout the members' career on earnings that included overtime.

¹ 185.02(4): "Compensation" or "salary" means the total cash remuneration including "overtime" paid by the primary employer to a police officer for services rendered, but not including any payments for extra duty or a special detail work performed on behalf of a second party employer. However, a local law plan may limit the amount of overtime payments which can be used for retirement benefit calculation purposes, but in no event shall such overtime limit be less than 300 hours per officer per calendar year.

² The percentage during the 60 months increased gradually from 8.7% the first year to 15% by the last full fiscal year.

Section 8 – Salary and Payroll Growth Assumptions

(continued)

The City told us that from FY03 through FY08 the average amount of overtime as a percentage of pensionable compensation ranged from 11% to 17%. This was for all members. This range is similar to the percentage found near retirement. While there may be a dip in overtime mid-career and a spike at the end, we felt that no special loading was needed.

3. Growth in Total Payroll:

The assumption as to the growth in total payroll impacts the amortization payment since the amortization method attempts to keep the cost a level percentage of payroll. The State requires the following ten year calculation¹ to justify the assumption used to determine amortization payments (which are assumed to increase with covered payroll). The number of active members excludes those in DROP (there was no DROP in 1999).

<u>Date</u>	<u>Annual Rate of Pay</u>	<u>Number of Actives</u>	<u>Average</u>
10/1/1999	\$ 5,606,816	101	\$ 55,513
10/1/2009	\$ 8,915,551	92	\$ 96,908
		Ratio over 10 years	175%
		Average Increase	5.73%

While this supports the 5% assumption, if we just looked at the last 5 years we would see the following:

<u>Date</u>	<u>Annual Rate of Pay</u>	<u>Number of Actives</u>	<u>Average</u>
10/1/2004	\$ 8,115,258	100	\$ 81,153
10/1/2009	\$ 8,915,551	92	\$ 96,908
		Ratio over 5 years	119%
		Average Increase	3.61%

It would seem likely that over the next few years the State rules will no longer support a 5% assumption. We recommend that this be lowered to 4.0% and be aware that this might continue to need to be lowered.

¹ We have done this based on an increase in average compensation and have disclosed this to the State. It is possible that the State could require this to be based on total compensation. The prior results under either method have been over 5%.

Section 9 – Miscellaneous Comments

Asset smoothing methods

The plan has a five-year smoothing method to defer recognition of investment returns above or below the 8% assumption. There is a limit (e.g. 120%) on the ratio between the Actuarial Value of Assets and the Market Value. It is our general understanding that Florida rules effectively require a corridor of no more than 20%. We believe that the current method meets the current actuarial standard of practice, accounting rules and State rules.

Geometric vs. Arithmetic returns

The building block approach used to determine the interest assumption is based on an arithmetic average. For the average plan this is expected to produce the desired result. However, for the “median” plan a lower result (based on the geometric mean) will result. We believe that the current method meets the current standard of practice and accounting rules. However, these rules are currently under discussion and we will let you know if they change.

Risk free rates of return (or bond rates) for discount rates

Like the other assumptions, the investment return assumption is based on a “best estimate” methodology. We believe that the current method meets the current standard of practice and accounting rules. However, these rules are currently under discussion. Some believe that liabilities should be discounted at a rate that is independent to how assets are invested (e.g. bond rate). We will let you know if the rules change.

Section 10 – Cost of Proposed Assumption Changes

The following charts show the impact of all the assumption changes on the City's contribution. The City contribution shown is before any addition for the 70% funding ordinance. The increase in the unfunded liability can impact the 70% funding amount (i.e. 70% of the extra \$1,736,910 needs to be contributed over the special funding period).

Reconciliation of proposed changes	Contribution	% of Payroll
Current contribution for FYE 9/30/2011	\$ 4,632,573	49.5%
Change due to proposed changes	\$ 406,974	4.3%
Contribution for FYE with proposed changes	\$ 5,039,547	53.8%

We have broken down the impact of some of the changes in the following chart:

	Impact on Contribution	Impact on Unfunded Actuarial Liability
Load for Investment Expense	\$292,658	\$ 0
Lower interest rate from 8% to 7.75%	\$232,395	\$2,779,293
Change in Payroll growth assumption from 5% to 4%	\$254,565	\$ 0
All other assumption changes	<u>(\$372,644)</u>	<u>(\$1,042,383)</u>
Total	\$406,974	\$1,736,910