PENSION BOARD
POLICE DEPARTMENT

Chief Johnson: Roll call, I'm here, James Hooper, Tony Mangol, Jeff Oody, Dudley Hardy. We got everybody here?

Board in agreement

Chief Johnson: Ricky Thompson, you know Ricky ain't going to be here, Rich Campbell, Ron Cohen and Larry Wilson. Motion to adopt minutes of January 28th. Everybody get a chance to read those?

(whistling)

Dudley Hardy: I wasn't here, but I'll make a motion to approve the minutes
.
Jeff Oody: I wasn't here either, but I'll second.

(laughter)

Chief Johnson: any discussion, all in favor

Board: aye

Chief Johnson: motion for the approval of warrants for January 15, February 15 and March 15

Tony Mangol: I move that we accept the warrants.

Chief Johnson: Did we pay everybody?

Tony Mangol: January, February and March

Chief Johnson: Motion by Tony Mangol

Jeff Oody: I second

Chief Johnson: Second by Mr. Oody. Any discussion? All in favor say aye.

Board: Aye

Chief Johnson: Citizen's participation. Do you want to participate?

Jimmie Bowen: No

Chief Johnson: You can participate anytime you want to.

Jimmie Bowen: I appreciate that.

Chief Johnson: Okay. Dover Investments Rich Campbell, that'd be you,

Rich Campbell: That'd be me.

Chief Johnson: that would be you man.

Rich Campbell: Everybody's got a copy, right? Good afternoon everybody, We've got some administrative things to take care of before we get into the report. The first we need to update the investment policy statement from the meeting in January and I have that here, you don't need to see the whole thing, there are just 3 pages that got revised, The 1st one is the asset allocations, so that was revised primarily to make a section for cash because I was told we want to keep about $80,000 in cash, so that's probably about 2% and we should have that as part of the added stocks. The next page which is page 15, is we just incorporate the funds that were approved at the last meeting. The Vanguard high dividend yield, that was the new investment for the plan and then there was the Vanguard 100 index fund, which we purchase after we sold the ishares we'd purchased, which was in your minutes. And on the next page, page 16, reflect the Baird for their core plus bond fund and those are the 3 items that needed to be changed that needed to be updated for the ICS. Vanguard was there to begin with, so we probably need an approval or a vote to approve those changes.

Chief Johnson: So you're entertaining a motion on those 3 on how many pages you said?

Rich Campbell: Well, there's 4 changes, one is to the asset allocations and the next 3 are—

Chief Johnson: Rich Campbell is entertaining a motion for those revisions of the investment policy, right?

Rich Campbell: right, and the high yield dividend bond, new fund 500 and the Baird quarter.

Chief: okay

James Hooper: I make a motion that we accept the changes

Chief Johnson: Hooper made the motion

Tony Mangol: second

Chief Johnson: Second by Mr. Mangol. Any discussion? All in favor?

Board: Aye

Chief Johnson: k

Rich Campbell: Now, every week, I already told somebody this earlier, but every week I get this chart that's called "by the numbers" and sometimes there's some interesting information in it. I wanted to share with you, but it doesn't have anything to specifically do with the plan. There were 2,000 Americans surveyed and 57%, half of which were working, half of which were retired had accumulated less than $25,000 toward retirement and that's nothing, but it's what we're going face, people unable to support themselves. This is a quiz, How much does it cost Saudi Arabia to bring a barrel of oil out of the ground?

Jimmie Bowen: $20

Jeff Oody: $8

Chief Johnson: $9

Rich Campbell: the answer is $6. Can you believe that? I hear you can go over to Saudi Arabia and dig into the sand with your hand and come up with oil. Now, I don't know if that's true or not.

Dudley Hardy: that's like in Pennsylvania; they had it bubbling up out the ground.

Rich Campbell: the general fertility rate in 2013 was the lowest every recorded I the United States. We continue to produce less and less babies. For 6 consecutive years it's dropped

Rich Campbell: 4 out of 6 jobs in US are math related. The number 1 job….actuary.

James Hooper: back to the fertility, that will affect retirement

Rich Campbell: you're going to have less and less people supporting the more and more people

James Hooper: that may not affect us in our retirement, but certainly

Rich Campbell: Keep in mind, it's coming

Jeff Oody: does that take into consideration immigrants? Those the migration to the states.

James Hooper: people start retiring and my generation start retiring and then my kid's generation start retiring it's not going to be pleasant.

Chief Johnson: That's what happened in China. China quit having all these babies , because they wanted a male

James Hooper: Well Asia period. Asia has stopped producing, they just don't want kids.

Rich Campbell: The levels of debt compared to income peaked in 2008 with 120%. It's currently at 96% and it's actually on the uptake. In 2000 it was 81%. Anyone want to guess what it was back in 1952, 31%. We've become a Nation of debtors

The next big critical debacle that we will face somewhere down the road is "borrow to learn." 12.5% of our population has student debt, total 1.1 trillion dollars for an average of $29,000 a piece. That is going to be a problem. Because if they're not getting jobs, then they're not going to be able to pay.

Jeff Oody: It's getting ridiculous what it costs and the only reason I know this is I have a son getting ready to go to college.

Chief Johnson: you know what they values Ashley's scholarship at UAB? Just one year? $44,000. They've been blessed that she's plays softball and is good at it so she pays about $3,000 a year, but her scholarship is valued at $44, 000 a year at UAB.

Rich Campbell: the rate that the population is decreasing and will continue to decrease over the next 10 to 15 years, you're going to have a continuing drain of the labor pool as baby boomers generation retires, so you're going to have less and less people in the working group supporting more and more of those taking some kind of retirement benefits from somewhere and not being able to live. I work a lot with the electrical union IBW and they have so many jobs they don't have people for, and so this isn't new to me but I'm here to tell you, if you're going to give advice to your kids, unless they have aspirations where they need to go to college, these kids with the $29,000 debt are not finding jobs, or they're not finding jobs that are paying them enough to get out from under. Scale labor is in short supply right now and it's going to get worse. It's going to get critical.

Jeff Oody: I just heard I'm from Santa Fe, I sit on the trustee board and they just made a comment that between just Gainesville and Bradford County because that's their 2 service areas there's a need for 72 plumbers and that's just in these 2 market areas, but they don't need them in 2 years, they need them last year. So, what the college has done is taken the 2 year apprentice program and pushed it down into a 1 year and now after that 1 year you can go out and work, whereas before you had to go to school for 2 years and work (apprentice) for 2 years.

Chief Johnson: The correction system, they can't hire enough people. They're going to try and reopen that what was due east to us and call it FSP annex or something. They don't have enough people to open it.

Jimmie Bowen: Well they don't treat them right.

Chief Johnson: Oh, that's a fact. That's a huge issue, Nick had poop, pee and blood and everything else thrown on him the other day and he can't do nothing. He can't do anything about it.

Jimmie Bowen: Look at those people in Merlin, they had to give those 6 officers badges and told them to do the best that they can. That's just pitiful when even the Mayor of the town says, if they tear up it up we'll work it out.

Chief Johnson: You got to stop that early, You cannot let that get to where it got. You can't. Yeah it's too late.

Tony Mangol: People are not on the side police officers you make one little old mistake and you're going to get crucified for it and that's the sad thing about it.

Rich Campbell: Everyone makes mistakes, police officers included.

Chief Johnson: everybody

Rich Campbell: but the problem is its gone way too far. My wife had a great idea. Everyone in the police departments across the US should go on strike for one month, and then what would happen

James Hooper: It wouldn't even take a month

Rich Campbell: No

Chief Johnson: It'd take about 3 or 4 days

Rich Campbell: You'd see the country run rampant. Kind of like that show the Purge, where one day a year they let you do whatever you want to do.

Jimmie Bowen: Like back in Merlin, if those police officers would quit and handover their badges cause you can't just quit, you got to hand over your badge, things would be different, because then the state would come in there and straighten it out. Every once in a while a police officer may have to break a neck or something.

(laughter)

Rich Campbell: it just happened, evidently (laughter)

Chief Johnson: I don't know how that happened. I was trying to catch myself

Tony Mangol: I was just trying to catch my prisoner

Chief Johnson: well you knocked 3 teeth out of his head; I was trying to catch myself

(laughter)

Rich Campbell: So we've got to go over the actuarial reports, so this is my favorite treasury, as you well know. This is just the year to date, in the right hand column at the top. How different assets category fair. That top is a gray box, is year to date, developed markets, that's international and develop countries equity, their return is about 5%, small cap came in at 4.3, reaps at 4% , merging market equity at 2.3%. Asset allocation after combined, after what we kind of do here, a balance to kind of offset that number comes in at 1.9%, fixed income at 1.6%. Large capped stocks did not have a great quarter compared to others at 1% and we don't hold any of these or anything, it was just to give you an idea how the market did in the 1st quarter.

So we go to page 3 and it shows you how the firm did and how the year did and all theses individual investments. I'm not going to go through all this simply because I'm going to do that a little bit later. I just want to point out that Vanguard 500 index admiral had a return ending the one year in March of 12.69%, remember how I told you at the last meeting why we had the two different benchmarks, we had the S&P index, which is a true benchmark, but if you hold index funds you're never going to outperform that benchmark, because of cost of it. So I explained and I think everybody agreed that the large capped blend which is a morning star is a blend of large capped funds including active managed funds and indexes. And probably when we are using indexes a better gauge of how that particular investment is doing. So that what I want to highlight here 1269 versus 1011. High dividend yield 11% versus 791 so we're skipping the benchmark in-between to get to these categories.

Didn't have a good year for the developed markets, which it was not a good year. Down -91versus down -.82. Again just difference in costs. Vanguard small cap up 982 up for the year versus 604. A very good performance compared to the category. Merging markets up 305 versus -1.1. The Baird core was up 605 and we have to skip the next one to go down to their Universal index, which is their benchmark of 533. The intermediate bonds are at 470, so they did very good, but we haven't owned them for that period of time, but they're a good manager. Vanguard short term corporate bond fund at 232 versus the 1 to 5 year corporate index of which is 250 really not a great index to use, but it's the only one available. Because the short term corporate bond fund has actually about a 3 year average to maturity. The Vanguard reached at 2408 versus the real estate category of 2205. So you come up with a total for the plan of about 7% for the year a twelve month year. The fiscal year of six months was at 4.3. You bogeyed that one.

Chief Johnson: That's net?

Rich Campbell: that's net of all costs, yes. You see this red square here down at the bottom? We made several changes at the last meeting and over the course of the last year and a half, there's been quite a number of changes where all indexes are found and where fixed income comes from, which is Baird, it is not a good idea to look at those numbers within that red box and compare them to the numbers above. 47819 because these are static indexes as if we were going forward as if we held all these funds historically and that's not the case. So, we have it in there because we think it should be in there. Your actual numbers are a result of an investment that in a large part, we don't own anymore, so. Although the returns are less than what we showed here, it's not really the case.

Page 4, current asset allocations, as of the end of the quarter, Wainmark had 5.3, that's the black piece of the pie, Vanguard 13.6, that's S& P 500, then we have the high dividend yield at 13.4, 7.7 is developed in international markets. 7.5, the red piece, is you emerging markets international. 11.4 is small capped stocks 4.9 to reach. Now to go onto fixed income which is the Baird fund at 30.1 %.

In your minutes there was a need to approve a correction. There was for some reason, I had written down at the meeting in January the wrong fund and Vanguard dip and grow should have been the Vanguard high dividend fund. I caught that before we actually acted on it, so I didn't buy the mistake I bought the one it should've been. Which I felt like I was within my new authority to do that. So we need to correct that and approve that correction.

Chief Johnson: we need to that with a motion

Ron Cohen: We could have 2 motions; a motion to amend the minutes to reflex what he bought, then a motion to ratify his purchase of that.

Chief Johnson: So I entertain a motion to amend the minutes first

Jeff Oody: I motion to amend the minutes as stated

James Hooper: second.
Chief Johnson: Any discussion? All in favor

Board: aye

Jeff Oody: I'd like to follow that up with a motion to ratify the purchase that was actually made.

Chief Johnson: motion made by Oody.

Jeff Oody: that was reflected on page 4

Chief Johnson: second by Tony Mangol, any discussion? All in favor?

Board: aye

Chief Johnson: and that corrects that, right? Good deal.

Rich Campbell: in going forward, just presenting what we're going to do. I don't think we need to ratify it afterwards since I have authority to maintain asset allocations in-between meetings.

Ron Cohen: I'm not sure what you

Rich Campbell: I recommend that we buy 120,000 (+or -) of S&P 500, at some point in the future

Ron Cohen: but you don't know when?

Rich Campbell: No, I'm too conservative. Say the market's down 100 points today so… I'd like to get some weakness before—

Chief Johnson: down?

Ron Cohen: I think we could go ahead and approve that, I mean you have authority, but that's when you can't come in

Chief Smith: Do we do a motion with a time line?

Ron Cohen: to allow him discretion to purchases 120,000 (+or -) of S&P 500
before the next meeting.

Rich Campbell: and would expire at time of the next meeting

Chief Johnson: between now and the next quarterly meeting. So the motion is that between now and the next quarterly meeting you have discretion to purchase up to $120,000 of Vanguard 500. Right?

(multiple "right")

Dudley Hardy: Did you make the motion?

Chief Johnson: No sir, I can't

Dudley Hardy: I'll make the motion

Jeff Oody: I'll second.

Chief Johnson: I've got a motion made by Mr. Hardy and seconded by Mr. Oody. Any discussion? Does everybody understand what we're doing? All in favor

Board: aye

Rich Campbell: On page 5 is just a rehash of what you got in your monthly report. All broken down by various investments. The lower half of that details your expenses for the investments, which are exceeding cheap. They average 20 basis points add our fee on top of that.

Chief Johnson: Are you calling us cheap?

Rich Campbell: No (laughs)

Chief Johnson: and we played "and this is what you want"

(laughter breaks out with several talking at once)

Rich Cohen: we had ours at 39 basis and that includes our consulting as well as Salem's we have a total investment minded expense of .59% which is very inexpensive. And I don't have to go through these all individually, but let's take these index funds that the plan owns. This is the Vanguard 500 account that was on page 6, compare that S&P index and that's the actual index that Vanguard manages too. Remember, it's never…hardly ever that you'll see a mutual fund actually out performing its benchmark. It just doesn't happen…well, it happens occasionally, there's always going to be a minor difference, some tracking areas like essentially buying the fund every year, management fee…the S&P index has a 5 basis point advantage with it. So when we look at the one year number 1267 versus 1273, three year 1607 versus 1611, and five year 1443 versus 1447 essentially especially when we go out longer. Like 5 years it's essentially the cost of the fund. The more research I do about indexes investing the more fanatical I become actually. I try to throttle that back. I can't understand why anyone in their right mind wouldn't want to go out and do it. Statistics, academic study after academic study all indicate that for the average investor it's the way to go. It's half the work and its inexpensive fee and then you can forget about them. This true with the other funds, small cap actually for the last year has ending in March 982 versus 982.I don't need to go over that though.

Lastly, I got here early and I cheated and I looked at what the Fire and General got. They had 9% versus our 7. But they are able to go to 70% in stocks

Chief Johnson: There's a first time for everything

Rich Campbell: We're limited to 60%

Ron Cohen: I think they're at 75%

Brenda: yes or 74 something. It's 74 something.

Ron Cohen: It's an interesting philosophy

Chief Johnson: If I look back, that's the 1st time they've every out performed us.

Rich Campbell: It's not a horse race, it's a question of where your comfort level is and that's them taking risks 75 basis points and we were to have a 20% correction, well that would be a bear market.

Chief Johnson: Well, we're not trying to catch up too.

Rich Campbell: From what I can discern your course looks pretty good. Your actuary report does. Just think about it for the next meeting and we should have a discussion and talk about it a little as to whether you want to stay at 60. It really is a question of we don't know what the answers are, we don't know what the market's going to do over the next couple of years. Interests are going to go up, returns from bonds are going to be relatively low. The market's been saying that for 2 years now. They've been pretty decent returns, everything considered, but when we look at what's happening in Europe and the rest of the world with the quantitative lending, we're done with our quantitative lending, Japan is still doing is and Europe just started it so that's where the money's going to be strongest… overseas, better than ours here.

I'm comfortable here and I'm comfortable at 60% and as asset allocation. It's just a question of is there a reason, should we be at 65 should we be at 70. At some point, we've watched this market, in 2008 or 2009, this market has done nothing really but to go up. We had a minor correction in 2011, it touch the down at 10%, it touch, it touched for about a week and then it was off to the races again. At some point were going to have a retrenchment in the equity market and I think if that happens, that would be a great time to have that discussion seriously. Then at that point you want to increase asset allocations stocks when everybody else doesn't want stocks. That's the time to buy stocks. Back in 2009, I had to basically get on my knees to get clients to buy stocks, but that was the right then to do. Look, it scared me too, but the country's going to survive this and it was a good decision, it was a hard decision that's what they did. So what you don't want to do is end up doing is making a major change and invest in it at the height of the market, when it's at the top. I've been saying that for a year or so.

Dudley Hardy: So you're saying don't be too conservative. You're saying don't go broke safely?

Rich Campbell: Right. But so far we're up 4% and that percent that we have and if you get another 4% in another 6 months you see the actuarial returns so…with that I'm done.

Ron Cohen: If I may Mr. Chairman, I only have 2 things, with the change to the investment policy statement; we have to get that sign and then we have to mail it to or hand it to our consulting actuary, hand it to Brenda and send it to the state and then it doesn't go into effect until 31 days after. So it doesn't go into effect right away.

Rich Campbell: Do you need an originally signed one for your copy here?

Brenda: Um,

Rich Campbell: because I do not, so if you make me a copy you can have 3 originals. They've all already been signed.

Ron Cohen: Oh that's terrific

Brenda: did you send me a copy?

Rich Campbell: I just sent you a PDF so you can print it out.

Brenda: oh okay, I'll go print it out while you talk.

Ron Cohen: The other thing can wait until after Larry's report. Are you staying for Larry's report? We're going to have to send a letter to the state every year what are expect rate of return is for the upcoming year and for the next several years, long term expected rate of return is. That has to go up every year. A long time ago, people—

Chief Johnson: You can't just tell them 8%?

Ron Cohen: yes, but you have to make a motion to do that and in that motion I think it's important to hear from me, Rich and Larry

Chief Johnson: Is this some new stuff they've come up with?

Ron Cohen: No they've had it for years

Chief Johnson: Okay

Ron Cohen: many, many years ago your actuarial report sort of took the place of that and if you said 8% they assumed that was what you were expecting, but they want a separate letter every year and we're going to need a recommendation from both Rich and Larry before you can do it now. I just want to say that I think it's best if it's done today.

Larry: I'm good to do it now.

Chief Johnson: So I need to entertain a motion

Larry: we issued our report saying that we recommended an 8%

Chief Johnson: I've got a motion to send a letter, is what the motion will be?

Ron Cohen: Well, no. The motion will really be to set the percentage term will be for the coming year and the next several years. They're after long term.

James Hooper: The motion is to send a letter stating what the report as already says

Ron Cohen: and if they don't get a letter they can hold up things until they do

Chief Johnson: so we need a motion. I'm entertaining a motion

James Hooper: I motion that we send a letter informing them of the 8% long term.

Chief Johnson: I got a motion from Hooper, do I have a second?

Tony Mangol: I second

Chief Johnson: Now were going to discuss cause now I've got a question.

Larry: for the 60/40 allocation historically you should be pretty close to the 8%

Chief Johnson: The only reason for this letter is so they can throw darts at us. The only reason for us to send a letter that says for the next 3 or 4 years we're going to get 8% , because that's what we are assuming, everything on the 8% that we chose

Ron Cohen: it's not a guarantee

Chief Johnson: but it's like one cause they're wanting us to send it to them in a letter. It's already in our figures, it's already there. So if we don't they're going to come and say you sent us this letter 3 years ago and you've only gotten 4.9%. What are you doing?

Rich Campbell: I've never seen that happen

Ron Cohen: I've never seen that either. What I do see is and one these plans here had it, I think Fire. What they do say is that your assumption letter says 8% and you didn't make it last year, or the year before that and so on so…how about you think about changing it.

Ron Cohen: look, I agree I don't think this is necessary but I think their reason in doing it is to generate this kind of discussion. You're a good board, you have good discussions, but some might not.

Chief Johnson: Did we struggle, yeah there were years we struggled, but now

Ron Cohen: It doesn't mean that you won't hit your 8% but most don't that's not what it's about.

Larry: It was planned out by the prior Charles Slavin and I think that it was a fair characterization, that he wanted the board to understand and stimulate this sort of discussion.

Chief Johnson: Discussion? (laughter) all in favor

Board: aye

(signing paperwork from earlier)

James Hooper: I think we've got to accept his report. I make the motion

Chief Johnson: Oh yeah, that's right. I've got a motion from Hooper to accept the actuarial report, do I have a second

Dudley Hardy: I second.

Chief Johnson: We've got a motion and a second, any further discussion? All in favor.

Board: aye

Chief Johnson: That'll take care of that?

Rich Campbell: yes sir

(signing paperwork from earlier)

Ron Cohen: The first thing I want to address is the retiree felony conviction. If you remember, it has come to our attention that Robert Melton, a retired police officer was convicted of certain felonies.

Chief Johnson: yes.

Ron Cohen: I've gotten enough of the records to be concerned about it. Florida law requires that if a person is convicted of certain specified offenses, committed prior to retirement, it doesn't matter when the conviction was; it's when the offense was committed. So, if the person is convicted of certain specified offenses that were committed prior to retirement, they forfeit their pension. They get back their contributions and forfeit their pension. If in fact, if you've pay a pension to them that is larger than their contribution you can sue them and get a judgment to get that amount returned. The warrant is such that you have an obligation to a fiduciary duty to look into it. You can't just ignore the possibility.

Now, there are all sorts of due process protections. Just the background on this, I was served some papers which indicated he was convicted of promoting or, and I heard it had something to do with his grandchild, promoting or distributing sexual performance by a child, possession of child pornography, and then I also see that see that he has a lewd and lascivious battery on a child under 16 years of age and that's 800.04 fss, and that is one of, specified offense is defined as certain particular offense and then there is a "catch-all" provision, which is very, very broad, but one of the specific offenses is this 800.04, so I had enough paper to be concerned so I spoke with attorney Glen Bryan, who's in Gainesville, who is a prosecutor and an assistant state attorney here and he's very nice.

Chief Johnson: Yes, he was here when all this—

Ron Cohen: and he explained the case to me, there were really 2 cases against him. Some of the details, if you want me to repeat them, are a little disturbing—

Chief Johnson: No, I'd rather you not do that.

Ron Cohen: based upon what he's told me, when the offense, particularly the lewd and lascivious battery on a person under 16 years of age, it was likely committed between August and December of 2013, and I think he retired well before August 2013, we'd have to get the date. I also asked if there was any evidence, whatsoever, that he had used his official position in the commission of this. Because you know, certainly, a police officer can use his or her official position in certain sexual offenses

Chief Johnson: Right

Ron Cohen: But there was no indication that that was ever done, that he ever used his official position. He said the best they could pin it down was between August and December 2013. There's no record of that criminal trial because there was an earlier criminal trial, probably on the other offenses, and they allowed him to plead to the charge in the second case to avoid the granddaughter having to take the stand. If we could just get confirmation that he retired prior to August 2013, I think you told me he had been retired quite a while, correct?

Chief Johnson: Oh yeah, he retired

James Hooper: He retired not too long after Gordon left

Chief Johnson: Gordon left in December of 08

James Hooper: It wasn't too long after that he went over there—

Chief Johnson: I took over in December of 08, so yep

James Hooper: It's going to be before 2013

Chief Johnson: Absolutely…I'm sure of it

Ron Cohen: Right, and so, she was only 4 and if it took place in August or December of 2013, I'm not even sure if the child was born so, based on the information I have now I find no basis to proceed with the forfeiture hearing. I think if you make a motion not to precede any further it would be in order, if any new information comes to light we can raise it again, but I do think you need to make a motion not to precede on the advice of counsel

Chief Johnson: Do we need to verify where the funds are going? Or is that any of our business?

Ron Cohen: You can, but I don't know where they're going, let's separate that. Look they should be going to the right person, I'm assuming that they're going to the right person

Brenda: they should be made out to him and it's probably going direct deposit.

Ron Cohen: They should be going to him, but you do have a fiduciary obligation to look into this. Even if you say, well it's not worth it. It's still one of the things you need to do. Even if it was a very small pension and it would cost you more to proceed, you still have a fiduciary responsibility to look into it.

Chief Johnson: To be clear, in this particular case, the reason why is because of the timing. It's because he was retired.

Ron Cohen: He was retired when the offense

Chief Johnson: He retired prior

Ron Cohen: The best Mr. Bryan could pin it down was that the offense occurred between August and December 2013 and based upon what Mr. Bryan told me, that he ever used his official position in this and so you have to have both those things to be…and that's the thing, a police officer can commit 1st degree murder totally unrelated to work and continue to receive his pension as a police officer.

Chief Johnson: that don't mean I got to like it.

Ron Cohen: Right, no, you don't have to like it, but a police officer can lie on an arrest affidavit and commit official misconduct and lose it.

Chief Johnson: Right

Ron Cohen: but that's what the law provides. So, like it or not like it, I mean I find there's no basis, look, I haven't read the state's attorney's file or anything like that, but based upon the conversation I had with Mr. Bryan I find no basis to proceed and I think a motion to not to proceed any further would be in order. I think if you do that you've met your fiduciary responsibility, but if you want me try and get the file and speak with—

Chief Johnson: No

Ron Cohen: I mean I can do that, but I don't feel the need to…I'm comfortable with what we've done.

Dudley Hardy: I make a motion based on our due diligence we not proceed with this matter any further.

Chief Johnson: Motion

Tony Mangol: Second

Chief Johnson: Discussion? Like I say, I don't like it…but I understand it. All in favor

Board: aye

Chief Johnson: Any nays? 5-0

Ron Cohen: Next, I thought I should mention to you about Salem Trust and I don't know how much they do for us, but I guess they hold the mutual funds. Salem Trust is your custodian and some of the plans are aware, you don't have it because you don't buy and sell a lot of different shares of stock, but they put in a new system, back office system in 2013, 2014 and they had a lot of trouble with it, some of you may have heard. I think they were here to discuss it.

Group: yes

Ron Cohen: they were here to discuss it and everybody was concerned would they get September 30th statement out, because that's the day we care about, the day the fiscal picture is taken. As far as I know they got the statements out. When it came time to, plans need to do an annual audit, particularly police and fire plans absolutely have to do an audit, it's required to be in the report you send into the state in March in order to get your chapter money out. The auditors rely on, when they're getting information from an institution like Salem Trust, they rely on Salem Trust's auditor to say that their procedures are correct. And this is a very layman's explanation of what went on, I'm not an auditor, and there's a reason for that (laughter).They get from that company's auditor what's called an SSAE-16, which says we've audited them and their processes are okay and so forth from Salem's auditor. The audit, the SSAE-16 that came out was not entirely favorable and caused a lot of consternation. One came out that had some findings in it and there was a letter with it that Salem Trust distributed. I sent it to Brenda and Ricky because the city's auditors do our audit, it's not always that way because some plans have their own auditors. I wanted the people auditing our plan to be aware of this because some of the other auditors were saying that they couldn't issue a clean opinion on your financials because we rely on this SSAE-16. So we sent it on and got a response saying that they looked and it and they were willing to give a clean opinion, it's not going to affect their opinion, but I thought you needed to know about it. I'm not aware of any of the auditors and there are some that do a lot of these, and I can't say there aren't any, I'm just not aware of any that are not issuing a clean opinion. Some of them did additional processes before they'd do it. I'm not sure what exactly they did, but they said we're not satisfied yet, were going to have to do something else to satisfy it. I think what they did was they asked the consultants and they asked the money managers if everything matched up. Were trades made? Were all the trades made on time? Did a trade weird and not get made? I think they asked them things like that. It's important that you know about that. I will tell you that at the Fire Pension Board meeting, they asked me and

Larry if we were recommending a change and my answer was no. I mean, it's entirely up to you. I think it's important you know about it and have that discussion.

Jeff Oody: Are we under any board resolution or MOU at this time?

Ron Cohen: not that I'm aware of

Jeff Oody: and if they were to go into one if the SSAE-16 are not cleared up, because apparently there were some findings, is that going to…because a lot of times they go a board resolution is simple, they just say, "hey, we've found some issues we're going straighten it out in store," an MOU, a cease and…well, they don't call them a cease and desist anymore, consent order.

Ron Cohen: who issues that? The court?

Jeff Oody: well, the regulatory bodies would go in and they'd go in a lot like we do with FDS. Well, what happens is if you get placed under an MOU, or you get placed under a consent order

Rich Campbell: That can't be the issue here, because we'd been notified

Jeff Oody: an MOU you won't be, because it's non-public. A board resolution or a MOUs are non-public, but a consent order does become public. An MOU still keeps the, even though it's non-public, it keeps them from being able to do certain practices. I guess my only concern would be if they bought under an MOU, and it's a restricted MOU, to the point they can't hold certain funds or they can't allow us to pull certain funds out that would be the only concern I would have, If it's not a board resolution or an MOU, then it's just "we founds some things that need straightening out," and that's pretty common.

Rich Campbell: It's a letter and as I understand and the reason we didn't get into that at all is we don't trade stocks and bonds, we do mutual funds and that's a completely different animal. It's a much simpler process. When they started, when managers started trading these stocks and bonds, especially the stocks, a typical manager is going sell thousand of shares in a quarter, more than that. They may buy them buy them today and sell them 2 weeks from now. The activity is much higher, that's where the managerial problems come in, settling trades on time or even recognizing them

Jeff Oody: It's a process

Rich Campbell: It is. It's the worst nightmare a custodian can have… a cancerous system.

Ron Cohen: Another thing is, at the earlier meeting, the consultant said that there is a new SSAE-16 is supposed to come out in September and I was unaware of that. Now the other thing is they have a parent company and the parent company owns another company, maybe several companies, but that one company had bought some fraudulent paper. And so there may be some losses for the parent company.

Chief Johnson: Did they get an arrest on that woman? For that?

Ron Cohen: I'm not aware of that

Chief Johnson: wasn't that letter I got,

Brenda: The bells are ringing and I've got to go find it

Chief Johnson: Yeah, he was arrested.

Ron Cohen: yes, the concern though seems to be that the parent company runs into financial problems, but

Chief Johnson: and they had retrieved she

Ron Cohen: but our stocks are in our name

Chief Johnson: and she had done $3.5 or $4 million dollar worth of trades and they recovered $1.2 million of it back.

Ron Cohen: I believe this is something different.

Chief Johnson: It could be, but if she (Brenda) could print the letter off and read it.

Dudley Hardy: You've been watching too many Ponzi schemes.

(laughter)

Jeff Oody: They got insurance to cover that.

Chief Johnson: Yeah, that was in the letter. It said that your fund will not be affected whatsoever

Ron Cohen: and that's the case.

Chief Johnson: All losses that have to happen, they will accept. It will not affect your fund.

Ron Cohen: But it's in your name. This account is in your name, so I don't see the custody statements. The stocks are being held in our name.

Rich Campbell: They're not held in Salem Trust's name. They're not even at Salem Trust. It's all Bankers Trust in New York or somewhere

Ron Cohen: it's electronic depository

Rich Campbell: There's only 5 banks in the country are actual custodians. I don't care what bank you're at, you can call it Ban of America, Banker's Trust but it all boils down to the same thing, everything is ETT. I don't care what facility you're at it all boils down to the electronic history

Brenda: that's the last thing I remember getting from Salem Trust.

Ron Cohen: I could forward or Brenda can forward you the Salem Trust SSAE-16 and what they said to each of you, if you want to see it. My concern was this was hard to read, but your accountant saw it and said they were okay with it. I think I included the chairman of the board in the email that said your accountant saw this and said that they were okay with it.

Brenda: I think you all brought all this up at the last meeting too. Because I think you brought it up in January.

Ron Cohen: About the SSAE-16?

Chief Johnson: Yes, yes

Ron Cohen: I don't think it was out yet. I didn't think it was released until after March.

Brenda: That letter is dated February and it has the SA something 16 in it

Ron Cohen: SSAE

Brenda: well, whatever

Ron Cohen: They used to call it a SAS70

Brenda: Flip the page over (directed at Chief Johnson) what's that there?

Chief Johnson: here?

Brenda: yes, what's that?

Chief Johnson: Our response the SSAE-16, for the period of June 1, 2013 to June 30, 2014.

Rich Campbell: I'm not trying to downplay their problems, they had the worse than that could happen and they are working exceeding hard to fix it. They had to, they had no choice. People lost their jobs over it, more than one.

Ron Cohen: They've built up a lot of good will, some people have moved on, but they have worked hard to build up goodwill over the years by doing good work. I would say from a custodial attorney point of view, if someone talks to me about a consultant, it's always about a problem, if things are going good, if everything is going smoothly, checks are going when they should be, the trades are going through, people are getting statements…nobody ever asks me about it.

Dudley Hardy: review restitution from the company that had bought the package firm?

Ron Cohen: I don't know about that but I can find out. I don't know much about that

Chief Johnson: Surely they carry enough insurance for that. I mean, with that kind of money they would have to be bonded somewhere.

(several people talking at once)

Ron Cohen: No the company that they bought, one of their, one of their sister or brother companies bought some paper from, and I can't remember the name of that company, it escapes me, but apparently they thought they had recourse for or they thought they were guaranteed government loans, government agency loans but they were not. I don't know if it was phony paper or that the government just isn't backing it.

Chief Johnson: This isn't what I received

Brenda: That's not what it was? Okay, I just remembered reading those

Chief Johnson: I'll see…but they, they named her. They named her in the letter. They named her in the letter and stated that this was how much they'd lost, approximately this much was lost, this much had been recovered, but there'd be no losses to the plans whatsoever was basically what it said. And we apologize for any problems this has caused

Brenda: that was the letter we got just before the last meeting, I think. I think that was part of the last meeting

Ron Cohen: Well, I wanted to let you know about them, you should hear from Rich periodically if everything is going well. I mean, he checks. He sees the statements

Rich Campbell: They're reconciled every month

Ron Cohen: So if he's made a change or he had a trade and it doesn't show up there, he should know

Rich Campbell: not just Salem, but if any custodian doesn't reconcile. It's just too important

Ron Cohen: and the last thing very briefly, the Senate and the House have passed new legislation and it hasn't been signed by the Governor, I don't know if it's been reported out yet, you know they don't report all the bills and we'd looked at it. I understand it passed in the last few days and I haven't had a chance to see the final version. Essentially, what we're going to have to do is look at it very, very carefully and see if anything changes the way you operate with the state monies, it's conceivable it will, but we have to see what percent funded we are, and see the exact final thing that was reported out because it can change at the last minute and the press reports don't say that its changed but that doesn't mean it's true.

Chief Johnson: No, no. You don't think the press would report something

(laughter)

Ron Cohen: No, no never. (laughs) In fact, have you ever been at a place where something happened and you read about it and you go, "I thought I was there"

Chief Johnson: Every day!

Ron Cohen: But I thought I was there

Chief Johnson: Every day

Ron Cohen: I just want to let you know, I understand it passed, but I haven't tracked it the last couple days, but my office did track it and said it passed. We're going to look at it carefully and report to you guys what it does to change the way you operate and Larry says it's going to change our mortality table, so

Chief Johnson: I'm going to live longer?

Jimmie Bowen: I think there's a lot of people who don't want you to

(laughter)

Chief Johnson: I think you and me are in the same boat there

(Uproar of laughter)

Ron Cohen: and with that Mr. Chairman concludes my report.

Chief Johnson: Thank you Mr. Ron Cohen…attorney…with the Starke Police Department…retirement board. Larry

Larry Wilson: You have before you the current year's actuarial evaluation. We'll go through it with a little bit of detail to point out a few things I've highlighted. One of the things is, and we'll look at it more closely, the contributions we're expecting to be down as a dollar amount for the city, but as a percent of pay it's gone up. We had an actuarial gain. The actuarial gain was, you have an actuarial gain or loss when your experiences are better or worse than the assumptions and we did have an actuarial gain, sourced most from liability gains. And the city also made excess contributions, they paid more than the minimum requirement, so that helped to get us there. Included in this report is something called GASB67, statement 67, TRUA, GASB68 expense which is brand new this year, GASB68 disclosure of the accounting liability.

So if we turn to the page with the letterhead, you know we get money in from contributions from members from the city, from the state. The total of that this year is, 36.3% of covered payroll $188,026. Last year, it was 35.8% for $190,000. Like I had said, percent is up, but dollar amount is down. Similarly, if you look at the city's contribution, the last sentence on this page, the city contribution as a percent of pay is 20.4%, last year it was 20.1%. The dollar amount projected is $105,514 this year. Last year it was $109,000. I didn't point out early, that we are talking about contributions for fiscal for 09/30/16.

On the next page we say no changes for benefits or assumptions. We combine the unfunded bases this year. The reason we did that was we were getting close to the point where some of the bases would be paid off and if we let that happen there would be some unwarranted volatility in the contribution. If we paid off a negative base, the contribution would jump that year while if we paid off a positive base it would go down the next year. So in order to smooth that, we combined all the bases, and it's very small. We actually have over 100% funded and it's very small excess amount that we are funding. I mentioned about GASB67 and 68and the excess state funds, that were mentioned earlier, are included in the assets and liabilities and I will show you the exact amount of that when we get to that page.

If you turn to page 7, what we're showing the left hand columns are as of 10/01/13 and the right hand columns are as of 10/01/14, remember we had said that there was no change in benefits or assumptions, so we're showing the benefits of plan experience during the year. The number of active participants remains unchanged. Covered payroll decreased by about 3%. The system total membership, including the inactive increased by 4%. The normal cost, the cost of benefits accruing this year increased as a percent of payroll, but decreased as a dollar amount. The unfunded actual accrued liability decreased both as a percent of payroll and as a dollar amount. The net base city funding requirement increased as a percent of pay but decreased as a dollar amount. One of the metrics we show on this, Ron had mentioned, some of the new legislation my tie into a funded ratio, this would not a funded ratio they would be using, but if we market value of the assets divided by the present value of all vested benefits, including all the retirees, our funded ratio 127.9%, last year it was 126.4%, so that's an improvement. Kind of a way to look at it is if we were to settle all of the plan benefits based upon the funding assumption we would have excess assets. We have all the vested benefits fully funded at this point. Again, that doesn't recognize the either pay increases or future services.

Chief Johnson: How many funds throughout the state—

Larry Wilson: How many are in this situation? You've got to remember that this is, kind of a not well published you're in a very position

Chief Johnson: 5%?

Larry Wilson: Yeah, you're probably in the top 5%.

Rich Campbell: So they're over budget?

Larry Wilson: No because we're not settling. This is a termination basis number and you know, so, but when we look at our funded ration we're in over 100% so…

Chief Johnson: so stating the plan is over 100% now

Larry Wilson: Yes, again the actuarials show, that from an accounting ratio, and the account ratio changed last year, so anyway, yeah I mean I think that's going to be what we'll look at.

Jeff Oody: I think what he means is there anything published that we can look at to determine where he ranks?

Chief Johnson: Yeah

(laughter)

Larry Wilson: the state does have a database online, it's not that all up to date, unfortunately but it does include the funded ratios for the plans

Chief Johnson: Does it show it in alphabetical or funded amount ranking—

Larry Wilson: I think it's alphabetical.

Jeff Oody: You can probably go in and filter it

Larry Wilson: We usually access it for ourselves, use it when people want to benchmark against other people.

Jeff Oody: it can do it from least underfunded to most overfunded to alphabetical to asset size to—

Larry Wilson: You could sort it all that way. But yeah, it's public record. It's alphabetically and you can sort it to get other police plans if you wanted to look at it that way, but as I said, it always seems to be a year or 2 behind the state's published database.

If you turn to page 12, we did have an actuarial gain this year it was $22, 914. On page 12, it shows how we determined that actuarial gain and you can see from a smooth value of assets of assets of about $6,000 and the liabilities was a gain of about $29,000. Those are approximate numbers.

If you turn to page 37, you can see some of the statistics there that go into that gain or loss

Chief Johnson: On page 37?

Larry Wilson: 37 did I get that right?

Chief Johnson: No, I ain't got there yet.

(laughter)

Larry: Okay, so, on that page it shows salary turnover, and investment return experience. The salary experience this year averaged 1.4%. What is that? People that are there a full year fiscal in 2013, a full year fiscal in 2014 take the ratio of those add it up and divide by the number of people and that's how we get that average. So it's not weighted, it's the average pay increase. We were assuming a 7.1% pay increase assumption, so

Chief Johnson: I'll take that

Larry Wilson : Yeah, I know and I want to talk about that

James Hooper: Where'd you get that assumption from

Larry Wilson: That's one thing I do think the assumptions need to be looked at. We have recommended that to the other two boards that we do an experience study to bring them into play. Some of the other boards have previously done patchwork changes to the assumptions, including reducing the investment return and reducing the pay increase's option, but one of the things that Ron mentioned with this new legislation is that we are going to have to use that FRS mortality table. We're not going to have a choice, if that's signed by the Governor. And if we were to use the FRS mortality table it would increase our liability costs, so if we do nothing, and keep our assumptions they way they are, it's going to increase the city's costs where we can see, like you mentioned, where you come up with this 7.1% expected pay increase. Some of the assumptions are not currently in what we would recommended alignment with plan experience so, we can find some areas like pay increases where we push that down, that would offset the costs of the extra costs of this new mortality assumption.

Chief Johnson: Now, is the 7.1% assumption throughout the city that all three boards are using?

Larry Wilson: Well they all have a salary increase assumption based upon all their experience. You're not the same as firefighters or general employees, but they all have assumptions, they change, I can show you where it is, I think they are based on age, but it's on page 28.

Chief Johnson: What page again, I'm sorry.

Larry Wilson: Page 28 sir. So you can see—

(conversation of a bicycle fatality, multiple speakers)

Larry Wilson: page 28 item F, is the sample rates for pay increase assumption. It starts at age 20 with a 9% increase and at 60 with a 5.2% increase so it grades down based upon age and you can see there's a pretty steep inflation of 5% included in there

James Hooper: These salaries are based on how long a time period?

Larry Wilson: They've been in place for years

James Hooper: No, I mean sample age 20 you're looking at a salary increase of 9% over what period of time?

Larry Wilson: a year.

(laughter erupts)

James Hooper: I thought it was over a career

(louder laughter)

Chief Johnson: when I was, and I'm sure the Chief could tell you too, we used to get 5%. Every year we got 5%.

Jimmie Bowen: Every employee in the City of Starke got 5% raise every year.

Larry Wilson: What I'm saying is I'm recommending that we do this experience study, I recommended that we do it for the other boards as well and then we'll try to get them—

Chief Johnson: Does that need to be a motion? Or just recommending

Ron Cohen: He's going to recommend to you for a proposal then you get an engagement letter and then—

Chief Johnson: I'm just telling you if you don't do it while I'm thinking about it, it won't get here.

Larry: Another one is the turnover. This year it was 490% of the assumed. We don't assume a lot of turnover, we could show you that, we got a lot more turnover that what we expected.

Chief Johnson: Paying them what I'm paying them, we get a lot of turnover.

(laughs)

Larry Wilson: And again, I'm not making these assessments I'm just telling you that based on the statistics that's the turnover and turnover is when someone stops working and they're not due immediate benefits from the plan. So, they could vest and defer or have no further interest in the plan.

So, salary increases was a source of actuarial gain, the turnover was a source of actuarial gain and the investment on the smooth bases was 7.7% our bogie was the 8% with our market value being 8.4%. So we exceeded it but, so with the smoothing.

Tony Mangol: What page was that on?

Larry Wilson: I'm still on page 37. We'll look at the smoothing more closely, again the big effect there is we are doing the 4 year smoothing. 9/30/11 was a bad year for everybody, it was just hard economic to be investing and hardly any plan…they missed their assumption, so we're now fully recognizing that and we'll talk about it when we get to it.

Turn to page 9, just trying to highlight some stuff. It just shows where we were allocating, that was nothing and Rich handled that so let's skip on to page 10.

On page 10, we're in a pretty uh, if you look at item B1e. The contributions exclusive to investment returns we had money coming in at $244,043 and we had disbursements item C5 at $204,987 so we were in a somewhat positive cash flow position. Which means we can invest for the long term. We can reinvest our income, it's probably a good way to be from an investment standpoint. The excess state funds which are being used for the share plan is if you look at item E4 $45,498.

James Hooper: The share plan's been approved?

Chief Johnson: Yes

Brenda: What was that question?

Chief Johnson: "Has the share plan been approved", and yes, it has been discussed and voted on, approved and in place.

Brenda: yeah, I'm sorry

Ron Cohen: and the new state law may affect what we do with that, we've got to look at that carefully.

Chief Johnson: Right

Larry Wilson: and the drop account balances have gone from $8,500 to $82,073. Turn to the next page, this our smoothing process that we are using. Again, we were expecting, we had a market value return of $289,838 item E1, if we had earned the 8% we would have earned $271,657, so the excess above the 8% is that $18,181, we recognize 25% of that, ¼ of that each year and that's the $4,545. You can see on that triangular matrix how we're going to pick up the remainder of that $18,181. We have similar numbers for the previous 4 years and you can see that $93,011 item F4 minus $67,725so that would be fully recognized now and going forward we won't have any application of that as a negative number. Going into this year we had deferred investment gains of $39,637, we now have deferred investment gains of $68,599. So again, next year we'll have another number to add but we're going into it with $56,944 that we're going to recognize this investment return.

Quick accounting on page 15, again what we have is two columns, $93,014is the trued up value, this goes into the statements for the plan b capper for the city, projected $93,0215 on 9/30/14 that'll need to be trued up after9/30/15. Total pension liability accounting terms means actuarial accrued liability, $3,690,814 from an accounting standpoint the fiduciary net position is the market value of assets and that is exactly $3,744,711 and the difference between the two is the positive, item C $50, 894 of assets above the pension liability and that would have us 101.46% funded, again very few plans in that situation. In fact, there is a—

Chief Johnson: Do you work…well I can't ask you that

Larry Wilson: go ahead

Chief Johnson: Do you work any other funds that are this way?

Larry Wilson: I do. A couple other ones.

Chief Johnson: not to be—

Larry Wilson: I understand. There are a couple other ones, but not too many.

Chief Johnson: okay

Larry Wilson: there is a state statute that I don't agree with is if you get to an over surplus position like this you have to pay that normal cost. So essentially, from the state's standpoint if you get too over funded, you're funding above the benefits. Not that you don't recognize that you're over funded but you still have to pay the current service costs.

Chief Johnson: That's what I learned first thing, I didn't understand it at first but I do now. When we me and Gordon first started this thing, when we split is you cannot make a profit. The retirement system can't actually make a profit. It cannot be a profit making organization. You always have to be working toward bigger benefits…or better benefits. You can't be, you remember we'd have to send all the letters all the time as to why we were holding onto the money to fund another member benefit or something like that. You remember that?

Ron Cohen: yeah

Chief Johnson: I didn't understand it at the time, but I do now.

Larry Wilson: I guess that's what that $49,000 was, extra money from the state. You need to determine how you want to spend that

Chief Johnson: We have to wait and see what the legislation has done

Ron Cohen: No I don't think we can spend that, I think its next year's money

Chief Johnson: okay, okay I got ya. You're talking 15/16's money

Ron Cohen: No, 14/15's money that usually comes in August 2015.

Chief Johnson: I always get that mixed

Ron Cohen: The money there is 2013/2014 from the previous year, because we hadn't decided how we're going to spend it all and at one point we started to buy up the 300 hours of overtime, when the state told us that was a minimum benefit. But then they decided it wasn't a minimum benefit. I don't think that this is going to affect the money we've got now, in the bank so to speak, but we will be looking at carefully, but I don't think it's going to be a problem

Chief Johnson: the check that comes in August 2015, it may affect that?

Ron Cohen: It may

Brenda: We've been getting them in earlier. We just got the letter that the state report saying they are just waiting for a copy of our audit report and I think that'll be presented to the commission before the end of the month.

Ron Cohen: so sometimes July, when we get approved, how soon we get approved, depends on if your report is correct and how quickly the review it. When they review your report, its first come first served, so some people with the report due in March will file it in September and wind up not getting their money in time. So, no we've been on top of that.

When you said the audit is going to be approved by the city, they're not having any issue with finding about our pension plan or because of the Salem Trust business?

Brenda: No, I don't believe so. I think he had pretty much already had started the audit when he spoke with you, but he's been waiting the actuarial report to put those notations in it and now they'll get that

Larry Wilson: and yeah that over funding $53,894 will be on the city's balance sheet as the capper. Turn to the next page again, we are still on the accounting 2014 line shows that the city contributed above the minimum required again and that was $49,558.

Let's skip to page 18, I want to point out a couple of things. If I can do it quickly, one is we need to do, for accounting purposes, an analysis that says based upon the plan's position and expected future contributions, expected future earnings, is there a crossover point where there won't be enough money in the fund to pay the benefits. And so, we have to run that test. We certainly did run it and there is going to be enough money in the fund, there is no crossover point all the money is going to come from the fund. If there were to be a crossover point from the accounting perspective, you'd have to value the liabilities to be paid outside of the fund, using a bond index of mutual funds uh, er, municipal bonds, but we don't have an issue here, and I wanted to point out here that for the accounting disclosures you need to show plus or minus 1% how that affects our liabilities. You can see we're over funded and at our rate, we're overfunded at plus 1%, but at minus 1% we are in a deficit of where we have a net pension liability, remembering the new law, not the one Ron had mentioned but previously signed legislation FSS2013-100 requires us to value minus 2% and report that to the state and do a report, I'll talk about that later.

One of the things 2013-100, if we do minus 2%, that's going to show us at a even higher deficit position and we have to show a crossover date that, they don't use that term, they use run out date, which says if we don't get any further contribution from the members, from investments, from the city, how long, how many years can we pay benefits? And they're going to publish that. Maybe its 9 years…maybe it's more. The fallacy is, under state rules you're required to get contributions, for reporting to the state we're suppose to assume that there are no future earnings or contributions.

Turn to page 19, what the city needs to expense in there, this is the GASB68, no longer, in the old days of accounting a year ago, you were suppose to expense what you contributed, now that's gone, it's more like corporate accounting. Separate expense, separate funding and never the twain shall meet. So that's the case for now with the government plans. The expense number should be $149,266 that's for 9/30/15, that's based upon the coordination of the 68 and 67. The city can use that $149,266 in their 9/30/15 statements without adjustment.

We are amortizing our liabilities from funding over a longer period. For that expense we have different amortization periods. If you turn to page 21, if we do a plan amendment experience gains or losses. This year that period of time is 7.9 years a straight line and that threw off $9,444 and then any asset gains or losses and again this is for market value not smoothed value, and we did have gain. Those are funded over 5 years.

Page 42, so as I mentioned we combined the bases per internal revenue pro-regulation so we are $5468 overfunded the amortization period would be by 5 and we are paying more than normal costs so, we're good. This is our certification that we are in compliance, that our report is in compliance with state statutes 112.185 all benefits provided by the ordinance are, we have liabilities for and we are certifying to that effect. Then I want to talk about a few other things, but I would entertain any questions on this.

Chief Johnson: that's good

Ron Cohen: Mr. Chairman, you should ask for a motion to approve this report. It needs to either be approved or not approved

Chief Johnson: Entertaining a motion that the actuarial evaluation as of October 1, 2014.

James Hooper: I make a motion to accept

Chief Johnson: Motion made by Sgt. James Hooper

Dudley Hardy: I second

Chief Johnson: Second by Dudley Hardy. Any other questions, discussions or comments? Hearing none, all in favor say aye.

Board: aye

Chief Johnson: 5-0

Larry Wilson: Thank you. Just a couple of, three things, one we already talked about, the FRS mortality. This 2013-100, we talked briefly, we've got to a -2%, we've got to do a runoff date, and we've got to use a prescribed mortality. Essentially, you have to do the accounting, contributions and this runoff. Essentially, 3 different sets of assumptions. The assumptions we are using to fund the plan, but based on a prescribed mortality, that's not our mortality, it's not FRS mortality, it's in the statutes mortality. Then we have to show the numbers -2%, with the prescribed mortality, so we have to calculate what the contributions would be, funding percentage, the accounting information under those three separate, along with the runoff date. We are allowed to assume that we will get either 8% or 6% investment returns, we have to do both, then how long can we pay the benefits and the benefits are to include future service and future salary in the runoff. So we have to, the state is finalizing the database that we need to key numbers to they.

We have to give the numbers in a computer magnetic form. We have to send it in a computer ready form. And they have prescribed what that file needs to look like, but then we need to do a report that needs to be put on the city's websites that has the information required by 2013-100 and we're allowed to make it something a human can read.

(laughter)

Larry Wilson: we can't post the computer file. So, we have to do this report and while we have to give them the numbers that they require in this report, we are allowed to enhance the report. So the board has already decided that, like we do for accounting, we show the +1%or -1% and +2% or -2% just to show the range that it could be. We have to say the plan will run out of money in a certain number of years or whatever, then we're going to be allowed to say "but under state rules, we have to get funded and if we reflect that future funding, we would never run out of money." So we can put all that in.

What we hadn't talked about at the other couple of meetings is Ron and I, maybe Rich could work together on some of the text to go into this report that gets posted to make it more user friendly. You don't want retiree reading it and seeing you're going to run out of money in 9 years and they think they're not going to get a pension. It would certainly hit the newspapers. You don't want to get any surprises at how bad they're going to say plan. Anyway…so, that would be our recommendation there that we work on a front file or report that kind of offsets some of the shock that is built into the numbers that we have to disclose

Chief Johnson: The only reason this was passed it's a way for them to go after the defined benefits

Ron Cohen: and it's so transparent, the whereas clause of this law there is a desire to make reporting more uniform, so the plans can

Rich Campbell: But the information they're asking for leads to one conclusion, we are assuming one big loss. Let's just put everything into a 401K and be done with it.

Ron Cohen: When they said it was to make it more uniform, until this law was passed, we had a report that used FRS systems rate of returns at 7.75%. I think it's down to 7.665%, so everybody was reporting the 7.75% which gave so uniformity to it. The whereas part made it uniform, and then they took away all the uniformity. So we have to report using 2% less which is the 6%. So if you are really conservative and have the 6% assumption rate to speed up your funding you have to report as though you're going to earn 4%.

Jeff Oody: It's like testing the system with mild, moderate, severe scenarios.

Ron Cohen: When we first discussed this, here's my recollection. They said you only have to report 1% under and 2% under and you said, but when we do a stress test, we do it both ways, one under and one over.

Jeff Oody: Both ways. We do 1, 2, 3, 4% under then show the other.

Ron Cohen: That's what we are going to do, not on the matrix, they are giving Larry a matrix to do, but for the website. But I have said I have a banker on one of my boards and he has stated stress tests are both over and under.

Jeff Oody: because then you can overstress test it where you use the positive and say with the positive you have a, with the negative you have contingency plans and with the positive you have contingency plans with additional benefits, so you can cover it on both sides.

Ron Cohen: we're able to do it, but it won't be on the matrix, but it will be on the website. We can have an explanation that we are having to report at 2% and then do the over and under. We've picked 8% and it's a reasonable amount in the market reports and we have a balanced portfolio and have it in a plain language. Because otherwise, as I said in the general employees meeting to Travis. The mayor is going to get asked "were you aware your pension funds were going run out of money in 9 years?" And that's just not what it is. Yeah, you won't be able to pay benefits in 9 years if everyone violates the law, by not making contributions. It's like figuring out how much money you're going to have by not paying taxes. It's a false assumption. And we have to try to tell them how we feel about it as fiduciaries who know more about this plan than anyone else and how they operate.

Rich Campbell: I think one of the things shouldn't forget is that this is one of the better plans of 90% out there, so we have a different perspective. Where the other 90% are underwater…underfunded and so their perspective is different and that's what the state is saying. This is just a continuation of a trend we seen over a number of years in corporations and governments want out of defined benefits and they don't care how they get out it, they want out, because it falls on them if there is a liability or a shortfall. Who pays it? The state suppose to, and that's the bottom line.

Ron Cohen: no, the city

Rich Campbell: so somebody's got to pay. The city doesn't want to, the state doesn't want to, so who takes the risk in that point? They are putting the risk on the individual rather than on the entirety

Ron Cohen: I had a city attorney from a prominent city in South Florida, very bright guy, said this has got nothing to do with the costs right now, pension reform. It's about they don't want the risk. Even when the risk is dug out, they still don't want the risk.

Larry Wilson: We have a client in South Florida that all the numbers show they should keep their plan going from projections, but they want to join FRS. They don't have to bargain. Just the numbers show that is not the best decision to make, financially they are better off keeping their plans running, but we'll see where it ends up, but they're trying to get their unions to accept

Rich Campbell: But it's not in their fiduciary best interests to do that

Larry Wilson: The city, the city's trying to convince them to do that

Rich Campbell: Well…they're not the fiduciary

Larry Wilson: Right they're not a board member

Rich Campbell: but that is back to the fiduciaries of that plan that their participants that this is a good thing.

Ron Cohen: it's the unions. The final answer on all of these is the city, the governing body of the city, what the plan is. If there is a union, a certified bargaining agent, they have to negotiate with the union. Under Florida Collective Bargaining Law, if there is an impasse and you can't strike, the final decision goes up to the city. Then it is up to the city if the union doesn't agree. Now it's a difficult process you have to go through, some of the cities have just stopped going through the process. We'll see if the courts will stop them. The point is, the city decided the benefits. The board can speak up and the board can pass on information, but a decision to close a plan, let's say, that decision to close it to new hires, or to terminate a plan or end a plan is made by the plan's sponsor, not by the trustees. Now the trustees may have some say in how the money is going to get distributed and that can be very important, but we're going to pay everyone off at 100%...but you're only 60% funded then the city isn't going to do that. It is up to the terms of the governing body. The terms of this plan have never been set by us. They have always been set by the city, that's the point. We make recommendations, but—

Rich Campbell: but it's what's within the city allows

James Hooper: any decision we make, they have to approve

Ron Cohen: no, not really.

James Hooper: yeah. The drop, the share, every time we've made a change to benefits, they had to approve it.

Ron Cohen: Those are benefits, not provisions. They don't have to approve who your service providers are, so you can't say they have to approve everything. But there are a bunch of ordinances, that the city has passed, this is the book. These ordinances set forth the benefits and those benefits are set by the city. They give you the responsibility to administer them. You can't say, "well, we don't think the multiplier's enough," because you'd be breeching your fiduciary duty. The commissions responsibility, they don't have a fiduciary duty to us, their responsibility is to them, the citizens. And so, they have a different perspective, it's just a matter of who does it, us or the commissioners.

So, we're going to ask for approval of Larry and I, working with Rich a little bit, on coming up with some sort of plain language summary, the other boards have asked us as well

Chief Johnson: and we need that as a motion?

Ron Cohen: We do

Chief Johnson: I entertain a motion for Rich, Larry and Ron to put their heads together for a plain language letter

Jeff Oody: I make a motion

Chief Johnson: I have a motion

Dudley Hardy: second

Ron Cohen: I don't think it's going to be that difficult

Chief Johnson: Just to catch you up to speed. We have a motion and a second. Any further discussion on the letter? Hearing none, all in favor say aye

Board: aye

Chief Johnson: Y'all get that done (laughs)

Larry Wilson: We need to get an engagement letter for the experience study to align the assumption studies. I want to get it done before the next evaluation essentially.

Chief Johnson: Is that it?

Larry Wilson: Yes sir

Chief Johnson: We're going to move on to new business. To the conference, who's all going?

(multiple discussions on the conference)

Chief Johnson: Entertaining a motion for everyone to attend and get educated at the conference

Tony Mangol: I make the motion

Chief Johnson: I have a motion by Tony Mangol

James Hooper: second

Chief Johnson: second is by Sgt Hooper. All in favor say aye

Board: Aye

Chief Johnson: I need another motion for Ms. Brenda Wiggins to attend the conference and we'll pay 1/3 the cost

Brenda: But now Ricky's saying he might attend, so he might be going instead of me

Chief Johnson: motion for Brenda or Ricky to go

James Hooper: I make the motion

Jeff Oody: second

Chief Johnson: All in favor say aye

Board: Aye

Chief Johnson: Next meeting?

Brenda: The 29th of July

Chief Johnson: the 29th of July

Brenda: same time okay with everyone?

Chief Johnson: same bat time, same bat channel

There's one thing I want to bring up before we leave, we need to look at something, this board needs to look at something, I reckon it would be a COLA for the retirees, I don't know what the first step would be to do that but

Ron Cohen: The fire board—

Brenda: the general

Ron Cohen: The general board this morning asked as well. You know there are a lot of different ways to design a COLA. COLAs are expensive as a whole, you can have them cost less money by the way you design them. If you give everyone a 3% ad hoc COLA it stays at that 3% unlike that onetime payment we did a while back where it was just that amount, it didn't continue in the future. Again the ad hoc COLA will go up that percent and stay at that rate.

Chief Johnson: If you do a 3% COLA every year. You're saying every member; even active…I was assuming a retiree, once you become an active retiree that you would get a 3% raise every year.

Larry Wilson: Yeah, we'd be happy to look at that we've generally seen that type of COLA to cost an additional 25% on what we're paying. That's fine, that what it costs. We were talking about some other things, other than just the 3%. If that's the only one you're interested in looking at, that's fine. The other plans have us looking at other options. One time on top of the 3%, maybe not starting it until after age 60 or 65, which is not something that may interest you. It's one way to save money. Maybe an ad hoc that pays 1% for each year retired.

Chief Johnson: What is that you just said

Larry Wilson: The ad hoc? The ad hoc is an increase for one year and isn't reoccurring. There is no guarantee it will happen the following year. It's just a one time

Chief Johnson: How is it determined how they get it or not?

Larry Wilson: It's just an ordinance that says they get it. Ron had mentioned one that could be a function of investment return or actuarial gains. But that state is looking at those closely and saying you have to prefund those but

Ron Cohen: Let me run an example by you, if you had an ad hoc COLA, a 10% ad hoc COLA to retire at $1000 their new pension would be $1100 a month and they would get that for the rest of their lives and that's a onetime thing. There is no "this is a COLA" is just a way to get a stream of income to people who have retired and there are a number of ways to get it done. You can not compound it, you can have it raise by 1% but you don't compound it. A simple COLA, you can do a flat dollar amount instead of a percentage. A flat dollar amount would mean more to someone who's been out for a longer period of time, that has a smaller pension. What we heard today was, there are people who pensions don't even equal their health insurance and there are those with much higher amounts. So if you do a percentage it, whatever it is, the people earning the higher amount are going to benefit more from it.

Chief Johnson: The general said to look at it several different options?

Ron Cohen: yes.

Chief Johnson: What do y'all think about letting them look at the COLA options?

Jimmie Bowen: Could you do it in a way that ties with Social Security?

Ron Cohen: absolutely, that's a very common way to do it

Chief Johnson: and you're going to do that in the figures?

Ron Cohen: that's usually in the automatic COLA. If we were doing an ad hoc, we wouldn't tie it to that

Chief Johnson: We need a motion or?

Ron Cohen: We need a motion to allow him to present various cost

Chief Johnson: I entertain a motion to let Larry to do the costs on some different COLA options for the plan

Dudley Hardy: motion

Jeff Oody: second

Chief Johnson: I have a motion and a second. All in favor

Board: Aye

Chief Johnson: That's all I have. Anyone else got anything for the board? Thank you for coming. Entertain a motion to adjorn.

Jeff Oody: Motion to adjourn

James Hooper: Second

Chief Johnson: All in favor

Board: Aye

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Chief Johnson, Board Chair
James Hooper, Board Member
Tony Mangol, Board Member
Dudley Hardy, Board Member
Jeff Oody, Board Member

Attest:___________________________
Ricky Thompson, City Clerk