

CORAL GABLES RETIREMENT SYSTEM  
 Minutes of September 14, 2012  
 Youth Center – Auditorium  
 405 University Drive  
 8:00 a.m.

MEMBERS:	S	O	N	J	F	M	A	M	J	A	S	APPOINTED BY:
	11	11	11	12	12	12	12	12	12	12	12	
Raul Chao	P	P	A	A	P	E	P	P	P	P	P	Mayor Jim Cason
Manuel A. Garcia-Linares	P	P	P	P	P	P	E	P	P	P	P	Vice Mayor William H. Kerdyk, Jr.
John Lindsay	P	P	E	P	P	P	P	P	P	P	E	Commissioner Maria Anderson
Sal Geraci	E	P	P	P	E	P	P	E	P	P	P	Commissioner Rafael “Ralph” Cabrera
James Gueits	P	P	P	P	P	P	P	P	E	P	P	Commissioner Frank Quesada
Daniel DiGiacomo	P	P	P	P	P	P	P	P	P	P	P	Police Representative
Randy Hoff	P	P	E	P	P	P	P	P	P	P	P	Member at Large
Donald R. Hill	P	P	P	P	P	P	P	P	P	P	P	General Employees
Troy Easley	P	P	P	P	P	P	P	P	P	P	P	Fire Representative

STAFF:

Kimberly Groome, Administrative Manager  
 Diana Gomez, Trustee/Finance Director  
 Alan E. Greenfield, Board Attorney  
 Dave West, The Bogdahn Group  
 Troy Brown, The Bogdahn Group

A = Absent  
 E = Excused Absent

GUESTS:

Craig Leen, City Attorney  
 John Baublitz, Coral Gables FOP

Chairperson Troy Easley calls the meeting to order at 8:09 a.m.

1. Roll call. There was a quorum.
2. Attendance of City Attorney Craig Leen.

City Attorney Craig Leen informs that the City reached a settlement with Maria Menendez whereby she received all the amounts from the City that she would have gotten if she was not affected by the 415 limits. She was made whole. She also received some of her attorneys’ fees. Going forward Ms. Menendez is part of the new supplemental plan the City passed.

The City passed an emergency ordinance which is a supplemental benefit plan which does deal with the 415 issue for the future. If someone’s benefits are limited by the 415 they will receive the supplemental benefit if there is a reduction and that is paid out of City revenues.

They have received cooperation from the Board’s professionals and they are in the process of receiving many documents. He appreciates the cooperation. The Commission has extended the time to do the review for an additional 30 days. In the next few days they will start putting together their report and he will come back to the Board and review what their findings are.

There was a question last time regarding how the Retirement System will do calculations. There was an issue as to whether the present actuary would do those calculations or whether they would be stayed. The Board did ask whether the City's actuary would do that. At the time he thought it was worthwhile to keep some separation particularly during their review. They are looking at the City to hire an outside actuary who was recommended by Mike Tierney. He was informed that there would be no objection from the City to allow the actuary they hire to do those calculations for the Retirement System. He wanted to inform the Board that is a possibility. He will continue to keep the Board updated.

Mr. Hoff asks if the supplemental plan ordinance applies to other employees. Mr. Leen informs that the ordinance applies to the prior Finance Director and the prior City Manager. If they have any gaps they will receive payment from the supplemental plan. The settlement with Ms. Menendez was for past payments based on her promissory estoppel claim. They have not received a request from either of the other individuals to settle with them. That would be looked at on a case by case basis. Ms. Menendez had some documentation and strong arguments in favor of her position as to why she individually had a promissory estoppel claim. They didn't agree but they thought it was a strong enough claim that they should look at it.

Mr. Hoff informs that they are backing up on the applications for retirement and DROP. Are they allowed to use the Board's actuary for the calculations in the meantime? Mr. Greenfield responds that they were told that the Commission wanted the Board not to use Mr. Stanley on the 415 calculations but could use him as the actuary in other matters. Mr. Leen explains that the position of the City would be on the issue of the contract going forward. Under the City Code the Commission can review any decision of the pension board related to that. The actuary is presently retained under the old contract and how the Board uses him is ultimately up to the Board. The resolution states that the Board is authorized to get another actuary during this time to do these calculations. His concern is that there was a potential conflict with the Board's actuary who would be looking into the 415 issue for the calculations. Mr. Garcia-Linares asks Ms. Groome if any of the calculations that are on hold would ultimately fall within the 415 issue. Ms. Groome is not sure.

Mr. Greenfield states that it came to his mind that there is another matter that the Board may want to consider at this meeting and since Mr. Leen is here it would be good to consider it. Mr. Stanley had suggested that there be an impact statement made relative to what impact the new supplemental plan would have on the system. Mr. Linn said that he did not believe an impact statement is needed. During the week he spoke with Mr. Leen and Mr. Linn and Mr. Linn said if Mr. Stanley feels an impact statement is needed then he ought to go ahead and do it. The question came up if Mr. Stanley is going to do the impact statement would that be an expense the Retirement System pays or the City pays. It is one that was not resolved as to who should pay it. Ms. Groome believes that the Board ought to pay. He is not as certain as Ms. Groome. Ms. Groome informs that she spoke with Mr. Stanley and he said that the cost would be less than \$5,000.00 and possibly a lot less than \$5,000.00. It is not going to impact the Retirement System. Mr. Stanley also felt that it should be a City cost. Mr. Garcia-Linares states that if it doesn't impact the Retirement System they shouldn't have to pay for it. Mr. Greenfield thought it would be a discussion they can have with the City Attorney. Mr. Leen understands but the City is not asking for Mr. Stanley to do the impact statement, he has volunteered to do it. Mr.

Stanley has said that he feels that he should do it. Ms. Gomez states that the pension ordinance has changed and Mr. Stanley believes that because of that change it could be an impact to the retirement plan. That is why she thinks it is an appropriate cost of the Board because there was a change in the ordinance. Mr. Hill believes that with what happened to the Police this week they are going to get an impact statement on that also. Is there any way they can get them both together and get a reduced price on it? Ms. Groome responds that there will have to be two separate impact statements. Mr. Garcia-Linares asks who paid for the impact statement when the plan changed for the general employees. Ms. Groome responds that the system paid for it. Mr. Garcia-Linares states that if that is the case then the Board should pay for the impact statement.

Mr. Garcia-Linares thinks they have gotten off track and need to address the issue regarding the actuary's certifications for retirement and DROP. He believes that this Board has not seen eye to eye with Mr. Tierney in the past and he would not vote in favor of hiring Mr. Tierney to do any of their reviews or hiring anyone he would recommend. If they are going to go with someone other than Mr. Stanley he would rather hire someone completely independent. They have had too many issues in the past where the Board has never agreed with what Mr. Tierney has presented to them. Their actuary has always said something different. He thinks they need to keep them separate. Chairperson Easley agrees. Mr. Leen states that the Board's independence is very important so he is not saying that they should or should not use Mr. Tierney. There is an individual the City is using for the 415 issue. The City may be willing to have her do the calculations at their own expense. One other thing with the 415, the review is looking at the issue of whether the actuary had any responsibility for the very issue he will be charging for the impact statement. There may be a potential conflict.

Mr. Garcia-Linares asks Mr. Leen if he thinks he will be done with his report in 30 days. Mr. Leen responds that he has 90 days from the original date to complete the report. That is the goal. Mr. Garcia-Linares thinks they should wait. He will not vote in favor of using Mr. Tierney or anyone Mr. Tierney recommends. The rest of the Board may disagree. If they bring in a third party it seems like it will cost more than using someone who is familiar with the plan. If the City Attorney's report comes back saying that Mr. Stanley did what he needed to do and the City is not going to take any position adverse to it then do it. If the study comes in otherwise then there will be a conflict situation and they will have to get another actuary. It seems they should sit back and wait another 30 days to see what happens. Ms. Groome informs that she has an employee who will be leaving the DROP at the end of September and their final DROP needs to be certified. She has another employee leaving the DROP at the end of October. Mr. Hoff asks if Ms. Groome believes either employee will have an issue with the 415 limits. Ms. Groome is not sure.

Chairperson Easley states that they are already paying Mr. Stanley for his services to the system. He already has the numbers for the people in the DROP. He thinks to keep it simple for certification Mr. Stanley has to follow a certain obligation himself in his profession to keep it straight. He thinks these are simple cases for certification and that they should use their current actuary to perform the certifications of the two individuals who are leaving the DROP.

**A motion was made by Mr. Hoff and seconded by Mr. DiGiacomo to use Randall Stanley to perform the certifications for the employees leaving the DROP.**

**Discussion:**

Mr. Leen informs that he is not going to take a position but the resolution doesn't prohibit the Board from using their actuary. Mr. Garcia-Linares comments that his only concern is if there is a possible 415 issue and whether Mr. Stanley will feel he is in a bind with what he did before versus what he is doing now. Ms. Gomez informs that this person is leaving the DROP so they would get a letter like the letter Mr. Stanley prepared for Ms. Menendez which identified whether or not there is an actual effect regarding 415. It is not that the person is entering the DROP and they have been given estimates to date. It is a different situation than someone going into the DROP and the 415 disclaimer language must be there. This is the actual final number. Mr. Garcia-Linares states that they have people potentially pointing the finger at Mr. Stanley saying that he should had disclosed "x" or "y". He believes there is a potential conflict here. He would prefer that they find an independent actuary to handle this calculation.

Mr. Hoff withdraws his motion.

**A motion was made by Mr. Garcia-Linares and seconded by Mr. Hill to authorize the Administrator to use an independent actuary to perform the certifications for the employees leaving the DROP. Motion unanimously approved (8-0).**

Ms. Groome asks Mr. Leen about the Excess Benefit Plan. She understands that it is for employees who are not under collective bargaining. Mr. Leen responds that the ordinance was structured so that it could apply to people in the collective bargaining units but it would have to be amended to provide it through the collective bargaining process because that is a State law. Once it is provided then according to the ordinance there would have to be a resolution basically to provide it.

Chairperson Easley recognizes the attendance of the FOP President, John Baublitz.

3. Items from the Board attorney.

Mr. Greenfield reports that a lot of time this month has been spent in reviewing correspondence in regards to the 415 issue. They have also received information regarding the City's impasse with the police union and the issues involved in that. They have had the usual administrative issues. It has been the normal and usual routine of the system. The Administrator and Trustee have done a great job. He believes they are a very healthy Board and that the System is a healthy system. He thinks that this Board is a phenomenal Board in the sense that they listen to issues, tackle the issues and do a phenomenal job in exercising their fidelity and fiduciary responsibilities.

Mr. Hoff points out that given the recent impasse hearing a question is going to come before this Board that he wants to give Mr. Greenfield ample opportunity to research. An individual purchased time from previous governmental service. That time they purchased is now no benefit. Can they apply to get the amount back that they paid for the time purchased? Ms. Groome informs that the Board has refunded money for buy back to other employees in the past.

4. Consent Agenda.

*All items listed within this section entitled "Consent Agenda" are considered to be self-explanatory and are not expected to require additional review or discussion, unless a member of the Retirement Board or a citizen so requests, in which case, the item will be removed from the Consent Agenda and considered along with the regular order of business. Hearing no objections to the items listed under the "Consent Agenda", a vote on the adoption of the Consent Agenda will be taken.*

2A. Approval of the Retirement Board meeting minutes and Executive Summary minutes for August 9, 2012.

2B. Report of Administrative Manager.

1. For the Board's information, there was a transfer in the amount of \$1,725,000.00 from the Northern Trust Cash Account to the City of Coral Gables Retirement Fund for the payment of monthly annuities and expenses at the end of August for the September 2012 benefit payments.
2. For the Board's information:
  - Isaac Neyra of the Public Service Department passed away on July 29, 2012. He retired on July 1, 1989 with Option 2B-66.7%. His beneficiary began receiving Post Retirement Survivor benefits on August 1, 2012.
  - James Cobell who worked in Motor Pool passed away on July 29, 2012. He retired on February 1, 1985 with No Option. His benefits have ceased.
3. For the Board's information, the following Employee Contribution check was deposited into the Retirement Fund's SunTrust Bank account:
  - Payroll ending date August 12, 2012 in the amount of \$142,411.24 was submitted for deposit on August 21, 2012.
  - Payroll ending date August 26, 2012 in the amount of \$141,784.05 was submitted for deposit on August 31, 2012.
4. A copy of the detailed expense spreadsheet for the month of August 2012 is attached for the Board's information.
5. A copy of a letter dated August 6, 2012 from Julie Browning of the State of Florida with questions regarding the 2011 Annual Report is attached for the Board's information.
6. A copy of an email with attachments dated August 9, 2012 from David Harris of Nyhart responding to the letter from Julie Browning of the State of Florida regarding the 2011 Annual Report is attached for the Board's information.

7. For the Board's information, a copy of an email dated August 17, 2012 from David Harris of Nyhart responding to Julie Browning of the State of Florida clarifying the City receivable on the valuation report is a prepaid contribution for fiscal year ending 9/30/2011.
  8. A copy of a letter with attachments dated August 20, 2012 from Lea Planakis of Goldstein Schechter Koch responding to Julie Browning of the State of Florida regarding the State's questions on the 2011 Annual Report is attached for the Board's information.
  9. A copy of a letter is attached for the Board's information, dated August 23, 2012 from the State of Florida Office of Municipal Police Officers' and Firefighters' Retirement Trust Funds, Division of Retirement informing that the 2011 Annual Report was approved.
  10. The Berwyn Group Death Check Verification Services dated August 22, 2012 is attached for the Board's information.
  11. A copy of the August 2012 NCPERS monthly Newsletter "The Monitor" is attached for the Board's information.
  12. A copy of the Summer 2012 NCPERS quarterly Newsletter "PERSIST" is attached for the Board's information.
- 2C. Submission of bills for approval. (Administrative Manager recommends approval of the following invoices).
1. The City of Coral Gables invoice for the rental of City's public facilities in the amount of \$1,200.00 (\$400.00/month) and general liability insurance in the amount of \$1,005.24 (\$335.08/month) for the months of October, November and December 2011 for a total of \$2,205.24.
  2. Goldstein Schechter Koch invoice #96197 dated August 10, 2012 for audit services and additional expenses for year ending September 30, 2012 in the amount of \$4,000.00 (this is a retainer for the 10/01/2011 – 09/30/2012 audit).

**A motion was made by Mr. Hoff and seconded by Mr. Hill to approve the consent agenda excluding Item 2C2 which will be discussed under Agenda Item 6. Motion unanimously approved (8-0).**

5. Discussion of approval of the Goldstein Schechter Koch audit and engagement letters regarding the year end September 30, 2012 audit and 2012 State of Florida Annual Report (*Agenda Item 6*) and approval of Goldstein Schechter Koch invoice #96197 dated August 10, 2012 for audit services and additional expenses for year ending September 30, 2012 in the amount of \$4,000.00 (this is a retainer for the 10/01/2011 – 09/30/2012 audit). (*Consent Agenda Item 2C2*).

Chairperson Easley explains that the invoice for GSK is a retainer for the work they will begin for the 9/30/2012 audit. Ms. Groome informs that the engagement letter for the amount of \$1,500.00 is for the auditors' work on the State Annual Report. Last year the cost was \$1,000.00 for their work on the report and this year it was increased to \$1,500.00. Ms. Gomez asked her to negotiate with GSK to reduce their cost to \$1,250.00 for the Annual Report. She spoke with Clement Johns at GSK and Mr. Johns indicated he did not see a problem with the reduction but he would have to get back to her regarding the reduction in price. The engagement letter in the amount of \$24,000.00 is for the audit of the retirement system. That fee is the same fee that was paid last year by the system. The \$4,000.00 invoice is based on the \$24,000.00 for the audit.

**A motion was made by Mr. Garcia-Linares and seconded by Mr. DiGiacomo to execute both Goldstein Schechter Koch engagement letters.**

**Discussion:**

Mr. DiGiacomo asks if they are waiting to see if they are reducing the \$1,500.00 to \$1,250.00. Ms. Groome informs that Mr. Johns did not see a problem with the reduction but that he would have to get it approved. Mr. Garcia-Linares gives Ms. Groome the discretion for \$250.00. They are charging the same fee they did for last year's audit. If they get the reduction then they get it. If not then they don't and they should sign the letters as is.

**Motion unanimously approved (8-0).**

**A motion was made by Mr. Garcia-Linares and seconded by Mr. DiGiacomo to approve invoice #96197 in the amount of \$4,000.00 for the retainer for the next audit. Motion unanimously approved (8-0).**

6. Disability reviews. (*Agenda Item 5*).

Dr. Chao states at the last meeting they spoke about bringing the retirees who are on disability and submit reviews to the Board's doctor every year. The idea is the last two or three years, disability has increased by 50% nationwide. The only possible explanation for this is fraud. The last time they spoke about having every disabled retiree every year goes to the Board's physician. Perhaps they should have a position open so that they are not faced with the response that there are no positions open that the individual is qualified for so they have to give disability. He thinks these two things should go together. The medical examination of an independent doctor every year for the retirees under disability and to eliminate the bottleneck that an individual has to qualify for whatever open positions by creating a position for individuals they think are borderline because they cannot drive, or whatever but they can do other things so they can have a position and continue to serve the City of Coral Gables.

Mr. Hill states that Dr. Chao speaks of a 50% rise nationwide. Do they know how much it has risen in the City of Coral Gables? Is there any way to find out? Have they had a dramatic increase in the disability claims? They don't even know if it has risen in the City of Coral Gables. They are just speaking of something nationwide. The second point he would like to make is that these doctors are professionals and they sign oaths that they have to adhere to certain conditions. Basically what is being said is these doctors are possibly fraud and they aren't doing their job and are breaking their oath. Therefore they need to have a separate

doctor to examine them. Getting disability is a process that has taken some of these people many years to go through before being able to retire on disability. The Board has no right to say that an employee is no longer disabled and we have a job for you. The Board can't create jobs. That is the job of the City Manager.

Dr. Chao comments that Mr. Hill's first point was how they know about the data. If the rate of disability has increased nationally it is very likely that it has or will be increasing in the City of Coral Gables. The second point is South Florida is the number one place in the nation for abuses in Medicare. There are hundreds of doctors in Miami that will certify with their signatures anything you tell them to. It is very easy for someone to go to a doctor and tell the doctor whatever their ailments are and that doctor will agree and charge \$250.00. It is so easy to do that in Miami. They have to inoculate themselves against that. The other point is that he thinks the bottleneck is here are positions but you don't qualify for them so here is your disability. He thinks they should suggest to whoever has the power to do it to create a series of positions that can create opportunity for people to continue to work for the City.

Mr. Garcia-Linares agrees that the disabilities are up. He doesn't think he has seen an increase in disabilities in the City. He agrees that these retirees on disability should go to an independent doctor. The other issue in regards to jobs is unfortunately that is not the realm of this Board. He remembers a gentleman who came before the Board and was willing to work and take a desk job even though he was disabled and the response from the City was they have no position available so he is going on disability. It is out of their control. That is a conversation he should have with the Mayor who appointed him. They don't have jobs to give to people. The only thing they have as a Board is to look at the application and ask if they have done their due diligence. He agrees that these disabled retirees should go to an independent doctor. All they can do is approve their disability. They can't give them a job. It is up to the City to give them a job. Dr. Chao does not know how jobs are created in the City of Coral Gables. He thinks they should suggest that a position to be created so that an employee who is disabled can still continue to be an employee.

**A motion was made by Mr. Garcia-Linares and seconded by Mr. Gueits to send the five individuals who are up for their annual disability review to an independent doctor.**

**Discussion:**

Mr. Hoff thinks they need to set a standard for what they are going to do for each individual. They need to be consistent in their application of it. Mr. Hill agrees. There are obvious situations when some people won't ever heal and will never get better. There are possibilities that there could be fraud. He doesn't believe it is as rampant as Dr. Chao might. His fear is that they are throwing money away. They are going to send someone every year. Mr. Garcia-Linares remembers at the last meeting they said they would do it every three years. He thinks they should start by sending these five to a doctor. If they get a report back from a doctor that states one of these retirees will never recover from their disability then the Board can make a decision at that point.

Chairperson Easley states that these individuals do go to their own doctor once a year but what they are going to do is get a baseline now and send them all to an independent doctor. Then once they get the report back from the independent doctor regarding an individual let's say for

example upon further review they may need to come back in three years because they might improve. Then they will bring that person back another three years to go to an independent doctor. If they get an independent doctor to state that the individual has an injury where they can never function at the capacity that their occupation was in or any other capacity then they make an exception for that individual and exempt them from having to come back.

Mr. Geraci asks if a disability retiree ever received something back from their doctor saying that they have healed. Ms. Groome informs that there was a firefighter who was out on disability and he came back to full time duty. That is the only one she knows of. It was that firefighter's choice to come back to full duty. She has not received any documentation from a doctor saying that the disabled retiree was fully recovered. Mr. Geraci asks if someone does get that note from a doctor saying they can go back to work and their job is no longer available then what happens. Ms. Groome responds that they would not receive their disability. Mr. Geraci clarifies that has never happened. Ms. Groome informs that she has never had to deal with it. The ordinance states that "disability retirement will be reconsidered by the retirement board every year for continued disability. At the request of the board, the participant must submit renewed medical opinions, documents and/or authorizations for the release of the same, and submit to examination by physicians, as provided above for the initial application." So the Board is doing what is consistent with the ordinance.

The motion was amended and restated:

**A motion was made by Mr. Garcia-Linares and seconded by Mr. Gueits to send the five individuals who are up for annual disability review to an independent doctor in compliance with the ordinance and the review by the independent doctor will continue every three years and that the disabled retiree will continue their annual reviews until they reach their normal date of retirement. Motion approved (7-1) with Mr. Hill dissenting.**

Dr. Chao thinks that the bottleneck of having a position available in Coral Gables and the fact that if there is no position by default they have to approve the disability. He thinks they should somehow recommend to the Commission or the Mayor or to the Manager the creation of positions where people can continue to serve Coral Gables if they are partially disabled for the functions they may use as employees of Coral Gables. If someone has a pain in the back perhaps that person can be doing something useful for the City. Chairperson Easley agrees. Unfortunately the elected Board members do not have that option to make that recommendation but the appointed Board members can definitely take it back to their Commissioners.

Mr. DiGiacomo asks about the firefighter who returned to work after being out on disability. Did the years on disability still count for his normal retirement date? Ms. Groome responds that the ordinance states "if the participant recovers from disability and reenters the service of the city, his service will be deemed to have been continuous, but the period beginning with the first month for which he received a disability retirement income payment and ending with the date he reentered the service of the city will not be considered as credited service for the purpose of the system." Mr. DiGiacomo states that the employee would be delayed unless they remain on disability then they are bridged to retirement when they hit their normal retirement

date. Mr. Hoff comments that whatever time they are out on disability they have to complete the additional years to get to normal retirement. Ms. Groome adds that if an employee recovers from disability and does not return for any reason then “such failure to return shall be deemed a termination of employment under section 50-233, except that any amounts payable under section 50-233 will be reduced by the disability retirement income payments to him under this article.” Police officers and firefighters are exempt from this reduction. Section 50-233 is benefit on termination of service.

Mr. Baublitz thinks the Board is doing a great job and the work they do is appreciated. He asks if someone goes out on disability and then they do the review after three years and the doctor says they can come back to work does that employee lose that time in the system. Mr. Hoff responds that the time in the system does not count. Mr. Baublitz states that the Board has to decide if the employee comes back and then the City decides not to bring them back that employee is out of a job. That can be devastating for someone. If a police officer has a brain injury the doctor may say that that police officer can do a remedial type job so if the Board says that the doctor says the police officer can do another type of job and the City doesn't want to bring them back then here is an officer that suffered a brain injury on the job and now they are just cut off. Ms. Groome points out that the ordinance states that the employee is disabled when they can no longer perform the duties of their occupation so they would have to be a police officer again. If they send him to a doctor and the doctor says they can no longer work as a police officer but can do something else, they have to stay out on disability. Mr. Geraci agrees. They can't turn around and give a police officer a job as a greeter at City Hall. He is a police officer and is disabled and can't return to his job as a police officer. Mr. Garcia-Linares thinks everyone needs to understand that. If the doctor comes back and says the employee can no longer work as a police officer even if they can give them a desk job greeting people, the Board has to consider them disabled.

7. Investment Issues.

Dave West reports that it is September 14<sup>th</sup> and there are 11 trading days left to the close of the fiscal year and the news is good. They have come through a period of the last few months where markets have been rallying on bad news. Bad news has been a good thing. There was an announcement from Bernanke and the Fed for QE3. What makes this very unique is QE1 and QE2 were stop/start programs with finite end dates and finite dollar amounts. QE3 is wide open. The target is to purchase \$50 billion in mortgage securities per month and it is open ended. The idea is to keep mortgage rates down and try to stimulate the economy in the housing sector. The second thing they announced was they were going to maintain the zero check to funds rate up through 2014. Shortly before that the ECB had a big announcement. They came out and stated a similar bond purchase program where they stated they would purchase bonds out to three years and then they restated what they meant was a duration of three years so they are going to be purchasing bonds from one to ten year maturities. There are strict requirements for this. It requires a country to participate in that European stability program austerity packages for whatever they are requiring but this is big because it affectively continues to require liquidity to the Eurozone and markets reacted favorably to that. The unemployment rate last month was at 8.3% and it went down to 8.1% but behind the number the size of the labor force continues to decline. You have older workers retiring at 62 instead of 65 and taking lesser benefits and you have students in college staying in college because there are no jobs for them and soon as they get out of college they face big student loans. That

is a big problem with unemployment that is primarily affecting the younger workers trying to get into the job market.

Mr. Geraci states that Mr. West informed that the market keeps going up on bad news. What is going on? What is their take on that? He has a large home and he would like to downsize because he is getting older and would like to slow down a little. Who is going to buy these large homes? There is no one working. No one can qualify for a mortgage. It is not only locally it is across the country. Who has the money to buy the homes of the boomers looking to downsize? You look at what is going on in the Middle East. They have an election coming up and you have two completely different ideas on which way the country should go. Will it be more to the right or to the left? Coming in January they have this fiscal cliff. If you believe the Germans are going to back the Italians and Portuguese and the Greeks this all plays on that. Nothing has changed. Everybody has promised but no one is doing anything. They can't take the chance of waiting for four, five or six years to get back to even. He thinks they really need to bullet proof themselves so they don't have that same cyclical thing they had before. What do they recommend?

Mr. West thinks what Mr. Geraci is saying makes complete sense. There is a financial theory where there are periods of time where you have spurts of industrial revolutions or life changing events and each of those events thrive the economies for a number of decades. Then you get into a period of sideways and nothing happens. It doesn't suggest that you can't continue to make money. Mr. Geraci is worried about what is going on in the world. He would like to consider their options.

Mr. Brown states that they cannot bullet proof the portfolio. The one asset they added recently to try to dull the volatility like in 2008 is the managed futures and everyone is upset with the short term performance of that because when the market takes off it is that asset that doesn't do well. They added it to limit some of the downside volatility but when everything is going good that individual segment of the portfolio that was added to enhance the overall portfolio does not do well.

Mr. Geraci thinks maybe they should take 10% to 15% of the portfolio and put it into cash. Why would they be in a downside if they put a chunk into cash for a short period of time? Dr. Chao states that no one can predict the market in the future and no one can predict where to put their money. No one can manage the performance these days. If they had all their money in cash or in real estate who knows what is going to happen. He thinks that Europe for the first time in history is having a tremendous impact on the market. That never happened before. It is totally unpredictable. He has respect for the consultants because they are well informed and try very hard but some people with a little luck and the right intuition as to what everyone else is thinking become the big stars in investments.

Mr. Geraci explains that what he was trying to get at is they have a lot on the table now. He is just throwing it out there and saying to take a little off the table and put it in cash. Things are good right now but they can change immediately. Instead of being greedy if they take a little off the table and put it in cash, cash will be king in February probably. Dr. Chao comments that some people are saying that there is going to be inflation coming and then the cash will be sliced. Mr. Garcia-Linares thinks they are in a good place right now. September 30<sup>th</sup> is

obviously a big day for the fund. Last year they were there and then the market fell. He is as concerned as Mr. Geraci. If something big happens in the Middle East then this market is going to be a free for all. Dr. Chao thinks it could be quite the opposite. Mr. Garcia-Linares states that they are sitting in a good place now. September 30<sup>th</sup> for the City is an important date. Can they do anything to protect what they have now through September 30<sup>th</sup> so they can finally beat the 7.75% assumption? Then October 1<sup>st</sup> they can go back to business as usual. If they don't get 7.75% rate of return on September 30<sup>th</sup> it ends up costing the retirees, the fund, the City and everyone. Is there anything they can do to try and save what they have? Mr. Brown responds that the short answer to that is to go to cash but he doesn't recommend it. He shares all the same concerns.

Chairperson Easley asks if they could find another fund like DiSCO 2. It has returned 30.86% since the last fiscal year. Mr. Brown replies that he did find another one. They don't have the terms yet. It is another PIMCO product focused on US residential recovery and it was announced two days ago. They are targeting 15 net of all fees. It is going to be set up like a hedge fund with a two year lock. When the terms come out and it goes through their investment committee he will bring it to the Board.

Mr. West states that if they go to cash there is transaction costs associated with it and they are automatically taking 1% to 2% in transaction costs. Mr. Geraci asks what the percent of cash is in the portfolio currently. Mr. Brown informs that they have about \$5.1 million in cash between the managed accounts. It is about 2% in cash. Mr. West adds that they are using the S&P index fund as a rebalancing mechanism and at the end of the month \$1.7 million was liquidated. By using this fund as a rebalancing tool they have effectively been taking profits off the table as they raise funds out of the S&P index fund. They are taking profits as things are getting rebalanced to make the distributions. Mr. Brown thinks they are kidding themselves if they put a timeframe on an "all clear signal" because it is not going to happen.

Mr. Geraci points out that all the major companies that are invested in are global. So anything that happens they will have problems. Realistically they are looking at an international scene that has never been this way at a time he has been able to study history. Dr. Chao states that for the first time in history the market depends on the international market. However, there are hundreds of companies in the US holding cash and they have billions of dollars that they don't want to invest because of the uncertainty. Who knows what will happen or what will have to happen so that these companies begin to use their cash to expand and to create jobs but they haven't done it. Mr. Geraci agrees. Everyone is sitting on cash but the fund is not. All of these companies are standing back their cash and the fund is not. They have it all up there at risk. He is not saying to pull it all back but he thinks they should consider taking bigger cash position at least for the next six months.

Mr. Gueits asks what they can trim if they had to. Mr. West responds that their recommendation is to run with the program. If they were to trim they would encourage staying within the realm of the investment policy targets and parameters. Mr. Brown informs that the least impact on the portfolio in terms of the costs is mutual funds which are the index funds, two of the international funds and the global bonds. He did manager interviews yesterday afternoon and everyone is asking that question. All three of the managers talked about 2008 and what they learned from that. Every one of the managers were a fundamental bottom up

stock manager and they are looking 3 to 5 years down the road when they are building a position trying to ignore the top down noise that makes the market move on a daily basis. Every single one of them acknowledged even if they don't have formal criteria in their selection process that they learned from 2008 that once they come to a thesis and it is an incredible buy they do have to look at the geopolitical implications in the world for the next six to twelve months before they make that investment and commit clients' money. He does think that you would see people being much more conservative if they did go into some geopolitical event. They had one manager in 2008 that said they had to go 25% into cash. He thinks they would see more managers willing to give up the opportunity costs and sit on the sidelines if something like that happened. He is more comfortable with the flexibility they have given the managers since 2008 when they took out the 10% policy limit on cash in the investment policy for all of the managers. Currently, the managers have no limit on cash.

Chairperson Easley believes they can have discussion all day long but thinks they need to stay the course for right now and maybe reevaluate things during the next meeting. Mr. Brown understands where everyone is coming from in terms of performance. They have finite time horizons but the pension plan does not. This plan's horizon is not six to twelve months. It is a much longer period of time and that is why they allocate the assets the way they do. Mr. Geraci states that they are just now getting back to even after all of these years. All he is saying is to take a little off the table. Mr. Brown explains that they give the Board what they think they should do and then they help them do what they actually want to do as efficiently as possible. It is never going to be their recommendation for this plan to go to cash but if the Board wants to then he will show them the most efficient way to do it.

Mr. West reviews the monthly performance. The fund opened the month of August at \$269 million and closed at \$273 million. The income earned in investments for the month was \$357,982. The appreciation for the month was \$5,542,882. They have added another \$3 million for this month so far. On a fiscal year to date basis through August they are up 16.7%. That amount does not include real estate or the alternatives because they do not have values for those assets. They have no rebalancing issues or recommendations at this time, just to stay the course and stay on this path. The investments are working well. They have had side conversations with various trustees regarding the managed futures and they are going to suggest that they invite someone from Princeton to the next meeting so they can talk about the strategies and what they are seeing and what is going on.

Dr. Chao left the meeting at this time.

Mr. Geraci informs that he sent an article through the administrator to the Board members. He thought it was incredible thinking outside the box on behalf of the City of Hollywood regarding the pension obligation bond. Is there an opportunity for this fund to do an opportunity like that? Ms. Groome remembers that they discussed this issue a few years ago and the Board at that time was not in favor of it. Mr. DiGiacomo thinks that with the new GASB computation coming out that will move the pension liability onto the financial statements of the City that this might be worth talking about. Ms. Gomez responds that this is not something she has been talking about at this point. They would have a liability for the payment of the bond. Either way they are going to have a liability. Mr. DiGiacomo explains that his point was prior to the GASB computation with the unfunded actuarial liability will go up and now it is going to be

there no matter what so it could be either a bond liability or a pension liability. It is still going to show on the financials so maybe the negative has gone away. It may be more reasonable to think about. Mr. Geraci believes it is a lot of thinking. The total fund since inception is 5.2%. If they can float a bond because they are cheap now and then invest the money into a fixed income product that earns them 1% over that it is a no brainer. Over the next 30 years it would be a 30 year bond and they can put the investment into some product. He thinks it is time to look at something like that. Maybe they should discuss it when they have a little extra time.

8. Old Business.

Ms. Groome informs that she sent the Board members an email of the revised numbers from the actuary regarding the shared contribution amounts between the general and excluded employees and the City. She also gave each member a copy of that letter.

Mr. Hill points to the very last two paragraphs of the letter which state “an alternative method would be to track assets separately for each group starting at the 10/1/2009 baseline allocation. Each employee group’s asset account would change with contributions and benefit payments made for the group, and the Fund’s overall asset performance would be shared proportionately.” What is happening is they are redistributing the funds and if one group of employees is paying more than another group will catch up to the other groups. If they redistribute the funds then they are right back behind again and they will always pay more. The actuary said he would investigate the alternative further and if they had any questions to let the Board know. He would like to have the actuary investigate this further. The group he is in is at a severe disadvantage.

**A motion was made by Mr. Hill and seconded by Mr. Hoff that the actuary investigates the alternative stated in his letter of September 10, 2012 further. Motion unanimously approved (7-0).**

Mr. Greenfield informs that the administrator would like for the Board to consider the calculations of the Rule of 80 be consistent with the Board’s ruling last month of the method of calculating the Rule of 70. Ms. Groome informs that the wording for the Rule of 80 is different than the wording for the Rule of 70. Mr. Garcia-Linares would like for Mr. Greenfield to look at the language between now and the next meeting and then come back to the Board with whether they should have the same interpretation.

9. New Business.

Mr. Hill states that the Board received the letter from the actuary yesterday morning and they had not as a group had a chance to discuss the letter from Nyhart. He found out this morning that there are individuals posting this letter throughout the City. He doesn’t feel it is right that as a group they received this information and hadn’t discussed it and it is already on bulletin boards throughout the City. He thinks whatever is happening here needs to be fixed. It is being used to attack him personally. He finds it extremely upsetting. Chairperson Easley doesn’t understand about the personal attack. Mr. Hill responds that it is because the general employees will have to pay 20.35% of their salary and it is being used to get everyone to scream and holler that the sky is falling and they can’t afford 20%. They are all pointing at the retirement board representative and the union representing the general employees. Mr. Garcia-Linares asks what the issue is. Mr. Hill responds that they as a group had not been able to

discuss it. Mr. Garcia-Linares informs that they are a public board and once the administrator gives documents to the Board if someone gets it off public information there is nothing they can do about it. Mr. Gueits asks how anyone would get it. Ms. Groome responds that she sent the letter to all the Board members through email and if someone shared it she does not know. Chairperson Easley states that it is public information. Mr. Hill comments that individuals are using it to create turmoil throughout the City.

10. Public Comment.  
There was no public comment.

11. Adjournment.

The next scheduled Retirement Board meeting is set for Thursday, October 11, 2012 at 8:00 a.m. in the Youth Center Auditorium.

Meeting adjourned at 10:13 a.m.

APPROVED

TROY EASLEY  
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME  
RETIREMENT SYSTEM ADMINISTRATOR