CORAL GABLES RETIREMENT SYSTEM
Minutes of September 18, 2014
Youth Center Theater/Auditorium
405 University Drive
8:00 a.m.

MEMBERS:	O 13	N 13	J 14	F 14	M 14	A-10 14	A-18 14	M 14	J 14	A 14	S 14	APPOINTED BY:
Andy Gomez	P	P	P	P	E	E	P	P	P	P	E	Mayor Jim Cason
Manuel A. Garcia-Linares	P	P	P	P	P	P	E	E	P	P	P	Vice Mayor William H. Kerdyk, Jr.
Bob Campbell	P	E	P	E	P	E	E	E	E	E	P	Commissioner Patricia Keon
Appt. Needed	-	-	-	-	-	-	-	-	-	-	-	Commissioner Vince Lago
James Gueits	P	P	P	P	P	P	P	P	P	P	P	Commissioner Frank C. Quesada
Joshua Nunez	P	E	P	E	E	P	P	P	P	E	P	Police Representative
Randy Hoff	P	P	P	P	P	P	P	P	P	P	P	Member at Large
Donald R. Hill	P	P	P	P	P	P	P	P	P	P	P	General Employees
Troy Easley	P	P	P	P	P	P	P	P	P	P	P	Fire Representative
Diana Gomez	-	P	P	P	P	P	P	P	P	P	P	Finance Director
Elsa Jaramillo-Velez	-	P	P	P	P	P	P	P	P	P	P	Human Resources Director
Keith Kleiman	-	-	-	-	-	-	-	-	P	P	P	City Manager Appointee
Pete Chircut	-	-	-	-	-	-	-	-	P	P	P	City Manager Appointee

STAFF:
Kimberly Groome, Administrative Manager
Alan E. Greenfield, Board Attorney
Dave West, The Bogdahn Group

P = Present
E = Excused
A = Absent

GUESTS:
Takiyah Bryan, Retirement System Assistant
John Baublitz, Fraternal Order of Police

Chairperson James Gueits calls the meeting to order at 8:16 a.m. There was a quorum present. Dr. Gomez was excused. Ms. Gomez was running late.

1. Roll call.

2. Introduction of the Part-Time Retirement System Assistant.

   Ms. Groome introduces Takiyah Bryan to the Board. Takiyah Bryan informs the Board that she currently works for the City Clerk's office and they are making the transition to the Retirement System on Monday. Mr. Hoff asks how long she has been with the Clerk's office. Ms. Bryan responds that it has been since February. Mr. Hill asks about her educational background. Ms. Bryan states that she is studying at FIU and getting her Master's Degree in Public Administration.

3. 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.

3A. The Administrative Manager recommends approval of the August 21, 2014 Retirement Board regular meeting minutes.

3B. The Administrative Manager recommends approval of the Report of the Administrative Manager.

1. For the Board's information, there was a transfer in the amount of $2,800,000.00 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 2014 benefit payments.

2. For the Board's information, the following employees terminated their employment with the City and were paid back their retirement contributions:

   - Richard Gruich, Police Officer, Police Department – Uniform Patrol Division.
   - Daniel Jackson, Sanitation Worker, Public Service – Solid Waste Division.

3. For the Board's information:

   - Robert Cordero entered the DROP on October 1, 2009 and left the DROP on August 31, 2014. He received her first retirement monthly benefit on September 1, 2014 and was not affected by the IRS 415(b) limits.
   - George Marrero entered the DROP on October 1, 2009 and left the DROP on August 31, 2014. He received his first retirement monthly benefit on September 1, 2014 and was not affected by the IRS 415(b) limits.
   - Olga Garcia entered the DROP on October 1, 2009 and left the DROP on August 31, 2014. She received her first retirement monthly benefit on September 1, 2014 and was not affected by the IRS 415(b) limits.

4. For the Board’s information, the following Employee Contribution check was deposited into the Retirement Fund’s SunTrust Bank account:

   - Payroll ending date August 10, 2014 in the amount of $161,177.08 was submitted for deposit on August 19, 2014.
   - Payroll ending date August 24, 2014 in the amount of $160,823.18 was submitted for deposit on August 28, 2014.

5. A copy of the detailed expense spreadsheet for the month of August 2014 is attached for the Board’s information.

6. For the Board’s information, a copy of an Impact Statement dated September 3, 2014 from Gabriel Roeder Smith & Company indicating that the proposed ordinance amending Section 50-89 and Section 50-121 has no impact on the cost of the pension fund.

7. For the Board’s information, a copy of an Impact Statement dated September 8, 2014 from Gabriel Roeder Smith & Company updating the Impact Statement submitted by Actuarial Concepts regarding the contribution amount for General Employees.
8. For the Board’s information, a copy of an Impact Statement dated September 8, 2014 from Gabriel Roeder Smith & Company updating the Impact Statement submitted by Actuarial Concepts regarding the contribution amount for Police Officers.

9. For the Board’s information the Northern Trust Class Action proceeds for the 1st and 2nd quarters of 2014 are attached.

10. A copy of a letter from Northern Trust dated August 27, 2014 is attached for the Board’s information informing that there will be upcoming changes to the fund’s participation in the securities lending program

11. A copy of the August 2014 FPPTA Newsletter is attached for the Board’s information.

12. For the Board’s information, an invitation to the J.P. Morgan Real Estate Symposium lunch and panel discussion at JW Marriott Miami on Wednesday, October 1, 2014 is attached.

13. Attached for the Board’s information, an invitation to the Manning and Napier lunch seminar at the Riviera Country Club in Coral Gables on Wednesday, October 15, 2014 is attached.

3C. The Administrative Manager recommends approval of the following applications: Tilantha Hagan (Retirement), Darnell Johnson (DROP), Michael Johnson (Retirement), Mary Magrath (DROP), Nelson Perez (DROP), Gregory Talton (DROP), Darren Williams (DROP).

3D. The Administrative Manager recommends approval for the following invoices:

1. GRS invoice #409033 dated August 13, 2014 for actuarial consulting services rendered during the month of July 2014 in the amount of $3,568.00.
2. The Bogdahn Group invoice no. 10764 dated September 4, 2014 for Performance Evaluation and Consulting Services from July 1, 2014 to September 30, 2014 in the amount of $36,250.00. This invoice is in accordance with the contract between The Bogdahn Group and Coral Gables Retirement System signed on June 1, 2008 and in accordance with the fee increase approved by the Board and signed by the Chairperson on April 28, 2011.

A motion was made by Mr. Hoff and seconded by Mr. Campbell to approve the consent agenda. Motion unanimously approved (10-0).

4. Items from the Board attorney.

Alan Greenfield, Board Attorney, reports that in the Nyhart lawsuit an answer was filed with a number of affirmative defenses. He had been in discussion with Jim Linn's office and he reviewed the responses of affirmative defenses. He told Mr. Linn that he thought they should have filed a motion to strike the affirmative defenses and get that out of the way instead of just responding to it. They agreed and they filed a motion to strike. It hasn't been set for hearing yet. Mr. Garcia-Linares asks if there was a counter claim against the Board. Mr. Greenfield informs that no counter claim has been filed. It does not preclude them after discovery to do what they want to do.

Mr. Greenfield informs that they have had the normal bit of interaction during the course of the month. He reviewed the engagement letters for Goldstein Schechter Koch and he has approved them and they are ready to be signed by the Board.

5. The Administrative Manager recommends approval of the Goldstein Schechter Koch audit and engagement letters for the year ending September 30, 2014 audit and 2014 State of Florida Annual Report. There is no increase in their fees for the audit or Annual Report for 2014.

A motion was made by Mr. Garcia-Linares and seconded by Mr. Easley to approve the Goldstein Schechter Koch engagement letters.

<u>Discussion:</u>
Mr. Hoff asks about the issues regarding the 175/185 report and revisions to the report. Ms. Groome informs that the questions from the State were answered by the Retirement Office and GSK. The State has that letter and now they are waiting on the State to approve the report. Mr. Garcia-Linares asks what the issues were about. Ms. Groome responds that there were a lot of issues and the State always has questions. She

responded to the questions regarding the data and then GSK responded to questions of the audit. They were the normal type of questions sent by the State for clarification in the report.

Motion unanimously approved (9-0). Mr. Kleiman was not present during the vote.

Ms. Gomez arrived to the meeting at this time.

6. Attendance of Gabriel Roeder Smith to offer ideas as to how the Board can reduce the plan's unfunded liability and fund the plan more sufficiently.

Pete Strong from Gabriel Roeder Smith states that he was asked to attend this meeting to discuss the current unfunded liability and steps that the Board could take to improve the unfunded ratio, pay the unfunded liability down a little more quickly and improve the status of the plan. He looked at the investment consultant's report through August 31 and year to date returns are up about 11% from last year so that is one thing that will help. They are sitting with a surplus in terms of market value versus actuarial value of assets which means that they are phasing in gains. That means that this year they are going to be recognizing a piece of those gains which is 20% of gains that have been recognized in previous years plus 20% of the current gains assuming returns hold up through 9/30/2014. That is going to put upper pressure on the unfunded ratio using the actuarial value of assets. On a market value basis last year they were at 58% funded and on an actuarial value basis at 54% funded. They are moving toward that 58% funded ratio and the 11% return would help. It would put the market value ratio closer to 60% as of 10/1/2014. Things are progressing and moving in the right direction. They hope it holds up. They can't count on having double digit returns going forward every year. Assuming they hit the 7.75% return every year going forward it is going to be a slow process to improve that funded ratio. Over time contributions are going to have to be made to hit the return and keep making those contributions in the low $20 million per year. They are amortizing the unfunded liability over a fixed period and that is reducing each year. As long as there are no additional experience losses occurring each year they will be amortizing that down so that 30 years from now it will be fully paid off. That is the plan and unfortunately over the last few years there have been additional experience losses each year which has put the plan further in a hole.

Mr. Campbell asks if the experience losses have been due to the investments or because of other assumptions. Mr. Strong responds that it has been both to investments and demographic experience. He reviewed the Experience Study done by Nyhart in 2011 and as far as he can gather some of those assumptions that were recommended by Nyhart were implemented and some were not. The ones that were implemented were changes in retirement rates and a partial change in the mortality assumption. They had recommended going to RP 2000 projected to 2020 but the Board adopted going to RP 2000 projected to 2012. There is a new mortality table that has been developed over the past few years by the Society of Actuaries called the RP 2014. It has not been fully adopted yet. It is still in exposure draft form now. They have been receiving data from different pension plans throughout the country. They have measured about a twelve year period of what mortality was with a sample size of about three million head count and they try to get a cross section of white collar and blue collar throughout the country. What the experience has shown over the years is that mortality has significantly improved from the RP 2000 table. The RP 2014 table is going to be their recommendation once it is adopted by the Society of Actuaries. That will create an increase in cost. It will be a significant change from the current mortality table. It will cause a decrease in the funded ratio because it will increase the liability. They expect to adopt the new table by the end of the year. It is not something they are recommending for 10/1/2014 but it is something they need to talk about for 10/1/2015.

One of the other recommended changes that was not implemented was changes in the turnover rate. They recommended bringing those rates down because expected turnover was significantly less during the observation period than what was expected. The actual experience came in about 70% or 80% of what was expected to happen and when you have fewer turnovers than expected it generates experience losses year after year. They recommended coming down to about 80% of what current termination rates were and that was not implemented. Mr. Garcia-Linares asks if that would increase the cost but lower the unfunded. Mr. Strong explains that the turnover rates were very neutral on the unfunded liability. It increased the normal cost or the cost of benefits being earned each year but it did not have much of an impact at all on the unfunded liability. It would increase the contribution without affecting the unfunded. That is an option to consider. The estimated increase in contribution would be about a half million. That is something the Board can consider doing. It would bring more money to the plan without having a significant negative impact on the unfunded ratio. Mr. Garcia-Linares asks if that is a recommendation. Mr. Strong answers affirmatively. Chairperson Gueits asks what the difference between adopting that assumption versus adopting the new mortality table. Mr. Strong responds that the mortality table would require a much more significant impact. Mr. Garcia-Linares states that they could do this a step at a time. They can adopt something now and then adopt something next year. Just move little by little.

Mr. Hoff asks what period the Experience Study covered. Mr. Strong believes it was from 2001 through 2010. Mr. Hoff states that it said their turnover rate was lower than expected. Mr. Strong explains that the assumption was that they would have more turnover than what was actually happening so they recommended bringing down the turnover rates. When people are sticking around their jobs longer than you expect them to it increases the cost. Mr. Hoff would like to see where they are at now because they have had a lot more turnover since that study was done. He thinks it might almost even out now where it is actually correct. He asks if Ms. Groome knows the turnover rate since the report. Ms. Groome responds that there were more turnovers after the report was submitted to the Board. The report was submitted before some jobs were eliminated. Mr. Easley thinks it may be a neutral item. Mr. Garcia-Linares asks if they looked at it again it if it would be different. Mr. Hoff thinks so. Mr. Easley points out that a lot more people have left in the past three years than before. Mr. Strong states that they only have the last couple years of data. They have data as of 10/1/2012 and 10/1/2013. He thinks they have some data as of 10/1/2011. They might be able to go back and get previous years data. Mr. Garcia-Linares asks if the trend of terminations is going up. He knows there was a spike. They are looking forward and not back. Ms. Groome informs that the trend is starting to level off from what she sees every month.

Mr. Campbell asks what it would take to do another Experience Study. Mr. Strong responds that they would have to collect a couple more years of data to catch up to where Nyhart stopped. Mr. Campbell asks what it would cost to do a new study. None of them are actuaries. There are 10 or 20 set of key assumptions. It would be great to know in the prior calculations and what assumption was used. The Experience Study shows the assumptions used and what some of the options are and what they do to the contribution and what they do to the unfunded ratio. He knows this is just for discussion but it is hard for him to do this verbally. It would be great to see how many years in the last ten years they hit the 7.75% assumption. Turnover and pay increases are some key variables but he doesn't know if they have had an actuary that has walked them through the key assumptions and shown the impact on the decision making and the cost and the unfunded so they can get their arms around it. It all starts with the actuary spoon feeding the Board. He does find this discussion helpful but he thinks it would be more helpful to see what the prior actuary did and here is what other plans are doing here is what the Experience Study says and here are the mortality table options are and here is the firm's recommendation. Ms. Jaramillo-Velez states that the Commission is also interested in a similar presentation. Maybe they could have a workshop with the City Commission. Ms. Gomez thinks they should have that type of workshop before the Board makes any decisions on changing the assumptions. Mr. Garcia-Linares comments that the Board made some changes a year or two ago and they went halfway down the path. They were able to find some assumption changes that actually helped them to offset the cost of others. They are already being told they need to change the mortality. He would like to know what other assumptions are out there that the current actuary recommends they change. Maybe they should do something this year if they know they are going to get hit hard next year with the mortality to spread this over a period of time.

Mr. Campbell asks why they wouldn't agree to pay the money for an updated Experience Study. The last Experience Study was done by the actuary they are suing. How are they going to rely on that? Mr. Hoff would rather the City pay for a new actuarial update by their current actuary. Chairperson Gueits remembers when they did that study. The actuary presented the Board with a chart that had the different assumptions and showed how the different assumptions would affect the cost to the plan. He remembers being at that meeting and debating the issues. They were showed the bottom line. It was like a menu where it was interchangeable and you could combine things. It was helpful. Mr. Strong informs that their approach is to not cherry pick assumptions. Their approach is to look at the assumptions in the aggregate. Mr. Garcia-Linares remembers that the past actuary did not show the Board what they did in the past and what they were doing now. All he showed was their recommendation of changing certain assumptions and then he showed them the costs of those assumptions. Some were pluses and some were minuses and the Board kind of cherry picked and chose assumptions that they and the City could agree to. They couldn't adopt them all. He would like to see what Mr. Campbell is recommending in terms of showing the Board what they have done in the past and what is actually happening now.

Mr. Strong explains that the problem with adopting some assumptions and not all assumptions is that you are kicking the can down the road. You are setting yourself up to future experience losses. You are kind of guaranteeing that if things continue as they have you are going to have experience losses down the road and further increase the unfunded liability. It is their recommendation that once they have recommended assumptions in place that all be implemented rather than just the ones that are cost neutral and swallow the bullet all at once. Then you know you are on track for the experience to match what is being assumed. Mr. Easley asks if Mr. Strong feels like if they do a new Experience Study that he will have enough data to do it and rely on. He knows from past actuaries they all say the same thing that they need a good amount of time to do this type of study. Mr. Strong informs that they need at least five years of good, solid data. They would have to collect additional data. Ms. Groome informs that the data sent to the previous actuary was sent by the Retirement Office so they have all the data. Mr. Strong states that he would have to see the quality of data and how much manipulation they would have to do to the data to get it in the same format of their current valuation data. If it is in the same format that was provided for the last Actuarial Report he thinks they can work with it pretty well.

Mr. Garcia-Linares asks how long it would take to do the report. Mr. Strong responds that it would be at least 60 days to do a thorough job. Mr. Garcia-Linares states that since they don't have a regular meeting in December that they should schedule a workshop then. Mr. Campbell asks when the actuarial report is completed. Mr. Strong responds that it is done in the Spring. Mr. Campbell thinks they have enough time to redo a comprehensive, well done Experience Study and have time to study it and have a recommendation in time to incorporate the changes into the next actuarial report. Mr. Strong recommends doing a projection too. The current plan is to pay off the unfunded over 30 years if all experience matches assumptions. He recommends doing a projection to show where they are expected to be in 10 or 20 years down the road with or without implementing assumption changes. Mr. Campbell asks what the cost to doing a new Experience Study is. Mr. Strong informs that it would be based on their hourly charges. They could probably give a not to exceed fee of somewhere in the range of $30,000 or what was charged the last time. It would be based on the actual hourly charges. Mr. Garcia-Linares asks if the City would pay part of it. Ms. Gomez doesn't know. Chairperson Gueits asks for Ms. Groome to pull out the engagement of the last study to see how much it cost. Ms. Groome informs she will. Mr. Campbell asks if the City has their own actuary. Ms. Gomez responds that they do and the City actuary would review the study after it is completed.

A motion was made by Mr. Campbell and seconded by Mr. Hill that subject to getting a price that is acceptable to the Board that they engage their actuary to update the Experience Study.

Discussion:
Mr. Garcia-Linares asks if they should put this off to January or February instead of December. Mr. Strong thinks that if they could get the data by October 31, 2014 they

could do something by mid-December. Mr. Hoff thinks that February might be better since they want to do the workshop with the Commission. Ms. Gomez asks if they should have a pre-workshop to talk about the issues because the Commission wants to understand a lot of it and what the different options are instead of just a workshop to talk about what they may do. They will get the report and have to digest it. They should have an informational type of workshop because it is a lot of information in one meeting. If someone doesn't understand what a specific assumption means then they are spending a lot of time explaining the basics. Mr. Garcia-Linares thinks they should have a workshop to talk this through and understand the costs of these assumptions and make a recommendation. Ms. Jaramillo-Velez believes that the Commission was looking at options to lower the unfunded liability. Ms. Gomez does not think that this will lower the unfunded liability. Mr. Garcia-Linares states that if something increases the unfunded liability then the Commission needs to know about it. Mr. Easley comments that this will make the fund healthier in the long run. They are addressing the issues. Mr. Strong states that they might take the funded ratio of 54% down to 50% but it is a much healthier 50%. Then you are on track to not accrue experience losses. Mr. Easley points out that they could easily make the fund look very good by going back to the 1984 mortality table so this puts a reality check on their numbers. Mr. Strong informs that he is firm believer of having realistic assumptions. You don't want to kick the can down to future taxpayers and by having unrealistic assumptions and that is exactly what they are doing. They are setting themselves up to a higher unfunded liability down the road.

Chairperson Gueits thinks they can spread this out over two meetings. That is logistics. For right now the idea is to simply give the actuary some kind of instruction to do something. There is a motion made.

Mr. Kleiman remembers that at the last meeting they talked about having meeting with the actuary first and discuss the options before they go to the Commission. Ms. Groome informs that the direction from the Board at the last meeting was to bring in the actuary and get ideas from them and then instruct the actuary to go back and do what the Board wants him to do regarding how to lower the unfunded liability.

Mr. Strong explains that the other way to lower the unfunded liability that he hasn't mentioned yet is to reduce the amortization period. Right now they have about 60 different amortization bases. They are all being amortized from 1 to 30 years. Some have been on the books since 1985 but you have one or two years left on those. Some are relatively recent and are being amortized over 20 or 30 years. Those are very large experience loss basis. If you were to bring everything down to say capping it at 25 years instead of 30 years that would be more representative of a typical working career of 25 years and out. That is usually about the length of time people work. Then you would not be kicking costs paying down the unfunded liability to future generations. You would be focusing on paying the unfunded liability down while people are working throughout their working years. It would increase the contribution and it would have no effect on the unfunded liability because you are amortizing the same unfunded liability. Chairperson Gueits thinks they have to see this type of information on a spreadsheet with outcomes. They need to decide what they want their actuary to do.

Mr. Hoff asks for the motion to be restated. Mr. Campbell informs that his motion only dealt with the Experience Study. They have also discussed having a working session with analysis by the actuary and options and recommendations on actuarial assumptions based on the Experience Study and their good judgment. He thinks they should do that with the Board initially. He understands that the Board is in charge of the pension plan and their obligation is to do the right thing for the pension plan whether the Commission likes it or not. He thinks that is their obligation. They need to know where they think the pension plan should be and then they can talk about the repercussions of that. They have to do their job first. Chairperson Gueits understands that there is some interim meeting the Board wants to have first before meeting with the Commission. Mr. Strong thinks they can have the study ready if they get the data by October 31st.

The motion was amended.

A motion was made by Mr. Campbell and seconded by Mr. Hill that the Board engage their actuary to update the Experience Study with the cost of the Study not to exceed $30,000.00 and then have a working session to deal with all the major actuarial assumptions relative to the experience and receive an analysis, projection and recommendations from the actuary.

Discussion:
Mr. Chircut asks about a new format that was in place and did not get adopted yet. Mr. Strong informs that there were a couple of assumptions that were not implemented. They were the turnover rates and the full mortality table assumption. Those were not implemented when the Study was done. Mr. Chircut asks that when they do the Study are they going to use the new mortality table. Mr. Strong informs that they will look at what is currently used and do an independent review of the assumptions and not use what Nyhart did. They will use data for the last five years and look at the experience for that period which is different than the period that Nyhart studied. Mr. Hoff asks if the 2014 tables will be one of the assumptions they use. Mr. Strong responds that the 2014 mortality table has not been adopted yet. You could use it. It is out there and has been published but it is still in exposure draft form. Mr. Garcia-Linares thinks that by the time they approve whatever assumption changes they will know whether or not the table has been approved. Mr. Strong would not recommend implementing the table until it is adopted by the Society of Actuaries. Mr. Garcia-Linares states that he thought that because they were expecting the table to be adopted that as part of the Experience Study one of the recommendations would be do adopt that table as soon as it was adopted and then they would show the cost on that. If one of the changes is the mortality table and if they have to wait for the new table to be adopted, he wants to have to do this only once. He doesn't want to change the mortality table and then find out three months from now that they have to change that table again. Ms. Gomez suggests that they get two options for mortality tables and the costs of each so they can have it when the study is done.

Mr. Garcia-Linares states that they are talking about changing numbers that affect what the City needs to fund for 2016. When does the 2016 budget due? Ms. Gomez replies that the budget process begins in March. Mr. Garcia-Linares informs that they need to have this study completed by March. He doesn't want to rush. If the actuary can't get data until the end of October or the beginning of November he doesn't want to rush to have a meeting in December. Ms. Gomez thinks that the January time frame was good because they can have more than one meeting if they need to before the budget is fully put together in March or April. Mr. Garcia-Linares comments that they will have their meeting first with this before they meet with the Commission for a workshop. Mr. Campbell thinks they need to read it, hear it, absorb it and come back. Mr. Garcia-Linares recommends they approve the motion to get the actuary to do the work. He thinks Mr. Strong needs to find out realistically what data we have, can he rely on the data they have and by when he thinks he can have a report done and then Ms. Groome can look at the calendars and schedule meetings for workshops. Mr. Campbell thinks there are two parts to this. The Experience Study is one part and the second part is to do an analysis, an explanation, and recommendations or options about all these different assumptions that may come from the Experience Study and then they need to know what they going to do and what the impact is on the cost and the unfunded liability. Mr. Strong informs that they will offer a package of assumptions.

Mr. Campbell asks if Mr. Strong knows how much implementing the new mortality table would cost the plan. Mr. Strong explains that it varies from fund to fund. It is based on the demographics but the estimates based on the whole paper that accompanied the exposure draft was that if someone who is currently using RP 2000 moves to the RP 2014 could have as much as an 8% increase on the total liability which would be about $40 million. Ms. Gomez asks how much that would increase the required contribution. Mr. Strong informs that it would increase the annual contribution by about $5 million.

Chairperson Gueits asks if they are all in agreement as to what they want the actuary to do over the next 90 days.

The motion was restated.

A motion was made by Mr. Campbell and seconded by Mr. Hill that the Board engage their actuary to update the Experience Study with the cost of the Study not to exceed $30,000.00 and then have a working session to deal with all the major actuarial assumptions relative to the experience and receive an analysis, projection and recommendations from the actuary. Motion approved (11-0).

Mr. West asks if GRS will be reviewing the new reporting requirements. Mr. Strong explains that Senate Bill 534 goes into effect 10/1/2014. They are still waiting for all the administrative rules regarding implementation from the Division of Retirement. They are having a rulemaking decision next Friday in Tallahassee. They are waiting before they give advice to their clients as far as how it is going to be implemented to get that rulemaking guidance. They have seen what the Senate bill is but they want to have some rulemaking guidance as far as specific details. There were a couple of questions they had. They will have more of an update on that in October or November. Now Senate Bill 534 is required they will incorporate it into their actuarial report and that is additional disclosure requirements. That same information will be posted on City of Coral Gables website to be publically available. The main components are showing the run out date and the run out date is one of the questions they had because it is unclear at this point whether you can assume future investment earnings on current assets when you do the run out calculations. You are not allowed to assume any future contributions coming into the fund. You are just to take your current population projected benefit payments to show how long the fund has until it runs out of money with no future contributions. That is the run out date calculation. It might be 8 years or 12 years but if you can assume investment return on the money while benefits are being paid you will have a later run out date. The other significant calculation is to show what the unfunded liability and contribution requirements are using an investment return assumption that is 200 basis points lower than the fund's actual return assumption or 5.75%. They want to show what that number is. They are recommending to their clients to show both sides. So they would show the low side at 5.75% and the high side at 9.75%.

Mr. West states that they are encouraging Boards to go through this and GRS has been proactive in coming up with a strategic counter solution because those two pieces of information are useless. They don't tell you anything and they are designed to be anti-pension. With the 2% lower rate of return assumption rate, the State is going to gather this information and it is going into the data file but from a City's standpoint it would be fair to show two equally useless pieces of information to show the 2% above as well as the 2% below. It may not make the State data base but at least from a City's perspective that information can be posted so people could get a more balanced viewpoint of the information. Mr. Strong agrees they are meaningless numbers. The whole run out date is like if you stop putting gas in your car to see how long will it run. It is assuming no more contributions go into the fund. It is an anti-pension move and they lobbied against it in the Senate in the Spring session of 2013 when it was first adopted. Mr. Strong informs that they are going to send a letter to their clients with exactly what Senate Bill 534 requires once they have the formal guidance of the actual rulemaking provisions have been passed which should be coming sometime this Fall. They did project GASB 67 numbers and they are going to need to update the final GASB 67 numbers. They need to know what the market value of assets is and what the actual cash flows have been for 10/1/2013 through 9/30/2014 and the market value as of 9/30/2014. Before they finalize they will update the numbers in the report with final market value of assets for the numbers that will go into the CAFR so they will need final assets prior to finalizing the GASB 67 numbers. You are not allowed to go back and use 10/1/2013 numbers you have to use current value of assets. GASB 68 will be implemented 9/30/2014 and they will start that process as well.

7. Investment Issues.

Dave West reports on the investments as of August 31, 2014. The total fund net was up 2.14% and fiscal year to date was at 10.9%. The one year annualized return was 14.96%. The three year annualized return was 11.78% and five year annualized return was 11.19%. The primary drivers were active management. The recent stock market rally has been much broader so the active managers' strategy kicked in. There was market for better performance of the equity managers. Both new international managers were funded. The alternative allocations continue to perform steady and very well. These alternatives have provided equity like returns but projecting forward they have more taken out of the equity alternatives and they should expect lower returns going forward. Maybe on the heels of the actuarial discussion it might be an appropriate time to revisit the investment strategy discussion so they will log that as a possible discussion item if the Board wants to go down that path.

Chairperson Gueits asks if there is any further news regarding the PIMCO DiSCO II product since the last meeting. Mr. West informs that there is nothing new since the last meeting. Basically as it stands they are going to meet again in March to assess the likelihood of the fund earning an A+ percent return and getting there without applying more than one times leverage. Strategically they are throttling back the risk of the portfolio. They want to bring back the leverage that is being used in the fund. The other thing they are watching is the incremental spreads of the underlying investment products and as long as those spreads are paying an excess of 300 over equivalent maturity treasuries by applying a one-time leverage they can get to that envelope communication. If those securities continue to perform very well and the spreads tighten or the opportunity continues to go away then they are likely to close that fund and announce a closure. There has been no change yet. They will continue to keep the Board informed.

Mr. West reviews the cash flow of the month. They opened at $336,482,390. Funds were raised in the index fund for distributions and they had the transition out of the Thornburg fund at $17,246,386 going into the RBC fund. Contributions for the period were $17,998. The appreciation was $6,584,227 and as of August 31, 2014 the fund was at $340,886,912.

Mr. West informs that a communication was received from Northern Trust regarding changing how they are providing their securities lending program. This is a function of the legal requirements of the banks following the Volcker Rule which means that you are going to see a lot of adjustments of the investments held by banks. Northern Trust will be providing two alternative choices. He and Troy Brown spoke with Northern yesterday to get a brief rundown as to what will happen so they can keep the Board informed. They will provide two options. From a practical implementation standpoint, from a risk standpoint and a liquidity standpoint it looks like everything will stay pretty much the same. That investment is between the Board and Northern Trust and Northern Trust will be making the recommendation to the Board as to which fund to proceed with. There is nothing to be acted on and they will be receiving additional detailed information on those two funds. Basically they are looking for a January deadline and their plan is to transition the current securities lending pool into whatever fund option the Board selects at Northern Trust’s recommendation. This is informational at this point.

Mr. West states that they wanted to address the City’s contribution coming in October. Their recommendation is based on keeping their equity allocation at or above target. They use the index funds as the source of funds that need to be raised to make monthly distributions. As a result of that strategy it is not costing the fund anything. It is a great way to raise money but as a result of that the equity portfolio has never really been able to run and it has been subject to constant rebalancing. They want to make sure they maintain their equity exposure. The bottom line recommendation is to allocate those funds up to what ends up being 5% of total assets net of the working cash required for the interim period for working cash distributions. They are a little below target and their recommendation is to exceed the target. From a practical implementation standpoint if they continue to draw with today's allocation they will move materially below the target. In anticipation of that outflow coming forward net of leaving cash in there for the near term they want to reload that equity and make sure they are making that equity exposure.

A motion was made by Mr. Hoff and seconded by Mr. Nunez to follow the consultant's recommendation for the distribution of the City's contribution.

Discussion:
Mr. Chircut asks how much the cash distributions are. Mr. West responds that they usually work out a dollar amount with Ms. Groome for an interim period of time to make sure the cash is liquid. Ms. Groome informs that she runs a preliminary payroll through the EDEN system and gives that to the City's Accounting office. She also gives the Accounting office how much the fund has paid for the previous month and the anticipated expenses for the coming month. Then the Accounting office prepares a cash flow for the coming month and that is the number that is used to request from Northern Trust the monthly distributions. A letter is prepared to be sent to Northern Trust and Ms. Gomez, as the Trustee, reviews the cash flow and the letter. Then it is sent to Northern Trust. Instead of getting the money from an active manager and paying management fees they use the index fund. Mr. West informs that they will be doing a pro-rata allocation between the S&P 500 index and the S&P 400 index.

Motion unanimously approved (11-0).

Mr. Hoff asks about the presentation regarding the alternative fund that was presented to the Investment Committee. Mr. West replies that will be occurring in conjunction with the outcome of the PIMCO fund. They would like to address that in advance and that will be later this year or very early next year. They are prepared at any time to do that.

8. Old Business.
Mr. Hill states that there is a level of frustration of people getting certified and he would like to know how much longer before everyone is caught up in getting certified. Ms. Groome responds that she is working on getting caught up. She is trying to get everything done by the end of the year. Chairperson Gueits asks what the size of the back log is. Ms. Groome informs that there are about 50 or 60 certifications that are left to be done. Ms. Gomez asks why there is a back log. Ms. Groome responds that during the 415 issue the Board asked her not to do any certifications and then when the new actuary was hired she was able to start doing the certifications again. Doing the certifications, the Board minutes, the payroll and everything in her daily actives it has made it difficult to catch up. It takes about a half a day to a full day to do one certification.

Mr. Hill comments that when they were imposed upon with the Teamster union with the cuts to the benefits he asked Mr. Greenfield about this and he referred it to Mr. Leen. People got their 3% factor back if they had their Rule of 70 before the ordinance changes. People are asking if they can sell their annual time and if it could be calculated into their pension. Is that protected by State law also? Ms. Groome explains that before the ordinance changes in 2010, some people were able to sell their annual leave and some people were not so the people who did sell their time and who were at Rule of 70 before 9/30/2010 were able to have that time included in their average which was total compensation and not pensionable compensation. She thinks Mr. Hill is asking about the people who wanted to sell their annual leave time but were not allowed to do so before the ordinance changes in 2010. Mr. Hill agrees. If people reached the Rule of 70 it was a benefit that had been taken away. Ms. Gomez informs that selling time was an administrative benefit and not a pension benefit. Had someone been able to sell that time it would have been included because it was part of pension but the actual sell of time is an administrative decision. It is not a pension benefit. Mr. Hill understands but at that time you could sell your time and it would be counted as pensionable. Ms. Gomez asks if time was sold. Mr. Hill responds that they were told they could not sell their time and State law says they had that benefit. Ms. Gomez disagrees. They had the benefit of that sell being pensionable had they been allowed to sell it. The actual action of selling time is a City administration benefit and not a pension benefit. Mr. Hill would like a legal opinion. He asks if Mr. Greenfield can contact a labor attorney and get advice from him and then report back to the Board. Mr. Greenfield replies that he could do that. They did talk about this. In the broad brush, any vested benefit can't be taken away from an employee. They can't legislate something that has already been vested. Mr. Garcia-Linares thinks this is a labor issue. Mr. Greenfield states that he had suggested when they talked about this that it is something that Mr. Leen should look at and give his opinion. Mr. Hill informs that Mr. Leen came back and said that the benefits should not have been taken away. Ms. Gomez adds that the vested benefit should not have been taken away. Had an employee been allowed to sell the time then yes but if any employee was not allowed to sell the time it is an administrative benefit that was taken away. It is not a pension benefit. There is nothing in the pension plan that says you can sell time. Chairperson Gueits thinks this issue sounds like a complex legal issue. He asks Mr. Greenfield to provide advice and if the City Attorney could provide some advice also that would be great. He doesn't understand the issue well enough and he doesn't think hey will get an answer today. Mr. Greenfield informs that they will talk again.

Ms. Groome points out in the Administrative Manager Report there were two invitations from money managers holding complementary lunch symposiums in the local area and all Board members are invited to attend.

9. New Business.

Mr. Easley read an article in the Wall Street Journal about CALPERs pulling all of their money out of hedge funds. He knows they spoke briefly about visiting that arena and maybe that is something they should look into further. Mr. Hoff thinks that it was also a political issue instead of a financial issue. Mr. Easley agrees it might be political but he thinks they should look into it further to see if it works for this plan or not. Mr. West informs that he could give their preliminary take on CALPERs. It might be something worth digging into a little deeper when they have the meeting for consideration. The quick take on that is basically every pension system is different. One of the things CALPERs was trying to do is cut investment management costs and obviously that is the first place to look from a fee basis. Then they went in and looked at their specific return history and weighed that against the cost of their specific fund investments. Then they looked at their overall allocation to this space and determined that given their small allocation and the cost and the benefit derived from that small allocation that from their perspective it wasn't a worthwhile trade off so they were going to move out into other more stable types of assets. They have no direct line communication with CALPERs but in their opinion that is what they have been able to mosaic to get behind their reason.

Mr. Hoff informs that they have a new City Manager so he would like to welcome him to the Board. Chairperson Gueits asks if he can be invited to the next meeting. Ms. Gomez informs that they do not know when he will be starting. Chairperson Gueits states that he will have an open invitation as soon as he starts. Mr. Easley thinks this is the perfect opportunity as a pension board that they should reach out to the new City Manager and invite him to their meetings hoping he can attend some of them or try and establish some sort of relationship with him.

10. Public Comment.

11. Adjournment.

The next scheduled Retirement Board meeting is set for Thursday, October 9, 2014 at 8:00 a.m. in the Youth Center Auditorium.

Meeting adjourned at 9:44 a.m.

APPROVED

JAMES GUEITS
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME
ADMINISTRATIVE MANAGER