

HOLLYWOOD POLICE OFFICERS' RETIREMENT SYSTEM
Office of Retirement
4205 Hollywood Blvd., Suite 4
Hollywood, Florida 33021

April 26, 2013
10:30 A.M.

MINUTES

A regular meeting of the Hollywood Police Officers' Retirement System was held on Friday, April 26, 2013, at 10:32 A.M., in the Office of Retirement, 4205 Hollywood Blvd., Suite 4, Hollywood, Florida 33021.

PRESENT:

D. Strauss, Chairman, C. Marano, Secretary, C. O'Brien, R. Brickman, V. Szeto and P. Laskowski.

Excused Absence: L. Wiener

Also present were Kee Eng, City of Hollywood; Jose Fernandez & Todd Green, Cavanaugh Macdonald Consulting; Mary Howell, Eagle Asset Management; Steve Cypen, Board Attorney of Cypen & Cypen and David M. Williams, Plan Administrator.

READING OF THE WARRANTS

The warrants since the last meeting were reviewed and executed by the Board of Trustees.

APPROVAL OF THE MINUTES OF THE MARCH 29, 2013 & APRIL 11, 2013 MEETINGS

Mr. Strauss asked if there were any additions or corrections to the Minutes of the March 29, 2013 pension board meeting. Mr. Szeto made a motion to approve the Minutes of the March 29, 2013 pension board meeting, which was seconded by Mr. Laskowski. All board members voted yes.

Mr. Strauss asked if there were any additions or corrections to the Minutes of the April 11, 2013 pension board meeting. Mr. Laskowski made a motion to approve the Minutes of the April 11, 2013 pension board meeting, which was seconded by Mr. O'Brien. All board members voted yes.

ATTORNEY'S REPORT

No Report

ADMINISTRATIVE REPORT

Mr. Williams presented the Administrative Report to the Board.

DROP LOANS: Mr. Williams cited respective member's loan requests. Outlined that the members have the funds in their personal DROP accounts to cover the loans and they have all been participants in the DROP plan for the required amount of time. No conflict exists with the 12-month rule. Mr. O'Brien made a motion to approve the DROP loans as noted, which was seconded by Mrs. Marano. All board members voted yes.

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QUARTERLY PRESENTATION

Eagle Asset Management

Mrs. Howell appeared before the Board of Trustees to discuss the returns as of March 31, 2013 for the Small Cap Account. Mrs. Howell also provided a brief overview of Eagle Asset investment philosophy, the investment process and risk management component of the portfolio. In addition, Mrs. Howell highlighted the performance attribution, sector allocations and portfolio characteristics.

The small cap account returned 12.28% (net) in comparison to the Russell 2000 Index return of 12.39% for the quarter ending March 31, 2013. For the fiscal year through March 31, 2013 the return was valued at 14.58% (net) in comparison to 14.48% for the benchmark. For a rolling 12 months, the small cap portfolio returned 15.43% (net) in comparison to 16.30% for the same benchmark. On a three year basis, the small cap portfolio returned 14.39% (net) in comparison to 13.45% for the same benchmark. Since inception (January 8, 2003) the small cap portfolio returned 10.74% (net) vs. 10.56% for the index.

ACTUARIAL VALUATION REPORT

Mr. Todd Green & Mr. Jose Fernandez, Board Actuary's of Cavanaugh Macdonald Consulting, LLC presented and reviewed the October 1, 2012 Actuarial Valuation Results. The findings of this report are to be paid in the fiscal year October 1, 2013 through September 30, 2014.

Mr. Green indicated that market return was 21.04% vs. the expected 8.00% (13.04% greater than expected). The actuarial asset return was 7.51%, which was 0.49% less than expected. The funded ratio remained stable for the year. Mr. Green outlined active and retired membership and stated active membership decreased by 4.5% for 2012. Since 2007 the System experienced 1.5% annual decrease in active membership.

Mr. Green also advised that retiree membership increased by 1.7%. There are 1.7 retirees per active member now, where there were 1.4 retirees per active member 5 years ago. The average active member is 37.7 years of age; the average member has 10.5 years of active service; the average retiree is 59.1 years of age.

Mr. Green outlined total expected employer's contribution (See exhibit below).

Employer's Contribution	If paid at start of fiscal year	If paid over fiscal year	Savings/(Loss), if paid/not at start of fiscal year
2013/14 Fiscal Year	\$10,310,485	\$10,786,750	\$476,265

Mr. Green expressed the following funding components: The expected member contribution is 9.25% (as per the current collective bargaining agreement) of active member payroll. The expected contribution from the State of Florida (185 funds) is estimated at \$1,111,640.

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The results of the valuation were outlined as follows:

	October 1, 2011 Valuation Fiscal Year 2012/2013 Contributions	October 1, 2012 Valuation Fiscal Year 2013/2014 Contributions
Total Normal Cost Including Expenses	\$3,265,967	\$3,087,027
Less Expected Member Contribution	<u>1,458,161</u>	<u>1,299,357</u>
Employer Normal Cost	\$1,807,806	\$1,787,670
Interest Adjustment	463,717	476,265
Amount to Amortize UAL	<u>9,120,334</u>	<u>9,634,455</u>
Total Required City/State Contribution	\$11,391,857	\$11,898,390
Expected Chapter 185 Monies *	<u>0</u>	<u>1,111,640</u>
Required Employer Contribution	\$11,391,857	\$10,786,750
Unfunded Accrued Liability	\$126,250,903	\$130,353,835
Funded Ratio	56.4%	56.0%

* Based on the State's Division of Retirement 2012 interpretation the City may be able to use the State distribution in August 2013 to offset its contribution for fiscal year 2013.

It was cited that individual pay increases average -5.88% vs. 5.54% that were expected to increase. Overall, active payroll decreased by 10.89%.

An inquiry was made by the Trustees in regard to the gain received by the city this year from the DROP Accounts. Mr. Green reported the gain was approximately 5 million dollars to the city.

Mr. Laskowski made a motion to accept the October 1, 2012 Actuarial Valuation Report as presented. Mr. Brickman seconded the motion. All members voted yes.

BACKDROP DISCUSSION

Mr. Fernandez and Mr. Green proceeded to review Backdrop, which was explained as follows:

Member chooses whether to Backdrop at end of his employment and after reaching normal retirement date.

Member can choose to Backdrop to any date on or after normal retirement date (Backdrop date)

Backdrop benefit

- Based on service and pay at Backdrop date.
- Generally it is a lump sum without interest for benefit from Backdrop date to end of employment.

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- Benefit calculated at Backdrop date payable annually from end of employment.
- Member makes employee contributions up to end of employment
- Instead of Backdrop member can choose regular benefit based on service and pay at end of employment

A hypothetical Backdrop illustration was presented as follows:

Age at end of employment = 53

Service at end of employment = 28 years

Member Backdrops 3 years to age 50 and 25 years of service (Backdrop date)

Backdrop benefit based on member's service (25 years) and pay at age 50

Member receives lump sum equal to 3 years of Backdrop benefit without interest

From age 53 on, member receives annuity based on benefit calculated at age 50

Member made contributions all the way up to termination of employment at age

53, even though benefit based on service and pay at age 50

Instead of Backdrop, member could elect benefit based on service (28 years) and pay at end of employment at age 53

It was conveyed that DROP and Backdrop provide similar benefits. Benefit to member who DROPS at age 50 with 25 years of service is the same as benefit to member who at age 53 and 28 years of service Backdrops to age 50 with 25 years of service.

The differences DROP and Backdrop were explained as follows: With DROP, member contributions stop earlier (when member enters DROP, not when member ends employment). DROP account accumulates, while Backdrop pays one time lump sum.

The number of years the City has to pay for Backdrop is greater than for DROP

- DROP benefit funded from hire age to point member 'retires' (enters DROP), although still working.
- Backdrop benefit funded from hire age to end of employment.

Since City has more years over which to spread costs of Backdrop, each annual City contribution for Backdrop expected to be less, but the City will be paying for more years.

The following illustration was also reviewed:

	Officer			
	A DROP	B DROP	C Backdrop	D No Backdrop
Service at DROP/Backdrop date (Years to fund pension benefit)	22	25	28	28
Age at DROP/Backdrop date	47	50	53	53
Age at service termination	53	53	53	53
DROP/Backdrop years	6	3	3	3
Pay at hire	35,000	35,000	35,000	35,000
Pay at DROP/Backdrop date	75,000	82,000	90,000	90,000
Annual benefit at DROP/Backdrop date	48,000	57,400	57,400 ¹	68,400
Cost to the City				
Value of annual benefit at DROP/Backdrop date	714,672	832,735	808,177	963,029
Backdrop lump sum	0	0	172,200	0
Total value of benefit at DROP/Backdrop date	714,672	832,735	980,377	963,029
Employee contributions 9.25% of pay from hire to DROP/Backdrop date	(112,000)	(135,000)	(162,000)	(162,000)
Net cost of benefit to City	602,672	697,735	818,377	801,029
Annual City contributions from member's hire to DROP/Backdrop date	10,900	9,500	8,600	8,400
Total City contributions throughout member's career	239,800	237,500	240,800	235,200
Benefit to the Member				
Lump sum DROP and Backdrop	288,000	172,000	172,000	0
Total annual benefits	1,248,000	1,492,400	1,492,400	1,778,400
Lump sum plus total annual benefits	1,536,000	1,664,400	1,664,400	1,778,400
Employee contributions 9.25% of pay from hire to DROP/Backdrop date	(112,000)	(135,000)	(162,000)	(162,000)
Total benefit net of member contributions	1,424,000	1,529,400	1,502,400	1,616,400

¹ Backdrop benefit calculated as if member had retired at age 50 with 25 years of service.

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It was cited that many have lost sight about the purpose of a DROP. It has been exhibited in the past that higher ranking personnel will stay longer, advancement & promotions will be stagnated as a result and disabilities will increase.

OPEN DISCUSSION

No discussion noted

MEETING ADJOURNED

There being no further business, the meeting was adjourned at 11:50 A.M.

Respectfully submitted,

C. Marano, Secretary

APPROVED:

D. Strauss, Chairperson