



**CITY OF PUNTA GORDA, FLORIDA
SPECIAL CITY COUNCIL PENSION WORKSHOP MINUTES
FRIDAY, FEBRUARY 25, 2011 1:00 P.M.**

COUNCILMEMBERS PRESENT: Goldberg, Albers, Wallace, Friedman, Keesling

CITY EMPLOYEES PRESENT: Dave Drury, Sharon Knippenberg, Kristin Simeon, Debbie Jones, Finance; Phil Wickstrom, Human Resources; Rob Hancock, Ray Briggs, John Briggs, Fire; Larry Schrader, Police; Karen Smith, City Clerk's Office; City Manager Kunik; Deputy City Clerk Stewart

Mayor Goldberg called the meeting to order at 1:00 p.m., announcing the workshop was scheduled to gather factual information regarding the City's pension plans as a basis for any future changes.

NEW BUSINESS

City Manager Kunik announced investment and legal representatives attending this date were involved with plans statewide and could answer questions on how the City compared to other municipalities, adding a proposal had been presented to Council for possible changes for future employees.

Investment Management - Grant McMurry, ICC Capital Management, Inc.

Mr. Grant McMurry, ICC Capital Management, Inc., (ICC) stated he had been the City's investment manager since 1991, adding ICC managed approximately \$3.5 billion in 74 Police, Fire and General Employee (GE) accounts. He spoke of an ICC account comprised of 60% equities and 40% fixed income, which continued to outperform California Public Employees Retirement System (CalPERS). He advised ICC managed stock equities in a traditional manner with a value approach geared toward companies selling cheaper than they should and growth products focused on companies whose earnings were increasing stronger than the market at a whole, with fixed incomes requiring no lower than BBB or investment grade on 85% of bonds purchased. He announced subsequent to 1991, overall earnings have been 7.9%, 7.89% and 7.8% for Fire, Police and GE respectively, with all accounts earning an average of 11% through 2007, while still maintaining conservative strategies. He opined the comfort level attained by Pension Board members should assure the City, commending the stewards of employee funds by the certifications and continued education obtained through the

Florida Public Pension Trustees Association (FPPTA). He advised of ICC's strategies of investing no more than 5% in any one company, with maximum equities or international markets and in keeping a steady course during temporary downturns. He cautioned defined contribution (DC) plans lacked the discipline of being able to add funds at the right time, explaining while assets decreased, liabilities remained; therefore, as unfunded liabilities increased, additional contributions would be required, adding in an up market, required contributions were not as great. He opined with a DC plan during a low market, employees would be concerned with maintaining their jobs as opposed to supplementing 401(k) plans.

Investment Management - Gregory S. Gosch, Sawgrass Asset Management, LLC

No representative was in attendance; however, Mr. Joe Bogdahn, The Bogdahn Group (TBG), advised Sawgrass Asset Management oversaw a portion of the funds invested by the General Employee Pension, utilizing a concentrated growth strategy.

Oversight of Investments - Joe Bogdahn, The Bogdahn Group

Mr. Bogdan distributed material on employee benefit plans, as delineated within the agenda material, opining there was a great deal of misinformation on the subject. He acknowledged the City was experiencing financial stress, subject to public perception and political pressure for adequate municipal services without an increase in property taxes. He spoke of the options of reducing, terminating, freezing, closing or reinstating pension plans, advising the unfortunate reality was that none would reduce costs in the near term. He alluded to a lack of understanding regarding return assumptions, advising if an anticipated return of 8% was lowered by just one percent, payroll costs would increase by 10%. He announced pension plans in the State were required to be actuarially sound by municipalities funding minimum required payments, questioning Governor Scott's intent in undoing what prior legislature had established. He advised DC plans were not retirement plans, announcing 401(k)s were initially used to defer executive compensation. He stated the annual rate of return for individual plan management was approximately 2.3%, as compared to 8% under professional management. He spoke of the competitive nature of the job market and employee training cost, pointing out although unpopular, the City had the enviable position of being able to supplement revenues by increasing taxes, suggesting a shared goal of preserving the plan with realistic expectations. He opined the current market was at an absolute bottom and the economy was improving, adding long term investment returns had met or exceeded expectations, concluding there was no "silver bullet" for a quick fix. He then addressed questions proposed by Councilmembers, replying investment options differed as each plan had Ordinances specifically detailing

what strategies were allowed, adding investment asset classes were limited to larger dollar amounts. He concurred with the desire for more liberal investment options to obtain optimum rates of return and risk. He explained Sawgrass Asset Management did not provide investment services to all three Boards due to the desire for diversification, adding it provided the ability for Police and Fire to invest in similar growth and/or multi-cap products.

Councilmember Albers requested clarification on The Bogdahn Group's role in the City's pensions.

Mr. Bogdahn replied investment managers explained investment fund performance while he offered an independent perspective to potentially offer additional options, in addition to establishing and measuring investment guidelines.

Councilmember Albers questioned why Mr. Bogdahn was opposed to a DC plan.

Mr. Bogdahn declared it was not a viable retirement option, questioning how important employee's well being was to the City. He cited a February 19, 2011 New York Times article, stating advisors were now asking investors what part time jobs they would seek after retirement. He reported the average 401(k) balance owned by a 55 to 65 year old was only \$140,000, nowhere near the returns of a defined benefit (DB) plan. He cited several examples of problems associated with DC plans as not being able to attract or retain employees, additional Human Resource issues, undesirable ISO ratings, increased insurance costs, negative cash flow and increased payroll costs.

Mayor Goldberg questioned the trend in shifting DBs to DCs in the private sector.

Mr. Bogdahn reported old Fortune 500 companies still had DB plans whereas smaller companies generally did not, adding the competitive disadvantage of DCs generally did not exist with smaller organizations.

Mayor Goldberg requested statistics on the number of DB and DC plans amongst Florida's municipalities.

Mr. Bogdahn surmised DB plans accounted for well over 90% for General Employees (GE) and at least 95% for Police and Fire.

Councilmember Wallace questioned the percentages within the private sector.

Mr. Bogdahn replied DBs accounted for approximately 25 to 30 percent.

Councilmember Friedman inquired of any additional long term effects of moving toward a DC plan.

Mr. Bogdahn reported once the number of retirees decreased from attrition, costs would diminish in 15 to 25 years; however, as the economy was now recovering from the worst equity market since the depression, investments should be profitable in the

coming years, adding contributions as a percentage of payroll would be less of a burden on the City than a flat dollar amount.

Councilmember Friedman questioned how alternatives would differ if the current market was high and the City was able to make relatively negligible contributions.

Mr. Bogdahn replied as costs would diminish, the City could either establish a minimal prefunded amount or build a surplus of reserves.

Councilmember Friedman inquired if a DC plan would be recommended for new employees in the event the market was improving and no other municipality offered DB plans, thus removing the threat of competition.

Mr. Bogdahn replied affirmatively.

Councilmember Wallace questioned the long term effect of the increased ratio of debt to Gross Nation Product (GNP).

Mr. Bogdahn recalled a drop in interest rates and debt between the Reagan and Clinton eras, predicting the current economy would similarly cycle into an improved market.

Councilmember Wallace contended all levels of government should assume responsibility for deficit spending, disagreeing with positive economic predictions due to the tremendous amount of national debt. He pointed out the world was a much different place than it was 40 years ago.

Mayor Goldberg questioned what the local effects may be as a result of proposed State legislation.

Mr. Bogdhan expressed uncertainty, pointing out previous proposals had been defeated.

Councilmember Albers contended the City was striving to make an informed decision on the best long term solution.

Mayor Goldberg requested Mr. Bogdahn's opinion on whether the City should continue on it's present course.

Mr. Bogdahn opined switching to an alternate plan would be short sighted, recommending patience with the current plan.

Acuarial Assumptions - Patrick Donlan, Foster & Foster, Inc.

Mr. Patrick Donlan, Foster & Foster, Inc., advised he evaluated risk factors within the City's pension plans by looking at assets and projected payouts to determine annual contribution requirements, in addition to cost studies showing the impact of changes in benefit assumptions or methods. He noted with a DC plan, the amount paid out must equal the amount collected, without potential for investment earnings; however, as DB plan earnings were paid in advance, Foster & Foster provided the information regarding future assumptions and schedules for amortization of costs. He then

displayed a Powerpoint presentation, as delineated within the agenda material, detailing the funded ratio of accrued benefits for GE, Police and Fire retirement plans as 98.7%, 109.6% and 95.2% respectively.

Councilmember Friedman questioned what money valuation was used in present value figures.

Mr. Donlan replied 8% interest, as adopted by each Board.

Councilmember Friedman requested clarification on the difference between actuarial accrued liability and present value of accrued benefits.

Mr. Donlan advised actuarial accrued benefit figures were estimates of what the fund should bear in the future, taking into account future salary increases.

City Manager Kunik questioned how the City's ratios compared with other plans managed by Foster & Foster.

Mr. Donlan reported they each rated well over 80% percent, adding of 172 plans, Punta Gorda Police ranked as 28th highest.

Councilmember Keesling questioned how the funding method differed within the Police Pension.

Mr. Donlan explained they used a frozen initial liability cost method while GE and Fire opted for an entry age normal actuarial cost method with separate amortization of annual gains or losses.

City Manager Kunik expressed concern for assumptions of salary increases and rates of return, inquiring if Mr. Donlan was comfortable with 8% as being an accurate figure.

Mr. Donlan replied affirmatively, as it was the best estimate of future experience. He reported bonds were yielding 6% whereas long term stocks were averaging 10% or more, noting at least 60% of funds were invested in the latter. He announced an experience study was performed on all three plans, acknowledging while there were no current salary increases, assumptions were still valid under the long term.

Legal Overview - Lee Dehner, Christiansen & Dehner, P.A.

Mr. Lee Dehner, Board Attorney, announced his role was to provide legal representation for the Police and GE Pension Boards. He referred to the questions raised with respect to repositioning plans from DB to DC, pointing out special consideration should be given to Police and Fire due to State insurance rebate entitlements. He advised the City did have the legal authority to adopt a DC plan; however, he advised it would entail additional short term funding costs, adding continued disability would need to be purchased privately or additionally funded through the DC plan. He explained converting to a DC for existing employees was possible only if employees elected to change; however, total accrued values for vested

members must be provided to fund same. He stated Fire and Police DB plans could be terminated if conforming to Florida Statute Chapters 175 and 185 whereby all earned benefits of both vested and non-vested employees must be disbursed to members according to their respective Boards. He noted distribution of GE funds would be paid according to the plan's hierarchy, which may be insufficient to reimburse lower tenured members. He advised under current law, State money for Fire and Police plans was available only through DB plans, adding a bill introduced to allow distribution to DC plans was defeated during the prior year. He noted of the approximate 400 municipal plans in the State of Florida, very few DC plans existed for GEs. He mentioned municipalities had the ability to develop a tiered plan in addition to a DB, providing lesser benefits or higher member contributions for employees hired after a designated date.

City Manager Kunik affirmed the City was proposing to implement same.

Councilmember Wallace questioned the number of plans converted from DB to DC.

Mr. Dehner advised he was aware of two, surmising there were eight or nine within the State.

Councilmember Keesling asked how many Cities utilized the tiered system.

Mr. Dehner indicated he was only aware of discussions within the City of Miramar.

Employee Pension Plans' Changes - Options for Consideration

City Manager Kunik announced the intent of discussions this date were to consider adopting a two tiered plan in order to realize cost savings in future years, requesting members' input.

Councilmember Friedman suggested considering any additional questions before taking action at a regularly scheduled meeting. He requested clarification on the disparity between each of the three plans as well as similarities between contributions and returns during 2010 as being down 4% for GEs, up 48% for Police and up 55% for Fire, pointing out the City's share of contributions had increased.

Mr. Donlan explained fiscal year (fy) 09/10 percentages lagged as they were based on an October 1, 2008 evaluation report, adding funding requirements were determined by a variety of factors other than investments, to include salary increases, employee turnover and mortality statistics. He interjected contributions between 2005 and 2009 increased comparably for Police, GE and Fire by \$200,000, \$300,000 and \$140,000, respectively; however, percentages were dissimilar.

Councilmember Albers questioned the result if vesting changed from 5 to 10 years.

Mr. Donlan opined savings to payroll would be minimal.

Mr. Ken Harrison announced he represented the law firm of Sugarman and Suskind as the attorney to the Firefighters' Pension Board. He stated he was unaware of today's meeting, requesting inclusion in any subsequent discussions.

Mayor Goldberg apologized for the oversight.

Councilmember Friedman requested clarification on a previous increase to the City's contribution, questioning the rationale in increased City contributions during favorable market conditions.

Mr. Dave Drury, Finance Director, recalled employee contributions increased as well, speculating an impact statement would provide an explanation.

COUNCIL MEMBER COMMENTS

Mayor Goldberg thanked Pension representatives for their expert opinions.

CITIZENS' COMMENTS

Mr. Rocko Salvatori, Suncoast Professional Firefighters & Paramedics, advised he provided assistance to the local Firefighters' Pension and expressed appreciation for advice provided by the Bogdahn Group. He recalled Mr. Bogdahn's recommendation for his Board to stay the course during a 33% loss in value, reporting the last quarter ended with the highest value since inception. He strongly recommended heeding the advice given this date and to consider base funding to avoid drastic changes during market downturns. He acknowledged the City's contribution of \$18,000 between 1998 and 2004, recalling Fire employee investment as being close to half a million dollars during that time.

Mayor Goldberg opined the current members volunteering to serve on the City's Pension Boards were extremely knowledgeable and a great asset to City employees.

Ms. Tela Thompson, General Employees' Pension Chair, thanked Councilmembers for scheduling the workshop and considering the recommendations made this date.

Mr. Larry Schrader, Police Officers' Pension Chair, expressed appreciation for Councilmembers' thorough examination of all alternatives prior to their making a decision.

ADJOURNMENT

Meeting adjourned: 3:00 p.m.

Mayor

City Clerk