

# ANCHORAGE POLICE & FIRE RETIREMENT SYSTEM

## NEWSLETTER

June 2008

### BOARD MEMBER NEWS:

A Police Board seat election has just been conducted. Gereth Stillman, the only nominee, was elected for another three-year term. At the June 5, 2008 meeting, the Board elected a new Chairman and Vice Chairman. Currently, Jim Bauman (Retired Firefighter/Paramedic) is the Chairman. Effective July 1, 2008, Gereth Stillman (Retired Police) will become Chairman. Andy Provencio (Active Fire) was elected as Vice Chairman. The other Board members are Joe Caswell and John Gentile (Retired Police), Paul Burns (Retired Fire) and David Gottstein, Mike Abbott and Dan Moore (Municipal Members).

The Disability Committee is currently chaired by Municipal Board member, Dan Moore, the city's treasurer. The Police member is John Gentile. The Fire member is Jim Bauman. The other Municipal member is Mike Abbott, the Municipal Manager. Paul Burns is the current "Fifth" member (who participates in proceedings but only votes in the event of a tie). There has been very little activity associated with Disability applications. There have been only a few conversions related to Heart/Lung disease disabilities during the last year.

### 2008 COLA for Plan III Approved by the Board

On July 1st each year, the rate for Cost of Living Adjustments (COLA) for Plan III members goes into effect for the subsequent twelve month period. The COLA rate is based on the Anchorage Consumer Price Index (CPI-U) for all Urban Consumers. The CPI increase in the Cost of Living for the 2008 COLA is **2.2%**.

Surviving Spouses and Disabled Members are eligible for COLA immediately upon receipt of benefits. Members who retire under "Normal" circumstances are eligible for the lesser of 25% of the CPI rate or 3% of the current benefit when they would have had 20 years of service. COLA is equivalent to the lesser of 50% of the CPI rate or 6% of the current benefit when the Member would have had 25 years of service. The calculations and changes are automatically processed by the Retirement System Staff each year. If you have any questions, please contact the Retirement System staff at one of the contact numbers on Page 4.

### Investment Manager Line-up

We have had no changes in our manager line-up during 2008 thus far. With the help of its Investment Consultant, Callan Associates, the Board has continued to study a range of different investment options such as Hedge Funds and Global Equity investing (where the Board could invest in a single fund with both US and International countries and companies in it, rather than investing in US and International companies separately). The Board has also been considering an investment in "Emerging Markets". As world markets continue to expand, e.g. Russia, China, India and other countries, the returns for this sector over the past 5-7 years have been exceptional.

We did make one change related to the type of account we invest in for Large Company Stocks. We converted the INTECH/Janus account from a "Separately Managed" account, where we owned actual shares, to a "Commingled Fund" where we own Units. This saved us about \$45,000 in bank transaction charges for the year.

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## **INVESTMENT UPDATE**

The investment markets continue to be sluggish. While we ended the year at December 31, 2007 with a return of 5.47%, returns for the first few months in 2008 have not been very good. Returns as of April 30, 2008 are at 3.71%. May appears as though it might have been a little better, but in June markets are seeing significant drops.

As you may hear in the news, nobody really knows if we are in an actual recession or not at this time. While the Retirement System did not have any investments in Mortgage Derivative Securities that were the cause of the housing and financial slump, we are being affected because of the "drag" on all sectors of the investment marketplace. Most of our managers are beating their respective benchmarks (i.e. the S&P 500, the Russell 1000) and beating their peers. It is just that the entire range of investment results are being weighed down by fears and uncertainty, not to mention the high cost of fuel and weak US Dollar.

Even though the fund's performance was only 5.47% for the 2007 year, this was still enough to keep all three Plans above the 100% mark. That means continued good news for our remaining active members who will not have to make any contributions in 2008 or 2009. The next Valuation, 1/1/2009, will determine if the Plan's funding levels improve or decline. If the ratios go over 116%, then the Board is in a position to grant Surplus Benefits. If ratios fall below 100%, then active members and the Municipality will be required to make contributions, at least, for the 2010 Plan Year.

As mentioned before, the Board has been carefully reviewing investments and asset allocations, although the Board has made no major strategic changes to date. We continue to look for ways to save money; both by cutting budget expenses and making sure our auxiliary sources of income are properly monitored. One such program is the lending of our securities through the BNY Mellon Bank program. Hedge funds and other investment and financial institutions borrow our stocks and bonds in order to cover sales that they need to make. They give us cash collateral which Mellon invests. A portion of that collateral profit comes to us (65% for us, 35% for Mellon). As of April this year, we have earned \$82,000, on a rate that is greater than any other year since we started the program.

### **ANNUAL AUDIT REPORT:**

As we mentioned in the March Newsletter, the audit that was underway has now been completed and reported to the Retirement Board. The audit (performed by KPMG LLP, a large, nationally known accounting firm) looks at investment reports, stock and bond transaction sales and purchases made by investment managers, the recording of those transactions by BNY Mellon Bank and a complete reconciliation of assets and financial liabilities. The auditors also sample benefit calculations and payments, also being paid by the bank, with another quality check of the Retirement System staff's calculations and transmittal of participant data to the actuary, Milliman, Inc. Finally, accounts for payments of expenses to our consultants and suppliers are reviewed. This is the eleventh year in a row that KPMG has issued a report with "No Findings" regarding our records and controls.

## **Plan Funding**

Charts: **Investment Performance  
Plan Funding Levels**

Investment Performance: 2004 – 2007

<u>Year</u>	<u>Investment Performance</u>
2004	12.13%
2005	7.07%
2006	13.73%
2007	5.47%

Assets vs. Liabilities: 2005 – 2008 (In Millions \$):

<u>1/1/2005:</u>	<u>Plan I</u>	<u>Plan II</u>	<u>Plan III</u>
Assets:	\$ 107.8	\$ 73.1	\$ 214.9
Liabilities:	\$ 95.8	\$ 68.3	\$ 206.3
Funding Level:	112%	107%	104%

<u>1/1/2006:</u>			
Assets:	\$105.3	\$ 72.4	\$217.5
Liabilities:	\$ 93.7	\$ 66.9	\$210.6
Funding Level:	112%	108%	103%

<u>1/1/2007:</u>			
Assets:	\$110.1	\$ 76.4	\$233.3
Liabilities:	\$ 95.2	\$ 68.0	\$211.9
Funding Level:	116%	112%	110%

<u>1/1/2008:</u>			
Assets:	\$106.9	\$ 74.8	\$232.1
Liabilities:	\$ 94.1	\$ 68.1	\$215.5
Funding Level:	114%	110%	108%

## **ANNUAL SURPLUS BENEFIT, BOARD DISTRIBUTION DECISION**

Each year, since the 2000 Ordinance was adopted, the Board must, by policy, make an annual Surplus Benefit Distribution Decision no later than the time of the regular June Board meeting. This year, the Board made its decision at the June 5, 2008 Board meeting.

As Indicated in the Plan funding information above, the Annual Actuarial Valuation Report shows that all three Plans are funded above the 100% mark, but none of the Plans are at or above 116% of Assets to Liabilities. Therefore, the Board passed a motion stating that no surplus benefit is available during the 2008 Plan Year. By Code (Anchorage Municipal Code, Section 3.85), the Board may grant a distribution only if the funding ratio is greater than 116%. Distributions may be made by Plan, that is, the Board may grant a surplus benefit to Plan I members if applicable, and not to the other two Plans until such time as the funding level for those Plans exceeds 116%.

As mentioned earlier, the Retirement Board continues to analyze the Asset Allocation Program and models to determine if there is a way that the earnings potential can be increased without imprudent corresponding increases in investment risk. Beyond that, it is the state of the investment markets that matters the most.

## Surplus Benefit Account Program Update

### **HELP TOPICS:**

(Note: All of the Forms referenced in this column are also available on-line on the WEB Page.)

#### **Change of Address:**

All change of address information must be done in the APFRS office. Neither Mellon Bank nor Vanguard can change your address in our systems. Let us know in writing, by fax or by phone and we will change it for you.

#### **Direct Deposit Changes:**

If you need to change where your automatic deposited benefit payment goes (to a bank or credit union), we have the form you will need to complete here in this office. Again, neither Mellon Bank nor Vanguard can make this change.

#### **Withholding Tax Changes:**

If you need to change your withholding on your benefit payments, you **MUST** complete an IRS W-4P Withholding Election Form. We can fax one or mail one to you. When you return it to us, we can then make the change in the Mellon On-Line System that we use.

#### **Beneficiary Designation:**

It is a good idea to periodically review and update your beneficiary designation information. For Spousal, Survivor Benefits, the procedures are dictated by the Anchorage Municipal Code. But for the Surplus Benefit Account Program, you need to have a current Beneficiary Form on file here in this office.

As those of you who still have Surplus Benefit Accounts know, the Surplus Benefit Account service provider is The Vanguard Group. If you have not yet done so, we encourage you to log on to the Anchorage Police & Fire Vanguard Web Site ([www.Vanguard.com](http://www.Vanguard.com)). You can view and check the status of your accounts, make changes in where your funds are invested, initiate withdrawals, and many other services, including a large array of investment education assistance. You can also contact Vanguard by phone by calling the Participant Service Center (called the "Voice" system). That phone number is 1- 800-523-1188. A representative can answer questions for you, help you log-on to the Web Site and assist you with all other services.

If you are retired and you wish to consolidate all of your tax qualified investments in the Surplus Plan, you can also do Roll-overs into the SBA. If you have any questions, please contact the Retirement System office.

Each of the investment mutual funds in the SBA program are performing well as compared to their benchmarks and other similar funds. Please also be on the look-out for additional helpful information from Vanguard when you get your quarterly account statements.

### **PARTICIPANTS of the PLANS**

**(As of 1/1/2008)**

<u>Status</u>	<u>Plan I</u>	<u>Plan II</u>	<u>Plan III</u>	<u>Total</u>
Actives:	3	9	93	105
Term. Vested:	0	1	10	11
Retired:	103	73	278	454
(Normal)				
Retired:	68	32	30	130
(Disabled)				
Survivors:	38	9	12	59
Child Benefits:	0	0	14	14
Totals:	212	124	437	773

## **More Information About Vanguard Investment Assistance and Services in the SBA Program:**

In the March Newsletter, we alerted you to upcoming announcements by Vanguard to be sent to your home address (if you are still a participant in the Surplus Benefit Account Program, SBA). A new program is being rolled out. It is being offered to our participants who are age 55 or older. You are eligible to receive **Expert, Unbiased Certified Financial Planner advice services, Free of Charge**. You will be able to do this through one-on-one consultation with a Certified Financial Planner who can help you select the best mix of stocks and bonds given your place in your life right now. It will help you achieve investing goals for later, whether you are still working, plan to work after APFRS retirement or for your eventual final retirement.

It's **FREE**. It can't get any cheaper than that. Many other investment companies charge a hefty fee for such services. Others charge a flat fee or charge you a percentage of your assets. We have worked with Vanguard to make this available to you for free. As of early June, none of our SBA, Age 55+ participants has signed up. Vanguard will send a follow-up E-mail (if you have provided an E-mail address in the past), and a **Reminder** post card. You can also see information about the program on the Vanguard Website. To enroll in this Free program, call **1- 800-310-8952**.

If you want to ask questions before enrolling, you can call the same phone number.

### **Benefit Newsletter Disclaimer:**

"The information and opinions appearing in this newsletter reflect the views of the writer(s) and do not constitute an official expression of policy of the Anchorage Police & Fire Retirement System or the Board of Trustees. While we do attempt to make statements of fact as accurately as possible, nothing in this newsletter may alter the provisions of the Retirement System or Plans nor constitute a contract for benefits."

## **RETIREMENT SYSTEM CONTACT INFORMATION:**

### **Staff:**

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**Toll Free Number for out-of-town and out-of-state Members: 1- 877-650-8400**

### **Our Address:**

Anchorage Police & Fire Retirement System  
P.O. Box 196650  
Anchorage, AK 99519-6650

### **WEB Page Address:**

For Board Meeting Agendas, Newsletters, Forms, Board Members Listing and Plan Summaries:

On the Internet, just enter the following address:

<http://www.muni.org/apfrs>

## **Vanguard Contact Information:**

**Web Page:** [www.Vanguard.com](http://www.Vanguard.com)

**Participant Services by Phone (The Vanguard "VOICE" System:**

**Or speak directly with a Participant Services Associate, 8:30 a.m. to 9:00p.m. Eastern Time**

**Phone Number: 1- 800-523-1188**