

# ANCHORAGE POLICE & FIRE RETIREMENT SYSTEM NEWSLETTER

June 2009

## BOARD MEMBER NEWS:

This spring, the election for one of the Police Board seats was held. Dave Koch, Active Police Lieutenant, was elected. This is one of the rare times an incumbent faced opposition. The vote was 82 for Joe Caswell and 139 for Dave Koch. At the June 4, 2009 meeting, the Board elected a new Chairman and Vice Chairman. Currently, Gereth Stillman (Retired Police Officer) is the Chairman. Effective July 1, 2009, Jim Bauman (Retired Firefighter/Paramedic) will become Chairman. John Gentile (Retired Police) was elected as Vice Chairman. The other Board members are Andy Provencio (Fire), Paul Burns (Fire), David Gottstein, Mike Abbott and Dan Moore (Municipal Members). With the recent mayoral election, it is probable that there will be new Municipal members on the Board. Each time a new mayor is elected, it is common to see newly appointed city representatives.

The Disability Committee is currently chaired by Municipal Board member, Dan Moore. There has been very little activity for that Committee the past two years. An occasional Plan I or Plan II Heart/Lung disability conversion comes before the committee.

## 2009 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 2009 COLA was **4.6%**.

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 only one change in our manager line-up during 2009 thus far. With the help of its Investment Consultant, Callan Associates, the Board decided to terminate the Vanguard Small CAP Growth mutual fund and return to the previous Small CAP arrangement with Columbia Management Company in Portland, OR. The change to Vanguard in 2005 was expected to be temporary and was done because of portfolio manager turnover in the Columbia account. However, uncertainties in the investment market place delayed formal action until this year. This change occurred because the Board believes that better long-term performance will be achieved by Columbia. The Retirement System also has a Fixed Income relationship with the Oregon company. Late in 2008, the Board changed the guidelines for the Fixed Income account allowing for a small investment in "Emerging Markets Debt". The Board is continuing its review of manager accounts in light of the poor market situation over the past two years. As the expected recovery is revealed, other changes may be necessary.

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## INVESTMENT UPDATE

Without a doubt you know that we are well into the midst of the worst investment markets decline since the Great Depression—much worse than the period right after 9/11/2001. While we ended the year at December 31, 2008 with a return of -27.12 %, returns for March and April in 2009 have started to show promise of the beginning of a recovery. Returns as of April 30, 2009 are at 3.71%. Most experts predict recovery to begin by the 4<sup>th</sup> quarter and to be well underway in 2010.

As you hear in the news, President Obama and Congress have appropriated trillions of dollars aimed at stimulating the economy, protecting the banking and other industries and creating an environment that will improve the housing market. Unfortunately, none of that money is available to pension systems that suffered dramatic unrealized losses even though many of those systems, like ours, did not invest in so-called toxic assets or derivatives. Our investment returns will improve only as the economy and the investment markets improve. Most of our managers' returns, on a relative basis, exceed their respective benchmarks (i.e. the S&P 500, the Russell 1000) and the returns of their peers. But the broad markets were down as much as 40 % and we have a long way to go to get back to full funding.

The Actuarial Valuation Report for the 2008 year, dated 1/1/2009, shows funded ratios well below 100 %. As a result, contributions will be required from active members of all three plans (6 % of pensionable wages). The municipality, under the Board's amortization schedule decision, as presented by the actuary, will be required to pay approximately \$12,000,000—with all contributions to begin January 1, 2010.

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 negotiating lower fee schedules in any new contracts.

### **ANNUAL AUDIT REPORT:**

As we mentioned in the previous June Newsletters, the Retirement System is audited annually. KPMG, LLP, does a comprehensive financial and internal controls audit of the previous plan year. The auditors look 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 twelfth year in a row that KPMG has issued a report with "No Findings" regarding our records and controls. This year's report was slightly more difficult in that KPMG is no longer the Municipality's auditor. Additional test work on payroll data was necessary that normally would have been done in the city's audit. Therefore the audit was presented one month later than usual, at the June Board meeting. It was accepted and approved and will now be distributed to MOA management and to the Municipal Assembly.

### **Charts: Investment Performance Plan Funding Levels**

#### Investment Performance: 2005 – 2008

<u>Year</u>	<u>Investment Performance</u>
2005	7.07%
2006	13.73%
2007	5.47%
2008	-27.12%

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

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

#### 1/1/2007:

Assets:	\$110.1	\$ 76.4	\$233.3
Liabilities:	\$ 95.2	\$ 68.0	\$211.9
Funding Level:	116%	112%	110%

#### 1/1/2008:

Assets:	\$106.9	\$ 74.8	\$232.1
Liabilities:	\$ 94.1	\$ 68.1	\$215.5
Funding Level:	114%	110%	108%

#### 1/1/2009:

Assets:	\$ 70.6	\$ 49.7	\$157.4
Liabilities:	\$ 93.1	\$ 67.7	\$218.6
Funding Level:	76 %	73 %	72 %

## **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 May 7, 2009 Board meeting.

As Indicated in the Plan funding information above, the Annual Actuarial Valuation Report shows that all three Plans are well below the 100% mark, and none of the Plans are at or above 116% of Assets to Liabilities. Therefore, the Board passed a motion stating that no surplus benefit will be available during the 2009 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 the funding level for the Plans exceeds 116 %.

This recession will, most likely, delay a return to surplus funding for several years.

**(Note: Please See the Attached Performance Reports)**

## 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: (See Page 4)

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.

## PARTICIPANTS of the PLANS

(As of 1/1/2009)

<u>Status</u>	<u>Plan I</u>	<u>Plan II</u>	<u>Plan III</u>	<u>Total</u>
Actives:	3	5	75	83
Term. Vested:	0	1	10	11
Retired: (Normal)	101	77	294	472
Retired: (Disabled)	69	32	28	129
Survivors:	38	8	15	61
Child Benefits:	0	0	12	12
Totals:	211	123	437	768

## Surplus Benefit Account (SBA) Program Update

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.

June 2008 – June 2009

### RETIREMENTS:

Please See the Attached Sheet

### DECEASED MEMBERS:

Please See the Attached Sheet

If you want to get in touch with your former co-workers, give us a call and we can help.

## Information About New IRS Withholding Tables for Wages and Pension Payments:

**For those of you who are receiving APFRS monthly benefit payments**, you may have noticed a change in the net amount of your pension payment the last few months. On February 17, 2009, Congress passed the **American Recovery and Reinvestment Act of 2009** which included the "Making Work Pay" tax credit of \$400 for individuals (and up to \$800 for joint filers). In order to implement the tax credit, the IRS provided new withholding tables used to deduct tax from income. The withholding tables are to be used for Pension Payments too even though the Making Work Pay tax credit does not apply to pension income.

You need to be aware that the new withholding tables result in a smaller tax deduction, but the change in tables does not actually reduce the tax liability on your pension for the year. Because of this smaller deduction, you may end up owing more tax at the end of the year which could subject you to IRS penalty and interest liabilities.

In May 2009, the IRS offered pension plans a new set of procedures to increase taxes withheld on pension payments. We are checking with BNY Mellon Bank, the bank that pays your benefits for us, to see what they may be able to do with the new May rule. We will let you know as soon as possible what further information we can give you. In the meantime, you may want to consult your tax advisor to see if you should make a change to your federal withholding election.

### **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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(907) 343-8409

Pension Benefit Specialist, Donna Johnston  
(907) 343-8400

FAX Number (907) 343-8439

**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>

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### 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**

