

ANCHORAGE POLICE & FIRE RETIREMENT SYSTEM NEWSLETTER

June--2011

BOARD MEMBER NEWS:

This spring, the election for one of the Police Board seats was held. Kevin Ehm, active Police Officer, was elected by the Police members for a three-year term that begins July 1, 2011. Kevin had been serving the remainder of the term vacated by Gereth Stillman who resigned in September 2010.

Current Board Members:

Police	Fire	Municipal
Kevin Ehm	Jim Bauman	Larry Baker
Dave Koch	Paul Burns	Lucinda Mahoney
Everett Robbins	Andrew Provencio	Dan Moore

At the June 9, 2011 meeting, the Board elected Dave Koch (Police) as Chair and Paul Burns (Fire) as Vice Chair for the term beginning July 1, 2011.

The Disability Committee is currently chaired by Municipal Board member, Dan Moore. Kevin Ehm, Jim Bauman and Larry Baker are the other members. There has been very little activity for that Committee the past two years, with an occasional Heart-Lung disability conversion.

2011 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 2011 COLA was **1.8%**.

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 News

We have had two recent changes in our manager line-up. With the help of its Investment Consultant, Callan Associates, the Board decided to terminate the Large CAP Growth Manager contract with INTECH. The termination was primarily due to the fact that INTECH uses a "quantitative" (mathematical) style to select stocks and had significantly under-performed in recent years. The "quant" style was acceptable when the Board had multiple Growth managers, but with only one in the line-up now, it was decided by the Board to hire a more traditional manager. Wellington Management Company was hired in late 2010.

Also, in early 2011, the Board decided to increase the allocation to Real Estate. After intensive research, the Board decided to allocate funds to Farmland. The Board hired UBS AgriVest Farmland Fund to manage \$15MM. The allocation is not yet funded due to the current shortage of suitable properties, but when funded, the Board believes that Farmland will be an excellent hedge against potential future inflation. We will keep you posted on that.

INSIDE THIS ISSUE

Page 1	Board Member News-- Plan III COLA for 2011-- Investment Manager Line-up--
Page 2	Investments Update-- Plan Funding and Contributions-- Annual Audit Report to the Board-- 2011 Surplus Benefit: Board Decision
Page 3	Help Topics-- Participant Information-- Surplus Account Program Update--
Page 4	New Retirees and Deceased Members Contact Information--

INVESTMENT UPDATE

The recovery from the 2008-2009 recession is now lagging. The residential housing market is still struggling and the unemployment picture is still bleak. The governmental stimulus efforts had some beneficial effect and the APFRS trust was up 14.58% in 2010 and was doing relatively well until the markets went back into decline in May and June. What is dragging on the market now are concerns over domestic (US), European and Emerging Markets debt problems.

As you hear in the news, President Obama and Congress (Republican held House and Democratic led Senate) are fighting over governmental spending cuts and the national debt ceiling. Gridlock, in this case, could cause serious fiscal problems, including the loss of favorable credit ratings for US Treasury Bonds. There is also significant concern that inflation will eventually be realized. Experts differ on when higher inflation may occur and they differ on how severe it may become. Right now inflation is running at approximately 2%. A higher rate in the 6 to 7% range would not be good.

The 2010 Year Actuarial Report:

The Actuarial Valuation Report for the 2010 year, dated 1/1/2011, shows funding ratios still below 100%. As a result, contributions will continue for the 2012 year and will be required from active members of all three plans (6% of pensionable wages). The municipality will pay approximately \$8.5 Million in 2011 and will be required to pay \$6.2 Million in 2012.

As mentioned before, the Board has been carefully reviewing investments and asset allocations. Other than the addition of the Farmland investment, no other strategic changes have been made. The Board will continue to evaluate the US vs. foreign balance in all investment decisions.

ANNUAL AUDIT REPORT:

As we mentioned in previous 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 fourteenth 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 new accounting rules issued by the Governmental Accounting Standards Board require more analysis of assets and liabilities. The Audit Report was accepted and approved by the Board at the June 9, 2011 Board meeting and has now been distributed to the Municipal Assembly and Municipal Management, along with copies of the annual Actuarial Valuation report.

Investment Performance and Plan Funding Charts

Investment Performance: 2007 – 2010

<u>Year</u>	<u>Investment Performance</u>
2007	5.47%
2008	-27.12%
2009	20.36%
2010	14.58%

Plan Funding 2007 - 2010

Assets vs. Liabilities: (In Millions \$):

<u>1/1/2008:</u>	<u>Plan I</u>	<u>Plan II</u>	<u>Plan III</u>
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%

1/1/2010:

Assets:	\$74.6	\$52.9	\$172.5
Liabilities:	\$91.9	\$67.4	\$226.1
Funding Level:	81%	78%	76%

1/1/2011:

Assets:	\$78.4	\$56.4	\$188.6
Liabilities:	\$90.2	\$67.2	\$228.7
Funding Level:	87%	84%	82%

ANNUAL SURPLUS BENEFIT, BOARD DISTRIBUTION DECISION

Each year, since the 2000 restated 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 9, 2011 Board meeting.

As Indicated in the Plan funding information above, the Annual Actuarial Valuation Report shows that all three Plans are still 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 2011 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%.

The recession and slower than expected recovery will delay a return to surplus funding for a few more years.

HELP TOPICS:

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

Change of Address:

All change of address information must be done in the APFRS office. Neither BNY 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 BNY 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 BNY 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 1/1/2011)

<u>Status</u>	<u>Plan I</u>	<u>Plan II</u>	<u>Plan III</u>	<u>Total</u>
Actives:	1	4	62	67
Term. Vested:	0	1	6	7
Retired:	97	78	308	483
(Normal)				
Retired:	70	32	28	130
(Disabled)				
Survivors:	38	8	18	64
Child Benefits:	0	0	8	8
Totals:	206	123	430	759

Surplus Benefit Account (SBA) Program Update

At a recent meeting, the Retirement Board heard presentations from Callan Associates (Investment Consultant) and from our Vanguard representatives on the status of the program and the funds within. In terms of performance, most of the funds are at median or better as compared to style-appropriate benchmarks. One notable under-performing exception is the Davis New York Venture Fund, a Large CAP stock fund. The Board will take a more detailed look at that fund and decide if it should be eliminated or replaced. We will tell you more later on this.

As those of you who still have Surplus Benefit Accounts know, the Surplus Benefit Account service provider is The Vanguard Group. At this point, a little more than half of you have signed up to use the Vanguard Web Site. If you have not yet done so, we encourage you to log on to the Web Site (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. For example, nearly half of you invest in only one fund. Nearly half of you invest in "low return" savings trust, money market or bond funds. Only three of you have signed up for the FREE "Ask a CFP Professional" for help in managing all of your investments. You can 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 and help 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.

Vanguard Contact Information:

Web Page: 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