

# ANCHORAGE POLICE & FIRE RETIREMENT SYSTEM NEWSLETTER

June--2012

## BOARD MEMBER NEWS:

This spring, the election for one of the Police Board seats was held. Dave Koch (active Police Captain) was re-elected by the Police members for another three-year term that begins July 1, 2012. Dave has also been the Chairman for the last 12 months ended June 30, 2012.

At the May 9, 2012 meeting, the Board elected a new Chairman and Vice Chairman. Jim Bauman (Retired Firefighter/Paramedic) was elected Chairman, effective July 1, 2012, and Kevin Ehm (active Police Officer) was elected as Vice Chairman. The other Board members are Andy Provencio (active Fire) and Paul Burns (Retired Fire), Everett Robbins (Retired Police), and Lucinda Mahoney, Larry Baker and Dan Moore (Municipal).

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.

## 2012 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 2012 COLA was **3.2%**.

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 News

We have had no recent changes in our manager line-up. With the help of its Investment Consultant, Callan Associates, the Board reviews quarterly performance of each manager and the fund as a whole. Decisions to terminate a manager or to hire a new manager come after appropriate monitoring, usually over a three to five year period. Manager terminations may also occur if key individuals in the portfolio management group leave the investment firm.

Also, you may recall from a previous Newsletter that the Board made a decision to expand our Real Estate exposure. In early 2011, the Board decided to allocate funds to Farmland. The Board hired UBS AgriVest Farmland Fund to manage \$16MM. The allocation is not yet funded due to the current shortage of suitable properties, but we believe the allocation will be made within the next several months. The Board believes that Farmland will be an excellent hedge against potential future inflation. We will keep you posted on that.

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## INVESTMENT UPDATE

The recovery from the 2008-2009 recession is still 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. The fund finished the 2011 year with a poor performance showing of -.33%. While markets shot up in early 2012, reports of recession in Europe (Spain, Italy, Greece) have weighed heavily on American markets and the fund is lagging again at this writing. The housing market, jobs creation and reduction in Government debt need to improve before economists can say that we have truly recovered from the 2008 recession.

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 2011 Year Actuarial Report:

The Actuarial Valuation Report for the 2011 year, dated 1/1/2012, 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 \$6.2 Million in 2012 and will be required to pay \$9.9 Million in 2013.

Preliminary to the Valuation, the Board directed the Actuary to perform an "Experience" Study to see if actual experience was in line with plan assumptions (inflation, mortality, earnings, etc). The Actuary recommended minor changes to mortality assumptions and also recommended that the earnings assumption be lowered from 8% to 7.5%. The Board decided to phase in the earnings change over an eight-year period ending at calendar year 2019.

### ANNUAL AUDIT REPORT:

As we mentioned in the past, 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. This is the 15th year in a row that KPMG has issued a report with "No Findings" regarding our records and controls. The Audit Report was accepted and approved by the Board at the May 9, 2012 Board meeting.

## **Investment Performance and Plan Funding Charts**

Investment Performance: 2008 – 2011

| <u>Year</u> | <u>Investment<br/>Performance</u> |
|-------------|-----------------------------------|
| 2008        | -27.12%                           |
| 2009        | 20.36%                            |
| 2010        | 14.58%                            |
| 2011        | -.33%                             |

Plan Funding 2007 - 2010  
Assets vs. Liabilities: (In Millions \$):

| <u>1/1/2009:</u> | <u>Plan I</u> | <u>Plan II</u> | <u>Plan III</u> |
|------------------|---------------|----------------|-----------------|
| Assets:          | \$ 70.6       | \$ 49.7        | \$157.4         |
| Liabilities:     | \$ 93.1       | \$ 67.7        | \$218.6         |
| Funding Level:   | 76%           | 73%            | 72%             |

| <u>1/1/2010:</u> |        |        |         |
|------------------|--------|--------|---------|
| Assets:          | \$74.6 | \$52.9 | \$172.5 |
| Liabilities:     | \$91.9 | \$67.4 | \$226.1 |
| Funding Level:   | 81%    | 78%    | 76%     |

| <u>1/1/2011:</u> |        |        |         |
|------------------|--------|--------|---------|
| Assets:          | \$78.4 | \$56.4 | \$188.6 |
| Liabilities:     | \$90.2 | \$67.2 | \$228.7 |
| Funding Level:   | 87%    | 84%    | 82%     |

| <u>1/1/2012:</u> |        |        |         |
|------------------|--------|--------|---------|
| Assets:          | \$71.1 | \$51.7 | \$178.1 |
| Liabilities:     | \$91.0 | \$67.4 | \$234.2 |
| Funding Level:   | 78%    | 77%    | 76%     |

## **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 May 9, 2012 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 2012 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 1/1/2012)

| <u>Status</u>          | <u>Plan I</u> | <u>Plan II</u> | <u>Plan III</u> | <u>Total</u> |
|------------------------|---------------|----------------|-----------------|--------------|
| Actives:               | 0             | 2              | 58              | 60           |
| Term. Vested:          | 0             | 1              | 6               | 7            |
| Retired:<br>(Normal)   | 95            | 79             | 309             | 483          |
| Retired:<br>(Disabled) | 73            | 32             | 27              | 132          |
| Survivors:             | 37            | 8              | 20              | 65           |
| Child Benefits:        | 0             | 0              | 5               | 5            |
| Totals:                | 205           | 122            | 425             | 752          |

## Surplus Benefit Account (SBA) Program Update

At the upcoming August 15<sup>th</sup> Board meeting, the Retirement Board will hear and review presentations from Callan Associates (Investment Consultant) and from our Vanguard representatives on the status of the program and the funds within. For those of you who still have Surplus Benefit Accounts, Vanguard continues to do a good job of helping you manage these funds at practically the lowest cost in the industry. We are hopeful that the performance numbers will be improved over last year at the time of this next review. In the meantime you should carefully review the quarterly statements that you receive from Vanguard. You can call us here at the Retirement System or you can contact Vanguard with questions by using the contact information (Below on this page).

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](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. 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.

### 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**

**You will need the Plan Number: 093161**

RETIREMENT SYSTEM CONTACT INFORMATION:

**Staff:**

Director, Charles Laird  
(907) 343-8401

Pension and Disability Administration, Fonda Deans  
(907) 343-8405

Accounting, Systems, and Investments, Rachel Hughes  
(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  
3600 Dr. Martin Luther King Jr. Ave., Suite 207  
Anchorage, AK 99507

**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>