

ANCHORAGE POLICE & FIRE RETIREMENT SYSTEM NEWSLETTER

June 2007

BOARD MEMBER NEWS:

A Police Board seat election has just been conducted. John Gentile, the only nominee, was elected for another three-year term. At the June 14, 2007 meeting, the Board elected a new Chairman and Vice Chairman. Currently, John Gentile is the Chairman. Effective July 1, 2007, Jim Bauman (Retired Paramedic) will become Chairman. Jim's last time as Chairman was during the 1999-2000 year when the Surplus Settlement occurred. John Gentile was elected as Vice Chairman. The other Board members are Joe Caswell and Gereth Stillman (Police), Andy Provencio and Paul Burns (Fire) and David Gottstein, Mike Abbott and Dan Moore (Municipal).

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 Assistant 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.

2007 COLA for Plan III Announced 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. Letters to eligible Members go out each year in June. This 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 2007 COLA is 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% when they would have had 20 years of service. COLA is equivalent to the lesser of 50% of the CPI rate or 6% 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. Remember, you can call using the Toll-Free Number which is 1-877-650-8400.

New Investment Managers

We had a flurry of asset manager changes in 2006, but only one change since June last year. In August 2006, the Board terminated J.P. Morgan who was managing a Large CAP Core, S&P Enhanced Index fund. Their mandate was to beat the S&P index by .8%-1.0%. For three years (good investment years), they struggled to add value. As a result, the Board terminated the firm and replaced them with Victory Capital Management who is managing an Active S&P Core fund. So far, since they have been hired, they have returned approximately \$2,000,000 in earnings for the System.

Among the other managers hired last year, both INTECH, a division of Janus, and Voyageur Asset Management (both Large CAP Growth Managers), have performed below their benchmarks, mainly because "Growth" stocks have been out of favor, but we are starting to see some improvement. A complete list of our investment managers is attached to this Newsletter. Let us know if you have questions.

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(See Attached Retirements & Deaths)**

INVESTMENT UPDATE

The investment markets continue to “chug” along—extending the positive returns for your fund for a 4th year, and 2007 so far has been good. The System’s total fund performance last year was 13.73%, nearly double what it was in 2005. For the first part of 2007, as of May 31st, the fund is up 6.6%.

The fund has now gone from an all-time high funded ratio in 1999—through three very difficult years (2000-2002)—and through four successful years (2003 thru 2006). For the first time since 2000, as shown in the chart in the right column, the funding ratio for Plan I is now above 116%. While the other two plans are above 100%, they fall below the threshold for a surplus distribution. This is based on the Actuarial Report for the 2006 Plan-year.

The other part of this good news (for active employees) is that there will be no contributions required for 2007 or 2008. The next time contributions may be necessary is the 2009 calendar year, depending on 2007 results.

The Board has been carefully reviewing investments, asset allocations, and the Board has made some other strategic changes including increasing the allocation to Real Estate, increasing the allocation to the Dodge & Cox Balanced Fund, and considering other types of investments such as Hedge Funds, Global Funds and on-going review of the Fixed Income Bond portfolio and it’s use of High Yield Corporate Bonds. At the same time, as each new manager has been added, the Board has directed Staff to negotiate more favorable investment management fees with the new managers. In short, we are constantly looking for ways to reduce overall operating costs, both in the asset management and the budgetary sides of the business.

AN UPDATE ON LITIGATION:

As you will recall, the Retirement System prevailed in the “4-10’s” trial, but the MOA won in the “Stillman” judgment. Both the APFRB and MOA appealed to the Alaska Supreme Court and combined the two cases since they both deal with the same type of dispute, that is, the MOA’s settlement of labor disputes which then increase the liabilities of the Plans without corresponding funding. The extra liabilities have the potential to erode Surpluses.

Oral arguments were made to the Supreme Court on April 18, 2006. The Supreme Court issued a decision on September 29, 2006 that was unfavorable to the Retirement System, essentially ruling for the Municipality on both cases. It is the Board’s opinion that the Supreme Court is now reversing many years of “Anti-diminution” case law (the Gallion, Hoffbeck, and other cases) which served to protect the “entire universe” of the pension benefit plan. The Court now seems to be picking apart discrete parts of the plan and substituting judicial judgment for that of the trustees, in this case, the Board of the Retirement System. At this point there is no further recourse in the courts. We can only continue to encourage the Municipality to work with the Retirement System in the way that grievance and litigation settlements are structured to avoid unfunded liability costs in the future.

Charts: Investment Performance Plan Funding Levels

Investment Performance: 2002 – 2006

<u>Year</u>	<u>Investment Performance</u>
2003	23.5%
2004	12.13%
2005	7.07%
2006	13.73%

Assets vs. Liabilities: 2002 – 2006 (In Millions \$):

<u>1/1/2004:</u>	<u>Plan I</u>	<u>Plan II</u>	<u>Plan III</u>
Assets:	\$ 103.1	\$ 69.4	\$198.8
Liabilities:	\$ 95.8	\$ 67.3	\$202.1
Funding Level	108%	103%	98%

<u>1/1/2005</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	\$233.4
Liabilities:	\$ 93.1	\$ 66.9	\$214.6
Funding Level:	118%	114%	112%

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 14, 2007 Board meeting.

As Indicated in the Plan funding information above, the Annual Actuarial Valuation Report shows that Plan I is the only one of the three Plans with a surplus as of 1/1/2007. While the Board has the ability to grant a surplus benefit to Plan I members, the Board also has a fiduciary obligation to make sure that such a distribution is prudent. To this end, the Board had directed the Actuary, Milliman, Inc., to do what is called an “Actuarial Experience Study”. No such study has been undertaken since 1999. It is an analysis of all of the assumptions for the plans such as inflation, pay increases, and among other factors, life expectancy and mortality. While the actuary’s analysis shows that inflation is lower than has been projected over the last 7 years, the study also revealed that our members are living longer than the “assumptions” predict. The lower inflation number actually lowers the liabilities of the plans, especially Plan III which has a Cost-of-Living feature. However, the fact that our members are living longer adds to liabilities, that is, we must project benefit payments farther out into the future. **(Continued on Page 4)**

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. We are enclosing a blank beneficiary form.

PARTICIPANTS of the PLANS

(As of 1/1/2007)

<u>Status</u>	<u>Plan I</u>	<u>Plan II</u>	<u>Plan III</u>	<u>Total</u>
Actives:	5	11	104	120
Term. Vested:	0	2	10	12
Retired:	102	70	271	443
(Normal)				
Retired:	67	32	30	129
(Disabled)				
Survivors:	39	7	10	56
Child Benefits:	0	2	18	18
Totals:	213	124	443	780

Surplus Benefit Account Program Update

As those of you who still have Surplus Benefit Accounts know, the new 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). 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 [800-523-1188](tel: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.

RETIREMENTS AND DEATHS

Many of you have, from time-to-time, called to say that you would like information about who has retired or which former Plan Members have passed away. Generally, we have mentioned, in previous newsletters, who has passed away, and who has recently retired.

We have attached to this newsletter a listing of the Members, by Department and Plan, who have retired or who have passed away over the last year. You may refer to the chart in the left column of this page for the current membership of the System. For the last year, we have had 19 new retirements.

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

Annual Surplus Benefit Distribution Decision

(Continued from Page 2):

The Board had requested the study after receiving the preliminary Actuarial Valuation Report. Since it appeared that at least one of the plans (Plan I) may be in a surplus position, that is, with assets greater than 116% of liabilities as required by the Anchorage Municipal Code since the settlement in 2000, the Board wanted to make sure that any distribution decision to be made was sound and prudent.

As a result of the study, the Actuary revised the funding levels slightly. For Plan I, instead of having a surplus over 116% of approximately \$1.6 Million, the revision shows Plan I at just under 116% by \$278,000. The other two plans were revised slightly, as well. Plan II is under 116% by \$1.8 Million rather than \$912,000. Plan III is under 116% by \$9.3 Million rather than \$11.7 Million, an improvement due to the affects of the inflation assumption change on COLA.

The final decision by the Board was to forgo any surplus distribution for the 2007 year based on the 2006 report and the Experience study. As required by the Municipal Code and the Retirement Board's own Policy & Procedure, the Actuary was asked to render an opinion as to whether a distribution would be prudent in light of the facts. The Actuary indicated that it would not be prudent under the circumstances.

If investment performance continues to be as vigorous as the past 4 years, by this time next year, Plan I (and Plan II) may well be above the 116% threshold for a Surplus Benefit Distribution. We plan to send you more frequent updates regarding investment performance in the coming quarters.

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.”

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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

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: (800) 523-1188

