

**Minutes of the
Workshop with Board of Trustees, Actuary and Other Independent Disciplines on Buy-backs
Tampa Fire & Police Pension Fund
3001 North Boulevard, Tampa, FL 33603 (813) 274-8550
Thursday, August 25, 2011 11:00 a.m.**

The Board of Trustees of the City Pension Fund for Firefighters and Police Officers in the City of Tampa met in the Pension Office Conference Room on Thursday, August 25, 2011 at 11:00 a.m. for a buy-back workshop with the following members present:

P.J. Gray, Chairman	Mark McRae
Wesley Adwell, Vice Chairman	Patrick Lynch
Sharon Fox, Secretary	Dennis Rogero
Mark Bogush	Roger Strout
Richard Griner	

Also present were Mr. Ron Cohen, Board Counsel, Mr. Joseph Griffin, Actuary, Mr. Mark Lenker, External CPA, and active and retired plan members.

1. Buy-backs
 - a. Fee quote for buy-back development and implementation
 - b. Draft Buy-back Frequently Asked Questions (FAQs) to set the stage
 - c. Letter dated 8/16/2011 from Board Counsel Cohen regarding buy-backs
 - d. Excerpt from actuarial valuation containing actuarial assumptions
 - e. Sample Buy-back Request and Verification Form
 - f. Sample Custodian to Custodian Transfer Form
 - g. Additional documents to be distributed at meeting

Ms. Campbell asked that the Board approve the fees in item 1a. **It was moved by Ms. Fox, seconded by Mr. Lynch to approve the fee quote from Buck Consultants for the development and implementation of buy-backs.** Mr. Bogush asked if a fee was charged when the military buy-back was offered several years ago (mid 1990's)? Ms. Campbell explained that this buy-back is structured differently. **Upon voting, the motion passed unanimously.**

Mr. Joseph Griffin distributed a presentation for discussion. He explained that effective 10/01/2011, plan members will be able to purchase up to an additional 5 years of credited service, so long as the service is from previous military time or certified firefighter or certified police officer time. He pointed out that this time will count toward benefit determination and retirement eligibility, which means that plan members can now get a higher benefit and also accelerate his or her retirement by up to 5 years. Mr. Griffin explained that plan members will

have the option to pay for the buy-back in the form of one lump sum or installments through payroll deduction at a 10% interest rate. He noted that plan members will also be responsible for the cost of the actuarial calculation. He pointed out that plan members who terminate service prior to vesting will receive a refund of the money without interest and vested plan members will not receive a refund of any monies upon death or disability.

Mr. Griffin explained that each plan member will be required to complete and submit the verification form to, request the calculation from, and submit payment to the pension office. He continued that the pension office will confirm with the prior agency that the service time qualifies for purchase and that the service time does not count toward other retirement benefits. He noted that he and Ms. Campbell are hoping for a 1-2 week turnaround for the validation. Mr. Griffin went on that the pension office will calculate the plan members' years of service and average final compensation, and submit along with the buy-back request to the actuary, who hopes to complete their calculation in 1-2 weeks. He clarified that he and the Plan Administrator expect the total processing time to be 3-4 weeks at a minimum, noting that the biggest variable will be the outside agency. Ms. Campbell added that before the \$350 check is deposited, office staff will validate that the requested buy-back time is accurate and available for purchase to avoid the possibility of wasting \$350 if the time proves to be ineligible for purchase.

Discussion ensued regarding the buy-back being cost neutral to the fund. Ms. Campbell explained that there was not an administrative fee built into the buy-back the way it was for DROP. Ms. Fox asked about the cost of the actuarial time? Ms. Campbell responded that the fees in item 1a cover the actuarial costs for implementation. She added that the \$350 fee per buy-back calculation is purely what Buck Consultants is charging for the calculation.

[Mr. Griner entered the room at 11:20 a.m.]

Mr. Cohen opined that the buy-back being cost neutral depends on the meaning of 'cost.' It could mean the cost of the calculation and the buy-back is being paid for by the member or it could mean administrative costs. He continued that all benefits have a cost associated with them to administer, and DROP is the only one that the Fund charges for.

Ms. Campbell noted that the buy-backs required a lot more legal research than originally anticipated. She continued that she was able to get with other City departments that are involved to work on payroll deductions, programming and other areas. Ms. Campbell noted that T&I is doing the programming, but they don't charge the Fund for that. She explained that everything is now set in motion and the FAQs are pretty close to final. She asked for input and/or changes from the trustees so that she can start using the FAQs at workshops and get them posted to the website. She added that for clarification, she would like to add another sentence to the answer of

question 25 that notes the later in your career that you choose to buy-back, the more expensive in general.

[Mr. Rogero entered at 11:27 a.m.]

She also suggested adding a disclaimer that neither the Board, nor its staff can provide financial or tax planning advice. Mr. Adwell asked if a plan member can make a lump sum payment after several installments? Ms. Campbell responded that she and other professionals have struggled with keeping it cost neutral to the fund, and a balloon payment at the end is not. Mr. Gray concurred. Mr. Lenker noted that there would have to be negative amortization on a balloon payment approach. Mr. Lynch asked if plan members will be allowed to pay off the balance? Mr. Lenker responded that there will be no pre-payment penalties. Mr. Adwell opined that someone is going to ask if they can do that. Ms. Campbell agreed to add that there is no pre-payment penalty. She explained that the strict interpretation is that plan members can pay in the form of a lump sum *or* installments. She continued that we will allow plan members to pay in the form of a down payment and then installments thereafter, but the process must be cost effective and efficient. She added that plan members will be able to make extra principal payments to the Fund in increments of \$100. Ms. Campbell explained that the office will rerun amortization schedules to reflect additional principal payments once a year in June when the added workload can be accommodated. Mr. Lenker added that once plan members make the installment agreement, the installments are locked in even if they make an extra payment. Ms. Campbell pointed out that Mr. Cohen suggested taking what the Board agrees upon today and converting it into something similar to the DROP Application so we have signed documentation from the plan member that says he or she understands the terms.

Mr. Griffin explained that when calculating the buy-backs there are several assumptions that come into play, and he has utilized the assumptions that were approved in the actuarial valuation, with some minor adjustments. He clarified that these assumptions include that plan members will work until normal retirement and that there will not be any pre-retirement deaths or disabilities. The lump sum calculation will consist of calculating the present value of projected benefits at normal retirement date before purchase and the present value of projected benefits with additional service and the new normal retirement age. He explained that the difference between the two present values of projected benefits will be the lump sum cost of the buy-back. Mr. Griffin stated that the installment payment option will be calculated at a 10% interest rate, and the payroll deductions are limited to the length of service purchased. He pointed out that if assumptions are changed in the actuarial valuation, it will change the assumptions used in the buy-backs. Ms. Fox asked how the Board can protect the fund from litigation in the future if assumptions change that make buy-backs more expensive? Mr. Griffin responded that from an actuarial standpoint, the Fund has a policy that says every 5 years the Board will conduct a 5 year actuarial experience study and will reevaluate the assumptions. He continued that going

from a 10% to an 8% assumed rate of return is very drastic, and most often drastic assumption changes do not happen. He added that the best an actuary can do is provide the best estimate of what the cost is based upon the information available at the time. Ms. Fox asked if a look-back calculation might be done? Adding that given the political environment, the Division of Retirement's scrutiny of this fund, and the Division's skepticism of the assumed rate of return, she's concerned about future assumption changes. Ms. Campbell responded that the Fund has been able to demonstrate the validity of the assumed rate of return using the ratio of the base fund to the total fund (2:1). She continued that if we have to ratchet the rate of return down, it would likely be in small increments. She explained that plan members will buy-back and lock in their installment payments for the duration of the installment plan, noting that it isn't cost effective to do look-backs on every single calculation every single year. Mr. Lenker added that the buy-back is optional, and when plan members buy back, they are purchasing from our best estimate that is available to us at that time. If circumstances change, future purchases would change, but not the past. Mr. Adwell agreed and opined that there should be language regarding the possibility of assumption changes. Mr. Lynch agreed and suggested putting language into the policy that says actuarial assumptions may change. Mr. Bogush opined that this is very similar to a financial deal, and members must agree to the terms at the outset. Mr. Cohen agreed with Mr. Bogush and added that Ms. Fox has a right to be concerned because of the Division of Retirement, but it is the actuarial cost as determined by the actuary, so we have a defense. He added that it makes sense to put some language into the policy regarding the possibility of assumption changes such as "but they may change over time." Ms. Fox opined that the language needs to be somewhere other than under the information regarding installment plans. She continued that the point is that the Board needs to state that the calculation is based on the best information that we have available to us at the time, and that is what the agreement is based on. Mr. Griner noted that Mr. Griffin stated in the beginning that there were some minor adjustments to the assumptions and asked what they were? Mr. Griffin responded that the only difference is we are using the male rates rather than sex-distinct tables, which is the same as the optional forms of payment adjustment.

Regarding item 1d, Ms. Campbell noted that it is an excerpt from the most recent actuarial valuation containing the actuarial assumptions. She explained that staff will be providing the actuary with the average final compensation (AFC) which is the highest 3 out of the last 10 years of earnings, and then the actuary will project salary forward to retirement using tables that are applicable to firefighters and police officers specifically. She reiterated that the Board does have the opportunity to review the actuarial assumptions each year. Ms. Campbell explained that she expects a lot of back and forth with the actuary because someone is going to receive their calculation, not be able to afford it, and keep coming back with 'what ifs' and other scenarios they would like to have run. Ms. Fox asked if the \$350 is for a single calculation? Mr. Griffin responded that he factored in having to rerun the calculation at least once. He continued that an option is to let plan members request two separate scenarios up front. If the request is made up front, it is easier for the actuary and can still be covered by the \$350. Mr. Griffin asked if it is

possible to ask plan members up front what they can afford? Mr. Griner opined that it isn't an offensive question and that a lot of people would want to know how much time they can buy-back with the money they have available. Ms. Fox stated that she doesn't see the harm it would cause in offering to run two scenarios up front. Mr. Lynch asked why DROP participants are not allowed to buy-back? Mr. Cohen responded that DROP participants are considered to be retired and the amount of their pension was frozen at the time of DROP entry. Mr. Lynch asked why if a plan member dies or becomes disabled, we don't refund their money? Mr. Cohen responded that the answer to that lies in Sections 17 and 22 of the contract. Section 22 provides for plan members to receive a pension benefit *or* a refund of contributions. According to the contract, refunds are issued when a plan member is severed from service prior to vesting. Mr. Lynch then asked about time as a correctional or probation officer? Mr. Cohen responded that Chapters 175/185 language says that the only service time that we can allow members to buy back is time served as a certified police officer or certified firefighter. Mr. Adwell asked if plan members should be charged for another actuarial calculation if they separate from service before they have satisfied the obligations of their installment payments? Ms. Campbell noted that she expects that to be very infrequent. Mr. Lynch suggested that the fee could be waived on a case by case basis by the Board. If the fee is added, it's easier to waive than demand. Ms. Campbell suggested that if it occurs more than 3 times in the first year, then the Board can consider implementing a fee once we have some experience. Ms. Fox suggested that would be poor precedent. She continued that the Board needs to do what is best for the fund and if the Board were to start introducing exceptions now, it will just cause problems later because the Board relies on past practice and precedent. Ms. Campbell expressed concern over the situation of a person who has chosen to buy back, gets fired before they've completed the buy-back, and then demanding another \$350 from them for an actuarial calculation when they were involuntarily separated and questioned the ability to enforce collection. Mr. Bogush opined that the Board needs to stick to how the language is written. **It was moved by Mr. Lynch and seconded by Mr. Griner to approve item 1b as discussed and to post the Buy-back Frequently Asked Questions (FAQs) to the web.** Ms. Fox commended Ms. Campbell for her very thorough and methodical approach to educating the Board on buy-backs and implementation, noting that she found the FAQ approach extremely helpful. **Upon voting the motion passed unanimously.**

It was moved by Ms. Fox, seconded by Mr. Griner and by unanimous vote to receive and file item 1c.

It was moved by Ms. Fox, seconded by Mr. Griner and by unanimous vote to receive and file item 1d.

It was moved by Ms. Fox, seconded by Mr. Griner and by unanimous vote to approve item 1e.

It was moved by Ms. Fox, seconded by Mr. Griner and by unanimous vote to approve item 1f with the disclaimer added.

It was moved by Ms. Fox, seconded by Mr. Griner and by unanimous vote to approve P&P 439 – Buy-backs of Past Credited Service with revisions as discussed.

2. Updated on other actuarial issues, if time permits.
 - a. Mr. Griffin noted that the Annual Report to the State was accepted. He explained that the issue had to deal with interpreting our actuarial valuation, but suggestions were made on how to make the valuation easier to understand in the future.
 - b. He also updated the Board that the American Academy of Actuaries put out new actuarial standards of practice having to do with the mortality tables. The new standards say that improvements in mortality must be taken into consideration. He explained that there will be a 1-2% increase in the liability to the system, which will increase the contributions in fiscal year 2013. Mr. Griffin noted that currently, this fund uses the RP-2000 Mortality Table with the Blue Collar Adjustment and that helps. Ms. Fox asked how this adjustment will affect the buy-backs? Mr. Griffin responded that next year he expects to recommend a new mortality table, and assuming that the Board of Trustees approves it, the calculations that occur in fiscal year 2013 and going forward would be impacted.

Motion to adjourn the workshop was made by Ms. Fox at 12:48 p.m.

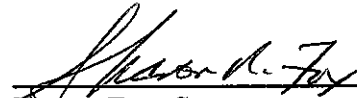
Notice

Any person who desires to appeal any decision of the Board of Trustees with respect to any matter considered at this Board meeting will need a record of the proceedings and for this purpose, may need to ensure that a verbatim record of the proceedings is made which includes testimony and evidence upon which the appeal is based.

Persons needing a special accommodation to participate in this meeting should contact the F&P pension office at (813) 274-8550 or (888) 335-8550 – toll free, or the Florida Relay Service at (800) 955-8770 – toll free, or dial 711 from any phone (regular phone/land line or cell phone) for the Florida Relay Service. Please make your requests at least five (5) working days before this meeting.



P.J. Gray, Chairman



Sharon Fox, Secretary



Tiffany Corry, Recording Secretary