West Palm Beach Police Pension News

A West Palm Beach Police Pension Fund Publication

Issue 16

Date of Issue:

Fourth Quarter 2012

Inside this issue….

The Board of Trustees wish you and your family a safe & joyous holiday season!

3rd QUARTER PENSION FUND SUMMARY

On September 30, 2012 our fund had a total market value of $211,497,000. For the quarter the fund had bulletproof investment gains of $8,687,000.

For the quarter the total fund return was 4.27% (net) and its benchmark return was 4.48%. In the previous quarter the fund return was -1.83%.

For the quarter the stock return was 4.53%. The bond return was 3.18%, which handily outperformed the fixed income benchmark return of 1.36%.

For the quarter end, the allocation of our fund was 63.8% invested in stocks, 26.2% in bonds, 5.2% in Real Estate, and 4.9% in cash equivalents (i.e., short term liquid interest bearing investments similar to money market funds). Our ongoing target for investment in stocks remains at 65% of the total fund.

For the fiscal year-to-date, the total fund net return was 17.91% and its benchmark return was 19.53%. The stock return was 22.03%. The bond return was 8.83% and the benchmark return was 4.32%.

For the fiscal year-to-date, the Valley Forge large cap core stock return was 20.87%, the Earnest Partners large cap value stock return was 24.81%, the Garcia Hamilton & Associates large cap growth stock return was 26.52%, the Anchor mid-cap value stock return was 21.37%, the Oak Ridge mid cap growth stock return was 21.33%, the DFA international stock return was 10.99%, the GW Capital small cap value stock return was 32.35%, the Eagle small cap growth stock return was 27.38%, the WHV international stock return was 20.85%, the Intercontinental Real Estate return was 13.96%, and the Garcia Hamilton & Associates aggregate fixed income return was 8.83%. The S&P 500 index return was 30.20%.

For the last year the best performing sector among S&P 500 stocks was Consumer Discretionary which increased 34.38% and the worst sector was Utilities which increased 8.27%.

Among the major economic indicators, the Consumer Price Index (CPI-Urban) increased 2.0% before seasonal adjustment for the twelve months ended in September.

The Producer Price Index (PPI) for finished goods advanced 2.1% before seasonal adjustment for the twelve months ended in September.

The seasonally adjusted unemployment rate was 7.8% in September compared to 8.2% in June.

Real Gross Domestic Product (GDP) increased at an annual rate of 1.3% for the second quarter of 2012, compared with an increase of 2.0% in the first quarter.

During the second quarter of 2012 the Federal Reserve Open Market Committee kept the target range for the federal funds rate of 0.00% to 0.25%. The federal funds rate is the interest rate that banks charge each other for overnight loans.

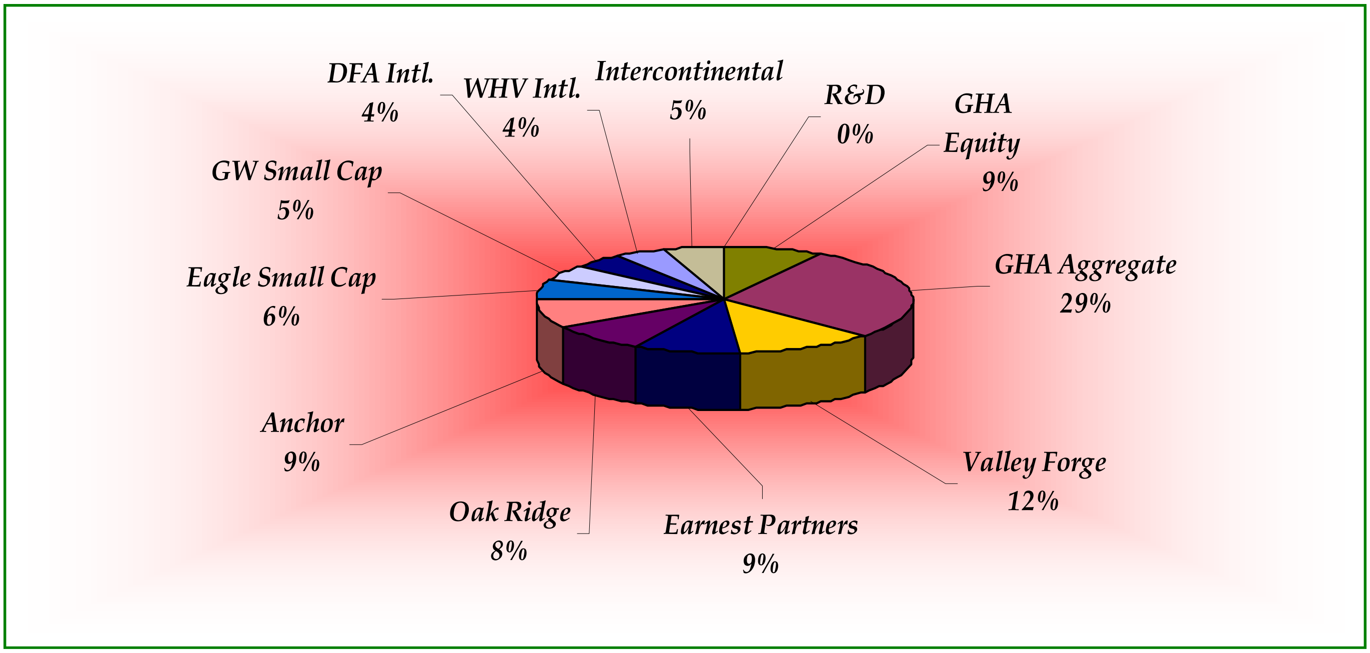
RECENT ADDITION!

The Board of Trustees recently retained the investment services of Oppenheimer Funds, Inc., (OFI).

OFI will run a 6 million dollar initial investment in the Emerging Markets arena. The funds came from the city's annual pension contribution.

The Board welcomes OFI and wishes them many happy returns!

Track the Fund



Plan Asset Allocation & Diversification as of September 30, 2012

	Domestic Equities	Int'l Equities	Fixed Income	Real Estate	Cash	Total	% of Total
GHA Equity	$18,129,000				$307,000	$18,436,000	
GHA Aggregate			$55,323,000		$3,677,000	$59,000,000	
GHA Total						$77,436,000	36.6% 41.0%
Valley Forge	$23,922,000				$1,193,000	$25,115,000	11.9% 9.0%
Earnest Partners	$18,844,000				$944,000	$19,788,000	9.4% 9.0%
Oak Ridge	$16,963,000				$907,000	$17,870,000	8.4% 8.0%
Anchor	$16,682,000				$1,722,000	$18,404,000	8.7% 8.0%
Eagle Small Cap	$12,020,000				$33,000	$12,053,000	5.7% 5.0%
GW Small Cap	$10,798,000				$555,000	$11,353,000	5.4% 5.0%
DFA Intl.		$8,857,000			$268,000	$9,125,000	4.3% 5.0%
WHV Intl.		$8,599,000			$690,000	$9,289,000	4.4% 5.0%
Intercontinental				$10,987,000		$10,987,000	5.2% 5.0%
R&D					$75,000	$75,000	0.0% 0.0%
Totals	$117,358,000	$17,456,000	$55,323,000	$10,987,000	$10,371,000	$211,495,000	100.0% 100.0%
% of Total	55.5%	8.3%	26.2%	5.2%	4.9%	100.0%	
Target %	55.0%	10.0%	30.0%	5.0%	0.0%	100.0%	

GHA	Eagle	Valley Forge	Earnest Partners	Oak Ridge
Apple	Genesco Inc.	Goldcorp Inc.	IBM	Petsmart Inc.
IBM	Vitamin Shoppe	Barrick Gold	TJX Corp.	Alliance Data Sys.
Microsoft	Oyo Geospace	Newmont Mining	Occidental Petr.	Ross Stores
Coca Cola	Sirona Dental	Pfizer	Exxon Mobil	Transdigm Group
Qualcomm Inc.	Quaker Chemical	Johnson & Johnson	Cummins	AO Smith
Google	Centene Corp.	Bristol-Myers	Express Scripts	Airgas
Roper Industries	Huron Consulting	Proctor & Gamble	American Tower	Marriott Intl
American Tower	Bally Technologies	Waste Mgmt. Inc.	Wells Fargo	Roper Industries
Walt Disney	Obagi Medical	Verizon Comm.	Freeport-McMoran	Triumph Group
Nordstrom Inc.	Steven Madden	Phillip Morris	Darden Restaurants	Mead Johnson

Top Ten Equity Holdings

Anchor	GW	DFA	WHV
Sun Communities	Ocwen Financial	Vodafone Group ADR	Canadian Pacific Rail
American Capital Agency	Brookdale Senior Living	Royal Dutch Shell	Schlumberger Ltd.
SPDR Gold Trust	Darling Intl.	BP PLC	Noble Corp
New York Cmnty Bancorp.	Avis Budget Group	Vodafone Group	Potash Corp.
Sempra Energy	Redwood Trust Inc.	Suncor Energy	Suncor Energy
McKesson Cp.	Omega Healthcare	Diamler AG	British American Tob.
Exelon Corp.	Esterline Technologies	E. ON AG	BHP Billiton Ltd.
HCP Inc.	Chemtura Corp.	Mitsubishi UFJ Financial	Diageo PLC
Heinz H J Co.	CNO Financial Group	Westfarmers LTD	Cooper Industries
National Fuel Gas	ION Geophysical Corp.	Xstrata PLC	Canadian National Rail

GW Capital - September 30, 2012 Commentary

Note to the Reader: GW Capital runs the Small Cap Value Portfolio for the Fund. GW Capital performance through September 30, 2012 is highlighted as follows:

Portfolio Performance (%) - Net of Fees								
	Latest Month	Latest 3 Months	Fiscal Year To Date	1 Year	2 Year*	3 Year*	5 Year*	Since Inception*
Total	3.23	6.78	32.22	32.22	12.46	N/A	N/A	14.46
RUSSELL 2000 VALUE	3.56	5.67	32.63	32.63	11.66	N/A	N/A	11.54

On the heels of a negative return 2nd quarter, announcements of global monetary stimulus helped to fuel a rally in the US Small Cap equity market during the 3rd quarter. Both the ECB President Mario Draghi's reassurance comments on July 24 and Fed Chairman Ben Bernanke's announcement of QE3 on September 13 helped to buoy markets. While Small Caps, as represented by the Russell 2000 index, still underperformed Large Cap and Mid Cap stocks for the quarter, their 5.3% return was respectable and brought the year-to-date performance to 14.2% (still trailing Large Caps). A better quarter for Financials and Utilities combined with weakness in Technology market sector returns helped propel the Russell 2000 Value index (5.7%) over its Growth counterpart (4.8%) for not only the quarter, but also year-to-date (14.4% vs. 14.1%).

Whereas the defensive sectors were the strongest performers in the second quarter downturn, with the market swinging back to positive last quarter, some of the higher beta sectors grew in favor. The strongest major market sector return came from Materials last quarter with Energy, Consumer Discretionary and Healthcare also contributing on the upside. Primary detracting market sectors were Consumer Staples, Industrials and the aforementioned Information Technology. Specific to GW Capital's Small Cap portfolio positioning, outperformance for the quarter was primarily driven by Issue Selection, although our Thematic sector positioning contributed some added value.

Regarding the impact of our thematic sector weightings, a portfolio (like ours) that was overweight in Energy and Materials, which had hindered returns for the first half of 2012, benefited from those overweights last quarter as those sectors rebounded. The portfolio also reaped rewards by having no exposure to the Technology sector, which delivered the worst market sector return. On the flip side, our overweight to Consumer Staples and our underweight to Consumer Discretionary both detracted, somewhat offsetting the positive sector contributions previously mentioned.

On the stock picking front, the shining light last quarter once again was our issue selection returns within our Financials holdings. Two of the three top performing stocks came from Financials, both of them delivering large double-digit returns. Other positive stock contributors came from Healthcare and Materials. Unfortunately, the portfolio also held a couple securities with negative double-digit returns during the quarter, one in Consumer Staples that was subsequently sold, but unfortunately not before it had declined substantially.

The quarter again saw minor activity in terms of new buys and outright sells. We bought two new names – a Utility and an Industrial. We also added to a few current holdings from across some sectors. On the sell side, we sold outright our position in an underperforming Consumer Staples stock (as noted in previous paragraph). We also trimmed our holdings in a few of our names which had been stronger performers – still liking them longer-term, but opportunistically pulling a little off the table.

Looking ahead, as we've been saying for some time, given global macro-economic concerns and their potential to disrupt the US modest economic recovery, we are holding to our outlook of Two steps forward – One and a half steps back. The US credit markets remain supportive. Even though economic data continues to come in very mixed, we remain doubtful of a US double-dip recession occurring in the near term. However, the wild card remains, as it has for more than 3 years, the situation in Europe, where we think new recessions are very likely in several countries. We anticipate the uncertainty across the Atlantic to remain a fuel for market volatility here. A wrong move there could dramatically upset the fragile foundation of the US recovery. More so than before, we are also casting a wary eye towards China, as economic reports there continue pointing to the slowing of their economic engine.

EARNEST Partners Market Review

Global equity markets rebounded in the third quarter of 2012. The Russell 2000 U.S. small cap market was up 5%, while the large cap market, represented by the Russell 1000, finished up 6%. After lagging the U.S. market in 2Q12, international markets experienced significant improvements with the MSCI ACWI ex-US and MSCI Emerging Markets indices both rising over 7%. Among the best performing developed markets were Germany, New Zealand, and Norway, while Egypt and India led emerging market returns for the quarter. Global equity markets continue to show strong returns year-to-date.

Returns for the quarter were driven largely by moderating fears regarding the European debt crisis and continued monetary support within the U.S. and Europe. During the quarter, the European Central Bank (ECB) made clear that it would take whatever steps necessary to keep the Euro intact. To that end, the ECB outlined a new framework for buying sovereign debt of member nations. The intent is to provide further stability for the Euro while taking a slightly different approach from previous attempts. The framework allows for the ECB to buy an unspecified amount of sovereign debt on the open market in order to keep borrowing costs in check. The bank will only take this action after countries in need of the purchases have agreed to certain conditions set by the European Stability Mechanism ("ESM") -- the rescue fund that has now been ratified by the 17 Eurozone members. The buying program gained traction once Germany, which has the largest single exposure to the program, provided its support. German chancellor Angela Merkel, with further affirmation by the German constitutional court, approved the plan at the end of the quarter.

Emerging markets, a primary contributor to global economic growth in recent years, have slowed as a result of slumping demand from Europe and other developed regions. In response, many emerging countries are introducing new fiscal stimulus measures designed to offset decreased export demand and support local economies. For example, during the third quarter, China announced over $150 billion in additional spending for infrastructure projects. Despite the slowdown, emerging markets continue to post economic growth that is the envy of most developed countries. GDP growth remains above 6% in both China and India, and areas such as Africa, the Middle East, and other emerging Asia countries are growing GDP by approximately 5%. Urbanization and infrastructure build-out, as well as positive consumption trends within the growing middle class, continue to provide economic support to the emerging markets.

The U.S. economy continued to post sluggish growth during the quarter. The housing market has been a relative bright spot with improving sales of new and existing homes, and prices beginning to show year-over-year increases after years of decline. Despite the improvement in housing, 2Q12 GDP growth was revised down to 1.3% following the previous quarter's 2% growth rate. The unemployment rate fell slightly from 8.3% to 8.1%, but it was due primarily to a drop in those seeking work rather than a growth in employment. In response, the Federal Reserve announced plans for another round of quantitative easing ("QE3"). The QE3 program will consist of monthly purchases of $40 billion in mortgage backed securities, without a definitive termination date, in order to keep mortgage and other borrowing rates low. The Federal Reserve also pledged to keep its target fed funds rate at current levels until mid-2015, an extension from the previous target of 2014. The downside of such loose monetary policy is the increased risk of inflation. On that front, energy prices climbed to over $100 per barrel before falling back to $92 at quarter end. And the drought conditions in the Midwestern U.S. contributed to price increases over the last 12 months with wheat and corn rising over 45% and 25%, respectively. Despite these pricing pressures, the U.S. inflation rate, as measured by the Consumer Price Index, remained a low 1.7%, below the long-term average and well within the Fed's comfort zone.

Large Cap Value stocks, as measured by the Russell 1000 Value, rose over 6% in 3Q, bringing the year-to-date gain to over 15%. The market has been volatile for the 9-month period as investors have balanced negative data (the European Financial Crisis, slower growth in the Emerging Markets, and a still-weak employment environment in the US) with more positive data (Chinese government stimulus activity, strengthening U.S. housing, and the Federal Reserve's additional quantitative easing – QE3). Because of the fluctuating investor sentiment throughout 2012, consistent trends have been elusive. Two notable exceptions include Oil and Gas Refineries, which, as a group, were up 32% for 3Q and 64% for the year to date period – and Wireless Telecom, which rose 53% for the quarter and 84% for the year. Information Technology has been one of the weakest sectors, trailing the benchmark by over 600 basis points in 3Q and by approximately 1100 basis points for the year.

The EARNEST Partners Large Cap Value portfolio was also positive for the third quarter, though it trailed the Russell 1000 Value. The portfolio's overweight position in Information Technology, and the portfolio's underweight positions in the strongest performing industries -- Wireless Telecom and Oil & Gas refineries -- negatively impacted the relative performance of the portfolio. The portfolio remains underweight Wireless Telecom, which traded higher as investors sought dividends and bid shares up to historically high valuations. The group is now trading both above the broader market and its historical average, while earnings growth is slowing given the mature, highly penetrated nature of the U.S. wireless market. Oil and Gas Refineries are similarly trading above their historical average due to short-term pricing issues. Because U.S. crude is trading at a discount to global crude, U.S. refineries are able to produce diesel fuel at a relatively lower cost than their global competitors,

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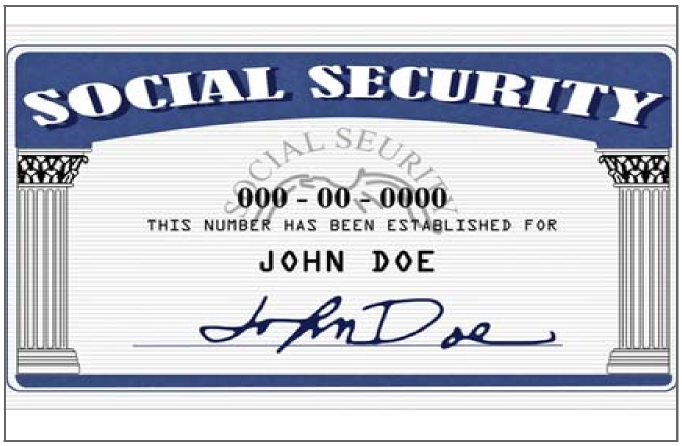
NOT MAXIMIZING SOCIAL SECURITY

For about 60% of the retiring population, Social Security retirement benefits provide the majority of their retirement income. With factors such as the volatile stock market, chances of living longer, rising health care costs and fewer defined benefit pensions (like ours), these factors all contribute to reducing a retiree's nest egg. Thus, says a report from BMO Retirement Institute, Social Security may play an even bigger role in ensuring retirement security for the next wave of retirees.



Unfortunately, based on the evidence, retirees are taking their benefits too early, are not making informed decisions and are not aware of options and strategies that could result in higher benefits. These shortcomings can cost them and potentially their spouses tens of thousands of dollars in the long run. For this reason it is vital that retirees do some research and seek advice so they can make an informed decision about when to claim their Social Security benefits.

For example, the decision of when to take Social Security has an impact that can last a lifetime, and it can be especially significant for couples. In a situation where one spouse has a significantly higher benefit, when the spouse claims will have an effect on the combined lifespan of both. In particular, if the main breadwinner claims too soon, then the spousal benefit will be 50% of a smaller monthly check, the widow's benefit would be 100% of the smaller check for the survivor's lifetime.

While you can start receiving Social Security as early as age 62, you will receive a reduced amount for the rest of your life. By waiting until your full retirement age, which varies based on your year of birth, or even later, you will receive a higher amount for the rest of your life. (Full retirement age is 66 for those born between 1943 and 1954, stepping up gradually per year until 1960, at which the full retirement age is 67.) The impact of taking benefits early is fairly well known; surveys show people are aware that if a claim is filed early then one would receive a reduced monthly benefit income amount.

There are many reasons why retirees may take their Social Security benefits early: (1) too many variables, (2) lack of knowledge, (3) a bird in the hand… and (4) retirement = social security (but should not always). A conclusion is with the reality of longer lifetimes, maximizing retirement income, including Social Security benefits, becomes more and more important. To maximize their benefits, individuals should better understand their options and the impact that taking Social Security at various ages will have on their lifetime income. Couples, in particular, need to discuss a strategy for Social Security, and be aware of the options available to maximize their benefits. Retirees should educate themselves on the various aspects of Social Security, and get advice on what is best for their particular situation. Finally, a financial plan for retirement should incorporate Social Security benefits along with other retirement income sources to provide a comprehensive roadmap for covering life style needs, wants and wishes.

DID YOU KNOW?

In the last newsletter published in the 3rd Quarter of 2012, there was a detailed article related to Social Security Offsets. If you have not seen it, please follow the link below, or call the Office of Retirement and we will drop a copy in the mail to you.

http://wpbppf.com/docs/newsletters/WPB_2012_q2_review.pdf#zoom=100

STOCK SPOTLIGHT

Home Depot Inc (Ticker = HD)

Sector: Consumer Discretionary

Industry: Home Improvement Retail

Market Capitalization: $88.9 Billion

The Home Depot, Inc. is a home improvement retailer that sells building materials and home improvement products. The Company primarily services three customer types: do-it-yourself, do-it-for-me customers, and the professional customer. Through the struggling housing market Home Depot has delivered solid revenue growth, EPS and return on equity as the company transitioned from a strategy of expanding the store base to improving in-store operations, with an emphasis on customer service. Improved profitability and lower capital expenditures have allowed the company to return meaningful cash to shareholders via sizable stock buybacks and increases in the dividend. Furthermore, the latest economic housing numbers have signaled housing has turned a corner and the market has bottomed. The Company is well positioned to benefit from these encouraging numbers, record-low mortgage interest rates resulting in increased housing demand, and consumers continuing to spend on home improvement.

Average Cost in WPB Police Portfolio: $51.06 per share, currently trading at $64.82.

Baxter International (Ticker = BAX)

Sector: Healthcare

Industry: Healthcare Equipment

Market Capitalization: $38 Billion

Baxter International develops, manufactures, and markets products that save and sustain the lives of people with hemophilia, immune disorders, infectious diseases, kidney disease, trauma, and other chronic and acute medical conditions. Its portfolio of productsspans medical devices, pharmaceuticals, and biotechnology. Baxter's products are sold to hospitals, kidney dialysis centers, nursing homes, rehabilitation centers, doctors' offices, and research laboratories. The company manufactures products in 27 countries and sells them in more than 100 countries, with over 60% of sales outside the U.S. The company has strong returns on capital and has shown strong capital discipline since the arrival of CEO Robert Parkinson in 2004. With leading market shares in key products, a robust product development pipeline, and the benefits of size and scale; we believe that Baxter is likely to continue to be a successful provider of innovative products that address critical healthcare needs.

Average Cost in WPB Police Portfolio: $48.63 per share, currently trading at $68.81.

Please note that the Board of Trustees provide this data for informational purposes only. It is in no way to be interpreted as investment advice.

HIRAYAMA INVESTMENTS

WHV Affiliated Subadvisor

WILL ECONOMIC STAGNATION LEAD TO STAGFLATION?

Stock markets around the world advanced during the third quarter of 2012 despite decelerating global economic activity as investor expectations of continued excess liquidity creation by the major central banks fueled the equity rally.

These are extraordinary and unprecedented times for central bankers around the world. Their official mandates and missions are to 1) regulate the country's banks, 2) manage the money supply and provide for a stable currency foundation, 3) control inflation and 4) create a monetary environment that can support full employment. The fourth goal is expected to be accomplished in partnership with fiscal policy. However, the U.S., Europe and Japan are saddled with high levels of sovereign debt and must reduce their government deficit spending and raise taxes to avoid further credit rating downgrades such as the loss of AAA government bond ratings by the U.S., France and Japan. Fiscal policies in the developed countries can no longer engage in ever increasing debt- financed spending programs to stimulate their respective economies. Central bankers have found themselves playing doubles tennis or bridge without a partner.

The entire weight and fate of the global economy rests squarely on the shoulders of the central bankers in our interconnected capitalistic world. Fortunately, the U.S. Federal Reserve Bank (FRB), European Central Bank (ECB), Bank of Japan (BOJ) and Bank of England (BOE) understand the grave responsibilities cast upon them and they have all engaged in aggressive monetary easing policies. Initially, conventional low interest rate policies were instituted but they proved to be only partially effective as the countries fell into a liquidity trap where monetary theory in the current stagnant economic environment prescribes an interest rate lower than zero to generate optimal economic stimulation.

The solution to the sub-zero interest rate conundrum facing the four major central banks was to engage in various forms of unconventional monetary easing policies called Quantitative Easing (QE). The standard version of QE adopted by the FRB, BOJ and BOE involved making massive financial asset purchases and paying for them with newly created bank credit or newly issued paper currency. The ECB engaged in massive low cost bank lending programs to rescue the ailing European banks.

In September the FRB and ECB announced aggressive new open-ended QE programs with no predetermined magnitudes or termination dates. This opens the possibility of unlimited credit creation or money printing with the objective of substantially reducing unemployment in the U.S and lowering financing costs for troubled European governments and banks.

WHV Investment Management
PORTFOLIO PERFORMANCE
GROSS OF FEES
WEST PALM BEACH POLICE PENSION FUND INTERNATIONAL EQUITY

PERIOD	PORTFOLIO	EAFE (USD, Net)*	DIFFERENCE
04/15/10 to 12/31/10	12.70%	3.34%	9.35%
2011	-15.45%	-12.14%	-3.31%
Q1 2012	9.95%	10.86%	-0.91%
Q2 2012	-5.93%	-7.13%	1.20%
Q3 2012	6.61%	6.92%	-0.31%
12/31/11 to 09/30/12	10.26%	10.08%	0.18%
04/15/10 to 09/30/12	5.06%	-0.05%	5.11%

The management of inflation risk by the central banks is being significantly reduced in importance as they have directed their priorities towards reducing unemployment and preserving the integrity of the Eurozone, Euro and European banks. The FRB's inflation target of 2% has become a long-term average goal rather than a fixed short- term ceiling and this opens the possibility that U.S inflation could potentially rise to 3-4% before the FRB reverses course and tightens its policy. The ECB and BOE also have inflation targets of 2% but that number could also be breached on the upside with further massive QE.

The world has benefited substantially from three decades of declining inflation which reduced costs and stimulated economic growth. However, synchronized credit creation and money printing by the major central banks may ignite inflationary forces similar to the 1960's and 1970's. Stagnant subpar global economic growth of 3-3.5% in an environment of rising inflation expectations could breed stagflation. The central banks would almost certainly not permit inflation to rise above 4-5% for a sustained period of time but an inflation advance from 2% to 3% is a 50% increase which could motivate investors to seek out inflation-hedging assets such as equities and WHV's energy and materials investments for potential protection against purchasing power degradation and paper money devaluation.

Note to Reader: Wentworth is one of the International Equity Managers for the Fund. As you can see above, since inception, Wentworth beat the benchmark return by over 500 basis points.

Words To Ponder

In the previous article the manger cites stagflation & basis points. To help the Reader we will define it for you and give you examples.

Stagflation

Definition of 'Stagflation'
A condition of slow economic growth and relatively high unemployment - a time of stagnation - accompanied by a rise in prices, or inflation.

Investopedia explains 'Stagflation'
Stagflation occurs when the economy isn't growing but prices are, which is not a good situation for a country to be in. This happened to a great extent during the 1970s, when world oil prices rose dramatically, fueling sharp inflation in developed countries. For these countries, including the U.S., stagnation increased the inflationary effects.

Read more: http://www.investopedia.com/terms/s/stagflation.asp#ixzz2DH8Aa3PP

Basis Point

Definition of 'Basis Point - BPS'
A unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument. The basis point is commonly used for calculating changes in interest rates, equity indexes and the yield of a fixed-income security.

Investopedia explains 'Basis Point - BPS'
The relationship between percentage changes and basis points can be summarized as follows: 1% change = 100 basis points, and 0.01% = 1 basis point.

So, a bond whose yield increases from 5% to 5.5% is said to increase by 50 basis points; or interest rates that have risen 1% are said to have increased by 100 basis points.

Read more: http://www.investopedia.com/terms/b/basispoint.asp#ixzz2DHAVYaZt

EARNEST Partners - Market Review (Con't from Page 5)

and then export that refined product overseas and sell it at the higher price. These mis-pricings are temporary in nature, and current valuations do not reflect the likely fall off in earnings over time.

Absolute returns benefited from strong stock performance in a number of sectors. Consumer Discretionary holding Target, one of the largest general merchandise retailers in North America, rose 10% for the quarter. The company's value-focused offering, its RED Card customer loyalty program, and its marketing skills have enabled it to maintain its share of the consumer wallet in a challenged economic environment. Despite investor concern around Target's relative exposure to apparel, which is considered more discretionary than the product mix exposure of some of its key competitors, the company has maintained sales through specific brand offerings at price points that are accessible to the mass market. Target is also on track to expand into Canada and plans to open 45 new stores there by the end of 2012. Materials holding Freeport McMoRan is the world's largest publicly traded producer of copper and a significant producer of gold and molybdenum. It has a geographically diverse portfolio of long-lived, low cost mines in North and South America, Africa, and Asia. Copper's wide variety of industrial and commercial uses that include building construction and power generation and transmission should drive growth going forward, particularly in developing geographies. Shares rose 17% in 3Q on higher copper prices related to a supply/demand imbalance. New supply remains constrained due to declining ore grades at existing mines and the time and capital needed to develop world-class greenfield mines.

As was the case with the benchmark, the portfolio's Information Technology holdings were among the weakest performers. Intel, the global leader in microprocessors and semiconductors, fell 14% for the quarter. Global macro weakness and slowing growth in the emerging markets moderated management's sales growth forecast for the last six months of the year. Margins, however, remain healthy – and the pending release of Windows 8 and new Ultrabook designs is expected to drive a recovery in sales late this year and into 2013. Additionally, Intel's new server platform should drive continued strength in the Data Center Group, which is benefitting from increased demand for cloud-based computing. Shares are trading at approximately 10X next year's earnings.

Note to Reader: Earnest Partners runs the Large Cap Value Portfolio for the Fund.

EARNEST Partners - Sample Holdings

Target

TARGET

- Target is one of the largest general merchandise retailers in North America. The company's value-focused offering, its REDCard customer loyalty program, and its marketing skills have enabled it to maintain its share of the consumer wallet despite the challenged economy.
- Despite investor concern around Target's relative exposure to apparel, which is considered more discretionary than the product mix exposure of some of its key competitors, the company has maintained sales through specific brand offerings at price points that are accessible to the mass market.
- Target is also on track to expand into Canada and plans to open 45 new stores there by the end of 2012.
- In the most recent quarter, Target reported adjusted earnings growth of 4.6% on sales growth of 3.5%, underpinned by healthy 3.1% same-store sales comps. Share rose 10% during 3Q.

General Dynamics

GENERAL DYNAMICS

- General Dynamics is a manufacturer and integrator of aerospace and military equipment and solutions. Examples of its products include naval destroyers, attack submarines, and main battle tanks. The company also builds Gulfstream business jets that are widely regarded as best-in-class.
- During 3Q, the company received certification from the FAA for its new large-cabin business jet. The company has a 5-year order backlog which should drive earnings growth as production ramps up.
- Despite this news, the company's shares were flat during the quarter as investors grapple with the timing and allocation of defense budget cuts. General Dynamics, however, has significant commercial exposure and the increase in U.S. defensive posturing in Southeast Asia should cushion ship demand within the company's defense business.

Goldman Sachs

Goldman Sachs

- Goldman Sachs is one of the largest investment banks in the world and among the strongest franchises on Wall Street with dominant positions in Fixed Income, Equity, and Commodities trading.
- The firm emerged from the financial crisis in a better position than most of its peers due to a strong commitment to risk management. On the strength of its significant scale and relatively stable sources of funding, Goldman Sachs is well placed to capture share from sub-scale competitors forced to retrench due to higher regulation. Additionally, the firm is seeking strategic purchases, at significant discounts, from deleveraging European banks in areas such as energy and trade finance loans.
- During the quarter, Goldman's Fixed Income trading (+40% over the year) and Advisory revenues (+22% over the year) increased significantly. Also, to improve its profitability, Goldman is implementing a $1.2B cost cutting program that is leading to a lower compensation ratio and better return on capital. Shares rose 19% in 3Q.

Ernie George John Kazanjian Dick Brickman John Rivera

A recent visit to the new PBA Building - Related Story Page 12

Office of Retirement Reminder

The office has been relocated to the new PBA Building.
The address and phone numbers remain unchanged.

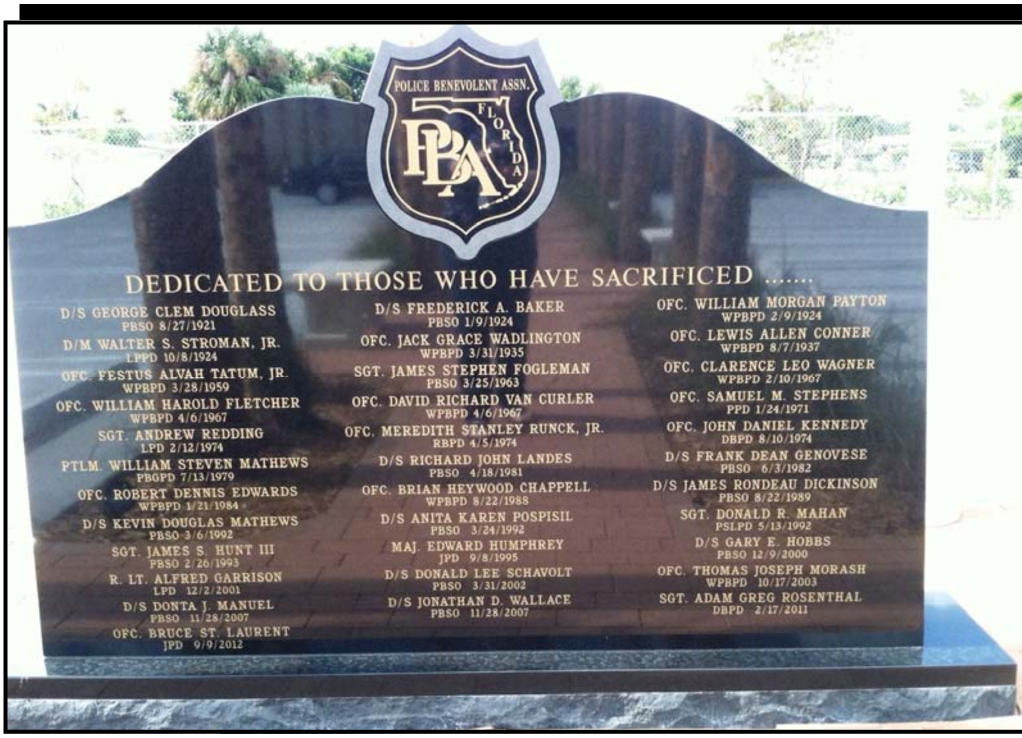
PBA BUILDING DEDICATED TO ERNEST GEORGE

Palm Beach PBA President John Kazanjian dedicates the new PBA Building to Ernie George.

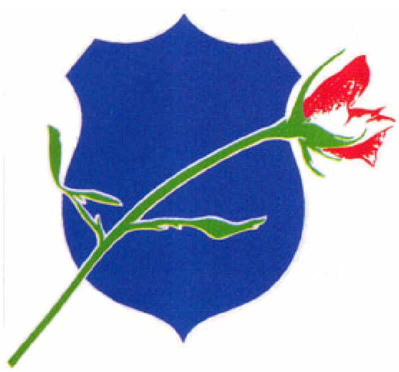
Congratulations Ernie!!

Join the Board of Trustees in congratulating the Executive Board of the Palm Beach PBA for a Job Well Done!

Front facade of the building & main lobby.



Memorial and pathway in the front of the building.



PBA Ballroom, available for your special events

FLORIDA APPELLATE COURT EXTENDS PENSION FORFEITURE LAW

Bollone sought review of a final order of the Department of Management Services forfeiting all of his retirement system rights and benefits, except for return of his accumulated contributions, as of date of termination, because Bollone was a public employee convicted of a specified offense committed prior to retirement pursuant to section 112.3173, Florida Statutes. A Florida District Court of Appeal has affirmed. Bollone was employed as an instructor with Tallahassee Community College, a Florida Retirement System-participating employer. Bollone was assigned a computer that belonged to TCC to assist him in the performance of his job duties, such as to create curriculum, and communicate with students and faculty. He did not share his faculty office with anyone, and he kept his faculty office locked when he was not there. Although computer technicians, custodial workers, TCC police, and the Mathematics and Science Division Office all had keys to Bollone's office, they were not authorized to use Bollone's computer. As part of an ongoing criminal investigation, Leon County Sheriffs' Office, discovered three images of child pornography on Bollone's computer's hard drive. The child pornography was associated with a program that was not part of the software installed by TCC, and could not be installed accidentally, but must be downloaded with the user's consent. Bollone did not contest his termination as an employee, but was subsequently charged with three counts of possession of child pornography, which are third-degree felonies, in violation of Section 827.071(5), Florida Statutes. Bollone pled no contest to the three counts. Bollone did, however, contest the Division of Retirement's decision to forfeit his rights and benefits under FRS, pursuant to section 112.3173, Florida Statutes. The Administrative Law Judge conducted a formal hearing, and recommended an order finding that Bollone not only possessed child pornography using the TCC computer that had been assigned to him; that his possession of child pornography was done willfully and with intent to defraud the public and TCC of the right to receive the faithful performance of his public duties as a professor at TCC; that Bollone was aware that use of his TCC computer to acquire or view child pornography was a violation of TCC policies; that the use of the TCC computer for possession of child pornography was contrary to the faithful performance of his duty as an employee, and was a breach of the public trust; that Bollone realized or obtained, or attempted to realize or obtain, a profit or gain, or advantage to himself through the use or attempted use of the power, rights, privileges, duties, or position of his TCC employment; that Bollone possessed child pornography for his personal gratification; and that he pled no contest to three counts of possession of child pornography, which are third-degree felonies. The ALJ recommended that the Department of Management Services issue a final order finding that Bollone was a public employee convicted of a specified offense committed prior to retirement pursuant to Section 112.3173, Florida Statutes, and directing forfeiture of his FRS rights and benefits, except for the return of his accumulated contributions as of the date of termination.

Please continue to next page

FLORIDA APPELLATE COURT EXTENDS PENSION FORFEITURE LAW: Con't

Bollone filed no exceptions to the recommended order, and the Department entered a final order adopting the recommended order in its entirety. Section 112.3173(3), Florida Statutes, provides that any public officer or employee who is convicted of a specified offense committed prior to retirement, or whose office or employment is terminated by reason of his admitted commission, aid, or abetment of a specified offense, shall forfeit all rights and benefits under any public retirement system of which he or she is a member, except for the return of his or her accumulated contributions as of the date of termination. A plea of no contest satisfied requirement of conviction. The ALJ properly determined that the specified offenses proscribed in Sections 112.3173(2)(e)1.-5. did not apply. However, Section 112.3173(2)(e)6, the "catch-all" provision, also defines a specified offense as the committing of any felony by a public officer or employee who, willfully and with intent to defraud the public or the public agency for which the public officer or employee acts or by which he is employed of the right to receive the faithful performance of his duty as a public officer or employee, realizes or obtains, or attempts to realize or obtain, a profit, gain, or advantage for himself or herself or for some other person through the use or attempted use of the power, rights, privileges, duties, or position of his or her public office or employment position. Whether the crime for which former public officer was convicted qualifies as a specified offense depends on the way the crime was committed. Thus, any felony can qualify as a specified offense, so long as the remaining conditions in the statute have been met. For example, the crime of conspiracy to commit mail fraud might not meet the definition of a specified offense if the public officer were to use the mail unlawfully in a private venture without disclosing the office held and without obtaining a benefit by virtue of the office. In contrast, this crime could meet the definition if the public officer had used the mail to solicit a bribe in return for a favor performed at the expense of the public. The felony counts of possession of child pornography to which Bollone pled no contest do not in and of themselves necessarily constitute a specified offense. Rather, the statutory conditions of the "catch-all" category set forth above must be examined and applied to the conduct of the official or the employee in making this determination.

Thus, in order to constitute a specified offense under section 112.3173(2)(e)6, Florida Statutes, the criminal acts must be

(a) a felony;

(b) committed by a public officer;

(c) done willfully and with intent to defraud the public or the employee's public employer of the right to receive the faithful performance of the employee's duty;

(d) done to obtain a profit, gain or advantage for the employee or some other person; and

(e) done through the use or attempted use of the power, rights, privileges, duties, or position of the officer or employee.

The first two elements of the "catch-all" provision, were not an issue, so the appellate court had to determine whether there was competent, substantial evidence in the record to support the ALJ's conclusion that the other three elements of the "catch-all" provision were satisfied. A piece of cake: the court concluded there was competent, substantial evidence in the record to support the ALJ's conclusions that Bollone committed the felony of possession of child pornography willfully and with intent to defraud the public of the right to receive the faithful performance of his duties as a professor at TCC; that his earlier downloading and accessing child pornography proved his possession was done knowingly; that his intentional possession of child pornography on his TCC computer was contrary to TCC's policies and contrary to the faithful performance of his duties; that the public and TCC had a right to expect Bollone would not use the computer entrusted to him for criminal activity; and that the public was defrauded when Bollone used that public property to further his private interest in the possession of child pornography, a crime under the laws of Florida, and a breach of the public trust. Bollone's two primary arguments were not availing. First, Section 112.3173(2)(e)6 does not provide that only economic gain can be considered personal gain. Second, Bollone's use of the public computer was a power, right and privilege of his position that he exercised to possess child pornography.

***Bollone v. Department of Management Services, Division of Retirement*, 37 Fla. L. Weekly D2697 (Fla. 1st DCA November 26, 2012).**

A special "thanks" to Steve Cypen for this contribution.

The Public Pension Coordinating Council is a coalition of three national associations that represent public retirement systems and administrators. Combined, these associations serve retirement systems that provide pension coverage for most of the nation's 16 million employees of state and local government.

The associations that form the PPCC are the National Association of State Retirement Administrators (NASRA); the National Council on Teacher Retirement (NCTR); and the National Conference on Public Employee Retirement Systems (NCPERS). Together, these associations represent more than 500 of the largest pension plans in the U.S.

The Public Pension Standards were established in 2002 to reflect minimum expectations for public retirement system management, administration, and funding. The Standards serve as a benchmark by which to measure public defined benefit plans. All public retirement systems and the state and local governments that sponsor them are encouraged to meet the standards.

Retirement systems may apply for one or both of two awards: the Recognition Award for Administration, and the Recognition Award for Funding. To receive the Recognition Award for Administration, the retirement system must certify that it meets the requirements in five areas of assessment highlighted.

The Fund has received this prestigious Award for Administration, and the Recognition Award for Funding each year since the change of administration in 2008.

PPCC

Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2012

Presented to
City of West Palm Beach Police Pension Fund

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Alan H. Winkle
Program Administrator

Comprehensive Benefit Program. The system must provide a comprehensive benefit program including service retirement benefits, in-service death benefits, disability benefits, vesting, and provisions for granting a cost-of-living adjustment.

Actuarial. An Actuarial Valuation must be completed at least every two years using generally recognized and accepted actuarial principles and practices.

Audit. The system must obtain an unqualified opinion from an independent audit conducted in accordance with government auditing standards generally accepted in the United States.

Investments. The system must follow written investment policies and written fiduciary standards and the system must obtain an annual investment performance evaluation from an outside investment review entity.

Communications. Members must be provided a handbook or summary plan description, regular updates to the documents, and an annual benefit statement. Meetings of the governing board of the system are conducted at least quarterly with adequate public notice.

KLAUSNER KAUFMAN JENSEN & LEVINSON

To: All Florida Pension Plans

From: Klausner Kaufman Jensen & Levinson

Re: LeRoy Collins Institute September 2012 Report

Date: October 5, 2012

On September 25, the LeRoy Collins Institute released a new white paper entitled *Years in the Making: Florida's Municipal Pension Plans* (hereinafter the 2012 "Study"), a continuation of their earlier 2011 report regarding municipal pension plans in Florida. The purpose of this memo is to share our thoughts with clients about the important role of defined benefit ("DB") plans in the public sector. We will use the 2012 Study as a foil to discuss retirement security and the advantages provided by DB plans. We also encourage clients to discuss the "trends" described by the 2012 Study with their actuary, so as to compare whether and how the new Study's conclusions have any bearing on their plan.

This memo begins with an overview of the 2012 Study. The second half of the memo addresses the underappreciated lifetime security and retirement income provided by DB plans and what some have described as the failure of the 401(k) experiment. In summary, the underlying purpose of this memo is to provide a broader and longer term perspective than the Collins Study, that is less hostile to public employee benefits.

<u>2012 Collins Study</u>

By way of background, the 2012 Study uses Annual Reports from the Department of Management Services ("DMS") from 2005 to 2011 to answer the following question posed by the Study's authors:

> whether Florida's municipal pension plans are fundamentally healthy and just need time to weather the current financial storm or have structural problems that require significant repair.

The Study doesn't justify, explain or define what would constitute a structural problem. Nor does the Study hint at any constructive "structural repairs" to the self identified problematic trends. With that said, as set forth below, the Study's findings are generally unremarkable for trustees who are

10059 Northwest 1st Court, Plantation, Florida 33324

Phone: (954) 916-1202 • Fax: (954) 916-1232
www.robertdklausner.com

familiar with DB plan funding and the undeniable poor investment experience over the past decade. More remarkable, however, and potentially suggestive of the Study's agenda, is the concluding sentence that plan costs are "adding insult to injury for many cities struggling to make ends meet." Yet, no mention is made of the hundreds of thousands of Floridians who earned their DB pensions during a lifetime of public service, or the advantages of DB plans compared to their inferior alternatives.[1]

According to the Study's introductory notes, the LeRoy Collins Institute attempts to report on the "typical" pension plan. It uses median values to do so, excluding variations which are deemed to be outliers. The number of outliers excluded from the universe of 492 plans is not identified.

Interestingly, in comparing plan data from 2001 to 2010, the 2012 Study fails to mention that a not insignificant number of plans were closed during this time period. We understand from the Division of Retirement that at least 67 of the municipal plans in Florida are currently closed to new participants. This fact may skew the Study's results, particularly with regard to the ratio of retirees to active participants. A closed plan, by definition, does not add any new members. Similarly, future payroll growth assumptions are irrelevant for a closed plan with no remaining active members. The distinction between open and closed plans is not addressed in the 2012 study. Moreover, the growth of pension contributions, as a percentage of covered payroll, becomes increasingly meaningless in the context of a closed plan.

The Study concludes with the following summary of its findings: (i) concerns about underfunded municipal pension plans were not caused by the downturn in the stock market, but rather under funding that began before the market fell; (ii) pension contributions have substantially increased from 2005 - 2011; (iii) local governments are picking up more of the pension cost; (iv) the number of retirees is growing and is "outstripping" the growth of active participants; (v) plans tend to overestimate assumed salary growth and investment earnings; (vi) payments for unfunded liabilities represent a growing proportion of annual pension contributions.

The Study's first finding announces that funding levels have declined nearly every year since 2001. According to the Study, "the problems facing many municipal pension plans are long-standing", yet the Study acknowledges that in 2001 the typical municipal plan was nearly 100% funded. In other words, the Study effectively minimizes the downturn in the stock market over the past decade, when the past ten years were book-marked by some of the most severe market dislocations in modern history. It is therefore puzzling why the Study concludes on page 12 by stating that the "underfunding began before the stock market fell." Moreover, the underlying resiliency of the plans' investment portfolios is too easily dismissed by the Study. Favorable market returns for the fiscal year that just ended on September 30 are of course omitted.

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[1] Readers are referred to the NCPERS website, www.ncpers.org for materials and fact sheets regarding defined benefit pensions and the retirement security they provide.

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Figure 1 on page 2 of the Study compares funding ratios from 2001 to 2010. We remind readers of two bear markets in equities, the bursting of the tech and dot.com bubble, Enron, WorldCom, the 9/11 tragedy, two wars, the housing bubble, the subprime mess, the Lehman bankruptcy, the government takeover of Fannie Mae and Freddie Mac, AIG, and the new vocabulary of the Great Recession, the worst recession in seven decades. Indeed, as measured by the S&P 500, the calendar decade studied by the Collins Institute ended with a negative total return. Had an unlucky individual investor bought the S&P 500 on the last day of 1999 @ 1469, on a pure price basis they would have lost 24% as the index closed 2009 at 1115. Including dividends, the S&P lost 10% from January 1, 2000 to December 31, 2009. As a consequence, even well diversified portfolios were not immune from losses.

During this period, many individual investors in defined contribution ("DC") plans have had to postpone retirement as their DC and 401(k) balances were decimated. By not acting in accordance with a long-term investment policy, too many individual investors reacted emotionally and sold equities during market lows, prior to the current rebound.

By contrast, investment decisions in DB plans are made by professional money managers overseen by fiduciaries. As a result, DB plans were regularly investing and rebalancing their portfolios during market downturns. This is one of the reasons why over the long term DB plans consistently outperform their assumed investment rate of return.[2] This also illustrates the wisdom of Florida statutory requirements which mandate payment of actuarially determined contributions on an annual basis. By preventing plan sponsors from taking "funding holidays", DB plans are empowered to stick with their long term investment strategies.[3]

As for its second and third findings, the Study observes that over the past seven years "local governments are picking up more of the pension costs, especially for public safety plans." "While employee and state contributions are fairly stable," the Study expresses concern that the costs for municipalities are growing. This should not be a surprise, however, in light of the underlying investment and actuarial experience. Trustees understand that increasing employer funding obligations, by design, is what happens in a DB plan when investment risk rests with the plan sponsor.[4] This fact illustrates why the 401(k) experiment is considered by many to be a failure, as investment risk lies entirely with the individual investor. Increasing employer contributions

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[2] www.nasra.org/resources/issuebrief120626.pdf

[3] It is unfortunate that for the past several years, the Florida Legislature has only contributed the normal cost into the Florida Retirement System ("FRS"). By not making contributions to fund the growing FRS unfunded actuarial liability, the FRS funded ratio is projected to continually decline over the next two decades. Municipal plans in Florida annually fund both their normal cost and UAL, and accordingly are improving their funded ratios.

[4] At the same time, however, anecdotal evidence already suggests a meaningful trend of increased employee contributions and lower benefit packages for newly hired workers.

following adverse experience is the appropriate and necessary result to gradually restore DB plan funding, about which the Study otherwise seemingly complains.

No surprise for trustees, the Study illustrates the consistency by which Florida municipal DB plans have invested by employing long-term investment strategies. Unlike individual investors, the 2012 Study necessarily concedes that Florida municipal DB plans maintained "a consistent asset allocation strategy" during this challenging market environment and were not "chasing" returns or market timing. The Study describes an unattributed but "widely held concern that pension investors will seek to recover 'losses' by shifting to riskier stocks," but the Study's analysis actually provides proof to the contrary for Florida municipal DB plans.

Unlike DB plans, DC plan participants are generally required to reduce their exposure to market risk and thereby lower their expected returns as they age. By contrast, DB plans, through pooling market and longevity risk, are able to invest more cost effectively and obtain better long term investment returns. For any given level of retirement benefits, DB plans are less expensive than DC plans.[5]

The Study's fourth finding discovers that the number of retirees is growing and is "outstripping" the growth of active participants. In dramatic fashion, the Study is troubled by the fact that payouts may have exceeded contributions in 2010. Yet, actuaries and trustees are generally not concerned, as this merely reflects the maturation of the average DB plan. After all, the purpose for accumulating pension assets is not to store them up for perpetuity, but to pay them out. One should not be surprised or necessarily concerned when a pension plan distributes pension benefits.

Additionally, the Study's analysis is potentially flawed as it does not adjust for the fact that approximately 13% of the plans in the Study are closed and have no new active members. On page 5, the Study attributes the increase in the number of retirees to "several factors, including demographic shifts and concerns that retirement incentives were going to become less generous". Left entirely unmentioned is the downsizing, hiring freezes, and layoffs that have been implemented in recent years. Again, thankfully, many of these retirees have secure income from their DB pensions.

Ironically, to the extent that the Collins Institute or some of its supporters may be seeking to replace DB plans with DC plans, the net result would be to accelerate the replacement of participants with retirees. Actuarial studies have shown that closing a plan is likely to cost *more* over the short term. Any long-term cost savings of switching to a DC plan are uncertain.[6] We would argue that closing

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[5] Beth Almeida and William B. Fornia, "*A Better Bang for the Buck*" (Washington, National Institute on Retirement Security, 2008). www.nirsonline.org/index.php?option=com_content&task=view&id=121&Itemid=48

[6] *The Top 10 Advantages of Maintaining Defined Benefit Pension Plans* (NCPERS, January 2011) at page 6. www.ncpers.org/Files/2011_ncpers_research_series_top_ten.pdf

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or terminating a DB plan after adverse actuarial experience is analogous to selling out of the market after a major correction. In hindsight, this often turns out to be a regrettable decision.

The Study's final findings express concern about plans overestimating assumed salary growth and investment earnings. Here too, one might question the Study's analysis. On page 7 the Study stresses the "consistent underestimation" of salary growth during 2004-2007. Less attention is paid to the more pronounced reverse trend in salary data starting in 2008. We understand that the deceleration of wage growth has generally continued into 2012, which will contribute to future actuarial gains.[7] In fact, some actuaries are recommending reductions in the salary assumption as an offset to the impact of lowering the investment assumption. Accordingly, the setting of assumptions is a dynamic process which should self correct over time with actuarial experience.

As described by the Study, it was "unexpected" that plans did not meet their investment assumptions in 2004 or 2005. We invite the Study's authors to revisit the data. The Study fails to explicitly recognize that plan data is generally reported on a fiscal year basis. Notwithstanding the introductory notes, to a casual reader figure 7 appears to treat the investment assumptions and investment returns on a calendar year basis. Moreover, not all plans submit annual actuarial valuations.

Accordingly, greater transparency would result if the Study disclosed how many plans are measured by each statistic. For example, the Study, which relies on the Division of Retirement's Annual Reports, does not disclose that valuations for the plan year ending 2010 were only available for *at most* 344 plans, not the full universe of 492 plans. Therefore, if the Study exclusively relies on the Division of Retirement's annual reports, *at best* 70% of the universe was analyzed in 2010 (before removing outliers, which are also not quantified). Making a larger point, we invite the Collins Institute to objectively examine longer term data and trends, without seizing on market turmoil to undermine a fundamentally sound and resilient retirement structure.

<u>In Defense of DB Plans</u>:

Disclaimer: In the opinion of Klausner, Kaufman, Jensen and Levinson, there is no better tool to attract, retain, and provide employees with a secure retirement than a DB plan. Since the severe market dislocation of 2008, it has become increasingly clear to many that relying solely on a DC plan will result in inadequate retirement benefits for the vast majority of participants. This is our perspective, which we openly admit.

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[7] Recent national data indicates that public sector wages have been below 1.5% for more than two years, and below two percent since the middle of 2009. http://wikipension.com/index.php?title=Compenation

As counsel for the National Conference on Public Employee Retirement Systems ("NCPERS"), we share NCPERS' philosophy that in a perfect world retirement income should be based on a three legged stool of Social Security, an employer sponsored DB plan, and personal savings (including supplemental DC accounts). The following discussion will summarize the critical role of DB plans for public employees.

In a political environment when Washington can agree on very little, it is noteworthy that this summer, Congress adopted and President Obama signed into law H.R. 4348. The Moving Ahead for Progress in the 21st Century Act ("MAP-21") was included in a two-year omnibus highway transportation bill. We mention the legislation, which provides funding relief for private sector DB plans, not because it has any direct application for public plans. Rather, MAP-21 illustrates that Congress understands the importance of defined benefit pension plans.
As critics of DB plans cannot deny, one of the major differences between a DB and DC plan is investment risk. When a DB plan is closed, investment risk is off-loaded to future hires. Increasingly, retirement professionals and academics are acknowledging that 401(k) plans were never intended or designed to replace DB plans. They cannot. DC plans at best provide a complement to DB benefits, particularly for public sector employees.

Serious observers are increasingly recognizing that all too often, employees who are permitted access to their DC or 457 balances withdraw from their plans to pay for college education, medical expenses, home improvement, home ownership, and other non-retirement related expenses. When "leakage" of DC assets is coupled with the fact that DC plans place all of the investment risk on employees, it is not hard to understand how DB plans are far superior options, especially for long-term employees. We leave for the investment professionals to explain the common mistakes that are made by individual investors, who are asked by DC plans to shoulder the responsibility for their own retirement. Another disadvantage of DC plans is that they force participants to serve in the role of professional money manager.

The story continues after a retiree separates from service. A DC plan retiree must budget their withdrawals over time and gradually reduce their exposure to riskier asset classes. DB retirees, by contrast, know in advance of the decision to retire that they will enjoy monthly retirement income, invested and overseen by fiduciaries. Thus, a DB plans allows retirees to maintain a stable portion of their pre-retirement standard of living.

Please continue to Page 25 of this publication for the conclusion of this segment

Continued from Page 24 of this publication—Conclusion

In summary, the benefits of DB plans include:
- predictable, secure retirement income that retirees cannot outlive;
- pooling of longevity and investment risk;
- superior investment returns compared to DC plans;
- balanced and professional portfolio diversification by professional money managers and consultants to maximize returns over a long time horizon;
- more efficient with lower investment management fees and administrative costs than DC plans;
- reduced employee turnover, employee training and recruitment costs;
- disability and survivor benefits, which are critical for public safety employees;
- flexibility and the ability to facilitate orderly retirement succession by providing employees with the ability to retiree even in difficult market environments;
- higher standard of living with less likelihood of retirees living in poverty;
- economic benefits for local economies if retirees remain in their local communities[8].

Klausner Kaufman Jensen and Levinson welcomes questions and invites you to visit our website, along with the following resources: www.robertdklausner.com; ncpers.org; nasra.org; nirsonline.org.

[8] According to the *Pensionomics 2012* study by the National Institute on Retirement Security, 360,065 residents of Florida received a total of $7.2 billion in pension benefits from state and local pension plans in 2009. http://www.nirsonline.org/index.php?option=com_content&task=view&id=684&Itemid=48

2013 RATES RELEASED

The chart to the right outlines the retiree insurance rates and the VEBA rates.

Any and all changes to your insurance coverage needs to go through the City of West Palm Beach.

The contact person is Lynda Presser. Her contact information is as follows:

Lynda Presser, Benefits Analyst, Gehring Group

City of West Palm Beach 401 Clematis St. West Palm Beach, FL 33401

Phone: 561-494-1018
E-Mail: lpresser@wpb.org

CITY OF WEST PALM BEACH
INSURANCE MONTHLY PREMIUM SCHEDULE

POLICE RETIREE

Effective January 01, 2013

Coverage	Total Premium (Monthly)
PPO Medical	**Preferred Provider Organization Plan**
Retiree	**$513.34**
Retiree & One	**$1062.61**
Retiree & Family	**$1540.02**
Over-Age Dependent	**Additional $ 263.34**
Dental	
Retiree	**$30.79**
Retiree & One	**$60.67**
Retiree & Family	**$108.41**
Vision	
Retiree	**$4.48**
Retiree & One	**$12.80**
Retiree & Family	**$12.80**
Life (.20/$1,000) No AD&D Benefit – Hartford Bills	
Retiree ($25,000)	**$5.00/Month $60/Annual**

2013 VEBA $501.92

Retiree	$ 513.34	$501.92	$11.42
Retiree & One	$1062.61	$501.92	$560.69
Retiree & Family	$1540.02	$501.92	$1038.10

Florida League of Cities

The Florida League of Cities is the united voice for Florida's municipal governments. Its goals are to serve the needs of Florida's cities and promote local self-government. The League was founded on the belief that local self-government is the keystone of American democracy.

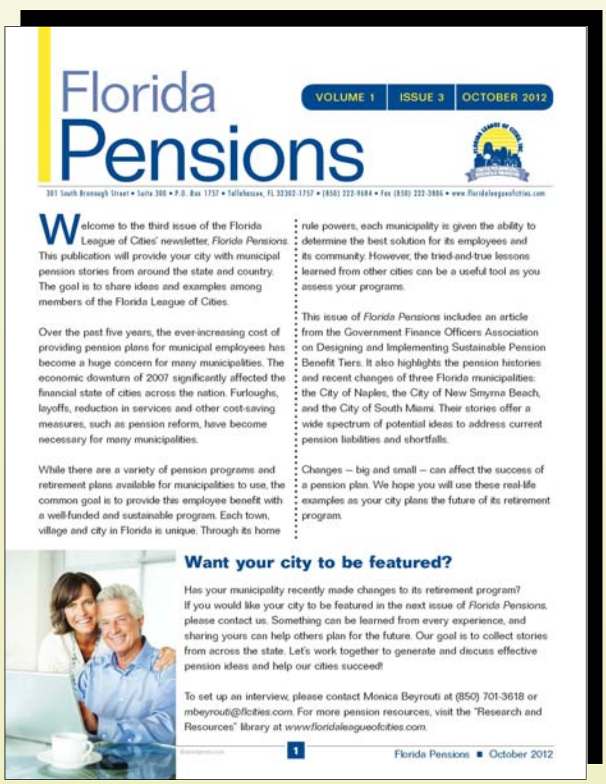
Florida's city officials formed as a group of municipal governments for the first time in 1922. They wanted to shape legislation, share the advantages of cooperative action, and exchange ideas and experiences. Growing from a small number of cities and towns, our membership now represents more than 400 cities, towns and villages in the Sunshine State. The League is governed by a Board of Directors composed of elected municipal officials. The League functions under its Charter and By-laws, while the Strategic Plan outlines the mission, goals and objectives.

The League's headquarters is in Tallahassee, and Insurance Services and the Technology Services Department are located in Orlando. The League is the premier provider of many products and services developed especially for Florida's cities. Our strength and success are dependent upon the support and participation of our members. We continue to explore new ideas for programs, products and services that will meet the needs of municipalities today and tomorrow.

Among other things you should know about the Florida League of Cities, is a special publication called Florida Pensions. The link to the most recent edition is below. Take the time to see the efforts that the Florida League of Cities are doing with regard to pensions.

If link fails, copy and paste in web browser

http://www.floridaleagueofcities.com/Assets/Files/FloridaPensionsOctober2012.pdf



Florida Pensions

VOLUME 1 | ISSUE 3 | OCTOBER 2012

301 South Bronough Street • Suite 300 • P.O. Box 1757 • Tallahassee, FL 32302-1757 • (850) 222-9684 • Fax (850) 222-3806 • www.floridaleagueofcities.com

Welcome to the third issue of the Florida League of Cities' newsletter, *Florida Pensions*. This publication will provide your city with municipal pension stories from around the state and country. The goal is to share ideas and examples among members of the Florida League of Cities.

Over the past five years, the ever-increasing cost of providing pension plans for municipal employees has become a huge concern for many municipalities. The economic downturn of 2007 significantly affected the financial state of cities across the nation. Furloughs, layoffs, reduction in services and other cost-saving measures, such as pension reform, have become necessary for many municipalities.

While there are a variety of pension programs and retirement plans available for municipalities to use, the common goal is to provide this employee benefit with a well-funded and sustainable program. Each town, village and city in Florida is unique. Through its home rule powers, each municipality is given the ability to determine the best solution for its employees and its community. However, the tried-and-true lessons learned from other cities can be a useful tool as you assess your programs.

This issue of *Florida Pensions* includes an article from the Government Finance Officers Association on Designing and Implementing Sustainable Pension Benefit Tiers. It also highlights the pension histories and recent changes of three Florida municipalities: the City of Naples, the City of New Smyrna Beach, and the City of South Miami. Their stories offer a wide spectrum of potential ideas to address current pension liabilities and shortfalls.

Changes – big and small – can affect the success of a pension plan. We hope you will use these real-life examples as your city plans the future of its retirement program.

Want your city to be featured?

Has your municipality recently made changes to its retirement program? If you would like your city to be featured in the next issue of *Florida Pensions*, please contact us. Something can be learned from every experience, and sharing yours can help others plan for the future. Our goal is to collect stories from across the state. Let's work together to generate and discuss effective pension ideas and help our cities succeed!

To set up an interview, please contact Monica Beyrouti at (850) 701-3618 or *mbeyrouti@flcities.com*. For more pension resources, visit the "Research and Resources" library at *www.floridaleagueofcities.com*.

1 Florida Pensions ■ October 2012

Office & Mailing Address
2100 North Florida Mango Road
West Palm Beach, Florida 33409

Phone: 561.471.0802
Fax: 561.471.5027

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