West Palm Beach Police Pension News

A West Palm Beach Police Pension Fund Publication

Issue 18

Date of Issue:

Second Quarter 2013

Inside this issue….

The Board would like to recognize the efforts of GW Capital, our small cap manager. A stellar return of 17.49%* vs. a benchmark return of 13.70% since inception.

Source: Thistle Asset Consulting

** Inception date of May 31, 2010*

QUARTERLY PENSION FUND SUMMARY

On March 31, 2013 our fund had a total market value of $229,253,000. For the quarter the fund had investment gains of $14,117,000.

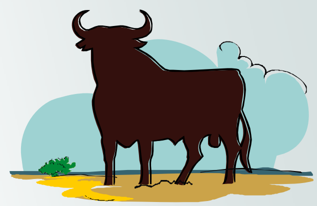
For the quarter the total fund return was 6.53% (net) and its benchmark return was 6.72%.

For the quarter the stock return was 8.67% and the benchmark return was 10.01%. The bond return was 0.62% and the benchmark return is 0.15%.

For the quarter end, the allocation of our fund was 67.3% invested in stocks, 24.1% in bonds, 5.0% in Real Estate, and 3.6% 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.

Fiscal Year
(10/1/2012 – 9/30/2013)

For the fiscal year-to-date, the total fund net return was 7.31% and its benchmark return was 8.19%. The stock return was 9.41% and the benchmark return was 11.99%. The bond return was 1.44% and the benchmark return was 0.32%.



For the fiscal year-to-date, the Valley Forge large cap core stock return was 5.34%, the Earnest Partners large cap value stock return was 8.66%, the Garcia Hamilton & Associates large cap growth stock return was 4.70%, the Anchor mid-cap value stock return was 11.47%, the Oak Ridge mid cap growth stock return was 11.62%, the DFA international stock return was 9.55%, the GW Capital small cap value stock return was 21.31%, the Eagle small cap growth stock return was 15.38%, the WHV international stock return was 8.54%, the Intercontinental Real Estate return was 5.95%, and the Garcia Hamilton & Associates aggregate fixed income return was 1.44%. The S&P 500 index return was 10.19%.

For the last year the best performing sector among S&P 500 stocks was Health Care which increased 22.41% and the worst sector was Information Technology which decreased 2.66%.

Among the major economic indicators, the Consumer Price Index (CPI-Urban) increased 1.5% before seasonal adjustment for the twelve months ended in March.

The Producer Price Index (PPI) for finished goods advanced 1.1% before seasonal adjustment for the twelve months ended in March.

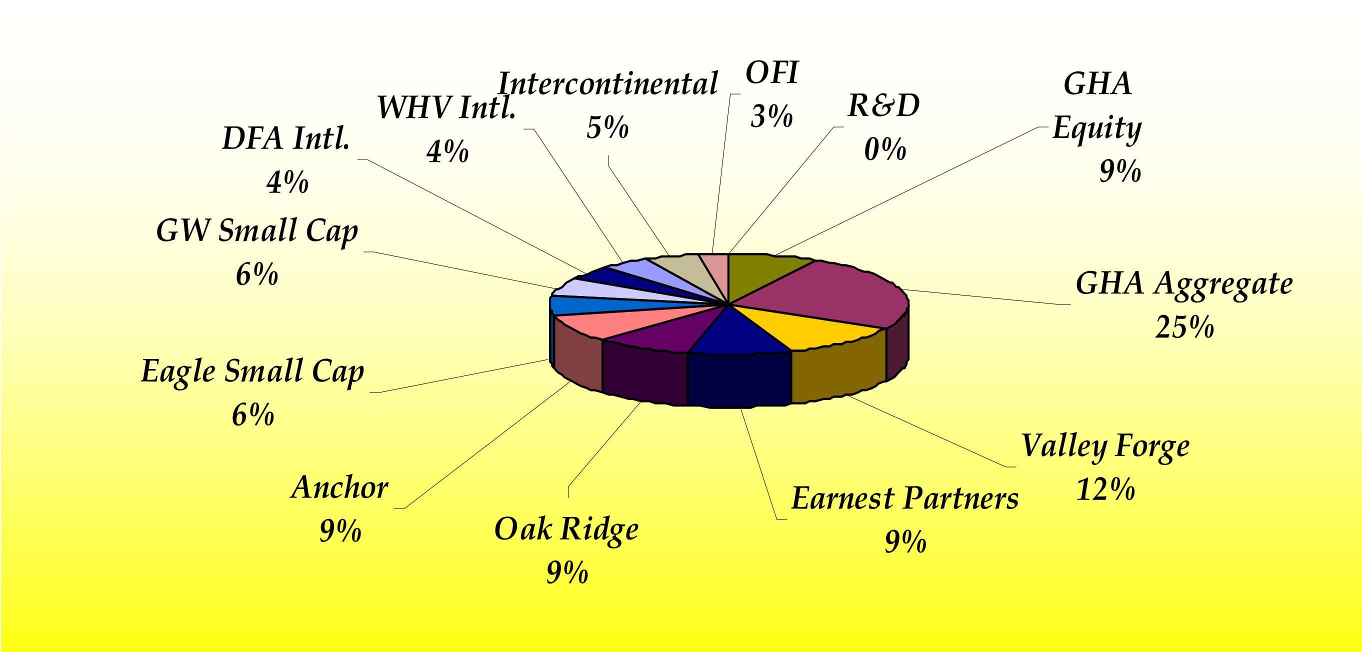
The seasonally adjusted unemployment rate is 7.6% in March compared to 7.8% in December.

Real Gross Domestic Product (GDP) increased at an annual rate of 0.4% for the fourth quarter of 2012, compared with an increase of 3.1% in the third quarter.

During the first quarter of 2013 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.

Remember the entire investment report may be viewed on-line.

Track the Fund



Plan Asset Allocation & Diversification as of March 31, 2013

	Domestic Equities	Int'l Equities	Emerging Markets	Fixed Income	Real Estate	Cash	Total	*% of Total*
GHA Equity	$17,914,000					$522,000	$18,436,000	8.0%
GHA Aggregate				$55,289,000		$1,417,000	$56,706,000	24.7%
GHA Total							$75,142,000	32.8%
								41.0%
Valley Forge	$25,298,000					$1,152,000	$26,450,000	11.5%
								9.0%
Earnest Partners	$20,835,000					$663,000	$21,498,000	9.4%
								9.0%
Oak Ridge	$19,087,000					$855,000	$19,942,000	8.7%
								8.0%
Anchor	$18,768,000					$1,742,000	$20,510,000	8.9%
								8.0%
Eagle Small Cap	$13,897,000					$6,000	$13,903,000	6.1%
								5.0%
GW Small Cap	$13,110,000					$660,000	$13,770,000	6.0%
								5.0%
DFA Intl.		$9,729,000				$266,000	$9,995,000	4.4%
								5.0%
WHV Intl.		$9,404,000				$653,000	$10,057,000	4.4%
								5.0%
Intercontinental					$11,510,000		$11,510,000	5.0%
								5.0%
OFI			$6,240,000				$6,240,000	2.7%
								3.0%
R&D						$237,000	$237,000	0.1%
								0.0%
Totals	$128,909,000	$19,133,000	$6,240,000	$55,289,000	$11,510,000	$8,173,000	$229,254,000	100.0%
								100.0%

GHA	Eagle	Valley Forge	Earnest Partners	Oak Ridge
Apple	Geospace Tech	Pfizer	TJX Inc.	AO Smith
IBM	Sirona Dental Sys.	Bristol-Myers	IBM	Airgas
Qualcomm Inc.	Obagi Medical Prod.	Newmont Mining	Travelers Cos.	Triumph Group
Kellogg Co.	Genesco Inc.	AT&T	Cummins Inc.	Sirona Dental Sys.
Coca Cola	Texas Industries	Procter & Gamble	Exxon Mobil	Affiliated Mgrs. Grp.
Baxter Intl.	Quaker Chemical	Goldcorp Inc.	Wells Fargo	Robert Half Intl.
Visa inc.	Vitamin Shoppe Inc.	Yamana Gold Inc.	American Tower	Ametek Inc.
Walt Disney	Centene Corp.	Waste Mangement	Union Pacific	Portfolio Recovery
Roper Industries	Louisiana-Pacific	Coca Cola	Chubb Corp.	Church & Dwight
Goldman Sachs	Geo Group Inc.	Verizon Comm.	Goldman Sachs	LKQ Corp.

Top Ten Equity Holdings

Anchor	GW	OFI	DFA	WHV
Sun Communities	Avis Budget Group	Baidu Inc.	Vodafone Group	Canadian Pacific Rail
American Capital	Brookdale Sn. Living	American Movil	BP PLC	Noble Corp.
Heinz H J Co.	Chemtura Corp.	NHN Corp	Royal Dutch Shell	Schlumberger LTD
Sempra Energy	Prestige Brands	Magnit OJSC	Mitsubishi UFJ	Diageo PLC
McKesson Cp.	Post Holdings	Housing Devmt Fin.	Barclays PLC	Canadian Nat. Rail.
Old Republic Intl.	CNO Financial	Infosys Tech. Ltd.	Diamler AG	Rio Tinto PLC
NY Cmnty Bancorp	Redwood Trust	Novatek OAO	Suncor Energy	Suncor Energy
HCP Inc.	Darling Intl.	Carlsberg A/S	Westfarmers LTD	British Amer. Tobac.
National Fuel Gas	Portland Gen. Elec.	Anglo American PLC	HSBC Holdings PLC	Potash Corp.
Mattel Inc.	Esterline Tech.	Tencent Holdings	UBS AG	BHP Billiton LTD

PUBLIC SECTOR PENSION REFORM

State and local governments remain bastions of retirement plan sponsorship for public sector employees: 99 percent of full-time public sector employees have access to an employment-based retirement plan. Primary coverage in the sector is typically through a defined benefit pension plan. However, state and local pension funds experienced large declines in asset values during the 2008-09 recession and financial markets crash. The recession also reduced tax revenues, making it difficult for many governments to fund the annual contribution associated with their DB plan. State and local governments and the plans they sponsor continue to face financial challenges in the recession's aftermath. Budgetary pressures, evolving workforce demographics, and longer-term pension plan finance and benefit trends have led almost all states and many local governments to consider and implement various reforms of the plans they sponsor. The degree of reform ranges from adjustments to contribution requirements and benefit levels in existing DB plans to more fundamental changes that would incorporate defined contribution elements into the primary plan structure. Changes have typically focused on reducing costs and risks to governments of plan sponsorship. Yet, other values are also at stake. Public employee pensions are an important part of the overall system of retirement security in the U.S. and the economy. Furthermore, the design, financing, and credibility of public pension plans may greatly affect the quality and composition of the state and local government workforce. The importance of public sector pension plans, combined with stresses and changes they are experiencing, led TIAA-CREF Institute and the Nelson A. Rockefeller Institute of Government to sponsor the forum, *Public Sector Pension Reform: Addressing Pressing Fiscal Realities from a Long-Term Perspective*. Several important findings and themes emerged from the forum discussions:

- Financial stress in state and local public pensions is widespread, yet the depth and expected duration of the challenges vary greatly. A small number of states account for a disproportionate share of aggregate unfunded liabilities. Underfunding in states like Illinois, New Jersey, California and Pennsylvania partly results from past failures to make regular and adequate annual contributions. Other states, including many with traditionally well-funded systems, have also seen large increases in their unfunded liabilities and annual required contributions, but their problems are less severe and stem from sharp declines in the value of pension fund investments during the recent recession.
- There are persistent fiscal and demographic challenges in most states. The public sector workforce is aging as the baby boom cohort moves towards and into traditional retirement ages. Budgetary pressures at the state and local level make it difficult to increase plan funding and maintain the size of the public sector workforce., including, but not limited to, public sector employees.

Please proceed to next page for the conclusion..

PUBLIC SECTOR PENSION REFORM - Con’t

- While financial stress has led many states and localities to change their employee pension plans, governments must consider other values and issues in the process if they hope to devise lasting and effective reforms. One essential consideration is retirement security, about which many public employees are uncertain and uneasy. This lack of retirement confidence reflects more than potential concern regarding the status of their retirement plan; reflects in part a widespread problem -- lack of financial education and informed retirement planning among U.S. workers, including, but not limited to, public sector employees.
- Pension reform can take different directions. Most recent changes have been marginal and focused on cost and risk reduction for governments. Examples include proposals to require employees to contribute more toward current retirement benefits or accept lower benefit levels.
- Public sector pension reform should also consider the context of federal programs, particularly Social Security and Medicare, given their large role in ensuring retirement security for covered individuals. Benefit cuts or payroll tax increases or both are inevitable, as the federal government addresses long-term fiscal deficits.
- Funding challenges are long term and based on calculations and assumptions that can be hard to understand or disputed.

Survey says.....

The Board of Trustees would like to thank those who responded to the annual pension satisfaction survey. The survey was sent to all retired and drop personnel to gauge the effort of the Board and our Staff.

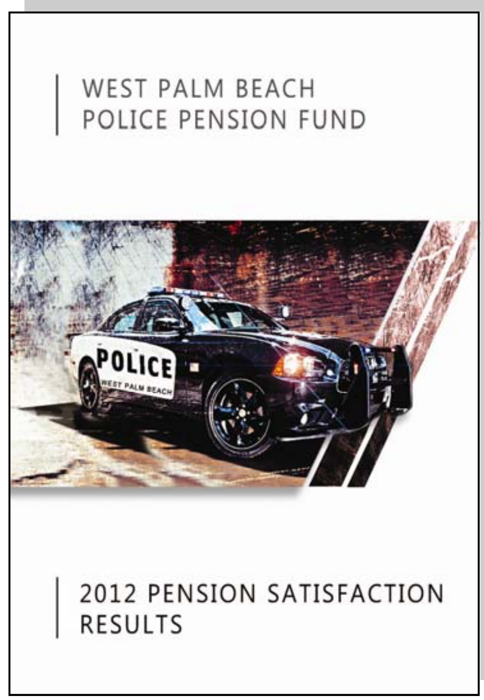
The results of the survey were presented by the plan administrator at the June 14, 2013 meeting.

This year we received 867 responses in the top two categories. This compares to 630 in the prior years survey.

Overall, 84.26% of the respondents felt very good to excellent with the questions posed in the survey.

A complete copy of the report may be viewed on-line.

wpbppf.com



Legislative Report

During this year's recently completed legislative session, the Legislature considered but ultimately failed to adopt any bills amending the Florida Retirement System (FRS) or municipal police and fire pension plans under Chapters 175 and 185. One pension disclosure bill was adopted despite the opposition of the League of Cities, labor and the Florida Public Pension Trustees Association.

Senate Bill 534 (SB 534), otherwise known as Chapter 2013-100, Laws of Florida, applies to all local government plans in Florida. SB 534 was signed by the Governor last week. In many respects SB 534 can be seen as building on prior legislation, SB 1128 from 2011, which required plans to disclose the present value of plan benefits using the FRS 7.75% assumed rate of return. SB 1128 also required the Division of Retirement to create actuarial fact sheets for each local government defined benefit plan to be posted on a governmental plan sponsor's website.

While the final version SB 534 was pared down to incorporate new Governmental Accounting Board Standards (GASB), nevertheless, SB 534 contains significant additional disclosure requirements and substantial noncompliance penalties. The FRS is exempted from SB 534.

The Plan Actuary, Attorney and Administrator will be working on a Plan of Action to implement the requirements of SB 534. This article is intended to highlight the primary provisions of SB 534, but not to be exhaustive to the reader.

New actuarial and financial disclosure: SB 534 creates new disclosure requirements in Section 112.664, Florida Statutes, to be electronically reported to the Department of Management Services within 60 days after receipt of the certified actuarial report submitted after the close of the plan year ending on or after June 30, 2014.
GASB 67/68: Section 112.664(1)(a) requires preparation of annual financial statements in compliance with GASB 67 and 68, using RP-2000 Combined Healthy Participant Mortality Tables, by gender, with generational projection by Scale AA;

2% lower investment assumption: Section 112.664(1)(b) requires preparation of annual financial statements using an assumed rate of return 200 basis points (2%) lower than the plan's assumed rate of return/discount rate. Note that SB 1128's requirement (highlighted above) from 2011 to disclose the present value of plan benefits using the FRS 7.75% assumed rate of return has been deleted.

The new lower 200 basis point reporting requirement should not be confused with the plan's actual investment assumption, which serves as the basis for calculating the plan sponsor's funding obligation. Many plans are considering supplementing the new required 200 basis point calculation with yet another sensitivity disclosure using a 200 basis point higher figure as well. For example, if a plan is currently using a 7.75% investment assumption a sensitivity analysis could be performed showing the impact of both the 5.75% and 9.75% bookends around the plan's actual investment assumption;

Run out date: Section 112.664(1)(c) requires reporting of a fictitious A run out date attempting to show how long the current market value of assets can sustain the payment of expected retirement benefits based on items stated above. Note that this projection ignores employer contributions, member contributions, assumed investment earnings and the receipt of premium taxes, which defies complete logic.

Alternative contributions: Section 112.664(1)(d) requires reporting of contributions to fund the plan based on an annual dollar value and a percentage of valuation payroll. The reporting of these alternative contribution values are in addition to the actual recommended contribution set forth in the plan's latest valuation.

Please continue to the next page for conclusion........

Legislative Report - Con't (from page 6)

5 year historic comparison: Section 112.664(2)(b)1 requires reporting of side-by-side comparisons of the plan's assumed rate of return compared to the actual rate of return for the previous 5 years beginning 2013;

Portfolio construction: Section 112.664(2)(b)2 requires reporting of side-by-side comparisons of the percentages of cash, equity, bond and alternative investments in the plan=s portfolio during each of the previous 5 years.

Requirement to post data and reports on-line: Each defined benefit retirement plan and its plan sponsor shall provide the information required in SB 534, including the plan's funded ratio, as part of the disclosure required by plan sponsors under Section 166.241(3), Florida Statutes. Additionally, disclosure is required on any website that contains budget information relating to the plan sponsor or performance information related to the system or plan. If a plan sponsor or plan has a publicly available website, copies of the plan's most recent financial statement, actuarial valuation, and a link to the Division of Retirement's fact sheet shall be posted on the plan and plan sponsor's website. The Division of Retirement's fact sheets are expanded and shall also contain the information specified in Section 112.664(1).

Penalties for noncompliance: The Department of Management Services may notify the Department of Revenue and the Department of Financial Services of noncompliance, which shall withhold any funds not pledged for satisfaction of bond debt service and which are otherwise payable to the plan sponsor, until the required information is provided. The state is required to specify the date of the withholding 30 days in advance, to permit a request for hearing under Chapter 120, Florida Statutes.

State of Florida not liable for shortfalls: SB 534 amends Section 112.66 to clarify that the state of Florida is not liable for any obligations relating to shortfalls in any local government retirement system.

SB 534 law takes effect on July 1, 2013, except as described above. Discussions about the new legislation will be held at upcoming board meetings, along with the Board's Actuary, Attorney and other consultants.

Much thanks and appreciation to Attorney Bonni Jensen & Adam Levinson contributed to this review.

DB PLANS OUT PERFORM DC PLANS

Towers Watson has been comparing annual investment returns in defined benefit and defined contribution plans for more than 15 years. The latest analysis adds investment returns for 2009 through 2011, and, for the first time, looks at asset allocations of a subset of large plan sponsors for 2010 and 2011, comparing DB and DC plan performance to simulated investment returns. Using an asset-weighted measure of returns, DB plans outperformed DC plans by an annual average of 76 basis points from 1995 to 2011. Over the last ten and five years, the average gap in annual performance was, respectively, 86 and 39 basis points. The smaller gap mostly results from the 2009 stock market boom -- the Russell 2500 Index increased by 34% -- during which DC plans realized the highest returns since the first analysis. DC plans received a much greater boost because they held significantly higher equity allocations than did DB plans. Over the last few years, the equity share has been about 14 percentage points higher in DC plans compared with DB plans. When stock market returns were poor in 2011, DB plans outperformed DC plans by 300 basis points, likely due to strong performances in long bond markets coupled with lower equity holdings. In a comparison of actual returns with simulated returns based on asset allocations, DB plans approximated their simulated returns on a plan-rated basis and outperformed their simulations on an asset-weighted basis. DC plans consistently underperformed their simulated results in 2010 and 2011 on both plan-and-asset-weighted bases. In a piece analyzing the Towers Watson numbers, Reuters termed it this way: "why pension funds are eating your 401(k)'s for lunch."

Garcia Hamilton Market Review

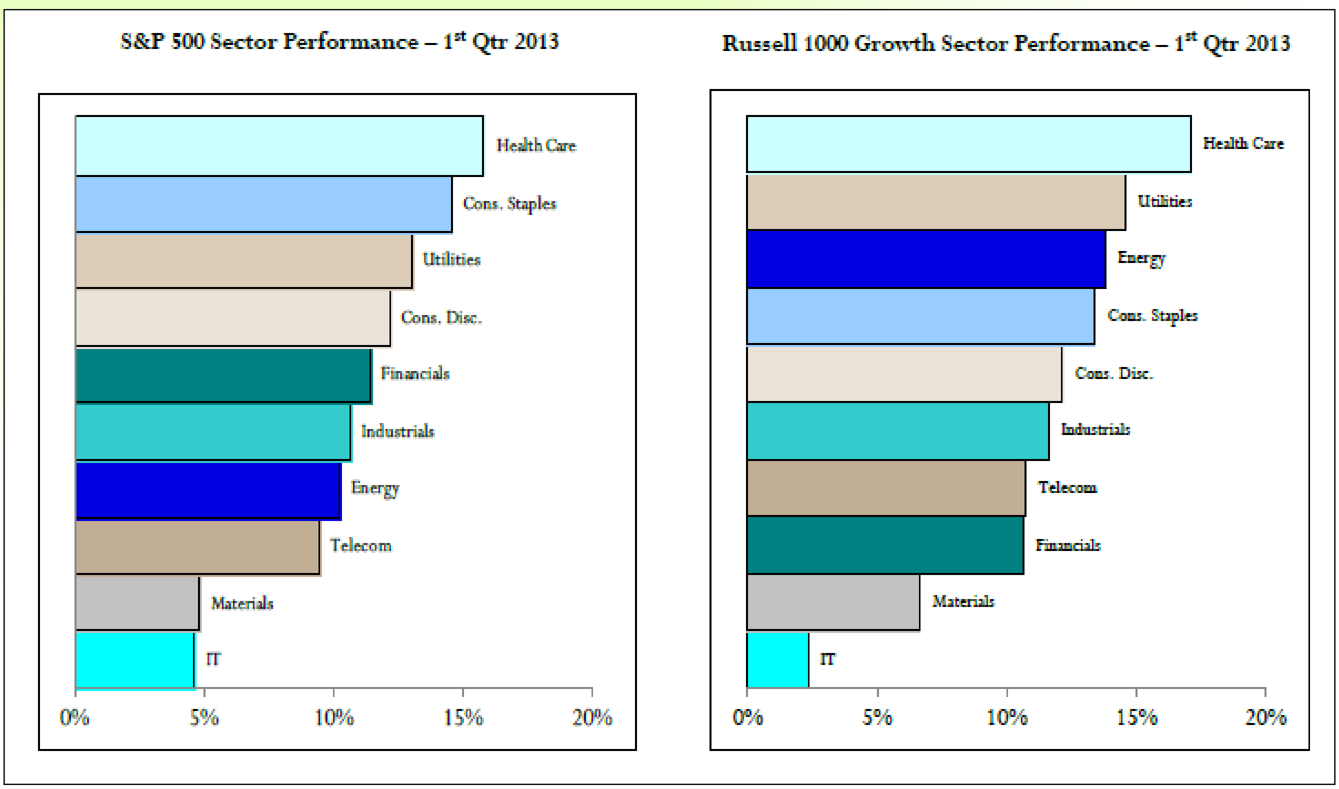
Domestic stock markets moved steadily higher through the quarter, bolstered by a flood of liquidity from central banks around the world. All news was greeted cheerfully: good news suggesting better economic growth ahead, bad news suggesting more liquidity ahead. Housing activity and employment data improved modestly, while most other metrics showed little progress. Attention remained focused on the European crisis.

- S&P 500 Index earnings projections were trimmed, reflecting the economic backdrop. First quarter earnings may prove to be flat with year-ago levels. Full year 2013 S&P 500 Index earnings were cut nearly 2% during the quarter, now projected to be $111.82, up 7.8% from 2012.

Performance across capitalization ranges were fairly consistent, as rapid investor rotation through the quarter left few subgroups behind. As measured by the S&P 500 Index, large cap stocks gained 10.6% with dividends. Viewing the Russell 2000 Index, small cap stocks increased 12.4% with dividends.

- For the first quarter since the March 2009 stock market bottom, returns were not dictated by risk factors such as beta. Instead, no factor stood out as dominant. Such "market breadth" has traditionally been seen as a hallmark of a healthy bull market.

Investment style did not play a large role in performance. Growth lagged Value among large caps, but mostly due to the drag of Apple Inc. (Russell 1000 Growth Index increased 9.5% with dividends compared with a 12.3% rise in the Russell 1000 Value Index). Within the Russell 2000 Small Cap Index, the growth subset outperformed (13.2% versus 11.6%) the value subset.



STOCK SPOTLIGHT

Vitamin Shoppe, Inc. (Ticker = VSI)

Sector: Consumer Discretionary

Industry: Specialty Retail

Market Capitalization: $3.0 Billion

Vitamin Shoppe is a specialty retailer of vitamins, sports nutrition, as well as health and beauty aid products. The stock had been a strong long-term performer; however, a slight earnings miss and back-end-loaded guidance for 2013 caused a sharp sell-off during the quarter. Significant secular tailwinds supporting the vitamins and supplements industry (e.g., an aging U.S. baby boomer population and increasing public health awareness) should bode well for Vitamin Shoppe, given its continued ability to take market share and maintain solid earnings growth.

Average Cost in West Palm Beach Police Portfolio: $36.08 per share, trading at $48.85 as of 3/28/2013.

Bank of Hawaii Corporation

Bank of Hawaii Corporation is a bank holding company providing a broad range of financial services and products primarily in Hawaii, Guam and other Pacific Islands. The company's principal subsidiary Bank of Hawaii, was founded in 1897 and is the largest financial institution in Hawaii. Bank of Hawaii Corporation sells at 13 times earnings and has a yield of 3.8 %

IntercontinentalExchange

Sector: Financials

Industry: Diversified Financial Services

Market Capitalization: $11.8 Billion

IntercontinentalExchange (ICE) operates regulated global markets and clearinghouses, including futures exchanges, over-the-counter markets, derivatives clearing houses, and post-trade services. ICE shares rose 32% during 1st quarter 2013, as investors started to appreciate the $8.2 billion ICE/NYSE Euronext (NYX) deal which was struck at the end of December 2012. Many investors had focused on the acquisition of the iconic New York Stock Exchange, but failed to appreciate aspects of the deal that gave ICE access to NYX's Liffe exchange in Europe -- a dominant participant in European interest rate derivatives. ICE continues to demonstrate operational efficiencies. Despite headwinds in the energy trading business, the company still achieved 3% year-over-year revenue growth as well as 9% year-over-year earnings growth at a 41% operating margin.

Average Cost in West Palm Beach Police Portfolio: $127.28 per share, currently trading at $163.07.

STATUS OF THE SOCIAL SECURITY AND MEDICARE PROGRAMS

Each year the Trustees of the Social Security and Medicare trust funds report on the current and projected financial status of the two programs. The following summarizes the 2013 Annual Reports. Neither Medicare nor Social Security can sustain projected long-run programs in full under currently scheduled financing, and legislative changes are necessary to avoid disruptive consequences for beneficiaries and taxpayers. If lawmakers take action sooner rather than later, more options and more time will be available to phase in changes so that the public has adequate time to prepare. Earlier action will also help elected officials minimize adverse impacts on vulnerable populations, including lower-income workers and people already dependent on program benefits. Social Security and Medicare together accounted for 38 percent of federal expenditures in fiscal year 2012. Both programs will experience cost growth substantially in excess of GDP growth through the mid-2030s due to rapid population aging caused by the large baby-boom generation entering retirement and lower-birth-rate generations entering employment and, in the case of Medicare, to growth in expenditures per beneficiary exceeding growth in per capita GDP. In later years, projected costs expressed as a share of GDP trend up slowly for Medicare and are relatively flat for Social Security, reflecting very gradual population aging caused by increasing longevity and slower growth in per-beneficiary health care costs.

Social Security

Social Security's total expenditures have exceeded non-interest income of its combined trust funds since 2010, and the Trustees estimate that Social Security cost will exceed non-interest income throughout the 75-year projection period. The deficit of non-interest income relative to cost was about $49 billion in 2010, $45 billion in 2011, and $55 billion in 2012. The Trustees project that this cash-flow deficit will average about $75 billion between 2013 and 2018 before rising steeply as income growth slows to the sustainable trend rate after the economic recovery is complete and the number of beneficiaries continues to grow at a substantially faster rate than the number of covered workers. Redemption of trust fund asset reserves by the General Fund of the Treasury will provide the resources needed to offset Social Security's annual aggregate cash-flow deficits. Since the cash-flow deficit will be less than interest earnings through 2020, reserves of the combined trust funds measured in current dollars will continue to grow, but not by enough to prevent the ratio of reserves to one year's projected cost (the combined trust fund ratio) from declining. (This ratio peaked in 2008, declined through 2012, and is expected to decline steadily in future years.) After 2020, Treasury will redeem trust fund asset reserves to the extent that program cost exceeds tax revenue and interest earnings until depletion of total trust fund reserves in 2033, the same year projected in last year's Trustees Report. Thereafter, tax income would be sufficient to pay about three-quarters of scheduled benefits through 2087.
A temporary reduction in the Social Security payroll tax rate in 2011 and 2012 reduced payroll tax revenues by an estimated $222 billion in total. The legislation establishing the payroll tax reduction also provided for transfers from the General Fund to the trust funds in order to "replicate to the extent possible" payments that would have occurred if the payroll tax reduction had not been enacted. Those General Fund reimbursements amounted to about 15 percent of the program's non-interest income in 2011 and 2012. The temporary payroll tax reduction expired at the end of 2012. Under current projections, the annual cost of Social Security benefits expressed as a share of workers' taxable earnings will grow rapidly from 11.3 percent in 2007, the last pre-recession year, to roughly 17.0 percent in 2037, and will then decline slightly before slowly increasing after 2050. Cost displays a slightly different pattern when expressed as a share of GDP. Program cost equaled 4.2 percent of GDP in 2007, the last pre-recession year, and the Trustees project that cost will increase to 6.2 percent of GDP for 2036, then decline to about 6.0 percent of GDP by 2050, and thereafter rise slowly reaching 6.2 percent by 2087. The projected 75-year actuarial deficit for the combined Old-Age and Survivors Insurance and Disability Insurance (OASDI) Trust Funds is 2.72 percent of taxable payroll, up from 2.67 percent projected in last year's report. This deficit amounts to 21 percent of program non-interest income or 17 percent of program cost. A 0.06 percentage point increase in the OASDI actuarial deficit would have been expected if nothing had changed other than the one-year extension of the valuation period to 2087. The effects of recently enacted legislation, updated demographic data, updated economic data and assumptions further worsened the actuarial deficit, but these effects were completely offset by the favorable effects of updated programmatic data and improved methodologies. While the combined OASDI program fails the long-range test of close actuarial balance, it does satisfy the test for short-range (ten-year) financial adequacy.

Please continue to the next page for the conclusion.......

STATUS OF THE SOCIAL SECURITY AND MEDICARE PROGRAMS (Con't from Page 10)

The Trustees project that the combined trust fund asset reserves at the beginning of each year will exceed that year's projected cost through 2027.

Medicare

The Trustees project that the Medicare Hospital Insurance (HI) Trust Fund will be the next to face depletion after the DI Trust Fund. The projected date of HI Trust Fund depletion is 2026, two years later than projected in last year's report, at which time dedicated revenues would be sufficient to pay 87 percent of HI cost. The Trustees project that the share of HI cost that can be financed with HI dedicated revenues will decline slowly to 71 percent in 2047, and then rise slowly until it reaches 73 percent in 2087. As it has since 2008, the HI Trust Fund will pay out more in hospital benefits and other expenditures than it receives in income in all years until reserve depletion. The projected HI Trust Fund's long-term actuarial imbalance is smaller than that of the combined Social Security trust funds under the assumptions employed in this report. The estimated 75-year actuarial deficit in the HI Trust Fund is 1.11 percent of taxable payroll, down from 1.35 percent projected in last year's report. The HI fund again fails the test of short-range financial adequacy, as its trust fund ratio is already below 100 percent and is expected to decline continuously until reserve depletion in 2026. The fund also continues to fail the long-range test of close actuarial balance. The HI 75-year actuarial imbalance amounts to 29 percent of tax receipts or 23 percent of program cost. The modest improvement in the outlook for HI long-term finances is principally due to: (i) lower projected spending for most HI service categories especially for skilled nursing facilities to reflect lower-than-expected spending in 2012 and other recent data; (ii) lower projected Medicare Advantage program costs that reflect recent data suggesting that certain provisions of the Affordable Care Act will reduce growth in these costs by more than was previously projected; and (iii) a refinement in projection methods that reduces assumed per beneficiary cost growth during the transition period between the short-range projections and the long-range projections. Partially offsetting these favorable changes to the projections are somewhat lower projected levels of tax income that reflect lower-than-expected tax income in 2012. The Trustees project that Part B of Supplementary Medical Insurance (SMI), which pays doctors' bills and other outpatient expenses, and Part D of SMI, which provides access to prescription drug coverage, will remain adequately financed into the indefinite future because current law automatically provides financing each year to meet the next year's expected costs. However, the aging population and rising health care costs cause SMI projected costs to grow steadily from 2.0 percent of GDP in 2012 to approximately 3.3 percent of GDP in 2035, and then more slowly to 4.0 percent of GDP by 2087. General revenues will finance roughly three quarters of these costs, and premiums paid by beneficiaries almost all of the remaining quarter. SMI also receives a small amount of financing from special payments by States and from fees on manufacturers and importers of brand-name prescription drugs. Projected costs for Part B assume an almost 25-percent reduction in Medicare payment rates for physician services will be implemented in 2014 as required by current law, which is highly unlikely. The Trustees project that total Medicare cost (including both HI and SMI expenditures) will grow from approximately 3.6 percent of GDP in 2012 to 5.6 percent of GDP by 2035, and will increase gradually thereafter to about 6.5 percent of GDP by 2087. The draw-down of Social Security and HI Trust Fund reserves and the general revenue transfers into SMI will result in mounting pressure on the Federal budget. In fact, pressure is already evident. For the seventh consecutive year, the Social Security Act requires that the Trustees issue a "Medicare funding warning" because projected non-dedicated sources of revenues primarily general revenues are expected to continue to account for more than 45 percent of Medicare's outlays in 2013, a threshold breached for the first time in fiscal year 2010.

Conclusion

Lawmakers should address the financial challenges facing Social Security and Medicare as soon as possible. Taking action sooner rather than later will leave more options and more time available to phase in changes so that the public has adequate time to prepare.

The Board Thanks Attorney Steve Cypen for this contribution…..

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Accessing your Funds

Just a reminder, members can never access their pension contributions, share and/or drop account(s) unless they resign and request a refund or distribution. .

Disclaimer

The information contained herein is provided for informational purposes only. The foregoing information/summary/prices/quotes/statistics have been obtained from sources we believe to be reliable, but cannot guarantee its accuracy or completeness. Neither the information nor any opinion expressed constitutes investment, tax and/or legal advice from the Board of Trustees and/or any and all entities thereof. Please consult your professional investment, tax and/or legal advisor for such guidance.

RETIRED SHARE & DROP MEMBERS

Just a reminder that open enrollment to change your DROP and/or Share Distribution(s) is in the month of AUGUST. The effective date of the change will be OCTOBER.

If you do not wish to make a change at this time, the next open enrollment period is in the month of FEBRUARY. The effective date of the change will be APRIL.

If there are any questions, please let us know.

ELECT EARNINGS METHOD FOR SHARE AND/OR DROP

Enclosed with this publication is the “APPLICATION TO ELECT EARNINGS METHOD” Form. Kindly take the time to review your options.

- If you do not have a DROP or SHARE Account no action is required.
- If you do not wish to change your investment option(s), you do not have to take any action.
- If you do wish to modify your investment return option, please complete this form and return it to the Office of Retirement prior to October 1, 2013.

Any questions, please let us know.

WEB NEWSLETTER INSERT

WEST PALM BEACH POLICE PENSION FUND

APPLICATION TO ELECT EARNINGS METHOD

DATE ENTERED PLAN:_______________

PLEASE PRINT OR TYPE:

1. a. Name of Participant: ____________________________________

   b. Social Security Number: xxx-xx-________________________

   c. Date of Birth: ________________________________

   d. Home Telephone Number: (   ) ________________________

   e. Home Address:____

   ____

I understand that if I make no election of earnings method, my current earnings method will be used.

2. **EARNINGS METHOD ELECTION FOR VESTED PARTICIPANTS RETIRING AFTER OCTOBER 1, 2012.**

To elect the earnings method, please initial the line next to your selection.

Only vested members may elect an earnings method.

A. SHARE ACCOUNT:

_____ Variable based on Fund returns (gains and losses) subject to administrative expenses

_____ Fixed rate of 8.0%/4.0% subject to administrative expenses[1]

Note: No earnings (or losses) are credited to your account for the most recent year if you withdraw the entire balance of your account before September 30th. If necessary, consult your tax advisor. The share accounts are charged an annual pro-rata administrative charge based upon the administrative expenses of the pension fund as a whole.

[1]In the event that the amount paid in investment earnings at the 8% rate is more than the Fund actually earns, the rate will be reduced to 4% effective the following October 1 until any losses are made up.

B. DROP ACCOUNT:

______ Variable based on Fund returns (gains and losses) subject to administrative expenses

______ Fixed rate of 8.0%/4.0% subject to administrative expenses[2]

Note: The DROP accounts are charged an annual pro-rata administrative charge based upon the administrative expenses of the pension fund as a whole.

3. **EARNINGS METHOD ELECTION FOR RETIRED MEMBERS AND PARTICIPANTS ELIGIBLE FOR NORMAL RETIREMENT BEFORE OCTOBER 1, 2012.**

To elect the earnings method, please initial the line next to your selection.

A. SHARE ACCOUNT:

______ Variable based on Fund returns (gains and losses) subject to administrative expenses

______ Fixed rate of 8.25% subject to administrative expenses

Note: No earnings (or losses) are credited to your account for the most recent year if you withdraw the entire balance of your account before September 30th. If necessary, consult your tax advisor. The share accounts are charged an annual pro-rata administrative charge based upon the administrative expenses of the pension fund as a whole.

B. DROP ACCOUNT:

______ Variable based on Fund returns (gains and losses) subject to administrative expenses

______ Fixed rate of 8.25% subject to administrative expenses

Note: The DROP accounts are charged an annual pro-rata administrative charge based upon the administrative expenses of the pension fund as a whole.

[2] In the event that the amount paid in investment earnings at the 8% rate is more than the Fund actually earns, the rate will be reduced to 4% effective the following October 1 until any losses are made up.

I hereby certify that the above statements are true and correct to the best of my knowledge. I understand that a false statement may disqualify me for benefits.

I have reviewed the Designation of Beneficiary Form filed with the Board of Trustees and I hereby certify its accuracy. If I desire to change my designated beneficiary(ies), I will file a new Designation of Beneficiary Form.

I have been advised to speak with a tax consultant regarding my earnings method election.

This Application form is a supplement to my prior Application (if any) and supersedes it where conflicts exist. Additionally, I certify that I am electing the earnings method marked above. This election revokes any prior elections I have made.

________________________ ________________
MEMBER'S SIGNATURE DATE

STATE OF FLORIDA)
)
COUNTY OF PALM BEACH)

BEFORE ME, the undersigned authority, personally appeared

__________________________________, who is personally known to me or has produced

_________________________________ as identification and who did take an oath and,

after being duly cautioned and sworn, deposes and says that he/she has signed the

foregoing document for the reasons therein contained.

SWORN TO AND SUBSCRIBED before me this the _____ day of

_______________________, 20_____.

____
Notary Public, State of Florida At Large

Commission No.:____________________

Commission Expires:________________

BSJ/pah
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