

WEST PALM BEACH POLICE

PENSION NEWS

A West Palm Beach Police Pension Fund Publication

Issue 19

Date of Issue:

Third Quarter 2013

Inside this issue....

2	Track The Fund
2	Plan Asset Allocation
4	2014 Meeting Dates
5	Rate of Return
6	DROP/SHARE Fees
7	Required Distributions
8	Fiduciary Trust
9	Economic Environment
10	Pension Tension

EAGLE Asset Management

GREAT JOB!

Over the last year, Eagle Asset, our small cap manager has returned 27.49%, placing it in the Top 24% in the investment universe

Source: Thistle Asset Consulting
June 30, 2013 Report

2nd QUARTER PENSION FUND SUMMARY

On June 30, 2013 our fund had a total market value of \$226,873,000.

For the quarter the total fund return was 0.17% (net) and its benchmark return was 0.77%. In the previous quarter the fund return was 6.53%.

For the quarter the stock return was 0.77% and the benchmark return was 1.68%. The bond return was -1.70% and the benchmark return was -1.78%.

For the quarter end, the allocation of our fund was 67.5% invested in stocks, 23.3% in bonds, 5.2% in Real Estate, and 3.9% 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.

F i s c a l Y e a r
(10/1/2012 – 6/30/2013)
For the fiscal year-to-date, the total fund net return was 7.49% and its benchmark return was 9.02%. The stock return was 10.25% and the

benchmark return was 13.88%. The bond return was -0.28% and the benchmark return was -1.46%.

For the last 12 months, the



Valley Forge large cap core stock return was 10.50%, the Earnest Partners large cap value stock return was 16.49%, the Garcia Hamilton & Associates large cap growth stock return was 12.49%, the Anchor mid-cap value stock return was 18.06%, the Oak Ridge mid cap growth stock return was 10.94%, the WHV international stock return was 11.13%, the GW Capital small cap value stock return was 28.71%, the Eagle small cap growth stock return was 18.74%, the Intercontinental Real Estate return was 13.09%, and the Garcia Hamilton & Associates aggregate fixed income return was 2.89%. The S&P 500 index return was 20.60%.

For the last year the best performing sector among S&P 500 stocks is Health Care which increased 19.1% and

the worst sector is Materials which increased 1.7%.

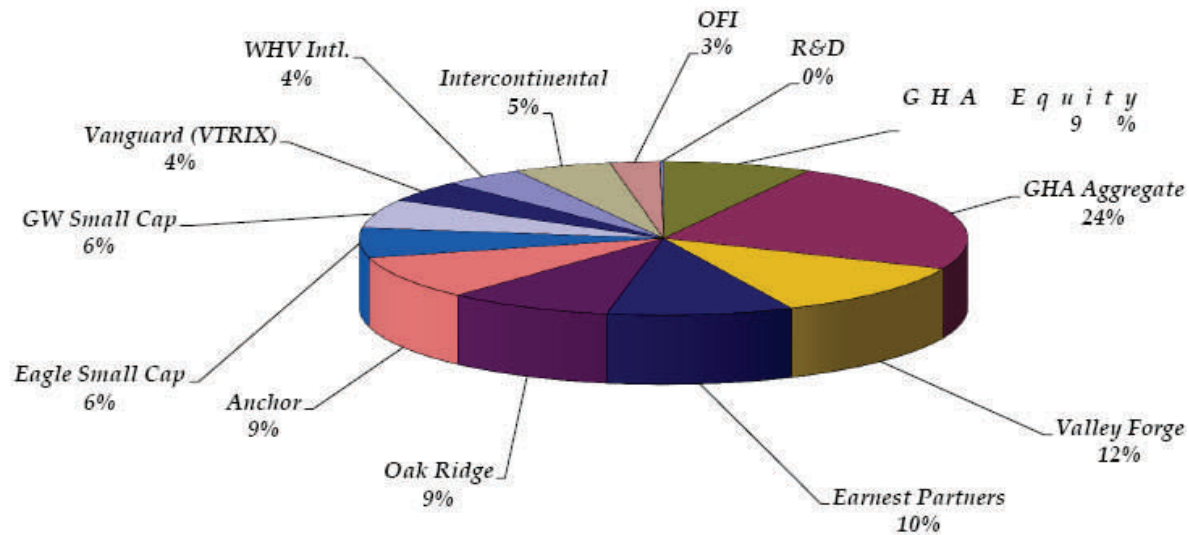
Among the major economic indicators, the Consumer Price Index (CPI-Urban) increased 1.8% before seasonal adjustment for the twelve months ended in June.

The Producer Price Index (PPI) for finished goods advanced 2.5% before seasonal adjustment for the twelve months ended in June.

The seasonally adjusted unemployment rate is 7.6% in June unchanged from 7.6% in March. Real Gross Domestic Product (GDP) increased at an annual rate of 1.8% for the first quarter of 2013, compared with an increase of 0.4% in the fourth quarter of 2012.

During the second 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.

Track the Fund



Plan Asset Allocation & Diversification as of June 30, 2013

	Domestic Equities	Int'l Equities	Emerging Markets	Fixed Income	Real Estate	Cash	Total	% of Total
GHA Equity	\$17,790,000					\$193,000	\$17,983,000	7.9%
GHA Aggregate				\$52,923,000		\$669,000	\$53,592,000	23.6%
GHA Total							\$71,575,000	31.5%
								41.0%
Valley Forge	\$25,240,000					\$1,013,000	\$26,253,000	11.6%
								9.0%
Earnest Partners	\$21,658,000					\$738,000	\$22,396,000	9.9%
								9.0%
Oak Ridge	\$19,035,000					\$906,000	\$19,941,000	8.8%
								8.0%
Anchor	\$17,189,000					\$3,423,000	\$20,612,000	9.1%
								8.0%
Eagle Small Cap	\$14,175,000					\$131,000	\$14,306,000	6.3%
								5.0%
GW Small Cap	\$12,996,000					\$682,000	\$13,678,000	6.0%
								5.0%
Vanguard (VTRIX)		\$10,207,000				\$0	\$10,207,000	4.5%
								5.0%
WHV Intl.		\$8,974,000				\$712,000	\$9,686,000	4.3%
								5.0%
Intercontinental					\$11,801,000		\$11,801,000	5.2%
								5.0%
OFI			\$6,004,000				\$6,004,000	2.6%
								3.0%
R&D						\$414,000	\$414,000	0.2%
								0.0%
Totals	\$128,083,000	\$19,181,000	\$6,004,000	\$52,923,000	\$11,801,000	\$8,881,000	\$226,873,000	100.0%
								100.0%
% of Total	56.5%	8.5%	2.6%	23.3%	5.2%	3.9%	100.0%	
Target %	52.0%	10.0%	3.0%	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	Lufkin Indus.	Pfizer	TJX Corp.	Alliance Data Sys.
Microsoft	Vitamin Shoppe	Barrick Gold	Intel	Questcor Pharma
Coca Cola	Quaker Chemical	Newmont Mining	Occidental Petr.	Transdigm Group
Qualcomm Inc.	Obagi Medical	Bristol-Myers	Exxon Mobil	Ross Stores
American Tower	Sourcefire Inc.	Johnson & Johnson	Cummins	Airgas
Roper Industries	Sirona Dental	Verizon Comm.	Express Scripts	Sally Beauty Hldgs.
Walt Disney	Huron Consulting	Merck & Co.	American Tower	Mead Johnson
Nordstrom Inc.	Bally Technologies	AT & T	Wells Fargo	Intuitive Surgical
Grainger, W.W.	OYO Geospace	Waste Mgmt. Inc.	Union Pacific	GNC Holdings

Top Ten Equity Holdings

Anchor	GW	OFI	WHV
Sun Communities	A.O. Smith Corp	Vodafone Group ADR	Canadian Pacific Rail
American Capital Agency	Simpson Manufacturing	Royal Dutch Shell	Schlumberger Ltd.
SPDR Gold Trust	Darling International	BP PLC	Noble Corp
Goodrich Corp.	Esterline Technologies	Vodafone Group	Potash Corp.
Sempra Energy	Avis Budget Corp	Suncor Energy	Suncor Energy
McKesson Cp.	Ocwen Financial	Diamler AG	British American Tob.
Scana Corp.	CNO Financial	Swiss Re AG	BHP Billiton Ltd.
HCP Inc.	Casey's General Store	Mitsubishi UFJ Financial	Diageo PLC
Heinz H J Co.	Redwood Trust	Westfarmers LTD	Cooper Industries
Progress Energy	Omega Healthcare	GDF Suez	Canadian National Rail

WEST PALM BEACH POLICE PENSION FUND

**2100 North Florida Mango Road
West Palm Beach, Florida 33409**

Phone: 561.471.0802

FAX: 561.471.5027

PUBLIC NOTICE

WEST PALM BEACH POLICE PENSION FUND BOARD OF TRUSTEES WILL BE MEETING

**January 10, 2014
February 14, 2014
March 14, 2014
April 11, 2014
May 09, 2014
June 13, 2014**

**July 11, 2014
August 08, 2014
September 12, 2014
October 10, 2014
November 14, 2014
December 12, 2014**

**LOCATION: PALM BEACH PBA
2100 N. FLORIDA MANGO ROAD
WEST PALM BEACH, FLORIDA 33409**

TIME: 8:30 A.M.

IF ANY PERSON DECIDES TO APPEAL ANY DECISION MADE BY THE BOARD WITH RESPECT TO ANY MATTER CONSIDERED AT SUCH MEETING OR HEARING, THEY WILL NEED A RECORD OF THE PROCEEDINGS, AND FOR SUCH PURPOSE, THEY WILL NEED TO ENSURE THAT A VERBATIM RECORD OF THE PROCEEDINGS IS MADE, WHICH RECORD INCLUDES THE TESTIMONY AND EVIDENCE WHICH THE APPEAL IS TO BE BASED.

THIS MEETING MAY BE CONDUCTED BY MEANS OF OR IN CONJUNCTION WITH COMMUNICATION MEDIA TECHNOLOGY, THE TYPE BEING A SPEAKER TELEPHONE. THE ACCESS POINT IS THE CONFERENCE ROOM, WITHIN THE PALM BEACH COUNTY POLICE BENEVOLENT ASSOCIATION BUILDING.

PERSONS WITH DISABILITIES WHO REQUIRE REASONABLE ACCOMMODATIONS TO PARTICIPATE IN THE MEETINGS MAY CALL THE PLAN ADMINISTRATOR FIVE BUSINESS DAYS IN ADVANCE AT 561-471-0802 (VOICE) AND/OR 800-955-8771 (TTY).

Note: In compliance of state law, the Board of Trustees finds that a proper and legitimate purpose is served when members of the public have been given a reasonable opportunity to be heard on a matter before the Board. Therefore, the Board of Trustees have determined and declared that they will allot 15 minutes in total for this purpose; however each person is limited to no more than (2) two minutes to comment at each meeting.

Please visit us at: www.wpbppf.com

Determination of the Rate of Return for DROP & SHARE Accounts

As you may recall, the earnings method differs for members who retired (or become vested) on or after October 1, 2012 and those who retired prior to October 1, 2011.

HERE ARE EARNINGS METHOD ELECTION OPTIONS FOR RETIRED MEMBERS BEFORE OCTOBER 1, 2012. Variable is based on Fund returns (gains and losses) subject to administrative expenses. OR Fixed rate of 8.25% subject to administrative expenses.

HERE ARE THE EARNINGS OPTIONS FOR VESTED PARTICIPANTS RETIRING AFTER OCTOBER 1, 2012. As noted above, the Variable is based on Fund returns (gains and losses) subject to administrative expenses. OR Fixed rate of 8.0% or 4.0% subject to administrative expenses.

(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). The chart below tracks the rate of return for the Fund, to determine if the Fixed rate will be either 8.0% or 4.0% for the upcoming fiscal year. As there is no deficiency to make up, the rate of return for the next fiscal year (beginning October 1, 2013) will be 8.0% for vested members or for those who retired after October 1, 2012.

(a) Gross fixed rate of return credited to DROP/Share Plan accounts 10/1/11 through 9/30/12	8.25%
(b) Gross rate of market investment return 10/1/11 through 9/30/12 calculated by actuary	18.2% *
(c) Deficiency due to fixed interest credit on DROP/Share Plan accounts 10/1/11 through 9/30/12	0.00%
(d) Actual fixed interest crediting rate for DROP/Share Plan accounts for 10/1/12 through 9/30/13	8.00% **
(e) Minimum gross rate of market investment return 10/1/12 through 9/30/13 to provide 8.00% fixed interest crediting rate for 10/1/13 through 9/30/14	(1.1)%
* Actual rate needs to be determined by the Investment Consultant.	
** Members in the DROP as of October 1, 2012 will continue to earn 8.25% per year.	

Remember if you wish to alter your earnings option, that change must be received by the Office of Retirement prior to October 1 each year.

DROP/SHARE ADMINISTRATIVE FEES GOING DOWN

Each year the Administrative costs of the Fund are reviewed and valued by the Board Actuary. Pursuant to the Special Act that governs the Fund, that costs for the prior fiscal year is applied to the next fiscal year. For example, 70 basis points is being assessed during the current fiscal year ending October 1, 2012 for Administrative costs. That rate is 0.175% on a quarterly basis.

The Board is pleased to announce that effect October 1, 2013, the Administrative cost is being reduced to 67 basis points. That rate is 0.1675% on a quarterly basis, as outlined below.



July 26, 2013

Mr. David M. Williams, Plan Administrator
West Palm Beach Police Pension Fund
2100 N. Florida Mango Road
West Palm Beach, Florida 33409

**Re: West Palm Beach Police Pension Fund
Expenses for DROP / Share Plan Account**

Dear Dave:

As requested, we have determined the investment and administrative expenses that were charged in the West Palm Beach Police Pension Fund for the fiscal year ending September 30, 2012. These expenses total 0.67% of the average asset value during the fiscal year and include fees paid to the investment manager, plan administrator, actuary, custodian and attorney. This rate is 0.1675% on a quarterly basis. The expenses can be calculated by multiplying the DROP/Share Plan balance by .001675 each quarter.

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.

Basis Point - BPS' Explained.....

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.

Required Minimum Distributions



DROP/SHARE distributions cannot be deferred indefinitely. A DROP/SHARE Member owner must begin required minimum distributions (RMDs) the year he or she reaches age 70.5, at which time the DROP/SHARE Member may distribute the full balance of the DROP/SHARE or distribute a minimum amount each year.

The first RMD must be distributed by Apr 1 of the year after the year in which the DROP/SHARE Member reaches age 70.5.

For example, a DROP/SHARE Member who reaches age 70.5 in June of 2013 must take his or her first RMD by April 1, 2014. DROP/SHARE Members who elect to have a mini-

imum amount distributed each year must, for subsequent years, distribute RMDs by December 31 of each year. This means that if the DROP/SHARE holder defers the first RMD until April 1 of the year after he or she turns 70.5, the DROP/SHARE Member will be required to take a second RMD amount in that same year, which counts as the second year for RMDs.

Example: Taking RMDs

Jill turns 70.5 in June of 2012, and she decides to defer her first RMD until April 1, 2013. Jill is required to take a second RMD (for 2013) by December 31, 2013. For subsequent years, Jill must distribute her RMD amounts by December 31 of each year.

Our Actuary reviews and will calculate the RMD amount on an annual basis and we send the notification to the DROP Member as warranted. RMD will follow such notice.

RMD amounts not distributed from the DROP/SHARE by the due date may be subject to a 50% excess-accumulation penalty.

Example: Excess Accumulation Penalty

John is 75 years old, and his RMD for 2013 is \$5,000. By December 31, 2013, John has distributed only \$4,000 from his DROP/SHARE. Because John's RMD was short by \$1,000, he must pay the IRS a 50% excess accumulation penalty ($\$1,000 \times 50\% = \500).

The excess-accumulation penalty must be paid when the individual files his or her federal tax return. If the individual feels that the failure was due to reasonable circumstance, he or she may write to the IRS and request that the penalty be waived. If a waiver is requested, the penalty should be paid only if the IRS denies the request.

The Board of Trustees or the Plan Administrator cannot provide tax advice. As such you are encouraged to discuss this matter with your tax advisor and plan for this event on an annual basis.

Fiduciary Trust (FTIS) — Our Fund Custodian

Mr. Amed A. Avila recently attended a Meeting & thanked the Board for allowing FTIS to serve as the Fund Custodian. Mr. Avila provided his background and his role as an Assistant Vice President with FTIS and our Fund.



Mr. Avila highlighted internal security measures in place to help prevent fraudulent activity.

Mr. Avila presented a quarterly security filing report to the Board that detailed various companies involved in security litigation. Mr. Avila stated that FTIS will file on behalf of the Fund and provides confirmations on a quarterly basis.

Mr. Avila also highlighted a death check program being proposed. Essentially, FTIS would search databases available against the members receiving payments from the Fund on a quarterly basis, to ensure the members have not been reported deceased. This service would be provided at no additional cost.

Mr. Williams & Mr. Avila stated how they work with each other on a daily basis as a team with the Fund and its membership being the paramount focus. Mr. Williams & Mr. Avila also identified Ruth Garcia and Maryann Williams as key elements to the team as well. Mr. Williams informed the Board that FTIS Team is always a phone call away and eager to assist anyway possible.

The Trustees extended their gratitude to Mr. Avila for taking the time to appear and present the foregoing.

Thank you FTIS!



<http://www.fiduciarytrust.com>

ECONOMIC ENVIRONMENT

Slow Progress Amidst Bernanke's Cryptic Comments The U.S. economy continued to expand during the second quarter, at a rate of 1.7% (advance estimate), which exceeded analysts' expectations. This acceleration reflected both an increase in business investment and the level of exports. In spite of real progress on the housing and employment fronts and much improved consumer confidence figures, nervousness over the Federal Sequestration and a possible uptick in interest rates induced manufacturers to reduce inventories. The big red flag was a change in thinking regarding the Fed's \$85 billion per month (\$1 trillion annual) bond buying program, which the Fed signaled may end sooner than expected. Arguably, that possibility can also be viewed as positive since one can infer that the Fed sees enough economic momentum to ease its unprecedented support.

Below are the quarter's highlights:

- GDP increased 1.7% in the second quarter, after climbing only 1.1% in the first quarter; the current expectation is close to 2% growth for this calendar year and higher in 2014.
- Job growth was uniformly solid, with 195,000 or more monthly gains in April, May and June [after April and May jobs numbers were adjusted upwards].
- Housing statistics made everyone happy with a 12.2% price increase in May vs. May 2012, reflecting the 15th consecutive month of growth.
- June's new orders and production rose 3.1% and 4.8%, respectively. • Consumer confidence reached its highest level since January 2008.
- Inflation remains in check.

On June 19th, in a press conference by Fed Chairman Bernanke, the Fed hinted that it might pare back the latest quantitative easing (QE) program. That press statement precipitated an abrupt rise in interest rates across the yield curve. This, in turn, led investors to anticipate higher inflation down the road. As a result, bank lending rates to businesses and home mortgage rates were directly affected as investors feared that higher rates could dampen both business and housing expansion. Another concern was a slowdown in global growth, with Europe, China and other emerging markets each experiencing lower growth and/or outright recession. US exports are already feeling the effects of the global downturn.

Job gains were consistently positive during the past quarter, averaging close to 200,000 per month. Because the positive job trend led unemployed workers back into the labor market, the newly added job seekers kept the unemployment rate unchanged at 7.6%.

Home prices have made a huge leap in the latest 12-months. Research firm CoreLogic reported that the national price gain has been 12.2% through May (latest available data), but an additional 20+% gain would be necessary to reach the April 2006 price peak. Ninety-seven of the largest cities posted price increases. LA, Phoenix, Riverside CA, Atlanta and Houston/Dallas posted the biggest gains. CoreLogic also noted a 27% drop in housing foreclosures during May – another positive housing indicator.

Manufacturing expanded in June, for the 49th consecutive month. New orders and production were particularly strong. Within the 18 manufacturing sectors, ten expanded, four were steady, and four declined. The latter included textile mills, transportation equipment, chemicals and electronics. Both exports and imports were higher in June vs. May, with exports rising more.

Consumer confidence was at a near-term high, despite higher payroll deductions and rising interest rates. Confidence increased for the third straight month, reaching its highest level in the last five years – 81.4! Consumers were optimistic regarding current conditions, short-term expectations and outlook for the labor market. In fairness, these measures are volatile and could be impacted by unanticipated events.

Pension tension: Firings, lawsuits and worker exodus a roller coaster for police, fire

Daily News Exclusive: When the Palm Beach Daily News learned that large numbers of firefighters and police officers were leaving in reaction to the town's pension cuts, veteran Daily News reporter Michele Dargan began working on this story. Over three months, she filed public records requests, pored through hundreds of pages of documents and interviewed more than 25 people for this report.

When police and firefighters begged the Town Council not to slash pensions during initial 2009 discussions, their message fell on deaf ears. Council President David Rosow made it perfectly clear that if employees didn't like the changes, they could leave.

Invitation accepted

The council's decision last year to drastically cut pensions and benefits for its police officers and firefighters has left both departments in turmoil — decimated by firings and resignations, and torn apart by lawsuits, demotions, reprimands and allegations of harassment and discrimination. An exodus of police officers and firefighters began even before the pension cuts took effect on May 1, 2012. Last year alone, 24 public safety employees left the town — more than the previous three years combined. Many put blame for the unrest directly at the feet of council members. The cuts, they say, hacked away at the very foundation of Palm Beach's finest, undermining the tradition of providing excellent pensions and benefits to attract the county's top police officers and firefighters. "The council was told, in a public meeting by me and others, this would happen," said Plantation attorney Robert Klausner. "There's no question that Palm Beach is by far the worst in the state and the country for public safety pensions." Klausner, an expert in public employee retirement planning, was the attorney to the town's police pension board during the process. "The elected officials made a value judgment," he said. "What they did with the pensions in Palm Beach was terrible. It was all about the money and nothing about the human beings providing the service. In my opinion, they devalued the people who provide the service." Council President Rosow makes no apologies for his words. "If they're unhappy about staying and working in some place, staying there is the worst thing they can do," Rosow said. "It affects them. It affects their work performance. It affects their families. ... I speak the truth in that regard. If they're unhappy, they should leave and find another job."

Reform required

Pension programs across the country are "out of control," Rosow said. "I don't know of a city in this country that says their defined benefit plans are healthy." Starting in 2009, Rosow and Councilman Robert Wildrick led the charge for reining in escalating pensions for all employees. From 2002 to 2009, the town's annual contributions to its retirement system escalated 551 percent to nearly \$7 million, according to a Palm Beach Civic Association report. The average cost per employee during that period leaped from \$2,677 to \$17,525. Without changes, pensions would have cost the town \$12.5 million for financial year 2014 with a projected budget deficit of \$5.8 million, said Town Manager Peter Elwell. The previous pension plan was simply unsustainable, Wildrick said, and, if continued, would have left nothing for those retiring in 10 or 20 years.

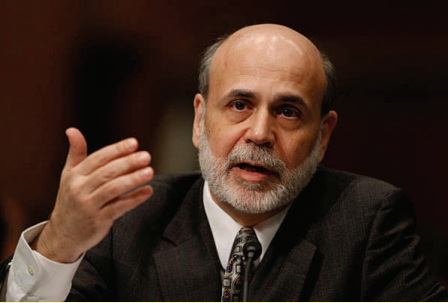
That plan was "among the best in South Florida and near the top, if not the top of the county," Klausner said. Everyone agreed that changes needed to be made, he said. But the cuts were far too drastic, and unlike most other cities, they applied to everyone, not just new employees. Cuts this deep will make it harder to attract and keep high-quality candidates, he said. "I'm a great believer in, 'You get what you pay for,'" Klausner said. "You don't pay them; you don't keep them. The saddest thing is that every one of these words was said in a public meeting. It was an ill-advised decision." In addition to the public safety employees who left last year, 19 more have left as of Tuesday, with numbers expected to rise.

Five of those joined Palm Beach County Fire-Rescue, which is hiring more than 130 firefighters in upcoming months, and six other Palm Beach firefighters have applied with the county so far, Director of Public Safety Kirk Blouin said. Palm Beach received 423 responses to its most recent advertisement for firefighters, according to Danielle Olson, the town's human resources director. The town made six job offers, Blouin said. The remaining three open positions will be eliminated Oct. 1. "Things are getting better" "We look at this as an opportunity," Blouin said. "Although there are some who have applied to the county who we wish would stay and they're highly valued employees to the Fire-Rescue Department, there are others I'm OK if they leave ... particularly if they're just bitter." The police and fire departments have been in turmoil in recent months, he said, enduring a "perfect storm." "There were a lot of very unusual things that were a cause of concern," Blouin said. "I took strong disciplinary action. Part of that was taking back control of the organization that I saw was heading in the wrong direction and taking direction from the wrong people." He believes the worst is over and morale is on the upswing. "One of the main things for improvement of morale: the troublemakers and the fire-starters, most of them are gone," Blouin said.

Please continue to page 12 to continue.....

EQUITY MARKET

In Like a Lion and then... the Bernanke Hiccup



All major stock indices gained ground for the quarter. Gains through May extended the momentum from the first quarter. Unfortunately, the party ended in June, when the hint of an early QE pullback made investors feel more sober. While the Fed said that it might reduce its buying program later in the year, that was enough to put the market in a tailspin [with a modest recovery in the last few days of the quarter].

The bellwether S&P 500 and DJIA indices both rose 2.9%, but the NASDAQ tech index gained 4.2%. Small-cap growth stocks added almost as much (3.7%).

Large cap value stocks outperformed their growth counterparts: 3.2% vs. 2.1%. In contrast, mid-cap growth bested mid-cap value: 2.9% vs. 1.7%. The Russell 3000, representing the broad stock market, earned 2.7%. Year-to-date, stock returns were well into the double digits. Small-cap growth trumped all other Russell indices, soaring 17.4% for the first half of the year.

Financial stocks fared best (7.6%) among the eleven S&P market sectors; this reflected improved bank profits, dividend increases and more share buybacks. The consumer discretionary sector was close behind with a 7.1% gain. The basic industry and energy sectors experienced only fractional gains because of tumbling commodity prices. Utility stocks were flat as rising interest rates reduced the benefits from this sector's high dividend rates.

BOND MARKET

A Significant Decline, Triggered by QE Policy Change



Yields went up sharply, rising off the record low levels that had held for over two years. Investors viewed the Fed's potential pullback in bond purchases as a done deal, which would spark higher inflation and higher bank lending rates in the future. As investors disgorged their bonds, the impact was quick and deadly – distinctly higher interest rates all along the yield curve. Three Treasury bond examples make the point: (1) the 5-year yield increased from 0.78% in March to 1.39% at quarter-end; (2) the 10-year yield climbed from 1.86% to 2.48%; and (3) the 30-year rose from 3.12% to 3.50%. Based on these dramatic increases, there was no place for active or passive bond managers to hide. The coupon income generated by bonds was simply not enough to offset the

dramatic price declines. The Barclays Aggregate Index lost 2.3%.

Given that Treasuries comprise 37% of the index, the loss was no surprise. However, all other major bond sectors gave ground, too. Investment grade corporate bonds dipped 3.4%; residential mortgage-backed issues fell 2%; the asset-backed sector (e.g. securitized credit card debt) eased 0.8%; and commercial MBS dropped 1.4%.

Yields also climbed in the below-investment grade (junk) segment. On average, a bond investor would have had to load up on the very lowest-rated or CA-D credits to eke out a positive return (+1.7%). The G-6 countries shared the pain among their sovereign risk (local Treasury) issues. Combined, the G-6 names dropped more than 4%. Only Italian sovereigns were positive. Clearly, the Fed pronouncement affected both domestic and global markets.

Continued from page 10 of this publication

"A lot of those people left through disciplinary action or left on their own behalf. Things are getting better." If employees were spreading negativity about the pensions, Blouin said he's glad they're gone. "Sometimes you have those who are so negative and dragging everyone else down, when they leave it's like a breath of fresh air," Blouin said. "We're experiencing some of that in both the fire department and police department. It's reinvigorating to hire new people."

Signs of trouble

Many former police officers and firefighters declined comment for this story, citing fear of jeopardizing probationary periods at new jobs. Some retirees had plenty to say but didn't want to speak out against a department that's paying them pensions. Their bottom line is this: With this many employees leaving, there's something going on. In recent years, each department had its own polarizing investigation, triggering a division in the ranks. The firing of fire-rescue Battalion Chief Jason Weeks for allegedly working on a website critical of pension issues, while on town time and using town equipment, still evokes strong words from his supporters. They say Weeks was the scapegoat for other supervisors who knew and approved of the website. Weeks has a pending lawsuit against the town. In the police department, harassment claims by subordinates of Capt. Scott Duquette led to the town paying off his six accusers a total of \$1.2 million to resign from the department. He was demoted to officer in May 2012 but was promoted to sergeant May 1.

The unrest didn't let up, as evidenced by a variety of internal investigations and reprimands in both departments. Things became so contentious that one police sergeant accused another of "participating in and orchestrating continued strife within the department." An internal investigation into both the accusations and whether the accused had violated the department's "gossip" policy cleared the sergeant of any improper conduct.

There may be more litigation on the horizon.

Stuart attorney Willie Gary put the town on notice in July that he represents current and former employees who allege they will lose millions as a result of the pension changes. Although the letter names 15 employees, Gary said the total may increase to 75 people if a lawsuit is filed. "If we can resolve it without filing a lawsuit, that's what we want to do," said Gary, who represented the five of the six officers who filed charges against Duquette. But the town's attorneys thoroughly vetted changes throughout the more than three-year process, Elwell said. The town is confident the changes are "100 percent legal," he said.

Union intervention

Police and fire union representatives agree that the pension and benefits reductions explain why public safety workers are leaving. And a steady loss of experienced people puts departments at risk, warned Ricky Grau, president of the Professional Firefighters/Paramedics of Palm Beach County. "If employees continue to leave any particular department, then there is eventually a situation where rookies are teaching

rookies," Grau said in a written statement. "We believe a dangerous situation, as such, is not in the best interest of the safety and welfare of the public. "Public safety workers usually choose to stay with one department throughout their careers," he said. "This is beneficial for both the worker and the public because the department can use the knowledge, wisdom and experience of its veteran employees to train and mentor the younger generations." Joe Puleo of the State Fraternal Order of Police tried to broker a deal with the town during contract negotiations, giving similar warnings. "Basically, it's a disservice to the people of Palm Beach," Puleo said. "The good officers are leaving. Would you rather have an experienced officer handling your problem or have a rookie out of the academy or a reject from another agency? That's what you end up with. The good officers that get hired here will stay a year or two, get experience and leave." Hiring and training new officers, and buying them new uniforms and equipment, also will cost more money, Puleo said. "Did anyone look at that before they made their decision?" he asked. Puleo recently ratified a contract with the Town of Davie that kept pensions and benefits the same for current employees and lowered benefits for new hires, which seems to be the trend, he said. Amid the dissension, Blouin said he tried talking to employees, telling them the union couldn't protect them and the Town Council had the final say. But many didn't listen and got whipped into a frenzy by union representatives, Blouin said.

"The people who live in this town are essentially non-union people, much like myself," he said. Elwell says the new pension plan is a solid plan, with both a defined benefit and a 401 (a) contribution plan.

Continue next page.....

Vacancies up

Today, more than 15 percent of the police department's 70 sworn officer positions are vacant, along with 13 percent of the fire department's 69 positions, according to the town's Human Resources Department. Earlier this year, the police department had 14 openings — 20 percent of its force. That's significantly more than the police department's numbers in September 2009, five of 79 positions vacant or 6 percent, and its September 2008 numbers, when just one of 77 positions was empty. In Palm Beach, where at least 28 billionaires are on the latest Forbes 400 list, some question the wisdom of driving away the most experienced firefighters and police officers. Council President Rosow has no safety concerns. "We have a fantastic director of public safety and a fantastic town manager," Rosow said. "If they saw a problem, they would tell us and tell us quickly." Blouin also believes the town is safe. A decades-long mutual aid agreement among nearby police and fire departments ensures extra help when needed, he said. Overall crime dropped 12 percent from 2012 to 2013, violent crime is nearly non-existent and there hasn't been a murder on the island since 1996. Blouin also dismisses claims by some that the police and fire departments lowered hiring standards in order to fill job openings. But a review of applications shows many recent hires applied to multiple departments before taking a job in Palm Beach. One officer was rejected by the Palm Beach County Sheriff's Office after failing its background check. The same officer also had been fired as a security guard "for violating company policy by having a firearm in the gatehouse at an unarmed site," according to the employment application. Blouin describes that officer as "highly, highly intelligent. "He was untruthful to the Sheriff's Office," he said. "He was a kid trying to get a job. Do we completely dismiss him all together? No, because there were other things in his character that were redeemable. I said, 'Let's give him a shot.' We did not lower our standards." Blouin said he appreciates those who have applied to multiple agencies because it shows their dedication to working in the field. In the past three years, police academy graduates have outnumbered job openings, he said. And although the town's pensions have changed, salaries remain high, he said. Police officers start with a salary of \$50,104 a year, which is about \$5,000 more than West Palm Beach officers and about \$3,000 than Palm Beach County Sheriff's Office deputies.

More complaints

For firefighters, losing unpaid days off — called Kelly Days — also was a big factor in their decisions to leave for other departments. But cutting those days, which mean longer work weeks and more overtime for firefighter/paramedics, saved the town nearly \$2.2 million in fire-rescue personnel costs from 2011 to 2014. It eliminated eight positions in those years. The department's three battalion chiefs kept their Kelly Days, however, which is a bone of contention among the other firefighters. With just three of those supervisory-level positions, it didn't make much of a difference in the budget to keep that benefit, Elwell said. Another beef among firefighters: Palm Beach is most likely the only department in Palm Beach County that doesn't allow its firefighters to go to a grocery store while on duty. Grau of the Professional Firefighters/Paramedics of Palm Beach County said his organization is "extremely concerned" about how firefighters are treated while on duty. Unlike police officers, who opted out of their union last year, the rank-and-file firefighters maintain union representation and are scheduled to begin negotiations with the town on Oct. 6.

'Bait and switch'?

Wildrick said his main concern is providing enough pension money for those retiring in 20 years. Failing to do that would be irresponsible, he said. He points to Detroit as an example of what can happen if pensions and benefits go unchecked. Once the richest city in America, Detroit has filed for bankruptcy. "All of those people won't get anything," Wildrick said. "That's the cruelest thing of all. Some of those people are 60 years old

and can't get a job. It's because of the greed along the way." Like many other public safety employees, however, former firefighter Quincy Shider-Heisel feels like he was misled. He joined Palm Beach Fire-Rescue in 2008 for its excellent reputation, employees and benefits, but those quickly eroded. "I felt like it was a bait and switch," he said. "I came from another department, and the rug gets pulled out." In February 2012, he left to join the Orlando Fire Department. "The level of dissatisfaction and distrust created is irreparable in my opinion," Shider-Heisel said. "That was a great department four years ago. They had some of the best people working there. It was awesome working in that department. That's gone."

Police and Fire employee departures by the numbers:

* 2009: 8 * 2010: 6 * 2011: 6 * 2012: 24 * 2013: 19 – either left or gave notice as of Sept. 17.

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Mr. John McCann & Mr. Vavrica from Thistle Asset Consulting appeared before the Board on August 9, 2013 and presented Trustees with Electronic Tablets to review the report(s).

The Tablets were purchased by Thistle Asset for the benefit of the Trustees.

Mr. McCann feels the use of the tablet would be more efficient, effective and environmentally beneficial.

The Tablets will be maintained at the Office of Retirement and uploaded with meeting packets and reports with the assistance and cooperation of the plan administrator.

The Board thanks the representatives from Thistle Asset for their commitment to this Fund!

THE SOCIAL SECURITY WINDFALL ELIMINATION AND GOVERNMENT PENSION OFFSET PROVISIONS FOR PUBLIC EMPLOYEES IN THE HEALTH AND RETIREMENT STUDY

About 3.5% of households are subject to either Social Security's Windfall Elimination Provision or to the Government Pension Offset provision on Social Security benefits received by individuals and households. WEP reduces the benefits of individuals who worked in jobs covered by Social Security and also worked in uncovered jobs where a pension was earned. WEP also reduces spouse benefits. GPO reduces spouse and survivor benefits for persons who worked in uncovered government employment where they also earned a pension. The new study by the Michigan Retirement Research Center takes account of pension earned on jobs not covered by Social Security, a key determinant of the size of WEP and GPO adjustments and also focuses on the household. This approach allowed the study to incorporate the full effects of WEP and GPO on spouse and survivor benefits, and to evaluate the effects of WEP and GPO on the assets accumulated by affected families. Among the study's specific findings: Households affected by both WEP and GPO lose about one third of their benefit. Limiting the Social Security benefit to half the size of the pension from uncovered employment reduces the penalty from WEP for members of the original HRS cohort by about 60%. To read the entire study, follow this link: <http://www.mrrc.isr.umich.edu/publications/papers/pdf/wp288.pdf>.