YOUR PENSION MATTERS
3/31/10
End of 2nd Quarter – FY 2009 - 2010

by: Chief Paul O'Connell
Board Chairperson
5/04/10

"Money is only a tool. It will take you wherever you wish, but it will not replace you as the driver." Ayn Rand

We have been taught that a sound retirement plan is like the three legged stool: leg #1 is Social Security, leg #2 is our respective Defined Benefit pension plan and leg #3 is our personal savings. This stool is not looking too sturdy right now!

Strike one: SOCIAL SECURITY FOLLOW-UP: You will recall in our last newsletter to you we wrote about Social Security. Here is what we wrote: *"as reported in the October 2009 edition of US News & World Report (pg. 56), the Social Security System is on a 'Countdown to Zero.' In 2016 the System will reach its 'break-even' point when it will begin to pay out more in benefits than it takes in by payroll tax revenue. The date was recently pushed up by one year because of the "Great Recession" during which the system experienced a significant reduction in tax revenue when the unemployment rate topped 10%."* **They were too optimistic!** In a recent article in the NY Times, it was reported that for the first time in its history the Social Security System will, in 2010, run a deficit as it will pay out $29 billion more than it collects (as reported by the Congressional Budget Office). In other words, what was projected to occur in 2016 will most likely occur in 2010**Strike Two:** Our pensions are under attack! We have enclosed two editorials (St. Petersburg Times & Orlando Sentinel) in which there were overt attempts to vilify the pension benefits we have earned or are in the process of earning. Please remember that the Pension Board does not and can not become involved in the bargaining process of protecting pension benefits that we have or enhancing those benefits. Our job is to administer the Fund. The job of bargaining belongs to the respective unions.

It has been proven over and over again, that properly managed DB plans with reasonable benefits can and do work.

What about the third leg, personal savings? Whether you swing and miss (**strike three**?) is up to you and no one else. It is called personal responsibility. Here are some things you should consider: do you really need the BMW or that $5 latte? In other words, buy what you need not necessarily what you want. We all need to do a better job of saving. Next, save **MORE**. Americans have not been very good at this and we must get better and we must do it now. Finally, save wisely. Avoid the traps (Bernie Madoff or Scott Rothstein), if it is too good to be true, it probably is. Do your homework and research before you invest or you hire someone to invest on your behalf.

The **Fourth Annual Pension Educational Symposium** was held April 22 – April 24, 2010. It was a great success based on the response we received from those in attendance and from the money managers who attended and presented to the Board. Here is what we learned:

First: here is what we wrote to you after last year's Symposium: *"it was pretty much a unanimous opinion from our money managers that the Great Recession of 2008 – 2009 hit bottom in March 2009. Very few believed that March was a "false bottom" like we saw in the last quarter of 2008. So, from that point forward it can be said that we began the very long climb out of the very deep financial hole created by what will surely be the worst recession of our lifetime."* Almost like clockwork, the remainder of 2009 was an investor's dream come true. The Fund saw some of its investment portfolio increase over 50% (just to name a few, Lord Abbett, our Large Cap Value +55% over the last 12 months, Sands Capital, our Large Cap Growth +69% over the last 12 months and RBC Global, our Mid Cap Value +62% over the 12 months). As a Fund, we grew from a 2009 low of $134 million to just over $173 million. However, we cannot ignore the fact that the Fund is still $20 million below where it was when The Great Recession began in 2008. In other words, we are still climbing out of the deep financial hole, but we are climbing out of the hole! Your Board of Trustees is committed to this effort!

2008 – 2009 Actuarial Report – at our Symposium last month, Steve Palmquist, the Pension System's Actuary, gave his annual report on the "State of the Pension" as of September 30, 2009. In other words, if we were to take a picture of the Fund dated September 30, 2009 (the end of our last fiscal year), what would its financial report card look like? Please remember, this picture was taken **BEFORE** the full effect of the recovery could be felt. First, we must acknowledge some actuarial adjustments made in the way we look at the Fund. These changes to the "actuarial assumptions" were made in an effort to give a more accurate and balanced picture of the financial health of the Fund. Two of the more important assumption changes were:

1. the assumed rate of disabilities was reduced by one half based on the reduced experience of disabilities in recent years and
2. a new asset smoothing method was used to further reduce the investment return fluctuation from year to year.

Here are some highlights of that 9/30/09 actuarial report: Overall net experience under the Plan during the 10/01/08 – 09/30/09 FY was less favorable than expected resulting in a net experience loss of $18 million ($193 million on 9/30/08 compared to $165 million on 9/30/09). No doubt a very bleak picture dated 9/30/09!

This report will be presented to the Pompano Beach City Commission during one of its May or June meetings (TBA) and the report, in its entirety, will be available for anyone to review subsequent to that meeting.

Here is a nutshell summary of FY 08 – 09: **Good news** – the Fund is 71% funded **Bad news** – the Fund is still $20 million under its 2008 high. We have work to do! Here is what we do know: The Fund is uniquely positioned to take full advantage of the rebound that lies ahead of us.

In the meantime & until then, stay safe and stay in touch!

Reminder from Deputy Administrator, Glenda Rowley: Changes to the monthly or annual DROP withdrawal amounts must be submitted no later than June 30 or you will not be able to change your election again until next year. Please call the Pension Office at 954.782.4161 if you have any questions.

BREAKDOWN OF RETURNS
Pompano Beach Police & Firefighters' Retirement System
As of March 31, 2010

TRADITIONAL INVESTMENTS

LORD ABBETT *Large Cap. Value*	Your Returns Gross	Net	Russ 1000 Value	PSN Money Mgrs.	S&P 500
Quarter	9.44	9.28	6.79	NA	5.39
1 year	55.42	54.53	53.57	NA	49.77
3 year	(4.77)	(5.34)	(7.33)	NA	(4.17)
5 year	1.75	1.15	1.04	NA	1.92
Since 10/31/2004	2.62	1.00	2.52	NA	2.74
Lord Abbett/Boston - Since 9/30/2002	7.28		7.69	NA	7.03
Lord Abbett/Boston - Since 6/30/1995	7.39		8.26	NA	7.22

SANDS CAPITAL *Large Cap. Growth*			Russ 1000 Growth	PSN Money Mgrs.	
Quarter	3.53	3.38	4.65	NA	
1 year	69.04	68.09	49.75	NA	
3 year	3.11	2.52	(0.78)	NA	
5 year	5.60	5.00	3.42	NA	
Since 5/31/2003	8.03	7.44	5.09	NA	

CORNERSTONE *Large Cap. Core*			S&P 500	PSN Money Mgrs.	
Quarter	5.91	5.71	5.39	NA	
1 year	44.27	43.31	49.77	NA	
Since 1/31/2009	33.95	33.18	37.94	NA	

RBC GLOBAL *Mid Cap. Value*			Russ Mid Value	PSN Money Mgrs.	
Quarter	8.68	8.49	9.61	NA	
1 year	62.66	61.61	72.41	NA	
Since 1/31/2009	43.69	42.89	52.85	NA	

WELLS *Small/Mid Cap. Growth*			Russ 2500 Growth	PSN Money Mgrs.	
Quarter	8.54	8.30	8.81	NA	
1 year	54.77	53.54	63.91	NA	
Since 1/31/2009	49.45	48.43	52.80	NA	

INVESCO *International Value*			MSCI EAFE Net		
Quarter	1.31	1.20	0.85		
1 year	55.69	54.82	54.42		
3 year	(4.92)	(5.58)	(7.02)		
5 year	4.66	3.99	3.75		
Since 1/31/2004	6.74	6.07	5.88		

RENAISSANCE *International Growth*			MSCI AC Wrld x US		
Quarter	(0.45)	(0.57)	1.59		
1 year	55.52	54.68	60.95		
Since 1/31/2009	40.17	39.51	47.72		

STANDISH MELLON *Fixed Income*			BC Aggregate	BC Int. Aggregate	BC Int. Gov/Credit
Quarter	1.72	1.65	1.78	1.81	1.54
1 year	10.77	10.45	7.69	7.40	6.92
3 year	5.84	5.53	6.14	6.19	5.89
5 year	5.30	4.98	5.44	5.46	5.16
Since 4/30/2003	4.68	4.33	4.75		

MUNDER CAPITAL *Fixed Income*			BC Aggregate	BC Int. Aggregate	BC Int. Gov/Credit
Quarter	1.79	1.72	1.78	1.81	1.54
1 year	8.83	8.56	7.69	7.40	6.92
3 year	6.99	6.73	6.14	6.19	5.89
5 year	6.01	5.77	5.44	5.46	5.16
Since 9/30/2002	5.23	4.96	4.89	4.77	4.52

ALTERNATIVE INVESTMENTS

INVESCO					
REIT	Gross	Net	NAREIT		
Quarter	8.19	7.99	10.02		
1 year	97.52	96.03	106.68		
3 year	(8.49)	(9.12)	(10.60)		
Since 6/30/2006	(1.31)	(2.01)	(3.23)		
INVESCO					
Private Real Estate			NCREIF/BC Agg*		
Quarter	(0.61)	(0.61)	1.78		
1 year	(25.59)	(25.59)	(8.68)		
3 year	(11.75)	(11.75)	(3.99)		
Since 7/31/2006	(7.95)	(7.95)	(0.21)		
OFFICE BUILDING					
Private Real Estate			BC Aggregate		90-Day T-Bill
Quarter	0.19	0.19	1.78		0.03
1 year	(30.12)	(30.29)	7.69		0.11
Since 3/31/2007	(7.74)	(7.97)	6.14		1.50
UBP					
Fund of Hedge Funds			HFRI FOF Cons		
Quarter	1.71	1.71	1.88		
1 year	9.56	9.56	10.92		
Since 4/30/2008	(4.50)	(4.50)	(4.45)		
Ironwood					
Fund of Hedge Funds			HFRI FOF Cons		
Quarter	2.51	2.51	1.88		
1 year	17.09	17.09	10.92		
Since 7/31/2008	(7.88)	(7.88)	(4.68)		
Pine Grove					
Fund of Hedge Funds			HFRI FOF Cons		
Quarter	2.42	2.42	1.88		
1 year	20.02	20.02	10.92		
Since 9/30/2008	6.35	6.35	(0.74)		
TOTAL FUND					
			Policy Index	Composite Index	
Quarter	4.17	4.04	4.21	4.24	
1 year	36.16	35.51	35.19	35.06	
3 year	0.80	0.35	(0.36)	0.40	
5 year	4.20	3.74	3.87	4.46	
Since 9/30/2002	6.94	6.48	7.05	7.37	
Since 6/30/1995	6.57				

*** Note - Barclays Capital Aggregate used as a substitute for the NCREIF index for the quarter ending 3/31/10 since the NCREID index is not available at this time.**

Per the Board's request, all performance results (including but not limited to rates of return, risk, measures, unit values, and dollar values) prior to September 30, 2002, were provided by GRS Asset Consulting Group, who was the previous consultant. The performance data is believed to be accurate, but there is no assurance. Graystone Consulting has not calculated or independently verified the accuracy of the returns or market values and is not responsible or liable for any mistake or miscalculations. Effective September 30, 2002, all valuations and rates of return are calculated by Graystone Consulting.

Defuse pension bombs: March 21, 2010 Orlando Sentinel

State lawmakers need to give cities more flexibility to reduce their obligations to retirees.

In the parade of horribles confronting Florida legislators this year — including a huge budget gap, double-digit unemployment and cash-starved schools — it's easy to overlook the rising cost of municipal pension plans for police and firefighters. Yet the Florida League of Cities accurately describes this problem as "a looming crisis." Others have likened it to a time bomb planted in city budgets. Here's why: State law forces cities to offer their cops and firefighters traditional pension plans. Cities contribute to a fund, which pays checks to retirees.

Businesses began switching years ago from these plans to more affordable 401(k)-style defined contribution plans.

But over the past decade or so, legislators have gone in the opposite direction. They've passed laws to sweeten retirement benefits for police and firefighters. But local governments, not Tallahassee, are on the hook for bankrolling those pensions. Retiree costs are taking a bigger and bigger bite out of municipal budgets. In Orlando, the city's contribution to police and fire pensions has shot up from $3.7 million to $20.6 million over the past decade, a 456 percent increase. That compares with a rise in the city's overall budget in the same period of 64 percent.

City police and fire pension benefits are financed from four sources: contributions from cities, contributions from employees, earnings on investments and revenue from taxes on property insurance premiums. Yes, your homeowners insurance includes a tax to pay for police and fire pensions. Orlando's contributions rocketed as it hired more police and firefighters, and as earnings on its investments declined.

But spending on police and fire pensions for cities also has been driven higher by state laws — especially one passed in 1999. That noxious law, approved under heavy lobbying from police and fire unions, requires cities to set aside any increase in insurance tax collections to jack up pension checks, rather than cover existing costs. When legislators first passed the law in 1998, then-Gov. Lawton Chiles vetoed the bill. He knew what it would do to local budgets.

But legislators passed it again the next year under Gov. Jeb Bush, who signed it. No wonder. Mr. Bush was elected with the support of police and fire unions.

Since its passage, the law has forced local governments to spend, or at least reserve, $345 million for additional police and fire pension benefits, according to the League of Cities. Orlando alone has had to set aside more than $14 million for enhanced benefits, instead of using that money to help pay current benefits and lighten the load on taxpayers.

Local governments and unions negotiate police and fire pension plans, but cities are hamstrung by state law. The state not only forbids defined contribution plans, it sets mandatory minimum benefits.

Legislators in the House and Senate are sponsoring bills to give local governments more leeway to negotiate pensions that taxpayers can afford.

Three hard facts on local tax cuts

By Howard Troxler, Times Columnist, St. Petersburg Times, 1/20

The phrase "ticking time bomb" is overused. But there's a story lurking out there about Florida's cities and counties that will only get bigger. The story starts in 2007, when our Legislature went to Tallahassee to do something about property taxes. And so it did. The big news was an amendment to our state Constitution that voters approved in January 2008:

- We doubled the homestead exemption for homeowners.
- We created "portability" for the Save Our Homes tax break when we move.
- We put a cap on tax assessments even for non-homestead property.

On top of that, we had a recession and a big drop in property values. So overall, Florida's cities and counties have had less money. Plenty of people think that's great. But a growing number are worried about the effects on the community they live in. I started by saying there is a big story lurking. I'm talking about another, lesser-known law passed in 2007 that is taking full effect only now. >*From this year on, a Florida city or county cannot increase taxes by more than* the rate of increase in Florida's per capita personal income.

(In fact, there are a lot of technicalities. Let's stick to the general idea – there's a cap.)The Legislature said that taxes should not go up faster than Floridians' income. And hey, I am not arguing. Just pointing out the realities.

First reality:
In the short term, property values will continue to drop. Local governments will have the unhappy choice of raising tax rates just to stay even, let alone to reach this cap. So far most have said no, but the pressure on them is rising.

Second:
However, even when the economy improves, this new tax cap means that the cuts of recent years are permanent and will not be recovered. "I think most people have no idea of that," says Tampa Mayor Pam Lorio. "They think this was a cyclical thing, that things will rebound and the government will fill its coffers again." Tampa took in $162.5 million in property taxes two years ago. This year it took in $137 million. Next year's prediction is $127 million. For the year after, even based on a projected growth in personal income of 2.7 percent, Tampa's limit will be $130 million, no matter how much things improve. There is one loophole. Local governments can exceed the cap by a super-majority vote, or in extreme cases, in an election. But given the political climate it seems unlikely.

This brings us to the third reality: Under the tax cap, Florida's local governments face a permanent, downward annual spiral of further cuts. Costs such as insurance, pensions and health care can grow faster than the cap. How long, meanwhile, will police, firefighters and other civil servants go without a raise?

Bill Horne, city manager of Clearwater, refers to the coming years as "the new normal" – continued annual cuts in services and personnel. "Most of our expenses are in people," he says. "At some point, union contracts are going to start to reflect increases."

As I said, it is perfectly possible to consider this good and healthy. But it also will have real consequences on your street and mine.

Meanwhile, the Legislature, which has made local government its whipping boy, proposes more limits. Like everything that humans do, I suspect we will lurch far past the tipping point, and then complain about going too far.