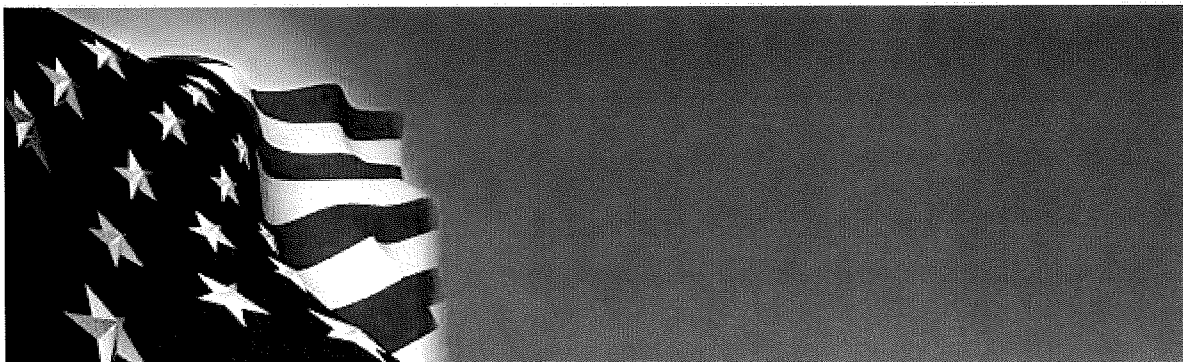


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CYPEN & CYPEN NEWSLETTER for JULY 9, 2015

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Stephen H. Cypen, Esq., Editor

Never Forget September 11, 2001

and

Always Remember May 2, 2011

1. REMINDER OF PENDING DEADLINES TO COMPLY WITH FLORIDA SB 534 AND SB 172: The purpose of this update is to remind all Florida defined benefit pension plans of the pending deadlines to comply with recent legislation, including SB 534 (otherwise known as "Chapter 2013-100"). Additional requirements for police and firefighter pension plans were adopted by SB 172.

By way of background, SB 534 created Section 112.664, Florida Statutes, which contains extensive new reporting requirements. The regulations implementing SB 534 were finalized by the Division of Retirement on April 29, 2015 when Chapter 60T-1.0035, Florida Administrative Code, went into effect.

As a result, the following requirements apply to all Florida governmental defined benefit plans:

- **112.664 Compliance Report** (otherwise known as the “Rule 60T-1.0035 Report”) indicating number of years that the plan’s current market value of assets can sustain payment of retirement benefits without additional contributions, along with other required data:

Prepared by: Actuary (who will load the Report onto the Division of Retirement’s website);

Due: 60 days after approval of actuarial valuation, or June 29 (for plans who approved their valuations prior to April 29) and annually thereafter;

Post: on plan sponsor website and plan’s website;

Required by: Section 112.664(1)(a)-(d), Florida Statutes.

- **Investment history** - Side-by-Side comparison of actual rate of return, assumed rate of return, and investment portfolio composition (cash, equity, bond, alternative investments) beginning with 2013 data:

Prepared by: Investment consultant;

Due: Annually;

Post: on plan sponsor website and plan’s website;

Required by: Section 112.664(2)(b)(2), Florida Statutes.

- **Actuarial valuation** (otherwise known as “actuarial report”):

Prepared by: Actuary;

Due: At least every three years (most plans perform annual valuations);

Post: on plan sponsor website and plan’s website;

Required by: Section 112.63(2) and 112.664(2)(b)1, Florida Statutes.

- **Audited financial statements** (otherwise known as “audit”):

Prepared by: Auditor;

Due: Annually for police and fire plans;

Post: on plan sponsor website and plan’s website;

Required by: Section 112.664(2)(b)1, Florida Statutes.

- **Link to Division of Retirement’s Summary Fact Sheet:**

Prepared by: Division of Retirement;
Due: Updated annually by Division of Retirement;
Post: on plan sponsor website and plan's website;
Required by: Section 1112.664(2)(b)1 and 112.665(1)(e), Florida Statutes.

Additional requirements for Police and Fire Plans under SB 172:

- **“Detailed Accounting Report”**: Our office recommends treating the audited financial statements described above as the new detailed accounting report. We also recommend amending your summary plan description to provide that the detailed accounting report and administrative expense budget are available upon request from the Administrator.

- **“Administrative Expense Budget”**:

Prepared by: Administrator;
Due: Prior to beginning of the fiscal year (prior to October 1 for most plans);
Post: Not required to be posted, but required to be “made available” to the plan sponsor and plan membership;
Required by: Section 175.061(8)(a)1 and 185.05(8)(a)2, Florida Statutes.

Summary

All Florida governmental defined benefit plans are reminded of the new reporting compliance deadlines under SB 534, which are codified in Section 112.664, Florida Statutes, and Chapter 60T-1.0035, Florida Administrative Code. In particular, your 112.664 Compliance Report is due 60 days after approval of this year's actuarial valuation (or was due on June 29 for plans who approved their valuations prior to April 29). Our office is available to answer any questions. We thank Klausner Kaufman Jensen & Levinson for their important role in assisting our pension clients' compliance.

2. SUMMARY OF THE QUARTERLY SURVEY OF PUBLIC PENSIONS FOR 2015 Q1: For the 100 largest public employee pension systems in the country, cash and security holdings totaled \$3,397.8 billion in the first quarter of 2015, surpassing the all-time

high of \$3,365.4 billion set in the second quarter of 2014. According to the U.S. Census Bureau Quarterly Survey of Public Pensions compared to the same quarter in 2014, assets for these major public pension systems increased 5.0% from \$3,237.5 billion. This increase in assets is due to positive earnings, which totaled \$78.2 billion in the first quarter of 2015. Earnings increased year-to-year 5.2% from \$74.4 billion in the first quarter of 2014. Corporate stocks had a quarter-to-quarter increase of 2.8%, from \$1,218.0 billion to \$1,252.4 billion in the first quarter of 2015. Corporate stocks experienced a year-to-year increase of 14.3% from \$1,095.8 billion in the first quarter of 2014. Corporate stocks comprised over a third (36.9%) of the total cash and security holdings of major public pension systems for the current quarter. Corporate bonds had a quarter-to-quarter increase of 1.4%, from \$401.6 billion to \$407.4 billion in the first quarter of 2015. Corporate bonds year-to-year increased 17.5% from \$346.7 billion in the first quarter of 2014. Corporate bonds comprised less than an eighth (12.0%) of the total cash and security holdings of major public pension systems for the current quarter. International securities had a quarter-to-quarter increase of 1.9%, from \$612.8 billion to \$624.6 billion in the first quarter of 2015. International securities year-to-year decreased 8.0% from \$679.2 billion in the first quarter of 2014. International securities comprised less than a fifth (18.4 %) of total cash and security holdings of major public pension systems for the current quarter. Federal government securities had a quarter-to-quarter decrease of 2.1%, from \$285.7 billion to \$279.7 billion in the first quarter of 2015. Federal government securities year-to-year increased 1.0% from \$276.8 billion in the first quarter of 2014. Federal government securities comprised less than a tenth (8.2%) of the total cash and security holdings of major public pension systems for the current quarter. Government contributions had a quarter-to-quarter decrease of 2.7%, from \$24.7 billion to \$24.1 billion in the first quarter of 2015, and a year-to-year decrease of 5.2% from \$25.4 billion in the first quarter of 2014. Employee contributions had a quarter-to-quarter decrease of 4.1%, from \$10.6 billion to \$10.2 billion in the first quarter of 2015, and a year-to-year decrease of 5.1% from \$10.7 billion in the first quarter of 2014. Government contributions to employee contributions had a 2.4 to 1 ratio this quarter -- government contributions comprised 70.2% and employee contributions comprised 29.8% of total contributions. Total payments totaled \$61.8 billion, decreasing 0.9% from \$62.3 billion last quarter, and a year-to-year

increase of 3.7%, from \$59.5 billion in the first quarter of 2014.

3. SLGE RELEASES SURVEY ON 2015 WORKFORCE TRENDS IN STATE AND LOCAL GOVERNMENT: The Center for State and Local Government Excellence has released its survey report, *State and Local Government Workforce: 2015 Trends*. The electronic survey was recently conducted among members of the International Public Management Association for Human Resources and the National Association of State Personnel Executives. Of the 336 respondents who participated in the survey, 78% represented local governments, 17% represented state governments, and 5% represented the federal government or non-governmental sectors. In 2015, the most significant trends include: 1) state and local governments continue to hire employees for the second consecutive year; 2) recruitment and retention continue to be challenges; and 3) pressure on benefits continues, particularly with regard to health care. Key findings include:

- 73% of the respondent governments reported hiring workers in 2014;
- 54% hired more workers than in 2013;
- 42% hired contract or temporary workers;
- 47% had more retirements in 2014 than in 2013; and
- 13% reported their employees accelerated their retirement.

According to the survey, 53% of the respondent governments modified their health care benefits for active and retired employees including:

- 43% shifted more of the health care costs from employers to employees; and
- 24% established wellness programs.

Also over the past year, 29% of the respondent governments changed their retirement benefits, including:

- For newly hired employees: 20% increased employee contributions to their pension plans; 10% decreased pension benefits; and 9% increased pension eligibility requirements.
- For current employees: 19% increased current employee contributions to pension plans; 8% increased employer contributions to pension plans; and 4% reduced or eliminated cost-of-living adjustments.

In the future, the majority of respondents are concerned regarding: 1) recruiting and retaining qualified employees; 2) succession planning; 3) staff development; 4) competitive compensation packages; 5) retaining staff for core services; 6) employee morale; 7) employee engagement; 8) public perception of government workers; 9) reducing employee health care costs; and 10) dealing with increased employee workloads. (June 2015).

4. ON SECOND THOUGHT...MAYBE THEY WERE WRONG?:

“There is not the slightest indication that nuclear energy will ever be obtainable. It would mean that the atom would have to be shattered at will.” – Albert Einstein, 1932.

5. APHORISMS: Money cannot buy happiness but somehow it is more comfortable to cry in a Cadillac than in a VW.

6. TODAY IN HISTORY: In 1815, first natural gas well in U.S. is discovered.

7. KEEP THOSE CARDS AND LETTERS COMING: Several readers regularly supply us with suggestions or tips for newsletter items. Please feel free to send us or point us to matters you think would be of interest to our readers. Subject to editorial discretion, we may print them. Rest assured that we will not publish any names as referring sources.

8. PLEASE SHARE OUR NEWSLETTER: Our newsletter readership is not limited to the number of people who choose to enter a free subscription. Many pension board administrators provide hard copies in their meeting agenda. Other administrators forward the newsletter electronically to trustees. In any event, please tell those you feel may be interested that they can subscribe to their own free copy of the newsletter at <http://www.cypen.com/subscribe.htm>.

9. REMEMBER, YOU CAN NEVER OUTLIVE YOUR DEFINED RETIREMENT BENEFIT.

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