

RETIREMENT REFORM PROPOSALS  
FOR  
JACKSONVILLE POLICE AND FIRE PENSION FUND

The Jacksonville Retirement Reform Task Force (the “Task Force”) respectfully submits these proposals to Mayor Alvin Brown, Council President William Gulliford and Administrator John Keane, for reform of the Jacksonville Police and Fire Pension Fund (the “Fund”):

The proposals focus on four areas of concern: (i) Governance, (ii) the Fund’s Investment Authority, (iii) Reducing the Unfunded Actuarial Accrued Liability, and (iv) Retirement Benefit Design. The first three areas can be reformed by agreement of the City and the Fund, which the Task Force strongly urges. However, given the orders contained in the Summary Final Judgment entered on December 31, 2013, by Waddell A. Wallace, III, Circuit Judge, in Case Number 16-2013-CA-5799 in the Circuit Court for Duval County, Florida (the “Circuit Court Decision”), retirement pension design, according to the Circuit Court Decision, is subject to collective bargaining and cannot be the subject of a separate agreement between the City and the Fund. Therefore, the Task Force’s recommendations as to retirement pension design are recommendations to the City, to be negotiated in collective bargaining with the bargaining agents of the police and fire employees of the City, or their representatives.

The recommendations of the Task Force are as follows:

Governance

Recommendations for governance reforms include:

1. Professionalized Financial and Investment Advisory Committee. The Consolidated Jacksonville Charter (the “Charter”) shall be amended to require the Jacksonville Police and Fire Pension Fund (the “Fund”) to appoint a financial and investment advisory committee (the “Financial Advisory and Investment Committee”) of five (5) persons who will be charged with advisory oversight to the Board of Trustees of the Fund (the “Board”) on financial matters, investment strategy and the selection of outside financial services providers, including investment managers and advisors. Financial Advisory and Investment Committee members will serve in a volunteer capacity and be financially sophisticated professionals who bring expertise to the Fund’s actuarial needs, fiscal operations and investment practices. Criteria for service will include knowledge of and experience and familiarity with portfolio and/or pension fund management, institutional investment and fiduciary responsibilities. Candidates will be residents of Duval, Nassau, St. Johns, Baker or Clay County, Florida. Financial Advisory and Investment Committee members will be nominated for service by the Board and confirmed by majority vote of the Jacksonville City Council. The term of office will be three years, with the possibility of two additional consecutive three-year terms. After a break in service of one year, a

person will become eligible again for service on the same basis. The initial terms will be staggered, with ~~one person to serve an initial term of one year,~~ two persons to serve initial terms of two years and ~~two~~three persons to serve initial terms of three years. The Financial Advisory and Investment Committee shall annually elect a chair and secretary from its members.

Financial Advisory and Investment Committee members shall be deemed to be fiduciaries of the Fund and required to undergo periodic fiduciary training as required by the Board and, together with members of the Board, shall submit to the proper authority the "Form 1" annual public conflict disclosure statements as do members of other public agencies and boards. Any business organization or affiliate thereof that is owned by or employs a member or a spouse, child or sibling of a member of the Financial Advisory and Investment Committee shall not directly or indirectly contract with or provide services for the investment of Fund assets during the time of such member's service on the Financial Advisory and Investment Committee or for two (2) years thereafter.

For general strategy matters (*e.g.*, asset allocation, accounting determinations, risk management, actuarial assumptions, etc.) the Board of the Fund will review decisions with the Financial Advisory and Investment Committee, solicit input and retain final authority. For the selection of individual money managers and other outside financial, actuarial and accounting service providers, the Financial Advisory and Investment Committee will have broader powers, including the screening of recommended providers and the ability to reject recommendations, by majority vote, before the recommendations are brought to the Board for action. In the process, the Board and Fund staff will prepare memoranda on questions raised by the Financial Advisory and Investment Committee. A rejection of a particular recommendation by majority vote of the Financial Advisory and Investment Committee shall be final with respect to such recommendation. If a recommendation is positive, the Board will review the recommendation and take final action. The Financial Advisory and Investment Committee's work will be subject to Sunshine and Public Records laws. The effect of these proposals would be to institutionalize a double-veto system so as to add protections for Fund financial decision making.

2. Ethics, Certification and Disclosure Requirements for Investment Managers and Advisors. The City and the Board intend to assure that investment managers and advisors employed by the Fund will reflect the highest ethical standards and investment performance, and that they will report regularly to the Financial Advisory and Investment Committee and the Board on matters within their engagement. Consequently: any investment manager or advisor of the Fund who has discretionary authority for any investment of the Fund shall agree to certify and/or disclose annually to the Financial Advisory and Investment Committee and to the Board, no later than the January 31 following the previous calendar year, that:

Certifications:

- (a) The investment manager or advisor serves as a fiduciary to the Fund, and all investment decisions made by the investment manager or advisor on behalf of the Fund are made in the best interests of the Fund and not made in a manner to the advantage of such investment adviser or manager, other persons, or clients to the detriment of the Fund;
- (b) Appropriate policies, procedures, or other safeguards have been adopted and implemented by such manager or advisor to ensure that relationships with any affiliated persons or entities do not adversely influence the investment decisions made on behalf of the Fund; and
- (c) A written code of ethics, conduct, or other set of standards, as submitted to the Financial Advisory and Investment Committee and the Board and acceptable to them, governs the professional behavior and expectations of owners, general partners, directors or managers, officers, and employees of the investment adviser or manager, has been adopted and implemented, and that such standards are effectively monitored and enforced.

(d) Policies of the Fund concerning prohibited business relationships among family members and other related parties have been complied with.

Disclosures:

~~(d)~~(e) Any known circumstances or situations that a prudent person could expect to create an actual or potential conflict of interest, including specifically (i) any material interests in or with financial institutions with which officers and employees conduct business on behalf of the Fund, and (ii) any personal financial or investment positions of the investment manager or advisor that could be related to the performance of an investment program of the Fund over which the investment advisor or manager has discretionary investment authority on behalf of the Fund; and

~~(e)~~(f) All direct or indirect pecuniary interests that the investment manager or advisor has in or with any party to a transaction with the Fund if the transaction is related to any discretionary investment authority that the investment manager or advisor exercises on behalf of the Fund.

3. Use of Office of General Counsel. The Fund shall acknowledge that, as provided in Section 7.202 of the Charter, and subject to its terms, the opinions of the City's General Counsel are binding upon the City, the Mayor, Council and all departments, boards and independent agencies, including the Fund. While the Charter gives the Fund the authority to employ separate counsel, the Fund will ordinarily use the Office of General Counsel for its ordinary and customary legal needs. The Fund will consult with the General Counsel should it find that the Fund needs additional or separate counsel for

specific purposes, ~~and~~. If 4 of the 5 trustees of the Fund so vote, the Board ~~would~~will be ~~empowered~~authorized to employ outside counsel with respect to any matter, provided that the counsel employed and the fee arrangement with such counsel will be subject to the approval of the General Counsel. The General Counsel has indicated that she approves the engagement on pension-related issues of Klausner, Kaufman, Jenson and Levinson (“Special Counsel”), who are currently counsel to the Fund, for pension and retirement issues. The General Counsel has further indicated that she is familiar with and approves the fee arrangement that the Fund has with the Special Counsel. The General Counsel and the Special Counsel will consult regularly to assure that the legal needs of the Fund are being competently and efficiently handled for a reasonable fee.

4. Term Limits for Fund Board Members. Trustees of the Fund will serve a maximum of ~~three~~two consecutive four-year terms, but will be eligible for service after the ~~third~~second full four-year term following one year of nonservice. Such term limits will start with new Board elections and appointments to be effective as of October 1, 2014, with the terms of office staggered so as to preclude election of all Trustees at the same time (the initial terms of either the police or fire elected member and of one of the three remaining members to be two years and the initial terms of the remaining members to be four years).
5. Qualifications for Council-appointed Trustees and the Fifth Trustee. Persons appointed to serve as Trustees of the Fund by the Council, and the fifth member selected by the four Trustees of the Fund, shall be persons with governance experience, institutional investment experience, community experience and wisdom, or comparable professional training, knowledge, and expertise.
6. Actuarial Standards, Transparency and Disclosure. The assumed annual actuarial rate of return will remain at \_\_\_\_% through the term of the “2014 Agreement”, defined below, unless otherwise agreed by the City and Fund, or as otherwise required by applicable law. An actuarial valuation of the Fund shall be performed by the Fund’s actuary annually, as of October 1 of each fiscal year. The annual actuarial valuations shall be completed and delivered to the Board, the Financial Advisory and Investment Committee, the City’s Director of Finance and to the City Council Auditor promptly upon completion but in no event later than ~~February~~ 190 days after the end of each fiscal year. Actuarial analysis and reporting by the Fund will utilize the following standards in addition to other standards governing their work:
  - a. Annual ARC calculations based on most recent actuarial assumptions;
  - b. Alternative funding scenarios based on variable investment performance in addition to the base case, that extend to future years and incorporate volatility;
  - c. The latest “experience ~~study~~studies” prepared by the Fund’s actuary;
  - d. Consistency in actuarial methods;
  - e. Accrual method: Entry Age Normal (EAN);
  - f. Annual normal cost disclosure;
  - g. Actuarial practices will be consistent from year to year unless changed through an “Experience Study” or by a public decision by the Financial Advisory and

Investment Committee and the Board or unless necessary for compliance with applicable laws or regulations;

- h. Unfunded liabilities will be amortized as separate annual bases over closed 30-year periods; and
- i. Clear and transparent disclosure of actuarial and financial matters,, including distributing to City's Chief Financial Officer and City Council Auditor, and prompt posting on the Fund's website, the Fund's quarterly investment return reports showing results net of fees and comparisons to assumption and benchmarks of the Fund, and to results of comparable pension funds.

In addition to the foregoing regarding the standards for actuarial and financial studies, on or before 6090 days after the end of each fiscal year of the Fund, currently September 30 of each year, commencing with the end of the 2014 fiscal year of the Fund, the Board shall prepare ~~an~~annual financial statementsand submit them electronically or as otherwise agreed to the Mayor, City Council President, City Director of Finance and City Council Auditor, Treasurer of the Fund and the Florida Department of Management Services (the "Department") in format(s) prescribed by the Department. The financial statements will:

- j. ~~Annual financial statements that are~~ Be in compliance with the requirements of the Government Accounting and Standard Board's Statement No. 67, Financial Reporting for Pension Plans and Statement No. 68, Accounting and Financial Reporting for Pensions, using RP-2000 Combined Healthy Participant Mortality Tables, by gender, with generational projection by Scale AA;
- k. ~~Annual financial statements similar to those required under subparagraph (i), but which use an~~ Report funding status and contribution rates using both the current assumed rate of return on investments and an assumed discount rate that ~~are equal to~~ is 200 basis points less than the Fund's assumed rate of return;
- l. Provide information indicating the number of months or years for which the current market value of assets of the Fund are adequate to sustain the payment of expected retirement benefits as determined in the Fund's latest valuation ~~and under the financial statements prepared pursuant to subparagraphs (i) and (j);~~; and
- m. Provide information indicating the ~~recommended~~ projected assets, liabilities and actuarially required contributions to the Fund over the next 30 years based on the Fund's latest ~~valuation, and the contributions necessary to fund the Fund based on financial statements prepared pursuant to paragraphs (i) valuations and (j), stated as an annual dollar value and a percentage of valuation payroll~~ actuarial assumptions.

In addition to the above information, the Fund will also make available on a timely basis on its website prior actuarial studies and reports in order that accurate comparisons can be made, minutes of its meetings for the past 3 years on an adjusting basis, and copies of all reports or studies commissioned by the Fund that are matters of public interest, including experience studies and investment performance reports.

7. Selection of Future Administrator/Chief Investment Officer. The selection of any future Plan Administrator/Chief Investment Officer shall be governed by a professional process subject to Florida law in which the candidate will be selected with the assistance of an executive search firm retained by the Board. In addition to the requirements of applicable law, candidates ~~should~~will be required to have a minimum of five years of pension administration or institutional investment experience, expertise in the oversight of investment portfolios, and a degree in finance, economics, accounting or a related area of study from an accredited university, or comparable training and experience: CPA, JD, MBA or CFA degrees/certifications will be preferred. Comparable experience in directing the activities of a retirement system will also be preferred.
  
8. Future Administration of the Fund. Upon the selection of the next Administrator/Chief Investment Officer of the Fund, the aggregate compensation of the Fund's Administrator/Chief Investment Officer shall be determined following a market analysis of comparably sized public pension plans. The Fund shall also place any future Administrator and/or senior management employee in a defined contribution retirement plan with the Fund's contribution limited by applicable law. The current Senior Staff Pension Plan shall close on or before September 30, 2014, and thereafter no further benefits thereunder will accrue. Benefits will be distributed to Senior Staff Pension Plan participants after closure of the Plan as if such participants had been enrolled in the Florida Retirement System Special Risk Plan.
  
9. Status of the Thirty Year Agreement. The City and the Fund will agree that the agreement they entered into effective as of October 1, 2000, expiring on September 30, 2030, will either be amended and restated, or ~~terminated and~~ a new agreement ~~will be~~ entered into, (either being herein referred to as the "2014 Agreement"). The 2014 Agreement shall terminate on the earlier of (i) September 30, 2024, or (ii) the date upon which the Fund reaches a funded ~~ratio~~ratio of 80%, that is, the actuarial value of assets divided by the actuarial accrued liability equals 80% or more (the "Agreement Termination Date"). Because of the Circuit Court Decision, as it presently stands, the 2014 Agreement will not be concerned with the Task Force's recommendations concerning pension benefits for police and fire employees. The 2014 Agreement shall incorporate the recommendations of the Task Force that concern governance, funding the unfunded actuarial accrued liability (including the contributions required of the City) and the Fund's investment authority. In the 2014 Agreement the City and the Fund shall agree, *inter alia*, that until the Agreement Termination Date the performance of both the City and the Fund will be monitored and the provisions of the 2014 Agreement shall be enforced by a special master (the "Master") whose appointment will be requested of the United States District Court for the Middle District of Florida in Case No. 3:13-cv-121-J-34MCR, now pending in the Middle District Court of Florida (the "Federal Civil Action"), it being agreed by the City and the Fund that the Federal Civil Action should continue at least until the Agreement Termination Date in order to permit such monitoring and enforcement. The Master will examine and certify on a ~~quarterly~~semi-annual basis whether: (i) the City is paying its contributions to the Fund on a timely basis in accordance with the terms of the 2014 Agreement; (ii) whether the Financial Advisory and Investment Committee is performing the functions for which it was created and

whether its recommendations are being received and acted upon by the Board in the manner contemplated by the 2014 Agreement ; (iii) whether the Fund’s investment performance is meeting its assumptions and benchmarks withwithin a limited and acceptable amount of variability; (iv) ~~whether the Fund’s funded ratio and the Fund’s unfunded actuarial accrued liability (the “UAAL”) as of the end of the pertinent calendar quarter, compared to such funded ratio and UAAL as of the date of the most recent annual actuarial valuation, is increasing or decreasing;~~ and (v) whether the City and Board are each exercising transparency in the conduct of their affairs concerning the Fund and its administration; and (v) such other matters as may be reasonably requested by either the City or the Board, or as may be deemed necessary by the Master. The City and the Fund agree that they will request the United States District Court to appoint the Honorable Harvey E. Schlesinger, United States District Judge, as the initial Master. It is intended that reports shall be made to the Master on a quarterlysemi-annual basis, in public proceedings, and that copies of such reports shall be made available to the public at large promptly upon filing.

10. Return to Collective Bargaining. As contemplated by the Circuit Court Decision, the determination of retirement benefits for police and fire employees shall immediately be resumed through the collective bargaining process as defined in Chapter 447, Florida Statutes, and other applicable law.
11. Consultation among Parties. The City and the Fund shall consult on an ongoing basis related to their performance under the 2014 Agreement, public records, open government issues and other matters. Senior representatives of each should meet monthly to discuss matters of importance to either, and both parties should proceed in a spirit of good faith and cooperation. In that regard, the parties should make available to each other on a continuing basis, all information that is necessary to assure their mutual understanding and success. The City and the Fund shall endeavor to work harmoniously to enforce their respective obligations hereunder, under the 2014 Agreement, and applicable Charter, statutory and ordinance provisions, and to avoid obstruction of their respective rights.
12. Expression by Charter and Ordinance. The City and the Fund shall agree to articulate the agreements herein by supporting and promulgating the 2014 Agreement and by supporting and promulgating the necessary revisions to the Charter and Ordinance Code that will accomplish their intentions as expressed in the recommendations of the Task Force.

### Investment Authority

Recommendations concerning the investment power and authority of the Fund are:

1. Powers to be Restated. The Fund should have the investment authority as stated below:

See Exhibit “A”

2. Amendment of Charter. The investment power and authority of the Fund shall be incorporated into the Charter for permanence.

#### Reducing the Unfunded Actuarial Accrued Liability

Recommendations concerning the reduction of the Unfunded Actuarial Accrued Liability are:

#### Future Design of Retirement Benefit Plan

Recommendations concerning the design of the retirement benefits for Jacksonville Police and Fire personnel are:

EXHIBIT "A"

Investment Authority

The Board shall be authorized to invest and reinvest the assets of the Pension Fund in:

TO BE INSERTED BASED UPON LEGISLATION PENDING BEFORE THE CITY COUNCIL AND A FULL STATEMENT INCORPORATED.

# Summary Report

January 20, 2014 10:27 AM

	Document	Location
Original	Retirement Reform Task Force Recommendations Task Force Draft 1 (10714)_1833886_1	RTLAW-IMAN-CMS:JAX (1833886,1:)
Revised	Retirement Reform Task Force Recommendations Task Force Draft 2 (102114)_1835378_1	RTLAW-IMAN-CMS:JAX (1835378,1:)

	Number of Changes	Markup	
	Insertions	43	<del>Sample Text</del>
	Deletions	28	<del>Sample Text</del>
	Moved from	0	<del>Sample Text</del>
	Moved to	0	<del>Sample Text</del>
	<b>Total</b>	<b>71</b>	