




# CITY OF ORLANDO

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## MEMORANDUM

To: City of Orlando Employees, Retirees and Beneficiaries

From: Rebecca W. Sutton, Chief Financial Officer 

Date: October 10, 2008

Subject: Status of the City of Orlando Defined Benefit Pension Plans

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The purpose of this memo is to respond to questions and concerns that have been presented to us from our employees, retirees and their beneficiaries regarding the health of the City's defined benefit pension plans after the past few months of economic stress and the significant losses felt in the stock market. These concerns are valid and it is responsible of members to question the financial status of the Plans, particularly in times like these.

The City's three defined benefit pension plans are managed by a team of professional investment managers along with one of the country's leading investment consulting firms, the nation's largest custodian bank, actuaries, attorneys, three very capable Boards of Trustees and Finance Department staff with years of experience in pension plan administration. The Plans are reviewed no less frequently than quarterly by the Boards while City staff provides daily oversight of the Plans' investments in collaboration with the Plans' investment managers, custodian and investment consultant.

The Plans' assets are invested in conservative and diversified portfolios that seek long term stable returns. To that end, the asset mix of the Plans has been established so that dramatic swings in one asset class such as stocks are dampened somewhat by exposure to other assets classes such as bonds.

While the Plans will certainly feel the effects of the current severe economic stress, the Plans are well positioned to absorb any resulting losses. In fact, the Plans have withstood similar losses in the stock market before, most recently during the period after the September 11, 2001 attacks and the economic recession and stock market losses that followed over the next two years. The Plans quickly recovered after this temporary setback and were very well funded as of the last actuarial valuation. We expect a similar recovery in the Plans' investment returns this time around.

The impact of this year's economic troubles will depend on how long this current downturn lasts. The Plans' actuaries use funding formulas that smooth investment returns over several years. This results in investment earnings in good years offsetting the losses from bad years. Therefore if this economic downturn leads to several years of investment losses, the impact to the Plans will be more profound than if we experience a quick recovery in the next couple of years, as was the case after the 2001-2003 economic downturn. Again, though, we expect that the Plans will weather this current storm well.

The City remains committed to funding the pension funds responsibly and will continue to do what is necessary to protect the members of the Plans.