TOWN OF PALM BEACH

Office of the Town Clerk

REPORT OF THE FINANCE AND TAXATION COMMITTEE MEETING HELD ON THURSDAY, NOVEMBER 19, 2015

I. CALL TO ORDER AND ROLL CALL

The Finance and Taxation Committee meeting was called to order on Thursday, November 19, 2015, at 2:00 p.m., in the Emergency Operations Center. On roll call, Chairman Pucillo and Committee Member Kleid were present.

II. PLEDGE OF ALLEGIANCE

Chairman Pucillo led the Pledge of Allegiance.

III. COMMUNICATIONS FROM CITIZENS - 3 MINUTE LIMIT PLEASE – *None*

IV. APPROVAL OF AGENDA

Motion was made by Committee Member Kleid, and seconded by Chairman Pucillo, to approve the Agenda. On call for a vote, the motion carried unanimously.

Chairman Pucillo provided an overview of the purpose of the meeting, the Pension Plan's unfunded liabilities, the projected 2015 investment income loss, the combining of the pension funds, and how the Plan gets funded.

V. DISCUSSION OF SHORT FALLS TO EXISTING PENSION OBLIGATIONS

William P. Hanes, Pension Administrator, Jane Struder, Director of Finance and Brad Armstrong, Gabriel, Roeder, Smith and Company

(Clerk's Note: The Following Two Items were Discussed Simultaneously.)

a. Discussion of current returns on invested funds.

b. Possible changes to assumed rate of return to address shortfalls to funding.

Pension Administrator Hanes spoke regarding investment income losses, amount of the unfunded liabilities, retiree payroll, cash flow, market valuation of assets, actuarial considerations, and smoothing.

Actuary Brad Armstrong spoke regarding the reasons for smoothing the actuarial valuation of assets and amortizing gains and losses over 30 years.

Discussion ensued regarding the calculation of the 7.5% rate of return, anticipated changes to the Plan funding ratios, whether there is a problem and what we should do, having a credit worthy Plan sponsor, impacts of changing the rate of return, the maturity of the Plan, how the Plan compares to other municipalities, the state of the Plan, whether the Town should consider lowering the rate of return or changing investment strategies, the Retirement Board of Trustees, risk tolerance, and the 7.5% rate of return being reasonable.

Council Member Wildrick spoke regarding the money in the Plan, what is being paid out, ways to put money into the Plan, and cash flow problems with the Plan.

Discussion ensued regarding the unfunded liability being amoritized over 30 years, when the matter should be addressed, asset allocation modeling, projections, returns over the last few years, the Plan's returns compared to the Florida Retirement System's (FRS) returns, differences between the Town's Plan and the FRS Plan, and having the Retirement Board Trustees take a closer look at asset allocation.

David Rosow, 1460 N. Lake Way, spoke regarding investment and administrative expenses for the Plan, charts he had prepared showing average returns for various markets, the Town's returns compared to them, not fooling around with the discount rate, this being a long-term Plan and not micro-managing it year to year, a 7.5% rate of return being reasonable with the right investment strategy, and the need to focus on the investment strategy and not the discount rate.

Unidentified Speaker, spoke regarding the various stock market indices and casting aside use of the Russell 2000.

Unidentified Speaker, spoke regarding the Town's contributions and recent legislative changes regarding mortality schedules.

Discussion ensued regarding asset allocation, FRS returns, changing the assumptions gradually and reasonably, if they are changed, the consultants' advice to the Committee to continue to watch the rate of return instead of adjusting it, and future interest rate increases by the federal government.

VI. DISCUSSION OF CURRENT HYBRID PLAN

a. Effect on Public Safety Retention/Recruiting
Kirk W. Blouin, Director of Public Safety and Danielle Olson, Director of Human Resources

Director Blouin spoke regarding the Plan's effects on public safety retention and recruiting.

Discussion ensued regarding problems recruiting and turnover, losing command staff, competitiveness of the Town's pension benefits for public safety employees, what agencies the employees are leaving for, the assumption that other municipalities would follow the Town's pension changes, the early buy out retirements in 2008, the 2.75% minimum multiplier required for plans receiving Chapter 175/185 premium tax revenues, and the multipliers and contribution rates of other municipalities and the FRS.

David Rosow, 1460 N. Lake Way, spoke regarding the assumption that other municipalities would follow the Town's pension changes, years of experience of current personnel, DROP period length, and turnover increasing the deficit since newer employees have lower salaries and therefore make lower contributions.

Pension Administrator Hanes spoke regarding people taking their contributions with them when they leave the Town.

Mr. Rosow spoke regarding not being able to address the issue by just raising the multiplier and offered to meet with any interested parties to come up with recommendations.

Discussion ensued on the need for a consultant or a committee and possibly politicizing the issue by involving past Town Council members.

Committee Chair Pucillo requested that Staff provide any interested parties with whatever they need to assist the Committee in this matter.

Discussion ensued regarding whether the 4% discretionary Town contribution or the 2.47% employee contribution rate has a perceived value to public safety personnel.

Director Blouin spoke regarding other issues related to turnover, the number of agencies serviced by the Sheriff's Office, the issue employees have with the age at which they can start collecting benefits, and employees' preference for a defined benefit plan.

Jack McDonald, 44 Cocoanut Row, requested a compensation study and that the Town move forward as quickly as possible in this regard.

Council Member Wildrick clarified that he is interested in a comprehensive management study, not just a compensation study.

Attorney Linn spoke regarding the Chapter 175/185 premium tax revenue program requirements.

b. Potential Alternative Options

James Linn, Lewis, Longman and Walker, Jane Struder, Director of Finance, and Brad Armstrong, Gabriel, Roeder, Smith and Company

Discussion ensued regarding offering benefit options for employees to choose from, reallocating the 12% defined contribution funds to the defined benefit plan and how that would affect the multiplier and the age in which employees can begin drawing benefits, how much of the 63% pension benefit is going towards the legacy plan and how much is going towards the hybrid plan, the portion going to fund the unfunded liabilities, IRS requirements regarding contribution amounts, employee contributions under a new defined benefit plan, the minimum multiplier necessary to be competitive, calculating how much would need to be contributed in order to reach a 2.5% multiplier and allow public safety employees to begin drawing their benefits at age 60, use of Chapter 175/185 premium tax dollars, benefits and disadvantages of switching to the FRS Plan, what the contribution, multiplier, and age eligibility numbers would look like if the Town switched to the FRS Plan for all employees, what public safety employees are saying in exit interviews, differences in plan perceptions between public safety and general employees, and concerns regarding switching general employees to FRS.

It was the consensus of the Committee to request the following information:

- **What would the multiplier be if the 12% defined contribution funds were reallocated into the defined benefit fund and the benefit eligibility age was lowered to 60**
- **What additional contributions would be needed in order to raise the multiplier to at least 2.5% in the above scenario**
- **Ballpark additional contribution figures if the Town were to switch public safety employees to the FRS Plan**

VII. <u>SCHEDULING OF NEXT MEETING</u>

It was the consensus of the Committee to request that the next meeting be scheduled for shortly after the December 2015 Town Council meetings.

VIII. ANY OTHER MATTERS – *None*

IX. ADJOURNMENT

There being no further business, the Finance and Taxation Committee Meeting of Thursday, November 19, 2015, was adjourned at 4:17 p.m.

APPROVED:

Michael J. Pucillo
Chairman

ATTEST:

Cheryl A. Somers

~~Susan A. Owens, MPA, MMC~~ Cheryl A. Somers
Acting Town Clerk

1/12/16
Date