Town of Palm Beach Retirement System
Board of Trustees
Meeting Minutes
November 16, 2012

I. Call to Order

Chairman Snow called the meeting to order at 9:05 am at the Town of Palm Beach Town Hall Chambers, 360 South County Road, Palm Beach, Florida 33480.

In Attendance:

TRUSTEES:
Raymond Snow, Chairman
Gerald Goldsmith, Chairman Pro Tem
James McCartney Wearn, Secretary
Peter Elwell, Town Manager
Wilbur Ross
Alvin Parven
Brett Madison
Michael Lynch
Jayson French

ALSO PRESENT:
William P. Hanes, Pension Administrator
Jane Struder, Finance Director
James W. Linn, Board Attorney
Brad Armstrong, GRS
Alexia Varga, NHM
Walter Maxwell, Rampell & Rampell
Lawrence Marino, Segal Rogerscasey
Rosemary Guillette, Segal Rogerscasey
Fernando C. DeAguero, ICMA
Steven Feigelis, ICMA

II. Approval of Agenda

Mr. Ross made a motion to approve the agenda. Mr. Elwell seconded the motion. The trustees unanimously approved the agenda.

III. Comments by Trustees

Mr. Lynch stated that he will be resigning from the board.

Mr. French stated that he will be resigning from the board as he will be leaving the Town's employment.

Chairman Snow discussed his presentation before the Town Council during the October meeting and reported several updates on works in progress, and matters of the investment performance. The Mayor and Town Council had expressed pleasure with the Board's progress. Mr. Elwell concurred with Chairman Snow's comments.

IV. Approval of Minutes August 17, 2012

Mr. Ross made a motion to approve the minutes. Mr. Goldsmith seconded the motion. The trustees unanimously approved the minutes.

V. Financial Report

A. Alexia Varga, Nowlen, Holt, & Miner

Ms. Varga presented the draft report for the Police Officers' plan regarding the compiled financial statement for the twelve months ending September 30, 2012. The net assets held in trust for the pension benefits are $58.1 million. Mr. Goldsmith requested that a Cash Accounting Sheet be included.

Mr. Wearn made a motion to accept and file the report for audit, and to express appreciation to Ms. Varga and Nowlen, Holt, and Minor for the good work that have done for the plan. Mr. Elwell seconded the motion. The trustees unanimously approved the report.

B. Walt Maxwell, Rampell & Rampell

Mr. Maxwell presented the draft compilation report for the Firefighter's fund as of September 30, 2012.

Mr. Maxwell reported from the statement of plan net assets that total cash and cash equivalents equal $684 thousand, a decrease of about $6.7 million from September 2011 due to a re-allocation of investments. He stated that there was 6.9 in cash that we did not have in 2011. Total assets were $60.6 million, an increase of $5.2 million from the previous year. A draft is being issued for the prepaid Town contribution for $620 thousand, which could change. Rampell & Rampell is waiting on guidance on what the adjustment may be. Share accounts in the Share Accounts Payable represents the amount of $592 thousand, and has been moved to ICMA through Firefighter transfers through year end. Approximately $281 thousand has been transferred in the last year and another approximately $83 thousand is pending as a transfer.

Mr. Hanes asked Mr. Maxwell to explain the money in the Firefighter share accounts, and noted that the law was written to include a vesting waiver that applied to Firefighters rights to transfer share monies.

Mr. Elwell clarified for the record that the cash flow challenge and allocation of monies is a real issue and is something that should be addressed. He noted that the Board's obligations have not changed. He discussed that more pension withdrawals are taking place from the money that the Town has been holding on behalf of the employees, and what will be held in the ICMA accounts instead of at the plan going forward. He stated that it is a movement of money from one place to another. He added that the Board's preparations and fiduciary responsibilities are to have enough money set aside to pay pension benefits that are currently owed. Mr. Hanes discussed the impact on the ability to achieve an 8% return with equity returns serving as the investment alpha, when the same class of assets are being liquidated to pay pension benefits.

Mr. Maxwell reported that there were $56.6 million in net assets at the end of September 30, 2012.

Mr. Wearn made a motion to accept and file the report for audit. Mr. Goldsmith seconded the motion. The trustees unanimously approved the report.

C. Jane Struder, Finance Director

Ms. Struder presented the following information regarding the Financial report for the General Employees fund:

As of September 30, 2012, unaudited figures included total cash and cash equivalents at $796,420, with receivables at $154,492, and total investments at $72 million. The total assets were $73 million, total liabilities were $746 thousand, and the net assets held in the pension trust were $72.57 million. The General Employee retirement fund will require a transfer of $1.2 million during the next quarter to pay benefits and expenses.

Mr. Wearn made a motion to accept and file the report for audit. Mr. Ross seconded the motion. The trustees unanimously approved the report.

VI. Actuarial matters of consideration, Brad Armstrong, GRS

Mr. Armstrong agreed and confirmed comments made by Mr. Elwell and Mr. Maxwell indicating that the Firefighters' share account money is not an additional liability, but are assets already reduced through the allocation to individual accounts.

Mr. Armstrong discussed the matter of allocation of investment earnings between the groups at the request of Ms. Struder, and stated that this is the first fiscal year in over 10 years when the investment income is not allocated by group. He stated that the funds will be pooled going forward.

Mr. Armstrong referred to a November 8, 2012 handout to the trustees entitled "Changes in Market Values" that was included in the Board packet. He provided an explanation and requested the Board's input and insight in regards to a fair allocation of costs and investment income to all three groups. He discussed that he plans to allocate investment income according to weightings as illustrated toward each group. He noted that the weighting will also apply to investment expenses.

Mr. Goldsmith asked what the funded ratio was for each group. Mr. Armstrong stated that the General Employees fund was at 90%, the Police fund rounds to 88%, and the Fire fund rounds to 81%. However, he commented that if the assumptions change to an 8% rate of return and a 3.5% inflation rate that each group would be approximately 9% less funded. Mr. Elwell asked if this method was to be used to identify the distribution as a baseline that would be used next year and revisited from time to time to remain calibrated, or is it to be used as a distribution that will remain fixed over time because it reflects the entering assets that are contributed to the new consolidation fund?

Mr. Armstrong explained that it would only be performed once each year. Mr. Elwell stated that to be wise, but expressed his concern that over time there could be a major shifting in Town government functions and makeup which he believes could cause disproportion allocation among the three funds. Mr. Elwell continued that while the proposed allocation will be based on the average assets each year, the change in assets could very well be driven by the number of employees within the groups and the demographics of those participating in the plan. He suggested that there should be a methodology built into this process that will allow changes in proportion to employees participating in the retirement system. Mr. Armstrong reiterated his intent that the board review the method of allocation annually. Mr. Armstrong suggested that the unfunded liability could be pooled across the entire group rather than the three separate groups once the assets have been fully consolidated. Mr. Hanes discussed that the proposal is to determine an equitable way of allocating the assets that will pay the benefits promised the employees, but noted that the contractual obligations of the Town will remain the same. Mr. Elwell expressed concern that the Board should be able to identify across the plans the maintenance and cost and how to distribute among them according to the budget. He said the Board should be clear and specific on how it is done. Mr. Wearn suggested that the Board should go through the budget process first and then determine the best plan.

Mr. Armstrong discussed matters of the plans' historical use of the assumed 8% rate of return. He discussed the matter of a study dated October 4, 2012, that he had provided the trustees as requested by the Board that analyzes the impact of changing investment return assumption and the inflation rate assumption.. He noted that the current rate of return assumption is 8%, and the wage inflation assumption is 4.5%, resulting in a 3.5% real rate of return.

Mr. Ross asked if the common trend was 7.5% rate of return. Mr. Armstrong acknowledged that it is being seen a lot at that rate across the country. Mr. Goldsmith asked which would be the most conservative way in order to keep the plans funded. Mr. Ross discussed that the real rate of return would be the determining factor and that the rate of return is a guide for the budget each year. He added that being too conservative would not assist in determining the budget. He stated that staying in the middle with 7.5% would be more accurate return assumption, and that most consulting firms use 10-, 20-, and 30-year future performance goals, and noted that past performance is not indicative of future performance.

Mr. Wearn stated that a conservative approach would be to first reach about100% of funding based on the current assumption, and then to begin addressing in a step down fashion reducing the assumption while approaching the target that we consider to be the appropriate rate of assumption. Mr. Armstrong discussed with the trustees the history of all three funds, including the approaches used by industry plans. Mr. Elwell expressed general agreement with the other trustee's comments philosophically, but stated that the Board will need to seek information from Segal Rogerscasey.

Mr. Armstrong discussed the cash-out proposal for the Firefighters' plan requested by Mr. French, and noted that examples were included in his response. Mr. Ross stated his concern that the proposal used unrealistic assumptions, and if all employees participated then the Town would have to come up with immediate excessive funds. Mr. Armstrong stated that it would be approximately $26 million. There was no action taken by the trustees.

Mr. Hanes asked Mr. Armstrong to discuss service purchases. Mr. Hanes noted that members are interested in purchasing years of service under Plan B and discussed the issues involved with members purchasing years of service under Plan B and the associated contributions to the liability created under Plan A and Plan B. He discussed that he had expressed concerns with attorney Linn regarding a member taking a refund from plan B contributions after receiving the benefit it offers when the member is able to begin retirement in Plan A. Mr. Elwell asked for clarification that may be contained in the Ordinance.

Mr. Linn stated that a member should not be able to purchase additional service and apply to get the benefit sooner, and then take a refund of the payment amount in the plan for which he makes the purchase. Mr. Hanes addressed that the language should be placed on the form that allows the employee to retire sooner but not get a refund from the plan. Mr. Linn agreed and stated that he will revisit and reread the language of the Ordinance.

Mr. Ross stated that as he understood the issue, the Ordinance matter should be reviewed by the Town Council. Mr. Hanes clarified matters of the ordinance as it related to this case, and stated that he believed the language to allow for the purchase to be made in this way at the full actuarial cost. He stated that the benefit of an earlier retirement from Plan A is calculated at full cost paid by the member.

Mr. Ross made a motion to recommend the clarification to avoid the issue of the ability to double-dip. Mr. French seconded the motion.

Mr. Hanes stated that there are three members currently in this position. By virtue of the Board's motion, he will hold off on this calculation. Mr. Elwell explained that the intent was to protect the benefit fund for all and for an employee to be able to increase their benefit, not expedite retirement. There was further discussion to clarify the code.

Mr. Ross amended his motion to recommend the clarification to the degree of the discussion. Chairman Snow stated as a matter of administrative policy, it was a substituted motion. Mr. Elwell seconded the motion.

Mr. Ross discussed that the 3 members currently wanting to purchase service should be based on the intent of the Ordinance.

Mr. Elwell modified his earlier comment regarding this being an administrative matter and clarified that the Board can solidify the interpretation of the Ordinance. He observed that there is no diminished protection to the plan or participants as long as those who purchase credit are not able to take their contribution back after purchase of the service credit.

Mr. Hanes explained that the code is clear on this issue and that participants are and must pay the full actuarial cost for the additional service credit. He stated that there will be no rights to a refund from Plan B under these circumstances. He added that the current applications can be processed without concern, with the language added from what was offered by Mr. Linn.

The trustees unanimously approved the motion as amended.

Mr. Armstrong stated that the creation of Plan B benefits reduced the Town's contribution requirement and the Town has over-contributed. The monies are put back into assets, and will be amortized over 30 years. Mr. Armstrong made a recommendation to keep it in the pre-paid reserve to offer more flexibility to future budget constraints.

There was a 5-minute break.

VII. Quarterly Investment Report, Segal Rogerscasey, Lawrence Marino and Rosemary Guillette

Mr. Marino reviewed the quarterly investment report ending September 30, 2012 from Segal Rogerscasey. He discussed the Financial Market Conditions and performance over the quarter and the status of the tasks performed by the firm for the Town.

Mr. Marino reviewed Callan's Investment Measurement Service Quarterly Report for the quarter ending September 30, 2012. Callan's asset allocation performed at 19.36 gross for the fiscal year.

He noted that Prime Buchholz's asset allocation performance was 13.8 for Police and 13.9 for Fire..

Mr. Marino and Ms. Guillette both responded to an inquiry concerning the departure of a key officer at Artisan. Mr. Marino indicated that their firm (Segal Rogerscasey) had a research group on the ground at Artisan on Monday of this week to do a full due diligence, and stated that the key officer departure will not have an impact on the management of the assets.

Mr. Marino reviewed his Memorandum to the Board dated November 16, 2012. The Memorandum includes the timeline of upcoming tasks and tasks that have previously taken place in the transition. He discussed a portal that will be provided by their firm that will allow the trustees to sign on and review everything much like the material received in the Board packets.

Mr. Marino discussed coordinating a conference call with the ALM team on January 3 or 4, 2013. The call will include Chairman Snow and the Administrator Hanes. The delivery date of the ALM Study will change to the week of January 28 and that the presentation will be made at a special called meeting on February 6, 7, or 8. He clarified that the regular quarterly meeting will be separate from the ALM meeting.

The next Quarterly Meeting has been scheduled for February 15, 2013.

There was discussion regarding scheduling an early special called meeting, and the trustees agreed without motion for a special called meeting on Thursday, February 7, 2013 at 9:00 am that will be the first discussion of the ALM study.

The trustees agree without motion that there will be a special called meeting on Friday, March 8, 2013 at 9:00 am to develop new investment manager guidelines based on a new board approved asset allocation.

Mr. Linn asked if his presence is required at these meetings. Chairman Snow replied with his opinion that Mr. Linn should only be required to attend the regular quarterly meetings, and to be available by telephone if the Board has any questions during the other meetings. There was no objection noted.

Ms. Guillette discussed the "Current Portfolio Analysis." She discussed the voting of proxies, specifically regarding Artisan's proxy, and that Artisan cannot vote their own proxy. Mr. Hanes discussed various matters related to the process established with the Board voting of proxies. He stated that the Investment Policy Statements (IPS) that the legacy boards had established provided that the investment managers vote proxies for the board.

Mr. Hanes informed the board of a matter of a proxy request that was sent by an investment manager for board vote. He discussed that the time for a vote of the proxy had passed, but that it is the procedure as directed by the Investment Policy Statement (IPS) that investment managers vote the proxy for the best interest of the client. Mr. Wearn suggested that the board put in place a simple policy if the proxy comes back to the Board for proxy vote, and that the Chairman would make the decision. Chairman Snow discussed that a special meeting will be called by the Chairman if it was unusual or otherwise needed to be addressed by the full board. Mr. Wearn suggested the Board implement a policy statement in simple terms for the 2-step process. Mr. Goldsmith made the motion to follow as discussed. Mr. Wearn seconded the motion. Mr. Elwell opined that since the time for the board to vote the proxy had lapsed, the matter can be included at a later date. The board took no vote on the matter.

VIII. ICMA Report, Fernando C. De Aguero and Steven Feigelis

Mr. de Aguero introduced the new plan representative, Mr. Feigelis. The Board was asked if there were any questions regarding the new 401a plan. Mr. French stated that he met with ICMA representatives in regards to education and engagement of employees regarding their money and investments. Mr. Feigelis discussed his role in education and responsibilities to Town employees. The report provided by ICMA includes the number of participants and total assets, as well as a breakdown by age. Chairman Snow asked Mr. De Aguero to discuss the VantageTrust PLUS Fund, where he noted a majority of the assets and a large number of participants are invested. Mr. Elwell asked that ICMA review the issue of labels that are used to identify the employee's accounts so that the information is clear to all employees. Ms. Olson, Director of Human Resources, discussed that she had received contact and meeting information from Mr. Feigelis.

IX. Attorney Report, James Linn

Mr. Linn discussed the status of the board contract with Segal Rogerscasey, and mentioned that the draft contract was included in the meeting packet. He stated that a final contract will be drafted once Mr. Wearn's suggested revisions have been reviewed.

Mr. Linn requested the Board's approval for a 5-year contract, subject to non-substantive revisions worked out by Mr. Linn and Mr. Wearn. Mr. Elwell suggested designating the plan administrator to coordinate with the attorney so that there would be no violation of the Sunshine Law. He commented that it would be delegated to staff, not multiple members of the Board to have final say, and finally with the Chairman.

Mr. Wearn made a motion for approval of the 5-year contract as outlined by Mr. Linn. Mr. Goldsmith seconded the motion. The trustees unanimously approved the motion.

There is a one-page draft from Mr. Lynch to Mr. Hanes and Mr. Linn in regards to the $118 thousand in unencumbered money that may be distributed to plan members. It would involve setting up a one-time Share plan, allocated to the members based on seniority. He noted that he had not received an unofficial approval by the State Division of Retirement.

Mr. Wearn stated that an ordinance would have to be adopted and the approval by the Board would be in the form of a recommendation to the Town Council.

Mr. Ross made a motion, subject to approval by the State Division of Retirement, that the board make a recommendation to the Town Council to adopt the appropriate ordinance for the Share plan, and a ballot will be necessary as it must be accepted by a majority of the plan members first. It will not be presented to the Town Council until it is approved by the members. The motion was seconded. The trustees unanimously approved the motion.

X. Administrator's Report, William Hanes, Administrator

Mr. Hanes discussed an issue regarding an early retirement benefit calculation for an individual with 27 years of service credit and who had been vested and terminated many years ago. It was determined that using an early reduction based on the application of lesser in months of service away from normal retirement (age of 55 or 30 years of service) was the more accurate way of computing the reduction. The board agreed without motion.

Mr. Hanes discussed a matter of payment of a benefit to retirants or beneficiaries in cases of death after retirement or a beneficiary's death. He stated that for clarity he needs the board to agree on a method of paying the last payment. He recommended that instead of pro-rating a final benefit for the part of a month after death, that the monthly benefit should be paid for that particular month without pro ration, avoiding attempts to collect money representing a remaining portion of the month from an estate. Mr. Linn said that it is appropriate for the board and that no action for the Board is required.

Mr. Hanes discussed that he will intend to generally follow policies adopted by the legacy Police and Firefighter boards regarding election of officers caused by board vacancies announced today.

Mr. Wearn made a motion to adopt a general policy of elections that previously existed with the Police and Fire Boards. Mr. Goldsmith seconded the motion. The trustees unanimously approved the motion.

XI. Retirement/Benefit Payments, William Hanes, Administrator

Mr. Hanes presented the report on DROP and retirement since the last quarterly meeting.

Mr. Ross made a motion to accept the report. Mr. Wearn seconded. The trustees unanimously approved the motion.

XII. Disbursements, William Hanes, Administrator

Mr. Hanes presented his report on disbursements for the Board's approval.

Mr. Ross moved to accept the report on disbursements. Mr. Goldsmith seconded the motion.

Mr. Wearn asked if the motion includes that it be filed for audit. Mr. Hanes responded yes.

The trustees unanimously approved the motion and inclusion that it be filed for audit.

XIII. Other Business

Mr. Hanes commented that the dates for the 2013 quarterly meetings are February 15, May 17, August 16, and November 8.

XIV. Adjournment

There was a motion made by Mr. Goldsmith to adjourn the meeting at 12:13 pm. Mr. Ross seconded the motion. The trustees unanimously approved the motion.

Respectfully submitted,

James McCartney Wearn, Secretary