The Town of Palm Beach Retirement System
Board of Trustees
Minutes of February 15, 2013 Meeting

I. Call to Order and Roll Call

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

In Attendance:

TRUSTEES:	**ALSO PRESENT:**
Raymond Snow, Chairman	William P. Hanes, Pension Administrator
Gerald Goldsmith, Chairman Pro Tem	James W. Linn, Board Attorney
James McC. Wearn, Secretary	Jane Struder, Director of Finance
Peter Elwell, Town Manager	Clement Johns, Goldstein, Schechter, Koch
Wilbur Ross	Ron Bennett, Nowlen, Holt & Miner P.A.
Alvin Parven	Harry Merker, Arthur J. Gallagher
Brett Madison	Judy Arenz, Arthur J. Gallagher
Michael Lynch	

Absent:
John Cuomo

Mr. Hanes commented that Mr. Cuomo notified him by text that Mr. Cuomo would not be able to make it today. Chairman Snow advised that he has some comments about the policy that will be addressed later.

II. Approval of Agenda

Mr. Wearn stated that the board has not formally adopted an investment policy and made the motion that the board place on the agenda the adoption of the prior boards investment policies while the current investment policy is pending so that there is one of record. Mr. Hanes stated that he believed the ordinance indicates that the new board assumes all the policies of the legacy board until the investment policy has been adopted. Mr. Linn quoted Section 82.51 and stated that technically the investment policy is not a contract. He stated that he thought the board had already adopted this action. Mr. Elwell stated he recalls this being done. Chairman Snow commented it could be added to the agenda between items 10 and item 11.

Mr. Wearn made the motion to add to the agenda the consideration of carrying forward the investment and other policy adoptions of the prior boards retroactive effective to April 1, 2012. Chairman Snow agreed to amend the agenda accordingly. Mr. Goldsmith seconded the motion. The trustees unanimously approved the agenda change.

III. Comments by Trustees

Mr. Lynch requested a status regarding the unpaid Florida Statutes Chapter 185 money and the Police Officer's vote. Chairman Snow requested Mr. Hanes to provide an update regarding the unencumbered 185 money. Mr. Hanes stated that the matter is an issue for Attorney Mr. Linn, but that there was a draft of the proposal that was provided the board at the last meeting that ultimately needs to be approved by town council in the format of an ordinance. Mr. Linn stated that the Division of Retirement has approved the ballot form, so Town Council will be moving forward with the vote and appropriate ordinance once the Police Officer vote approving the plan is adopted. Mr. Elwell requested clarification that the next step would be for the police officers to determine the method of distribution; to advise the board of that process; and then move to the next monthly meeting of Town Council. Chairman Snow confirmed. Mr. Elwell and Chairman Snow requested an estimate of when the vote would take place. Mr. Lynch responded in 2 weeks and requested information regarding the next Town Council meeting date. Mr. Elwell responded March 14 and informed Mr. Lynch that if the vote is completed by the end of February that the ordinance can be placed on the agenda for the March 14 meeting as long as Mr. Linn could prepare the proper ordinance in time. He noted that the fall back would be April 9 if there becomes an issue for February.

Mr. Goldsmith inquired if the money goes into the fund or is it distributed to members. Mr. Elwell responded it is a distribution to the police officers in the manner prescribed by the vote. Mr. Linn stated that the money is in the fund now and is accounted for as a separate account. Mr. Goldsmith asked if it is an allocation matter. Mr. Linn concurred.

Mr. Lynch made an inquiry regarding the cost of the transition from defined benefit to defined contribution, and particularly with regard to what the projected costs were (prior to implementation) and what the actual costs are. Ms. Struder responded that we will know when the Actuarial Report is submitted in May. Chairman Snow noted that because of the restructuring of the pension benefit that the town contributions have gone down, and the order of magnitude is the real issue. Mr. Elwell concurred with Ms. Struder that the next meeting and discussion with the actuary will be informative to this issue. He also noted that within the first year of transition that the calculations given by Brad were on mark with expectations.

Mr. Parven announced that this would be his last meeting and thanked all of the board and staff members.

Chairman Snow thanked Mr. Parven and Officer Lynch for their dedicated service and stated that Mr. Lynch's last meeting may be today or March 8 depending on the progress and outcome of today's meeting. Mr. Snow also reviewed the absence policy and noted that Mr. Lynch and Mr. Ross's absence from the February 8 meeting are excused. He asked for and received consent by the board.

IV. Approval of Minutes, November 16, 2012

Chairman Snow inquired if there were any changes to the minutes. Mr. Elwell noted one change on page three, third sentence, that needs to be clarified as to who is speaking. He asked that the minutes be approved with the understanding that this correction be made. Mr. Hanes stated that Mr. Wearn provided edits after the draft minutes had been distributed, and that one of those edits addressed Mr. Elwell's correction and the other was in regards to a motion that was made.

Mr. Wearn made the motion for approval of the minutes. Mr. Goldsmith seconded. The trustees unanimously approved the motion.

V. Financial Report, Jane Struder, Director of Finance

Ms. Struder reviewed the financial report dated December 31, 2012. She reviewed the net assets and noted that all of the statements are now on the consolidated fund. She commented that the Police, Fire and General Employees are now consolidated into the one fund. She stated that total assets were $189,086,615 and total liabilities were $2,655,495. She noted the net assets were $186,431,120. Mr. Wearn inquired regarding the prepaid town contributions. Ms. Struder stated that the Town has contributed excess monies to the fund for the past couple of years based on a change in the way contributions were required to be paid. Mr. Wearn noted those were not for expensed, but for direct contributions. Ms. Struder concurred. Mr. Elwell discussed that these monies represent contributions from the Town that comes from the Town's taxpayers, and are reflected this way because they were in excess of the actuarially required contribution and are prepaid towards future obligations of the Town.

Ms. Struder discussed the statement of change in assets. Mr. Wearn asked if the statement goes to the general retirement fund and if it is an asset of the combined fund. Ms. Struder confirmed. Ms. Struder reviewed the investment and operating expenses. She noted that there were not a lot of expenses that came through during the particular quarter. She reviewed the cash flow projections and stated the fund needs a transfer from money managers of about 2 million in cash. Mr. Wearn asked if the estimated amount of transfer request from the money manager accounts need to be stated into a motion. Mr. Hanes referenced a policy adopted previously by the board that covers these types of transactions without need for a special motion. Ms. Struder stated that she believes that the acceptance of the report ratifies board approval for the transaction.

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

VI. Audit Report

Police and Fire Plans, Clement Johns, Goldstein, Schechter, Koch

Mr. Johns presented the fiscal year ending 2012 audit report of the Firefighter and Police Officer plans, and noted that the reports would be in draft form until a final draft is approved by the board. He reviewed the financial statements for Police Officers noting that the total net assets were $58,114,391 and the total liabilities were $690,064. He commented that there was an increase in net assets of $3,960,292. Mr. Johns noted that the return on investment was 13.8%, and represents one of the lowest returns he has seen between the plans that he audits. Mr. Wearn inquired if it would be useful for the board to note that this is a percentage of the total commitment, or the funding percentage. Mr. Elwell responded that information for which Mr. Wearn requests will be included in the actuarial report that will be given by Mr. Armstrong in May and that Ms. Struder can provide further guidance if needed. Mr. Johns noted there were deductions in the amount of $4,657,878 that represents benefit payments. He also noted that the Town withdrew from participation in Chapter 185 for Police and Chapter 175 for Firefighters. He reviewed the Schedule of Funding and Progress from the last actuarial valuation, and noted that the funded ratio for Police Officers was 87.8%, and that this is one of the higher ratios he has seen.

Mr. Johns reviewed the plan of net assets for the Firefighters and reported that the total net assets were \$56,393,577 and the total liabilities were \$4,244,551. Chairman Snow commented that there is a combined 93 retirees and beneficiaries receiving benefits, and terminated members that are eligible but not yet receiving benefits. He stated that there are 20 active vested and 40 active non-vested participants that are indicative of the maturity of the plan (see page 13). Mr. Johns reviewed the SASS 114 that looks at information that is not available in the financial statements. He stated he has given the review to Mr. Hanes for the boards review and final acceptance.

Mr. Wearn made the motion to accept the audit. Mr. Goldsmith seconded the motion. Mr. Elwell asked for clarification if the motion is in reference to include Police Officers and Firefighter groups. Mr. Wearn responded yes. Mr. Goldsmith agreed. All trustees unanimously approved the motion.

General Plan, Ron Bennett, Nowlen, Holt & Miner P.A.

Mr. Bennett reviewed the plan for the general employees that he indicated is included as a pension trust fund in the Town's financial statement. He provided a schedule of the Town's financial statement. He made note that the total net assets were \$72,778,562 with total liabilities of \$751,299. He stated that this represents an increase in net assets of \$8,677,573. He reviewed the Combined Statement of Plan Net Assets.

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

There was a 5-minute break.

VII. RFP for 2013 Auditing Services, Jane Struder, Director of Finance

Ms. Struder inquired regarding how the board intends to select an auditor via the RFP process. She proposed that the board may choose to select a subcommittee, or make a selection as a board. Mr. Wearn suggested a subcommittee and volunteered to serve. Chairman Snow inquired whether Mr. Elwell has a concern regarding the Sunshine Law. Mr. Elwell stated that a subcommittee would not be a concern for him and that a subcommittee would be required to comply with the rules of the Sunshine Law and report back to the full board. Chairman Snow asked for the wish of the board. Mr. Hanes inquired whether a minority of the trustees making up a subcommittee is required. Mr. Elwell stated that as long as the business would be done within the Sunshine Law, it could be a majority of the members. He added that he believes the intent is to have a relatively small subset of members.. Mr. Elwell noted that the record should identify who will be serving on the subcommittee. Chairman Snow asked the trustees who is interested in serving on the board, and identified Mr. Ross, Mr. Madison, Mr. Wearn and himself expressing interest. He added that other employees and town citizens might complete the committee. Ms. Struder noted she would staff it as a non-voting member.

Mr. Elwell made the motion to approve appointment of a subcommittee as discussed. Mr. Wearn seconded the motion. The trustees unanimously approved the motion.

VIII. Town of Palm Beach Employees Retirement System Draft Annual Report, Jane Struder,

Director of Finance

Ms. Struder reviewed the draft annual report that will be submitted later to the board and Town Council before later publication and distribution to employees and concerned citizens. She asked the trustees for their input and proposal for changes to the draft. She noted that the report includes the plan description, basic service providers, demographics, and financial statements that are included as a point of easy reference. Mr. Wearn observed that this is an excellent report, and suggested an addition to the second page a description of the fund, investment objective, investment strategy, the name of the consultant and a description of what he/she does, the investment management firms and what it does, the asset allocation policy, and the rebalancing policy. Chairman Snow noted that on page 10 a chart could be added to go along with the percentages, and stated that a few of the charts in the back could be bar charts. Otherwise, he stated it is extremely well done. Chairman Snow added that he also supports Mr. Wearn's ideas. Mr. Ross expressed concern regarding listing certain managers as best in class. Mr. Wearn noted he meant to exclude that item too. Mr. Hanes and Mr. Madison commented that the report is great, and is what the employees need.

Mr. Wearn made the motion to accept the report once finalized. Mr. Goldsmith seconded the motion. Ms. Struder noted that she would present the final draft to the Town council at the annual meeting and the board at the meeting prior to that time. Mr. Elwell clarified that this would be distributed after the Town Council Meeting in May. The trustees unanimously approved the motion.

IX. Fiduciary Liability Insurance, Harry Merker, Judy Arenz, Arthur J. Gallagher Risk Management Services, Inc., Karen Temme, Risk Manager

Ms. Temme reviewed the Fiduciary Liability memorandum dated February 11, 2013 regarding the professional liability renewal. She reviewed the limits and deductibles for the current provider and provided the board with options of $10 million, $15 million, and $25 million coverage for the board to consider. Mr. Wearn noted that last year he recommended $25 million in coverage due to the transition, and that he believed that once the transition is over the coverage could be reduced. Mr. Ross stated it is not necessary to insure at that amount because the Town is the backstop. Mr. Elwell stated that if the board feels it is necessary to reduce the coverage then he will support that decision, but does not feel it is necessary. Mr. Wearn stated that he feels there are benefits to having the additional insurance coverage over having the Town as the backstop. Chairman Snow requested Ms. Temme to give some instances of types of risks. Ms. Temme stated there are many ways you can be sued as trustees such as when there are changes to the pension and regarding investment decisions. Chairman Snow asked if hiring and firing managers added risk. Mr. Hanes noted that the issues presented by Mr. Ross versus those issues raised by the other trustees are different, and he discussed the policy issues regarding the purchase of professional liability insurance to cover exposures to the fund and trustees. Trustees discussed various reasons for and against a higher limit.

Mr. Ross made the motion for the board to obtain $10 million in coverage. Mr. Lynch seconded the motion.

Mr. Wearn stated that the board should hold at least $10 million in coverage at a minimum, but argued that the board should go to $25 million because of the changes in investments through the ALM which may produce a greater risk.

Chairman Snow called for a vote on the motion for $10 million in coverage. The clerk read trustees in favor of a $10 million limit to be Mr. Snow, Mr. Goldsmith, Mr. Ross, Mr. Parven, and Mr. Lynch; those not in favor were Mr. Wearn, Mr. Elwell, and Mr. Madison. The board by majority vote approved a $10 million limit coverage for professional liability insurance.

Mr. Wearn commented that the previous motion did not preclude a motion to consider an additional $15 million.

Mr. Wearn made the motion for the board to purchase an additional $15 million ($25 million total) for professional liability insurance coverage as prudent and responsible action for the board to take. Mr. Goldsmith seconded the motion.

Mr. Goldsmith asked Mr. Elwell whether it makes a difference to him whether the coverage is $10 million or $25 million. Mr. Elwell stated that at the particular time he feels because of the numerous matters being considered by the board that he would prefer the maximum level of protection. He stated that his personal expectation is that next year the board would reduce the coverage to a level of $10 million.

On roll call the votes were as follow: Mr. Wearn, Mr. Elwell, and Mr. Madison voted yes. Mr. Snow, Mr. Goldsmith, Mr. Ross, Mr. Parvin, and Mr. Lynch voted no. The motion failed by a vote of three in favor and five opposed to the motion.

There was a 5-minute break.

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

Mr. Marino presented the quarterly investment report noting that performance did very well. Mr. Elwell inquired about future reports and if managers who do not perform well can be marked in red for highlight. Mr. Marino stated that he will check into this. Mr. Marino gave an overview of the capital market assumptions.

XI. Investment Policy

The board discussed matters of the Investment Policy Statement (IPS) in place with the legacy General, Police, and Fire Rescue plans.

Mr. Wearn made the motion that the board adopt the current investment policy statements of the legacy General, Police and Fire Rescue boards as of March 31, 2012. Mr. Goldsmith seconded the motion. Chairman Snow asked if there were any significant changes among the three investment polices as were originally published. Mr. Elwell stated there were, and added that they should be accepted as may have been already directed by this board since that date. Mr. Goldsmith and Mr. Wearn agreed to amend the motion to include the additional changes to the investment policies. The trustees unanimously approved the motion.

XII Attorney Report, James Linn, Board Attorney

Mr. Linn noted he has already reported on the chapter 185 share plan earlier in the day.

Mr. Hanes introduced a memo written regarding a matter of correction of error and referred to the Town of Palm Beach Code of Ordinance Section 84-74. He discussed the matter in regard to a retirant with numerous errors of the record discovered in the course of reviewing cost of living adjustments. He stated that the retirant initially had been approved for a disability that should have been reduced at normal retirement age, and this initial mistake was made that caused a retirant overpayment. He noted other instances of errors to the retirant's record. He discussed that the issue is how the board recovers the overpayment and whether interest should be added to the recovery. Mr. Lynch asked what the number was. Mr. Hanes responded that it represented around $15,000 in overpayment to the retirant. Ms. Olson testified that the matter was an unusual disability retirement case. She stated that changes were made at the time due to a clerical error made in 1994 that was not corrected in the AS400 system. She stated that once an audit was conducted over the matter of the legally required reduction, and the proper hire date was entered, the system did not properly enter the 1% cost of living adjustments (COLA), leaving a 2% annual COLA instead. Ms. Olson stated that her office is working with Mr. Hanes to ensure that the paper files match the electronic files. Mr. Wearn inquired if the retiree is aware of these issues, and asked that staff finds out what he is able and willing to do before the board makes a decision. Mr. Linn stated that the board has a fiduciary responsibility to make an adjustment in the member's future benefits. He stated that the mistakes were something that the member had nothing to do with and commented that based on the member's life expectancy the actuary has determined that it is going to be a $395 monthly reduction to his benefit, which is significant. He stated that it may not be appropriate. He stated that the decision on how to correct this mistake is for the board to decide. Mr. Lynch stated that this would be significant to someone on fixed income, and that the board may choose to just take it as a loss, especially for consideration of a recovery of $15,000 from someone on a fixed income. Mr. Madison concurred. Mr. Elwell asked if the monthly amount has been corrected. Mr. Hanes stated that it would be changed with the next retiree monthly payroll. Mr. Elwell stated his opinion that we should approach the retiree and get his input regarding the overpayment, and then the board can make a decision as to the recovery of the overpayment at the May meeting. He also agreed that the amount should be corrected going forward.

Mr. Goldsmith made the motion that the board adopt Mr. Elwell's suggestion. Mr. Elwell seconded the motion. Ms. Olson stated that a letter would be sent out to notify the retiree that the correction will be made and that he is invited to come to the board meeting on May 17. Mr. Elwell clarified that Human Resources will send a letter to advise Mr. Telfair of the correction and to invite him to come in and meet with Human Resources with a request to give his input prior to the May meeting when the matter of the overpayment can be considered by the board. Mr. Goldsmith seconded Mr. Elwell's motion. The trustees unanimously adopted the motion.

XIII. Administrator Report, William Hanes

Mr. Hanes discussed a proposal by Pension Benefit Information (PBI) regarding annual death audits performed.

Mr. Elwell made the motion that the board approve the payment of $410 for the annual contract renewal with PBI. Mr. Goldsmith seconded the motion. The trustees unanimously approved the motion.

XIV. Disbursements, Williams Hanes

Mr. Hanes noted the disbursements are as Ms. Struder presented earlier.

Mr. Lynch made the motion to approve the disbursement report. Mr. Goldsmith seconded the motion. The trustees unanimously adopted the motion.

XV. Retirement/DROP Report, William Hanes

Mr. Hanes noted only one DROP for the board to approve.

Mr. Lynch made the motion to approve the retirement/DROP report. Mr. Goldsmith seconded the motion. The trustees unanimously approved the motion.

XVI. Other Business

No other business.

XVII. Adjournment

Mr. Goldsmith made the motion to adjourn the meeting. Mr. Madison seconded the motion. The trustees unanimously adopted the motion.

Respectfully submitted,

James McC. Wearn, Secretary
Town of Palm Beach Retirement System