Town of Palm Beach Retirement System
Board of Trustees
Minutes of August 18, 2017

I. Call to Order and Roll Call

Chairman Daniel Stanton called the meeting at 9:00 am in the Town of Palm Beach Hall Chambers, 360 South County Road, Palm Beach, Florida 33480

In Attendance:

TRUSTEES:
Daniel Stanton, Chairman
Gerald Goldsmith, Chair Pro Tem
Thomas Bradford, Town Manager
Bradford Kaufman, Trustee
Edward Carter, Trustee
Michael Marx, Trustee
Daniel Wilkinson, Trustee
Brett Madison, Secretary (absent)
Jeff Amling (absent)

ALSO PRESENT:
William P. Hanes, Retirement Administrator
Jane Struder, Finance Director
David West, AndCo Consulting
Danielle Olson, Human Resources Director
James Linn, Attorney
Jeff Amrose, GRS

II. Approval of Agenda

Mr. Goldsmith made the motion to approve the agenda. Mr. Bradford seconded the motion. The trustees unanimously approved the motion.

III. Trustee Comments

Mr. Goldsmith reserved his comments to later in the meeting. No other comments.

IV. Public Comments

Mr. Pat Cooper from the Palm Beach Civic Association commented on the importance of this meeting because of the decisions regarding correcting the unfunded liability. He stated that he would like to hear the retirement boards comment on those moving parts that the board has control over. Mr. Stanton agreed with Mr. Cooper comments.

V. Approval of Minutes: May 19, 2017

Mr. Goldsmith made the motion to approve the minutes of May 19, 2017. Mr. Kaufman seconded the motion. The trustees unanimously approved the motion.

VI. Town Council Ordinance Change for Bargaining Public Safety Employees, Tom Bradford, Town Manager

Mr. Bradford discussed the passing of the ordinance and bargaining agreement by the Town Council in August. The bargaining firefighters are now in the new defined benefit plan of the pension program as other public safety officers.

VII. Report of the Finance and Taxation Committee meeting of August 8, 2017, Ed Carter, Trustee

Mr. Stanton commented on his written presentation before the Finance & Taxation Committee meeting.

Mr. Carter stated that he attended the meeting in the absence of Chairman Stanton and Pro-Tem Goldsmith. He reported what was presented to the Finance and Taxation Committee and discussed what was considered at the meeting. Mr. Carter discussed the shortening of the 30-year amortization period to 25 years and that the unfunded liability has gone up considerably. He commented that the Retirement Board needs to shine some light on the problems and all the unfunded liability issues. He stated that in general, smoothing drags losses forward and makes the unfunded liability worse. He stated that the Town Council wants the Retirement Board to evaluate and recommend specific plans to be considered on what can be done to correct this problem. He commented on the need for a Town policy that will survive future boards and town councils in order to fund the retirement system at 100%.

Mr. Stanton commented that when he joined the board he thought that the attention was going to be mostly a focus on the asset side and that he is staggered by the enormity of this problem from the liability side. He stated that the people who are on Town Council and on the Retirement Board today did not create the current situation, but it is their fiduciary responsibility to solve the problem. Mr. Stanton stated that the issue of the unfunded liability needs to be a focus, and thought out right at the forefront of the budget. He stated that he agreed that the solution models need to be worked through Mr. Hanes to show Town Council.

Mr. Hanes stated that actuary support would be needed at an additional cost in order to come up with proposed solutions to town counsel. Mr. Bradford commented that the Sunshine laws are very specific and that the Board cannot make decisions through Mr. Hanes. Mr. Hanes discussed that in the past at annual presentations, the chairman has typically been designated by the full board to work with Mr. Hanes, who prepares draft that includes actuarial and investment related information for presentation and backup to Town Council. Attorney Jim Linn agreed it can be done if the board approves. Mr. Stanton commented that the funding problem in Palm Beach is still solvable, unlike some other parts of the country, and the Retirement Board needs to discuss items to be presented between now and the next Town Council meeting in September 12, 2017.

Mr. Amrose, GRS actuary, stated that he is filling in for Pete Strong. He suggested that one thing that can be done is to discuss the general framework of the contribution policy. He discussed a direction that the board can go and a proposed contribution policy. He stated that the proposed contribution policy is to make the legally required Actuarial Determined Annual Contributions (ADAC), then adding a layer representing the year 2017 unrecognized losses and cost associated with lowering of the investment return assumption, which amounts to $27 million dollars. He stated this amount could be paid off over a period of 5 years rather than being amortized over 30 years. He added there would then be a third layer that would target the funded ratio so that $5.4 million is added each year through year 2019. If the funding level is below 68.0% at that time, then the Town will pay addition money to get the funding ration to 68%. If the ratio is at or above 68% by 2019, then nothing else needs to be done until 2020, when the Town contribution is increased by 2% per year above the ADAC amount for the next five years. This gets funding up to 80% by 2025. At that point, the Town can apply an annual increase to the required contribution until fully funded. Mr. Stanton commented that Mr. Amrose's explanation is very clear and simple on a series of complex issues.

Mr. Bradford commented that at first it seems too aggressive and he needs an opportunity to see the numbers. Mr. Kaufman stated his concern is that if a formula is set up as recommended by the actuary, and instead of receiving a return of 7% the Town may perform at 0%, which would seem to create an additional layer of obligation to fund. Mr. Amrose suggested the formula should include a cap on the total contribution to be paid by the Town so that the Town could still meet its budget obligations regardless of market losses. Mr. Stanton stated that Mr. Carter described the base case by stating what the town council is expecting from the retirement board. He stated that if the problem is not fixed now, it will be passed to the board and Town Council successors. Mr. Goldsmith commented that it would help the Town with transparency if taxpayers were told how much more they need to pay.

Ms. Struder asked Mr. Amrose if the formula he was discussing would be included as a contribution to the actuarial report for fiscal year 2017 and funded in fiscal year ending 2019. Mr. Amrose agreed. Ms. Struder asked Mr. Amrose if the additional $5 million that will be added to the Town's contribution at the beginning of fiscal year 2018 is taken into account. Mr. Amrose answered that the $5 million will not be built into the report.

Mr. Amrose stated that as of October 1, 2016, 85% of the Town's retirement system liability comes from already retired (or DROP) employees, and only 15% come from employees who are currently working. He stated that the solution is to address it through contributions. He stated that every time a new employee is added to the system, the normal cost increases by 6 to 10 percent of pay for that employee into the pension plan trust. Mr. Carter asked Mr. Amrose to clarify when the supplemental contribution would be starting. Mr. Amrose answered that GRS will be focusing on the results from the 2017 valuation report. He stated that the proposal is for the additional $5.4 million a year for 5 years would be starting on October 1, 2017 (2018 fiscal year).

Ms. Zeidman thanked the Retirement Board for the direction they will be taking to advise Town Council.

Mr. Bradford suggested to the Board that if they are not feeling comfortable to present in the next Town Council meeting, the Retirement Board could hold another meeting to discuss what would be presented and to be recommended to Town Council. Mr. Stanton stated that he believed with the groundwork that Mr. Amrose specified that it is enough to move forward.

Susan Watts, resident of the Town of Palm Beach commented on the funding issue and thanked the board regarding their concern and effort to alleviate the funding obligations.

Ms. Struder requested to be a part of the discussion and recommendations on behalf of Mr. Bradford for financial and funding suggestions, since Mr. Bradford cannot participate because of the sunshine law.

Mr. Goldsmith made the motion to provide Mr. Stanton the authorization to gather and present recommendations, with the assistance of the actuary, Mr. Hanes, and Ms. Struder, to the town council. Mr. Wilkinson seconded the motion. The trustees unanimously approved the agenda.

VIII. Quarterly Financial Report and Disbursements, Jane Struder, Finance Director

Ms. Struder presented the quarterly financial report through June 30, 2017.

Mr. Bradford made the motion to accept the quarterly report and disbursement. Mr. Carter seconded the motion. The trustees unanimously approved the motion.

IX. Member Account Credited Interest, Jane Struder, Finance Director

Ms. Struder stated that the credit to the employees' account has increased. She stated that over the years the town used a 10-year treasury rate for the calculation of the member's annual interest credit, the rate was 1.46% last year, and this year the Treasury rate is at 2.30%. She commented that this money is only eligible to be paid to the members once they terminate employment from the Town of Palm Beach.

Mr. Goldsmith made the motion to approve this rate of interest to credit members' accounts. Mr. Bradford seconded the motion. The trustees unanimously approved the motion.

X. Proposal to reduce amortization period, Jeff Amrose, GRS

Mr. Amrose discussed his recommendation to reduce the amortization rate. He stated that the longer the amortization period, the more interest paid, and lowering the amortization period drastically reduces the payments over the length of the period while putting more money into the plan sooner. He commented that this increases the funding ratio by 1.6% and that the period of amortization should align with the career employees' future working lifetime. Mr. Bradford asked Mr. Amrose what the town needs to do in order to lower the assumption from 30 years to 25 years. Mr. Amrose answered that it is the board that can instruct the actuary to lower the amortization period from a 30-year assumption to 25 years.

Mr. Carter made the motion to change the amortization period from 30 years to 25 years. Mr. Goldsmith seconded the motion. The trustees unanimously approved the motion.

XI. Investment Report, Dave West, AndCo Consulting

A. Investment Quarterly Review

Mr. West offered AndCo services to contribute in the general discussion with the actuary to find solutions of some of the Town of Palm Beach investments issues. He commented that the general solutions address some of the investment issues, and as an example the legacy history shows investment returns had trouble keeping up with the return assumption that was set while the general market environment created an additional deficit. Mr. West mentioned that there is an inherit conflict in the investment time horizon.

Mr. West reviewed the Quarterly Investment Report. He stated that the trumponomics rally ended January 1 and the market theme has been to invest on fundamentals. Mr. West stated that number one and number two factors driving domestic equity returns is earning growth and expectation for earning growth. He commented that growth stocks have outperform value stocks. He stated that interest rates have come down at pre-election level and there have been positive results. Mr. West stated that they are releasing the returns as quickly as possible but that there are structural issues in the process of releasing the returns. He stated that every single private equity structure is subject to an audit. Mr. Carter asked how does delay interface flows into the actuary side. Mr. West answered that the flow occurs at year-end when GRS is tallying the score. Mr. Amrose explained that they (GRS) do not need the returns to calculate the annual valuation report, and all they need are just an income statement and balance sheet. Mr. West commented that as of today, and with the Mesirow redemption, they are comfortable with the liquidity profile of this portfolio.

Mr. Stanton asked Mr. West if fixed income has been a source of liquidity because it is underweighted. Mr. West answered that fixed income has been strategically underweight by design. Mr. Stanton asked if AndCo is comfortable with fixed income being underweight. Mr. West answered yes. Mr. Stanton discussed the underwhelming performance of the hedge funds. Mr. Carter asked Mr. West if he shares the view that what happened with the hedge funds is a component of portfolio mix. Mr. West agreed that the returns on hedge funds were underwhelming. Mr. Stanton asked Mr. West for a list of the underlying managers in the two fund of funds. Mr. Carter agreed with Mr. Stanton and commented that the risk profiles are much greater and they are not even performing as well as the fixed income of this portfolio. Mr. Stanton asked about the distribution list and where all that money has gone. Mr. West stated that distributions represent benefit payments and go into the Towns account to have sufficient liquidity available. Mr. Stanton asked if $14.25 million has been liquidated and left the portfolio. Mr. West confirmed. Mr. Stanton expressed concern, and that $14 million was a significant amount to move in one quarter. Mr. Kauffman clarified that it must be that the market value of the existing account of $8 million dollars is sitting in a separate cash account to be redeployed, and that would increase the market value once it is invested. Mr. West stated that the balance is reflected in the market value. Mr. Stanton stated he does not agree with Mr. West. Mr. Kaufman stated that the $8 million was not reflected in the total. Mr. West stated that he will review where the $8 million went and agreed that it may be an error in the report. Mr. Kaufman clarified what the concern is in the accounting and where the amount is showing. Ms. Struder clarified that her report reflected the missing amount and that the broker is due $8.1 million. Mr. West stated that he will review to make sure the report agrees with Ms. Struder's numbers, and will give the information to Mr. Hanes so that he can distribute it to the board. (a revision was provided Mr. Hanes, and Mr. Hanes distributed by email to trustees).

B. Investment Administration Update

Mr. West recommendation that there be a transfer from the Mesirow distribution of $3.5 million to the retirement system operating account for payment of retirement benefits for the quarter, and the remaining balance allocated first in the order of private equity, domestic equity, and vanguard investment grade bond index fund. Mr. Stanton commented that the funds will need to be found first, especially since there is no knowledge of where that money could be, and can let it go as soon as that money is found.

Mr. Bradford made the motion to allocate the $3.5 million dollars to the retirement cash account for payment of benefits. Mr. Goldsmith seconded the motion. The trustees unanimously approved the motion.

Ms. Struder commented that she believes it has been a timing issue due from the broker account.

C. Global Tactical Asset Allocation (GTAA) /Manager Review

Mr. West reviewed the GTAA Manager Analysis Report. He discussed GTAA allocation and managers review. Mr. West recommended a strategy that is focus, constraint, and stylistic, and oriented to a certain style in an investment class that has the potential to add value to the process. Mr. Stanton asked Mr. West what the barriers to exit Standard Life are. Mr. West answered none. Mr. West discussed the underperformance of Standard Life. Mr. Carter stated that it is a two-step process. He stated that Standard Life has underperformed the expectations and that the Town should end the relationship with them. Mr. West clarified that this is not a US investment grade fix income alternative, but is an alternative asset class and it will go into the alternative asset class bucket, and would not be associated with the investment grade fixed income. Mr. Stanton stated he will feel comfortable if the $7 million dollars that is with Standard Life gets invested somewhere else. He asked Mr. West what he recommends. Mr. West answered that unequivocally, he recommends Black Rock.

Mr. Goldsmith made a motion to terminate Standard Life and move $3 million to Black Rock with the remaining to go to the Vanguard bond fund. Mr. Carter seconded the motion. The trustees unanimously approved the motion.

XII. Administrator Report, William P. Hanes, Administrator

Mr. Hanes discussed his report, and that there are two employees that applied to the DROP since the last meeting of the board.

Mr. Goldsmith made the motion to approve the administrator's report. Mr. Carter seconded the motion. The trustees unanimously approved the motion.

Mr. Hanes requested a policy be provided from the board regarding an approval for the administrator to recommend work from the actuary, and to authorize the spending of fees. He discussed with the trustees.

Mr. Goldsmith made the motion to approve a policy that would allow Mr. Hanes to make requests from the actuary for special projects with expenses to be incurred at no more than $10 thousand dollars in any quarter. Mr. Carter seconded the motion. The trustees unanimously approved the motion.

XIII. Attorney Report, James Linn, Attorney

A. Internal Revenue Code Matter

Mr. Linn discussed an item that came to his attention shortly before last meeting that involves an IRS issue. He stated that section 415 of the IRS establishes a maximum cap on annual benefits paid to retirees at $215,000 based on what is payable at age 62, with adjustments due to age and lump sum payments. He stated that he was informed by actuary Mr. Strong that there were 2 individuals, one retired who has exceeded the maximum benefit allowed and one currently participating in DROP and is expected to exceed the 415 cap. Mr. Linn stated that information has not been presented to the 2 affected persons yet, no action is required on the part of board, and the one retiree that has exceeded the limit must pay back some funds while the current DROP participant's future payment must be reduced unless there is an excess benefit plan enacted. Mr. Linn stated that he will keep the board updated. He stated that the total amount of money is in excess of approximately $391,000.

B. Ellen Schaffer Addendum

Mr. Linn discussed Ms. Schaffer's agreement that was renewed last year in March. He stated that her total contract does not exceed $9 thousand dollar a year, but has requested an additional $3,930 for her work related to recent changes made to public safety pension. Mr. Linn recommended the board approve the addendum for the additional changes.

Mr. Bradford made the motion to approve the additional amount requested. Mr. Goldsmith seconded the motion. The trustees unanimously approved the motion.

XIV. Other Business

Mr. Hanes stated that he had a request by a trustee for Mr. Linn to discuss the power, duties and obligations of the board. Mr. Linn stated that he was happy to do this now or at the next meeting. Mr. Stanton proposed that the item be postponed to the November meeting and not the last item on the agenda. Mr. Linn stated that he will prepare a one page handout.

XV. Adjournment

Mr. Goldsmith made motion to adjourn the meeting. Mr. Wilkinson seconded the motion. The trustees unanimously approved the motion.

Respectfully Submitted,

Brett Madison, Secretary
Town of Palm Beach Retirement System