

**MINUTES OF THE TOWN OF PALM BEACH RETIREMENT SYSTEM
POLICE OFFICER BOARD OF TRUSTEES
MEETING OF NOVEMBER 12, 2009**

I Call to Order

Mr. Snow called the meeting to order at 9:20 a.m. at the South Fire Station, 2185 S. Ocean Blvd, Palm Beach 33480.

In Attendance:

TRUSTEES:

Ray Snow, Chairman
Mike Lynch, Chair Pro Tem
Chris Proscia, Secretary
Gerald Goldsmith
James McC. Wearn

ALSO PRESENT:

William P. Hanes, Pension Administrator
Robert Klausner, Klausner & Kaufman
Alexia Varga and Ed Holt, Nowlen, Holt
& Miner
Sean Higman and George Hauptfuhrer,
Prime Buchholz

V. Approval of Agenda

Mr. Snow requested that Item V be placed next into order and stated he wanted to re-order the agenda so that the main items of the agenda are taken up prior to Mr. Fernandez's report, which he recommended be taken up at the end of the meeting. Mr. Wearn moved that Item V be placed in order as discussed by Mr. Snow and that Items II and III also be switched in order. Mr. Goldsmith seconded the motion. The trustees unanimously agreed.

III. Member-Trustee Election Result

Mr. Hanes announced that Mr. Proscia has been elected to a term of office that expires September 30, 2010. Mr. Wearn discussed that he is in possession of the election policy and requested that the Administrator place the matter of the election policy as a specific item for discussion at the next regularly scheduled meeting of the Board of Trustees.

II. Election of Officers

Mr. Goldsmith nominated Mr. Snow for the position of Chairman of the Board. Mr. Wearn nominated Mr. Goldsmith for Chairman and discussed that it has been his

**MINUTES OF THE TOWN OF PALM BEACH RETIREMENT SYSTEM
POLICE OFFICER BOARD OF TRUSTEES
Meeting of November 12, 2009**

belief that there should be rotation in the position of chairman and that he believes that Mr. Snow has served the trustees very well. Mr. Goldsmith declined the nomination. Mr. Wearn moved for the election of Mr. Snow as Chairman. Mr. Goldsmith seconded the motion. The trustees unanimously approved the motion.

Mr. Goldsmith nominated Mr. Lynch to serve the position of Chairman Pro Tem. No other nominations were made. Mr. Goldsmith moved for the election of Mr. Lynch. Mr. Wearn seconded the motion. The trustees unanimously approved the motion.

Mr. Goldsmith nominated Mr. Proscia to serve as Secretary. No other nominations were made. Mr. Wearn made the motion to elect Mr. Proscia as Secretary. Mr. Goldsmith seconded the motion. The trustees unanimously approved the motion.

IV. Comments by Trustees

Mr. Goldsmith stated that he has an engagement that will require his absence during the day's meetings, and that he has attended the previous day's meeting with the Firefighter board and had heard the consultant's report. He also stated that the trustees are investment advisers for the fund, and do not make policy. He stated that any action regarding the consultant's work be taken by Town Council.

Mr. Wearn expressed that he is deeply disturbed and disappointed at the decision of the Police to join a union at this time, and not appreciated.

**VI. Approval of Minutes: August 13, 2009; August 18, 2009, Joint Meeting
August 18, 2009**

Mr. Wearn moved for the approval of the minutes of August 13, 2009. Mr. Hanes had stated that a change had been made to make reference to state law. Mr. Wearn accepted the change. Mr. Goldsmith seconded the motion. The trustees unanimously approved the motion.

MINUTES OF THE TOWN OF PALM BEACH RETIREMENT SYSTEM
POLICE OFFICER BOARD OF TRUSTEES
Meeting of November 12, 2009

Mr. Wearn discussed two sections that were unclear to him. Mr. Klausner and Mr. Hanes read to the trustees changes in language to clarify. Mr. Wearn accepted the clarification language.

Mr. Wearn moved to accept the minutes of the special joint meeting of August 18, 2009 meeting. Mr. Goldsmith seconded the motion. The trustees unanimously approved the minutes.

Mr. Wearn moved to accept the minutes of the August 18, 2009 meeting of the Board. Mr Goldsmith seconded the motion. The trustees unanimously approved the motion.

VIII. Report by Accountant

Ms. Alexia Varga provided the unaudited financial report to the trustees. Ms. Varga provided the trustees with a list of the highest paid vendors, and the trustees had asked that she include this information with future quarterly reports. Ms. Varga and Mr. Hanes discussed that they had been working with the Auditor in preparation of the 2008-2009 Audit of the plan.

IX. Investment Report

Mr. Sean Higman and Mr. George Hauptfuhrer provided the investment report. Mr. Higman discussed matters of due diligence process with the trustees. He stated that he has a staff of 12 to 15 employees who do the work on managers before bringing to a board. He stated each quarter managers are questioned by the firm. He stated that hedge funds are more difficult, and it is more about people and process. He stated that they review the auditor, their accounting and legal work. He discussed that they look for transparency and ask whether the strategy makes sense. He stated that the information is more available with the publicly traded funds, and so the bigger job is with the alternatives and funds of funds.

Mr Higman passed out the marked up copy of the investment policy statement from the August 18, 2009 meeting. He discussed changes of state law regarding investments, including higher permitted allocation to foreign investments and the new requirements regarding Sudan and Iran.

MINUTES OF THE TOWN OF PALM BEACH RETIREMENT SYSTEM
POLICE OFFICER BOARD OF TRUSTEES
Meeting of November 12, 2009

Mr. Snow made note that the international portion of the plan's portfolio has done well lately.

Mr. Higman discussed matters of real asset allocation and stated it to be below target. He discussed that his firm does not believe inflation is around the corner as others do, but stated that inflation is a larger risk than it was a year ago. He stated he sees a V shape recovery, but led by small stocks. He stated his concern about the unemployment, and that former recoveries observed recovery with better employment numbers. He discussed his concern about the risk with inflation hedges. He stated that Prime Buchholz does not believe additional inflation hedge is a good play now. He did not recommend additional allocation, but did state that he wants to get back up and in line with the target, and will do so when the redemption monies from Private Advisors is received.

Mr. Higman requested that when the \$3 million comes in January, that the monies be dedicated to TIPS. He discussed alternative managers that could provide for the additional allocation to TIPS and differences between each. He stated that Prime Buchholz recommends the Vanguard fund.

Mr. Wearn asked if Vanguard acts like an index fund. Mr. Higman confirmed that it does.

Mr. Higman stated that TIPS stand as a low volatility and low return asset class and it is an important component in the overall basket of real assets, and said he would not want to make a judgment regarding allocation to TIPS independent of the mix of other assets in the class.

Mr. Snow stated he wanted to point out that the TIPS total annual return a few years back was 15%.

Mr. Wearn made the motion to accept the recommendation of the consultant to hire Vanguard as the TIPS manager, subject to the receipt of proceeds from Stable Value at the end of the year for funding of same, and to be implemented by January 1, 2010. Mr. Goldsmith seconded the motion. The trustees unanimously approved the motion.

MINUTES OF THE TOWN OF PALM BEACH RETIREMENT SYSTEM
POLICE OFFICER BOARD OF TRUSTEES
Meeting of November 12, 2009

Mr. Higman discussed Guggenheim and that they were a victim of the weak real estate market and placed a gate up for protection. However, he recommended to the trustees that they request liquidation from the fund. He stated that we can always rescind it, but that we need to make the request. Mr. Higman stated that in the event Guggenheim has a liquidation event, the trustees would have an opportunity not to participate. He stated that the trustees will always have the option to rescind the request. Mr. Higman stated that if the trustees agreed, he would draft a letter for the Chairman of the Board's signature that requests from Guggenheim that fees be waived during the time the gate is up. He indicated this action was approved by the Firefighter Board of Trustees at the preceding day's meeting of November 11, 2009. The trustees agreed that it should be done.

Mr. Hauptfuhrer reviewed the written quarterly report, and reported that the past fiscal year's performance represented a negative 2.1%. He reviewed each asset class performance as provided in the report.

Mr. Wearn made the motion to approve a request to Guggenheim that the Police Officer plan be placed in line to receive a full redemption. The motion included a request from the consultant to provide a draft for the chair's signature to request that fees be waived during the time of the gating of the funds. Mr. Wearn added to the motion that the approval of the motion be subject to review by legal counsel and that there is assurance that the board will be able to opt out if desired. Mr. Goldstein seconded the motion. The trustees unanimously approved the motion.

VII. Consultant Report

Mr. Jose Fernandez presented matters of the pension consultant report, being drafted for the Town Council, to the trustees.

Mr. Snow had previously asked the administrator to ask Mr. Fernandez what the difference in Town employer contributions would be if a 7% investment return assumption were used instead of the current 8%. Mr. Fernandez answered that if the board adopted a 7% investment assumption that the Town's contribution rate would go

MINUTES OF THE TOWN OF PALM BEACH RETIREMENT SYSTEM
POLICE OFFICER BOARD OF TRUSTEES
Meeting of November 12, 2009

up approximately 15%. He stated that the current 39.31% Town rate would increase to approximately 54%. In dollars, the current \$2.3 million dollars in Town contributions would go up by \$900,000. Mr. Snow raised the question of whether or not an 8% long term return is achievable, but stated that the plan's investment consultant has indicated that they believe it to be achievable.

Mr. Fernandez stated that it is very important that the trustees understand the impact of smoothing over a five year period. He stated that one fifth of the losses of each of the last two years were already recognized, but he suggested that the trustees keep in mind that the other future years losses based on the last two years' returns have not yet been recognized, but are done so in his projections, representing a cause for the increases in future years contributions.

Mr. Klausner discussed that the Florida Retirement System had in years past created a stabilization fund, which represented monies the state provided into a separate account for the rainy days as we have recently experienced. He stated that the monies have been used up.

Mr. Hanes discussed the performance of the Florida Retirement System and stated that the allocation for the Florida fund seems very comparable to other comparable state systems, with comparable returns.

Mr. Fernandez and Mr. Klausner addressed the matter of termination of the plan, and Mr. Klausner noted that it would cost the Town over \$36 million. Mr. Klausner discussed the manner of payment, and his opinion that based on the state constitution the money must be there when the payment is due. He stated that termination of the plan is an unworkable concept. He discussed a town that paid for annuities from an insurance company to satisfy the town's obligations, but pointed out that there is a cost by the insurance company. He stated that Palm Beach will be in the pension business for at least 50 years, since 40% of the workforce is vested, and upon termination of a plan, the non-vested employees become vested and are guaranteed a retirement allowance when the plan is terminated. He pointed out that the Town continues to assume the responsibility to administer the plan.

MINUTES OF THE TOWN OF PALM BEACH RETIREMENT SYSTEM
POLICE OFFICER BOARD OF TRUSTEES
Meeting of November 12, 2009

Mr. Klausner discussed that the report illustrates that there is no magic bullet. He stated that if we were starting a new plan, a DC would be a cheap plan. However, with an active plan with 80 in pay status and 40% non-vested who will be vested upon termination of the plan, it will take a very long time to save any money, with additional costs for some time to come. He stated the real concern by Town Council is to save money today. He stated that there is no way for that to happen by terminating a plan to go to a defined contribution.

Mr. Fernandez stated that the unfunded liability of the plan does not go away, and when you terminate a plan for new entrants, you no longer get the benefit of the longer period of amortization, and must accelerate the payment.

Mr. Fernandez discussed that one of the major shortcomings of a defined contribution plan, especially with public safety officers, is the lack of a disability or special death benefits. Mr. Klausner stated that he has been involved with governments trying to purchase disability policies for public safety officers, but that there is no market for it with insurance companies. He stated that you can't get public safety officers without a disability plan.

Mr. Fernandez discussed that with the defined benefit plan there is volatility, and the employer assumes the risk.

Mr. Fernandez discussed the typical hybrid, which usually creates a more modest defined benefit combined with a defined contribution.

Mr. Fernandez discussed the other alternative plan designs, including a two tier that would require that new employees go to the Florida Retirement System while current members remain in the Palm Beach plan. He also discussed a two tier where new employees and current members are required to participate.

Mr. Snow asks that considering the impact of funding on municipal plans around the state, what systems are opting to forego the subsidies provided by the State? Mr. Klausner stated that he is only aware of one plan that has done so.

Mr. Fernandez discussed the differences in benefits between the Town of Palm Beach plans and the Florida Retirement System, and concluded that when you take the

MINUTES OF THE TOWN OF PALM BEACH RETIREMENT SYSTEM
POLICE OFFICER BOARD OF TRUSTEES
Meeting of November 12, 2009

differences based on the different benefit components, the two plans are very comparable. The trustees discussed with Mr. Klausner that the investment funds are pooled in the state of Florida. Mr. Snow noted that since the plans in the Town of Palm Beach split to create the Police, Fire and General, in the short term the state plan exceeded the Police Plan, but longer term the performance at the Town's Police fund has been better. He stated that running the funds as we have has turned out a little better, and the Police plan has allocation different than the general plan, and has historically outperformed, but maybe not on the more recent, but based on different allocations for the particular plans. Mr. Fernandez noted that by going to the Florida Retirement System the Town will lose some \$225,000 that is paid to the Town to offset Town contributions.

Mr. Fernandez stated that if the Town chose to require all new hires to go to the Florida Retirement System, and allow the current members to voluntarily join the Florida plan, he did not believe many would opt to go to the Florida plan, providing little relief to the Town. Mr. Fernandez and Mr. Klausner also noted that once an employee moves to the Florida Retirement System, that if a member decides to purchase the past service he or she had accrued in the Town's plan, the benefit purchased will be at a 2.0 multiplier. Mr. Klausner noted that once the choice is made to go to FRS, it is irrevocable and the Town cannot change the selection. Mr. Fernandez stated that the employer rate for FRS is 21%, but that rate is anticipated to go up significantly. Mr. Fernandez indicated that the new rate should be available in March of this coming year. Mr. Fernandez and Mr. Klausner reminded again that the rules of payment of the unfunded liability change, with a shorter payback period and reducing payroll, causing the cost to the Town to go up.

Mr. Klausner raised the issue related to going to a new tier or two tier plan, and if the benefit is reduced for either the current or new employee that is below the level of benefit in existence in 1999, the plan will lose the Section 185 subsidies.

Mr. Klausner stated that the Division of Retirement requires that if the Town raises the employee contributions, then there must be a benefit paid to the members. However, there is an exception recognized by the state that allows an agency to "start and stop." The way it is done is that you increase the benefit and contributions one day, and

MINUTES OF THE TOWN OF PALM BEACH RETIREMENT SYSTEM
POLICE OFFICER BOARD OF TRUSTEES
Meeting of November 12, 2009

reduce the benefits the next day. This seems to be allowable and has happened in a few Towns in Florida.

Mr. Fernandez reviewed the 30 year projection in cost and cost savings with the various alternatives. Mr. Fernandez emphasized that there are many variables that are to be considered, and any cost or cost savings will depend on how you put together the variables. He stated that you can't simply add one variable cost/savings to another.

Mr. Klausner stated that the two tier plan is the most widely enacted change for governments. He stated that it must do two things. It must have something that attracts people to employment, but also create savings for the Town. Mr. Klausner stated that the change cannot impact a change on retirement eligibility if a member is already retired or eligible to retire. Mr. Klausner noted that if there is a dramatic change with reduction of benefits that his experience with plans illustrates that a large number of eligible members will retire. He explained that this creates an unanticipated experience loss that could result in an actuarial impact resulting with a cost to the Town. Mr. Klausner stated that there really are very few cases on the issue of a plan change based on retirement eligibility change and how the courts rule when the member is less than retirement eligible at the time of the change.

Mr. Fernandez noted that the hybrid plan does not experience the immediate hike in contributions as it does with a change to a defined contribution plan, where the plan is closed to new hires.

Mr. Fernandez discussed various models for two tier plans. He explained that there are many options within this method that could be considered. Mr. Fernandez stated that he anticipated that what he has presented will not be a final model, but that he suspected that there will be numerous other design changes that the Town Council will want to consider that will need to be reviewed.

Mr. Snow stated that he believes by discussion he has had with members of Town Council that they are looking for some type of report from the boards. He asked for guidance from other members, and what direction the board wants to provide Mr. Snow for the December 3, 2009 meeting of Town Council.

MINUTES OF THE TOWN OF PALM BEACH RETIREMENT SYSTEM
POLICE OFFICER BOARD OF TRUSTEES
Meeting of November 12, 2009

Mr. Klausner stated that he will provide the board members his opinion on questions that may be asked about what can be done within the context of requirements imposed by Chapter Section 185. Mr. Fernandez expressed his concern and did not believe the trustees should change the smoothing method. He felt doing so might provide very small relief over the shorter time, but would possibly increase the cost to the town more significantly over time. Mr. Hanes discussed the significant losses of the last two years, with recognition of over \$2 million for the loss of last year and losses for 2009, but that there is a carry of the same \$2 million unrecognized but to be recognized for each of the next 4 years.

Mr. Wearn made the motion that the Klausner & Kaufman letter, with comments on the Consultant's draft report, be sent to the members of the Town Council by the chairman under the chairman's letter head. Mr. Proscia seconded the motion. The trustees unanimously approved the motion.

Mr. Wearn discussed that he would hope that the discussions not go to the formal presentation stage, but more along the line of a work shop, where the respective boards and members of the boards be allowed to have input at each point of the presentation. Chairman Snow stated that he would intend to suggest personally with members of Town Council that we have an additional workshop after the Town Council hears from Mr. Fernandez. Mr. Fernandez discussed that he thought it would be helpful to do so.

Ms. Gorman, member of the General Employee Board of Trustees, stated that she would alert the General Employee trustees on the next day's meeting of the recommendation of a workshop session.

X. Town Council Meeting of October 14, 2009 Report

Mr. Snow reported on the Town Council meeting of October 14, 2009. He discussed that the board chairs were asked to address the asset allocation of the funds and the 8% assumption. Mr. Snow discussed the restraint of law on classes of assets. He discussed that it is not an asset problem, but liability problem. He stated that at the conclusion of the presentations by the chairs, Town Councilman Mr. Bill Diamond cited the boards for the good jobs they were doing, and the chairs received a standing ovation, followed by another after comments by Town Councilman Mr. Bob Wildrick. He

MINUTES OF THE TOWN OF PALM BEACH RETIREMENT SYSTEM
POLICE OFFICER BOARD OF TRUSTEES
Meeting of November 12, 2009

stated that the actuarial investment assumption might be a bit aggressive, but that the Board's Investment Consultant states that the 8% is attainable. He stated that Mr. Hanes addressed a few questions, and specifically addressed the question of the Town's funding levels and about a Town's potential for going into bankruptcy. Mr. Hanes addressed his experiences with case law on the issue of the government obligations. Mr. Klausner elaborated. Mr. Hanes complimented the Town Council and stated that he believed that the members of Council seemed to have learned a lot about pension plans since the June meeting that he had attended.

XI. Attorney Report

Mr. Klausner stated that the "normal retirement" regulation is being delayed by the Internal Revenue Service until the year 2013. He discussed the implications.

Mr. Klausner addressed the issue of the determination letter requests made of plans by the IRS. Mr. Klausner stated that the plans should update the ordinances, but not worry about seeking a determination letter at this time.

Mr. Hanes raised the issue of ordinance changes regarding terms of office and quarterly meetings of trustees. He discussed that there were reasons that it has not been brought to the Town for passage. Mr. Wearn stated that the matter has been pending for over a year, and it is important as administrators of the board to have the procedures amended, and asked the Administrator to go forward with the matter. He asked that it be followed up and implemented. He asked that if the trustees agree that the Administrator prepare a letter of transmittal for this matter to be presented to the Mayor and Town Council asking that they take action on the matter.

Mr. Wearn moved the preceding. Mr. Proscia seconded the motion. The trustees unanimously agreed.

Mr. Wearn asked Mr. Klausner what the status is regarding the Inter-local agreement. He asked that it be reported to the Town Council. Mr. Klausner stated that he would discuss with State Street Bank, and report back to the board.

XII. Administrators Report

**MINUTES OF THE TOWN OF PALM BEACH RETIREMENT SYSTEM
POLICE OFFICER BOARD OF TRUSTEES
Meeting of November 12, 2009**

Mr. Hanes provided a report on progress with working with the Auditor. He discussed that he is working on data to be provided to the actuary. He discussed that status of the imaging of documents is at a second stage of the process and working very well.

Mr. Wearn expressed his appreciation for Mr. Hanes providing to the trustees an excellent article published by Gabriel, Roeder and Smith entitled "Preserving Financially Sound Defined Benefit Pensions in a Challenging Market."

XIII. Disbursements

Mr. Proscia made the motion to ratify the disbursements as reported. Mr. Wearn seconded the motion. The trustees unanimously approved the motion.

XIV. Adjournment

Mr. Proscia made the motion to adjourn. Mr. Wearn seconded the motion. The trustees unanimously approved the motion.

Attested by: _____



7/11/2010

Chris Proscia, Secretary