MINUTES OF THE INVESTMENT ADVISORY COMMITTEE
MONDAY, DECEMBER 4, 2006
TOWN COUNCIL CHAMBERS, 360 SOUTH COUNTY ROAD, PALM BEACH

I. CALL TO ORDER AND ROLL CALL

The Investment Advisory Committee Meeting was called to order on December 4, 2006 at 10:00 a.m.

On roll call, the following committee members were present:

Investment Advisory Committee
Chair Michael F. Andrews
Stephen L. Brown
Edward L. Hennessy, Jr.
William J. Mikus
Bernard R. Panfel

Others in Attendance
Richard Schell, Arthur J. Gallagher
Michael Merlob, Gallagher Benefit Services
Bill Crouse, Human Resources Director
Jane Struder, Finance Director
Cheryl Somers, Assistant Finance Director
Betty Cotton, Recording Secretary

II. PLEDGE OF ALLEGIANCE

Chair Andrews led the pledge of allegiance.

III. APPROVAL OF AGENDA

Mr. Brown suggested an additional item to the agenda that he had discussed with Ms. Struder. Now that the Investment Advisory Committee is becoming trustees, it would be good to get some review on the members' personal liability and the protection thereof. Maybe that could be added at the end of the agenda just before the next meeting date.

Mr. Brown made a motion for approval. Mr. Hennessy seconded, motion passed unanimously.

IV. COMMUNICATIONS FROM CITIZENS (3 MINUTE LIMIT PLEASE)

No citizens attended.

V. APPROVAL OF MINUTES FROM THE APRIL 7, 2006 MEETING

Mr. Hennessy made a motion for approval. Mr. Brown seconded, motion passed unanimously.

VI. INTRODUCTION OF NEW MEMBER – MR. WILLIAM MIKUS

Chair Andrews introduced William Mikus as a new member. He asked Mr. Mikus for a quick synopsis of his background, why he wanted to serve on the committee, and then each member will give some of their background.

Mr. Mikus stated he graduated from Syracuse University with a degree in Economics in 1979 and went straight to Wall Street where he started off as a money market trader with the Bank of Boston in New York. He spent two years as a money market trader, joined Citi Corp where he traded currencies for five years, and then went to Salomon Brothers where he was an International Fixed Income and Capital Market Specialist. He completed the Investment Banking Training Program that was made famous in the book "The Liar's Poker" in 1985. In 1981, he left Wall Street and started his own advisory firm. He spent thirteen years in California and moved to Palm Beach four years ago.

Chair Andrews thanked him and welcomed him on behalf of the committee.

Mr. Hennessy stated he was former Chairman of Allied Signal for fourteen years and he is from Boston.

Mr. Brown stated he came up through the actuarial and then the investment area of the John Hancock Insurance Company eventually becoming the Chairman and CEO of the company.

Chair Andrews said he is currently with Nuveen Investments. He had an accident so he is on long term disability but he is still fairly actively involved with the company. He grew up on the investment advisory side and the broker dealer side of the business. He has about thirty five years experience in finance and financial services.

Chair Andrews again welcomed Mr. Mikus to the Board stating that with his background and credentials, he will be an asset to the committee.

VII. SELECTION OF CHAIRMAN AND VICE CHAIRMAN

Chair Andrews called for a motion for the Chairman of the committee.

Mr. Mikus made a motion to reappoint the current chairman for another term. Mr. Brown seconded, motion passed unanimously.

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Chair Andrews made a motion for Mr. Hennessy to be Vice Chairman. Mr. Brown seconded, motion passed unanimously.

VIII. MONTHLY INVESTMENT REPORT

Cheryl Somers said included in the handouts is a copy of the fiscal year investment report for September, 2006. The current monthly investment report is for October, 2006. The Town has an approximate investment balance of $90,600,000, and interest earnings for the first month of the fiscal year of $427,000. Approximately 73% of the portfolio is in the SBA, the remainder is in the Florida League of Cities bonds accounts and the US Treasury bill. The reports attached to the handout were provided by the Florida League of Cities on the holdings, the returns and their benchmarks.

Chair Andrews said he noticed that the cumulative return since June has improved approximately $5,000. He asked if there has been any other movement on the negative balance?

Ms. Somers said since June, that negative balance improved by $205,000 through September, and through October, it improved another $6,000.

Mr. Brown commented that because of the inversion of the yield curve, the market seems to be expecting a weak economy and sometime next year a reduction of short term yields. If that happens, that would be fine for the Town because of the investments beyond the short term. If the economy strengthens, then probably the investments will go through another period of being behind the short term yield portfolio. A lot depends on the economy. Basically the yield curve is saying a weakness in the economy is expected.

Chair Andrews said he agrees with what Mr. Brown has said. He thinks, from the economic numbers he has seen, that for the next few months, they believe there will not be a major shift one way or the other which is good for this committee's position. He asked for suggestions from the committee as to reaffirming or changing the current investment policy. He asked for comments on the committee's position.

Vice Chair Hennessy suggested leaving as is.

IX. OVERVIEW AND UPDATE OF UMBRELLA COMMITTEE

Chair Andrews said that Mr. Elwell, the Town Manager, decided that maybe an umbrella committee could be used for some of the four trusts that are currently holding Town money. The idea was that there might be some economies of scale for the Town in simplification and for the trusts in terms of maybe getting better management rates and maybe some efficiencies of scale on the administrative side. There was one initial meeting and then Mr. Elwell asked that the committee reconvene at a future date to decide if they wanted to formalize the position. At the second meeting, it was almost unanimous that each one of the other Boards decided that they did not want to commingle either the money or the responsibility. This committee stayed neutral and did not offer a position. Mr. Elwell was of the opinion that there would be no necessity unless called upon for an additional meeting. The issue has died.

Ms. Struder agreed with the conclusion.

Mr. Brown said he wanted to disclose that he was asked before those meetings to give some advice on the subject. His advice was personal and not on behalf of the committee. He advised that there were a lot of benefits to putting all the small investment committees together, not only from the point of view of economies of scale and broader opportunities, but also in terms of having the strongest possible investment board. Initially, there was some interest in this, and eventually, that interest died. He personally thinks it is a mistake to have all these Town committees doing much the same thing with the same consultants, etc.

Chair Andrews stated that is his personal opinion also but not acting as a committee representative to the meetings. It became very apparent to him that each individual investment committee was very solicitous of its proprietary rights. That would mean that there would be less inside counsel, less outside fees, less responsibility to their board, and there were other areas other than administration and financial concerns that overrode the benefits of the proposed new committee.

Vice Chair Hennessy asked if the Town Council has the authority to make a change or is it left up to the individual unions or whatever?

Ms. Struder said she thinks they would have to have approval of the boards.

Mr. Crouse reported by state statue Police and Fire Boards have autonomy with regards as to how they form their boards and how they select money managers. While the General Employee Board of the three was very amiable to this type of situation, the Police and Fire would have had to give authorization and agreement. The Town Council has no authority to rule.

Vice Chair Hennessy said he agrees with Mr. Brown that it would have been a lot simpler and a lot less expensive and perhaps would have given more oversight of what is going on.

Chair Andrews said he thinks this committee could have offered a lot of value to the proposed committee. One of the things said was that if all the funds were combined, the Town would have a total of $180,000,000, and knowing how basis points break, the other committees did not believe there would be any significant reduction in management fees from going to where they are. There was no enthusiasm to go forward. Speaking as a representative of the committee, he does not think there would be any problem if this issue was readdressed at some time in the future, if the Town believes again that this committee might be able to help in the overall financial posture of the Town.

X. UPDATE ON HEALTH INSURANCE TRUST

Ms. Struder introduced Richard Schell from Arthur J. Gallagher, the Town's Health Insurance Broker, and Mr. Michael Merlob, a consulting actuary with Gallagher Benefit Services, who will be giving the presentation, and who has a particular expertise in retiree medical benefit accounting and valuation.

A. PRESENTATION OF OVERVEW OF GASB SANDARDS FOR OTHER POST EMPLOYMENT BENEFITS AND THE HEALTH INSURANCE TRUST

Mr. Merlob briefly gave some background information. He is a consulting actuary and has been with Gallagher Benefit Services for four months. He is originally from the New York Metropolitan area. He worked with Mercer in New York and then Mercer in Stanford. The reason he brought Stanford up is that's where the financial accounting standards board happened to be when he was there. At one point, Mercer's Chief Actuary called and suggested that someone in his office get to know what they were doing because he thought they were doing something that was important for this group to know about. He was volunteered to become the eyes and ears at FASB. They released statement 87 which changed pension accounting and in 1990, they issued statement 106, which is very similar to this, which changed the world for retiree medical benefit accounting. This had a major impact on industry. A lot of corporations made some very significant changes in their retiree medical plans as a result. For some of the major industries around the country that are struggling, like General Motors or the airline industry, retiree medical benefits are a large part of the issue.

GASB 45 has to do with retiree medical benefit accounting. It was issued in 2004 by the Governmental Accounting Standards Board and essentially the Financial Accounting Standards Board. The names tell you what they do. They set the accounting standards that companies or governments have to abide by in order to have their financial statements be considered in accordance with GAP. The concept is that the benefits are being offered in exchange for someone's active employment. If an active employee is being paid $50,000, that $50,000 is recorded in the financial statements as an expense. If active medical benefits are being provided, and it's costing $10,000 annually, that charge is taken now. Retiree medical benefits have not been accounted for that way. What has been done up until now is that the future promise would not be expensed until the person actually retired. The charge would be taken on the financial statement when that person retired and started to receive a benefit. What GASB is saying is that is not the right way to do it. That should be accounted for during someone's active working career because that is when the exchange is being made.

In looking back historically, governments have said things like "well, rather than giving you a 5% salary increase, we'll give you a 3% salary increase but we'll increase this future promise to pay" without necessarily knowing what the value of that promise was. That is what contributed to this situation today. There are some governments with very large liabilities. In valuations that have been done, there are cities with liabilities over a $100,000,000 and counties over $200,000,000. The liabilities are largely in retiree medical and prescription drugs. It has been historically financed on a pay as you go basis which means that assets have not accumulated specifically in order to pay for these benefits and in large measure, the value of the promise has never been measured.

Now, the Florida Statute essentially requires every governmental entity in the state to have a liability. The reason is there are two parts to this statute. The first part of the statute is that active employees must be offered to receive a benefit when they retire. That's very different from corporate life. A lot of corporations have simply eliminated the benefit. The Florida Statute says if an active employee retires and starts receiving a pension, he/she must be offered the right to continue to receive the benefit. The second part of that is that a retiree can't be charged more than the active retiree blended rate. The actives have to be thrown in with the retirees to come up with one rate to charge both active and retirees. That is what is called an implicit medical benefit subsidy as a result. As people age, not everybody individually, they use more health care.

On page 3 is an active employee age 35, an active employee age 50 and a retiree age 60. It is actuarially determined what each individual age costs. At age 35, the age adjusted rate, if valued separately, might be $300, the people at age 50 might be $425, and the retiree age 60 might be costing $625 month. If all ages are thrown together, and one rate is derived that everyone is charged, that blended rate might be $450. The bottom line is the retiree age 60 really should be charged $625. That's his/her cost but the most that can be charged under Florida Statute is $450. As a result of that, there is a $175 implicit subsidy because this person is basically getting a break. They are being subsidized by the younger people. GASB very specifically in their draft release said that the implicit subsidy does not have to be valued but in their final statement, they said very explicitly that if this situation arises, there is a liability and an expense has to be charged to it.

So, what does GASB 45 require? First of all, it requires that an actuarial valuation be done. Then it requires that an expense be posted on the financial statement. It does not require funding, but it tells how to record an expense on the financial statements.

The amount to expense is two pieces. The first piece is what is called the normal cost which is the value of benefits that are being earned in a given year by active employees. The second piece is to the extent that the liability has not been funded already, a portion of the accrued liability has to be basically paid off. People have already earned benefits, retirees have completely earned their benefits, active employees have earned a portion of their benefits based on the number of years of service they have rendered. If someone with a thirty year service career has already earned ten years of it, they have roughly accrued a third of the liability. So the value of the expense is the normal cost of the value of benefits being earned and then this accrued liability is calculated and paid off like a mortgage. So that's what is going to flow through the financial statements. There are also disclosure requirements if the plan exists and what the assets and liabilities are.

When an actuarial valuation is done, there are a lot of actuarial assumptions that get built into it. The discount rate, and that's actually the most interesting part of this, what percentage the retirees have to contribute, there's various different cost methods used, turnover and mortality retirement rates. All of these get built into participation rates, and all of these get built into the actuarial model.

Mr. Merlob did an illustration of what an actuary does when he does a present value calculation. If he promised to pay someone, who is currently age 62, $10,000 a year for the rest of his/her life, how would a single value be placed on that? The recipient would decide how to invest the money so Mr. Merlob will give some background on how the decision is made on what the liability is.

To make it simpler, he has assumed that this person is to be paid $10,000 on the first day of every year for the rest of his life. The $10,000 that is due now has a value of $10,000 because it is due right now. What about the value of the $10,000 that is due a year from now? He is still going to owe $10,000 but he doesn't need to put $10,000 aside right now. He is going to put the money in the bank and earn interest on it. Let's say he is only going to earn 5% interest on it. Then he would earn about $500 in interest. A man 62 has about a 1% chance of dying so there is a mortality discount. It isn't required to fund for people who are not going to be alive. There would be about a $100 mortality discount. The value right now of a payment due a year from now for a man 62, $10,000 payment, would be about $9,400 at 5% interest. But what is he going to be paid on that $10,000 two years from now? Well, that value might be about $8,800. What about that payment due eighteen years from now at age 80? That value might only be $2,500. So those individual present values are added together and at age 62 at 5% interest, roughly $110,000 would be needed in order to discharge that payment. If it was possible to earn 8% interest instead, only about $90,000 would be needed because the more that can be earned on the money, the less has to be put aside.

The example shows a man who is currently 42, was hired at 32, assume he is going to retire at 62. So how much needs to be put aside now in order to make that payment of $10,000 a year beginning at 62? At 5% interest, it would only be $36,000. Look at the dramatic impact the higher interest rate has because of the very long time period. It's only half. If $18,000 was put in the bank now, that would be enough to pay $10,000 a year beginning at 62.

The reason for choosing 5% and 8% interest is that GASB says the discount rate that is used depends upon whether the entity is going to fund the plan or not. Remember, they are not saying funding is required. But they are giving some pretty strong incentives to fund and that's where this comes in. If the Town decides not to fund, then the discount rate used is essentially the rate that the Town would be earning on cash sitting on its balance sheet which is assumed would be about 5%. That's the money market rate. If the money is taken out and put into a trust, then it could be invested in stocks, bonds, real estate. Therefore, the 8% interest rate is used. Notice the dramatic impact that it has.

In the next example, he showed how they developed a normal cost in an accrued liability. Remember, the total present value of projected benefits is $36,000. He is assuming that this person is going to have a thirty year career so therefore 1/30th or $1,200 would be the value of benefits being earned this year. That's the normal cost and then the accrued liability is $12,000, $1,200 x 10, and then this is what will be shown as a liability in the disclosure and what will be funded over time. This is how the accrued liability is determined. It is shown both at 5% and 8%.

Mr. Mikus asked if the Town employees vest their benefits immediately?

Mr. Crouse said no.

Mr. Mikus asked what is the vesting period?

Mr. Crouse replied 10 years.

Mr. Merlob said at 5% interest rate, accrued liability for actives is about $23,000,000, the accrued liability for retirees is about $14,000,000, and the total accrued liability is about $37,000,000. At 8% the accrued liability for actives is just about half, and then for retirees, the liability is $10,000,000. So the liability is either $37,000,000 if the plan is not funded, or $22,000,000 if the plan is funded. In the funding options, different situations are shown for different municipalities depending on the money they have available.

The funding options are:

- Pay as you go. If pay as you go is used, a significant liability is going to get built up on the balance sheet because the expense will have to be charged at a much higher rate than the pay as you go cost. Typically, the new expense has been anywhere from two to ten times over the pay as you go cost.
- Contribute to ARC.
- Pre-fund (which is what the Town has decided to do)
- Issue OPEB Bonds (some municipalities are going to be looking to issue OPEB Bonds because of the interest arbitrage. The bonds could be issued at maybe 5.5% and then take the money and invest at maybe 8% and as a result end up saving some money over time.

On page 10, look at what the funding impact would be on the pay as you go cost in the first column. Everything in this column except for the actual pay as you go cost is assuming a 5% discount rate. So again, the liability was $37,000,000, the normal cost of value benefits being earned is close to $2,000,000, the amortization which is paying this off over a thirty year time period, is $1,400,000, interest at 5%, the Town would have a total expense of $3,500,000. If the Town had chosen not to do anything about funding the plan, there would be $3,500,000 as a charge to the financial statements, the pay as you go cost is $700,000, so this is five times as much. The Town would have had a balance sheet liability of $2,800,000 on the books. Next year, that would have grown by another $2,800,000 so it would have been over $5,000,000.

If a decision had been made to fund the ARC each year, the accrued liability would have been $22,000,000. Normal cost is about half because in using a higher discount rate, it would have been $900,000. The amortization would have been $1,200,000 and then the interest cost. The reason this number is higher is an 8% interest rate is used, 8% of the unfunded liability. Here's it's only 5%, again funded liability so that is pretty much back to the same number. The expense going to the financial statements would have been $2,200,000 compared to the pay as you go cost at $700,000. In fact, if the decision is made to put $16,000,000 into the trust, as a result of that, the unfunded liability goes down by $16,000,000 million. So the unfunded liability right now for the entire medical benefits is $6,000,000 million. The normal cost doesn't change but the amortization costs does change because the unfunded liability is so much lower. And, this year an ARC of $1,344,000 will flow through the financial statements.

Page 11 shows a GASB 45 projection. The projections can get very sophisticated, how it ties in with the different investment models, etc. This is just a very simple projection. He assumed here that the Town is going to earn 8% which was the actuarial assumption. He does have a forecast of what the benefit payments are going to be going forward and he has shown what the ARC would be over the next ten years. The reason that the ARC goes up is primarily because of medical trend. Assume that sometime during the year, the Town decides to contribute to ARC, that $16,000,000 was really an initial contribution of $14,500,000 plus the ARC for the first year. But let's assume that the Town is going to contribute another $1,344,000 at some point during the year. Then this is a projection of what the assets would do over the next ten years. They rise pretty dramatically. He thought this would be valuable for the committee to have in terms of deciding what asset allocation to make. Basically, this is showing that this asset pool is going to grow.

Mr. Brown asked if this is based on the 8%?

Nr, Merlob replied it is based on 8% interest.

Mr. Brown asked Mr. Merlob to tell the committee how he came up with the 8%.

Mr. Merlob replied it is a general number that is commonly used, somewhere in the 7.5 to 8.5% range. It's generally based on, 60% in stocks, and stocks are going to earn so much, so much into fixed income, so much into international, that's generally how they would come up with what the interest rate is. He asked what the Town's interest rate is?

Ms. Struder replied it's 8%.

Mr. Merlob said 8% is a general number.

Mr. Mikus said it is really an expected rate of return.

Mr. Merlob agreed and stated generally the way he has seen that arrived at is by taking a look at the different asset classes and taking a look at what those asset classes have earned historically and what the forecast is to be earned in the future. A very typical asset allocation these days is somewhere in the 60/40 category. Part of the reason he did this projection was to show that these assets and these liabilities are going to be around for a long time. Generally, when that fact is recognized, investors tend to get a little more aggressive in how they invest.

Chair Andrews asked how the actuarial life tables are determined? Do you take the Federal standards?

Mr. Merlob said they use the standard current mortality standard.

Chair Andrews said he was asking because he does not think there is a standard. He said they look at that in his company and they seem to be different. There's an insurance one, there's an IRS one. He just wondered what Gallagher had, how often they are updated, because the way graphics are going, they are going to extend this out further. He can see some upward pressure along the way in the numbers.

Mr. Merlob referred back to the slides where he showed the different assumptions. They've made assumptions about everything, when people are going to retire, when people are going to quit, the participation rate, and it's very sensitive to these assumptions. There is a dramatic impact of using different discount rates. These valuations are just guesses. They tend to self correct, and that means from one year to the next, the actuary knows what the expected liability is going to be and it's never exactly right. It is like forecasting what the DOW is going to be a year from now. But these tend to self correct and the following year, the liability will be respread. His illustration shows the ARC is going to be $1,466,000 next year. Let's say 10% is actually earned on the money, and what's going to happen next year, is that ARC's going to come down a little because there are more assets than expected. Let's say only 6% is earned on the money, then the unfunded liabilities can be higher than expected, therefore, the ARC's going to be a little higher next year.

Chair Andrews asked Ms. Struder how the other trusts have done in reference to the 8% mark?

Ms. Struder replied in the most recent fiscal year, the Police and Fire pension funds earned around 9.5%, General Employees had a 7.4% return. In the three year return, Police and Fire were around 10.1%, and General Employees was around 10.3%. Going out a full ten years, Police and Fire was 8.4% and General Employees was 8.48%.

Chair Andrews said he is assuming the start date of this committee's responsibility for this trust is October 1?

Ms. Struder said correct. The trust is earning 5.3% now.

Mr. Panfel stated he had attended a meeting of the Town Council and there were many expressions of disappointment on the returns of the Police Retirement where one council member expressed a desire to hire the investment council of Harvard or Yale. He asked Ms. Struder if she recalls that?

Ms. Struder said yes and that's why they had the umbrella committee review possibly commingling all the trust assets of Police, Fire, and General Employees.

Mr. Brown said there is a very common desire of almost every investment group he knows of to emulate Yale University. Yale has done a fabulous job, of course, their assets are in the billions, and the people who do the work for them are extremely highly paid. It's unlikely that very many people are going to be able to emulate that.

Chair Andrews said he doesn't know about Yale but Harvard has a statistically relevant portion in venture capital. Those are areas that this committee, at our size would not look at, however, maybe in the future, he would like to be able to say this committee is open to any and all opportunities that would be available to the committee to use in this trust. One other basic question, because he grew up on the business side, what is the general difference between FASB and the GASB?

Mr. Merlob said the concept is exactly the same. Some of the actual components are a little different. The basic concept is that accrual accounting is going to be done over someone's active working career. In FASB, there is a normal cost just like there is a normal cost here. Rather than taking unfunded liability and spreading it over time, FASB takes interest on the liability and then subtracts that from the expected return on plan assets. So it is a very similar concept but in a slightly different way. The discount that FASB uses is not the same as the expected return on asset rates. There are actually two different rates. The discount rate FASB uses is the expected rate of return essentially on a fixed income portfolio that has a duration similar to the duration of the Town's liabilities. So if the Town's liabilities have a duration of twelve years, what would be earned on fixed income, and it has to be high quality, maybe 6.2% AA bonds, discounting liabilities, that's how liability would be determined. Then the expected return on assets would be based on the rate of return the trust is expected to earn. There are some differences on how to do it going forward, what to do with gains and losses, for instance. Mr. Merlob stated he was a trustee of a pension board when he lived in Connecticut. There was one trustee that managed all the plans, the Police, Fire and the General Employees. He was the actuary for the City of Stamford and the City of Danbury. They combined the pools. A master trust arrangement was set up and it was exactly for the same purpose which was to reduce the expense of running the plans and also to give access to the best managers. The Town now with $16,000,000, might not have enough to go out and try to get venture capital money, but if it would be part of $180,000,000, then maybe the Town could put a $10,000,000 slice into that and then could have $1,000,000 or $2,000,000 of that. That is beyond what he has been asked to talk about today but he does have some background on that and he does think that is something that is worthwhile.

Chair Andrews stated the committee agrees with his comments.

Mr. Panfel asked if there are any adjustments made for gender of the retiree and is there a difference in charge?

Mr. Merlob said yes, when the forecast is done, the model does anticipate that there is a difference in longevity. There is no difference in cost.

Chair Andrews thanked Mr. Merlob on behalf of the committee for the informative presentation. He asked if Mr. Merlob would be available for future questions?

Mr. Merlob replied yes and he will be available for anything he can do to help the Town and Committee in terms of modeling to help decide the allocation. He stated the Town is one of the very few municipalities to fund these liabilities. There will be a lot of entities with liabilities of $100,000,000 with no cash at all. The Town is in great shape.

Chair Andrews said Boca has a fairly strong balance sheet. He asked Ms. Struder if she knows if they are doing the same thing? What other Towns are in the position the Town is in?

Ms. Struder said she does not know of a single one that has put aside money, especially to the extent the Town has, in the state of Florida.

Chair Andrews thanked Mr. Merlob again for the excellent presentation.

B. INVESTMENT OF TRUST ASSETS

Chair Andrews asked Ms. Struder for an update on the investment of trust assets.

Ms. Struder said there are a few options. The Florida League of Cities has created an investment pool specifically for these OPEB trusts. She has given some detail in the handouts and they have expressed an interest in coming to make a presentation regarding this pool if desired. Another option that this committee has is to create a system much like the Town's current retirement funds. The Boards have a performance monitor that establishes an investment policy. They hire and terminate money managers, they have a custodian for the assets. Each year, they have an actuary perform actuarial reports. The OPEB trust has biannual actuarial requirements, not annual requirements like the pension funds. So if this committee wants to take a more active role in the investment of the assets, that is one route to take. Another option would be to invest with the Florida League of Cities initially and then move towards a more active investment. The League said that the money could be pulled out with 30 – 60 days notice.

Mr. Mikus asked if this committee could select different asset classes and specific mutual funds to manage the assets more actively?

Ms. Struder said yes, mutual funds or hire a money manager that would invest in internationals or whatever.

Mr. Brown said he thinks the most important part of what the other Town boards are doing is using either Callan or Prime Buckholz. He asked Ms. Struder to describe that?

Ms. Sruder replied there's Callan Associates or Prime Buckholz depending on which retirement board is using them. They are the performance monitor that helps the boards hire different money managers, goes out on manager searches, helps develop the investment policy for the funds, does modeling and how much assets to put in international, fixed, and equity, and the boards decide on what kind of model they would like.

Mr. Brown said he has read their reports for the other boards and they do a very complete job of investment advice to their committees. They have provided some opportunities to invest in fund to funds for hedge funds, for example, so that they could get into hedge funds without having to pick out specific hedge fund opportunities. He doesn't know if they have done that in venture capital or private equity. They have a broad range of opportunities and he would suggest that if the Florida League is going to do a presentation, that maybe one or both of these consultants that the other boards are using, could come and give a presentation also to see where they might be able to help as well.

Chair Andrews agreed that Mr. Brown's suggestions are excellent ideas. One of the things he was wondering was where the costs were involved because he thinks there is also a question of an attorney.

Ms. Struder said this board could decide to work with the Town's law firm or hire their own attorneys. The pension boards have hired their own attorneys. The General Employees Board attorney is with the Town attorney's firm. This committee could have one on staff or just contract with the Town's attorney depending on how actively an attorney is needed.

Chair Andrews asked her to give a rough idea of the cost of having Callan in or someone else.

Ms. Struder said Callan and Prime Buckholz both charge $15,000 per quarter for their services but she is not sure if that's based on the size of the assets in those pools, they are about $50,000,000 each.

Chair Andrews said he would like to see a presentation and he would leave it up to the Town staff to decide whether to have either one or two presentations. He asked if the amount of time spent on the trust has to be separated from the other part of the meetings? As an example, when the Florida League of Cities is giving a presentation, is the presentation differentiated at all between what happens in the trust and what happens with the rest of the Town's money?

Ms. Struder said if the committee decides to go the Florida League of Cities route, for example, she thinks that they would give a brief presentation on each of the various funds that the Town is invested in. That is what Atlanta Capital does at the Florida League of Cities meetings that she attends. They have a variety of pension assets that they invest for the League, this new OPEB fund and bond funds so they give a presentation on each asset class for that board. She thinks it would be very similar.

Chair Andrews asked so this committee does not have a responsibility to have a regular meeting of the committee and then a separate meeting for the health fund?

Ms. Struder said she does not think so.

Chair Andrews asked Ms. Struder on behalf of the committee to investigate the two firms and see if they are available for a presentation. He asked for a recommendation from the board if they would like to accept the offer of the Florida League of Cities to address the next board meeting?

Mr. Brown said he would strongly support that but to the extent that the others could give presentations also.

Chair Andrews said he doesn't know how long a presentation they generally make. The Florida League of Cities takes a fair amount of time in their presentations.

Ms. Struder asked if the committee would like a presentation from the Florida League of Cities for just the OPEB trust or their usual semiannual presentation on the bond funds?

Chair Andrews said their overall presentation would probably be fine as it could be used on either side and if specific questions need to be answered, the trust versus what the Town has. He asked for other suggestions from the committee?

Mr. Brown said if Prime Buckholz or Callan could give a presentation at the next meeting, maybe it would be better to have one of them in addition to Florida League and just skip the ordinary Florida League presentation until another meeting. In other words, try to accommodate the outside consultants because he thinks that is a more urgent need given the fact that the committee is sitting at 5.3% with an 8% assumption.

Chair Andrews said he agrees with that. He asked the Finance staff to contact the firms to see if they are available to do a presentation for the next meeting, He thinks that would be very valuable.

XI. COMMITTEE MEMBERS' PERSONAL LIABILITY AS TRUSTEES

Chair Andrews asked Mr. Brown to present his new agenda item to the committee.

Mr. Brown said he basically asked Ms. Struder a question about whether becoming a trustee subjected the committee members to any additional personal liability and also whether there was some kind of insurance and indemnification for people of their status? He asked Ms. Struder if the memo in the handouts addresses that?

Ms. Struder said in part. She has also asked the Town's Risk Manager to get a quote from the Town's insurance company for fiduciary liability insurance for this board. The other three retirement boards have that insurance and she thinks it would be beneficial to obtain it for this board. In addition, last May 2005, one of the board members had asked virtually the same question as Mr. Brown and the question was posed to the Town Attorney. The Town Attorney's response is included in the handouts. Basically, it says that members who are elected or appointed to boards, councils, commissions of the state, county, municipalities, authorities and special districts shall incur no civil liability and have immunity from suit as provided in Section 768.28 for acts or omissions by members relating to members' conduct of their official duties. It also goes on to say no officer, employee, or agent of the State or any of his subdivisions shall be held personally liable in tort or named as a party defendant in any action for any injury or damage suffered as a result of any act, event or omission of action in the scope of her/his employment or function unless such officer, employee, or agent acted in bad faith or with malicious purpose in a manner exhibiting wanton and willful disregard of human rights, safety, or property.

She stated the bottom line is that unless you intentionally try to defraud or hurt the Town in any way, the Town covers any suits and the state protects you.

Chair Andrews said that was a question he had in reading the letter He wasn't sure if suit is brought against the committee either severally or personally, if the Town is going to step in and defend the committee positions at that time?

Ms. Struder replied yes and this memo does describe that as well.

Mr. Mikus asked if there is a distinction between serving on a board and serving on a trust?

Ms. Struder said this memo is for a trust, for the Firefighters' Pension Trust.

Mr. Brown said on the second page, it talks about the Town's insurance policy and says that the Town has $150,000 deductible. Who is going to cover that? It states yes, the Town can cover it and provide an attorney, etc. However, the Town would have to satisfy itself, etc. It sounds like the Town has not done what most corporations have done for their boards which is to pass a specific resolution that the Town will cover the deductible for any of its appointed or elected board members with the exceptions, etc. This is kind of leaving it up in the air which he doesn't think is a very good thing and as it points out earlier, anybody can sue anytime anywhere. He thinks this should be given some further thought.

Chair Andrews asked Ms. Struder to ask Mr. Randolph what his position is and then maybe he can talk to Mr. Elwell on having the Town Council adopt a resolution.

Ms. Struder said she will ask.

Vice Chair Hennessy said that the Town Council should adopt a resolution. He would not feel very comfortable otherwise.

Mr. Mikus asked if the wording would be changed from "the Town can cover" to "will cover"?

Chair Andrews said exactly. He said he was reading somewhere that they have to set the term of the Vice Chairman to three years or five years?

Ms. Struder said this board should decide and can create its policies regarding that. Your personal terms are established by the ordinance but this board should decide on the terms.

Mr. Brown said the Chairman has been elected each year. He thinks the Vice Chairman should follow the same.

Chair Andrews agreed.

Ms. Struder said each year when members are appointed/reappointed to the new board would probably be a good time to elect the Chairman and Vice Chairman.

Mr. Brown asked what their personal terms are on this board?

Ms. Struder said Chair Andrews, Mr. Brown and Mr. Hennessy are up in May for reappointment. Reappointment is biannually. The other two will be the following year. The initial term was for longer.

XII. NEXT MEETING DATE

Vice Chair Hennessy asked if the next meeting date could be toward the end of January so the updated figures will be available.

Ms. Somers said the figures come out around the 20th to the 25th.

Ms. Struder said she will need to schedule with Callan, Prime Buckholz, and the Florida League.

Ms. Struder said the main point of the next meeting will probably be the OPEB Trust rather than the investments.

Chair Andrews asked Ms. Struder to send the dates out and they will confirm.

XIII. ANY OTHER MATTERS

There were no other matters for discussion.

XIV. ADJOURNMENT

Mr. Panfel made the motion for adjournment, Vice Chair Hennessy seconded, motion passed unanimously.