Town of Palm Beach Police Officers' Retirement System
MINUTES OF SPECIAL MEETING HELD
December 2, 2004

I. CALL TO ORDER

Chairman George Frick called a meeting of the Police Officers' Retirement System to order at 9:09 AM on December 2, 2004, in the Palm Beach Police Department Briefing Room. Those persons present included:

TRUSTEES	OTHERS
James Wearn, Town Appointed Trustee	John McCracken, Attorney
Raymond Snow, Town Appointed Trustee	Scott Baur, Administrator
George Frick, Employee Member Trustee	Michael Reiter, Police Chief
Mike Lynch, Employee Member Trustee	
Gerald Goldsmith, Fifth Trustee (by phone)	

II. APPROVAL OF AGENDA

Mr. Wearn stated that the Board tentatively set the meeting date for the Special Meeting predicated on having a revised cost estimate from the actuary and a draft ordinance before the meeting date was set. He expressed his concerns to Scott Baur, the administrator, prior to the meeting as well. Mr. Wearn reported that he received the cost estimate from the actuary at 2:21 PM the day prior to the meeting, and the draft ordinance at 5:10 PM. He indicated that he should have materials for review no less than 7 days in advance of a meeting. He does not consider the Special Meeting an emergency situation.

Mr. Wearn questioned whether the paperwork that he received conformed to the estimate, since he did not have the minutes for the meeting of November 11 available for review. He recalled that the police officers should fund 50% of the cost for the benefit increase. The memo from the actuary dated November 30, 2004, however, was not available prior to the meeting for review. He expected Brad Armstrong to provide further detail regarding the funding of the benefit increase, and he expected the ordinance to address the contributions by the Town and the members of the plan.

Mr. Wearn then stated that the matter of the benefit increase was essentially treated as an emergency, but no emergency in fact exists. The timing of the benefit increase would not make a difference to members of the plan, since the proposed ordinance had an effective date of October 1, 2004, for the change in the multiplier. He requested that the Board adjourn the meeting to a later and more appropriate date.

Chairman George Frick rejected the request by Trustee James Wearn for a continuation of the meeting.

Mr. Wearn summarized his comments and concerns for the Board. As a Trustee, he did not have ample time to review the materials received prior to the meeting. The materials that he did receive did not conform to the parameters for the study requested by the Board from the actuary. Finally, no emergency existed, so the Board should postpone the meeting until substantial questions regarding the proposed benefit increase must be resolved before the Board takes action on the matter.

Chairman George Frick thanked Mr. Wearn for his comments. He then stated that time is of the essence for the members of the plan, since several members would separate from service in the immediate future. Furthermore, he also expected changes to the composition of Town Council. The current members of Council worked with the officers in the department through the two recent hurricanes. The members of the plan viewed the possible changes to Council as an issue in the process, and as a representative of those members, Sgt. Frick must also address the timing and act without delay.

Sgt. Frick noted that the paperwork to document and support the benefit change is substantially complete. The Trustees had only three paragraphs of information to review. As the Board contemplated the timing of the meeting in advance, he would allow the meeting to move forward unless he had a motion and a second by the Trustees to cancel the meeting.

Mr. Wearn responded that the matter of the emergency was subjective. The Town already compensated staff for efforts related to the Hurricanes, and the Town also did not fund an additional benefit for the Police Officers Retirement System under the current budget. Therefore Mr. Wearn made a motion to postpone consideration of the benefit increase until the matter could be more reasonably considered by the Board, in conformance with the provisions of Chapter 82, and in February consider rules of procedure to set agendas for meetings according to the provisions of 182.11 c). The motion died for lack of a second.

Mike Lynch made a motion to approve the agenda. Raymond Snow seconded the motion, approved by the Trustees 5-0.

Trustee Raymond Snow remarked that the minutes for the meeting of November 11, 2004, would have been helpful to have in advance for this meeting.

III. PROPOSED BENEFIT CHANGE

Gerald Goldsmith asked for clarification of the costs for the benefit increase in the letter provided by the actuary, which presented the costs as a percentage of pension payroll. In dollar terms, the actual cost to the Town should total between $150,000 and $180,000 in the first year, assuming the corresponding savings to payroll projected by the actuary associated with the multiplier increase. The actuary projected savings to payroll based on a shortened service career, which reduced the overall pay structure and pay progression in the department. Scott Baur confirmed that the Town would not have to increase funding to the Retirement System until the fiscal year starting October 1, 2005, for a benefit change passed during the current fiscal year. Mr. Wearn stated that the actuary needed to provide a cost breakdown to clarify the funding of the benefit, projected as 13% of payroll less 6% in corresponding savings to payroll and about 1% funded through Chapter 185 premium tax receipts. If the police officers contribute another 3% of pension payroll to the benefit increase, then the Town must fund the 3%-4% remaining cost.

Mr. Wearn noted that the report provided by the actuary and the proposed ordinance failed to clearly indicate that the Chapter 185 premium tax receipts would be used to partially fund the change in the multiplier. John McCracken responded that the proposed ordinance could clarify the use of the Chapter 185 receipts.

Chief Reiter of the Town of Palm Beach Police Department addressed the Trustees by consent of the Board. Chief Reiter stated that he was a participating member of the Retirement System.

Chief Reiter indicated that the benefit increase had great urgency to embers of his department, since 10% of the force would separate from service to retire during the next 12 months. These officers must make decisions and plan accordingly, but their decisions are affected by the benefits afforded by the Retirement System. If Town Council has the opportunity to act on the benefit increase, then the officers can make better-informed decisions regarding their futures.

Mr. Wearn stated that the officers could make temporary financial decisions while the benefit increase is pending. He questioned whether any decisions made by the officers over the next half year would be irrevocable. Chief Reiter provided examples of the irrevocable decisions that retiring officers must make, including leave bank payouts and the decision to continue benefits through the Town insurance plan following retirement. Chief Reiter noted that many members of the department also feel wronged when the Retirement System excluded members in the DROP from participating in prior benefit increases. The differences between officers participating in benefit increases create management issues within the department as well.

Mr. Wearn asked why an officer could not initially take health benefits and discontinue such benefits at a later date. He noted that members might make temporary investment decisions in the mean time, although the Chief noted that a retired member would incur a significant penalty to withdraw from the health savings plan after deciding to participate. While Mr. Wearn remarked that the issues only had urgency then for 7-8 officers, Chief Reiter stressed the importance to obtain resolution on the benefit increase for these officers if possible. Mr. Wearn commented that the Board also acted quickly to implement the DROP in 1997, perhaps more quickly than prudent, leaving the Board with other issues to address later. He stated that the Board had even less time to process the current proposed increase to benefits, while the ramifications resulting from the change might exceed the impact of the DROP.

Chairman George Frick indicated that the actuary would need to issue another memo to clarify the proposed sources of funding for the multiplier increase. He suggested that the proposed ordinance should mention that the officers specifically requested the increase to contributions to help fund the benefit. He asked John McCracken if the ordinance might also express the intent of the parties involved. John McCracken responded that the Firefighters Retirement System recently forwarded a proposed ordinance for consideration by the Town Council along with a resolution adopted by the Board. James Wearn suggested that the ordinance include whereas clauses to appropriately document the intent of the Board.

John McCracken reviewed the existing ordinance and the proposed ordinance. The Trustees suggested wording for the whereas clause setting forth the background for the change and the intentions of the Board. Mr. Wearn felt that the actuary needed to better explain the projected savings of 6% of payroll associated with an increase in the pension multiplier. Sgt. Frick discussed the payroll savings and offered an example, but Mr. Wearn questioned whether the department would really have enough retirements to achieve savings of 6% of payroll. Sgt. Frick explained again that the savings resulted in a projected reduction in the maximum career from 25 years to 23 years before a member enters the DROP. He added that the Trustees do not have the individual expertise to supercede an opinion provided by the actuary for the Retirement System.

Scott Baur attempted to provide a simple explanation for the savings in payroll associated with the increase in the pension multiplier. Mr. Wearn responded that the letter from the actuary failed to adequately explain the savings; Council should have a complete explanation of the savings to payroll in order to consider the request to increase benefits. Mr. Wearn insisted that the Board should review all such matters in writing prior to submitting a proposed ordinance to Council. Sgt. Frick thanked Mr. Wearn for his input.

Chairman George Frick presented a letter documenting a unanimous ballot by the members in support of the increase to member contributions for the multiplier increase. John McCracken clarified the ballot, noting that all 63 members who voted out of 70 members total supported the measure. Mr. Wearn asked to review a copy of the ballot in question. James Wearn and John McCracken briefly discussed the sections of the existing pension ordinance that the proposed ordinance should reference. The Trustees reviewed the language contained in the ballot. John McCracken suggested that the ballot should become an attachment to the minutes for the meeting. Mr. Wearn commented that the Board did not have sufficient information and documentation to address the matter of the proposed benefit increase. Furthermore, the Board now had additional information to request from the actuary, not withstanding revisions to the proposed ordinance, which the Trustees should review before making a recommendation to Council.

Mr. Wearn insisted that the Trustees did not have sufficient time to consider all the possible ramifications associated with an increase to benefits. Furthermore, the members of the Retirement System already in the DROP understood their benefits well enough prior to deciding to enter the DROP in the first place. The Board should act responsibly and prudently, not quickly.

For example, Mr. Wearn stated that the shortening in the service career might also drain the department of officers with valuable experience to the Town. At the same time, the Town should encourage officers to commit to long-term employment and reduce turnover in the ranks. The increase in member contributions from 6.98% to 9.98%, plus the contribution of 7.65% to social security and Medicare, would put the total payroll deductions for a member above 16% of payroll. The amount of the total contribution could make recruitment of new personnel to the department more difficult. Therefore, the Board should also obtain the input and expertise of the Human Resources Department on the possible impact of the proposed increase to the multiplier.

Mr. Wearn reminded the Board that the Retirement System was about 93% funded following investment losses in the recent market. If the Board made a recommendation to increase benefits, the funding ratio could become even worse. Any unfunded liability for the Retirement System ultimately becomes an obligation of the taxpayers.

Finally, Mr. Wearn remarked that members should not need 92% of their final average salary to make ends meet following retirement. Studies of retirement typically show that retired persons require no more than 80% of their pre-retirement income to survive. While the Town wants to compensate the police officers fairly, those officers should not need a pension of any more than 80% of the final average salary. The Town should therefore consider all categories of compensation, not just pension, before taking action on a benefit increase.

Sgt. Frick responded that officers typically devote 30 years to the Town through a full career, and even a career of 28 years exceeds a typical tenure of employment in our society today. The 4% accrual, on the other hand, should help the Town retain long-term employees even if the ultimate career is reduced by two years. While a 9.98% member contribution might seem high, the officers in the department recognized the value of a 4% multiplier by unanimously voting to support the benefit increase. An officer receives a maximum benefit of 81.25% of a final average salary computed at 25 years of service, but the officer actually receives a smaller percentage of the final earnings. Furthermore, the members of the retirement system receive only a 2% COLA after 37 months of retirement. The lack of a stronger COLA further reduces the value of the retirement benefit that members of the plan receive, while many other local departments provide a stronger benefit than Palm Beach. An increase to the COLA, however, would cost the Town more than the proposed increase to the pension multiplier with no corresponding savings to payroll. The proposed benefit provides retiring members with more money up front, even though retired officers lose ground financially compared to increases in the cost of living following retirement.

Sgt. Frick noted that the firefighters employed by the Town have Share Accounts, so now the police officers lost parity with their counterparts even within the Town. A full 10% of the department, meanwhile, looked to the Board to take timely action on the proposed increase to the multiplier. The Retirement System still has investment losses from prior years to recognize due to the 5-year smoothing of returns used by the actuary, but the Town Council and the Human Resources Department originally requested the use of a smoothing technique for investment returns. In summary, Sgt. Frick commented on the comparison of benefits to other peer departments locally, the funding of the Police Officers Retirement System remains strong, and the officers in the department looked to the Board to act on their behalf. Sgt. Frick reminded the Board that the Trustees actually have a fiduciary to act in the interests of the beneficiaries of the plan, as opposed to some other entity.

The Board called a brief recess.

The meeting resumed at 10:34 AM. George Frick stated that the Board in years past would perform all of the due diligence associated with an increase to benefits. The current Council and Town Manager, however, would go through their own review process and investigation before making a change to the benefits provided by the Retirement System. Therefore, the Board should forward the matter to Council for consideration on behalf of the members without further delay.

John McCracken suggested the wording for the whereas clauses to explain the funding and the intent of the proposed ordinance. Mr. Wearn requested that the clauses note that the actuary advised the Board regarding the benefit increase and the associated costs.

Mike Lynch made a motion to forward the proposed ordinance to the Town Council for consideration on the December 14 agenda, amended to incorporate the modifications made by the pension Board. Gerald Goldsmith seconded the motion.

Mr. Wearn stated that he had philosophical concerns with the proposed ordinance, so he could not support the motion at this time. The Trustees considered that the cost to the Town for the benefit increase might be more or less than 3% of payroll, depending on the amount of Chapter 185 premium tax receipts contributed to the plan. Mr. Wearn stated that any action by the Board was premature. The recommendation of the Board carries much weight, and previous Boards acted more carefully. Furthermore, Boards typically make a recommendation to Council on a unanimous vote of the Trustees. All of the documentation regarding the proposed increase in the multiplier should be made available to the Trustees to review, for the Board to act responsibly.

Raymond Snow responded that, as a Town resident, the matter of retaining and attracting officers has great importance. He stated his support for the motion, although he requested a copy of all the materials submitted to Town Council as soon as possible. He hopes that Town Council supports the recommendation of the Board.

Chairman George Frick called roll on the motion. George Frick, Raymond Snow, Michael Lynch, and Gerald Goldsmith voted in favor of the motion. James Wearn voted against the motion. The motion passed 4-1.

The Trustees determined that the submission to Council from the Board should include a memo written by Sgt. Frick, the cost estimate from the actuary dated November 8, the sample ballot used by the members of the plan to vote support of the increase to member contributions, and the proposed ordinance. The submission should also include an additional memo from the actuary explaining the savings to payroll associated with the increase to the pension multiplier, as well as a memo summarizing the sources of funding for the proposed benefit change.

IV. OTHER BUSINESS

James Wearn made a motion to have a discussion of rules and procedures placed on the next meeting agenda for discussion, with the intent to draft operating guidelines for the Board with the input of the attorney and the administrator for the Retirement System. Mike Lynch seconded the motion, approved by the Trustees 5-0.

V. ADJOURNMENT

There being no further business, Raymond Snow made a motion to adjourn the meeting at 11:53 AM. Mike Lynch seconded the motion, approved by the Trustees 5-0.

Approved: ______________________________