MINUTES OF THE TOWN OF PALM BEACH RETIREMENT SYSTEM
POLICE OFFICER BOARD OF TRUSTEES
MEETING OF NOVEMBER 18, 2010

I Call to Order

Chairman Snow called the meeting to order at 9:09 a.m. at Town Chambers, 360 South County Road, Palm Beach, FL. 33480. Chairman Snow noted that Sergeant Chris Proscia would be arriving later in the meeting. He discussed that Town Manager Mr. Peter Elwell had agreed to attend the meeting at the request of the board, but has an employee award breakfast that he is attending, and that he will be present to discuss matters of proposed pension changes later in the meeting. Chairman Snow requested that the trustees allow Mr. Elwell's presentation to be heard out of order when he is able to be in attendance. Without motion the trustees agreed.

In Attendance:

TRUSTEES:
Ray Snow, Chairman
Detective Michael Lynch
Sergeant Chris Proscia
James McC. Wearn
Gerald Goldsmith

ALSO PRESENT:
William P. Hanes, Pension Administrator
Bob Klausner, Klausner & Kaufman
Alexia Varga , Nowlen,Holt & Miner
Sean Higman, Prime Buchholz

II. Election of Member Trustees

Mr. Hanes announced that Sergeant Chris Proscia and Detective Michael Lynch have been duly elected to serve terms of office for the Police Officer Board of Trustees. He stated that Sergeant Proscia has been elected to serve a two year term, and Detective Lynch has been elected for a one year term. He discussed that the board had previously chosen by lot the terms of office per position, and that the term of office for both officers begins October 1, 2010.

III. Appointment to Board of Trustees

Mr. Hanes announced that Chairman Snow and Mr. Wearn have been reappointed by Town Council to serve as trustees of the board. He discussed that the Town Council did not designate a term of office, and that Town Manager Mr. Peter Elwell had suggested to Mr. Hanes that he believed that the board should by lot take action to determine between the appointees the terms of office, either one year or two years, as the code provides. The board agreed without motion that a determination would be made by a coin toss. Attorney Robert Klausner volunteered to make the coin toss. Mr. Wearn prevailed on the coin toss, and chose a one year term of office. Consequently, the trustees and Mr. Snow agreed that Chairman Snow will serve for a two year term of office. The trustees acknowledged agreement without motion.

Mr. Snow noted that Mr. Goldsmith was elected to serve as the fifth trustee at the previous August 24, 2010 board meeting.

Mr. Hanes discussed that Sergeant Proscia would be administered the oath of office later in the meeting after his arrival.

IV. Administration of Oath of Office

Ms. Denise Carmona administered the oath of office to Chairman Raymond W. Snow, Detective Michael Lynch, Mr. James McC Wearn and Mr. Gerald Goldsmith.

(Mr. Klausner administered the oath of office to Mr. Proscia after adjournment of the meeting).

V. Election of Officers

Mr. Goldsmith made the motion to nominate Mr. Raymond W. Snow to serve as Chairman of the Board of Trustees. Mr. Wearn seconded the motion that the trustees elect Mr. Snow and recognized Mr. Snow for his faithfulness and dedication over his years of service as trustee to this board. Mr. Wearn moved that nominations close and that Mr. Snow be elected by acclamation. The trustees unanimously approved the motion.

Mr. Snow thanked the other trustees for their continued support for him in his position as chairman.

Mr. Wearn made the motion to nominate Mr. Gerald Goldsmith as Chairman Pro

Tem. Mr. Lynch seconded the motion. Mr. Wearn moved that nominations close and that Mr. Goldsmith be elected by acclamation. The trustees unanimously approved the motion.

Mr. Lynch nominated Sergeant Chris Proscia to serve as Secretary. Mr. Goldsmith seconded the motion. Mr. Wearn moved that nominations close and that Sergeant Proscia be elected by acclamation. The trustees unanimously approved the motion.

VI. Comments by Trustees

Mr. Lynch made comments regarding actuarial services provided the Town by GRS. He discussed that he believes that the actuary has a conflict of interest. He stated that he has not received what he had asked from the actuary. He stated that a public records request had been made, and the information was not provided.

Mr. Wearn commented that an allegation of conflict of interest is very serious, and requsted that Mr. Lynch place the specific allegations in writing and that the actuary have the opportunity to respond, and that it be documented at the next meeting. Mr. Klausner stated that the letter written by Mr. Lynch should be sent to Mr. Hanes, administrator, and the administrator should send the correspondence to Mr. Armstrong. Mr. Hanes inquired of the board whether he would want Mr. Armstrong to appear either personally or by phone at the next meeting. Mr. Wearn stated that it is his feeling that a written response by Mr. Armstrong would be sufficient, but that if Mr. Armstrong felt the need to respond personally, he should be given the opportunity to do so. Mr. Wearn commented if there is a conflict that it would exist between Mr. Armstrong and the board of trustees.

Mr. Lynch asked Mr. Hanes if the board had received information from the actuary regarding matters the board discussed at the last meeting regarding Mr. Armstrong's unwillingness to provide the analysis to be performed by him at the request of the Town regarding Police Officers.

Mr. Hanes stated that at the last meeting the board approved the request by Mr. Armstrong for work he has been asked to perform by the Town of Palm Beach. He stated that the work was approved subject to a $10,000 maximum cost for the work related to the Police Officers' plan. He stated that he subsequently contacted Mr. Armstrong, and Mr. Armstrong stated that the cost for the work requested would not exceed $10,000.

Mr. Wearn stated that it appears that a person other than the board has requested information from the actuary, and he continues to be confused by the allegation, but that he will wait to read the allegation from Mr. Lynch.

VII. Approval of Agenda

Mr. Goldsmith made the motion to approve the agenda as amended to alter the order to accommodate Mr. Elwell's presentation to the board. Mr. Lynch seconded the motion. The trustees unanimously approved the motion.

VIII. Approval of Minutes

Mr. Wearn made the motion to accept the minutes of August 24, 2010. Mr. Goldsmith seconded the motion. The trustees unanimously approved the motion.

IX. Report by Accountant

Ms. Alexia Varga, Nowlen Holt & Miner, presented the Financial Report for the quarter ending September 30, 2010 to the board. She stated that total assets of the plan are $55,533,761 and total liabilities are at $72,241 for net assets at $55,461,520. She reviewed the statement of changes in plan net assets, and concluded with a review of the detail of expenses totaling $429,261 for the year ending September 30, 2010.

X. Audit of Member Files

Mr. Hanes discussed with the trustees that the Town of Palm Beach had hired an internal auditor, Crowe Horwath, who had been charged with performing an audit of various areas of town functions. The retirement plans were reviewed, and in the process of doing so the auditors made inquiries regarding the Police Officer and Firefighter plans. Mr. Hanes discussed that the Police Officer and Firefighter plans did not provide the administrator an automated manner of calculating benefits at the time of his hiring, and it was later that Mr. Hanes was, after approval by the boards, able to secure a contract with a software company to provide the administrator automation for calculation of benefits. Ms. Varga, Mr. Klausner and Mr. Hanes elaborated on the many complexities of calculating retirement benefits based on the highest consecutive two years (52 periods of two weeks each), out of five years (130 periods) of payroll records. Mr. Hanes stated that he was provided three pages of 148 wage codes that must be referred to along with the payroll records to determine pensionable wages, and that pensionable wages must be determined prior to determining the highest two year periods of payment, and before final average compensation can be calculated. Mr. Klausner discussed his experience with other systems regarding the complexity in application of the numerous pay codes for determination of pensionable wages. He stated that the math is not the problem in these cases, but it is the ability to determine from the various wage codes what is pensionable and what is not, and then applying to determine the highest 24 months.

Mr. Goldsmith asked about the process followed today, and Ms. Varga stated that it is not a problem today because the calculation today is automated. She reiterated by conclusion that her work on the four cases was very difficult.

Mr. Goldsmith raised an issue of cash flow and stated he would like to know when the plan may run out of cash. Mr. Hanes, Mr Klausner and Mr. Higman discussed matters of current and future liquidity policy. Mr. Snow noted that the plan experienced a 2.9% year over year cash flow increase. Mr. Hanes clarified that the issue that Mr. Goldsmith raises is one based on cash availability to pay benefits, and contrasted that Mr. Higman's statement is that the allocation is such that there should always be liquidity to pay the benefits on time. Mr. Hanes raised that the longer term issue is one about the ability to satisfy the investment return assumption in order to satisfy the retiree payroll, and that issue turns on what the actuary has previously discussed with the board that when there are experience losses, as it is when the plan does not achieve the annual return assumption, then the employer makes up the loss in additional employer contributions. Mr. Higman agreed and discussed that the allocation will be such that the investable contributions and return assets are allocated in a way to create the liquidity to pay the benefits. Mr. Higman stated that the benefits will be paid as long as the employer contributions are being paid. Mr. Goldsmith underscored that the Town is the ultimate obligor.

Ms. Varga discussed the process she followed in calculating the pension benefit for four members whose benefits were previously calculated manually. She stated that she received the benefit formula and definition from the Town code; that for each member she scheduled out five years of wages based on the Town payroll records; she determined what was pensionable from the designations provided by the Town; she totaled the pensionable wages for the highest 24 months of pensionable wages, from which she determined the average final compensation. She stated that the final step was to calculate the monthly benefit, and referred to a chart for her determination of monthly benefits and compared to the current payments made to the retiree. She stated that the differences are close, but that there are differences. She discussed that others at the firm reviewed her work, and that the firm made multiple reviews. Mr. Klausner noted the use of large annual lump sum longevity pay as pensionable wages.

Mr. Snow discussed that there was a management letter that he, as chairman, has been asked to sign, and that Mr. Klausner, legal counsel, has reviewed the letter with a recommendation that Mr. Snow execute on behalf of the board of trustees.

Town Manager Peter Elwell presented to the board matters of future proposals of the Town of Palm Beach Retirement System as noted in the approval of agenda (Item VII).

The following is complete transcript of Mr. Peter Elwell's presentation in third person to the Police Officer Board of Trustees.

Mr. Elwell stated for the record his name, Peter Elwell, and that he is the Town Manager for the Town of Palm Beach, and that he is here under his own free will, and with no coercion or other restraint. He stated that Chairman Snow did a great job of defining the purpose of his visit. He stated that with the permission of the board, he would like to take a few minutes to give some background in the details of what the Town has been doing related to pension benefits over the last couple of years, and he said he would like to set the stage for the more detailed conversation by taking about 10 minutes with some history to where we currently are, and then he stated he would like to present the proposal he has made in the negotiations with both Police Officers and Firefighters Unions, and then he stated we can have the discussions there in the context earlier described by the chairman.

Mr. Elwell stated that it was about two years ago now, or December 2008, that the Town informally undertook to do a review of the Town's pension system as part of a larger discussion of financial challenges that we forsaw at that time. He explained that there was a Finance and Taxation Committee that looked at items not exclusive to pensions, but pensions were a significant emphasis of the meeting, along with some other long term projection issues, recognizing that because of what had happened in the fall of 2008 and the collapse in the stock market, and the impact it was having on endowment funds and pension funds everywhere, and for some broader reasons, including the recession that was underway at the time that were affecting Town finances in general, and things that we needed to address more aggressively. He stated that what came out of that meeting was an intent to take some additional action as opposed to any specific course of action. He added that within three or four months later, in the spring of 2009, we were beginning to take action to address several of those different issues. Mr. Elwell stated that from this point on he will speak only to matters of pensions.

Mr. Elwell stated that related to pensions only, there was a recommendation from a citizen who was assisting the Finance and Taxation committee in looking at the issues, and the Finance and Taxation Committee actually appointed seven citizens, and for each to take a subject area and to look at it more intensely, and to work together with Town staff to bring some recommendations to the committee and Town Council. He stated that the citizen that took a look at the pension systems made a presentation to the Town Council in April 2009, and a specific recommendation was made that the Town should retain the services of a consultant who specializes in the area of pension funds, pension design, and pension management to assist us in the complex task of looking at our pension benefits and deciding what if any changes need to be made. He stated that he believed there was a growing consensus at that point that some changes would have to be made, that we were not going to be able to sustain the program in the form that existed at that time, and that still exists today, but it was beginning to emerge at that time, and that the purpose of hiring a consultant at that time was really to explore the widest variety of options for what kinds of reform the Town might pursue if the Town were to pursue pension reform further.

Mr. Elwell stated that by the summertime, we had hired Cavanaugh & McDonald, consulting firm, to perform that work by October of 2009 when they would deliver their report. He stated that the trustees heard from the firm along with delivering to the other two boards in November, and then in December Town Council held a special meeting for the sole purpose of hearing from Cavanaugh McDonald and to hear public comment on the report. He stated that by then we were further enough along, bouncing along in the recession with a very slow recovery in the market, for all of the numbers to have become worse in terms of projections for sustainability of the current pension programs and for the overall general health of the Town, and so by that time it was quite clear that some pension reform was going to be necessary, and so it became what pension reform will be necessary. Mr. Elwell stated that he was directed at the December special Town Council meeting to bring a specific recommendation with some options for Town Council to consider, and he said he did that. He stated that he provided his report in March of this year (2010), and that there was a special Town Council meeting in April of this year to give consideration. Mr. Elwell stated that it is a critically important point to the discussion we are having here today and in the collective bargaining negotiations and to the final resolution from today that the recommendations that he made in the report made in the spring of this year were based on the financial projections that have been updated through February and March of this year. He stated that there were financial directives that were established regarding reduction in the pension program as well as in other areas of Town government. He stated that the trustees are well aware that we've had a lot of reduction in staff and other cost cutting that we've done within Town government so that we are leaner and smaller, but striving to provide the level of services that we did a couple of years back, and much emphasis, but not the sole emphasis, has been on the public employee benefit programs, and in fact at this point in time, the real time savings in the Town budget has been almost entirely due to the other cuts. He stated that there have been very little cuts by the way of other Town employee benefits, and that continues to be something that they work on for the future, and several have already been implemented.

Mr. Elwell stated that the pension reform proposal that he has put forward in April in his opinion would have been sufficient reform under the circumstances as they existed at the time, and that is why he made the recommendation to Town Council when he did. He stated that he did provide alternatives as it had been asked for from Town Council, and those would have been more severe cuts and one alternative would have been a less significant cut in the benefit than what he had actually proposed for consideration. He stated that he put forth the one he thought was the right size proposal given the circumstances they were dealing with at that moment. He stated that very soon after his delivery of the report, the property appraiser for this year came out and the Town's property values declined by 12%, and the budget that he had proposed to Town Council in June of this year, and he was still working off the directions he had received by Town Council, and he stated that the budget reflected the projections as we had done them in the spring, 2010, and that they considered the impact of the declining property valuations, but stated we did not at that time have a specific proposal from June. but that they had not substantially changed from the expenditure side because he was following the direction he had received in April. He stated that because we were reviewing tax increase, and the view of holding taxes where they are, and as they reviewed the definition of tax increase in April, 2010, and not collecting any more taxes in the new fiscal year as opposed to the old fiscal year. He stated that the Town collected about $41 million dollars in fiscal year 2010, so the goal as it was established in April, 2010, was to bring in a budget where we would not be collecting any more than $41 million from the people of the Town. He stated that we did that, but the problem was that in the mean time the property values had declined substantially that for some people in the community, or for the residents that had been here the longest, and who own property for the longest period, because of nuances in the state law related to Save Our Homes provision under the state Homestead Act, that it would see a substantial tax increase. He stated it would affect about one-third of the property owners in the Town, who even though we were holding the line on the total collection of taxes, there was about one-third of the property owners in Town that would have actually seen an excess of fifteen percent increase in their tax bill. He stated that as you can imagine, the reaction to that was strong, and so in June and July of the Town Council meetings, when the Town Council was giving consideration of the budget, there were individual responses from Council members as well as a very strong response from the community, that in his twenty-two years in Town government, and ten years as Town Manager, he had not seen as united a presentation of the community – or the community presenting such a united position on any other issue as they did on this one. He stated that there were segments in the community where in the past when we've had budget discussions had been saying, wait a minute, and maybe we should be investing a little more in this, or maybe spend a little more on that, who in that dialog in this summer who all together said you have to not raise the tax rate, and you have to reduce the taxes collected, and we can't be hitting the longest the long term residents with taxes when there are these long term stresses on everybody. He stated that Council heard that message, and he heard the message, and Council gave him direction in July to reduce the Town's budget sufficiently so that given further consideration in August of the budget for September, that we would be able to avoid increasing the tax rate. Mr. Elwell said that we succeeded in that. He stated that by not increasing the tax rate, we would be reducing revenue by five million dollars. He said that for the current year's budget that begins September 1, 2010, we are collecting from taxes thirty-six million dollars instead of fourty-one million dollars.

Mr. Elwell stated that none of that last explained process relates directly to you, as trustees, but matters indirectly to you in a very important way, which is that all the projections made earlier and in April are now obsolete because they were based on a base-line year taxes on property valuation of forty-one million dollars, and the base taxes on property valuation now yields thirty-six million dollars. He stated that for a budget that is set at $60 million, that would be a significant shortfall. So when the projections are run out to 2020, starting with the new base line information, the final projections are substantially worse than what we were looking at back in February, March, and April time frame. As a result of that, he stated he felt compelled to modify his recommendation regarding pensions, and had an obligation in terms of protecting the Town's interest in this matter, and the financial integrity of this whole picture, to modify the proposal that he made in the Union negotiations with IAFF and with the FOP so that in the course of negotiations that are continuing at this time toward impasse hearings that his cards would be on the table, open and transparent, the additional magnitude of pension reform that he believed would be necessary. In August he pulled off the table the proposal that he had previously made, in the Union negotiations, spent some time working again with Cavanaugh & McDonald to look at options of what else; how much deeper could they go, and to determine what needed to be proposed in order to achieve the right amount of pension reform that would have the pension system savings contribute significantly enough toward the overall Town savings that would be need to keep the Town on sound financial footing. Mr. Elwell stated that in his opinion with what he has prepared and proposed at this time, subject to the on-going negotiations, and subject ultimately to the actions of Town Council, we could no longer achieve enough savings with a modification to the traditional defined benefit plan to achieve it. He stated that his recommendation made back in the Spring was a modification of the existing program that would reduce the multiplier, cap the amount of overtime that could be put into the average compensation to address the spiking concern, and several other things that would constrain the actual pension calculation as well as address the survivor benefit so that it would not be an automatic benefit, but one more normal in the industry where you can purchase it through a reduced monthly benefit through the lifetime of the retiree, and then have the retirement benefit available to a beneficiary. He stated that to be the nature of what he proposed, and it looked a lot like the same thing, but had less value and less cost in it.

Mr. Elwell started that what he is proposing now looks much different because the magnitude of the change in our financial projections caused him when he looked at the options for the Town, to determine that we could no longer modify the defined benefit plan and achieve enough savings, and the other thing that had happened over the course of several months time, he said he was seeing nationally, but not so much in our region, but beginning to start in Florida, but happening faster in other states around the country, but stated there is certainly a movement of reform of public pensions everywhere. He stated that it has happened already to a significant degree in state pension systems, and is beginning to happen now with local pension systems as well. He stated that dialog, in conjunction with a lot of other dynamics going on politically and culturally in our country over the last six months to a year, is heading us toward what he believes is going to become the new normal model for municipal pensions, which is not all the way to the 401(K) style defined contribution program that is now typical as it has become over the last 20 or 30 years with private sector pension benefits. He stated that he believes there will be a remnant of defined benefit plans in the public sector for a variety of reasons, but that we will begin to see predominately in the future the hybrid plans. He stated that he thinks we are going to see plans that have a defined benefit component that is insufficient on its own to provide a standard of living for a public sector retiree, and will be a part of the public sector retiree in preparation of retirement, but that he doesn't believe it will any longer be the pension plan in its entirety standing on its own.

Mr. Elwell handed out a handout that he stated he wanted to share with the trustees, and stated that as he describes the details of what is being proposed that the trustees follow along with the handout.

Mr. Elwell referred to the top of the page of the chart and noted two buckets. He stated that we refer to the proposed changes in order to keep some clarity, because it is a complex thing going on, but we refer to it as bucket A and bucket B. He stated that bucket A is the plan that you all are very familiar with your fiduciary responsibility to protect the fund with, in the case of the piece of public safety and Police Officers of the Town, and the 3.5% multiplier, a 6.89% employee contribution, and the eligibility requirements as you see them is age 50 with 10 years of service rule, and very generous post retirement benefits. He stated that all of that stays in tack. He stated that one of the things that drives the forecasting has to do with the deficit experience, and we are not fully funded, as you know, and that is true for the other two funds as well, and we're healthy as it is important to note, compared to what we see as normal out there in the world, but nevertheless, we have a funding challenge and unfunded liabilities that we need to pay off in the future in order to keep the promise of all the benefits that have been earned. He stated that we intend to keep that promise, and to fund that unfunded liability and the bucket A reflects the fact that up to the date of the freeze, and stated, let me back up to explain that the proposal is intended to freeze the plan, and not to close the plan, but to freeze the plan on a given date in the future, when all the negotiations and hearings, and other processes are completed, so that on and after that date there will be a new benefit earned by all employees of the Town whether you are an existing employee of the Town or whether you are a new employee hired after that date.

Mr. Elwell stated that obviously if you are a new employee hired after that date, your entire benefit will be the bucket B benefit. For the employees that are currently in the program, and not yet retired, the bucket A benefit will be completely intact up to the date of the freeze. Mr. Elwell stated on the date of the freeze, that we will calculate for every existing employee a pension benefit, based on the benefit we just discussed in the agenda, and we'll actually run that calculation for every existing Town employee so that whether you are a two or three year employee, or whether you are a twenty-two year employee, or twenty-three year employee, your monthly amount that you will receive upon your retirement from the bucket A benefit that you have earned will be known to you and will be known by the Town as to the freeze date. He stated that it will be placed in your file, and you will defer retirement on that amount until such date that you may choose to retire from the Town and receive it as a benefit. He stated it is as if you continued to earn a benefit in bucket A, except the rest of what you earn as a benefit for time serving the Town will be under the bucket B rule. He stated that you can envision that it will end up doing an accounting process, and we'll end up paying with one check instead of two, but you can envision it as such that the bucket A check amount has been determined, and when retirement actually occurs, there would be a bucket A in that amount, and a bucket B amount that would have been earned in bucket B for each employee for each month.

Mr. Elwell stated that the bucket B plan is a hybrid in what he has proposed, and if it is ultimately approved, and for simplicity purpose he stated he was going to speak as if it is being implemented. He stated that we still have a process that must be completed in terms of negotiations with the unions, and ultimately public hearings and Town Council action that will determine what gets implemented; but he stated that he was going to speak as if it is the new plan that is going to be implemented on the freeze date. Mr. Elwell stated that the defined benefit that remains would be at a 1.25% multiplier rate, with the employee required contribution amount reduced from 6.98% to 4.98% for the Police Officers. He said that relates directly to what he will talk about in a moment regarding the rules of the defined contribution plan and the attempt to keep the required contribution of the employee static as we transfer from one plan to the other. He stated that for this portion of the plan, it is reduced by 2%.

Mr. Elwell stated that most important, and the portion that has been most focused on, is the age of eligibility would be straight 65 regardless of the number of years of service. He stated that he wanted to be very clear for the record that it is not his expectation that all Police Officers will work until 65 years of age. He stated that it is his expectation that our planning for the future for the employees under this type of system, and what he believes will be true for all governmental employees or most governmental employees in the future as our country makes this transition is that we will rely to a great degree on our own planning through the defined contribution portion of the plan, and what we put in ourselves and from our employers, how we manage current investments, and that portion under IRS rules becomes available for public safety officers if they have separated from Town employment at age 50, which is the same as the current vested employees that do not have twenty years of service for the Town as Police Officers. He stated that if at age 59 ½ if you are still employed, technically under IRS rules if you are still employed by the Town, you could draw from that portion. He stated that based on a pattern we see today, public safety officers in their late 40's or early 50's leaving Town employment, at age 50 they would be able to draw from the 401(a) portion of the plan that the Town would offer, and the defined benefit portion under bucket B would not begin to be paid until the age of 65. He stated this again is important to stress that as you look to future employees, it means there is significant amount of responsibility that is shifted to the individual in terms of planning for retirement and preparing for, if they do wish to retire prior to age 65, planning for through the 401(a) and other savings and other actions of their own initiative, preparing to see themselves through until age 65, because certainly at age 65 when the defined benefit piece kicks in, it would then be very significant and helpful to have the defined contribution carry through the retirement. He added that a later start from a public safety officers view is something that they would have to plan for; but if you think that through, the employees that are going to be hired on after we make this change are going to be the employees that are going to have decades or more to make those decisions and be able to be ready for the individual responsibilities that is increased with this plan.

Mr. Elwell stated that for those Police Officers that are currently employed by the Town, particularly the ones that are relatively more senior, or the 15 or 18 years employee, or the ones that are particularly approaching the years when the employee is thinking about leaving the Town's service, the vast majority that they are going to receive from the Town will come from bucket A, and it is going to be exactly what they have been expecting all along; or what the employee has earned in the system as it has been promised, and as they expect to collect, and how they expect to collect the benefit, and how they expect the COLA to be paid, and the fact that the survivor benefit remains intact for that portion. He continued that the longer you serve, and the closer you are to retirement, the less bucket B has on you, even though through the service in bucket B you actually earn more benefit. He stated that bucket A will be exactly what you expected it to be.

Mr. Elwell stated that this is what is being proposed, and to the degree that it has greater impact on employees, it is his opinion that for the employees to which it has the greater impact are the same people who have the greater amount of time to adjust their own planning to their retirement and be able to retire in the context of what he called in this context the new normal.

Mr. Elwell stated that with the defined contribution plan there is a whole lot ways that it can be set up, and a lot of room to say what if we do it this way instead of that way, but what he proposed for consideration by the unions and ultimately for consideration of Town Council is a minimum required contribution for each employee of two percent, and he is encouraging the employees to put in more than the minimum in that alone, unless we are blessed to have wildly improved markets for an extended period of time, isn't going to grow into enough funds for folks, but it is an individual's choice, and for those that might have some other source of family income, or some other savings they may be planning on for retirement, they could go with the minimum of the two percent, and the Town will match up to four percent as an inducement to get the employee to put up to four percent of wages. He stated that if the employee puts in four percent then the Town will put in four percent. He stated that the employee can almost put in an unlimited amount above and beyond the four percent if they choose to do so, as the current IRS regulation limit is about $50,000 per year. So based on Town employee salaries, that is a large portion of Town salaries, and Mr. Elwell stated he didn't see how the limit will come into play as a restriction on an employee's contributions. He stated that it will be an individual choice if they go 6%, 10% or 15% of their income. Mr. Elwell stated that the investment options would range from the very safe to the very risky or very aggressive, similar to what is offered currently with the Town's Sec. 457 plan, which is an optional plan for deferred compensation administered by the ICMA. He stated that you can make earlier withdrawals from this like the 401(k), under certain circumstances or life events that may occur, you can take early withdrawal without a penalty, but if you take the early withdrawal for convenience, you will suffer a ten percent tax penalty, and this portion, similar to a 401(k), unlike the Town's pension, other than the direct spousal benefit, is an asset owned by the employee, so upon the employee's demise, and if there is a balance under the 401(a), then the proceeds become a part of their estate, and can be inherited by anyone whom they may leave the remaining portion in their 401(a) account.

Mr. Elwell stated that to be the proposal, and the status of the proposal is still in discussion with both the FOP and IAFF about it. He stated that public hearings are being held with a special magistrate for each of those two hearings. He stated that if we indeed do not resolve it through discussion and have those hearings when the special magistrate hearings are completed, there will be Town Council public hearings for each of the two separate public hearings, and the Town Council will make the ultimate decision.

Chairman Snow thanked Mr. Elwell for his presentation. He asked Mr. Elwell for a timetable for what he has described.

Mr. Elwell stated that we have tentative dates for the special magistrate hearing, but stated he is not sure they are going to happen on the dates scheduled. He said it looks like early December for the IFF, and early January for the FOP, and said hopefully those dates will jell shortly and we can publicly announce them.

Mr. Klausner stated that Florida Public Bargaining law has a procedure to follow for the resolution of impasse where there is a fact finder, special magistrate, who hears each side's point of view on why their proposal is the right proposal, and unlike binding arbitration where you see in baseball, it doesn't exist in the public sector in Florida. He stated that the magistrate's recommendations are advisory only, and after the magistrate issues his or her recommendation, each party has 15 days in which to say why they think it is a brilliant piece of thinking or what were they thinking. He stated that it then ultimately goes to the Town Council. He stated that Town Council essential is neutral, and must conduct a public hearing, and each side, meaning Town management and representatives of the respective labor organizations will make presentation to the Town Council, and the Council must decide each disputed issue, one at a time. He stated that whatever it is that they decide makes up the labor agreement for that fiscal year only.

Mr. Klausner asked Mr. Elwell if this is for the year we are in.

Mr. Elwell stated that the negotiations were for the last year, or fiscal year 2010, or the period for which we were negotiating. Mr. Elwell explained that as soon as this matter is resolved, if it gets resolved through the public hearings process, which is likely, then we would begin negotiations almost immediately for fiscal 2011.

Mr. Klausner stated then that this would essentially evolve through September 30, 2010 past, and then the parties would have to bargain, and unless they come to some voluntary agreement between them, the whole process repeats itself for the year ending

September 30, 2011. If some form of change in the retirement plan is ultimately determined by the Town Council, that before it could be implemented, it would have to be reduced into an ordinance and the Town would need to adopt it in the ordinary course of the adoption of Town legislation. He stated that Boards, parting all of this...you will still be here running the plan, and you run the plan in the legislative manner determined by a combination of the Florida legislation and the Town. He made two observations. He stated that if the Town adopts something that looks like this, the state will withhold future Chapter 185 and Chapter 175 which is about $225,000 in this plan, and more in the Firefighter plan. He stated that the total state Chapter 175 and 185 monies is about $600,000 per year.

Mr. Klausner stated that the only other thing that he would note is that anybody who is currently employed, who has already passed the rule of 65, or who has completed 20 years of credited service, that the fourth district court of appeals ruled earlier this year, and third district court of appeals ruled about fifteen years ago, and the first district court of appeals ruled sometime in the middle of that range, that if you are already eligible to retire, even if you continue to work, then no change would apply to you. He stated that he assumes that there are a few folks who are actually eligible to retire. He stated that if you are in the DROP, then you have already retired under state law, and under the law of our plan. He stated that if you have over 20 years of service, or over age 50 with ten years of service, or over the rule of 65, and there must be a handful of these, then any changes would not apply to those individuals because the case law says that once you are eligible to retire, it is like you crossed this eligibility line, and you have a constitutionally protected contract right. He stated that the courts also have said that if you are not eligible to retire, then future accrual of service is essentially fair game. He stated that he makes the statements he does for informational purpose, and that there is nothing within the plan that implicates the trustees role as fiduciary. Mr. Klausner asked Mr. Elwell if there is anything in the plan that would set out the way the funds are to be managed.

Mr. Elwell replied that there are, and that he wanted to address it, but wanted to wait until Mr. Klausner finished his comments, and then would offer additional information.

Mr. Goldsmith stated that for the knowledge of knowing, there is a major over-riding of the County in all of this, since they (County) takes 85%.

Mr. Elwell stated that in the big picture, in the management of the tax bill, he agreed with Mr. Goldsmith. He stated that the Town only collects 17% of what is billed to property tax payers of the Town, and the rest goes to Palm Beach County, School District, and other taxing authorities in the County. He stated that what he had described to the trustees regarding the projections and looming deficits of the Town government represented only 17% of that pot.

Mr. Goldsmith stated that even though we can reduce here, they can raise to mitigate our reduction.

Mr. Elwell stated that they can, and this year they did.

Mr. Lynch stated that in regards to what Mr. Klausner said, that if you are eligible for retirement , I believe that some of the individuals who have entered the DROP plan are unaware of that and stated that he did not know if it was passed on to them, even though we know that to be the issue. He asked, "what happens know that they are now in the DROP plan, believing that they were not going to have a choice?"

Mr. Elwell stated that he believed it to be a fairly debatable point. He stated that he would say that Mr. Klausner, with the only clarification he wanted to say to any of it was two or three things he said he wanted to speak to; but in every other respect he believed Mr. Klausner is right on point, and fully consistent with the legal advice he has received and he remarked that the trustees are being well advised. Mr. Elwell stated that the area of the law mentioned, to his understanding, is not well settled, and stated that the cases cited by Mr. Klausner are there, it is true, but that it is an unsettled question whether it is an unequivocal right . Mr. Elwell stated that he is not an attorney, and so not in a position to have any further dialog with the trustees about that, and that any further dialog about that today would probably be inappropriate, and back to the way the chair commented on the description of the proceeding we are having today, in another venue in another day, the Town will explain the legal basis, or how we have been advised, and how we see this happening. He stated that he has no problem saying, as he has said publicly before, and again today, that it is his understanding that the proposal as the Town has put forth is legal, financially sound, and can be legally defended. He added that as we put it forth, it doesn't grandfather anyone. He stated that every employee of the Town, even the employees who have reached twenty years of service, if a Police Officer or some other measure of measurability, would have the bucket A frozen on the freeze date, and then accrue the bucket B benefits for the continuing service for the Town. He stated that to the degree that people have made decisions based on that, what I have said before is what I would say today, that we will defend in any proceedings in the future the legal basis for what will need to be explained by the Town's attorneys, and not by me.

Mr. Elwell stated he wanted to say one other comment, and it is important since this issue has arisen, and expressed his thought that it is beyond your responsibility on the board, and beyond the fiduciary oversight that you provide, but since it has arisen, he stated he thought it to be important that he make it clear for the record that it has been his advise in all of his dealings with any Town employee about these pension matters is do not rush to take action, that all of the employees rights that are in bucket A are completely preserved, even after we have the freeze and we go into bucket B. He stated that if in order to avoid having this change negatively affect you, and you rush into an action, and you are welcome to do that as each individual should make their own decisions, but in doing that you actually preclude yourself from earning any more bucket A benefit up until the time of the freeze, and preclude yourself from earning future bucket B benefit into the future. He stated that if for your own personal reasons it makes sense to DROP or it makes sense to retire and leave the Town, or whatever else, then make that decision and do that for your own sake and for your family's sake, but only do that if doing that otherwise makes sense to you, and not because there are changes being considered because first of all, there are no final decisions in this, and there is a process yet to go through before Council finally makes the decision; and second of all, even if it gets implemented exactly as he has described, going sooner into DROP than one had previously planned to do will actually cause one to lose opportunity to accrue additional benefits.

Mr. Klausner stated that any employee would have until the second reading of the ordinance with amendments to make whatever appropriate change, and stated he would not advise anyone to go, or not go either. He stated that the only reason he raised the question about the people that are already eligible to retire is that the question has already presented itself in the City of Miami. He stated that the City of Miami, as you may know, made some fairly substantial changes in their defined benefit plan, and it actually out of the 1200 Police Officers and 800 Firefighters only fully impacted 17 people, but the Board of Trustees is currently struggling with the question of "Do we apply the changes to the 17 people who are not DROPed, but otherwise over the rules of eligibility, and they are struggling with either asking the Attorney General Opinion, although not binding is certainly helpful, or in essence, filing in a procedure of the law when you don't know what to do when you hold money, and the person holding the money files like a friendly law suit against other people who are interested in the money, and they go to court and you say call us when it is over. He stated that he probably would end up recommending, if in fact this is implemented, that his experience from his long ago life in the Union business, and or action on the management side too, is that these things never turn out the way one thinks it will turn out. He stated that he knows that the Council has been well advised, and would like to maintain strict neutrality about these issues, pending the impasse. However, if this does come to pass in this fashion, he stated then we have these people who after the passage of the plan are affected, but otherwise eligible to retire, and he stated that he will recommend to ask the Attorney General, "what do we do?" He stated to the trustees that they are obligated to follow the law as it is given to you. He stated that there was a case that went to the Wisconsin Supreme Court where they had a similar change, and the Board of Trustees asked the Attorney General for an opinion, and the Attorney General said you must follow the law, and the law was actually held to be unconstitutional, but the Board was found not to have violated its fiduciary liability by following the law because it sought some independent review and advise whether it is alright to follow the law. He stated that the court stated that it somewhat insulated them. Mr. Klausner stated it would be his concern to the board to insulate any decision making the trustees have from suggestion that you have....if you implement the law as written, he stated that it is always his advise when someone tells you that something was taken from the person that was not right for taking. He said it is his job to protect the trustees as a collective body.

Mr. Elwell said that Mr. Klausner's remarks are fair enough, and he felt that to be enough discussion on that subject for the day. He stated that if the Board felt it needed to discuss more, and interact with the board's attorney, then he felt it fine, and he did not believe it appropriate for him to engage any further in that particular conversation. Mr. Elwell stated, however, that he did want to make sure that the trustees understand that there is nothing about what we have brought and presented where we have given any words of encouragement to the employee, and that it is very important to him that he see that employees take a wait and see approach to really understand how this is going to affect them, and really understanding how the decisions are being made, and then at that point deciding what is in their best interest as the law does protect them under the proposal, and respects the fact that the bucket A benefits have been earned, and the Town has been explicit, and he has been explicit in explaining the proposals that we intend to honor that all the way out to the pay out, and it is not just what has been earned at 3.5% is going to be credited that way, and the final credible compensation is to be calculated, and all of that, but even in the pay out for the rest of the lifetime of every individual, and the fact that the 75% survivorship and the 2% COLA will kick in as it is designed to kick in, and all of that.

Mr. Elwell stated that the one element to that is the ability to DROP, and the employee who may choose to DROP under bucket A, can still DROP under bucket A after the freeze occurs and we are in the period when the employee is earning bucket B benefits. He stated that the employee would still be able to exercise the benefit of bucket A. He stated with all of that remaining intact, he believed any individual employee should act cautiously before making a decision on how to proceed in their retirement decision. He stated that once the direction of the Town Council has been provided after the hearing process, then the plan would be reduced to a proper ordinance that covers all of the nuances explicitly. He stated that would be the final implementing action, and then the freeze will occur. He stated that there is still a lot of water to pass before the final passage will occur.

Chairman Snow noted for the record that Sergeant Proscia has arrived at 10:45 AM., and stated to Sergeant Proscia that he has been reappointed as Secretary to the Board of Trustees.

Mr. Elwell stated there were a couple of other things that came up during Mr. Klausner's remarks. He stated that Mr. Klausner was absolutely spot on in discussing the impact of the Chapter 185 monies. He stated that the Town will forego the monies if it moves forward with the proposal, and the Town understands it very clearly. However, he noted the cost of the plan has become so prohibitive for the Town, that sacrificing the few hundred thousand dollars involved with the state subsidy is no longer in his opinion in the Town's best interest to receive the money because of the strings that come with it.

He stated that if the Town is going to determine for itself what the appropriate pension benefits is to be for its employees, and if that plan is determined by the Town to be the appropriate one, and it offers less benefits than the minimum benefits required by the state, the one factor is that we'll have to live without the state money. He stated that in the case of this Town, living without the $200,000 to $300,000, compared to the millions of dollars of cost in funding the program that falls to the Town's taxpayers each year, in his opinion would not be a significant impediment to moving forward with this plan.

Mr. Elwell asked if he might be able to come back to how it affect the trustees individually and collectively as a board, and stated that he has one other nuance to the collective bargaining process he would like to mention.

Mr. Elwell stated that he has proposed within the collective bargaining process for both the Police Officers and Firefighters that we consolidate the boards into one board. He stated that it is not his expectation that we consolidate into one fund, and stated he does not quite know how, but that if we do consolidate into one board as we go forward, it is something that the board will need to decide regarding how those monies are going to be properly managed, and that there will be some residual benefit provided from Section 175 and Section 185 to bucket A, and that we'll get good advice from attorneys at the time as to how that is to be structured, but whether it ends up being one fund or three funds in the end, he stated he has recommended that there be one board providing the oversight, and there will be appropriate employee representation from all the different employee groups that will need to be represented in that process, as well as citizen representation appointed by the Town Council much as it is today. So there would be an impact to all three boards to some degree. He stated that exactly how that shapes out, he doesn't know, but if we end up with a seven member or nine member board instead of three five member boards, then you can do the math.

Mr. Elwell stated that there would be some impact on people that are currently serving. He stated that he just thinks it is in the Town's best interest to have a process similar to what we had in 1999, and the only reason we have three today is because the state changed the law in 1999, and made it possible for Police Officers to choose to be separate, and for Firefighters to choose to be separate, and you know the history in the Town, and initially the Police Officers and Firefighters chose to be separate, and so there were two boards, and then several years ago the public pension board was split into two, so now there is three boards. He stated that notwithstanding the research that we've all been involved with over the last several years regarding whether there is a significant savings, and he stated that he is not going to suggest to them that there is some type of financial windfall, but it just leads to better and more proper administration of the program going forward, and if we have a single board, accountable for the pension systems for the Town. He stated that to be his recommendation in the collective bargaining process, and that we will see how that goes through as well.

Mr. Elwell stated that he wanted to make a clarifying comment about the collective bargaining process. He stated that everything that Mr. Klausner has described to the board is accurate as far as the steps involved, the process, and the role of the special master. He stated it is very important that the role here in Florida is a fact finder and someone who makes recommendations instead of a binding arbitrator, as it often is found in other states. He stated that the important fact in this case is that the year we are talking about is the year that has already ended, which often happens in these processes when the process takes you beyond the year end to resolve the impasse. He stated that there is an important point that he would like to add, and that is that the decision that will ultimately be made by Town Council, and that it is true that it is binding only for the year it is applicable, it becomes then the status quo, and under state law that is a very important point.

Mr. Elwell said that when a group of employees forms a union, it is the Town's obligation to carry forward everything in terms of the operations and promises, and everything that has been made, and the rules that apply to the Town are the status quo of what existed at the time the union was formed until such time as there is an agreement. He stated that once there is an agreement, whether it is a negotiated agreement, or an imposed agreement through the public hearing process, then the agreement becomes the status quo to the extent it differs from what existed before. So while it may cause people to scratch their head, and state why are we going through this process when we are talking about the fiscal year of 2010 that ended September 30, six weeks ago. The answer is that importantly it creates the baseline for future negotiations between the parties and any other changes that may be made, and the rules and regulations that will be in place under those decisions for the interim period until there is a new hearing, will be those that are made by the Town Council through the public hearing. He stated as it relates to you, trustees, and what you oversee with the pension system, if the Town Council approves what he recommends, or if they approve any other type of change to the Town retirement system, what they approve will be the new status quo, and it will stay in place until such time as there is any other agreement between the parties.

Mr. Klausner stated that he did not disagree.

Mr. Elwell stated to Mr. Klausner that he did not think that he would, but he wanted the board to fully appreciate that it sounds silly to be still carrying forward with a process to resolve a dispute that relates to a prior fiscal year, but it is important because of the status quo.

Mr. Klausner stated what happens is that whenever you have an imposed contract you have to bargain immediately.

Mr. Goldsmith stated that there is a precedent benefit too. He stated that you have to go through it and it gives you a precedent.

Mr. Elwell stated it is true, and it creates the new program that will stay into effect until such time as the program is changed again in the future.

Chairman Snow thanked Mr. Elwell and asked for other questions from the trustees.

Mr. Lynch asked how this will affect the commitment from the Town for future contributions toward the unfunded liability?

Mr. Elwell answered not at all. He stated that the Town would be completely responsible for the future unfunded liability, and that it is one of the things that make the math hard, and quite frankly in defining what benefits to offer in bucket B going forward is the fact that we have substantial continuing cost for the Town's taxpayers to pay the unfunded liability.

Mr. Lynch asked Mr. Elwell if there is anything from bucket B that will be funding bucket A?

Mr. Elwell stated no, not from the employees.

Mr. Lynch stated that he did a little bit of the math toward what it would come out to be, and that there is an excessive amount of monies to be gathered into bucket B's new plan.

Mr. Elwell stated that he has explicitly asked that question of the Town's actuary, and the explicit answer back was "no;" that the bucket B's contributions from the Town's employees will not completely pay for the bucket B benefit, but the Town will be contributing to the bucket B benefits, and all of the employees contributions into bucket B will stay in the bucket. He stated that they are actuarially necessary to pay for normal cost of the bucket B benefit. He stated that in the actuarial projections, there is no money from Town employees being contributed into bucket B that will be used to pay any of the unfunded liability in bucket A. He stated that the entire unfunded liability remaining in bucket A will be paid for by Town taxpayer funds.

Mr. Lynch asked if there is a schedule on that; that is how much money is being saved, and that it moves forward.

Mr. Klausner stated that he believes the question is about the reduction of future projected liability for the current plan that would be affected by a freeze if the plan were adopted, and what impact that is going to have on the current unfunded liability in the plan.

Mr. Elwell stated that he does not know the answer to that question. He stated that the question that he has asked the actuary because it came up in meetings with employees about this process, and the concern was "are employees contributing to bucket B to the degree that it over-pays bucket B to the degree that the Town isn't paying anything in bucket B, and the employees are paying part of the unfunded liability under bucket A. He stated that the actuary assured him. He stated again, because of the on-going process of collective bargaining, he pledges to the trustees that the question has been asked of him, and the question has been asked the actuary, and he was assured unequivocally by the actuary that the two parties, the employees and Town, will contribute together under bucket B for the benefit of the public employees, and that the Town will be paying the unfunded liability in bucket A. He stated that the amount of normal cost in B necessary to carry forward that defined benefit plan exceeds the amount the public employee will be putting into the defined benefit plan.

Chairman Snow asked Mr. Elwell to explain the difference between a closed plan and frozen plan.

Mr. Elwell stated that a closed plan is one that is actually divesting of the assets. He stated you close it, or finish it, and there is no on-going funding requirement because you do whatever is necessary in real time to close the plan. He stated that in some cases you actually pay out the present value of the assets for what would have been paid over the lifetime of the participant, and in other cases you actually do pay out, but you put all the money that will be necessary to pay out in that fund at that time in order to be actuarially whole.

Mr. Elwell stated that what we are proposing here is a freeze, where the Town will have obligations, year after year, to pay off the unfunded liability in bucket A. He stated that for decades into the future the Town will be paying for current employees toward the bucket A portion. He stated that the Town will be on a real time basis, with all the processes we are familiar with where the board will get an annual actuarial valuation, and funding through the annual operating budget the necessary amount for what it amounts to make us whole going forward. He stated that to be the way he is proposing that the Town proceeds, and that is what the Town's financial projections are based on for how this is to be implemented. He stated this is why it is a freeze instead of close. He stated that another synonym for "close" is a plan "termination."

Chairman Snow asked the trustees if there were other questions. The trustees acknowledged individually they had no further questions for Mr. Elwell. Chairman Snow thanked Mr. Elwell for his attempt to enlighten the trustees, and Mr. Elwell left the podium.

Continuation of Audit agenda item.

Mr. Hanes discussed that pursuant to the Board's directive from the August meeting, he has reduced the payment of the beneficiary who was overpaid due to a former administrator's error.

Mr. Klausner stated that his firm discussed with the former administrator matters of the overpayment. He stated that they told him that it is not their fault, but if it is their fault, then the liability is limited to the time that the firm was no longer working for this plan. Mr. Klausner stated that he has taken a position that the former administrator owes the total amount overpaid. Mr. Klausner asked the board for authority to take legal action on the board's behalf if necessary.

Mr. Wearn asked Mr. Klausner whether the former administrator had fiduciary insurance. Mr Klausner replied that his firm has been informed by the former administrator that there was insurance, but probably the dollar value of the deductable would be greater than the claim. He explained that the former administrator did not seem to know exactly what the coverage entailed, but the former administrator has been requested to provide the coverage information to him.

Mr. Hanes stated that pursuant to the board's directive from the August meeting, he and Ms. Duvall reviewed the other beneficiaries to make sure that other overpayments were not being made. In the course of their review, they had discovered other errors made in payment to other beneficiaries in the context of COLA payments received by beneficiaries of retirants from 1983 to 1990 based on what should have been payment of a non-compounded 1% annual increase. He explained that all members who retired after October 1, 1990 were entitled to a 2% COLA after a 36 month period from retirement, and they did not yet see evidence of errors with COLA's paid to that group of retirants.

Mr. Hanes discussed other errors discovered with beneficiaries deriving payments from the group of retirees who retired prior to 1990, and related to how beneficiary COLA payments were applied to the annual October anniversary date in the year after death of the reitrees.

Mr. Hanes explained that the review this administrator followed was limited to a five year period, and noted that with one exception, the administrator did not review for further mistakes other than the ones related to wrongful calculation of beneficiaries. Mr. Hanes stated that since the errors in several of these cases produce an underpayment of benefits, that Attorney Klausner advised that the administrator is required to correct the errors and payment of the underpayment is required, and without a need for board action.

Mr. Hanes discussed a matter of retired Police Officer Michael Galvin, and that the Town's internal auditor discovery an error of a one month overpayment. He stated that in reviewing the payment, it was discovered that Mr. Galvin was provided an additional increase based on an error made by a former administrator in applying a retroactive application of an increase in multiplier granted by Town ordinance.

Mr. Wearn moved that the board direct that the same procedures be followed for the matter of overpayment in the case of Mr. Galvin as was followed in the most recent overpayment cases.

Mr. Klausner noted that there was not enough time to do the adjustment to the November payroll, and that it would not be important to do so for this month, but the adjustment should be made for the December retiree payroll.

Mr. Goldsmith seconded the motion. The trustees unanimously adopted the motion.

Mr. Wearn made the motion to follow the same procedures of the overpayment for the members who are found to have been overpaid based on when calculation of the their benefit was performed manually. Mr. Goldsmith seconded the motion. The trustees unanimously adopted the motion.

XI. Investment Report

Mr. Higman and Mr. George Hauptfuhrer made the quarterly report ending September 30, 2010 to the board of trustees. Mr. Higman presented a handout of the October 31, 2010 summary, from which he presented his report. He discussed that the plan returned 8.7% for the fiscal year ending September 30, 2010, and ahead of the benchmarks. He commented from a handout provided by Ms. Struder, Division Director of Finance, that for the second year in a row the general plan, which leans more heavily on equities and is less diversified than the public safety plans, has outperformed the public safety plans. He noted that the pubic safety plans have less beta to the market, but that the public safety plans outperformed the general plan over the three, five and ten years due to a more diversified allocation that they believe works better over the long term.

Mr. Goldsmith noted the lower performance over the last ten years. Mr. Higman discussed that the decade had two awful experiences in 2001, 2008, but that relative to the benchmarks the fund is doing well. He reminded the trustees that rolling back for long term returns, the returns are much better. He stated that it is probably a good time to review the going forward assumptions to see if the eight percent benchmark still makes sense.

Mr. Higman illustrated how a one month change from September 30, 2010 to October 31, 2010 makes an annual return difference of 10.7% to 11.5%. He stated that the change demonstrates the volatility in the markets, and said the more diversified allocation of the plan is really intended to protect the plan on the down side.

Mr. Higman stated that as far as the fund lineup, Prime Buchholz is not recommending any changes. He stated that the structure is working very nicely, even though there are managers within the structure that are underperforming over the short term. He stated that this is good performance considering the active management at a time when active managers are going through a time of trailing the indexes significantly. He discussed that his firm is trying to understand the impact of the ETF's to the market.

Mr. Higman stated that in so far as the asset allocation, the plan is away from its targets, and they have provided a rebalancing schedule that he reviewed with the board. He discussed reasons for the deviation from allowable levels, that cash reserves have been transferred to satisfy benefit payments; that Guggenheim made a liquidation; and there has been a recent disbursement from Meridian. Mr. Higman said that as a result of these deposits, the plan has accumulated about $1.6 million. He said that it will require that some of the monies go to domestic equities, trimming some from the bond managers to reallocate to the bond index. He stated that the net impact of the reallocation is for his recommendation to increase the allocation to hedge funds, which stands at about 26% actual against a 30% target, and that the allocation be made to the Archstone Offshore fund. He stated the allocation would not create a new lock up for those monies, and noted that the Archstone Offshore fund has quarterly liquidity. He stated his recommendation does not change the liquidity profile of the fund, and the plan would be getting back to the target range. Mr. Higman asked that the trustees approve allowing for reallocation directionally to satisfy the targets.

Mr. Wearn asked about the Meridian holdback, and Mr. Higman and Mr. Hanes confirmed that the plan has received it as a distribution.

Mr. Klausner recommended that the trustees take action to accept the report, which he stated effectively grants approval to the consultant to make the reallocations as discussed and as authorized in the investment guidelines.

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

Mr. Higman asked the trustees if they would like for him to present a formal discussion regarding asset allocation at the February 10, 2011 meeting. The trustees agreed by consensus to do so. Mr. Higman discussed that the board will want to have a discussion regarding emerging market allocation in the International asset class.

XII. Town Council Meeting of September 14, 2010

Chairman Snow reported to the trustees that he and Mr. Ross made their respective reports to Town Council at the Town Council meeting of September 14, 2010. He discussed with the trustees matters that were discussed, and that he and Mr. Ross were much in agreement in matters of inquiry by the Council. He discussed that interest assumption were reviewed as well as matters of the GASB proposed changes. He stated that the Mayor, at the instruction of Town Council, authored an opposition letter to the GASB proposal. He stated that both boards' trustees were commended by the Town Council members for the services provided the Police and Firefighters.

Chairman Snow discussed as a matter of interest a patented proposal to smooth volatility of contributions being offered by Cavanaugh and McDonald. He discussed that Mr. Hanes had arranged for a conference call with Mr. Ed McDonald, Principal at Cavanaugh & McDonald Actuarial Firm to explain, and that Mr. McDonald reviewed a presentation proposed to the state of Georgia Retirement System. Chairman Snow thought the concept might be of interest to Town Council as a potential for a future change in funding methodology of the retirement plans. Chairman Snow emphasized that the process would impose a disciplined way of funding for benefits. Mr. Hanes discussed that Mr. McDonald expressed a concern that it might be prudent for a Florida plan to review the state's actuarial compliance requirements to see if the proposal is satisfactory.

XIII. Attorney Report

Mr. Klausner discussed that the McDonald proposal raises an issue with the state of Florida, but opined that if the Internal Revenue Service has no difficulty with the proposal, then the state of Florida will pass it for plans in Florida.

Mr. Klausner discussed that he believes the legislature in Florida will likely pass something in the Florida Chapters 175 and 185 that will allow cities to make certain changes in their plans and continue to receive the insurance premiums. He stated his thought that what the legislature does may impact what the Town of Palm Beach Town Council may ultimately do regarding the retirement plan within the context of the labor negotiations.

Mr. Klausner discussed a matter that is currently under review by the Internal Revenue Service regarding when employers make plan changes and subsequently allow for voluntary employees elections to switch plans. He discussed that the issue is that making the change to another plan "voluntary" might cause the contributions to no longer be Federal tax deferred. Mr. Klausner stated that he would keep the board posted.

XIV. Administrators Report

Mr. Hanes noted the meeting schedule has been distributed. He discussed that his office has been very busy with the matter of the review of manually calculated benefits. He also stated that his office has been busy with member inquiries and multiple retirement and DROP related questions, including Police Officer and Firefighter visits to apply for retirement or DROP payments. He discussed that his office has been working with the plan's auditor in preparation to the September 30, 2010 audit.

Mr. Goldsmith complemented Mr. Hanes for the distribution of material regarding what other plans are doing.

XV. Disbursements

Mr. Goldsmith made the motion to approve the disbursement report as submitted. Mr. Lynch seconded the motion.

Mr. Wearn asked a question about a charge from Ms. Ellen Schaffer. Mr. Hanes explained that it was a matter of additional work she performed on the automated calculator.

Mr. Lynch questioned Mr. Hanes about an item of a refund paid as identified on the disbursement report. Mr. Hanes discussed that there had been a Town error in payment of a refund to a former Police Officer from the General Employee fund, and that a correction transfer was made from the Police Officer fund to the Town to be deposited to the General Employee fund.

The trustees unanimously approved the motion.

XVI. Benefit Approval

Mr. Hanes discussed matters of his counsel to members who are considering retirement/DROP. He stated that he has suggested that members be cautious, and has noted to those who have inquired about the new plan that much will need to be done in order for a law to be enacted and for implementation to begin.

Mr. Goldsmith moved for approval of the benefit payments as presented. Mr. Lynch seconded the motion. The trustees unanimously adopted the motion.

XVII. DROP Report

Mr. Hanes discussed that the report does not require a motion, but was provided in order to monitor the period of DROP participants.

MINUTES OF THE TOWN OF PALM BEACH RETIREMENT SYSTEM POLICE OFFICER BOARD OF TRUSTEES
MEETING OF NOVEMBER 18, 2010

XVIII. Adjournment

Mr. Wearn moved that the board adjourn. Mr. Lynch seconded the motion. The trustees unanimously approved the motion.

Secretary: ______________________ **Date** 2/10/11

Attested by: William P. Haner **Date** 2/10/2011

NEXT MEETING: February 10, 2011 at Town Council Chambers