Town Document Library

Adobe Document					
Document Name	NovMinutes151996	Subject	November 1996 Retirement Board Meeting Minutes	Date	Fri 11/15/96
Directory	Retirement	Type	Minutes	Category	Retirement

MINUTES OF RETIREMENT BOARD MEETING
November 15, 1996

I. CALL TO ORDER

The meeting of the Retirement Board of Trustees was called to order by Chairman Harvey at 9:00 a.m. on Friday, November 15, 1996 in the Town Hall Council Chambers. Attending were: Chairman Robert Harvey, Vice-Chairman James McCartney Wearn, Trustees George Frick, John DeIorio, Karen Lane, Charlie Boggs, Town Manager Robert J. Doney, Mayor Paul Ilyinsky, and Council President Lesly Smith. Also in attendance were Personnel Director William C. Crouse, Personnel Analyst Carla S. Kneipp, Acting Finance Director Cheryl A. Somers, and Attorney John McCracken.

II. APPROVAL OF AGENDA

Mr. Harvey asked for any additions or changes to the Agenda.

Mr. Crouse explained that the Final Agenda had been distributed to the Board of Trustees. Mr. Frick moved approval of the Final Agenda of November 15, 1996. Ms. Lane seconded the motion. The motion carried unanimously.

III. APPROVAL OF MINUTES - REGULAR MEETING OF AUGUST 16, 1996.

Mr. Harvey asked for changes or corrections to the minutes of the regular meeting of August 16, 1996.

There being no changes or corrections, Ms. Lane moved approval of the minutes of the regular meeting of August 16, 1996. Mr. Frick seconded the motion and, all voting aye, the motion carried.

IV. CONSIDERATION OF FIDUCIARY LIABILITY POLICY

Barbara Martinuzzi, Risk Manager, reported that the renewal quotation for the fiduciary liability insurance through National Union Fire Insurance Company had been received and reviewed. She explained that the renewal quotation of $85,000 offered the same coverage and limitations as per the expiring policy at a $25,000,000 limit of liability, with a $75,000 deductible each loss. Ms. Martinuzzi recommended that the Board of Trustees renew the policy as per the quotation.

Ms. Martinuzzi then reported that the Waiver of Recourse charge of $25.00 per trustee was not included in the above premium quotation. She explained that the Waiver of Recourse eliminated the insurance carrier's right to subrogate against the individual trustee. Ms. Martinuzzi
stated that if the Retirement Board approved the renewal liability insurance, it was her recommendation that the premium cost for the Waiver of Recourse be authorized, with funding of the $225.00 premium to come from the self insurance fund. Mr. Frick moved authorization to present the waiver of recourse premium to the Town Council, with the recommendation to fund the premium through the self insurance fund. Ms. Lane seconded the motion. The motion carried.

Ms. Martinuzzi noted that the November meeting of the Retirement Board of Trustees fell close to the renewal date of the fiduciary liability insurance, and asked if the Board would feel more comfortable with changing the date of their November meeting in order to consider the fiduciary liability at an earlier date.

Mr. Wearn suggested that as opposed to resetting the meeting, the Town acquire insurance coverage for a slightly longer period of time. Mr. Wearn stated that the policy could expire on November 30, with a renewal date of December, with a pro-rata premium. He explained that insurance companies were willing to coordinate this for a short period of time. Mr. Wearn further explained that this would provide for a problem free renewal. Ms. Martinuzzi explained that it was possible that a pro-rata premium would be required for the extension of the covered period of time, and if she was unable to negotiate the cost, she would bring the issue back to the Board.

Mr. Wearn moved renewal of the fiduciary liability policy and authorization for a pro-rata premium for the extension of current policy to November 30, 1996. Mr. Frick seconded the motion and, all voting aye, the motion carried.

V. REPORT BY CALLAN & ASSOCIATES REGARDING CHANGE TO REBALANCING POLICY.

Carl Deane, Callan Associates, explained that at the last meeting, the Board had discussed in depth the rebalancing of the needs of the plan, including a formalized structure in the investment policy. He explained that he had spoken to Cheryl Somers regarding this issue. Mr. Deane explained that at the present time, the formal policy was to rebalance on a semi-annual basis and the December 31 and June 30 market values were used as benchmarks for rebalancing. Mr. Deane explained that the T-Bond portfolio was checked to ensure that it was 30% of the assets, with the equity index account to be 20% of assets. Mr. Deane explained that each of the individual balance managers was to be at 25%.

Mr. Deane asked whether the Board had talked to the asset managers regarding the September numbers. It was determined that the Board had not discussed this with the asset managers. Mr. Deane pointed out that Roanoke had gone beyond 40% in equities for the first time in a long time, but the procedure should be to see that the each manager should rebalance as close to the requirements as possible. He explained that it was important to do this so as not to increase the burden of risk on each individual manager. Mr. Deane stated that the Town was fairly close to these figures by the end of October, with a little too much in the Index Fund and underexposed in the T-Bond fund. Mr. Deane stated that each individual balance manager was responsible for their own asset mix, and they each had their guidelines and knew that they were supposed to have 40% in equity and 60% in bonds. Mr. Deane stated that Callan & Associates would keep an eye on the balance through the reports to ensure that the accounts were balanced. He explained that rebalancing would not occur unless the managers were 45% and above in equity.

Mrs. Somers asked if a transfer should be activated based on the October balances. Mr. Deane explained that the balances should be checked again to see if they had been changed. Mr. Deane explained that there presently was a semi-annual rebalancing to maintain risk control on the Town's Investment Policy, but that when the equities increase beyond the 40%, the risk was increased, which could endanger the plan. Mr. Deane stated that the S& P was doing well in the market and had grown faster than the others because of the existing market.

Mr. Harvey asked if there were any further comments or questions regarding this. There were none.

Mr. Deane then discussed the quarterly performance report, explaining that the best performing asset class for the Town was the stock market, with an approximate 3% rate of return. He stated that the second best asset class was bonds, with a 1.84% rate of return. Mr. Deane stated that the average manager earned about 19% in equities during the past 12 months, with bonds performing the worst.

Mr. Deane explained that three things affect performance: the market place; the managers' decisions to buy good stocks and bonds; and the investment policy, which was normally dictated by the trustees. He explained that not all investment plans have the same investment policies. Mr. Deane stated that the performance of the Town's plan ranked in the 84th percentile of all public plans in Callan & Associates' database. He explained that while the plan performance was ahead of target, it was lagging behind some of the other plans, which could be due to the asset mix in the plan. Mr. Deane stated that the asset allocation must be adjusted to those of other plans, which would then show that the Town had a lower ranking for the year. Mr. Deane stated that this indicated that the investment policy was not the reason for the lower ranking, but that one of the managers had experienced a rough time. Mr. Deane stated that over a five year period, using the same asset mix, the Town ranked in the top quarter of the other plans.

Mr. Deane then explained the strategies of each manager. He explained that Roanoke did not fair was well as others because they were a mid-cap manager. He stated that they had really struggled over the past year, mainly because they were overweighted in stocks compared to where they were supposed to be. Mr. Deane stated that the intent was to keep Roanoke reined in through the rebalancing, keeping them at 40% equities. Mr. Deane stated that Loomis was not doing a spectacular job; however, their performance was on target. He explained that one year was not sufficient time to judge this manager's performance; however, if they kept the same pace in performance over the next three or four years, the Board may want to consider letting them go. Mrs. Smith asked why the Town would wait three to four years to let a manager go when they were not experiencing a good return. Mr. Deane stated that the primary reason was that there was a particular style employed by Loomis Sayles, and this style had not been in favor during this period. Mr. Deane explained that once this style was back in favor, Loomis should do better. He further explained that a manager should be given a full cycle to perform before they were evaluated on the type of job they were doing. Mr. Deane explained that over the short term, the manager should adhere to the investment policy, and at this point, Loomis Sayles was doing this. Mr. Harvey explained that the investment plan tried to achieve different styles in order to cancel each other out over time, and it was hoped that over time, some of the risk would be canceled out because of the fluctuation of the market.

Mr. Deane stated that the structure of the Town's plan was good because there was a large-cap value manager, a mid-cap growth-oriented manager, and the S&P. He stated that the T-bond account was not important in ranking because it had a specific function and was a passive account. He stated that there was not a lot of discretion given to this manager because they were to provide a stable portfolio. Mr. Deane explained that one of the reasons for Roanoke's under-performance was because their type of portfolio was volatile and was presently out of favor. He stated that over the three and four year projections, their accumulative results were not too bad. Mr. Harvey stated that the information presented by Mr. Deane was important in showing why the Town had different types of managers to protect the plan.

Mr. Wearn asked about the comparison of the large-cap growth to the mid-cap growth as stated on page 2 of Mr. Deane's report. Mr. Deane explained that investment style had to be taken into consideration as well as capitalization because they did not necessarily run together. He further explained that when looking at the equity portfolio in the index portion, it was compared only to mid-cap portfolios, and showed how well they were doing when compared to other mid-cap portfolios.

Mr. Doney asked if the report Mr. Deane had discussed had been transmitted to the investment managers. Mr. Deane explained that copies of this report had been provided to the managers.

VI. APPROVAL OF REVISED STATEMENT OF INVESTMENT POLICY

Mr. Deane reported on changes to the Statement of Investment Policy. He explained that on page 5, under Personnel Changes, the term "systems consultant" had been changed to "investment performance consultant". He further explained that under Investment Objectives, the definition of the objectives had been changed to read "the portfolio shall exceed (net of fees)" for both the stock portfolio and the bond portfolio.

Mr. Deane then explained that he would like to recommend one further change, and referred to page one, paragraph one under Investment Objectives. He stated that he would recommend that this be changed to read "The Balanced Managers will be measured against a target of 40% Standard & Poor's 500 Stock Index and 60% Lehman Brothers Government/Corporate Index, and are expected to add value above the target return, net of fees, over a moving five year period." Mr. Deane stated that it would be more realistic to include the recommended target.

Mr. Frick moved approval and adoption of the amended Statement of Investment Policy. Mr. Wearn seconded the motion. The motion carried unanimously.

Mr. Frick then moved approval of the recommended change to the Investment Policy as outlined by Mr. Deane. Mr. Wearn seconded the motion and, all voting aye, the motion carried.

Mr. Doney asked Mr. Deane if the investment managers were provided with copies of the revised Statement of Investment Policy. He explained that proof of receipt should be provided to the Plan Administrator as part of the record as it would acknowledge receipt of and agreement with the revisions. Mr. Deane asked if this communication should come from him since he had no authority, stating that it should perhaps come directly from the Trustees. Mr. Doney stated that Mr. McCracken could assist with preparing the letters for Mr. Harvey's signature. Ms. Kneipp indicated that the Plan Administrator routinely provided the investment managers with copies of the revised Statement of Investment Policy and asked for and received acknowledgment of receipt of and agreement to the revised policy.

After a short break, the meeting was called back to order.

VII. REPORT ON QUARTERLY EXPENDITURES BY CHERYL SOMERS, ACTING FINANCE DIRECTOR

Mrs. Somers reported on the quarterly expenditures for the period November, 1996 projected to January, 1997. She explained that the custodian account balance at November 1, 1996 was $534,582.93. Mrs. Somers then reported that employer contributions for the first quarter of fiscal year 1997 was $691,635, with estimated employee contributions for November, December, and January at $120,000 for Public Safety and $105,000 for General employees. Mrs. Somers reported that estimated benefit payout for the same period of time was $290,00 per month for a total of $870,000. She explained that estimated miscellaneous expenses and refunds were $170,000, which left a remaining projected balance in the account of $411,217.93. Mrs. Somers explained that the recommended amount of transfer was $350,000. She also confirmed that the miscellaneous expenses included the $85,000 for fiduciary liability insurance. Mrs. Somers explained that the volatility of this account was $100,000, stating that this was a reasonable amount and left a cushion in the disbursement amount.

Mrs. Somers explained that at the previous meeting, the Board members had decided not to transfer the $350,000 available because of the future rebalancing of the portfolios.

Mr. DeIorio moved approval for quarterly expenditures as recommended by Mrs. Somers. Mr. Frick seconded the motion and, all voting aye, the motion carried.

VIII. APPROVAL OF ANNUAL RATE OF INTEREST TO BE CREDITED MEMBER CONTRIBUTIONS.

Mr. Crouse reported on previous discussions regarding the annual rate of interest that was credited to member contributions. He explained that there were two schools of thought: one held the view that pensions were meant for career employees, and the other held the view that members' contributions were meant as employees' savings. Mr. Crouse explained that in 1980, the Board had approved the 5.5% interest rate and it had not varied from that percentage since. He further explained that at that time, it had been recommended that the interest rate be reviewed on a yearly basis, and that at no time should the credited interest rate be more than 1.5% below the actuarial recommendations for interest applied to the retirement reserve fund. Mr. Crouse explained that the interest rate had not been tied to any index. Mr. Crouse explained that in February of 1996, it had been determined that it was valid to continue at 5.5% interest because it was not the Board's intention to benefit those individuals who chose not to retire from the Town.

Mr. Crouse explained that Mr. Boggs had raised this question for discussion because of concerns regarding a conversion of the plan to a defined contribution plan from a defined benefit plan. He stated that discussion regarding the interest rate would become more significant if such a plan change were to take place, but that he did not see any reason to change the Board's previous consideration.

Mr. Harvey stated that in the actuary's letter, information was provided that indicated that the majority of retirement systems were clearing at a rate of between 4% and 6%.

Mr. Wearn moved to continue with the 5.5% annual rate of interest to be credited member contributions. Lt. DeIorio seconded the motion. The motion carried unanimously.

IX. PROGRESS REPORT BY EMPLOYEE REPRESENTATIVES REGARDING PROPOSED CHANGES.

A. Increased accrual rate.
B. Increased duty and non-duty disability pension amount.
C. Retirement eligibility at age 55 with 10 or more years of credited service (General Employees)

Lt. DeIorio addressed items A and B, explaining that due to promotions and a two-week training course, he had not had the opportunity to discuss these issues with the employees he represented. He stated that he would provide the appropriate information at the next Retirement Board Meeting.

Mr. Boggs addressed item A. He asked if a similar comparison using more recent data could be provided to the Board members. Mr. Crouse explained that a request had been made to the State for more current figures; however, in preparing for this meeting, Ms. Kneipp used the information that was available. He explained that the information provided showed how the Town would be affected by different retirement ages and the varying years of service. Mr. Crouse stated that plans that offered retirement at age 55 with varying years of service were popular plans.

Mr. Wearn asked if the Florida Local Government Retirement System report included all retirement systems. Mr. Crouse explained that it included only those retirement systems that were reported to the State.

Mr. Crouse stated that this report would be updated and provided to the Board members at the next Retirement Board meeting so they would be able to determine how many retirement systems were changing to allow an earlier age for retirement for general employees.

Ms. Lane stated that the information provided in the supplemental actuarial report was unclear. She explained that it did not indicate whether or not this information took into consideration the other early retirement options currently available to general employees. Ms. Lane explained that these options resulted in a reduced pension, and that employees were looking for an early retirement plan that would not result in a loss of benefits. Ms. Lane stated that clarification was needed regarding the supplemental actuarial report regarding the specific cost to employees if an early retirement option was available, as well as clarification of the cost of employee contributions to pay for the plan.

Mr. Boggs stated that the report from the actuary indicated that if the Town provided an early retirement option of age 55 with 10 years of service, the cost to the town would be 1.38% of payroll, but that it was not clear what the cost would be if the employees paid for it. Mr. Boggs explained that the actuary had indicated that the cost would be slightly higher if the employees were to pay for the option. He explained that this information was needed before the Board could determine whether or not to forward the issue to the employees for a vote.

Mr. Frick moved that the actuary provide a clarification on the cost employees would pay for a retirement option of age 55 with 10 years of service; the cost the Town would pay for the same benefit; and a clarification on whether or not the other two existing early retirement options were taken into consideration in determining the costs for retirement at age 55 with 10 years of service. Ms. Lane seconded the motion. The motion carried unanimously. Mr. Harvey suggested that this report be provided to the Board members prior to their next meeting so they would have time to review the information.

X. REQUEST OF GEORGE FRICK FOR ACTUARIAL STUDY TO DETERMINE THE COST OF INCREASING THE POST RETIREMENT COST OF LIVING ADJUSTMENT FROM 2% TO 4% TO BE EFFECTIVE ON THE 61ST MONTH

OF RETIREMENT.

Mr. Frick reported that there were a number of police offers who were within a few years of the 65 point plan, and would be retiring between the ages of 45 and 50. He explained that one of their concerns was the cost of living adjustment. Mr. Frick explained that retirees presently received a 2% cost of living adjustment at their 37th month of retirement. He stated that the police officers were asking that this cost of living adjustment be increased to 4% at their 61st month of retirement. He explained that they were willing to pay for this benefit, providing that the cost wasn't prohibitive.

Mr. Harvey asked if the other employees were asking for the same type of benefit. Lt. DeIorio indicated that he had not discussed this with the Fire-Rescue employees, but that he could do so before the next meeting. Mr. Boggs stated that he would be interested in presenting this benefit to the General employees.

Mr. Frick moved approval for a supplemental actuarial study to be performed to determine the cost to employees of increasing the cost of living adjustment post retirement from 2% to 4% effective the 61st month of retirement, with the cost of the study not to exceed $1,500. Mr. Boggs seconded the motion and, all voting aye, the motion carried.

XI. REQUEST FOR TRAVEL AUTHORIZATION FOR JOHN DEIORIO TO ATTEND THE 18TH ANNUAL POLICE OFFICERS' AND FIREFIGHTERS' TRUSTEES' SCHOOL ON MARCH 18TH AND 19TH, 1997 IN TALLAHASSEE, FLORIDA.

Mayor Ilyinsky moved approval for John DeIorio to attend the Police Officers' and Firefighters' Trustees' School in Tallahassee on March 18th and 19th, 1997, with the appropriate per diem allowance for travel. Mr. Frick seconded the motion. The motion carried unanimously.

XII. RETIREMENT APPLICATION

Mr. Crouse reported on the retirement application of Willie Hogan, Maintenance Worker, Public Works, age 64 with 15 years and 11 months of service. He explained that Mr. Hogan met the requirements for retirement.

Mr. Boggs moved approval of Mr. Hogan's application for retirement. Mr. Frick seconded the motion and, all voting aye, the motion carried.

XIII. and XIV. ANY OTHER MATTERS/ADJOURNMENT

Mr. Harvey asked if there were any other matters to be discussed. There being none, the meeting was adjourned at 11:20 a.m.

John DeIorio, Secretary