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GENERAL EMPLOYEES RETIREMENT BOARD MEETING
November 14, 2003, 9:00 A.M.

I. CALL TO ORDER

The meeting of the General Employees Retirement Board of Trustees was called to order by Chairman James McC. Wearn at 9:00 a.m., November 14, 2003, in the Town Council Chambers. Attending were Chairman Wearn, Vice Chairman Robert Garvy, Secretary Patricia McLean, and Trustees Peter Elwell and Brett Madison. Also attending were Board Attorney John McCracken, Finance Director Jane Skittone, and Human Resources Director and Plan Administrator William Crouse.

II. APPROVAL OF AGENDA

Mr. Wearn requested for any additions or changes to the agenda. There being none, Mr. Elwell moved approval of the agenda, Mrs. McLean seconded, and the motion carried unanimously.

III. APPROVAL OF MINUTES

A. Regular Meeting of August 8, 2003

Mr. Wearn requested for changes or corrections to the minutes of the regular meeting of August 8, 2003. There being none, Mr. Garvy moved approval of the minutes, Mr. Madison seconded, and the motion carried unanimously.

B. Special Meeting of October 16, 2003

Mr. Wearn requested for changes or corrections to the minutes of the special meeting of October 16, 2003. There being none, Mrs. McLean moved approval of the minutes, Mr. Madison seconded, and the motion carried unanimously.

IV. ADMINISTRATOR'S REPORT

Mr. Crouse stated that at the Town Council meeting held November 12, 2003, four ordinances were presented by the Public Safety Retirement Board for approval. Mr. Crouse continued that three of the four ordinances were issues that had been previously discussed and tabled by the General Retirement Board during the past year. Mr. Crouse then stated the first ordinance which was passed by the Council, the Duty Disability Special Provision, which provided for a pension equal to or greater than 60% of the average final compensation for the life of the retiree, which would allow the IRS to provide a tax free ability for the pension to remain for the life of the pension. Mr. Crouse then stated that the Automatic Survivor Benefits After Death to the Surviving Spouse was tabled by the Council to be re-addressed in July of 2004. Mr. Crouse continued that the last item had to do with DROP provisions which only affected the Public Safety employees. Mr. Elwell stated that his recommendation to the Town Council as Town Manager had been for further deferral of the addressed issues to July 2004 when the Town Council would consider the proposed budget for the fiscal year 2005. After thorough discussion, the Council felt it was appropriate to proceed with two of the four proposed benefit improvements. Mr. Elwell stated that the fourth issue would not be relevant to the General Retirement Board however the other three issues were equally relevant to General Board as well as to the Public Safety Board. Mr. Elwell requested that these items be official agenda items as pertaining material would be received on each of the three ordinances in preparation for the February meeting. Mr. Elwell continued that discussion would then be held regarding how to proceed with the expectation that the Board would likely proceed to request that the Duty Disability item be approved as quickly as possible by the Council and then request that the additional two items be placed into the same cycle to be considered in the summer when the items would be considered for Public Safety. Mr. Wearn questioned whether the Board had tabled action or postponed on the items previously. Mr. Crouse responded that the items were tabled because it had not been deferred to a time specific due to market conditions. Mr. Wearn stated that if it were to be taken off the table and placed on an agenda for February, then there would need to be a motion to that effect.

Mr. Elwell moved to have all three ordinances which were pertinent to the General Retirement Board be placed on the agenda for the February 2004 meeting, Mr. Garvy seconded, and the motion carried unanimously.

Mr. Wearn requested that for the February meeting, Mr. Crouse provide copies of the ordinance that was presented to the Town Council for consideration at the November 12, 2003 meeting. Mr.

McCracken recommended that for consideration, the Board could possibly consider the ordinance which was passed on first reading by the Town Council, the Duty Disability modification. Mr. McCracken continued that his recommendation was have a study completed by the actuary to support the item if the intent was to proceed and have all set up for submission to the Town Council. Mr. Elwell agreed. Mr. Wearn questioned what the approximate cost would be to have an actuarial study conducted. Mr. Crouse responded that there would not be much cost at all. Mr. Crouse continued that Mr. Armstrong had already conducted all three studies, as a result much of the work had already been done. Mr. Elwell stated that his recollection was that they had been done specifically for Public Safety, however because the analysis was straight forward and all was set up, it could be done very easily for the General Board. Mr. Elwell continued that based on prior fees, it would be very small, most likely in the hundreds or perhaps $1,000 or two at the very most. Mr. Elwell continued that it would be safe to move forward in order to position the Board to make a decision in February. Mr. Wearn stated that it would be wise to establish a not to exceed figure.

Mr. Elwell moved to authorize Mr. Armstrong to conduct the necessary studies for appropriate presentation at the February Board meeting with a price not to exceed $2,000 for all three studies, Mrs. McLean seconded, and the motion carried unanimously.

Mr. Wearn questioned whether there was a need for further backup besides the studies and copies of the ordinances which had been requested. Mr. McCracken questioned whether there would be a request for draft ordinances for the General Board relatively straight forward and simple given that they had already been done for the Public Safety Board. Mr. Wearn responded that it would be wise to proceed appropriately and to also see what had been done for the Public Safety Board with strike-out and underline comparison on what was revised for the General Board. Mr. McCracken agreed and responded that he would do this. Mr. Wearn questioned whether there would be an up set price that could be discussed. Mr. McCracken stated that it would be line with the actuary, no more than $2,000. Mr. McCracken stated that it would be substantially less than $2,000.

Mr. Elwell moved to authorize Mr. McCracken to prepare an ordinance for the General Retirement Board action on the three subjects and to prepare the three copies of the ordinances in a strike-out and underline comparison for the Public Safety with an up set price not to exceed $2,000, Mr. Madison seconded, and the motion carried unanimously.

Mr. Elwell requested that Mr. Crouse provide a cover memorandum attaching each of the other items discussed so that he could also provide descriptions as these were items that had been considered by the Board and had been on the table for quite some time. Mr. Elwell continued that as the items returned he wanted some history of what the previous consideration had been. Mr. Crouse agreed that it would be done.

Mr. Crouse distributed the Florida Trustees Information Booklet as previously requested by the Board at the August 8, 2003 meeting. After brief discussion on the contents, Mr. Elwell recommended that in the left margin proper identification of the members be listed, as to which capacity was being served (i.e. Town Resident Member, Ex-Officio Member, Employee Member). Mr. Elwell also recommended that Ms. Skittone be listed as a financial contact. Mr. Wearn recommended that a tab be prepared to include the guidelines that the Board had established for various items that were addressed in the course of minutes but that perhaps had not become a formal policy as those would then be fleshed out over time. Mrs. McLean questioned whether the Summary Plan Description would be included in the actuary report. Mr. Crouse responded that the description was provided with the actuary reports. Mr. Crouse then stated that the most recent description would be distributed at the next meeting for the Board's convenience. Ms. Skittone stated that the annual audit report provided all of the information as well. Mr. Crouse then recommended to have a tab for the audit, as it would contain the information being suggested and have the most recent audit. The Board thanked Mr. Crouse for the wonderful information provided.

Mr. Crouse raised brief discussion regarding an item discussed at the Public Safety Board the day prior. Mr. Crouse stated that the Public Safety had requested an RFP to hire a professional administrator and for the information to be brought to the February 2004 meeting. Mr. Wearn questioned whether there was a specific reason why the Public Safety Board was considering to hire a "professional administrator." Mr. Crouse responded that there had not been a stated reason however Mr. Frick stated that there were concerns that a Human Resources Director wore two conflicting hats when performing the duty as an administrator for a pension board that had a number of issues that were taken before the Council that had impact on cost and taxes. Further discussion was held regarding Mr. Crouse's thoughts on the matter. Mr. Wearn questioned whether the action of hiring a formal plan administrator would require an amendment to the ordinance. Mr. McCracken responded that the statute clearly provided that the Board had the ability to choose an administrator however he was not certain whether the ordinance was consistent with the statute. Mrs. McLean stated that her thoughts were that it had to be the Human Resources Director by ordinance. Mr. Elwell stated the same. Mr. McCracken stated that if it were the case an amendment would have to be made to the ordinance. Mr. Wearn stated that if an amendment were made it would have to be brought before the Town Council so they would be informed that there would be an additional separation of Police and Fire from the Town and that there would be an additional cost imposed which ultimately the tax payers guarantee. Mr. McCracken responded affirmatively. Mr. Elwell stated that after brief review, the ordinance did state that the Personnel Director would be the plan administrator for both plans, both Boards and all members except to the extent that the Public Safety Board would make arrangements. Mr. McCracken responded that the statute clearly stated that the Public Safety Board could do that and as a result he incorporated it into the ordinance for future use if necessary. Mr. Elwell then stated that it appeared that an ordinance amendment would not be required as Public Safety was explicitly identified as having the ability to make other arrangements. Mr. McCracken stated that the statute contemplated that the municipality would pay for the outside administrator. Mr. Elwell responded that there was a separate section of the ordinance that clearly stated that the administrative expenses of the Board would be paid from the plan.

With no further comments from the Board, Mr. Wearn thanked Mr. Crouse for the administrator's report.

V. DISCUSSION OF RENEWAL OF FIDUCIARY LIABILITY INSURANCE

Karen Temme, Risk Manager, appeared before the Board and referred the members to review the memo dated October 31, 2003 where brief discussion was held regarding the renewal of the Fiduciary Liability policy for the period of January 1, 2004 through January 1, 2005, a copy of which is on file with the Plan Administrator.

Ms. Temme stated that underwriters were no longer willing to quote high limit exposures as in the past and had provided quotes with a $10,000,000 limit of liability. Ms. Temme noted that the Board was currently with National Union, however the company was offering a coverage of a $10,000,000 limit of liability and a $150,000 deductible at an annual premium of $41,410. Ms. Temme recommended that the General Retirement Board purchase the Fiduciary Liability coverage from Travelers with a $10,000,000 limit of liability and a $150,000 deductible at an annual premium of $27,500. Ms. Temme also noted that the Waiver of Recourse was included in the policy at no additional charge. Ms. Temme then recommended that the Board grant authority to the Plan Administrator, Mr. Crouse, to approve the Fiduciary Liability coverage for the renewal date of January 1, 2004.

Ms. Temme introduced Brian Cottrell, the insurance broker with Accordia in West Palm Beach. Ms. Temme also introduced Tony Chinche, the underwriter for Travelers.
Mrs. McLean questioned how a level of risk was measured for a retirement board and if there was anything the General Retirement Board could do to increase security. Mr. Chinche responded that there were various factors taken into consideration to underwrite a fiduciary policy. Mr. Chinche stated that the factors involved were limits, retention, financial condition of the Town, funding ratio, funding levels and diversity of the pension plan. Mr. Chinche continued that it was recommended to have a good financial condition for the Town. Also, to have a diverse plan, it was recommended that the funding ratio be at 100% or above. Mr. Chinche stated that once it was below 70%, a red flag would be raised for concern. Mrs. McLean questioned that if the Board were to make substantial changes in the investment policy, would it change the premium. Mr. Chinche responded that the plan would be monitored on a yearly basis to see where the investments stood. Mr. Chinche continued that if the plan was not performing well then the necessary circumstances would be taken into consideration and if the plan was performing very well then those circumstances would also be taken into consideration. Mr. McLean stated then for confirmation purposes that the present annual premium was based on current factors and that it would be valid for a year. Mr. Chinche responded affirmatively.

Mr. Wearn questioned how risk was being viewed for the plan, whether it was low, medium or high. Mr. Chinche responded that the plan was very conservative, with only 30% of the investments in stocks and that the plan's administrative expenses were well below 10% of the total assets of the Town, which was another plus. Mr. Wearn stated then that the conclusion would be that the risk was relatively low. Mr. Wearn questioned whether there was a program to assist in risk management on an on-going basis. Mr. Chinche responded that they did not have such a program and that it was up to the fiduciaries to monitor the plan and to make sure that it was performing well. Mr. Wearn then questioned whether the criteria that Mr. Chinche had mentioned earlier were monitored internally and if so whether the Board would be able to expect quotes in the future that would be commensurate with low risk. Mr. Chinche stated that there would always be increases due to the market, however if the plan continued to perform well then the Board could expect to receive similar quotes. Mr. Chinche continued that there were other factors that the Board would have no control over, for example a litigation which would occur if someone were to bring a claim to the Town, also hiring outside professionals, which should be monitored. Mr. Chinche emphasized that there were many factors involved when composing premiums. Mr. Chinche recommended that the Board monitor all factors pertinent and make sure they were either improved as needed or maintained. Mrs. McLean stated that at the recent FPPTA meeting it was mentioned that a Board with similar characteristics had approximately less than a one percent chance of being sued for liability. Mr. Chinche responded that all Boards run the risk no matter what percentage. Mr. Chinche continued that he had not seen any claims within the last six months, however he emphasized that when claims are made, they are not for a minuscule amount, it would be a great amount. Mr. Chinche then stated that it would not be a frequency issue but a severity issue. Mr. Garvy questioned whether there were any differences between the coverage in the policy and that which was provided by National Union of consequence. Mr. Chinche responded that all fiduciary policies were basically the same. Mr. Elwell referred to Mr. Cottrell and questioned whether there was any coverage available in excess of $10 million. Mr. Cottrell responded that AIG was approached and a quote was given for $15 million with an expensive premium of $85,850. Mr. Elwell was satisfied with the response.

Mr. Elwell moved to approve to accept the recommendation to purchase the Fiduciary Liability coverage from Travelers with a $10,000,000 limit of liability and a $150,000 deductible at an annual premium of $27,500 and to also grant Mr. Crouse, Plan Administrator, the authority to approve the Fiduciary Liability coverage for the renewal date of January 1, 2004, Mrs. McLean seconded, and the motion carried unanimously.

Mr. Wearn requested that Ms. Temme monitor the plan on a quarterly basis with Ms. Skittone and Mr. Crouse to assure that performance would be well compared to the criteria as the Board moved through the upcoming insurance year.

With no further comments from the Board, Mr. Wearn thanked Ms. Temme for the presentation.

Due to a brief presentation from State Street, item VII was presented prior to item VI.

VII. ANNUAL REPORT

A. State Street

Liz Simnick from State Street appeared before the Board and presented the annual report for the period ending September 30, 2003, a copy of which is on file with the Plan Administrator.

With no questions or comments from the Board, Mr. Wearn thanked Ms. Simnick for the annual report.

VI. QUARTERLY REPORT

A. Callan & Associates

Jeanne Valcik of Callan Associates appeared before the Board and briefly discussed the memorandum dated November 11, 2003 regarding Callan Insights online service.

Ms. Valcik then raised discussion regarding another memorandum dated November 11, 2003 regarding Loomis Sayles and their involvement with mutual fund issues. Ms. Valcik stated that Loomis Sayles had found two instances where they accepted investments that might lead to increased trading activity in the Loomis bond fund. Ms. Valcik continued that Loomis stated that prior to accepting the investment they considered the size of the fund and did not believe it would affect the other participants in the fund to take those particular investments. Ms. Valcik continued that Callan had spoken to Loomis regarding the announcement and Loomis had responded that they did not permit or facilitate late trading, an illegal act. Ms. Valcik then stated that they did was accept two relationships from people who wanted to be invested in a bond fund but not be long-term investors, one being a party affiliated with a hedge fund and the other being with a real estate company who wanted to invest in the bond fund. Ms. Valcik stated that Loomis did not waive redemption fees for these clients and it did not appear that it was quid-pro-quo. It appeared to be a far less serious situation compared to other situations that had come out in the investment world.
A short break was taken.

The Board reconvened at 10:25 a.m.

Ms. Valcik then presented the performance report through September 30, 2003, a copy of which is on file with the Plan Administrator.

Mr. Garvy stated that Ms. Valcik was correct in stating that the rally in the market was dominated by second tier and third tier securities. The valuations were equal to or exceeded the valuations that were reached at the peak in March 2000, a piece selling at over 33 times the earnings and that priced-at-book dividend yield were at levels typically associated with market highs. Mr. Garvy continued that the bond market was at its high over the past 30 to 40 years in terms of value versus extraordinarily low yields. Mr. Garvy recommended that the Board continue to be extremely cautious regarding the markets in which the Board was invested.

Mr. Wearn stated that there had been an unspoken answer to the question regarding whether the Board wanted to further consider hedge funds. Mr. Wearn stated that due to the circumstances with the mutual funds and the condition of the market and volatility, they did not support hedge funds. As a result, Mr. Wearn stated that he had risk concern.

Ms. Valcik raised brief discussion regarding asset allocation. Mr. Wearn stated that he recommended that the Board take time to think about all the information that had been provided. Ms. Valcik agreed. Mr. Garvy questioned what the correlation was between past forecasts and actual outcomes. Ms. Valcik responded that every year Callan performed reviews to see how the forecasts had done and that they were available for review if necessary. Ms. Valcik continued that prior to the market bubble, Callan had done a very good job of getting clients to the portfolios they needed to be in, in terms of their asset allocation. Callan had come within one percent on every rolling five years of the expected return of the diversified portfolio. As a result, if there was a client who was aiming for eight percent on rolling five years, Callan would come within plus or minus one percent. Ms. Valcik continued that when the market took off like a rocket, Callan was not on target as they did not predict 30% returns and when the market dropped like a rock Callan did not predict 30% on the down side. Ms. Valcik stated that all of the information provided was available for review if needed. Mr. Garvy stated for observation purposes that given the first three and a half years of the first decade of the new millennium, through June 2003, if the stock market were to return 14% per annum for the remaining six and a half years of the initial decade, the return on equities for the entire decade would be five percent. Mr. Garvy reemphasized the fact that given the valuation levels, very few consultants would argue as certainly Callan, at least over the next five years that it would be unlikely to see 14% return. As a result, the Board would be put in a position of watching the funding level deteriorate. Mr. Garvy continued that many funds in response are reaching for ALPHA or reaching for excess return or additional return via investments in more risky securities or more risky venues or alternative venues such as hedge funds which can be more risky as well (i.e., real estate). Mr. Garvy then stated that cash was also an asset class, but it was at historic lows, not an asset class that would certainly provide anything in terms of excess returns, only protection in the case of declines in the market. Mr. stated that in the current environment, the Board needed to be extraordinarily careful regarding moves of substance in an attempt on a short-term basis to improve the funding status. Mr. Garvy continued that the funding status was still extremely strong and well-diversified, as a result, the Board needed to be very careful not to act precipitately in seeking of excess or additional return. Mr. Wearn concurred with Mr. Garvy's comments and stated that there was additional support for those comments in the risk report received from the actuary regarding risk and liability coverage. Mr. Garvy stated that he was comfortable with retaining the investment mix that was currently active as it was relatively conservative and being conservative in time was wise. Ms. Valcik referred the Board to the information booklet on page five where further discussion was held regarding asset allocation of funds similar to that of the General Employees' funds. Mr. Garvy stated that a substantially smaller portion of that was invested in an aggressive manager with Roanoke and the rest was in S&P500 Plus as well as a value manager with an orientation to somewhat deep value or high quality companies. Mr. Garvy continued that it was an unusual asset mix but not unsound by any means given the circumstances. Mr. Wearn stated that the comparison of the fund to other small public funds which according to what had been indicated earlier had the four different large cap growth and large cap value, the mix had been styled according to management style and it seemed to be effective. Ms. Valcik stated that it had worked well. Mr. McCracken commented that the Public Safety Board had diversified considerably with investments made in January 2003 and although it had not been a complete year the return had been about the same as the General Employees, within a few basis points.

Ms. Valcik raised brief discussion regarding the limitation of money managers to ten minute presentations. With no comments from the Board, Mr. Wearn stated that it would be appropriate to continue with the concept with the managers to appear and give a presentation in ten or twelve minutes. Mr. Wearn continued that they could be concise in that period of time and if the Board felt a need to expand the presentation with questions, that would be done at the time that they were here.

Mr. Wearn thanked Ms. Valcik for the quarterly report and presentations.

IX. APPROVAL OF ACTUARY'S FEE

Mr. Crouse referred the Board to the letter dated October 31, 2003 from Brad Armstrong of Gabriel, Roeder, Smith & Company, a copy of which is on file with the Plan Administrator.

Mr. Crouse briefly discussed the actuary's fee proposal of $11,100 through September 30, 2004, an increase of 2.8% from last year. As past practice, Mr. Crouse stated that Gabriel, Roeder, Smith & Company had requested that the amount be paid on a quarterly basis with installments of $2,775 due to the work on the system oversight and actuarial matters throughout the course of the year.

Mr. Elwell moved to approve the fee of $11,100 for the fiscal year ending September 30, 2004, payable in $2,775 installments at the end of each quarter, Mr. Madison seconded, and the motion carried unanimously.

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

Mr. Crouse stated that each year in November the Board considered what rate would be established for the interest rate to be paid to the employee contribution pension system. Mr. Crouse continued that the interest rate had been since the early 1980's at 5.5% and had remained the same over the years. Mr. Crouse continued that the reason why the interest was paid at all was that in the cases where employees departed prior to being vested in the system, they were required to withdraw their monies and were allowed to keep their monies plus the interest that it earned. Mr. Crouse stated that the recommendation was to rescind the original action and authorize the staff to apply the 5.5% which was applied to the general employees for the fiscal year 2003 and that the matter be handled in August for future purposes which would place the matter one month away from when the interest rates were paid out and would give the Board a closer idea of what the circumstances were with the plan. Mr. Crouse further stated that by moving the matter from a November meeting to an August meeting, it would assist the staff in being closer to the time when the payment would actually be made and less likelihood for error in paying out and that it would make sense and be easier to make the decision on what to establish for the interest rates. After thorough discussion regarding other possible recommendations, Mr. Elwell recommended to have an agenda item every August where the Board would consider the matter, look at the rate of return on the investments, look at the CPIU as of June and determine for each year the circumstances of that year what would be an appropriate interest payment for that particular year. Mr. Wearn stated that a few actions were needed, one to rescind and another to retroactively establish. Mr. Garvy commented that Mr. McCracken's observation and that of Mr. Wearn were appropriate, perhaps there was a need for both a recission and a retroactive approval. Mrs. McLean stated that her original thought regarding tying this to the inflation rate was that an employee who worked for a short period of time should not really benefit from the plan but should also not lose out entirely as far as 6.5% of their money being subtracted every two weeks. As a result, it was not really to have them penalized or have the plan penalized, it was a way of mathematically arriving at a fair rate.

Mr. Ewell referred the Board to Ms. Skittone's memorandum dated November 6, 2003 where brief discussion was held regarding staff's recommendation.

Mr. Garvy moved to approve to rescind the original action approve at the regular November 2002 meeting, Mrs. McLean seconded, and the motion carried unanimously.

Mr. Madison moved to approve a 5.5% annual rate of interest to be applied to the General Employees' contributions for September 30, 2003, Mr. Elwell seconded, and the motion carried unanimously.

Mr. Elwell moved to approve that this item be placed on the August Retirement Board agenda each year for action prior to the fiscal year end, Mr. Madison seconded, and the motion carried unanimously.

XI. **REPORT ON QUARTERLY EXPENDITURES**

Ms. Skittone presented the report on quarterly expenditures and recommended a transfer of $50,000 from the S&P index fund.

Mrs. McLean moved to accept the report and approve the money transfer, Mr. Madison seconded, and the motion carried unanimously.

Mr. Madison moved to accept the report on quarterly expenditures, Mr. Elwell seconded, and the motion carried unanimously.

XII. **REPORT ON RETIREMENT APPLICATION (DROP)**

A. France Hollis, Refusal Disposal Operator, 20 years, 4 months

Mr. Crouse reported that France Hollis, refusal disposal operator of the Public Works Department, had met the conditions of age and service for retirement and elected the DROP.

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XIII. **REQUEST FOR WALL STREET JOURNAL**

Mrs. McLean moved to approve the renewal of the Wall Street Journal at an annual student rate of approximately $100 per year, Mr. Madison seconded, and the motion carried unanimously.

XIV. **ANY OTHER MATTERS**

No further matters were brought before the Board for discussion.

XV. **ADJOURNMENT**

There being no further business, Mr. Elwell moved to adjourn. Mr. Garvy seconded, and the motion carried unanimously.

The meeting adjourned at 11:35 a.m.

Approved: ________________________
Patricia McLean, Secretary