Adobe Document					
Document Name	AugMinutes161996	Subject	August 1996 Retirement Board Meeting Minutes	Date	Fri 08/16/96
Directory	Retirement	Type	Minutes	Category	Retirement

MINUTES OF RETIREMENT BOARD MEETING
FRIDAY, AUGUST 16, 1996, 9:00 A.M.

I. CALL TO ORDER

The meeting of the Retirement Board of Trustees was called to order by Chairman Robert Harvey at 9:05 a.m. on Friday, August 16, 1996, in the Town Hall Council Chambers. Attending were: Vice-Chairman James McCartney Wearn and Trustees Robert J. Doney, Mayor Paul Ilyinsky, Town Council President Lesly Smith, Fire-Rescue Lieutenant John DeIorio, Police Officer George Frick, Dock Master Karen Lane, and Purchasing Agent Charlie Boggs. Also in attendance were Personnel Director William C. Crouse, Personnel Analyst Carla S. Kneipp, Finance Director Marie A. Crozier, Assistant to the Finance Director Cheryl Somers, and Attorney John C. Randolph.

II. APPROVAL OF AGENDA

Mr. Harvey asked for any additions or changes to the agenda. There being no changes or additions, Mr. Frick moved approval of the Agenda of August 16, 1996. Lt. DeIorio seconded the motion. Motion carried unanimously.

III. APPROVAL OF MINUTES - REGULAR MEETING OF MAY 17, 1996

Mr. Harvey asked for corrections or changes to the minutes of the regular meeting of May 17, 1996. There being no changes, Mr. Frick moved approval of the minutes of the Regular meeting of May 17, 1996. Mr. Boggs seconded the motion, and all voting aye, the motion carried.

IV. REPORT ON ELECTIONS

A. General Employee Representative
B. Police Employee Representative
C. Fire-Rescue Employee Representative

Mr. Crouse stated that the terms of three of the four employee representatives had been up for re-election. He explained that the Fire-Rescue and Police representatives ran unopposed, but there had been three individuals running for the General Employee representative position.

Mr. Crouse explained that a review of the election results had been included in the Board members' packets showing that Charlie Boggs had been re-elected to the seat for the General Employees. He further explained that John DeIorio had run unopposed for the Fire-Rescue representative seat, and George Frick ran unopposed for the Police representative seat. Mr. Crouse stated that he was pleased to see that these three individuals, who were well-versed in the retirement system, were back for another four years.

Mr. Harvey welcomed Charlie Boggs, John DeIorio, and George Frick to the Retirement Board of Trustees.

V. QUARTERLY REPORTS

Mr. Harvey stated that there were a number of people present to make presentations, and asked that these presentations to be limited to 15 minutes each, if possible.

A. CALLAN ASSOCIATES, INC.

Carl Deane of Callan Associates, Inc. addressed the Board and explained that there were three things that affect the investment performance of the fund: one, the strategy of the investment managers; two, the policy and guidelines in place and published by the Trustees; and three, what was going on in the investment environment as it related to stocks and bonds.

Mr. Deane explained that the Town's investment managers operate balanced portfolios, except for the bond portfolio and the S & P 500 Index Funds. He explained that the Town's policy guidelines limited the amount of common stock exposure, which had an affect on total fund performance. Mr. Deane stated that the investment environment, prior to a few weeks previously, had continued a non-stop rise in stock prices. He explained that the S & P 500 Stock Index had a return of over 26% for the year ending in June, but smaller stocks had better performance than larger stocks, which favored Roanoke's type of management relative to Loomis, Sayles', because Roanoke bought smaller stocks and Loomis was a value stocks manager. Mr. Deane explained that this was why the Town had complimentary investment managers.

Mr. Deane then reported on the fixed income environment. He explained that the Lehman Brothers Corporate Index, which was a measure of the bond market performance, had a return of only 4.65% for the 12 months ending in June, 1996. Mr. Deane stated that it was not expected that there would be strong performance from the ladder bond portfolio simply because bond prices in general were not going up, but were in fact dropping during a portion of that period. Mr. Deane explained that the more stock exposure and shorter maturity of the bond portfolios the managers had, the better off they were.

Mr. Deane reported that the equity portion of the assets in the investment plan accounted for about 44% of the total assets. He explained that because there was a limit of 40% in the Town's plan, they were over exposed in this area. Mr. Deane explained that part of that was due to the market that had been experienced where equities had gone up and the bonds had come down. He stated that the Retirement Board needed to be aware of this in terms of rebalancing the portfolios. Mr. Deane then explained that the Town had an almost 14% rate of return on an absolute basis, with a five year return for total fund of 11.7%.

Mr. Deane then reported on Roanoke Asset Management. He explained that by the end of the quarter, they had about 51% in equity, so they had been over the limit. He further reported that the rate of return for the quarter had been about 4%, which was in the top 10%. He explained that their performance was a reflection of good stock selection and the market environment. He further explained that their bond performance had been very strong.

Mr. Deane then reported on Loomis, Sayles, and Company. He explained that they were at about the 40% equity exposure, which was where they tried to hold it, with about 58% in fixed income. He explained that the rates of return were benefitted by the first quarter, where they had funds that were in favor, and the rate of return had been about 19%. He stated that since that time, value had fallen out of favor in terms of their stock exposure, and their bond performance had lagged a little, which meant they probably were a little longer than the index in terms of maturity or duration, which could have caused them to under-perform a little. Mr. Deane explained that their recent performance was not as strong; however, their types of stock had been out of favor, and he expected them to be under-performing.

Mr. Deane reported that Loomis, Sayles and Company's T-Bond account was about 93% invested solely in bonds over one year maturity, with a small amount in cash. He explained that the performance had not been as good on a relative basis because this was a different kind of portfolio that did not try to match the Index.

Mr. Deane then reported on the Index performance of ANB, and explained that they had a good start when they took over the portfolio, and in the structuring and transition , they actually had gained on the S & P, which was not expected out of an Index Fund. Mr. Deane explained that this type of fund should track the Index very closely.

Mr. Deane reported on the Town's five year plan. He explained that the Town had only one investment manager who had been with the Town for the full five year period of time. Mr. Deane reported that the total assets were running well ahead of inflation and of the Town's actuarial assumption. He stated that the actuarial assumption was 8%, which indicated that if money was earned at an excess of 8% per year, the Town would gain on any unfunded liabilities. Mr. Deane explained that the total equities in the equity portfolio over a five year period of time had earned money in excess of the S & P 500. Mr. Deane explained that the fixed income portfolio for this time period had fallen behind, which was partly due to the T-Bond account. He stated that overall, the Town still had a plus over the Index, but because of the structure of the T-Bond account, the performance was pulled down.

Mr. Deane explained that holding an investment manager to the 33rd percentile of all balance funds was difficult when they could not go above 50% in equities. He stated that the Retirement Board may want to readdress that percentile ranking and adjust the Investment Policy to read "compared to other funds with the same asset mix". Mr. Harvey stated that he thought the 33rd percentile was based upon some sort of weighted index based upon a 40/60 allocation. Mr. Deane indicated that he would rather restate that to say that the investment managers were exceeding in excess of their fees a weighted portfolio of the S & P's and the Bond Index. Mr. Harvey indicated that he understood and that the Board could readdress that. Mr. Deane suggested that the Board may want to look at the investment policy and rewrite that portion.

Mr. Doney stated that it would be advisable to have in the Table of Contents of the Investment Policy a bullet list of a section that included recommendations. He explained that on a quarterly basis, Callan and Associates could indicate areas that they thought the Board should consider.

Mr. Harvey thanked Mr. Deane for his report.

B. ROANOKE ASSET MANAGEMENT

Ed Vroom of Roanoke Asset Management stated that Roanoke had been in the process of rebalancing and would be back on target regarding allocation of equities by the end of the reporting period. He explained that this had occurred as a result of money being pulled out of the fund which came out of the fixed income portion because it was available, and because they had a very disparaging performance between stocks and bonds and that had changed the allocation. Mr. Vroom stated that Callan had already reviewed the performance numbers, but he wanted to reiterate that this had been a very good second quarter. He explained that from the inception, the equity portion of the portfolio still remained a very positive comparison at 19.3% compounded for a 13.5 year period. Mr. Vroom explained that on the fixed income side, it had been a difficult 12 months, with Roanoke managing to hold their own in the quarter, slightly behind the Shearson Lehman for the 12 month period ending June. He explained that the difficult first half of the year had a fairly significant impact on the total fund numbers. Mr. Vroom stated that the quarter had a total fund rate of return of 3.7%, which was a result of the equity component of the portfolio, as the bonds had no positive impact on the quarter. Mr. Vroom explained that the five year 16.2% rate of return on bonds and stocks was a superb number for the total fund and had beaten the S & P 500, which was an all equity index.

Mr. Vroom then stated that the markets had been very volatile since mid-June, and they had been struggling with concerns of alternate recession and inflation. He explained that when Roanoke put all the economic data together, they felt that the inflationary pressures that were building in the economy were very unclear. Mr. Vroom indicated that he felt the bond market had overreacted to the short term concerns of the higher than expected economic growth in the second quarter, and the lower than expected unemployment rate . Mr. Vroom stated that he expected on a long term basis, the bond market would return to a level that was more appropriate to the level of inflation. He indicated that he expected this period of volatility to result in the credit markets acting more positively, which should create an environment for a good stock market in 1997.

Mr. Vroom then stated that he wanted to discuss investment strategy. He explained that telecommunications was 24% of the portfolio, and the other sector breakdowns in technology were at the lowest point they had been at for 18 months. He stated that health care stayed the same, and the consumer area was building up in the portfolio. Mr. Vroom explained that the regulation bill passed by Congress regarding the telecommunications sector would have a profound impact on the business models of the telecommunication companies. He explained that this would provide an environment for companies who provide equipment to build this infrastructure, and Roanoke had structured their portfolio to participate in that.

Mr. Vroom reported that the average weighted market cap for the portfolio was small, but the growth characteristics were superb. He stated that the average earnings growth of this portfolio for this year had been 30%, and they were looking for a 27% rate of earnings growth for the next year. Mr. Vroom explained that the fixed income profile of the portfolio had not changed much in the last six months, and it was not an overly aggressive structure. He stated that it had a relatively short maturity, which had helped Roanoke in the last six months. He explained that Roanoke did not envision changing this portion, but if there was an opportunity in the next quarter, they would use it to extend the portfolio because there was a relatively positive point of view going forward regarding inflation, and this would be a perfect opportunity to take advantage of if the bond market was sold in the next quarter.

Mr. Vroom explained that he had provided a review of Roanoke's largest top 20 holdings, including the characteristics of the companies as well as the earnings forecasts, both historical and going forward. He explained that this was a very powerful list of growth companies, and Roanoke would continue to expand this list. Mr. Vroom asked the members to review this information at their leisure.

C. LOOMIS, SAYLES AND COMPANY

Peter Van Beuren of Loomis, Sayles and Company stated that Michael Harris of their Detroit Counseling team would make the presentation. Mr. Van Beuren explained that Loomis, Sayles was a value equity manager, and as such, they managed the portfolio with an investment strategy and philosophy that combined classic fundamental analysis along with the bottom up discipline of value and earnings ability. He stated that specifically, Loomis was looking for under-value companies which represented a 10 to 20% discount to the S & P 500, as well as targeting companies in a broad sector diversification that allocated relative to the weighting of the S & P.

Michael Harris of Loomis, Sayles and Company, Detroit, explained that for the last six months, Loomis' equity portfolio was up approximately 9.2% compared to the S & P 500, which was 10.1%. He explained that Loomis had been managing the Town's portfolio since late January, 1995. He explained that the equities in the portfolio on an annualized basis were up 33.1% versus 31.7% for the S & P 500. He stated that year-to-date, Loomis was a little behind the S & P, but since inception, they had done reasonably well versus the market benchmark.

Mr. Harris reported that the bond portfolio had under-performed relative to the Lehman Brothers Government Corporate Bond Index. He explained that Loomis was down 2.2% relative to the Index, which was down 1.9%. He reiterated that a rising interest rate environment had impacted this portfolio. Mr. Harris stated that they were up 2.2% for the total fund ending June, 1996.

Mr. Harris explained that at this time, the portfolio had a 40% mix in stocks, and the total equity portfolio was about $7,668,000, or about 38.5% of the total portfolio. He stated that the total portfolio now had a market value of $20,189,000, with bonds representing the balance of $11,600,000, or 58%, with cash reserves at a very low 3.5% position. Mr. Harris stated that Loomis had stayed around the 40% mix in stocks, and the equity characteristics validated their value philosophy with a growth rate at 10% compared to 7% of the S & P 500. He stated that Loomis was close to the S & P in most categories, and that they had become more defensive in their stock selections, particularly in the second quarter. He explained that they were moving more towards utility stocks, which were up to 14%. He stated that he felt the equity market outlook was going to be volatile and may be a difficult one, particularly with the volatility experienced in interest rates.

Mr. Harris reported that the bond characteristics had been longer in duration than the market and this was reflected in the relative under performance versus the market, with rates going up. He explained that they were trying to increase their percentage weighting on corporate bonds, and had moved about 10% more in corporate bonds for a total of 22%, and would continue to look for opportunities to buy more corporate bonds. Mr. Harris stated that Loomis had a quality constraint in the portfolio that limited the types of corporate bonds they could buy, and they were looking for "A" rated corporate bonds that were rated by Moody. He indicated that this limited the field they could select from, and with the yield spreads and the corporate world being very narrow, it had been difficult to find the credits they liked from a fundametnal basis that they thought were undervalued.

Mr. Harris stated that the outlook indicated a slowdown in growth rates for the S & P 500, which resulted in Loomis moving to a more cautious stock selection in the equity portfolio. He explained that the economy would affect their strategy. He explained that if the economy grew too fast, inflation would increase, which would create a very volatile time period with some opoprtunities for the equity side and the bond side. He explained that if interest rates did increase, Loomis would look at that as an opportunity to buy some good quality bonds at higher interest rates.

Mr. Doney stated that it was good to hear the positive reports of the investment managers, and it was nice to see the change in direction of the performance over the past 18 months.

D. FIRST UNION BANK

David Stevens of First Union Bank addressed the Board stating that they managed the Treasury

Bond Portfolio, and have a laddered portfolio of one to ten year treasuries. He explained that the portfolio was rebalanced at the end of each year. He explained that the portfolio was laddered quite smoothly, with an average maturity of 4.9 years, an average coupon just over 7%, and yeild maturity at approximately 6.3%.

Mr. Stevens explained that the laddered portfolio went to the year 2005, and during the course of the year, maturities were put into cash. He explained that at the end of 1992, this portfolio was worth just over twelve million dollars and had now grown to be about $34,000,000. He explained that to date this year, First Union had underperformed the benchmarks, but over the longer term, they had been right on the benchmarks or slightly ahead of them.

Mr. Harvey asked if the portfolio had 6% or 7% cash. Mr. Stevens explained that the treasury bill portion was just under 7% in cash, and there was some cash sitting in the money market as well. He explained that by direction, they were to hold any maturities by putting them into short-term treasury bills until year-end, at which time the portfolio would be rebalanced.

Mr. Harvey stated that the Board had discussed this at another meeting. He explained that it had been discussed that if there was a maturity in the first quarter, the bank would hold that until the end of the year before rebalancing. Mr. Harvey stated that he thought this should be addressed. Mr. Stevens stated that it could be rolled back and put into the next ten year cycle. Mr. Harvey asked if this had ever been redirected to First Union as discussed by the Board.

Marie Crozier, Finance Director, stated that she had spoken with Sandra Fleming at First Union regarding this, but she did not know if the policy had been formally adjusted. Mr. Harvey stated that this could be reviewed, and if a policy change was needed, the Board would adopt same. He explained that if the policy was broad enough, he felt that it was the Board's intent to roll treasury bills as they matured and keep the cash portion to a minimum level. Mrs. Crozier stated that the policy specifically stated that when a bond matured, proceeds would be invested in t-bills or an approved money market fund until the fund was rebalanced each January. Mr. Harvey stated that the Board would review that policy because they would want to keep the money working. He explained that the goal was to keep a ten year ladder, and as these bonds come due, they should be rolled to the end of the ladder and not wait until the end of the year to rebalance.

Mr. Wearn asked if this meant establishing an 11th year, explaining that if the matuirty came ten years away, an 11th year of the laddered portfolio would be established. Mr. Harvey indicated that he was not sure this was the case, explaining that the portfolio could be averaged down to 9 ½ years. He explained that this would be a rolling ten years, and instead of waiting until the end of the year to invest funds, a constant 10 year ladder would be kept in place.

Mr. Frick stated that the reason this had been done in the past was because restructuring was done every year to keep money available. Mr. Boggs asked if it would be better to receive a report at each of the Board meetings in order to make a decision as to whether to roll over, explaining that this could be a recurring agenda item. Mr. Harvey stated that this really was not an issue during the first half of the year. Mr. Frick asked if this should be discussed with Sandra Fleming before making a motion. Mr. Harvey explained that Ms. Fleming had just been following the Board's dictates. Mr. Doney explained that during discussions with Callan and Associates regarding the Investment Policy, it had been indicated that the rebalancing portion of the policy had been written for simplicity. He explained that there also was not an automatic rebalancing policy with respect to the managers because it was felt that this could violate a Town ordinance.

Paul Troup of Callan and Associates indicated that he would rework the investment policy and present it at the next Retirement Board Meeting. Mr. Harvey stated that part of the equity overexposure was a question as to whether it was purchase driven or market driven. He indicated that market driven was permitted, but after the managers are over the limit, they were not allowed to continue buying. He explained that it was the Board's desire to stay within the guidelines, and that the goal was to keep the risk factor at a moderate level.

Mr. Wearn stated that the criteria described today seemed to justify a rebalancing at this time, and asked if it would be appropriate to do so and to consider at the next meeting specific wording for a policy that would provide for rebalancing at six month intervals. Mr. Harvey indicated that this was a good idea. He asked if there would be a problem with rebalancing in the middle of the year, and if the managers would have a reason for under-performance. Mr. Troup explained that the discipline of doing something either annually or semi-annually had been demonstrated mathematically to improve performance and lower risk. He explained that he would have to report back to the Board on what it would take to redo the balancing. He stated that rebalancing more than on a quarterly basis would result in the transaction costs outweighting the benefits. Mr. Troup explained that because the managers appear before the Board every six months, it would be appropriate to rebalance semi-annually. He stated that the guidelines would be rewritten, and the Board would be given a document that would suggest how the rebalancing should go. Mr. Troup further suggested that the rebalancing occur in February and August, explaining that portolio restructuring should not occur at year end. He further explained that the most recent asset statement would be available at August meetings, which would assist with rebalancing.

Mr. Wearn moved to amend the Investment Policy to provide for rebalancing at six month intervals as described by Mr. Troupe, with that being implemented at this time, and that this rebalancing be considered for formal adoption and incoporation in the policy statement at the next regular meeting of the Retirement Board of Trustees. Mr. Frick seconded the motion.

Mr. Doney stated that the intent of the motion would be to rebalance at this time. There being no further discussion, the motion carried unanimously.

Mr. Harvey then asked Callan and Associates to create an index they felt was appropriate so the Board and the investment managers would realize the benchmark that Callan would be using to compare performance. Mr. Deane indicated that this could easily be accomplished.

Mr. Doney suggested that the managers be given an opportunity to provide their input with regard to the Board's actions on rebalancing. Mr. Harvey opened the meeting to the managers, asking if there was anything more the Board could do to assist them.

Mr. Van Beueren suggested that the managers receive copies of Callan and Associate's reports on a semi-annual basis. Mr. Troup explained that Callan could do this only if instructed to do so by the Retirement Board; however, it was his recommendation that this information be forwarded to both investment managers.

Mrs. Smith referenced the statement regarding the investment mix, and asked whose responsibility it was to correct the problem. Mr. Wearn explained that this was set by Town ordinance, and each manager was responsible for staying within the policy guidelines. Mrs. Crozier explained that Investment Policy item number 7 was specific in that each investment manager, in the exercise of his discretion, shall insure that its common stock allocation, including convertibles, shall not exceed 40% of the assets under its management market.

Mr. Harvey asked if the guidelines should be amended to allow investment managers a one quarter grace period to comply with the common stock allocation of 40% in instances where the allocation exceeded 40%. Mr. Troup explained that managers who exceeded the 40% mix rarely were out of compliance for more than a quarter, and normally for an even shorter time period. He explained that in this instance, Roanoke was out of balance; however, this was not a long term behavior pattern. Mr. Harven stated that investment managers dealt with a fluctuating market, which impacted the investment mix. He explained that the Retirement Board may need a mechanism that required investment managers to adjust the mix within a specific amount of time so it complied with the policy. Mrs. Crozier asked what the risk was to the Board if the investment managers were not in compliance with the policy. Mr. Troup explained that from the standpoint of a consultant's answer, the Board would be taking on more risk than had been intended when the portfolio was put together. He further explained that from the Town's perspective, the ordinance stated that investment managers could have 40% in common stock allocation. Mr. Harvey stated that the language should indicate targets rather than absolute rules, and include a target that investment managers would have one quarter in which to get back into compliance.

Mr. Randolph explained that if something was found to be in violation of the ordinance, it did not mean that anything drastic would happen as a result; however, if persons were aggieved as a result of a violation of the ordinance, such as the people on the plan, and the violation continued, they would have a cause of action against the Town or the Retirement Board for deliberately violating the ordinance. He stated that as long as the ordinance was in place, the Board must do everything it could to stay within the terms of it. Mrs. Smith stated that it seemed that the investment managers were being penalized for being successful. Mr. Harvey stated that the 40% was a risk balance determined by the Board, and addressed the amount the Board wanted to risk in the stock market as opposed to the bond market. He explained that the number was controlledf by the Retirement Board, and the managers performed within the set guidelines. Mr. Harvey explained that if the Board felt the guidelines should be changed, it would be their decision. He stated that the guidelines were established for a reason, and given the way the market was at the present time, he would not be in favor of changing the figure. Mr.

Wearn stated that the 40% mix was set by ordinance, and the ordinance could be considered as a policy revision by the Town Council, which would come by way of a recommendation from the Retirement Board. Mr. Wearn stated that the 40% mix had been in place for a long period of time and had functioned effectively.

Mr. Harvey stated that the Retirement Board was happy with the success of the investments made by the managers, but they should realize that the managers do not control the markets. He asked if the Board should include in the policy a grace period in which to comply with the 40% mix, explaining that if a manager goes over the target amount, there should be a mechanism allowing time to correct that. Mr. Frick stated that the Board had an investment policy, and the issue they were discussing was a one time unusual occurrance. Mr. Frick stated that he felt the investment manager would be back in compliance with the 40% mix without requiring further restrictions.

Mr. Doney stated that Mr. Troup and Mr. Deane would present a properly revised investment policy at the November meeting, and could then give the Retirement Board their best professional advice. He further stated that it would be better to include a grace period in the investment policy because it would provide the investment managers with written instructions. Mr. Harvey indicated that the semi-annual rebalancing should also help to prevent an increase to the 40% mix.

Mr. Harris asked if the 40% asset mix was for each manager or all managers as a whole. Mr. Harvey explained that it was designed for each manager, and if one manager was below 40%, another manager could not make up the difference. He explained that each manager should structure their investments independent of the others. Mr. Harris stated that one manager's mix could be at 40%, yet the total plan exposure could be at less than 40%. Mr. Harvey explained that the semi-annual rebalancing may resolve this issue, and that he felt the Board should implement the semi-annual rebalancing and monitor it.

Mr. Vroom stated that he thought a grace period should be extended to the managers to comply with guidelines for two reasons: one was that the markets were dynamic; and the other was that the year end rebalancing could affect the cash flows from or into the accounts. He stated that unless the Board required that Roanoke immediately change their asset allocation, which could have a dramatic impact on the equities or fixed income, it would be helpful to give the managers some leeway to do that in a more efficient and orderly manner. Mr. Harvey stated that he agreed and added that by rebalancing semi-annually, the distortions would not be as large as they were at the end of the year.

Mr. Wearn stated that Mr. Troupe had suggested that the entire Callan report be furnished to all investment managers, and moved that the Callan and Associates reports be furnished to the Town's investment managers. Mr. Frick seconded the motion, and all voting aye, the motion carried.

Mr. Boggs asked how the Town's investment mix stood compared to other agencies. Mr. Troupe explained that the 40% limit on stock exposure put the Town in the lower half in terms of risk exposure, and stated that the Board should keep in mind that the amount of risk exposure had been based on two things: one was the financial requirements of the plan, and the second was the tolerance of the trustees for the volatility associated with stocks. Mr. Troup explained that he was not promoting the notion that the Board should take on more risk because he felt the established guidelines were working. Mr. Harvey stated that the plan had served the Town very well, and the returns received for the risk taken had resulted in good results for the Town. Mr. Harvey stated that the Board was looking to administer the funds in a responsible way.

Mr. Doney stated that the Investment Policy included other specific language that controlled these issues and would address Mr. Bogg's concerns. He explained that there were specific detailed requirements in the policy that specified the money managers' limitations, and these controls addressed the risk factors.

Mr. Harvey thanked the investment managers for their attendance at this meeting and for the reports they had submitted.

VI. REPORT ON ACTUARIAL STUDIES

A. Increase accrual rate after 25 years of service for Public Safety employees; after 30 years of service for General employees.
B. Increase duty disability and non-duty disability pension amount.
C. Retirement eligibility at age 55 with 10 or more years of credited service for General Employees (no early retirement reduction).

Denise Jones of Gabriel, Roeder and Smith addressed the Board and stated that the Board had received the June 10, 1996 supplemental report. She stated that at the February, 1996 Board meeting, there had been considerable discussion regarding changes in benefit provisions, and this report addressed those items. Ms. Jones reported that changing the multiplier after 30 years of service for the General employee group would increase the employer's portion of the contribution rate to .77% of payroll. She stated that this translated into an annual dollar increase of $54,000, which would increase each year as payroll increased. Ms. Jones then reported that the increase for the Police employee group would be .24%, with a dollar incrase for the fiscal year 1995/96 of roughly $7,500; and the increase for the Fire-Rescue emplyoee group would be .37%, or $11,348. Ms. Jones explained that one of the reasons for the amount of the increase for the General employee group was because the assumption regarding turnover and withdrawal of funds was not as high as for other groups. She also pointed out the the percentage was more than doubling for the General employee group.

Ms. Jones then reported that the request to increase the duty disability pension amount was to make it consistent with the recent changes in the benefit formula for the Police and Fire groups by changing the minimum from 52.5% to 60%. She explained that the information that was provided was for all employee groups because the ordinance did not make a distinction between the different groups. Ms. Jones explained that because the assumption regarding duty disability was low for the General employee group, the change was di minimis and would have very little impact on the retirement system. She then reported that the total increase for the Police employee group would be .19% of payroll, and .17% of payroll for the Fire employee group. She explained that this translated to $6,000 and $5,000 respectively for the fiscal year 1995/1996.

Ms. Jones then reported on retirement eligibility at age 55 with 10 or more years of credited service (55/10) for General employees with no early retirement deduction. She explained that this increase was computed to be 1.38% of payroll, or roughly $97,000. She explained that this proposal changed the assumed probabilities of retirement because without the early retirement reduction, there was a likelihood that more members would retire at the earlier ages and this added to the cost. Ms. Jones stated that even if nothing else was changed and the assumption was that people would retire sooner, the liabilities to the retirement system would increase.

Mr. Boggs asked if this would reduce the cost of the age with 20 years of credited service (50/20) plan since the General employees paid .65% for that plan. Ms. Jones explained that the 55/10 plan eliminated part of the 50/20 plan. Ms. Jones explained that without the early retirement reduction, the other early retirement provisions would be almost null and void because more members would take advantage of the 55/10 plan instead of taking a reduced benefit with the other plans. Mr. Boggs stated that the cost of the 55/10 plan could be less than 1.38% if the 50/20 plan was reduced. He explained that if the employees did not have to pay .65% for the 50/20 plan, that cost could offset some of the 1.38% for the 55/10 plan. Ms. Jones stated that the fact that the employees were contributing an additional .65% had been taken into account, and the 1.38% was an increase over what the employer presently was contributing. She explained that if the 55/10 plan was implemented and more employees took advantage of it rather than the 50/20, it would cost the employer an additional 1.38%. She further explained that if the 50/20 plan was not in place, that figure would have been higher for the 55/10 plan.

Lt. DeIorio stated that he would like to relay this information to the Fire-Rescue employee group. Mr. Harvey asked if it was proposed that the costs for this be paid by the Town. Lt. DeIorio replied yes. Ms. Jones stated that if the employees were to pay for a portion or all of the cost, the cost the employees would pay would be slightly higher than the cost would be if the Town paid for the benefit. She explained that if the employees paid for the benefit, there was the additional cost factor of the potential refunds from the fund. She used as an example an increase of 1.38% with an additional 2/10 of a percent of payroll that the employees would pay because of the potential of money coming out of the system that would have to be accounted for.

Mr. Doney explained that he would like to hear from Mr. Crouse, but he would also like the employee representatives to take this information to their employee groups. He explained that if the Town Council was asked to pick up the full cost, then the employees would certainly be in favor of the change, but it also had to be known if the employees would be willing to pay 100% of the cost for an improved beneift. He explained that this information would be needed before presenting any proposal to the Town Council.

Mr. Boggs stated that the majority of the Town employees were General employees, and that they could not retire without giving up a portion of their retirement unless they had 30 years of service or were age 60. Mr. Boggs explained that they would like a benefit similar to that of the Fire-Rescue and Police employees without being required to pay a penalty for that benefit. Mr. Boggs stated that the

General employees would like to see the Town pick up the 1.38% for the benefit, and that this was a morale factor. Mr. Boggs stated that he understood that Mr. Doney compared the Town's general employees to the general employees of other municipalities, but the Town's general employees did not work with those people, but rather with the Town's Fire-Rescue and Police employees. He stated that it would cost the Town $4,500 each year for each employee for the proposed retirement costs, and it cost the Tpown $13,000 for a Fire-Rescue employee and $11,000 for a Police employee. Mr. Boggs stated that this would be a bargain for the Town because of the impact it would have on employee morale.

Mr. Doney stated that he would like Mr. Crouse to address this. He stated that the changes made a few years previously were significant changes to the General employee group. He further stated that the Town Council did consider the overall competitiveness of the General employees, but that he also understood the internal issue to which Mr. Boggs was referring; however, the external issue should be carefully weighed.

Mr. Harvey stated that the larger issues were the Town's competitiveness with other municipalities and the impact an increased employee turnover would have on the system. Mr. Harvey stated that the issue of evaluating this improvement as it related to employee morale should be addressed by the Personnel Director.

Mr. Crouse explained that comparisons between public safety and general employees should not be made even if the groups work for the same organization because public safety employees served under different requirements and had different responsibilities. He explained that the public safety groups received a pension that was competitive and proper for that group, and for a different group to ask for the same benefit would be like asking for the same pay because they work for the same organization. Mr. Crouse explained that from a competitive standpoint, the Town had a very competitive and appropriate retirement system for public safety and general employees. He stated that as a group, the Town's General employees had an excellent retirement system, and as a group, they probably ranked in the top 10%. Mr. Crouse stated that from this standpoint, it would be very difficult to address this as a competitive issue. He explained that from a recruitment standpoint, the Town did not recruit people based upon the retirement system, but that after employees had worked a number of years for the Town, the retirement benefits became an issue. Mr. Crouse stated that if increased retirement benefits was a morale issue, then it involved helping employees to understand that they have an excellent retirement system, and that the benefits they received under the pension system had improved significantly due to the representation they had on the Board.

Lt. DeIorio stated that he had proposed that these studies be conducted from a Fire-Rescue employee group perspective. He explained that the previous year, these employees had received a significant benefit change with which they were happy, but when the change had gone to the Town Council, several Council members had been surprised at the age at which public safety employees could retire. Lt. DeIorio explained that there was also a certain segment of the benefit group that reach administrative positions and may no longer respond to calls. He explained that these individuals tend to be those who have more longevity with the Town, and they felt that they were penalized when they reached 25 years of service and their accrual rate went down. Lt. DeIorio explained that this proposal had been presented to him as the employee advocate. He further explained that he had been asked to discuss the change to the duty disability pension because of the 2.3% multiplier the group had received. He explained that this would increase the duty disabiity pension to 60%. Lt. DeIorio explained that he had brought these issues to the Board, and the other benefit groups had piggybacked onto his request. He stated that he had not come to the Board with these requests with the intention of saying that the Fire-Rescue employees were not happy with their retirement plan.

Mr. Harvey asked if it would be a benefit or a detriment to the Town if employees retired at age 55, explaining that if the benefit was made more attractive, the Town's turnover rates would change. Lt. DeIorio stated that this would be specific to a benefit category. He explained that several Council members had been surprised at the age at which Fire-Rescue personnel could retire, and had mentioned making changes that would make it more attractive for senior employees to stay on because they were more valuable.

Mr. Boggs explained that he had asked that the General employee group be included in the studies on increased accrual rates after 30 years of service and increased duty and non-duty disability pension amounts; however, his main interest had been in reducing the retirment age to age 55. He stated that if the Town picked up the costs for the early retirement, he could guarantee that 100% of the employees would vote for the benefit. He stated that if the Town paid for half of the benefit, the employees probably would still vote for it. Mr. Boggs stated that this would be a bargain for the Town because of the impact it would have on employee morale.

Mr. Doney explained that it would be difficult to present this proposal to the Town Council because the Town was in the top 10% of general employee retirement plans. He explained that this was why those employees who wanted this opportunity should be willing to participate in a portion or all of the cost. Mr. Boggs stated that this was difficult to explain to the employee who worked on the back of a garbage truck why Fire-Rescue and Police employees could retire when they were in their forties, but he would have to work until he was age 60.

Mr. Harvey stated that he felt this issue should be addressed by the Personnel Director. Mr. Wearn stated that he would also like the Town Manager's input because of the issue of balance.

Mr. Doney stated that if the matter was referred back to the Personnel Director and to him, he would ask Mr. Crouse to meet with the employee representatives to ensure that a properly structured question was advanced to the employee groups in order to provide a report back to the Retirement Board. Mr. Boggs stated that if the employees would be required to pay for the improved benefit, they would need to know the cost, and suggested an addendum to the study. Mr. Harvey stated that the Personnel Director should discuss this with the employee representatives to see which plan they were interested in, and that if they were interested in an early retirement option, an addendum study could be done with regard to the cost to the employee. Mr. Boggs stated that he would like to see this implemented by October, 1997. Mr. Harvey indicated that Mr. Boggs should work with the Personnel Director regarding this.

Ms. Lane stated that she would like to request an addendum to the study to include the employees and the Town splitting the cost, as well as the Town paying 100% of the cost. Mr. Harvey stated that he would like the employee representatives to discuss all of these issues with their employee groups so they could then determine which issue they wanted to advance with. He explained that the Town Manager and Personnel Director would work with the employees on these issues, and would then report back to the Retirement Board.

Mayor Ilyinsky stated that he and other Council members were in a unique position with regards to the Retirement Board. He explained that the employees needed to understand the position of an elected official in reference to these types of issues. He explained that the Council members had a responsibility to the taxpayers, but he wanted the employees to understand that the decisions he and the Town Council made were because they sincerely believed they were in the best interests of the Town and the Town's future rather than any negative effect it may have on the employees. He explained that he wanted Mr. Boggs to understand that if the Town Council ever turned down an employee request, it was not because they did not care about employees but because of the costs involved in running the Town. Mayor Ilyinsky stated that he wanted Mr. Boggs to know that he did not disagree with what he was proposing, but he had to consider all sides of the issue.

Mr. Harvey asked Ms. Jones what the additional costs to the employees would be if they paid for the costs of the early retirement option. Ms. Jones stated that a ballpark figure would be an increase in employee contributions of 1.1% for every 1% increase in contributions for the employer.

VII. REPORT ON QUARTERLY EXPENDITURES BY MARIE A. CROZIER, FINANCE DIRECTOR

Mrs. Crozier reported on quarterly expenditures for the period of August, 1996 projected through October, 1996. She explained that the custodian checking account balance as of August 1, 1996 was $448,527, which was due in large part to the State monies that had been received in June for the public safety groups. She explained that actual employer contributions for the fourth quarter, which were transferred in August, was $768,468. Mrs. Crozier reported that estimated employee contributions for August through October for Public Safety were anticipted to be $110,000, and for for General employees, contributions were estimated to be $100,000. She explained that estimated pension benefits during that time period were estimated to be approximately $290,000 per month, or approximately $870,00. Mrs. Crozier reported that the estimated miscellaneous expenses and anticipated employee refunds were estaimated at $178,000, with the balance available in the account at $386,995. Mrs. Crozier stated that she initially, she was going to request that the Board approve a recommendation to transfer $350,000 to the money managers based on the percentages allocated in the Investment Policy, but as a result of the rebalancing, her recommendation was that no transfer be made at this time.

Mr. Boggs moved to accept the report as presented by Mrs. Crozier. Mayor Ilyinsky seconded the motion, and all voting aye, the motion carried.

VIII. PROGRESS REPORT ON PROPOSED DROP PLAN

Mr. Crouse explained that little progress had been made on this issue; however, he and Lt. DeIorio would continue to work on it and would report back to the Board.

IX. REPORT ON DISABILITY RETIRANT MEDICAL EVALUATIONS

A. Richard Leandro
B. Arthur Ray Roebuck
C. Bennie Creech

Mr. Crouse explained that the annual medical evaluations conducted on Mr. Leandro and Mr. Roebuck indicated that neither of these individuals were ready to return to work. He explained that these evaluations had been reviewed by the Town's physician, Dr. Ojea, who had been asked to make a recommendation regarding the feasibility of continuing to require annual medical evaluations. Mr. Crouse reported that Dr. Ojea indicated that based on the history of these individuals, it would be approporiate to conduct re-evaluations in three years. Mr. Crouse explained that Dr. Ojea felt that based upon the job requirements and the Town ordinance, he doubted that these individuals would return to work. Mr. Crouse stated that if the Board so desired, they could accept Dr. Ojea's recommendations and conduct the next medical evaluations on these individuals in three years.

Lt. DeIorio moved to accept the medical reports regarding Richard Leandro and Arthur Ray Roebuck, and that medical re-evaluations be conducted in three years. Mr. Frick seconded the motion and, all voting aye, the motion carried.

Mr. Crouse reported on the medical condition of Bennie Creech, explaining that Mr. Creech's condition was serious. He explained that Mr. Creech's physician, Carl Sadowski, indicated in his letter that Mr. Creech was not ready to return to work. Mr. Crouse stated that he felt Mr. Creech probably would not ever be able to return to work, but that he could request a report from the Town doctor if the Board wanted one.

Lt. DeIorio moved that the Town Doctor provide an opinion regarding the medical evaluation of Bennie Creech. Mr. Frick seconded the motion and, all voting aye, the motion carried.

X. REQUEST TO RENEW MEMBERSHIP IN THE FLORIDA PUBLIC PENSION TRUSTEES ASSOCIATION

Mr. Crouse reported that he felt continued membership in the Florida Public Pension Trustees Association was valuable to the Town. He explained that it was a very reputable association for retirement trustees, with a cost of $150 per year for membership. Mr. Wearn indicated that renewal of the membership had been approved on a continuing basis unless it was raised for further consideration. Mr. Harvey indicated that it would be beneficial for Board members to attend these meetings, and asked that meeting information be provided to all Board members. He further stated that he felt these meetings should be attended by a Town representative at least once per year.

X. ANY OTHER MATTERS

Mr. Crouse referred to Item IX. C., report on disability retirant medial evaluation for Bennie Creech. He explained that there was a request for payment for the letter received from Dr. Sadowski, and there would also be payment required for a report from Dr. Sadowski. Mrs. Smith indicated that Dr. Sadowski should be asked to forward his report as a part of his letter, but if further payment was required, the Board could consider the request at the next meeting. She suggested that Dr. Sadowsky be requested to provide a photocopy of the most recent medical report.

XI. ADJOURNMENT

There being no further business, the meeting adjourned at 11:45 a.m.

____

John DeIorio, Secretary

FUTURE RETIREMENT BOARD MEETINGS:

(Note: Per the request of the Retirement Board of Trustees, all future Retirement Board Meetings will be held on the third Friday of February, May, August, and November.)

February 21, 1997
May 16, 1997
August 15, 1997
November 21, 1997