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# GENERAL EMPLOYEE RETIREMENT BOARD MEETING
# FRIDAY, AUGUST 9, 2002, 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., August 9, 2002 in the Town Council Chambers. Attending were Chairman James McC. Wearn and Trustees Robert Garvy, Peter Elwell, Vernon Richards and Patricia McLean. 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 inquired as to any additions or revisions to the agenda. Hearing none, Mr. Wearn stated that the agenda would stand as presented.

## III APPROVAL OF MINUTES OF REGULAR MEETING OF MAY 10, 2002

**Mr. Garvy made the motion to approve the minutes of the regular meeting of May 10, 2002, Mr. Elwell seconded, and the motion carried unanimously.**

## IV REPORT ON ELECTION OF EMPLOYEE REPRESENTATIVE

Mr. Crouse reported that Patricia McLean had been selected through an election of the general employees to serve a two year term beginning with this board meeting.

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**Mr. Garvy made the motion to accept Mrs. McLean as the new employee representative, Mr. Elwell seconded, and the motion carried unanimously.**

## V ADMINISTRATOR'S REPORT

Mr. Crouse stated that he had received several calls from retirees at the end of June inquiring as to the supplemental distribution, as to whether they would be receiving one this year. Mr. Crouse stated that he had contacted Jane Skittone, Director of Finance, and put together a letter that was sent out to all retirees explaining that there would not be a supplemental distribution this year due to unfavorable investment returns.

Mr. Crouse also stated that a revised actuarial report from Gabriel, Roeder Smith & Co. was also distributed to the board members. The revision was due to the phase in recognition of investment income or loss, which went from a four year smoothing to a five year smoothing.

Mr. Crouse also reminded the board that the date for the November meeting had been changed from November 8 to November 6, 2002, at 1 p.m. in the Town Council Chambers.

Mr. Crouse stated that the FPPTA (Florida Public Pension Trustees Association) will be holding a certificate program locally at PGA National in Palm Beach Gardens. The dates will be September 30 - October 2, 2002, at a cost of $325. He stated that if any of the trustees were interested he would have the information available after the meeting.

Mr. Crouse stated that Mr. McCracken would inform the board of issues that were brought up to the Public Safety Board on August 8, 2002, as there were numerous ordinance changes proposed and one of those changes would impact the General Board.

Mr. McCracken stated that Public Safety board directed him to take four separate issues to the Town Council for changes in the retirement plan ordinance. He stated that two of these changes would not have any impact to the General Employees, as they dealt with establishing share accounts using Chapter 175/185 money, which General employees are not entitled to receive. Mr. McCracken stated that the second issue not being faced by the General Employees was in regards to what is generally called the un-drop, which relates to a number of people who entered the drop program before the new 3.25% multiplier went into effect. He stated that at the time the 3.25% multiplier was accepted the General Board made it a benefit across the board to every employee, retiree and drop. Mr. Elwell stated that this issue would only concern the Public Safety members as that board chose only to apply it to the current contributing members, not to anyone that had retired or was in drop. This issue has a workable solution by way of taking the money from their drop accounts and buying this benefit without a cost to the Town. Mr. Elwell asked Mr. McCracken to clarify that this would not allow any un-dropping or un-retiring. Mr. McCracken stated that this was correct as the whole issue of un-dropping and un-retiring is a very difficult legal area and that he had consulted with Jim Linn, who has been consulted with in the past by the board. He stated that Mr. Linn had informed him that there was no precedent for and that the Town should not allow un-retiring.

Mr. McCracken stated that another of the items brought up by Public Safety dealt with duty disability provisions of the ordinance. Mr. McCracken stated that the Public Safety board retained a tax attorney to provide an opinion on the ordinance as far as duty disability pensions are concerned, the tax attorney's conclusion was that the way the ordinance is currently drawn, a duty disability retirant is able to exclude this benefit as income for tax purposes until he reaches the age of retirement, at which time the pension becomes a retirement pension and it becomes taxable to the individual. It was also suggested that if the ordinance was changed, it should provide that the benefit was calculated at the time of the duty disability, the difference is that duty disability is, from the IRS perspective, in lieu of workmen's compensation. Mr. McCracken stated that if the duty disability retirement is calculated at the time of their duty disability and not converted to a pension, then the individual would be able to exclude the benefit as income for life, meaning there would not be any income tax due on this money. Mr. McCracken stated that this change was approved by the Public Safety board, and that this same issue is applicable to the General duty disability retirants as well. He also stated that the Public Safety board felt that by making this change there would be no cost to the fund or the Town. Mr. McCracken stated that unless this board chooses to act on this change it would only pertain to public safety employees.

Mr. McCracken stated that the final issue dealt with by the Public Safety board was another issue that the General board may want to consider, it has to do with surviving spouses. He stated that historically the ordinance provided that a surviving spouse who was the spouse at the time of retirement and also the spouse at the time of death, was entitled to a survivor benefit. Mr. McCracken stated that in 1995 the joint boards changed the ordinance to provide that a survivor's
benefit was paid to the widow of a deceased retirant, if the retirant chose the survivor benefit at the time of retirement the spouse would receive a pension. This meant that if Employee X was married when he retired and perhaps this person's wife died or they were divorced and the retirant was married to someone else at the time of death the second spouse would get the benefit. However, under the old ordinance the second spouse would not receive the benefit. The Public Safety board received inquiries from retirants who had remarried and did not think this was a fair
benefit as the 1995 amendment did not operate retrospectively, therefore, it only pertained to retirants after 1995. He stated that the Public Safety board retained the actuary to do a study. Mr. McCracken reported that the actuary stated at first that this change would not be a significant cost, however, after further consideration the actuary determined that there could be a cost due to the fact that this would impact twelve public safety retirants who are presently single. This would mean that if these retirants ended up with a spouse, this spouse would receive the benefit. The actuary reported that the cost would be about $70,000.

Mr. Garvy inquired as to this cost being $70,000 a year or a one time cost. Mr. McCracken stated that it would be a one time cost and Mr. Crouse concurred.

Mr. McCracken stated that the Public Safety board felt that this was a just cause and it should be proposed to the Town Council. He stated that he did not know the number of General employees or Lifeguards that this would possibly effect or what the cost may be to provide this benefit.

Mr. Elwell inquired as to other retirants who are currently married, should they become "unmarried" for whatever reason during their lifetime and then remarried would also be effected by this change as well, which would make it impossible to calculate what this may cost. Mr. McCracken stated that his understanding is that the actuary takes the position that if the spouses survive them the cost is already in the plan.

Mr. McCracken reported that the Public Safety board conducted a search for a new consultant, and had interviewed candidates and selected the firm of Prime Buchholz, who is out of New Hampshire. This contract commenced on August 1, 2002. He stated that there will be a special meeting September 24, 2002, at 9:00 a.m., which was requested by Prime Buchholz, to work on a new asset allocation that will extensively restructure the plan.

Mrs. McLean inquired as to whether the change in the duty disability ordinance was being suggested in order to bring the ordinance into compliance with the federal Tax laws. Mr. McCracken stated that it was in compliance, that this change was to give the duty disability retirants the opportunity to continue to exclude their pensions for life as income.

Mrs. McLean wanted to make a motion on including the General employees in this ordinance as well. Mr. Wearn stated that he felt more information was necessary in order to consider this issue. Mr. Wearn suggested that the board receive the information that Public Safety had and add this item to the next agenda. Mr. Elwell stated that perhaps this board should hear more information on this item today, and then perhaps it may be possible for the board to act on it today. Mr. Elwell stated that he would like more information, particularly on the fact that it would not have any financial impact on anyone except the federal government.

Mr. McCracken stated that he and Mr. Crouse would be able to work out an explanation during the presentation of the investment reports. He also stated that the public safety employees have higher multipliers, and at this time both groups have a 60% of final average compensation minimum for a duty disability retirement. He stated that duty disability retirements are based upon projections from the date of disability to the date of normal retirement. Mr. McCracken stated that in the case of general employees, their retirement benefit would decrease at the time of reaching normal retirement after having been on duty disability, if they were to continue receiving the duty disability amount there may be a cost to the Town. Mr. Wearn inquired as to whether this person would continue to be overseen by the board beyond the retirement date as far as remaining disabled. Mr. McCracken stated that this was correct, that the board would check every two years to insure that the person still meets the duty disability requirements.

Mr. Wearn suggested that Mr. McCracken and Mr. Crouse review their position and make a presentation later in the meeting, as long as they were comfortable with providing sufficient and accurate information, otherwise it should be placed on the next agenda for the November meeting.

**VI QUARTERLY REPORTS**

A. ROANOKE ASSET MANAGEMENT

Mr. Ed Vroom presented the quarterly report for Roanoke Asset Management, his partner Adele Weisman was also in attendance. A copy of this report is on file with the Plan Administrator.

Mr. Vroom stated that the number of institutional clients for his firm had increased, which he found very interesting considering the environment surrounding the market at this time, with the daily news of CEO's and finance people being taken into custody. He also stated that the severity of this decline does begin to put programs at risk. Mr. Vroom stated that recession is defined by two quarters of negative growth.

B. LOOMIS SAYLES

Mr. David Sowerby presented the quarterly report on the equity portfolio. Mr. Steven Doherty presented the report on the fixed income portfolio, both reports are on file with the Plan Administrator.

Mr. Doherty stated that the plan currently had $21 million in bonds and that the bond market has done fairly well, providing good positive returns. He did state that the fund had held a 2% holding in WorldCom bonds which impacted the returns in the last quarter. Mr. Doherty stated that this had been the only holding in the telecom sector, and that they had based the investment on WorldCom having the soundest balance sheet of the other major telecoms; it showed good cash flow, substantial capital expenditures that were available to be reduced, it was a single A rated bond when it was purchased, it remained single A until April of this year. Mr. Doherty stated that they could quantify market risk, company risk, financial risk, balance sheet risk, but, they could not quantify fraud. He stated that when the fraud became evident in June, the bonds were sold. He stated this had impacted the portfolio, but, that with the reforms instituted within Loomis Sayles, the portfolio was in good shape to make up this low performance.

Mr. Garvy inquired as to the rating on WorldCom bonds before the fraud was discovered. Mr. Doherty stated that the rating was single A in April, down graded to Triple B, at that time Loomis sent a memo to Mr. Crouse asking the board for permission to take their time selling these bonds when it was within one day the price went from $85-86 to $50 and in some cases even lower. He stated that Loomis believed at the time, based on the fact that a major holding, $30 billion in debt outstanding, a major issuer in the investment grade bond market, that there will be a lot of non-economic sellers and that the price was too low for the assets that the company had, the second thought was that as they were in the process of renegotiating bank debt, Loomis felt they would be successful at doing this, which would have boosted the bond prices fifteen to twenty points. Mr. Doherty stated that the reason they had looked at WorldCom as such a sound investment over a year ago, was because they did not have any long term debt maturities until the end of 2003 and 2004, there were not any indicators of any type of credit crunch or liquidity situation in the future. He stated that with over $5 billion in annual capital expenditures, that if reduced, would allow enough cash flow coming in to be a good credit.

Mr. Garvy inquired as to the price the fund's WorldCom bonds were sold. Mr. Doherty stated that it was about $12.50. Mr. Garvy inquired as to where they were trading at this time. Mr. Doherty stated at about $10 to $11. Mr. Doherty stated that the bonds were sold the morning after the fraud was disclosed. Mr. Doherty stated that it was difficult for investors when an accounting firm like Arthur Anderson recommending and encouraging this type of behavior. He also stated that reforms nor legislation came out of the Enron meetings on Capitol Hill, however, after WorldCom the legislation passed quickly and efficiently. He stated that there are reforms in place that when a management team has "cooked" the books, etc., that provide real risks to the management. Mr. Doherty stated that August 14, 2002 is the date that CEO's have to validate their financial statements. He stated that Loomis bases their decisions to invest on financial statements filed by companies with the SEC, which means it could not be any clearer information. Mr. Doherty stated that had there not been WorldCom in the corporate bond portfolio it would have had a return of 5%.

Mr. Doherty stated that they are constantly refining the investment process due to the market environment where risk is greater and harder to assess. He stated that what Loomis has done to try and lower the risks from both corporate fraud and accounting fraud, has been to take steps to focus on companies that have tangible assets, in order to collateralize from the standpoint of a lender. He also stated they were increasing diversification by reducing positions, the third change is to sell immediately whenever there is any kind of downgrade, as soon as it makes economic sense. Mr. Doherty stated that they have already seen results from these changes.

Mrs. McLean inquired as to the reference of a WorldCom class action suit and whether there would be any chance of any kind of recovery. Mr. Doherty stated that at the last FPPTA conference, the law firm that actually sues a lot of companies when there are class action suits, was in attendance and this firm was attempting to solicit institutional accounts to participate. He stated that typically, should there be a judgement against something like this, it would be unsecured credit and he did not feel there would be any chance of any type of recovery. Mr. Doherty stated that Loomis' legal counsel is currently reviewing how they should participate going forward in the situation. He stated they have heard from clients who do not wish to participate in this type of lawsuit.

Mr. Wearn inquired about the handling of the sale of WorldCom and the policies regarding such. He stated that in 1999 he recalled having substantial problems with Loomis Sayles and as a result there were sale policies put in place to for securities on the downside that would protect against significant losses. Mr. Wearn questioned the handling of WorldCom and whether the sale of it's bonds was handled in conformance with those policies.

Mr. Doherty stated that the decline in WorldCom was very quick, during the first quarter it declined to the $85-86 price, which is when they (Loomis) began watching. He stated it was unexpectedly downgraded from single A to double B, which represents 2-3 notches, and that the price immediately dropped from $85 to $50 in a single day. Mr. Doherty explained that in today's market conditions, oftentimes there is not enough time to react. He also stated that based on their research using statements filed with the SEC that these bonds were worth anywhere from $65-$75, that is why the board was sent a communication for permission to hold for a higher price before selling when more accurate valuations became available.

Mr. Garvy and Mr. Wearn inquired as to the communication that was sent. Mr. Doherty stated it had been sent in early May. Mrs. Valcik stated that she reviewed the letter from Loomis against the investment policy and this particular language has been in place for a very long time. She stated that the policy states that "bonds shall not be *purchased* if the credit rating is below investment grade", therefore, both her review and Callan's review of this situation was, "they hold the responsibility as a fiduciary to make the decision to sell the bond". Mrs. Valcik stated that she was going to bring up this matter to see if the board wanted to change the policy to say " that they have to be sold".

Mr. Wearn stated that he was drawing a distinction between the policy and what Loomis Sayles had represented they had put in place to prevent this very type of event, such as WorldCom. He referred to page 7 of the Loomis report that confirms certain 1999 enhanced policies that would prevent what happened then to be repeated, one of those policies was the enhanced sell discipline. Mr. Wearn stated that this had been discussed extensively in 1999.

Mr. Doherty stated that these changes were made in reference to the equity side which is managed differently than the fixed income side. Mr. Sowerby stated that page 7 represented the equities. Mr. Wearn stated that he was not aware of it only covering equities. Mr. Doherty stated that fixed income has taken steps to insure this does not happen again, there are changes and refinements being made to their investment process. Mr. Doherty stated that the portfolio will be diversified, reducing position sizes, and selling when a bond is downgraded or appears to be downgraded.

Mr. Garvy inquired as to Loomis' policy on selling now on any downgrade or any downgrade below investment grade. Mr. Doherty stated the policy was to downgrade below investment grade, core investment grade portfolios. He also stated that they have taken steps to downgrade some bonds internally that have not been downgraded as yet by Moody's and S&P. Mr. Garvy asked to have that policy in writing. Mr. Doherty stated that he would have this done.

Mr. Garvy inquired as to Mr. Doherty's opinion as a fixed income manager, would he recommend not permitting anyone to hold non-investment grade bonds in the portfolio. Mr. Doherty stated that in hindsight that certainly would be beneficial.

Mr. Wearn asked that the equity manager also furnish the policy in writing as well. Mr. Sowerby stated that he would.

The board took a break from 11:00 to 11:10 a.m.

C. CALLAN ASSOCIATES

Mrs. Jeanne Valcik presented the quarterly report on the managers, a copy of this report is on file with the Plan Administrator.

Mrs. Valcik stated that due to the rebalancing policy, the portfolio will be rebalanced semi-annually, in February and August, to make sure that the limit of 60% stock exposure is not exceeded. She stated that as the portfolio is now at 57%, the balancing policy only speaks to the upside, going over the limit, not to the downside. Mrs. Valcik recommended rebalancing and giving Roanoke the 3% needed to bring them up to their limit by taking the funds from Loomis, with the amount being roughly $1.350 million.

**Mr. Garvy moved to rebalance the equity portion of the fund by taking 3% from Loomis and placing it with Roanoke, Mrs. McLean seconded, and the motion carried unanimously.**
Mr. McCracken inquired as to whether Callan would make a recommendation in regards to the board as to what if anything that the board should do in reference to the WorldCom bonds. Mrs. Valcik stated that a class action suit will be filed, and as a holder of these bonds the fund would be a part of the suit. Notification will be sent to State Street, then Jane Skittone will be asked whether the Town wishes to take part in the suit. Mrs. Valcik stated that it was not necessary to hire an attorney to pursue the issue, the loss was about $200,000. Mr. Doherty stated that the exposure was $300,000. Mr. McCracken inquired as to when this notice is received would Ms. Skittone come to the board with a recommendation. Mrs. Valcik stated that the notice would have to have an immediate turn around, there would not be time for a meeting. Mr. Garvy stated it would not cost the Town anything to participate in the action. Mr. Garvy stated the turn around is less than 30 days. Mr. McCracken asked the board if they were content in having Ms. Skittone take the action as recommended by Callan. Mr. Wearn stated that he did not feel that administration could take this type of action without direction from the board. Mr. Wearn asked the board's opinion on how to handle class actions. Mr. McCracken stated that State Street had the Town sign a direction to them that allowed them to make these decisions on these issues. Mr. Wearn suggested that the appropriate way to handle the issue would be to distribute to each board member the action requested and should they not agree with State Street's action, then the board member could communicate with the administrator for the purpose of setting a special meeting. Mr. McCracken stated that could be arranged.

Mr. Garvy asked Mr. Crouse if there had been any communication from State Street regarding this matter. Mr. Crouse stated that he had not received any notices from State Street. Mr. Garvy inquired as to if the board should inquire of State Street as to what their position would be or any information they have received regarding a possible class action suit. Mr. Wearn stated that he did not think State Street would not take a position until notification from a court has been received. Mr. McCracken stated that Loomis Sayles' legal department was also looking into these matters and may report back to the board at a later date.

Mrs. McLean stated Loomis also stated that there would be little chance of a recovery. Mr. Doherty stated that was correct, that the claim would probably be an unsecured creditor, banks or other lenders. Mrs. McLean stated that as long as it would not cost the town any money she would have no objection to participating.

Mr. Wearn stated that the board would implement the request that the report and recommendation from State Street, when received, would be distributed to the board members and should a board member have a different recommendation or a desire to discuss the State Street recommendation they should communicate that request to the administrator and a special meeting would be arranged.

## VII DISCUSSION OF PROPOSED ORDINANCE PROVIDING FOR OPTION TO PURCHASE ELIGIBILITY OR BENEFIT SERVICES

Mr. McCracken reported that the Public Safety board had tabled this item. He stated that the ordinance is two fold, one is to allow public safety officers who come into the town to utilize benefits from another employer to purchase benefits in the Town's system. The second section is applicable to both boards and would allow the purchase of years of service or fractional parts of years of service.

Mr. Wearn stated that he felt it would be more efficient to go forward with the Public Safety Board all at one time. He also inquired as to any questions on this section by the board.

Mr. Elwell questioned paragraph five, on page three, regarding the one time opportunity, he believed that it was decided that it would be available at any time and not limited to one time. Mr. McCracken stated he would change that wording by eliminating the one time opportunity and then review the balance of the document to be sure it did not appear again. He stated there would be a period after the word member, eliminating the words "one time opportunity".

Mr. Garvy referred to the minutes of May 10, 2002, page 4, *where he, himself made a motion to adopt the option of purchasing eligibility or benefit service, excluding vesting service and not restricting the choice to a one time option, Mr. Boggs seconded and the motion carried.*

Mr. McCracken stated that he would have the verbiage changed. Mr. Wearn asked what changes he would make. Mr. McCracken stated he would eliminate the "however the purchase is a one time opportunity" from item 5.

Mr. Crouse was concerned about many small purchases throughout their careers if not limited to one time. Mr. Wearn inquired as to this being an administrative problem. Mr. Crouse was not able to pinpoint this as a problem as it had never been an issue before, however, each time a purchase would be made an actuarial report would be required in order have a cost projected for that purchase and each of these reports would have a cost attached. Mr. Crouse suggested that some type of control be put in place such as limiting the number of purchases by periods of time during employment, by making it specific as to when and how often it could be done.

Mr. Wearn suggested that as Public Safety had not acted on this as yet, that this item be tabled until the next regular meeting. <u>He also stated he would like to receive from Mr. McCracken and Mr. Crouse a recommendation on the number of times as well as comments on the administrative effort that needs to go into the process every time an election was made.</u>

Mrs. McLean stated that there were employees eagerly awaiting the passing of this ordinance.

<u>Mr. Wearn stated that this item would be deferred until the next regular meeting, and that a memorandum of recommendation would be received from the administrator and an identification of that recommendation of the administrative expense and effort that would be involved in each request. Mr.</u>

Elwell stated that this memorandum include an estimate of cost, as there is a provision in the ordinance that states this would be implemented at no cost to the system.

Ms. Skittone inquired as to this being purchased by a vested member, and that the Public Safety does not state vested member, it states during the first five years of employment, and as to whether this means that an employee would have to work ten years prior to being able to purchase.

Mr. McCracken stated that he feels that section one should be modified to include all employees, not just public safety employees, as Mrs. McLean had mentioned the fact that an employee who was not vested would come to the Town with retirement funds and would have the ability to purchase eligibility. Mr. McCracken inquired as to whether the board would like to direct him to look at the issue that was discussed as well as looking at modifying section one to include all employees.

The board agreed with this.

Mr. Elwell inquired as to why section one needed to exist separate from section two as section two could be purchased at the employees discretion, whether or not they had service in another municipality or retirement plan, why would there need to be a separate section particular to service.

Mr. McCracken stated that section one had to do with rollovers. Mr. Elwell stated that it was not a rollover in the sense that if a person had assets in another plan, they could not just roll it into this plan. It would be a rollover that would actually calculate actuarially as to what would have to be contributed to this plan in order for this plan to remain whole for the benefit that it is going to be owed to the employee. Mr. McCracken agreed. Mr. Elwell stated that this would be consistent with what could be purchased, the source of funds may in fact be pulled from another plan, however, it seems that from the Town's perspective of what has to be contributed in order for the purchase of service to be made is the same in section one and section two.

Mr. Crouse stated that generally in accordance with IRS rules, these decisions have to be made within a given period of time after leaving the employment, therefore, they would need to be made within the first year of leaving. He stated that this would mean the difference between one and two is that the ordinance would not be allowing the person to purchase vested service and therefore requiring vesting, which is ten years. Mr. Crouse stated that a rollover cannot be made with that type of requirement as the person would not be able to roll that money over.

Mr. Elwell stated that the rollover would occur with a new employee only, and the purchasing of time would only pertain to vested employees.

Mr. McCracken stated that he did not see any reason to treat general employees any differently than the public safety employees.

**VIII REPORT ON ALTERNATIVE DROP PROGRAMS**

Mr. Crouse stated that he had been directed to submit a written overview of his presentation given at the May, 2002 meeting. He stated that the current program was approved by the Town Council in May of 1998, and if he had known then what he has experienced, to date he would never have recommended the current program, it would have been a self-directed program.

Mr. Crouse stated that the key issues involved are making sure the program is cost neutral, it is a struggle to keep it cost neutral, due to the fact that a very generous fixed rate has been provided, one of the highest in the DROP programs that exist, which is 7.5% that is compounded monthly.
He stated that the current environment is not allowing the fund to make it's target of 8%, therefore, more money is being spent to pay the fixed rate, then has been brought in over the past two years of the almost four years the DROP has existed. Mr. Crouse stated that there is a potential need for the board to review and amend ordinances relative to the fixed rate, the ordinance states that this should be visited periodically to assure that it maintains a cost neutral position, which puts the burden on the board to send amendments to the Town Council for issues such as adjusting the fixed rate or other issues regarding the DROP plan. He stated that in maintaining the current $2.6 million dollar liability on the books, which continues to grow, the administrative work, which is much more than ever anticipated, continues to grow as well. The administrative work covers the current members, the reporting, the answering of questions, and the future members that continue to come in and request information. He stated that the movement of employees, not only with the Town, but, within the state and country, regarding the changing of DROP ordinances by introducing new ideas such as un-drops, back drops, changing various benefits within the DROP programs, all of these are very costly. Mr. Crouse stated that the costs include attorney fees, studies, and specialists that write opinion letters.

Mr. Crouse states that a self-directed plan is an excellent plan. He stated that as the Town currently has a relationship with ICMA-RC by way of a 457 Deferred Compensation Plan, and that 90% of the people currently in the DROP plan have this type of plan and are very pleased with it, even with a tough market there are various investment opportunities which include guaranteed returns, not at the 7.5%, but, there are safer options. He stated that the State of Florida does recommend that if a self-directed plan is set up, that the plan is somewhat controlled, by way of controlling the number of options that are made available, as there are an enormous number of various options and ICMA creates various types of plans for the employees. He stated that their education, counseling, reports, and the 24 hour access to accounts, shows that ICMA has done a great job in communicating and keeping our employees aware and informed in regards to the 457 plan. In his opinion it would be a win-win situation, as an employee in the current system comes to the end of their career, they need to roll their current account into another fund, the limitations are such that they cannot keep their funds in our retirement system, so they have the worry of where to roll the lump sum to and what options are available. Mr. Crouse stated that some will take lump sum payments to make purchases or whatever rather than rolling it into another plan. He stated that by using a self-directed plan it would continue to offer all of the options available and the employee would not need to worry about rolling over into other accounts, these plans would stay with them for the rest of their life if they chose to keep them.

Mr. Crouse stated that in the past the 457's were unqualified savings plans, which meant there was only a one time opportunity to select how a person would pay themselves and were not allowed to be changed. Today, however, it has the same options available as a 401K.

Mr. Crouse recommended that the Town offer the self directed plan and establish this plan for all future employees who choose to take the DROP, and that the current DROP employees be provided the option to roll their funds into the self-directed fund.

Mr. Wearn inquired as to whether Mr. Crouse's recommendation was to make the self-directed DROP as the only option. Mr. Crouse stated that it was, that the board should get out of the business of administering and dealing with a DROP, he does understand the concerns of offering a good DROP plan that is administered well, and he feels that ICMA-RC Corporation, which has $16 billion currently in investments, would be able to provide a very cost effective service as their fees as a non-profit organization are very low at 55 basis points. He stated that this would definitely be prospective, no choice, and allow the current members a window period to make their selection. He also stated that one thing that would possibly encourage people to select the new option, would be to design the new DROP to be made more attractive then the current program.

Mr. Wearn asked whether the current members who chose to go to the plan would have the opportunity to go back to the old plan. Mr. Crouse stated that he would not recommend that this be allowed, and that the current DROP program be phased out through attrition.

Mrs. McLean stated that the employee was not guaranteed the 7.5%, however, in the proposed plan, with a good market, the employee could conceivably make more than the 7.5%. Mr. Crouse stated that that was a possibility and that he had looked at one of the ICMA guaranteed deferred programs, had approximately 5.1%, which would change with more money being deposited. He stated that the new plan even with some risk, would offer diversity. Mrs. McLean reiterated that the current members are grandfathered with the option to change. Mr. Crouse stated that was correct, that he would not want to force anyone to leave the current system, however, he feels that the board should revisit the current plan in regards to the cost, making sure the 7.5% is cost neutral.

Mr. Wearn inquired as to how many employees are currently participating in the DROP. Mr. Crouse stated that there were roughly 30 participants, with 41 having participated since the inception. Mr. McCracken inquired as to whether this number included public safety as well. Mr. Crouse stated that general employees would account for approximately 10 of the 30 current members.

Mr. Wearn asked Mr. McCracken about an amortization, for example, the participation in the current program for existing DROP participants, to require that within a five year period of time that they roll over into the new plan. Mr. McCracken stated that this could be done in order to set a definite end. Mr. Wearn stated it would be necessary in order to insure the administrator would not need to juggle two types of programs. Mr. Crouse stated that this would insure that even the most recent person into the current DROP would be finished.

Ms. Skittone stated that the general employees holding in DROP, had a liability of $466,000.

*Comments from the public .*

Mr. Charles Boggs, new DROP member, recommended that the board look at the possibility of changing the five year limitation to seven, if a limit is necessary, in order to make it more attractive to new people.

Mr. Bob Moore, DROP member, stated that he not been aware that this item was going to be discussed, or that changes may be proposed to the Mayor and Town Council regarding changing the interest rate on current DROP accounts which would reduce the benefits of the employees currently in the program, who entered the program with the understanding that the 7.5% was guaranteed and would not be changed. He stated that as a participant, he was not advised at the time of signing up for DROP that the 7.5% interest rate was subject to review and subject to decrease during the 5 year period. Mr. Moore stated that he was given a projection of what the benefit would be at the end of 5 years based on a 3% annual cost of living increase based on the compounded rate of interest. Mr. Moore agreed that there was a lot of work that goes into the retirees and DROP and it is an administrative headache, as they receive questions constantly from current employees and employees in the program.
Mr. McCracken stated that the DROP ordinance is very specific, in that it is the board's responsibility to review those interest rates and to insure that the plan is cost neutral. He was not sure if representations were being made to people that this rate would not be changed, but, it certainly was not contemplated this way by the ordinance.

Mr. Crouse stated that when an employee does come in and as Mr. Moore stated, they are provided projections using the current 7.5%, however, the program is based on the ordinance and while people do not usually pick up the ordinance and read it front to back, they are aware of the fact that this is a product of Town ordinance. He stated that he does understand Mr. Moore's response that when they are provided with the projections for five years, it is based on the current 7.5%.

Mr. Moore stated that not withstanding Mr. McCracken's expert legal advice, he wanted to make it clear to the board that he was advised that the 7.5% was a guaranteed rate, he was not advised that it would possibly have the opportunity to decrease, that is what made the option so attractive to begin the concept of building in the DROP program, with the possibility of perhaps staying on as becoming a rehired retiree. This is what made him decide to enter the program at age 55, and that quite honestly he was advised that it was a 7.5% guarantee, notwithstanding Mr. McCracken's expert interpretation of the ordinance, he does not disagree that that may be what the ordinance states, but, that was not what he was told, and he was not given a copy of the ordinance and told to read it that the ordinance speaks for itself. Mr. Moore wanted to make it clear to the board that he did not feel there would be any of the current DROP members that were advised that the 7.5% would be subject to being reduced.

Mr. Boggs stated that he agreed with Mr. Moore. He stated that when a person retires in the normal way, their retirement has been locked in at whatever the policies, procedures and ordinances are in place at that particular time, and the only time this procedure has been altered was when the retroactive increase to the multiplier was implemented, and as Mr. Moore had stated the 7.5% would fall into that same category. He stated that should the board make the decision to drop the rate to 5.5% or whatever, that would pertain to the people who drop after that point. Mr. Boggs stated that it had been his understanding, that the 7.5% would stay the same for everyone that dropped during the time that interest rate was set.

Mr. McCracken stated that he was not sure what the "understandings" were, but, that this benefit is like a personal bank account and this group is paying interest on that bank account. He stated that in the construction of the ordinance and to his knowledge of how drop plans operate generally, it would not make sense for a bank to pay an interest rate on a bank account for a fixed period of time unless it was in some kind of fund such as a CD. He also did not recall a discussion regarding that from the board.

Mr. Wearn stated that it would be necessary to revisit the minutes and the record on the adoption of the DROP plan, as well as, the recommendation for the DROP plan that was given to the Town Council in order to clarify this matter. He also stated this item would be coming back at the next regular meeting and asked Mr. McCracken to give a review on the history. Mr. McCracken agreed.

Mr. Richards stated that it appears to him that the employees only want to hear a fixed rate. Mr. Wearn stated that a guaranteed fixed rate during the entire 5 year period.

Mr. Garvy stated that there may be a communication problem in interpretation of the guarantee. He felt it was a guaranteed 7.5% return no matter what happens to the stock market or bond market, but, there is a difference between that guarantee and guaranteeing it for a fixed period of time, those are two completely different issues. He stated that his experience with guarantees of this sort, options for guarantees such as ICMA, or any other guarantee in a 401K, if there is a guaranteed option it is definitely not guaranteed forever, it is reviewed regularly by the entity and adjusted as market conditions warrant. Mr. Garvy stated it would be imprudent for the board to offer a guaranteed rate for a person entering a DROP program that is guaranteed for the five or ten years that they are in that program without any revision or option for revision either up or down depending on conditions.

Mr. Elwell stated that there a few issues that needed to be looked into regarding this issue at the next meeting, as well as receiving some reports in the interim. He stated one issue would be how it relates to people currently in DROP and what was expressed as the commitment of the Town in creating the program, and also address the issue of how this will be handled on a going forward basis, in terms of how similar to handle other plans and prudently handling the responsibility with this plan. He also stated that very clearly the ordinance allows for the modification of that rate, whether or not it is a five year promise to a particular employee, in the management of the program clearly the board has the authority and the responsibility to address whether that rate should move up or down. Mr. Elwell stated that the board should also receive financial advice as well as legal advice as how to address that issue at this time. He stated that there was a real benefit, certainly from the administration of the program, but, to the employees as well, depending on what may happen with the market. He stated the 457 plan had been very successful with a lot of participation as well as satisfaction with that participation among the employees, and the ability to have as a companion to the defined benefit plan that the Town offers, some ability to do some independent/individualized management of those funds. Mr. Elwell proposed having ICMA attend a meeting and give some creative thought to the prospect of a seven year plan instead of a five year plan or whatever it may be, this would give the board insight into what is offered to other employers and what they may offer to the Town. He stated that he felt this would be quite a substantive discussion at the next meeting with a number of different aspects.

Mr. Boggs stated that when the rate was set at 7.5%, it was set intentionally below the assumed return of 8% each year, if it is adjusted it should be kept in mind there were several years, even during the life of the DROP where returns were 15% or more, and that the fund actually made money on the people in the DROP, on the funds in their portfolios. He also stated that should the rate be adjusted down, it should be done in small steps, as in the long run the market is going to return 8-10% as it has in the last eighty years.

Mr. Garvy clarified that Mr. Crouse was not intending to have any of the current members of the program be forced out, they would stay in, even if another option is chosen for employees. The current drop employees would be allowed the option to change to the new plan, but, new employees would only have the new option. Mr. Crouse agreed.

Mr. Elwell stated that on the second Tuesday of the month he sits on the receiving end of these functions, he can appreciate that when a discussion of this magnitude takes place it becomes difficult to take the consensus direction from the discussion. He stated he would like to have the three primary areas of discussion for the next meeting restated in order for the direction to be clear.

Mr. Wearn asked to have each item to be discussed at the next meeting be listed in order to cover all elements of the recommendation.

**1**. Mr. Crouse recommended that the board consider establishing a self-directed DROP plan to be administered by the ICMA-RC Corporation and that ICMA Corporation be invited to the next meeting to present a program for consideration by the board and that if the self-directed plan is adopted that it be adopted prospectively for all new employees and offered as an option to current DROP participants and that that option be opened for a specified period of time.

**Mr. Elwell moved to approve this as one item on the list, Mr. Garvy seconded, and the motion carried unanimously.**

**2.** Mr. Elwell stated that the board needed to receive advice as far as modifying the rate on a going forward basis, just under the ordinance where the board has a responsibility to review the rate and insure that the drop plan does not cost the retirement program any money and receive a recommendation as to what the rate would be effective on a certain date going forward.

Mr. Wearn clarified that the legal advice would be essentially on the construction of the plan. Mr. Elwell stated it was legal and financial, legal as to what the ordinance states is the board's responsibility and authority as to this matter, and then financial as to what would be an appropriate rate for the next period of time going forward, to be cost neutral to the retirement plan overall.

**Mr. Garvy moved to seek the advice proposed by Mr. Elwell, Mr. Elwell seconded the motion, and the motion carried unanimously.**

(Discussion)

Mrs. McLean inquired as to this only pertaining to the future drop employees, not those who have already dropped. Mr. Elwell stated that based on his understanding of today's discussions, the ordinance is clear as to the board's ability and responsibility to look at the rate and adjust from time to time depending on market conditions require. He stated that the board is framing the questions today and addressing them in three months, there would be that important question of people's expectations and who this would effect. Mr. Elwell stated this motion is only addressing that it has been identified to the board that they have the responsibility to look at the 7.5% rate, decide if it is acceptable at this time or whether this needs to be reduced due to the market in order to insure that the plan is cost neutral to the overall retirement program. He stated he is not trying to answer the question of who it will effect, it will effect those who will drop under the new rate.

**3.** Mr. Elwell stated that the third element is having adjusted the number to reflect what is happening with the market, what the impact of that would be, whether that would simply be for those who may now drop at that lower rate, who would then be under one analysis be guaranteed, hypothetically 5%, and then anyone who drops at the 5% would be guaranteed the 5% for as long as they stay in the drop. He stated the board had heard interpretation of what may have been intended, there was talk of getting the legislative history together to show the intentions. He stated that the board had heard a description of what may have been intended as well as, a description from Mr. Garvy as far as what is normal under these plans, that from time to time this rate may be adjusted and that it is a fixed rate in the sense as it is not tied to market performance during the period it is set, but, it may be reset from time to time, and when it is reset it may effect those currently in the plan, it may not simply effect the new drop participants under the future window.

**Mr. Elwell moved that the board receive whatever context available from both the administrator and the attorney regarding the legislative history of this matter, as well as, perhaps further advice from the RC or whoever may be able to offer an explanation of what is normal for these plans, in order to look at both what may have been particularly intended for the Town's plan and what is normal for such plans, and make a determination as to whom the adjusted rate would apply, Mr. Garvy seconded, and the motion carried unanimously.**

**4.** Mr. Garvy inquired as to how the options work for the DROP plan currently, are the employees given the option once a year to change their selections, how many selections do they have, do they only make one selection that applies for the entire period they participate in the DROP, and how many options do they have. Mr. McCracken stated that there are not any options available, the employees are being paid the rate that the board agrees to pay them, which is currently 7.5%. Mr. Garvy stated that an issue for discussion is in fact what is the history of the communication that has been made to the employees, what representations have been made by way of the administrator's advice and what information was given to the employees.

**Mr. Garvy moved to have the administrator review what the Human Resources department follows in presenting this opportunity to employees, Mr. Elwell seconded, and the motion carried unanimously.**

Mr. Boggs stated that there may be a rush on employees to drop between now and the next board meeting, if they think this is the only way that they will be able to get the guaranteed rate, whether it be the 7.5% or whatever. He stated there may be people who have been holding off that may decide to go ahead and drop, there could be 10-20 employees who may drop very quickly.

Mr. Elwell stated that Mr. Boggs had made a very important point, one that is similar to zoning in progress, when the Council is considering zoning changes that may possibly change how land may be used in the town. He stated there is always a concern that while new regulations are being considered there may be a rush to develop under the old regulations and there is a process that the law clearly allows for there to be a short period during study where the regulations are imposed as if they had been adopted. Mr. Elwell stated that he felt this was a very similar situation, and he would recommend, while not presuming any particular outcome, not presuming that this new plan will float the way it has been described, there is a lot to learn about what commitments the Town has made to these employees and what these other plans have to offer before a determination can be made.

Mr. Elwell recommended that an employee who may drop this afternoon or any time after today will come to us and say the Town made us a promise of a fixed rate for the entire period of my drop, that it should be made very clear that anyone who drops today, August 8, 2002, and after today is not entitled to a fixed rate for the entire period of their drop and that in fact the board may be making the determination three months from now that the rate will move up or down at the discretion of this board, as that is the board's responsibility according to the ordinance.

Mr. Wearn suggested that the recommendation be broader and include being subject to any election of drop made from this point forward be subject to wherever these discussions go up to the end result, with the end result being any ordinance if any is recommended and/or implemented by the Town Council on the DROP program.

Mr. McCracken stated it would also include going with the outside provider. Mr. Wearn agreed.

Mr. Elwell clarified that should someone drop between now and when the decisions are final, they might be obligated to go into the RC plan, if that plan is created, rather than have the option that those who are currently in the DROP will have. Mr. Wearn agreed.

Mr. Garvy inquired as to having the actuary prepare an analysis of the cost of the plan, and he was not suggesting that this guarantee will be taken away, it may have been established in such a fashion that this fixed rate was presumed to be guaranteed to those who chose it, unless the board changes the actuarial rate below the rate of guarantee.
Mr. Wearn asked Mr. McCracken to state the exact language that is in the current drop plan in order to

judge if the language is clear or not clear. Mr. McCracken quoted the ordinance.

*"(1) The DROP would be cost neutral to the Town. To maintain the cost-neutral basis to the town, the credited interest rate, and any reduction in the DROP participants' monthly pension payments payable to the DROP will be reviewed by the board of trustees from time to time as other actuarial assumptions are reviewed. Any increase or decrease in the cost of administering the DROP will be absorbed by:*

*a. A change in the credited interest rate: and/or*

*b. A change of the or establishment of a reduction of the DROP participants' monthly pension benefits payable to the DROP,*

*as determined by the board of trustees with approval by the town council.*

*(2) Interest on DROP participants' monthly pension benefits payable to the DROP shall accrue at an effective annual rate of 7.5 percent compounded monthly. Such interest rate shall be reviewed by the board of trustees from time to time as other actuarial assumptions are reviewed and may be redetermined by the board of trustees with approval by the town council."*

Mr. Wearn stated that each board member could make their own internal judgement as far as what the language says until such time as there is a legal opinion or report from the attorney. He stated that in the meantime another step needed to be added, that being tentative decisions being made on recommendations for changes and then having an actuarial determination of the effect those changes would have, which would be the financial aspects to assure cost neutrality.

Mr. Garvy inquired as to having the actuary attend the meeting in three months and advise the board whether or not, at the rate of 7.5%, would the DROP program would remain cost neutral.

Mr. Crouse stated that that would be essential in determining cost neutrality or to what degree the rate would need to be reduced to remain cost neutral.

Mr. Garvy stated that this rate may very well be cost neutral if the smoothing period and other actuarial considerations that are referred are a part the whole mix.

**Mr. Garvy moved to have the actuary determine the current conditions and make a report at the November meeting and authorize an expenditure of not more than $3,000 for the determination. Mr. Elwell seconded, and the motion carried unanimously.**

Mr. Elwell agreed with Mr. Wearn's point on this being a two step process, however, the advice the board will receive through this report will be valuable to the board, whether or not a decision is made to go forward with another plan. He stated it may become moot as far as adjusting the rate, other than for those that stay in that part of the plan, if in fact the board moves to a self-directed plan. He stated that should the board decide not to go to another plan, this study would become critical for all participants in the plan, and he felt it was important to have the study now and not in a second step.

Mr. Wearn clarified that the intention is for the actuary to make the determination based upon all employees, as opposed to only general employees. Mr. Elwell stated it was, as this board is not responsible for the Public Safety employees.

Mr. Wearn stated that it was appropriate to address Mr. Boggs' point of a possible rush to DROP, by way of having a general statement that says *until this period of discussion and consideration is completed that any DROP applications received after this moment will be subject to the whatever action is taken by the board, however, should the employee be unhappy with the decision made, they should be able to opt out of the election.*

Mr. McCracken stated that should someone apply this afternoon, that DROP cannot take effect until it is approved by the board at the next meeting.

Mr. Wearn inquired as to implementing it as subject to the person could elect out of the election before final action, or would it be better to say DROP applications would not be accepted during the interim period.

Mr. Elwell stated that DROP applications needed to be accepted and not just close down the program in the meantime, however, a general blanket notice that would say that there may be some changes to this program even though those changes are not known at this moment, they will apply to this application. He stated he was not entirely comfortable with this idea, even though it may be fair and appropriate, however, from an employee's perspective that in making such an important life decision there would be a greater comfort in knowing that there are certain parameters where there are not any guarantees, where there are explicit statements such as a variable interest rate, or the fact that this application is subject to being placed into a self-directed plan. Mr. Elwell stated that there should be some key elements in place that would allow Mr. Crouse and his staff, when meeting with an employee about a possible DROP, there would be a couple of clean answers as to what the uncertainties would be, rather than saying that there is great uncertainty over the whole program.

Mr. Wearn stated that he felt that there was great uncertainty over the whole program based upon the consideration of the elements, it appears that there could be significant changes. He stated he cannot think of any elements within the existing program that are not going to be effected.

Mr. McCracken stated that Mr. Crouse's recommendation was that the existing program continue for those who are in the DROP who do not opt into the new program, therefore, the new drops would be treated in the same way. He stated the critical issue was the interest rate and that there has already been testimony that states certain people have depended on this interest rate in making their decision to drop, therefore, should the board take the position that notwithstanding alleged guarantees or representations the rate changes as to those people, that would be a very material item to anyone who would elect to drop between now and the next meeting. Mr. McCracken stated that the issue brought up by Mr. Elwell should be covered, and the other items would perhaps end up with additional people in the pool that would stay in the program for five years from this point rather then five years from the previous meeting.

**Mr. Elwell stated he was more comfortable with the declaration being limited to this fluctuating interest rate question and that it be made explicitly clear to anyone who may DROP that there is no guarantee, there may be an interpretation made that there is a guarantee, but, at this moment and time, there is no guarantee of a particular interest rate for a particular period of time, that a person dropping at this time should assume that that rate may move up and down as frequently as every quarter and that it will effect them throughout their period of the DROP. Mr. Elwell stated he would like to see the board limit this type of declaration in this way, and let anyone else who may come in, be treated under the rules as they exist today up until such time as they may be amended,**(this was his motion) **Mrs. McLean seconded and the motion carried unanimously.**

Ms. Skittone stated that there were three people on today's agenda electing to DROP and wanted to clarify the handling of these applicants. Mr. Wearn stated that they would go into effect when passed at the next meeting.

Mr. McCracken suggested amending the motion to make it effective at the conclusion of today's meeting, therefore, the three individuals who have already applied and have perhaps relied on the current program would be considered with those who have already been approved.

Mrs McLean moved to amend the motion to take effect at the end of this meeting.

Mr. Elwell withdrew his previous motion and presented a new motion.

Mr. Elwell stated that the discussion is the commitment of the Town, which may or may not have been made to previous DROP employees, current DROP employees, regarding a fixed interest rate for the life of their DROP. He stated that the board may make the determination after all of the facts are in that that commitment had not been made, that there had been an unfortunate misunderstanding and in fact the rate will float up and down. Mr. Elwell stated that what brings the point home more clearly is the line that needs to be drawn as far as who is in and who is out. The employees who drop after this meeting are to be advised that the rate under the ordinance can move up and down, but, that there should not be any explicit commitment to them. Mr. Elwell stated that the board was not necessarily saying to the three on the agenda today and to everyone who has already dropped that there is or isn't a commitment, that determination will be made later. He stated that they were saying explicitly to anyone who drops after today's meeting or applies to drop after this meeting, that there is no such commitment and that the rate even under the current terms of the program may move up and down as frequently as every quarter, therefore, their drop decision should be made with that in mind.

Mr. Wearn clarified that Mr. Elwell wanted the motion to be effective at the adjournment of today's meeting. Mr. Elwell stated that as there are three DROP applicants in front of the board today, only one of which is in the room, who may in fact feel there is some commitment and they should be subject to the same determination that addresses people who are already in and that these people for that purpose are already in.

Mr. Garvy inquired as to whether the option to withdraw the application should be included for these three. Mr. Elwell stated that he did not like to think of it as far as withdrawing the DROP application, but, rather in terms that they would be allowed to stay in the program for five years as it currently exists with the Town administering with a fixed rate or a variable rate whatever might be determined. This group would not be forced to move to the RC program, they would have the choice to do so if they wished. Mr. Garvy stated that they may not want to DROP if they are under the impression that the 7.5% would be guaranteed for the entire period. Mr. Elwell stated that he would defer to the attorney, as he felt this was very risky territory, as it would allow people to say that *this isn't what I understood, therefore, I am not going to be a drop* . Mr. Garvy stated that these three were not in the program as they have not been approved as yet only applied for at this time. Mr. Elwell stated that he understood. Mr. Wearn stated that it might be appropriate to defer the consideration of these applications.

Mr. McCracken stated that right now they are applications for DROP and until the board acts on those applications they clearly are not dropped. He stated that if the board does approve these applications that those three employees have dropped and they would have whatever rights the existing DROP participants would have, the point is well made that if the board makes the determination that the interest rate to these drop accounts can be reduced, that for these three people at least, this issue came before their applications were approved, so they would be in a difficult spot unless they are deferred. Mr. McCracken stated he did not know what the impact of the deferral would have on the drops, they would start receiving their drop payments immediately.

Mr. Boggs stated that these three were already considered DROP members and were receiving their DROP payments.

Mr. Crouse stated that DROP participants immediately start receiving benefits upon electing the DROP, because they have met the requirements by code for retirement and the DROP is an option available to them and in effect they have retired. The board approves retirements in most cases after the retirements have been in effect, it is simply an administrative duty stating that they have met the requirements. He stated that to change that and to make all retirements effective only after a board meeting would create some administrative issues that have never been faced.

Mr. Wearn stated that they were not talking about the question of retirement, but, the question of participation in the DROP program. Mr. McCracken stated that DROP really is retirement as far as the system is concerned. Mr. McCracken stated that he had not been aware of the procedure stated by Mr. Crouse and questioned as to why the board is even approving retirements and DROPs, if it has no meaning as a practical matter.

Mr. Boggs stated his DROP account was established on May 20, 2002 and money has been going into it since then.

Mr. McCracken stated that it would be appropriate for the board to advise employees after this meeting that they cannot be assured of the interest rate and to move ahead on DROP applications.

Mr. Elwell stated that he agreed with this completely and the motion he is making is that it be made explicitly clear by staff to anyone who comes in to DROP from this point forward that their DROP, even under the plan as it currently exists is subject to a fluctuating interest rate, that the term fixed for this purpose means fixed for a period of time, but, at any period of time it may be revisited and set a new rate for another period of time; but, that the grandfathered provisions that have been discussed today apply not only to those currently dropped but to the three that are on the agenda today.

Mr. Elwell wants to make the determination today, the ordinance clearly states that the board is obligated to look at the interest rate from time to time to insure that this program is cost neutral to the plan and therefore, from time to time the interest rate will need to be reset from time to time. He also stated that the board needs to give serious thought to making this as an agenda item every quarter, he was not sure if actuarial information was necessary every quarter, maybe annually would be sufficient.

Mr. Garvy stated that typically it is annual in 401K and savings plans, however, ICMA may have valuable information that would explain the best way to handle this issue.

Mr. Elwell stated that the point is that the ordinance states an obligation of the board to look at the interest rate and reset it from time to time and this should be made very clear to any new DROPs that the board will honor that obligation and it will effect them. He stated that the three on the agenda today and those that have previously dropped, who may have relied upon some commitment from the Town, will be addressed later by the board, who will make a determination as to whether a commitment was made by the Town that would give them a more purely fixed rate, if that determination is made, then they will be entitled to that rate for the rest of their DROP period.

Mr. Wearn restated Mr. Elwell's motion: "**Effective at the adjournment of today's meeting DROP applications, after the adjournment, will be subject to this board's rate determination, applicable to the DROP program, as an element that now exists for consideration at the next meeting, and that the administrator make it abundantly clear to each new applicant to DROP, that the rate determination is currently under review and consideration and may well be decided that the rate will be adjusted from time to time by the board during the period of the DROP."**

Mr. Elwell stated that he had an issue with the <u>may well be adjusted</u> portion, this may be alright because even if a periodic review the rate may not be changed at any given moment. He stated that the guarantee that may have been made will now be a guarantee that this will move up or down because market conditions move up and down.

**Mr. Wearn amended the section of the motion <u>from may well be</u> to a <u>strong likelihood that there will be</u> Mr. Elwell stated he would make that motion, Mrs. McLean seconded and the motion carried unanimously.**

Mr. Garvy stated that it may very well be that the rate changes from an actuarial standpoint as infrequently as the return assumptions on the front are adjusted, which is very infrequent. He stated that it is clear that the board has the responsibility to revisit and reassess from time to time.

## IX REPORT ON QUARTERLY EXPENDITURES

Ms. Skittone presented the retirement cash flow projection and operating expenses. A copy of this report is on file with the plan administrator. Ms. Skittone recommended a transfer from the money managers of $400,000.

**Mr. Garvy moved to accept the report and approve the transfer of $400,000, Mrs. McLean seconded and the motion carried unanimously.**

## X APPROVAL OF RETIREMENT APPLICATIONS

A. Charles Boggs

**Mr. Elwell moved to approve Mr. Boggs retirement and application into DROP, Mrs. McLean seconded and the motion carried unanimously.**

B. Marshall Singleton

**Mr. Elwell moved to approve Mr. Singleton's retirement and application into DROP, Mr. Richards seconded and the motion carried unanimously.**

C. Walter Lovett

**Mr. Elwell moved to approve Mr. Lovett's retirement and application into DROP, Mrs. McLean seconded, and the motion carried unanimously.**

## XI REQUEST TO ATTEND FPPTA CONFERENCE

Mr. Wearn stated this is only a request for the funding. Mr. Crouse stated that the board needed to approve as the money is taken out of the fund. Mr. Wearn stated that he believed there had been a blanket approval given to any educational conferences and Mr. Richards agreed.

**Mr. Garvy moved to approve Mrs. McLean's request to attend the FPPTA conference, Mr. Elwell seconded and the motion carried unanimously. The motion was amended to include Mr. Richards.**

## XII ANY OTHER MATTERS

Mr. Crouse stated that Mr. Reynolds has an appointment for the following week on his disability and he would bring the report to the next meeting.

*(Referring back to the Administrator's Report)*

Mr. Crouse stated that he had looked into the potential of a cost to a change to the duty disability and in fact there would be a cost. He stated that when he refers to a cost, it would be different then what an actuary would present. Mr. Crouse stated that there are scenarios in which an individual general employee under the current system would receive a lower pension then under the rewrite which would result in a cost to the system, even though the costs may be minor.

Mr. Wearn stated that this needed to be considered. Mr. Crouse stated that the actuary would probably state that if two people remarry under the spousal change in the ordinance there would be basically no cost, however, if all twelve remarried it would be a significant cost.

Mr. Wearn stated that the administrator would be looking at costs that were different from those of the actuary. Mr. Crouse stated that the administrative costs could not be quantified.

Mr. McCracken stated that in order for the amendment to take effect from the Public Safety perspective, there needs to be an actuarial report prepared, which has not been done as yet, they only have a discussion from the actuary at this time. He stated that should this board wish to be included in that ordinance change, then there would need to be a separate actuarial report on expenses, therefore, if this board is interested, they may be able to be included in the same study provided the board authorizes the funds.

**Mr. Garvy moved to approve the actuarial study with the expenditure not to exceed $2,000, Mr. Richards seconded, and the motion carried unanimously.**

Mr. Wearn stated that he had a question in regards to bonds in the investment policy, the policy states to acquire only investment grade bonds. He inquired as to whether the board would wish to ultimately consider a recommendation to Town Council to change the investment policy to include *to acquire or hold* investment grade bonds. He feels it is appropriate under the circumstances.

Mr. Garvy stated that the advice of the bond specialist from Loomis Sayles was that in the majority of these types of cases, those bonds are forced sales by insurance companies, etc., artificially depressing the price over the short term, but, they typically rebound. He stated that the advice as he understood it, was that they should retain that discretion, on the other hand it would put the fund in the position of insurance companies and other entities who eliminate those securities from their portfolio immediately.

Mr. Wearn stated that his personal view was, should the bonds fall below investment grade, which is a grade lower than what was held in the past, then the fund should get out of that bond.

Mr. Garvy concurred, he stated it was very unusual to have a bond go from an A rating to a Double B. He stated it is not wise for the fund to hold bonds in the portfolio that are not investment grade.

Mr. Wearn stated that as the board is not able to hold meetings and respond as quickly as a private investor, that the bond parameters should be set. He also inquired as to whether the policy should be revised to reflect the holding, not just the acquisition.

**Mr. Garvy made the motion that a draft of an adjustment to the investment policy reflect the intent of this board to hold no fixed income instruments under the rating of investment grade, Mr. Elwell seconded, and the motion carried unanimously.**

Mr. McCracken stated Callan would be contacted to draft the revision, as well as having Callan supply a full explanation of what exactly investment grade means.

Mr. Wearn concurred.

Mr. Wearn referred back to Item X on the agenda, retirement applications. He stated that the applications are automatically approved when the ordinance requirements are fulfilled, therefore, should the board suggest the ordinance be revised to remove that section, or that the administrator not do the approvals.

Mr. Elwell stated that he preferred having the ordinance changed to the effect that the board does not see the applications and that the plan administrator approve the applications when the requirements are met. Mr. Richards inquired as to how this process came about in the first place.
Mr. Wearn was not sure. Mr. McCracken stated it may simply have been tradition for the last 50 years.

**Mr. Elwell moved that if the ordinance currently requires that the applications come before the board that an ordinance amendment be brought forward to recommend to the council dropping that requirement, and if the ordinance does not require it, simply report back and the board will simply change the practice. Mr. Wearn inquired as to having a simple report of who has retired under the administrator's report, Mr. Elwell stated that that should be added as well. Mr. Garvy seconded and the motion carried unanimously.**

Ms. Skittone stated that it may not be in an ordinance, however, it may be in a policy, and since the auditors check every year and if the applications have not been taken before the board then the auditors will write the Town up for that, so it may be somewhere.

Mr. Wearn stated that if it is a policy it should be changed like an ordinance, not just as a practice.

Mr. Garvy stated that the investment consultant recommended the board consider establishing a band around the allocation in equity, 5% was recommended. He stated this was typically the best practice in the investment industry for institutional funds, it first establishes a target, then it establishes a band around that target that will automatically be adjusted once that band is hit, which may happen in between the board's meetings.

**Mr. Garvy moved to amend the policy to allow a 5% band around the allocations for equity and if it hits that band, to readjust automatically intra-quarter and readjust back to the 40/40/20 alignment that is the subset of the broader asset allocation, Mr. Elwell seconded and the motion carried unanimously.**

Mr. McCracken was directed to prepare a draft of the investment policy by the next meeting, showing the changes that were approved at this meeting.

**XIII ADJOURNMENT**

**Mrs. McLean moved to adjourn the meeting, Mr. Richards seconded and the motion carried unanimously.**

The meeting adjourned at 2 p.m.

Approved:__________________________
Vernon Richards, Secretary