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MINUTES OF RETIREMENT BOARD MEETING
FRIDAY, MAY 19, 1995

I. CALL TO ORDER

The meeting of the Retirement Board of Trustees was called to order by Chairman Harvey at 9:05 a.m., on Friday, May 19, 1995, in the Town Hall Council Chambers. Attending were: Chairman Robert D. Harvey, Trustees Town Council President Lesly Smith, Deborah Kelly, Karen Lane, John DeIorio, George Frick, and Robert J. Doney. Mayor Paul R. Ilyinsky was absent, as was Vice-Chairman James McCartney Wearn who had had a longstanding previous engagement. Also in attendance were Personnel Director William C. Crouse, Personnel Programs Coordinator Carla S. Kneipp, Finance Director Marie A. Crozier, and Attorney John McCracken.

II. APPROVAL OF AGENDA

Mr. Harvey asked for any changes to the agenda.

There being no changes or additions, Miss Lane moved approval of the Agenda. Mr. Frick seconded the motion. Motion carried unanimously.

III. APPROVAL OF MINUTES - REGULAR MEETING OF FEBRUARY 16, 1995
SPECIAL MEETING OF APRIL 4, 1995

Mr. Harvey asked for corrections or changes to the minutes of the regular meeting of February 16, 1995, and of the special meeting of April 4, 1995. Mrs. Smith asked that the minutes of the regular meeting of February 16, 1995, be changed to show that she was present.

There being no further changes, Lt. DeIorio moved approval of the minutes of the regular meeting of February 16, 1995 and of the special meeting of April 4, 1995. Mr. Frick seconded the motion, and all voting aye, the motion carried.

IV. REPORT ON DISABILITY RETIREANT WILLIE TELFAIR

Mr. Crouse reported that a Medical Work Restriction Evaluation had been received from Dr. Craig Licthblau regarding Mr. Willie Telfair. He explained that the Town's Physician, Dr. Joseph Ojea, had seen the report and indicated that Mr. Telfair continued to be unable to perform the duties of his previous position with the Town. Mr. Crouse explained that Mr. Telfair would be eligible for normal retirement benefits in approximately one and one-half years, so it was recommended that any further medical evaluations regarding his disability be discontinued at this time. He explained that when Mr. Telfair became eligible for normal retirement, the amount of his pension would be reduced.

There being no further discussion, Miss Lane moved to accept the recommendation that any further medical evaluations regarding Mr. Telfair's disability be discontinued, due to his eligibility for normal retirement in approximately one and one-half years. Mr. Frick seconded the motion, and all voting aye, the motion carried.

V. REPORT ON STATUS OF DISABILITY RETIREMENT FOR ARTHUR R. ROEBUCK, III.

Mr. Crouse reported that Mr. Roebuck had submitted a request for Disability Retirement to the Retirement Board at their last meeting. He explained that a full report would be received within the next week from Dr. Lichtblau, but that the Town's Physician, Dr. Joseph Ojea, was aware of Mr. Roebuck's condition and would confirm Dr. Lichtblau's findings. Mr. Crouse explained that if the Board wished to, they could approve Mr. Roebuck's request for Disability Retirement effective upon the receipt and confirmation of Dr. Lichtblau's report. Mr. Crouse further explained that Mr. Roebuck was currently receiving Workers' Compensation.

Mr. Harvey asked Mr. Crouse if Dr. Lichtblau's report would be definitive. Mr. Crouse explained that the original request for the evaluation had included a review of Mr. Roebuck's medical condition, as well a copy of his job description, in order for Dr. Lichtblau to provide a definitive answer. Mr. Harvey asked if Mr. Crouse if he would review Dr. Lichtblau's report in order to make sure that it met the Town's criteria for disability retirement. Mr. Crouse indicated that he would do this.

Lt. DeIorio moved approval of Arthur R. Roebuck, III's request for disability retirement, pending confirmation by William C. Crouse of Dr. Craig Lichtblau's Medical Work Restriction Evaluation, to be effective upon such confirmation. Mrs. Kelly seconded the motion, and all voting aye, the motion carried.

VI. QUARTERLY REPORTS:

A. ROANOKE ASSET MANAGEMENT, INC.

Ed Vroom of Roanoke Asset Management, Inc., appeared before the Board and reported on the quarter ending March 31, 1995.

He explained that the status of the fund as of quarter end reflected a total fund value of $17,628,000, with stocks at $8,208,000, bonds at $8,956,000, and the balance held in money market funds. He stated that Roanoke was aware that the equity levels were above the Town's long term target. Mr. Vroom explained that the performance was broken down by asset categories for stocks, equities, and bonds. He stated that they had experienced a very good quarter, even though there had been concerns regarding inflation and recession at the beginning of the quarter, with interest rates being raised. Mr. Vroom explained that Roanoke's stocks had been up 15%, which they were delighted with, and by looking at it on a twelve month basis, it gave them a return of 19.7% for the year, versus 15.6% for Standard & Poor's 500. He explained that the compounded three year return indicated a 16.1% return versus 10.6% return for S & P, and that on a 5 year compounded basis, their return was 13.9% versus S & P's 11.4%, which was a 250 basis point compounded spread.

Mr. Vroom then reported that bonds got back on track during the quarter, after last year, which had been a difficult year for them. He explained that they produced a 5.8% return for the quarter, with twelve months at 4.6%, 8.5% at three years, and 9.9% at five years. Mr. Vroom explained that the total fund was up 10.2% for the quarter, which included bonds and money market funds, and on a one year basis, the total fund was up 11.6%. Mr. Vroom explained that the total fund return for the three and five year period, which included bonds and other assets held, was above the S & P 500 for not only the three year, but for the five year as well.

Mr. Vroom reported on Roanoke's long term performance, which had now run 13.25 years, with a compounded total fund of 13.6%, an equity return of 17.7%, and fixed income of 12.8%.

Mr. Vroom reviewed the basic strategies of Roanoke Asset Management by explaining that their style came in and out of favor, as had been experienced, but their process always remained the same. He stated that as growth stock managers, they looked to identify companies that were growing top and bottom line at greater than 15%, with a good stable margin picture, were investing in their businesses to maintain the growth, had good balance sheets and some kind of competitive position in the marketplace in which they operated, which gave them pricing flexibility, and they must be continually introducing new products or services, or improving what they have to maintain that growth. He explained that within that process, Roanoke identified in the portfolio those strategies that identified important investment themes, and reviewed them every quarter because they were an important part of the portfolio. Mr. Vroom explained that the most important themes in the portfolio were in health care, technology and telecommunications. He explained that health care, which was 17.6% of the portfolio, had been a drag on the portfolio in the last couple months, so it had been reviewed, and there was still a massive indemnity conversion that was happening, where people were moving from fee for service to managed care and delivery of health care, and was still very much on track. He explained that Medicare and Medicaid were going in the same direction, which was managed care, and this was a $200 billion opportunity for managed care companies. Mr. Vroom stated that the recent underperformance provided a significant market opportunity.

Mr. Vroom indicated that technology was undergoing a massive upgrade cycle, and telecommunications was also undergoing many changes. He explained that the percentages of the portfolios that Roanoke had invested in these three areas was rather significant.

Mr. Vroom explained that the booklet the Board Members had received contained the top twenty names of the portfolio, what they represented as far as market value, which was 61.4% of the fund, and that their annual growth rates produced an earnings growth rate of 25% in 1994, and in 1995, they were tracking to a 35% rate of growth, and were projected to be 26% in 1996. He stated that this was a very high level of growth rate. Mr. Vroom pointed out that the holding period indicated in this information showed that Roanoke Asset Management were long term investors, with the average holding period for these top twenty companies being 20 months. He explained that growth had been experienced with these companies, and the Board could see from the cost and market statistics that they had been well paid for holding them for that period of time.

Mr. Vroom explained that the weighted average market cap was $2.6 billion, with the median market cap somewhat smaller at $986.6 million. He further explained that the S & P 500 growth rate was $21.8 billion, which was a dramatic difference. Mr. Vroom pointed out that the average holding period of the entire portfolio was 17 months.

Mr. Vroom then pointed out that the portfolio was produced by a well diversified fund of stocks. He explained that the bond area hadn't changed much, and that there was a relatively shorter maturity profile, although by some standards, it was a little bit longer, but was still a very high quality characteristic of the fund. Mr. Vroom stated that Roanoke thought that bonds had perhaps exhausted their performance for the year, and would find it hard to expect that bonds would do much better from this point forward.

Mr. Harvey asked the Board Members if they had any questions or comments for Mr. Vroom. There were no questions or comments.

B. LOOMIS, SAYLES & COMPANY

Kent Mergler, Managing Partner of Loomis, Sayles & Company of West Palm Beach, addressed the board and introduced Greg Watkins of their Detroit office. He explained that Greg and Mike Harris actually managed the money, while Peter Van Bueren and he were the local representatives who dealt with any questions that came up.

Mr. Mergler explained that this was their first real report to the Retirement Board, although they had attended the meeting in February and at that time had introduced the firm to the Board, and had managed the fund for only a month. He explained that they could actually report some numbers to the Board at this time, and even though they were very short term, they had started off very nicely. Mr. Mergler explained that the Detroit office had gotten the money invested, and on the equity side, they had slightly outperformed the stock market, and the bond market results were roughly the same.

Mr. Watkins addressed the Board and commented on the investment environment, explaining that in 1995, they had basically received what the market had been expecting in 1994. He explained that the market at that time had been expecting interest rates to go down, corporate profits to go up, security profits to go up and security prices to go up, but this was what happened in 1995. Mr. Watkins stated that the value of the portfolio was just a little under $17.2 million. He explained that their asset mix was right on target, with 40% equities and a little extra cash in the portfolio at 3%, which represented acknowledgment that prices had moved up fast, and they liked to have a little ammunition available. Mr. Watkins explained that the Loomis portfolio on the equity side was a below-market portfolio, twelve times this year's projected earnings versus about 14.5% for the market, and their projected earnings growth rate for inexpensive stocks was a little higher than the market, but not dramatically in excess of the market, like the growth stocks in the other half of the portfolio. Mr. Watkins explained that the good thing about this was that the Town of Palm Beach had two managers with dramatically contrasting styles, one to complement the other, so they had the best of both possible worlds in 1995, because both managers had out-performed.

Mr. Watkins reported on the fixed income side of the portfolio, explaining that they were not quite yet where they wanted to be. He explained that the portfolio had a duration of 4.9 years, which was the same as the overall bond market. Mr. Watkins explained that duration was a complicated mathematical formula, but it was a measure designed to tell what the interest rate sensitivity of the portfolio was, and how vulnerable it was to an overall rise in interest rates as well as how much it would benefit from a fall in interest rates. He stated that over time, Loomis would probably have a duration a little bit in excess of the market's. Mr. Watkins explained that this was also true for the percentage of the portfolio in corporate bonds, stating that they liked corporate bonds, and wanted to use a lot of them to get the extra yield, but that right now, as a result of the rally, corporate bonds were priced pretty tight to treasuries, and now may not be the time to step out to the corporate bonds. Mr. Watkins explained that on the equity side, there should always be a P/E discount to the market, explaining that profitability was very high right now in the economy, and even the Loomis stocks had levels of return on equity that measured profitability about the same as the market's.

Mr. Watkins reported on the returns in the portfolio so far, explaining that this was for a three month period of time. He explained that the equity results were favorable, with the portfolio returning about 3%, or 300 basis points, over and above the S & P for this period of time. Mr. Watkins explained that some of the extra returns earned in the first quarter were stocks that had been in the portfolio where there had been takeovers, and he felt they would continue to see good relative returns. Mr. Watkins explained that regarding their bond portfolio, they had not been quite as long as the market during the rally in the first few months of the year, and they did not have quite as many corporate bonds as the overall market, and the BWA section of the market was one of the strongest performing sectors in the rally, and the Town was not involved in this. He explained that Loomis had participated fully in the last stage of the rally that had taken place in the last month. Mr. Watkins explained that they were looking for better numbers on the bond side. He stated that the returns for the total portfolio contained very good returns on the stock side, and the high absolute returns for stocks rather than bonds carried the return of the whole portfolio up well over the benchmark. Mr. Watkins explained that Loomis was starting with about a 100 basis point excess return over the Town's benchmark so far this year. He further explained that the dividend yield on the market was at an all time low, which suggested caution, and that he felt the bulk of gains on the market had been experienced for the year.

Mr. Harvey asked if the Board Members had any questions for Mr. Watkins. There being none, he stated that Roanoke Asset Management and Loomis, Sayles and Company were both off to a very good start, and he appreciated their results.

C. CALLAN ASSOCIATES

Mr. Crouse reported that Callan Associates reported semi-annually, so their report had been sent and distributed to the Board Members.

D. DISCUSSION OF PRESENTATION SCHEDULE

Mr. Crouse reported that he and Mrs. Kneipp had done a historical review from 1992 to date through the Retirement Board Minutes as to those managers who had attended various meetings to present reports. He explained that the handout he had distributed showed who had been in attendance at various meetings, and how often each firm had reported. Mr. Crouse explained that he was asking the Board for clear direction for his office and for the money managers as to when they would be expected to present their information to the Retirement Board. He explained that the Board may wish to come up with a schedule that would alternate reports by the money managers, stating that presently, Roanoke Asset Management presently made two presentations back to back. Mr. Crouse asked the Retirement Board to assist him with setting a schedule for presentations.

Mr. Doney explained that both managers usually had the opportunity to report along with Callan Associates at the February meeting, and he felt that since it reflected the year end activity, it was information that everyone liked to see. He stated that their following appearances could be staggered. Mr. Harvey indicated that he agreed, explaining that Callan could provide an overall view of each manager's report at the February meeting, and the money managers would provide two more reports during the year.

Mr. Doney asked if there were any timetables that would benefit the Finance Department. Mrs. Crozier replied no, explaining that she received reports from the Manager's on a monthly basis.

Mr. Doney stated that the Investment Policy was reviewed with Callan at the November meeting, as well as with the other money managers. He explained that this was why Callan had attended the November and February meetings.

Mrs. Kelly explained that the Investment Policy review process started in August, but usually took the Board a quarter or two to consider modifications. She further explained that both money managers would probably like to be able to give a year end report at the February meeting. Mr. Harvey agreed, and indicated that he thought it was important for Callan Associates to be present because it was Callan who gave the Town their official numbers, while the money managers had different systems for measuring activities.

Mr. Harvey asked the Board Members if they thought the money managers as well as Callan Associates should report at the February meetings. Mrs. Smith stated that she felt if the Town had a new money manager, they should definitely be present. The Board Members indicated that Roanoke Asset Management, Loomis Sayles and Company, and Callan Associates should be present at the February meetings of the Retirement Board.

Mr. Harvey then asked the Board to determine additional meetings each organization should attend.

Mrs. Kelly moved to establish a schedule of investment status presentations, with Callan and Associates to report at the February, August and November meetings; Roanoke Asset Management to report at the February and August meetings; Loomis, Sayles and Company, as the new money manager, to report quarterly for the remainder of 1995, and thereafter to report at the February and August meetings; First Union Bank and First National Bank to report at the February and August meetings; and to schedule presentations for the May Board Meeting on an as-needed basis. Mr. Frick seconded the motion, and all voting aye, the motion carried.

Mr. Harvey asked if a yearly calendar of annual events could be compiled for the Board Members. Mr. Crouse indicated that Mrs. Kneipp and he had already begun putting something like this together, and he would have a rough draft of the calendar available for the Board Members at the next meeting.

Mr. McCracken arrived at 10:00 a.m.

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

Mrs. Crozier reported on quarterly expenditures for the period of May, 1995, through August of 1995. She explained that the balance in the account at the end of April was $13,034; the third quarter transfer of employers contributions, which would be made in May, would be $676,911; estimated pension benefit payments for May through August were anticipated to be $740,000; estimated miscellaneous expenses and refunds for the quarter were $170,000, and estimated employee contributions for the period April through July, were $160,000 for Public Safety, and $100,000 for General. She further explained that the balance available in the account for transfers to the active managers was $30,945, and the recommendation was for approval of the transfer.

George Frick moved acceptance of the quarterly expenditure report. Mrs. Kelly seconded the motion, and all voting aye, the motion carried.

Mr. Harvey asked if the process for making allocations to the managers was working smoothly. Mrs. Crozier explained that there were no problems, and direction was very clear to them. Mr. Harvey commented that the S & P was up the last quarter by 9.72%, with the total A & B fund at 6.82%, but that those funds hadn't been in there for the whole quarter. He stated that the Board would get a better picture of this after the March 31st quarter.

Mrs. Crozier asked if it was appropriate to request that the money managers do their trades only through Callan. She explained that they were often times offered incentives in soft dollars when they traded through their brokers, but if they were all initiated through Callan, any incentives that were offered would go to the benefit of the Retirement System. Mrs. Crozier stated that this may be playing hardball, but she would like to know if it would be inappropriate to ask them to do this.

Mr. Harvey explained that in theory, the commission dollars also provided a research source for them, and this would be hard to measure. He explained that at a minimum, the Town could ask them what their commission schedules were, and that in their ADV brochure they probably talked about soft dollar arrangements. Mr. Harvey stated that he thought this was something that the Board could review, but as long as the money managers were being competitive with their commissions he thought that was the requirement the Town would want. He further explained that if the managers were being able to utilize those commissions to provide research for the benefit of the portfolio, then there was an intangible value for them. Mr. Harvey explained that he would be hesitant to have this go through Callan, but the Board should, as a start, ask the money managers what their commission policies were.

Mr. Doney asked if there was a requirement that the money managers provide every board member a copy of their annual reports and certain other reports on an annual basis so that the Town had additional information available. Mr. Harvey explained that the SEC required them to give the Town an ADV filing, which probably discussed commission policies and soft dollar policies. He explained that the Town may want to be proactive and write a letter and ask what their commission policy and soft dollar arrangements were. Mrs. Crozier indicated that she would do this.

VIII. APPROVAL OF REVISED POLICY STATEMENT

Mr. Crouse explained that the revised Investment Policy had been received from Callan Associates, and it did include the revisions that were made at the February 16, 1995, Retirement Board Meeting. He explained that these changes were itemized in the minutes for that meeting. Mr. Crouse explained that the Investment Policy as it had been submitted did take into consideration those changes as requested by the Board.

Mr. Doney asked if an approved copy of the Investment Policy would be forwarded to Callan Associates. He also asked if it would be clear that this was the finalized and approved Investment Policy. Mr. Harvey stated that once this was approved, it should be sent to each of the money managers so they would know what the guidelines are. He explained that the Investment Policy distributed to the Board Members indicated that it had been revised February 16, 1995, so it was the most recent policy and superseded all others.

Mr. Crouse indicated that copies of the approved Investment Policy would be sent to all money managers as well as to First Union, ANB, and Callan Associates, along with a memorandum explaining that it had been revised February 16, 1995, and superseded all others. He further explained that he would ask each company to acknowledge receipt of and agreement to the revised Investment Policy.

Mr. Frick moved approval of the Statement of Investment Policy revised February 16, 1995. Mrs. Kelly seconded the motion, and all voting aye, the motion carried.

IX. APPROVAL OF ACTUARY'S FEE FOR 1996

Mr. Crouse reported on a letter from Gabriel, Roeder, Smith & Company regarding their fee for the year beginning January 1, 1996, in the amount of $10,040 payable quarterly. Mr. Harvey asked if this was their regular fee. Mr. Crouse replied that it was. Mr. Harvey asked how that compared with the previous year. Mr. Crouse explained that it was up from the previous year by approximately $600.00.

Mr. Doney moved approval of the fee as identified in the letter dated March 14, 1995, from Shirley Williams of Gabriel, Roeder, Smith & Company, as the actuarial and consulting services fee for 1996. Mrs. Kelly seconded the motion, and all voting aye, the motion carried.

X. REPORT ON EMPLOYEE VOTES:

A. F.S. CHAPTER 175 AND F.S. CHAPTER 185 ISSUES

Mr. Frick reported that the Police Department had voted unanimously to approve the discussions as held by the Retirement Board regarding the F.S. Chapter 185 issue, and to vote the 185 money back into the system providing that the Town Council approved the recommended changes to the system. He reiterated that there had been 100% compliance in the vote, although he was currently missing four votes because of shifts and vacations. He explained that as soon as he had received everyone's vote, he would forward the results to the Plan Administrator, Mr. Crouse.

Mr. Doney asked if the actual vote document had been approved in advance by Mr. McCracken. Mr. Frick replied that it had been. Mr. Crouse explained that Mr. McCracken, Lt. DeIorio, Mr. Frick and he had all reviewed the document, and that Mr. Smith had also had input. Mr. Doney asked if the Board Members could be provided with copies of the ballot. Mr. Crouse indicated that copies would be made for each Board Member.

Lt. DeIorio reported that the Fire-Rescue Department vote had resulted in 62 out of 66 or 67 people who had voted, and that so far there were 61 in favor, and 1 against. Lt. DeIorio explained that he would be able to obtain votes from the last three people when they returned to their shift or from vacation.

Lt. DeIorio explained that he did have a question about Firefighter Ray Roebuck, because of his status of pursuing disability retirement. He asked if it was appropriate that Mr. Roebuck vote on this issue because he had been filing for disability pension prior to starting the vote. Mr. McCracken explained that because he was a member of the system, he would be allowed to vote.

Mr. Doney explained that the next action regarding the F.S. Chapter 175 and Chapter 185 monies was the report that Ron Smith was working on for the Finance and Taxation Committee on June 7, 1995, at 3:00 p.m.

B. EARLY RETIREMENT FOR GENERAL EMPLOYEES

Mrs. Kelly explained that as requested by the Board, she and Miss Lane had conducted meetings with the majority of the general employees to discuss the two options that they would be voting on. She explained that the vote was held on May 16 and 17, 1995, and that of the 199 General Employees who were eligible to vote, 177 had voted. She explained that two ballots were not counted because two options had been marked on each ballot. Mrs. Kelly explained that the results of the vote were as follows: Option I received 41 votes; Option II received 79 votes; and there had been 55 votes for no change. Mrs. Kelly explained that they had run into an interesting situation by having the three options on the ballot. She explained that she and Miss Lane had calculated some percentages, and they had a recommendation for the Board to consider. Mrs. Kelly explained that there were 120 votes cast for a change, and they were split between Option I and Option II, which was 69% of the ballots that had been cast. She explained that a majority of employees had indicated they wanted a change made to the system. Mrs. Kelly explained that of these two options, Option II received 59% of these votes, so on that basis, she and Miss Lane believed that Option II was the majority vote from the employees, and that they should proceed with incorporating that into the Ordinance.

Mr. Harvey asked Mrs. Kelly to define Option II. Mrs. Kelly explained that Option II was retirement at 50 years of age with 20 or more years of service, with a reduction of .003% for each month of early retirement. Mr. Harvey asked what the Board wished to do at this point. Mr. Crouse indicated that it was his recommendation that the Board consider approving this as an Ordinance change and sending it to the Council for their approval on two readings. He explained that from a financial standpoint, the entire cost of this would be absorbed by the employees, therefore, it was not a fiscal matter, but a matter of this Board agreeing to an Ordinance change and the Town Council approving it.

Mrs. Kelly reminded the Board Members that discussion had held at a previous Retirement Board meeting regarding a basic Ordinance change, where there would be no cost involved, and that they thought it may turn out to be moot depending on how this vote went. Mrs. Kelly explained that her concern with this was because the 50 years of age and 20 years of service was the option selected by the majority of the employees, there may be some employees who would not be able to benefit by it because of their age or the time they started. Mrs. Kelly explained that she would like the Board to pursue incorporating the third option of age 50 with 10 years of service into the ordinance as well, with the reduction escalated to the point where there was no cost to the Town or the employees. She stated that she did not know what the cost would actually be or what the reduction would have to be, considering that the employees had voted to pay for the age 50 and 20 years of service, but that she would like to have Mr. Smith look at including the age 50 with 10 years of service in the Ordinance as well. Mr. Harvey commented that the general employees didn't seem to have shown the same overwhelming agreement as the Police and Fire-Rescue Departments had in their votes. He asked if there was a better accommodation that should be considered, such as a different combination of options. Mrs. Crozier stated that if all of the costs for the General Employee options were to have been picked up by the Town, she was sure that the employees would all have agreed to it. She further stated that she believed the employee representatives had put together the package that was the least costly to the employees, and that a more expensive, though better, retirement option had previously been turned down overwhelmingly by the employees, so this was the happy medium.

Mr. Doney stated that the age 50 years with 20 years of service had received the most votes, but he wanted to make sure that those individuals who had not voted for it were aware that they were going to be subject to paying that additional deduction. He explained that if this change was voted for by a majority of employees, then all General Employees would make the same deduction. Miss Lane explained that the General Employees understood that this change would affect all or none of them, and that this had been made very clear. Mr. Harvey stated that he thought the last thing the Board Members would want to do was pass this proposed Ordinance change, and then have an uproar from employees who had not understood. Mr. Doney asked what the reduction was for this proposed chagne. Mrs. Kelly explained that the reduction was .65%.

Mr. Harvey asked what the next step should be for the Retirement Board to take. Mr. Doney explained that the Board would make a recommendation to the Town Council. Mr. Frick explained that the issue regarding the 175 and 185 monies would have to go to the Finance and Taxation Committee Meeting for their approval. Mr. Doney explained that even though the General Employee issue would be paid for by the General Employees, it should also be reported on at the Finance and Taxation Committee meeting, and then go to the Town Council. He explained that it would then be clearer that this was the evolution of the votes going to the Town Council. Mr. Doney stated that he thought these issues should go to the June 13, 1995, Town Council Meeting. Mrs. Smith explained that she did not see how this could be done at the June 13th meeting when the full Council would not have had the opportunity to look at the report from the Finance and Taxation Committee. Mr. Doney agreed, and indicated that this item could go to the July 11, 1995, meeting for the first reading of the Ordinance. Mrs. Kelly stated that what was being looked at for an effective starting date for the proposed Ordinance change was October 1, 1995, the start of the fiscal year. Mr. Doney stated that this had been anticipated, because of the budget being adopted in September.

Mrs. Kelly moved that the Board ratify the vote that was taken by the General Employees, that Option II, Early Retirement at 50 years of age with 20 years or more of service, with a reduction of 3/10's of 1% per month, and that it become effective October 1, 1995, as an Ordinance change, and in addition, to have Mr. Smith pursue the option of 50 years of age and 10 years of service, with a reduction of .006%, to see if that could be included in the Ordinance as well, so that it would provide an additional option to the employees, with no cost to the Town. Mr. Harvey asked if this was an additional option for the Finance and Taxation Committee to consider. He also asked if this option would have to go back to the employees for another vote. Mrs. Kelly explained that what had initially been proposed had included an option that would not require a vote, explaining that there had been some question about whether either of the other two options would be approved by the employee vote. She explained that in lieu of either of these two options, she had been looking at the possibility of an

Ordinance change. Mrs. Kelly explained that the reduction in this particular option was significant, so there would be many people who would not utilize it, but the vote had produced enough people to vote for Option II, so they were recommending that it be presented to the Town Council for incorporation to the Ordinance, and in addition to that, the third option of age 50 with 10 years of service with a reduction of .006's of 1% be looked at by Mr. Smith in order to see how that could be incorporated as well. Mrs. Kelly explained that initially, what Mr. Smith had indicated he would do was to raise the reduction to the extent that there would be no cost to employees or the Town, but because the employees had voted to purchase this particular option, that may also be incorporated into the reduction so that it may not have to be .006% because the employees would already be picking up part of that.

Miss Lane asked how the option of retirement at age 50 with 10 years of service could be considered at this point.

Mrs. Kelly explained that she was not referring to Option I of the ballot, but to the third option that had been discussed at the Special Meeting of the Retirement Board on April 4, 1995. She explained that this option was age 50 with 10 years of service, and a reduction of .006%, with a total cost of 1.5% of payroll, and Mr. Smith had indicated that this could be costed out so there would be no cost of payroll, and the manner in which it would be paid would be the reduction of .006%. Mrs. Kelly explained that this would allow some individuals to retire at age 50 with 10 years of service. Mrs. Kelly explained that with Option II, the early retirement was age e 50 with 20 years of service, and if the third option was incorporated into the Ordinance, there were people who could leave at age 50 with 10 years of service, but they would bear the burden of the cost through the reduction of their pension. She explained that this would not impact the .65% contribution of Option II.

Mrs. Smith asked if Mrs. Kelly was ready to make a recommendation to the Town Council at this point, or if she was asking Mr. Smith to do further review. She further asked if this information had to be presented to the Finance and Tax Committee. Mrs. Kelly explained that because these options did not have a budgetary impact, she had not been prepared to go before the Finance and Taxation Committee. Mrs. Kelly stated that at the last Retirement Board Meeting, the Board had decided to not even look at the third option until they saw what the vote would be on Option I and Option II. Mrs. Kelly explained that she had then anticipated that at this meeting, they would be given permission to approach the Actuary as far as the incorporation of these options were concerned. Mrs. Smith asked if these would then not go to the Finance and Taxation Committee meeting. Mrs. Crozier explained that there was no budgetary impact because all of the costs would be borne by the employees, similar to the Social Security program, where if it was taken early it was taken at a reduced rate, and that was essentially what this program would provide, with no cost being paid in advance, but paid at the time someone elected to utilize the benefit. She explained that because there was no budgetary impact, it did not have to go before the Finance and Taxation Committee for consideration. Mrs. Smith asked if it was not then going to be a line item of the budget. Mrs. Crozier replied that it would not. Mr. Doney stated that it would result in part of the provisions of an Ordinance amendment, and that it would have to be incorporated into the Ordinance, and he thought, for educational purposes or by way of explanation, that it should go to the Finance and Taxation Committee. He further explained that it also had to be put in memorandum form for Ron Smith or someone else to explain what it was and what it meant. Mr. Doney further asked if the employees would have to declare for the deduction if they wanted it, or if it was a one time in or a one time out option, or if it could be picked up at any time. Mrs. Kelly explained that the .65% would be added to what the current General Employee retirement contribution was, and it would become part of the Ordinance and would be an option for the General Employees to utilize. Mr. Doney asked her to further clarify the other option she had been discussing. Mrs. Kelly explained that this would simply be another option, and that it would have no bearing on the cost that General Employees would be paying for Option II. Mr. Crouse explained that the third option would be actuarially decreased to have a cost of zero. Mrs. Smith asked that since this did not need to go to the Finance and Taxation Committee, should it be included on the June agenda under a memorandum, with an Ordinance reading held in July or August. Mrs. Crozier explained that if this were included as a basic benefit, the earlier someone elected to retire, the bigger the reduction they would be assessed for doing that, and this was why it was not necessary to declare at any given time that someone was going to utilize the benefit. She explained that the cost of utilizing the benefit was determined by when someone intended to utilize it. Mrs. Crozier further explained that the reduction would be measured against when an individual retired, similar to Social Security, explaining that the closer an individual gets to the appropriate retirement age, the more benefit is received. She stated that the longer an employee stayed, the closer they would be to receiving the full benefit; and the further away from the required retirement age, the bigger the reduction in the monthly pension received. Mrs. Crozier explained that this was why there was no need for an employee to declare in advance if they were going to use this option.

Mr. Harvey asked if there was something the Board could ratify at this point contingent upon getting additional information from Mr. Smith, or if the information needed to be obtained first before the Board could consider an action. Mrs. Kelly stated that if the Board was agreeable to allowing the third option to be incorporated at no cost, she would think that approval from the Board could be obtained now, and then they could proceed on that basis.

Mr. Doney explained that the reason he had suggested that this issue go to the Finance and Taxation Committee was because Mr. Smith would be present if there were any questions, and he would not be at the June or July Town Council meetings, unless he was specifically asked to attend. Mrs. Smith indicated that she understood this, but did not think it was necessary to present this information to the Finance and Taxation Committee meeting since it was not a matter that needed to be considered by them. She explained that this could simply confuse the budget hearings, and it should be addressed separately. She further stated that she would prefer not to see this item brought to the Finance and Taxation Committee. Mrs. Smith then asked if Mr. Smith could look at this issue, and then submit an opinion to the Town Council. She stated that if there were any problems with it, then an explanation would be requested from him, but if there were no problems, it could simply be considered by the Council.

Lt. DeIorio asked what the purpose was for having Mr. Smith look at the additional option of .006% reduction. Mrs. Kelly explained that, actuarially, she did not know what the cost would be, but since some employees had voted to purchase the age 50 with 20 or more years of service with a reduction of .003%, she was not sure now what the age 50 and 10 years of service would be costed out at. She explained that originally, the age 50 and 10 years of service had been costed at .15%, but since the employees had been willing to purchase a better benefit than that, she was not sure how Option III would cost out. She explained that the possibility existed that the reduction may not have to be .006%, and that it could possibly be less than that.

Mrs. Kelly moved that the Retirement Board approve Option II, retirement at 50 years of age with 20 or more years of service, and Option III, to be investigated by the actuary with retirement at age 50 with 10 or more years of service and a reduction of .006 of 1%, for incorporation into the Town of Palm Beach Retirement Ordinance. Lt. DeIorio seconded the motion, and all voting aye, the motion carried.

XI. APPROVAL OF RETIREMENT APPLICATIONS OF:

Nathaniel Horton, Public Works - 21 years, 8 months
Allen R. Perry, Fire-Rescue - 25 years, 1 month

A. Mr. Harvey asked if all was in order with the Retirement application of Nathaniel Horton of the Public Works Department, with 21 years and 8 months of service. Mr. Crouse reported that all was in order. There being no discussion, Mrs. Kelly moved approval of Nathaniel Horton's application for retirement. Mr. Frick seconded the motion, and all voting aye, the motion carried.

B. Mr. Harvey asked if all was in order with the Retirement application of Allen R. Perry of the Fire-Rescue Department, with 25 years and one month of service. Mr. Crouse reported that all was in order. There being no discussion, Lt. DeIorio moved approval of Allen R. Perry's application for retirement. Mr. Frick seconded the motion, and all voting aye, the motion carried.

XII. REVIEW OF REPORT BY LT. JOHN DEIORIO ON THE 16TH ANNUAL POLICE OFFICER AND FIREFIGHTER TRUSTEE'S SCHOOL

Lt. DeIorio reported on the 16th Annual Police Officer and Firefighter Trustee's School, which he had attended in March of 1995. He explained that it was once again a very enlightening program, with a lot of good information. He stated that it was interesting to hear how many municipal pension systems were having problems with their investments, and problems with the ways the statutes were being read and handled, and that it was very comforting to know that the Town of Palm Beach was having very few problems with any of those. Lt. DeIorio explained that different issues had been discussed at the Trustee's School, and included IRS regulations affecting pension plans, with the rules of 415 and 457, and that there would be some changes coming out along those lines,. He explained that with the 457 plans, where there was a maximum right now of how much could be contributed by the employee, there may be a change to index it with inflation. Lt. DeIorio reported that on the private sector side of 401 plans, there was a larger cap of how much could be put in by the employer and employee, so the 457 plans may model after the 401 plans. He explained that there had been discussion on Drop Plans and Back Drop Plans that he would like to discuss with Mr. Smith at some point regarding different options for early retirement that benefit both the employer and the employee.

Lt. DeIorio reported on a section dealing with Local Plan Documents and updating plans that dealt with how many different areas of documents for coverage and to make sure everything was in place. He stated that he was happy to report that from everything he had read, the Town of Palm Beach was in compliance, including fiduciary liability insurance. Lt. DeIorio stated that when he had first come on the Board he had not had any idea of what the responsibilities were, and that he had discovered that there were a lot of fiduciary responsibilities, and he thought maybe the Board could get some information to other people who were looking to take this position in the future, and that this could be done among their own respective departments of what the responsibilities are. Lt. DeIorio thanked the Board Members for allowing him to attend the 16th Annual Police Officer and Firefighter Trustee's School.

Mr. Harvey thanked Lt. DeIorio for his report.

XIII. REPORT BY WILLIAM C. CROUSE, PERSONNEL DIRECTOR, ON DIFFERENT METHODS FOR AN EMPLOYEE COMMUNICATION PROGRAM REGARDING TOWN BENEFITS.

Mr. Crouse reported on methods for Employee Communication Programs regarding Town benefits, and distributed a brochure to the Board Members. He explained that page 1 showed how compensation and employee benefits could be communicated to employees, and four commonly used communication methods: meeting with employees in general meetings; developing a newsletter that covered benefit information and was distributed periodically; the use of commercial booklets that cover various areas of benefits that affect employees and employers; and a benefit statement which was, a personalized process of reporting benefits back to the employees.

Mr. Crouse then asked the Board Members to turn to page 2, Employee Meetings. He explained that these were no different than a classroom situation, in the sense that to be effective, it required careful planning and presentation, and they should be informative, concise and interesting. He explained that small groups were far more effective in a learning process, and big groups were effective when there was a great deal of general information. Mr. Crouse explained that the important information that should be conveyed to the employees through the meetings were compensation philosophy and practices, as he thought it was important for employees to understand their employer's philosophy. He explained that during the 17 years of his employment with the Town, the philosophy had been to offer a highly competitive pay that attracts and retains the best and most talented people in the field, and he thought that this was what the pay plan had done. Mr. Crouse stated that he thought it was representative in the kinds of people who were employed by the Town. Mr. Crouse explained that in order to make sure that this compensation goal was being met, the Personnel staff continually surveyed local markets to test the competitiveness of the pay plan, just as the Retirement Board did in measuring their investment progress with the money managers. Mr. Crouse explained that this was done through external competitiveness research, which was an annual salary survey. He stated that the 1995 survey had just been completed, and represented 24 municipal employers in Palm Beach and Broward County, covering over 29,800 employees, and accounting for budgets that were reported in an excess of $4.3 billion in operating budgets. Mr. Crouse explained that 103 benchmark positions had been surveyed, and from this information, extensive reports had been put together to measure the competitiveness in the Town's compensation plan.

Mr. Crouse then reported the internal equity. He explained that this was a process which measured the value of each position within the Town, so that the more complicated or responsible positions were paid more than those with less. Mr. Crouse explained that there were three methods for determining compensation. He explained that one was a general pay increase, which the Town Council evaluated at the beginning of each budget year, and provided some type of raise, either a lump sum or a percentage increase across the board to all employees, which simply recognized inflation. Mr. Crouse explained that the second was job performance pay increases. He explained that the Town of Palm Beach had a system of evaluating job performance and rewarding pay increases based upon the level of performance. He explained that it was unlike any other municipality in that it was a true pay for performance system that definitely fluctuated with levels of performance. Mr. Crouse stated that the third method was longevity, which was recognition for years of service. He explained that this was a procedure by which the Town, in a lump sum fashion and not tied in to the base pay, provided pay increase based upon years of service for each employee after they reached five years of continuous service.

Mr. Crouse then reported on communicating comprehensive employee benefits. He stated that he had asked a few employees how many benefits they thought they received, and the responses had ranged from "nothing" to "half a dozen". Mr. Crouse explained that the average had been about six. He reported that there were more than 31 benefits provided to employees. He explained that people obviously knew that they received medical insurance and a pension, but that they really didn't look at the finite degree of the Town's benefit program.

Mr. Crouse reported on employee benefit enhancements, explaining that the benefit package was constantly changing. He explained that some of the more recent enhancements were the PPO, the EPO, prescription card services, reduced retirement contributions, introduction of flexible spending accounts, dependent term life insurance, an increase in supplemental life insurance, expanded EAP services, vacation donation program, Wellness programs, expanded clinic services, and expanded educational assistance. He stated that it was important for employees to understand these, and that the employees were informed of these changes and enhancements.

Mr. Crouse explained that a Benefit Newsletter was not sent to employees at this time. He explained this would be a very inexpensive way of informing employees on a quarterly basis. Mr. Crouse stated that employees don't get the kind of reminders regarding benefits that they get regarding their pay, so it was something that they didn't really have information on as to the value of their benefits. He further explained that there were frequent law changes regarding benefits. Mr. Crouse explained that he had requested bids to have an outside printer do this type of newsletter, and it would run from $450.00 to have them printed, to about $150.00 to do it in-house.

Mr. Crouse explained that the Town's Personnel Department provided employee support and follow up, unlike other organizations who provide 800 numbers and other impersonal ways of handling questions. Mr. Crouse stated that the Town deals with their employees in a personal manner, explaining that the Personnel Department averaged over 1,500 specific requests per year.

Mr. Crouse explained that commercially available booklets were very limited in the sense that there were not a lot of things that were commercially produced. He explained that some examples were a Guide to Social Security and Medicare, and a General Guide to Deferred Savings Accounts.

Mr. Crouse then reported on a personalized benefit statement to each employee. He explained that it was the most potent and effective way of providing benefit information because it was personalized. He explained that this information would be addressed to each employee and mailed to their home address so their spouse could also read about the benefits. Mr. Crouse stated that printing these benefit booklets would cost approximately $40,000. He explained that he had also spoken to the Town's Information Systems Department, and they had indicated that this may be something that could be done internally, although it was a sophisticated and complicated programming issue.

Mr. Crouse stated that to summarize, he did not think there was any one specific way that an employer could take in producing and introducing its employees and keeping them informed, but that it should be a combination of techniques. He stated that he thought it would be very effective for the Town to consider some form of a personalized report done perhaps bi-annually for employees who have at least five years of service.

Mrs. Lane stated that she agreed there was a lack of education provided to employees regarding their benefits. She explained that many were unaware that their retirement benefits were far superior to many other municipalities in the State of Florida. She stated that she would like to see this information brought to small groups of employees, and she would be more than happy to participate in this. She further stated that it may be a very good idea to also inform them that they were very appreciated by the Town. Miss Lane stated that she thought presenting the benefits to the employees was a very good idea, and that she would like to see it done one to two times a year.

Mr. Harvey asked how many people were employed by the Town of Palm Beach. Mrs. Crozier stated that there were 355 full time employees, and a total of 368 including part-time. Mr. Harvey stated that the Town had probably grown to the size that an effective personnel policy meant that they were getting these benefits, but they didn't appreciate them as much because they didn't understand them and weren't aware of all of them. Mrs. Smith stated that it may be that it wasn't that they didn't appreciate the benefits, but that they just didn't know about them. Mr. Harvey agreed, and stated that the Town's communication was lacking, and if the information was communicated the employees may better realize the benefits they had.

Mr. Frick stated that he had come across this when he had presented the vote to Police Department employees, explaining that many of them had not even been aware of their basic retirement benefits.

Mr. Harvey asked if the expense to communicate this information to employees would come out of the Town's budget. Mr. Doney replied that they would have to because it would cover all benefits.

Mr. Harvey asked to what extent Mr. Crouse felt confident that it could be produced in-house. Mr. Crouse explained that it could be done in-house provided that the information required could be retrieved. He further explained that every one of the personalized benefit statements sent out would have a disclaimer indicating that this was by no means a precise number, but simply an estimate based upon some assumptions, as most actuarial reports did. He further stated that these actuarial assumptions would have to be known, but that 99% of the information was contained within the Town's computer system. He explained that it was a matter of pulling it out, calculating it, and printing it in booklet forms. Mr. Crouse explained that the software involved would be an expense, because they would want to do a good job. He further stated that this was something that would pay for itself in a matter of a few years.

Mrs. Smith asked if the risograph could produce this booklet, stating that she did not think an expensive looking brochure was as important as simply getting the information to the employees in a very clear, concise manner that was also easy to read and understand. She further stated that this could perhaps be started with the new employees as they came in. Mrs. Smith asked if there was any particular department that Mr. Crouse found was less informed than another. Mr. Frick explained that some of the younger employees weren't as concerned with their benefits, because they may not have the responsibilities of older employees, but as they grew older and started having families, they started having questions about their benefits. Mr. Crouse explained that he felt presenting benefits to the employees involved salesmanship. He stated that many employers have good benefit packages, but the Town didn't spend a lot of time selling how good the package was, and how valuable it was. He explained that it was just a matter of getting out there and selling this to the employees and reminding them that they do have this package, and that it is an extremely valuable package, and valuable in the sense that if they had to go out on the market and buy these kinds of things it would cost them their paycheck. Mr. Crouse stated that the idea was to remind people more than anything else, explaining that there really wasn't anything that wasn't included in a Personnel Manual or in something that had been provided to the employees. He explained that they simply don't read this information, so it needed to be presented in a way that got their attention.

Mrs. Smith stated that she thought people related to dollar figures, and if it was pointed out to employees that they were saving a certain amount of money, that would make more of an impression than using a percentage of their salary. Mr. Crouse explained that this was why the personalized benefit statement was such a profound way of doing it because it was that employee's name, that employee's benefits, and it would be costed to that individual. He stated that this could be an eye opener to employees.

Mr. Harvey asked if it was the feeling of the Retirement Board that this project should be done in-house. Mrs. Smith indicated that she would like to have it done in-house. Mr. Harvey asked if the Board wished to pursue some type of communication to employees regarding their benefits. The Board Members indicated that they would like to see this done. Mrs. Smith stated that the Retirement Board could make a recommendation to the Town Council that this be looked at as a part of the overall employee system. Mr. Harvey agreed, stating that the Retirement Board could send a message to the Town Council regarding the fact that the employees are less informed, and consequently, possibly less appreciative of their benefits, and that the Town may need to do a better job of communicating these benefits, and this could mean an expense to the Town. He stated that the Town's benefit to this was they may have happier employees, and the employees would have more of a realization of their fringe benefits. Mr. Harvey stated that he thought what this Board could do was to pass Mr. Crouse's work on to the appropriate Town Committee. Mr. Doney explained that this should be considered by the Finance and Taxation Committee.

Mr. Doney asked Mr. Crouse what the costs were to have an outside printer prepare the newsletters. Mr. Crouse explained that it would cost approximately $400.00 per month, which was doing a two-color format. He explained that to print the personalized employee benefit form, it was approximately $35,000 to $40,000. Mr. Doney asked if they would have to come in and gather all of the information. Mr. Crouse explained that they actually developed the programming and printed the books, and contoured it to the Town's desires. He explained that he had no idea what it would cost to do it in-house, but it would certainly be far less expensive than that.

Lt. DeIorio asked if the employee newsletter contained a benefit section. Mr. Crouse replied that it did not, explaining that the Newsletter Committee had wanted to do other things. He further stated that if anything was going to be done concerning benefit news, he would prefer to see it done separately so it could be very specific.

Mr. Harvey asked how often the employee newsletter was printed. Mr. Crouse explained that it was a bi-monthly publication done by an outside printer.

Mr. Harvey thanked Mr. Crouse for his efforts in presenting this information.

Lt. DeIorio moved that information regarding not only retirement benefits, but all employee benefits be communicated to Town employees by the Personnel Department in order to educate employees to the benefits they receive and the value of those benefits. Mrs. Kelly seconded the motion, and all voting aye, the motion carried.

Mr. Crouse asked the Board how they wanted this message forwarded to the Town Council. Mr. Harvey stated that he would like Mr. Crouse to give a presentation to the appropriate committee of the Town, explaining the communication deficiency in the employee benefits area, the method recommended to remedy the situation, and to request the resources needed to do that. Mr. Doney stated that this would have to be presented to the Finance and Taxation Committee.

XIV. ANY OTHER MATTERS

Lt. DeIorio explained that he had been asked by several employees of the Fire-Rescue Department whether or not a Duty Disability pension was a tax free pension for life. Mrs. Crozier replied that it was not tax free for life because it would convert to a regular pension. Lt. DeIorio stated that one individual had received information from the IRS that it was tax free for life.

Mr. Crouse asked to address the Board, and explained that he did not think any member of this Board should give tax advice in any way. He explained that he had looked into the situation, and that it was not a clear cut issue, such as Long Term Disability was. He explained that Long Term Disability was taxable for federal taxes and not for social security. Mr. Crouse explained that the disability pension was different because it was not taxable until the individual reached retirement, but it was not necessarily not taxable because it depended upon how the ordinance was written. He explained that if the ordinance was written such that it was based upon years of service, then the pension would be taxable. Mr. Crouse stated that a duty disability, because it excludes the provision of years of service, would be non-taxable. Mr. Crouse explained that there was no clear definition, so if it was a duty disability, it would not be taxable until it became a regular retirement, which means it is not non-taxable for life.

Mr. Harvey stated that it would seem that if an individual had any questions regarding this, the answer to give them would be to refer them to their accountant or lawyer. Mr. Crouse agreed.

Lt. DeIorio then asked if the cost of living adjustment that started on the 37th month of retirement would apply for a very young individual who went out on a duty disability retirement. Mr. Crouse replied that he did not know of any restrictions to the cost of living adjustment. He explained that the Board may wish to ask for an opinion from the attorney. Mr. McCracken stated that he would look into this, but he believed that Mr. Crouse was correct.

XV. ADJOURNMENT

There being no further business, Mrs. Smith moved adjournment of the meeting. Mr. Frick seconded the motion, and all voting aye, the motion carried. The meeting was adjourned at 11:30 a.m.

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FUTURE MEETINGS:

9:00 a.m., Friday, November 17, 1995
9:00 a.m., Friday, February 16, 1996
9:00 a.m., Friday, May 17, 1996
9:00 a.m., Friday, August 16, 1996
9:00 a.m., Friday, November 15, 1996