TOWN OF PALM BEACH RETIREMENT SYSTEM
BOARD OF TRUSTEES
MEETING OF APRIL 2, 2012

Town Council Chambers
360 South County Road
Palm Beach, Florida 33480
Monday, April 2, 2012, 9:00 a.m.

I. CALL TO ORDER AND ROLL CALL

The meeting of the Retirement Board was called to order by Attorney John Randolph at 9:00 am on Friday, April 2, 2012, in the Town Council Chambers. On roll call, Trustees Peter Elwell, Jayson French, Gerald Goldsmith, Mike Lynch, Brett Madison, Wilbur Ross, Raymond Snow, and James McC. Wearn were present. Alvin Parven was absent. Also in attendance were Pension Administrator William Hanes; Acting Human Resources Director Kennie Wells; Director of Finance Jane Struder; Risk Manager Karen Temme; and Wells Fargo representatives Sam Ellington and Sharleen O'Tool.

II. ELECTION OF OFFICERS

Mr. Randolph offered two options for the board to vote on the positions of chairman and secretary. He discussed that the board may choose to vote by ballot or by motion.

Mr. Wearn offered that he be considered for the position of secretary and stated he believed that all other board members are well qualified to run for the chairman position.

Mr. Wearn made the motion to use a ballot for the election of the chairman and secretary. Mr. Madison seconded the motion. The motion was unanimously approved by the board.

Ballots were distributed to the board members for the chairman and secretary positions, and included a list of all trustee names, except Mr. Elwell. Mr. Elwell clarified that his name will not be included on the ballot because he is serving ex officio as Town Manager in addition to serving as Trustee, and he does not think he should serve as chairman. Mr. Randolph suggested that both positions of chairman and secretary can be voted on at the same time. The votes were counted.

Mr. Snow was elected as chairman, receiving the highest number of votes for that position. Mr. Wearn was elected as secretary, receiving the highest number of votes for that position.

III. COMMENTS BY TRUSTEES

Chairman Snow requested the board allow one addition to the agenda, comments by trustees, and without objection he opened the floor for comments.

Mr. French stated for the record his view that the attorney serving on the board is in a conflict of interest since he also serves as town attorney. He stated that the attorneys for the Police Officer and Firefighter boards should be considered to create a check and balance.

Mr. Lynch inquired about the recent changes made regarding future employee contribution rates to be paid by Firefighters, Police Officers, and the General Employees to the new plan. Mr. Lynch also referenced unfinished business in regards to the Chapter 185 monies and how it is to be distributed. Mr. Lynch and Mr. Hanes discussed matters of the Chapter 185 unencumbered moneys accrued under applicable state laws. Mr. Elwell explained that the purpose of the meeting was to address business items of the board and its organization, and that he anticipated that these issues will be addressed either on or before the next quarterly meeting scheduled for May 18, 2012.

Several trustees expressed their appreciation to be able to serve on the newly created board of trustees.

Chairman Snow noted that there is an exceptional experience level with the trustees serving on the new retirement board.

Chairman Snow recognized the presence of Town Council member Bill Diamond. He noted that Mr. Diamond has made inquiries of the candidates for trustee at a Town Council meeting regarding the actuarial investment return assumption. Chairman Snow stated that he along with his colleagues on the board have indicated an interest in discussing the assumptions in the context of investment policy and economic conditions.

III. FIDUCIARY LIABILITY INSURANCE

A. Review of Applicable State Statute and Town Ordinance (John C. Randolph, Town Attorney)

Mr. Randolph provided information and reviewed the trustee's rights to indemnification. Mr. Ross inquired about the need to purchase fiduciary insurance, noting that the policy will be for the benefit of the Town and taxpayers. He recommended that the board purchase the fiduciary insurance to protect the town and taxpayers.

Mr. Wearn made the motion that the board maintain the primary fiduciary insurance coverage. Mr. Madison seconded the motion. The trustees unanimously adopted the motion.

B. Insurance Coverage for Retirement Board

Ms. Temme presented her memorandum dated March 29, 2012 regarding the fiduciary insurance and recommended that the board purchase the RLI insurance with a $10,000,000 limit and $150,000 deductable for an annual premium of $35,455. She provided three additional options for securing excess fiduciary insurance coverage. She discussed options of $15,000,000, $20,000,000, and $25,000,000 coverage.

Chairman Snow inquired with the trustees and Mr. Randolph about the potential for additional liability throughout the Town's consolidation period. Mr. Hanes discussed the assets held by each plan.

Mr. Wearn discussed that he had a brief conversation with Police board attorney, Mr. Stuart Kaufman regarding the matter of fiduciary insurance for the new board. He stated that he was advised that a transition is where liability is potentially heightened. Mr. Wearn stated that it is his thought that the board should take the $25,000,000 coverage for the first year, during transition, and then maybe reconsider in future years.

Mr. Elwell pointed out that over the long run it is expected that the board will be able to achieve efficiencies and economies of scale, but that over the shorter transitional period there may be examples where it does not, and maybe experience the opposite result in the early transitional period. He noted that the matter of first year's purchase of a fiduciary policy during a time with greater potential liability might be an example of where it does not.

Mr. Wearn made the motion to approve the option four recommendation for a one year premium with coverage of $25M at a premium cost of $69,980. Mr. French seconded the motion. The motion was unanimously adopted.

C. Tail Coverage for General Employee Retirement Board

Ms. Temme discussed the matter of tail coverage for the General Employees Retirement Board. She stated that the General Employees board at its last meeting deferred the matter of tail coverage to the new board. Ms. Temme's recommendation was for four years of discovery period tail coverage for a premium of $44,985.

Mr. Wearn noted that the Police Officer and Firefighter boards both selected a 5 year period and asked Mr. Randolph that with consideration of the statute of limitation of four years under tort and five years for contract claims, is there a concern or problem in securing fiduciary insurance coverage for a fifth year. Mr.

Randolph stated that it would not and that it would be wise to add the additional coverage.

Mr. Goldsmith inquired from which fund the fiduciary insurance for this policy will be paid. Mr. Elwell and Ms. Struder clarified that while the boards have been consolidated since Saturday, March 30, 2012, the funds have not yet been consolidated, and that there is still three separate funds and that the General board fund will be charged $49,985 for the tail coverage under this proposal.

Mr. Madison made a motion to secure the tail coverage for the General Employee Retirement Board for a period of five years at a premium of $49,985, and that it will be paid for out of the General Employees Retirement fund. Mr. Ross seconded the motion. The trustees unanimously adopted the motion.

Ms. Temme stated that the fiduciary liability policy will be bound as of that day. She stated that the General Employees board had purchased a fiduciary policy through May 1, 2012. Mr. Elwell explained that the other boards, Firefighter and Police Officer, had met in the month of March and decided to finish business to conclude at the end of the month. He discussed that it was anticipated that the board members serving the new board would pick up coverage as of today, or Monday, April 2, 2012, while serving the new board, and the fiduciary policy was purchased for the month of March only.

Mr. Sam Ellington, Wells Fargo, clarified that the Police Officer and Firefighter boards' chose coverage for their respective boards to begin on April 1, 2012 until May 1, 2012. Mr. Ellington discussed that the Police Officer and Firefighter retirement boards were covered beginning April 1, 2012 until May 1, 2012, and there is no gap in insurance coverage.

IV. RETIREMENT PLAN ADMINISTRATION

A. Organizational Structure

Mr. Elwell discussed with the board the basic organizational structure, administrative division of duties, and tasks that needed to be accomplished. He referred to a very detailed outline in the backup material provided the trustees with reference to the numerous tasks that will be achieved during the administration of the three funds and the personnel. He discussed that there is an appropriate level of duties allocated between finance, human resources and the contract administrator. He discussed that central to making the plan work well is the appointment of an administrator.

B. **Contract Administrator**

Mr. Elwell noted that Mr. William Hanes had done a tremendous job as administrator and has served the Police and Firefighter boards very well over the last four years. Mr. Elwell recommended retaining Mr. Hanes for the three funds and in service to this consolidated board as plan administrator at the rate of $150,000.00 annually, paid in monthly installments of $12,500, inclusive of his costs, with the exception of equipment items necessary to functions and mailing and postage to be paid in his administrative duties.

Mr French asked Mr. Hanes if he is in agreement with the contract. Mr. Hanes stated that he had reviewed and was in agreement.

Mr. Ross made the motion to approve the appointment of Mr. Hanes and to include the proposed contract. Mr. Wearn seconded the motion. A motion to amend the motion was made by Mr. Wearn to include an effective date to be entered for April 1, 2012; that the name "trustees" be changed to "board" at designated places; and to include language that all of the fund records and documents in the possession of the administrator are the property of the Town's Retirement Board.

Mr. Elwell noted that under the proposed contract for administrative services that "trustee" is defined at the outset of the document to mean "board of trustees." He discussed his concern that the particular language regarding the property and papers in possession of the administrator, that it should be reviewed by Mr. Hanes, Mr. Randolph and himself for particularity. Mr. Wearn expressed confusion in the definition when the contract refers to trustees as individuals, and discussed that he had provided to Mr. Randolph a draft. Mr. Elwell stated that as long as the Town attorney has reviewed and is satisfied with the language to do as it should to constitute a public record, then he supports the agreement. Mr. Goldsmith asked Mr. Hanes if he agreed with the changes. Mr. Hanes stated that he agreed to the changes.

Mr. Ross agreed to the amendment, and the trustees unanimously approved the motion with amendment.

C. **Board Approval of Signatories**

i. **Signature Authorization Form Approval and Execution**

Mr. Hanes discussed matters of movement of plan assets and the need for authorization documents to be executed. He stated that he and the consultants have contacted the investment managers and custodian regarding a form that will be used to authorize transactions. He presented to the trustees the proposed authorization form for and requested trustee signatures. He explained that the form provides that it will require two signatures, countersignatures of a trustee and other designated staff level personnel, for authorizing individual transactions.

ii. **Authorization for Town Manager and Finance Director to Countersign Wells Fargo Transactions.**

Mr. Hanes discussed matters of other transactions with Wells Fargo regarding the local retirement accounts, and the need for payment of invoices and retiree payroll that will require similar authorization. Mr. Hanes suggested that the town continue to process service provider invoices and retiree benefit payments as it has previously, but with Town staff level countersignatures required.

Mr. Ross made a motion that for all Wells Fargo transactions two signatures be required for authorization, and that there never be countersignatures of two of the same department level of officials. Mr. Lynch seconded the motion. The trustees unanimously adopted the motion.

V. PLANNING FOR CONSOLIDATION OF SERVICE PROVIDERS

Mr. Hanes discussed the memorandum regarding the consolidation of service providers, and noted that individual service providers that are currently engaged to work for the separate boards will continue their work for the new board until such time that the board chooses to consolidate specific services with one service provider, and prior to October 1, 2012. He discussed that the board will continue to use the services of the investment consultant, custodian and managers for the three funds until the funds are merged. He discussed that the staff is proposing that an RFP be issued for a consultant, and described matters of modeling and selection of asset allocation will occur afterward. He noted that the board will oversee matters of the Town's 457, new 401(a) account and the Health Savings Account.

Mr. Ross asked if there would be a fee to the Board or the town for taking over the financial accounting services. Mr. Elwell explained that it is a point that should be discussed by this board at some point, but that there has not been an adjustment to the budget and there will not be a charge for this additional service in the current year, but that he anticipates that there will be a cost beginning in the following year.

Mr. Ross asked about actuarial services. Mr. Elwell discussed that the actuarial services have been provided by GRS for decades and that he did not believe change will be a high priority at this time.

Mr. Ross asked Mr. Elwell if he is confident that the Town has the capability at this time. Mr. Elwell answered in the affirmative.

Mr. Madison noted that the boards had not been responsible for the various defined contribution plans in the past, and wondered why the board would need to do it now.

Ms. Struder discussed that there needs to be some fiduciary responsibility for the overseeing of the funds. She stated that up to this time it has been located at the Human Resource Department. She stated that the feeling is that to ensure that the employees are protected, it seemed better that a board should review the assets instead of the HR department, including adding funds or deleting funds available where appropriate or inquiring from ICMA on matters of interest to the membership through regular presentations to the board.

Mr. Elwell discussed that it is important that the investment consultant assist the board in the work, and will not modify in any way the ability of the employees to make choices, but provides a more complete and public oversight in the array of choices offered to the public employees as well as identify other administrative issues and educational events. He discussed that there is certain fiduciary responsibility regarding the education the employee receives regarding choices, and to the extent that pubic employees are able to make the choices is of particular importance.

Mr. Ross asked how ICMA was selected as administrator of the new 401(a) process. Mr. Elwell discussed that the firm had been selected through an open process. He stated that a selection committee was appointed and made the recommendation to Town Council for the hiring of ICMA, and that the Town Council appointed ICMA.

Mr. Goldsmith asked about the responsibility for the investment choice. Mr. Elwell answered that it is the individual who is responsible for his or her choice of investment, but it is the Town's responsibility to provide the menu of options. He stated that there is ongoing training provided by ICMA to Town employees in preparation for the changes that will be made on May 1, 2012.

Chairman Snow noted that he was on the evaluation committee and that the board will provide a place for the employee to address concerns about the delivery of service by ICMA. Mr. Elwell assured the trustees that the board does not assume responsibility for selection of investments.

Mr. Ross suggested that ICMA should report to the board on a quarterly basis. Mr. Wearn stated that he understood the consultant will have oversight responsibility over ICMA and agreed that ICMA should report to the board on a quarterly basis. Mr. Hanes stated that he will arrange for an ICMA representative to attend the May 18, 2012 meeting. Mr. Elwell stated that the board can make the decision at a later date on the issue of whether or not it is desirable to have a consultant to monitor ICMA.

Mr. Ross made the motion to authorize issuance of an RFP for the services of an investment consultant that will be presented to the board for approval at the May 18, 2012 meeting. The motion was seconded by Mr. Goldsmith. The trustees unanimously approved the motion.

VI. MEETING SCHEDULE

A. May 18, 2012

B. August 17, 2012

C. November 16, 2012

D. February 15, 2013

VII. ANY OTHER MATTERS

Mr. Elwell provided a lengthy discussion to address Mr. Lynch's concerns regarding the change in employee contribution rates, and how the percentages were determined. Mr. Goldsmith noted that the business of the individual requirements of the plan is between the Town Manager, Town Council, and the employee groups. He stated that the business of this board is to manage the financial aspects of the plan as well as funding of the accounts.

VIII. ADJOURNMENT

Mr. Ross made the motion to adjourn. Mr. Madison seconded the motion. The trustees unanimously approved the motion. The board adjourned at 10:43 am.

Respectfully Submitted,

James Wearn, Secretary
Town of Palm Beach
Retirement Board