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TOWN OF PALM BEACH
MINUTES OF RETIREMENT BOARD MEETING
February 21, 1997

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, February 21, 1997 in the Town Hall Council Chambers. Attending were: Chairman Robert Harvey, Vice-Chairman James McCartney Wearn, Trustees George Frick, John DeIorio, Karen Lane, Charlie Boggs, Town Manager Robert J. Doney, Mayor Paul Ilyinsky, and Council President Lesly Smith. Also in attendance were Personnel Director William C. Crouse, Personnel Analyst Carla S. Kneipp, Acting Finance Director Cheryl A. Somers, and Attorney John McCracken.

II. REPORT ON RE-APPOINTMENT OF JAMES MCCARTNEY WEARN TO THE RETIREMENT BOARD OF TRUSTEES.

Mr. Crouse reported that on February 11, 1997, the Town Council re-appointed James McCartney Wearn to serve another three year term on the Town of Palm Beach Employees Retirement System Board of Trustees. He explained that this three year term would expire February 11, 2000.

Mr. Harvey stated that he was happy that Mr. Wearn had been re-appointed.

III. ANNUAL ELECTION OF CHAIRMAN, VICE-CHAIRMAN AND SECRETARY.

Mr. Harvey called for nominations for Chairman. Nomination of Robert Harvey to serve as Chairman was made by Mr. Wearn and seconded by Mr. Frick. Mr. Harvey called for further nominations and there were none. Mr. Wearn moved to close the nominations and elect by acclamation Mr. Harvey as Chairman. Mr. Boggs seconded the motion. The motion carried unanimously.

Mr. Harvey then called for nominations for Vice-Chairman. A blanket motion was made by

Mr. Frick for those individuals serving as Vice Chairman and Secretary to continue to serve in those roles. Ms. Lane seconded the motion, and the motion carried unanimously.

IV. APPROVAL OF AGENDA

Mr. Harvey asked for any additions or changes to the Agenda. Mr. Crouse explained that the Final Agenda distributed to the Board Members included a change to item XII, Disability Retirement Applications, explaining that the application for disability retirement for Lewis Boyd had been moved to Item XIII, Retirement Applications.

Mr. Wearn moved approval of the Final Agenda of February 21, 1997. Mr. Frick seconded the motion. The motion carried unanimously.

V. APPROVAL OF MINUTES - REGULAR MEETING OF NOVEMBER 15, 1996.

Mr. Harvey asked for changes or corrections to the minutes of the regular meeting of November 15, 1996.

There being no changes or corrections, Mr. Boggs moved approval of the minutes of the regular meeting of November 15, 1996. Mr. Frick seconded the motion, and all voting aye, the motion carried.

VI. DISCUSSION OF FIDUCIARY LIABILITY POLICY EXPIRATION DATE.

Mr. Crouse explained that at the November 15, 1996 meeting, the Risk Manager Barbara Martinuzzi had brought before the Board the new Fiduciary Liability Policy. He explained that at that time, she had noted the close proximity of the renewal date and the Retirement Board meeting, and suggested that the Board consider changing the date of the November meeting in order to consider renewal of the Fiduciary Liability Policy before its expiration date. Mr. Crouse explained that Mr. Wearn had suggested that the renewal date be extended to December 1st, and Ms. Martinuzzi had indicated that she would look into the cost of extending the renewal date.

Ms. Martinuzzi appeared before the Board explaining that she had researched extending the renewal date for the Fiduciary Liability policy; however, the insurance company had indicated that they would not accommodate the Town at no charge, but would charge an additional premium of $2,805.00. Ms. Martinuzzi stated that if an additional premium was required to extend 1997's expiration date, the Board should wait until the end of the policy year to do this.

Mr. Wearn stated that based upon the approval for the authorization for the pro-rata premium for extension of the policy date, the Board should accept the recommendation of Ms. Martinuzzi and give her the authority to incur the expense when needed according to the timing that would be necessary to have the gap period covered. Mr. Wearn further suggested that in the interim, the Town ask the insurance company to reconsider the additional premium necessary to extend the expiration date.

Ms. Martinuzzi stated that it would be her recommendation that, as the end of the policy term approached and she was in negotiations with the insurance company, to negotiate a three or four day extension at no charge, which would allow her to present the renewal to the Board at their regularly scheduled meeting.

Mr. Wearn moved approval of Ms. Martinuzzi's recommendation to negotiate an extension of the liability policy at no charge. Mr. Frick seconded the motion, and all voting aye, the motion carried.

VII. APPROVAL OF REVISED STATEMENT OF INVESTMENT POLICY

Carl Deane of Callan and Associates appeared before the Board to address changes to the Investment Policy. Mr. Deane explained that in the past there had been a requirement that the managers perform in the top one third of the balanced public fund universe, and that this was unrealistic given the fact that they could not hold as many equities as a typical balanced plan. Mr. Deane recommended that the Town create a target for the managers of 40% S & P 500 and 60% Lehman Brothers to exceed a blend of those indexes, net fees, over a moving five year period of time. Mr. Deane stated that this was a little more realistic, and stated that his firm wholeheartedly endorsed the recommended change.

Mr. Wearn asked if the investment managers had seen the amended language. Mr. Deane stated that he did not know if the managers had reviewed the suggested change, but that some of the managers had been in attendance at the meeting when this subject had been discussed. Mr. Wearn asked if there was any difference between the words "a moving five year period" and "a five year moving period". Mr. Deane explained that there was no difference. Mr. Wearn suggested that the wording be consistent throughout the policy.

Mr. Frick moved approval of the revised Statement of Investment Policy, including Mr. Wearn's suggestion of consistent wording. Mr. DeIorio seconded the motion, and all voting aye, the motion carried.

Mr. Deane then reported on the rebalancing of assets on a semi-annual basis. He recommended a change to the investment policy, explaining that in discussing the year-end report and how the asset classes were structured at the end of the year, there was a possibility that manager's would be required to sell a significant amount of stock if they followed the letter of the policy. Mr. Deane explained that the Town wanted a policy that forced rebalancing, but the policy should avoid having unnecessary costs incurred with buying and selling when the managers were not very far out of balance. He explained that the recommendation would be to require a 40% stock exposure and 60% fixed income. Mr. Deane recommended that when the rebalancing is done, the asset classes be given between stocks and bonds for the total portfolio plus or minus 3%. He explained that once managers get 3% out of range, they would be required to sell in order to rebalance back to 40%. He explained that the T-Bond portfolio would be handled the same way. Mr. Deane explained that the Town should not want rebalancing to occur automatically at 40% because of the additional costs that would be incurred. He further stated that he would suggest this procedure for total assets as well.

Mr. Wearn stated that this appeared to be a significant change in the policy because the policy had always been that stocks would never exceed a 40% level, and this change would allow the managers to go to 43%. Mr. Deane stated that the alternative could result in additional costs.

Mr. Doney stated that no portion of the Town Charter or Code would be affected, and stated that one of the items contained within the investment policy required each investment manager to acknowledge in writing the receipt of the Statement of Investment Policy and acceptance of its terms. Mr. Doney stated that it would be helpful, since the investment managers were in attendance, to address this now so there would be a common understanding. Mr. Doney further stated that the change recommended by Mr. Deane was a significant change; however, it was one that each investment manager should clearly understand and one with which the Town should be comfortable.

Mr. Deane stated that while there was an increased risk in the total exposure moving from 40% to 43%, it was relatively insignificant and would not have much of an impact on the risk posture of the plan. Mr. Harvey stated that the reason this came up was that one of the managers was presently high in equities.

Ed Vroom of Roanoke Asset Management appeared before the Council explaining that the rise in equities up to 48% was temporary and not unusual, given the kind of equity portfolio they had.

Ms. Lane stated that the Board had to take into consideration the inflation of the market. She stated that the market had been bullish for the last two years, and the percentage could quickly jump up within a day, which could require more frequent rebalancing. She suggested that the Town require 40% in equities, but have an additional 3% cap which would give the managers room to avoid additional service costs.

Mr. Frick stated that he agreed with Mr. Wearn, explaining that if the managers were given 43%, they would take full advantage of that additional 3% and not contemplate rebalancing if the portfolio was at 42%. Mr. Harvey asked for additional comments and alternatives, such as requiring the managers to be back in line by the end of the quarter.

Mr. Deane stated that in December, 1996, the Board had reviewed the balance of the different managers, and some had been out of balance. He explained that according to the way the policy presently was written, the Town should have told the managers to sell $20,000 worth of stock. Mr. Harvey stated that the concern of the Board was that the Town had a policy of 40%, and when it was discovered that one of the manager's was at 48%, they were in violation of the policy. Mr. Harvey explained that the 8% beyond the 40% cap was significant, and one which required the manager to come back in line. Mr. Harvey stated that this was not a commission cost issue. Mr. Deane pointed out that doing this was costly and not necessary. Mr. Harvey disagreed on the overall costs when dealing with $80,000,000 and dealing with policy and fiduciary risk. Mr. Harvey stated that the Town had laid out a policy and the Board was trying to figure out a way to monitor the policy while maintaining a reasonable policy. Mr. Harvey stated that he had a problem with the 3% plus or minus the 40% balance, explaining that the manager may perceive that to be a 37% limit. He explained that this was the argument for creating the mechanism that required the manager's to stay at 40%. Mr. Harvey pointed out that there was the problem of the volatility of the market; however, part of the mechanism was to try to lay down policies and guidelines that would work for the managers.

Mr. Boggs stated that he liked Mr. Deane's proposal, stating that the managers were paid by the Town to manage the plans, and they should be given a little more flexibility than they presently had. He stated that in times of a bull market, the managers should have the ability to go to 43%, and if the market changed, to go down to 37%, which would give the managers more flexibility and capability to manage the plans.

Mr. Harvey stated that he agreed that managers should have flexibility; however, they should not be allowed to purchase additional stocks after achieving 40%, but could be allowed to be taken to 43% by the market. Mr. Wearn agreed with Mr. Harvey. He stated that it was a question of enforcement whether or not to exceed 40%, and would like to have that aspect clarified. Mr. Wearn stated that he would not want to make such a significant change at this time, but suggested that the Chairman meet with the Plan Administrator to develop appropriate language, which could be considered for implementation at the next meeting.

Mr. Doney suggested that it would be helpful to hear from the investment managers that were in attendance. Mr. Harvey explained that the two issues the Board was discussing were the flexibility to initiate more purchases when the portfolio hit certain levels, and whether the portfolios should be reviewed on a monthly or quarterly basis. Mr. Deane stated that his recommendation was for the portfolios to be reviewed twice a year. He explained that if the Town established a 3% plus or minus, it could be for any time in the quarter. Mr. Harvey stated that a 40% maximum would be initiated for a purchase, but in reality, there would be a 3% latitude in terms of the market to take the portfolio to 43%. Mr. Harvey added that when the managers received their monthly statements and perceived that their account was up to 43% in equities, that would trigger them to rebalance back to 40%.

Mr. Vroom stated that given the nature of the equity portfolio, the more flexibility, the better. He explained that from the point of rebalancing expenses, he would be taking small positions out of each holding if he was rebalancing down. He stated that given the nature of the movements, he could be forced to do that three times in six months, so if there was some flexibility with the 3% , the account would be more manageable.

Peter Van Beuren of Loomis Sayles and Company appeared before the Board stating that the managers would like and need flexibility in their allocation ranges. He explained that there were high and low points in the accounts and he would prefer the flexibility. Mr. Van Beuren stated that 3% was a workable figure.

Mr. Wearn suggested that Chairman Harvey work with the Plan Administrator to develop language for this significant change, and bring the proposed language back to the Board for their consideration at their next meeting. Mr. Deane stated that he would draft a proposal for this change, and would contact Mr. Harvey to discuss the recommended wording.

Mr. Boggs asked if the present policy required the investment managers to rebalance on a monthly basis. Mr. Harvey explained that the policy required investment managers to rebalance on a monthly basis per the guidelines, but that rebalancing between portfolio managers would be done on a semi-annual basis.

Mr. Wearn then moved that the first sentence under "Rebalancing Policy" be revised to read " . . . rebalanced semi-annually (February and (August) to best maintain. . ." Mr. Frick seconded the motion, and all voting aye, the motion carried.

IX. ANNUAL ACTUARIAL VALUATION

Mr. Crouse explained that earlier in the week, the Personnel Department had been notified that there had been an error in the computer reports that had been supplied to the actuary for preparation of the Actuarial Valuation Report. He explained that the computer problem had been solved and the correct information had been supplied to the actuary; however, because of this, the finalized actuarial report would not be ready for another week to ten days. Mr. Crouse explained that once the report was received, it would be forwarded to the State, as there was a deadline for submission to the State, and that the final actuarial report would be submitted to the Board at the next meeting.

Denise Jones of Gabriel, Roeder and Smith appeared before the Board and explained that the preliminary results of the report indicated that the experience had been good this year, and as a result, the rate could possibly come down.

VIII. QUARTERLY REPORTS

A. Callan Associates, Inc.

Mr. Deane explained that he wanted to inform the Board that ANB had been acquired by Chicago NBD, and there were some changes occurring in that firm at this time. Mr. Deane stated that he was not recommending any action at this point, and that he would keep an eye on this account on a daily basis. He explained that if there were any personnel changes that occurred, he would let the Town know immediately and would offer a recommendation as to whether or not the Town should continue with this manager. Mr. Deane stated that ANB had been a very good index manager and there was no reason to make any changes unless he was to see something that would change the firm. Mr. Harvey asked if there was any reason to think that NBD would not continue tracking the index. Mr. Deane explained that ANB has one of the lowest tracking errors of the firms available, and that had been a key element in choosing that firm. He explained that he did not foresee any problems, especially if the two portfolio managers currently running the portfolio did not leave the firm. He stated that he was not as familiar with NBD and did not know their intentions.

Mr. Deane then referred to his quarterly report and explained that domestic equities had the best performance over the quarter, with a return of 22%. He stated that the S & P 500 had the best return in a strange market. He explained that it was a very selective market and that was why the S & P 500 did so well. Mr. Deane explained that most of the investment managers did not have the average capitalization that the S & P had. He further explained that growth stocks were out of favor the last quarter, which did not help Roanoke in this environment. He explained that the type that did well in this environment were the yield and value stocks. Mr. Deane explained that fixed income rates began to drop and the longer term bonds out-performed the index. Mr. Deane explained that at the end of the year, the Town had 52% in fixed income and 39% in equities, which was on track with the asset mix. He further stated that the asset distribution among the managers indicated that the structure was much as the Town wanted.

Mr. Deane explained that the Town was looking for their managers to be as close to their cap as they could be, and that the managers were on target. He stated that the target asset mix for Loomis Sayles was 40% of the S & P and 60% of the bond index. He explained that he was not overly concerned with where Loomis and Roanoke ranked on the total bar chart because the typical public fund had more equities than the Town's fund. He stated that this resulted in a range of returns that would be higher than the Town's, particularly in a rising market. Mr. Deane explained that what was important was how the managers were doing compared to the Town's target because the target indicated the kind of return the Town could get if 40% was put in the S & P and 60% was put into the bond index. Mr. Deane explained that for the last year, Loomis did not quite match the target, but the target ranked in the 99th percentile of the universe, which was a sign of the impact the asset allocation really had on the Town's performance relative to other public funds. Mr. Deane stated that the investment managers had slightly under performed, but for the last ten years, they were slightly ahead of their market.

Mr. Deane stated that Roanoke was holding approximately 10% in cash at this point, but he did not know whether or not this was because of a transfer because of rebalancing. Mr. Deane explained that it was evident that Roanoke had a tough year, but the environment indicated that small cap growth equity managers had negative returns in the last quarter, which was consistent with their strategy.

Mr. Deane reported on the T-bond account and stated that it was running close to the Lehman Brothers intermediate index. He stated that this was performing as it should.

Mr. Deane stated that the Board should be looking at the target that was created for the managers, and that the whole fund, in total, was not that far off the market. He stated that the Board should be pleased that when one manager had a disastrous year, the Town could still be close to that target. Mr. Deane stated that the Board should be satisfied with the overall results, but should be concerned with Roanoke's position at this point. He explained that the total objective was to exceed the 40/60, and if it changed to exceed a 40/60 blend, the target had a greater return over the last five years, exceeding the target over 200 points.

Mr. Wearn complimented Mr. Deane on the analysis of the target, stating that it was very helpful. Mr. Harvey stated that he was pleased overall, and explained that he was aware of what Mr. Vroom was trying to do with the fund.

B. Roanoke Asset Management

Mr. Vroom appeared before the Board to assure them that his firm took their experience of the last quarter very seriously. He explained that the portfolio totaled $21,547,386, and that the cash that had developed in the portfolio had been the result of some selective equity sales on the last day of the year. He explained that a portion of the cash had already been put to work and that more would be put to work by the end of the quarter. He reported that the equity returns showed that Roanoke's percentile remained excellent.

Mr. Vroom then stated that there had been a negative environment in 1996, where large had outperformed small capped stocks, and value had outperformed growth. He stated that 80% of the returns were generated by companies that had a market cap size of 11 billion to 180 billion, and this was not a market that Roanoke participated in as they were more involved in mid-sized markets. Mr. Vroom stated that Roanoke experienced a phenomenon, particularly in the fourth quarter, where momentum investors that typically look at the price direction of stocks had some significant impact on the kinds of companies the firm generally invests in, where companies that were reporting very good earnings in the quarter, but not exceeding the estimates, were greeted in the marketplace by significant drops in stock. Mr. Vroom explained that Roanoke had 18 stocks in the quarter that had declined 10% or more without any fundamental change in the earnings or revenue outlooks for the companies. He stated that some investors were expecting them to exceed even the good and outstanding results they achieved, and when they did not exceed those numbers, these stocks had been sold. Mr. Vroom stated that he did not think that this phenomenon would continue, stating that at some point an evaluation perimeter takes over. He stated that Roanoke had a portfolio that was hurt by companies that were continuing to achieve good results. He explained that there had been four stocks in the portfolio that were disappointing and were greeted by significant declines in the marketplace, and that those stocks had been sold out of the portfolio.

Mr. Vroom then reviewed the fixed income portion, stating that they tended to have a shorter term maturity profile, and in the last year had lagged behind the Lehman Brothers.

Mr. Vroom then reviewed the economic outlook and investment environment, stating that Roanoke felt that 1997 would be a more moderate year as far as growth in the economy. He explained that unemployment rates remained low, and the inflation matrix looked like it was starting to decline again. He stated that this trend could have some positive indications for the bond market as the Federal Reserve looks at a situation where interest rates relative to inflation are very wide. Mr. Vroom stated that the growth profile of Roanoke's stocks would look much more attractive compared to the overall market, and that Roanoke looks at the correction in small caps as simply extending the cycle for small cap. Mr. Vroom explained that the underlying fundamentals of this group remain very strong, and there were a number of key investment trends going on, and globally, this had good indications for the smaller and mid-sized companies that Roanoke invests in. He stated that the key risk to the market at this point was the perception of inflation and economic growth, explaining that if the pace of economic growth maintained at a relatively moderate pace, with inflation under control, the valuation level of the overall market was not out of line with where they had been historically.

Mr. Vroom then reviewed the stock selection process and equity strategy. He stated that the portfolio remained to be invested in the fastest growing economic sectors that could be found, and that nothing had changed in the outlook for health care, telecommunications, and technology. Mr. Vroom stated that there should be an acceleration in the pace of growth in the telecommunications area due to deregulation. Mr. Vroom stated that analysis of the portfolio showed no fundamental changes in the companies that Roanoke invested in, and they felt the outlook remained as robust as it did at the beginning of the previous year. Mr. Vroom explained that the Town's growth rate for this portfolio for the coming year was 28%. Mr. Vroom explained that there was a suspicion that interest rates may come down in the next six months, and Roanoke's inclination would be to invest the portfolio over a longer term profile. He stated that Roanoke remained very optimistic and expected the numbers to improve.

D. Loomis, Sayles and Company

Mr. Van Beuren stated that in 1997, the Town had assigned Loomis Sayles the primary objective of investing funds and maximizing the total return to an income plus a realized or unrealized capital gains consistent with the preservation of capital. He explained that as a balanced fund manager, Loomis was expected to exceed the Consumer Price Index and the actuarial assumption rate of return over a five year period. Mr. Van Beuren explained that Loomis' Detroit office managed the Town's assets and managed them in a value discipline which was different than Roanoke's concept of management in that they were looking for a higher return of capital and rapid growth of earnings. He explained that value managers look for a meaningful discount to the S & P and try to broadly diversify the portfolio and look for fundamental trends that are not recognized by the market.

Mr. Van Beuren explained that when looking at the shorter term rates, they had declined, but over the course of the last twelve months, the yields had increased considerably. He explained that this made it difficult for fixed income managers. Mr. Van Beuren explained that the returns showed that the last two years had been significant for financial assets, and in the case of the S & P, there had been a 60% advance. He stated that performance in 1996 was good for large cap stocks, and the S & P was up 23%, which was more than anticipated. He stated that Loomis was pleased to finish the year ahead of the overall market.

Mr. Van Beuren explained that one of the principle reasons the numbers had been so good was because of an emphasis on financial stocks, which combined low valuation with improving fundaments. He stated that as valutaions had risen, Loomis was forced to look elsewhere in the market for undervalued opportuniites. He stated that by the end of 1996, energy had replaced finance as their sector of relative emphasis, with the adiditon of oil stocks. Mr. Vane Beuren stated that while the absolute levels of market values had risen, they had maintained a portfolio selling at a discount, a value type of criteria. He stated that in the past, Loomis had enjoyed their best relative results in more subdued market environments, and he expected that this would be the case in the future as well.

Mr. Van Beuren then reported that the fixed income side of the portfolio had slightly underperformed; however, they were basically matching the banchmark at this point, as Mr. Deane had mentioned earlier.

Mr. Van Beuern explained that in the overall summary of the account, it was noted that Loomis had a 39% allocation to equities and a slight amount of cash at the end of the year. He explained that in equity characteristics, Loomis was lower than the S & P index as far as PE was concerned. He stated that the projected outlook in earnings was significantly better than what was projected for the S & P. He further stated that fixed income duration was slightly longer than the market, which had hurt in the first half of the year, but helped in the second half of the year. He stated that the first part of the year was measured by the thirty year treasury bond, and actually had a decline of plus 9% on a total return basis. Mr. Van Beuren explained that in the first part of the year, investors had been looking for a strong economic growth in the United States, which had a negative effect on bonds, as did the mixed news on inflation, the balanced budget issue, and fears of a Federal Reserve rate rise. He stated that the only positive sign in the first part of the year was the very strong foreign investing. He explained that in the second half of the year, which was measaured by the thirty year treasury bond, the market was up approximately 8.75%. He stated that the same issues during the second half of the year reversed, in that growth in the economy was not considered as strong and that inflation did not seem to be as big a problem.

Mr. Van Beuren stated that the industry should see a reasonably good year, possibly coming back to the norm for returns for equities, which was somewhere around a 10% return. He stated that this would be a workable year for financial assets, and that a reasonable return would be received on bonds and stocks.

Mr. Boggs stated that Roanoke was at 34% in equities, and Loomis at 39%, and he had thought these would be higher. Mr. Van Beuren stated that investments are rotated and changed, and that the 38.8% would have helped improve the results. He stated that the managers would continue to rotate.

C. First Union Bank

Sandra Fleming of First Union Bank appeared before the Board stating that her report included a one to ten year laddered portfolio chart. She explained that this account was not actively managed, but was more a buy and hold strategy. Ms. Fleming stated that the bond maturities were a little low in 1997, as January 31, 1997, was the cut off point. She explained that the average weighted maturity was 5.17 years, the average weighted coupon was 7.02%, and the average weighted yield to marurity was 6.01%. She further explained that while the performance was not really pertinent to this porfolio, the one year performance bonds were a little below the Lehman Brothers; however, the three year performance was fine. Ms. Fleming explained that the portfolio had grown in the last five years.

Mr. Boggs asked for clarification on a temporary investment. Ms. Fleming explained that these referred to actual investments on a per date basis.

Mr. Harvey thanked the managers for their thorough reports.

X. PROGRESS REPORTS REGARDING PROPOSED CHANGES

A. Increased Accrual Rate.
B. Increased duty and non-duty disability pension amount.

Mr. DeIorio stated that approximately one year ago, he had submitted a proposal to investigate increasing the multiplier in calculating the pension after 25 years of service. He explained that presently, public safety employees received 3% for each year of service up to 25 years of service, when it then dropped to 2%. He explained that there had been several questions from senior members regarding this, and that some Town Council members had expressed concern that the Town could lose some senior experienced people earlier than they would like, particularly in the administrative positions. Mr. DeIorio further stated that some senior tenured personnel felt they were being penalized for staying longer than 25 years, and they had asked him to explore increasing the accrual rate to 3% so the multiplier would remain at that figure and not drop.

Mr. DeIorio reported that the second proposal dealt with a possible oversight regarding the duty related disability pension. He explained that at this time, it was calculated at a minimum of 52.5%, which had been established when the Town's accrual rate for each year of service was 2.5%. Mr. DeIorio explained that since the Town now had a 3% accrual rate for the first 25 years of service, to be consistent, it would be appropriate to increase the duty disability pension to a minimum of 60%.

Ms. Jones explained that the Board's packet of information contained a supplemental actuarial report dated June 10, 1996, which addressed the costs for this change. Mr. DeIorio stated that the proposal affected public safety employees as well as general employees. Ms. Jones explained that the proposals had not been valued in combination, but the individual request had been summarized in the Febaruary 10, 1997 report. She explained that if the multiplier after 30 years of service was increased to 2.4%, the increase in the contribution rate for general employees would be .77%; and if the multiplier for public safety employees was increased to 3% after 25 years, the increase in contributions would be .24% for police employees, .37% for fire-rescue employees, and .57% of payroll for lifeguard employees.

Ms. Jones reported that the increase in duty and non-duty disability pension amounts resulted in a de minimus increase for general employees because their duty disability incidents tended to be very low, but for police employees, the increase would be .19% of payroll, .17% for fire-rescue employees, and .19% for lifeguard employees. Mr. DeIorio and Mr. Frick stated that their employee groups would like to have the Town pick up the costs of the increase to duty disability pensions, but would like to delay the decision on the increased accrual rates until discussion of a possible DROP plan.

Mr. Doney explained that discussion of any changes that would result in costs to the Town would need to be forwarded to the Finance and Taxation Committee during budget discussions, and would then be forwarded to the Town Council for consideration. He explained that a review of other retirement systems and where the Town stood comparatively would be helpful in putting these requests in perspective. He stated that the Town Council would also take into consideration the changes that had been implemented last year, as well as the dollor implications of those changes and the new proposed changes. Mr. Doney explained that the Town Council would ask him how these changes would affect the Town's ability to continue to attract and retain high quality employees.

Mr. Crouse explained that he had not performed an anlysis of the proposed increased accrual rate, because it had been his understanding that the employees would pick up this cost. He explained that if the cost was to be picked up by the Town, he would do an analysis to see how the Town compared to other plans. Mr. Crouse explained that at the last Board meeting, he had presented an analysis of other plans in reference to an increased duty disability pension amount, but that there had been no set standard that indicated a competitive figure. Mr. Crouse stated that 60% was not out of line with the market, and the rationale for changing the 2.5% accrual rate to 3% made sense. He further stated that the cost was so low it did not seem to be a major issue.

Mr. DeIorio moved that the recommendation to increase the duty disability pension amount from 52.5% to 60% of the average final compensation be approved andd forwarded to the proper committee of the Town Council for their consideration. Mr. Frick seconded the motion, and all voting aye, the motion carried.

Mr. Crouse explained that another issue with disability pensions concerned the Town's ability to bring these employees back to work at a reasonable pay grade. He explained that some of these individuals could still work, but not as firefighters or police officers, and it would behoove the Town to re-word the ordinance so these individuals could be offered jobs of similar pay grades. Mr. DeIorio asked if the Town had the latitude to do that at the present time. Mr. Crouse replied that the Town was prevented from doing this by ordinance.

Mr. Wearn moved that Mr. Crouse and the Board Attorney prepare language for an amended ordinance that would allow the Town to bring duty-disability retirants back to work, and that the proposed language be considered by the Board at their next meeting. Mr. Boggs seconded the motion, and all voting aye, the motion carried.

Mr. Doney asked Mr. Crouse if he had additional comments regarding the proposed increased accrual rates. Mr. Crouse stated that there were several issues that should be taken into consideration, such as the IRS Section 415 and the proposed DROP Plan. Ms. Jones explained that there were now dollar maximums that retirement systems must comply with under IRS rules. She explained that for 1997, the police and fire groups had a maximum of $70,000 they could earn as retirees, and under the 3% formula, if someone's final compensation was high enough, they could exceed that $70,000 maximum. Ms. Jones stated that while the dollor maximums would increase with inflation, they would only go up in $5,000 increments.

Mr. Doney asked the Board to address the DROP Plan, as it related to the proposed increased accrual rates.

Mr. DeIorio stated that he had first proposed the increased accrual rates in February of 1996, before there had been any discussion about a DROP Plan. He stated that if a DROP plan could be worked out, it would be more of a benefit to the employees. He stated that he was presenting employee concerns to the Board regarding employees who were reaching a point in their careers wehre they felt they were being penalized for remaining with the Town. Mr. DeIorio explained that the Board needed to determine the legal implications of the increased accrual rate as it related to tax laws. Ms. Jones explained that with an increased accrual rate, employees who submit their application for retirement may find that their pensions are higher than the limit set by the IRS, and would be allowed to collect a pension only up to a certain point. She stated that this would be the responsibility of the employer because the retirement system could not legally pay in excess of the Section 415 limits. Mr. Boggs suggested that the 3% accrual could stop at 30 years of service. Ms. Jones agreed that this could be done.

Mr. DeIorio moved to continue this item until further information was obtained regarding the DROP Plan. Mr. Wearn seconded the motion, and all voting aye, the motion carried.

Mr. Doney asked about the status of the proposed DROP plan. Mr. Crouse explained that there was a good outline of how the Town could structure the DROP plan, but the major concerns were the funds and the legal implications to the Town regarding the funds. He explained that the DROP plan was being developed so it would be no cost to the employer yet would greatly benefit the employees. Mr. Crouse stated that the DROP Plan would be presented to the Board at the May meeting.

C. General Employees Retirement Eligibility at Age 55 with 10 or More Years of Credited Service.

Mr. Boggs stated that he had discussed this proposal with many of the general employees, and that the general consensus was to have the Town and the employees split the cost for this benefit. Mr. Crouse reported that a comparison of retirement systems throughout the State indicated that there were more plans now that allowed retirement at age 55 than there had been two years earlier.

Mr. Boggs stated that he and Ms. Lane would like to present this proposal to the general employees, with the cost to be split between the Town and the employees. Mr. Doney stated that it was important for each employee voting on this issue to understand the implications. Mr. Crouse explained that employee meetings would be conducted and the implications explained.

Mr. Doney asked what the implications were regarding the work force. Mr. Crouse explained that this was difficult to answer because there were different philosophies regarding moving employees out of an organization. He stated that the only benefit the Town could possibly get from this policy would be to reduce their personnel costs, however he did not see this as something the employees would rush into. Mr. Crouse stated that at the present time, the employee representatives were discussing increased multipliers in order to keep people, yet were also discussing a DROP plan that would encourage employees to leave early. He stated that there were some employees in the organization who were troublemakers or who were unhappy, and that they would probably take advantage of the retirement at age 55 option, and this would be good for the employer. Mr. Harvey stated that the Town's work force was not homogeneous, and that as Mr. Crouse pointed out, happy employees tend to stay on as long as possible.

Mr. Doney asked if the cost of retirement at age 55 was based on the other early retirement options remaining in place. Mr. Crouse replied yes.

Mr. Boggs moved that the proposed general employees retirement eligibility at age 55 with ten or more years of credited service be presented to the general employees for a vote as to whether or not they would pick up 50% of the total cost of 1.47% of payroll, or .74%, with the Town paying the other .74%, and that such vote be held within the next 60 days. Ms. Lane seconded the motion, and all voting aye, the motion carried.

D. Report on Increasing the Post Retirement Cost of Living Adjustment from 2% to 4% (Effective the 61st Month of Retirement).

Mr. Frick stated that the supplemental actuarial report indicated that the cost for this would be 10% of payroll, and with such high costs, he was not interested in pursuing this option.

Mr. Frick then stated that he would like clarification on the wording of the ordinance regarding the 65 point plan for public safety employees. He used as an example an employee who started employment at age 22 and worked for 20 years, which resulted in 62 points, at which time the employee left the Town and deferred retirement. Mr. Frick asked whether or not this employee would continue to accrue a point each year because his age would increase each year.

Mr. Crouse explained that it was his understanding that this individual would not continue to earn a point for each year once employment had been terminated, but that he would research the issue and report back to the Board at the May meeting.

XI. REPORT ON QUARTERLY EXPENDITURES BY CHERYL SOMERS, ACTING FINANCE DIRECTOR

Ms. Somers reported that on February 1, 1997, the Town started with a balance in the custodian and checking account of $209,300.77. She stated that with normal contributions and expenditures for the next three month period, the ending balance should be $70,.000 in that account, and she was not recommending any transfers at this point.

XII. DISABILITY RETIREMENT APPLICATION

Mr. Crouse reported that Raymond Harley of the Public Works Department, with 24 years and 10 months of service, presently was on disability leave and had requested disability retirement. Mr. Crouse explained that Mr. Harley's physician had submitted a letter stating that Mr. Harley was totally and permanently disabled and that it was unlikely that Mr. Harley would be able to return to work. Mr. Crouse explained that the Town Physician was familiar with Mr. Harley's case and concurred with the report. Mr. Crouse stated that he did not think another opinion was necessary, unless the Board chose to request one.

Mr. Frick moved approval of Raymond Harley's application for disability retirement. Mr. Boggs seconded the motion, and all voting aye, the motion carried.

XIII. RETIREMENT APPLICATIONS

A. Kenneth Wilson, Recreation Department, 23 years, 6 months
B. Russell W. Lutz, Public Works Department, 29 years
C. Richard Barber, Planning, Zoning and Building Department, 19 years, 5 months.
D. Lewis M. Boyd, Public Works Department, 22 years, 5 months

Mr. Crouse explained that Kenneth Wilson was a maintenance worker in the Recreation Department with 23 years and 6 months of service, and at 66 years of age, met the full requirements for retirement. He then reported that Russell Lutz of the Public Works Department planned to retire in June of 1997, and would have 29 years of service at the time. He explained that Mr. Lutz was 62 years of age and met the full requirements for retirement. Mr. Crouse reported on Richard Barber of the Planning, Zoning, and Building Department. He explained that he was 65 years of age and had 19 years and 5 months of service and met the full requirements for retirement. He then reported on Lewis Boyd of the Public Works Department, who at age 63, with 22 years and 5 months of service, met the full requirements for retirement.

Mr. Boggs moved approval of the retirement applications of Kenneth Wilson, Russell W. Lutz, Richard Barber, and Lewis M. Boyd. Mr. Frick seconded the motion, and all voting aye, the motion carried.

XIV. ANY OTHER MATTERS.

Mr. DeIorio stated that in reviewing the minutes from the February 16, 1996 meeting regarding duty and non-duty disability pension amounts, the non-duty disability pension amount had not been addressed. He asked what the cost would be to increase the non-duty disability pension from 25% to 30%. Ms. Jones stated that the cost should be de minimis.

Mr. DeIorio moved approval for a supplemental actuarial report to be prepared regarding the cost of increasing the non-duty related disability pension amount from 25% to 30%. Mr. Frick seconded the motion, and all voting aye, the motion carried.

XV. ADJOURNMENT

There being no further business to discuss, Mr. Boggs moved to adjourn the meeting. Mr. Frick seconded the motion. All voting aye, the meeting was adjourned at 12:20 p.m.

Approved: ______________________________
John DeIiorio, Secretary

FUTURE RETIREMENT BOARD MEETINGS *(Per the request of the Retirement Board of trustees, meetings are the third Friday of the monhgts of February, May, August, and November).*

August 15, 1997
November 21, 1997
February 20, 1998