MINUTES OF EMPLOYEES' PENSION PLAN ~~REGULAR~~ SPECIAL BOARD MEETING N THURSDAY, MARCH 28, 2008 AT 9:00 A.M. HELD IN CITY COMMISSION CHAMBERS, BOYNTON BEACH, FLORIDA

Present:

Jerry Taylor, Chair
Kurt Bressner
Cathy McDeavitt
Lisa Jensen *(arrived at 10:03 a.m.)*
Sue Kruse
Michael Low

Julie Klahr, Board Attorney
Barbara LaDue, Pension Administrator

Absent:

Rob Eichorst

I. Call to Order

Chair Taylor called the meeting to order at 9:03 a.m.

II. Agenda Approval

The following additions were made:

Item V (c) Arthur Gallager Risk Management Services Inc. would be the first item heard.
Item V (a) Clarification of memo regarding Supplemental Check be explained by the Plan Actuary, Steve Palmquist.

Motion

Ms. McDeavitt moved to approve the agenda as amended. Ms. Kruse seconded the motion that unanimously passed.

III. Approval of Minutes – Quarterly Meeting February 28, 2008

Motion

Ms. McDeavitt moved to approve the minutes. Ms. Kruse seconded the motion that unanimously passed.

IV. Public Comments

None.

IV. Financial Reports

C. Arthur J. Gallagher Risk Management Services Inc. – Harry Merker – Insurance Broker – Letter and Application of 3-19-08 regarding fiduciary liability coverage.

Chuck Magazine, Risk Manager, introduced Harry Merker from Arthur J. Gallagher.

Mr. Merker explained the item being discussed was to take over the Insurance Liability Program which would cover the General Employees' Pension Board members only and the Pension Plan Administrator. They provided quotes from CHUBB and AIG Travellers.

Mr. Merker recommended the CHUBB coverage as it were less expensive and had more amenities. The quotes were also for $1M, which the board previously had, and for the State recommended level of $2M. The premiums were $10K and $14K respectively. Defense costs, it was noted, were included with the CHUBB coverage provided it was within the limits of the policy.

The board members did not have the price information. They had only the original proposal. Accordingly, this item was deferred to later in the meeting to allow the price proposals to be copied and distributed to the members.

V. A. Gabriel, Roder, Smith & Co. – Steve Palmquist, Senior Consultant and Actuary

1. Experience Study – As outlined in letter of 08-29-07

Steve Palmquist, Plan Actuary, introduced a new staff member with his firm, Duane Howison, Fellow with Society of Actuaries, who is working with all three Boynton Beach plans.

Mr. Palmquist distributed the Experience Study and advised when they reviewed the actuarial report from last year, it discussed long term assumptions. There are different types of assumptions and they reviewed the annual reports for the past seven years and compared them with what actually occurred and with what was anticipated to occur.

Mr. Palmquist advised the numbers were going the opposite way of what they were trying to do, which was to keep the costs of the plan in check. The study contained a summary of recommendations.

The first recommendation pertained to the rate of investment return. The past five years were good, averaging 10-11% per year, but Mr. Palmquist did not think it was sustainable. Eight percent was the current assumed rate, and it was the most common rate used by Florida plans or large statewide retirement systems. Many plans were reducing their assumed rate of return.

The salary increase assumption that was used, was tied to age. Mr. Palmquist advised it was better to tie the salary increase rates to length of service. This same concept pertained to the employment termination rates. He noted what the plan was using was not out of line, compared to the actuarial experience but it was a slight change.

The next item was a costly item and pertained to changing the mortality rates. The plan has to anticipate what the pension would be for employees when they retired and it must anticipate how long it would be paid.

The firm uses the 83 Group Annuity Table for its mortality calculations. This table was constructed with built-in conservatism, knowing the mortality rates would be improving for a number of years. The table was also used by insurance companies for their insurance business.

The 83 Table compared to the RP 2000 table showed the side-by-side rates were similar and what was different. They were recommending using a table that has built-in anticipated future improvements in mortality rates. The change was not just going from one table to the other. It was anticipating the future mortality rates that were costly.

The last item they recommended to change was to use a different asset smoothing method. Mr. Palmquist explained they found it reduced the fluctuations in the asset values from year to year even more than what the present method did.

The required City contribution due next October, if the Board did not change anything, would be $3,910,000. The City's contribution last October was $3,584,000. The cost of the plan increased on behalf of the City by .33% of payroll. They had an experienced gain for fiscal year 2007 from investments, but those credit bases cycled out so the amortization basis for the unfunded liability would increase. From '06-'07, one of those bases that represented an annual savings of about $187K cycled out, so the cost increased $187K.

If the board made all the recommended changes and kept the 8% assumed rate of return, the required contribution would go up 2.64% of payroll, or approximately $700K, which would be in addition to the $3.9M. If they made the changes and reduced the investment return assumption to 7.34, the annual contribution would be 4.25% of payroll or $1,105,000 over and above the $3.9M; at 7.5% the annual contribution would be 5.9% of payroll, increasing about $1.5M over and above the $3.9M. Mr. Palmquist advised when the City makes its determination, they would submit the annual report reflecting the changes.

It was noted that if the plan does not achieve the projected return of 8%, the City makes up the difference. If the number is lowered, the contribution rate would be higher because, although the plan has a better chance of achieving that rate, they expect less of the future benefit payments to be covered by investment earnings and they would need more cash going in to meet that need.

Mr. Palmquist reviewed the investment returns. Based on software prepared by SunGuard, they used the current asset allocation and the expected return would be about 8.4%, which was not necessarily better than just the 8%. The anticipated rates of return for each asset class over the future long term, plus the standard deviation plus the asset allocation, are what determines the probability of success.

The diversification of the fund was reviewed. It was noted asset classes not moving in the same direction at the same time are good. The probability of falling below the target rate of return was discussed. The returns were net of management fees and it was noted the plan paid about 40 basis points to custodians, managers, consultants, and in investment management fees. At 8%, extending out into the future there was a 50% to 52%+ probability of not meeting the criteria. At 7.5% the probability was somewhat better and over 20 years, there was a 44% probability of not meeting that target. This was the basis for recommending lower assumed rates of returns.

Some stock consultants have lower expected future rates of return. If the rates were lower, however, it would be worse. Mr. Palmquist advised it was all conjecture because the future is unknown. They tried to use the best information they could to develop these estimates.

Mr. Bressner explained he was fine with the changes except changing the rate of return. There would be another 18 months of unsettlement, but he agreed with the other aspects. He advised the salary increases were good for employees but bad for the pension fund because it outstripped the investment earnings that served as a buffer. The other component Mr. Bressner was interested in was the change of actuarial assumption regarding the mortality rate tables and he thought they should review that aspect. He was comfortable with all except with new rates of return. It was thought perhaps the new investment consultant could weigh in on that part of the issue.

Mr. Palmquist illustrated the present mortality rates with the old and new table; under one table, a man retiring at age 60, would have a life expectancy of 20.4 years and for a woman - 20.5 years. At age 60, using a different mortality table there were different life expectancies depending on the year the individual would turn 60. He pointed out life expectancy was not the end; half of the people will live beyond that period and the other half would not.

The pay increases for the past seven years of service were reviewed and showed the average was 8.4%. The inflation during that same time span was 2.6%, so the pay increase was over and above inflation. The calculations proposed real increases (not including inflation) plus expected future inflations which provided the recommendation for the future.

The current assumption was based on ages, ranging from a high of 7.8% for a 20 year old individual to a low of 4.2% for a 60 year old individual. The major change was tying it to length of service. The change made sense since mid-career service employees were common.

Attorney Klahr advised the board needed a motion to approve the assumption or make the change in the actual assumed rate of return. Those actions would require an ordinance change.

Motion

Mr. Bressner moved to accept the recommendation of Steve Palmquist for the proposed changes in the methodology or the assumptions except for rate of return and leave it at 8%. Ms. McDeavitt seconded the motion that unanimously passed.

Mr. Palmquist would incorporate those changes into the annual report, which would be issued the next week. Mr. Palmquist would send an electronic copy of the report to Mr. Joyner and Mr. Bressner.

2. Draft Actuarial Valuation for PYE 09/30/08 with three options

This item was addressed above when it spoke about last year's required contribution, this year's contribution if no changes were made, and this year what the figures would be with the changes just implemented.

3. Supplemental Valuation Report – Proposed changes with cost as detailed in letter of 11/7/07 – review of enhancements with advice active membership interest.

Mr. Palmquist explained last November they costed-out possible changes in plan benefits. They submitted a report that reviewed raising the multiplier and adding an automatic COLA based benefit.

This was due to Jim MacIntyre wanting to know if any of the proposed changes would have a cost the members could absorb. He wanted to know how to present it to the employees to see if they were interested in it and any recommendation Mr. Palmquist might have. Mr. Palmquist thought the best thing was to have written material the employees could review.

Attorney Klahr explained if they want to be able to provide the employees with a cost estimate, it should have what their cost would be, and not a percentage of payroll.

Procedurally, any proposed changes in the manner pensions are paid would require an ordinance change. Attorney Klahr explained before the board determines what they want, they needed to determine what it would cost.

Mr. Bressner commented the policymakers should be asked first as to whether it was appropriate. A cost analysis could be prepared and when Mr. Palmquist finished his work they would send it to Mr. Joyner to analyze to see what the cost was to the City. Then the board could determine if it could be 100% funded by the employees. Those costs could be calculated by Mr. Palmquist or Mr. Segal to figure out what the added cost or individual payroll cost would be for the employee, and then how it would apply to the pension benefits to the employee.

Assuming the multiplier goes from 3% or higher, any incumbent employee who isn't retired or in DROP would be eligible for the 3.5% upon the normal retirement and receive their pension benefit based on the new number. The City was basing their projections in 1998 on 2.5%, then it changed to 3%. From a long range financial perspective, there would be an impact to the City because the revenue base the City was paying out benefits on is now based on three numbers; the dollars accumulated based on the 2.5% for one universe of retirees, the dollars collected at 3% to a second group of employees, and if it goes to 3.5%, then it would be based on the dollars collected at 3.5% for the third group.

If the employees paid the benefits100% there has to be very careful calculations to ensure the taxpayers are not paying it. That scenario did not ensure that in the future the retirees would assert they received benefits at 3.5% for five years and they were paying it, but then they would want the City to pay for it and increase it, which occurred in the past. From a process point of view, it was not just the employees who paid for it. They might initially pay for it, but the calculations need to show there would be no residual impact for the City to pay for the change. Those are the kinds of things the City Commission needed to be aware of, only to find out later imbedded in those calculations was a cost to the City.

Mr. Palmquist explained another issue was the issue of fairness. If an employee paid 2.5% of payroll for one payday, and then retired, he would have the higher benefit for all past service. The next employee is hired the next day and he has to pay the same 2.5% for the next 20 years. Anytime employees pay for a benefit, that issue arises.

Mr. Bressner expressed this was not the time to be discussing the issue with the present economy, although he thought it was a great idea. The budget next year would be as bad as this past one. The 3% multiplier was very generous and changing the assumption was an important step to stabilize the fund for many years into the future. Mr. Bressner urged caution. If the board wanted to authorize studying the issue, it has to go to the City Commission to make the policy decision. He reiterated this was not the time to make changes.

Ms. McDeavitt explained the City offers cost of living increases for employee pensions. She expressed generally when an item is said to have no cost to the City, there usually is. Mr. Bressner explained, there are proposed changes in the fire pension ordinance which pertained to cost sharing, coming up for consideration. The changes were sent to

Mr. Segal who could advise at that snapshot in time there is no additional cost to the City, but no guarantee of that in the future.

Michael Low explained there was a cost of living adjustment option to the pension plan, but advised he was unsure the employees were aware of that. He thought perhaps it could be advertised.

Ms. McDeavitt recalled a prior decision of the board which specified in order to spend money on studies they needed 60% of the employees to agree to that. Ms. Klahr explained at the last meeting, polling the employees to determine what their interests were was discussed but then the discussion was what information would they give the employees to help them make a decision. That was why it was put on the agenda, and that was the issue of costing it out and disseminating the information before taking any action.

There was agreement the board did not wish to proceed any further with the issue at this time.

V (a) Clarification of memo regarding Supplemental Check be explained by the Plan Actuary, Steve Palmquist

Mr. Palmquist explained the provision specified if the plan meets certain tests during the fiscal year, and there is an experienced gain for the year, some of the money, per the ordinance, could be used to provide a 13th check for people on retirement. This was implemented by the board in 2001. Florida Statute 112.61 allows for the plan to have a provision for this, but with that proviso, the plan could not just pick off the good years. Since the time the provision went into effect (2001), the plan had to keep track of the experience gains and losses from that point forward and the cumulative amount paid out under that provision may not exceed the cumulative amount of actuarial gains and losses for that same time period.

Mr. Palmquist explained since 2001 through 2006, the plan had an experienced loss. In 2007 there was an experienced gain of about $1M. Although there was the $1M gain, the accumulation of $30M in losses for the previous six years prevents them from paying out anything under the 13th check provision. In order to do so, they need $30M in gains before they can pay out the first 13th check. Additionally, the $30M was an actuarial loss and not a dollar loss. Mr. Bressner noted there was a distinction.

Mr. Palmquist explained many plans put this provision in place but have not paid the benefit for the same reason. The losses were due to the stock market and they cycled through those losses, but according to the state rules, they have to keep track of the cumulative gains and losses.

Duane Howison noted if they made the assumptions more conservative, it would be more likely the plan could pay the 13th check. Mr. Palmquist confirmed that was correct. The same held true If the board reduced the assumed rate of return. From that point on, it would also be more likely they could pay out the 13th check.

Richard Stone, 4510 Nutmeg Lane, asked what the $30M represented. It was explained at least 80% was from investment losses occurring in FY 01 and 02. In FY 01 there was a return of -9.4% and -6.4%. The assumption at that time was +8 and as a result, it produced large losses.

IV. Arthur J. Gallagher Risk Management Services Inc. – Harry Merker – Insurance Broker – Letter and Application of 3-19-08 regarding fiduciary liability coverage - continued

Mr. Merker continued his presentation and explained they were going out to market for specific portions of the pension insurance fund; specifically, the General Employees' and the Plan Administrator. They brought back quotes from Federal, which is a subsidiary of CHUBB, AIG and Travellers. He recommended purchasing the policy through Federal Insurance Company since it provided the broadest coverage.

His presentation included what the options were under both the $1M and the $2M State recommended coverage. He explained the deductibles were in line with what it currently was. There were certain exclusions that were fairly standard, but there are some endorsements on the CHUBB form that were specific to CHUBB that allowed for broader coverage. This was for the board's insurance policy. The policy provided certain coverage to the plan administrator and he recommended a standalone plan for the administrator to purchase if the board recommended that she do so. The direct policy for the pension administrator would be identified, once the supplemental application was completed for the pension administrator and its cost identified.

Attorney Klahr asked in the event of a claim, whether there was a provision that gave the board the option to select its legal counsel or whether it was dictated by the carrier. Mr. Merker explained usually it was dictated by the carrier, but carriers, with regard to pension administration have been very flexible with who the board would like to have represent them. No one could be used without approval of the carrier, however carrier approval was a common request, especially since there is a small group of attorneys that handle this type of a claim.

Motion

Mr. Bressner moved to authorize the two policies through Arthur Gallager and to go to a $2M policy at $14K and that would be the only policy the board would be responsible for purchasing. Mr. Low seconded the motion that unanimously passed.

Motion

Mr. Bressner moved to request the board authorize Chuck Magazine to work with Gallagher to prepare the necessary applications for an alternate policy for the pension administrator and to present that to her for her consideration and approval as appropriate. Ms. McDeavitt seconded the motion.

There was brief discussion if the board was asking for the pension administrator to go out for a $1M or $2M policy. Ms. LaDue's contract called for $1M, which was satisfactory to the board.

Vote

There was a vote taken on the motion which unanimously passed.

B. RFPs for Plan Consultant – Select shortlist of the 11 proposals distributed for review and analysis on 3-12-08 and set meeting date for presentations.

The board members had reviewed the presentations and gave their rankings. The top four firms were ranked as follows:

- 5 for Dahab Associates
- 4 for Segal Advisors
- 4 for Cap Trust
- 3 for Southeastern

The board decided to hear the top four presentations at the next meeting.

Motion

Mr. Bressner moved to invite the firms of Dahab Associates, Segal Advisors, Cap Trust and Southeastern Advisory Services for the shortlist for the investment consultant services for General Employees' Pension funds and invite to make a presentation to the board at a future date. Ms. Jensen seconded the motion which unanimously passed.

There was brief discussion whether or not a particular vendor was contacted. Ms. Doppler, Purchasing Agent, confirmed the vendor was faxed the notice at Burgess Chambers office.

Further discussion was held and there was agreement to hold a special meeting on Friday, April 25, 2008 at 9:00 a.m. The vendors would be contacted through Ms. Doppler and presentations limited to 15 minutes. The order the vendors would present in would be handled by Ms. Doppler. She would also notify the individuals who did not make the shortlist.

VI. Correspondence – N/A

VII. Old Business – N/A

VIII. New Business – N/A

IX. Other – N/A

X. Adjournment

There being no further business to discuss, there was consensus to adjourn. The meeting adjourned at 10:22 a.m.

Catherine Cherry

Catherine Cherry
Recording Secretary