

# **LAKE WORTH FIREFIGHTERS' PENSION TRUST FUND**

## **MINUTES OF MEETING HELD**

**November 17, 2003**

James Shook called the meeting to order at 9:40 A.M. in the Conference Room at Station 1, Lake Worth, Florida. Those persons present were:

### **TRUSTEES**

James Shook  
Rich Seamon  
Mark Lamb  
Jennifer Vaughn  
Bruce Catanzaro

### **OTHERS**

Scott Baur, Administrator  
Adam Levinson, Attorney  
Steve Gordon, Auditor  
Larry Cole, Investment Monitor

## **INTRODUCTION OF NEW TRUSTEE**

The Board welcomed Jennifer Vaughn. Ms. Vaughn has a prior background in insurance and plan administration, previously employed by third party administrator providing employee benefits.

## **ADDITIONS AND DELETIONS**

The Board noted some additions to the agenda. The Trustees briefly discussed adjustments for sick and vacation time, as well as benefit issues for Redmond and Steve Gailman. The Trustees also agreed to add to the agenda an actuarial cost estimate for using Chapter 175 premium tax receipts to create a benefit to offset retiree health costs, record keeping issues during the transition to withdraw data record keeping from the City, coordination issues between the Division I and Division II Firefighters Pension Funds, and recalculation of benefits for Sweeney and other participants recently retired or entering the DROP. Adam Levinson added the ordinance for a 3.25% multiplier and updates to the travel policy. Discussion of safe harbor issues was also added to the agenda.

The Board discussed that the City allowed Sweeney, and possibly other participants in the DROP, to make elective employee contributions to the DROP accounts. Noting that the ordinance does not support this practice, the administrator will advise the City Finance Department to immediately discontinue any such contributions.

The administrator will also provide the new Trustees with some of the basic materials describing the Pension Fund.

The term for Rich Seamon, fifth Trustee to the Pension Board, expired. Adam Levinson reviewed the provisions for the position of the fifth Trustee contained in the ordinance. Mr. Shook noted that the Board members must nominate a fifth Trustee. Rich Seamon then briefly reviewed his background for the Board and noted his long tenure with the

Pension Fund as a Trustee. The other Trustees commented on the value over time credited to this experience and continuity of service. A motion was made, seconded, and approved 4-0 to reappoint Rich Seamon as the fifth Trustee to the Pension Board. A motion was made, seconded, and approved 4-0 to approve the additions to the agenda.

### **MINUTES**

A motion was made, seconded, and approved 4-0 to accept the minutes of the meeting on September 24, 2003. Scott Baur, administrator for the Pension Fund with the Pension Resource Center, briefly reviewed the background for the transition in record keeping from the City for the Board.

### **INVESTMENT CONSULTANT**

Larry Cole reported that assets increased by \$2,893,718 for the prior quarter to \$18,200,620. The Pension Fund had an allocation of 40.8% to fixed income and cash at the end of the quarter, with 59.2% to equities. On a fiscal year basis, the total fund ranked at the top 24<sup>th</sup> percentile for the year, with domestic equities up 25.5%, international equities up 21.3%, and fixed income up 6.3%. The total fund returned 16%, versus the actuarial assumed rate of return of 8.5%.

Davis, Hamilton, & Jackson under performed recently due to the high credit quality of the equities in their portfolio. The market, meanwhile, favored the lower quality companies. Larry Cole reported that Davis Hamilton Jackson also reduced the small and mid-cap growth holdings in the portfolio, so he may recommend the addition of another manager for small cap growth. Bruce Catanzaro joined the meeting at 10:30 AM. Larry Cole also noted that lower quality bonds performed better recently. Davis Hamilton Jackson still performed well within their style group.

Putnam fired the lead portfolio manager for the Putnam International Equity Fund held by the Pension Fund due to allegations of improper trading in the account. Larry reviewed the allegations, as well as other issues in the securities industry including market timing and late trading. Adam Levinson noted that these allegations have been brought against many investment management firms in the industry, although the allegations so far focused more on the mutual fund portfolios and retail accounts. He reported that Putnam has a class action lawsuit pending.

Larry Cole recommended the immediate replacement of the Putnam mutual fund. He then reviewed compliance of the managers with Investment Policy guidelines. He departed the meeting for a brief period of time.

### **STEVE GORDON (AUDITOR)**

Steve Gordon introduced himself to the Board. He discussed issues of materiality between the City audited financial statement and the Pension Fund. Given persistent questions in this plan regarding pay included for determination of benefits under the Pension Fund, Steve Gordon also reviewed similar issues that he encountered with other pension plans.

Adam Levinson commented that the Board can allow the City to continue to audit the Pension Fund, the Trustees can engage Steve Gordon to perform an independent audit, or the Board can release a request for proposal for services of an auditor. He noted that the Board has no competitive bid requirement to engage the services of an outside provider. Steve Gordon also noted that, since the Board engages the auditor annually, he can be fired at any time. Mr. Gordon is currently the auditor for the Division II Firefighters Pension Fund, as well as many other public defined benefit firefighter pension plans. The Board established that Mr. Gordon charged a competitive rate for his services and he was familiar with the issues affecting the Pension Fund. Adam Levinson stated that the Board would want a contract in addition to an engagement letter if hiring Steve Gordon. A motion was made, seconded, and approved 5-0 to execute an engagement letter for Steve Gordon to complete an audit of the Pension Fund for the prior fiscal year and produce the Annual Report to the Division of Retirement.

### **ATTORNEY REPORT**

Adam Levinson reviewed the Division I and Division II plans. He reported that the Division I Pension Fund must meet the minimum required benefits mandated by the State for Division II to receive the Chapter 175 premium tax money. Therefore, the Division I plan must use the additional premium tax receipts above the 1997 frozen amount to implement an additional retirement age of 55 with 10 years of service, and Division II must pay every year for the cost of the additional benefit. Mr. Levinson has communicated with Matt Mierzwa, legal counsel for the Division II Pension Fund, regarding this issue.

Adam then reported that the City agreed to increase the multiplier for police and general employees without any contract negotiation. The firefighters, meanwhile, had to negotiate and make other concessions to obtain the last multiplier increase. Mr. Levinson sent a letter to the City requesting parity or similar treatment on behalf of the firefighters, requesting a similar multiplier increase from 3% to 3.25% for all years of service. The Board discussed the unequal treatment by the City for the firefighters, as opposed to the police officers and general employees.

### **INVESTMENT CONSULTANT**

Larry Cole returned to the meeting. He recommended the immediate replacement of the Putnam International Fund due to losses of personnel at Putnam. He reviewed a list of 6 possible replacements, noting returns, risk or volatility, the up/ down market capture ratios, expenses, and other characteristics of the investment portfolios. He stated that, in cases where expenses included 12b-1 fees, Merrill Lynch would recapture half of the fees on behalf of the Pension Fund. Merrill Lynch uses the remaining portion of the 12b-1 fee to cover the costs associated with custody of the assets.

The Board further discussed the characteristics of the recommended replacements in the context of the assets held by the Pension Fund. A motion was made, seconded, and approved 5-0 to replace Putnam with the Oakmark International Equity Fund. A motion was made, seconded, and approved 5-0 to accept the report by the investment monitor.

### **ATTORNEY REPORT (Continued)**

Adam Levinson provided the new Trustees with some brief instruction regarding the Sunshine Law requirements, as well as the requirement to file an annual financial disclosure with the Supervisor of Elections.

Adam reviewed a recent letter provided by the actuary for the requested increase in the pension multiplier. Chairman James Shook also prepared a packet of information on the topic for the Commissioners. Adam Levinson will assist Mr. Shook with the preparation of a memo to the commissioners to accompany the additional supporting information.

Mr. Levinson reported on the coordination of benefits between pension plans for participants with prior service to the Fire Department in the City of Lake Worth. He drafted a proposed ordinance with Ken Harrison, attorney for the General Employees Pension Fund. The proposed ordinance counts total service for employment by the City of Lake Worth for vesting, but each plan pays a portion of the benefit due the employee based on which plan covered the employee. Adam will continue the process with the City regarding the proposed ordinance.

Mr. Levinson also stated that the Pension Fund could use a higher multiplier to compensate employees with prior service in the City. The Board noted that the City may no longer have adequate payroll data to determine the average final compensation for a benefit for employees that worked for the City 20 years ago. The Board will continue discussion of the issues at the next meeting.

Adam Levinson then reviewed a proposed ordinance for a partial lump-sum option for retiring participants. He recommended that the Board group the proposed ordinances for communication with the City.

The current travel policy does not incorporate recent changes to allowable reimbursement amounts. The Board asked questions regarding requirements for submission of receipts. The Board also noted that the Division II Pension Fund might recently have increased the schedule of reimbursements. The Board tabled further discussion of the travel policy pending an update regarding changes implemented by the other firefighters pension board.

Adam Levinson reported a problem with the liability provisions contained in the account agreements with Fidelity Federal. He will work with Fidelity Federal to create acceptable language for the account agreements.

### **OTHER BUSINESS**

Adam Levinson departed the meeting at 1:30 PM. The Board discussed recalculation of the benefits for MacIntyre, Forrest, and Sweeney pending receipt of detailed payroll information from the City. Scott Baur reviewed at length the process to transition records from the City, as well as repeated delays in receiving information originally requested in May. He also explained the safe harbor provisions and reporting by the Pension Resource Center of nontaxable pension amounts based on after-tax contributions made by participants of the Pension Fund. The City does not have the capability of reporting the nontaxable amounts to the IRS, but the Pension Resource Center can report the

nontaxable portions of the pension payment to the IRS with adequate information from the City regarding the original pension contributions.

The Trustees scheduled the next meeting for Monday, February 9, at 9:30 AM. There being no further business, the meeting was adjourned at 2:00 P.M.

Respectfully submitted,

Mark Lamb, Secretary