

LAKE WORTH FIREFIGHTERS' PENSION TRUST FUND
MINUTES OF MEETING HELD
May 12, 2004

James Shook called the meeting to order at 9:35 A.M. in the Conference Room at Station 1, Lake Worth, Florida. Those persons present were:

TRUSTEES

James Shook
Rich Seamon
Mark Lamb

OTHERS

Scott Baur, Administrator
Adam Levinson, Attorney
Larry Cole, Investment Monitor (9:50 AM by phone)

INVESTMENT CONSULTANT

The Trustees reviewed and discussed the report provided by Larry Cole, Investment Consultant to the Pension Fund. The Board noted that Davis Hamilton Jackson continued to perform under their benchmark and their peers, but the relative performance resulted from the high quality holdings that DHJ maintained in the portfolio.

Larry Cole joined the meeting on the phone by prior arrangement at 9:50 AM. He reported that the total portfolio increased by \$396,000 for the quarter ending March 31, 2004. Since the end of the quarter, however, the market in general went down. Mr. Cole still believes that the economy continues to improve, except for higher energy prices. He attributed the recent negative performance since the end of the quarter to an overreaction by the market to higher interest rates.

The plan had total assets of \$19,396,570 with 62.9% of assets invested in equities and 37.1% allocated to fixed income and cash. The asset allocation fell within the investment guidelines for the Pension Fund. The 2.1% overall increase for the quarter fell short of the benchmark increase of 2.2%. The Pension Fund also returned 8.9% for the fiscal year to date. Mr. Cole attributed the slight under performance to the quality issues with Davis Hamilton Jackson, although the plan and the manager still had performance above average for longer periods of time. The international and small cap portfolios, meanwhile, provided the highest returns for the trailing 12 months.

Mr. Cole recommended that the Board invite Davis Hamilton Jackson to an upcoming meeting. In spite of the performance, Mr. Cole believes that Davis Hamilton Jackson continues to provide sound investment management for the Pension Fund. Mr. Cole also recommended that the Trustees invite Deprince, Race, and Zollo, the small cap value manager for the Pension Fund, to the upcoming meeting as well. While Deprince, Race, and Zollo had strong absolute performance, the manager did not perform so well in comparison to the small cap value universe of managers.

Mr. Cole reviewed the compliance of the portfolio to the Investment Policy adopted by the Board. He also reviewed the trading and commission recapture for the quarter. Adam Levinson requested that Merrill Lynch summarize fees paid to the investment consultant on the fee summary page, along with the fees paid to the investment managers.

Adam Levinson, attorney for the Pension Fund, then noted that the Pension Fund paid 0.05 per share for trades placed by the managers through Citation, but only 0.04 per share for trades placed through the other recapture arrangement maintained by the plan. The managers still placed a majority of their trades through the Citation recapture account at Merrill Lynch. Larry Cole reminded the Trustees that the managers must always seek best execution on trades, which involves more than the brokerage commissions paid by the plan. He also commented that Merrill Lynch has no actual control over where the managers direct the brokerage.

Mr. Cole will discuss a possible fee adjustment for Merrill Lynch at the next meeting, due to the higher number of managers that Merrill Lynch Consulting reviews for the Board. He also suggested that the Board establish a regular quarterly meeting schedule. A motion was made, seconded, and approved 3-0 to accept the report by the Investment Consultant.

ADDITIONS AND DELETIONS TO AGENDA

The Trustees requested that discussion of a longer DROP period be added to the agenda under Other Business. The Trustees also added discussion of a survey of members for benefit improvements under other business. The Trustees indicated that the members might want to increase the benefits, even if the benefit increases required an increase to the employee contributions to fund the cost.

MINUTES

A motion was made, seconded, and approved 3-0 to accept the minutes of the meeting on March 2, 2004.

RECORD KEEPING TRANSITION

Scott Baur updated the Board on the status of the transition in record keeping from the Finance Department at the City. Andrea Stanwick in the Finance Department joined the meeting by phone, since Anne Simms was not available. Munis, the programmer for the City, delivered the programs to provide the historical and current payroll information. So far, the programs failed to provide the specific information required by the administrator. The Finance Department acknowledged that they gave first priority to completion of the annual audit, but Ann Simms pledged to allocate the resources necessary to complete the transition in record keeping.

The Finance Department reported that Steve Palmquist would have the data within the week to complete the annual actuarial valuation.

The Board authorized the administrator to take any appropriate measures, including reasonable expenditures for travel, to obtain the payroll data requested from the City.

FINANCIAL STATEMENT

The Board reviewed the unaudited financial statement provided by the administrator. Adam Levinson noted some differences between the investment report from Merrill Lynch and the financial statement. A motion was made, seconded, and approved 3-0 to direct the administrator to clarify the reporting differences.

DISBURSEMENTS

A motion was made, seconded, and passed 3-0 to approve the disbursements presented by the administrator. Mr. Baur noted that the plan had not paid an invoice to Munis for the programs to deliver the payroll data from the City, which he intended to hold until the Finance Department actually delivered the data in the requested format.

The Trustees reviewed the unaudited financial statement in detail. The Board received and filed the financial statement.

PROPOSED ORDINANCES

The Board had previously requested drafts of ordinances to eliminate the conversion of a disability pension to a normal retirement benefit, to provide for partial lump-sum settlement or Bac-DROP options for retiring members of the plan, and to coordinate benefits with the other City pension plans for members with service in the City prior to becoming a firefighter/ paramedic. Mr. Levinson indicated that he would provide the draft ordinances at the next meeting.

The administrator provided a copy of a DROP distribution policy from another plan to the Board and to the Pension Fund attorney as a possible template to review the current distribution policy for the plan. Member of the plan with a disability retirement lose the tax advantages associated with the disability benefit upon conversion to a normal retirement benefit as stipulated under the current ordinance.

Mr. Levinson reported that he made no real progress with the City in response to requests by the Board for an increase to the multiplier. The firefighters in the City bargained for an increase in the multiplier trading off pay increases and other benefit improvements, while the City then unilaterally provided a similar benefit increase to the police and general employees without requiring any other concessions.

The Trustees then discussed the distribution options available to retired members of the plan in greater detail. While the Division II Firefighters' Pension Fund offers members very few options for withdrawal, the Division I Pension Fund has a very liberal withdrawal policy. The Board reviewed situations where penalties might apply for early distributions from the DROP. A motion was made, seconded, and approved 3-0 to draft a policy that omits DROP loans, makes reference to the Division II Firefighters' Pension Fund, provides for periodic distributions based on the plan fiscal year that retired members can change each October 1, sets guidelines for periodic distributions commencing prior to age 55 under the known exceptions for penalties through 72(t), and permits additional periodic distributions commencing after age 55 subject to the review and input by the auditor for the Pension Fund.

Mr. Levinson indicated that he would provide a draft for the updated Summary Plan Description prior to the next meeting for the Trustees to review. He also reported on a memo issued by the Division of Retirement with an update on the process to establish a database for the allocation of premium tax receipts to municipalities. He noted that a lawsuit brought by the Florida League of Cities had been resolved, so the additional premium tax receipts above the 1997 frozen amounts must be used to provide additional benefits for firefighters and paramedics. Finally, Adam Levinson advised the Board that the ordinance should be modified for the administrator to allow retired members to request deductions from pension checks for various items.

The Board previously approved changes to the travel policy to allow Trustees to receive a fixed per diem travel expense reimbursement that does not require submission of receipts for Trustees receiving the standard allowances for travel. The policy also required the Trustees requesting reimbursement to certify attendance at the conference. The policy provided for mileage reimbursement at the current federal rate in effect, and Trustees can opt for a standard meal reimbursement allowance of up to \$55 per day. Mr. Levinson will provide the final copy of the updated travel policy to the Board for review at the next meeting.

The Board discussed recent developments with health savings accounts, which allow employees and employers to make deferrals from payroll to a pretax account for qualifying medical expenses. The accounts are typically implemented with high deductible health insurance plans.

Dave Muise, an active member of the plan, submitted a request to the Board to buyback prior qualifying service credit. A motion was made, seconded, and approved 3-0 for the administrator to obtain the cost for the buyback from the actuary. The Division I Pension Fund previously passed an ordinance to allow members to purchase prior qualifying prior service credit at no cost to the plan. The Division II Firefighters' Pension Fund reportedly has a pending ordinance to allow members to rollover account balances to the Division I plan to pay for the purchase.

Trustee Mark Lamb called Steve Palmquist, actuary for the Pension Fund, to provide a cost estimate for members to receive a supplemental benefit of \$75/ month plus an additional \$5 for each year of service to offset the cost of health insurance premiums following retirement. He reported that the benefit would likely cost 2-3% of payroll. The benefit would cost less if the money came from the Division II Pension Fund, since non-vested members terminating from the plan do not receive refunds of contributions. The cost increased to 3.2% to include actively employed members currently in the DROP in the new benefit. The Trustees discussed the possibility of a buy-in for members already in the DROP. A delay in commencement of the benefit following retirement and separation from service would reduce the cost.

The Trustees discussed possible new benefits, including a separate VEBA plan and other possible supplements to offset costs related to health care following retirement. The Board considered a higher multiplier or Cola, rather than creating a new VEBA plan. The Trustees also considered ways to bolster the current 13th check paid by the plan.

A motion was made, seconded, and approved 3-0 to request an actuarial cost estimate from Steve Palmquist for a multiplier increase in 0.25% increments from 3.0% to 4.0%, for future service and for all service, funded by an increase to member contributions. The Board requested an additional study for the multiplier increases for future years of service, assuming that members with current service would have an option to pay the additional cost to purchase the multiplier retroactively. A motion was made, seconded, and approved 3-0 to have Steve Palmquist, actuary for the Pension Fund, report the results of the annual actuarial valuation directly to the Board of Trustees for the Lake Worth Firefighters' Pension Trust Fund.

Trustees Mark Lamb and Richard Seamon indicated that they would both attend the June FPPTA conference in Naples.

The Trustees discussed completing a survey of the membership to establish priorities for benefit changes or increases. The administrator agreed to draft a copy of such a survey for use by the Board.

There being no further business, the Trustees tentatively scheduled the next regular quarterly meeting for Friday, July 2, at 9:30 AM. The meeting was adjourned at 2:30 P.M.

Respectfully submitted,

Mark Lamb, Secretary