

LAKE WORTH FIREFIGHTERS' PENSION TRUST FUND
MINUTES OF MEETING HELD
September 28, 2004

James Shook called the meeting to order at 8:44 A.M. in the Conference Room at Station 1, Lake Worth, Florida. Those persons present were:

TRUSTEES

James Shook
Rich Seamon
Mark Lamb
Bruce Catanzaro

OTHERS

Scott Baur, Administrator
Adam Levinson, Attorney
Bob Davis and Janna Woods, Davis, Hamilton, & Jackson
Steve Palmquist, Gabriel Roeder Smith & Company

ADDITIONS AND DELETIONS TO AGENDA

The Trustees reordered the agenda to put Steve Palmquist before the investment manager presentation by Davis, Hamilton, & Jackson. A motion was made, seconded, and passed 4-0 to approve the agenda as amended. A motion was made, seconded, and passed 4-0 to conclude the "Additions and Deletions" to the agenda.

MINUTES

A motion was made, seconded, and approved 4-0 to accept the minutes of the meeting on May 12, 2004.

ACTUARIAL VALUATION (Steve Palmquist, Gabriel, Roeder, Smith)

Steve Palmquist provided the Trustees with the combined actuarial valuation for the Firefighters', Police Officers', and General Employees' Pension Funds for the City of Lake Worth. The City contributed 19.1% to the Pension Fund for the year ending September 30, 2004. The employer contribution requirement increases to 27.81% for the fiscal year ending September 30, 2005, due primarily to investment experience below the assumed rate. Within the five year smoothing of investment gains and losses, the plan continues to recognize losses for the years 2000-2002. The early retirement incentive window also added 4.75% to employer contributions.

The Board briefly discussed the dollar amount for administrative expenses noted in the actuarial valuation. Steve Palmquist did not have the details for the administrative expense, since the City reported financials directly to the actuary without details. Steve Palmquist also noted that, in the past, the City typically contributed 20% of payroll to the Pension Fund before investment gains in the late 1990's reduced the required contribution rate. Steve Palmquist recommended that the City adopt a floor contribution rate to moderate fluctuations in future contributions when market returns exceeded expectations. He also recommended changing to the entry age normal cost method for the actuarial valuation, to amortize payments for current obligations over a longer period of time. The change would reduce the City contribution for the current year by \$100k - \$200k of covered payroll.

Steve Palmquist noted that 7 firefighters now have 20 years or more of service, with 14 or more firefighters with more than 15 years of service. Thus, significant portions of the members of the plan are close to retirement. A motion was made, seconded, and passed 4-0 to approve the annual actuarial valuation for October 1, 2004.

BENEFIT COST ESTIMATES (Steve Palmquist, Gabriel, Roeder, Smith)

Steve Palmquist discussed the cost estimate to increase the benefit multiplier by .25% for future years of service and for all years of service. For each .25% incremental increase in the multiplier for all years of service, the contribution rate would increase by 4.30% of payroll. The contribution rate would increase by 1.14%, meanwhile, for each .25% increase in the multiplier for only future years of service.

The Pension Fund currently has \$130,000 of Chapter 175 receipts above the 1997 frozen amount available for benefit increases, about 4% of payroll. Currently, the money goes to the Division II Firefighters' Pension Fund for the Share Accounts. Enough money is available, however, to fund a .25% increase in the multiplier for all years of service. Adam Levinson also mentioned that the State would implement the database next year to track credit for premium tax receipts.

Steve Palmquist stated that the coordination of benefits for firefighters with prior service credit in the City would have a negligible impact on the funding of the plans. He agreed to provide a copy of the proposed ordinances for the Police Officers' and General Employees' Pension Funds. A motion was made, seconded, and approved 4-0 to direct Adam Levinson to research the proposed ordinance for the coordination of benefits submitted by the Police Officers' and General Employees' Pension Funds, so that the Firefighters could draft a similar ordinance.

INVESTMENT MANAGER

(Bob Davis and Janna Woods, Davis, Hamilton, and Jackson)

Davis, Hamilton, and Jackson manages the large cap quality growth portfolio and the intermediate fixed income portfolio for the Pension Fund. While the large cap growth equity portfolio consistently out performed the Russell 1000 Growth Index benchmark over longer periods of time, lower quality issues performed better than high quality issues for 2003 and the beginning of 2004. Furthermore, stocks with low share prices performed better. And finally, small to mid cap stocks performed better than large cap stocks. All of these issues worked against the management style of Davis, Hamilton, and Jackson. In the opinion of the manager, high quality stocks now represent an attractive value in the overall market.

The market historically rewards companies with higher earnings over time. Value dominated the market for the last few years as well, in juxtaposition with growth which dominated in the late 1990s. Bob Davis also reported that the fixed income portfolio had strong performance relative to the benchmark. \

Bob Davis noted a significant increase in profit margins for companies, so companies should now be in a position to increase spending. The outlook for the near term is

somewhat muddled due to uncertainty, but the market should gain strength over the longer term. Bob Davis sees interest rates staying the same or increasing moderately, which should actually provide a boost to the fixed income portfolio.

Davis Hamilton Jackson named additional partners to the firm, but the style of management and key personnel have not changed.

RECORD KEEPING TRANSITION

The administrator received a letter from the auditor summarizing work that Steve Gordon attempted to complete on behalf of the Pension Fund. The City did not provide to Mr. Gordon the necessary information to audit the plan financials, although the City did include the Pension Fund on the CAFR for the fiscal year ending September 30, 2004.

Scott Baur reported that the programmer for the City provide the final programs for conversion of data in the last week. He also requested that the Trustees consider setting a regular quarterly meeting schedule, to avoid conflicts of scheduling for the investment consultant. A motion was made, seconded, and approved 4-0 to direct the administrator to correspond with Steve Gordon to determine whether the Board should continue to audit the 2003 financial statement, or simply proceed with the audit for the current fiscal year. The Board requested that the administrator get a letter containing the recommendations of the auditor.

Adam Levinson reviewed the audit engagement letter for the fiscal year ending September 30, 2004. A motion was made, seconded, and approved 4-0 to execute the engagement letter for the audit for the fiscal year ending September 30, 2004.

The Board then discussed the emergency backup procedures implemented by the administrator during the recent bout of inclement weather. The administrator has a written disaster recovery procedure that includes backup and duplication of the server, then removal of essential equipment offsite, in order to ensure timely payment of benefits from an alternate location if necessary. Furthermore, the administrator printed and mailed payments early for October 1 to retired members of the plan, as a precaution against interruptions in mail and data services.

The Trustees scheduled the next meetings of the Board for November 2 at 9 AM, December 15 at 8:30 AM, March 23 and June 15, 2005.

PROPOSED ORDINANCES

Adam Levinson presented the proposed ordinance for a partial lump-sum settlement option, which has no cost impact to the plan. The amount of the partial lump-sum settlement is limited by the ordinance to the amount of the monthly pension benefit payable over 48 months. The Trustees discussed alternative amounts for the limitation of the partial lump-sum settlement option, including a limitation of 25% of the total benefit amount. The Trustees also clarified that a member could leave the partial lump sum settlement invested with the Pension Fund assets, using the same policy for investment and distribution of the assets in the accounts as for the DROP plan. Bruce Catanzaro departed the meeting at 12:10 PM. A motion was made, seconded, and approved 3-0 to

direct the attorney to redraft the partial lump sum settlement option with a 25% limitation on the partial lump sum of the total benefit amount, send the proposed ordinance to the actuary, and forward to the City Clerk for placement on the Council agenda for consideration.

Adam Levinson then reviewed the coordination of benefits provision. The member with prior service in the City would receive a separate check from the General Employees' or Police Officers' Pension Fund, while service under both plans would aggregate for purposes of vesting. Adam will coordinate the provisions with the proposed ordinances developed by the other plans. Mr. Levinson also recommended a review of the paperwork and applications used by the Pension Fund when a member retires, to properly identify and provide for a coordination of prior service by a member within the City.

Adam Levinson presented a proposed ordinance to allow the Firefighters' Pension Fund to accept rollovers to the DROP Account from the Division II Firefighters' Pension Fund. The Pension Fund would not accept rollovers from any other source. The Board also discussed the impact of payouts for retained sick and vacation time on the benefit calculation. The administrator will make certain that the Division II Firefighters' Pension Fund includes language to permit rollovers, since counsel raised questions about the Division II provisions. Mr. Baur commented that the Firefighters' Pension Fund already accepted Division II money for the purchase of prior qualifying service credit under the Division I benefit.

Finally, Mr. Levinson provided a proposed ordinance to eliminate the conversion of a disability retirement benefit to a normal retirement benefit. A motion was made, seconded, and approved 3-0 to accept the proposed ordinance as presented.

The Trustees directed Adam Levinson to send one ordinance to the City for consideration, to include the elimination of the disability conversion, to add the partial lump-sum settlement option, to allow the Pension Fund to accept rollovers from the Division II Firefighters' Pension Fund to the DROP Account, and to permit retired members to make deductions for health insurance and Qualified Domestic Relations Orders (QDROs). The Board noted that none of the proposed ordinance items had a cost impact to the Pension Fund; rather, the proposed ordinance presented house-keeping type issues to the City Council for consideration.

ATTORNEY REPORT

Adam Levinson reported that the Summary Plan Description needed updating, as requested by the Trustees in the prior meetings. He will also finalize the revisions to the Travel Policy, and he recommended that the auditor have the opportunity to comment on the DROP Withdrawal Policy. A motion was made, seconded, and approved 3-0 to have Gabriel Roeder Smith update the Summary Plan Description subject to clarification of the fee by Adam Levinson.

The Trustees requested that the Administrator add an annual earnings election for credit of earnings to the DROP Account to the agenda list of issues for tracking. The Trustees noted that, while the Board did not have the final written Travel Policy, the Policy

provides a \$60 daily per diem reimbursement for meals. The terms for Jennifer Vaughn and Rich Seamon expire on July 31, 2005.

The Board requested that the Administrator create an example benefit comparing the current benefit to a benefit determined with a 3.5% multiplier. The Board also decided to issue a ballot to vote on use of Division II money, as opposed to a member payroll contribution increase, to increase the multiplier to 3.25%. The Board requested that the ballot include an option for members to indicate whether they simply wished to wait for negotiations to pursue a benefit increase.

To clarify the ballot options, the Trustees directed the administrator to create a ballot that forgoes all future contributions to the Division II Firefighters' Pension Fund and raised member contributions to 15%, in favor a 4% multiplier and a 4% member contribution to a post-retirement health insurance benefit. Members under this scenario would retain their current Division II Share Account balances.

There being no further business and the next special meeting having previously been scheduled for November 2, the Trustees adjourned the meeting at 2:10 P.M.

Respectfully submitted,

Mark Lamb, Secretary