

Village of North Palm Beach Police and Fire Pension Fund

MINUTES OF MEETING HELD

February 28, 2007

Lew Steinberg called the meeting to order at 2:10 PM in the Conference Room of the North Palm Beach Village Hall located at 501 US Highway One, North Palm Beach, FL. Those persons present were:

TRUSTEES PRESENT

Lew Steinberg
Robert DiGloria
Scott Freseman
Salvatore Mattino (2:45)

TRUSTEES ABSENT

Henry Maki

OTHERS PRESENT

Bonni Jensen, Hanson, Perry & Jensen;
Fund Counsel
Denise McNeill, Pension Resource Center
John McCann, Thistle Asset Consulting
Steve Stack, ICC Capital
Steve Palmquist, Gabriel, Roeder Smith & Co
Various Members of the Public

ITEMS FROM THE PUBLIC

No items from the public at this time.

ICC CAPITAL

Steve Stack expressed his surprise in the prior day's market drop explaining that the volatility in the market over the past few days has been due to multiple factors, most of which relating to hedge funds. Mr. Stack presented the Trustees with the Investment Review Quarterly Report for the quarter ending December 31, 2006. He noted that the only two value sectors beating the indexes were oil and utilities. He further explained that while growth stocks are still out of favor, there appears to be a slight transition in the market indicating there may be a shift from value to growth. Mr. Stack reported a 4.64% return for the quarter and a 10.49% return for the calendar year. Mr. Stack reviewed the asset allocation of 33.5% fixed income, 10.1% growth, 55.8% value and .7% cash. The trustees inquired into the cash held in the plan and John McCann explained that he is fine with that decision if the manager feels it is a necessary course of action. Mr. Stack advised that in relation to equity stocks, there has been a massive rotation of assets within the market itself, creating tremendous volatility resulting in declines of significant magnitude across many industry groups. ICC plans to continue their emphasis on large companies with global exposure, characterized by stable and predictable streams of revenue and cash flow.

THISTLE ASSET CONSULTING

John McCann explained that he had purchased GRS Asset Consulting from Gabriel Roeder Smith & Co in 2006, however he has now changed the company name from GRS Asset Consulting to Thistle Asset Consulting.

John McCann reviewed a Callan Periodic Table of investment returns noting that value managers are currently selecting growth stocks due to the value in the stock. Mr. McCann explained that as the plan grows, he would recommend further diversification of investments. Mr. McCann reviewed the index comparison noting that international stocks have been the top performer in the past one and three year comparison. Mr. McCann then presented the Trustees with the Performance Evaluation Quarterly Report ending December 31, 2006. He reviewed the fund's asset allocation of 66% equities, 31% fixed income and 3% cash, noting the fund is expected to be rebalanced bringing the equities in line with the plan's policy. Steve Stack advised that the portfolio had been rebalanced by ICC Capital in January and would reflect such in the next reporting period. Mr. McCann noted an overall return of 4.48% for the quarter.

Discussion followed regarding diversification. Mr. Stack explained that when ICC Capital is the only investment manager for a plan, they attempt to diversify as much as possible for the client. He further explained that ICC had recently held a higher amount in equities due to the market, however has since rebalanced the portfolio.

John McCann will review the investment policy guidelines and prepare to make recommendations to the board for the next meeting.

Mr. McCann continued the review of the portfolio noting that while the equity portfolio has beaten the policy for the majority of the past five years, the fixed income has experienced returns below the index. He further explained that other fixed income managers are able to select more risky bonds while this plan is not able to do so due to the fund's policy limitations. Mr. McCann reviewed a comparison of other public fund managers for the last five years in effort to show the board where their manager lies in relation to their peers. Mr. McCann advised that International ADR's could be added to the plan allowing further diversification and reducing the plan's overall risk factor. Mrs. Jensen explained the plan would need to be amended allowing for the international investment. The state currently allows chapter 175 and 185 plans to invest up to 10% in foreign investments, however there are pending legislative changes that would increase that allowance maximum to 20%.

- Salvatore Mattino made a motion to amend the ordinance allowing the fund to invest in foreign assets up to the limits as allowed by the State of Florida. The motion received a second from Robert DiGloria and was approved by the Trustees 4-0.

GABRIEL ROEDER SMITH & CO

Steve Palmquist referred to his communication provided to the board on January 19, 2007 advising that approximately 17 members may be eligible to collect benefits in the next five years resulting in a potential payout of up to \$6 Million dollars from the plan. He further explained that each lump sum payment creates an experienced loss and would result in disaster for the pension plan. The Trustees inquired into the formula being used to calculate the lump sum benefit. Mr. Palmquist explained that the board may wish to lower the assumption rate from the current 8%. He further explained that his calculation assumes all members are taking a normal form of benefit however

historically, the majority of members in recent years are taking lump sum distributions. He further explained that for the past couple of years, the PBGC rate has been 3-4% which creates a higher than expected benefit in the current formula. Mr. Palmquist explained that although the availability of a lump sum payout is popular to the plan members, such payouts, if continued, could devastate the plan. The Trustees explained that they have attempted to change the current formula from utilizing the PBGC rate to using the assumed rate of return of the plan, however the Village has advised that any and all plan changes must be bargained and therefore the Board has not been able to effectuate this much needed change. Mr. Stack reminded the Trustees that lump sum distributions further reduce the plan's investment options available and therefore compound the overall loss. He further explained that a change from a single lump distribution to five annual payments allows the plan more time for investment growth and alleviates some of the immediate loss.

Bonni Jensen referred to a letter from Thomas Parks requesting the Board reconsider their previous decision to pay lump sum distributions in five annual installments for the three members with pending lump sum requests. The Trustees discussed their original decision to apply the new policy to all plan members. Mrs. Jensen provided a history of the Board's attempt to change the lump sum distribution. She explained that in 2001, the Village was to attach the policy to all paychecks as a means to distribute the information to all members.

It was discussed that the current union contract is in effect through September 2009 and although the next contract opener currently lists the pension plan, it is possible that police and fire will bargain in different directions. Mr. Palmquist advised that it is possible to administer separate sets of benefits for police officers and firefighters among the same pension plan. He explained that he could use the prior valuation to calculate separate benefits for the two departments, however there are currently not enough State funds to pay for the age 52 or 25 years of service. Additionally, the last contract negotiation eliminated the long-term and short-term disability therefore not allowing newly hired employees immediate access to the plan creates an issue for those employees. Mr. Palmquist explained immediate access to the plan is one of the State's minimum benefits and can be changed with the State funds currently available.

Lengthy discussion followed regarding a single lump sum distribution vs. multiple annual payments. Mrs. Jensen explained that the issue was not as significant when the distributions were \$200,000 to \$300,000 however the payments currently being calculated are in excess of \$600,000 each with several members now interested in taking full distributions from the plan. It was further discussed that the lump sum total fluctuates considerably depending upon the PBGC rate at the time of calculation. Mr. Palmquist reminded the Trustees that most pension plans do not allow lump sum distributions. He further noted that the lump sum allowance in its current form will have a negative impact to the Village. The union representative expressed his concern that further delay to change the plan by the Village will have significant consequences on all plan members.

John McCann and Steve Palmquist departed the meeting at 4:05 PM.

ATTORNEY REPORT

Bonni Jensen presented a revised lump sum distribution policy. She recommended holding a pension workshop to review the pension plan and pending issues with the membership.

Discussion followed regarding mailing the revised the policy along with the Summary Plan Description to all members. Mrs. McNeill advised the policy will be posted onto the website for immediate access.

Mrs. Jensen reported that a copy of the proposed ordinance changes had been sent to both union representatives. The letter explained that the Village has indicated all pension changes would need to be collectively bargained.

Mrs. Jensen presented an IRS update regarding the Trustee travel reimbursement policy. The mileage reimbursement increased to .485 effective 1/1/07.

Mrs. Jensen presented IRS Notice 2007-7 relating to updates for the Pension Protection Act. She reported that the \$3,000 tax exclusion does not survive the public safety officer and premiums paid for self-funded insurance plans do not qualify for the exclusion.

The Trustees had previously discussed the lump sum distribution requirement that states the member must provide evidence of good health. Physicians have been hesitant to issue specific statements such as that and therefore responses being received are generic in nature. Mrs. Jensen recommended using language from a disability questionnaire.

Discussion followed regarding the custodial fee arrangement and if the fund should change the contract to an all-inclusive fee at the annual renewal in April. Steve Stack advised that he will review the trade volume and will recommend accordingly.

MINUTES

An error was noted on the minutes in reference to another local pension plan. The minutes referred to the Lake Park Police Pension plan but should properly state Lake Park Fire Pension plan.

- Salvatore Mattino made a motion to approve the January 18, 2007 minutes as amended. The motion received a second from Scott Freseman and was approved by the Trustees 4-0.

ADMINISTRATIVE REPORT

Denise McNeill presented disbursements totaling \$11,091.92 for review and approval.

- Robert DiGloria made a motion to approve the disbursements as presented. The motion received a second from Salvatore Mattino and was approved by the Trustees 4-0.

Denise McNeill presented an actuarial calculation for Thomas Koning that had been provided to her by the actuary at the beginning of the meeting. Lengthy discussion followed regarding the pending benefit and whether or not Mr. Koning's medical requirement had been met. The Trustees expressed concern with the language used by the physician.

- Salvatore Mattino made a motion to accept the benefit calculation from the actuary and authorizing payment of the lump sum benefit in the event that Mr. Koning chooses that payment option. The motion received a second from Scott Freseman for discussion and after lengthy discussion, the motion was withdrawn.

- Robert DiGloria made a motion to send a letter to the physician clarifying the Board's request and inquiring if the member meets the criteria to be considered "in good health". The motion died for lack of second.

Mr. DiGloria expressed his concern with the evidence provided explaining that he would prefer to receive a more sufficient statement from the physician.

- Salvatore Mattino made a motion to accept any election chosen by Mr. Koning as presented by the actuary and for the benefit to be paid as per the allowance of the pension plan. The motion received a second from Scott Freseman and after lengthy discussion, the motion was approved 4-0.

Mrs. McNeill advised that an election was currently being processed for Henry Maki's Trustee seat and information would be provided to the Trustees via email upon completion of the ballot count scheduled for March 15, 2007. She further advised that an election would be processed for the seat currently held by Lew Steinberg.

Mrs. McNeill informed the Trustees that two additional members have inquired into receiving preliminary calculations inclusive of lump sum distributions.

Discussion followed regarding payroll data and the information needed to create the annual report schedules as well as information necessary to provide benefit calculations to members. Chief Knight had indicated that the Village would be willing to work with the administrator in an effort to resolve the issues. Mrs. McNeill will follow up on the process.

There being no further business:

- Scott Freseman made a motion to adjourn at 5:05 P.M. The motion received a second by Salvatore Mattino and was approved by the Trustees 4-0.

Respectfully submitted,