

Village of North Palm Beach Police and Fire Pension Fund

MINUTES OF MEETING HELD

May 15, 2007

Lew Steinberg called the meeting to order at 2:07 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
Salvatore Mattino
Bobby Furey
Scott Freseman (2:45)

TRUSTEES ABSENT

None

OTHERS PRESENT

Bonni Jensen, Hanson, Perry & Jensen;
Fund Counsel
Denise McNeill, Pension Resource Center
John McCann, Thistle Asset Consulting
Grant McMurry, ICC Capital
Steve Palmquist, Gabriel, Roeder Smith & Co
Howard Rew & Rowana Flitan; Cherry, Bekaert & Holland
Various Members of the Public

ITEMS FROM THE PUBLIC

No items from the public at this time.

MINUTES

- Robert DiGloria made a motion to approve minutes of January and February 2007. The motion received a second from Sal Mattino and was approved by the Trustees 5-0.

ICC CAPITAL

Grant McMurry presented the Board with the Investment Review Quarterly Report for the quarter ending March 31, 2007. He noted that the value strategy has been in favor, outperforming growth. Mr. McMurry advised that the market experienced a significant sell off in February however the market has currently bounced back with April being a dramatic and positive period. He reported a .85% return for the quarter, a 5.53% return for the fiscal year to date as of March 31st and 9.34% return as of the end of April. Mr. McMurry reviewed the asset allocation of 32.8% fixed income, 9.8% growth, 55.1% value and 2.3% cash.

THISTLE ASSET CONSULTING

John McCann presented the Board with a Morningstar analysis related to the Fund. Mr. McCann then presented an asset allocation analysis inclusive of mid cap, small cap and international equities in an effort to show additional asset strategies available to the plan. Mr. McMurry advised that ICC also offers an "all cap" fund that includes a mix of small, mid and large cap investments. Mr. McCann will provide a revised investment policy guideline for review at the next quarterly meeting. Mr. McCann recommended ICC closely monitor the plan in an effort to be consistent with the policy guidelines of 60% equities (cost). Mr. McMurry confirmed ICC carefully monitors such allocation.

Mr. McCann then presented the Trustees with the Performance Evaluation Quarterly Report ending March 31, 2007. The Board advised that although Mr. McCann has recommended the addition of international equities, the ordinance changes are pending negotiations at this time. Mr. McCann reviewed the report in detail, noting ICC Capital's performance fiscal year to date of 5.22% was behind the policy of 5.45%. Lengthy discussion followed regarding ICC Capital's performance in relation to other managers. Mr. McCann explained that an overall view of the past five years shows that the Fund has been .7% behind the index. Mrs. Jensen referred back to the compliance report and inquired if Mr. McCann had any recommendations for improvement. Mr. McCann advised that the fund is nicely diversified and as equities come back into favor, the equity portion of the portfolio should reflect stronger results. Mr. McCann advised that he did not recommend any additional changes with the investment manager at this time. John McCann departed the meeting at 3:05 P.M.

CHERRY, BEKAERT & HOLLAND

Howard Rew presented the audited financial report for the fiscal year ending September 30, 2006 describing the process of his firm's independent review. Mr. Rew noted that the plan's net assets increased by \$965,006 mostly due to member, employer and State contributions. He then noted the reduction of plan assets in the amount of \$456,546 relates mostly to lump sum distributions in the amount of \$393,092 paid out during the plan year. Mr. Steinberg inquired into the significant increase of member contributions and Mrs. McNeill confirmed the increase over the prior year related to a member's buyback of which a lump sum amount was paid into the Plan for the majority of the buyback. Mrs. Jensen requested that all reference to Drop accounts, although listed as \$0, be removed from the report since this plan has no such benefit. The report will be revised accordingly and updated reports will be supplied to the Board. Lengthy discussion followed regarding the employer contribution to the plan. The administrator had previously advised the Finance Dept that an amount of \$261,000 being recorded as employer contributions appeared to be assets already belonging to the plan and therefore should have been processed as an asset transfer from the SBA account to the pension plan. Mr. Rew explained that the Village has received confirmation of the error through their audit. The mis-allocation of the fund transfer resulted in an actual shortfall of employer contributions to the plan. This issue has been reported in the Village CAFR as well. Discussion followed that, as per State requirements, interest would be due on the short fall. Steve Palmquist advised the General Employee Plan also experienced a shortage and payment to that Plan is pending. Howard Rew advised the State Annual Report will be completed soon and upon completion, the report will be forwarded to the administrator.

- Salvatore Mattino made a motion to authorize that the State Annual Report be signed by two Trustees upon receipt of the completed report from the auditor. The motion received a second from Scott Freseman and was approved by the Trustees 5-0.

Discussion followed regarding a few items to be adjusted in the report.

- Scott Freseman made a motion to approve the audited financial report for the fiscal year ending September 30, 2006 as amended. The motion received a second from Salvatore Mattino and was approved by the Trustees 4-0. (Mr. DiGloria had temporarily stepped out of the room.).

Mr. Rew inquired into the audit representation letter to be signed by the Board and Administrator. Mrs. Jensen advised of a necessary revision that references an IRS determination, as it is not known that any such determination has been made.

- Salvatore Mattino made a motion for the Board to sign the audit representation letter as amended by Cherry Bekaert & Holland. The motion received a second from Scott Freseman and was approved by the Trustees 4-0. (Mr. DiGloria had temporarily stepped out of the room.).

GABRIEL ROEDER SMITH & CO

Steve Palmquist reported that he had not received the financial information from the auditor with enough time to complete the valuation however he was able to provide a summary of required employer contributions along with a cost of potential benefit changes. The report reflected an employer increase for existing benefits to 19.84% of payroll. Mr. Palmquist advised that the increase was due partly to the five-year smoothing method, salary increases of approximately 11% versus the assumed 6% and a recognized return of below 8% due to lump sum distributions from the plan. Mr. Palmquist reviewed the report in detail noting that, if the Board chose to change the normal form of distribution from a monthly benefit to a lump sum distribution as the trend reflected, there would be an additional cost of 6.35% to 13.09%, depending upon the PBGC interest rate used for the calculation. Additional revenue of approximately \$95,000 would be released by changing the member's date of entry into the plan to the member's date of hire. Mr. Palmquist advised that offering immediate eligibility into the plan and changing the normal retirement to age 52 with 25 years of service would meet State minimum benefits; both of which could be afforded by the plan by utilizing the State reserves set aside for additional benefits and would change the employer contribution to 18.21% of payroll (versus the 19.84% with no change to existing benefits).

- Salvatore Mattino made a motion to change eligibility for participation to the member's date of hire and to change normal retirement to age 52 with 25 years of service. After lengthy discussion, the motion received a second from Scott Freseman and was approved by the Trustees 5-0.

Mrs. Jensen will request a waiver from the bargaining units regarding the changes and will present the information to the Village in a separate Ordinance. The information will be presented to council for the Village's meeting scheduled for May 24, 2007.

Steve Palmquist inquired if the Board would consider changing from the current PBGC rate of interest for the lump sum distribution calculations. He explained that the General Employee Pension Fund, while October 1, 2006 reflects an improvement over the prior year, the General Plan still falls below 60% for a funded ratio. Mrs. Jensen advised that the board should consider addressing the lump sum distribution as soon as possible in an effort to avoid the same issues as the General Plan. There are currently three pending requests expected to have a significant impact on the Plan. Further discussion followed that the calculation currently being used to calculate the benefit encourages

members to take a lump sum distribution and by not changing the process of the calculation, the Village's contribution to the plan is expected to significantly increase. Discussion followed regarding the Board's duty to protect the Plan for all members.

- Salvatore Mattino made a motion remove the lump sum distribution. The motion died for lack of second.

Lengthy discussion continued regarding the issue and pending tax cuts from the State that are expected to create a financial burden on the Village. Steve Palmquist advised that the General Employee Pension Fund is experiencing the same issue, however the problem has been reduced by changing the interest rate from the PBGC rate to 5.25% for the lump sum distribution calculation. Mr. Palmquist advised that changing the interest rate to 5.25% for the lump sum calculation in this plan would not increase the Village's contribution. Mr. Palmquist explained that the State has begun to carefully review the annual actuarial valuations and he is concerned that the State's actuary, Charles Slavin, may not accept the actuarial report. If the State does not accept the report, the State may stop funding the plan with Chapter 175 and 185 money. Lengthy discussion followed that the Village Manager has advised all changes must go through bargaining, however the Board expressed their frustration that these are not items that should require bargaining therefore the Board feels the Village is not willing to help address the Plan's current issues. Mr. Palmquist explained that the Plan was 87.4% funded according to the 2005 valuation and is expected to fall below 85% funded with the 2006 valuation.

- Salvatore Mattino made a motion to change the interest used to calculate the lump sum calculation from the PBGC rate to a fixed 5.25% and to eliminate the lump sum payout for all employees hired after this change effective date. The motion received a second from Scott Freseman and was approved by the Trustees 5-0.

Grant McMurry & Steve Palmquist departed the meeting at 4:35 P.M.

Lew Steinberg advised that he will remove his name from the election at the end of May. He expressed his disappointment with the prior Village Manager and the constant delays the Board has experienced while attempting to protect the pension plan for all members.

ATTORNEY REPORT

Bonni Jensen advised that she has drafted a response to Thomas Parks regarding the balance of the lump sum distribution to be paid to his beneficiary in the event of his death prior to the full balance being paid to him.

Mrs. Jensen presented a sample letter for members to provide evidence of good health relating to the qualification for lump sum distributions. Lengthy discussion followed regarding the issues and the most appropriate way to address that requirement.

- Salvatore Mattino made a motion to adopt a medical evaluation to be completed by the Plan's medical advisor. The motion was withdrawn.
- Robert DiGloria made a motion to modify the lump sum distribution policy to state that a potential recipient must receive a certificate of good health from the Pension Fund's medical advisor and the medical advisor may make specific referrals to other specialists as needed for further review. The motion received a second from Salvatore Mattino and was approved by the Trustees 5-0.

The Administrator will communicate this process with the Plan's medical advisor and will address accordingly with the members who have pending lump sum distribution requests.

ADMINISTRATIVE REPORT

The Trustees welcomed Bobby Furey as the newest Trustee to the Board.

The Administrator will confirm Mr. Maki's dates of service to the plan and will order a plaque thanking him for his service along with a \$50 gift certificate for dinner.

Denise McNeill advised that she received notice from Mr. DiGloria that he had been reappointed as the Village appointee to the Board. Mrs. McNeill requested Mr. DiGloria provide a copy of the notice for the Plan's records.

Denise McNeill presented disbursements totaling \$42,060.88 for review and approval.

- Robert DiGloria made a motion to approve the disbursements as presented. The motion received a second from Bobby Furey and was approved by the Trustees 5-0.

Denise McNeill reported that Steve Stack of ICC Capital had reviewed the custodial fee in relation to the current agreement. Salem Trust had initially agreed, after the first year of the three-year agreement, to allow the Board to consider changing to an all-inclusive six basis point fee depending upon the level of transaction activity in the plan. Mr. Stack had responded recommending the Board initiate the change to the all-inclusive fee.

- Scott Freseman made a motion to change the custodial fee to an all-inclusive fee of six basis points. The motion received a second from Salvatore Mattino and was approved by the Trustees 5-0.

Mrs. McNeill reported that although the Pension Fund has a separate audit being processed annually, the Village Finance Department has requested detailed information from the administrator in order to log transactions in the Village records as well. Mrs. McNeill explained that all information would be supplied to the Village quarterly.

Mrs. McNeill advised that the Village's Information Technology person has agreed to meet with a programmer in an effort to move forward with creating a program that will help extract the necessary data for the pension plan each time payroll is run. Mrs. McNeill will follow up on their progress.

Mrs. McNeill then presented an updated financial statement through March 31, 2007 reflecting an overall plan reserve of \$10,200,787.24.

Mrs. McNeill presented a benefit approval for Thomas Koning reflecting a lump sum benefit in the amount of \$637,704.98. An annual payment summary reflecting the five annual installments and the interest accumulation was also presented for both Mr. Koning and Mr. Parks. Mrs. McNeill advised the payment information will be used to track the annual distributions for members.

Mrs. McNeill referred to a letter received from Jack Watrous regarding distrust among participants that the plan will be available to pay members a lifetime, monthly benefit. Mrs. Jensen advised that she is uncertain what type of assurance could be added to the plan to provide that comfort level to members. Mrs. Jensen referenced a few other cities

that had eliminated their public safety departments, which resulted in the elimination of the Plan as well therefore she is not certain what response could be given to members to alleviate their concern.

Denise McNeill presented a letter from ICC Capital regarding their Form ADV II. Mrs. McNeill will request a copy of the report for plan records.

Discussion followed regarding a special meeting scheduled for Tuesday, May 21, 2007 at 3 P.M.

There being no further business:

- Salvatore Mattino made a motion to adjourn at 5:25 P.M. The motion received a second by Scott Freseman and was approved by the Trustees 5-0.

Respectfully submitted,