

VILLAGE OF PALM SPRINGS GENERAL EMPLOYEES'
PENSION FUND
MINUTES OF MEETING HELD
May 6, 2003

Virginia Walton called the meeting to order at 7:05 P.M. at the Council Chambers in Palm Springs, Florida. Those persons present were:

TRUSTEES

Virginia Walton
Michael Johnson
Bev Smith
Rebecca Morse
Butch Cooper

OTHERS

Bonni Jensen, Hanson, Perry & Jensen, Fund Counsel
Margie Adcock, Pension Resource Center
Brian Coker and Bill Stewart, Invesco
Ernie Mahler, Salomon Smith Barney
Larry Wilson and Steve Palmquist, Actuary

MINUTES

The Board reviewed the minutes of the meeting held April 7, 2003. A motion was made, seconded and carried 5-0 to approve minutes of the meeting held April 7, 2003.

INVESTMENT MANAGER REPORT: INVESCO

Brian Coker and Bill Stewart appeared before the Board to discuss the investment performance for the Fund for the quarter ending March 31, 2003. Mr. Stewart discussed the equity market summary and noted that the first quarter started off strong in the equity markets. But then the realities of war happened and the market unraveled at the end of the first quarter. There were only two positive sectors in the quarter which were energy and healthcare. Mr. Stewart discussed the outlook going forward and noted that they are underweight in telecom and utilities. He then discussed the fixed income market summary. He noted that the fixed income has been exceptionally strong over the last 3 years and they have a high quality portfolio.

Mr. Coker advised that the total market value for the portfolio for the quarter ending March 31, 2003 was \$4,586,495. The asset allocation as of March 31, 2003 was 57.1% in equities, 42.1% in fixed income and the remainder in cash. Mr. Coker reported that the total Fund was down 1.7% for the quarter ending March 31, 2003 while the benchmark was down 1.1%. With respect to equities for the quarter, the Fund was down 4% while the benchmark was down 3.2%. With respect to fixed income for the quarter, the Fund was up 1.5% while the benchmark was up 1.6%. Mr. Coker provided updated information on the portfolio of the period ending April 30, 2003. The total Fund was up 5.2%. The equity portion of the portfolio was up 8.7%. He stated that the second quarter was off to a nice start and they were optimistic that it will continue.

Mr. Stewart discussed the fixed income portfolio characteristics. They have reduced the duration to 3.2 due to the risk of the interest rates going down. This is below the duration of the benchmark which is 3.6.

INVESTMENT MONITOR REPORT: SMITH BARNEY

Ernie Mahler appeared before the Board to discuss the investment performance of the Fund. He reported that the Fund was down 1.75% for the quarter ending March 31, 2003 while the benchmark was down 1.13%. He stated that the Fund underperformed because the portfolio is tilted more toward growth and they were early with that move. The market was still pretty defensive because of what was going on in the world. The returns since the end of the quarter are good. He advised that he feels growth has crossed the line and the position on the equity side is good for going forward. Mr. Mahler stated that he would come to the next meeting with some presentation on small/mid cap exposure. He thinks the Fund needs that kind of exposure going forward. It makes sense to diversify the Fund a little more. He noted that shortening up the duration on the fixed income side is the best thing to do right now. Mr. Mahler noted that there have been no net flows of contributions into the Plan since 1999. Becky Morse noted that this Fund is at a breakeven where there is no excess money. The volume of expenses and payments about matches the contributions.

ACTUARY REPORT

Larry Wilson appeared before the Board to present the Actuarial Valuation for the period September 30, 2002. Mr. Wilson discussed the normal cost and the unfunded liability. He noted that the contribution for fiscal year beginning October 1, 2003 is 13.13% of payroll. That is up from 9.9% last year. The substantial reason is the recognized rate of return was a negative 7.4% which is less than the 8% assumed rate. Also, there was a 4.7% increase in payroll versus the 6.2% that was expected. Mr. Wilson reported that the total normal cost was 11.37% with a total unfunded liability of 1.75% and administrative and investment expenses of 1.1%. This brings the total contribution requirement to 14.13% of which the members contribute 1%. Mr. Wilson noted that the Village has used the percent of payroll contribution method.

Mr. Wilson then discussed the smoothing technique. He stated that there was an investment income loss of \$830,467 which is recognized over 4 years. He noted that they can only recognize \$5,428,384 as the funding value due to the 20% corridor which requires that the funding value needs to stay within 80% or 120% of the market value. The difference between the market and funding value is \$904,731. Mr. Wilson reported that the funding progress is 85.4%. Mr. Wilson then noted that total revenues totaled \$161,733; total expenses totaled \$201,175 and the net income was \$362,908. The total assets at market value on September 30, 2002 were \$4,523,653. He noted that there are 93 active members with an average age of 42.6 and 7.4 years of service. Mr. Wilson then discussed the salary and investment assumptions. He noted that the assumed salary increase is 4.5% and the investment assumption is 8%. The real rate of return was 3.5% for the 5 year period. A motion was made, seconded and carried 5-0 to accept the Actuarial Valuation.

Brian Coker, Bill Stewart and Ernie Mahler departed the meeting.

PRESENTATION BY ACTUARIES

Bonni Jensen noted that there are three firms who will be making presentations. She provided the Board with an overview of the responses.

BUCK CONSULTANTS

Jose Fernandez and Zanese Duncan appeared before the Board to discuss their response to the request for proposal for actuarial services. Mr. Fernandez discussed the firm. He stated that he has been with Buck Consultants for 22 years and works mostly with public pension plans. Ms. Duncan advised that she has been with Buck Consultants for 22 years and primarily works on public sector pension plans. Mr. Fernandez stated that Buck Consultants have been around since 1916 working with public pension plans. They have a peer review system and are confident that what they give the client is correct. They are the fourth largest employee benefits consulting firm in the United States and are a subsidiary of Mellon Financial Corporation. He then discussed the services that this company provides in general.

Ms. Duncan discussed the regular services that they would provide to the Fund. The fees quoted to the Board would include 5 benefit calculations per year. They quoted a fee of \$14,000 a year and guaranteed the fee for 3 years. Ms. Duncan then discussed the special services that they could do for the Fund. Mr. Fernandez estimated that they would charge about \$2,500 for a study on changing the multiplier from 2% to 2.5%. It would be about \$4,000 for a more complex study like a decrease in retirement age. Ms. Duncan stated that Buck Consultants has over 100 governmental clients and extensive public sector experience. Mr. Fernandez stated that the team working on the Fund would be Ms. Duncan, Todd Green and himself. They work out of the Atlanta office where there are 10 employees who do all public sector work. They can always get other help if the need it. The Board then asked various questions to which Mr. Fernandez and Ms. Duncan responded. They discussed that their limit of liability is the greater of \$1 million or the fee paid. They also advised that Buck Consultants has never had any litigation against it and has never paid any claims.

Mr. Fernandez advised that he reviewed the 2001 Valuation and he thinks that the way the actuarial value of assets is applied should be looked at more closely. He stated that the market value and the funding value should be the same and he is not sure that is the case. He stated that they would do an experience analysis when they do the Valuation and if there was a trend that was starting to diverge, they would bring it to the Board's attention. Mr. Fernandez stated that overall the assumptions currently being used by the Fund seem reasonable.

Jose Fernandez and Zanese Duncan departed the meeting.

PUBLIC PENSION PROFESSIONALS

Chad Little appeared before the Board to discuss their response to the request for proposal for actuarial services. He stated that they were a small firm that has been in business almost 4 years. They focus on communication and service. He stated that he used to be with a big firm but left because he noticed there was a gap in customer service. They are technology driven and can do anything that a big firm can do. They have very experienced actuaries. He has been working with public sector pension plans for 8 years and Ira Summer has been doing so for 10-15 years. Deanna Van Valen from his firm used to work for CalPERS. Mr. Little then discussed the things that the Board should be looking at when choosing an actuary. He stated that they are knowledgeable of Florida State Statutes and are very responsive. The Board then asked various questions to which Mr. Little responded. There was a discussion on their fees. He advised that they would normally attend each quarterly meeting of the Board. He stated that he would like to encourage the Board to have the actuary at each quarterly meeting. However, if the Board really did not want him at the quarterly meetings, they would drop their meeting fee to \$1,500 per quarter which would cover benefit calculations and so forth. He noted that their fee for a cost study on a change in the multiplier would be about \$1,500.

Chad Little departed the meeting.

GABRIEL, ROEDER, SMITH & COMPANY

Larry Wilson and Steve Palmquist appeared before the Board to discuss their response to the request for proposal for actuarial services. Mr. Wilson stated that he has worked with the Fund for 2 years now and has done 2 Valuations. He noted that there may have been some communication issues, but he thought things were working well now. Mr. Wilson introduced Steve Palmquist who is a team leader and in the Ft. Lauderdale office.

Mr. Palmquist stated that public pension work is their bread and butter and not just a side light for them. All of their clients are governmental pension plans. He stated that in the transition from the Southfield office to the Ft. Lauderdale office, he has taken over a handful of clients. He would encourage the Board to stay with Mr. Wilson, but if the Board would like to stay with Gabriel, Roeder, Smith & Company and would want him to be the primary contact, that would be fine. The firm has been in business since 1970 and he has been with the firm for 30 years. All of their work is within the State of Florida.

Mr. Wilson stated that they have 130 employees with over 30 actuaries. They have a peer review process and send out newsletters to their clients. They also have full time research people. Mr. Wilson stated that he would have liked to do a Valuation a little more like the one their Ft. Lauderdale office does but was discouraged from making any changes initially to the Southfield format. Mr. Palmquist noted that the Plan has two very valuable benefits. One is the COLA and the other is that pensionable compensation is used in total pay. He noted that the multiplier of 2% is a little low compared to other general employee plans and the retirement age of 62 is a little on the high side when compared to others. However, with the market the way it has been, it might be awhile before the Board can talk about enhancements.

There was then discussion on the problems experienced by the Board since the transition from the Southfield office. Mr. Palmquist noted that there was no one in the Ft. Lauderdale office that had worked with the Plan before. Mr. Wilson stated that he felt they were up to speed at this point and that the work they have produced has been good. He has learned to work with the Board and would like to continue to work for the Board.

Larry Wilson and Steve Palmquist departed the meeting.

The Board then discussed the presentations. The Board noted that Public Pension Professionals was rather small. Ms. Jensen advised that she has not worked out the contract issues she has with them on other plans. The Board noted that Buck Consultants is rather large and costly. Gabriel, Roeder, Smith & Company is local and they are familiar with the Plan. They do have depth in management and know the Board is concerned. The Board decided that the references of all the firms that made a presentation should be checked. The Board asked Virginia Walton to contact references for each firm and report back to the Board.

Becky Morse departed the meeting.

ADMINISTRATIVE REPORT

Margie Adcock reported that they had received two Beneficiary/Enrollment Forms from the Village. A motion was made, seconded and carried 4-0 to approve the list of Enrollment Applications.

Ms. Adcock presented the disbursements. A motion was made, seconded and approved 4-0 to pay all listed disbursements.

ATTORNEY REPORT

Bonni Jensen provided the Board with an update on the 2003 Legislative Session. She advised that Senate Bill 1426 passed which has to do with per diem expenses. It allows a municipality to establish its own allowances for meals and travel.

Ms. Jensen then discussed the updated draft Summary Plan Description. She stated that the Actuary is costing the normal retirement benefit at 62 with 5 years with no reduction. She noted that that is not how the benefits have been interpreted. The benefit has been interpreted as 62 with 5 years and a 50% reduction. Ms. Jensen advised that it would not cost anything to leave it the way it is now. Ms. Jensen recommended that the Board obtain a letter from the Actuary costing the benefit at normal retirement at 62 with 5 and no reduction that states that there is no actuarial cost in interpreting the Plan that way. Ms. Jensen stated that she would get a price to reproduce the Summary Plan Description in 3 ring binders.

OTHER BUSINESS

There was then discussion on the petition that was presented to the Board at the last meeting. Virginia Walton stated that she spoke with the Village and presented the petition to them and asked them to consider it. She noted that the benefits being requested have to go through collective bargaining. The Village was taking it into consideration.

There being no further business and the next meeting being scheduled for Tuesday, August 5, 2003 at 6:30 P.M. at the Water Plant, the meeting was adjourned at 10:00 P.M.

Respectfully submitted,

Michael Johnson, Secretary