

**City of Delray Beach
Police and Firefighters' Retirement System**

**Minutes of
January 14, 2009**

Members: Off. Jeroloman, Major Phillips, Sgt. Myers, Lt. Liguori, Chief Giaccone,
Lt. Tabeek, Adam Frankel, Doug Smith

Alison Bieler, Esq., Board Counsel (Cypen & Cypen)
Karen Schell, Pension Coordinator (Finance)
Anne Woods, Plan Administrator

Absent: Melvin Sacharow

Guests: Mike Welker, Bogdahn Consulting; Brad Heinrichs, Foster & Foster;
Terrill Pyburn, Asst. City Attorney

Off. Jeroloman, Chairman, called the meeting to order at 2:03pm. Roll call was taken of members and guests.

1. Approve Meeting Minutes: November 13, 2008 and December 17, 2008:

November 13, 2008: Lt. Tabeek made the motion to approve the minutes as submitted. Mr. Frankel seconded the motion. None opposed.

December 17, 2008: Mr. Smith made the motion to approve the minutes as submitted. Mr. Frankel seconded the motion. None opposed.

Off. Jeroloman stated that both the PBA and the Finance Department requested a meeting, and the purpose would be to provide information from the actuary and the investment consultant. The meeting was held on January 14, 2009. Attendees: Joe Safford, Finance Director, Terrill Pyburn, Asst. City Attorney, Human Resource, Sgt. Adam Rosenthal and Off. Sal Arena, PBA; Brad Heinrichs, Foster & Foster and Mike Welker, Bogdahn Consulting.

Mr. Heinrichs stated that the topics under discussion were:

- a.) Clarify current investment strategies, in lieu of Smith Barney's (previous investment consultant) investment philosophy
- b.) City contribution – historical overview
- c.) Explanation of unfunded liability

- d.) Discuss how to reduce costs without reducing benefits; and the prospect of freezing the Plan and the City's contribution. If the Plan were closed, the City's contribution would immediately increase.
- e.) Florida Retirement System (FRS) vs. Police & Fire Pension Plan – Delray's plan benefits exceed those of the FRS; and its members receive larger benefits than they would have if they retired under the FRS.

Mr. Welker stated that he felt that the City appreciated the discussion, and has a better perspective of current investment strategy.

2. Unfinished Business:

- a. Doug Smith – Update of City Commission Response to Ordinance Changes:
 - i. Pop Up Provision – The item was not on the January City Commission Workshop agenda. The City Manager requested that a letter from the Board to either himself or the City Attorney requesting Commission review.
 - ii. DROP Plan – Increasing the DROP to 7 years would require substantial research and discussion by both the City and the Commission. The letter should indicate that the Board initially discussed this change at the December 17, 2008 meeting, and are now requesting that the City Commission review and provide comments.

Lt. Liguori stated that with regard to the 7 year DROP he felt the Board needed to decide what parameters are being offered so the City would have a clear understanding of the changes.

Mr. Heinrichs stated that there is no generally actuarially acceptable way to quantify the impact of extending the DROP period. In his opinion, the impact would be very minimal, but he would be unable to determine if the impact would be positive or negative. He as well as other actuaries in the State would have no problem signing a letter of no financial impact for purposes of satisfying the Statutes for the following:

- Increasing the mandatory separation point to a lesser of the maximum of 7 total years in DROP or 30 years of service for current and/or future DROP members.
- Increasing the mandatory separation point to the lesser of 7 years in DROP or 32 years of service.
- Allowing current DROP members an additional 2 years

He stated that by extending the DROP period from 5 to 7 years and/or increasing the separation age for DROP members from 30 to 32 years of service would not immediately require a change to the actuarial assumptions and therefore would not result in a financial impact to the Plan. Plan changes of this nature do not directly increase costs, but their

existence may indirectly alter participant behavior, which could have a positive or negative consequences to the Plan. The outcome would not be known for some time, and even then it would be difficult to quantify. If a member were allowed to remain in the DROP for up to 7 years it would be difficult to discern exactly how this provision would impact member behavior or the impact on the funding requirements.

Mr. Heinrichs stated that the Experience Study he prepared (dated June 18, 2008) showed that on average, members have been retiring after 23 years of service. By decreasing the average retirement age by 1 year, the costs increased by 0.3% of payroll. If extending the DROP period were to cause a member to retire (DROP) earlier than they otherwise would have, the funding requirements of the Plan would increase (the converse is also true).

Other factors that should be considered are, if current DROP participants choose to remain in the DROP for 7 years instead of 5 it would not negatively impact the Plan. However, lengthening the DROP period may hinder the upward mobility of active membership and could possibly increase turnover and reduce the City's contribution.

There are other potential outcomes from lengthening the DROP period that would cause costs to fall; such as, average salary increases may be less than they otherwise would because there would be fewer promotions. As the Experience Study noted, a reduction in a member's average salary increase by 1% over a working lifetime would reduce the City's funding requirements by 3.4% of payroll. Lower pay increases due to fewer promotions may result from lengthening the DROP.

Mr. Heinrichs stated that there are a few outcomes that could cause funding requirements to increase. If the average retirement age were to be reduced, the funding requirements would increase. Additionally, extending the DROP period may increase the percentage of the workforce that is in DROP. While the overall costs to the Plan would not change, the City's cost as a percentage of the non DROP payroll (required by Division of Retirement) would increase due to the non DROP payroll being less than it would have been otherwise.

Ms. Bieler stated that a number of plan's have requested to extend their DROP for various reasons. Firstly, members do not want to retire at this time in hope that their DROP accounts would have additional time to recover from the economic downturn in the stock market; and secondly because of succession planning within respective departments.

Ms. Bieler stated that when a city employee enters the DROP, the city no longer makes a pension contribution on their behalf. The FRS program is still required to make the contribution on the employee's behalf (calculated at a lesser amount).

Ms. Bieler stated that under the Pension Protection Act the 10% IRS penalty was lowered for public safety employees that retired at age 50 years and above.

Lt. Liguori made the motion to authorize the chairperson to send a letter to the City requesting an amendment to the ordinance to extend the DROP Plan to 7 years and extend the term of service to 32 years. Members already participating in the DROP Plan would be included. Sgt. Myers seconded the motion. Mr. Smith stated he was not prepared to support the motion at this time and needed to study the issue further. Roll call vote: Myers-Yes, Frankel-Yes, Liguori-Yes, Smith-No, Tabeek-Yes, Phillips-Yes, Giaccone-Yes, Jeroloman-Yes. Motion passes 7-1

b. Brad Heinrichs, Foster & Foster

i. Pop Up Provision – Mr. Heinrichs stated that the wording of the drafted ordinance states that the benefit would revert back to the 10 Year Certain and Life Benefit upon the death of the joint annuitant. He stated that in most cases the benefit reverts to a Straight Life Annuity. Lt. Tabeek made a motion requesting that the actuary provide another impact statement letter; and authorized Ms. Bieler to revise the wording in the Pop Up Ordinance to state 'Straight Life Annuity' instead of 10 Year Certain. Lt. Liguori seconded the motion. None opposed.

ii. DROP Plan 7 Years – The Board requested that Ms. Bieler draft an ordinance to extend the DROP to 7 years and change service time to 32 years and include existing DROP participants.

3. New Business:

a. Approve Payment of Warrants 1239 through 1250: Lt. Liguori made the motion to approve payment of the warrants. Major Phillips seconded the motion. None opposed.

Warrant 1239: DROP Retirement Benefit Enhancements for March 2009 – Howard Lunsford (\$7,354.27), James Tabeek (\$6,116.32)

Warrant 1240: Normal Retirement Benefit Enhancements Effective March 2009 – John Fletcher, Jr. (\$4,249.14), Edward Morley (\$3,811.96), Joseph Schroeder (\$8,951.78)

Warrant 1241: Refund of Pension Contribution to Marlo Johnson (\$4,424.91)

Warrant 1242: Commence Normal Retirement Pension Benefit as of January 1, 2009 to Craig Hartmann (\$7,980.79)

Warrant 1243: Steven I. Gordon (\$225 Certified Audit of Financial Statements as of September 30, 2008)

Warrant 1244: ICC Capital Management (Management Fees for Period January 1 to March 31, 2009 – Multi Cap Portfolio \$8,372.72 and Fixed Income Portfolio \$15,526.64); Bogdahn Consulting (\$11,125, Performance Evaluation and Consulting Services for Period 10/01/08 to 12/31/08)

Warrant 1245: Lump Sum DROP Disbursement to Robert Stevens (\$70,000 w/15% withholding tax)

Warrant 1246: Per Diem for Joe Liguori, Brady Myers, Chuck Jeroloman, Ralph Phillips, Mel Sacharow & Adam Frankel (\$266.64 each to attend FPPTA Trustee School, St. Augustine on February 1-4, 2009)

Warrant 1247: Per Diem for Chuck Jeroloman (\$174.82 to attend Opal Group, Police & Fire Pension Summit, Jacksonville, FL on March 6-8, 2009); Travel Reimbursement (\$137.67, Adam Frankel to attend IFEBP, San Antonio, TX on November 14-19, 2008), Travel Reimbursement (\$27 to Brady Myers for attending Institute for International Research, San Francisco, CA on December 13-16, 2008)

Warrant 1248: AT&T (\$99.42 Account #5110450), Platinum Plus for Business (\$2,193.43 Account #1505)

Warrant 1249: FPPTA (\$500 to Mel Sacharow to attend FPPTA Wall Street 2009 Conference, New York on April 1-4, 2009)

Warrant 1250: FedEx (\$25.42 Delivery Service Account #210739513), Holland & Knight (\$150 Pension Plan IRS Compliance Review Invoice #2335107)

4. Reports:

a. Alison Bieler, Esq. for Steve Cypen, Board Attorney:

i. Status of Pending and Potential Litigation Matters and Ratification and Approval of Relationship with Law Firms – Smith Barney Litigation: Ms. Bieler stated that there were two (2) retainer letters/agreements with Milberg Weiss executed by the chairman on January 18, 2008. The letters state that the work will be done on a fully contingent basis; and if there were to be a settlement or judgment, the amount of the fee would be 33-1/3% of sums recovered, whether recovered by suit, settlement or otherwise. They would all costs/expenses necessary to prosecute the case; and if there were no recovery, they would recover no fees. They would be working jointly with Stephen Cypen (Cypen & Cypen) and Maya Saxena (Saxena White P.A.). Cypen & Cypen would receive 16% of any fee that may be received by Milberg Weiss in this matter; and Saxena White would receive an amount from any fee paid to Milberg Weiss that would fairly reflect their activities and contribution to the prosecution and resolution of the claims against Smith Barney.

Lt. Liguori asked if Milberg Weiss were to associate themselves with another lawyer(s) or law firms would the Board have a say in determining the amount of the fee. Ms. Bieler stated that in her opinion, the firm

would first disclose their intent to retain additional counsel; and there are rules governing (Florida Bar) lawyer fees. The Board would also have a say as to whether or not it would want those firms representing the plan.

Sgt. Myers stated that at a previous meeting he made a motion that the Board unanimously agreed upon, that due to a pending indictment the Board would have no association with Milberg Weiss.

Ms. Bieler requested that the Board agree to make a motion to ratify, confirm and approve the letters; and also ratify, confirm and approve all acts performed and taken by the law firm pursuant to the letters (prior and after January 18, 2008).

Lt. Tabeek made a motion to table this item to the February 18th agenda for further discussion. Lt. Liguori seconded the motion. None opposed.

b. Mike Welker, Bogdahn Consulting: Portfolio Review

i. Asset Allocation as of 1/14/2009 – Total Fund Value \$90,075,125 Equity (\$43,127,927), Alternative (\$5,467,917), Real Estate (\$5,768,489) and Fixed Income/Cash (\$35,710,792). Presently, there is approximately \$5 million in a cash position that needs to be allocated. Mr. Welker stated that his first recommendation would be not to take any action to replace WHV (1.8% of the portfolio or \$1,661,486 in assets). WHV is heavily invested in oil and that position negatively affected the portfolio.

Updated preliminary portfolio performance for the quarter ending 12/31/08 net of fees –12.5%. International –20%, Merging –28%, S&P500 –22%, Stock/Bond –12% and the Bond Index 4.5%.

ii. Update FISCO Product – Table to next meeting for further review.

iii. Update BNP Paribas – FDIC insured product issued by Sun Trust Bank is a 5 year CD with 100% participation in the Spectrum index and a 1% annual coupon. As rates move higher and a zero coupon bond of a given length can be purchased with a greater discount, clients can be offered a guaranteed minimum annualized return or an annual coupon rate. The client can alter the term of the CD or participation rate in the index in order to structure a product offering that is attractive to them; e.g. If rates fall and an 8 year instrument would no longer offer an annual coupon rate, the term of the investment could be increased to 10 years in order to receive a 1% annual coupon. The Spectrum index is a market neutral trading strategy that ranks four categories of investment in the US and

Europe – value, growth, dividend and market. The strategy ranks the momentum of each strategy from top to bottom in both US and Europe. The strategy goes long the best ranking strategy and short the worst ranked strategy in both markets. The target volatility of the strategy is 8%, which consists of 4% from the US and 4% from Europe. The relative exposure to each strategy depends on the historical volatility of the long and short position in order to maintain the 4% target level volatility.

Mr. Welker suggested that the Board consider investing the 5 million dollars held in cash to fund the BNP with the monies being locked in for 5 years. The fee for this product would be 70 basis points.

Lt. Liguori made the motion to authorize the transfer of no more than 5 million dollars to fund the newly established BNP Paribas account. Chief Giaccone seconded the motion. Roll call vote: Jeroloman-Yes, Myers-No, Frankel-Yes, Liguori-Yes Smith-Yes, Giaccone-Yes, Tabeek-Yes, Phillips-No. Motion passes 6-2.

iv. Update Lazard vs. ICC Fixed Income Portfolio – Take no action at this time.

5. Board Member Items:

Security Monitor Search - Sgt. Myers stated that when he attended the conference in San Francisco he learned that a number of plans retain multiple monitoring forms. There are no costs incurred and fees are paid through recovery. He suggested that the Board consider adding additional monitors (along w/Saxena White), and contact those firms for presentations in either March or April. After further discussion, the Board agreed to the presentations and instructed the administrator to contact the firms that would be provided by Sgt. Myers.

The meeting adjourned at 4:10pm.