

**City of Delray Beach
Police and Firefighters' Retirement System
Minutes of
August 21, 2008**

Members: Off. Jeroloman, Capt. Phillips, Sgt. Myers, Chief Giaccone, Lt. Liguori, Chief Giaccone, Lt. Tabeek, Mel Sacharow, Adam Frankel

Steve Cypen, Board Counsel (not in attendance)
Pete Prior & Livia Nixon - Benefits USA (Third Party Administrator)
Anne Woods, Plan Administrator

Absent: Doug Smith

Guests: Mike Welker, Bogdahn; Brad Heinrichs, Foster & Foster; Karen Schell

Off. Jeroloman, Chairman, called the meeting to order at 2:07pm. Roll call was taken of members and guests. Lt. Liguori suggested amending Item #3 Foster & Foster – On Line Calculator and Off. Jeroloman suggested amending Item #6 Other Business - 2 Year Buy Back and the Early Window Incentive.

1. Approve June 18 and July 16, 2008 Minutes:

Lt. Tabeek made a motion to approve the minutes as submitted. Capt. Phillips seconded the motion. None opposed.

2. Mike Welker – Quarterly Review as of 6/30/2008, Portfolio Transition & FISCO:

	Return (%)	Fund Policy (%)	Since Inception (%)	Fund Policy (%)
Total Fund (Net)	0.17	-1.29	4.16	4.90
Total Fund (Gross)	0.27	-1.29	4.58	4.90
Total Equity	0.74	-1.73	3.72	3.70
Domestic Equity	0.13	-1.69	2.26	3.84
ICC Equity	3.88	Russell 1000 Growth 1.25	1.98	4.69
Pioneer Equity	2.86	Russell Mid Cap Value Index 0.07	5.44	-0.53
Delaware Investments	-5.59	Russell 1000 Value Index -5.31	-17.05	-14.41
International Equity	3.34	MSCI EAFE -1.93	17.4	-7.17
WHV	17.07	MSCI EAFE -1.93	31.33	-7.17
Voyager	-10.94	MSCI EAFE -1.93	-14.41	-12.59
Total Fixed Income	-0.44	-0.78	5.11	5.14
ICC Fixed Income	-0.57	LB Intermediate Aggregate -0.96	6.49	6.25
Total Tips Portfolio	0.13	LB US Treasury Inflation Notes 0.23	11.43	11.71
Mutual of America	0.13	LB US Treasury Inflation Notes 0.23	0.13	0.23
American Stable Value	1.52	NCREIF Property Index 0.56	10.5	9.21
Quadrant (Real Estate)	0.05	8.50% Annual Return 2.06	-24.93	6.31
AmSouth Timber Fund	0	8.5% Annual Return 2.06	3.08	8.85

Mr. Welker suggested that the Board consider taking the WHV portfolio and move the monies to a true international growth manager that would compliment Voyager. The international portfolio would still have the WHV exposure with the DG Capital portfolio.

The Board agreed to have Mr. Welker provide a short list of international growth managers for review at the September 17th meeting.

Note: As of October 1, 2008 the return rate assumption drops to 8.3%.

Mr. Sacharow made the motion to accept the Quarterly Performance Review as of 6/30/2008. Capt. Phillips seconded the motion. None opposed.

Mr. Welker suggested that due to the monthly portfolio rebalancing a letter should be provided to Salem Trust (Custodian) that would allow them the discretion to raise monies in a pro rata fashion from each of seven (7) managed accounts if the balance in the R&D Account (Receivable/Disbursement) should fall below \$650,000. Having this letter on file will avoid overdrafts and will ensure that the portfolio is in line with the Investment Policy Statement. If there should be a large cash flow (amount over \$1.5 million), then Salem Trust would contact the consultant for further direction on where the additional monies should be withdrawn. Once the determination is made the final authorization must come from the administrator(s).

FISCO – Mr. Welker informed the Board that if they were still considering retaining FISCO as a fund manager the contract had been reviewed and approved by Mr. Cypen. He stated that he would be providing FISCO's monthly returns at the September 17th meeting.

Lt. Liguori made the motion to provide Salem Trust with an allocation of cash authorization letter for the rebalancing of the R&D Account on a monthly basis. Chief Giaccone seconded the motion. None opposed.

Ms. Nixon stated that Salem Trust has the capacity to process the benefit enhancements (DROP and Normal) automatically. Salem Trust would be provided a list of recipient names and the month of their anniversary date, and the amount of the enhancement (2.5%). Each month, the administrator would provide the trustees with a list of the monthly benefit enhancements for ratification (the list will be attached to the agenda).

Lt. Tabeek made the motion to authorize Salem Trust to automatically setup the annual pension benefit enhancements based on the member's anniversary date. Lt. Liguori seconded the motion. None opposed.

3. Brad Heinrichs, Foster & Foster – 2007 Actuarial Report:

Valuation Date	10/1/2006	10/1/2007
Applicable Fiscal Year End	<u>9/30/2008</u>	<u>9/30/2009</u>
Total Required Contribution	\$7,119,580	\$6,900,364
% of Total Annual Payroll	47.0%	40.8%
Member Contributions	\$1,006,183	\$1,013,633
State Contribution*	\$504,922	\$504,922
Balance from City**	\$5,608,475	\$5,381,809
%of Total Annual Payroll	37.0%	31.9%

* Frozen pursuant to the provisions of Chapters 175/185

**Adjusted for interest assuming payment will be made in December prior to fiscal year end.

Mr. Heinrichs stated that the report reflects the State's interpretation regarding Chapter revenue in excess of \$504,922. The base State contribution available as a credit against the required contribution is \$504,922. All Chapter revenue above this amount and below the Chapter 99-1 baseline of \$830,154 (\$383,747 Fire and \$446,407 Police) goes into the Excess State Contribution Account. Any additional Chapter 175 revenue over the \$383,747 also goes into the account. However, any Chapter 185 revenue above \$446,407 must be held in reserve until all minimum benefits for Police Officers have been met.

The Plan's actuarial experience during the last 12 months was more favorable than expected. The primary reason being the investment return gain was 11.2% (8.5% assumption). The investment gain was partially offset by average increases in pensionable earnings that exceeded the 6% assumption and the addition of 33 new members.

Actuarial Assumption/Method Changes:

- Investment return assumption was changed from 8.5% to 8.4% per year, net of investment expenses.
- Annual salary increase assumption was increased from 6.0% to 6.25%.
- Rates of retirement were amended to reflect 25% retiring on normal retirement date, 10% retiring 1 and 2 years after normal retirement date, and 25% retiring 3 and 4 years after normal retirement date and 100% retiring 5 years after normal retirement date.
- Non retirement termination table was modified.
- Disability table was modified.

- Assumed mortality rates were updated to use the RP-2000 Combined Healthy mortality table.
- Asset method was changed to develop the Actuarial Value of Assets (AVA) by increasing the value used in the most recent actuarial valuation of the Fund by the average annual market value rate of return (net of fees) for the past 4 years, but limited to a minimum of 80% and a maximum of 120% of Market Value of Assets (MVA). Since this method is being implemented in the 10/01/2007 valuation, the AVA is equal to MVA as of 9/30/2007.
- With the change in asset method, the development of the MVA has also been changed. The MVA is no longer holding receivable the City contribution that is for the fiscal year following the valuation date. The MVA matches the Annual Report as well as the audit

Mr. Heinrichs stated that the Plan is fully funded on a current accrued basis (total present value accrued benefits \$116,873,432). The unfunded actuarial accrued liability is \$33,618,995 (approx. \$7million less than last year). The measure is not based upon current liability but on projected pay of 6.25% and service to date.

Mr. Prior stated that he is concerned with the determination that the Plan is fully funded because the State has a caveat that if a plan is fully funded they are no longer eligible to receive premium tax monies (175-185). Mr. Heinrich stated that he has never seen the State hold back 175-185 monies.

Pension Cost:

Normal Cost (with interest) \$4,350,953, Total Annual Payroll* 25.8% (down from 27.5%)

Administrative Expense (with interest) \$181,297, Total Annual Payroll* 1.1%

Unfunded Actuarial Accrued Liability over 30 years (as of 10/01/07) \$2,368,113, Total Annual Payroll* 14%

Total Required Contribution \$6,900,364, Total Annual Payroll* 40.8%

Expected Member Contributions \$1,013,633, Total Annual Payroll* 6.0%

Expected City & State Contrib. \$5,886,731, Total Annual Payroll* 34.8%

*Contributions Developed as of 10/01/07 are expressed as a percentage of projected annual payroll at 09/30/08 of \$16,893,879.

City contribution (\$5,174,531) was held receivable as of 09/30/06, but was made in December 2006 for fiscal year ending 09/30/07. This practice has been changed beginning with the 10/01/07 valuation.

Sgt. Myers stated that due to current financial pressures on the City, the City Manager decided to open an early retirement window from October 15 to October 31, 2008.

He stated that there were 23 possible members that could possibly take the early window incentive; and that would increase the unfunded liability considerably.

Mr. Heinrichs stated that both the City's costs and the unfunded liability would increase. He suggested that the pension costs could be amortized over a long period of time and reduce payroll immediately. Sgt. Myers asked if it would be possible to make note in the valuation report that the increase in the unfunded liability was due to the City's decision to offer an early window retirement without funding the pension plan. Mr. Heinrichs recommended that once it is known how many employees take the early window incentive consideration could be given to the following two (2) options:

- Have the actuary measure the impact, make the Board aware of the increase, and in future reports make a note that a specific portion of the unfunded liability was due to the early window incentive that was implemented in October 2008.
- Request that the City agree to fully fund the liability immediately; that would make the plan whole. There would be no savings to the City right away, but going forward monies would be saved.

Note: Once it's determined how many members elected to take the early window incentive, Mr. Heinrichs will measure the impact on the unfunded liability and inform the Board.

COLA Account – The account principal plus interest for fiscal year 2007 was the same amount as the present value of future benefits for the current 1.5% COLA. If a large number of eligible employees were to retire, and the investment returns were not stellar, in a short period of time the account would be significantly deplete (Value of Benefit Enhancement in 2006 \$441,329, in 2007 \$737,640). After the 10/01/08 Valuation Report is prepared it would become obvious how to proceed with the 1.5% COLA.

Mr. Sacharow made a motion, to approve the Actuarial Valuation Report for 2007, pending the review of Steve Cypen, Board Counsel. Mr. Frankel seconded the motion. None opposed.

4. Sgt. Myers – Availability of Online Pension Calculator:

Pension Benefit Calculation – Mr. Heinrichs asked for clarification on the procedure that would be used when there is a request for a pension calculation. Presently, he is unsure who would be providing the salary information (City or Benefits USA). In the past, the third party administrator prepared the calculation and the actuary certified the amount submitted. Presently, the actuary is preparing the calculation for consideration by the member.

Sgt. Myers stated that the third party administrator was still having difficulty with the following: formatting the payroll, preparing pension calculations (but forwarding the requests to the actuary), and does not offer an online pension calculator. He stated that the Plan is paying for a product that is not being delivered, and the process is not working efficiently.

Ms. Nixon, Benefits USA, stated that retrieving the payroll information required to prepare a calculation is a time consuming and lengthy process. Ms. Schell stated that the process used to transfer the payroll data to Benefits USA is the same as what was provided Pension Resource Center. Mr. Prior stated that Tegrit (software firm) notified him that they would be unable to continue their association with his firm because they had established a partnership with Pension Resource Center. Ms. Schell stated that the City's new software is able to provide calculations immediately, and there is no longer a lag in obtaining the most current payroll. Mr. Prior stated that his programmer informed him that the payroll conversation should be completed within 1 week, and he will keep Off. Jeroloman informed of the progress.

Mr. Heinrichs stated that Foster & Foster offers clients an Internet pension calculator for \$16 per year for each active member. The fee for a calculation is the same whether it's a preliminary or a certified calculation.

5. Lt. Tabeek – Actuarial Cost for Calculations - Pension Benefit or Buy Back of Prior Service:

Lt. Tabeek stated when the City offered the buy-back of prior service the calculation fee was at the expense of the member. At his request, the City provided him with a list of the employees who requested a calculation and the fee. There are two (2) persons who did not pay for their calculation. He stated that he felt it was the City's, not the Pension Board's, responsibility to pursue payment.

6. Off. Jeroloman – Update City Staff Presentation, Overtime, Certification Pay and Benefit Enhancement and Update Educational Seminar (Scheduled November 4 & 5, 2008):

-Off. Jeroloman informed the Board that the Division of Retirement had sent notification that the Annual Report had been received and approved.

-Early Window Incentive (2 Year Buy Back) – Off. Jeroloman stated that without prior notification the City Manager, in a memorandum dated August 18, 2008, decided to open an early retirement window between the dates of October 15 and October 31, 2008. The eligible employees would be Fire Fighters' or Police Officers' with at least 18, but less

than 20, years of continuous service. Eligible employees would be given credit for 2 additional years of service under the pension plan and would immediately retire and terminate their employment with the City.

Ms. Schell stated that if employees did not retire with 20 years of credited service they would only receive 560 hours. The 2 year early window incentive does not count as credited service. Sgt. Myers stated that there was confusion in the wording of the contract; and the correct wording should be if an employee has 20 years or more of credited service he is eligible to receive 1120 hours.

City Staff Presentation – Off. Jeroloman stated that on the advice of Steve Cypen, Board Counsel, the issue should not be pursued until the litigation is resolved. The 99-1 case has been moved to Leon County, and there is a chance that the suit would be resolved within 30 to 120 days.

Educational Seminar – Scheduled for November 4th and 5th, and held at Northern Trust Bank.

7. Other Business:

-Steve Cypen, Pending/Potential Litigation Matters: Still working on analysis.

Don West (Retiree) Service/Hire Date: At Mr. Cypen's direction, a letter was sent to Susan Ruby, City Attorney, requesting clarification as to whether the Arbitrator's Decision was taken into consideration when the City made their decision on Mr. West's status.

-Approve Payment of Warrants 1175 through 1185: Mr. Sacharow made a motion to waive reading and approve payment of the submitted warrants. Mr. Frankel seconded the motion. None opposed.

Warrant 1175 – Approve DROP Retirement Benefit Enhancement for October 2008 – James Dalton (\$5116.62), Geoffrey Cooper (\$5678.75), Thomas Tustin (\$6110.34), Russell Anzalone (\$4611.87)

Warrant 1176: Approve Normal Retirement Benefit Enhancement for October 2008 – Raymond Fitzer (\$4063.14), Randy Straghn (\$2787.99), Robert Stevens (\$3786.96, Arthur Neddo (\$3807.98)

Warrant 1177: Approve DROP Retirement Pension Benefit to James H. Tabeek (\$5967.14 Commence Retro-active to March 1, 2008. Total pension benefit retroactive \$35,802.84)

Warrant 1178: Investment Management Fees for Period 04/01 to 06/30/08 – Voyageur Asset Management (\$12,944.95, Invoice 8642), Mutual of America (\$2456.80), Wentworth, Hauser & Violich (\$2343), Delaware Investment Advisers (\$26,355, Invoice #06302008ASR630)

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Warrant 1179: Barry S. Balmuth, P.A. (\$24.19, Invoice #13262)

Warrant 1180: JCA Software (\$276.25, Invoice #776, Modify bi-weekly pension program for Benefits USA)

Warrant 1181: Travel Reimbursements to FPPTA Annual Conference, June 29 to July 2, 2008 – Chuck Jeroloman (\$198), Adam Frankel (\$55.14), Ralph Phillips (\$25, Joseph Liguori (\$527.62)

Warrant 1182: Refund for Postage to Anne Woods (\$11.97)

Warrant 1183: Per Diem – Police Officers' & Firefighters' Pension Conference Sponsored by the Division of Retirement, September 8 to 10, 2008 (\$234.76 each, Brady Myers, Chuck Jeroloman and Ralph Phillips)

Warrant 1184: Approve Normal Retirement Benefit Enhancement for September 2008 – Thomas Nabors (\$3890.35)

Warrant 1185: FedEx (\$503.30, Invoice #'s 277347127 & 282299885)

The meeting adjourned at 5:50pm.