Rec 5-6-15

MINUTES OF THE BOYNTON BEACH FIREFIGHTERS' PENSION FUND QUARTERLY BOARD MEETING HELD ON WEDNESDAY, FEBRUARY 25, 2015, AT 9:00 A.M. AT RENAISSANCE COMMONS EXECUTIVE SUITES, CONFERENCE ROOM 1, 1500 GATEWAY BLVD, SUITE 220, BOYNTON BEACH, FLORIDA

PRESENT:

Luke Henderson, Chair
Jonathan Raybuck
Matthew Petty
BobTaylor

Barbara LaDue, Pension Administrator
Adam Levinson, Board Counsel

ABSENT:

Helen "Ginger" Bush

I. CALL TO ORDER – Luke Henderson, Chairman

Chair Henderson called the meeting to order at 9:03 a.m.

II. AGENDA APPROVAL - Revised Agenda was distributed.

Motion

Mr. Taylor moved to approve the agenda. Mr. Raybuck seconded the motion that unanimously passed.

III. APPROVAL OF MINUTES –Quarterly meeting November 5, 2014

Motion

Mr. Taylor moved to approve the minutes. Mr. Raybuck seconded the motion that unanimously passed.

IV. FINANCIAL REPORTS:

B). Bogdahn Consulting – Mr. West, Consultant *(Heard out of Order)*

1) Change of Internal Control

Dave West, Bogdahn Consulting, announced they issued a memo advising of a Change of Internal Control the second week in January. Of the three owners of the Bogdahn Consulting Group, Joe Bogdahn tendered his shares in the company to Mike Welker who would be the managing owner of the company. This was done to effect an early sunsetting for Mr. Bogdahn who wanted more family time. Bogdahn Consulting

works with many investment firms and has seen many transitions. They want to be careful to ensure the transition is done way in advance. Another reason for the change in ownership was to bring shares back into the firm to make equity ownership available to Bogdahn employees and this was the first step to do so.

The Securities Exchange Commission (SEC) requires when changes in ownership occur, the firm has to send an advisement of that effect in writing and it requires the Board sign a Change in Internal Control consent form, which Attorney Levinson reviewed. Bogdahn Consulting was still a completely independent firm with no affiliates or parent companies. Bogdahn Consulting is paid by clients, not banks or Wall Street commissions. The fee schedule remained the same and they receive no compensation from any vendor, product or mutual fund. Bogdahn Consulting bills quarterly in arrears. They want to ensure they were in full SEC compliance. He requested the Board approve the change in ownership.

Motion

Mr. Taylor moved to accept the change in ownership for the Bogdahn Consulting Group. Mr. Perry seconded the motion that unanimously passed.

Attorney Levinson advised if the Board wants to terminate this association, they could do so within 30 days.

Mr. West explained the law states a third-party independent advisor could help and oversee the investments of the program. Bogdahn Consulting accepts fiduciary responsibility for the Plan, which is the highest level of accountability. Their job is to serve as an independent consultant responsible for serving as the chief investment program design engineer and they advise on the investment program's construction. Their objective is to put a program together to retire the actuarial liability. They provide a number of services, which he listed, and advised they just had their 15-year anniversary. Their original focus was the Florida Public Pension systems, but over the years, they branched out and acquired some small independent firms in Texas, Upstate New York and the Midwest, using the same business model. Currently, they have about $60 billion in assets under management and they have about 54 employees. Their national headquarters is in Orlando. All their business was based on referrals, and they were fortunate to have very solid and seasoned employees bringing knowledge and diversification to the firm. As an equity owner, they have not received any distribution because they continue to reinvest in the firm. It was noted all Florida systems have to operate under Florida Statues and local ordinances, which vary by City. They have been proactively working with cities and the State to have unnecessarily restrictive provisions relaxed appropriately.

2) Investment Performance Review for Quarter 12-31-2014 & Adjustment on Investment Policy Statement

Mr. West advised there were three dramatic events that impacted the market and investments. One was a decline in interest rates, big currency shifts in the market and more recently, Janet Yelin's testimony in Congress. All Federal Reserve actions were put on hold for two Federal Reserve meetings.

The fund, net of fees for the quarter, was up 3.02%. Fiscal year-to-date, the fund was up 3.02%. The total fund policy was 2.38%, gaining a small return for the quarter. The three-year annualized return was 12.5%, slightly ahead of the policy. The five-year annualized return was 9.5%, slightly behind the policy. Grossed, the three-year return was slightly under 13% and ranked in the 26th percentile. For the five-year period, the fund ranked in the 42nd percentile. There were some performance deficits which were addressed that resulted in the fund declining half a percent. This placed the fund lower in the peer group rankings; however, the fund was trending favorably.

The all cap value equity, run by Anchor Capital, was slightly under for the quarter and close to the benchmark at 4.43%. The S&P 500 Index was in-line with the market at 4.97%.

The Vanguard Mid Cap Index was up 6.5%. DSM, the large cap growth manager, had a good quarter and was up 8.3% versus 4.7%. Manning and Napier was down 4.7% versus 3.8% in international equities.

A review of domestic fixed income reflected STW, the fund's domestic grade bond manager, was up 1.3%, slightly above the benchmark. Their peer group ranking was 25% for the three-year period, and in the top 40% for the five-year period. The fund has an allocation to Treasury Inflated Protection Securities (TIPS) which they were minimizing. The TIPS were down 1.2% and Mr. West clarified the bond portfolio in place was not an aggregate bond portfolio. It was an intermediate bond portfolio with maturity ranges of one to 10 years to eliminate the price volatility that occurs with changes in interest rates. It was well positioned in case interest rates go up, while capturing the coupon and yield available in the aggregate markets.

The fund was diversified in global bond strategies. The PIMCO Diversified Income Fund was adversely affected by currency this quarter and was down 1.48% versus the global bond benchmark which was up 1%. The Templeton Global Bond Fund, was adversely affected because of depreciation in the yen and Korean currency and was under the benchmark. The long-term results for these two managers were good and had peer group rankings in the top 8%.

Real estate investments showed Intercontinental was at 4.87%. The one-year return was 13.58%. For the three-year period, the return was 15% and this investment positively impacted investment returns. The same held true for ASB.

The Trustees saw opportunities in middle-market debt actively managed by LBC Credit Partners and Crescent Direct Lending. LBC Credit Partners was up 1.5%, 2% for the quarter, and since inception was 4.66%. Crescent Direct Lending just had a capital call

and returns were not yet included in the report. They anticipated a 6% to 8% return from high quality, smaller American companies. In almost all cases, the loans are fully collateralized. If interest rates go up, the fund would receive a higher rate of return because it was LIBOR based. There was still additional capital that would be called before the fund was fully invested.

The fund opened the plan year with $78,184,621. Member and City contributions totaled $4,260,346. Distributions for member payouts were $1,136,695. Investment management fees as invoiced and paid by Salem Trust were $7,814. Other administrative expenses paid by Salem were $700,732. The aggregate income from all sources and appreciation and return on investments was $2,456,420. As of December 31, 2014, the fund had $83,749,136.

2) Manning & Napier – Update

Manning and Napier was a core international manager responsible for investments in developed and emerging markets. Their investments would primarily be in large cap and developed markets. When Manning and Napier was retained, their team had a solid and impressive track record over 10 years, but there was a deterioration of the value adds from the managers. The fund was down 4.73% under benchmark. They had a disastrous quarter in September 2014, down 9.6% versus 5.1%, and for the June quarter, were up 3.2% versus the benchmark of 5%. The Investment Policy states if they have four quarters in a row of underperformance, they would be flagged for a mandatory review. If the three and five-year numbers were below the benchmark, and below the 50% of the active manager peer group, it was cause for review. At the last meeting, this manager was put on watch. The Bogdahn Research Team was going to Upstate New York, and Mr. West was unsure if the outcome of the analysis would be positive. The company went public and there were concerns about distractions and management responsibilities about key employees at the firm. There was no change in management, but there was difficulty identifying the cause of the decline.

Mr. Taylor commented recognizing this was occurring for the last five years, unless there was a compelling rationale to stay with the company, it was in the best interest of the Plan to move in a new direction.

Mr. West announced Bogdahn Consulting receives no compensation in any form on any product or manager brought before the Trustees. They are the sole international equity manager for the fund. Mr. Taylor thought the Plan should reposition itself.

A short list of approved and fully vetted managers for this task was supplied. Mr. West noted there were two managers worthy of consideration. One manager was WCM and the other was the Euro Pacific Fund. With the Euro Pacific Fund, they would invest in an R-6 Institutional Share Class. The expense ratio for the R-6 shares was 49 basis points. This fund was the most inexpensive, cost-effective way to obtain successful and active exposure to the international equity arena. It was a well-diversified fund with over 350 stocks in the portfolio. They would have full coverage in a core fund with up and

down capitalizations. They would invest in emerging markets to some degree, but mostly developed markets. The firm obtains single and double-digit returns. They have been able to lower the volatility and provide an incremental return. Those benefits together, assuming there was reasonable predictability if indexed, would be 20 basis points. If investing in the R-6 share class, they would pay 19 extra basis points, and receive a risk adjusted return in active management. He thought it was a worthwhile investment.

WCM had higher fees at 1.08%, which was the lowest cost share class available for that fund. The manager was more growth oriented. It was a concentrated manager strategy, and it owns 25 stocks. Mr. West recommended if the Trustees want exposure and surety, the Euro Pacific Fund was cost effective. If the Trustees want continuance of a good track record, but take a concentrated equity manager approach, they may have to weather performance cycles. Historically, the returns were great, and risk management through their stock selection was phenomenal. Objectively and statistically, a concentrated manager takes a higher risk approach than a well-diversified manager, but one had to be careful not to take away any value adds.

Attorney Levinson inquired if they could split the allocation and if the managers were complimentary to one another. Mr. West responded they could split the allocation. The strategies between the two managers were highly contrasted. After discussion, the members opted to split the allocation.

Motion

Mr. Raybuck moved to terminate Manning and Napier. Mr. Taylor seconded the motion that unanimously passed.

Motion

Mr. Raybuck moved to retain WCM and Euro Pacific Fund as the fund's designated international equity managers and allocate a pro-rata share at 50% each. Messrs. Taylor and Petty seconded the motion that unanimously passed. It was noted they could adjust the allocations if needed.

3) PIMCO – Update on changes

Mr. West explained they had a conference call with one of six new Chief Investment Officers (CIO) of PIMCO. This CIO was the lead portfolio manager of the PIMCO Diversified Income fund, which the Plan was invested in. Bogdahn has been tracking the firm and put them on watch. They have been observing personnel changes and the money flows, which leveled out and there was a slowdown. Mr. West had no recommendations regarding PIMCO and it was likely they would be removed from the watch list the second quarter.

Attorney Levinson suggested discussing Salem after the GRS presentation.

5) Presentation on International mandates and other options.

A) Davidson, Jamieson & Cristini, PL – Richard Cristini & Jeanine Bittinger
1) Audit Financial Statements PYE 9-30-2014

Richard Cristini, Plan Auditor, announced the Plan is a political subdivision of the United States. It is a legal entity that can sue and be sued. The Board has to follow State Statutes, and is required to hire an independent auditor to report on the controls and conditions of the Plan. They identify audit risk and check items, but standard audit procedures are in effect for this Plan as for any governmental entity.

The auditors check the requirements for contributions from members and pensionable earnings. They ensure they have firefighters in the Plan and not someone who is not a firefighter or was put in by error. If so, they make those corrections. The report standards are the same for all government units in terms of the accounting methodology. The Governmental Accounting Standards Board (GASB) dictates what standards will be followed. The Auditor General requires the GASB standards be followed, in addition to applicable law, board policy and good business practices. This year had new reporting requirements for pension plans. They work with counsel, the actuary, and the performance monitor.

Attorney Levinson explained GASB 67 was adopted by reference through GASB 68 and will be included in the City's disclosures.

Mr. Cristini advised the report was unqualified. They conducted internal control testing and the Board's policies and procedures. They tested the custodian and found no evidence of wrongdoing and all the parties were doing what they should. They canvassed independent parties including the custodian and received confirmations back. They did a related party circularization of any board related conflicts of interest and found none. In general, except for one significant deficiency, which they reported, there were no issues. The one significant deficiency Mr. Cristini found did not affect the figures in the report. The calculations were fairly stated in all material respects.

The fiduciary net position was reviewed. The total receivables were down, which means they sold securities at or near the end of the year and did not receive the check until the first week in October.

A few years ago, the actuary found a shortfall in the City's contribution. They worked with the actuary and a question arose they still had not collected $29,000. The actuary said the monies were still needed and accounted for so it needs to remain as an asset of the Plan and it was reflected as such. The actuary believes it will be taken care of and the City was contacted.

Total investments were $68.9 million in 2013, versus $78 million in 2014. If the number increased, the Plan was doing well. Prepaid expenses were insurance costs. Payables increased and were mainly money manager obligations and contracts with

money managers who bill in arrears for the value of the September 30th portfolio. As the total investments and market value increase, the fees increase as well. The total assets this year were $78 million, less total liabilities of $250,000, giving a net position fund balance of $78,279,000.

Mr. Cristini explained how the Plan obtained the increase in net position. He commented the employer contribution was slightly down. Plan members increased, member buy backs increased, and there was a slight increase in roll overs to DROP. Total contributions increased from $4.9 million to $5.1 million and were basically flat.

Attorney Levinson noted member contributions increased and the City contribution went down. He inquired if total payroll increased. Mr. Cristini clarified there were three new members.

Investment income loss reflected net appreciation and depreciation. The amount of market value and excess cost grew, which was an unrealized appreciation. Interest dividends were flat. Commission recapture was slightly down. Class action settlements increased. Total investment income was $8.5 million versus $7.4 million. Net investment income decreased from $8.2 million to $7.1 million. Total additions increased. Deductions and age in service was about the same. Disability decreased slightly and beneficiaries and DROP payments decreased. Mr. Cristini clarified the DROP payments were actual cash disbursements. Refunds remained unchanged and administrative expenses increased. The net increase in the net position was $9.4 million in 2013 and $8.8 million in 2014.

Mr. Cristini clarified pages 12 and 13 of the report describes GASB 67 and 68. When there are changes in accounting reporting, they have to tell the reader what they are. He pointed out GASB 67 required new notes.

The old Schedule of Funding Progress was replaced and under Required Supplemental Information. Investment asset allocation policies were from the Investment Policy Statement the Board adopted, which dictated how the money is allocated. The rate of return was not a new disclosure, but this year's rate of return had to be added to the footnotes. It was what the Board anticipated the return rate would be each year in the future.

There was $3.6 million of unrealized appreciation and $4.2 million unrealized in the prior year. Mr. Cristini commented the numbers were good. At the end of year of cost versus market, there was a market excess.

Mr. Cristini explained the DROP accounts were not a liability. It was an identification of dedicated funds and they were tracked properly. It is fully funded and accounted for each DROP member separately. The total net position was $78 million.

Note 13 of the report was a brief summary of GASB 67. The total pension liability as calculated by the actuary, showed the City's net pension liability as $37.7 million. This would be posted to the City's balance sheet.

Attorney Levinson explained under GASB 67, the Plan was 67% funded and the ratio will fluctuate year-to-year because they were using the market value and not smoothing. He commented the actuary's evaluation of the Plan showed unrecognized gains. For the purposes of funding with smoothing, the Plan was at 58%

Mr. Petty inquired what total pension liability was. Mr. Cristini responded, bearing in mind the rate of return was the discount rate, the actuary takes all the obligations for 30 years adds and takes the present value of the discount rate and that was the total pension liability. The obligations are to the members, full benefits and future benefits to the death of the last beneficiary.

The long-term expected rate of return was a disclosure issue based on the Plan and policies. Attorney Levinson spoke about the investment return assumptions. As of October 1, 2013, the Plan used a 7.65% assumption. The rate was lowered from 8% to 7.5% last five years. Mr. Cristini advised most plans he was aware of were at 8%.

(Mr. Petty left at 9:42 a.m.)

Mr. Cristini advised the State requires each Plan to show the Plan earning 1% more than it did and 1% less.

(Mr. Petty returned at 9:45 a.m.)

Since 1982, the fund returned 8.2%, but assumed 7.5%, so if the Plan earned 8.2%, the Plan will show future actuarial gains. Gains will put downward pressure on the required contribution and upward pressure on the unfunded liability. Over time, the market and actuarial value should converge. The bulk of the Plan's unfunded liability came from the 2008 market decline.

Mr. Cristini included a schedule of investment and administrative expenses by account categories. The percent of total assets spent on administrative expenses was 1% in each category. Mr. West noted the average cost for defined contribution plan operations was well over 1%.

Discussion turned to the Plan's custodian. Attorney Levinson noted in 2013, the custodian transitioned from one computer system to another and they did not handle the transition well, which necessitated an SSAE report.

Mr. Cristini explained the Report was a service organization control report created by Salem's auditor. It was an internal control report that indicated given the errors they found, they could not give an opinion it would operate as intended in the future; however, the numbers were not affected. Salem responded and explained because of

the transition, they did not adopt or adapt policies and procedures before the auditor arrived and they were cited. The other issue, outside the SSAE report, was a bank and trust issue. Salem's parent company was defrauded.

Attorney Levinson clarified the custodian houses the securities. Even if the parent company of our custodial bank has difficulties, it should not affect the Board's underlying assets which are held in trust.

Mr. Cristini explained complimentary user controls are followed. The Board follows the governing documents in the Trust agreement and this was more of an ERISA issue which the Board was not subject to. The real issue was there were issues with the audit standards and they let the Board know of the concerns. The resulting report from the Custodian indicated they were addressing them. The basic procedures for audit do not require looking at the SSAE Report because the Board has its own internal policies and controls. As to financial solvency, Salem would not disclose any information and it was recommended Salem be contacted and invited to the next meeting to discuss what was occurring.

Attorney Levinson asked if the auditors received full cooperation from the City, actuary, Ms. LaDue or if there was anything else the Board needed to know. Mr. Cristini responded all was in line with the findings. Cooperation was superb starting with Ms. LaDue all the way down the line. GRS was fine and there were no issues to cause an audit issue.

Ms. Bittinger explained the City spoke about testing and they found some errors, but nothing significant. She commented the City's Finance Department does an excellent job.

Motion

Mr. Taylor moved to accept the report as submitted. Mr. Raybuck seconded the motion that unanimously passed.

2) Audit Renewal contract –

The auditors had sent a letter in October in reference to GASB 67 requiring them to spend more time compiling the report. Ms. Bittinger explained this was a one-time cost. Besides their normal engagement letter, they were requesting $3,000 to cover the cost of including the new requirements.

Motion

Mr. Taylor moved to approve. Mr. Petty seconded the motion that unanimously passed.

Attorney Levinson pointed out the auditors did the work ahead of time so it did not hold up the City and other auditors were charging a lot more.

Motion

Mr. Taylor moved to approve a three-year contract with the auditors. Mr. Raybuck seconded the motion that unanimously passed.

Mr. Cristini advised all the boards that he handles, except for one, issued an RFP for a custodian to replace Salem. One plan went to RFQ. In response to a question which bank custodians serve in this capacity, Mr. Cristini replied Regions, Fifth Third, Fiduciary and Circle Trust Banks, and U.S., Key and Wells Fargo Banks.

C) GRS

(Mr. Raybuck left the meeting at 11:14 a.m.)

Ms. Algayer reviewed the "Discussion of Valuation Results" for the fiscal year ending September 30, 2016, which was a comparison of Annual Required Contributions (ARC). For the fiscal year ending 2016, if the ARC is made on the first day of the fiscal year, the total required employer contribution would be $4,856,000. For the fiscal year ending 2015, the required employer contribution would be $4,635,000. The total increase was $221,000. Assuming the State monies would remain the same, the City could take a maximum of $704,322 as a credit against the required contribution and for the fiscal year ending September 2016, the required employer contribution would be $4,152,000.

(Mr. Raybuck returned to the meeting at 11:18 a.m.)

There were no changes to benefit provisions since the last valuation

Ms. Algayer explained the Trustees decreased the assumed rate of return from 8% to 7.5% over the last four or five years. Now that the fund was at the 7.5% target, this would be the last valuation there would be an increase. Then the Board would adopt new mortality tables. The hope was by lowering the rate, the City contribution should stabilize and go down and the funded ratio should improve. There are two components of the ARC. One was the normal costs of benefits accruing and expected to accrue over the next year. The other component was the payment on the unfunded liabilities. By law, the Plan can amortize over 40 years, but the Plan uses a 30-year table.

Last year, the Fund had an actuarial gain of $408,000 due to two factors. The gains due to investments and gains or losses due to other sources, such as termination assumptions compared to experienced, and salary increases compared to what was assumed. There was an $801,000 gain due to the investments and a loss of almost $400,000 due to higher than expected salary increases for active employees in the valuations on October 1, 2013, and October 1, 2014. This reduced the required contribution by .22% of payroll. The $400,000 was being paid over 30 years as a level percentage of pay, assuming pay increases of 4% per year. This was important because Florida Statute prohibits using an assumption that was more than the actual average payroll growth over the last 10 years. Last year, payroll growth was 4.82%.

GRS projected by 2016, it would decrease to 2.5% or 3%, which would increase the payment on the unfunded liability. The lower the payroll growth assumption, the higher the payment on the unfunded accrued liability.

Mr. Taylor inquired how they project payroll increases or decreases four years out. Chair Henderson explained when the Union signs a contract, the contract pay scales, including COLA increases, are sent to GRS. Ms. Algayer explained if the average payroll declines continue to trail the 10-year average, they would pay as a level dollar amount. If the unfunded liability were amortized as a level dollar amount, the employer contribution would have increased by more than $1.1 million.

Attorney Levinson clarified this had to do with the payment schedule and not the underlying liability. Ms. Algayer added they were paying down the unfunded liability. When paying as a level percentage of pay, they are paying less in earlier, more in later, and they would pay more in interest. When paying as a level dollar amount, because they are paying more sooner and they are realizing returns, they are putting less in. The 4% considers individual salary scale assumptions, departures and new hires. If employees receive more than 4% raises, the trend will be changed. It was noted they were anticipating attrition of high end firefighters replaced by lower paid employees. They would amortize as a level dollar amount.

By lowering the assumed rate of return to 7.5%, the ARC increased about $150,000. and the Board opted to wait to adopt the new mortality tables. Ms. Algayer explained they currently use the 1983 Group Annuity Table, which was outdated. It did not contemplate longer life expectancies. In 2014, the Society of Actuaries came out with the new RP 2014 Table which was a two dimensional table. Chair Henderson inquired if GRS could insert the mortality table into the Plan if the Board adopted it over a five-year period, and project what the City's ARC would be, assuming all other assumptions were met. Ms. Algayer responded she could.

Ms. Algayer explained they recommended for the Firefighters' Plan using the RP 2014 Table with the newest mortality improvements to make a generational table and have a 50% Blue Collar Adjustment because it is a public safety plan. It would not recognize 100% Blue Collar. It would be more conservative. It was noted the Board considered the RP 2000 Generational Table which was similar to proposed bill SB 242, which if adopted, would require all municipal plans in Florida to fund their plans on the same mortality basis as FRS. She explained FRS has variations and uses different mortality tables. It would be more conservative if they used the 2014 table than the FRS tables.

If the Board was interested in using the RP 2000 Table, GRS recommended using Scale BB because it was an interim table while the RP 2014 Table was being created. Chair Henderson requested a motion for GRS to run a side by side table if they adopt the RP 2000 or the RP 2014/Blue Collar Tables. Ms. Algayer recommended waiting because there would be a cost associated with the comparisons and the table may not be adopted. Ms. Algayer pointed out GRS expected, if they used the RP 2014 Table with 50% Blue Collar adjustments with a level dollar amortization, the contribution would

be $5.5 to $6 million. This could be phased in over time, but it was recommended it be phased in no more than five years. Investment gains will offset the increases if they gradually recognize new mortality tables.

Mr. Taylor commented at a minimum, they will be required to meet whatever is legislated. He did not think it made sense to do a cost analysis now. He suggested waiting and learning what the minimum requirement would be and the Trustees agreed. The Legislative session will end in May /June and the next cycle is August. There was agreement to have the actuary at the August meeting and this item would be addressed then.

Ms. Algayer reviewed how to calculate the smooth value of assets. This would help smooth out the gains and losses over five years. Future gains could offset cost increases due to the new mortality table. She pointed out in 2015, if all the assumptions held, there would be a $927,000 gain next year. In 2016, there would be a $1,929,528 gain, which equates to $100,000 that could be used for the ARC. Some plans use market value and some smooth for different time periods and recognized gains, but this Plan did not. Over the next four years, she anticipated the contribution levels would decrease by $200,000 or $300,000, and the funded ratio would be 61.9% versus 57.7%. In 2008, all plans had investment losses, which had to be stressed. The last valuation was done the last year they recognized that loss. Mr. Raybuck inquired when they would see the gains from the loss of sick and vacation hours being included in average final compensation in the Plan. Ms. Algayer thought it was already reflected, but it was noted new employees do not have that benefit. For existing employees, it was the lesser of whatever they have at retirement or 500 hours.

Mr. Raybuck inquired when to do another experience study to determine any actuarial gain and Ms. Algayer responded GRS recommends an experience study be done once every five years.

(Mr. Taylor left the meeting at 11:54 a.m.)

Mr. Petty inquired if they could separate the COLA and non-COLA with the new mortality tables and see how much of the $6 million was related to COLA or the rest of the Plan. Chair Henderson commented they take increases from Chapter 175. Ms. Algayer explained the Trustees, by Ordinance, are required to review this once every three years. Accordingly, the review will be done next year.

Attorney Levinson explained years ago, this Board amended the ordinance to put a COLA in place. The COLA is paid for by increasing the member contributions from 7% to 12%, and the City agreed to it as long as the Board kept the COLA cost neutral and it did not affect the City's cost. The way to keep that cost down was by using the 175 funds. That review was also due next year and could be included in the study, but Ms. Algayer did not know if it would affect the bottom line.

Chair Henderson noted three years ago, they had removed the rate earned by a self-directed account utilizing mutual funds selected by the Board from the Deferred Retirement Option Plan regarding interest credited. It was included in the report, and this change would be reflected in next year's report. He inquired if there was a page in the report that showed if there was a cost to the COLA increases. Ms. Algayer responded the unfunded approved liability payment schedule showed the components that constitute unfunded liability.

At the August meeting, the Trustees will discuss mortality tables and cost neutrality verification for the City regarding the COLA. Chair Henderson would request it from GRS since it was needed to calculate the ad hoc benefit. The members congratulated Ms. Algayer on the report.

The members discussed GASB 67 and Ms. Algayer advised GRS sent a letter on January 9, 2015, on the new standards. This was just for reporting purposes. For the fiscal year ending 2014, they had to calculate the total pension liability, plan fiduciary net position and the difference between the two is the net pension liability which is similar to the unfunded accrued liability. This would change the funded ratio. The GASB standards permit the Plan to use the October 1, 2013, data for the liability calculations and roll it forward to September 30, 2014 and treat it as a liability on September 30, 2014. For the Plan, the total pension liability was $116 million. The plan fiduciary net position was market value of the assets. The difference between the $116 million and the $78 million was $37.7 million, which was the unfunded accrued liability, but in accounting terms, it is called the net pension liability. The 67.7% was how much of the total pension liability was covered by the market value of assets. For each dollar of accrued liability, the Plan had 67 cents.

Motion

Mr. Raybuck moved to approve the valuation report for the year ending 2014. Mr. Petty seconded the motion that unanimously passed. This will be distributed to the Finance Department, the State and Ms. LaDue.

D) Attorney Report – Attorney Levinson

Attorney Levinson distributed a spreadsheet which showed 30% out of 490 plans were using an 8% rate of return, 24% were using 7.5%, and 37% were using a more aggressive number. The Plan was ahead of that trend, and the last chart shows 301 plans in Florida were between 7.9% and 7%. The Boynton Plan was in the middle.

Attorney Levinson had been corresponding with Tallahassee about Senate Bill 534 and distributed a copy of their email. He advised there was much ambiguity regarding when they implement the SB 534 reporting, and GRS would have to submit the report 60 days after the regulations are finalized. The City would have to post the SB 534 report which will not cast any plan in a favorable light because they have to show 200 basis points higher and lower. The contributions and investment earnings could not be included. He

reminded the members, the Legislature requires the Board to show when the Plan would run out of money, but in reality it was a misleading calculation. It was suggested a context memo be posted with the data.

1) Klausner, Kaufman, Jensen & Levinson – 17th Annual Conference March 15-18th 2015

Attorney Levinson reviewed the above conference. In addition to the FPPTA Conferences, the Division of Retirement puts on a conference. Attorney Levinson's office will also hold a conference March 15th through the 18th.

2) Salem Trust – Suitability of Design & Operating Effectiveness of Controls - SSAE 16 Audit Report

Attorney Levinson explained Salem Trust received a negative audit, and many boards were going out to Request for Proposals (RFP). Mr. West explained Salem's parent fund, Pennant Management, was defrauded an estimated $150 million. They purchased or thought they purchased $150 million of FHA development loans, which did not exist and they were presently in litigation. Salem Trust senior management reviewed the situation with Bogdahn Consulting. They only had one client that was participating in the fund. Once all the assets are frozen, they should be able to redeem and make the client whole, but it would take some time. As to Salem's working capital, Mr. West advised it was manageable and it would not be an issue if Salem had to satisfy the liability. They have no basis to determine ongoing viability of the parent company, and the assets are in trust. If Salem dissolved, an intermediary custodian would be used. He could not speculate how to proceed, but confirmed a few boards opted to go out to RFP.

Mr. Raybuck suggested they issue an RFP. Mr. West pointed out if they issue an RFP, the cost of an alternative provider would be materially higher. They were able to obtain statements from Salem's investment managers, and were able to confirm the unit values. State Street was the custodian for the Police Plan. Bogdahn had a list of 12 providers that could provide a cost effective service. After further brief discussion, there was agreement to revisit this at the next meeting and have Salem present. It was noted the Board had a good relationship with Salem and they compensated the Board when they made an error.

3) Salem Trust update letter of January 2015 on Company direction with Summary of Salem Trust and STIF.

This item was discussed earlier in the meeting.

V. CORRESPONDENCE –

1) ASB Real Estate – New Contact – Clyde W. Robinson, Managing Director & Group Head – Client Services – Letter dated 1-20-2015

This was finalized. At the last meeting they signed with two new real estate money managers.

2) Fishing Tournament/Chili Cook-Off – Saturday, April 11, 2015

Chair Henderson announced the event.

4) "Why Pension Reform is Inevitable" by Commissioner Mike Fitzpatrick

Commissioner Fitzpatrick had questions about the pension plans which were reviewed by Tim Howard, Finance Director, and provided to Ms. Algayer. Commissioner Fitzpatrick did not see a mission statement and inquired if there were stated goals. The goals were to provide a level amount of contribution to the City so they know what the cost of the Plan is. Over time, the Board would adjust their methods and assumptions based on what was reasonable and appropriate, based on consultation with the experts. Attorney Levinson explained a lot of work went into the Investment Policy Statement (IPS) which was like a mission statement. It detailed how the different asset classes work together and how the portfolio was designed. Mr. Raybuck advised Chapter 175.071 and Chapter 112.656 also contained provisions for the Board to operate under.

Commissioner Fitzpatrick inquired if there were any plans that keep the Chapter 175 monies. Ms. Algayer explained the only way to continue receiving those funds was to not cut benefits below the minimum levels. As long as the Plan remained open to new hires, the Plan would continue to receive the monies. The Plan could have a defined contribution (DC) feature, such as a Share plan. Attorney Levinson clarified, in addition to the current defined benefit plan, members could add a DC plan so long as the DB plan provided minimum benefits.

Commissioner Fitzpatrick commented he had a conversation with the former City Manager from the Town of Palm Beach and he was advised the Town gave up the 175 funds because they only received a certain amount, and they could save a lot of money if it was eliminated. They had a hybrid plan and there was still a 2% defined benefit. He inquired if they could have kept the 175 monies. Ms. Algayer explained there were other requirements for the minimum benefits. He inquired if they kept a 2% DB plan, if something could be crafted to hold onto the Chapter 175 monies and Ms. Algayer responded they could as long as they complied with the minimum benefit. They would have to ensure the cost of the minimum benefits, under the new interpretations and the Naples letter, was greater than the cost of the annual premium tax revenue, defined as what the State was currently contributing, over and above the 1998 amount of about $680,000.

Senate Bill 171, the Bradley Bill, put limitations on the ability to do what Palm Beach did. To Attorney Levinson's knowledge, Palm Beach was the only City he was aware of that refused to accept the 175 funds. The Palm Beach hybrid plan did not meet the State minimums. They lobbied the Legislature to get their money back and lost 50% of their employees. Attorney Levinson explained there are 491 governmental defined benefit

plans and about 300 of them were police and fire plans. The Town of Palm Beach was the only Town that made the change because it is a voluntary program.

The Executive Summary was discussed. One part of the report was on the Annual Required Contribution page report which shows what drove the contributions for the year. The Board asked GRS, in the future, to identify what changes occurred in the Unfunded Actuarial Accrued Liability Table. Part of the cause for the increase was the amortization payment. The second part was the employer normal costs of benefits accruing over the years. If the Board paid off all its unfunded accrued liabilities, there would only be the normal cost component of $2 million. It was hoped contributions would pay off the unfunded liabilities. Employees pay a fixed amount. There are investment returns and the City makes up the rest. This year, the City would pay $2.8 million, and based on the GRS assumptions, that amount would increase 4% each year. Commissioner Fitzpatrick commented most individuals at the City do not understand the report. Attorney Levinson explained the Board welcomed the opportunity to facilitate the process and communicate and it was part of the Board's fiduciary obligation. Chair Henderson explained FPPTA conferences are open to elected officials, finance directors, and others and it provides a lot of information. Ms. LaDue agreed to provide those dates.

Commissioner Fitzpatrick asked if a new plan was started, how much an employee would have to pay to wind up with 60% retirement. Ms. Algayer responded the normal cost rate, which is the operational ongoing expense of the plan, is designed for actuaries to calculate so the number remains level as a percentage of pay from hire date to retire date. The actuary also nets out the member contribution, to offset the employer normal cost rate, giving a net normal cost rate. For a new plan, the employer normal cost as a percent of payroll, to obtain a 60% retirement benefit would be 20.5% with a 7.5% assumed rate of return and retirement at 20 years. Attorney Levinson explained for a plan with an 8% or 8.5% assumed rate, the normal cost is lower. Since the Board lowered the rate, because it was mandated by the State, the employer contribution increased.

Commissioner Fitzpatrick asked if the employee retirement accounts in the defined benefit plan decreased each year resulting in a zero balance before death. Attorney Levinson explained the firefighters do not have to worry about pension payments ending before death. He agreed to provide a publication which explained with defined benefit plans, the firefighters have a lifelong monthly benefit. In Florida, employees have the assurance they will get a check each month. One of the efficiencies of a defined benefit plan was they pool longevity. A defined benefit plan is a long-term investment policy. By pooling assets with younger and older employees, they can invest differently than a 401K investor and they pool mortality risk, whereas a 401K investor cannot. By pooling monies, they get better price breaks. President Obama was trying to minimize the ability for Wall Street to keep nitpicking investors with fees. Defined benefit plans can also invest in asset classes that other investors cannot. Commissioner Fitzpatrick inquired if there was any collection for this fund to keep growing each year and learned there was. The fund should be self-sustaining. The Boynton Plan would be if all the

assumptions were met and funding was at 100%. GRS has to continue to make the assumptions each year. The hope was, in time the gains and losses offset each other. If not, they do an experience study.

Attorney Levinson pointed out with DC plans, there was no disability component, which the Boynton Plan has. With DC plans, if a member with two kids, a $900 health insurance and mortgage payment died, his survivor benefit would only be the payout value of his accruals. With a 401K plan, it is unmanaged money. They put it in a mutual fund and do not manage it. The average DC plan lost 50%, but the DB plans lost 17%. With DC plans, individual investors act emotionally. With DB plans, they follow the investment policy advice.

Commissioner Fitzpatrick asked if there were any DC plans that were not 401Ks. He referenced the Town of Palm Beach. Ms. Algayer responded one does not have to use a 401K. It could be any investment. There are options other than 401K plans, but they operate the same way. It was not a plan, it was a savings account. Mr. West also noted there were specific IRS contribution limits.

Commissioner Fitzpatrick asked if firefighters switch to a 401K plan, why they could not have a pre-DROP account with this Board. He clarified if an employee was employed for five years, why an employee could not start an account that the DROP account would roll into. He questioned why extra money could not be contributed that would be managed by the Board. Ms. Algayer responded that was a cash balance plan. Attorney Levinson explained the City has a Deferred Compensation program employees could use. Employees can contribute up to $18,000 per year. Commissioner Fitzpatrick inquired why employees cannot have an account with this board. Chair Henderson explained the Trustees were not money managers. DROP funds are accounted for separately and are part of the asset pool. As for firefighters using their own expertise for investments that would roll into a DROP account, Chair Henderson did not think it was legal.

Attorney Levinson explained the reasons the efficiencies of the DB plan with the investment expertise, the low cost and more cannot be applied to individual members in the 457 (Deferred Compensation) plans was because of the tax code. The 457 deferred compensation program details they cannot comingle those funds. Individuals could not move funds from 457 balances into the DROP plans until they separate from service. The Police plan allows that, but the rollover has to be in the investment earnings of the plan after they retire. They also do not earn 7%, after they retire.

Attorney Levinson clarified 457 plans have been trying to get FRS employees to roll their DROP funds into the 457 plans, but FRS would not permit it. The monies actually go from the DROPs into the 457. Commissioner Fitzpatrick inquired what percentage of contributions go to retired members. Ms. Algayer explained the unfunded liability was $44.5 million. The inactive member liability was $64 million. A good portion of the cost was being paid to retirees.

In response to a question from Commissioner Fitzpatrick, it was explained GRS handles about 600 plans nationwide with their main focus on governmental pension plans. They service several statewide pension plans that have multiple groups and about 95% of their revenue comes from governmental plans. They also handle church plans and a few plans that are subject to ERISA. They have been in business for 75 years and have about 130 employees nationwide.

Commissioner Fitzpatrick thought the Board was doing a great job, but thought a defined contribution plan versus a defined benefit plan would be a problem. He commented currently, the City was treading water. The budget size of $79 million would not change. He noted cities are in competition with other cities and would fall into the haves and have nots. The only way Boynton Beach has a future is if they make investments to attract people with higher incomes. He commented 80% of people who work in Boca live in Wellington. If the City raises its standards to offset a 20 minute drive to get back and forth to work, some of the people would opt to live in Boynton Beach and not Wellington and the City could hire in people with stable incomes. He thought raising the millage rate was counter-productive because it would drive business away. The pension payments comprised the largest portion of the budget and he pointed out the payments increased over the years.

Commissioner Fitzpatrick explained in 2001, City pension costs were 2% of the budget and in 2015, it was 21%. As a percentage of property taxes, in 2001, it was $21 million. The City is collecting the same amount of money as was collected in 2005, but the pension costs were $15 million versus $5 million. He contended this was not sustainable and it was hurting the City. Pension costs comprised 53% of the money collected in property taxes. Chair Henderson explained what drove the costs up in 2001 when the towers were blown up on 911 was unions signing contracts and getting big raises. They had 46 firefighters, which increased to 60 and now 118. Those 12 years, until a few years ago, constituted the worst market in history. They did not meet the assumed rate and the raises exceeded the assumptions. Trustees administer the fund but the Board did not drive up costs with benefit changes or increases. Unions do that. Not pension boards. The Trustees are given directives and then they make the changes to meet those directives. They lowered the assumed rate, which drove up costs. Looking long term, Chair Henderson noted they are more conservative. The only changes since 2005 were the COLA, which cost the City zero dollars because the employees pay that cost, and the costs for unfunded liability were offset by 175. The supplemental benefit cost the City zero dollars because it was left over 175 funds.

There was a cost to the City when going from a three-year average to five-year averaging. Even if they met the actuarial goals, they were playing catch up. Chair Henderson understood the escalating costs, but explained they could only do what they could do. Anything that goes through the City and Union negotiations, they give it to the Pension Board, and they administer the funds. Commissioner Fitzpatrick suggested they offer advice, because the Board has more expertise than the City does in pensions. He noted the City let 175 employees go with the crash. There was no slack or time for people to go to conferences. He pointed out what was occurring was not

sustainable and there would be a change and the question was how the change would occur. He commented there is a downturn in the market every three to four years and eventually, cities will declare bankruptcy. He thought when things were improving, that was the time to make changes. The City needs flexibility to invest in the future, and this was the biggest area of growth in the budget that was unsustainable.

Attorney Levinson explained Senate Bill 171 has more flexibility in the bill for the Unions and the City. One type of pension reform was achieved by lowering the investment assumption, which the Board completed over five years. The professionals on the Board, if given the authority, are happy to assist the Union and the City to provide some of that expertise as part of the process. There are some very longstanding Trustees. If, through negotiations with the City, they need to save money, the Board can help. Chair Henderson pointed out the Trustees never had a closed door with either the City or Union. If the City cuts a benefit, they have to know what it is worth and GRS could develop those amounts. Commissioner Fitzpatrick invited Tim Howard to come to the meeting and thought being proactive would be better. There were many items deferred. He thought they had to step up to the plate to change the course. It was a slow death spiral and the biggest portion of the budget was all three pension obligations. The last 1% cost more than what preceded it.

Ms. Algayer explained the cost of the plans does not change. If there are set benefits, the benefits already earned cannot fluctuate. Commissioner Fitzpatrick explained this would be for future retirees. An employee could have 18 years in one plan and 2 years in a variable multiplier plan. Chair Henderson explained until they are given direction by the City or Union, they will continue to monitor the fund. All the terms of the plan have to be negotiated by the City. Commissioner Fitzpatrick advised what was occurring on the other side was not a good thing. The Town of Palm Beach collapsed all three plans into one. He agreed the more people were educated, the better. Commissioner Fitzpatrick advised the risk had to change.

Mr. West explained they interpreted the numbers. He saw the big problem was the property taxes collected. City revenues decreased precipitously and the pension, by fault, even if the cost did not go up, would be a higher percentage because City revenues tanked. The pension was not the cause. It was the rapid decline in revenues. Commissioner Fitzpatrick disagreed with the pension cost, as a percent of budget. The budget increased from $40 million to $72 million, yet the pension costs went from 2% to 21%. They should address City revenues to raise the revenues to the expected level of public safety service. Commissioner Fitzpatrick did not know if the City's contribution would be 21% of the budget and thought it should be 10%.

Mr. West commented the FRS has a rainy day fund. When there was excess, they still made the same contribution. In 2008, they drew it down, but did not have to make extra or additional contributions due to the reserve. Ultimately, the reserve was depleted, but the financial management practices of the State were prudent. Other cities with revenue declines, and in review of the funding status of the plans, did the same thing as FRS. Investments are cyclical. If City management had been practicing prudent funding, it

would not be where they are now. Commissioner Fitzpatrick commented that was the type of advice the Board should offer the City. It should give the City Commission direction on how to proceed.

VI. OLD BUSINESS –

1) Pension Administration Software/Hardware Update – Fire/Police Joint venture

Ms. LaDue confirmed they will start using the Pension Resources hardware and software. Ms. LaDue will contact the Board with questions. Documentation had been provided on January 22, 2015, for review and implementation.

2) Fact Sheet to counter misinformation on Pension Funding – Mr. West & Pete Strong

Chair Henderson explained Mr. Taylor was concerned about the information the Leroy Collins Institute had issued and where the plan rated. Attorney Levinson advised their office will work with the Bogdahn Group and GRS. They are putting together information that will accompany the SB 534 reporting. Mr. West explained what was gathered was written in a way the lay person could understand. This includes possible construction of a website.

VII. NEW BUSINESS:

A. Invoices for review and approval:

1. Schroder Fixed Income Mgt – Qtry fee 03-31-2015 - $7,299.87
2. DSM Capital Partners LLC – Qtry fee 03-31-2015 - $22,089.48
3. Bogdahn Group – Qtry fee 12-31-2014 - $8,375
4. Klausner, Kaufman, Jensen & Levinson – Service Oct, Nov, Dec 2014 - and Jan 2015 - $7,860
6. Anchor Capital Advisors – Quarterly fee - 12-31-14 - $
7. GRS - Service Nov 2014 - $2,573
8. Alerus – Qtry DROP Admin Fee - $500
9. Davidson, Jamieson & Cristini –Audit Financial Stmts PYE 9-30-2014 – $10,300 and 2014 Annual State Report - $1,200
10. Intercontinental- Management Quarterly fee 09-30-2014 - $8,653.84 - withheld from dividend reinvestment plan.

Chair Henderson noted there was no fee associated with Anchor Capital. Ms. LaDue explained it was about $16,000 which was around the usual amount.

Motion

Mr. Petty moved to pay the bills. Mr. Raybuck seconded the motion that unanimously passed.

B) Updated GASB No 67 Disclosure Information by GRS 01-09-2015

This was previously discussed.

C) Retirement Benefit Verification – Jaime MacAlpine

There were no questions on this item.

D) Fiduciary Liability Ins. NCPERS quote requested for April 2015 renewal.

Chair Henderson explained Ms. LaDue was working through NCPERS for insurance for Trustees and was trying to obtain a discount. The premium was due April 10th, but Ms. LaDue needed to get four quotes. They could renew for this year in April and any changes would be for the subsequent year. Last year, they paid $9,100 and it was based on assets. Attorney Levinson suggested implementing it for next year. Another option was to authorize the Chair to sign the lowest bid, in consultation with Attorney Levinson and Ms. LaDue to go with the lowest bidder.

Motion

Mr. Raybuck moved to authorize the Chair. Mr. Petty seconded the motion that unanimously passed.

VIII. PENSION ADMINISTRATOR'S REPORT:

1. Benefits as of 02-01-2015.

There were no comments on this item.

IX. PUBLIC COMMENTS:

None.

X. ADJOURNMENT:

Mr. Petty moved to adjourn. Mr. Raybuck seconded the motion that unanimously passed. The meeting was adjourned at 2:02 p.m.

Catherine Cherry
Minutes Specialist
040115