# GENERAL EMPLOYEES PENSION BOARD

## Minutes of
## August 24, 2006

Meeting was called to order by Vice Chairperson Milena Walinski at 1:00 p.m.

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| Members Present: | Joseph Safford, Stephen Swank and Milena Walinski |
| Members Absent: | Jeffrey Keating & Thomas Lynch |
| Guests Present: | Susan Ruby, Karen Schell, John McCann (GRS Asset Consulting) and Steve Palmquist, Plan Actuary |

At this time, Mr. Safford moved to amend the agenda to include the review of a letter agreement with Loomis, Sayles & Company, L.P., and secondly documentation from Weiss, Peck & Greer Investments a division of ROBECO, USA, L.L.C., prior to Item 2, seconded by Mr. Swank. Said motion passed unanimously.

**Item 1 Approval of the General Employees Pension Board Minutes:**

A. May 18, 2006.

Mr. Safford moved to approve the minutes for May 18, 2006, seconded by Mr. Swank. Said motion passed unanimously.

B. June 8, 2006.

Mr. Safford moved to approve the minutes for June 8, 2006, seconded by Mr. Swank. Said motion passed unanimously.

**Item A 1 Approval of contracts/agreements:**

Loomis, Sayles & Company, LP will be replacing Davis, Hamilton and Jackson as investment managers.

Weiss, Peck & Greer Investments, a division of ROBECO, USA LLC will be listed as a mid cap manager.

Mr. Safford indicated both of these agreements have been reviewed by the pension attorney, therefore he moved to make a motion to approve both agreements.

Mr. Swank questioned what basis points percentage would be for the fees involved.

This item was tabled until receipt of the basis points percentages was available.

**Item 2 Approval of the Following Invoices:**

A. State Street Global Advisors, dated May 11, 2006, in the amount of $5,068.73 for quarterly management fee for the period of January 1, 2006 through March 31, 2006.

Mr. Safford moved to approve payment of this invoice, seconded by Mr. Swank. Said motion passed unanimously.

B. GRS Asset Consulting Group, Inc., dated May 17, 2006, in the amount of $4,000.00 for the performance monitoring for the quarter ending March 31, 2006.

Mr. Safford moved to approve payment of this invoice, seconded by Mr. Swank. Said motion passed unanimously.

C. Gabriel, Roeder, Smith & Company, dated May 31, 2006, in the amount of $1,550.00 for retirement calculations for Huddleston, Lancaster, Blake and Webb and buy back calculation for Lisi.

Mr. Safford moved to approve payment of this invoice, seconded by Mr. Swank. Said motion passed unanimously.

D. Gabriel, Roeder, Smith & Company, dated June 30, 2006, in the amount of $4,155.00 for preparation of 10/01/05 Actuarial Valuation Report and retirement calculations for Sabatini.

Mr. Safford moved to approve payment of this invoice, seconded by Mr. Swank. Said motion passed unanimously.

E. Davis, Hamilton, Jackson & Associates, dated July 10, 2006, in the amount of $21,493.09 for quarterly management fee for the period of July 1, 2006 through September 30, 2006.

Mr. Swank moved to approve payment of this invoice, seconded by Mr. Safford. Said motion passed unanimously.

F. Dr. William Gans, M.D., dated July 27, 2006, in the amount of $25.00 for copies of physician's report for William Rodriguez disability evaluation.

Mr. Swank moved to approve payment of this invoice, seconded by Mr. Safford. Said motion passed unanimously.

G. The Boston Company Asset Management, LLC, dated July 17, 2006, in the amount of $23,294.61 for quarterly management fee for the period of July 1, 2006 through September 30, 2006.

Mr. Safford moved to approve payment of this invoice, seconded by Mr. Swank. Said motion passed unanimously.

H. Gabriel, Roeder, Smith & Company, dated July 31, 2006, in the amount of $9,587.00 for preparation of 10/01/05 Actuarial Valuation Report, Employee Benefit Statements, retirement calculations for Bauer and partial charges for the preparation of an Actuarial Experience Study.

Mr. Safford moved to approve payment of this invoice, seconded by Mr. Swank. Said motion passed unanimously.

**Item 3 Approval of the Following DROP Retirement:**

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|---|---|
| A. Name: | Richard Bauer |
| Age: | 62 |
| Monthly Pension Amount: | $3,568.26 |
| Benefit Commenced: | August 1, 2006 |
| Benefit Requested: | Ten Year Certain |

Mr. Swank moved to approve the DROP retirement of Richard Bauer, seconded by Mr. Safford. Said motion passed unanimously.

**Item 4 Approval of the Following Early Retirement:**

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|---|---|
| A. Name: | Columbus Blake |
| Age: | 50 |
| Monthly Pension Amount | $1,126.80 |
| Benefit Commenced: | June 1, 2006 |
| Benefit Requested: | Normal Form |

Mr. Safford moved to approve the early retirement of Columbus Blake, seconded by Mr. Swank. Said motion passed unanimously.

**Item 5 Approval of the Following Retirement:**

A. Name: James Webb, Jr
Age: 60
Monthly Pension Amount 135.05
Benefit Commenced: July 1, 2006
Benefit Requested: Normal Form

Mr. Safford moved to approve the normal retirement of James Webb, Jr., seconded by Mr. Swank. Said motion passed unanimously.

B. Name: Rose Ann Sabatini
Age: 65
Monthly Pension Amount 1,647.24
Benefit Commenced: July 1, 2006
Benefit Requested: Normal Form

Mr. Swank moved to approve the normal retirement of Rose Ann Sabatini, seconded by Mr. Safford. Said motion passed unanimously.

**Item 6 Approval of the Following Beneficiary Disbursement:**

A. One time lump-sum distribution of $10,000.00 to employee Carol Lancaster's designated beneficiary, Francis Dvorak for a non-service connected death benefit.

Mr. Swank moved to approve payment of the one time lump sum distribution to Francis Dvorak, seconded by Mr. Safford. Said motion passed unanimously.

B. Monthly benefit of $181.19 to employee Carol Lancaster's designated beneficiary, Francis Dvorak for a non-service connected death benefit.

Mr. Safford moved to approve payment of the monthly benefit to Francis Dvorak, seconded by Mr. Swank. Said motion passed unanimously.

**Item 7 Approval of the Following Termination Refunds:**

A. Gareth Bigart (Finance Department) in the amount of $21,068.76.

Mr. Safford moved to approve payment of this termination refund, seconded by Mr. Swank. Said motion passed unanimously.

B. Carolyn Long (Community Improvement) in the amount of $1,697.67.

Mr. Safford moved to approve payment of this termination refund, seconded by Mr. Swank. Said motion passed unanimously.

C. David Wyatt (Fire Department) in the amount of $20.74.

Mr. Swank moved to approve payment of this termination refund, seconded by Mr. Safford. Said motion passed unanimously.

D. Melvin Teeters (Water & Sewer) in the amount of $2,298.54.

Mr. Swank moved to approve payment of this termination refund, seconded by Mr. Safford. Said motion passed unanimously.

E. Paul Milne (Parks & Recreation) in the amount of $2,162.04.

Mr. Swank moved to approve payment of this termination refund, seconded by Mr. Safford. Said motion passed unanimously.

F. Shirley Fisher (City Manager) in the amount of $776.62.

Mr. Swank moved to approve payment of this termination refund, seconded by Mr. Safford. Said motion passed unanimously.

**Item 8 Approval of the Following Benefit Payment Reissue:**

A. To Daniel Pullum in the amount of $1,070.75 for the replacement of the June 1, 2006 benefit payment.

Mr. Safford moved to approve the reissue of the June 1st benefit payment to Daniel Pullum, seconded by Mr. Swank. Said motion passed unanimously.

B. To Margarette Morris in the amount of $533.65 for the replacement of the July 1, 2006 benefit payment.

Mr. Swank moved to approve the replacement of the July 1st benefit payment to Margarette Morris, seconded by Mr. Safford.

**Item 9 The General Employees Pension Board is being advised that the Plan has received the following checks which have been deposited in the Trust Account.**

A. SunTrust in the amount of $33.43, deposited May 19, 2006 for refund of a settlement with Bank America class action proceeds.

B. Lynch, Jones & Ryan in the amount of $2,259.00, deposited May 30, 2006 for April 2006 commissions.

C. Christine Lisi in the amount of $13,402.00, deposited June 8, 2006 for the purchase of all previous years (a total of 8) 3.0% enhanced multiplier.

D. Sun Trust in the amount of $1,255.36, deposited June 15, 2006 for a refund of a settlement with Symbol Technologies class action proceeds.

E. Christine Lisi in the amount of $350.00, deposited June 20, 2006 for fees for the actuarial calculation of the purchase of all previous years 3% enhanced multiplier.

F. Lynch, Jones & Ryan in the amount of $2,074.00, deposited June 26, 2006 for May 2006 commissions.

G. Lynch, Jones & Ryan in the amount of $1,609.00, deposited August 3, 2006 for June 2006 commissions.

**Item 10 Review of the Plan's October 1, 2005 Actuarial Valuation Report.**

Mr. Palmquist reviewed the Actuarial Valuation Report indicating the amount the City needs to budget for the next fiscal year being $2,008,058 versus $2,011,383 for this fiscal year. There was a decrease in cost by the City of .30%. The gradual recognition of losses from 2001 and 2002 is coming to a close. Not many of Mr. Palmquist's clients are facing decrease in contributions.

Mr. Palmquist commented there was a large gain due to more employees terminating employment during the year than expected. The 2005 actual terminations of employment for reasons other than retirement, disability or death were 28 with an expectation of 15.

Mr. Palmquist explained how to develop the asset value used in the report for calculations commonly called the asset smoothing method. We've been taking the capital appreciation for the year, the realized and unrealized investment gains and spread that out over five years. One can see the 2001 and 2002 losses now being recognized with perhaps one more year before full recognition takes place.

In response to Mr. Safford's comment where the Board would see significant reduction, Mr. Palmquist stated that would not be the case. One should see the cost not going up but not necessarily reduced.

Mr. Safford confirmed the average compounded rate of return for 21 years is 10.7%.

Mr. Palmquist indicated the 9.2% is the return recognized under the smoothing method. Another glimmer of hope is the funded ratio goes in the city's financial statement. The illustration shows the funded ratio taking a slight up tilt (98.9%) instead of the previous four or five years where it went down due to the events in 2001 and 2002.

Mr. Swank questioned if any other cities prepay contributions in order to avoid the interest accrual?

Mr. Safford stated Delray Beach could possibly do that, but to remember if we prepay it would need to be in October; prepaying the following December's payment. Payment would be doubled the first year having an impact; however after that it would be reduced quite a bit. This could be justification of the software package in moving this payment back; we could save money after the first year.

**<u>Item 11</u> Approval of Summary Plan Description (SPD).**

Due to the late receipt of the Summary Plan Description, Mr. Safford commented individuals have not had a chance to review this. Mr. Safford moved to approve the Summary Plan Description subject to any changes being made, seconded by Mr. Swank. Said motion passed unanimously.

**<u>Item 12</u> Review of Experience Study.**

Due to two Board Members being absent, it was agreed to have Mr. Palmquist present his review and have the Board hold any decisions in changes until all members are present.

Mr. Palmquist started his discussion of the reasoning behind the experience study. The figures and projections in the annual report are based on what we think will happen in the future. Periodically it makes good sense to review those guesses to see how they fair compared to what is actually current. For example, the salary increases are broken down by age group versus an overall review of salaries. The object is to come up with a new set of sections that will lead into a better prediction of what we think will happen in the future.

The first section of assumptions is **rates of salary increase.** Mr. Palmquist indicated the table illustrates an assumption where everyone receives a 5% increase every year. The study ties the salary increases to length of service. In reviewing this study, most groups had a higher percentage increase in pay during the earlier years of employment. One can see Delray's experience for people in the first year of service with a 5.6% increase; people with two years had 6.6%, etc. Individuals with 10-14 years of service had an average of 5%, 15-19 years of service averaged 4.4% and 20 years or more averaged 3.8%. Overall average for everyone is 5.1%. Stripping out inflation left 2.4% per year; leaving the real pay increase (the amount over and above inflation). Finally we are recommending and expect inflation of 3% per year; the same as it has been for the past 80 years on average. This has a very slight change in cost compared to the present assumption of 5%. The reasoning here is to have a more accurate gage of what is actually occurring and what anticipation will continue to occur.

**Rates of terminations** are employment terminations not including retirement, disability or death. Over the 8 year time span there were 178 people who terminated with an anticipation of 118. The actual number was 51% higher than expected. Recommendation is for each of the first five years of service; rates of termination are tied to service. For individuals of five or more years of service, tie to age. If this method is followed, we would have expected 170 individuals to leave versus 178; quite a bit closer to what had actually occurred.

**Probabilities of Retirement:** Currently the assumption is once a person reaches normal retirement, 70% will leave in the first year; 40% each of the following four years; no one would stay in the fifth year.

There has not been a tremendous number of retirements to where we feel comfortable with strictly going with the experience. The only suggestion here is to change the first year rate from 70% to 40%; projecting a more accurate assumption.

**Rates of Mortality:** For all past actuarial history, the use of the mortality table was a static table. For a 60 year old, whatever the probability of dying this year, ten years from now it would have the same probability, 20 years and so. Due to technology, a generational mortality table can be used. A build in expected improvement in mortality each year could be completed in the future so the probability of a 60 year old dying this year will be slightly higher than the probability next year and so forth. If we incorporate this, which is recommended, there would be less worry of the table we use in five years from now being behind.

Mr. Safford questioned if the tables being used today are up to date and used by ERISA?

Mr. Palmquist responded yes. The table chosen here is the RP -2000 Mortality Table. Conservatism has been added to the 1983 table as an extra factor due to the mortality rate continuing to improve. Concern is not only of today's mortality rates, but of those individuals retiring twenty years from now and live thirty years beyond that. This could be changed if and when the improvement in mortality that actually occurred turn out to be significantly different from anticipation. This could have a 1.22% of payroll impact on the City's contribution.

**Rates of Disability:** Recommendation here is no change; continue use of the current assumed rates of disability. There were a total of three disabilities within the study's time frame. Presently the assumption is one per year.

**Asset Valuation Method:** This was discussed in the annual report. Mr. Palmquist used an illustration from another client going back into the early 90's and tried different asset smoothing methods. The reasoning behind the asset smoothing method is to iron out the fluctuation in assets from year to year which helps reduce the fluctuation in annual costs. Mr. Palmquist continued stating the sample plan illustrates a 9.9% standard deviation of the return on market value. Using the present asset smoothing method it decreased half of the variation to 5.2%. Using the proposed method ironed out more fluctuation to a 3.2% standard deviation. This is how it should be; with the idea of having more stability. The illustration shows the comparison of Delray Beach general returns over the last ten years of 8.4% versus the sample of 7.2%; the first 5 years Delray Beach was 12.8% versus the sample at 11.1%. The theory behind this being successful, is to take the expected rate of return and apply that to last year's beginning balance (plus the cash flow). This will give us the expected investment earnings; when adding this to the beginning actuarial value of assets; this will come to the expected actuarial value. This is then compared to the market value on the same date. The illustration shows a $5.5 million difference. The next step is to take 20% of the difference, add/subtract from the year end market value less expected actuarial value; this equals the end of year assets and final actuarial value within 80% - 120% of market value.

**Actuarial Cost Method:** The cost method used for the City of Delray Beach is perfectly acceptable. However, there is another funding method called the Entry Age Normal Cost Method. Mr. Palmquist stated he is not recommending this change, but recommends consideration of this change. He suggests a 20 year amortization period.

**Target Returns:** Mr. Palmquist explained the illustration of target returns using a mix of 50/50 and 60/40. If the target is 7.75% over a ten year horizon, using the mix of 50/50, there is a 55% chance of not meeting that target. If the mix is 60/40, there is a 50% chance of not meeting that target. If the target return rate is 7.5% with a 60/40 allocation, chances are less than 50 % of falling short.

If the recommended changes for the salary rates, termination rates, retirement rates and mortality rates were taken into place, this would reduce the annual cost of payroll by .82%. With all recommended changes taken into consideration (entry age, markup of market value using 7.5%), this would make the City's cost go down to 3.27% of payroll. This will allow more stability in the annual cost from year to year.

At this time the Board moved back to Item A-1 the approval of contracts/agreements.

**Item A 1 Approval of contracts/agreements:**

Ms. Ruby indicated she has received an answer to the question of rates for fees for Loomis Sayles, being 55 basis points up to $100 million and 45 basis points on assets in excess of $100 million.

Mr. McCann commented this is a good rate.

Mr. Swank moved to approve the agreements for Loomis Sayles, seconded by Mr. Safford. Said motion passed unanimously.

Ms. Walinski indicated Weiss Peck and Greer, (ROBECO) is a mid cap manager with a fee of 50 basis points. Distribution of the funds percentages will be confirmed later.

Mr. Safford moved to approve the agreements for Weiss Peck and Greer (ROBECO), seconded by Mr. Swank. Said motion passed unanimously.

At this time, the Board moved to Item 15 Review of Pension Software Purchase.

**Item 15 Review of Pension Software Purchase.**

Ms. Walinski stated the Finance Department has been researching into the purchase of pension software for a variety of reasons. In viewing several software packages, the costs were varied.

Mr. Swank commented he was being fairly cost conscientious; what would the additional cost would be to acquire the code with Ms. Schaffer's software package. Would this still be significantly lower than Gabriel Roeder Smith & Company (GRS)?

Mr. Safford indicated the concern with Ms. Schaffer's software was she being a sole proprietor and the software is in an old language. Mr. Safford does not want to spend money on outdated software wherein if put into place, down the road there is a risk of something happening to her and then there is no further support.

Mr. Swank commented regardless of cost, we do not want to take that risk.

Mr. Safford indicated Pension Gold is a premiere software package from a premiere firm. This has several applications the City would not need nor use. For $100,000 this would be going overboard. GRS is in the middle, they are a very reputable firm we are acquainted with, are a sizable organization and they support what they provide.

Ms. Walinski commented when looking at companies, Ellen Schaffer had a great reputation with customer service. However, we felt a preference in having a company versus a person. Ms. Schaffer had already indicated she was looking toward selling her business in a few years.

Ms. Walinski stated most of the support would be programming hours based on an hourly rate. There is more than one programmer whereas if one person is not available, another would be able to step in. Mr. Walinski stated she would like this implementation to take effect with the new fiscal year, October 1, 2006. She believes there would be different phases, the first being the benefit administration.

Mr. Safford stated it would have a complete data base and be linked to our payroll system. Mr. Safford commented he would like to turn this into a package where it would be able to backup the contribution date to offset the cost of this software.

Further discussion led to the question of whether there would be an agreement or contract. There is presently none at this time, however once the Board approves the package, an agreement or contract would definitely take place.

Based on Ms. Ruby's suggestion, Mr. Swank moved to approve to go forward with the purchase of the software from GRS pending review of an agreement, seconded by Mr. Safford. Said motion passed unanimously.

**Item 13 Review of Fiduciary Liability 2005-2006.**

Mr. Safford indicated previously Mr. Lynch had mentioned we look at various levels of premiums based upon certain retention levels. We wanted to show the Board Members this has been approached. Upon receipt of the original quotes, different retention levels were reviewed illustrating a non-significant savings for the amount of change in the retention. A retention level of $10,000 has a premium of $15,855; a retention level of $25,000 would have a savings of $443. This was not a significant saving to warrant picking up another $15,000 of retention.

**Item 14 Review of Plan's Performance Evaluation for the Period Ending June 30, 2006.**

Mr. McCann indicated with the changing and approval of the agreement with the Board's authority, he will advise Davis, Hamilton and Jackson they are officially terminated. Mr. McCann stated he will obtain the market value as of August 31, 2006 and then rebalance the funds appropriately to maintain 55% in equities and 45% in fixed income. Mr. McCann indicated he would make sure State Street Global has 45% using any shortages from Boston Company, making sure all is even percentage wise.

In reviewing the performance evaluation for the period ending June 30, 2006, Mr. McCann stated presently the allocation is 51% in equities ($35.4 million); 48% in fixed income ($33.6 million); and 1% cash ($479) for a grand total of $69.5 million. Manager allocation is 27% with Boston Company, 25% with Davis, Hamilton and Jackson and 48% with State Street. The fund had a poor quarter with a return of .83% versus the policy at .75%. One year 3.69% versus the policy of 3.89% ranking 72nd in percentile. Three years .81% behind the index with 5.84% versus the index of 6.65% ranking 71st in percentile and five years also .81% behind the index policy rating 52nd in percentile. Total equities for the two managers, were down 1.4% which is in line with the S&P 500. One year returns was 8.98% versus 8.63% ranking 47th in percentile. Three and five years were in the bottom 40 percentile, however slightly ahead of the S&P 500. Fixed income was okay for the current quarter being even with the policy return. One year shows a return of .82% versus .81%, three years 2% versus 2.05% and five years slightly trailing the policy at 5.34% versus 5.41%. In reviewing statistics, Mr. McCann indicated all looked okay.

**Motion to Adjourn:**

There being no further business, Mr. Safford moved to make a motion for adjournment, seconded by Mr. Swank. Said motion passed unanimously. The meeting adjourned at approximately 3:23 p.m.

The undersigned is the Finance Director of the City of Delray Beach and the Secretary for the General Employees Pension Board. The information provided herein is the minutes of the City of Delray Beach General Employees Pension Board of August 24, 2006, which minutes were formally approved and adopted by the General Employees Pension Board on November 16, 2006.

J. Safford

Joseph M. Safford, Director of Finance
Secretary, General Employees Pension Board

/kms

cc: General Employees Pension Board Members
David Harden, City Manager
Susan Ruby, City Attorney
Department Heads