

GENERAL EMPLOYEES PENSION BOARD

Minutes of August 15, 2013

Meeting was called to order by Chairperson, Stephen Swank at 1:05 p.m.

Item 1. Roll Call

Members Present: Vincent Dole, James Smith, Stephen Swank and Milena Walinski
Members Absent: David Boyd
Guests Present: John McCann (Thistle Asset Consulting), Scott Porter (Caler, Donten, Levine, Druker, Porter and Veil), Fiel Bronson, John Bullard, Ray Colgin, Milton Wilmington, Brian Shutt and Karen Schell

Item 2. Approval of the General Employees' Pension Board Agenda for August 15, 2013.

Mr. Smith requested to pull Item 4 (A) (C) for review and add a new item Thistle Asset and Denver Investment Advisors invoices.

At this time Mr. Shutt commented with the Gabriel, Roeder, Smith and Company contract, in reviewing the ordinance, this board has the authority to retain such professional consultants, advisors and investment managers as it deems advisable to carry out its responsibilities. However, when it comes to the actuary the code states the City shall appoint the actuary. There would be no action taken today; however, the board may want to make changes and/or recommendations to the City Commission.

Mr. Smith questioned the fiduciary responsibility to the board.

Mr. Shutt indicated whoever they entered into an agreement with yes. In this case it would be to the City; however, he feels it would extend to the board as well given the facts that the board relies on.

Secondly, pursuant to state statute, essentially all boards with the City should allow public comments at their meeting. Mr. Shutt indicated on the next agenda there would be a position where the public would be able to comment.

Mr. Swank also requested to pull item 4 (A) (e), RhumbLine Advisers invoices.

Mr. Dole moved to approve the agenda as amended for August 15, 2013, seconded by Mr. Smith. Said motion passed unanimously.

Item 3. Approval of the General Employees' Pension Board Minutes for May 16, 2013.

Mr. Smith requested to remove the word either and add the only remaining FPPTA class this year. Mr. Dole moved to approve the minutes of May 16, 2013 as amended, seconded by Mr. Smith. Said motion passed unanimously.

At this time Mr. Dole questioned the City Attorney, Mr. Shutt if the request went before the City Commissioners to waive their approval for changes recommended by the board with reference to the investment policy. Mr. Shutt indicated this was approved by City Commissioners.

Item 4. Consent Agenda:

A. Approval of the Following Invoices:

- a. State Street Global Advisors, dated May 3, 2013, in the amount of \$2,500.00 for quarterly investment management fee for the period of January 1, 2013 through March 31, 2013.
- b. Gabriel, Roeder, Smith & Company, dated May 13, 2013, in the amount of \$7,420.00 for benefit calculations for Khanna and further preparation of the October 1, 2012 Actuarial Valuation Report.

- c. Gabriel, Roeder, Smith & Company, dated June 13, 2013, in the amount of \$5,780.00 for benefit calculations for Luciano, Thompson, Montgomery and Brown, final charges for the preparation of the October 1, 2012 Actuarial Valuation Report and annual charge for additional disclosure of present value of accrued benefits reflecting the FRS interest rate.
- d. Gabriel, Roeder, Smith & Company, dated July 3, 2013, in the amount of \$300.00 for benefit calculations for Koeser.
- e. RhumbLine Advisers, dated July 9, 2013, in the amount of \$7,399.00 for quarterly investment management fee for the period of April 1, 2013 through June 30, 2013.
- f. The Boston Company, dated July 15, 2013, in the amount of \$14,926.94 for quarterly investment management fee for the period of July 1, 2013 through September 30, 2013.
- g. Dana Investment Advisors, Inc, dated July 13, 2013, in the amount of \$10,834.96 for quarterly investment management fee for the period of July 1, 2013 through September 30, 2013.

B. Approval of the Following DROP Retirement(s):

- a. Name: Dennis Thompson
Age: 62
Monthly Pension Amount: \$3,507.20
Benefit Commenced: May 1, 2013
Benefit Requested: 50% Joint and Survivor Annuity
- b. Name: Gloria Montgomery
Age: 60
Monthly Pension Amount: \$2,221.64
Benefit Commenced: June 1, 2013
Benefit Requested: Ten Year Certain and Life
- c. Name: William Luciano
Age: 60
Monthly Pension Amount: \$1,486.92
Benefit Commenced: July 1, 2013
Benefit Requested: 100% Joint and Survivor Annuity

C. Approval of the Following Early Retirement(s):

- a. Name: Lonnie Brown
Age: 58
Monthly Pension Amount: \$2,211.26
Benefit Commenced: June 1, 2013
Benefit Requested: 50% Joint and Survivor Annuity

D. Approval of the Following Termination Refund(s):

- a. Linda Valdez (Police Department) in the amount of \$6,346.70.
- b. Donna Wofford (Police Department) in the amount of \$4,939.39.
- c. Auxiliadora Perdomo (Police Department) in the amount of \$3,625.27.
- d. Jessie Gaskins (Public Works) in the amount of \$2,816.23.

E. Approval of the Following Beneficiary Disbursement(s):

- a. Janet Green, beneficiary of William Green, in the amount of \$1,910.09 for one year then reduced to \$1,146.05 (60%) until the earlier of her death or remarriage.
- b. Linda Koeser, beneficiary of Bruce Koeser, in the amount of \$1,754.13 effective June 1, 2013. In addition, a lump sum payment of \$10,000 as Mr. Koeser had over five years of credited service.
- c. Anna Koeser, minor child of Bruce Koeser, in the amount of \$657.80 effective June 1, 2013 until the attainment of age 18 or if full time student age 22.

F. The General Employees' Pension Board accepts that the Plan has received the following check(s) which have been deposited in the Trust Account.

- a. SunTrust in the amount of \$43.65, deposited May 13, 2013, for settlement with Cardinal Health Inc. Sec. Litigation class action proceeds.
- b. Marlo Dahl in the amount of \$350.00, dated June 11, 2013, for reimbursement to the Plan for fees associated with the actuarial calculation request for purchase of air time.

- c. BNY in the amount of \$106.42, deposited May 21, 2013 for Commission rebate for April 2013.
- d. James Smith in the amount of \$48.00, deposited August 6, 2013 for reimbursement of travel advance expenses for the FPPTA Annual Conference of June 23, 2013 through June 26, 2013.

G. The General Employees' Pension Board is being advised of the class action settlement report from both Portfolio Monitoring Agencies.

Mr. Smith moved to approve the consent agenda as amended, seconded by Ms. Walinski. Said motion passed unanimously.

Item 5. Review of Pension Contributions beyond 30 Years' Service.

City Attorney, Brian Shutt stated in conversation with the City Manager, Mr. Louie Chapman, Jr., he is okay in moving forward with the change in the ordinance to cease employee contributions upon reaching 30 years' credited service. Staff believes it was an error in not bringing this forward when other changes were made. Mr. Chapman, Jr. requested this item be brought before the board for their recommendation.

Ms. Schell indicated prior to 2000 contributions had always been stopped upon 30 years credited service. Back in 2000 employee's contributions were ceased; in 2003 contributions were restarted. At that time the portion of ceasing contributions upon reaching 30 years' service was either omitted or not brought forward perhaps in error. The finance department had always been under the impression upon 30 years credited service, contributions would be stopped; there was no notification of any change taken place. Thirty years is the maximum an employee can receive compensation for their pension.

We had an individual with 30 years' service apply for retirement; the actuary indicated contributions are being stopped; however, there is no indication of that in the ordinance. This is when we realized something was changed. At this time City Attorney, Mr. Shutt indicated legally we had to restart the deductions of contributions. In addition, we would have to collect all contributions that should have been collected but were not. Ms. Schell indicated she felt this was not fair in that it was an error on the City's part.

Upon receipt of an impact statement from the actuary, Gabriel, Roeder, Smith and Company, there would be minimal impact to the fund.

Mr. Shutt indicated the factors to be considered as follows:

- Would the board be in favor of ceasing contributions upon reaching 30 years' credited service?
- If so, what would the effective date be? Back dated so no employee would have to repay any contributions?
- Would we refund money to those employees where contributions were restarted or when the ordinance is passed, from that time forward no one would have to contribute anymore?

Mr. Dole questioned what the dollar amount would be should a refund take place.

At this time Ms. Schell left the meeting to obtain the dollar figure involved should reimbursement be approved.

This item was now opened to the public for comments.

Mr. Milton Willingham indicated on November 16th he went to see Ms. Schell for an estimated pension figure to decide if he wanted to enter the DROP. At that time she proceeded to tell him about the pension indicating contributions would need to be restarted in addition to collecting all back contributions as the thirty years ceasement of contributions no longer applies. She suggested I call City Attorney, Brian Shutt. I met with him and it has continuously gone back and forth in addition to conversing with City Manager, Mr. Harden prior to his leaving. Had Mr. Willingham known what he knows now, there a great possibility he would have entered the DROP. The impact on Mr. Willingham is approximately \$80.54 per paycheck.

Mr. Fiel Bronson indicated the impact to him is approximately \$112/month. It was approximately six months where contributions had stopped.

Mr. Ray Colgin stated he reached 30 years in August and contributions were never stopped for him. His contributions are approximately \$60/paycheck.

Mr. John Bullard indicated his 30th anniversary was in September. His contributions were never stopped either. The difference with him is he elected the enhanced multiplier with contributions being approximately \$200/paycheck.

Ms. Schell indicated she just checked with the payroll administrator, if there was a refund upon reaching their 30 years, it would be a little over \$10,000 for those five individuals.

Mr. Smith moved to support an ordinance change that would refund all contributions made after attainment of 30 years of credited service; refund anything that has been deducted after the 30 years; and cease all contributions for future.

Mr. Dole would like to substitute Mr. Smith's motion to restrict it to these five individuals.

Ms. Walinski seconded reconfirming the motion: the board will recommend contributions be stopped after 30 years; recommend the five employees in which contributions were collected in excess of 30 years be refunded; and recommend there will also be no retroactive contributions required for those five employees if it applies to them. Said motion passed unanimously.

Item 4 (A) (e). RhumbLine Advisers, dated July 9, 2013, in the amount of \$7,399.00 for quarterly investment fee for the period of April 1, 2013 through June 30, 2013.

Mr. Swank indicated at the last meeting there was a question as to why RhumbLine does not give the board a break on the second and third invoices.

Mr. McCann indicated RhumbLine sent an email indicating the board was actually charged less than the standing fee schedule. They do not normally aggregate accounts for fee calculations. RhumbLine did agree to use an aggregate calculation going forward as of June 30th, 2013 that will result in roughly the same fees. Mr. McCann will contact RhumbLine and request a credit on the next invoice.

Item 4 (A) (c). Gabriel, Roeder, Smith and Company, dated June 13, 2013 in the amount of \$5,780.00 for benefit calculations for Luciano, Thompson, Montgomery and Brown, final charges for the preparation of the October 1 2012 Actuarial Valuation Report and annual charge for additional disclosure of present value of accrued benefits reflecting the FRS interest rate.

Mr. Smith indicated the invoice illustrates a 1.9% cost of living increase. He assumes this was not under contract but accepted practice and requested further research into this item.

Item 4 (A) (h). Thistle Asset and Denver Investment Advisors invoices.

Mr. Smith commented he did not see the Denver or Thistle Asset invoice.

Ms. Schell indicated the invoices were received after the 15th, and was not prepared for this agenda package; they will be placed on the next agenda.

Item 6. Review of Audit Procedures.

A. Scott Porter

In response to Mr. Smith's question, Mr. Porter does feel he has the same fiduciary responsibility towards the board as he does towards the City.

Mr. Porter started with an overview of how the audit process works in the governmental accounting, which is entirely different than the private sector. In the governmental sector, the General Employee's pension plan is reported separately in the annual report. For the General Employees we look at the fund basically the same way as if we were doing an audit and issuing a separate report which is what the Police and Fire do. On the Police and Fire fund the numbers are pulled from the Police and Fire audit report. We do not give an audit opinion on the Police and Fire fund and that is because we do no audit it. We simple pull the numbers from the other auditor's report and incorporate it. The opinion is given on what is referred to as the governmental activities, business type activities, the aggregate component units, each major fund and the aggregate remaining fund information. Where the pension fund falls in each opinion unit is in the last item being the aggregate remaining fund information. Basically this means when we determine materiality, audit scopes and things of that nature, we look at it in terms of each major fund, in case of the pension the aggregate remaining fund information. This includes the pension funds combined, what is referred to the non-major governmental funds. Also included in the aggregate are the non-major proprietary funds; meaning we take the totals; total assets, liabilities, net assets, revenues, expenses and add them to each group and whatever that total is, is the basis we use for planning materiality, which in the case of the City is also going to be assets. Determination is based on the total rather than individual fund. In terms of the pension funds, because the pension fund number is so large, we confirm 100% of the investments; everything on the balance sheet is confirmed. In reviewing the balance sheet, one will see relatively few numbers outside the investment area. You have \$90 million in total assets and \$45 thousand of liabilities. The auditors confirm the \$90 million dollars; the 45 thousand of liabilities we're not really looking at. In terms of 90 plus million dollar fund, \$45 thousand isn't really significant. Naturally how it comes down to is how it's reported in aggregate totals. The majority of the investment funds are confirmed by the year end statements we receive and reconciliation work that goes back to the investment manager's statements. The other numbers are the employer contributions, which we look at in terms of a percentage applied to the payroll. We test the payroll on the City's side by taking a sample of individual employees, review their deductions that come out of each employee's check and verify those numbers are correct. Some are Police and Fire, some are General Employees; as a general rule, every employee group is covered in that sample. In terms of the benefit, we receive a list from finance each year of all new DROP and retirees, we select a sample from those and historically because of the size of the sample related to our total number is maybe 25% of total number of employees (4-5). The items we review are extensive; we look at the personnel file comparing information provided to the actuary, whether the forms are completed, whether everything is signed off and there are a number of steps involved.

Mr. Swank questioned if Mr. Porter has ever had pension items in the management letter.

Mr. Porter responded interesting enough not for the General Employees however, with Police and Fire they had a lengthy list. If there are specific pension issues they are incorporated into the General City Manager letter and identified as such. As a general rule, because the General Employees' plan is handled through the City, all the general internal controls that apply to the City, extend to the pension. To the extent there may be a comment relating to internal control within the City that would also impact the pension plan, but we don't deal with it as just pension issue, we deal with it as a City issue. In the past five years there have not been any internal control issues.

Item 7. Review of Gabriel, Roeder, Smith & Company's Contract.

Mr. Swank indicated the board had previously discussed the actuary is really the City Commissioner responsibility.

Mr. Shutt questioned if the board wanted to change the ordinance. He does not see any reason why it would be with the City and not the board like other agreements/contracts.

Mr. Swank feels it's important and the consensus of the board is to recommend to the City Commissioners they would like to control this contract.

Mr. Shutt indicated he has direction from the board, he will confer with Mr. Jim Linn, an outside pension attorney to make sure this change could be accomplished. Mr. Shutt feels this would be a very minor modification to the ordinance to include the actuary under all other professional services the board has control over.

Mr. Swank commented once that is granted, we would like to meet with the firm to address any issues presently that we have.

Mr. Dole moved to direct city staff to change the code to allow the actuary be contracted directly through the board, seconded by Mr. Smith. Said motion passed unanimously.

Item 8. Review of Plan's Performance Evaluation for the Period Ending June 30, 2013.

A. Performance

Mr. McCann started by reviewing the index comparison. The compliance report indicates the total return over the trailing 3-year period did not exceed the policy; 11.64 vs. 11.77. Nor did the total return over the trailing 3-year period rank in the top 40% of the Universe comprised of 20% Lg. Value, 20% Large Growth, 15% Midcap, 5% Intermediate and 34% Broad Fixed (50th). RhumbLine's Large Cap Value equity return over the trailing 3-year period did not exceed the R1000V Index; 18.44 vs. 18.51. RhumbLine's Large Cap Growth equity return over the trailing 3-year period did not exceed the R1000G Index; 18.64 vs. 18.68. Denver's fixed income return over the trailing 1-year period did not rank in the top 40% of the 65% Mobius Broad Fixed Income and 35% Intermediate Fixed Income Universe (55th).

Mr. McCann continued with the review of the Executive Report. The asset allocation illustrates a total of \$96,967,000; Midcap \$15,066,000 (15.5%), Large Value \$23,502,000 (24.2%), Large Growth \$20,726,000 (21.4%), International \$4,379,000 (4.5%), Fixed Income \$34,274,000 (33.3%) and \$1,020,000 in Cash (1.1%).

The total fund for the quarter was 0.62% vs. 0.09% ranking 29th; for one year the return was 13.08% vs. the policy of 11.64% ranking 32nd; three years 11.64% vs. the policy of 11.77% ranking 50th and five years 6.12% vs. the policy of 6.79% ranking 39th. Equity return for the quarter was 2.23% vs. the policy of 1.63% ranking 41st; one year 22.17% vs. the policy of 20.91% ranking 20th; three years 17.66% vs. the policy of 17.82% ranking 14th and five years 5.59% vs. the policy of 6.89% ranking 65th. Fixed Income return was -2.20% vs. the policy of -2.23% for the quarter ranking 34th; one year -0.20% vs. -0.54% ranking 66th; three years 3.66% vs. the policy of 3.56% and five years 5.29% vs. the policy of 5.22%.

Boston Company's quarterly return was 4.96% vs. the policy of 3.20% ranking 8th; one year 30.33% vs. the policy of 25.32% ranking 1st. Dana's quarterly return was 2.89% vs. the policy of 2.06% ranking 34th. Harding Loevner's quarterly return was -4.07% vs. the policy of -4.38% ranking 92nd. RhumbLine's Midcap quarterly return was 0.97% vs. the policy of 1.00% ranking 75th; one year 24.99% vs. the policy of 25.18% ranking 51st. RhumbLine's Large Cap Value quarterly return was 3.20% vs. the policy of 3.20% ranking 50th; one year 25.21% vs. the policy of 25.32% ranking 20th. RhumbLine's Large Cap Growth quarterly return was 2.06% vs. the policy of 2.06% ranking 60th; one year 17.03% vs. the policy of 17.07% ranking 62nd. Denver's quarterly return was -2.11% vs. the policy of -2.11% ranking 31st; one year 0.60% vs. the policy of -0.37% ranking 55th and State Street's quarterly return was -2.32% vs. the policy of -2.33% ranking 39th.

Mr. McCann continued reviewing the asset allocation scenarios for alternative investments for fixed income, convertible bonds.

After further discussion, it was the consensus of the board to not go with real estate or hedge funds. The two remaining alternatives would be convertible bonds or tweaking the investment policy; more into equity and less into fixed. Convertible bonds would be classified as fixed income.

Mr. McCann suggested he bring two different sectors for the next meeting; one on convertible bonds, and secondly on small cap search.

Mr. Swank suggested for the next meeting doing the search for the convertible bonds and also talk about rebalancing to address whether to move out of certain equity style now into a small cap. Then at that point, perhaps request a search on small cap.

Item 9. Review of meeting time.

A. Request to change meeting start time to 1:30 p.m.

All trustees agreed to change the meeting start time to 1:30 p.m. effective with the November meeting.

Item 10. Other Business.

Mr. Swank suggested having a copy of Salem Trust's contract for review at the next meeting.

Ms. Walinski commented if the custodian is changed; try to do it the beginning of the calendar year due to 1099 year end statements.

Motion to Adjourn:

There being no further business, Mrs. Walinski moved to make a motion for adjournment, seconded by Mr. Dole. Said motion passed unanimously. The meeting adjourned at approximately 3:37 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 15, 2013, which minutes were formally approved and adopted by the General Employees' Pension Board on November 21, 2013.



Milena Walinski, Acting Finance Director
General Employees' Pension Board

cc: Louie Chapman, Jr., City Manager
Brian Shutt, City Attorney
Department Heads