Rec 5-11-15

MINUTES OF THE BOYNTON BEACH POLICE OFFICERS' PENSION FUND SPECIAL MEETING HELD ON TUESDAY, MARCH 17, 2015, AT 10:30 A.M. RENAISSANCE EXECUTIVE SUITES, SUITE 220, CONFERENCE ROOM 1 1500 GATEWAY BOULEVARD, BOYNTON BEACH, FLORIDA

PRESENT:

Toby Athol, Chair
Scott Caudell
Joe DeGiulio
John Huntington

Barbara LaDue, Pension Administrator

ABSENT:

Jason Llopis, Secretary

I. CALL TO ORDER – Toby Athol, Chair

Chair Athol called the meeting to order at 10:31 a.m.

II. AGENDA APPROVAL

Ms. LaDue added GRS invoice for $4,862 to VII., New Business, as A.3.

There was consensus to add the invoice to the agenda.

III. APPROVAL OF MINUTES – Special Meeting, September 9, 2014
Quarterly Meeting, February 10, 2015

Motion

Mr. Caudell moved to approve the minutes. Mr. Huntington seconded the motion that unanimously passed.

IV. FINANCIAL REPORTS:

A) Davidson, Jamieson & Cristini, PL - Richard Cristini and Jeanine Bittinger –

1) Audit – Financial Statement for PYE 9-30-2015

Richard Cristini, Davidson, Jamieson & Cristini, advised Ms. Bittinger became a partner in the firm. The members congratulated her.

Mr. Cristini explained the report was the independent auditor report. They cover letter indicated that in all material respects, the assets, liabilities, revenues and expenses in the Plan were fairly stated, there were no control or significant deficiencies or material weakness. When they audit, they do so with regulations, policy and good business practices in mind. They dealt with Ms. LaDue and the City and found no exceptions in those areas. The Board was doing what they were supposed to and was following policies.

The total investments increased from $68 million to $75 million and DROP loans increased. Broker dealer receivables were reported on a trade date basis, not sale date basis. Net position, restricted for pensions increased, going from $69 million in 2013 to $76 million in 2014 and it was a good year. Statement of changes reflected employer contributions were about the same. Plan member contributions went down, there were fewer buybacks this year than last, and less roll overs to DROP. The total contributions went from $5.3 million to $5.1 million. The Intergovernmental State Excise Chapter 185 taxes increased. Mr. Cristini explained most of the 185 Plans he audited were flat or went down. Investment income were composed of gains on sales and increases in market value over cost from year to year. Combined, the monies increased from $6.6 million to $7.6 million; less the Plan expenses, the Fund increased from $6.1 million to $7.1 million.

Total additions to the Plan were $12,093,000 last year and $12,899,000 this year. Age in service showed retirees and disabilities were up slightly and beneficiaries were the same. DROP payments increased about $500,000 and refunds were down. Administrative expenses were up slightly. Total Plan deductions went from $4.4 million versus $5.6 million. The net increase in net position was $7.5 million versus $7.2 million which was an excellent result for the Plan.

Mr. Cristini commented during his audit, there was nothing that jumped out at him. This Plan was highly ranked, in terms of financial results. In response to a question if the DROP payments have adverse effects on the solvency of the Plan, Mr. Cristini explained the payments were already included in the numbers and were earmarked for retirees. Even though that amount doubled, it was not a negative factor and it does not affect the actuarial evaluation.

Mr. Cristini reviewed the Summary of Significant Accounting Policies and noted the new accounting pronoucements indicate an accounting standard change, and the report was prepared using the GASB 67 standards. He commented GASB 68 would be in effect next year. Mr. Cristini explained what GASB does and their authority. Florida Statute says the Auditor General determines the accounting and audit standards for governmental entities in the State, and Florida's Auditor General requires the Board follow GASB. Governments have different accounting standards and the requirement mandates the report has to be included with the City's CAFR.

The Plan's investment asset allocation was reviewed as contained in the Investment Policy Statement. The rate of return for the Plan, net of pension Plan expenses were

11% for the year. There will be a table in the back of the report and the figure that will be built into a 10-year table. Mr. Cristini advised 11% was very good and so were the target allocation percentages.

The Plan designations identify monies belonging to specific members for DROP. The funds were earmarked. The total designated position was $10.7 million, but the funds were in the total Plan. The undesignated net position of the Plan was $65.5 million.

Discussion of DROP loans took place. Some plans do not permit DROP loans and others that do result in the Plan acting like a bank. They are required to show the minimum annual payments which, in the next five years, would be paid off according to a schedule. The DROP loans have to be paid back within a five-year period and the payments are deducted from the pension benefit checks. The Boynton Plan does not permit DROP loan repayments to be deducted from member DROP account balances.

The net pension liability for the City was reviewed. Mr. Cristini explained in some cases, the total pension liability was less than the Plan's fiduciary net position, so there was no liability. There was a pension asset. This was the figure used in the City's CAFR starting next year.

Mr. Cristini clarified the actuarial assumptions have an inflation rate of 4%. The rate of return of 7.75% includes inflation. Mr. Huntington commented the Florida League of Cities focuses on this as the number and uses it as the basis for why governments were going broke. He inquired how the number compared to other Plans. Mr. Cristini responded it was a normal percentage. Pete Strong, Plan Actuary, commented it was slightly less than 50%. The average was in the mid to upper 70s and it had improved over the last three years.

A question was posed if the Board had to figure out how to increase the number or if it was the manager's responsibility. Mr. Cristini explained it starts with policy and reasonable accounting assumptions. Discussion about other plans ensued. Mr. Strong explained in a few years, a review of the last 30-year period would show ups and downs and, on average, an 8.5% rate of return.

The long-term rate of return of what was anticipated without inflation was reviewed. These figures were purely a disclosure required by GASB and meant virtually nothing. This was the one area with the most misunderstanding, and it had nothing to do with the reality of the Plan.

Mr. Cristini explained all the formats used for the schedule of funding progress were gone. The actuarial calculations showed the Plan Fiduciary Net Position was $76 million. The net change in fiduciary net position was $7 million, and the Net Pension Liability was $35,501,006. This was just market value not smoothing. With respect to employee payroll, GASB indicated there were elements included in compensation paid to active employees in which contributions to a pension plan are based. If contributions are calculated on base pay, including overtime, GASB indicated that the definitions of covered employee payroll are different in GASB 25 and GASB 67. Chair Athol explained presently, everything they earned was pensionable, except for the overtime hours over 300. They were currently negotiating the detail pay being excluded from remuneration and advised when that occurred, they would notify Mr. Strong.

The notes to Schedule of Contributions and the methods and assumptions were included. The investment and administrative expenses were under 1% in both categories, which was good. Mr. Strong pointed out the investment expenses were slightly above average. They normally see 50 to 55 basis points and 75 basis points was slightly higher compared to other plans.

Chair Athol noted vesting is done at five years. Page 20, Item 9, states contributions would be refunded to participants who terminate with less than 10 years and Mr. Cristini advised a correction would be made. Mr. Cristini also explained GASB 72 called for fair value measurement – how the Board should measure criteria.

2) Annual 2014 State Report

Ms. Bittinger advised they sent a letter regarding the GASB 67 rules required more time for them to prepare the audit. She explained there would be an extra bill for just this year to report changes for the new standards. Now that the work was completed, they requested approval for just this year for GASB 67 only of $3,000. The Board had previously discussed this, but they did not know the amount of the additional work. Chair Athol thought they had approved the expense within a certain range.

Motion

Mr. Caudell moved to pay the additional $3,000. Mr. Huntington seconded the motion that unanimously passed.

3) Renewal contract –

Ms. Bittinger explained this year was the last year in their three-year contract. A proposal for another three-year contract was included. The fee schedule was an exhibit in the backup. For the year ending September 30, 2015, the amount would be $11,500. For 2016, the amount was $12,500, and $13,500 for 2017. The preparation of the annual report was for $2,000. There will be no additional fees for the GASB 67 standards. Chair Athol explained Attorney Jensen had already reviewed the document and advised it was okay to approve.

Motion

Mr. Caudell moved to approve. Mr. DeGiulio seconded the motion that unanimously passed.

B) Gabriel, Roeder, Smith & Co – Pete Strong,

1) Actuarial Valuation Report 10-01-2014

Mr. Strong reviewed the summary of the Valuation Report and the Annual Required Contributions (ARC). He anticipated the next few years would be good and in the black as bad years dropped off from smoothing. Gains would offset the effect of the assumed rate of return. Discussion followed about salaries not increasing. The percent of covered payroll was based on what the reported payroll was. Chair Athol asked how accurate the projections were, and Mr. Strong responded it was usually to within 10%.

The market value of gains would help the Board down the road. He reviewed the revisions in the actuarial assumptions and methods. Gains and losses are phased in at 20%. This year, they were phased in at 80% and last year was 60/40. The 20% phase in caused an increase in the contribution rate of 1.22%. There was one more year of phasing in 1.22% and that would end the phase in of the new mortality and termination rates.

(Mr. Caudell left the meeting the 11:31 a.m.)

There was a lot of pressure to lower the assumed rate. An issue with this Plan was with its investment load at 75 basis points translated to an 8.5% gross return. The forecast was too high, even with an aggressive asset allocation. The best was 7% or lower.

There was a net actuarial gain this year. This was the third year in a row there was a positive experience. It had a net return on the market value of assets between 10% and 11%, but the money weighted return used a balanced cash flow approach. The best experienced gain was from salary increases being less than expected which averaged 1% against the long-term expectation of 5.8%.

The funded ratio was different this year than what was in the GASB 67 report, which was market value and gross value. Mr. Strong explained what was used in the actuarial report. On a smooth actuarial basis, the funded ratio was 62.3%, up from 59.1% from last year. The market value was 65.7% up from 49.2%.

Mr. Strong discussed the Plan amortization on the unfunded liability using a percentage of the payroll growth assumption. The Statute prohibits using a payroll increase assumption above the 10-year historical average. The last six or seven years, payroll was flat. Looking ahead, the 10-year average will come down unless payroll increased.

He reviewed the covered annual payroll. Unless payroll increases in 2017 and 2018, the 10-year average will go down. Next year was anticipated to be less than 4%, and the year after that, it could be 2%. That will put upward pressure on the amortization payment. Mr. Strong reviewed the unfunded liabilities and the calculations. The Plan had three years in a row of experienced gains starting in 2012, which was good, but on the heels of 11 years in a row of losses. The funded ratio was 62.3%. The Plan was at the highest funded ratio since before the 2008/2009 collapse.

Mr. Strong explained the pending gains in the actuarial value of assets. Each year, they review the total market investment returns and they review what they assumed they would have been. The net difference was almost $2 million, which is phased in over five years. He explained they have one more negative period to recognize. The investment earnings and contributions are the two sources of income.

Motion

Mr. DeGiulio moved to approve the Report. Mr. Caudell seconded the motion that unanimously passed.

V. CORRESPONDENCE:

1) **Russell Account Services Email 3-5-2015** – RIFL Memorandum & PPM Supplement

Ms. LaDue confirmed this was received.

VI. OLD BUSINESS:

A) Updated Board of Trustee listing 3-10-2015

This item was information only. It was noted several Trustees were longstanding members. Chair Henderson, from the Firefighters' Plan, has served on the Board for 20 years. Mr. Strong explained there was an outlandish bill that would limit board service to eight years; however, it only pertained to participants of the plan. If one was not a current active member of the plan and was a City appointee, they could serve. SB 242 would require all municipal plans to use the same mortality as FRS. FRS uses a version of the RP 2000 Table, and a more conservative mortality projection scale, but they use blue collar adjustments for special risk, which offset each other and did not result in much of a difference in liabilities for the plan. The immediate effect would be minimal. If FRS changed tables, the local plans would have to change as well.

B) Trustee Liability Coverage Renewal effective 4-15-2015 -

Ms. LaDue explained she was obtaining three or four quotes, but the premium was due 10th April ~~14th~~. She needed Chair Athol or Attorney Jensen to review the Policy so she could pay the bill. Chair Athol commented they never had a claim before, and now they did from the Epstein case. He suggested the quotes be forwarded to him and Attorney Jensen. The current coverage was for $2 million with a $25,000 deductible. It was noted the Board had $1 million in coverage for 10 years. Fire also has $1 million. A suggestion was made it may be practical to reduce the coverage to the $1 million.

VII. NEW BUSINESS:

A. Invoices for review and approval:

1. Bonni Jensen PA – Service January/February 2015- $2,263.50
2. Burgess Chambers & Assoc – First Quarter 2015 Fee - $6,250
3. GRS Invoice - $4,862

Motion

Mr. Huntington moved to pay the invoices. Mr. DeGuilio seconded the motion that unanimously passed.

B) Attorney Report - Bonni Jensen – N/A

None.

VIII. PENSION ADMINISTRATOR'S REPORT – N/A

None.

IX PUBLIC COMMENTS:

None.

X. ADJOURNMENT:

There being no further business to discuss, Chair Athol properly adjourned the meeting at 12:02 p.m.

Catherine Cherry

Catherine Cherry
Minutes Specialist
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