

FIRE PENSION BOARD
REGULAR MEETING
MINUTES
February 10, 2011

The Fire Pension Board of Trustees held a Regular meeting on Thursday, February 10, 2011 at 4:00 pm, at the City of New Smyrna Beach Commission Chamber 210 Sams Avenue, New Smyrna Beach, Florida.

ROLL CALL

The following members were in attendance:

Tom Lee
Robert Alonzo
Don Snell
Lynne Plaskett
David Newell

In attendance were Carol Hargy, Human Resources Director, and Claudia Rogers, Recording Secretary, Patrick Donolan of Foster & Foster and Charlie Mulfinger of Morgan Stanley Smith Barney.

ELECT NEW SECRETARY

A motion was made by Robert Alonzo to elect Don Snell as Secretary, seconded by David Newell. The motion passed unanimously.

APPROVAL OF MINUTES

A motion was made by Robert Alonzo to approve the minutes of the Regular meeting held on December 16, 2010, seconded by David Newell. The motion passed unanimously.

PRESENTATION OF QUARTERLY RESULTS-MORGANSTANLEY SMITHBARNEY

Charlie Mulfinger presented the Quarterly financial results. The fund value on September 30, 2010 was \$14,139,421.80, sustained a net gain of \$1,069,655.18 Gross of Fees and \$1,036,492.55 Net of Fees in the quarter, with an 8.6% return for the year. Detailed information is included in the Quarterly Performance Evaluation report document on file with the City. Mr. Mulfinger pointed out a new item Florida List of Scrutinized Companies was added to the compliance checklist included in the Quarterly Performance Evaluation report. Mr. Mulfinger spoke with Patricia Shoemaker regarding the Florida Investment Act and was advised the State does not want to see any holdings in these companies and State money can be withheld. Mr. Mulfinger advised the members, Morgan Stanley Smith Barney will be checking all managers and if any are found to have holding in any scrutinized company they will advise the manager they are

out of compliance and the manager will have to correct the non-compliance. Also shown in the Quarterly Performance Evaluation report, British Petroleum was noted as having International Bond holding. This holding was in compliance with the Pension Board Ordinance but was out of compliance with the Pension Boards Investment Policy Statement. Morgan Stanley Smith Barney advised them of this and a check was issued back to the pension plan. Mr. Mulfinger brought two new managers to the Board for their review and went into detail regarding an investment change from bonds to Class A Real Estate, which are institutional real estate products. Mr. Mulfinger recommended adding as a portion to portfolio to diversify plan further. UBS has \$1 million limit and JP Morgan has \$5 limit (JP Morgan is not a possibility with a plan that only has \$14,000,000). UBS currently has \$2 billion dollars in queue. This means if the Board decides to make a change they would be added in line and it may take awhile until their turn comes up. At that time the Board can decide to follow through with their investment or change their mind and remove themselves from the queue. A motion was made by Lynne Plaskett to approve moving a minimum amount of \$1 million into the queue, seconded by Don Snell, discussion continued, roll call of the motion: Lynne Plaskett – yes, Robert Alonzo – no, Don Snell – yes and Tom Lee – yes. The motion passed with one dissenting vote.

FIFTH BOARD MEMBER

After discussion a motion was made by Lynne Plaskett to nominate David Newell as the Board's fifth member, seconded by Robert Alonzo. The motion passed unanimously.

APPROVAL OF FEES

A motion was made by Don Snell to approve payment to Christiansen & Dehner, for the total amount of \$764.28, seconded by Robert Alonzo. The motion passed unanimously.

A motion was made by Don Snell to approve payment to Daytona Signs for the total amount of \$24.00, seconded by Robert Alonzo. The motion passed unanimously.

A motion was made by Don Snell to approve payment to Foster & Foster for the total amount of \$7,707.00, seconded by Robert Alonzo. The motion passed unanimously.

BOARD MEMBERS REPORT AND COMMUNICATIONS

A motion was made by Don Snell to approve renewal and payment of membership to FPPTA in the amount of \$600.00, seconded by Robert Alonzo. The motion passed unanimously. Approval was given to reimburse expenses for Don Snell and Robert Alonzo to attend Trustees School.

CITY REPORTS AND COMMUNICATIONS

Claudia Rogers told the board members of a mailing done in June 2010 to all retirees (normal and disabled). The normal retirees "Are You Alive" letters were all good. The disabled retiree letters were not returned or were returned with correspondence different than the letter asked for. One disabled retiree sent a letter asking to be paid \$125,000 and stop sending his monthly retirement benefit; he also did not include a doctor's

certification. Lee Dehner advised the plan does not provide lump sum payments in lieu of monthly pension benefits. Lee Dehner also advised a letter be drafted, signed by the Chairman and sent certified mail to the disabled retiree stating if he did not return requested documents his monthly benefit could stop until such information is obtained. Ms. Rogers will draft letter for the Chairman, have signed and send certified mail.

ACTUARIAL VALUATION REPORT FOSTER & FOSTER

Patrick Donolan presented the Board with the 2009 – 2011 Actuarial Valuation Report. Mr. Donolan told the board the percentage of payroll went up significantly due to a large increase in DROP membership (whose payroll is not included in pensionable payroll). Mr. Donolan continued going through the report pointing out the investment return for 3 out of the last 4 years has beaten the assumption and is an 8.56% return for FY2010. The problem he stated is the rolling 4 year average return when developing the assumption was 3.83%, which was an actuarial loss for the plan. No raises meant a gain to the plan to reduce the loss from about \$500,000 to \$278,000. Another aspect which hurt the plan was when the State began requiring actuaries to use the 2000 Mortality Table instead of the 1983 Mortality Table. Mr. Donolan asked if the Board wanted to approve the report. The report was not approved, discussion was continued. Foster & Foster will make revisions to the report and present again at the next pension board meeting. A motion was made by Don Snell to defer approving the report to the next pension meeting, seconded by Robert Alonzo. The motion passed unanimously. A discussion regarding a comparison report with changes to the assumed 8% return, salary increases and turnover ratio can be done and brought back to the board at the next meeting. This would help the board see the experience of the plan and how changes can affect the mandated contributions. Mr. Donolan advised the board the Florida Retirement System uses 7.75% rate. Carol Hargy asked what other plans are doing. Mr. Donolan stated ½ the plans are moving to 7.9% and a portion of the rest have moved to 7.75%. A motion was made by Don Snell to approve payment of \$4,000 for a comparison report to be brought to the board, seconded by Robert Alonzo. The motion passed unanimously. Tom Lee asked for a copy of the mortality table, Mr. Donolan will email it to Mr. Lee. Claudia Rogers asked about David Dearwester's changing beneficiary during DROP calculations. Mr. Donolan explained the benefit calculation is done gender neutral and looks at only age, which was the reason why the option went down \$27.00 per month. It was further clarified employees are recommended to have a beneficiary on file however, it is not mandatory. You can have a different beneficiary for an employee's DROP account and their actual retirement monthly benefit. If a retiree does not have a beneficiary designation the monies go to the estate of the retiree. Mr. Alonzo told the board members each retiree should seek their own financial advice when making these retirement decisions. Mr. Lee asked if the City went back and checked the calculations on all the retirees. Claudia Rogers and Carol Hargy did double check files and did not find any inconsistencies. Kurt from Foster & Foster told the fire pension members at the retirement seminar held last year they could cash in 50% of their sick time and have it count toward their final compensation. Kurt further advised the verbiage was always in the plan when in fact it was not. One member joined DROP during this time frame and did cash in 50% of his sick time. However, when the restatement of the plan was prepared it included the sick time language, when in fact it is not a requirement of the plan and should not have been included. The affected member has been advised and will have time to decide what he would like to do.

ATTORNEY REPORTS AND COMMUNICATIONS

Mr. Dehner began his discussion with information about the IRS Favorable Determination Letter. The IRS does not require government plans to have a favorable determination letter in order to be treated as a qualifying plan. A couple of years ago the IRS became interested in governmental plans and sent surveys out. This year the IRS stopped sending the survey, but would like plans to apply for a Favorable Determination Letter which would have to be done by January 31, 2011. Mr. Dehner advised there are problems with the program and the downside of filing. Some downsides to filing are the expense, filing fees and professional fees could be as much as \$10,000 or more. If the plan does not file now, they can file in the next cycle and the Favorable Determination Letter would have to be done by January 31, 2013. Mr. Dehner further advised most plans are not filing. Mr. Dehner is just providing the information to the boards and it is the board's decision if they want to file now or later. One benefit of applying for the Favorable Determination Letter now is being able to take part in the Voluntary Compliance Program, which means the IRS will allow corrections. A motion was made by /Robert Alonzo to opt out of the Favorable Determination Letter due because it is a new program and the expense to the plan at this time, seconded by Don Snell. The motion passed unanimously. Mr. Dehner feels by the next meeting there will be legislation to discuss. Mr. Dehner advised the new board members to file the Form 1 Financial Disclosure within 30 days of taking office and for those who have left office need to file their Final Financial Disclosure within 60 days. Carol Hargy advised the Board of a Memorandum of Understanding regarding the negotiations and the pension plan. The City has hired a pension attorney to look over the plan and will continue to look over the plan due to the increase in City contributions. Kirk Jones addressed the Board regarding the use of the excess premium tax dollars. Carol Hargy advised Kirk Jones and the Board the members the firefighters did approve the use of the excess premium tax dollars during the negotiations that year and were denied obtaining interest on the use of the funds. Carol Hargy went on to state although the firefighters contribute 1% of their earnings if you take into account the use of the Premium Tax dollars and did the calculation including the tax dollars it somewhat appears to look like the percentage was 7.9% in 2009 including the 1% mandatory contribution.

APPROVAL OF PENSION DATES FOR NEXT YEAR

This item was deferred to next meeting as there are problems with the dates for Morgan Stanley Smith Barney.

ADJOURNMENT

There being no further business, the meeting was adjourned at 5:25 pm.