FIRE PENSION BOARD
REGULAR MEETING
MINUTES
November 10, 2011

The Fire Pension Board of Trustees held a Regular meeting on Thursday, November 10, 2011 at 4:10 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:

Thomas Lee
Don Snell
David Newell

In attendance were Carol Hargy, Human Resources Director, and Claudia Rogers, Recording Secretary, Althea Philord, Finance Director, Patrick Donalan of Foster & Foster, Steve Burkhalter of Morgan Stanley Smith Barney and Charlie Mulfinger of Morgan Stanley Smith Barney.

APPROVAL OF MINUTES

Mr. Newell asked if the minutes were missing information regarding the Darryl Lee disability discussion or if it was a previous meeting. The Board asked Ms. Rogers to revise the minutes and deferred their approval until the next Regular Board meeting.

PRESENTATION OF QUARTERLY RESULTS-MORGANSTANLEY SMITHBARNEY

Charlie Mulfinger presented the Quarterly financial results. Mr. Mulfinger updated the Board on the economy and U.S. market. Mr. Mulfinger stated it was a volatile market during the 3rd Quarter of the fiscal year. The numbers across the state were down. Mr. Mulfinger said housing did not improve, unemployment was bad at 9% and the European economy was concerning, however, October 2011 was the best in 20 years. (October 2011 is not reflected in this report) The fund value on September 30, 2011 was $13,855,386.11 sustained a net loss of $1,444,573.02 Gross of Fees and $1,480,510.60 Net of Fees in the quarter. Detailed information is included in the Quarterly Performance Evaluation report document on file with the City.

Mr. Mulfinger presented the Board with an Asset Allocation article. The article is a study on how to manage portfolios. The 1986 Brinson study is quoted as stating 90% of investment return was determined by asset allocation. This study has always been misquoted. The study really said it was the variability of the portfolio. This new study says it is not just asset allocation but money manager selection and security selection is

just as important. Mr. Mulfinger felt this was a major change in thought and said we will be hearing a lot about this in the future.

FOSTER & FOSTER PRESENTATION OF ACTUARIAL VALUATION REPORT

Mr. Patrick Donlan presented the Board with the October 1, 2011 Actuarial Valuation Report. Mr. Donlan stated using the four year smoothing technique made this the worst four year period ending September 30, 2011. Page 18 of the report shows Plan Year End 2008 had a -12.63% Rate of Return, Plan Year End 2009 had a 9.65% Rate of Return, Plan Year End 2010 had a 8.56% Rate of Return, Plan Year End 2011 had a 0.03% Rate of Return, The annualized rate of return for prior four years was 0.99% with a loss of over $1 million.

Last year the assumption rate was changed from 8% to 7.9%. It would not have mattered if it was changed to 2% it still would not have been met the assumed rate. Hopefully, this was an aberration in the market as it was an extreme bare market for that four year period. If the plan earns 7.9% this year this will make the average return in next year's report 6.4%. The high return of 9.65% in 2009 will help the average for next year, but the low return for 2011 will hurt the plan over the next three years.

Page 5 of the report shows $12,568,489 Market Value October 1, 2011 and $13,148,857 Actuarial Value October 1, 2011 Actuarial Value which is deferring approximately $580,000 of loses. Over the next two or three years the plan will show the same loss because of deferring the $580,000 which is an increase of the city contribution of about 3.6% of payroll. The 2011 year will hurt the plan over the next four years.

Page 8 shows favorable actuarial valuation because last year's change in the Assumed Salary Increases from 6.5% to 5.75%. It appears the assumptions made last year are going in the right direction. The average gain is 1.7% which offset some of the investment loss.

Page 5 shows part of the problem with this plan is there are not a lot of active employees (28) or 37% as of October 1, 2011. There are a lot of retirees and DROP members almost the same amount as active employees. The total liabilities for the future retirement benefits are $23,363,293 of which approximately $15 million is retired liability and $8.4 million are active employees. Although there was a gain in the salary value, really the investment part of the plan is the strongest part each year in this valuation report. When the 9 DROP employees leave and are replaced the payroll will show a higher number of active participants which will make the percentages look better.

Page 25 shows the turnover ratio. No non-retirement turnover hurts the plan because there are expectations that a certain number of participants will leave and take back their contributions. This is an actuarial loss to the plan. Page 10 shows the Unfunded Actuarial Accrued Liability overall loss of $1,389,108. A fifteen year mortgage payment was set up on losses which is a $142,000 this year and is substantial as far as a percentage of payroll. If payroll goes up this will look like a smaller percentage of payroll.

Mr. Donlan will come back to the next regular meeting to present in front of the whole Board.

Mr. Lee moved Item C3 to discuss while Mr. Donalan was still at podium. Mr. Lee asked Mr. Donalan to explain the Foster & Foster letter regarding the increase in fees. Mr. Donlan advised due to the two issues resulting from Senate Bill #1128 the benefit calculations were going to become more complicated. Foster & Foster has to hire additional staff in their benefit calculation area. This rate increase was to all clients. Mr. Donlan also explained because of the State mandating certain liability calculations, such as, assuming a 7.75% rate of return being included in all actuarial valuation report documents created the increase of 10% valuation fee to all clients. Mrs. Hargy asked if New Smyrna Beach could have special consideration because Senate Bill #1128 is not yet in effect. Mr. Donlan advised all client fees were increased.

Mr. Lee asked on the invoice we currently have are the new rates being applied. Mr. Donlan advised the new rates were not being applied because the Board had not yet approved them. Discussion continued regarding the invoice. Mr. Lee deferred payment of the invoice until the next regular meeting. Mr. Donlan and Ms. Rogers will review the invoice and bring a revised invoice to the next meeting.

APPROVAL OF FEES

A motion was made by David Newell to approve payment to Christiansen & Dehner, for the total amount of $1,254.06, seconded by Don Snell. The motion passed unanimously.

A motion was made by David Newell to approve payment to FPPTA for the total amount of $600.00, seconded by Don Snell. The motion passed unanimously.

BOARD REPORTS AND COMMUNICATIONS

Mr. Lee asked about RFP's for all services. Mr. Snell said he felt an RFP was more of a formal process and wanted to collect information or data to see if their fees were within market range. Mr. Newell asked if there was currently anything in place. Mr. Dehner advised there was not anything currently in place. Mr. Newell also agreed that an RFP seemed too much but felt a fee survey to evaluate if the Board is receiving fair fees for services.

Mr. Dehner said a fee survey could be done and has been provided to other Board's in the past. It does show fiduciary responsibility to see if you are receiving reasonable fees. Mr. Dehner also stated typically an RFP means you are not happy with the service and want to replace. Mr. Newell asked if this is done every three years, are there any standards, do any other boards do this, is it done on a regular basis? Mr. Dehner responded stating usually it is more of an informally gathering of fee information and not a formal survey being done. Mr. Lee asked if the board does this will it invite people in to do demo or presentations? Mr. Dehner advised fees are readily available but to be sure to compare with similar funds more or less on an informal basis. Mr. Snell felt this needed to be added to the next agenda as not all board members are present and the absent members may want to discuss this. Mr. Newell asked if it could be worded differently on the next agenda, such as, fee survey instead of RFP.

Mr. Lee began discussion on the voting process for representation on the Board for fire department. Mr. Lee stated he thought currently the Ordinance says anyone can vote and

be on board. Mr. Dehner advised all active members can vote and by Attorney General's opinion DROP participants can serve as an elected member Trustee, however they cannot vote. Mr. Lee said he was specifically wanted to know if a Letter of Intent to run in a certain time frame to the Clerk is required. Mr. Lee felt the rules needed to be more specific. Mr. Snell felt a nomination process should be in place. Mr. Snell felt this would avoid someone being elected who does not want to serve on the Board. Mr. Dehner said he would draft something after he receives information from the Board. Ms. Rogers advised she made a mistake in giving the eligible names to the Clerk and included Mr. Snell on the list. Mrs. Hargy also felt a Letter of Intent to run should be in place to avoid a member being elected who had no interest to serve on the Board.

CITY REPORTS AND COMMUNICATIONS

NONE

ATTORNEY REPORTS AND COMMUNICATIONS

Mr. Dehner discussed the Memorandum sent to clients on August 22, 2011. The memorandum reflects a change or a new opinion in the manner in which to handle unused sick and vacation time. Mr. Dehner advised to take what has been accumulated on the effective date and keep for future use. The effective date would be the next contract signed between both parties. A decision would need to be made on what compensation to use on the accumulated hours, the effective date or the date of actual retirement. The next decision to make is new hours accumulated, where do you subtract from, Last in First Out or First in First Out. Last in First Out is most favorable for the members. Mr. Snell confirmed if he had 300 hours and used 100 he could accumulate another 100 hours to be brought back up to the maximum of 300 hours at time of retirement. Mr. Dehner confirmed he was correct. Mrs. Hargy clarified if the member has 200 hours they can only accrue up to 200 hours. Mr. Dehner confirmed Mrs. Hargy was correct. Another aspect of Bill #1128 is stopping member contributions after they reach the maximum hours of overtime, which is 300 hours that can count toward pension benefits.

Mr. Dehner discussed House Bill #365. This Bill allows plan sponsors to get State money even if in a Defined Contribution Plan or if in Florida Retirement System. The Bill also includes a proposal to provide for In-Line-Of-Duty Heart Disease or Hypertension. This Bill has a provision for Boards to keep a budget of administrative expenses which would have to be filed with the Department of Management Services and with the City. Lastly, this Bill has an amendment in regard to plan terminations making it less favorable for plan members. There will be other proposed changes coming which will be discussed at the next meeting.

The Board reviewed the suggested meeting dates which were approved.

The last item Mr. Dehner discussed was the plan restatement Ordinance, which primarily was done to be incompliance with IRS regulations. Mrs. Hargy has reviewed the document and the only change would be on page 7, member terms changing from 2 years to 4 years. A motion was made by Don Snell to recommend the restatement be presented to the Commission, seconded by David Newell. The motion passed unanimously. Mrs.

Hargy will present to City Attorney to have put on Commission Agenda. Mrs. Hargy advised she felt it would be good if one of the Board members or Mr. Dehner could be present at the first and second reading just in case the Commission had questions. Mr. Dehner said he would go over "Trustees' Roles and Responsibilities" after the fifth member was appointed.

ADJOURNMENT

There being no further business, the meeting was adjourned at 5:50 pm.