

**MINUTES OF THE LADY LAKE
REGULAR POLICE PENSION BOARD MEETING
LADY LAKE, FLORIDA
March 13, 2013**

The Regular Police Pension Board Meeting was held in the Commission Chambers, 409 Fennell Blvd., Lady Lake, Florida. The meeting convened at 1:30 p.m.

CALL TO ORDER: Chairperson/Member Lt. Wherry called the meeting to order and noted there was a quorum present.

MEMBERS PRESENT: Chairperson/Member Lt. Vernon Wherry, Member Bill Reed, Member Sgt. Robert Tempesta, and Member Dee Dee Rountree

MEMBERS ABSENT: Member Connie Merrell-Kasch

TOWN STAFF PRESENT: Kristen Kollgaard, Town Manager; Kathy Oster, Finance Director; Pam Winegardner, Assistant Finance Director; Debbie Rodriguez-Lopez, Senior Accounting Clerk; and Nancy Slaton, Deputy Town Clerk

ALSO IN ATTENDANCE: Scott Christiansen, Christiansen & Dehner, P.A.; David West of Bogdahn Consulting, LLC; and Commissioner Ruth Kussard

1. Approval of Minutes: Regular Meeting – December 12, 2012

Chairperson Lt. Wherry asked if anyone had any questions or corrections to the minutes of the December 12, 2012 meeting.

Upon a motion by Member Rountree and seconded by Member Reed, the Board approved the meeting minutes of December 12, 2012 as presented, by a vote of 4-0.

2. Quarterly Report from The Bogdahn Group

David West of Bogdahn Consulting, LLC reviewed the report for the quarter-ending December 30, 2012. He stated that this was a lackluster quarter with uncertain operating environments, and the returns reflect that. He stated that next quarter should reflect a lot of activity, with the stock market going up in January, and approaching new highs in March.

Mr. West reported that quarter-ending December was a significant quarter for international equities only. Domestic equities and bond prices were down, although non-treasury bonds fared well. He stated that lower quality sub-investment grade stocks have been doing well, but this plan does not allow this grade of stock to be purchased.

Mr. West reviewed the performance of the fund as of December 31, 2012. At that time, the plan's total net fund was at -0.48%, with the one year net at 10%; the total gross fund was at -0.33%, with the one year gross at 10.73%; Domestic equities were at -2.82% for the quarter and 16.86% at one year; International equities were at 4.29 for the quarter and 6.76% at one year; and

Fixed income was at 0.53% for the quarter and 4.85 at one year. Mr. West stated that on a fiscal year basis, the plan is tracking in the 70th percentile.

Mr. West reviewed a comparison of total fund asset allocation versus all public funds. He stated this plan is below average in international fixed income, alternative investments and real estate.

Mr. Christiansen pointed out that Bowen, Hanes & Company had sent an updated Performance and Investment History handout dated March 11, 2013 for the Board's review.

Mr. West reviewed the report and stated the total portfolio as of March 11, 2013 is at 5.3%, with stocks up 8% versus the benchmark of 8.8%. The total fund market value as of March 11, 2013 is \$5,150,500.39.

Mr. West stated that possible diversification and additional changes to enhance the investments will be discussed later in the meeting.

3. Report by Christiansen & Dehner

Scott Christiansen, Christiansen & Dehner, P.A, stated that according to his records, Lt. Wherry and Sgt. Tempesta's terms expire in April, and Ms. Rountree's term also expires in April. He stated that Ms. Rountree's reappointment should be put on the next agenda if she chooses to remain a member, after the election or re-election of the two police officer members. Mr. Christiansen stated that if no one elects to run against Lt. Wherry and Sgt. Tempesta after the notice is posted, then they will remain on the board by default, if they so choose.

Town Manager Kris Kollgaard asked Lt. Wherry to meet with her regarding the forms or ballots used in previous years to pass out and post.

Mr. Christiansen stated the Town has adopted an ordinance that included some language changes, and which was a condition required by the IRS for the tax determination letter, and this has been sent in. He stated that this tax determination letter application was originally filed two years ago, and in order to stay up to date with additional changes to maintain the plan's tax qualification, he needs authorization from the Board to draft an ordinance for approval to reflect the updates since then. He stated there should be no funding impact to the draft ordinance, and warned the language will be hard to interpret.

Upon a motion by Member Reed and a second by Member Rountree, the Board authorized Mr. Christiansen to prepare an Internal Revenue Code Compliance ordinance for consideration of approval at the next meeting, by a vote of 4-0.

Mr. Christiansen gave an update on the legislative items of note currently being discussed in Tallahassee. He stated there are changes to the Florida Retirement System (FRS) being proposed which may eventually impact the plan. He stated the legislature passed a requirement two years ago that members of the FRS would be required to contribute 3% of their pay to their plan, along with reducing the COLA going forward. This was challenged and the Circuit Court reversed the requirement. This was then appealed and the Supreme Court issued an opinion that the changes will be allowed to remain in effect. Mr. Christiansen stated this litigation now provides that

changes can be made to the FRS, and a bill has been filed that proposes that new employees hired after January 1st cannot go into a defined benefit plan similar to the Police Pension Plan, but will go into an optional investment plan such as a 401K plan. The defined benefit portion of the FRS plan will remain in effect for those already enrolled, but no new employees will be allowed in it.

Mr. Christiansen stated the legislature is proposing to make changes in the way state monies are used in police and fire pension plans. This was discussed last year when the rule was reinterpreted after receiving the “Naples letter”, where benefits could be reduced to the level they were in 1998 or below. The pending legislation regarding S.B. 458 and H.B. 1399 provides that going forward, 50% of additional money received over and above what was received in 2012, plus any money in the reserve account will have to be allocated to put into a defined contribution plan that will have to be created as a component for all police and fire plans. The other 25% will go to better the unfunded actuarial accrued liability, or funding ratio, and a portion will go to funding current benefits in the plan. The bill specifically states that the state money will not be able to be used to provide additional benefits in the defined benefit plan, which is what it was required to be used for before. Mr. Christiansen stated the defined contribution plan will be an introduced component that will have to be added to the plan by October 1st of this year, if this bill is adopted effective July 1st. He stated he has been told the Florida League of Cities and Police and Fire Unions are not in favor of this bill. Mr. Christiansen stated he fears this is the first step to changing police and fire plans in the same way the FRS has been changed.

4. Required Update and Approval of the Summary Plan Description

Scott Christiansen reported that the Lady Lake Police Officer’s Retirement Trust Fund Summary Plan Description has been updated as of March 1, 2013 and requires approval by the Police Pension Board.

Chairperson/Member Lt. Wherry stated he had a question regarding a paragraph J. (1) on page 5. He stated it looks like a word or words are missing after “The years or fractional parts of years that you previously served as a ___ with the Town ...”

Mr. Christiansen stated “police officer” should be inserted there.

Mr. Christiansen reviewed only the changes made to the Summary Plan Description which included changes to page 1 under Definition of Salary; eliminating all references to the DROP program on page 1 (A) and 2 (E); adding paragraph f; change in maximum benefits from \$195,000 to \$205,000 on page 7 (L); and updating Exhibit A on page 10, which is the Board of Trustees list. It was noted that Exhibit A has Connie Merrell-Kasch listed as Secretary, when it should be Sgt. Robert Tempesta, and Member Dee Dee Rountree’s last name was misspelled.

Upon a motion by Member Reed and a second by Member Rountree, the Board approved the Updated Lady Lake Police Officer’s Retirement Trust Fund Summary Plan Description dated March 1, 2013 with corrections as noted, by a vote of 4-0.

5. Discussion on Broadening Permitted Investments

Chairperson/Member Lt. Wherry stated that at the last meeting, Member Reed made a motion to authorize Chairperson Lt. Wherry to meet with the Town Manager and Finance Director to discuss the possibility of changing permitted investments. Lt. Wherry stated he and Sgt. Tempesta met with the Town Manager and Finance Director and discussed the issue, but it was their opinion to retain the cap the plan currently has and to take the more conservative approach; leaving the final vote to the Board.

Member Reed stated he thought that the Board agreed to request that the Town Commission approve increasing the 65% limit for investments to 70%, and then the Board could have that option in the future on whether to actually put this increase into effect. He stated it sounds like staff is against this option.

Town Manager Kris Kollgaard confirmed this discussion took place and staff is not supportive of increasing the 65% investment limitation; however, if the majority of the Board voted to take this to the Commission, it would go before them to make the final decision.

Member Reed stated he liked the idea of having the option to increase the investment limitation to 70%, but if staff is not supportive, he will follow their recommendation.

Member Rountree stated it was her opinion that the investments should remain conservative with the 65% limitation.

David West of Bogdahn Group stated their motivation was to broaden the limit to lower the overall risk exposure and introduce other asset classes.

Mr. Christiansen clarified that the proposal was only to increase the percentage of investment limitation, not broadening investments.

Mr. West stated their motivation to look at alternatives was to lower the investment volatility coming primarily from equities, and the prospects for investment grade bond returns are not looking good going forward. He stated that to make up for that portfolio shortfall, they were looking to increase domestic equity from 45% to 50%, or looking at other areas that are not as risky, such as adding pooled funds. Mr. West stated Bogdahn Group's proposal was drafted to make these changes in the most cost-effective and economically efficient manner possible.

Member Reed again stated the first step would be to have the Town Commission approve the increase from 65% to 70%, and then the Board would have the option to approve the proposal by Bogdahn Group.

Mr. Christiansen stated just increasing the percentage would not accomplish what Mr. West is proposing. He stated other changes would have to be made to the ordinance in addition to the limitation. Mr. Christiansen stated he believed it was discussed at the last meeting that before an ordinance was prepared to increase the limitation from 65% to 70% for approval by the Town Commission, that staff's reaction to this proposal would be taken into account, and it looks like staff is not supportive at this time.

Mr. Christiansen stated it appears the consensus is that no changes will be made to the ordinance at this time, and the Board members agreed.

6. Consideration to Approve Additional Finance Staff Personnel to Access Financial Reports and Participant Payment Reports from the Salem Trust Website

Kathy Oster, Finance Director, stated she is currently the only staff member with access to Salem Trust's website. She stated that when she was drafting the agenda for this meeting, she had not received an answer to her inquiry on whether Salem Trust would require Police Pension Board approval to allow additional Town of Lady Lake financial staff members to access financial reports and participant payment reports from their website. She stated that she has since heard back from Salem Trust and they will only require a memo listing approved staff to access inquiry only reports, signed by the Police Pension Board chairman. Ms. Oster stated that at this time, no vote is required by the Board.

It was agreed by the Board members that they would not have a problem with other financial staff accessing this information if approved by the Financial Director.

Town Manager Kris Kollgaard clarified that this was inquiry access only and the ability to print out reports; staff would not have the ability to change anything on the reports.

7. Approval of the Following Invoices Processed for Payment:

- a) Invoices from Christiansen & Dehner for December 2012 in the Amount of \$938.59 and for January 2013 in the Amount of \$175.50
- b) Invoice from The Bogdahn Group for the December 2012 Quarter in the Amount of \$3,875.00
- c) Invoice from Salem Trust for the December 2012 Quarter in the Amount of \$1,250.00
- d) Invoice from Bowen, Hanes & Co. for the December 2012 Quarter in the Amount of \$7,293.56
- e) Invoice from Foster & Foster Dated December 12, 2012 in the Amount of \$5,553 and Invoice Dated January 1, 2013 in the Amount of \$588.00

Chairperson/Member Lt. Wherry read the list of invoices processed for payment for approval by the Board.

Upon a motion by Member Reed and seconded by Member Sgt. Tempesta, the Board directed the invoices to be paid as listed, by a vote of 4-0.

8. Informational Items from Kathy Oster, Finance Director:

- a) December 2012 Statement from Bowen, Hanes & Company with Investment Summary Dated January 4, 2013

- b) December 2012 Quarter Statement from Salem Trust Company
- c) Financial Statements for the Quarter Ending December 31, 2012
- d) Copy of Correspondence to the Department of Management Services Regarding Ordinance No. 2012-21, Making Changes to Delete References to the Deferred Retirement Option Plan and Amending Section 10-5.45, Maximum Pension, in Accordance with Direction from the IRS
- e) Copy of Correspondence to the Bureau of Local Retirement Systems Regarding the Declaration of Expected Return
- f) Copy of Correspondence from the Department of Management Services Regarding Their Review of the Actuarial Valuations for Compliance and Their Determination of the Plan to be State Accepted
- g) Copy of the 2012 Annual Report to the Division of Retirement

Kathy Oster, Finance Director, reviewed the informational items with the Board.

With no further discussion requested, Chairperson/Member Lt. Wherry asked for a motion to accept these informational items.

Upon a motion by Member Rountree and seconded by Member Sgt. Tempesta, the Board approved the informational items as reviewed, by a vote of 4-0.

Chairperson/Member Report

Chairperson/Member Lt. Wherry stated he had been approached by several colleagues who are suggesting looking into the merits of reducing the number of years required for being vested in the plan from 55 and 10 to 55 and 5, as well as lowering the years of service from 25 to 20, and the age to be able to retire. Lt. Wherry stated they understand actuarial studies will need to be done to get a clear picture of the merits or disadvantages.

Mr. Christiansen clarified that the plan's current vesting requirement is age 55 and 10 years of service, or 25 and out. He stated vesting is basically the point at which a plan member has the right of a benefit other than the return of their own money. He stated there will be a cost if there is a change, whether it is to member contributions or the Town. Mr. Christiansen stated that if a member has been employed over ten years and a change is made, this will not benefit the member who has been here that long; changing the age of retirement would cost a lot more.

Member Sgt. Tempesta confirmed that various members had asked that these optional changes to the plan be looked into.

Member Reed stated that if the number of years to be vested is reduced, turnover is likely to increase. He also commented that this would have to be negotiated with the bargaining unit or union.

Mr. Christiansen agreed that this would be something that could be brought to the union to discuss and see if they would pay for the study. He stated the study has to be done by the actuary for the plan, as the state will not take a study indicating the change in cost unless it comes from the actuary. Mr. Christiansen stated the Board could authorize the union and the Town to request studies from the actuary, Foster & Foster, as long as the union pays the cost of the study.

Town Manager Kris Kollgaard stated this has to first be brought up to the members of the plan, and they will decide if it goes to the bargaining table.

Chairperson/Member Lt. Wherry stated he was just bringing this up to see if it is feasible, and agreed it could be discussed with the union. He stated this was the direction he was looking for.

Mr. Christiansen stated a motion could be made today to authorize the union or the Town to request a study be done by Foster & Foster of the suggested changes, as long as the union agrees to pay for the study.

Member Reed stated he was not in agreement with this at this time.

Ms. Kollgaard suggested this topic could be discussed further at the June meeting.

Chairperson/Member Lt. Wherry agreed that he will take this information back to the members.

9. Adjourn

With no further business to discuss, Chairperson/Member Lt. Wherry adjourned the meeting at 2:41 p.m.

Kristen Kollgaard, Town Clerk

Chairperson Lt. Vernon Wherry

Transcribed by Nancy Slaton, Deputy Town Clerk