

# ST. LUCIE COUNTY FIRE DISTRICT FIREFIGHTERS' RETIREMENT FUND



## Minutes of Meeting Held May 17, 2012

The meeting was called to order at 2:29 P.M. by Chairman, Chris Bushman.

Those persons present were:

TRUSTEES PRESENT Chris Bushman  
Paul Raymond  
Ron Parrish  
Buddy (George) Emerson

TRUSTEES ABSENT Tony Napolitano

OTHERS PRESENT Scott Baur, Denise McNeill & Rachel Valdez; Resource Center  
Bonni Jensen; Law Office of Perry & Jensen  
Burgess Chambers; Burgess Chambers & Associates  
Doug Lozen and Brad Heinrichs; Foster & Foster  
Several Members of the Plan

### MINUTES

The minutes from the March 15, 2012 meeting were presented to the Board.

- Buddy Emerson made a motion to approve the minutes as presented. The motion received a second from Ron Parrish and was approved by the Trustees 4-0.

### DISBURSEMENTS

The disbursement listing was included in the Trustee packets for review.

- Ron Parrish made a motion to approve the disbursements as presented. The motion received a second from Buddy Emerson and was approved by the Trustees 4-0.

### PUBLIC COMMENTARY

Chairman, Chris Bushman invited those present to address the Board with public comments. Member Nate Spera appeared before the Board to address an article he read regarding rates of return on DROP plans. He explained the Union has been peppered with questions regarding the matter and he had several questions for the Board.

- 1) At what point is a DROP member compelled to withdraw their account balance?

Mr. Baur explained that the IRS requirements are followed which, at this time, require minimum distributions beginning at age 70 ½.

- 2) Can the Board change the guaranteed rate of return when a member separates service?

Mrs. Jensen responded that the Plan cannot change rates for active DROP members and retirees with DROP accounts.

- 3) Mr. Spera inquired into the current DROP balance held in the Plan.

Mr. Lozen explained the total account is valued annually and that the balance was \$7,071,871 as of September 30, 2011.

- 4) Mr. Spera inquired, in terms of payroll, what is the total percentage of funding to the Plan.

Mr. Lozen explained the new amount will be 32.25% of payroll (not including DROP members) which is relative to about 25% of payroll with DROP members.

Member Kevin Floyd appeared before the Board and inquired into the following questions:

- 1) Does the DROP account increase the District's required contribution rate to the Plan? Does the actuary feel the Plan's 8% guaranteed rate of return is a detriment to the Plan causing additional cost to the system?

Mr. Lozen explained it is an actuarial loss when investment assets are not met however he does not believe there has been a negative impact due to the DROP accounts in the past couple of years. Mrs. Jensen explained the Union's inquiry may be slightly premature as the Board has not been presented with the annual valuation report which is scheduled to be presented at this meeting. Mr. Floyd requested the Board's permission to address any additional questions after the valuation has been presented.

## **ACTUARIAL VALUATION REPORT**

Doug Lozen and Brad Heinrichs appeared before the Board to present the 2011 Actuarial Valuation Report. He explained that he anticipates additional discussion with the Fire Pension Board as he will be doing an additional review for the General Employees Pension Plan. Mr. Lozen explained the employer contribution is increasing from the current 25.03% to 32.25% effective October 1, 2012. He explained the contribution amount does not include DROP members since no further benefits are to be accrued for DROP members. Brad Heinrichs explained the Department of Revenue requires that the actuary reflect the full payroll inclusive of the DROP members however the Fire District's contribution does not include DROP members. Lengthy discussion followed regarding the funding. Mr. Lozen explained the General Employees Board requested a special review of the assumptions being used in the valuation. He explained the investment loss from 2008 has not been fully recognized so the 6% gain in 2010 was offset by the smoothing loss that is spread out over a five year period. He explained when the market value of assets increase, the smoothing corridor of assets also increases. Brad Heinrichs recommended doing a study. He explained that if experience is not as good as the assumptions then the Plan's cost increases. He explained the Board can review the assumptions to confirm if the assumptions being used are reasonable in relation to the Plan. Mr. Lozen noted that it appears the Fire District under-contributed for the Plan year. He will discuss with Mr. Perdew to review how the shortfall was determined and the member data detail will be reviewed for confirmation. Mr. Heinrichs explained the Plan may be able to do a "stop/restart" which may help to recognize more of the recent market gain. It was noted that members currently contribute 0.5% of payroll. Ron Parrish inquired if there is any way to look at the Plan and cost out current benefits separately such as final average salary, vesting, DROP, etc. Mr. Heinrichs explained the benefits tie together and he is not sure they can put a separate price tag on any particular benefit individually. He noted that certain benefit changes may have less of an impact.

- Ron Parrish made a motion to authorize the actuary complete an experience study back to the split from the Ft. Pierce Retirement System. The motion received a second from Buddy Emerson and was approved by the Trustees 4-0.

Member Kevin Floyd inquired into the payroll reporting of DROP participants. Mr. Lozen explained the State has recently changed some of the reporting requirements so the valuation reports reflect information relative to the mandated changes. Mr. Floyd inquired as to what must be funded. Mr. Lozen explained the funding rate would be 32% for all non-DROP payroll. Mrs. Jensen explained the resolution was not clear of the definition of total payroll. Mr. Lozen explained the 32.25% of un-DROPPED payroll is relative to 25% of the total department payroll inclusive of the DROP members. Mr. Floyd inquired about the potential impact to the Plan if DROP members are forced to withdraw their balances from the Plan. Mr. Lozen explained the withdrawal of the funds would be neutral to the Plan unless interest credited to the accounts in the long run is high, which would have caused the Plan to receive higher earnings on the combined investment total. Discussion followed regarding the long term returns and Mrs. Jensen reminded the members present that the Plan is fiscal year end sensitive so the activity as of September 30<sup>th</sup> each year is the final value for the Plan. Mr. Floyd expressed concern if the DROP accounts are being given a guaranteed rate of return and the investment activity was to be lower than the DROP guarantee. He recommended the Board change the DROP interest to the interest of the Plan with no set guarantee. Mrs. Jensen explained that is not

something the Board can change as that would need to be negotiated through bargaining. Mr. Lozen explained that long term, the fixed interest is neutral to the Plan and he noted the Plan has made money on the DROP account assets in the past three years. Mr. Lozen advised that DROP account balances are not reflected in the Plan's reported gain.

## **INVESTMENT CONSULTANT REPORT**

Burgess Chambers appeared before the Board to present the quarterly investment performance report for the period ending March 31, 2012. He noted that he expects interest rates to remain at or near zero. He explained they have added private real estate, convertible securities and hedge funds to the Plan all in anticipation of low rates. He noted the low rate environment is good for stocks and the dividend yield is increasing. Mr. Chambers went on to review the quarterly report noting the Plan was up 7.8% for the quarter beating the target of 7.5%, ranking the plan in the top 42% of the public universe in the Mellon peer group for the quarter. He noted the Plan was up 14.3% for the fiscal year to date. He reported international has reported good returns and convertible bonds were up 9% for the quarter. He noted the top three performing asset categories were ING large cap growth (+16.9%), Atlanta Capital large cap growth (+16.6%) and William Blair international growth (+14.6%). Mr. Chambers noted it will take a couple more years to smooth out the loss from 2008. He noted that 8% is the expected rate of return and he feels that is a reasonable assumed rate for the Plan. Buddy Emerson departed the meeting at 3:50 PM. Denise McNeill and Mr. Chambers confirmed the portfolio rebalancing has been completed. Mr. Chambers explained that all pension funds are doing studies and trying to see where they can cut costs due to the local government stress and pressure. He feels this pension board is doing a good job of staying on top of the issues and moving quickly to address matters as they arise.

Custodian Discussion: Burgess Chambers addressed recent service issues of concern with Suntrust. Mrs. McNeill explained the most recent issues related to the following: Instruction sent to Suntrust to issue a DROP distribution and the payment was not processed, Suntrust duplicate billed for the Ceredex services after the group began a direct service relationship with Ceredex and Suntrust funded \$3M out of the wrong account in the recent transfer instruction. Mr. Chambers explained he has researched other custodians and has narrowed it down to three other companies who can provide custody services. Mr. Chambers will prepare two separate reports for the Trustees with the other custodians for the next meeting he attends.

## **ATTORNEY REPORT**

SUMMARY PLAN DESCRIPTION: Bonni Jensen reviewed the revised Summary Plan Description in detail with the Trustees. Discussion followed regarding distribution and Ms. Jensen explained that electronic distribution would be fine as long as there is a return receipt processed with each notice. It was noted that the administrator will post the final document on their website as well.

- Ron Parrish made a motion to accept the Summary Plan Description as presented. The motion received a second from Paul Raymond and was approved by the Trustees 3-0.

FORM 1 FILING: Mrs. Jensen reminded the Trustees that their Form 1 Filing was due July 1, 2012 and must be filed with the Supervisor of Elections in the county in which the Trustee resides. She explained the Commission on Ethics had clarified the requirements for the financial filing noting the Trustees must report specific stock held if the amount of that single stock is over the threshold (\$10,000 or 10% of net worth). She explained the filing can be confusing. She then noted that some Trustees are using their 457 statements and redacting the personal information.

LEGAL UPDATES: Bonni Jensen explained the House did not pass specific pension fund provisions however they did pass a couple of rules that will affect the Plan. She reviewed the detailed changes regarding the confidentiality for members which now extends to their spouses and children. She provided an updated confidentiality form for both active and retired members.

Mrs. Jensen then addressed the beneficiary matter effective July 1, 2012 for any deaths noting the dissolution of marriage will now delineate a beneficiary's eligibility at the death of the member. She explained the Pension Board must now look at the death certificate and if divorced, cannot pay to designated beneficiary unless certain criteria has been met. Mrs. Jensen recommended updating the beneficiary form and developing procedures for gathering records. She noted that upon the death of a member who has divorced, she expects the research will be an issue. Mrs. Jensen then addressed a tax law update regarding a Private Letter Ruling (PLR) from the IRS. In this case, the IRS ruled regarding a matter involving certain early retirement subsidies that were being eliminated so many employees "retired" to take advantage of the benefits. The employer allowed the employees to do so, and then rehired them the next day. According to the PLR, such retirements violate the Internal Revenue Code 401(a) and could result in disqualification or penalties to a Plan. She noted the PLR also allows age 50 safe harbor for in-service distributions to public safety officers who participate in larger plans whose members are not all public safety officers and who do not all have a normal retirement age of 50. Mrs. Jensen explained she will continue to monitor the regulation and report to the Board.

### **NEW BUSINESS**

Denise McNeill informed the Board of recent communication from Suntrust. They transferred the \$3.1M that was supposed to come out of the Atlanta Capital account from the R&D account in error. Suntrust transferred the funds from the Atlanta Capital account into the R&D account on February 1, 2012 to correct the error. Burgess Chambers explained most of his clients have moved custody services from Suntrust due to service related matters. The Trustees requested Suntrust be invited to attend the May meeting to address the service issues with the Board.

### **ADMINISTRATIVE REPORT**

**BENEFIT APPROVALS:** Denise McNeill presented a benefit approval for ratification by the Board. It was noted that ratification of Paul Raymond's DROP would be tabled until the next meeting since he could not vote on his own DROP and there were not enough Trustees present for the vote without Mr. Raymond.

**FINANCIAL STATEMENTS:** Denise McNeill reviewed the financial statements presented in the Trustee packets. She explained that the Trustees may inquire about the financial reports at any time should questions arise.

Chris Bushman inquired into the status of the Annual State Report. Mr. Baur explained the administrator will need the audit to file the annual report.

The Trustees noted that a special meeting will be held upon receipt of the experience study and possibly a revised valuation depending upon the results from the research of the employer contributions.

There being no further business to discuss and the next regularly scheduled meeting was set for July 19, 2012:

- Paul Raymond made a motion to adjourn at 4:15 PM. The motion received a second from Ron Parrish and was approved by the Trustees 3-0.

Respectfully submitted,  
Ronald Parrish, Secretary