

MINUTES
THE TOWN OF INDIAN RIVER SHORES
6001 North Highway A1A, Indian River Shores, FL 32963

PENSION WORKSHOP MEETING

Tuesday, April 19, 2011

2:00 p.m.

PRESENT: **Thomas W. Cadden, Mayor**
 Gerard A. Weick, Vice Mayor
 Frances F. Atchison, Councilmember
 Richard M. Haverland, Councilman
 Michael B. Ochsner, Councilman

STAFF PRESENT: **Richard Jefferson, Town Manager**
 Laura Aldrich, Town Clerk
 Chester Clem, Town Attorney
 Judith Lewis, Town Treasurer
 Bill Schauman, PSD Director
 Mark Shaw, PSD Officer/Community Liaison
 Kristen Gianantonio, PSD Receptionist/Pension Board Secretary

OTHERS PRESENT: **Paul Shamoun, Account Executive, FLC Insurance & Financial Svcs.**
 1 Indian River Shores Resident, Rubin Skyler
 Reporter VB 32963

1. Call to Order

- a. Pledge of Allegiance
- b. Invocation (Councilman Ochsner)
- c. Roll Call

Mayor Cadden called the meeting to order at 2:04 p.m., with the Pledge and Invocation given. The Town Clerk called the roll for the Council as reflected above.

2. Pension Board Chairman Discussion (Bill Schauman)

Mayor Cadden turned the meeting over to Public Safety Director/Pension Board Chairman Bill Schauman, who gave a brief history of the pension plan for the Town Public Safety Officers. He and the Town Treasurer had determined that under Prudential Services, the Town was enrolled in a “money purchase plan,” until in 1999 when Principal took over and established the first Defined Benefit Plan for the Town. Chief Schauman clarified that his discussion would not involve the General Plan, only the 175/185 Share (Defined Benefit or DB) Plan. In 2005 the Florida League of Cities took over administration of the Town’s pension plan, and in addition to the DB plan the Council agreed to allow the implementation of receiving the supplemental 185 Share Plan. Councilman Haverland asked if the 185 Plan enabled the Town to receive some State funds that were not otherwise being received, and Chief Schauman said it was an excise tax from car insurance policies for firefighters, and the 175 Plan is based on homeowner’s insurance for police. Mayor Cadden said that he and the Town Manager at the time had gone to Tallahassee to find out how to receive the 185/175 funding, and was incorrectly told there that the 175 funds for the Town were going to the Vero Beach Police Department since we shared a zip code, when in fact they went to the State’s general fund. The Council decided to go after these supplemental

Please Note: The Town of Indian River Shores does not routinely keep verbatim minutes. Any party interested in such an appeal relating to any decision made by the Council with respect to any matter considered at this meeting is responsible to record the meeting and include the testimony and evidence upon which the appeal is to be based.

funds and decided not to commingle it with the current benefits. Paul Shamoun said that any funds received (from 175/185) are added to the PSD Share Plan, and the Town is not obligated to continue that contribution should the funding cease.

Chief Schauman provided pension statistics for local law enforcement agencies and the Florida Retirement System (FRS), comparing them to the Town of Indian River Shores. He asked the Council to be reasonable, since to be the best department in the state, they have to be competitive.

3. **Pension Plan Administrator – Question and Answer Session**

Several members of the Council and the Town Treasurer discussed employee contribution rate, with Mr. Shamoun clarifying that it is composed of the cost of benefits that are earned in this year plus the amortization payment for the unfunded liabilities, plus some expense load and a few other things. This is a percentage of payroll number from the actuary.

Councilman Haverland said he understood we had an estimated rate of return of 8.5%, and the 7.75% is net of expense. Mr. Shamoun clarified that one type of expense is net of investment expenses only, for running the board, actuary, attorney fees, etc. All numbers reported to the Town are net of all expenses.

Councilman Haverland and Mr. Shamoun discussed the actuary report, of which the initial distribution had been rescinded as it was inaccurate. Mrs. Lewis suggested that they go by the date of the Actuary letter to insure that they were viewing the correct actuarial report. There was detailed discussion on funded liabilities, current working group, and a portion of those who retired without being fully funded.

Obligation in relationship to assets was Councilman Haverland's concern, for which Mr. Shamoun explained that actuary is a science, with lots of assumptions. Actuarial value of assets, unlike market value of assets, takes smoothing methodologies into account to keep contribution rates from spiking and dipping. The market valuation of assets has a portion of each year's gain or loss smoothed out and has a higher value, 20% over five years. Councilman Haverland asked if the effect of smoothing is to reduce current payment as of today, and Mr. Shamoun said yes, as we are coming off the largest loss in many years. Councilman Haverland said every assumption is aggressive in this report, and we are guaranteeing some very good and loyal employees that we will pay them 8 - 10% thirty years later, when he believes that in last 10 years we have returned only 4%. Mr. Shamoun said the Town's five-year net return for our fund is 4.17%. In 2007, the annualized return for the previous five years with a 60/40 allocation was 8.86% net of investment. When the market fell in 2007, the S&P 500 five-year return was 12.8%; in 2008 a negative 2.1%; in 2009, a negative 5.6%; and in 2010, finally a positive 2.2%. Councilman Haverland emphasized that he is not even slightly critical of the fund performance, but thought the Town should assume a normal rate of return, not that we may get the best or the same return as we did in any thirty-year period. Mr. Shamoun agreed that the lower the assumption number is, the happier he is, and that the Pension Board of Trustees for this plan has the authority to set the assumptions. Councilman Haverland asked if the Council had the authority to disapprove this, and Mr. Shamoun said they could not. The Council is the Board for the General Employees for the DB Plan, but not the Police/Fire DB Plan.

Mr. Shamoun discussed contribution rate, saying if you stay high, it creates under-performance. The RP2000 Mortality Tables are in use, Mr. Shamoun added, one for retirees and one for current employees. Councilman Haverland was concerned about the problem years from now with making aggressive assumptions that guarantee an under-funded pension plan for a long period of time. He and Mr. Shamoun discussed the mortality tables, and the intention of moving the assumption from the initial 8% that was set by Principal to 7.5% gradually, which became too costly when the drastic decline in the market occurred. As of 12/31/10, the Town's earnings were up 6% for the fund year. Last year it was a 12% gain. From the peak four years ago and the valley two years ago, there is a middle ground, Mr. Shamoun stated. He quoted that 40% of the plans the League administers have an 8% assumed rate of return, another 40% are at 7.5%, and the other 20% is both higher and lower.

The actuary report was discussed briefly. The GASB requires the valuation every two years, and the Town's Valuation will be done beginning in September 2011, with anticipated receipt between December 2011 and February 2012 for FY12/13. For the Town's FY 11-12 budget, the current rate will be used.

Councilman Haverland received clarification on income for salary basis on page 4-3, which was part

of the reason for the revised audit report. The percentage of payroll number was also discussed, with Councilman Haverland asking what would happen if we assumed 6% net instead of 8.5% net return? Mr. Shamoun said that the unfunded liability would go up, and the Town would then have to pay a significantly higher annual amount.

Mayor Cadden said when he left the Council in 2009, he expected the contributions to be brought to 7%, and understands that when market crashed, the Council decided not to continue down that path. How would they now go about this? Mr. Shamoun said that the Council appoints two members to the Pension Board, they adopt the valuation, and with good communication between the Council and the Board the rate is slowly moved down so as not to drastically upset the budget.

Vice Mayor Weick noted that the market is going up, and with the Rate of Return getting better, are we among the average (for performance in the pension)? Mr. Shamoun said that the pension fund is performing better than many other funds, the bonds are producing even though the stocks didn't hold up its share. Last year it was the opposite. Looking forward, its stocks are jumping up, and bonds not doing as well. He concluded that 8% return is extremely difficult to maintain, and encouraged lowering it to 7.5%.

Councilman Haverland said that the portfolio is well run and has performed well, and discussed long term guaranteed Rate of Returns, cyclical trends, medium to short term bonds, and equity portfolios with Mr. Shamoun.

Councilman Ochsner asked if the Council ever made a decision to defer lowering the rate, with Mr. Shamoun stating it would have come before the Pension Board. Councilmember Atchison said that after the last budget they discussed taking it to 7.5%, which led to the expectation that it should be lowered effective this year. Mr. Shamoun said since the valuation has not been done, the rate remains where it is, adding that it should be taken to 7.5% in December. The Council can direct the staff on the Pension Board to bring the rate back down.

Discussion ensued regarding the Council's appointees on the Pension Board, which was left for research and discussion at the next Council meeting. Current Board members are Chief Schauman (Police) and Kip Benham (Fire), and the three other members opted out. The 175/185 Board is still over entire PSD and Share money plans. The General Employees enrolled in the Defined Benefit still has the Council as the sitting Board.

Councilman Ochsner asked if the expenses of the plan can be paid separately, so the participants receive all of the returns in the plan. Mr. Shamoun said essentially the Town does this already.

Councilmember Atchison asked what the highest expectation for funding is, and Mr. Shamoun said that the average is 85% for comfort level for a funded ratio. Having all the money to pay all the benefits for all of the employees today isn't realistic, as some of the money isn't earned yet. Most plans are in the 50 – 60% range.

Vice Mayor Weick, Councilman Haverland and Mr. Shamoun discussed fully funded pension plan levels. The FRS had an over-funded plan, and the Legislature used the surplus and caused it's under-funding. Councilman Ochsner said he had researched and found that the FRS shows 7.75% return assumption with 3% inflation. They are 87.9% funded, which equates to \$16.7 billion unfunded. Mr. Shamoun said that they made up a lot of the unfunded amount last year with 12-15% return.

4. **Public Comment**

None.

5. **Adjournment**

There being no further business, Mayor Cadden and the Council thanked Mr. Shamoun for coming and adjourned the meeting at 3:15 p.m.

Respectfully submitted,

/s _____
Laura Aldrich, Town Clerk

(Approved by the Town Council at the April 26, 2011 meeting)