

**MINUTES OF THE LADY LAKE  
REGULAR POLICE PENSION BOARD MEETING  
LADY LAKE, FLORIDA  
December 12, 2012**

The Regular Police Pension Board Meeting was held in the Commission Chambers, 409 Fennell Blvd., Lady Lake, Florida. The meeting convened at 1:29 p.m.

**CALL TO ORDER:** Chairperson/Member Lt. Wherry called the meeting to order.

**MEMBERS PRESENT:** Chairperson/Member Lt. Vernon Wherry, Member Bill Reed, Member Sgt. Robert Tempesta, Member Connie Merrell-Kasch, and Member Dee Dee Rountree (arrived at 1:32 p.m.)

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

**ALSO IN ATTENDANCE:** Scott Christiansen, Christiansen & Dehner, P.A.; David West of Bogdahn Consulting, LLC; Patrick Donlan of Foster & Foster; Chet Ross, Auditor with Shumaker, Johnston & Ross; and Commissioner Ruth Kussard

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

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

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

**2. Approval of Proposed Meeting Dates for 2013**

Chairperson Lt. Wherry read the proposed meeting dates suggested by Christiansen & Dehner, P.A. for 2013 as follows: March 13, 2013; June 12, 2013; September 11, 2013; and December 11, 2013; with all meetings to be held at 1:30 p.m. on these dates.

Member Reed stated he will not be able to attend the June 2013 meeting due to his grandson's graduation and he may not be able to attend the September meeting in 2013, as well.

Mr. Christiansen stated these meetings are coordinated with other municipalities such as Leesburg and if the Board will go ahead and approve these proposed dates, the dates can be revisited at the March meeting. He stated that as long as there is a quorum, the meetings can still be held even if Member Reed is unable to attend.

*Upon a motion by Member Reed and a second by Member Kasch, the Board approved the proposed meeting dates for 2013, by a vote of 5-0.*

### **3. Quarterly Report from Bowen, Hanes & Company by David Kelly**

David Kelly of Bowen, Hanes & Company handed out a portfolio summary of the Lady Lake Police Officers' Retirement Trust Fund dated December 10, 2012 and reviewed its contents showing the performance to date. He stated the fiscal year closed out at 18.8% and it was a strong number to close with. Mr. Kelly stated that the current economy makes it costlier to do business and the company has made some tactical changes in light of this by purchasing stocks that are more mundane and tied to Canada rather than the global economy.

Mr. Kelly reviewed the portfolio summary. It showed that 10% or \$480,146.01 was invested in short term investments such as cash/money market; fixed income in bonds was at 28.8% or \$1,294,549.87, and common stocks were at 61.2% or \$2,345,070.18. He stated the company has a little wiggle room to purchase more stocks since the cap is at 65%. Estimated annual income from these investments totaled \$104,137.55. Mr. Kelly stated that the fund will not see a big return on bonds until rates start to rise. He stated a big fear is that the CPI (Consumer Price Index) will go up, and there will be no presence in treasury bonds.

Mr. Kelly reported that fiscal year to date the performance summary as of December 10, 2012 is at -1.3 on total portfolio, -2.6 in common stocks, -1.1 in the S&P 500 Index, and 0.7 in U.S. Gov/Credit Index.

**Letter Regarding Post-Election Investment Strategy** - This memo dated November 9, 2012 by Bowen, Hanes & Company listed four concepts of their initial broad thinking concerning the economy and financial markets post-election and stated: 1) We do not envision an aggressive, growth-oriented economic agenda, particularly concerning tax and budgetary issues, being proposed or voted into law. 2) We feel that economic growth will remain below trend and unemployment will remain above trend for the foreseeable future. 3) Investors will have to continue to adjust to slowing global growth and peak earnings over the next few quarters. 4) The U.S. will have a continuation of an easy money monetary policy including the appointment of another dovish chairman in 2014, in our view. This continuity will include the Fed's zero interest rate policy and potentially additional quantitative easing strategies.

### **4. Quarterly Report from The Bogdahn Group**

David West of Bogdahn Consulting, LLC reviewed the report for the quarter ending September 30, 2012. He stated that there was good news this year from the consultant's view point, although it was a particularly challenging year for active management. He stated it was a painfully low yielding interest rate environment, and investors sold treasuries and went into corporate bonds.

In reviewing the report, Mr. West reported the total fund net for fiscal year to date returned at 18.04%; well above the required actuarial rate of return, and assets increased significantly and showed performance above the benchmark. He stated the fiscal year end to date total fund gross is at 18.72%, or in the 33<sup>rd</sup> percentile.

Mr. West reported the financial reconciliation for the plan from October 1, 2011 to September 30, 2012 was as follows: market value on October 1, 2011 was \$3,827,000, with contributions

of \$431,000, distributions of \$61,000, management fees of -\$26,000, other expenses of -\$34,000, income of \$88,000, for a total appreciation of \$645,000. Market value of the fund as of September 30, 2012 was at \$4,871,000.

Mr. West stated this plan remains cash flow positive. He asked the Board if they had any interest in requesting broadening of the investment powers of the Town Commission. He stated the company is restricted by F.S. 185 and the Town's current ordinance. Mr. West stated that he would encourage any broadening of investment powers which might create other opportunities for other investments for the Board, but if the Board is comfortable under current restrictions, The Bogdahn Group will continue on in the same manner.

Member Reed commented that although everyone would be interested in expanding the Board's abilities on making more on investments, the Board is somewhat conservative and reluctant to take higher risks. He stated the fund has done pretty well with this approach.

Member Kasch commented that she does not see that big of a spread between the B, AA, and A-rated stocks, and that slow and steady wins the race. She stated she feels the more conservative approach may be better in these uncertain times for the goals to be achieved.

Member Rountree stated she also agrees with the more conservative approach.

Chairperson/Member Lt. Wherry also agreed he would go with the conservative and less risky approach.

Member Sgt. Tempesta questioned which numbers the investments were based on, such as international equities.

Mr. West stated that he was referencing the potential opportunities in the foreign and fixed income area where the manager, Bowen, Hanes, & Company, could buy BBB or lower rated bonds or mutual fund delivery for higher yield.

Member Kasch mentioned she had heard the Federal Reserve was not looking to raise rates until the summer of 2015. She stated this gives us time to work on this.

Mr. Kelly stated he just wanted to throw out the possibility of the Board requesting the power to increase the 65% cap on purchasing of stocks to 70% or 75%.

Mr. Christiansen clarified that Bowen, Hanes & Company's wish list would include the ability to invest in lower rated bonds, as well as increasing the maximum position in equities.

Mr. Kelly stated these would be the two items they would like more leeway on.

Member Reed stated these could be changed at any time.

Member Kasch mentioned there are peaks and bounds.

Mr. West stated that could occur at any time.

Mr. Christiansen stated this would have to go before the Town Commission to approve a change to the maximum in the ordinance that states the plan cannot be more than 65% at market in stocks. He asked if the Board members would like to request the additional authority from the Commission to change the caps on stocks and bonds while not under fire, and the Board would have the power to react when they needed to.

Mr. West stated that the Board could request the change in the ordinance for the authority to make the change when and if they wanted to; they did not have to make the change if they were not comfortable with it. Bogdahn Group would only physically change the investment policy statement to make those allowances and the managers could make the changes at that time.

Mr. Christiansen further clarified that the investment policy could not be more liberal than what is in the ordinance, but could be more restrictive.

Member Reed stated he is not opposed to request the change in the ordinance to allow the Board more authority.

Chairperson/Member Lt. Wherry recommended meeting with the Town Manager and the Finance Director to discuss this and get their recommendations on approaching the Commissioners.

Member Reed stated that this may delay the change for 3 months.

Member Rountree stated the Board has time, so she agrees a meeting with the Town Manager and Finance Director is a good idea before approaching the Commission.

Member Kasch stated that there is no downside to being denied; things would remain the way they are now.

Mr. Christiansen stated he just read the provision in the code, and there are no restrictions on the bonds; there is no stock language on bonds. He stated the language could be changed on investment policy to allow below the top three quality grades that are typically in the statute.

Finance Director Kathy Oster asked if the managing company is requesting to invest in riskier investments at a higher gain. She stated right now, the plan is steadily making gains, and if the funds are invested in riskier investments to make higher gains but could take losses instead due to the risk, then the Town would have to make up those losses by contributing more to the plan.

Mr. West stated this could happen, but it is a balanced argument in that by allowing lower quality investments and increasing the equity exposure, the assets of the plan are being exposed to more risk or vulnerability, but over longer term should see a higher level of performance and lower Town contributions. He stated at this time, lower quality investments could be a safer investment in the event we enter into a period of sustained increase in interest rates, as the lower quality investments could result in more yield and income. He stated riskier assets may actually be safer assets in the projected full year perspective.

Ms. Oster stated she is worried because the Town budgets on an annual basis and Foster & Foster tells the Town annually what needs to be contributed to the plan. She stated that if there is one bad year, the Town could take a bad hit, even though five years down the line the investment strategy could pay off for long term gain.

Mr. West agreed and stated this is one area where accounting is in conflict with the investment program as it is an open pension in perpetuity plan with Town member contribution for an infinite time period. The investment managers take a long term viewpoint due to an actuarial required rate of return which is fairly high and requires a certain minimum allocation of risky asset stocks to get there.

Member Reed pointed out there are three options: meet with the Town Manager to get her opinion, take it directly to the Town Commission and request a change in the ordinance to give the Board the authority to make a change, or do nothing and continue as is.

Member Kasch clarified that the only change that needs to be addressed is to increase the percentage of equity stock investments from 65% to a higher rate of 70%.

Mr. Christiansen stated that is true; the Board already has the authority to change what bonds could be invested in, only the ordinance would have to be changed to increase the percentage of stock investments.

After further discussion, Member Reed made a motion to go to the Town Commission to have the ordinance changed to allow the Board the authority to increase the equity investment percentage.

Member Kasch stated she would second that.

Mr. Christiansen clarified that the motion would be to have him draft the change in the ordinance to give the Board the authority to allow up to 70 % of market.

Member Reed asked what would happen if the Town Manager and Finance Director oppose this proposal. He asked if the chairperson could still push for it to go on a Town Commission agenda for their consideration, if opposed by staff.

Mr. Christiansen stated the alternative would be to have a discussion first with the Town Manager and the Finance Director instead of taking it directly to the Commission.

The Deputy Town Clerk was recognized. She stated she believed she could speak for the Town Manager in that if the Board approved a motion to have the Town Commission consider a change to the ordinance to allow the Board more authority, the Town Manager would put that on a meeting agenda regardless of her opinion of the change, and it would be discussed in public before the Commission, and the Commission would make the final decision.

Member Reed withdrew his previous motion, along with the second, and made a new motion.

*Upon a motion by Member Reed and a second by Member Kasch, the Board requested that Chairperson of the Police Pension Board meet with the Town Manager and the Finance Director to discuss the possibility of changing the ordinance to allow the Board the authority to increase the limitation of equities from 65% to 70% of market. Additionally, if the Town Manager does not object, the Board further authorized Mr. Christiansen to draft the change to the ordinance and for it be transmitted to the Town Commission for their consideration prior to the next meeting of the Police Pension Board. This was approved by a vote of 5-0.*

Mr. West stated as a follow up that amendments could be made to a draft investment policy revision if granted the latitude to increase stock equities, and adjustments could be made to quality ratings for discussion at the next Board meeting since the Board already has the authority to allow changes of this nature.

Mr. Christiansen stated he will keep Mr. West informed on whether the ordinance is amended so that he will know whether to draft the policy revision before the next meeting.

## **5. Presentation and Approval of October 1, 2012 Actuarial Valuation Report – Foster & Foster**

Patrick Donlan of Foster & Foster reviewed the October 1, 2012 Actuarial Valuation Report. He handed out the report and stated that assumptions make a difference in this report. He stated that a study found that police officers have a higher mortality than the regular population and this is included in the assumptions along with the interest rate of 7.75%, retirement age, salary increases, turnover rates, etc., all effecting the actuarial assumptions. He reported that hiring younger police officers normally increases the turnover rate, and the cost of the plan is higher for older hires.

Mr. Donlan stated the required contribution increased this year from the time of the October 1, 2011 valuation from 26.2% to 27.7% (1.5% of payroll). The bottom line for the Town contribution, after taking away the member contributions and the state contributions, is 16.2% of payroll versus 14.7% last year. He stated that if the state contribution increases, the Town's contribution will go down. Mr. Donlan stated the good news is that this pension plan has a very low unfunded actuarial accrued liability relative to most plans; decreasing from last year's \$127,373 to this year's \$61,890. An actuarial gain of \$21,075 occurred from the four year smoothing and this gain will be spread over 10 years. Mr. Donlan explained that the smoothing uses an annualized rate of return for the prior four years at 6.55%, although the actual rate of return this year was 17.16%.

Mr. Christiansen pointed out that page 6 of the report states a -2.1 investment return.

Mr. Donlan stated this is last year's figure and is a typographical error. He stated he will correct that and email a new copy.

Mr. Donlan reported that turnover affected the plan this year with the Chief retiring this year after being hired at age 20 and working 32 years, and with three new hires this year, the average age of employment went from 35.3 to 38.1. This increased the normal cost of the plan, up from

23.6% of annual payroll to 26.2%, although administrative expenses went down from 1.6% to 1%.

Chairperson/Member Lt. Wherry asked if anyone had any questions regarding the report.

Chet Ross questioned the frozen amounts of the state contributions.

Mr. Donlan replied that the frozen state money at this time is \$97,907, so the Town can use all the state money that comes in up to the frozen amount. Since the Town received \$87,000 this year, it was able to use all of it. Mr. Donlan stated that since the state is now reinterpreting the statute regarding the state contributions, he thinks the frozen amount will be higher, and all the state contribution should be usable.

Mr. Ross stated that his question was based on the projection that is in the report. He stated that the state contribution was \$10,000 under the frozen amount, but he stated that the Town still has to pay this benefit in the future to the police officers. He asked if in five years, if the trend continues and if the amount of excess money received in the plan goes negative, will the Town have to make up the difference to fund the additional benefits.

Mr. Donlan replied that this issue has been brought up before, but with a flat payroll, it should not be an issue.

Mr. Christiansen stated that if the scenario Mr. Ross stated occurred, the answer would be yes, the Town would have to fund the plan to the extent that it goes down.

***Upon a motion by Member Kasch and a second by Member Rountree, the Board approved the October 1, 2012 Actuarial Valuation Report by Foster & Foster, by a vote of 5-0.***

## **6. Report by Christiansen & Dehner**

Scott Christiansen, Christiansen & Dehner, P.A, reported that there is a legal requirement for the Board to declare an expected rate of return going forward for the next year and several years beyond once the actuarial evaluation is approved.

Mr. West stated he thinks it is completely unreasonable for the state to require the Board as trustees to forecast what the market is going to do this fiscal year. With that in mind, he recommended by draft letter that the Board approve the actuary rate of return at 7.75% as an assumption.

***Upon a motion by Member Reed and a second by Member Kasch the Board approved the actuarial rate of return (investment return) to be 7.75% over the next year, the next several years, and the long term thereafter based upon the advice of the consultant, with the caveat, by a vote of 5-0.***

Mr. Christiansen reported the fiscal year end report has been made available to the Town Commission as required. He also reported a memo was drafted in September regarding the new law for ex-spouses as beneficiary or joint pensioner and this will go out to everyone involved.

Mr. Christiansen sent out new replacement forms for some of the forms in the plan, and Finance Director Kathy Oster verified they were distributed.

Mr. Christiansen stated the plan renewed the fiduciary liability insurance in October, and asked if the waiver of recourse was paid outside of the plan; Ms. Oster verified that it was.

Mr. Christiansen reported that his firm is in the process of working with a large firm in Indianapolis regarding tax issues for governmental plans, and are in the process of looking at all of the plans under his firm's purview to determine what changes need to be made. In the future, additional language changes will be brought to the Board for review in order to keep the plan tax qualified.

Mr. Christiansen reported there is a mini-conference for trustees scheduled on Wednesday, January 23, 2012 at 10 a.m. at the City of Leesburg Police Department Training auditorium. He stated this will meet the requirement for continuing education for trustees and asked those who plan to attend to notify his office. It was agreed that trustees who plan to attend will contact Kathy Oster, and she will notify Debbie McCord at Christiansen & Dehner, P.A.

Mr. Christiansen reported that state law requires the booklet of the Summary Plan Description to be updated and redistributed every two years. He stated it was last updated in March of 2011, and asked that the Board authorize him to go ahead and update it to meet that state requirement prior to the March 2013 meeting.

*Upon a motion by Member Reed and a second by Member Rountree, the Board approved the consideration to allow Scott Christiansen to update the Summary Plan Description as per the state requirement, by a vote of 5-0.*

**a) Ordinance Amending Pension Plan**

Mr. Christiansen reported that the IRS has finally approved the tax determination letter and declared the plan to be tax qualified with the proviso that a couple of provisions in the plan be clarified. He stated that the ordinance was already being amended to remove language regarding the DROP references, and language was also added on page two of the ordinance to meet the IRS requirements regarding 415 limitations. He asked that the Board approve this and he will send it to the Town Commission for their consideration.

*Upon a motion by Member Kasch and a second by Member Tempesta, the Board approved the ordinance amending the pension plan drafted by Scott Christiansen to be transmitted to the Town Commission for their consideration, by a vote of 5-0.*

Mr. Christiansen informed Mr. Donlan that Foster & Foster will need to provide a no impact letter regarding the amended ordinance to the Town Commission prior to the second/final reading. Mr. Donlan agreed to do this.

**7. Approval of the Following Invoices Processed for Payment:**

- a) **Invoices from Christiansen & Dehner for September 2012 for \$1,762.01**
- b) **Invoice from The Bogdahn Group for the September 2012 Quarter for \$3,875.00**
- c) **Invoice from Salem Trust for the September 2012 Quarter for \$1,250.00**
- d) **Invoice from Bowen, Hanes & Company for the September 2012 Quarter for \$7,289.96**

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

*Upon a motion by Member Rountree and seconded by Member Kasch, the Board directed the invoices to be paid as listed, by a vote of 5-0.*

**8. Informational Items from Kathy Oster, Finance Director:**

- a) **Copy of Letter to Commission Regarding Annual Report for Investment Activity**
- b) **September 2012 Quarter Statement from Bowen, Hanes & Company with Investment Summary Dated October 3, 2012**
- c) **September 2012 Quarterly Statement from Salem Trust Company**
- d) **Copy of John Pietrowski's Affidavit of Disability**
- e) **Copy of Ralph Good & Ed Nathanson's Confirmation of Receipt of Retirement Benefits**
- f) **Copy of Favorable Determination Letter from the IRS**
- g) **Notice of Mini-Conference for Trustees to be Held January 23, 2013**
- h) **Memorandum and Form to be Distributed and Completed by Current Active Members, Terminated Vested Persons, and all Retirees Regarding New Law with Respect to Ex-Spouse as Beneficiary or Joint Pensioner**
- i) **Correspondence from Salem Trust Regarding Class Action Processing Enhancements**

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

**9. Adjourn**

*With no further business to discuss, Chairperson/Member Lt. Wherry adjourned the meeting at 3:14 p.m.*

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Kristen Kollgaard, Town Clerk

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Chairperson Lt. Vernon Wherry

Transcribed by Nancy Slaton, Deputy Town Clerk