

Police Pension

Board of Trustees Meeting

May 16, 2013 – 1:00PM

Town Hall - 343 Highland Road

Attendees:

Jim Goncalo (Chairman/Town Administrator), Thomas Blakey (T.P.D. Police Chief),

Denise Saurette (Town Treasurer), William Greene (Bank of America), Daniel Waugh (Moses, Afonso & Ryan, LTD), Jeff Brown (Compensation Planning, Inc.), Sean Frodyma (T.P.D.)

Jill Brown (Bank of America, Retirement Client Service Mgr) & James Arruda (Councilman) absent;

Meeting Objectives:

- 1. Approval of Minutes from December 12, 2012 Board Meeting**
- 2. Pension Plan Revisions**
 - a. Limiting Frequency of Pension Benefit Study Requests by Members**
 - b. Reduction of Interest Paid on Withdrawals**
 - c. Reduction of Interest Rate Provided**
- 3. Pension Study Commission Funding Improvement Plan (FIP) Meeting**

- 4. Life Insurance**
- 5. RFP for New Bank**
- 6. Bank of America Trust Report**
- 7. Bank of America Investment Report**
 - a. Quarterly Investment Performance**
 - b. Year-to-Date Investment Performance**
 - c. Investment Strategies Changes**
 - d. Future Expectations**

Call to Order: at 1:08 PM by: Chairman James C. Goncalo

Open Meeting:

- 1. Approval of Minutes from December 12, 2012 Board Meeting –**

Chief Blakey made a clarification regarding an officer possibly collecting a pension after 20 years of service or age 55 whichever comes first. Chief stated Mr. Goncalo stated that the contract's defined retirement date as Note: at age 55 years of age you can retire after 10 years of service. If you don't have 10 years of service at age 55, you have to wait until you get 10 years of service. In actuality the contract states it is 20 years of service OR age 55 whichever happens first. Then there is also a paragraph that defines percentages on and after the years involved. If someone were to get injured, the 10 years would not apply. Chief simply wanted to clarify "it is age 55 OR 20 years of service, whichever comes first". There is

also other language in there which pertains to injury prior to those times so just for clarification, you don't have to have 10 years of service.

Jim Goncalo asked if there were any questions/comments and then stated he would entertain to accept the minutes with the noted corrections. T Blakey was willing to make the motion.

Dan Waugh stated the "Plan" does not say that. DW said "the Plan is as Mr. Goncalo said ... 10 years AND 55 years of age. T. Blakey stated "it differs from the Union Contract is my point". D. Waugh said "right, so they have to come into conformity". T Blakey said "that is a negotiated item". Sean Frodyma stated the contract is age 55 or 20 years, whichever comes first. So if you had an officer at age 50, he could retire in 5 years. Yes, that is true if after June 30, 2000. People who retired before that date had to wait until they had 10 years of service before June 30, 2000. Chief stated "it was just a point that I read that was a slight difference.

So Chief made a Motion to accept the Minutes as corrected.

Seconded by Sean Frodyma.

ALL IN FAVOR, no objections.

2. Pension Plan Revisions

a. Limiting Frequency of Pension Benefit Study Requests by Members

J. Goncalo said we need to try to conserve our plan assets. In the past, officers pending retirement have made more than one (sometimes several) requests of the actuary as to what their retirement figures will be if they retire on a specific date and months later that same officer will make another request of the actuary as to what their retirement figures would be if they retire on another specific date. Each time these calculations are made there is a cost of approx. \$500. Jeff Brown said if the officer needs a precise answer each time they inquire (even if it is only 6 month after the first request), they need to go through all the figuring again and the answer is not all that different.

Sean said we discussed this the last time and we had come up with a recommendation such as officers being allowed a one time request up to the 20th year and the second request could be made after the 20th year. There was never an actual vote on this prior.

Jim asked what the Committee thought on this issue. Chief & Sean said an officer should get one request for retirement calculations within their first 20 years and one after their 20th year. Any more than two requests would have to be paid for by the officer.

A copy of the Plan will be posted at the Police Station marked "DO NOT REMOVE".

S. Frodyma made a Motion that officer's requesting their proposed pension figure amounts will have the opportunity to receive their benefit statement once before their 20th year and one more benefit statement request after their 20th year of service. Any additional requests will be at the Officer's own cost.

D. Waugh stated in addition to the Plan there is also a Trust document that goes with the Plan and I think this type of thing could be put into the Trust so he will propose some language to do so and then the Trust document will go to the Town Council.

C. Blakey seconded Sean's Motion.

ALL IN FAVOR, no objections.

2. Pension Plan Revisions

b. Reduction of Interest Paid on Withdrawals

J. Goncalo stated "I'm not sure if we took a vote on the next one or not but there was discussion regarding anyone who leaves prior to 10 years currently gets 5.5% interest on their contributions. The discussion was that if they leave before 10 years, they receive no interest on their contribution." Sean said "if they leave before 10 years there is no 5.5% simple interest which is what they were getting. Sean stated that D Waugh said this needed to be put in the Collective Bargaining Agreement." D. Waugh said "not necessarily but we have an issue" and explained how he interpreted this so we

are all on the same wavelength. D. Waugh stated the following: “Right now you get 5.5% credited to your account during the 1st 10 years, after that you continue to get 5.5% but it becomes almost meaningless because generally speaking you are never going to look at that balance, you are only going to get the retirement benefit after the 10 years because you are vested. So basically for most people this is going to eliminate any interest being received by the participant but I am still continuing to credit the interest but the issue is that I am forfeiting it along with everything else they are getting other than their own contributions. I am forfeiting so it is becoming a vesting provision. Now what the Plan says is we can make adverse changes to the vesting schedule (which is currently 10 years but only for the regular retirement benefits) but you can’t make changes to the vesting schedule once a person has 3 years of continuous service UNLESS the person consents to the change. So if we don’t go through the collective bargaining process on this, chances are the people who have 5, 6, 7 years of service are not going to agree to suddenly be divested on their interest. So if it is part of the Collective Bargaining Agreement, then we can make it effective for everyone who has less than 10 years of service. Otherwise, we can only make it effective for people who have less than 3 years of service.”

Chief said the rumor in the department after the independent Union meeting was that they voted they would no longer pay this out. Chief asked if this was accurate. S. Frodyma said “we discussed the language that we were discussing the last meeting but I’m pretty sure

we voted that was an acceptable proposal to change the pension plan so that officers wouldn't be able to take out money just because they stayed less than 10 years and receive interest for it. I'd have to go back and look at the meeting minutes to see if we voted on that. I know it was acceptable to the Union at the time, I just can't remember if we voted on it or not."

Bottom line is we should ultimately change it in the Contract to give you maximum flexibility to say to everyone who hasn't already gotten 10 years in and it goes off of the date the Town Council adopts the change.

There was discussion about an officer being able to collect a pension even though they retired on a disability (not work related) at 7 years. Dan Waugh said he doesn't understand how someone got a pension when they only had 7 years and were not vested. Sean said there is a disability provision in the Contract. The documents have to coordinate on these issues.

D. Waugh read from the Plan and basically it agrees with what Sean was saying. If you leave after 7 years you receive a disability pension. D. Waugh thinks they are in agreement with that.

J. Goncalo said "we are going to have to propose some kind of contract adjustment for the interest rate". If you leave before 10 years and you want it in a lump sum, you don't get it. J. Brown said

the money that a participant is putting into the plan is helping to fund the benefit being provided. So after 10 years they get the pension, part of which is funded by the contributions they have made out of their pocket. They can't retire until 20 or 25 years of service. They don't get their money because they are going to get their pension. Sean said he knows there was an officer a while ago that left at 13 years and took a lump sum instead of waiting for his pension. D. Waugh thought that officer was under a special arrangement.

J. Brown said employee contributions are a critical part of the funding of this plan so the monthly benefit that is provided is supported by town contributions as well as participant contributions so there is no lump sum to get in his mind. J. Brown said in the private arena there are plans that may allow for lump sum but in the public arena it is virtually unheard of. Chief says that is not the case in Massachusetts.

D. Waugh read "there is one situation where there is a lump sum payout and that is if the participant dies before his annuity start date but leaving after 10 years and before he became entitled to retirement. In that situation a participant who has a non-forfeitable interest in his accrued benefit dies after termination of employment but prior to commencement of benefit payments, there shall be paid to his beneficiary an amount equal to the participant contribution plus interest of 5.5% simple interest."

J. Goncalo simply stated it by “before 10 years he can take his money out. We are saying we want him to take his money out with no interest. After 10 years, he cannot take his money out. He has to wait for his normal retirement date and then he will get a pension based on his contribution plus the interest.” D. Waugh stated “it is irrelevant, after 10 years (assuming the person doesn’t die before his retirement date), the interest is irrelevant. He is credited with it but it is a useless calculation.” It is part of the funding for the monthly pension. He is obligated to wait till his 20 year retirement plan. So he has to wait the 20 years and he’ll start to get the benefit that he’s accrued and the future ones will have to wait the 25 years.

Retirement Scenario 1 Retirement Scenario 2

- Hired prior to 7/1/2012**

 - You can retire at 20 years of service and collect pension or**

 - You can retire at age 55 and collect pension • Hired after 7/1/2012**

 - You can retire at 25 years of service and collect pension or**

 - You can retire at age 55 and collect pension**

- Vested after 10 years but automatically vested at age 55. • Vested**

after 10 years but automatically vested at age 55.

No Option for Lump Sum Withdrawal No Option for Lump Sum Withdrawal

Sean needs to call a meeting of Union to make a change to the Contract. Dan Waugh will email language suggestion to Sean and cc J. Goncalo.

J. Goncalo says “No Motion there”.

D. Waugh says hold off on this and eventually what will happen is he will generate some new language to reflect what happens and this Board will recommend it to the Town Council and the Town Council will adopt it. (That will be the language Sean has to propose to the Union.)

2. Pension Plan Revisions

c. Reduction of Interest Rate Provided

J. Goncalo says the other item here is whether or not it is possible to reduce the interest rate from 5.5% to something less. Jim says no one is getting 5.5% interest on any monies anywhere. Jeff said I think that is the way the State Plan reads ... either 5 or 5.5%, not sure which. Right now they are accruing 5.5%.

Dan Waugh said you have the one situation where the 5.5% is

relevant which is someone who works 10 years, then they quit, then they die before reaching age 55. In that situation, they get their contributions back plus whatever interest we are giving them (which could be 5.5% or could be a different number).

J. Goncalo stated “please bear in mind the whole purpose of this is to keep this program funded. After 10 years they are still accruing 5.5% interest to their account?” D. Waugh said “they are accruing it but it doesn’t do them any good because they can never withdraw it. It is only a book account. It only comes into play in that one situation (above).

Dan wanted to mention (for a future meeting) that he is reconsidering what the IRS has given another opportunity for governmental plans like this one to get Determination Letters. There are some pros to that we should really consider. Dan will bring that back at the next meeting. Determination Letter is a letter from IRS that tells you that your plan meets their requirements to be a qualified plan so if the Plan is audited by the IRS, there is an advantage. If there is an error in the Plan administration and someone got the wrong benefit, etc., what you would do is make up for the lost time without going to the IRS for permission to do that. If you don’t have the letter, technically the IRS requires that you go to the IRS to request permission...or if it gets caught in an audit, the IRS will say “your plan is no good”.

Dan will weigh it all out and present it at the next meeting. There is

definitely some cost to getting a letter. He will weigh the cost of getting the letter and what costs could be incurred if you don't get the letter.

This will be on the next agenda.

3. Pension Study Commission Funding Improvement Plan (FIP) Meeting

J. Brown and J. Goncalo appeared before the pension study commission on April 1, 2013. Made our presentation. There were only one or two very simple questions. Jeff said it was eye opening to listen to what the other Towns went through. The Towns seemed clueless and the commission was grilling them. After our presentation they had just a couple of questions and were then dismissed. Went smoothly. Hopefully we will receive their letter of approval shortly of our Funding Improvement Plan.

Jeff said this Board was to be commended for improving upon the Improvement Plan by having a budget that called for contributions that were a little bit higher than was recommended to make this plan fully funded by 2038, in 25 years. God willing if investment performance holds up and the Town budget allows for the funding that you are projecting, you will in all likelihood beat that 25 year time period but it seems like it is very doable.

There were no questions on the above.

4. Life Insurance

Jim said ... we have a conflict here. The Plan has to be updated. The Police Officers via the Collective Bargaining Unit now have a \$50,000 Group Life so we need to get that into the Plan.

D. Waugh had a question about that. He has been making an assumption that the Life Insurance would be purchased by the Town outside of the Plan because there are benefits of doing it that way and there is not much of a benefit of purchasing it inside the Plan. The benefit of purchasing it inside the Plan is that there is money inside the Plan but of course the money that is inside the Plan partly comes from the Town anyway. I guess that is the major question .. is this Life Ins benefit going to be a group term life that is paid for by the Town outside the Plan? Answer is "Yes".

D. Waugh said on the hand-out, please delete 4.6 (a) (1). Also deleted, 4.6 (c) (which wasn't in handout but says "if a participant dies after the commencement of benefit payments, any further monthly payments shall depend upon his election under Article 5. The aforementioned notwithstanding his beneficiary shall receive a single sum benefit equal to \$400 for each year of credited service reduced 25% for each full year measured from the date benefit payments commenced. In no event shall a benefit be less than \$2,000

or more than \$8,000. – So it is those later 2 sentences that need to come out because that is being replaced by the \$50,000 policy with a much larger survivor benefit and it will be non-taxable.”

Town is providing it at no cost. After an Officer retires, they can opt to take it on at their own cost.

Motion to Amend Plan to agree with the Collective Bargaining Unit for Life Insurance by Chief Blakey – Seconded by Sean Frodyma – All in Favor, no objections.

5. RFP for New Bank

D. Waugh had a couple of things he wanted to go over. There are a few references in the RFP to administration which basically is what Jeff’s firm is currently doing. That is Jill’s side of it. Wanted to make sure this was designed to get an investment manager or whether you want additional services to an investment manager. If so, those should be specified as to exactly what those are. If you look at the list on Page 5, Scope of Services, the very last one says “Manage the reporting function, disbursement of pension funds and the administration of the plan ...”. So that last one seems to Dan to go a little past what you really want because that gets into Jeff’s area. Jeff said you probably want that to say “overseeing disbursement of checks, providing 1099s. Denise will call Jill and ask her what she

does in her unit to clarify to change the wording.

Jeff thinks you should be specific as to overseeing disbursements and payments and providing 1099s. We (Jeff) can do 1099s to the end of the year but the Bank has total control over what each retiree is receiving. Rather than have them send us the info and us prepare a 1099, it is much more efficient for whoever is issuing the check to have the capacity to do 1099s.

On front cover, change wording from “Administrative Services” to “Reporting Services”. “Reporting Services” is a sort of an accountability for what is coming in and what is going out.

Dan Waugh wants to add a line “to coordinate with the town selected third party administrator the record keeping with” because he needs info from the Bank or Investment Advisor as we are calling him here.

Denise will make the changes to the RFP.

We need a Motion with the changes so we can get this RFP issued. We need to get a vote that includes these changes so we can get this out and get a response. Chances are we are not going to be out of it by June 30, 2013. We will have to advertise and there have already been some inquiries.

Dan Waugh recommended a couple more changes for Denise to make

to the RFP under “Hold Harmless”.

Chief Blakey Motioned to Accept this as corrected and move forward on it --- Seconded by Sean Frodyma. All in favor, No objections.

6. Bank of America Trust Report

No Report

7. Bank of America Investment Report

- a. Quarterly Investment Performance**
- b. Year-to-Date Investment Performance**
- c. Investment Strategies Changes**
- d. Future Expectations**

Bill Greene presented. You see where we were on March 29, 2013, we had \$7,800,000. Today it was \$7,956,000.

We are right on target for a portfolio w/o the hedgefunds as far as the investment objective we have.

2012 – good year.

2011 – negative (a little)

2010 & 2009 – good years

Through today, S&P and dollar up 17%. Happy if it stayed this way

for the rest of the year.

You will probably continue to see the volatility going forward.

9 Month return – picking up.

3 Year numbers coming up pretty good.

Staying more conservative going forward

International and solid across the board – emerging markets.

Reduced portfolio to Fixed Income. Added more into equity side.

Returns positive last 4 years, except 2011.

Note: When transferring this plan, think about cashing in or transferring plans. It is your personal preference.

We're positive on economy.

Health care stocks going up. Medical Equipment going down.

We're positive on the market as a whole.

Jill & Bill will be here to help as long as it takes.

Bill Greene will have the June 30th report if you need to discuss.

Motion to Adjourn Meeting was made at 2:45 pm by Chief Blakey. The Motion was Seconded by Denise.

/MLdocs/Police Pension Mtg files/Police Pension Mtg '13/May 16 2013