Present: Chairperson O'Connell; Vice-Chair Shock; Members: Koss and Mercer

Absent: Fisher

Also Present: Village Manager, Wilson
Finance Director, Wiszowaty
Asset Strategies, George Vitta and Katherine Ghannam

Chairperson O'Connell called the meeting to order at 7:30 p.m. in the Public Safety Department conference room at 18600 W. Thirteen Mile Road.

PRESENTATION OF THE DECEMBER 31, 2010 PUBLIC SAFETY RETIREMENT SYSTEM ACTUARIAL VALUATION – RANDY DZIUBEK

Randy Dziubek from Gabriel, Roeder, Smith & Company presented the results of the actuarial valuation report as of December 31, 2010. He introduced Zari Gano, who was primarily responsible for preparing this year's report.

Dziubek presented the highlights of the report. The purpose of the valuation is to measure the System's funding progress and to determine the contribution requirement for the year starting July 1, 2011. The funding objective of the Retirement System is to establish and receive contributions, expressed as percents of active member payroll, which will accumulate sufficient reserves during each member's working lifetime to pay expected benefits during the member's retirement. Based on actuarial assumptions, the long term contribution rate for the Village is expected to be 20.81% of payroll (the Employer Normal Cost).

Dziubek referred to charts that show how well funded the System is on the valuation date. Assets are applied against actuarial accrued liabilities in determining unfunded actuarial accrued liabilities. The funding target is $17.2 million. This year, the System has assets of $14.874 million, which means there was an unfunded amount of $2.4 million on the valuation date. In addition to continuing to fund the accruing benefits of active participants, the System has to make a payment towards this unfunded liability. The payment has been such that it will pay off that unfunded liability over a period of time set by the Board. The Retirement Board reset the period to 30 years a few years ago and is down to a 28 year amortization period this year.

The payment toward the $2.4 million unfunded amount was calculated to be 7.11% of payroll. Applying the computed employer contribution rate of 27.92% of payroll produces the required employer contribution of $497,801 for the year beginning July 1, 2011.

Dziubek reviewed how the experience of the System lined up with the actuarial assumptions. The unfunded liability as of the valuation date is compared to the anticipated unfunded liability based on the last valuation. The result was an overall actuarial loss of $30,435, a relatively small amount. Experience loss was due to investment return that was lower than expected and retiree mortality that was lower than expected. These losses were offset by salary increases that were lower than expected. Dziubek remarked that market performance in 2010 was better than the assumed rate of return, but losses from prior years are still being recognized.

Dziubek discussed the calculation of asset value that is used to determine the funded status of the system on the valuation date. The Board is using a common smoothing method that takes unexpected investment gains and losses in any particular year and spreads them out over a five-year period rather than recognize them all at once when they occur. Dziubek referred to a page in the report that exhibits investment gains and losses and commented on the contribution increases and decreases in the next four years. The Retirement System is in a situation where the funding value and market value are not that far apart. An option for the Board to consider for next year's valuation is to take the total unrecognized amount and smooth it evenly over the next four years. Dziubek would require a decision on this prior to preparation of next year's valuation report.

Questions from Board members on the valuation report and the assumptions were addressed by Dziubek. It was noted that the Plan is due for another five year experience study in 2012.

Dziubek addressed an inquiry on the impact to the Village of moving from a defined benefit to a defined contribution plan. This would occur if the System were closed to new entrants because new employees were being placed into another type of plan. He discussed changes to the procedure of funding the Retirement System.

Dziubek informed the Board that the Governmental Accounting Standards Board (GASB) released its Preliminary Views on accounting by and for pension plans in the governmental sector. The Preliminary Views document is a step toward a new Statement of Government Accounting Standards that would replace the current standards. Dziubek summarized the key proposals in the Preliminary Views, which would result in some significant changes from existing pension funding and accounting practices in the public sector.

Wiszowaty remarked that Public Safety Officer employees are now required to make a contribution into the Pension Fund consisting of 5% of their base pay. Dziubek addressed issues related to the implementation of member contributions to the Plan and the effect on the next valuation report. He addressed questions from Board members. It was recommended that the Board request a supplemental report from the Village Auditing firm following the ratification of all union contracts. O'Connell thanked Dziubek for his presentation.

PRESENTATION BY IBEX INSURANCE REGARDING FIDUCIARY LIABILITY COVERAGE

Craig Manser from IBEX Insurance was present to answer questions from Board members on the coverage offered with the fiduciary liability policy that went into effect in November of 2010 for Retirement Board members as the custodians of the Public Safety Retirement System and the Retiree Health Care Fund. The Board has a $1 million liability policy with a $10,000 deductable and a premium of $8,000.

Fiduciary coverage protects Board members from wrongful acts that could possibly lead to a lawsuit. Fiduciary liability coverage is rarely utilized, but the lack of a policy when needed can result in a large dollar loss. Manser presented an example of a fiduciary liability scenario.

Questions from Board members were addressed by Manser. The policy covers the pension plan and the individual trustees. In the case of litigation, legal counsel would be provided by Chubb

Specialty Insurance, which is the carrier for the fiduciary liability. The premium is paid out of the pension plan.

Board Discussion of Actuarial Valuation Report
Members discussed Dziubek's suggestion that the Board consider smoothing out unexpected investment gains and losses evenly over the next four years. It was the sense of the Board to make this an agenda item for the November Retirement Board meeting prior to preparation of next year's actuarial valuation report.

REVIEW AND CONSIDER SERVICE AND FEE AGREEMENT RENEWAL WITH ASSET STRATEGIES
George Vitta stated that Asset Strategies has advised the Board of Trustees on the Retirement System since 2004. In that time frame, there was one fee increase in 2007 from $12,000 to $15,000 annually. The current service and fee agreement expired December 31, 2009. Asset Strategies chose not to seek any changes in 2010 given the economic and investment recovery that was taking place. In a letter dated April 27, 2011, Vitta is proposing an annual fee of $18,000, which would be an increase of $3,000. This fee would be guaranteed for the next three years from 2011-2013. The fee will continue to be paid out of plan assets.

Vitta remarked that the fee represents a significant discount from the fee that Asset Strategies is quoting for new business; the firm would charge a $25,000 minimum fee annually as a full service retainer consultant. Vitta thanked the Board for its ongoing support. He thought that a lot of work has been accomplished for the Board and the pension fund.

Koss proposed that the Retirement Board solicit bids for this service in order to assess other options available in the market place. The Board has not gone out for bids on investment consultant services since 2004.

Board members discussed whether to seek bids for consulting service. O'Connell outlined the original process that the Board underwent to select an investment consultant and related reasons why Asset Strategies was chosen. He explained the position of the Board before engaging the services of Asset Strategies and where the Plan is at now. O'Connell described the education of members that occurs regularly. He believes that George Vitta and Asset Strategies has earned the trust of this body and that there is a value for the fees being paid.

Council member Brian LaFerriere disclosed the he worked for Bank of America, Merrill Lynch. He suggested that there was a financial responsibility to make sure that the costs and services received are the best possible for the participants.

> Motion by Koss, second by Mercer, that the Retirement Board solicit proposals for investment consulting service for the Beverly Hills Public Safety Retirement System.

Vitta related that there are other options for addressing the fiduciary due diligence question. The approach that is normally undertaken if there is dissatisfaction with results received or the people providing the service is to go out for bids. If the Board has an incumbent service provider that has met or exceeded expectations, it can survey other communities using an impartial list of

services and benchmarks or it can have everyone on the Board fill out a survey. Vitta suggested that this would be the most user friendly and expedient due diligence process.

O'Connell commented on the length of time involved in conducting a RFP (Request for Proposal) process. He questioned whether it would be an acceptable alternative to proceed with a survey of comparable communities.

Ayes – Koss, Mercer
Nays – O'Connell, Shock

Motion failed (2 – 2).

Motion by Mercer, second by Shock, that the Retirement Board authorize Village Administration to undertake a survey of area communities in order to compare services and fees of investment consultants.

Ayes – Mercer, O'Connell, Shock
Nay – Koss

Motion passed (3 – 1).

O'Connell requested that Wiszowaty and Wilson proceed with a survey of communities to compare services and fees rendered by investment consultant firms. He asked that a report be available for the next regular Retirement Board meeting.

Motion by Shock, second by O'Connell, to table consideration of the Asset Strategies service and fee agreement renewal until its next regular meeting in August.

Motion passed (4 – 0).

PUBLIC COMMENTS

O'Connell stated that, consistent with the practice followed at Council meetings, this portion of the agenda will be a time for public comments. Questions should be placed in writing and forwarded to the Village office. If members of administration can answer the question, they will do so and copy the trustees. Other questions will be forwarded to Board members prior to the next meeting for their review and response.

John McGrath of Beverly Road commented that he has reviewed the fourth quarter performance report ending December 31, 2010 prepared by Asset Strategies. One of the total fund objectives is to earn an annual average return of 7% over rolling three-year periods. He questioned the basis for the Board's satisfaction with the services of Asset Strategies after comparing the fourth quarter performance with that objective.

The meeting was adjourned at 8:58 p.m.