

Palm Beach Gardens Case Study

Florida Public Pension Trustees Association

Investment Policy Statement & City Ordinance



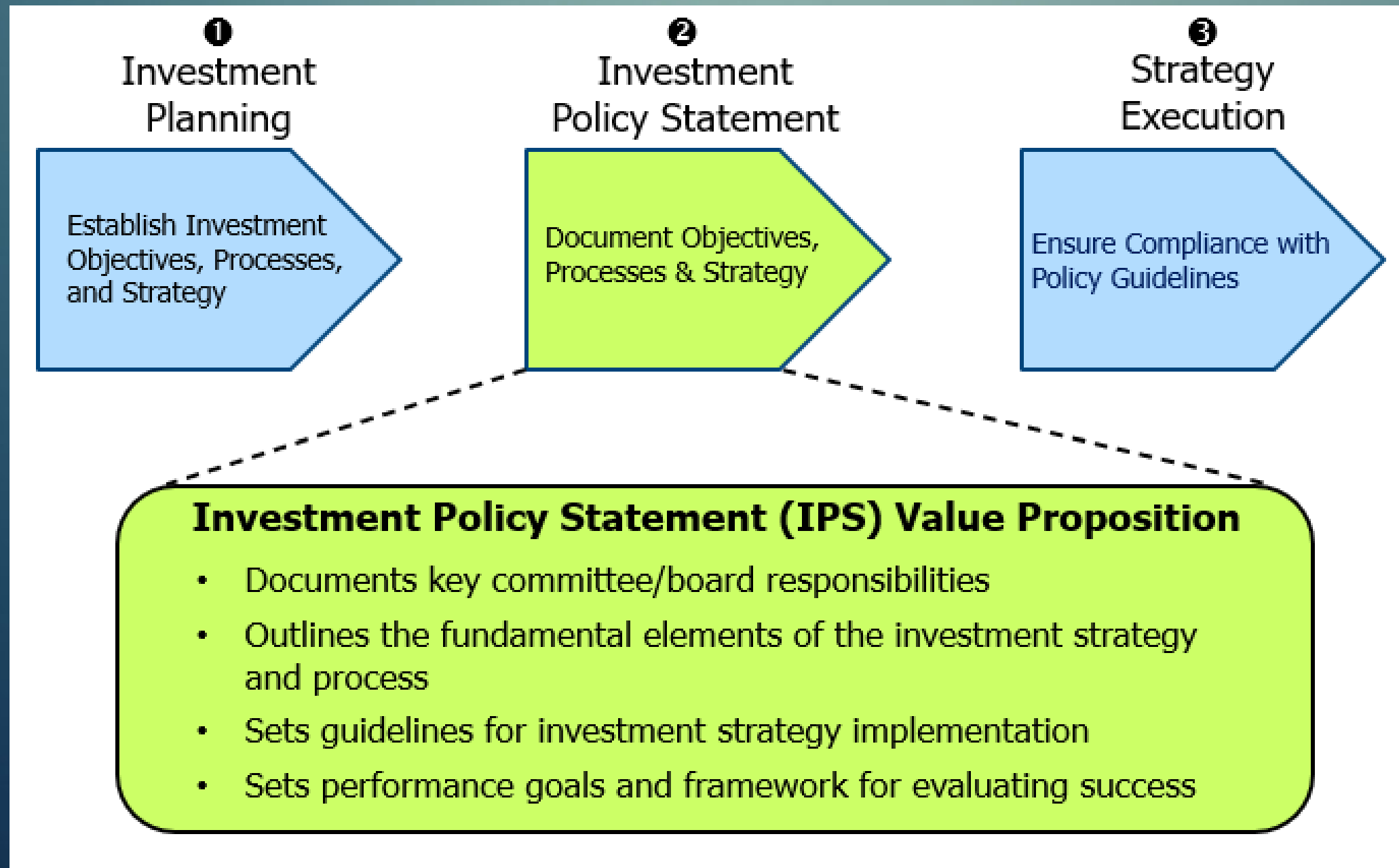
Shaping the Future - Trustee by Trustee

Objectives of Investment Policy

- Establish Risk Preferences and Return Objectives (Before/After Taxes)
- Develop Long-Term Asset Class Allocation Consistent With Risk and Return Objectives
- Construct Shorter-Term Allocation Range Around Long-Term Target
- Monitor Current Allocations To Ensure Compliance



Role of an Investment Policy Statement



Elements of an Effective Investment Policy Statement

- Investment Objectives
- Trustee Responsibilities
- Third-Party Roles and Responsibilities
- Asset Allocation & Investment Guidelines
- Consultant & Manager Selection/Termination
- Performance Monitoring
- Formal Review & Executive Session Requirements



#1: Investment Objectives

Summary of Requirement

Establishes return objective, risk tolerance, and investment constraints that the Plan must meet in order to fulfill its obligations to beneficiaries. Investment objectives may include, but are not necessarily limited to, absolute return, relative return, peer ranking, and risk.

Sample Language

INVESTMENT OBJECTIVES

The primary investment objective of the Pension Plan is to provide retirement security for its participants. Within the asset allocation limits the objective is to strive for consistently superior long-term investment performance while taking appropriate levels of risk. Specific return objectives for the Plan include:

1. **Absolute Return** – Achieve an annualized return that equals or exceeds the long-term expected return for the Plan.
2. **Relative Return** – Achieve an annualized return that exceeds the annualized return of the target allocation index. The target allocation index is further defined in Section ____.
3. **Peer Ranking** – Rank above median among a group of Plans with similar size attributes and investment objectives.
4. **Risk Objective** – Achieve an annualized standard deviation that is less than or equal to the target allocation index and peer group described in (2) and (3) above.

Each of these objectives will be assessed over the course of a market cycle, which is approximated by 5 years.



#2: Trustee Responsibilities

Summary of Requirement

Documents the scope of fiduciary responsibilities and standards of practice for the Trustees charged with investment strategy and oversight of the Plan.

Sample Language

TRUSTEE DUTIES AND RESPONSIBILITIES

- A. Prudence** – The standard of prudence to be applied by the Trustees and external service providers shall be the “Prudent Investor” rule, which states: “Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.”
- B. Responsibilities** – The Trustees are responsible for creating the Investment Policy, establishing a target asset allocation, selecting investment managers, and allocating assets among managers. The Trustees will also monitor the overall portfolio, as well as the individual managers on an ongoing basis, with assistance from the Investment Consultant. The Trustees will meet on a quarterly basis. Expectations are for Trustees to attend meetings in person; however, attendance by teleconference will be permitted if in-person attendance is not possible.
- C. Ethics and Conflicts of Interest** – Trustees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions.



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#3: Third Party Roles & Responsibilities

Summary of Requirement

Outlines specific tasks and requirements that key third parties must meet in order to fulfill the objectives of the Plan. Key third parties may include, but are not limited to the investment consultant, investment managers, and custodian.

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DUTIES AND RESPONSIBILITIES

A. INVESTMENT CONSULTANT

The Investment Consultant serves to provide assistance in developing, executing and monitoring the investment program of the Fund. The duties of the Investment Consultant include providing analysis and advice regarding asset allocation, policy development, manager structure, manager selection, and ongoing performance monitoring and due diligence.

Investment results will be reported by the Investment Consultant on a regular basis and reported to the Trustees as soon as practicable after each calendar quarter. A representative of the Investment Consultant shall attend each quarterly meeting of the Trustees to review status of the Plan. Key issues that the Investment Consultant may discuss, include but are not limited to past performance, policy compliance, investment manager performance, investment manager compliance, and other material matters.



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#4: Asset Allocation & Investment Guidelines

Summary of Requirement

Provides investment guidelines that specify the allowable asset classes in the portfolio, the target allocation to each asset class, the allowable allocation range for each asset class, and the rebalancing policy for the total portfolio. Investment Guidelines will include authorized investments and prohibited securities.

Sample Language

ASSET ALLOCATION & REBALANCING/AUTHORIZED INVESTMENTS AND PROHIBITED SECURITIES

Asset Allocation

The Investment Committee will be responsible for determining the target asset allocation for the investments that will best meet the needs of the Pension Plan. The Plan shall be broadly diversified, with no disproportionate or extreme positions that might cause significant diminution of value given adverse developments. The Investment Committee will periodically review the asset allocation to deem that it is appropriate for the Plan objectives. The long-term “target” strategic asset allocation and requirements and restrictions for each asset class are set forth in **Appendix A** of this Policy.

Rebalancing Policy

On an ongoing basis and in accordance with market fluctuations, the Trustees shall rebalance the investment portfolio so it remains within the range of targeted allocations, and distribution among investment managers. A rebalancing procedure as deemed appropriate by the Investment Committee will be implemented, at least annually, or when significant cash flows occur to maintain the allocation of assets within the appropriate ranges specified in Appendix A.

Authorized Investments & Prohibited Securities should be listed in the Investment Policy Statement or Investment Guidelines Section (Appendix A).



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#5: Manager Selection/Termination

Summary of Requirement

Provides a broad set of guidelines that governs the selection of investment managers, as well as criteria that may prompt termination of underperforming managers.

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INVESTMENT MANAGER GUIDELINES

- A. Investment Manager Selection** – The Investment Committee, with the assistance of its Investment Consultant, has full authority to select investment managers to invest assets on behalf of the plan.
- B. Investment Manager Termination** – Investment manager performance will be reviewed on a quarterly basis. However, the Committee recognizes that performance results should be considered over a full market cycle (generally estimated to be 5 years). The Committee may decide to terminate a manager based on long-term underperformance or shorter term occurrences that include, but are not limited to:
 - 1. Change in investment philosophy
 - 2. Change in organizational structure or financial condition
 - 3. Change in key personnel
 - 4. Governmental, regulatory, or other legal investigations, developments or settlements
 - 5. Changes in fee structure
 - 6. Any other reason that reduces the Committee's confidence in the manager's ability to add value



#6: Performance Monitoring

Summary of Requirement

Establishes a base level of requirements for performance reporting frequency and scope. Ensures that the Committee/Board reviews performance on a regularly scheduled basis. The frequency and depth of performance reporting may vary depending upon the Plan's unique objectives and investment strategy.

Sample Language

PERFORMANCE MONITORING

The XYZ Pension Plan will review performance of the Plan on a quarterly basis at minimum. Reviews will, at minimum, cover the key return and risk attributes of the plan relative to long term objectives. Specific performance objectives for investment managers are outlined in **Appendix A**.



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#7: Formal Review & Executive Session Requirements

Summary of Requirement

Requires the Committee/Board to conduct a formal review of the investment policy and investment consultant on a periodic basis (typically once per year). Ensures that the IPS is current, relevant, and realistic given the evolving needs of the Plan and the investment consultant is also meeting the Board's expectations for service and performance.

Sample Language

INVESTMENT POLICY REVIEW & EXECUTIVE SESSION

The Investment Committee will review the Investment Policy at least on an annual basis. The Committee will update the policy in the event there is a change in investment objectives and/or strategy that renders policy language outdated. In addition, the Investment Committee will conduct an annual Executive Session with only the Board and staff, asking the Investment Consultant to leave. The purpose of this annual Executive Session is to review the performance of the Investment Consultant during the past year and provide feedback for improvements in the investment and communication process.



Key Takeaways on Investment Policy Statement

- The Investment Policy Statement (IPS) provides the Board with guiderails to stay on track
- It's worth investing the time and effort up front to create a comprehensive, succinct, and enduring IPS
- Ensure proper coverage of the key elements of an effective IPS
- Make sure your Board reviews your IPS every year and conducts an Executive Session to review your Investment Consultant



Specifics of the Palm Beach Gardens Police Pension Fund Investment Policy Statement

- Includes sections on Portfolio Composition and Risk and Diversification
- Makes clear the importance of manager communications and participation in meetings (on an annual basis)
- Includes separate investment objectives & guidelines for each manager – which is good, but requires more frequent changes
- Has a separate section on Continuing Education as the Fund acknowledges the importance of continuing education for trustees



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Palm Beach Gardens Police Pension Fund

Summary Plan Description

- City of Palm Beach Gardens Police Officers' Pension Fund provides their participants with a Summary Plan Description
- Not only is this document extremely helpful to plan participants in describing how they participate in the fund and what benefits are available to them, it also can be a valuable tool to help them plan for their retirement and future
- Rather than handing the plan participants the City Ordinance and Investment Policy Statements, this document makes their participation and rights of the pension plan very clear and understandable



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Palm Beach Gardens Police Pension Fund Ordinance

This document outlines the regulations and provisions related to the Police Officers Retirement Trust Fund for the City of Palm Beach Gardens including:

- Definitions of Key Terms in the Retirement Fund
- Creation and Maintenance of the Retirement System
- Limited Responsibility of the City Regarding the Fund
- Board of Trustees Composition and their Responsibilities
- Membership and Eligibility for Retirement Benefits (Death, Disability, Early Retirement)
- Deferred Retirement Option Plan (DROP)
- Defined Contribution Component funded by Chapter 185 premium tax revenue



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Palm Beach Gardens Police Pension Fund City Ordinance

Definitions of Key Terms in Retirement Fund

- **Aggregate number of years of service:** Total years of service excluding any years where contributions were withdrawn; allows a five-year grace period for reemployment.
- **Average monthly earnings:** Monthly salary plus tax-deferred or tax-exempt income averaged over the last five years.
- **Beneficiary:** Person entitled to receive pension benefits upon a member's death.
- **Credited service:** Full years of continuous service, with specific rules for absences due to approved leave, occupational injury, or military service.
- **Police officer:** Full-time law enforcement personnel certified under state law, excluding part-time or auxiliary officers.



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Palm Beach Gardens Police Pension Fund City Ordinance

Establishment and Maintenance of Retirement System

- **Creation of Fund:** The fund is established to provide retirement benefits for police officers.
- **Investment Compliance:** Changes in investment vehicles require city council approval, adhering to Florida Statutes.
- **Funding Sources:** Funded by an 0.85% excise tax on casualty insurance premiums, 8.60% of police officer salaries, fines, gifts, and other legal sources.
- **Minimum Contribution:** The city cannot reduce member contributions below 0.5% of salary.



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Palm Beach Gardens Police Pension Fund City Ordinance

Board of Trustees Composition and Responsibilities

- **Creation of Board:** A board of trustees is established to administer the pension fund.
- **Composition:** The board consists of two city-appointed residents, two elected police officers, and one trustee appointed by the other four.
- **Meeting Requirements:** The board must meet quarterly, with a quorum of three members required for decisions.



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Powers and Duties of the Board of Trustees

- **Investment Authority:** The board can invest fund assets and must act in the best interest of participants.
- **Consultant Retention:** An independent consultant must evaluate investment performance every three years.
- **Divestment Requirements:** The board must divest from scrutinized companies as defined by law.



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Membership and Eligibility for Benefits and Normal Retirement Dates

- **Membership Criteria:** All police officers are members; new hires must participate until retirement or termination.
- **Beneficiary Designation:** Officers can designate beneficiaries for death benefits, with specific rules for unclaimed benefits.
- **Normal Retirement Age:** Varies based on years of service and employment date, with specific ages and service years required for retirement.
- **Retirement Options:** Officers can retire at age 52 with 10 years of service or after 20 years of service regardless of age.



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Normal Retirement Benefits for Police Officers

- Monthly benefit equals 3.5% of average monthly earnings multiplied by years of credited service, up to 100%.
- For officers employed before September 13, 2012, benefits are calculated differently based on service periods:
 - 3.5% for service before September 13, 2012.
 - 2.75% for service from September 13, 2012, to October 1, 2019.
 - 3% for service after October 1, 2019, up to a maximum of 75%.
- Officers hired after September 13, 2012, have a benefit calculation of 2.75% for service from September 13, 2012, to October 1, 2019, and 3% thereafter.
- Minimum benefit is 2% per year of service.
- Benefits are paid as a monthly life annuity with 120 payments guaranteed.



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Early Retirement Options for Police Officers

- Officers aged 50 with at least 10 years of service can retire early.
- Benefits are reduced by 3% for each year the officer's age at retirement is below the normal retirement age.
- Non-integral years between early and normal retirement dates are calculated proportionately.

Disability Retirement Benefits for Police Officer

- Duty disability retirement is available for total and permanent disabilities incurred in the line of duty.
- Non-duty disability requires 10 years of credited service and is capped at 50% of final average monthly earnings if ineligible for Social Security.
- Disability benefits are 60% of the officer's pay for duty-related disabilities and 2.5% of average monthly earnings for non-duty disabilities, with a minimum of 25% of salary.
- Benefits are subject to offsets if receiving other disability payments.



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Death Benefits for Police Officers

- Line of duty death benefits provide 50% of the officer's final average monthly earnings to the surviving spouse.
- If there is no spouse, benefits are divided among eligible children under 18 or 24 if full-time students.
- Non-duty death benefits are calculated as if the officer had retired on the date of death, payable to the beneficiary for life.
- If the officer dies before retirement with less than five years of service, beneficiaries receive a refund of contributions.



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Separation from Service and Vested Benefits

- Officers with 10 or more years of service receive benefits payable for 10 years certain and life thereafter.
- Officers with less than 10 years of service receive a percentage of vested benefits based on years of service.
- Vested percentages range from 25% for 5 years to 100% for 10 years.
- Officers not meeting these criteria receive a refund of contributions without interest.



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Deferred Retirement Option Plan (DROP)

The DROP allows eligible members to defer retirement while still accruing benefits for a limited time.

- Members eligible for normal retirement can enter DROP for up to five years.
- Monthly retirement benefits are paid into the DROP account, which earns interest at a guaranteed rate of 6.5% or based on fund performance.
- Upon termination, members can receive their DROP balance as a lump sum, installments, or an annuity.



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Police Share Plan Funding and Benefits

The share plan is a defined contribution component funded by Chapter 185 premium tax revenues, providing additional benefits to eligible members.

- Members with at least one year of service after July 27, 2017, are eligible for the share plan.
- Annual allocations are made based on excess Chapter 185 revenues, divided equally among eligible members.
- Share accounts earn interest at 6.5% per annum, and payments to retirees are made directly from the share plan.
- Members who leave with less than five years of service forfeit their share account, while those with more than five years receive a vested portion.



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