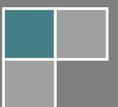


2014

Town of Palm Beach Retirement System Annual Report

Plan Profile, Demographic and Financial Highlights

Jane Struder, CPA
Finance Director



February 20, 2015

Board of Trustees and Employees
Town of Palm Beach Retirement System
Palm Beach, FL 33480

Gentlemen and Participants:

It is our pleasure to present The Town of Palm Beach Employee's Retirement System Annual Report. The report represents the financial and actuarial information for the plan as of fiscal year end September 30, 2014. The demographic information presented for the defined contribution plans with ICMA covers the period January 1, 2014 through December 31, 2014.

Copies of this report will be distributed to all Town Employees and interested citizens via the Town's website.

The report includes; a summarized plan description, plan provisions, demographic information for both the defined benefit plans as well as the defined contribution plans, fiscal year-end financial statements, a listing of professional service providers for the plan, and current investment managers.

Sincerely,

Jane Struder, CPA
Finance Director

William Hanes
Plan Administrator

Danielle Olson
Human Resource Director

Town of Palm Beach Retirement System

Retirement Board Members

Gerald Goldsmith, Chair Pro-Tem

James McC. Wearn, Secretary

Robert Garvy

Wilbur L. Ross

Thomas G. Bradford, Town Manager

Brett Madison, General Employee Representative

Michael Marx, Firefighter Representative

Daniel Wilkinson, Police Representative

(One Vacant Resident Trustee Seat)

Employees' Pension System

The Town of Palm Beach's employee pension plan was created in 1947.

The funds were overseen by a single Retirement System Board of Trustees until 1999. The board included citizens appointed by the Town Council, and police officer, firefighter, and general employee representatives elected by their respective peers. The Mayor, Town Council President, and Town Manager served ex officio. The 1999 State Legislature authorized police officers and firefighters to more independently oversee their pension funds (if their local plan was receiving the Chapter 175/185 subsidy), and the Town's single board was divided into a General Employees' Retirement Board of Trustees and a Public Safety Retirement Board of Trustees. In 2004, the Public Safety Retirement Board of Trustees further divided into a Police Officers' Retirement Board of Trustees and a Firefighters' Retirement Board of Trustees.

The plans were separately managed by 3 pension boards from 2004 until April 1, 2012, when the three retirement boards were consolidated into the Town of Palm Beach Retirement System Board of Trustees. This Board now oversees all of the Town's pension assets and retirement programs. An outside pension consultant serves as investment advisor to the Board. The Board also has contracted out a portion of the plan administration services.

On May 1, 2012, the retirement benefits for most Town employees were changed from a full defined benefit plan to a hybrid pension plan. Employees who were eligible to retire on or before that date were grandfathered into the old defined benefit plan, and the accrued benefits for all other employees were frozen as of May 1, 2012. Benefits accrued after that date by those not grandfathered are in the new hybrid pension plan that contains a defined benefit component and a defined contribution component. In addition, the Town ceased participation in the State of Florida's Chapter 175 and 185 programs for firefighters and police officers. Approximately 265 active employees and 395 retirees are covered by the system plan.

During 2014, the Retirement Board recommended and the Town Council approved a change in the investment method of the active DROP participant and firefighter share accounts. The change requires all active DROP participants to move from the self-directed investment method with ICMA to the plan investment method, and all DROP deposits are now made to the Town administered retirement trust. This change was made because of IRS tax implications with regard to the investment in the self-directed defined contribution DROP and share accounts. Active employee DROP account balances were transferred from ICMA on January 6, 2015, to the

Town of Palm Beach Retirement System. Firefighter share accounts that were invested in the pension plan remain in the plan. A rate of return will be calculated based on a five year trailing average annual return of the plan, and applied to the DROP and Share balances at the end of each quarter on the average daily balance for the quarter.

Investment Objective: The long-term objectives of the Fund are to invest System contributions and assets to ensure that there will be no principal erosion of funds or the purchasing power thereof. Investments are managed in a prudent and professional manner in compliance with all applicable statutes and regulations such as Florida Statutes Section 215.47. Though not regulated by the Employee Retirement Income Security Act of 1974, the Trustees and other fiduciaries intend to comply with fiduciary standards of the Act.

Investment Strategy: The Fund has adopted an investment strategy emphasizing broad diversification. Diversification helps to reduce portfolio volatility (variability of returns) and maximize investment returns at appropriate levels of risk over time.

Segal Rogerscasey: The Board of Trustees has retained Segal Rogerscasey, an independent investment consultant for the purpose of assisting the Board in developing and attaining the fund objectives. Segal Rogerscasey assists in establishing objectives, offers alternative models for asset allocation, identifies appropriate managers or funds, and produces timely quarterly reports that monitor performance of individual managers against similar managers as well as performance of the funds against objectives and appropriate indices.

Asset Allocation Policy: Industry and academic studies have consistently found that asset allocation is the primary driver of risk (volatility) and return. The Fund seeks to meet or exceed the System's actuarial rate of return assumption while looking for opportunities to reduce volatility through diversification.

Rebalancing Policy: Portfolio rebalancing is an important discipline for portfolio risk management. The Fund has established long-term asset allocation targets with ranges. Rebalancing is reviewed not less than quarterly and is required when actual allocation falls outside prescribed ranges. Where possible, rebalancing is coordinated with normal Fund contributions/withdrawals.

Plan Administration: William P. Hanes Consulting, Inc., is the administrator of the plan and processes all requests by employees for filing benefit claims and information on plan benefits.

Professional Service Providers as of December 31, 2014

Plan Administrator		Contact	
William P. Hanes Consulting, Inc. P.O. Box 2112 Palm Beach, FL 33480		William P. Hanes (561)906-5885 whanes@townofpalmbeach.com	
Board Attorney		Contact	
Lewis, Longman and Walker 315 South Calhoun Street, Suite 830 Tallahassee, Florida 32301		James W. Linn, Board Counsel (850)222-5702 jlinn@llw-law.com	
Investment Consultant	Consultant	Consultant	
Segal Rogercasey 116 Huntington Avenue Boston, MA 02116	Lawrence Marino, CFA (617)424-7340 lmarino@segalrc.com	Rosemary E. Guillette (931)359-8143 rguillette@segalrc.com	
Actuary		Contact	
Gabriel Roeder Smith & Company One Towne Square Suite 800 Southfield, MI 48076-3723		Brad Armstrong, ASA, EA, MAAA (248)799-9000 Brad.armstrong@gabrielroeder.com	
Custodial Bank		Contact	
State Street Global Services 801 Pennsylvania Ave Kansas City, MO 64105		Lauren Atkins (816)871-3596 ljinatkins@statestreet.com	
Independent Auditors		Contact	
Marcum One SE Third Avenue 16 th Floor Miami, FL 33131		Michael Futterman, CPA Partner (305)995-9610 Michael.futterman@marcumllp.com	
Deferred Compensation	Contact	Contact	
ICMA-RC Service, LLC 2655 LeJeune Road, Suite 545 Coral Gables, FL 33134	Fernando C. de Aguero (305)569-0728 fdeaguero@icmarc.org	Steven Feigelis (202)701-5969 or (561)963-1681 sfeigelis@icmarc.org	
Financial and Accounting Services		Contact	
Town of Palm Beach 360 South County Road Palm Beach, FL 33480		Jane Struder, Finance Director (561)227-6330 jstruder@townofpalmbeach.com	
Human Resources Enrollment/Training		Contact	
Town of Palm Beach 360 South County Road Palm Beach, FL 33480		Danielle Olson, Human Resource Director (561)227-6322 dolson@townofpalmbeach.com	

Investment Managers and Investments as of December 31, 2014

Domestic Equity

SSgA S&P 500 Index Fund
T Rowe Price New Era Fund
Thompson Siegel & Walmsley Mid Cap Value
Thompson Siegel & Walmsley Small Cap Value
Geneva Mid Cap Growth

International Equity

Acadian Emerging Markets Equity Portfolio
Artisan International Growth Fund
Harris International Value Equity Fund
Wells Capital Berkeley Street Emerging Markets Equity

Private Equity

Landmark Equity Partners
Private Equity Investment Fund
HarbourVest Private Equity
Pomona Capital

Hedge Fund of Funds

Mesirow Absolute Return Fund Ltd.
Weatherlow Offshore Fund I Ltd.
Wellington Diversified Inflation Hedge
Standard Life GARS Offshore

Fixed Income

Goldman Sachs Core Plus Fixed Income
Neuberger Berman High Yield Bond
Vanguard TIPS Fund

Commodities

TAP Fund LTD

Real Estate

Gerding Edlen Green Cities II
Westport Real Estate Fund IV
Oak Tree Real Estate Opportunities Fund VII

Liquid Capital

IRM Short Duration Fund
State Street STIF Account

Summary of Plan Provisions

Grandfathered Benefits: The benefits consist of the old defined benefit plan (Plan A - see below) including future accruals in Plan A for employees that were eligible to retire on or before May 1, 2012 (grandfather).

Plan A Benefits: The accrued benefits prior to May 1, 2012 in the old defined benefit plan.

Plan B Benefits: The accrued benefits after May 1, 2012 in the new hybrid pension plan.

Normal Retirement:

ELIGIBILITY

Plan A

- a) *General:* 30 or more years of service, regardless of age; or age 55 with 10 or more years of service
- b) *Ocean Rescue:* Age 50 with 10 or more years of service. Or 10 or more years of service and age plus credited service totals 65 years or more.
- c) *Police Officers and Firefighters:* 20 or more years of service, regardless of age; or, age 50 with 10 or more years of service; or, at least 10 years of service and age plus credited service totals 65 years or more.
- d) Immediate vesting was granted to all employees who on May 1, 2012, were active contributing plan participants.

Plan B

Age 65 with 10 or more years of service, including service prior to May 1, 2012.

PENSION AMOUNT

Plan A

- a) *General:* Average final compensation times the sum of a) 2.75% for service earned after September 30, 1990, to a maximum of 82.5%, plus 2.35% for service earned on or before September 30, 1990 for the first 30 years of service, plus, b) 1.0% for service in excess of 30 years.
- b) *Ocean Rescue:* Average final compensation times the sum of a) 2.85% for the first 25 years of service with a maximum of 71.25%, plus, b) 1.0% for service in excess of 25 years.
- c) *Police Officers and Firefighters:* Average final compensation multiplied by the sum of a) 3.5% per year of credited service to a maximum of 87.5 percent, plus, b) 2.0% per year of credited service, if any, in excess of 43.75 years.

Plan B

Average final compensation multiplied by 1.25% per year of credited service after April 30, 2012.

General and Ocean Rescue: The normal form of pension is a pension payable for life. Also see Automatic Death Benefit.

Police and Firefighters: The normal form of pension is a pension payable for life. Also see Automatic Death Benefit.

Members can elect an optional survivorship benefit with an actuarial reduction in benefit.

Average Final Compensation:

Plan A

Average of the highest 2 consecutive years within the member's last 5 years of credited service.

Plan B

Average annual compensation after April 30, 2012, until April 30, 2017. Thereafter, average of the final 5 years of credited service.

DROP Retirement: Both Plan A and Plan B

Eligibility - Same as Normal Retirement, election must be made within 7 years of the date the member first reaches general retirement eligibility. Participation must be terminated within the shorter of 5 years participation or 120 months from normal retirement date.

Pension Amount

General and Ocean Rescue: 100% of member's accrued benefit at the date of election to participate in DROP. Grandfathered General and Ocean Rescue employees: 98% of member's accrued benefit at the date of election to participate in DROP

Police and Firefighters: 100% of the member's accrued benefit at the date of election to participate in DROP.

Early Retirement (General Employees Only):

ELIGIBILITY

PLAN A

Age 50 with 10 or more years of credited service based on a monthly reduction from normal retirement date as explained below.

PLAN B

Early retirement at age 60 with 10 or more years of credited service, based on a monthly reduction from normal retirement date as explained below.

PENSION AMOUNT

PLAN A and Plan B

Computed as a normal retirement benefit but reduced 6/10 of 1% (3/10 of 1% if service credit is 20 or more years) for each month early retirement precedes the member's normal retirement date.

Deferred Retirement (Vested Termination Benefit): Both Plan A and Plan B

Eligibility - 10 or more years of service (waived for frozen benefits). Pension begins upon meeting requirement for normal retirement. Contributions must be left on deposit in the System; failure to do so results in forfeiture of the vested benefit. Frozen accrued benefits as of April 30, 2012 are vested immediately.

Pension Amount - Computed as for normal retirement, based upon Plan A frozen benefit, or Plan B service and average final compensation at time of termination.

Duty Disability Retirement: Both Plan A and Plan B

Eligibility - No age or service requirements.

General Employees and Ocean Rescue: Payment of sixty percent of the monthly average final compensation (greater of Plan A or B); or if the member retires prior to attaining the age for normal retirement, the amount of the monthly pension shall be computed as if the member has continued to accrue credited service until the date the member would have attained the age for normal retirement provided that the member has been in receipt of the disability benefit for at least five years.

Police Officers and Firefighters: Payment of sixty percent of the monthly average final compensation (greater of Plan A or B); or if the member retires prior to attaining the age for normal retirement, the amount of the monthly pension shall be computed as if the member has continued to accrue credited service until the date the member would have attained the age for normal retirement provided that the member has been in receipt of the disability benefit for at least five years.

Non-Duty Disability Before Retirement: Both Plan A and Plan B

Eligibility - 10 or more years of service (waived for frozen benefit).

Pension Amount - Computed as for normal retirement. For Police and Firefighter benefit groups, the disability pension benefit shall not be less than a payment of 30 percent of the member's average final compensation at the time of disability.

Duty Death Before Retirement: Both Plan A and Plan B

Eligibility - No age or service requirements.

Pension Amount - A pension to each surviving child of 25% of the member's average final compensation not to exceed 50% or equal share of 75% of the member's AFC when there are 4 or more surviving children being paid. A pension to the surviving spouse, if any, of the difference, if any, between 75% of the retiree's AFC and the aggregate amount paid to children for the month.

Non-Duty Death Before Retirement: Both Plan A and Plan B

Eligibility - 10 or more years of service (waived for frozen benefit).

Pension Amount - 75% of normal retirement benefit to a surviving spouse or equal shares of 75% of the normal retirement benefit to surviving unmarried children under 18.

Automatic Death After Retirement Pension:**Plan A**

To Surviving Child(ren): 25% of the retiree's pension payable to age 18, not to exceed an equal share of 75% of the retiree's pension. Payments to surviving children may be paid to age 25 if retirement occurs after September 30, 1990.

To Surviving Spouse: The difference, if any, between 75% of the deceased retiree's pension and the aggregate amount paid to any surviving children for the month.

Plan B

Reduced option forms of payment are available for survivorship benefits.

Post-Retirement Cost-of-Living Adjustments:**Plan A**

Pensions are increased 2.0% annually based on the total pension payable subsequent to an initial 3 year deferral period.

Plan B

None.

Purchase of Service Credit: Both Plan A and Plan B

A vested member who has not purchased service credit under Prior Governmental Service, including Military Service elsewhere may purchase years or fractional parts of years of service, not to exceed 5 years, to be added to years of credited service provided that the member contributes the sum that would have been contributed to the retirement plan to pay the full actuarial cost.

Purchase of service by members of benefit group firefighter may only be based upon actual prior service as a firefighter or service in the military and purchase of service by a member of benefit group police officer may only be based upon actual prior service as a police officer of service in the military.

Fiscal Year End Financial Statements

Town of Palm Beach Retirement System Statement of Fiduciary Net Position September 30, 2014

	2014
ASSETS	
Cash and cash equivalents	\$ 3,196,153
Interest and dividends receivable	17,689
Due from broker for securities sold	23,500
Prepaid expenses and other assets	63,414
Investments, at fair value	
Domestic fixed income funds	62,224,665
Common Stock	13,611,747
Domestic equity funds	24,743,050
International equity funds	55,501,119
Inflation hedging funds	8,617,613
Hedge funds	22,850,099
Private equity funds	8,108,157
Real estate funds	5,202,779
Mutual funds - Deferred Retirement Option Program	13,395,678
Total Investments	214,254,907
Total Assets	217,555,663
LIABILITIES	
Accounts payable and accrued liabilities	154,620
Due to broker for securities purchased	161,038
Total Liabilities	315,658
DEFERRED INFLOWS OF RESOURCES	
Advanced Town contributions	1,238,633
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	1,554,291
NET POSITION HELD IN TRUST FOR PENSION BENEFITS	\$ 216,001,372

**Town of Palm Beach Retirement System
Statement of Changes in Fiduciary Net Position
Year ended September 30, 2014**

	2014
ADDITIONS	
Contributions	
Employer	\$ 6,069,343
Employee	551,874
Total contributions	6,621,217
Investment income (loss)	
Net appreciation in fair value of investments	13,036,346
Interest and dividends	2,028,362
Share investment earnings	50,960
Other	9,113
Total investment income	15,124,781
Less investment expense	(619,309)
Total additions	21,126,689
DEDUCTIONS	
Benefit payments	12,913,740
Transfer to Share reserve account	50,960
Share account distributions and expenses	309,514
DROP distributions	1,858,072
Refunds of participants' contributions	50,536
Administrative expense	412,391
Total deductions	15,595,213
Net increase(decrease)	5,531,476
Net position held in trust for pension - beginning of year	
Beginning of year, as previously reported	198,460,764
Prior period adjustment - ICMA DROP Accounts	12,009,132
Beginning of Year Net Position, as Restated	210,469,896
NET POSITION HELD IN TRUST FOR PENSION END OF YEAR	\$ 216,001,372

Town and Employee Contributions

The contribution requirements of the Plan members are established and may be amended by the Town Council. Plan members are required to contribute a percentage of their annual pensionable wages as described in the following table. The member contribution rates for the FY15 budget year (presented as a percentage of the employees' annual compensation) vary by benefit group, and are shown below (along with the Town's matching contribution rates for the 401(a) plan):

Benefit Group	Defined Benefit Plan Employee Contribution	401(a) Defined Contribution Plan				
		Mandatory Contribution		Voluntary Contribution		Discretionary Contribution
		Employee	Employer*	Employee	Employer	Employer
Firefighter Union	4.82%	2%	2%	Voluntary up to the maximum allowable under IRS regulations	2% Match	None
Firefighter Non-Union	2.47%	4%	4%		No Match	Up to 4% Determined by Town Council during annual budget process upon recommendation of the Town Manager
Police Officer	2.47%	4%	4%		No Match	
General Employees	2.47%	4%	4%		No Match	
Lifeguard Employees	2.47%	4%	4%		No Match	

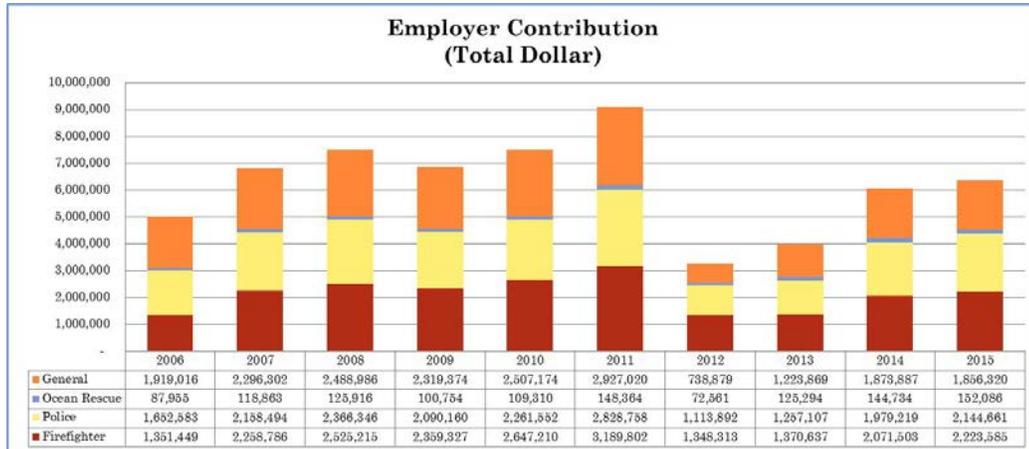
*Total employer contribution will not be less than \$1,000 per fiscal year per enrolled member.

For FY15, the Town Council approved a discretionary contribution to the DC plan of 4%.

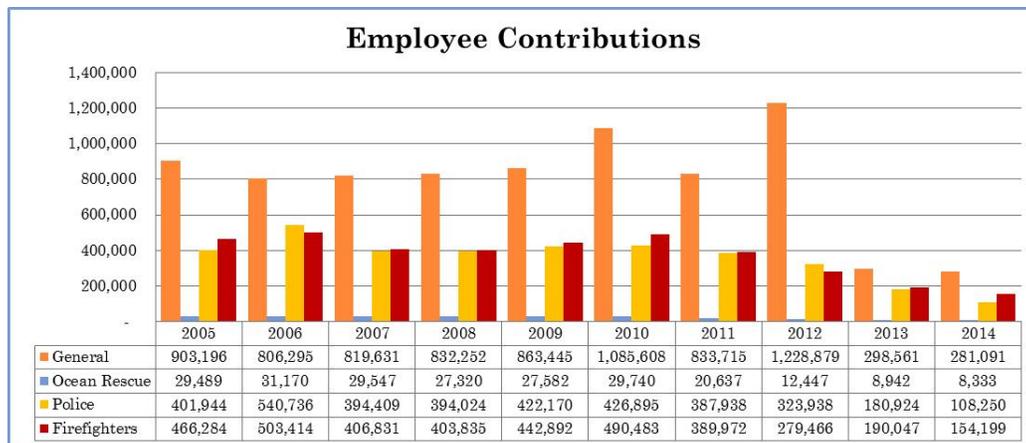
The Town's annual appropriation for the defined benefit pension plan is based upon the actuaries' determined rate. The defined contribution appropriation is based upon salary estimates and employer matching contribution rates including the discretionary contribution. The Town's contributions for the defined benefit and the defined contribution plans and the percent of budgeted payroll for the defined benefit plan and total Town contribution for FY15 are as follows:

	DB Contribution	DC Contribution	Total Town Contribution	% of Payroll (DB Plan)	% of Payroll (overall)
General Employees	\$1,856,320	\$770,326	\$2,626,646	19.54%	27.65%
Lifeguards	152,086	11,242	163,328	76.15%	81.78%
Police	2,144,661	303,712	2,448,373	62.09%	70.89%
Fire-Rescue	2,223,585	221,612	2,445,197	60.57%	66.60%
Total	\$6,376,652	\$1,306,892	\$7,683,544	37.90%	45.67%

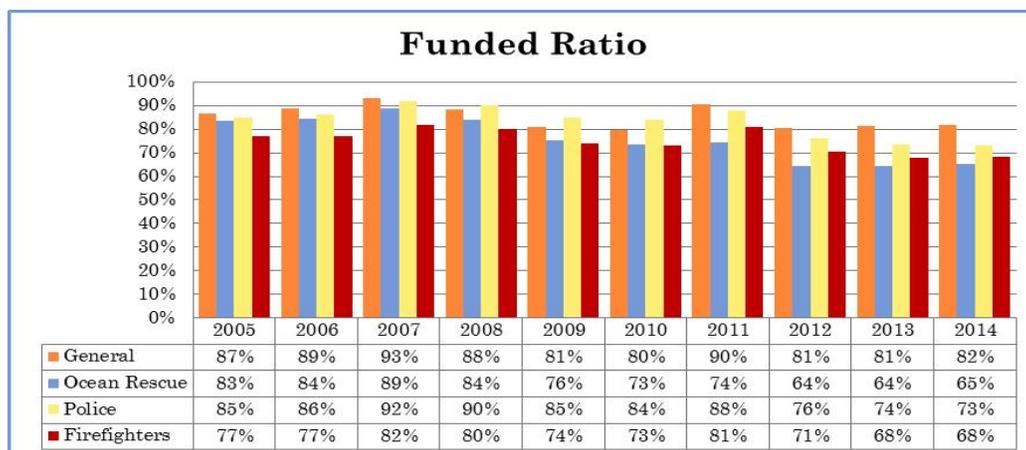
The employer funding history in total dollar contribution for the past 10 years through FY15 budget is as follows:



Employee Contribution history for the past 10 years through FY14 actual is as follows:

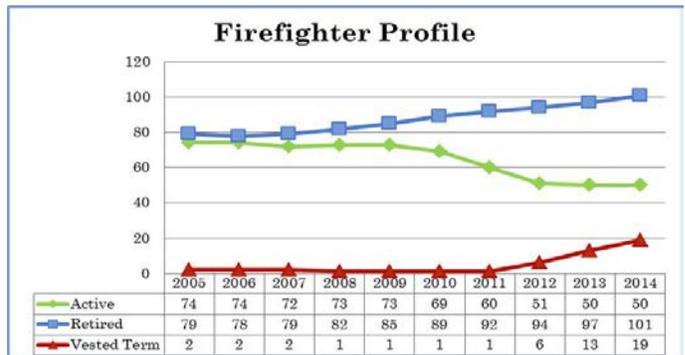
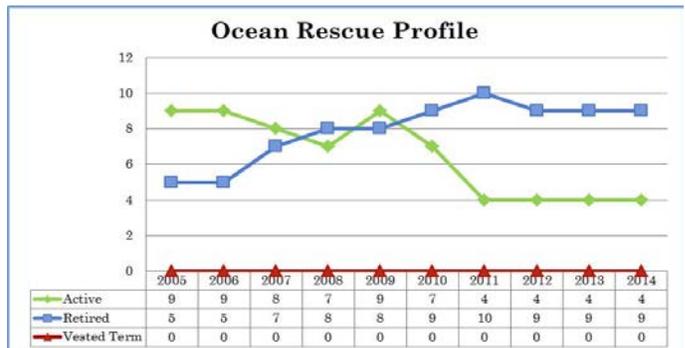
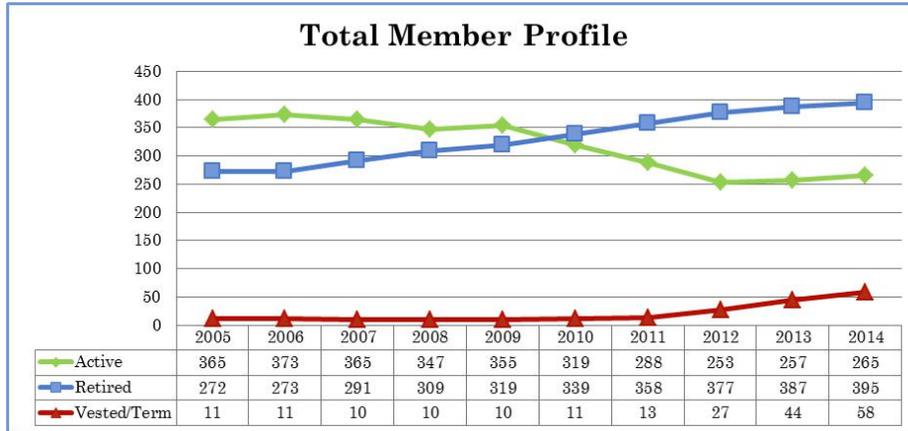


The ten year historical funded ratio though 2014 for the four member groups is as follows:

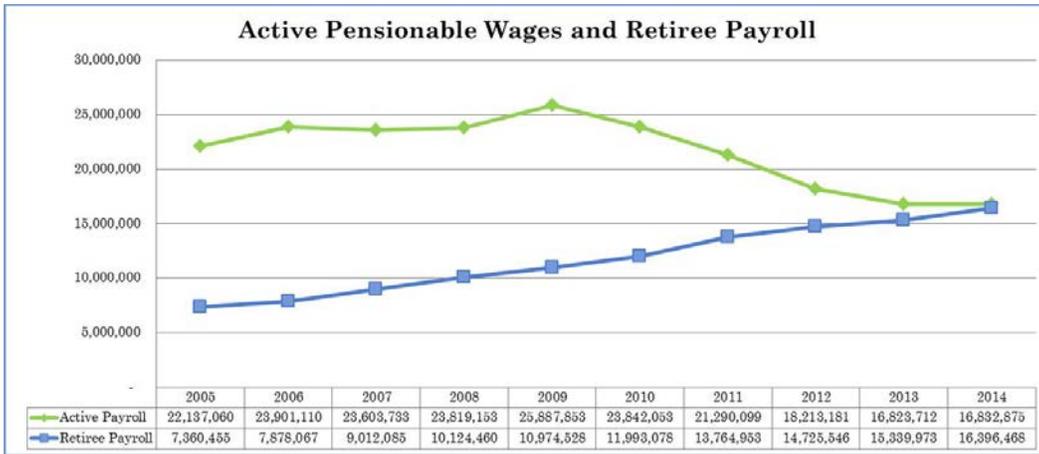


Demographic Information

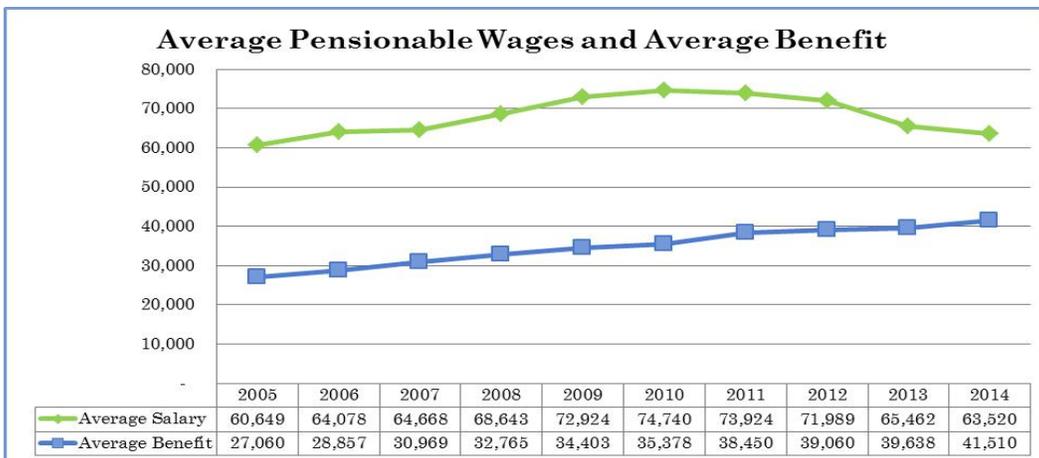
The following charts depict the System membership (Active, Retired and Vested Terminated Members) for the past 10 years. The first chart shows the total membership for all three funds. It is followed by charts depicting the membership for each separate benefit group. Information extracted from the September 30, 2014 Actuarial Report.



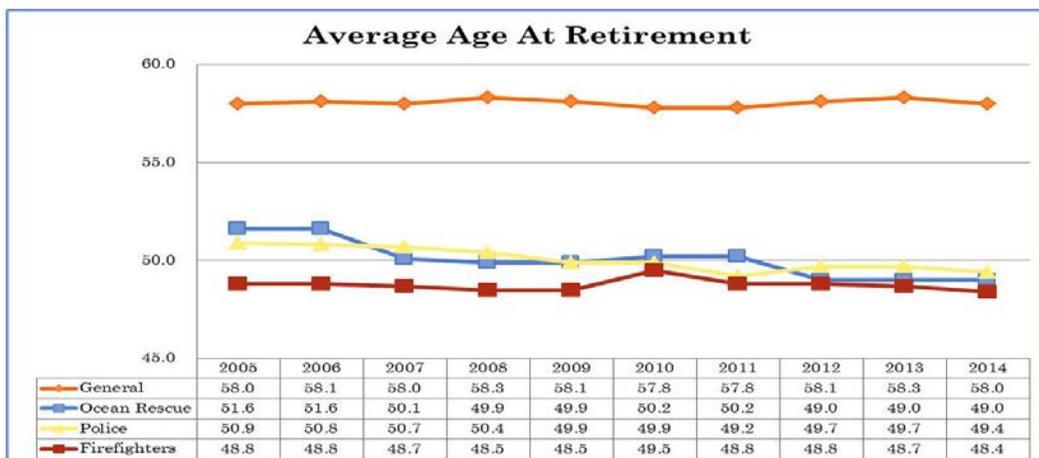
The following chart depicts the ten year trend for total active employee salary and total retiree pension payroll information.



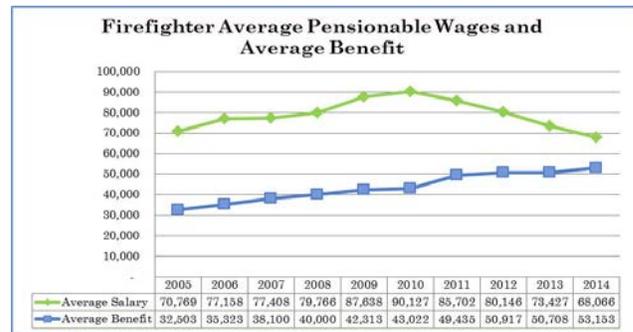
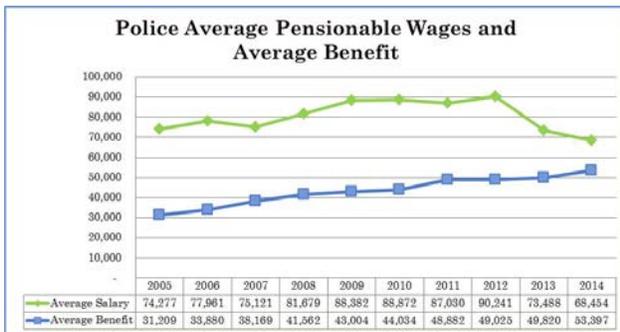
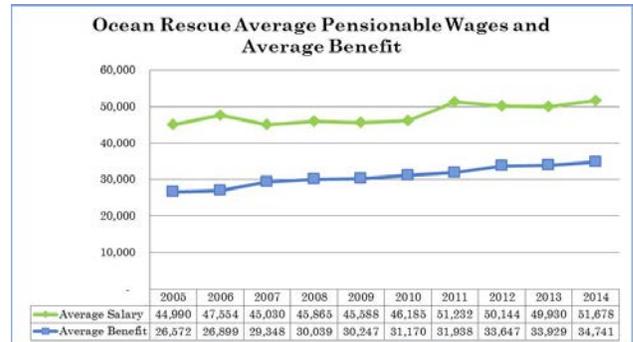
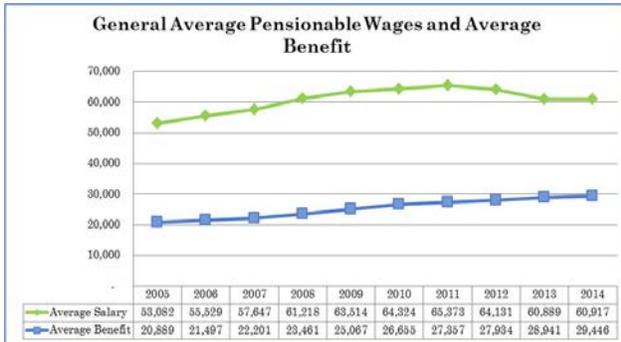
The following chart depicts the ten year trend for average active salary and average pension benefit for the entire fund.



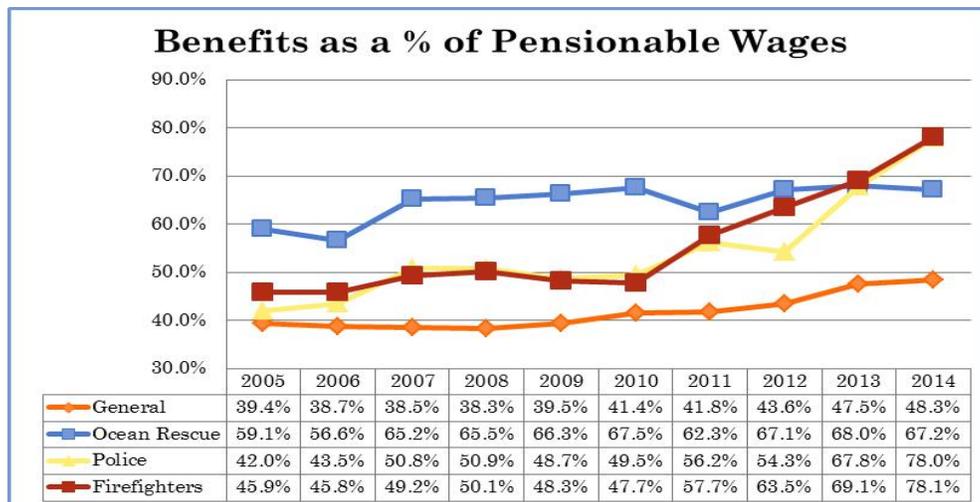
The following chart depicts the ten year trend of average age at retirement.



The following charts depict the average salary and average benefit for each of the member groups.



The following chart depicts the ten year trend of retirement benefits as a percent of pensionable wages.

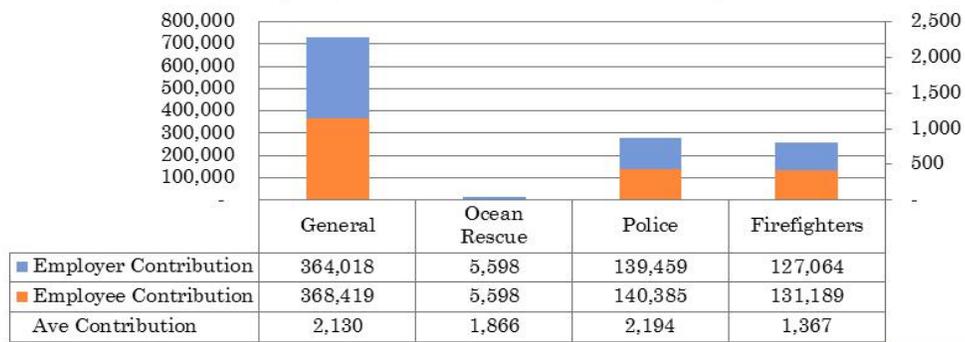


Demographic Information for the 401(a) Defined Contribution Plan

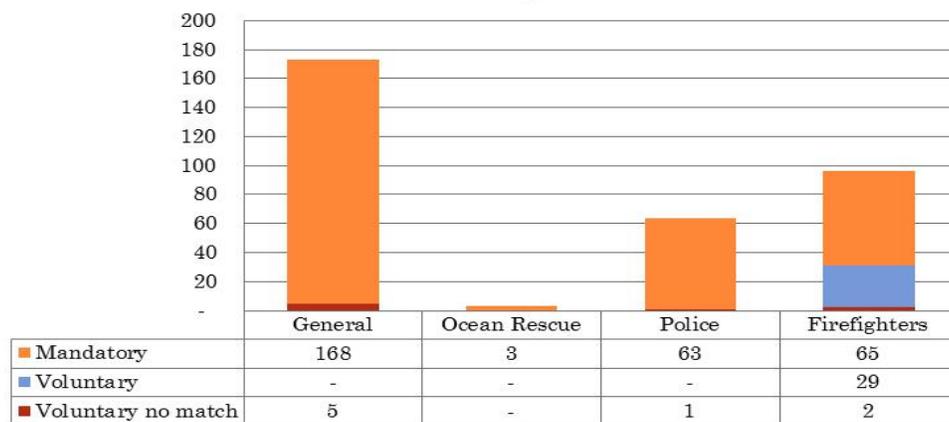
Plan Snapshot as of December 31, 2014 Provided by ICMA-RC

Total Assets	\$4,395,080
Total Participants with a Balance	322
Total Contributing Participants	299
Average Account Balance	\$13,649

Total DC Contributions Employee and Employer January 1, 2014 - December 31, 2014



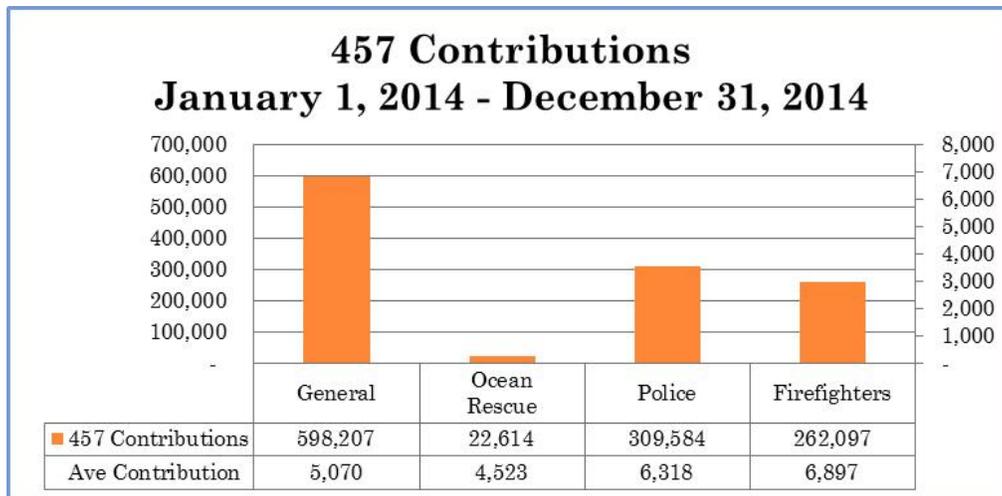
DC Participation



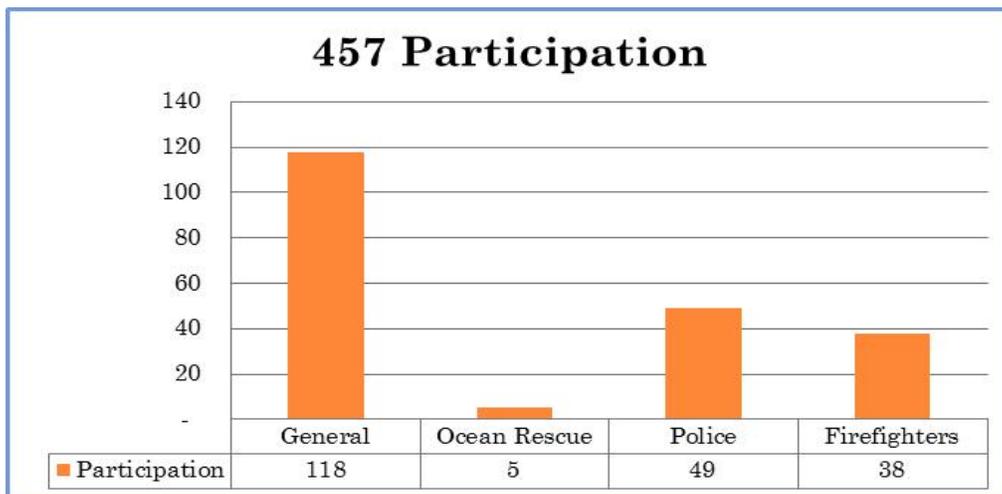
Demographic Information for the 457 Deferred Compensation Plan

Plan Snapshot as of December 31, 2014 Provided by ICMA-RC

Total Assets	\$23,291,732
Total Participants with a Balance	325
Total Contributing Participants	213
Average Account Balance	\$71,667



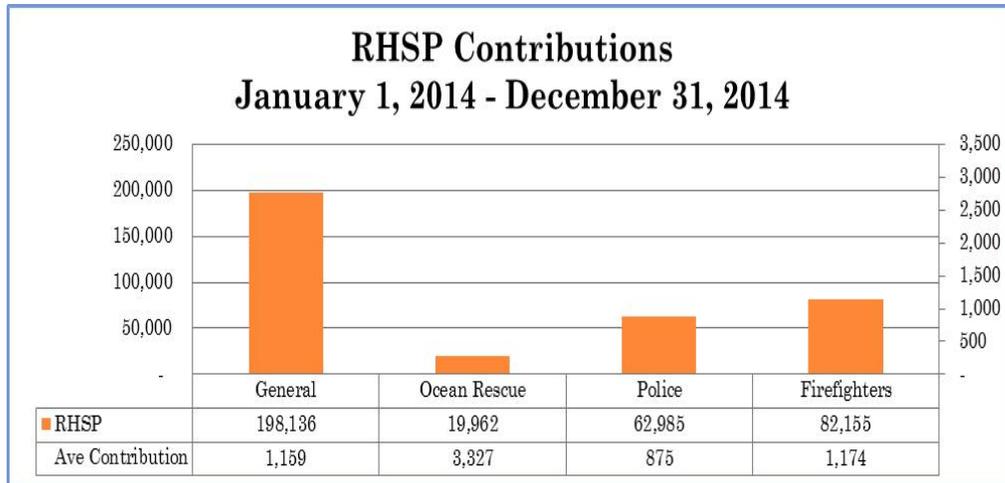
Above contributions represent employee contributions only. The Town does not provide matching contributions to the 457 Deferred Compensation Plan.



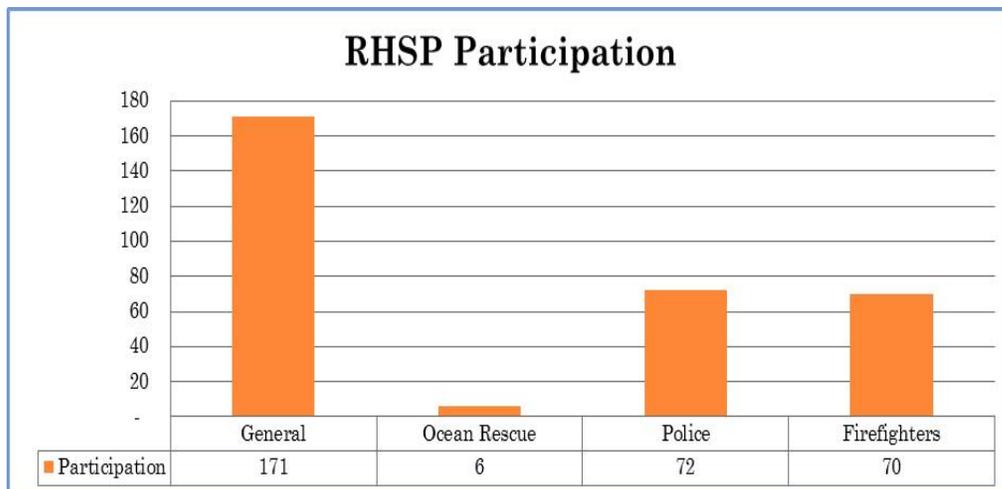
Demographic Information for the Retirement Health Savings Plan (RHSP)

Plan Snapshot as of December 31, 2014 Provided by ICMA-RC

Total Assets	\$1,234,304
Total Participants with a Balance	361
Total Contributing Participants	317
Average Account Balance	\$3,419



Above contributions represent employee contributions only. The Town does not provide matching contributions to the RHSP Plan. RHSP Contributions represent contributions of accrued employee sick time balances at the time of retirement as well as bi-weekly payroll deductions.



Demographic Information for Other ICMA-RC Plans

Plan Snapshot for 401 DROP Plan for General Employees (108334) as of December 31, 2014, Provided by ICMA-RC

Total Assets	\$5,076,499
Total Participants with a Balance	49
Total Contributing Participants	38
Average Account Balance	\$103,602

Plan Snapshot for 401 DROP Plan for Police Officers (108335) as of December 31, 2014, Provided by ICMA-RC

Total Assets	\$4,763,179
Total Participants with a Balance	23
Total Contributing Participants	15
Average Account Balance	\$207,095

Plan Snapshot for 401 DROP Plan for Firefighters (106782) as of December 31, 2014, Provided by ICMA-RC

Total Assets	\$3,680,457
Total Participants with a Balance	14
Total Contributing Participants	12
Average Account Balance	\$262,889

Plan Snapshot for 401 Old DROP Plan for Firefighters (108552) as of December 31, 2014, Provided by ICMA-RC

Total Assets	\$841,964
Total Participants with a Balance	12
Total Contributing Participants	0
Average Account Balance	\$70,164

Plan Snapshot for 401 Firefighter SHARE Plan (106796) as of December 31, 2014, Provided by ICMA-RC

Total Assets	\$2,402,346
Total Participants with a Balance	52
Total Contributing Participants	10
Average Account Balance	\$46,198

Plan Snapshot for Roth IRA Plan (705765) as of December 31, 2014, Provided by ICMA-RC

Total Assets	\$126,047
Total Participants with a Balance	41
Average Account Balance	\$3,074

Plan Snapshot for RHS Plan (Discontinued) (800533) as of December 31, 2014, Provided by ICMA-RC

Total Assets	\$653,668
Total Participants with a Balance	71
Average Account Balance	\$9,207