

TAB 1

DRAFT
GENERAL EMPLOYEES' PENSION PLAN
BOARD OF TRUSTEES
June 6, 2011 - 8:00 A.M.

Trustees Present:

Ray Dielman, Chair (entered at 8:45 a.m.)
Jim Freeman, Vice Chair
Matt Bloome, Secretary
Ellen Leonard
Karen Simpson
Allen Tusing

Trustees Absent

Jim Terry

Staff and Others Present:

Scott Christiansen, Attorney
Charlie Mulfinger, Gray Stone Consulting
Diane Ponder, Deputy Clerk-Administration

1. Mr. Freeman called the meeting to order at 8:10 a.m.

2. INITIAL DISABILITY HEARING FOR GEORGE J. FOUNTAIN

Attorney Christian explained the procedure his office used to process the disability application of Mr. Fountain. He then reviewed the criteria the Board must consider in awarding or denying a disability claim. Attorney Christiansen read portions of Section 22-88 Disability, of the General Employees' Pension Plan ordinance. The Board must determine if 1) the collected medical records are sufficient to support the criteria, 2) one or more of the criteria have not been established by the collected records, which can result in denial of the claim, or 3) if medical information is missing, the Board can request additional information, recess and then reopen the hearing once the information is received. If the Board denies the claim, a second, formal evidentiary hearing would be held to consider additional evidence. If a denial of the claim is the outcome from the evidentiary hearing, the claimant can request an appellate process before a circuit court judge.

The Board members confirmed they had received Mr. Fountain's medical records. Attorney Christiansen reviewed the physicians who had provided medical records. He referred to the independent medical report of Dr. Alan Lifton who reviewed all the medical records received by Attorney Christiansen's office and examined Mr. Fountain. Dr. Lifton's independent review resulted in an opinion that Mr. Fountain is totally and permanently disabled.

Mr. Alan Bobo, Mr. Fountain's attorney and friend, spoke on the records supplied for consideration. He opined Mr. Fountain had filled all the requirements set forth in the Plan and established his burden of proof.

Mr. Freeman commented on a Workers' Compensation Claim that was settled. Mr. Bobo stated the claim was related to a fall that occurred, which Allen Tusing, Public Works Director, confirmed. Discussion ensued on how the Workers' Compensation claim could reduce a disability benefit so the recipient is not paid more than 100% of the entitled disability benefit. Attorney Christiansen will review the claim and confirm it is not related.

Mr. Bobo stated a letter from Dr. Yathiraj, dated April 27, 2011, had been supplied in the medical records regarding Mr. Fountain's fall down a flight of stairs. He read the letter into the record.

MOTION: Mrs. Leonard moved, Mr. Bloome seconded and motion carried 4-0 to approve the claimant's request for disability pension, subject to Attorney Christiansen's review of the Worker's Compensation claim to determine the final amount of normal disability retirement. SC:

Attorney Christiansen confirmed that staff can start disability pension benefit and if an offset is required, the pension benefit can be adjusted as necessary. Retirement will be effective this date.

Mr. Dielman entered the meeting.

3. APPROVAL OF MINUTES

MOTION: Mr. Tusing moved, Mr. Bloome seconded and motion carried 5-0 to approve the February 28, 2011, 2010 minutes.

4. INVESTMENT REVIEW

Mr. Dodd, Barclay's Capital, gave an educational presentation in regards to indexing in active vs. passive management. Mr. Dodd is the head of I-Shares due diligence team, working with professionals in ETFs (exchange traded funds). He reported the industry is currently over \$1 trillion and globally close to \$1.5 trillion. ETFs are currently 11% of mutual fund industry; fastest growing area of the market.

He discussed ways ETFs can be used to compliment already existing active strategies. Discussion ensued on some of the presented data, included fees and the advantage of an ETF to mutual funds.

It was a general consensus of the Board to further research the benefit of indexing certain segments of the portfolio.

Mr. Mulfingher commented on the fact Black Rock is the largest active and passive manager in the world. He reported Mr. Dodd is a senior member of Black Rock in the ETF structure (passive side). Black Rock purchased Barclays, an ETF Manager. Mr. Mulfingher commented on fees relative to mutual funds, which are not currently part of the Plan's portfolio. He agreed an index structure is lower in fees, but not a great deal compared to what the Plan is currently paying its equity and fixed income managers. He also suggested that a large portion of the presentation was in regards to using risk control vs. beta.

Mr. Mulfingher reported the portfolio value as of March 31, 2011 was \$9,440,573, a gain for the quarter of \$375,853, net of investment fees of \$20,083. A copy of the performance summary is attached hereto and made a part of these minutes. He discussed the weightings to Policy, stating there is no need to rebalance.

He reviewed the economy's performance for the quarter, reporting that since the quarter-end the rate of growth has slowed.

Each manager's performance was reviewed. Going forward, the Hedge Fund of Funds will be reported net of fees. The portfolio was up 4.7% for the quarter; 14.64% for one calendar year. The valuation and performance total is \$9,234,319, a return of 12.1% through June 1, 2011.

Mr. Mulfingher confirmed there would be no charge to the Plan when buying an ETF share.

5. OCTOBER 1, 2010 ACTUARIAL VALUATION REPORT

Doug Lozen, Foster & Foster, reviewed the Actuarial Valuation Report as of October 1, 2010, reporting there was an actuarial gain that exceeded the long-term assumptions.

Mr. Lozen discussed the increase in the funding requirement for the City, due to Foster & Foster recommendation to change the asset methodology. He explained that the City had changed its funding to a percentage of payroll for members not in the DROP rather than a dollar amount. In the Valuation Report, Foster & Foster has recommended funding of 28.94% of payroll to implement the asset

methodology for the actuarial value; they do not feel the current methodology will not pass actuarial standards of practice or be accepted by the State. He suggested a "fresh start" that will account for what is happening in the market, making the market and actuarial value of assets the same, which explains the increase in funding requirements. The difference between the two value amounts is \$1.6 million in assets, which will be amortized over a 25-year period. He further recommended that going forward a standard smoothing technique should be used that will recognize gains and losses over four years.

Mr. Lozen presented an option to reduce the required funding level which, if adopted, will necessitate a revised report. He suggested that rather than recognizing the \$1.6 million all in one year that the Board considers phasing in the difference over a four-year period of time, which would result in an approximate 1% increase over that period of time. Using this method, he estimated the new City contribution would be approximately 25% of payroll.

He also suggested another option for the Board to consider. By changing the current mortality RP2000 "fully generational" to simply an RP2000 with no projection into the future, the City's contribution could possibly be reduced by an additional 1% of payroll. He stated Foster & Foster is of the opinion that RP2000 with no projection is acceptable and will be approved by the State.

Mr. Freeman stated he had spoken with Mr. Lozen on some of the issues, because he had the opportunity to review the report prior to the meeting. He stated it would be his preference to use the smoothing method between the valuation and market values over a four-year period. He also stated he supported the mortality table with no projection into the future which Mr. Lozen recommended.

Mr. Freeman asked that Mr. Lozen discuss the City's prepaid contribution of \$31,743. Mr. Lozen explained that when the City switched to funding by a percentage value, the change resulted in an overpayment. Foster & Foster recognizes it as a prepaid contribution, which can be used at any time to reduce the required City contribution. Mr. Freeman discussed his preference to use the prepaid contribution in 2011. Attorney Christiansen informed the Board it is the City's choice how the prepaid contribution is used.

MOTION: Mr. Freeman moved, Mr. Tusing seconded and motion carried 5-0 to accept the October 1, 2010 Actuarial Valuation Report, with the following changes as discussed: 1) Change the mortality rate to the PR2000 Combined Healthy; and 2) Spread the change in methodology over four years vs. one year, subject to the State's approval.

Discussion ensued on recent legislation regarding lump sum payments of accrued sick and vacation hours. Mr. Lozen confirmed that the Plan is funded anticipating those payments at termination or retirement. Eventually the "actuarial load" on the liabilities will be reduced because no future accruals on the lump sum amount can occur after July 1, 2011 for pension payments. The contribution reduction could possibly equate to 1% of payroll.

Mr. Mulfinger stated that an expected 7.5% investment return is appropriate.

MOTION: Mr. Freeman moved, Mr. Tusing seconded and motion carried 5-0 to declare that based on the advice of our investment professionals, the total expected annual rate of investment return for the next year, the next several years, and the long-term thereafter, shall be 7.5%, net of investment related expenses

6. APPROVAL OF EXPENSES

A) Christiansen & Dehner: March, April, May, 2011

B) Foster & Foster: May 18, 2011

C) Smith Barney: Quarter ending March 31, 2011 (Investment Report)

Mr. Tusing departed the meeting at 10:30 a.m.

MOTION: Mr. Freeman moved, Mrs. Leonard seconded and motion carried 4-0 to ratify payment of the expenses as presented.

7. APPROVAL OF BENEFITS

- A) Adolph B. Eckert
- B) Frank C. Perry
- C) Duane J. Kinn
- D) Charles Leaks, Sr.

MOTION: Mr. Freeman moved, Mr. Bloome seconded and motion carried 4-0 to approve payment of retirement benefits to Adolph B. Eckert, Frank C. Perry, Duane J. Kinn and Charles Leaks, Sr., as presented.

8. DISCUSSION: PROPOSED ORDINANCE

With the adoption of the Charter, the Mayoral appointments to City Boards were limited to two years.

MOTION: Mr. Freeman moved, Mr. Bloome seconded and motion carried 4-0 to approve the proposed ordinance changes to Chapter 2 regarding Section 22.83.

9. ATTORNEY'S REPORT

Reminder to return the financial disclosure forms.

Requested a fully executed copy of the Investment Policy from Mr. Mulfinger.

Regarding the UBS Investment tentatively approved, he received the requested letter regarding additional issues specific to governmental plans, citing public records law as an example of one issue.

Reminded staff to obtain a letter of no actuarial impact for the ordinance that was approved.

Discussed SB1128 approved by the Legislation that will change the definition of salary to exclude overtime over 300 hours per year and also exclude lump sum payments of sick and vacation time. The legislation will become effective July 1, 2011. He explained that any lump sum payments on books July 1st would be able to be counted for pension benefits; any amounts after July 1st cannot be included in the calculation. He stated he has submitted question to the State regarding the methodologies that will be used in benefit calculations.

Meeting adjourned at 10:50 a.m.

Matt Bloome
Secretary