

Minutes of Meeting
Board of Trustees Joint Meeting
Non-Uniformed and Policemen & Fire Employees' Retirement System
July 23, 2013

A meeting of the Board of Trustees was called to order at 6:30 p.m. in the Council Chambers, 5th Floor of City Hall, 6801 Delmar Blvd., University City, MO 63130

Members in Attendance: James Carr, Matthew Fillo, Edward McCarthy, Frank Reedy, Kevin Good, Tom Deken, Juli Niemann, Keith Cole, Erich Haring and Steve McMahan

Member Excused Holston Black

Member Absent: Terry Crow

Other in Attendance: Elaine Williams - Board Secretary
Tina Charumilind – Treasurer
Sean Hughes and Patty Boyd - FAMCO Representatives
Paulette Carr - Council Member
Patrick Wall – Library Director
Tom Mug - Attorney

Agenda

The order of business was adjusted slightly to accommodate a member who was late and who had indicated he had questions on the first motion on the planned agenda.

Chairman's Comments

Chairman Carr reminded the boards that no one speaks for the Board or the City without authority. Authority comes from a decision by the Board through a motion. In other words, if we are speaking with someone about Board matters, it is important to make clear that we are speaking as an individual, and not for the Board or the City.

Minutes

The April 23, 2013 meeting minutes were approved.

Training

Sean Hughes from FAMCO provided a training handout and reviewed the basics of stock investing. We covered bond investing in our last meeting with Tom Engle of FAMCO. Bonds represent a loan and will get paid interest plus money back at maturity. Stocks represent ownership, with risk of loss and potential for gain, according to how the company does. Bond owners have a higher claim on assets in the event of bankruptcy. A company can pay out earnings as dividend or keep to fund future growth. Growth companies tend to grow faster and pay smaller dividends (Apple and Qualcomm). Value companies (Philip Morris, Kraft and other food companies) typically grow less and pay higher dividends. FAMCO tends to invest in larger, more stable and value-style companies.

Plan Documents and Motion

Chairman Carr introduced the subject and Mr. Tom Mug. We started this project over three (3) years ago at the recommendation of Mr. Siepman, Actuary. We hired Mr. Mug of Greensfelder, Hemker & Gale, P.C.

Mr. Mug explained that the Internal Revenue Service (IRS) has increased its activity and focus on municipal retirement plans. If we are in compliance we can lose the tax-exempt status. We are following a process wherein we can approach the IRS with a full update/revision and ask for a "Letter of Determination" instead of waiting for someone to find us in compliance. He observes that different IRS reviewers can have different views. He was clear that the changes have no effect on the plan. We need to be sure we are compliant with IRS rules and sometimes it comes down to just choosing the right words to satisfy the IRS reviewers.

Mr. Mug answered questions on the following: Definitions of compensation, conditions for employment, credit for military service (Congressional mandate of 1996), costs related to the credit for military service if death involved (no change in cost from prior plan), Vesting (required by IRS code), rollovers, distinction between pension 401(a) and 457 plans, numerous changes over the years which are still part of the plan and make it look complex. Our goal here was to make sure we are in compliance with all rules and changes over time.

Mr. Mug added, as something for us to consider, that we are on a cycle for getting the next Letter of Determination (approval) from the IRS. We could wait for two (2) years and resubmit, and be approved for three (3) years thereafter, or we could resubmit NOW and be good for five (5) years. The advantage of the latter would be that, having just been approved, we would probably get approved again without issue (no guarantee, however). Mr. Mug will send us a memo on this and recommends that we make a decision at our next meeting.

Member McCarthy suggested that things would be simpler if we would adopt some kind of common plan so we don't have to go through this every five years. Mr. Mug responded that in going to a common fund, such as LAGERS, we would lose control of our assets. If LAGERS has funding trouble, we would be stuck with that. Member McCarthy suggested that we re-write the plan, but this is a separate matter.

For both Boards, Member McMahon moved and Member Niemann seconded the following motion:

Motion: Pension Boards recommend that City Council adopt the changes to Plan documents prepared by Tom Mug, Attorney, as outlined in his letter and memorandum of June 11, 2013, with attachments)

The motion passed for both boards.

FAMCO Review of Portfolio

Sean Hughes reviewed the portfolio, referring to the report. The portfolio is within the parameters stated in our Statement of Policies and Objectives. FAMCO prefers stocks with dividends.

Quantitative Easing (QE) has not done much for stocks. It has been earnings growth that has helped stocks do well. QE might have helped bonds, through lower interest rates. Referring to the Police & Fire plan (Quarter ended June 30, 2013) FAMCO has added \$16,000,000 in value. Because the plan is constantly paying out benefits, it is not as clear when we look just at portfolio value. We strive for quality stable companies that may not keep up with growth stocks during strong markets but should be more stable during down markets. We are now (June 30, 2013) 68% equity, 32% bonds. Equity is up 1% since last quarter, bonds are down 1%.

Member McCarthy expressed concern for Europacific Fund. Member Niemann says, in her work, she has shifted assets from Europacific into the Global Balanced fund, which includes bonds. She commented that American Funds had not performed consistent with their objectives. Chairman Carr expressed concern for reacting to news and current events, recommending we select a strategy and stay with it. Member McCarthy feels we should consider moving out of Europacific Fund. We should put this on a future agenda. Mr. Hughes pointed out that many companies in the portfolio have exposure internationally.

Change to Amortization of Unfunded Liability and Motion

Chairman Carr reviewed the background of this. In 2010 we went from 15-year amortization to 30 for the unfunded liability of the funds. Going back to 15-year amortization will increase the contribution for a given unfunded liability. As an example, for this year, the handout shows that if Police & Fire Plan was on 15-year amortization, the recommended contribution would increase about \$183,000 to \$1,311,663.

There were questions and discussion of where the money will come from, sources of revenue, property tax base, and responsibility for funding the plan, and growing liabilities due to people living longer. We understand that we will direct the actuary to make the change and this will affect the Boards' recommendations to City Council for future budgets.

For both plans Member McCarthy moved and Member Good (Police & Fire) and Member Haring (Non-Uniformed) seconded, the following motion.

Motion: Pension Boards direct the actuary to use fifteen (15) years as the amortization period of the unfunded liability when calculating the required contribution.

Discussion: Getting more money in now will help improve the funding status of the plans. A good market can help a lot and a bad market will work against us. By doing this now, we are planning ahead in case markets do not improve. There were comments on the markets and how much we should rely on growth and reforms. We should put more money in now. There were also questions, discussion and clarification of the City's fund reserves. Ms. Charumilind pointed out that the current fund reserves of approx. \$15 million should be used mainly for infrastructure and capital improvement. It should be the last resource for all other expenditures. In the past, when market performance was very strong, the City chose to stop making contributions to the plans, and that should not happen again. Large and continuing unfunded liabilities would affect the bond ratings. There was no argument against the motion.

The motion passed both boards.

Next meeting dates

October 22, 2013

Adjourned

The meeting adjourned at 8:13 P.M.