

**Minutes of Joint Meeting
Board of Trustees
Non-Uniformed and Police & Fire Employees' Retirement Fund
July 24, 2012**

A meeting of the Board of Trustees was called to order at 6:34 p.m. in the EOC Room Basement Level, City Hall, 6801 Delmar Blvd.

Members in Attendance: Diane Sher, James Carr, Matthew Fillo, Edward McCarthy, Erich Haring, Tom Deken

Members Absent: Don Humphrey – Non-Uniformed Employee Representative
Fred Kramer – Fire Department Employee Representative
Juli Niemann – Board member

Others in Attendance: Tina Charumilind – Director of Finance
Therese Hayes – Board Secretary
Terry Crow – Councilmember
Tony Muger – from McCarthy's office
Wiley Angell – FAMCO
Patty Boyd - FAMCO

Minutes

A motion was made, seconded and approved, to approve the June 26, 2012 minutes as presented.

Investment Manager

Patty Boyd, CFO and Head of Institutional Client Services and Wiley Angell reviewed the FAMCO investment reports for both plans. All information covered is detailed in two separate reports, for the period ended June 30, 2012. Investment Strategy report is on page 4. FAMCO has 2 committees (Risk Management and Compliance) that review our portfolios on a regular basis and monitor our plan guidelines, independently from the portfolio managers.

Highlights; dollar return added absent cash flows, since inception, are \$14 million to the Police & Fire plan and \$7 million to the Non-uniformed plan. Performance and team have been consistent resulting in stable performance. Currently we have 63% invested in Equities and 37% in Fixed. Our guidelines for investment mix is 60-65% Equities 40-35% Fixed. Most of FAMCO's clients have 10-20% leeway in mix versus our 5%. FAMCO suggests we give more latitude from, 5% to 10%. There is no advantage to FAMCO with respect to which products we select, from a fee perspective. Fixed and Domestic Equity funds are managed by FAMCO; International Growth Fund is not actively managed by FAMCO but they report on it for us.

Wiley Angell discussed a "covered call strategy" as an investment option for the board to consider. Basically, this combines a dividend yield % plus a call premium yield %, which is the option for someone to buy the stock at a certain price (the call amount). A slow growth economy is a good time to implement this strategy – goal is to ease volatility. The downside to this strategy is if the economy turns around and stock market rallies, this will underperform the stock market. This strategy will not include any additional cost. FAMCO will provide via email a detailed chart of their returns with this strategy. They are recommending we invest more in equities, less in bonds at this time, given the state of the market.

Member McCarthy asked that FAMCO add a column to future purchase and sales reports, to show the purchase price, for accounting purposes. FAMCO agreed.

The group agreed that we don't have enough information to make a decision on any changes and need to do more research, and consider more data from FAMCO. Chairperson Sher reminded the group that Member Niemann is still in search of an independent consultant to assist with our investment strategy - she has not found anyone yet. Councilmember Crow asked about last time we did a review of investment managers; Chairperson Sher replied that this was done about a year ago, at the end, the board decided not to pursue – this is why Member Niemann is looking for an independent consultant.

Member McCarthy made a motion to give FAMCO more latitude with our Bond / Stock mix, to increase it from +/- 5% to +/-10%. Member Fillo seconded, and after discussion, the motion was tabled for one hour, to follow Member McCarthy's presentation. Motion re-opened at 8:43 pm, Member Carr and Chairperson Sher abstained, others in favor, motion passed.

Accounting Process and Procedures for Retirement Plan

Member McCarthy – provided a copy of the Notes to Financial Statements from 2006 / 2007, which had been audited, to give the group an illustration of why it is important for the board to be getting financial statements, to review them and ultimately protect the plans' assets. The report contained an error that was not fraudulent, and was corrected on the following year's statement, but should have been caught by our auditors.

Member McCarthy reviewed plans, balance sheets and income statements, for June 30, 2006 through June 30, 2011. For the Police & Fire Plan, the benefit payment was roughly \$160,000 (Tina later clarified this number is closer to \$180,000), per month is being paid out from this plan, but we have over \$10 million in the City's general fund. The Police & Fire Plan gets approximately \$8-900,000 annually from property tax revenue, which is collected during November, December and January each year. Member McCarthy's point is that with the additional money in the general fund, we could prevent FAMCO from taking money out of fund and putting in the plan's checking account when we already have plenty of money in this account. The process is that the revenue is going to general fund then moved to Police & Fire Plan fund, usually in January. Tina described the process as; the city pays retirement benefits from the general fund, UMB (Plan's custodian) transfers money to the plan fund, Finance transfer from the plan fund to general fund to pay the city back. This is not a timely process which is why the reporting gives the appearance that the Police & Fire plan owes the general fund money. Payment for the Non-Uniformed plan comes out of general fund, not tax revenue like the Police & Fire plan. Approximately \$68,000 is being paid out monthly to retirees currently. Member McCarthy is questioning how, if \$75,000 a month goes from UMB to the general fund, and we pay out approximately \$68,000, do we owe \$970,000 to general fund? Tina explained that in 2011 \$245,000 was carried over from 2010, due to the timing of moving funds from Royal bank to Commerce bank, which is where the general fund is. The problem of fund transfer timing will no longer be an issue because the city recently moved all banking service and accounts to Commerce Bank.

Member McCarthy also asked if the City's current tax rate of .12 per 100 for the pension plan is the limit we can get from taxpayers. Tina thinks we are at the maximum but will look into this.

Member Carr summarized Member McCarthy's points with the following question, "do we have too much idle cash laying around to pay benefits, and could it be invested and more productive for the plan?"

Chairperson Sher recommended an audit of the plan, separate from the annual city audit, on a surprise basis. This has never been done previously. As an alternative, Member McCarthy would like to keep looking at this information as a board on a quarterly basis, give Tina, Keith and Courtney time (newer employees) to upgrade the reporting and add some consistency to the reporting process. Turnover in department has led to the inconsistency and timeliness of the reporting described above. The GASB change taking effect at end of fiscal year 2014 will also impact our process.

Member McCarthy asked if health insurance premium for eligible retirees is a city obligation or a fund obligation. Discussion clarified that only group life and disability premiums should be paid out of the fund. Health insurance for retirees is covered by OPEB (part of GASB 45), which is other post-employment benefits. Member McCarthy would like for Tina to clarify whether or not this is something the board should be looking at, because it represents an additional \$500,000 unfunded liability that we do not appear to be accruing for. Is this something the council is aware we are liable for?

Member McCarthy asked – should board recommend to council that they add money into fund for the Non-Uniformed plan, since we are underfunded by \$4-5 million, per actuarial calculation. Should we ask for \$1 million now or \$100,000 over 12 months, since we have \$10 million in the general fund? A point was raised that once the money is moved to the plan, it is no longer a cash asset the city can spend; it goes into the fund and stays there. Councilmember Crow suggested other cities are handling things the same way we are, with respect to funding retirement plans. He reminded the group that this money is "new"; it hasn't been sitting around for years.

Member Fillo asked if the funding ratio should be the same for both plans. The Non-Uniformed plan is currently 78% funded, and the Police & Fire plan is 84% funded. When a plans funding % is less than 80% we cannot change benefits; at 60% state says we must fix or they will put a lien against city.

The board discussed whether the city has the obligation to pay pensioners, or is it the pension fund? Per our ordinance, "benefits will be payable if there is money in the account." Member McCarthy has asked Paul Martin about this and is waiting on a response.

Tina Charumilind has provided detailed general ledger information, much more data than provided in the past; group thanked Tina and Member McCarthy for their hard work and detailed information.

Member McCarthy made a motion to ask council to make an extra contribution to the Non-Uniformed plan of \$1 million, to reduce the unfunded liability. After lengthy discussion, Member Fillo seconded, Member Carr opposed and Chairperson Sher abstained. The motion passed 3 to 1.

Member McCarthy is concerned about the number of loans being taken from the plan and requested that the board recommend to council to stop this provision. For the next meeting, Tina will bring language from plan document regarding loans (if it's in there) and whether or not the board has jurisdiction over the loan provision, and a sample of illustrations of outstanding loans and how many members have taken out.

Pensioner Death Review Report

Tina reviewed the results of this report, resulting from audit that is done annually. Three issues came up, two regarding retirees that received payments after they passed away, and one retiree we had an incorrect social security number. We are still working to resolve the overpayment for one retiree, Willie Young; other items were resolved.

Member Carr made a motion to do this audit twice a year as oppose to once. The motion was seconded and all approved.

Board Member Terms

Member Carr was reappointed at last night's council meeting. Per Councilmember Crow, in 2010 the council reviewed term limits and agreed that members could serve two terms and then not be reappointed, and while there were two exceptions, this board is not one of them. This means Chairperson Sher will need to be replaced. She should serve until replaced.

The group's understanding is that this rule does not apply to employee terms, because employees are elected by peers, not appointed by council. Member Niemann served two terms, rotated off and was later reappointed.

Next Meeting Date

A motion was made, seconded and approved to skip the August 28th meeting and meet again on September 25th, then again for the regular meeting on October 23rd.

Adjournment

A motion to adjourn the meeting was moved, seconded and passed at 8:58 p.m.