

**Minutes of Joint Meeting
Board of Trustees
Non-Uniformed and Police & Fire Employees' Retirement Fund
June 26, 2012**

A meeting of the Board of Trustees was called to order at 6:33 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, Fred Kramer, Tom Deken

Members Absent: Don Humphrey
Julie Niemann

Others in Attendance: Tina Charumilind – Director of Finance
Therese Hayes – Human Resources Manager
Terry Crowe - Councilmember
Steve Siepman - Buck Consultants

Minutes

Member Carr stated his recollection that while the Joint meeting is not an official meeting, when motions are passed in the Joint meeting that affect the Non-Uniformed plan; those motions should be reflected in the individual meeting minutes as well. Chairperson Sher asked Tina to check back on whether we made this decision or not.

With this exception a motion was made and seconded to approve the minutes.

Actuarial Report

Steve Siepman of Buck Consultants was introduced and presented the Actuarial Valuation Report for the Plan Year January 1, 2012 – December 31, 2012. The report is dated June 2012.

Before Steve started, Member McCarthy stated if there is time after the Buck presentation he will present his information regarding Accounting Process and Procedures; otherwise we'll carry that over to the next meeting. Chairperson Sher suggested this be treated as a Joint meeting; no objections.

Steve led off with the Police and Fire report but made a general statement about a recent (effective late 2011) Actuarial Standards Board decision which is affecting liabilities for both plans, concerning the use of mortality and mortality tables. People are living longer and actuaries must take into account the increased longevity that is expected to happen over time. We should use most current table; this is a professional standard that Buck needs to follow. UP94 is the table we were using, created around 1994; new table we are using RP2000 (created around 2000). In theory Buck could continue with our past method of determining mortality, but there is no statistical significance with a group our size and is not recommended. In general this is a more conservative approach to anticipating more longevity; to avoid a bad surprise down the road. Overall, this is increasing our obligations and affecting the 2012 report. For the Police and Fire plan, a variation of the mortality table called blue collar adjustment was used due to the general anecdote that police and firemen aren't as likely to live as long after they retire as the general population.

Investment return for the year, page 4 Schedule D, market value rate of return measured on an average was 2.6%; the actuarial assumption for our plan is 6.5%. Buck used a 5 year actuarial smoothing method, which assumes experience above 6.5 some years and below 6.5 some years, to allow for better budgeting for the city and to account for volatile market conditions.

Page 5, actuarial (on paper) value rate of return is 2.3% (coincidence that this is so close to the investment return of 2.6%).

Page 2, obligations we are measuring for active employees, increased about 3% from 2011 – 2012, mainly due to the change in our mortality calculation.

Unfunded accrued liability increased about 2 million (30%), chiefly due to investment experience and also the change in mortality calculation.

If plan were fully funded, the only cost of the plan would be the cost of accruing benefits. When assets have fallen behind the liabilities we have an unfunded obligation, and our policy says we will amortize this over 30 years, interest bearing at 6.5%. Ed questioned where this policy is written because he can't find it. Jim Carr will look over past minutes to find when this was discussed.

The contribution required to fund our normal cost for 2012 for the Police and Fire Plan is \$1,008,594; this is what we should attempt to contribute.

Chairperson Sher asked if our 2.3% return is within the norm of what Buck is seeing; per Steve he saw from -1 to 5% last year with most clients coming in between 1.5 and 3%.

The wants us keep our funded percentage above 80% and we're at 84.9%; if we dip below 80% the state says we could not make a benefit improvement; if we fall below 60% there would be more ramifications from the state.

Non – Uniformed report; similar concepts as discussed with the Uniformed plan; Page 7 market return was 0.69%, actuarial value was 3.66% with smoothing mainly due to different assets and demographics. Accrued liability increased about 1.5 million

Actuarial value of assets stayed essentially the same.

Contribution required to fund our normal cost for this year is \$645,975. Our funding percentage for this plan is 77.4%; down from 82.6 last year; a benefit improvement cannot be made due to this percentage being below 80%.

Library Board Member Larry Nolan referred to page 3 and asked about the changes specific for the Library; same numbers of active and one additional retired, yet accrued liability jumped substantially; this is due to the one new retiree receiving a large benefit, which brought the active liability down and retired liability up; the mortality change had an impact here as well,

Member McCarthy asked about actuarial assets – how are we projecting; he's concerned that we're off by 4 mil for the Police and Fire plan and 2mil for Non-Uniformed. Steve replied that we are not projecting the assets, refer to page 8, total column, start with method that's been in place for years, actuarial value at beginning of year, put in contributions and disbursements, assume investment income at 6.5%, then look at actual market value and compare those 2

numbers. Smoothing takes 20% of the difference and reflects it against expectations. Other 80% is not reflected.

Member McCarthy asked if 6.5% a reasonable rate of return to be using. Per Steve yes, it's at the lower or middle range of acceptable, this is a long term assumption, not a one or two year assumption.

Member Carr asked if there is a way of assessing the result if we change the rate of return. Steve had two examples; if we used 6% combined with 2.5% for salary increases (current assumption is 3%), our unfunded accrued liability would increase by \$62,000 and if we used 5% combined with 2.5%, our unfunded accrued liability would increase by \$349,000.

Police and Fire assumptions with the above scenarios would be \$63,000 and \$467,000 respectively.

Member Fillo questioned how the Non-Uniformed plan is about 1/3 in size than the total actuarial value of the Police and Fire plan, yet the total actuarial unfunded accrued liability is in excess of the Police and Fire plan. Member McCarthy added that we invest both plans about the same so why the differential. The group noted that a major factor here is that the Police and Fire plan is funded by our property tax, which brings our required Contribution down. Tina stated that we make the contribution at the beginning of year for the Non-uniformed plan and at the end of June for Police and Fire, due to property tax due dates. The city contribution for the Non-uniformed plan is from City from general revenue.

General questions: Member McCarthy asked Steve Siepman if there is anything unusual with our plan in way it's being valued and should we make any changes; Steve – nothing jumps out; depends on affordability and how city is able to handle funding. Member McCarthy – if we changed our year end to align with our fiscal year audit would it be a big deal. No, this can be done per Steve but there would be an expense to make the change. Advantages related to having the audits line up include simplified disclosures; otherwise no real difference. Member McCarthy mentioned upcoming 2013 GASB changes that may affect our need to coordinate our year ends.

The group discussed the merits of doing a survey of other cities and fire districts related to benefits and it was decided not at this time. There was also discussion surrounding complexity of the Police and Fire plan and how to simplify it without negatively affecting members. There's no concrete answer.

Member McCarthy asked if the city could get the Excel spreadsheet Buck uses to perform our retirement benefit calculations, because we are charged \$260 each time can we request one. Steve will get us a price; thinks it's an option. He is concerned about doing this for the Police and Fire plan, because it's so complicated.

Steve is to come back with the cost, if any, to getting us the excel spreadsheet, and the cost to have a mid year valuation or change to our fiscal year.

Member McCarthy asked why the report took so long this year; Steve said it was related to an internal miscommunications and apologized. He also stated that he didn't get our data until the middle of March and they need a couple months to do the work. Tina remembers getting the data to Buck in mid-February

Member McCarthy is concerned that the city is only earning .5 or 1 % on roughly \$10 mil in our general fund, and we're charging 6.5% to the pension plans. Why not put some of this money into the plans and alleviate our obligation. The group replied that this is a Council decision. Member McCarthy also thinks our 30 year amortization should be changed to 15; these are all things that need to be discussed further and with Council.

Agenda for next meeting; include discussion for change in amortization for both plans.

Member Deken made a motion to authorize Member McCarthy to have unfettered access to all pension information, to assist him in his reconciliation of benefit payments to calculation and fund balances. Motion was seconded and all in favor.

Member McCarthy's presentation of Accounting Process and Procedures for Retirement Plans will be on the next agenda.

Other Matters

None

Next Meeting Date

The Board agreed on the next regular meeting to be held on July 24, 2012.

Adjournment

A motion to adjourn the meeting was moved, seconded and passed at 8:23 p.m.