

Minutes of Meeting
Board of Trustees
Non-Uniformed Employees' Retirement Fund
May 3, 2011

A meeting of the Board of Trustees was called to order at 7:07 p.m. in EOC room Basement Level, City Hall, 6801 Delmar Blvd.

Members in Attendance: Diane Sher, Anne Silverstein, Jaime Mendez, James Carr, Erich Haring, Don Humphrey

Members Absent: Mark Winer

Others in Attendance: Michael Glickert, Council Liaison
Janet Watson, Deputy City Manager (Treasurer)
Tom Deken, Police Representative
Fred Kramer, Fire Representative
Tom Mug, Attorney

Minutes

Chairperson Sher asked if everyone had an opportunity to review the January 25, 2011 minutes. Member Carr recommended adding the following wording at the end of the topic of Update on Death Review Process, "Member Carr noted that he had originally requested that in order to maintain the 'surprise' factor for the investigation, we use a pension beneficiary roster from March 31, 2010, prior to his April 2010 motion to make this inquiry. Member Carr made a motion to approve the minutes, including his proposed amendment. Member Mendez seconded the motion and it passed.

Approval of Disbursements (Vouchers)

The attached listings of disbursements for July – September 2010 , October – December 2010 and January – March 2011 were reviewed. Ms. Watson stated that items had been corrected on these reports from the previous distributed copies, mainly due to changing to the new financial system. She also stated the processes were standardized now and the reports will be complete when submitted to the Board for approval. There was general discussion regarding these changes. Member Humphrey made a motion to approve the disbursements as presented at this meeting. Member Mendez seconded the motion and it passed, with one abstention.

Applications for Membership

Ms. Watson informed the Board that the following new employees had applied for membership in the plan: Brandon Drake in the City Manager's Office, Raymond Lai in the Community Development Department, Richard Brown in Administrative Services and Dominique Hamer in the Police Department. She stated that Mr. Brown was the new Human Resources Manager, but is unable to attend Board meetings due to a teaching commitment on Tuesdays. Chairperson Sher asked if these were new or replacement employees. Ms. Watson stated that these were either replacement of vacant positions, or newly created positions where others had been eliminated.

Applications for Retirement - None

Actuarial Report – Steve Siepman, Buck Consultants

Chairperson Sher introduced Steve Siepman, Buck Consultants, to present the annual actuarial report. Mr. Siepman was scheduled to attend the previous meeting but was unable to attend. Mr. Siepman focused on the summarized information on Schedule B - Page 2 which was the City's portion of the Non-Uniformed Plan. He noted the investment return was approximately 8%, but is reduced due to the 5-year smoothing effect still occurring because that period still includes the 2008 low return, even though 2009 and 2010 had investment returns above the plan assumptions. While this would normally have increased costs, the plan had less active participants and several deaths of retirees which caused costs to fall. The annual cost of the plan at \$473,370 is less than in the prior year of \$546,148. The Library annual cost remained about the same at \$58,463, in relation to the prior year's amount of \$59,904. The information on page 6 further describes the assets and liabilities of the plan.

Chairperson Sher asked how our plan's funding level compares to other plans. Mr. Siepman stated many plans' funding levels were very low due to the economy but are now recovering. He believes the national reaction about the pension funding crisis has been overstated as most have recovered to a reasonable funding level. Chairperson Sher asked whether the City should make greater contributions than required to help the funding level. Mr. Siepman stated that any additional contributions which would definitely improve the funding level and would provide more choices for City funding in the future, such as skipping a contribution when needed. He said that the Non-Uniform plan at 82.6% funded has an average funding level since most plans having a funding level near 80%.

Mr. Siepman also provided information that the Governmental Accounting Standards Board (GASB) has a possible pronouncement that may change the methodology of accounting for governmental pensions in future years. He stated he will keep the Board apprised of these changes.

Discussion Regarding the Breakpoint

Member Sher asked Ms. Watson to present information on changing the breakpoint. Ms. Watson explained that the breakpoint is part of the calculation of an individual's final benefit payment. The plan calls for a 1.6% benefit and there is an added .5% benefit calculated on average salaries above the breakpoint. Member Humphrey has previously stated that the breakpoint continues to rise by \$1,000 each year, arbitrarily, when the City employees have not received a salary increase in three years. Ms. Watson introduced Tom Mug, a pension attorney. Mr. Mug stated he provided two options if the Board chose to change the index: Set the index as a percentage of the social security wage base, or as a percentage of the IRS code 415(c)(1)(A) which is the maximum contribution to a defined contribution plan for a participant annually. Mr. Mug stated the IRS 415 plan annual increases are rounded down to increases by \$1,000 and has a constant increase with inflation. Both of these indexes are similar. He prefers the IRS 415 option. He provided sample language if the Board wanted to proceed with a change. He noted a concern for individuals who retired last year and how they would be affected by the calculation. When asked, he stated that this would be a slight benefit enhancement and he asked Mr. Siepman to respond regarding the amount.

Mr. Siepman thought the IRS 415 index made sense, but the Board and employees would need to be aware that while the current plan increased \$1,000 per year, when inflation was higher this index would increase faster than \$1,000 per year. The hope would be that if inflation were increasing, then salaries would also be increasing. He thought that when the index was established it was very near the amount of the 35-year average in social security compensation. If this was the original concept, the result of the annual \$1,000 increases was less than the social security compensation increase over the years since the breakpoint was added into the plan. He said he has no problem with the Boards changing the index, but the decision should be based on a projected wage inflation for the future. If a 2.5% inflation factor were used, it would increase approximately \$1,000 per year. This change would be a minor enhancement and would likely be below the state's minimum amount to be considered a significant enhancement.

Member Humphrey stated that maybe the solution is to keep the index related directly to the City's cost of living increases. If no increase occurred, then maybe the breakpoint could also not increase. Mr. Siepman stated the Board would need to be careful in placing benefit levels in control of the City because all plans are required to provide definitely determinable benefits and this places the City Council in the position of influencing long-term benefits. There was discussion among employee representatives regarding past amounts of salary increases.

Member Silverstein asked if anyone knew why this type of complex calculation was added into the plan benefit formula. Mr. Siepman replied that this appeared to be a characteristic of plans from the 1980's which was designed to be the average of the tax bases for people reaching retirement age. This type of plan design was a recognition that social security is more significant to lower wage earners than higher wage earners, and this was a benefit adjustment to equalize this effect.

Mr. Mug stated that he prefers using one of the indexes provided because it is an identifiable index. Mr. Siepman was comfortable with either one, but prefers the IRS 415 base. Ms. Watson stated if the breakpoint was reduced, then prior retirees could have had a higher breakpoint to meet than a newly retiring employee. There was general discussion regarding no retroactive changes to benefits being allowed. Member Carr asked whether this issue had any effect on whether our pension benefits were competitive with other plans. Ms. Watson stated that this was a minor change that would likely not affect the competitive status of our plan for new hires. There was general discussion that the breakpoint is not common. The Board decided to keep this item on the agenda for future discussion.

Other Matters - None

Next Meeting Date

The Board agreed on the next regular meeting to be held on July 26, 2011. The remaining meeting in 2011 will be held on October 25.

Adjournment

Member Mendez made a motion to adjourn the meeting and the motion was seconded by Member Humphrey. The motion passed and the meeting was adjourned at 8:15 p.m.