# MINUTES OF JANUARY 25, 2012 RETIREMENT BOARD
# CITY OF ALEXANDRIA FIREFIGHTERS AND POLICE OFFICERS PENSION PLAN
# INTERIM MEETING

## PRESENT

| Members | Others |
|---|---|
| Michael Cross [3,5], Chairman | Steven Bland, Retirement Administrator |
| Michele Evans [1, 2] | Barry Bryant, Dahab Associates |
| Patrick Evans [1, 2] (Alternate) | Arthur Lynch, Retirement Specialist |
| Bruce Johnson [5] | Theresa Nugent, Pension Comm. Specialist |
| Ed Milner [1, 2] | |
| Cheryl Orr [1, 3] | |
| Al Tierney [5] | |
| Laura Triggs [3, 4] | |
| Michael Wimer | |

[1] PLOP/DROP Committee
[2] Purchase of Service Credit Committee
[3] Technical Corrections Committee
[4] Training Opportunities Committee
[5] Vendor & Service Provider

## CALL TO ORDER

The meeting was called to order at 9:02 AM on January 25, 2012.

## APPROVAL OF NOVEMBER 10 2011 MINUTES

There was a motion by Ms. Triggs to:

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| Approve the November 10 2011 minutes. |

Mr. Wimer seconded the motion. The motion was unanimously approved 8 – 0.

## COMMITTEE REPORTS

PURCHASE OF SERVICE CREDIT COMMITTEE

Staff reported at the November meeting that the purchase of service credit was nearly complete. There were a handful of participants who wished to purchase service credit using the funds in their Retirement Income Account from service as a Deputy Sheriff, Medic, or Fire Marshal. The disposition of the Retirement Income Accounts for these participants is now complete.

TECHNICAL CORRECTIONS COMMITTEE

Chairman Cross reported the Technical Corrections committee had not met since the last full Board meeting.

TRAINING OPPORTUNITIES COMMITTEE

Mr. Milner asked for funding to attend the second segment of the Certificate of Achievement in Public Plan Policy (CAPPP) training through the International Foundation of Employee Benefit Plans (IFEBP). The class is offered in Boston and Chicago. Mr. Tierney would also like to attend the second class and Chairman Cross the entire sequence. The cost is roughly $1,400 plus travel expenses. The sequence was authorized for Chairman Cross in 2011 but he was unable to attend. There was a motion by Ms. Evans to:

> Approve the travel and educational expenses for sending three trustees to IFEBP CAPPP classes.

Ms. Orr seconded the motion. The motion was unanimously approved 8 – 0.

VENDOR & SERVICE PROVIDER COMMITTEE

Staff was asked to take agenda item 3(iii), Administration – RFI, out of order as it applied to vendors.

Staff said the previous model of a bundled Third Party Administrator (TPA) is no longer desirable. There are two approaches being considered to providing pension administration services. One approach is an enterprise-wide software package used for Payroll, HR, Budget, Procurement, and so on. The package selected would probably have an optional “Pension Module” that would enable the administration to move in house if there were also additional FTES. This approach was highly tentative, subject Council approving to the budget, final selection of a vendor, and so on. Another approach is to seek another TPA that might be cheaper or better than the existing TPA. The Procurement division is working on a Request For Information. It was announced in December and is now progressing through its various stages. The two approaches are being pursued in parallel.

PLOP/DROP COMMITTEE

Mr. Evans, Chairman of the PLOP DROP committee, discussed the recent meeting of the committee. The PLOP is favored over the DROP because the PLOP

- Is cost neutral,
- Is easier to administer,
- Is consistent with the three year limit of the DROP,
- Is selected at the time of retirement, (not three years in advance)

- Is able to look to VRS for an example of a smoothly running PLOP program.

Mr. Tierney said the PLOP was not what was requested. Staff said the concept of providing a flexible mode of creating a lump sum was the request. In adding that it should be easily administered and cost neutral makes the PLOP the logical candidate.

Mr. Tierney requested a further discussion of the mechanics of the PLOP. Staff had prepared such a handout on the PLOP as well as a potential motion. Mr. Tierney requested the potential motion be distributed but not the explanations of the PLOP and comparisons to the DROP.

Staff discussed the possibility of designing the PLOP to create a retention incentive for employees. VRS is an example of this being done successfully.

Mr. Johnson asked that the handouts on the PLOP be distributed.

Ms. Evans mentioned a Washington Post article that was critical of the Fairfax County DROP.

There was a motion by Mr. Tierney to:

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| Table the motion requesting funds to write plan language for a PLOP. |

Mr. Johnson seconded the motion.

There was a motion by Mr. Evans to:

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| Request funding from the City Manager's Office for Ken Hoffman to draft plan language to add a PLOP to the Fire & Police Plan and for Cheiron, the Plan actuary, to sign off that such a change would be cost neutral to the Plan. |

Mr. Milner seconded the motion.

DISCUSSION:

Mr. Tierney objected to the PLOP saying there was not enough information on the PLOP.

The motion to table the prior motion was approved (5 – 3).

AYE: Mr. Cross, Mr. Johnson, Ms. Orr, Mr. Tierney, and Ms. Triggs

NAY: Ms. Evans, Mr. Milner, and Mr. Wimer,

Ms. Orr left the meeting at 9:42 AM.

Staff and/or Mr. Milner will talk to Mr. Tierney about the mechanics of the PLOP prior to the February meeting. Staff will request an estimate from Mr. Hoffman for his plan amendment drafting expense and for Cheiron to verify the provisions are cost neutral to the member and the plan.

Ms. Triggs and Mr. Johnson would like to make sure the members and the Board are fully supportive of a proposed plan amendment before pursuing a plan amendment.

## ADMINISTRATOR'S REPORT

FOLLOW UP ITEMS

Staff reported the CPI had increased 2.7% for the ten months beginning February 1, 2011 and 2.47% for the eleven months beginning at that time.

MONTHLY REPORTS

The Volatility Report (3(ii)(2)) showed a peak in volatility that was coincident with the equity market's trough in late September early October and the subsequent easing of volatility suggested no drop the stock market in the near term.

Handout 3(ii)(3) is the Summary of Activity and Cash Flow Reports. The Cash Flow Report was revised; a $1,000,000 transfer from Prudential to Comerica was incorrectly classified as an expense. Once this was discerned the report was revised and redistributed. The important conclusion from this report is that the combined pension and disability components are quite cash flow positive. After benefits and expenses were paid from contributions there was enough for $2.88 million in investments and there still was an additional $1.46 million.

Handouts 3(ii)(4) and 3(ii)(4)(a) were reviewed in tandem. The Private Equity Cash Flow Report demonstrated the typical cash call is not much more than $100,000, and sometimes a lot less. The mapping of private equity cash flows had always been to and from midcap equity. The intent is to continue this practice, except the implementation is now with the new investment platform at Comerica. The new midcap manager, Champlain, has only monthly liquidity and requires two weeks' notice for buying or redeeming shares.

Handout 3(ii)(4) provided background and a recommended policy. Staff desired to have this policy as part of the minutes or otherwise formally in the record. There was a motion by Mr. Johnson to adopt the policy recommendation on the handout. Ms. Triggs seconded the motion. The motion passed (5-0). Staff thanked the Board.

Staff referenced handout 3(ii)(5) and focused on the top of the second column. The income portion of the return is rational and sustainable. The appreciation is largely a reaction to the significant market decline that began in 2009. It is not sustainable, and largely exists because of changes in banking circumstances and changes at the Fed. 26.3% leverage was higher at the market top. Leverage was not reduced until after the market collapse. Mr. Johnson said the apartment sector was doing quite well as people could not afford a home.

Handout 3(ii)(5)(2) documents a reinvestment of the $84,893.09 fourth quarter distribution.

Handout 3(iv)(2) is a letter from Prudential with the credited interest rate for the Guaranteed deposit account for the first half of 2012.

ADMINISTRATION – RFI

This was discussed under the committee reports segment.

OTHER ITEMS

The Pension Administrations Division's primary contact at Prudential is being transferred to another unit at Prudential. The replacement has worked with us before, so there should be a seamless transition.

ELECTIONS

The terms of Mr. Tierney and Chairman Cross will expire December 31, 2012. The terms of all the other employee representatives and alternates expire December 31, 2014. Staff asks members to think about their commitment to serve another four years and consider whether or not they will run for reelection. Staff will bring an election calendar to the February meeting calendar.

Staff referenced handout 3(iv), New Disabilities by Year & Classification. The handout was reprinted with larger font, but the substance was unchanged. The graph displayed the incidence of disability by year with a significant increase coincident with benefits being increased in 2002. Staff believes the actuary will increase the disability rates used in the actuarial valuation which will increase contribution rates. Mr. Tierney asked if the marked increase in disabilities in 2003 could be due to the number of Police Officers employed increasing since 1980. Ms. Evans asked how many of the disabled are police officers and how many are firefighters. Staff reported that there are approximately 80 members on disability. Mr. Johnson suggested that the reports use a moving average for 3-5 years.

There is a question as to whether or not any fraud is involved in the disability application and approval process. Mr. Millner and Ms. Triggs will follow up on this. Staff believes the increase is attributable to the benefit structure, not fraud.

Chairman Cross asked for an update of the Risk Management Oversight Committee's (RMOC) work. Mr. Tierney suggested that the Board become actively involved in the issue and retain its leadership in retirement issues rather than let the RMOC take that role.

## **OLD BUSINESS**

Chairman Cross welcomed Mr. Johnson back to the Board and thanked Mr. Gates for his service in Mr. Johnson's absence.

Staff referenced handout # 4 which was a compilation of material. Page one is Mr. Bryant's handouts and the balance is from staff. The administrative costs on page one are unbundled and cover administration only. The mutual fund expenses on the remaining pages from Prudential and ICMA-RC are bundled, and they include both administration and fund management fees.

The Fire & Police defined contribution plan has about $17 million in assets and deferred compensation just over $100 million.

Mr. Bryant went into more detail on bundling unbundling of fees.

The key issue for the Board is to address the notion of the economy of scale. The Board and administrators of Deferred Compensation need to decide if the RFP should go out separately or if the vendor will bid on both pieces of business. More vendors will bid on a package of two programs than would on the defined contribution plan alone.

Mt. Tierney asked when the ICMA-RC contract last went out to bid. Staff believes about 30 years ago. Mr. Tierney asked when the contract was renewed. Ms. Triggs said the contract was last renewed for a one year term.

Mr. Tierney suggested the review of fund performance could be done collectively for the Fire & Police Defined contribution plan and the deferred compensation plan.

Chairman Cross said most plans had fees that were a percentage of assets and asked if there are other approaches. Staff said some administrators could charge a flat amount such as $25 per year and a much smaller percentage of assets. Some objected to this for brand new accounts because the flat fee might exceed investment earnings for the year. However, it was equitable because the small accounts and large accounts cost virtually the same amount to manage.

Mr. Bryant said there were three basic investment choices:

1) Index funds
2) Self-directed accounts, and
3) Actively managed accounts

Mr. Bryant suggested the account make the first two available as well as target date funds. He encouraged a consensus from the Board. A RFP that casts a wide net may mean to be quite inclusive, but instead many vendors will not bid on it. If a RFP is focused, vendors will not know whether or not it is a good match for their business model and they are more likely to bid.

Mr. Johnson believes lifestyle funds should be included. Ms. Evans thought Gloria Moody, the ICMA-RC representative, is a resource used by employees. Mr. Johnson acknowledged that~~,~~ ICMA-RC has a very high touch approach to customer service which some employees value. Mr. Tierney questioned a business model in which those who did their own research and did not need help were being charged more to pay for those who would not do their own research. Staff agreed wholeheartedly.

Mr. Tierney asked about default options.

Mr. Evans left at 11:00 AM.

Mr. Johnson asked if a committee should handle this off-line.

Chairman Cross asked how long it might be to put together an RFP. Mr. Bryant said it might take 20 weeks in total. Mr. Cross asked if a draft might be available for review at the March 8th meeting. Ms. Triggs requested it be available in late February for review in advance of the meeting.

Mr. Bryant said the more narrowly the RFP could be written the better. The Board appreciated the economy of scale of bidding both plans together but wanted to keep open the possibility of the two plans going their own separate ways. Mr, Bryant said he would accommodate that by saying the expectation is the two plans will go to the same vendor, but that the vendors should submit bids for both combined and separate.

The RFP should ask vendors to describe the level of service they provide.

Ms. Nugent suggested we see their websites and webinars. Mr. Bryant suggested there might be so many bidders it would be best to do that after the pool was narrowed down to a small group of finalists.

There was a motion by Mr. Tierney to:

> Direct Dahab Associates to draw up a draft RFP to bid for the Fire & Police Defined Contribution Plan and the City's Deferred Compensation Plan and bring it to the March 8 Board meeting. The RFP should address the two funds continuing separately and combined.

Mr. Johnson seconded the motion.

DISCUSSON:

Ms. Evans would like others to review the proposal. Mr. Cross suggests the Board invite others to the March 8 meeting.

Mr. Bryant said he would like to review his contract for fees. It would not affect the RFP because the RFP for the defined contribution plan is included in the current fee. However, on an ongoing basis the review of the deferred compensation assets may or may not be included. He will follow up with Ms. Triggs on this.

The motion passed (7-0).

Ms. Evans asked how much time Gloria Moody spends on the City account and with Police and Fire.

Mr. Tierney would like to know what the ICMA-RC contract specifies as to the minimum service levels.

Mr. Bryant says there are two qualities needed to review this:

1) Someone who appreciates what Ms. Moody's effort means

2) Someone who is open to other alternatives who is not an advocate of Ms. Moody.

The information may be given to the employee representatives of the Ad Hoc Retirement Benefit Advisory Group.

## NEW BUSINESS

Staff referred to handout 3(iv)(3), *Farmland Returns*. This may be helpful background material for the Board's review of Farmland at the upcoming Due Diligence meeting in February.

February Meeting

Staff mentioned the format of the panel discussion of the international managers at the Due Diligence meeting. The discussion may be more meaningful if the managers are provided a list of questions in advance. Trustees and Mr. Bryant are encouraged to forward questions to staff.

June 28 meeting

Staff referenced handout 5(i)(2) Staff then provided a quick overview of possible agenda items for the Board retreat June 28. Staff asked trustees to consider these possible topics for the retreat and to bring ideas to the February meeting. Chairman Cross added the possibility of fixed income.

Mr. Tierney questioned if there were diminishing returns with respect to refining the asset allocation. Mr. Bryant recommended farmland as an addition to the portfolio because it was one of the best macro investment stories. Additionally, Hancock has a fund closing at the end of the quarter that the fund might want to consider with other farmland investments.

He did issue an RFI for absolute return funds. Approximately 90% of those responding were hedge funds. There is a need to do education before considering hedge funds.

Staff and Mr. Bryant share a concern about hedge funds fee. Staff said that the hedge fund industry exceeded a trillion dollars. Even if the Board elects to not invest in hedge funds, asset class that large merits enough attention and education so as to make the informed decision to not invest.

Mr. Bryant said that if hedge funds are employed that fund of funds is the preferable route.

Fixed income markets are huge, much larger than equity markets. TIPS (Treasury Inflation-Protected Securities), emerging market bonds, and high yield bonds are all possibilities. Education for investments is a constant learning process and the Board needs to constantly consider other investment options.

Mr. Bryant distributed a handout titled Capital Market Views 70/30 Allocation. He briefly discussed the three views in the handout: Pessimistic, Conventional, and Historical. Staff"s handouts [5(ii)] were not discussed.

There was a brief discussion of investment return assumption that Plan uses. Mr. Johnson acknowledged there was disagreement over the percentage to use. However, he noted that the Board needs to be able to defend the percentage used. He suggested that this is something that the Board will need to discuss over a period of time. Cheiron, the actuary, will ask the Board what percentage the Plan is to use.

Mr. Milner suggested actuarial assumptions are discussed annually.

Mr. Cross noted that Cheiron had an article on this subject in a recent IFEBP publication.

Mr. Tierney asked if there was a possibility of diminishing returns. Could further efforts be too much and hurt the plan.

## NEXT MEETINGS

Thursday, February 9, 2012, Sister City Room 1101
Thursday, March 8, 2012. Sister City Room 1101

## ADJOURNMENT

The meeting adjourned at 12:12 p.m.

## HANDOUTS

Distributed in advance to Board members

1) Agenda
2) Minutes of November 10, 2011 [1]
3) Administrator's Follow-Up Items [3(i)]
4) Monthly Investment & Rebalancing Report [3(ii)(1)]
5) Volatility Report – Number of days with change in S&P 500 exceeds 1% [3(ii)(2)]
6) Summary of Activity Report [3(ii)(3)]
7) Private Equity Mapping [3(ii)(4)]
8) Private Equity Cash Flow Report [3(ii)(4)(a)]
9) PRISA Performance Report, Fourth Quarter 2011 [3(ii)(5)]

10) Letter from PRISA, December 15, 2011, with quarterly distribution [3(ii)(5)(2)]

11) New Disabilities by Year & Classification [3(iv)]

12) Letter from Prudential, December 28, 2011, with declared interest rate for first half 2012 [3(iv)(2)]

13) Farmland Returns [3(iv)(3)]

14) Agenda Topics, June 28, 2012 [5(i)(2)]

15) Pension Funding & Investments [5(ii)]

Distributed during the meeting:

16) Summary of Activity Report [3(ii)(3)] (revised)

17) Alexandria Defined Contribution [4]

18) Private Equity Report [5(ii)(4)]

19) Alexandria Pension & Investment Vocabulary [6(ii)]

20) PLOP & DROP --- what gave out

21) Capital Market Views: 70/30 Allocation (Dahab Associates)