

**MINUTES OF APRIL 12, 2012 RETIREMENT BOARD  
CITY OF ALEXANDRIA FIREFIGHTERS AND POLICE OFFICERS  
PENSION PLAN  
INTERIM MEETING**

**PRESENT**

<u>Members</u>	<u>Others</u>
Michael Cross <sup>3,5</sup> , Chairman	Steven Bland, Retirement Administrator
Michele Evans <sup>1,2</sup>	Fiona Liston, Cheiron
Bruce Johnson <sup>5</sup>	Arthur Lynch, Retirement Specialist
Ed Milner <sup>1,2</sup>	Stephen McElhaney, Cheiron
Al Tierney <sup>5</sup>	Kathy McGugan, Cheiron
Laura Triggs <sup>3,4</sup>	Bill Mitchell, Human Resources
Michael Wimer	Theresa Nugent, Pension Comm. Specialist

<sup>1</sup> PLOP/DROP Committee

<sup>2</sup> Purchase of Service Credit Committee

<sup>3</sup> Technical Corrections Committee

<sup>4</sup> Training Opportunities Committee

<sup>5</sup> Vendor & Service Provider

**CALL TO ORDER**

The meeting was called to order at 8:24 AM on April 12, 2012.

**APPROVAL OF FEBRUARY 9 2011 MINUTES**

There was a motion by Ms. Triggs to:

Approve the February 9, 2012 minutes.
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Mr. Wimer seconded the motion. The motion was unanimously approved 6 – 0.

**APPROVAL OF MARCH 8 2012 MINUTES**

There was a motion by Ms. Triggs to:

Approve the March 8, 2012 minutes.
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Mr. Wimer seconded the motion. The motion was unanimously approved 6 – 0.

Mr. Johnson arrived at 8:38 AM.

## **OLD BUSINESS**

Staff asked for a consensus on the May 10 agenda. The Board confirmed the invitation to the three international managers and the expectation of a 45 minute presentation as well as a panel discussion with all three managers following the individual presentations.

Mr. Wimer made a motion:

To approve expenses for lunch at the May 10 meeting.

Mr. Routt seconded the motion. The motion was unanimously approved 7 – 0.

Staff asked for a consensus on the June 28 agenda. The tentative plan is to focus on fixed income in the morning and absolute returns in the afternoon. The board agreed.

Mr. Wimer made a motion:

To approve expenses for lunch at the June 28 meeting.

Mr. Routt seconded the motion. The motion was unanimously approved 7 – 0.

## **COMMITTEE REPORTS**

### **PLOP**

Mr. Milner and staff reported on the PLOP. At the February Board meeting the focus was on eligibility following twenty five years of service. Some mention was made of eligibility following age fifty five and five years of service. Staff emphasized the proposed plan language included both. Mr. Tierney suggested a PLOP after five years of service would be quite modest. Others agreed.

Staff noted some requested the PLOP get through City Council prior to June 30, and suggested the sixty day notice is waived. Staff would hold meetings with employees, email information to employees, and post information on the Pension Administration Website, but the inflexible sixty-day period is waived. The Board expressed interest in keeping the formal and inflexible notification period. The default option is to have a sixty-day notice period so no motion is needed to assure it.

Mr. Milner made a motion:

To approve the PLOP and recommend it to City Council.

Ms. Triggs seconded the motion. The motion was unanimously approved 7 – 0. Mr. Johnson said staff would aim for June 13<sup>th</sup> with the June 26<sup>th</sup> meeting as a fallback option.

#### PURCHASE OF SERVICE CREDIT COMMITTEE

The committee will meet again to discuss possible permanent solutions to the issues surrounding transferring departments, changing pension plan coverage, and purchasing of service credit.

#### TECHNICAL CORRECTIONS COMMITTEE

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

Staff referenced handout 3 (iii), DROP: Should Benefit Re-Election be an Option? Alexandria's DROP provisions are unique in that the employee can select a payout option twice: one time at DROP entry and another time at DROP exit. This effectively does two things: 1) makes for greater reductions for optional payout forms, and 2) makes for a one time pop-up at DROP exit in the event the beneficiary dies in the DROP period. The board strongly prefers the current structure.

#### TRAINING OPPORTUNITIES COMMITTEE

Staff reported on upcoming International Foundation of Employee Benefit Plans' Meetings, including several in Washington D.C.

#### VENDOR & SERVICE PROVIDER COMMITTEE

The committee had not met since the last Board meeting.

### **ADMINISTRATOR'S REPORT**

#### FOLLOW UP ITEMS

Staff reported the CPI had increased 2.93% for the twelve months ended January 31, 2012. The COLA payable to service retirees and disabled retired for at least twelve months will be 2.93%. Processing with Prudential was complete, and staff thanked Mr. Lynch for getting the COLAS done significantly in advance of Prudential's deadline.

The farmland contract with Hancock was signed and mailed. There remains the task of deciding which asset classes are to fund this 3% commitment. This is on the May 10 agenda.

#### MONTHLY REPORTS

The Monthly Investment and Rebalancing Report showed the results of strong equity markets. Domestic stocks are overweighted and fixed income is underweighted. Rebalancing was not

required but the assets are approaching that level. The Board does not wish to rebalance at this time.

The Volatility Report (4(ii) (ii)) 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 in the stock market in the near term. The back side of the report was a different view of volatility, as provided by the Yahoo Finance page. It told the same story as staff's table.

The Summary of Activity Report was distributed but not discussed.

The Private Equity Cash Flow Report indicates \$406,265 was called. This brings the total of all calls to date to just under 75% of the \$5,000,000 commitment. The investment lifetime of a limited partnership is finite. Staff suggested that sometime in 2013 or 2014 it may be time to begin looking for another Private equity partnership.

PRISA paid a dividend of \$86,733.11. Kevin Smith of PRISA will be in the area April 19<sup>th</sup> and May 3<sup>rd</sup> to discuss PRISA II and PRISA III. All are invited.

Hancock sent a letter advising that they are exercising their right to extend the acquisition period by one calendar year. This may be good news in that Hancock exercised discipline and did not pay too much for timber. It may be bad news in that the board is paying fees and does not have the desired exposure to timber of 5% of the fund. Only time will tell.

## **2011 ACTUARIAL VALUATION**

A presentation was distributed.

Page 1: Ms. Liston provided a context for public pension plan issues. There has been increased public scrutiny largely because of a few very poorly run but prominent plans, including Illinois and New Jersey.

Market value returns were very strong. Despite this, the plan is still behind where it would be if returns had been 7 ½% from 2008 forward.

Government Accounting Standards Board (GASB) is expected to finalize its standards by June,

A new Actuarial Standard of Practice (ASOP) requires disclosure of mortality table projections in actuarial valuations.

Page 2: Investment returns were discussed as well as demographics.

Page 3: GASB will move from display of the Actuarial Required Contribution Rate and the actual amount funded to a focus on the unfunded liability and the year's change in unfunded liability.

Page 4: This graphic is a schematic of pension funding. The focus is more on the process for getting the bucket filled than the actual level of the bucket at any particular time.

Page 5: The two most significant changes Cheiron proposes are 1) projecting mortality improvement for the date the RP2000 mortality table was constructed to 2020, and 2) decreasing the salary increase assumption for amortization from 4.00% to 3.75%. Both of these will have significant implications on contribution rates. Changes to the disability plan were less significant to total costs.

Actuarial Standards of Practice do not require a mortality table is projected. However, they do require disclosure of the extent of projection. Mortality has improved between when the mortality table was constructed to the date of the valuation. It is also expected to improve.

Page 6: Investment returns were quite strong. However, asset smoothing calls for recognizing losses from 2008-2009 and deferring recent gains. The net result is that return on actuarial value of assets resulted in losses.

It was suggested a study of mortality could incorporate result from the "Old" Fire and Police plan. Staff will work with Prudential to obtain data that would be helpful.

Page 7: Actuarial losses due to changes in mortality were significant. However, they were modestly offset by lower than expected salary increases and higher than expected termination rates. The disability component had losses for larger than expect disability retirements.

Page 8 & 9: The market value of assets exceeds the smoothed actuarial value of assets.

Page 9: The mortality table used in 2004 & 2005 was the Social Security mortality for disabled lives. This was inappropriate. The new mortality table led to higher contribution rates.

Page 10 & 11: Contribution rates will continue to rise as losses from 2008-2009 are recognized and the time lags in our funding process catch up with the actuarially recommend amounts.

Page 12: The number of employees can swing as academy classes sometimes begin before fiscal year end, and sometimes afterwards.

Page 13: The demographics do not reflect a very large recruit class that began in July 2011. Also, there will a new fire station opening soon, so plan participation is expected to grow.

Page 14: The dollar impact of the proposed change in assumptions is displayed on the pension component..

Page 15: The dollar impact of the proposed change in assumptions is displayed on the disability component.

Page 16: Mr. McElhaney reviewed the gains and loss page

Page 17:

## **ADMINISTRATOR'S REPORT (Continued)**

### ADMINISTRATION

The Board's March 8 meeting was focused on an RFP for a third party administrator (TPA) for the defined contribution component and coordinated with management's search for a deferred compensation TPA. Staff reported that following that meeting the board's input was forwarded to Dahab Associates who incorporated it into their RFP and posted the RFP.

The next step in the process has been to respond to vendors' questions by creating a Q&A for all vendors to see. So far three vendors have sent questions and staff has responded to the requests.

The submission deadline is late April. Mr. Bryant will provide an update at the May 10, 2012 meeting, however, that is too early for finalist presentations. The Board set a date for finalist presentations: Wednesday June 27, 2012 at 1:00 PM.

Staff reported on monitoring Prudential's benefit calculations. Three errors were identified and Prudential is addressing them.

### OTHER ITEMS

The election cycle approaches. Notices will be posted and emailed to active and retired participants by month end.

Staff referenced handout 4 (i), Historical Membership. At a prior meeting there was a discussion of the incidence of disability. There was a question about the size of the Fire & Police departments. The handout provided some information, but it is not complete. Mr. Tierney will seek information from the Police department on uniformed staff levels and asks Fire Department employees to do the same.

## **NEW BUSINESS**

Prudential will remove Davis New York Venture Strategy from its platform. This is a large cap blend or large cap Core product. It has a value tilt with a historical overweighting to financial stocks. The fund will be replaced with RCM, a large cap blend strategy. The Board retains the right to replace Prudential's choice.

## **NEXT MEETINGS**

Staff repeated the announced meeting dates and locations for discussing the PLOP with employees. These are all at Police headquarters. Staff volunteered to meet at a site more convenient to Firefighters, if it could be found. Chairman Cross will look for such a site.

Thursday, April 26, 2012, Council Workroom Sister City Room, 2<sup>nd</sup> floor City Hall  
Thursday, May 10, 2012, Sister City Room 1101 8:30 AM  
Wednesday, June 27 2012, Sister City Room 1101 1:00 PM  
Thursday, June 28, 2012, Sister City Room 1101 8:30 AM

## ADJOURNMENT

There was a motion by Mr. Milner to:

Adjourn.
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Mr. Wimer seconded the motion.

The meeting adjourned at 10:57 a.m.

## HANDOUTS

Distributed in advance to Board members

- 1) Agenda
- 2) Minutes of February 9, 2012 [1 (i)]
- 3) Minutes of March 8, 2012 [1 (ii)]
- 4) Fourth Amendment to the City of Alexandria Firefighters and Police Officers Pension Plan [3(i)]
- 5) Historical Membership [4 (i)]
- 6) Monthly Investment & Rebalancing Report [4 (ii) (i)]
- 7) Volatility Report – Number of days with change in S&P 500 exceeds 1% [4 (ii) (ii)]
- 8) Cash Flow Report [4 (ii) (iii)]
- 9) Private Equity Cash Flow Report [4 (ii) (iv) (1)]
- 10) Letter from Hancock Timber Resource Group, April 4, 2012
- 11) Agenda Topics, June 28, 2012
- 12) Large Cap Blend/RCM

Distributed during the meeting:

13) PLOP, Recommended Timeline [3 (i) (2)]

14) DROP: Should Benefit Re-Election be an Option? [3 (iii)]