MINUTES OF JULY 10, 2008, RETIREMENT BOARD
CITY OF ALEXANDRIA FIREFIGHTERS AND POLICE OFFICERS PENSION PLAN
INTERIM MEETING

PRESENT

Members	Others
Michael Cross, Chair	Steven Bland, Retirement Administrator
Michele Evans, Secretary	Anthony Dejerolme, Retired Police Officer
Henry Howard	Eli Greenblum, Segal & Company
Mark Jinks	John Horvath, Retired Police Officer
Bruce Johnson (Alternate)	Steve Loomis, Segal & Company
Chris Lockwood	Arthur Lynch, Retirement Specialist
Shirl Mammarella (Alternate)	Theresa Nugent, Communications Specialist
Edward Milner	
Albert Tierney	
Laura Triggs	

CALL TO ORDER

The meeting was called to order at 8:36 A.M. on July 10, 2008.

MINUTES

There was a motion by Mr. Cross and seconded by Mr. Lockwood to approve the May 20, 2008, minutes. The motion was unanimously approved (8-0).

Ms. Evans arrived.

BOARD EDUCATION

Staff presented on actuarial topics. The presentation used section two of the Board Retreat Notebook from January 7, 2008. Topics included: Normal Cost, spreads between investment return and salary increases, anti-selection, asset smoothing, measuring a plan's financial strength, and how to read a valuation report. The presentation called for no action on the part of the Board.

PRESENTATION OF 2007 ACTUARIAL VALUATION

Mr. Greenblum introduced Steve Loomis and presented the 2007 actuarial valuation.
Mr. Milner left the meeting.

Mr. Greenblum highlighted the report's results on pages i-iii. Actuarially required pension contributions were steady. Employer contributions in the disability component increased. The valuation reflected the recommended change in employee contributions of 7.5% and .5% in the pension and disability components to 7.4% and .6% respectively. The unfunded liability in the disability component is now amortized over 22 years; the period matches that of the pension plan.

Mr. Greenblum and Mr. Loomis made the following remarks about section 2: The plan is immature; the ratio of Non-Actives to Actives is small and steadily rising (page 1). The number of employees with 0-4 years of service reflects several factors: a) new hires, b) the participants that retained their Retirement Income Account, and c) the large number of retirements following plan inception (page 2). Cash flows in the pension plan are positive (page 4). However, cash flows in the disability component are negative. Staff commented that these figures represented contributions from several years ago. Just recently employer and employee contributions had both increased substantially. Currently contributions and benefit payouts in the disability component were about equal (page 5). In both the pension plan and disability component investment gains were significant, but most were deferred so valuation assets were below market value (pages 6 - 9). Disability benefits are offset by Workers' Compensation benefits. Data regarding Workers' Compensation was improved over the prior year. This lead to an increase in the liabilities in the disability component (page 10). The investment rate of return in the pension plan exceeded the actuarial assumption for the first time in 2007 (page 12). Mr. Lockwood asked about the Service Credit Buyback. Mr. Greenblum explained how costs were reflected in the valuation. The investment rate of return in the disability component exceeded the actuarial assumption three times in the last four years (page 13). The administrative expenses were less than assumed resulting in a small gain in the contributions (page 14).

Actuarial assumptions are monitored on an ongoing basis. Currently turnover rates, retirement rates, mortality for healthy lives, incidence by type of disability, and Workers' Compensation are being monitored (page 16). Mr. Loomis said the mortality tables used are increasingly out of date. The 1983 tables were relevant in 1983 but are less so now. The tables may not realistically address mortality of female employees. Ms. Evan questioned if the table considers that this plan is made up of Fire and Police employees. Mr. Greenblum indicated he has not seen any data that the Fire and Police mortality is very different from the general population.

The employer pension contribution rate was essentially flat going from 21.86% to 21.85% (page 18). The employer disability contribution rate rose from 4.55% to 4.94% (page 19). The time lag in implementing the valuation rates into the budget was discussed (pages 21 - 22).

Staff requested that the dollar reconciliation on page 20 also be expressed as a percentage of salary. Mr. Greenblum responded that this was difficult to do.

Mr. Tierney asked about the corridor, the band around the market value that Valuation asset must fall within. Mr. Greenblum said he was comfortable with a range of 10% to 15%.

Mr. Howard asked how the 7½% investment return assumption compared to others. Mr. Greenblum said 7½% to 8% was the norm with the public sector, with more towards 8%.

However, more were lowering their assumptions than raising them. He was comfortable with using 7½%. He requested more information on investments such as the Investment Policy Guidelines.

Mr. Lockwood asked about lowering the years of service requirement for entering the DROP from 30 to 27. Mr. Greenblum could not provide a cost impact at this time. He did explain that employees with 30 years of service are assumed to retire. Whether the participant retired in the traditional sense, or entered the DROP and monthly payouts were entered into a DROP account the plan came out even. That would not be the same with 27 years of service. At that point not everyone is assumed to retire. Changing the DROP provisions may change the retirement rates, and thus impact the costs.

Mr. Greenblum said a remaining task was to review the adequacy of the employee contribution to the disability component and address the annual certification letter.

Ms. Evans said disability benefits should be reviewed to determine who is disabled (Fire or Police) and what is the reason for the disability.

Mr. Johnson said Worker's Compensation was a zero-sum game. Each dollar paid from Workers' Compensation exactly offsets an equal amount from disability. There is no impact on the City's total costs.

Mr. Greenblum and Mr. Loomis discussed the Plan demographics (pages 23-25). Cash flows were reviewed (pages 26-27). They made the following remarks about section 4: Results of the annual valuation are placed in the City's Consolidated Annual Financial Report (pages 36-41). Assumptions and methods used in the plan were discussed (pages (42 – 45). The summary of plan provisions was referenced (pages 46 – 50).

Mr. Cross said the Plan Year is the calendar year. The valuation is performed on a fiscal year basis. He asked if this impacted the valuation. Mr. Greenblum said he did not think it does. He would have to go through the Plan document to see how Plan Year is used.

INVESTMENT HANDOUTS

The agenda item was taken out of order so the issue could be addressed while Mr. Greenblum and Mr. Loomis were available. Staff presented background information on Asset Liability Matching. Staff then introduced the article about the Governmental Accounting Standards Board. The proposal would call for public Pension plans to discount liabilities using a current market interest rate. Thus, instead of using a constant 7½% each year the rate would change. Currently a rate of about 5% would be used. This would increase the measurement of our liabilities by tens of millions of dollars. Mr. Greenblum discussed the American Academy of Actuaries committee on Public Pension Plan's position on the proposal. There is concern the accounting standard might drive plans to over invest in bonds – an asset class that typically returns less than other assets classes.

Meeting recessed at 10:49 AM. The meeting resumed at 11:00 AM. Mr. Greenblum and Mr. Loomis left at this time.

FOLLOW UP ITEMS

POOLING OF ASSETS, PENSION & DISABILITY

Staff referenced a memo on how local jurisdictions pool assets for investment purposes. Staff reported that of Arlington, Fairfax, and VRS, only VRS pools the assets of its many plans: uniformed officers, teachers, general employees, and so on. Mr. Jinks clarified the issue was not about commingling assets for uniformed officers with teachers etc., but pooling of pension and disability components of uniformed officer plans. Staff will follow up.

Staff provided a history of the pooling question. Originally the issue was diversification and asset allocation of the Disability component of the plan. The current target asset allocation is 70% domestic large cap core equity and 30% domestic fixed income. Barry Bryant recommended the 70% equity be changed to 50% domestic large cap core equity and 20% international equities. SunTrust has an indexed international fund.

This would be the first of two steps. Longer term Mr. Bryant would start with several questions: Does the Board wish to retain the Disability component money at Suntrust? Does the Board wish to put its international investments in developed or emerging markets? Then Mr. Bryant would like to provide education on timber and private equity. With the Board approval he would perform a manager search and bring a small number of finalists to the Board for presentations. Once selected contracts would then be reviewed. This is a time consuming process.

Mr. Tierney made a motion that:

The target asset allocation of the Disability funds be changed to:

Asset Class	Target	Range
Domestic Large Cap Equity	50%	± 4%
International Equities	20%	± 3%
Domestic Fixed Income	30%	± 4%

The Statement of Investment Policy and Guidelines be amended, signed and distributed to Suntrust and Dahab and Associates.

Staff be authorized and directed to take all steps necessary to implement these changes.

Ms. Evans seconded the motion.

Discussion:

Mr. Jinks suggested the motion be amended to include the fact this was the recommendation of our professional investment consultant. Chairman Cross asked Mr. Tierney if he was agreeable with this amendment. Mr. Tierney said he was agreeable.

Chairman Cross then asked Ms. Evans if she was agreeable with the amendment and she said she was. Mr. Jinks asked that implementation of the change be contingent upon verifying performance was reasonable compared to the benchmark. Staff agreed to verify this with Suntrust and suggested it should go rather quickly.

The motion passed (8-0).

INVESTMENT PERFORMANCE

Staff provided a recap. At prior meeting Cooke and Bieler was placed on Prudential's watch list.

A review of Munder was scheduled for year-end and staff was asked to monitor performance. Since the previous quarterly investment meeting Munder had underperformed by almost 1.5%.

The MidCap value fund Cooke and Bieler had underperformed in the quarter just ended by over 6%. Its performance was below the benchmark for one year and three year periods. Prudential offered another fund in the mid cap value arena – CRM. They had beaten the benchmark in recent quarter, one-year, and three-year periods.

Ms. Mammarella made a motion:

> To drop Cooke & Bieler from the investments available to participants in the defined contribution plan on or before September 1, 2008. Funds not transferred elsewhere will be mapped to CRM.

Ms. Evans seconded the motion.

The motion passed (8-0).

SURVEY OF DISABILITY TO RETIREMENT CONVERSION

Staff presented a memo on the practices of local jurisdictions. The conversion provisions for the City compare more favorably to Fairfax and Arlington.

COMMITTEE REPORTS

VALUATION AND TECHNICAL CORRECTIONS COMMITTEE

Staff referred to the handouts: a redline version of the proposed eighth plan amendment, a summary of changes, and proposed election procedures. The summary was prepared for the Valuation and Technical Corrections Committee. It used vernacular that the Board felt participants might not be familiar with or understand. The Board directed staff to review and revise the summary of changes to use simple, everyday language, address how the changes impact participants, and include references to document sections. The Board will review the proposed eighth plan amendment with a revised summary of changes at a special meeting on August 6 at 8:30 AM.

Mr. Milner returned.

Ken Hoffman is requested to attend the special meeting in August. Staff will forward Board member questions to Mr. Hoffman to prepare him for the meeting.

DISABILITY COMMITTEE

Mr. Tierney reported that valuation had not met recently. The committee had met and reviewed the topics it was directed to review. Having completed that review Mr. Tierney was under the impression the Chairman had expected the committee would disband. However, Mr. Tierney thought the committee should continue.

Ms. Evans thought it was useful to continue to monitor disability issues. Mr. Howard suggested the committee meet with Rick Willsey and George McAndrews to discuss the disability application process.

Mr. Milner made a motion to:

> Retain the Disability Committee.

Mr. Tierney seconded the motion.

The motion passed (8-0).

BUYBACK COMMITTEE

Mr. Milner provided background. The committee had met and reviewed the data. They identified at least 45 people with buyback issues. They also discussed administrative issues. Mr. Milner mentioned the goal of making the buyback cost neutral. Ms. Mammarella commented that based on Mr. Greenblum's statements a buyback is not likely to be cost neutral. The committee will meet in August.

ADMINISTRATOR’S REPORT

MONTHLY INVESTMENT REPORTS

Staff distributed the monthly investment reports. Rebalancing was not yet necessary. Until just recently the fall in equity prices was accompanied by a similar drop in fixed income investments. The portfolio did not need rebalancing. Just recently the stock market continued to fall but bond prices began to rise. If this continues rebalancing would be called for.

The monthly report on cash flows was distributed without comment.

COMMUNICATIONS

Ms. Nugent followed up on past Board requests. 1) Certain participants and participant organizations were notified of the Board meeting and provided with an agenda. 2) Postings to the website are taking place much faster than several months ago. 3) Staff will be meeting with the Communications Department to discuss putting articles in the employee newsletter providing information on the Pension Division and the Pension web site. They will also discuss a campaign to encourage employees to save. Ms. Evans wants any newsletter article to also cover ICMA-RC. She asked if Gloria Moody was still having regular meetings with employees. Staff said she uses the Finance Department Conference room once a month and regularly meets employees at their worksite.

ADMINISTRATION

Mr. Lynch reported on administrative issues impacting the Supplemental Plan. Mr. Bland said staff did not usually take the Board's time to review plans outside the Board's purview, however, the issues of researching data, the compliance process, and so on were universal and did apply to the Fire and Police plans.

Mr. Tierney asked about benefit statements. There was concern with the labeling of Social Security benefits. It may be misinterpreted to mean the Social Security benefit will begin at the member's retirement from the Fire & Police Plan. This is incorrect. Staff will follow up with Prudential.

Mr. Tierney said plan participants always asked him the same retirement questions. Staff asked him to forward a list of the questions which will be incorporated in the FAQ (Frequently Asked Questions) memo currently being prepared for the website. The health care and life insurance questions would be forwarded to Mr. Howard.

PRUDENTIAL LETTER – CREDITED RATE

Staff forwarded to the Board a letter from Prudential. Deposits to the Guaranteed Deposit Account (stable value fund) will earn interest at the annual rate of 3.75% for the next six months. For the prior period the credited rate was 3.90%.

PRUDENTIAL CLIENT INFORMATION

Staff distributed a reprint from Plan Sponsor magazine. It provided characteristics of third party administrator's clients. The City of Alexandria is slightly larger than Prudential's average client.

UPDATES TO SECTION 5 OF BOARD RETREAT NOTEBOOK

Staff handed out three replacement pages to the member education notebook. The tables tracked stock market volatility over time. High points of volatility tended to coincide with market turning points.

INVESTMENT HANDOUTS

Staff distributed an article from the Financial Times. The article was about boards making asset allocation decisions.

ADJOURNMENT

A motion was made by Mr. Milner, and seconded by Ms. Triggs to adjourn. The meeting was adjourned at 1:23 PM.

NEXT MEETING

A special meeting will be held August 6 at 8:30 AM in the Sister Cities Conference Room 1101. The next regularly scheduled meeting will be September 9, 2008, at 8:30 AM in the Sister Cities Conference Room 1101.

HANDOUTS

Distributed in advance:

- Agenda
- Draft of the May 20, 2008, minutes
- Memo: Survey on Pooling of Plan Funds
- Memo: Survey on Disability Conversion at Retirement
- Memo: Investment Performance
- Letter: Defined Contribution Plan Sponsor Interest Rate Notification
- Updates to Board Retreat Notebook January 7, 2008
- Redline copy of the plan restatement including the proposed Eighth Plan Amendment
- Summary of Changes Made by the Eighth Plan Amendment
- Pension Board Election Procedures July 10, 2008
- Prudential Client Information
- Follow-up Items/Old Business

Distributed during the meeting:

- Article Reprint: Pension Funds Slow to Diversify
- Monthly Investment Report
- Summary of Activity by Fund for 2008
- Actuarial Valuation and Review as of July 1, 2007
- Reprint of section two of Board Retreat Notebook January 7, 2008
- Chart of Eighth Plan Amendment Changes
- Asset Liability Matching & Accounting Standards with the article: Public Funds Fight to Keep Accounting Status Quo