

**MINUTES OF JUNE 17, 2010 RETIREMENT BOARD
CITY OF ALEXANDRIA FIREFIGHTERS AND POLICE OFFICERS
PENSION PLAN
INTERIM MEETING**

PRESENT

<u>Members</u>	<u>Others</u>
Michael Cross, Chairman	Steven Bland, Retirement Administrator
Michele Evans	Arthur Lynch, Retirement Specialist
Bruce Johnson	Theresa Nugent, Communications Specialist
Ed Milner	Bernie Caton, Legislative Director
Cheryl Orr	
Morgan Routt (Alternate)	
Al Tierney	
Laura Triggs	
Michael Wimer (Alternate)	

Note: Mr. Wimer voted throughout this meeting in place of Mr. Evans.

CALL TO ORDER

The meeting was called to order at 8:39 AM on June 17, 2010.

MINUTES

There was a motion by Ms. Triggs to:

Approve the May 13, 2010, Board minutes.

Mr. Wimer seconded the motion. The motion was unanimously approved (7-0).

Staff indicated that the notes for the May 24, 2010, meeting with the Council Pension Employee Compensation Committee had a couple typographical errors which have been corrected.

There was a motion by Ms. Triggs to:

Approve the May 24, 2010, minutes with amended items from Staff.

Mr. Wimer seconded the motion. The motion was unanimously approved (7-0).

Staff passed around a copy of the June 14 issue of Pension & Investments magazine. The magazine had an article on pension funding that included a table that displayed the asset

allocations of the largest private plans in the country. Staff indicated it provided a yardstick to get a sense of whether our allocations were in the mainstream or if we were out on a limb.

Staff distributed a specimen letter from Prudential to retirees. The letter is to display the gross amount, itemize deductions, and the check's net amount. Mr. Tierney had noted the request had been made several times before Prudential agreed to send these letters.

COMMITTEE REPORTS

BUYBACK COMMITTEE

Mr. Milner presented a proposal described in the handout, Buy Back Committee Proposal (2(a)). Mr. Milner provided background for the reason for a buyback proposal. The proposal before the Board was to provide an opportunity for participants to purchase service credit at the full actuarial cost. If City Council elected to subsidize the purchase members could pay the costs determined by the actuary in 2006 and the City would pay the difference between the 2006 cost and the 2010 cost.

Staff clarified that when the project began the current cost was 2010 cost. However, since then the FY 2011 budget has been finalized. It might make sense to view current cost as calendar year 2011 or FY 2012.

Mr. Johnson and Mr. Milner discussed utilization – i.e., the criteria associated with this buy back proposal. No one anticipated utilization will be 100%. However, it is proper to provide City Council with a maximum potential cost as well as a best estimate. Mr. Johnson asked if this might be hundreds of thousands or as much as a million. Staff indicated that if 100% of the employee purchased four years according to the provisions of the handout the cost would exceed \$1 million.

Mr. Wimer asked if this provision would allow for the buyback of service credit for those who had not elected to purchase service in 2004 at the time the defined benefit plan was created. It would not.

Ms. Evans arrived at 8:52 AM.

Mr. Tierney expressed concern that too many groups make the effort unwieldy. However, as long as it is cost neutral it is okay. The concern is that the Board has no influence over City Council. It is possible that the Board recommends an approach that has no subsidy but then the Council may create a subsidy and rather than fund from the current budget let the cost get rolled up into the unfunded liability. In effect this is taking out a loan.

Ms. Evans said she knew utilization would be less than 100%. So the cost would be less than the worst case scenario. Also, VRS has a buyback, meaning this is not an anomaly, there is a precedent.

Mr. Milner clarified the Buyback Committee is focusing on the process and not the end result at this time. The focus is on going to the actuary one time with a proposal that the Board feels captures the spirit of the original assignment. The committee is not asking the Board to endorse City Council take a particular action at this time before costs are known.

Chairman Cross provided a history of the project and historical context. He explained the Attorney Ken Hoffman's initial concerns about the participants getting double benefits for being covered in two plans for the same service (VRS & Fire & Police pension Plan). With this concern Mr. Hoffman recommended the Board address one group at a time. The Board's previous efforts had all recommended participants to pay 100% of the cost. Mr. Cross would not favor any buyback with a subsidy. He feels the participants impacted by this proposal made a career change and a career changes comes without benefit credit in the new job for work at the previous job. The new plan owes nothing to these people for their old job.

Mr. Tierney does not want Council to change rules. That politicians may change positions in the future is not going to stop him from going forward today.

Ms. Evans said when the plan was put together in 2002-2003 there was a promise made to review the buyback issue – not to necessarily provide a buyback, but to provide an open discussion of the issue. She also mentioned the context of VRS reducing pension benefits for new hires and the GASB potentially applying pressure to public pension plans to require a change to funding. Finally, only one of seven City Council members is a government employee and the other six do not have the mindset of large public pensions. This creates an air of lower expectations from City Council.

Ms. Evans asked if there had been a formal motion. There had not been.

Mr. Johnson said perhaps it is best to finesse the issue and go to the actuary first for a price and to not yet discuss the steps of going to City Council.

Mr. Milner discussed the vesting of benefits in the Retirement Income plan for Deputy Sheriffs, Emergency Rescue Technicians, and Fire Marshals. Prior administrators and third party administrators did not properly administer separations form service and vesting. Forfeitures were not processed properly. They were fixed by the current administrator.

Mr. Milner said he respected Mr. Cross' difference of opinion on this issue. However, Mr. Milner pointed out that the Buyback committee did everything the chairman had asked them to do.

Mr. Tierney asked how many of the 75 potential buyback candidates had prior service from other than the Fire & Police Plan. Everyone did. The impacted participants are largely former Deputy Sheriffs. The second largest group is medics & dispatchers.

Mr. Milner made a motion to:

Request the CFO spend \$7,000 of City money for the actuary to do a study to determine the current cost of allowing employees with prior service in other City pension plans to buy back that service in the Fire and Police pension plan.

Ms. Evans seconded the motion.

Discussion

Mr. Johnson pointed out the meeting handout was illustrative and was not part of the proposal.

The question was raised whether number of years a participant can buy was a function of vesting. This was clarified that it was not an issue.

The following were discussed as additions to the motions: 1) The numbers of years to buy back would be limited to four years; and 2) Employees who did not take advantage of the buy back from 2007 would be excluded from buying that service now.

Mr. Cross asked Mr. Milner and Ms. Evans if they were in agreement with the additions requested. They indicated yes.

Mr. Cross indicated he did not want to spend \$7,000 to study a proposal he did not intend to vote for.

Ms. Orr said she was interested in finding out how much the buy back might cost.

Mr. Wimer offered the opinion that it was okay if it was going to be offered to everyone. He then named others who might want a buyback, such as veterans, and those with prior service in the Defined Contribution plan. He also indicated that he was for employees paying 100% of the cost.

The restated motion was:

Request the CFO spend \$7,000 of City money to pay the actuarial costs for a study to determine the current costs for employees to buy back service under the Fire and Police plan that they earned under another City pension plan. The numbers of years to buy back would be limited to four. Employees who did not take advantage of the buy back from 2007 would be excluded from buying that service now.

The motion passed (6-2) with the following votes:

Ayes: Ms. Evans, Mr. Johnson, Mr. Milner, Ms. Orr, Ms. Triggs, and Mr. Tierney

Nays: Mr. Cross, Mr. Wimer

Ms. Orr indicated she felt the Board should do study and then decide what to do with that information.

Ms. Triggs said the Chairman had asked that the Committee do something and that is being done. Her vote reflects that task and she may vote differently on sending a proposal to City Council.

Ms. Evans said we need to invite plan participants to future meetings where this is discussed to make their position known. Mr. Cross suggested that those opposed to a buyback to also attend and make their views known. Mr. Tierney called for clear wording in any public notice.

Ms. Orr left at 9:35 AM.

OLD BUSINESS

CONSOLIDATING PENSION AND DISABILITY COMPONENTS

Staff provided a summary of the subject. The topic was discussed at the April and May Board meetings. The purpose is to increase diversification, reduce risk, and focus management time on one asset allocation, not two. Ms. Powell presented and promised to send more information on fees. The Board asked staff to proceed with the asset transfer, subject to the information from Ms. Powell. Ms. Powell sent information which staff forwarded in the Board packet. This information is on the handout, Prudential Revenue Available for Recordkeeping Expense + Advisory Fees (3a). Staff asked for confirmation that after receipt of the information staff should proceed with the asset transfer. Additional items relating to this topic will follow later in the meeting. These topics are: the Investment Policy Statement and illiquid assets.

The board looked at the worksheet from Ms. Powell. Mr. Wimer asked if the fees were reasonable compared to other asset managers. Staff said this was an apples to oranges comparison. Other managers typically charged significantly less. However, Prudential was not just an asset manager but also third party administrator of benefit administration. They were probably overcharging on the asset fees and undercharging on the benefit fees. When this goes to an RFP next year they would go out separately. Even if the same vendor were selected for both functions, the board would likely insist on unbundled pricing.

ADMINISTRATOR'S REPORT

REGULAR INVESTMENT REPORTS

Investment & Rebalancing Report:

Staff reported Wells Fargo's performance was strong and that small cap value is near the upper bounds of its range. Rebalancing may be required soon. Developed markets in Europe were in disarray. The Euro was under huge pressures because of problems in Greece. The Euro had gone from \$1.60/euro to under \$1.20/euro. That is a drop of over 25%. Artio had done poorly, but no worse than the average EAFE manager. Staff directed \$350,000 from biweekly

contributions to Artio. After the market dropped even more staff transferred \$1,000,000 from PIMCO to Artio. Future contributions will be overweighted to fixed income.

Volatility Report:

Volatility is a good metric for the investment markets. This report is usually delivered monthly. However, it is distributed at the meeting for two reasons: 1) Volatility has recently increased, and 2) we will discuss volatility in the context of the Investment Policy Statement later in the meeting.

Mr. Johnson noted how much volatility had increased recently. Staff said the June count was only through June 8th, the day before the report was created

Summary of Activity Report:

This report is not available at the time of the meeting.

Real Estate:

Staff reported that in February to add \$1 million quarterly to real estate. The March 31 payment was done. The instructions for June 30 had been prepared and would be executed in the absence of contrary orders. Hearing none staff said the \$1,000,000 purchase of real estate would proceed. The same protocol will take place at the September meeting.

Timber:

Staff asked the Board members to view both the timber and private equity handouts, 4(a)(v) and 4(a)(vi)(1). Hancock had just called \$1.8 million. After a relatively short period Hancock had called about one third of the total commitment. They want to put the funds to work relatively quickly and so far had made a few huge commitments.

Private Equity:

By contrast to Hancock, Hamilton Lane was making more but smaller acquisitions. So, their calls for cash were more frequent but for smaller amounts. Also, Hamilton Lane had just recently made another cash call for June.

Mr. Wimer asked if there was a time limit on calling funds. Staff believes Hancock may invest funds within 18 to 24 months and it may not call funds thereafter. However, Hamilton Lane has no such restriction.

Hamilton Lane sent an annual report to staff. Staff offered to forward to anyone at this time. However, it may make sense to review the report in September when Barry Bryant is at the meeting. Also, beginning with that meeting the quarterly Dahab reports will include private equity. It was agreed to review the report in September.

COMMUNICATIONS

Staff reported the spring seminars were just completed. A September seminar was planned for Fire & Police Officers.

FOLLOW UP ITEMS

Investment Policy Statement

Staff reported the pooling of the disability & pension components calls for a review of the Investment Policy Statement (IPS), handout 4(c)(i). Staff made edits as to form. However, the only changes in substance were related to the pooling of disability and pension assets for investment purposes, not a comingling of distinct trust assets. Non-substantive changes included the title and dates.

The substantive changes begin on page 14, the addendum. Barry Bryant had seen all the changes and agreed to them.

The rebalancing thresholds were set for an environment of higher volatility than that of three, four, or five years ago. The wide range would call for less volatility.

Staff discussed the pooling of illiquid assets. This was an administrative aspect to the IPS. Neither Barry Bryant nor staff believed it had to be in the document, but did wish it was discussed and entered into the meeting minutes:

Mutual funds have daily valuations that allow daily purchase or sale on a daily basis. This allows for truing up ownership with biweekly cash flows and monthly benefit and expenses. Private Equity & timber do not issue new shares nor allow sales. Real estate only allows purchases at quarter end and sometimes restricts redemptions altogether. This does not allow for truing up for cash flows

Today disability is about 9% of the total disability plus pension fund. Staff recommends calculating the weighting the day we do the pooling with the intent of freezing the weighting in timber, private equity, and real estate at that weighting for the life of the limited partnerships. The Board may elect to revisit real estate in the future because it does not have a limited lifetime.

Hancock and Hamilton Lane said that it is very easy to sign over 9% of the fund to another owner. If Hancock has roughly \$2.4 million then we would give Disability 9% ownership in exchange for 9% of all future cash flows and \$210,000. For Hamilton Lane the figure would approach \$90,000.

The Board did understand this as an administrative quirk of illiquid assets. Chairman Cross asked a footnote be added to the IPS on page 14.

Ms. Evans made a motion to:

Adopt the Investment Policy Statement once revised with the footnote Mr. Cross requested.

Ms. Triggs seconded the motion. The motion passed (8 – 0).

GASB

Staff reported that the Governmental Accounting Standards Board (GASB) had been looking at pension account standards for quite some time. They released Preliminary Views the day before the meeting. This was not adequate time to review complex and lengthy documents.

Mr. Johnson asked staff to keep an eye out for articles on GASB. Also, if Board members go to training they should consider sessions on this topic. He said at a recent GFOA conference GASB presented and suggested there would be tougher standards with respect to amortization, corridor, and selecting interest rates.

Ms. Evans said that pensions were becoming more expensive. France was moving its retirement age from 60 to 62. GASB was tightening up. VRS had made changes.

ELECTIONS

Staff reported the nomination period had closed. Petitions have been completed, submitted and verified for the Police positions and Fire participant representatives. There are no Fire alternate candidates. The default is to have third place in the participant representative election take the alternate spot. However, there is no third candidate. Staff recommends the Board amend the Election Procedures as noted in the handout, Proposed Addition to Election Procedures (4(c)(iii)(3)).

Ms. Orr returned at 10:18.

Mr. Tierney asked about the short term issue and the long term. In the long term this should go to the technical corrections committee because some issues are determined by the plan document and outside the Board's authority.

Mr. Tierney made a motion to:

Amend the election procedures to include the changes detailed in the Board packet.
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Mr. Milner seconded the motion. The motion passed (8 – 0).

COMMITTEE REPORTS:

DISABILITY COMMITTEE

The disability committee had not met. There was no report.

TRAINING OPPORTUNITIES COMMITTEE

The committee had not met and there was no report.

Ms. Evans asked staff to periodically look for announcements on the MATPERS meetings traditionally held in fall in the Centerville/Dulles area.

VALUATION AND TECHNICAL CORRECTIONS COMMITTEE

The proposed plan amendment will go to City Council June 22.

Mr. Cross suggested the name of the committee be formally changed to the, “Technical Corrections Committee.”

Ms. Orr made a motion to:

Change the name of the “Valuation and Technical Corrections Committee” to “Technical Corrections Committee.”
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Ms. Evans seconded the motion. The motion passed (8 – 0).

VENDOR AND SERVICE PROVIDER COMMITTEE

Staff reported the RFP process for all vendors was moving. The Procurement Department had been doing some fine tuning but that the changes were minor and the RFP had not been returned to staff or the committee. Procurement intended to post the RFP Friday June 18.

Mr. Caton entered at 10:34 and left with Ms. Triggs. Mr. Jinks entered at 10:35 and left with Ms. Evans while Mr. Caton and Ms. Triggs returned. Ms. Evans returned at 10:38.

Chairman Cross asked for volunteers for a selection panel. The Panel will be composed of Mr. Tierney, Mr. Johnson, and pension staff. Their charge is to review the applications and recommend two or three vendors for interviews. The interview will be at a date to be determined. The same process will be used for the other contractor’s RFPs.

NEW BUSINESS

There was no new business.

NEXT MEETING

The next scheduled meeting is September 9 at 8:30 AM, room 1101, Sister Cities Room. This is a due diligence meeting.

ADJOURNMENT

Mr. Milner made a motion for:

The meeting to adjourn.

Mr. Tierney seconded the motion. The motion passed (8-0). The meeting adjourned at 10:41 AM.

HANDOUTS

Distributed in advance:

- Agenda
- Draft of the May 13, 2010, minutes **1(a)**
- Draft of the May 13, 2010, minutes **1(b)**
- Buy Back Committee Proposal **2(a)**
- City of Alexandria – Contract 017147 (Prudential fees) **3(a)**
- City of Alexandria – Disability Plan Discussion (Prudential fees) **3(b)**
- Volatility Report **(4(a)(ii)(2))**
- Private Equity Report: Hamilton Lane Cash Flows **4a(vi)(1)**
- Timber Report: Hancock Cash Flows **4a(v)**
- Follow Up Items **(4c)**
- Investment Policy Statement **4(c)(i)**
- Proposed Addition to Election Procedures **4(c)(iii)(3)**

Distributed during the meeting:

- Investment Policy Statement Notes
- Prudential brochure: Getting ready to retire!

- Sample letter from Prudential to Plan participants on gross benefits, deductions, and net benefit
- June 14th issue Pension & Investments magazine, table on pages 18 – 19.