MINUTES OF JUNE 24, 2009 RETIREMENT BOARD
CITY OF ALEXANDRIA FIREFIGHTERS AND POLICE OFFICERS PENSION PLAN
INTERIM MEETING

PRESENT

Members	Others
Michael Cross, Chairman	Steven Bland, Retirement Administrator
Michele Evans	Eli Greenblum, Segal Company
Patrick Evans	Arthur Lynch, Retirement Specialist
Bruce Johnson	Theresa Nugent, Communications Specialist
Shirl Mammarella (Alternate)	
Cheryl Orr	
Morgan Routt (Alternate)	
Al Tierney	
Laura Triggs	

CALL TO ORDER

The meeting was called to order at 8:36 AM on June 24, 2009.

MINUTES

Staff said the minutes distributed following the May 27 meeting had been edited. The edits were highlighted.

There was a motion by Ms. Triggs and seconded by Ms. Orr to approve the May 27, 2009. The motion was unanimously approved (6-0).

OLD BUSINESS

There was no old business to report.

COMMITTEE REPORTS

VALUATION AND TECHNICAL CORRECTIONS COMMITTEE

Chairman Cross reported the progress of the committee. Another meeting would be set up soon.

DISABILITY COMMITTEE

In Mr. Tierney's absence Mr. Cross and staff provided a brief account of a phone call June 19th with the plan's attorney Ken Hoffmann, Mr. Tierney, Mr. Cross, and staff. Staff requested Mr. Hoffman put his opinion in writing. Staff distributed an e-mail from Ken Hoffman dated June 22, 2009, with Mr. Hoffman's written opinion.

BUYBACK COMMITTEE

Staff reported that the first phase was complete. This involved reviewing vesting in the Retirement Income Plan for those who transferred from positions as deputy sheriffs, medics, or fire marshal. The focus is now on reviewing benefits for those members that were paid from or payable from the Supplemental Retirement Plan. A letter that was prepared for joint distribution by the City and Prudential is being reviewed by Prudential's compliance unit.

Mr. Johnson arrived at 8:45.

ADMINISTRATOR'S REPORT

FOLLOW UP ITEMS

HAMILTON LANE

Staff reported Hamilton Lane made a call for roughly $600,000. The call was forwarded to Prudential and funds should be wired this week.

Hamilton Lane sent a letter June 7 describing their first six transactions. These were summarized in handout 4.i.1, Hamilton Lane Secondary Fund II LP. The handout was used to report the degree of diversification geographically as well as by investment type.

Mr. Tierney arrived.

EXPENSES DEFINED CONTRIBUTION PLAN

In May staff reported the forfeiture account was $30,000 to $40,000. Staff clarified. The forfeiture account had recently been nearly $40,000. However, several participants in the Retirement Income Plan had improper forfeitures restored. This reduced the forfeiture account by over $30,000. The new balance is just under $8,000. A more thorough report is scheduled for September.

INVESTMENT POLICY STATEMENT

Staff recalled in April the Board tentatively approved investing in a Private Equity fund. In May the Investment Policy Statement (IPS) was amended to reflect the addition. Following the meeting the IPS was signed by the Chairman and the Plan Administrator and then posted on the Fire and Police pension web site.

ASSET LIABILITY STUDY

At the May 27 meeting Chairman Cross requested an asset allocation study. Mr. Bryant requested two items. First, a copy of the 2008 actuarial valuation should be sent to Mr. Bryant. Second, to the extent possible the Board should create parameters to narrow down the asset mixes to a manageable size. This makes Mr. Bryant's work more efficient and the output for the Board more useful.

Staff referenced handout 4.i.4, Proposed Asset Ranges. The first column is the current target. The second and third columns were examples of the parameters that the Board might send to Dahab Associates. The last two columns were to be completed by the Board.

Ms. Evans arrived.

Chairman Cross said the original Asset Allocation Study proposed had a mix of 80% equity and 20% fixed income. The Board rejected this mix at that time. Mr. Cross asked why a 20% allocation to fixed income would now be acceptable. Staff said that the original 20% was in the context of only two asset classes, stocks and bonds. The proposed range of 20% to 30% is in the context of equities, fixed income, real estate, private equity, and timber. Diversification is provided by the three alternative classes so the need for fixed income is diminished.

Mr. Johnson asked that private equity, mid cap value, and mid cap growth be broken into three individual components. Real estate might range from 2 ½% to 7 ½%.

Mr. Johnson made a motion to provide to Dahab Associates the following asset ranges to be used as part of the asset study:

ALLOCATION	PROPOSED	
	LOW	HIGH
Large Cap Value	10.0%	15.0%
Large Cap Growth	10.0%	15.0%
Mid Cap Value	5.0%	10.0%
Mid Cap Growth	5.0%	10.0%
Private Equity	5.0%	10.0%
Small Cap Value	2.5%	7.5%
Small Cap Growth	2.5%	7.5%
Real Estate	2.5%	7.5%
International Developed	5.0%	10.0%
International Emerging	5.0%	10.0%
Fixed Income	20.0%	30.0%
Timber	.0%	10.0%

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

PRUDENTIAL CONTRACT

Staff reported that Prudential is working on a new contract.

MONTHLY INVESTMENT REPORTS

Staff reported that the actual allocations were close to their targets. The only allocation near the rebalancing limit is Emerging Market Equities. Staff will continue to monitor the allocation.

SUMMARY OF ACTIVITY BY FUND

The Summary of Activity Report will now be distributed quarterly, not monthly. There is no report to discuss at this time.

ADMINISTRATION

There were no events to report.

COMMUNICATION

Ms. Nugent reported staff will make a presentation at the June 29 local training for new police employees.

OTHER ITEMS

Staff recently forwarded a letter from Prudential to Board members. The letter indicates the declared interest rate for the Guaranteed Deposit Account for the Retirement Income Plan is 3% for second half 2009.

COMMITTEE REPORTS (Continued)

Mr. Cross asked Mr. Tierney to provide a report of the Disability Committee. Mr. Tierney requested that staff distribute his proposed disability application procedures to the Board. Mr. Tierney said the June 22 e-mail from Mr. Hoffman summarizing information he provided did not fully coincide with his recollection of the opinions expressed in the conference call with Mr. Hoffman on Friday, June 19. Mr. Cross and Staff agreed with Mr. Tierney.

Mr. Tierney seeks a consistent disability benefit application procedure that provides due process for all applicants. He also stated that he feels it is in the City's interest to choose a more liberal process than a more restrictive process that can leave the City open to law suits.

Mr. Cross stated his position that the disability application process was an administrative process and not under the Board's purview.

Ms. Triggs suggested Staff forward Mr. Hoffman's e-mail to Chris Spera and George McAndrews. Mr. Johnson requests a follow up on this at the September Board meeting.

2008 ACTUARIAL VALUATION

Mr. Greenblum was introduced to the new Board members. He then distributed copies of the 2008 valuation to the Board.

Ms. Evans left.

Mr. Greenblum said a valuation is a model, based on assumptions. They endeavor to routinely validate their model. Segal looked at the assumptions they use for the second time since the inception of the pension plan.

The City complies with Governmental Accounting Standards Board's (GASB) rules. The valuation was prepared consistent with these rules and provided the necessary output for GASB compliance.

The valuation provides contribution rates and funding ratios. Assets were obtained from the CAFR. The required contribution rate for the pension plan as a percent of pay declined slightly. However, pay is steadily increasing so required contributions in dollars is increasing. For the disability component required employer contributions will decrease in both dollar terms and as a percent of salary. Most of the change in rates is attributable to change in assumptions. Recommended contribution rates are affected by the asset smoothing process that the actuary uses.

Mr. Johnson pointed out recent investment losses occurred after the close of the valuation year June 30, 2008. Staff distributed a handout titled Chart 7A Projected to 2009. This handout approximated the impact of the 2009 fiscal year investment return on valuation assets. The chart suggests investment impact on contributions will require an increase of 2-3%, maybe more.

Mr. Greenblum discussed the changes in assumptions. The COLA increase will be lowered from 3.0% to 2.7%. He believes inflation may average 3 ½%, but that the 3 ½% will not be constant. There will be some high years and some low. In the high CPI years the COLA will be capped at 3%. In the low CPI years the COLA will be lower than 3%.

The mortality table will be updated for healthy lives. The 83 GAM (Group Annuity Mortality) table will no longer be used.

The employee disability contribution rate will increase from .60% to somewhere around .80% - .83%.

Administrative expense assumption was increased.

Mr. Greenblum reviewed the demographics in section 2 of the report.

He noted that there was a large increase in contributions due to the participants who purchased service under the plan with their Retirement Income Account balance.

The Board discussed the dependency ratio – the ratio of retirees to actives. Ms. Mammarella asked what does the plan do when there is trouble? Mr. Greenblum indicated that when all goes according to plan the retiree benefits are funded by the time participants reach retirement age. The trouble comes about in those plans when there is a great asset meltdown and the retiree assets represent a huge portion of total plan assets. Mr. Johnson said the City does not have a formal rainy day fund and is trying to save money now in anticipation of increased rates in the next valuation.

Smoothing methods led to a $7.3 million change from market value to valuation assets in the pension component and $1.4 million in the disability plan.

Mr. Greenblum discussed the system's gains and losses. Non-investment gains and losses totaled .20%. For the year the Pension component earned 6.29% on valuation assets and the disability component earned 5.30%.

Administrative expense assumption is increased to reflect administrative practices. Mr. Johnson indicated this has the budgetary result of pushing expenses from "Non-D" (Departmental) to the departments (Fire & Police). Mr. Greenblum asked for clarification. Staff indicated this was the practice of paying vendor fees – legal, investment consultant, actuarial – from the pension plan.

The retirement rate assumption was increased for those under age 50 and decreased for those over 50. Incidence of disability assumptions were decreased one sixth. The amount of benefit offset by workers compensation was increased.

Mr. Johnson asked staff to speak with Ken Hoffman about the timing of the change in employee contribution rates.

Mr. Johnson indicated he would prefer to not reduce rates to reflect the 2008 valuation (in FY 2011) only to increase them substantially due to the 2009 valuation results (in FY 2012).

Mr. Greenblum called attention to page 21 where there was a reconciliation of 2007 to 2008 contribution rates. Information required by GASB is on Page 22 and 23. Actual vs. required contributions are closer in the pension component than the disability component. The differences stem from the time lags in receiving a valuation and getting those rates through the budget process.

Ms. Nugent left.

Mr. Johnson made a motion to accept the actuarial valuation. Ms. Triggs seconded the motion. The motion passed (8-0).

Staff referred to the handout Appendix Actuarial Assumptions (5d). This Appendix specifies the interest rate, mortality table, and CPI increase assumptions used for actuarial equivalence. Staff suggested the Board may want to modify the assumptions so that the assumptions in the valuation matched those used for actuarial equivalence (determining option factors etc.)

Mr. Greenblum clarified it is not required to make the assumptions used in the valuation for funding purposes match those used in determining option factors. However, in the private sector regulations mandated different assumptions whereas practice in the public sector they are always identical.

Mr. Johnson made a motion to amend Appendix A of the Plan Document for non-disabled participants to use a Cost of Living rate of 2.7% and mortality as defined in the 1983 Group Annuity Mortality Tables. Ms. Triggs seconded the motion.

Discussion it was suggested there be separate motions for mortality and the COLA assumption.

The motion was amended: The mortality table in Appendix A for Non-Disabled participants is changed to the RP-2000 Healthy Annuity Mortality Table for males for post retirement and RP-2000 Employee Mortality Table for males for pre-retirement. Ms. Triggs seconded the amended motion. The motion passed (8-0).

Mr. Johnson made a motion that the COLA assumption be changed from 3% to 2.7% for Non-Disabled Participants and for Disabled participants but not For Conversion of City Funded Retirement Income Account. Ms Triggs seconded the account.

Discussion: Mr. Greenblum distinguished funding and actuarial equivalence.

The motion passed (7-1)

Members	Vote
Michael Cross	Aye
Patrick Evans	Aye
Bruce Johnson	Aye
Shirl Mammarella (Alternate)	Nay
Cheryl Orr	Aye
Morgan Routt (Alternate)	Aye
Al Tierney	Aye
Laura Triggs	Aye

COMMENT ON GASB PROJECT

Mr. Greenblum discussed the GASB project that is reviewing the actuarial investment return assumptions. The topic is bringing out strong views from various factions. Some believe the cost of a liability is created by using Treasury bond rates to discount future liabilities to current dollars. Others believe pension plans are for perpetuity and therefore rates derived from mixes of long term assets backing the liabilities are the correct rates. However, increasing numbers of municipal bankruptcies call this assumption into question. Mr. Greenblum suggests many governments will not be able to afford funding pension plans with 100% of the assets in fixed income.

NEW BUSINESS

There were no new business items.

NEXT MEETING

The next scheduled meeting is September 9 at 8:30 AM. Members are advised it may be a long meeting and please keep calendars clear through 1:00 PM.

ADJOURNMENT

A motion was made by Mr. Cross, and seconded by Mr. Evans to adjourn. The motion passed (8-0). The meeting was adjourned at 11:00 AM.

HANDOUTS

Distributed in advance:

- Agenda
- Draft of the May 27, 2009, minutes (1)
- Administrator’s Follow-up Items (4i)
- Hamilton Lane Secondary Fund II LP (4i1)
- Proposed Asset Ranges (4i4)
- Letter from Prudential Real Estate Investors dated Jun 15, 2009 (4vi)
- Demographics (5c)
- Appendix Actuarial Assumptions (5d)

Distributed during the meeting:

- Actuarial Valuation 2008, Segal & Co.
- City of Alexandria Firefighters and Police Officers Pension Plan COLA
- Email from Ken Hoffman to staff dated June 22, 2009
- Chart 7A Projected to 2009