MINUTES OF MAY 24, 2010 RETIREMENT BOARD
CITY OF ALEXANDRIA FIREFIGHTERS AND POLICE OFFICERS PENSION PLAN
SPECIAL MEETING

PRESENT

Members	Others
Michele Evans	Steven Bland, Retirement Administrator
Bruce Johnson	Eli Greenblum, Segal & Co.
Cheryl Orr	Arthur Lynch, Retirement Specialist
Morgan Routt, Alternate	
Al Tierney	
Laura Triggs	
Michael Wimer	

The meeting was called to order at 8:40 AM.

ADMINISTRATOR'S REPORT

Staff reported on several items that did not call for action by the board:

The international developed markets manager Artio was underweighted. The entire May 21, 2010 biweekly contribution was directed to Artio.

Staff had circulated one copy of a graph of the S&P 500 volatility from 1990 to date. Recently there have been substantial increases in volatility.

Staff circulated one copy of an article from the Financial Times on funding of state retirement plans. Staff pointed out that interest assumptions and methods get too much attention and not enough press is devoted to facts such as Illinois failed to properly fund for well over a decade. Failing to fund the required amount trumps all other considerations.

Chairman Cross asked staff to convey concerns about the frequency of changing assumptions. Staff asked that at some time during Mr. Greenblum's presentation this be addressed in some detail.

2009 ACTUARIAL VALUATION

Page i There were many significant events in the 2009 fiscal year. Mr. Greenblum began with stating the change in contribution rates from the 2008 to 2009 valuation. The increase was attributable to the investment return.

Page ii The smoothing method used to determine the valuation assets was changed. The corridor was changed from 20% to 25%. Mr. Tierney asked how much this would impact contribution rates. (Staff did not note an answer, so provides this instead: 25% - 20% = 5%. 5% of Market value is 5% * $110,448,093 = $5,522,404. $5,522,404 amortized over 20 years would begin with an annual payment of $371,347 and increase 4% annually). Mr. Greenblum then turned to page 6 and discussed development of the valuation assets.

Ms. Evans arrived at 8:51 AM.

Mr. Johnson discussed smoothing as a four year phase in. Mr. Tierney asked if this meant repayments of an investment loss begin after four years. Several Board members replied that the repayment or amortization of a loss is partially reflected in the contribution rate in the current valuation and fully reflected in four years.

Mr. Greenblum said in the absence of asset smoothing City contribution rates would be 30% of salary for the pension component.

Page iii Mr. Tierney asked about the funding ratio. The funding ratio is the amount of assets on hand divided by the liabilities recognized to date. It is currently 71% of pay based on valuation assets. The funding ratio is 56.9% based on market value of assets. Mr. Greenblum refers to this as the coverage ratio. Mr. Greenblum, Mr. Tierney, and Mr. Johnson discussed a benchmark or comparator for the funding ratio. Unlike investment performance with a readily identifiable benchmark, the funding ratio reflects many factors and no one benchmark is suitable. That said, a ratio above 80% would be preferred.

Ms. Orr asked if the 23% contribution rate for the pension plan was the total or just for the employer. It is the City rate, not including the employee portion.

Page 1 The ratio of retirees to actives is expected to continue to grow.

Page 2 Age and service distributions were discussed. The large number of people with 5 to 9 years of service reflect employees joining the plan in 2004 with prior service not included (they elected to retain their defined contribution accounts).

Ms. Evans mentioned a New York Times article about overtime in public pensions.

Page 5 The disability plan is mature whereas the pension component is not.

Page 6 & 7 The adjustment to be within a 25% corridor is $286,664 in the pension component and $465,793 in the disability component.

Page 10 Other experience (gains and losses) included: demographic, salary, the Consumer price index, and the offset by the retirement income plan.

Page 12 In chart 11A the five-year average return of 5.34% is actual compared to the expected 7.50% assumed.

Page 13 For the five-year period the disability and pension returns are almost identical.

Pages 14-15 The blue line (actuarial value of assets) is smoother than the gray line (market value of assets).

Page 16 Changes in assumptions are discussed.

Page 18-19 The 23.80% City contribution rate is developed for the pension plan and 4.42% for the disability plan. Prior to the meeting Mr. Greenblum had given staff a letter attesting to the adequacy of the non-service connected partial disability contribution. Staff asked Mr. Greenblum to discuss the actuarial certification and the employee contribution. The required rate is .77%. The rate is scheduled to increase to .80% effective July 1, 2010. This will mean the non-taxable status of the benefit for new recipients of non-service partial disability will continue. However, the valuation was based on a 7.40%/.60% employee split between pension and disability. This will change to 7.20%/.80%. This means the City contributions will change. The pension contribution of 23.80% will increase to 24.00% and the disability component contribution will decrease from 4.42% to 4.22%.

Mr. Tierney asked if this is due to a change in assumptions. Mr. Greenblum, Mr. Tierney, and staff discussed the changes in assumptions and reflected on Chairman Cross' prior concerns. Mr. Greenblum views the assumptions from the perspective of moving forward with the best predictors of events. Mr. Cross had hoped to establish a baseline, a set of valuations without these changes. Staff would like to see the changes concentrated in one year.

Page 20 The required annual contribution for the two components is increasing by roughly $1,000,000. Of this, about a third is expected from applying last year's contributions to a salary base 4% larger. The balance is due to losses exceeding gains. Mr. Tierney noted how the plan calls for the City to increase contributions at the very time that the economy was tough and at other times to decrease contributions when things were fine. Mr. Johnson said this observation was true if all investments are correlated. However, real estate and equities sometimes move in opposite directions then the unfortunate timing of revenue demands coinciding with less revenue sources will not be an issue.

Page 22, Chart 18 Mr. Tierney asked how much of the disability component's drop in funding status was due to a change in assumptions.

Page 23 Mr. Tierney asked about salary per person.

Page 25 Mr. Greenblum said it was unusual for a plan to have 15 retirements and no deaths. The plan is very young so this is possible.

Page 38 Mr. Tierney asked about the contributions not being 100% of the required amount. Ms. Triggs and staff discussed the time lags involved between Mr. Greenblum delivering the actuarial valuation and the City implementing the rate change in the budget process. Also, in the past there were monthly procedures in the accounting/payroll division in getting the contributions sent to Prudential, and now they are biweekly.

NEXT MEETING

The next meeting is an interim meeting June 17, 2010 at 8:30 AM.

ADJOURNMENT

The meeting adjourned at 10:25 AM.

Handouts distributed in advance

1) 2009 Actuarial Valuation

Handouts distributed during the meeting

1) Staff distributed a graph of S&P 500 volatility from 1990 to date
2) Staff distributed an article from Financial Times on funding of state pension plans