

**MINUTES OF OCTOBER 14, 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	Barry Bryant, Dahab Associates (telephonically)
Bruce Johnson	Arthur Lynch, Retirement Specialist
Ed Milner	Theresa Nugent, Communications Specialist
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 8:35 AM on October 14, 2010.

**MINUTES**

There was a motion by Ms. Triggs to:

Approve the September 9, 2010, Board minutes.

Mr. Wimer seconded the motion. The motion was unanimously approved (6-0).

There was a motion by Ms. Triggs to:

Approve the September 14, 2010, Board minutes.

Mr. Wimer seconded the motion. The motion was unanimously approved (6-0).

Ms. Orr and Ms. Evans arrived at 8:38 AM.

**ADMINISTRATOR'S REPORT**

## REGULAR INVESTMENT REPORTS

### Investment & Rebalancing Report:

Staff reported the September 30, 2010 report had been distributed previously. No action was called for.

### Volatility Report:

Volatility is a good metric for the investment markets. Staff reported volatility is significantly lower than the record setting period in 2008-2009 but still above the long term averages.

### Summary of Activity Report:

This report had been in two parts, one was for pension and one for disability. The later came from SunTrust. The underlying data was of a different format and reporting frequency. Now all the data comes from one source – Prudential. The two components are combined from August 2010 forward. On the back of the page was a Summary of Activity for the most current month with pension and disability listed separately.

### Timber:

There was no activity since the last meeting and nothing to report at this time.

### Private Equity:

There was no activity since the last meeting and nothing to report at this time.

### Communications:

Staff reported the fall seminars were just completed. Several meetings will be held in the metropolitan area in the next few quarters. As agendas are known and the events are closer staff will provide the information to the board.

## FOLLOW UP ITEMS

In September the Board directed staff to transfer funds from Essex, the small cap growth manager to Columbus Circle. That transfer was completed.

The Board election was completed. Now a memo to council is being prepared to formally appoint the participant representatives.

### Real Estate:

Staff reported that the last of the three installments into real estate has been made. The target allocation has been reached and no further contributions will be made on the basis of the direction provided at the February 16, 2010 board meeting.

Hamilton Lane:

Staff discussed the private equity allocation being below target. Hamilton Lane will attend the November 11, 2010 meeting. They will present at the end of the meeting and present for one hour. No action will be taken at the November meeting. The purpose is to prepare for a possible future commitment.

GASB Update:

Chairman Cross referenced handout 2(c)(v). The board discussed the Preliminary Views and the expected subsequent Exposure Draft. Mr. Johnson discussed how historically funding and accounting were tied. If implemented the Preliminary Views would lead to an uncoupling of funding and accounting. Mr. Johnson also discussed the lack of asset smoothing and how this would lead to vary volatile results.

## **OLD BUSINESS**

### BUSINESS MODELS

Barry Bryant from Dahab Associates joined the meeting telephonically 8:55 AM.

Staff distributed a Word document, Business Models for Pension Plans. The five rolls Prudential plays in part or in full were discussed:

- Investment Managers
- Custodian
- Investment Provider
- Third Party Administrator (TPA)
- Investment Consultant

The five roles may be sliced and diced to create variations on a theme. The five page Excel handout with the same title has a series of such variations.

If the Board elects to select its own custodian then the investment provider function is performed collaboratively by the Board, investment consultant, and staff.

Staff then mentioned the goals:

- Maximize investment return
- Cost savings
- Simplify structure

- Transparency
- Access to thousands of investment managers
- Meet and know our managers

Ms. Evans asked the advantages and disadvantages of having Prudential provide oversight of the fund. Mr. Bryant said Prudential was providing good information, but that it was provided slowly.

If the Board selected its own custodian and created a platform of its own the Board would be more involved. It was suggested oversight of the six domestic mandates might take a lot of time. Staff said six was the maximum number of mandates. The board might end up with core managers where growth and value were combined. Alternatively it might end up with small and mid cap managers combined.

Mr. Johnson added that there could be some passive management or index funds. These require less oversight than actively managed funds. Mr. Johnson asked Mr. Bryant what he thought of index funds. Mr. Bryant said there were three schools of thought”

- Active managers do not add value. The whole fund should be indexed
- Large cap markets are quite efficient so they should be indexed and smaller cap stocks are more inefficient and that is the right area for active management.
- Active managers can help, if you can get managers in the upper quartile.

Mr. Tierney arrived at 9:15 AM.

Mr. Bryant discussed fundamental weighted index funds.

Mr. Johnson made a recommendation including these points:

- Investment Managers - Select our own investment managers with Dahab’s help
- Custodian - Competitive selection (RFP)
- Investment Provider - Board, Dahab, & staff fill this role
- Third Party Administrator (TPA) - Competitive selection (RFP) or perform internally
- Investment Consultant - Board has chosen Dahab Associates
- Pool assets for custodial purposes
- Create a timetable: select our tasks in this order
  - Select a custodian
  - Select investment managers
  - Select TPA or perform function internally

Chairman Cross suggested the City be upfront with Prudential about unbundling services to separate administration and investments.

Transition from the existing platform to another potential platform was discussed. Staff said the use of index funds during transition could be used. The board would select a custodian, then move money to the custodian and use index funds until active managers were selected. Mr. Bryant countered that the board might select active managers first and then once the custodian is

selected move the funds to the custodian and the active managers were then be given funds to invest.

Mr. Tierney suggested once the investment function is stripped from Prudential the City should end the administrative servicing as soon as possible also. Staff agreed that there can be a serious lack of incentive to perform administrative service to the utmost if the provider feels that are a lame duck about to lose their customer. This is quite valid. However, moving too fast could crush staff as well as increase the likelihood of errors.

Mr. Cross, Mr. Johnson, Ms Orr, Mr. Tierney, and Ms. Triggs, will work with staff and Mr. Bryant to discuss transition from one investment structure to another.

Staff will work with Barry Bryant and a meeting is tentatively established the afternoon of November 10<sup>th</sup>.

Ms. Evans agrees with Mr. Johnson's concerns about the transition and suggests the Pension Administration Division consider additional temporary staffing.

Mr. Tierney would not want the RFP process to slow while the board studies transition possibilities.

Chairman Cross feels the RFP for the existing bundled provider of investment and administrative services should not go forward without an understanding of the transition process.

Mr. Tierney made a motion to:

A committee composed of Ms. Triggs, Ms. Orr, Mr. Cross, Mr. Johnson, and Mr. Tierney create a timetable and task plan for transition.
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Ms. Triggs seconded the motion.

The motion passed (8-0).

Mr. Bryant said pricing at State Street is very attractive.

Ms. Triggs asked about Mr. Bryant's efforts to get prices from State Street, were they competitively bid? Mr. Bryant said no.

The Committee is tentatively set to meet November 10, 2010 in the late afternoon. Staff will set the meeting.

#### MEETING CALENDAR

The February 10, 2010 Due Diligence meeting will be rescheduled. Staff is asked to bring a calendar to the November meeting. Efforts will be made to schedule the Board Retreat to the

day preceding the Due Diligence meeting. Staff will poll members about availability February 14 in the morning and February 15 in the afternoon.

## **COMMITTEE REPORTS**

### **BUYBACK COMMITTEE**

Mr. Milner reviewed the committee's task. The primary issue was to explore possibilities that have no increase in unfunded liabilities. He discussed the splitting of the two groups in 2006. The committee recommended the board make a recommendation to Council.

Mr. Johnson asked how many participants might be eligible. Mr. Milner said forty four. The forty four were not polled as to their interest in a purchase of service credit program. The committee felt it appropriate to wait until the full board had taken a position. Mr. Milner did ask if there was interest but did not specify prices.

The range of buyback costs per year of service was \$9,000 on the low end to \$53,000 on the high end.

Mr. Milner made a motion to:

On behalf of the Buyback Committee I move that the board direct Ken Hoffman to draft language for a plan amendment to enable current members of the Police and Fire Pension Fund that have or had credited service as EMT, Fire Marshall or a Deputy Sheriff be allowed to purchase that service credit up to four years at full actuarial cost. Current members means employed in a covered position of the Fire & Police plan as of October 14, 2010.

Service credit would not be granted until payment is received in full at the members' full actuarial cost. Staff will formulate the rules for the purchase via payroll deduction and/or lump sum transfer from a qualified plan such as ICMA-RC.

Language as well as procedures must be such that there will not be any change in the plan's unfunded liability because of this purchase of service credit.

The draft plan amendment will be brought to the Board for review and consideration before forwarding to City Council. Staff is to hold public meetings with employees to discuss the proposal after it is approved by the Board and City Council sub-committee.

Ms. Evans seconded the motion.

### **Discussion**

Staff said the program drew a line as to end future participation. The line was arbitrarily set at October 14, 2010, the day of the board meeting.

Ms. Evans said some participants were not processed in leaving a prior position as a Deputy Sheriff or a ERT.

Mr. Wimer said the member paying full actuarial cost was no detriment to the plan. He then asked what of military time or other periods for which people may want to purchase service credit.

Mr. Tierney said it was of no concern if the terms of purchase called for full actuarial cost. He then asked the question at what point does the plan cease to take in new requests for purchase of service credit?

Ms. Evans said costs keep going up every year, so the sooner this is completed the better.

Mr. Wimer suggested there be limits to purchases. Ms. Evans suggested limits by having the board create a policy for ongoing buybacks.

Mr. Tierney would like the board to decide a formal position on buybacks.

Mr. Johnson recalled the costs:

- The time the board had spent on this
- The administrative time staff spends on this
- The expense of the actuary
- The expense of the legal consultant

Chairman Cross asked what the schedule would be. There was discussion of ordering:

- Ken Hoffman writing the plan amendment
- Going to City Council Subcommittee
- Surveying members for their interest in participating

Chairman Cross expressed his opposition to the program based on concerns there may be a subsidy.

Ms. Orr did not feel there had been an error. Mr. Cross said if there was an error it was to the Supplemental Retirement Plan or the Retirement Income Plan for Deputy Sheriffs, Emergency Rescue Technicians, and Fire Marshals.

Mr. Tierney said people felt burned by the political process. Board decisions are transitory. He and Chairman Cross had concerns the political process will change what the board is doing.

Ms. Triggs said if this was cost neutral she would favor it.

Mr. Tierney said the Board is not paying for the \$7,000 study.

Mr. Johnson asked if it would be helpful for the Board to write a letter stating that the City Council should approve this only if it was cost neutral, there was no cost to the Plan, no change in the unfunded liability.

Mr. Cross said people would ask for service credit for prior military service and for prior City service.

Ms. Evans said the board needs a policy on purchases of service credit.

Chairman Cross said the presentation to City Council should show the Board had a split vote on the buy back motion.

Ms. Evans distributed a memo to a City Council Subcommittee dated 11/22/2006 from Daniel Nickel. Mr. Johnson suggested the letter written by staff to council should not list options as the previous letter did.

The motion was approved (6-2).

Ms. Evans	Aye
Mr. Milner	Aye
Mr. Tierney	Nay
Mr. Johnson	Aye
Ms. Orr	Aye
Mr. Wimer	Aye
Ms. Triggs	Aye
Mr. Cross	Nay

Staff is directed to write a letter to members to solicit their interest in a purchase of service credit.

Staff is directed to request Ken Hoffman to craft language for a plan amendment.

Staff asks if staff is to pursue the notion of a policy on purchase of service credit. Staff is to put this on follow up to be addressed once the current effort is completed.

#### TRAINING OPPORTUNITIES COMMITTEE

The committee had no report.

#### TECHNICAL CORRECTIONS COMMITTEE

Staff indicated there was a collection of topics ready for review.

#### VENDOR AND SERVICE PROVIDER COMMITTEE

The committee had no report.

## **NEW BUSINESS**

Mr. Johnson said the City Council would meet October 19<sup>th</sup> for a general discussion on compensation which included pensions. This will provide important information and everyone is encouraged to attend.

## **NEXT MEETING**

The next scheduled meeting is November 11 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.
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Mr. Tierney seconded the motion. The motion passed (8-0). The meeting adjourned at XX:YY AM.

## HANDOUTS

Distributed in advance:

- Agenda
- Draft of the September 9, 2010, minutes **1(a)**
- Draft of the September 14, 2010, minutes **1(b)**
- Volatility Report **(2(a)(ii))**
- Summary of Activity Report **(2(a)(iii))**
- Follow Up Items **(2c)**
- International Association of Firefighters, letter on Preliminary Views **2(c)(v)**
- Business Models for Pension Plans (an Excel file) **3(a)**
- Firefighters & Police Officers Pension Plan, Board Meeting Schedule 2011, Draft **3(b)**

- Buyback Committee Proposal **4(a)**

Distributed during the meeting:

- Business Models for Pension Plans (a Word document)