

**MINUTES OF JANUARY 22, 2007, RETIREMENT BOARD
CITY OF ALEXANDRIA FIREFIGHTERS AND POLICE OFFICERS
PENSION PLAN
INTERIM MEETING**

PRESENT

| <u>Members</u> | <u>Others</u> |
|------------------------------|--|
| Dana Lawhorne (Chair) | Steven Bland, Retirement Administrator |
| Michael Cross | |
| Michele Evans | |
| Bruce Johnson (Alternate) | |
| Chris Lockwood | |
| Shirl Mammarella (Alternate) | |
| Joe Seskey | |
| Laura Triggs | |

CALL TO ORDER

The meeting was called to order at 8:48 A.M. on January 22, 2007

MINUTES

There was a motion by Mr. Cross and seconded by Mr. Lockwood to approve the November 9, 2006 minutes. The motion was unanimously approved (7-0).

OTHER

Former board member Mr. Dan Nickel retired effective December 31, 2006. The Chairman introduced Mr. Nickel's successor Laura Triggs. Her appointment and was ratification as a board member was approved by City Council.

CALENDAR

Staff was directed to bring three or four potential dates for each of the next few meetings. Board members were invited to the fall meeting of the Association of Municipal Retirement Systems – Virginia. The meeting will focus on Board issues Sunday afternoon and Monday morning and administrator issues the balance of the meeting.

Mr. Cross pointed out the upcoming election scheduled for November. Staff was directed to develop a draft set of election procedures as well as a timeline.

DEFINED CONTRIBUTION PLAN INVESTMENT OPTIONS

Mr. Bland reviewed the materials distributed by Dahab Associates at the November meeting. He supplemented them with his own handouts. Prudential sent an update of the quarterly D.C. fund performance report. The emphasis of the discussion was filling the voids in the sectors with no choices available. Plan participants are limited first by the funds Prudential has available, and second by the board authorizing only a subset of those offerings.

Mr. Cross provided background. Disabled plan members particularly wanted more options and had previously approached the board. His concerns were:

1. Make more allocations/sectors available
2. Make more funds available with the more popular investment sectors

Mr. Johnson asked what negatives there might be to adding more funds. Mr. Cross stated in that Prudential could make the funds available at no cost to the participants or the plan. Mr. Bland verified this. He also said that there was a tendency for participants to put a little money into every fund. If the new funds were disproportionately skewed to any category participants may put more funds in that category reflexively and not by design. Mr. Cross said that more investments might be confusing to some. Finally, there was the issue of due diligence. More funds would have to be reviewed. It was pointed out that in addition to the board's review both Prudential and Dahab were conducting reviews.

Ms. Triggs asked if the board training had covered the topic of number of investment choices. Mr. Seskey indicated the idea of unlimited options was going too far.

Mr. Cross and Mr. Bland discussed bond funds versus the Guaranteed Deposit Account.

Mr. Bland clarified his handout was meant to supplement Dahab's recommendations, not replace it.

Mr. Cross made a motion:

Dahab Associates should be instructed to bring fund recommendations so that the number of investment options by category could be increased to total the following:

| | |
|------------------|---|
| Large Cap Value | 3 |
| Large Cap Growth | 2 |
| Large Cap Blend | 1 |
| Mid Cap Value | 2 |
| Mid Cap Growth | 2 |
| Small Cap Value | 2 |
| Small Cap growth | 2 |
| Fixed Income | 2 |

Dahab Associates is instructed to bring recommendations for these categories.

Chris Lockwood seconded the motion.

Discussion: Mr. Bland pointed out that fixed income was a broad category and that more direction would be helpful. Did "Fixed Income" mean core plus or did it also include high yield short term, etc? The motion was intended to include at least on core plus and the second would be determined after Dahab associates' recommendations. Ms. Mammarella expressed concerns about junk bonds. The motion was not meant to alter choices in existing sectors (Stable Value, and International).

Mr. Johnson pointed out the approach to bond investing frequently leads to spreading funds out over long duration managers as well as intermediate and short term.

The motion is meant to supplement existing offerings and Dahab's suggestions. The motion is not intended to alter existing offerings or to limit Dahab's recommendations in areas as Real Estate, International, or Global funds.

The motion passed unanimously (7-0).

REVIEW PRUDENTIAL'S RETIREMENT CALCULATIONS

Mr. Bland provided an update, including a handout with progress subsequent to the meeting packet mailed. One record will have to change. The benefit will increase \$16 per month.

Ms. Evans pursued the notion of a consulting assisting in Prudential and City staff developing a procedures manual. She asked the topic be placed on the next meeting's agenda. Completing a manual or document asked that the notion of a consultant to support creating a procedures manual.

Staff mentioned the willingness to continue reviewing calculations. Mr. Johnston was weary of the cost of redundant efforts, particularly at the City's expense.

Staff recommended that a review of services not be done solely based on administration but consider all services, including investments.

Mr. Seskey voiced displeasure with Prudential's administrative track record. However, he pointed out the relationship Prudential has with the City's many plans and how disruptive it is to change administrators. Long-term benefits of switching administrators do need to be weighed against the short-term disruptions.

INTEREST ON BENEFIT ADJUSTMENTS

Mr. Bland raised the topic of interest payments on benefit adjustments. The plan document does not provide guidance as to whether or not interest should be provide (charged) on retroactive benefit increases (decreases). If interest is provided at what should be the rate? Board members

were opposed to our charging interest to members in the event of the City's or Prudential's error in charging for an over payment. While granting interest on making members whole for past underpayments the interest rate could be justified in many ways. The most popular was the long-term actuarial assumption (currently 7 ½%). Staff is directed to draft an interest rate policy and bring it to the board.

FOLLOW UP ON OLD BUSINESS

SERVICE CREDIT BUYBACK

A letter to Mayor Euille was distributed. Ms. Triggs indicated Mr. Jinks wanted the board to see the letter prior to its delivery to the Mayor. The status of the buyback was discussed.

BOLT/KLINE

Staff indicated Ms. Bolt was contacted by both the City Of Alexandria and Prudential. Her options were explained. She has not yet elected an option or contacted Prudential or City Staff.

PENSION PROTECTION ACT 2006

Mr. Seskey asked about a provision of the Pension Protection act that allows public safety officers to direct \$3,000 annually from pension or deferred compensation to medical insurance premiums on a tax-free basis. Staff clarified the \$3,000 limit is for the total from both sources is \$3,000/year and that Prudential and ICMA both mentioned they were working to develop the systems required to administer this feature. Mr. Seskey asked that staff seek a progress report from Prudential and ICMA. Staff is to ask Ken Hoffman for a summary on the Pension Protection Act of 2006.

The Pension Protection Act changes the age limitation from age 55 to age 50 for withdrawals without penalties. The Defined Contribution Plan has a Normal Retirement Age of 55.

Mr. Cross asked how salaries were treated in the month of retirement. Staff was asked to review the plan document to see if specific references are made to accounting being done on a cash basis versus an accrual basis.

Staff was asked to come up with a cheat sheet on the various sections of internal revenue code.

REBALANCING/ASSET ALLOCATION

A worksheet with monthly cash flows and balances was distributed. The timing issues of that worksheet were discussed. The timing of pay periods was such that November contributions came in late November whereas December contributions were made January 5th. Sometime in the months to come the pay periods will fall in such a way that the contributions "get caught up." Two months' contributions will fall in the same calendar month.

Members asked if it was possible to have the Accounting Division make contributions biweekly. The current practice of monthly payments is dictated by code. Ms. Triggs mentioned savings that could be realized by making contribution payments earlier. The City has a large "float" and

the interest rate earned on pension funds exceeds that earned by the Treasury Division under the current interest rate environment. Staff will look into this.

Chairman Lawhorne asked demographic information be added to the financial report. Staff indicated that Mr. Cross had previously requested that information. Staff was expecting that to be accomplished during the spring.

Staff reported on the completion of several rebalancing tasks assigned at the November 2006 board meeting, including the funding of \$2.5 million in real estate.

OLD BUSINESS AND REQUESTS FOR FUTURE AGENDA ITEMS

Mr. Bland asked board members to place unfulfilled requests for information or tasks for follow up on this list. The document will be updated for each board meeting and can be used to set staff's priorities.

DETERMINATION LETTER

Staff congratulated board members and legal staff for their dedication and for receipt of the determination letter.

Mr. Lawhorne requested more information be placed on the website. Others cautioned about information appearing without sufficient explanations or narratives.

Mr. Lockwood indicated review their deferred compensation statements they skip everything else and just look to see how much they earned.

INFORMATION – DISTRIBUTE WITHOUT COMMENT

DISABILITY

Chairman Lawhorne provided background on the conversion of disability to retirement at age 60 with Mr. Cross providing clarifying comments. Staff had prepared a background document on disability. Staff was asked to distribute the executive summary to board members.

Staff split the issues into two components: administrative and policy. The administrative issues related to making changes to actuarial factors that had become out of date or were otherwise inapplicable. The changes were discussed thoroughly and agreed upon at a meeting December 15th of Ms. Triggs, Eli Greenblum, Kenneth Hoffman, and Steven Bland. The factors were then updated and calculations were redone for ten disabled participants who retired under the provisions of the disability plan amendments that became effective January 1, 2003. There were ten members potentially affected. Of them five of them were impacted and all received benefit increases. Staff is confident the disability benefit is being administered consistently with the plan document.

This leaves a policy issue. The disability offset is implicitly based on the assumption that the participant will be able to earn 7 ½% on their account just as the pension plan assumes it will. If

the member elects to annuitize their defined contribution account in the market place they will receive annuity rates that fall well below the rates implicit in the actuarial assumptions. Staff said it was possible to design plan amendments that would allow the participant to turn over their Defined Contribution account to the disability or pension plan and receive the 50%, 66 2/3%, or 70% "benefit that had been originally targeted. Staff spoke with Mr. Greenblum - the plan's actuary – and he indicated it could be done on a cost neutral basis. Because this was a small group with a small body of data on which to make cost studies there was the risk that actual costs could be higher or lower – but the expected cost would be a break-even basis.

Chairman Lawhorne appointed a committee to review disability. The committee chairman is Mr. Seskey. Also serving are Mr. Cross, Ms. Triggs and Mr. Bland. The study should include what the plan says to do, will others turn 60 in the near future.

Motion: Mr. Seskey made a motion to continue monthly benefits to disabled plan participants over the age of 60 who currently are receiving monthly benefits based on the pre-age 60 levels. Benefits are to be paid at this level through the June 30, 2007 or cease prior to that if recommendations made by the Disability workgroup are enacted by City Council and become plan amendments prior to June 30, 2007.

Mr. Lockwood seconded the motion.

Discussion: Ms. Mammarella asked if this was legal. Ms. Triggs pointed out that while payments are made to a member in these circumstances the Defined Contribution balance continues to grow. Also, instead of providing an annuity for a 60 year old the plan will be providing an annuity for a nearly 61 year old. This is to say that there is a substantial offset of the costs incurred.

The motion passed unanimously.

COMMUNICATIONS PROGRAM

Mr. Bland commented on his proposed Communications plan and solicited comments. He qualified his statements by saying the progress was subject to filling an unfilled position in the Retirement Division.

Mr. Seskey made a motion to fill the unfilled position in the Retirement Division.

Mr. Johnson indicated he would abstain from voting.

The motion failed for lack of a second.

Mr. Seskey made a motion to put on the agenda next month the composition of the board and potential conflicts of interest.

Mr. Cross seconded the motion.

Mr. Johnson asked who might be knowledgeable and disinterested?

Ms. Triggs asked who would pay for the board's costs?

Mr. Johnson pointed out the value of the Budget Director attending board meetings.

Ms. Mammarella pointed out the commitment required to be effective board members and pointed out absenteeism and distractions.

Mr. Cross asked for a vote.

Mr. Lawhorne said when members were asked of the two issues of greatest concern communication was always mentioned. He was going to talk to board members and try to get a motion for the board getting an attorney.

Roll Call was taken:

| | |
|----------------------|-----|
| Joseph Seskey | Aye |
| Christopher Lockwood | Aye |
| Michael Cross | Aye |
| Bruce Johnson | Nay |
| Laura Triggs | Nay |
| Dana Lawhorne | Aye |

The motion passed (4-2)

Mr. Cross made a motion: The board expresses its interest in filling the vacant communications position in the Retirement Division to educate active members.

Mr. Seskey seconded the motion.

The motion passed (5-0). Mr. Johnson abstained.

Mr. Seskey motioned the meeting adjourn. Mr. Cross seconded the motion. The motion passed unanimously (6-0). The motion passed unanimously. The meeting adjourned at 11:40 AM.