

**Minutes**  
**Employee's Retirement System Board of Trustees**  
**November 9, 2011**  
**Quarterly Meeting**

Call to Order: Chair Dave Nadolski called the meeting of the Employee's Retirement System Board of Trustees to order at 8:30 a.m. at City Hall.

Board Members Present: Cathy Bianchi  
Matt Burns  
Peggy Dant  
Donn Hill  
Dave Nadolski

Board Members Absent: Shawna Goldammer  
Angeline Lavin

Staff Members Present: Bill O'Toole, Director of Human Resources  
Tracy Turbak, Director of Finance  
Tom Huber, Assistant Director of Finance  
Gail Eiesland, Chief Assistant City Attorney  
Angie Uthe, Compensation & Benefits Manager  
Kathy Pottebaum, Benefits Technician  
Ann Boden, Financial Analyst

Others present: Firefighters' Pension Fund Board of Trustees members: Randy Farland, Paul Livermore, Matthew McAreavey & Mark Sivertson  
Howard Pohl, Becker, Burke & Associates  
Cavanaugh Macdonald Consultants: Tom Cavanaugh, Patrice Beckham, Eric Gary & Brent Bannister

The Employee's Retirement System Board of Trustees and the Firefighters' Pension Fund Board of Trustees met in joint session.

**A motion was made by Dant, seconded by Burns, to approve the August 16, 2011 meeting minutes. Motion carried unanimously.**

Howard Pohl presented the Board with the 2011 third-quarter performance report. The market value of the Plan decreased from \$279.3 million to \$250.6 million. The funds had a rate of return of -10.2% in the third quarter compared to the -10.3% median of the Becker, Burke Plan universe. The annual return was 1.6% compared to the median of 1.1%. Results for the past five years of 2.8% were above the 2.4% median. The total Plan had 48% of its quarter-end assets with domestic equity managers, 16% with international developed markets, 3% with international emerging markets, 27% in domestic bonds, and 6% in real estate. The total Plan had bottom quartile performance relative to all plans in the quarter, but was above average for the year. It was above average for five years. Risk, as measured by the fluctuation of quarterly returns, was top quartile, while the reward/risk ratio was above average.

Pohl also reviewed the board's annualized returns from December 31, 1994, through September 30, 2011, illustrating the following results:

<b>Total Fund</b>	<b>8.3%</b>
Domestic Equity	8.6%
S&P 500	7.5%
International Equity	6.5%
EAFE	3.9%
Fixed Income	8.1%
Barclays Aggregate	6.9%

Howard Pohl mentioned that the Prudential Real Estate allocation was slightly higher than the target range as purchases and redemptions are only completed at the end of each quarter. It was advised to leave the allocation as is.

Howard Pohl stated the Board may want to consider conducting a search for an active manager in Emerging Markets to replace the current indexing strategy. Upon discussion, the Board agreed to review active versus passive performance results net of fees at the next meeting prior to conducting a complete search. The Board also briefly discussed other investment options, including commodities that should be considered in the future. Howard will provide the Board additional information on commodity performance and characteristics at the next meeting.

Actuarial consultants Cavanaugh Macdonald Consulting (CavMac) led the discussion regarding the Plan Design Study project. CavMac modeled several design issues for board discussion and review on staff-designed computer software to show the relative impact of various proposals.

Cost impact of potential plan changes for future hires were noted as follows:

<b>Cost Impact of Potential Plan Design Changes for Future Employees</b>		
<b>Employee Group</b>	<b>City Contribution Estimated Rate Change</b>	<b>Alternative Plan Designs</b>
General	Reduction from 8.2% to 5.0%	Eliminate vacation and sick leave pay in Final Average Pay, increase member contribution to 5%
General	Reduction from 8.2% to 3.5%	Eliminate vacation and sick leave pay in Final Average Pay, increase member contribution to 5%, increase normal retirement age to 65/5 years of service, Final Average Pay average of 5 years, reduce COLA max to 2%
General	Reduction from 8.2% to 4.0%	Eliminate vacation and sick leave pay in Final Average Pay, increase member contribution to 5%, increase normal retirement age to 65/5 years of service
General	Reduction from 8.2% to 3.7%	Eliminate vacation and sick leave pay in Final Average Pay, increase member contribution to 5%, increase normal retirement age to 65/5 years of service or age 60/30 years of service, reduce COLA max to 2%

Police Fire	Reduction from 11.4% to 7.0% Reduction from 11.4% to 8.0%	Eliminate vacation and sick leave pay in Final Average Pay, increase member contribution to 10%
Police Fire	Reduction from 11.4% to 5.8% Reduction from 11.4% to 6.1%	Eliminate vacation and sick leave pay in Final Average Pay, increase member contribution to 10%, Final Average Pay average of 5 years, reduce COLA max to 2%
Police Fire	Reduction from 11.4% to 6.5% Reduction from 11.4% to 7.9%	Eliminate vacation and sick leave pay in Final Average Pay, increase member contribution to 5%, Final Average Pay average of 5 years
Police Fire	Reduction from 11.4% to 6.7% Reduction from 11.4% to 8.5%	Eliminate vacation and sick leave pay in Final Average Pay, increase normal retirement age to 55/25 years of service or age 60/15 years of service, reduce COLA max to 2%

CavMac also discussed access to the City's health plan upon retirement. Current retirees would have no change in their access to the City's health plan. Future employees would not be provided any benefit for health care upon retirement. The following option was proposed for current employees upon retirement:

- Change the benefit to a fixed-dollar subsidy
  - Tier level of benefit based up service – i.e. \$20 per month per year of service
  - Provide COLA on benefit
  - Benefit for retiree only
  - Subsidy ends when retiree reaches age 65 – Medicare eligibility

It was noted that leaving the health care benefit as currently structured may become unaffordable for future retirees and the above option is a responsible alternative. Depending on the employee group, the change to a fixed-dollar subsidy for health care has the potential to reduce the City's contribution rates by approximately 3% to 6.5%.

The Board will be holding a special meeting on January 4, 2012 to review the final report on plan design changes from CavMac with the goal to provide recommendations to the Mayor after the February 8, 2012 quarterly meeting.

**A motion was made by Bianchi, seconded by Burns, to adjourn the meeting. Motion passed unanimously.**

The Board adjourned at 2:50 p.m.

Respectfully submitted,

Angie Uthe  
Recording Officer