

**Minutes
Employee's Retirement System Board of Trustees
May 2, 2012
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 the Main Library.

Board Members Present: Cathy Bianchi
Matt Burns
Shawna Goldammer
Donn Hill
Angeline Lavin
Dave Nadolski

Board Members Absent: Peggy Dant

Staff Members Present: Bill O'Toole, Director of Human Resources
Tracy Turbak, Director of Finance
Thomas 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, Matt McAreavey & Mark Sivertson
Howard Pohl, Becker, Burke & Associates
Louise Gates, Gabriel Roeder Smith & Company

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

A motion was made by Lavin, seconded by Goldammer, to approve the February 8, 2012 meeting minutes with the following recommended correction to page 3: remove "Inflationary adjustment of up to 3%" and replace with "Inflationary adjustment of 3%". Motion carried unanimously.

Louise Gates presented the board with the December 31, 2011 Annual Actuarial Valuation. The results of the valuation identify the City's pension contribution rate for the general division at 14.62% and added with a health insurance/GASB OPEB rate of 5.93%, the overall contribution rate for 2013 totals 20.55% of payroll. This reflects a contribution increase of 2.16% from the 2012 total contribution rate of 18.39%. Due to the significant increase in the contribution rate and the pending board recommendations for plan design changes to the elected officials, Gates offered alternate amortization periods for the pension and health rates in the valuation. The current amortization period for pension is 12 years and the alternate amortization period would be 19 years. The current amortization period for health is 24 years and the alternate amortization period would be 30 years. The contribution rates under the alternate amortization periods would be 12.56% for pension and 5.57% for health.

The report indicated that the general division had a funded ratio of 88.9% for 2011, down from 91.0% in 2010. The retiree health funded ratio was 46.3% for 2011, up from 42.7% in 2010.

The results of the valuation identify the City's pension contribution rate for the police division at 23.00% and when added with a health insurance/GASB OPEB rate of 9.70%, the overall contribution rate for 2013 totals 32.70% of payroll. This reflects a total contribution increase of 3.03% from the 2012 contribution rate of 29.67%. Due to the significant increase in the contribution rate and the pending Board recommendations to the elected officials for pension plan design changes, Gates offered alternate amortization periods for the pension and health rates in the valuation. The current amortization period for pension is 12 years and the alternate amortization period would be 19 years. The current amortization period for health is 24 years and the alternate amortization period would be 30 years. The contribution rates under the alternate amortization periods would be 18.94% for pension and 9.01% for health.

The report indicated that the police division had a funded ratio of 84.9% for 2011 down from 86.7% in 2010. The retiree health funded ratio was 39.0% for 2011, up from 37.2% in 2010.

Gates reminded the board that the economic investment assumption was 7.75% and the wage inflation assumption was 4.25%. She recommended the Board consider conducting IRC 401(h) testing and an experience study after any identified plan design changes are made to ensure compliance and adequate planning for the future. A Death Check against Social Security records was conducted by Gates as of April 15, 2012, and there were no issues of inappropriate payments or financial concerns. Gates also discussed the final audit report from Cavanaugh Macdonald. She will work with Finance to modify some of the reporting components including the smoothing methodology for future valuations.

The Board discussed the impact of the current amortization period on pension and health contributions. It was noted that the reduction identified under the alternate health amortization period had minimal impact and did not need to be pursued to meet the objective. The Board also noted that modifying the amortization period for pension was a recommended option in the Cavanaugh Macdonald final report. Gates also commented that adopting the alternate amortization period would reduce contribution volatility and was a reasonable action for the board to consider.

A motion was made by Goldammer, seconded by Lavin, to adopt the alternate amortization period for pension of 19 years and continue the current amortization period for health at 24 years for a total contribution rate in 2013 of 18.49% for the general division and 28.64% for the police division. Motion carried unanimously.

Tom Huber presented the Board with the 2011 Annual Financial Report.

The report was compiled in accordance with the City's pension ordinances and includes two attached statements which are prepared in accordance with Generally Accepted Accounting Principles (GAAP) and are published as part of the City's Comprehensive

Annual Financial Report. The GAAP reports showed an increase in net assets from \$264.8 million to \$269.5 million for the year ending December 31, 2011.

A motion was made by Lavin, seconded by Hill, to approve the 2011 Annual financial Report. Motion carried unanimously.

Uthe presented the board with the 2011 pension logs indicating retirements, refunds, deferred retirements, and deaths in the general and police divisions.

A motion was made by Burns, seconded by Bianchi, to approve the 2011 pension logs for both divisions noting the retirements, refunds, deferred retirements, and deaths. Motion carried unanimously.

A motion was made by Lavin, seconded by Burns, to nominate Dave Nadolski as Board Chairperson. Motion carried unanimously.

A motion was made by Bianchi, seconded by Hill, to nominate Shawna Goldammer as Board Chairperson Pro Tem. Motion carried unanimously.

Howard Pohl presented the Board with the 2012 first quarter performance report. The market value of the Plan increased from \$269.2 million to \$293.8 million. The funds had a rate of return of 9.3% in the first quarter compared to the 8.0% median of the Becker, Burke Plan universe. The annual return was 7.3% compared to the median of 4.1%. Results for the past five years of 4.4% were above the 3.3% median. The Total Plan had 51% of its quarter end assets with domestic equity managers, 16% with international developed markets, 3% with international emerging markets, 24% in domestic bonds, and 6% in real estate. The total plan had top decile performance relative to all plans in the quarter and was near the top decile for the year. It was top quartile 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 March 31, 2012, illustrating the following results:

Total Fund	9.1%
Domestic Equity	9.8%
S&P 500	8.7%
International Equity	7.4%
EAFE	4.6%
Fixed Income	8.2%
Barclays Aggregate	6.8%

Tom Huber briefly discussed the current asset allocation of the portfolio compared to target range. Based on prior recommendation from Howard and Board action, the commitment to real estate continues to be slightly overweight relative to the target range.

O'Toole updated the Board on the status of the Pension Plan Review Project as follows:

- March 2, 2012 - Boards' recommendations sent to the Mayor and City Council.

- March 26, 2012 - Cavanaugh Macdonald presented the Final Plan Design Report at the City Council Information Meeting. The project was assigned to the Fiscal Committee of the City Council.
- April 2, 2012 – O’Toole answered questions on the Plan Design Changes Project at the Fiscal Committee meeting. The Committee asked for the Mayor’s position relative to the board recommendations on the pension project. Time was extremely limited due to other agenda items and there was not much discussion on the topic.
- May 1, 2012 – Fiscal Committee invited SDRS Executive Director Rob Wylie in for a presentation on the System provisions and operations. O’Toole advised the board that the Mayor also had conveyed to the committee that they first address new hires before discussing actions on current employees and that the Mayor encouraged the City Council to consider the SDRS option. O’Toole noted that the Mayor believed both options had merit, however, recommended SDRS because it would allow the City to get out of the pension administration business, SDRS was well-funded and well managed, represented good savings, and did not jeopardize the City’s ability to continue to attract and retain employees.

Some board members expressed concern that the Mayor did not agree with their recommendation of creating a new tier structure for future employees and for pursuing new hires and current employees separately. There was discussion that separating the two groups in the manner described could jeopardize the ability to obtain favorable results with the current employees. The board asked administrative staff to invite the members of the Fiscal Committee to a special meeting of the Board, so the Board could fully discuss their rationale and analysis for their recommendations.

Huber shared the timeline and project scope for the Investment Consultant RFP. A subcommittee of Board members will work with staff to review the proposals and select the consultants that will be invited for interviews by the entire Board. Trustees Angeline Lavin and Matt Burns will serve on the subcommittee along with Fire Pension Fund Trustees Randy Farland and Mark Sivertson.

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

The Board adjourned at 11.50 a.m.

Respectfully submitted,

Angie Uthe
Recording Officer