PENSION BOARD
GENERAL EMPLOYEES

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Scott Roberts: Alright I’ll go ahead and call the City of Starke General Employees’ Pension Board meeting to order. Roll call: Terry?

Terry Anderson: Here

Scott Roberts: Alicia?

Alicia McMillian: Here

Scott Roberts: Tommy? Chastain’s not here Travis?

Travis Woods: Here

Scott Roberts: I’m here Ricky… Thompson’s not here Ron Cohen?

Ron Cohen: Here

Scott Roberts: Tyler?

Tyler: Here

Scott Roberts: and Larry

Larry: Here

Scott Roberts: Alrighty, uh, I will look for a motion to approve, the…uh, adopt the minutes of January 28th.

Alicia: I make that motion

Scott Roberts: I have a motion, do I have a second?

Terry: second

Scott Roberts: I have a motion and a second. Uh, any discussion? All in favor say aye.

Board: Aye

Scott Roberts: Motion carries. Moving on to the, uh, approval of the warrants for January, February and March.

Travis Woods: I make the motion to accept.

Scott Roberts: and I have a motion to accept.

Terry Anderson: second

Scott Roberts: I have a second. Any discussion? If there's no discussion, all in favor say aye.

Board: Aye

Scott Roberts: motion carries. Citizen participation. Anybody? No?

(Unintelligible comment from unknown speaker)

Brenda: and the reason why is somebody from the Fire Pension suggested that they never get invitations to know when the meetings are, so this time what I did was to send one out to all three board's retirees and we're going to start letting them know in their check. We're going to continue to just let them know in their payment checks that the, uh, when the meetings are so that if they feel they want to come, they can come.

Scott Roberts: Very good

Brenda: they were never told when they were

Scott Roberts: okay, very good, that's a good idea.

Don Tilley: Mr. Chairman I have one question.

Scott Roberts: Yes sir.

Don Tilley: There’s a number of employees that have been retired for a number of years and they’ve never received any increase their retirement fund. Is there anything that you can do for them? Some can’t even pay their insurance.

Scott Roberts: Is that a cost of living increase you’re talking about, or something like that?

Don Tilley: Yeah

Scott Roberts: We can certainly look into it and um, that may be an actuary question too, um, is that something Ron, you would know, dealing with our pensions, are we behind times on that or is it normal that?

Ron Cohen: I don’t know really what percent that cost of living increase is. I will tell you that a regular fixed cost of living increase tend to be very expensive and also very important, of course cost of living increase is very important. I can talk more about the cost, but of course cost of living increases are very expensive to fund. There are more ways to do a cost of living increase whereby if you make more money than you assume you could pay a cost of living increase, but under the state law there has to be a gain from the very beginning and I don’t know if there is or not. Uh, even a small cost of living increase is very, very important to the members. Now, it’s not something that we can do, this board, it’s not something this board can do, cause only city can do that. But one of the things we can look at is get an idea how common they are and ask Larry to do some kinds of ideas of how much they might cost. I’d be a little interested in this cost of living increase where some of the money, in the years where we do better than was expected, can be used for variable benefits, it’s not guaranteed because we may never do better than expected. There’s problems with that because there’s years you do worse than expected and then the years you do better than expected you’re not keeping all the money you’re giving it away a portion of it, so there’s problems with that. So, it’s certainly something we sure can look at and if we want to spend the money to do it. It’s not complicated just expensive, but it’s very important to people because even in times of low inflation, let’s just say .5% over 20 years your purchasing power has gone down by a third, you know that’s even in times of low inflation. So it’s something to look at. It not’s completely uncommon not to have it just cause of the cost.

Larry: I would just add some of the externs with them. On the one that would be based on experience, you know, it's sharing investment gains, I think the state has a position that it may need to be prefunded so that's not a "free lunch" thing, so that would increase the city's contributions. Some of the things people do is they start with a modest increase and then see how that works. For example, rule of thumb might be, a 3% annual increase which is not modest, in terms of what they are, it costs about 25% extra costs added onto the city costs.

Alicia McMillian: for fund or the individual, 25%?

Larry: the costs. Just to give it 3% perspective COLA each year

Alicia McMillian: for the whole fund?

Larry: yeah

Alicia McMillian: oh, alright

Larry: it's very expensive, so people start modestly and try to each incremental costs with the last. Some of the other things are deferring the COLA, before a certain age. Whether it's 60 or 65, don't start the COLA until that point in time at age 60 or 65. Some of the COLAs could be capped, we'll give a 3% COLA, but not more than 20%. Again, these are all, sort of strategies to keep cost down with the thinking that maybe when we get 6 or 7 years out we might want to look at it again. I guess… the one that's the least expensive is to give an ad hoc COLA, which means, just one time we're going to increase, that could be a flat number. Right now, everyone gets a 3-5% increase in their pension or it could be some factor.

Scott Roberts: One time? Or…

Larry: One time. So, what I'm—

Scott Roberts: So it stays?

Larry: Yes, it stays at the level, but it doesn't have future increases built into it. That would be an ad hoc, um…

Scott Roberts: Can you discriminate and do it to the ones that have retired now and then structure it where the ones that are retired now get a one time increase and then we address the future a different way? Are we able to discriminate that way?

Larry: Yes. That would be the way an ad hoc would work. The other way an ad hoc works is the flat amount. It could be 1% for each year retired, or a higher percent for each year retired. So that kind of, you know, those are what's out there.

Scott Roberts: Well, I know somebody had mentioned to me, about a month ago, this past meeting, and I thought it might come up and I think that as a pension board we need to address it in some way so that we are doing our diligence, at least listening to the retirees. If we could, possibly look at that ad hoc, of going in and see the actuaries' response to a 3%, I'm not sure. While you're doing it, maybe you could do a 2, 3 and 5 % or something so we could have a good understanding of what this 1% difference does to retirees now. Um, and then we could, I don't mind looking at something for the future. The only thing that I see is tying it to the investments sounds good; if we do good, we give it, but as you know we've had a number of years where they've not done good. And what I'm afraid what'd happen, psychologically, to the retirees is we're not getting it, we're not, you know, just cause the market, we take a pounding, to the market, we do the best we can and the market, we take a pounding, they'll be thinking the city and the pension board isn't doing their job cause we're not getting increases when we're doing the best we can, that's the only thing. The other thing is when the market goes down, we're not taking anything away, but when it goes up and we're trying to catch back up and we're giving it away, so…that's not really fair to the ones that are working and going to retire so, it's got to get a happy medium here between being fair to the ones that are retired and have the cost of increase and at the same time not burden the city with the ones that are going to retire in the future. I'm not sure what the answer to that, but it's a good philosophy. So maybe in one of the scenarios we could look at the ad hoc one time increase of different percentages and then come in with a 1% after 65 or something like that, you know some scenario, you know bat some things around.

Travis Woods: Sounds good and you know, since 2008 we went into the hole so far, we're still just trying to dig out. We're not even—

Scott Roberts: and that's why I think going…It sounds good, but when we have bad years…we do the best we can in the market.

Larry: When your portfolio position is more aggressive than our bench mark and assumptions which is going to work out well over the long term probably but over a short term time period you could underperform drastically and then when you are outperforming drastically, you're giving all those gains away so when you underperform, you're not going to make those up because of the way the portfolio's positioned.

Speaker: It's a mix of what they can expect or not expect.

Ron Cohen: If the idea is to get them to the long time retirees or the retirees who are out already is to look at asking Larry to do the study to define what you mean by retirees, do you include people in the drop, or not in the drop. And I would suggest you give thought to not including people in the drop because of the cost of that. I think it's very important to get some money. I don't like the idea of tying it to investment returns. That's the way some people do it, but I don't think that's a good idea. I just know you're going to be surprised at the…how much that's going to cost cause it's so expensive. So, you can structure it in a way where you make it less expensive, so if somebody's in the drop, they don't get the COLA, but once they leave is when they start getting the COLA. Another thing you can look at, which may make less of a difference, but make some difference is whether or not you compound the COLA. So, if your pension is $100, and you get a 1% COLA, you get $101, if you compound it you get another…if it's $101 you get $101.10, but that builds up over time. If it doesn't build up over time, so you cannot compound it, every year you'd get $101 is another way of looking at it or you get $101 one year, $102 the next, $103 the next, but not $103.30. So, you may want to give Larry the authority to do some of those things so he can bring back the information.

Scott Roberts: So the 1% would be based on the original pension?

Ron Cohen: Yeah.

Larry: For the people who are now retired yeah they haven't gotten a COLA so it would be based on the original pension.

Scott Roberts: I'm talking about in the future.

Ron Cohn: Yeah compounded or simple COLA. Yeah, we could look at both.

Scott Roberts: Yeah, look and that and play with different scenarios and don't do the drop, do it once they're out of the drop and maybe pick an age of 65 or something like that, um, what is the COLA now? I know it varies.

Larry: it varies. It's been between 1 and 2%.

Scott Roberts: and I'm just arbitrarily throwing out numbers on the retirees, you can pick maybe 2, 3 or 5% something like that, that sound reasonable…the retirees now.

Larry: Is this the ad hoc COLA or both?

Scott Roberts: Ad hoc

Larry: They pretty much are multiplicative. So, 1% COLA would be 1/3 as expensive as 3%, the rate of them. I was thinking of showing a rate of 1, 3 and 5. I going leave this on the table also, if we do an ad hoc COLA, it needs to be ad hoc, we can't do it every year. Then it becomes a, for all intents and purposes, an automatic COLA. So, some of the things people will do to avoid that is give a flat COLA one year and then give a 1% for each year retired or since that we do that 3 or 4 years from now. So, it's a different format from an ad hoc COLA.

Scott Roberts: So we could do an ad hoc flat now and address it later?

Larry: yeah, right and it might be in a slightly different format so you couldn't say it's an automatic COLA type thing. I don't know I could do the 1% after 65 and show with and without the drops. So, like I said before the 3% is three times as expensive.

Scott Roberts: Well, let's play with that and when we get those back, we can massage the numbers and see if we need to go back and get the information to see if it's beneficial to the retirees and such. Mr. Tilley does that sound like we're going down the right road with it?

Don Tilley: It's something that's bothered me from when I served on the board. Here's these people who've dedicated most their lives to serving the City of Starke and we're just throwing them out there, not doing anything with them. They appreciate we give them a retirement of maybe $250 a month and that don't even pay their life insurance, you know that…or their health insurance as far as that goes, unless they go Obama care. What are we going to do, not changing the subject, but what are we going to do about the drop program? We've got 5 or 6 employees about to retire on the drop program and that's going cost some money. Where's that going to come from? Am I out of line bringing that up at this time?

Scott Roberts: That's figured into the actuarial costs and smoothed out over time. I think we're going to get a report on that today and we don't get hit with that all at once. It is smoothed out. We are capped , as Travis has said, the market took a bad beating '08, '09, '10 and we're playing catch up and while we didn't get what we'd planned with our benchmark, but when you look around, there's a whole lot of pensions that did worse than us, so I feel like we were middle of the road with that. (laughter) not middle of the road of good, but middle of the road. (laughter) So uh, anyway, we will get that, those figures and look at them, and then whatever we look at and decide, like Ron has said, any recommendations will be sent to the commissioners and let them look at them

Don Tilley: I think the retirees would appreciate some consideration

Scott Roberts: yes, I think so.

Don Tilley: just the fact that you looked at it

Scott Roberts: absolutely, and I appreciate you coming and doing that and tell them that we are looking into it. That we are getting the actuary to get the figures together and that we are looking at several different options and directions to go.

Don Tilley: Thank you.

Terry Anderson: There was something too Scott that the Police Board did, maybe Ron could explain it better. Remember where they a one time bonus for the employees, you know?

Ron Cohen: That was an ad hoc COLA

Terry Anderson: Oh okay

Larry: It was a one time thing, but it didn't continue.

Terry Anderson: Right they just did it the one time but they're starting a share plan but that's with their tax monies.

Larry: Our ad hoc COLA would be if we topped someone at 3%, it would stay at that, it wouldn't drop back down after that. That's the difference. I mean we could do it for one year

Terry Anderson: I was wondering about this as well, because some of the people that are retired are, you know, they're making maybe one, two hundred a month and then there's some that are making a lot more. Do you have to give everybody the same percentage? Or can you give different percentages?

Larry: I don't think it's normal to give different percentages, but would could be done is, you know, whatever the percentage, but not less than a number, you came up with $50, I don't know if 50 is the right number, but not less than that number a month.

Terry Anderson: I was just giving it as an example. There are some people who are making $3,000 and $4,000 on the pension and then you've got this person getting $200 that worked full time. So, you know, granted the wages were way different back when the person retired, but still the fact that this person is barely getting by while the person getting $4000 on a pension benefit is sitting a little bit better and I just didn't know if there's something we can do to help the people that aren't getting much more…you see what I mean?

Larry: I want to make a comment; I don't know if Ron wants to, that's why sometimes rather than a flat rate, we give so many percentage for each year retired.

Terry Anderson: Oh, okay

Larry: and that would weight it in favor for those people who've been out for a long time who had lower wages but have been retired for 10 years or longer.

Terry Anderson: Okay

Ron Cohen: and legally, I think legally you can do it, I don't know actuarially, but legally I think you can give a flat dollar amount, so that say somebody that has a $300 pension gets a payment of $500 and someone who has a pension of $4000 a month gets a payment of $500. I'm not sure though. Larry thinks you can.

Larry: I said I didn't think you couldn't, but I'm not sure.

Ron Cohen: But I think you can do that. We're not governed, you can't do it based on illegal factors, but otherwise the desire is to get more money to the people who need it the most. You can make some rough judgments, you got somebody's been there 12 years, we'll pay more than somebody's who's been there 2 because of purchasing power hasn't lost as much. So I think you have a lot of flexibility about how to do it, which is both good and bad. The bad part is, why are you doing it that way? Why is she getting more than I am? That sort of thing, but there's all sorts of problems but I think you can be very creative in the way in which you do it.

Alicia McMillian: The Police Department did a flat amount and it didn't matter how much time they'd been out. They just did a flat amount.

Ron Cohen: Right

Larry: Again that was just the one year, then the next year they didn't do anything.

Alicia McMillian: it was a one time

Larry: Yeah

Travis Woods: The Police Department pays more in so it comes out of their pocket and they've got more money.

Alicia McMillian: They get money from the state so

Terry Anderson: Yeah, they get that from the taxes

Travis Woods: They pay more out of their pocket so they are able to build the funds up so the funds are there for them to be able to do this where for the general fund doesn't.

Don Tilley: Aren't they under a different pension than the general employees?

Several Speakers: Yes

Alicia McMillian: They get money from the state, where we don't.

Scott Roberts: Okay, that was a good discussion, alright we'll, uh, if y'all think of something when you get out of here, let Larry know, or if some idea comes up just throw it at him. I think you've got a good idea of what we're trying to do. Okay. Alright, again, thank y'all for bringing that up. Okay, Tyler.

Tyler: Everyone got a copy of our quarterly report? I have one extra here if you need it. Alright, open up to page 2, let's start there. I think the main thing that's driving the market, and I think I might have mentioned it last quarter as well, is European central bank at the end of 2014 announced that they were going to start the own quantitative using program, which the U.S. had done for a number of years and actually ended their own program last year. Basically what they are doing is buying a lot of fixed income securities to pump money out into their economy to try to keep them afloat. So that's the essential theory behind it. What that does is a couple of things, so far as our investments go. Number 1, it keeps interest rates down artificially in those countries. So what you're seeing is and this has effect Bowen-Haines, if you remember Bowen-Haines has predicted that interest rates are going to rise so at they've been very, very conservative. Well what's happened is rates are so low, that in foreign countries, people are going they might be low in the U.S., but they're better than what I'm getting here…in Germany for example, people are paying the German government to keep their money. They're getting a negative rate. So, it…I mean, it's just like nothing we've ever seen before, but it's happening. So, people are going I would rather be getting my 1.7% in the U.S., that's very safe, versus a negative return in Germany or a comparable return in a country that's not quite as stable as the U.S. is, so it's making a lot of money flow into the U.S. buying the U.S. treasury, keeping interest rates down instead of rising like a lot of people thought was going to happen. The other thing that does is depreciate your currency, so we did that with our own currency and now that's happening with foreign currencies, so what's that's doing to the US dollar is appreciating the US dollar, which is great if you are going overseas, cause you can buy thing a lot cheaper, but the flip side of that is when you're investing, you're getting fewer dollars back when you invest in a foreign company. That's been a real headwind for international equity. And you can see that at the top, see those red bars there? Had a pretty good return 3.6% (unsure due to excessive coughing in audience), but if you compare it in foreign currency terms it was up 9.1%, so you got almost 6% less back in US dollar terms than if you had invested directly in that country in their currency. The other thing is if you look at US equities, S&P 500 the largest company is up 1% is the smallest, you can see some of the little more speculative companies are up 4.0-4.3% . US fixed income, as I've mentioned, as you remember, when interest rates go down that's good for bond prices, bond prices go up, and so even though bond rates are really low, they still return 1.6% for the quarter even though they are getting a low interest rate. Over the last year you can see how foreign equity has really struggled basically flat down .6% for the last year and that's been a lot on the foreign currency return and the S&P 500 domestic equity has been up 12.7%, and fixed income has actually done pretty well up 5.7% over the last year.

The other thing that's going on, page 4, I'm sure you've seen it at the gas pumps, energy crisis, oil's come down quite a bit. Energy was down quite significantly last down last quarter and also down 2.3% for this quarter, you can see one of the worst performers for the quarter. Utilities was down 5.1%, basically utilities has done really well over the last year and people are taking some of the money off the table there. It's benefited us a little bit here, where Bowen-Haines has under weighed in both of those sectors they had a right fall there and then the growth year sectors, you can see where consumer discretionary and health care are doing better for the quarter so a little bit of a change from value oriented to growth oriented. The other thing on page 5, if you look at the top 10 weighted stocks there, you'll see that 8 of them were actually in negative numbers. And so if you were heavily weighted in the top in of US companies, as I mentioned the smaller companies actually did much better this quarter.

The only other thing I want to touch on is on page 9, if you look at interest rates where they're at right now, we're at that green line as of March 31st , you can see interest rates came down, again especially on those longer term interest rates levels. I mentioned how that affects bond prices, but the other thing is it affected your mortgage rates, so mortgage rates came down this past quarter so it's kind of interesting to look at as far as how the housing market goes.

Looking at your portfolio, on page 12, pretty much positional same. As I've kind of mentioned before, we're a little more aggressive than our targets. 75.3% equity, he will keep bumping up against that 75% limit and he'll reduce it to get back down under that, so he's aware of it. It just happened to happen at the quarter's end that put slightly above that, but he'll reduce it down. Fixed income is at 18.7% , cash at 5.9%, and you can see on page 14 versus your target, as I've mention it's more aggressive than our target so that's been helping with equity markets, but if the equity markets pull back we're not going to do as well. Okay, so you're 15% overweight in equity, you're 21.3% underweight in fixed income and 5.9% in cash, but he's kept a lot of cash on hand, as again I mentioned, he's expecting interest rates to rise and they haven't. So he's been keeping a lot of that in cash because he can't invest in equity, we put a limit on how much he can invest in equities. So he can't invest in equities, but he doesn't want to invest into much fixed income either so he's kept it in cash.

Performance, starts on page 17, we started off the quarter 9.4 million dollars, with contributions of $143,916, we had benefit payments of $202,058 to a cash flow coming out of the plan of $58,142, we had expenses of $4,997, we had income of $34,912 and capital gains of $284,251, so we put our income and capital gains together and that's been a return on our investments for the quarter of $319,163, so a very, very good quarter investment wise and then you can see fiscal year to date. We started of the fiscal year just under 9.3 million dollars, we had cash flow out of the plan of about, just under $100,000 and we've had income of $72,511 and capital gain of $469,947, so we've had over half a million dollars in investment gains since the fiscal year started. So, we've gotten off to a great start. In fact. David told me the other day; when I asked him if he was going to be here today, he told me we're already over our 8% assumption for the fiscal year. So we're doing really great, you can see for the quarter's end, this was as of yesterday, we are over our 8%, but at the quarter end we're up 3.38% , we are in the sixth percentile among other pension plans in the country, so we've had really good results. The fiscal year to date, we are up 5.87% up to March 31st and in the thirty-first percentile, you can see the longer term numbers. In 3 years, you're up 10.69%, in 5 you're up 10.23%, so obviously you're well in excess of our 7.75% you can see since inception. As we've mentioned before we're still making up ground. Up 6.38% since inception, so we're still behind our 7.75% assumption for that time period. So, we are still making up ground and we're doing well.

The individual pieces of the portfolio, the equity piece, was up 4.62%, obviously had a great quarter and in the seventh percentile. They had five stocks that Sun Edison, Kroger, McGraw-Hill, Apple and Disney were all up in double digits, you have a very concentrated portfolio of thirty-three stocks so thirty-three stocks and five in double digits, you're going to have a good quarter. There wasn't any that really…there were a few negatives, but nothing that really went down 20 or 30%, so really good quarter. He added a couple of stocks and took a couple out.

Then on the fixed income side up 72 basis points, you can see in the ninety-ninth percentile, that's an area we're struggling with because he's been predicting the fixed income rates to go up and they haven't, so he's been very conservative on that side and so we haven't taken advantage of the interest rates coming down. Fiscal year to date it's up 81 basis points versus our benchmark been up 2.54%, so that is an area where we struggled a little bit over the last couple of years as he's predicted interest rates to rise, a lot of people did, quite frankly, but they just haven't materialized yet.

That's pretty much it, we're on a pretty good pace now, but we're still making up, getting more aggressive.

Scott Roberts: Okay, any questions for Tyler?

(No response)

Scott Roberts: I would entertain a motion to accept the report.

Travis Woods: I make a motion to accept Tyler's report.

Alicia McMillian: I second it

Scott Roberts: I have a motion and a second. Any discussion?

(No response)

Scott Roberts: All in favor say aye.

Board: Aye

Scott Roberts: Motion carries

Tyler: on David's report too, he has the numbers there 8.2% so mark through the 23rd looks like the fixed income has done much better since the quarter ended too he has it up 3.8%. We haven't done the numbers yet as we're waiting statements to come out.

Scott Roberts: All right Ron, you ready?

Ron Cohen: Yeah, we have a retiree by the name of Mr. Atwall, who took a 10 year serve and left it to his spouse, Norma Atwall, and Mrs. Atwall died before received the 10 years of pension benefits and it is a 10 year certain so she's been on the list of the people to receive benefits and I know Brenda spoke with Larry about it and make sure that this amount that does need to be paid to someone as result of it. And we've kept court records, for Mrs. Atwall, and there was an estate open here though the documents are not online so we're going to have order them. It listed an interested person, I thought some of you may know who that is. It didn't name them as an administrator or executor, just as an interested person, a gentleman by the name of Elmer B. Davis and I'm just curious as to if that name rings a bell with anyone here.

Scott Roberts: Elmer B

Ron Cohen: Elmer B. Davis, D-A-V-I-S.

Unidentified Speaker: Stepson

Terry Anderson: Robbie worked with him.

Ron Cohen: stepson?

Unidentified Speaker: Pretty sure it was her stepson

Terry Anderson: That was her stepson. Her son, wasn't it

Brenda: That's what Sharon though too, that it was her son.

Unidentified speaker: maybe it was her son and his stepson?

Ron Cohen: Anyway, I can keep looking into this and try to find it myself, but I wanted to see if anyone knew anything.

Scott Roberts: So if you find him. He's due the payments?

Ron Cohen: He's due the payments. Well, somebody to that estate is due the payments and we don't know who they are and we're holding the money I guess

Larry has it listed as a liability, I would think. We owe someone, but we're not just going to write a check to anyone USA, but we're trying to find who. I thought before I go and order all these files…I've done some of this already, make calls and thought someone might go "Oh, I know Mr. Davis,"

Alicia McMillian: Do you think he's still in the area?

Unidentified Speaker: Martha used to work at purchasing years ago; she had two daughters but her and Elmer's kids…you never heard, they never had kids, I never see them, if I saw Martha I could probably find out.

Scott Roberts: Do you want to do that? Or give that to Ron…Brenda to do it. We need to make contact.

Unidentified Speaker: I don't know where Elmer is at, but I know

Terry Anderson and Unidentified Speaker: Martha works at Clay Electric.

Unidentified Speaker: She would know

Scott Roberts: If someone could get a hold of Martha or get that information or give the number to Ron.

Brenda: What's her last name?

Scott Roberts: What's her last name?

Unidentified Speaker: uh, Roberts. She works over there at Clay Electric in administration, I believe, over there

Brenda: Okay

Travis Woods: Why don't we let Terry do it since she knows her and get the number.

Unidentified Speaker: I assume she's still around here.

Scott Roberts: We'll let Terry do the calling.

Brenda: Ron, on Atwall's paperwork didn't he have his wife's name and then a brother? But we don't know anything about the brother.

Ron Cohen: Let me see the paperwork. There was a contingent beneficiary

Alicia McMillian: of Alicia McMillian

(laugther)

Scott Roberts: no, I think that was Scott Roberts

(more laughter)

Ron Cohen: There's a brother Lorendo Atwall, but I don't know if he took on the estate or anything like that. That's what it looks like here…wait, no, no, no. The brother we've discussed this, in the event my primary beneficiary, that's Mary Lou predeceases me or we shall dies simultaneously, I nominate as my contingent beneficiary Lorendo S. Atwall, brother. That was in the event Mary Lou predeceases him, but I don't think Mary Lou did.

Board: No, she died after him

Ron: She died after so it Lorendo is not entitled to it. It went on to her estate. I believe we need to see those court documents to find out the family relationship and see if there's a will or anything like that it might make a difference on this. I think if I have a chance to speak with someone who's knowledgeable maybe a lawyer's name will come up and I can get some paperwork. Then I can advise who pay it to. Now this has been the case for what, like 3 years now? Right Brenda?

Brenda: He passed away in 08 and she dies shortly after.

Terry Anderson: They died really close together

Brenda: Yeah, I don't think it was quite a full year before she passed away.

Alicia McMillian: So it all goes to her? Her estate.

Ron Cohen: Her estate.

Alicia McMillian: so it goes to her estate because she was she last one?

Ron Cohen: yeah

Travis Woods: What is the amount? Do you know?

Brenda: I don't know what it is now. We'd have to have Sharon…

Scott Roberts: It wouldn't be some huge amount

Brenda: No, but it's accumulating

Ron Cohen: We do have the money and we would like to get it to somebody if we can. I think this came about because

Scott Roberts: $10,000?

Ron Cohen: It might be more, I don't know, it might be more.

Brenda: How it came about is when I was doing the actuarial information I sent to Larry, I was like Atwall passed away and I took him off and Larry brought it to my attention that there's still a liability for them so I'd have to leave them on the report.

Ron Cohen: Then they called me and this is what I've found out.

Scott Roberts: so we'll do a little investigation…

Ron Cohen: So next, the legislature is wrapping up on Friday and we're going to take a look at finally comes out of it and see what the government signs, what comes out of it. It doesn't look to me like it's going to have an effect on the way you operate, but we're going to have to review it very carefully to see what the government signs.

Larry: I've actually spoken to the state this morning and there is one, and I wasn't going to talk about it, but since you brought it up there was a Senate bill 242 and that got combined with combined with 19…19 something.

Scott Roberts: 1952

Larry: 1952, anyway, part of that was a requirement that we use FRS mortality in our funding, we won't have a choice if…and you know if you isolate the effect of using FRS mortality it will increase contribution requirements. That was passed by the House and the Senate and it's waiting for the Governor and they're thinking he won't sign it but…there's a lot of people who are against it too.

Scott Roberts: All right. Moving on… Larry.

Larry: Actuary report, It's morning again. We got a copy of the report. I think the report has generally good news. I want disclaim our responsibility for the good news. We kind of are like a tax preparer, we are the recorder keepers and we present what has happened, but we don't make it happen. We reflect what the investment return is and all the demographic changes and we have some good news. The city contributions is down, compared to the requirement from the previous year. It's down because of actuarial gain as one of the causes, both from investment return gains and from liability gains. And also, it's down partially because the city put in some extra money during the year, they put in more than the minimum. And this report also has accounting disclosure again government accounting standards board 67TRUA and the GASB68 information which includes the expense that the city needs to book on their capper and liability.

So, anyway, that's kind of the preface. Turn to the page with our letterhead. Retirement system stops about the middle of the page. We're going to go through this, the payment this year is 47.7% of covered payroll. We're estimating that to be, $185,863 that's total payment, some money comes from the members, most of it from the city.Last year it was 50.5% , $192,000. This is for upcoming fiscal year 15/16, 10/01/15 to 9/30/16. Again, we break it down into a number of areas resulting in a "base" city requirement of 30.5%, last year that was 33.4%. Based on our projection of payroll, were expecting it to be $118,861.

Alicia McMillian: Excuse me, I'm sorry, I hate to interrupt you, evidently not on the same page as you.

Scott Roberts: I'm not finding the numbers.

Larry: It's the letterhead page…

Brenda: You have the general employees?

Larry: It's the one with the letterhead

Alicia McMillian: I was on a different page. I can't find where you're at.

Travis Woods: Me either

(laughter)

Alicia McMillian: I'm glad I said something.

Larry: Thank you for interrupting me

Scott Roberts: We're a little slow trying to find the page here.

(Group laughter)

Larry: okay let's start over, restart. All the preface before we got into the details was correct so this year minimum payment is 58% , so we're project that to be $484,108. Last year was 67.0% , $543,000. After the pick-up and member contributions, the base city contribution is 52% and we're projecting that to be $434,152; last year was 61%, $494,000, so that's a significant decrease.

On the next page, as I mentioned, um that this, well I didn't mention the…well, the provisions are unchanged from the previous evaluation report and the assumptions and methods are unchanged. It's apple to apples numbers. I mentioned we have the GASB-68 information, if we turn to page 7, the left hand columns are as of 10/1/13 and the right hand column are as of 10/1/14 and the number of active participants increased by 6%. That's a couple of extra active employees. The payroll for the active employees has increased by 3%, total system membership increased by 1%. The normal cost decreased as of a percent to cover payroll and the dollar amount. Again the normal cost could be view as the cost of benefits projected to be earned in the coming year. So those are down

Scott Roberts: Those are all on the page right here?

Larry: Yes sir.

Scott Roberts: Okay

Larry: The unfunded accrued liability decreased as of a percent to cover payroll and the dollar amount and the net base city contributions decreased as of a percent to cover payroll and the dollar amount. The vest benefits securities ratio is the ratio of market value to the present value of all vested benefits, for the active, based on their earnings and service to date and multiplied by their vested percentage for the retirees it's for the value of all their benefits. For the drop, it's a similar value. So our ratio this year is 80.8% and that's an increase from 73.1% , so we're going in the right direction. It's kind of looking like if we needed to settle all the benefits that were earned to date and we could pay them out based upon the funding assumptions, so we have our funding liability on sort of a settlement basis covered by about the 80.8% coverage.

If we turn to page 12, that develops the investment actuarial gain of $312…327,014, we break it down from asset return which was approximately $190,000 and when we do that we're using the smooth asset return. Again, we have a 4 year smoothing process to kind of dampen the volatility of the investments. Liabilities threw off another $137,000 of that actuarial gain approximately.

If we turn to page 40, there's some statistical information of some significant sources on that actuarial gain. The salary experience increases were approximately 1.4% each year, what did, all the active employees, who were there a full year, 9/30/13, full year 9/30/14, the ratio of their pensionable pay and average that for everybody, and that was a 1.4% increase, we were assuming 4.7% increase since it was less that would be an actuarial gain because the benefits are based upon the pay, expected pay. Employee turnover this year, people who terminate employment, but are not eligible for immediate benefits, they could be vested, they could not be vested, but it was 150% of the assumed and so when that number is greater than 100% that would generally be an actuarial gain because we thought we didn't expect that many to terminate, so there's less people to remaining that we have to pay benefits for. The smooth actuarial return was 10.15%, we'll take a little bit of a closer look at that. This year assumption is 7.75% and therefore that was a major source of actuarial gain this year. We show the 3, 5 , and 10 years smooth values. 3 years at 8.46%, 5 and 10 year are below the 7.75%. When you look at the market value returns on that same page. This year the market value returns 12.56%, 3 year average 14.42%, very similar to what Tyler numbers were. 5 year 10.2% and we show a 10 year amount at 5.7% again they may be slightly different from Tyler's numbers, but we use dollar weighted and I think, my understanding is Tyler uses time weighted. So they're not going to be exact, but they're close.

I guess if we… Tyler had covered page 9 so, let's go to page 10. Just to point out here some of the things that again were evident in Tyler's report. The receipts during 14 item B-1D, without looking at investment returns, we're about 778,000, and the disbursements during the year item c-5 were 905,000…906,000, so you can see we were in a negative cash flow situation. So we can't keep all of our earnings invested when in a negative cash flow position. The other thing on this page is the drop accounts. We start with 272,707, we had payments credits of both investment gains and benefit credits, we did have a pretty substantial distribution, but the 272,707, it upped to 395,463 at the end of the fiscal fourteen.

On the next page, is the smoothed value of assets, just sort of go through this so...It kind of sinks into what we're doing, but if you'll look at item E-1 what are market value return is this year was over a million dollars, $1,040,361; if we had earned our 7.75% we would have earned $612,307, so on a market value earnings basis we've had excess earning above the 7.75% of $428,054 we have a 4 year smoothing so we recognize ¼ or 25% of that $428,054,this year and you can see the triangular matrix, the remaining amount that hadn't been recognized this year is spread over the next 3 years. And also I wanted to point out that item F-4, the 93011 performance where the markets were bad, nobody was doing very well. We have finally recognized all of that performance, so it won't have any lasting effects going forward. But anyway, the way it works is we take last year's preliminary's actuarial evaluation of assets, preliminary is because if it were outside that 80%-120% corridor, we would have to keep within that corridor, but this would have been outside, but it wasn't the corridor so it's the actuarial value last year, so we take that, we recognize the non-investment cash flow, we recognize the 7.75% expected return, and then we add items the pay recognitions, investment returns, item F-5 and that's how we get the actuarial value of assets and we compare that to the 120%- 80% market value, we're definitely within those corridors.

Item H is of interest. Last year, we had deferred investments gains of about $380,000. Item H, this year we're up to $618,00. So next year going into it we already have, we are going credit 359,000of investment returns. So, we'll have another number based upon how we compare to the 7.75%, but we're in good stead to have another good year from investment returns perspective.

Turn to page 15, I don't know how much accounting we want to go through, but I'll try to keep this brief. These are the new accounting standards. Again, I mentioned last year total pension liability is a new accounting term, it's the same as the old actuarial accrued liability, it's the same number. You can see on the true up of 93014, the way it works is we do a measurement, evaluation data 10113 and then the measurement data has to be 93014, so we roll it forward and then at the end of the year we get the actual result and true it up for that so you can see the 93014 column and a projected 93015. Anyway, so the total pension liability at the end of the year on a projected basis is S12, 331,385; same with the market value of assets and that's the actual number of $9,256,944 , that leaves us with an unfunded, they call it a net pension liability, $3,744,441, on this basis we are 75.07% funded, again this difference between that and the vested benefits securities ratio was, we were only using the benefits accrued and the vested benefits uses all projected pays and service in the liability here.

Go to the next page, you're required to 10 years of history and we have an 11th year we're projecting for 15 when we true up for 9/30/15 we will drop off the 2005 year, but as you can see the city put quite a bit more money in than the minimum required contributions last year. So that's helped us get a better shape.

If you go to page 19, I just wanted to point out a couple of differences between statutes. Under the accounting standards we're required to do a projection to determine whether there is a point in time where the money, the fund would not have enough assets to pay benefits. You generally would see this in jurisdictions where they're not making the actuarially determined contributions, in Florida that wouldn't happen except FRS did that for 3 years, but…the local law plans, such as ours, are required to make a contribution, but anyway. You need to do a projection of what the contributions are going to be, and insure that all the money…we did those projections and clearly there'll be enough money in the fund with your contributions to pay all the benefits when that's the case you use the assumed rate of return of 7.75% to value the accounting liabilities. If in fact there was a point where there was a negative crossover point you would have to use a government bond index investment return assumption.

The next thing is, there is a sensitivity analysis so we're assuming 7.75% and we said the 9/30/14 number, let's just look at that, was about 3.1million, the net pension liability, if we reduce that by 1% the number would jump to 4.3 million if we increase it by 1% it would drop to 2.1million. So to test sensitivity of investments is assumptions that what required for accounting to disclose. There is legislation 2013-100, that is in effect and the state is implementing it as we speak, the database I need to report within 60 days. The…a lot of information, that is, I don't know if it's designed, but in fact will make the plan look less…in worse shape than it may really be. One of the reasons is we're required to report the liability minus 2%, there is no requirement to report it plus 2% so you're only showing the you know, we showed on 2014 that it went from 3.1 to 4.2, with a 1% decrease we go to 2, you know it's going to be another expected if it were gradable we'd be over 5.4 million to show us underfunded by that amount. In addition, I talk about how this calculation on whether the fund will have enough money to pay all the benefits under this statute, Florida Statute; we cannot assume any future contributions. They clarified it to say, we can't assume future investment returns and we do need to have benefits which include future service, but we have to show a run-off point assuming there are no future contributions. So there will be a point in time where according to this statute there won't be enough money to pay benefits. Some people have made the analogy that it's like you go out and buy a car and you say how long this is good for? Well if you put in a tank of gas it'll go 400 miles, that's all it's good for because you can't take into account ever getting to put in more gas. So it's kind of a skewed analogy that we're required to disclose. I'll talk about that more a little bit later, but I just wanted to disclose that.

Scott Roberts: Are they doing that cause so many funds got in trouble?

Larry: I don't know… you know, I think it's like some sort of standard legislation that people who don't like to find benefit plans pass sort of make them look bad.

Tyler: There's a very clear agenda, up there, to get everybody to move to DC plans

Scott Roberts: Go ahead

Larry: On page 20, I just want to point out that for the city's capper on the pension expense, that was reported on the 9/30/15 the cappers going to be that $232,165 with our recommended linkage, not sure how much detail to get into. I guess, we are amortizing our liability over 30 years. If you turn to page 22, what the accountants require us to do is, for the active employees we have an expectant working lifetime, for everybody else that's retired or in the drop, that number is zero. They don't have a future working lifetime so you take the amount so you know, you add for all the actives expected future lifetimes, you add zeros for all the retirees and inactives and you divide by the total of people. So while we're amortizing for funding over 30 years we have a straight line recognition of these gains and losses due to experience of 3.8 years and so you divide by 3.8, point up. And then for investment returns, forget about that amortization period for investment gains use 5 years, so that's how the pension extension developed and there's a lot of information there about it.

I'm just about done. I want to go to page 45, and we talked about all the amortizations over 30 years, we got some that source back to '92 and we've got 8 years left on those. This year, we said we had an actuarial gain of 327,014 you can see what the amortization payment is, $26,000, that reduced the contribution by 26, 325 that gain.

On the next page is our certification, to show that reports is in compliance with state statute for all the benefits provided in the ordinance, we have the liabilities and we are certifying to that. I did want to talk about one more thing, but I don't know if you want to ask questions now or…

Scott Roberts: Are you done with your report?

Larry: I think so, but I do want mention a few more things that are non-report related.

Scott Roberts: Well, we've got the report and I'll entertain a motion to approve the actuarial report.

Alicia McMillian: I make the motion.

Scott Roberts: Second?

Terry Anderson I second.

Scott Roberts: before we vote, I'd like to say I'm glad to see we're going in the right direction.

Board agrees

Scott Robert: I hope over the years, we can keep this up. Anyway, I appreciate all y'all's hard work on this. With that, if there are no further questions, all in favor say aye.

Board: Aye

Scott Roberts: Motion carries. Anything else you want to say?

Larry: Yes sir, once the report is approved, it goes up to the state, for their review by their, the state's actuaries. This 2013-100 statute that I mentioned with the minus 2% , we need to prepare that report for the state, it's going again for state purposes, we will show the minus2%, they have their prescribed mortality rate, which is different from our mortality. So we've got to do figures based upon our assumptions, we've got to do figures the prescribed mortality and our assumption of 7.75 and then we have to do figures based upon the minus 2%, and the prescribed mortality. So, you know, we have to do accounting numbers, run off , like I mentioned with the car that you can't put gas in and we have to do it based upon the prescribed mortality of our investment return assumption, prescribed mortality of the minus 2%. Calculate the number of years it will hold. All that's due in 60 days and also we'll be doing a…that goes to the state in a magnetic file, a computer file. We'll also be doing a report with the exhibits that are able to be read by a humans, in our report format that would need to go on the internet site so for the pension plan and for the city's internet site. Okay.

Scott Roberts: Do you need approval on any of that?

Larry: I think we've already got that. I got an email from them Monday that we're going to have, each actuary is going to have their own separate account. So they were setting that up. So, this morning they sent out additional information on that account. So, once they get finished with all that, that would start the 60 day clock for people to approve the reports or send it to the state prior to that date. Our clock is at 60 days so we're covered by the state. I talked about the FRS mortality that we may be…but I didn't experience we see some of the assumptions may not be with line experiences. Some of the turnover may be a little higher. We had our pay increase assumption show quite a bit higher for a long period. We have been making sort of patchwork changes. We've updated mortality, we've updated investment returns, and we've updated the salary scale as we've been going, but we're going to be forced to change this mortality rate…maybe. I'm probably more confident than Ron is, so.

Scott Roberts: How'd you get your numbers on adjusting pay? Is that an automatic scale you go to too?

Larry: No, that was based on …

Scott Roberts: Our experience?

Larry: Yeah, it was based on your experience so…It was set up quite a while ago and when we

Scott Robert: and you adjusted it out

Larry: yeah, we adjusted it when we reduced the investment returns. If we do nothing and the FDR mortality passes that's going to increase the city's costs. What we're…experience studies GF government finance office association recommends they be done every 5 years at a minimum. We haven't done any since I've been involved. We recommend we do it, we may be able to find that, not necessarily the purpose of it, but there are some assumptions that are not seemingly aligned, to the extent that they are holding overly conservative. We can offset some of these, and increase the costs of the mortality.

Scott Roberts: I just want to ask. How can there be that much difference in the mortality tables? I don't understand. That just seems to be so off.

Larry: I don't know, I haven't done the numbers, but I expect it to increase the costs maybe about 10% at that level

Scott Roberts: and that's just because of the mortality rate their using?

Larry: yeah, based on the mortality rate their using, people living longer. I don't say one's right or one's wrong.

Scott Roberts: I just didn't know how off it could be that much off from the other assumptions.

Larry: Again they were set a while ago so, like the pay increase of 4.7% was our assumption. I don't know if that's happened in a long time, but when I say they were adjusted recently, they were a component of the pay increase assumption as wage inflation. And wage inflation is related to cost of living and so when we reduce them a little bit, we reduce the investment return because that's also a function of the cost of living. It would be our recommendation that we do one. I'm going to be recommending we do one to each board. If we do not do it, uh… and we'd be happy to send an engagement letter, we'd like to do it before the next evaluation so we have time.

Ron Cohen: I think we've agreed to have you report to have you report it as 2% over as well.

Larry: Again the state won't accept it, but you can have it to put it on the website.

Ron Cohen: And I think one of the things we've talked or I've thought about is having it in some kind of plain language. With some kind of explanation as to what the board feels the financial status of the plan is because I think when you do the 2% under it's going to look really, really bad. And what do you think of that? Not big thing, not in a actuarial language, but saying we have a 7.75% assume rate of returns and historically that's the assumed rate of returns we can expect to get through the market so…over the last number of years and the percentage funded, what that means. So, we're75% funded, that's like having 75% paid off. So, what do you think of that?

Larry: It's probably a good idea. I was thinking you know, we've got to say we're going to run out of money in so many years and we may want to say but if we make future contributions as required by law, then we won't run out of money. I think it's a good idea; I would appreciate working with you on that if you want me to help.

Ron Cohen: So we can work together on how to word it. I've got some ideas that I've outlined on this generally and I think it can get very confusing and I think when you look at these numbers, it can get daunting. And I think it can get daunting for us, so we can realize that it can get daunting for someone who might never had attended a pension meeting. Or hasn't had an explanation of what these mean. I think one in a plain language with explanations the casual reader. You know the bond agencies don't care what we say, the rating agencies are going to do their own analysis of what these numbers mean, but you're going to get some questions, or you may get some questions or you may get some questions. Certainly…Mr. Mayor is it true that we're not going to be able to pay pension benefits in 9 years? Or whatever number that is. And you're answers going to be no, that's not accurate. That's only if we didn't get in any more money. But we have to get in more money, the law requires we get in more money. The city has never missed a contribution, and those are the sorts of things that you can say and you know, without sounding defensive while sounding accurate. I think the car analogy is a good one, or how many month can you live on what you have now before you run out of money? Now wait a minute. I'm still working or I have some social security coming in, that's not a real fair assumption so my view is to make it nice and simple for the casual reader and that's the challenge when dealing with actuarial language and dealing with actuaries. (laughs)

Larry: Okay, but we're going to give it a try.

Ron Cohen: I'm going to suggest that to all my boards. Different actuaries are going to want to do it different ways, so I'm certainly going to suggest it.

Scott Roberts: You're making Larry nervous. (laughter) I think it's a great idea.

Larry: I'm hoping to you know, in working with Ron to come up with something. My other clients might be interested in it too.

Ron Cohen: I know some people think very complex things with detailed information, but if you're willing to read it through I'm sure it'll be very good and we could approach that too, but I think it'll just make people's heads spin around.

Scott Roberts: Alright, under new business, conference coming up June 28- July 1, for expenditures for Alicia, Terry and Travis. Need a motion to approve.

Travis Woods: I move

Alicia McMillian: I second

Scott Roberts: I got a motion and a second. All in favor say aye.

Board: Aye

Scott Roberts: Motion carries. I was trying to figure out how to pass without y'all voting on yourselves.

(laughter)

Scott Roberts: I was staring at the names and trying to figure out how to vote on that and thinking they can't do it (laughs).

(more laughter)

Scott Roberts: Okay, approval for Brenda to attend the conference for one third of the costs. I need a motion for that.

Alicia McMillian: I make the motion

Scott Roberts: I have a motion, do I have a second?

Terry Anderson: I second.

Scott Roberts: I have a second. Any discussion? All in favor say aye.

Board: Aye

Scott Roberts: Motion carries.

Brenda: I'm not sure if it's me that's going to go. Ricky had said something about wanting to go. So, it's going to be one of that goes. It depends on this medical thing he's got going on, but I said well, it's booked so whoever goes, goes.

Scott Roberts: So if it's not you it'll be…

Brenda: Yes, for the administrator it will be whoever that may be.

Scott Roberts: well it's in the records so will put one or either.

Brenda: That's going to depend on his medical thing.

Scott Roberts: okay, the next thing is the schedule of the next meeting.

Travis Woods: we're going on the assumption on the third Wednesday will be on the 15th.

Brenda: No we've been doing the last Thursday, so it gave them the time to get all the reports and stuff they need, bank statements and such. This month has 5 Wednesdays in it that's all. July does.

Scott Roberts: So, we're saying on the 29th?

Board agrees.

Alicia McMillian: at 9 o'clock?

Scott Roberts: Yes, we're going to hog that time til somebody gets really upset with us.

(laughter)

Tyler: I've got one thing too, when you set the expected rate of return, to the next year, the next several years, you have to do that every year. Larry gets the actuarial reports. We recommend the 7.75%, it's a reasonable expected rate of return on investments over this time period so…I just need approval for that.

Travis: and you agree with that Larry?

Larry: Yes

Tyler: I just need to get your signature there. I have a pre-done letter for it.

Scott Roberts: You don't need approval, just a signature?

Tyler: No, no I need your approval too and I'll get your signature afterwards.

Alicia McMillian: I make the motion.

Terry Anderson: I second

Scott Roberts: We have a motion and a second to keep the rat at 7.75%. Any discussion? No? All in favor say aye.

Board: Aye.

Scott Roberts: Motion carries. Alright, no further business, meeting adjourned. Motion to adjourn.

Terry Anderson: Motion to adjourn

Alicia McMillian: second

Travis Woods: Thirds

Scott Roberts: I've got a motion and a second, meeting adjourned.

___________________________.

Scott Roberts, Board Chairman
Travis V. Woods, Mayor
Commissioner Tommy Chastain
Terry Anderson, Board Member
Alicia McMillian, Board Member

Attest:______________________________

Ricky Thompson, City Clerk