MINUTES
PENSION TRUST COMMISSION
2ND FLOOR CONFERENCE ROOM
NEW CITY HALL
JANUARY 22, 2015– 9:00 A.M.

Jerry Ihler, Chair, called the meeting to order at 9:00 a.m. in the New City Hall 2nd Floor Conference Room. Notice of meeting and agenda was posted on the City Hall notice board as required by law.

ROLL CALL
PRESENT: Bayones, Teri; Dentler, Carl; Ellwanger, Paul; Ihler, Jerry; Hill, Andy; Kindt, Bill; Livingston, Steve.
ABSENT: None.
ALSO PRESENT: Denise Ezell, City Clerk's Office; Tim Wilson, City Attorney's Office; Brooks Mitchell, Julie Magness and Krystal Urbanski, Finance; Perry Warren and Chad Rother, Morgan Stanley; Bryan Long, City Manager.

II. Introduction of Visitors

Ihler stated we have Perry Warren and Chad Rother from Morgan Stanley.

III. Approval of Minutes from October 23, 2014.

Motion by Kindt, **Second** by Ellwanger, to approve the minutes of October 23, 2014. **Aye**: Dentler; Ellwanger; Ihler; Kindt; Livingston; Bayones. **Abstain**: Hill. **Nay**: None. **Motion Passed**.

IV. New Business

A. Receive quarterly financial report from Morgan Stanley and take action if necessary.

Warren stated let's look at the Performance Report first. On the second page in the top right hand corner you see we started with a little over $34 million. The number below is the amount we have net since we took over. We have taken out a little less than $1.5 million. The net appreciation in the portfolio is a little less than $16 million. Since November 2007 we have made 5.32%, the last five years 7.03%, the last three years 7.91% and the last twelve months 5.14%. The chart below is the asset allocation. Currently we are allocated at 62% stocks, 31% bonds and 5% alternatives. With our current assumptions we expect to average 6 ¾ and 7% return. Looking at the chart you see over the last few years the aggregate bonds made 4.91% and the last three year total return is 2.66%. At the top of the next page shows our top holdings. Our current top holding is the S & P 500 Index and our biggest individual holding is 4.97%. The bottom shows the history of our performance. The solid line is the account value and how it has grown. The dash line is how much has come out of the portfolio. The next page shows the year by year performance and the next page the top 2 position are alternative investments. Alternatives are either stocks or bonds and these are bonds. As rates rise you are going to have more impact on bonds. You have made money in bonds because they have appreciated. We are trying to hedge exposure because this is a long term account and the way we did that was to add these alternatives. The Alerian is an ETF that is a diversified portfolio of 6.44 and the real estate ETF yields 3.6. Under other we are back to our largest single position in the S & P 500. The S & P 500 currently yields 1.86. When I left the office the 10 year treasury yields 1.83% so the S & P is yielding as much as the 10 year treasury. Looking at page 8 we still have some of the mortgage backed bonds that we started with. The first item gives you the total of mortgage backed bonds. We have $2.6 million and they are yielding 4.47%. The next item is the Vanguard total bond market. Investment is structured to represent the total bond market and the yield is currently 2.77%. That is all we can expect to earn until yields rise. This represents the whole bond market and is currently yielding less than 3%. On page 9 is our total fixed income. Just off the interest is 2.9% plus if you add the income from alternatives we are about 3%. We feel based on our current assumptions and you allowing us to get the allocations where it needs to be we will hit our target. Moving to the Asset Scan the pie chart currently shows 7% of our money is in cash. We have about 63% in stocks and 37% in bonds and cash. The triangle to the right shows you whether the portfolio is over weighted in energy and it's not. Looking at the style box we are about 73% in large companies, 19% medium and the rest in small. We are a little over weight in large cap growth. We have about a third of our money in high quality, a third in low quality and nothing with extended duration. It is all basically short term limited duration. This shows we really feel that rates will over the long haul move higher. We don't want to be in a position that we can't take advantage of that. I'll be more than glad to answer any questions.

Ihler stated so over all we are at 5.32% and now we are at 7.9% with our target at 6.75%.

Warren stated correct. I would like to let you know that Armstrong is having some health issues and is out on medical leave at this time.

B. Receive Quarterly Employees Refunds Made From Retirement System and Receive Quarterly Statement of Receipts and Disbursement and take action if necessary.

Urbanski stated at the end of the second quarter our total assets were $51,394,802. We have total liabilities of $171,659 which puts our fund equity at $51,223,142. The next page shows the city's contribution for the quarter was $549,825, employees contributions were $346,390, interest of $62,110 for a total revenue of $1,895,456. The monthly pension payments for this quarter is $1,002,014, refunds of $196,296, investment fees of $71,986, audit fees of $11,350 and bank changes of $77.80. Our total expenditures were $1,281,411 leaving us with a net increase of $614,045. The next page is a breakdown of the refunds issued and the taxes that were paid.

Ihler stated so the quarter was good but we are still behind year to date. Thank you.

C. Discuss the potential participation of members working with a Council Committee to research converting the current pension plan for general employees to a 401K plan for all new hires and take action if necessary.

Ihler stated before the holidays I emailed you for feedback regarding a Council member wanting to take an item to Council to convert our current plan to a 401K plan for all new hires. He believes as salaries continue to get higher that the city will have to contribute more. Currently the city is contributing 10%. He was a city employee and when he started the city was contributing 6%. He has some concerns and is interested in looking at converting the system for all new hires to a 401K plan. He has indicated he is going to take this to Council the first meeting in February. As I understand it he is going to ask Council to form a committee of Council members to research this information to see if it would benefit the city to do so. The reason for this item is because we are in our third year of Career Averaging and in this short period of time it appears our plan is successful. The concern of switching to a 401K could be a negative effect to the cost of the city. I'm hoping that Council will allow us input into this committee or process but I didn't want to speak for the Trust. I didn't know if the Trust wanted to appoint 3 members to possibility meet with the Council Committee or do we want the chairman to meet with the committee. I think there needs to be participation and input from the Pension Trust. I also believe there needs to be input from the EAC because they are the one that will be affected. I don't have a whole lot of information with regards to whether it will be a committee. He has stated he will ask for a committee and see if there is any interest into looking at this. If a committee is appointed I would like to ask the Mayor that perhaps 3 members of the Pension Trust and 3 member from the EAC be added to the committee. I would like to have your feedback as to what approach you want to take as it relates to us. We oversee the program as it exists today and all of you know where we are with the status and why we did what we did 3 years ago by switching to Career Averaging. Basically I'm looking for some feedback.

Kindt stated if there is a committee I believe it should be former city employees because of the relationship with the employees. You might also want to take a vote of the commission to see who is for and who is against so the committee will have some feedback on how we feel.

Ihler stated I don't know if any of you are prepared to comment to a vote for or against but if so we could do that today.

Kindt stated if it goes to the first meeting in February we don't meet again until April.

Ihler stated we could have a special meeting. When he indicated he wanted to do it in January I was going to schedule our meeting on the same day so Dean would be here to answer any questions the Council might have. Unfortunately he decided to wait until a later date. We could invite Dean back to speak when it goes to Council. It could be something very simple as appointing a committee and if so I don't know that it would be necessary for Dean to attend.

Livingston stated since the 80's when it became available we have looked at this. It seems like a fairly complicated thing to do. With what I know I don't believe people could give it much weight. I'm against changing it. There are a lot of legal issues and if I understand the process how do you keep funding the established fund. How are they going to determine how much to put in every year. I don't want them to fund the fund to the end and have it fall off a cliff or to ignore the problem. A 401K plan is really not a retirement for the employees. It is a savings plan that has some limitations on when you can draw it out. I believe employees today will be somewhat disappointed when they hit 65. There are other forms of retirement plans they could be looking at. The retirement plan we have is somewhat like an insurance plan. In other words if you live to be a 100 you will come out really good but if you die two years after you retire you might not have made out so well. When you get into a 401K you are taking all the chances and making all the decisions. You decide what to invest in, you are to review it every 5 to 10 years and when you hit 65 you and your spouse are still alive with a 50% change one of you will live until 90. You have decisions to make as an employee and have to make them all the time. I have 5 kids and all of them have a 401K. I don't think any of them are going to make it do any good at 65. They are going to wonder why they don't get more social security or something.

Ihler stated he asked me to help write the agenda and I recommended that the EAC and the Pension Trust be allowed to participate and before any steps are taken forward we should hire somebody to do a study as to exactly how this type of action will affect the existing employees as well as new employees. Essentially no more money is being put into the program from the new employees if we go to a 401K. He stated his intent was to be for all new hires and they would continue to fund whatever is necessary to fund existing employees. How do you find that gap? Right now you see we have gone up to 65% which is a positive with this short timeframe of changing to Career Averaging. We are not 100% and it actually could cost them more than a savings. That was from the pension side and this is my side as the Public Works Director. I can tell you that the majority of folks at public works if it is a voluntary 401K are not going to participate. They will take the extra money up front and when they get ready to retire they are not going to have anything. This is a nice benefit for our employees. It is about the only recruitment tool we have anymore. We no longer offer longevity or some of the other benefits that have dwindled away over time. In the past 2 years over 150 people have left public works alone. Since July of this year 50 have left. I don't know if it is the pay or a combination of different things. It is hard to retain and recruit people based on our salaries and this is something that we tout as a big and positive benefit.

Kindt stated we can't forget that since we changed paths in 20 years or so the fund is going to be in good shape.

Ihler stated exactly if all the assumptions are met. I believe we have put together a good plan to move forward and if we change we will not have the opportunity to see whether it is successful or not.

Livingston stated it is probably a good idea for Council to take a look at the plan to reestablish interest and ownership in the fund. When I came to work the pension plan was a whole life insurance. In the early 70's we created the pension plan. We used the state model to set it up. I think it is a good fund and we need to look at the benefits and consider the actuarial. I hate to go to something that I don't see as being a retirement fund.

Ihler stated so what I'm hearing is when it goes to Council myself or someone else would say the Pension Trust is happy with the program we have, that it appears the changes we made are working towards success, we definitely want input and if the Council is going to research further that a study be done to see how it will impact the employees and the city with regards to moving forward.

Livingston stated there will be an impact because one of your sources of income will be dried up. I don't think we can avoid asking them for some kind of input.

Ihler stated we do have the benefit of the actuary and that should help.

Wilson asked can Dean do such a study.

Dean stated there are so many issues here. There are major legal issues and very big financial issue. You can have a defined contribution plan but it won't be a 401K. Those are not allowed for public employers unless you were grandfathered. If someone thinks they can simply walk away from the pension to put in a cheaper contribution plan to save money they are mistaken unless you can just walk away from your obligation to the benefits you promised people. I don't think you can. On the other hand the plan sponsor is entitled to have whatever kind of plan they can afford and it fits. Conceivably it could be defined contribution but you have to be really careful and consider all the possibilities. If you give the employee the choice of investment they don't know what do to and there isn't a scientific answer. Nobody knows with any degree of certainty where your money should be. The bigger issue is how to make that kind of savings plan work for a retirement because it doesn't inherently work for retirement. When you retire you have this chunk of money and you have to figure out how to live on it. You don't know how long you will live and the mortality risk. In a pension plan and certain sorts of defined contribution plans you can have the pooling of mortality so that you pay people a real lifetime benefit. In the private sector especially new employers they all have 401K. Congress encourages that unwittingly. We are going to have people retiring in the future and running out of money at age 80. They can't go back to work and are now living on what is left. It is going to happen to millions of people and you would rather it not happen to your people. All this has to be considered and in a actuarial study I think there are some things that are meaningful in this regard. If you want to reduce the investment risk to the city you do that with a defined contribution plan. You shift 100% of the risk to the employees. There is so much involved here. If you do something in hast because you saw someone's 401K balance it would be very easy to make a mistake. Another issue is the kind of employee you are trying to attract. Ihler stated one of his selling points is security they can't get everywhere. Do you want this plan for some of your people and a different one for other. You are giving different messages and I think that is a hard thing to do.

Livingston stated you made a comment the city couldn't participate in a 401K unless we are already grandfathered in. Could you elaborate on that.

Dean stated 401K is a particular section of the internal revenue code and was adopted in the 70's. It was intended to be a complimentary plan and that has changed over the years. Initially state and municipal employees could have 401K plans and then they said that probably wasn't a good idea because we had 457 plans which were somewhat similar without the match. So you can't have a 401K after a certain date unless you already had it.

Livingston stated in the late 80's or early 90's the city went to that. They did not participate but we deferred all the income we could.

Dean asked was that a 457 plan.

Wilson stated that is what we have now.

Livingston stated so can the city have 401K.

Dean stated everyone can have a 457 plan because it is entirely employee funding. It is just a payroll function.

Wilson stated depending on what happens at the Council meeting but there may be a need to hold a special Pension Trust meeting.

Livingston stated so instead of using the terminology 401K we should be using 457.

Dean stated or defined contribution plan. Perhaps it is a fine point but it is just not right to keep calling it a 401K plan.

Wilson stated I'm not certain members would know what the term defined contribution is and everyone knows 401K.

Ihler stated in the agenda item I stated similar to a 401K. Is there any other discussion. If not I believe I have my marching orders if the need arises.

D. Consider a Cost Of Living Adjustment for retirees and take appropriate action if necessary.

Ihler stated our Code says that every 2 years the retirement system is to examine the possibility of an increase for retirees. Any increase is to be based on a percentage of ½ of the percentage change of the cost of living index identified as the Consumer Price Index of Dallas. The last raise was approved on February 10, 2005 of 1.15%. We have looked at it since but believed that being less than 75 or 65% we were unable to give a raise. Looking at the Consumer Price Index for Dallas it has been just a little over 2% so we are looking at a 1% raise. The questions is do we want to recommend a raise for the retirees. The actuary show we are at 65%. In the past being at that level we have recommended to wait and that would still be my recommendation.

Ellwanger asked do we have any benchmark level we need to be at other than what you said.

Ihler stated no. There are no guidelines as to the percentage we need to be at. In 2005 we were at 81.5% which is much better than where we are today.

Motion by Kindt, **Second** by Hill, to recommend not giving the retirees a raise at this time. **Aye**: Ellwanger; Ihler; Hill; Kindt; Livingston; Bayones; Dentler. **Nay**: None**. Motion Passed**.

E. Review and Discuss the Asset and Liability Forecast of Chuck Dean, and take action if necessary.

Dean stated here are some handouts. First item is something we prepare annually when the federal government announces its indexing and the rule applies to the retirement plans. We keep track of all that and prepare a schedule that shows what the various limits are on various kinds of plans. There are limits on compensation and benefits. We also show Medicare Part B payment schedule because it changes every year and the federal income tax rates. We use that for retirement planning to calculate after tax numbers to compare to people's status before and after retirement.

Dean stated second item we do usually 2 or 3 times a year. We research all the public retirement plan publications and look at them and write a summary. There are several things here by Boston College and they do a very good job. You will find articles that say public pension plans are in great financial difficulty and others that say they are not. You will see both sides. You will see the defined benefit plan versus the defined contribution plan. There are several articles that I think are pretty good. On page 1 you have "Saving Public Fund Benefit Plan". It gives reasons why they are important and what needs to be done to help them. Page 2 "American Academy of Actuaries Comment Letter to GASB…". This is important to the finance department because GASB has issued new statements that change the accounting rules for this kind of plan. I'll be giving you GASB 67 and GASB 68 will be coming up which applies to the year we are in. The new rules are stricter and we will help you with that. Top of page 3 "The Rising Challenge of Measuring and Managing Longevity Risk". This issues talks about what a person would like to have to outlive their income, the mortality risk, how big it is, and how can we spend it so it is more manageable than having people take their chances. Below that is a PIAA survey on government employees that is pretty good. Page 4 "Shared Risk in Public Retirement Plans". This talks about risk sharing. In the pension plan all the investment risk is born by the city. If investments do well the city can put in less but if they don't then the city will need to put in more. In a defined contribution plan all the risk is on the employee. Next is "The Fund of State and Local Pension: 2013-2107". This is a Boston College study and they are looking at how well funded public plans are in general. They tend to have a lot of state plans because they are easier to get information on. Page 5 is "Defined Contribution Plans in the Public Sector: An Update". This is also a Boston College study. This is interesting because they are talking about hybrid plans or cash balance plans. About 2 months ago the IRS issued a final regulation on these plans that was pretty favorable. Below that "Public Pension Plan Investment Return Assumptions". The average assumption in actuarial evaluations of public pension plans included in this study is 7.72%. That is almost 1% higher than your rate of return. They also noted that these rates have been coming down and will probably continue to come down. I think you are more realistic in your long term assumption. Page 6 "Public Pension And The Lessons of Success". They are talking about the Illinois municipal plans. They have a master trust fund and it is very similar to what Oklahoma has. They are putting out that these plans are in good shape and it is because they have some discipline to them.

Hill stated I noticed that Tennessee has passed a requirement that every public pension fund has to contribute the required assumption. Is there anything like that going on here that you know of.

Dean stated not that I know of. The state could require it and should. Texas does something that is kind of a halfway measure. They say you must have an actuarial report and you must report those results to a Pension Review Board which is a state board. If you aren't funding they might call you and have a discussion. They can't do anything legally because it isn't a state law but it shines a light on it and makes the city think about having a plan they can't afford. Good question.

Dean stated now the bound report. The report is based on the plan you have now. You have tier 1 with the final average pay plan where benefits will be based on the 3 year average and tier 2 is all their pay and not just the highest 3 years. The tier 2 employees are less expensive. The city is putting in 10% for everyone and that is sufficient to pay the accruing cost for current employees but not sufficient to pay that plus the unfunded liability. The more tier 2 employees you have the better off the plan is. Before the change was made in 2011 we did some detailed projections based on the actual assumptions, retirement rates, and turnover. We had to project for current employees and future hires. If all assumptions were met this is where the 20 year idea came from. The unfunded liability would keep growing in short term but eventually as the momentum of the tier 2 employees grew that would help and ultimately turn down the curve on the actuarial liability and would wind up funding the plan over time. There was quite a bit to it but based on the assumptions it ought to work. We are seeing more and more tier 2 employees and we calculate their normal cost and it is in fact less. That cost is calculated person by person. All of that was built in and it seems to be unfolding as it was predicted. Are things going to get better or are they going to continue to get worse? In time they are going to get better. This kind of program is the solution to the funding problem the city had. This is the most commonly used ratio. It isn't necessarily the best but it is the most commonly used. It is going to be in GASB 68 so they are emphasizing exactly that ratio. If you look at other definitions of actuarial liabilities there is something called a "Projected Benefit Obligation" which is the same calculation using a different cost method. This is like having different depreciation schedules. They all arrive at the same end but take a different path to get there. There is also something called "The Accumulated Benefit Obligation" which is pretty concrete. It is calculated according to the assumptions but it is just the value of benefits employee have earned through service and pay until the measurement date. It is a walk out the door benefit. That has a lower liability because it doesn't include projections of future pay and it doesn't have this smoothing out. On that basis you would be 76% funded. It would be a healthy sign to be 100% funded on that accumulated obligation and you would be above 80% on your normal actuarial liability which will be your GASB 68 number.

Dean stated on page 20 is the information required by GASB 27 which is the current operating GASB accounting statement. It says if the plan sponsor does not put in the actuarial funding requirement then we are going to say the amount you short the plan is an obligation that you will show on the city's financial statement. It will accumulate with interest and there is an adjustment in the valuation if you had made those contributions you would have more assets.

Therefore your funding requirements would be less. Your funding requirements keep growing if you don't put in the actual amount. Look at the numbers in the last column "End of Year NPO Balance". This is the amount that the city has short changed the pension plan by not making the 30 year funding contribution. It starts out looking innocent and then as of June 30, 2014 it is $9,351,775 cumulative funding deficiency. If this had been put in you would probably have something close to that in additional assets. Instead of $51 million you would have $61 million and you would be 80% funded which is a healthy funding. Where is the issue coming from? I would say it is almost entirely from the city not putting in enough and this shows you that.

Ellwanger asked does the "End of Year NPO Balance" go on the city's balance sheet?

Dean stated yes.

Ellwanger asked is this the first year for that.

Dean stated they should have been showing it all along.

Hill asked what is the ramification of that? Should the city be excited or is that just a number required.

Dean stated as an actuary I would say the city should be concerned. You have a very good and very generous pension plan and that's fine if you will pay for it. You can have inexpensive plans or you can have an expensive plan. You need to decide how much you can afford and live with that. You also have to leave a little margin. If the actuarial funding requirement is 6% you have to be prepared to pay that 6%. That doesn't mean we can predict that it won't be more than 6% in the future. As a plan sponsor you have to be prepared for it to move around and you have to be prepared to pay it.

Hill stated on the change we made it looks like that number is going to go down as we perceived.

Dean stated yes.

Long asked can we back up a second to your actuarial assumptions. On page 2 is this an actuarial assumption covering a period of 20 years or is this obviously a pay increase of 4.25%. What that means to me is that over a period of 4 years there has been roughly 17% increase in pay.

Dean stated that is the assumption.

Long stated averaging 4.25% per year.

Dean stated the pay we used in the evaluation for each person is their actual history. The 4.25% is a projection of what will happen to pay in the future for each person. We are saying some people get promoted and that is a pay increase. Some may have a merit increase and that is an increase.

Long asked is that per person.

Dean stated it is a per person average. Some will have more and some will have less. We are not saying that is true for every person or every year. We are saying you have to make an assumption and this is a descent assumption.

Long stated what concerns me is looking at budget every year I have to consider is if we had no adjustment to our pay scale and no step increase you have assured yourself that year you have failed to meet this goal.

Dean stated it is not a goal. It is an assumption for purposes of funding. Each year when we do the evaluation we look at every person. It looks at their actual pay history for multi years not just current rate. If you have no increase for the past 3 years that is our starting point. What we don't say is they will never have an increase because they haven't had one in the last few years.

Ihler stated what Long described would actually help the plan.

Dean stated correct. We are not saying your payroll is going up by 4.25%.

Long stated that is what I was trying to get to the point of.

Dean stated for the pension plan what counts is what happens to each person. Our recommendation is the last highlighted bullet on page 2. We are saying the city's contribution rate of 10% will not meet the 30 year requirement. We have done a long term forecasting that suggest as tier 2 employees come in it very well may work over a period of time. It would be better for the city to put in more than 10%. That is the sermon and I don't know if the sinners are going to listen. There is a GASB issue that comes into play and it is for the finance department to note.

Ihler asked is it safe to say that as long as the assumptions are met over a period of 15 to 20 years that it will take care of itself and not cost the city any additional input other than the 10% they are now giving.

Dean stated yes if all the assumptions are met. If you look at the forecast it is not just 6.75 it is the turnover retirement rates. Another assumption is to maintain a level work force. So when someone leaves or retires you are hiring someone else. Another assumption is the people you hire have the same pattern of hiring agents as they have had in the past. If you decide to hire a lot of people retiring from Ft. Sill they will be more expensive. We are assuming you hired the same group. Older people are more expensive.

Dean stated next is the GASB 67 Disclosure Report. It can be reviewed as a companion to the funding report. The year completed is subject to GASB 67. The most important requirement is the one that applies to the city's financial. GASB 68 doesn't apply yet. Part of the number in GASB 67 will be used in GASB 68. The plan is to provide this information and the city needs a separate report. So you will have a funding report, a GASB 67 report and then a GASB 68 report which will show you have a pension expense number that will be different than anything in the funding. There is nothing about 30 years in the GASB 68. It uses the same actuarial liability but it is calculated at a different discount rate and that is addressed in this report. You haven't seen this report so I'll take you through it. First on page 1 is "Net Pension Liability". This is the same number as the actuarial liability unless we have to calculate it at a different interest rate. So it shows the total pension liability of $79 million. A new term is "Plan Fiduciary Net Pension". I would call it assets. It is market value assets. The net of those is the city's "Net Pension Liability". That is the same thing we call the "Unfunded Actuarial Liability" in the funding report. GASB says we should disclose how we came up with the long term rate of return of 6.75%. I went back to the asset allocation and did this myself. Sort of my guess. It can be tweaked but I think it isn't too far off. The idea is to show the assumed long term real rate of return on those which means return above inflation. In the case of fixed income it is definitely a greater return than we have now. So you show not just the 6.7% but you say where it came from.

Dean stated on page 4 is something new. GASB 67 says they would like to see a "Sensitivity Study". You have calculated the total pension liability by using your assumptions and your discount rate of 6.75%.

Dean stated on page 5 GASB 67 is suppose to show this schedule of changes in the pension liability where we look at the actuarial liability at the beginning and end of the year and show all the pieces. The total pension liability goes up because employees have earned more benefits, are a year older and getting closer to those benefit. That is the service cost. All of those items are developed and shown on this exhibit. Below that we show the "Plan Fiduciary Net Position" which means assets. You have assets on June 30, 2013. You made city contributions, employees contribution, investment earnings/interest dividends, deduct investment expenses, add unrealized appreciation and depreciation, subtract all the payments you made and any administrative expenses and you wind up with the actual assets at the end of the year. The city's "Net Pension Liability" or "Unfunded Actuarial Liability" is $27.6 million and you are 65% funded.

Dean stated on page 9 we have a summary of the plan and let me tell you what this is. In GASB 67 and 68 they say pick your long term rate of return and show us where that came from. That is the 6.75%. Then they say we will let you use that rate of return if projecting for the current group of employee you project with the money coming in and that is additional pay to amortized the unfunded liability. If that money is sufficient to maintain the fund as a positive number forever more for the group, which means will last until the last employee retires and dies, then you can use the discount rate. If it isn't sufficient there will be a depletion date. That is a date of which this fund would go to zero and then to a negative. There is such a depletion date and we have to figure out what it is. After the depletion date you have to use a discount rate that is the 20 year municipal bond rate. On June 30, 2014 that rate was 4.35%. So if the fund goes negative you figure out when that is and discount all the benefit payments at 4.35%. All payments before that will be at 6.75% and then you reverse engineer back one single interest rate and that produced the exact same number as using the 2 interest rates. This is a nice little approximation type calculation.

Dean stated page 10 starts with a projection of the current employees and there were 506. Of those how many will still be here in 1, 2, 3 years later and so on. They are not there if they terminate or retire. This projection says you will have about half those employees left by 2021. In this projection they are really specific. They say this is not the most realistic projection of everything that is going to happen but for the purpose of projecting current employees to see if the contributions will support them or not.

Dean stated page 12 shows how the projection is set up. We looked at the payroll for current employees in column A and payroll for future hires in column B. It assumes you maintain a level workforce and that your total payroll goes up 3%. Column 4 is the contribution from current employees which is 6.3% of their pay. As the number of employees decline the payroll declines. Right now the employer contribution for current employees is 10%. Column F is a special study of "what if the city put in more money". You see we used a half a million a year for 7 years. That is what it takes in this GASB projection to make sure the fund doesn't run out and if you don't the plan will run out. Column G is a special line and probably the most important to understand. It is contribution related to the payroll of future employees. This is the city's contribution for future employees that are more than their normal cost. The city is putting in 10% for their future employees and normal cost is 4.63% of pay. It is lower than for your total group because they aren't as expensive. The difference between the 10% and their normal cost is money that is going to help amortize and payoff the unfunded liability over time. If you said let's have a defined contribution plan starting next year then what happens to Column G and the money it is saving us. Most of it goes away because you wouldn't have the bulk of future employees. You wouldn't have the money and you would have a big GASB 68 issue because you wouldn't come anywhere near having enough to support it. You would have to use the lower discount rate in your GASB 68 calculations which means you have a bigger unfunded liability and you show a bigger liability on your balance sheet. So you see there is a significant financial impact that says you better be careful with what you do. You have maneuvering room but be careful because you could make things considerably worse by making a change that you think is saving money and hits your balance sheet by the tune of millions.

Dean stated Exhibit 13 takes those contributions and adds in the expected benefit payments for the current group of people. So we have the assets for the current group of people, the contributions and the ones we can count on that are only for helping us pay the actuarial liability. We aren't including their contribution just the excess. That is the assets in A, the contribution coming in for this group in B and the benefit payments going out in Column C. It goes up and then eventually it starts to come down which is what you would expect. Then we put in a little for administrative expenses, then the investment earnings calculated at 6.75% and finally the ending balance. The ending balance is the assets at the end of the year. So each line shows assets at the beginning of the year in column 1 and at the end of the year in the last column. Your goal is to have assets all the way out. We calculate what the depletion date is and in this case the depletion date is out at 100 years. You never run out of money so you can use 6.75% to calculate the actuarial liability for your GASB 68 but we show you putting in a half a million a year for 7 years. When we did the calculation without the half a million you did run out of money. When we factor in blending 6.75% with 20 year municipal bond discount rate of 4.35% the solution was equivalent to level 5.91%. If you followed the 30 year funding and were putting in 15% we wouldn't have had to do all this. Bottom line is if the city will say or convince the auditor you will put in extra money sometime in the future then you can justify the 6.75%. The auditor is to decide if it is an issue or not. We are saying there is a solution to use the higher discount rate and it involves some supplementary contribution. This is similar to what we recommended in the funding report.

Ellwanger asked if no funding changes are made what affect does that have on the NPO balance.

Dean stated you just disclose it.

Ellwanger stated what about year after year.

Dean stated this is GASB 27 and GASB 68 replaces it. All your sins are forgiven except you have to show the big sin. You have to put the entire unfunded liability on the balance sheet stating you have this total pension liability, these assets and here is the difference. The "Net Pension Obligation" was the method of tracking whether the plan sponsor is keeping up with the plan funding in a systematic way or not. It is actually a reasonable thing to do. GASB 68 has shifted entirely to say we want to see the entire unfunded liability on the account sheet and it is no longer important to show the "Net Pension Obligation". They do want you to show your historical information of what you contributed and what percentage was the actuarial requirement. You don't do anything other than show it.

Livingston stated another question that is going to come up on the defined pension plan is the funding. The city is going to continue to contribute to the current employees but how would you respond to meeting that law with new employees.

Dean stated it could be an analysis similar to what we just went through.

Livingston asked is there nowhere in here we can find that.

Dean stated depending on the specific proposal but if you said all future people will be under a different arrangement then what the city would need to do instead of putting in an extra $500,000 for 7 years you might have to put in a million for 20 years.

Livingston stated at the front of the discussion with the committee I want to be able to say there is a cost to this and we have to recognize it.

Dean stated with the tier 2 employees you have a benefit that essentially cost 5% of pay from the city in addition to the employees 6.3%. You are putting in 10% and helping to fund the current benefits and to amortize the current actuarial liability as the tier 2 employees grow. If you set up a defined contribution plan and put in 10% you would be way behind. That will cost you a whole lot more than what you are doing. Defined contribution doesn't really provide retirement income so you don't have as good of a retirement plan. You can't do a defined contribution plan if you want to save money or break even. I'm not saying you can't do it because you can.

Livingston stated Council deals with numbers better than they do ideas. If the question is asked what they would have to put in besides the contribution it would be nice to have that number.

Ellwanger stated this is an upended question and I don't know if there is an answer for it. Under our plan provisions if the city opts to a secondary retirement plan and does not opt to increase their contribution of 10% what options would we have on changing the plan provisions to counter a secondary retirement plan to maintain this one at a lower lever as opposed to the city thinking about something else.

Dean stated you have the big legal question "what can you do". If it is legal you can raise benefit or you could give their 3 year average pay till now and not a nickel more. That would take a lot of money and completely turning your backs on them. That may not be legal.

Ellwanger stated to keep the plan functional could we lower the benefits.

Dean stated yes. That was the most extreme thing you could do. The less extreme is to reduce their future accrual in some fashion. We change it from 2.3 to a lower percentage, or do away with the 3 year average and make it a 4 year average and a year later a 5 year average and so on. That is doable and saves money but you have the personal issues of what their reaction would be and the legal issue of whether you can actually do it. Employees might be understanding if they knew the city didn't have enough to pay for these benefits.

Ellwanger stated kind of a compromise.

Dean stated yes. We are trying to keep it as a retirement plan with lifetime benefits.

Hill stated current employees could also elect to contribute more themselves.

Dean stated they could.

Hill asked does the city contribute to retirees health insurance.

Livingston stated no.

Hill stated so the city is not out anything for retirees health insurance.

Dean stated yes they are. The medical cost for a 60 year old is not the medical cost of a 40 year old. If you say a retiree can continue their medical up to 65 by paying the cost of our average person that is not the cost of a 60 year old.

Hill stated some companies when you become Medicare age as a retiree they are done with you. They give you a defined amount to help purchase a supplement with.

Dean stated most companies do not provide retirees medical. In Oklahoma it is a state law that you provide retirees with medical. They are very unclear on what retirement means and you can charge them as much as 125% of what your average employee cost is. Most cities charge cobra or the average employee amount. There is a significant cost to that.

Ihler asked are there any other questions for Dean. If not thank you.

Motion by Hill, **Second** by Kindt, to accept the actuarial report. **Aye**: Ihler; Hill; Kindt; Livingston; Bayones; Dentler; Ellwanger. **Nay**: None. **Motion Passed**.

V. Old Business

None

VI. Consent Agenda

FOR THE BENEFIT OF THE AUDIENCE, ALL MATTERS LISTED UNDER THE CONSENT AGENDA ARE CONSIDERED TO BE ROUTINE BY THE PENSION COMMISSION AND WILL BE ENACTED BY ONE MOTION. THERE WILL BE NO SEPARATE DISCUSSION OF THESE ITEMS. IF DISCUSSION IS DESIRED, THAT ITEM WILL BE REMOVED FROM THE CONSENT AGENDA PRIOR TO ROLL CALL AND WILL BE CONSIDERED SEPARATELY.

A. Consider Memo of Information regarding the death of Survivor Pension of Arthur Gibson.
B. Consider Memo of Information regarding the death of Survivor Pension of Turner Sharp.
C. Consider Memo of Information regarding the death of retiree Jose Mercado
D. Consider Memo of Information regarding the death of retiree Alwanda Brown Holloway.

Motion by Kindt, **Second** by Bayones, to approve the consent agenda. **Aye**: Hill; Kindt; Livingston; Bayones; Dentler; Ellwanger; Ihler. **Nay**: None. **Motion Passed**.

VII. Comments

Ihler stated I'll be resigning from the committee and this is my last meeting. I would like to continue to participate with the defined contribution item and I will help with the April agenda. You will need to choose a new chairman in April. My position is appointed by the Department Directors and they will appoint a new person to fill that position. It has been a pleasure working with all of you and has given me the opportunity to meet some of you that I would not have had the opportunity to meet. This has been enjoyable and a pleasure to work with you.

Ellwanger stated likewise.

VIII. Audience Participation

IX. Adjournment

Motion by Kindt, **Second** by Livingston, to approve adjourn. **Aye**: Kindt; Livingston; Bayones; Dentler; Ellwanger; Ihler; Hill. **Nay**: None. **Motion Passed**.