MINUTES
PENSION TRUST COMMISSION
SECOND FLOOR CONFERENCE ROOM
CITY HALL
JANUARY 23, 2020 – 9:00 A.M.

Bart Hadley called the meeting to order at 9:00 a.m. in the City Hall Second 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; Hadley, Bart; Hill, Andy; Livingston, Steve; Petersen, Ed.
ABSENT: None
ALSO PRESENT: Dewayne Burk, Human Resources Director; Bob Ross and Tim Wilson, City Attorney's Office; Denise Ezell, City Clerk's Office; Perry Warren and Chad Rother, Morgan Stanley; Maddie Leonhart and Stephanie Tehauno, Financial Services.

I. Introduction of Visitors

We have Dan Bledsoe from Finley & Cook and I believe everyone knows Bob the Acting City Attorney.

III. Executive Session

Hadley stated I apologize for placing this item first but there is a new business item on your agenda that requires us to meet in executive session before discussing.

A. Pursuant to Section 307B.4, Title 25, Oklahoma Statutes, consider convening in executive session to discuss the status of an ongoing investigation concerning pension calculations, and, if necessary, take appropriate action in open session.

Motion by Petersen, **Second** by Dentler, to convene into executive session. **Aye**: Dentler; Ellwanger; Hadley; Hill; Livingston; Petersen; Bayones. **Nay**: None. **Motion Passed**

The Authority convened in executive session at 9:04 a.m. and reconvened in regular open session at 10:30 a.m. Roll call reflected all members present.

Wilson stated pursuant to Section 307B.4, Title 25, Oklahoma Statutes, consider convening in executive session to discuss the status of an ongoing investigation concerning pension calculations, and, if necessary, take appropriate action in open session.

Motion by Petersen, **Second** by Hill, to recommend to City Council to authorize John Papahronis of McAfee & Taft 1) assist staff as necessary with legal questions that may arise during the ongoing investigation of pension calculations; 2) prepare and file with the IRS any application/paperwork deemed necessary to address calendar year and fractional month miscalculations; and further move to approve payment of an invoice from McAfee & Taft in the amount of $731.50 for work done by Papahronis. **Aye**: Hadley; Hill; Livingston; Petersen; Bayones; Dentler; Ellwanger. **Nay**: None. **Motion Passed**.

IV. New Business

A. Approve minutes of October 31, 2019.

Accepted as written.

B. Receive quarterly financial report from Morgan Stanley and take action if necessary – Perry Warren, Morgan Stanley.

Warren stated good morning. We would like to thank the Board for the opportunity to be here and provide an update on the investment account. Some meetings are easier than others and today is one of the better ones. Turn to page four (4). Page four (4) reflects the dollar weighted returns and the calendar year returns are in bold. The return for calendar year 2019 was 20.38%, 2018 negative 4.66% and 2017 15.22%. You can see the other calendar years below and on page five (5). I have broken out the last several quarters by month so we are mindful of the volatility that we are enduring to produce these returns. Page six (6) reflects the time weighted returns for the last twelve (12) months, last ten (10) years and since November 15, 2007. We started on November 15, 2007 with $34,679,131 with net withdrawals of $9,394,858, investment earnings of $32,746,473 leaving a balance on December 31, 2019 of $58,030,756. The last ten (10) years starting on December 31, 2009 we began with $39,132,249, net withdrawals of $12,698,651, investments earnings of $31,597,157 leaving us the same $58,030,756 on December 31, 2019. The last twelve (12) months starting on December 31, 2018 we began with $49,912,254, net withdrawals of $1,899,974, investment earnings of $10,018,475 leaving us a balance of $58,030,756. In the upper right-hand corner, you see the chart depicting since inception numbers. The purple line represents a net invested capital and the pale blue line the total value of the account. Look at the bottom left corner at the pie chart that reflects our allocation. This allocation is broken down one (1) step further than our portfolio x-ray which we use to meet the standards in the investment policy statement. I like to show it here to see the break down in a little more detail. We are currently near the maximum weight in equities at 69.5%, cash 1.2%, fixed income 22.8% and alternative 6.5%. To the right is where we anticipate the calendar year income of $1,062,130. We are positioned well to make these distributions regardless of the market value at the time. Page seven (7) reflects time weighted returns net of fees with the last twelve months equaling 20.36%, last three (3) year 9.71%, the custom period of 9.9%, last five (5) years 6.61%, last ten (10) years 6.81% and performance since inception 5.84%. The custom period is where we changed the allocation and added the benchmark ERSOCOL which stands for Employee Retirement System of City of Lawton. To reflect the change from 35% equities to the allocation of 50% equities with the ability to move up to 70% or down to 30%. We can meet our benchmark by earning 6.75% actuarial assumption or outperform the ERSOCOL benchmark. Notice the custom period beginning June 30, 2016 we have earned 9.9% versus the benchmark of 8.6%. The last three (3) years we have averaged 9.71% versus 8.93% and the last twelve (12) months 20.36% versus 19.07%. We have outperformed the actuarial assumption over those time periods and we have actually outperformed the assumption over the ten (10) year period. The next page is the portfolio x-ray. The portfolio x-ray allows us to drill into the holdings to give us a more detailed look at the composition of the portfolio. Notice the allocation pie chart in the upper left-hand corner. We use the portfolio x-ray to make sure we are within the allocation parameter of the investment policy statement where we are allowed to be as much as 70% equities. We are currently 61.23% US stocks, 7.93% non-US stocks which totals 69.16% and with the other 1.76% we are at 69.92%. The minimum we have in cash and fixed income is 30% which we had 5.57% in cash, 24.51% in bonds for a total of 30.08%. Look to the right at the stock sector triangle where the red dot represents our equity holdings compared to the S & P 500. Notice that we are pretty neutral as far as sector weightings. Looking down the page you will see the portfolios allocation compared to the benchmark in relations to cyclical, economically sensitive and defensive stocks. Looking further down at the equity style box we are currently within the allocations allowed with 25% allocated to large value 25% to large blend and 26% to large growth. We also have 6% in mid value, 5% mid blend and 8% mid growth. We had 2% allocated to small value, blend and growth. The top ten (10) holdings are listed at the bottom of page. Page twenty-five (25) provides less details than the portfolio x-ray since it looks at the holdings without drilling down into them like the portfolio x-ray does. It reflects the actual holdings. We currently have $710,556.10 in cash or 1.2%, $40,967,970.60 in equities or 69.8%, $13,254,912.79 in fixed income or 22.6% and $3,776,204.47 in alternatives or 6.4% for a total as of January 14th of $58,709,643.95. This is up since the end of the last calendar year. Page thirty (30) is what we call the red dot chart. This chart reflects the intra year declines and annual returns of the S & P 500 since 1980. With up to 70% of the portfolio in equities we like to end the meeting with this chart to keep us mindful of the volatility we have with our allocation. We started the meeting looking at page four (4) and you can see the monthly changes during the calendar year. I believe we are currently allocated to have the best chance of meeting our actuarial assumption over time. Again, we would like to thank the Board for allowing us to give these quarterly reports and I'll be glad to entertain any questions at this time.

Hadley stated thank you Perry.

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

Tehauno stated page thirteen (13) is the balance sheet. As of December 31, 2019 we had a cash balance of $697,316.48. At the end of the second quarter we had assets in the amount of $59.1 million. Fund equity as of December 31st was $55.6 million. Page fourteen (14) is the Statement of Revenue and Expenses and we made a change to the refund amount. At the end of the first quarter you see we had a total revenue of $4.1 million. We saw a realized gain of $220,000 and an unrealized gain of $1.5 million. The miscellaneous revenue of $50.00 was from Joann Hobbs and the $7.05 was an IRS refund. Total expenditures for the quarter were $1.5 million and there was a net increase of $2.5 million. Page fifteen (15) is the employee refunds. For the quarter it was $226,230.81 and there were no roll overs this quarter.

Hadley asked are there any questions. Thank you.

D. Consider endorsing a proposed code revision that would modify Section 17-3-4-333, specifically the definition of "Average final monthly compensation" by changing the measure from calendar years to months.

Burk stated we've found a discrepancy in the way that the pension was being calculated from code and the practice we have been using is pay periods. We recommend changing the calculations method using completed months of service to the thirty-six (36) highest consecutive months out of the previous seventy-two (72). This brings it more into compliance and consistent with fire and police pensions. It also eliminates having to do projections which would either go back to a completed month where those numbers are locked down and we know exactly what those are.

Motion by Hill, **Second** by Bayones, to approve endorsing a proposed code revision that would modify Section 17-3-4-333, specifically the definition of "Average final monthly compensation" by changing the measure from calendar years to months.

Hadley stated would you consider amending your motion to include any other code sections that might be in conflict.

Motion by Hill, **Second** by Bayones, to amend the previous motion by endorsing a proposed code revision that would modify Section 17-3-4-333 and any other Sections that might be in conflict, specifically the definition of "Average final monthly compensation" by changing the measure from calendar years to months. **Aye**: Hill; Livingston; Petersen; Bayones; Dentler; Ellwanger; Hadley. **Nay**: None. **Motion Passed**.

E. Receive Actuarial Report from Chuck Dean and take action if necessary – Chuck Dean.

Motion by Dentler, **Second** by Ellwanger, to table this item. **Aye**: Livingston; Petersen; Bayones; Dentler; Ellwanger; Hadley; Hill. **Nay**: None. **Motion Passed**.

F. Consider approving a new mortality assumption table that pertains to governmental employees.

Hadley stated I believe we need to table this item also. I do have some question on this. If I understood correctly he is proposing a new table that is a little more specific to municipalities. Many municipal systems include fire and police as well. Mortality rates for those are worse than for general employees. I want to get some more information from him on how it might affect us.

Motion by Bayones, **Second** by Dentler, to table this item. **Aye**: Petersen; Bayones; Dentler; Ellwanger; Hadley; Hill; Livingston. **Nay**: None. **Motion Passed**.

G. Receive Audit Report from Finley and Cook and take action if necessary – Finley & Cook Representative.

Hadley stated thank you for waiting.

Bledsoe stated I handed out three (3) documents and first I will touch on the bound copy. We did issue a clean opinion on the financials. In our opinion, the financial statements referred to above present fairly in all material respects and ended in accordance with accounting principles. Page three (3) is where the actual financial statement starts. There are a couple of things to point out. If you remember last year in May and June there were some withholdings that weren't deposited so we had a net overdraft of cash allocated. That issue was cleared up this year. That is why the cash looks quite a bit different when you compare 2019 to 2018 where you have $500,000 compared to zero. That also accounts for why your employee/employer contributions are lower this year. Payroll did a good job in getting this corrected. Perry gave you lots of information on the investments. The middle section compares it year to year. One (1) thing to point out is the other investments are the judgments. The next page is the income statement that compares 2019 to 2018. There are a couple of key things to look at. About 2/3's of the way down the Changes in the Fiduciary Net Position has a net income loss for the year. We had just under $947,000 increase in that position this year compared to $3.2 million for 2018. A lot of that was driven by timing because of the unrealized gains and losses. Obviously, the last half of 2019 calendar year has been very good. That is something to consider because it looks quite a bit different. This year we didn't have any new accounting standards or any kind of significant impact on the disclosure. There is nothing new from that standpoint. The top section of page fifteen (15) kind of ties what I was mentioning with the other investments for the judgments that you purchase. We like to point this out and we do have a schedule that shows how they will pay out over the next three (3) years. You can also see the principal and interest piece of that. The interest rate is 7.5% as of June 2019. It meets the actuarial return and it doesn't drag you down. At the bottom of the page there are a couple of footnotes that are required to be there. There are numbers there that are good to look at and that is June 30, 2019 to 2018 compared to what your total pension liability is. How much your current fiduciary net position offsets that and what your net pension liability and funded ratio is at those dates. Another thing to point out is we disclose this information. Technically that net pension liability doesn't reflect in the balance sheet for the plan it is on the city's books. The next page carries over some of the actuarial assumptions. The correct mortality table is on page sixteen (16). This is what Chuck wants to talk to you about. The actuarial society has come out with a more specific table to municipal employees, fire fighters, police and teachers. He asked us about using it and I stated I couldn't make that call. He wants to discuss that with you and maybe implement the table going forward. Midway down on page seventeen (17) is one of the disclosures that we are required to do and one of your assumptions is that discounted rate calculated in your total pension liability. Six-point seven five percent (6.75%) is the rate that is used to reflect and calculate. This shows the impact of how it would affect the plan if you were 1% lower or higher. You see it could be a big swing. I think it is important to show this is an assumption and a very creditable one. Page twenty-one (21) is supplement information that is required. This is good and is shows the last six (6) years of what the components of the pension liability are, what the contributions were, benefit payments and refund. This is a baseline for you to see what this year is and compare it to prior years. The very bottom shows the net pension liability for 2019 and it compares it to prior years and the fluctuation. Those are the key elements of the financials. Let's move to the letter titled "The Auditors' Communication with Those Charged with Governance". This has a couple of additional overviews from the audit. As I mentioned you had a clean opinion. We didn't have any disagreements on presentation or getting information that we requested to do the audit. There are no issues on that side, no fraud issues or notable acts identified as part of our test work. The main issue was reported in the second letter. We did identify some re-calculations issues again. We provided the details to HR and they have provided a corrective action plan for those errors. We have had this issue for the past couple of years. We will continue to do sample testing going forward. If parameters change, we will get that information to make sure we are testing the correct data. There were two (2) or three (3) issues last year and we did not have those this year. There were improvements made. With that are there any questions.

Hadley stated not to disclose anything from executive session but through thing you have pointed out last year and the process this year we started conducting some in depth review and found some additional errors. Some that are little more systemic and we believe have been there for years that nobody has notified us about. That might be something we want to talk about later.

Bledsoe stated okay.

Hadley stated the general feeling is we are surprised that we haven't noticed these mistakes. We basically found them as we were looking at these other ones from the auditors.

Bledsoe stated we have talked about that in prior years and part of the challenge with an audit is we don't look at every transaction. We are sample testing.

Hill stated I noticed in the letter that part of the test work or sample that was used one (1) retiree, the spouse's age and the factor used in performing the retiree's benefit calculation was incorrect. One (1) retiree, the retiree's age and the factor used in performing the retiree's benefit calculation was incorrect. Eleven (11) retirees, the years of service used in performing the retiree's benefit calculation was incorrect as it was not rounded up to the next whole month. Is that not what we are talking about.

Hadley stated in part. Now the rounding to the next whole month would not. It might be systemic but it doesn't hit every person. If they worked over half the month we are already rounding up. So, it would only hit about half of them. They did catch that but there are some things that seem to affect every single retiree and those are the ones.

Hill stated I'm not sure this the first time this was shown. I'm thinking this has never caused us or the city to take a harder look at the 100%.

Hadley stated if this error has been happening for a period of time and it was caught before why haven't we corrected it or if it was pointed out to us in previous audits that we weren't rounding to the next whole month why have we corrected it. I'm not sure. I would have to go back and look to see if it had been pointed out before. I don't know but it may have. If it was pointed out to us, we should have corrected it.

Ellwanger asked do we need to accept the audit.

Hadley stated yes and Denise was pointing out that we will need to approve paying for the audit.

Ellwanger asked do you know what the cost is.

Hadley stated I don't. If the amount is reasonable the Trust has given me authorization to approve those invoices. I can do that and bring it back for ratification at the next meeting.

Motion by Ellwanger, **Second** by Bayones, to accept the audit report from Finley and Cook. **Aye**: Bayones; Dentler; Ellwanger; Hadley; Hill; Livingston; Petersen. **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 application for Early Retirement from James Crow.
B. Consider application for Normal Retirement from Cindy Price.
C. Consider Memo of Information regarding the death of retiree Michael Hardrick.
D. Consider the revised application for early retirement of Sherri Poolaw.
E. Consider application for normal retirement of John Elwell.
F. Consider approval for the paid-in-full judgments to be released from the record.

Bayones stated I would like to pull items A and E.

Motion by Petersen, **Second** by Hill, to approve the consent agenda with the exception of Items A and E. **Aye**: Dentler; Hadley; Hill; Livingston; Petersen; Bayones. **Nay**: None. **Motion Passed**.

Bayones stated these two (2) items pertain to the extra sheets that were passed out. James Crow was one (1) of the retirees that had to be re-calculated. His re-calculation was due to a safety award that needed to be added and it changed his amount. The amount on the memo was different than the benefit selection form. Page fifty-seven (57) shows the memo and the corrected amount he would receive being $2,489.14. The original benefit selection form had the old amount of $2,485.90. A new form has been submitted and those now match. Everything has been re-dated from the current information. This takes care of this one (1).

Hadley stated and he has signed the corrected one (1).

Bayones stated there were a couple others with the same issue. They were re-signed and made it into our packets. Item E in the memo the break down pro-rated amount is not correct and the revised memo is not correct. They did a re-calculation for fractional days on his and it changed his benefit amount to $738.69 but the pro-rated amount for October says $728.16. This was the original amount. I think this was just a typo. If you take $728.16 and divide it by 31 it doesn't come out to $23.83. The number needs to be changed to match the current amount.

Hadley asked do we know what that number is.

Bayones stated $738.69.

Hadley stated it doesn't change this sheet at all.

Bayones stated no.

Ezell stated he did not initial the benefit selection option so you need to table this item.

Burk stated this is a very difficult one. We had to go to the hospital to get his signature. He is in very ill health.

Hadley stated I think we need to get his initials or have his power of attorney to do that for him.

Motion by Bayones, **Second** by Hill, to table Item E. **Aye**: Hadley; Hill; Livingston; Petersen; Bayones; Dentler. **Nay**: None. **Motion Passed**.

Motion by Petersen, **Second** by Hill, to approve Item A. **Aye**: Hadley; Hill; Livingston; Petersen; Bayones; Dentler. **Nay**: None. **Motion Passed**.

VII. Comments

VIII. Audience Participation

IX. Adjournment

Hadley stated I would like to thank you for your time.

There being no further businesses the meeting adjourned at 11:20 a.m.

Motion by Dentler, **Second** by Bayones, to adjourn. **Aye**: Hill; Livingston; Petersen; Bayones; Dentler; Hadley. **Nay**: Non. **Motion Passed**.