MINUTES
PENSION TRUST COMMISSION
2ND FLOOR CONFERENCE ROOM
NEW CITY HALL
JANUARY 26, 2012 – 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; Ellwanger, Paul; Ihler, Jerry; Hill, Andrew; Kindt, Bill; Mercado, Joe.

ABSENT: Livingston, Steve.

ALSO PRESENT: Tanya Riley and Jim Russell, Human Resources; Denise Ezell, City Clerk's Office; Tim Wilson, City Attorneys Office; Rick Endicott, Julie Magness and Stephanie Tehauno, Financial Services; Jerry Armstrong and Perry Warren, Morgan Stanley.

II. INTRODUCTION OF VISITORS

Ihler stated I believe we all know each other. We do have Chuck Dean with us today and he will be giving the actuarial report.

IV. APPROVAL OF MINUTES FROM OCTOBER 27, 2011.

MOVED by Ellwanger, **SECOND** by Hill, to approve minutes of October 27, 2011 as written. **AYE**: Ellwanger; Ihler; Hill; Kindt; Mercado; Bayones. **NAY**: None. **MOTION CARRIED**.

IV. NEW BUSINESS

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

Armstrong stated thanks for your trust and confidence. We appreciate it. Let’s start with the Asset Scan. On page 2 in the upper left hand corner you see where our asset allocation is. Our target is 35% going as high at 45% and as low as 25%. Right now our we are at 35% stocks. We have 14.71% cash, 28.82% US stocks, 4% foreign stocks and 2.10% other which gives us the 35%. Our bonds are at 52%. Looking next at the Stock Sector. You see we have Cyclical, Sensitive and Defensive with different categories under each. There are stocks you own inside the mutual funds and they are diversified among all the different industries. Now look at the 2 boxes in the upper right hand corner. The style box on the left is for stocks. Across the top you see 20/20/20 so 60% of the 35% is in large companies. In the middle you have 7/8/8 and those are medium. Across the bottom is small companies and we are almost right on target. We are a little under on large, a little over in medium and small but not enough to rebalance. Adding them up and down the goal is to be 33% in value, core and growth and we are almost exactly on target. Below you see stock types. Where it says hard assets this has to do with 35% in stocks and 12% of the 35 is in hard assets which are inflation protection. Inflation is not a problem right now but we are a little concern if it comes up so we hedge against it. As far as allocation this is where your money is right now. Are there any questions.

Armstrong stated next is the performance report. Look at the Comparative Performance Returns. In the lower left hand corner you see Total Account and the different ways to measure. Starting from the far right it says Since Inception, which is November of 2007 until the end of December 2012. Second column is for the past 3 years and the third column is for the past 12 months. Total account since inception we have made 4.12% per year, for the past 3 years 8.82% per year and for the past 12 months 2.99%. If you compare that to the industries you see we are a little below since inception, lagging a bit for the past 3 years and lagging quite a bit for the past 12 months. The index made 6% and we only made 3%. Some years the index will beat the managed funds and this happens to be one of those years. Looking at the upper right hand corner it shows how much money we have made or lost since we began. The beginning value in November was $34,679,131.46. Total net contributions/withdrawals have been $1,203,802.42. So the total invested capital is $35,882,933.88. The appreciation is $5,662,153.27 which brings the total value to $41,545,087.15. Are there any questions?

Armstrong stated looking at the bottom at the S & P 500 the index is down 1.56% since inception. We have made it in bonds. That is not always going to be the case. Sometimes stocks can out perform bonds and when they do we will lag. In the good years we will lag the market and in the bad years we will do better than the market. Are there any questions?

Armstrong stated page 4 is a year by year performance and remember 2007 was a partial year. Page 5 is everything the plan owns as of December 31st. We started with the mutual funds and exchange fitted funds with the amounts that are in the account and the gains/losses unrealized. Page 6 shows total equity and all the stocks. The value is about $15.5 million with a profit in those funds of $728,000. Below are the bonds. At the bottom of page 8 you see we have about $20 million in bonds and the actual capital gain is $989,223.76. With bonds we can make or lose money in 2 ways. First is the interest and second is the gain/loss if we sell them. We bought a lot of these bonds at a discount. Right now we have an unrealized gain of almost a million dollars plus we are paying $800,000 a year out of income. The current yield is 3.96% a year. On the next page you see we had $5.5 million in cash at the end of the year. Right now we have $3.6 million. The total value is $41 million. The unrealized gain/loss is $1.7 million and the estimated annual income is $951,000 a year. That includes the income from the bonds and mutual funds. We don't recommend any changes. There is a lot in the news that is scary, but there always is. Are there any questions. Thank you.

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

Dean stated I'm glad to be here and I have a lot of material for you. Several of these are handouts for your reading. First is the Actuarial Report and Selected Pages From The Asset-Liability Forecast Report. Next is a list of articles on Public Retirement Programs and if you are interested in a particular article we can get it for you. Next is something we prepare for our clients that show the governments limits on the applied retirement plan. Most of this applies to the public plans as well. On the back is information on the income tax rates on Social Security, what the benefits are and the limits on those benefits. The next handout we will need to talk about. GASB has rules that will be changing and will affect the City and maybe the Trustees but it will affect the finance department the most. GASB sets the rules as to what general accepted accounting principals are for public entities of any kind. Financial statements are prepared in accordance with GASB and there are GASB statements as to how things should be accounted for. It may not be our job as a Trustee, but it is the City's job to do proper accounting. GASB is quite adamant these new rules are coming. In June 2010 they issued a paperback book called Preliminary Views describing their thoughts on the changes. It shows the direction they are going. They asked for comments and listened to those comments. This handout has 2 sides. On one side is a summary of the new GASB rules and the other side is a little more specific on comparing things and how it affects you. This is probably going to be effective in 2013.

Endicott stated the City is engaged with Crawford and Associates as our accounting advisors. They interact with us on how we do things on a daily basis. The president of the company is Mike Crawford. He is actually the chairman of the GASB Board so we have the ability to stay up with these rules.

Dean stated that is nice to have someone who can be an advisor on accounting issues. Crawford has been big in GASB for years so that is very helpful. GASB will publish another paperback book that is more specific stating these are the rules and we believe it will be much like the Preliminary View. They will make it all official in June of this year with effective dates. Another sheet I'm going to show you are issues for the Board. One of these is the assets in the plan. The new accounting reporting will have to use market value, but you have the choice to do the calculation at market value or smoothing. Most public plans smooth and that is our recommendation. We believe it is a better approach because it smoothes out the funding numbers. If the market goes up and down and you apply some asset smoothing you will come up with less volatile figures in your contribution department. They will still move around, but not quite as much. We have examples that shows the market value and the smooth value and the smooth value works. It dampens out changes in the contribution rate required from year to year. We would suggest you do this. In your actuarial report page 1 are the Highlights of the report. Pages 3-5 are the Summary of the Plan Provisions. Page 6 is your Plan Assets and page 7 is the Reconciliation of Plan Assets. Page 8 and 9 is the Plan Funding Requirements and page 9 we describe the Key Funding Terms. Page 10 is the Effect of Assumption Changes on Valuation Results. We show the effect of the 6.3% employee contribution and how that changes the contribution rate by ¾ of a percent. Page 11 is the Comparison of Valuation Results and we show all the valuations from 2003 and we started in 2007. You see the assumptions went to 6.75% in 2009 and all assumptions in 2011 are the same. Your actual contribution required dropped from 14.94 to 14.41 so you had a favorable effect despite the fact you are not putting in enough money. The rest of the report is a lot of information pertaining to GASB. Exhibit 5 on page 15 is a calculation of the funding progress. It shows your payroll, actuarial liability and funded ratio over a period of years. It hasn't been going good primarily because there wasn't enough money contributed. Exhibit 6 is the Schedule of Employer Contributions and it is somewhat the same as Exhibit 5. Page 18 and 19 are GASB 27 information. The bar chart is the Net Pension obligation. This is not your unfunded actuarial liability. This is the funding shortfall. It will go up on the next valuation because you are not putting in the 14% plus the City contribution. Each valuation with new people will show a funding requirement that is lower. So it is going to taper off and the rules will change to make it a new ballgame. The rest of the report shows a lot of demographic information. Page 21 is an extract from the data base. It can be used to make benefit calculations. Page 22 shows the non-active participants. You have 192 that are in either payment, survivors or disable status. The fund is paying a lot of people.

Armstrong asked what is the answer we should give if an employee asks how is the pension plan doing?

Dean stated based on our best predictions the plan is going to be financially solvent and is on better footing with the changes. It will take some time for all this to show up. At some point you may look at doing something for the current people. I have one other issue to cover. Here are some key issues you should think about. First for funding purposes you should adopt asset smoothing. Second is on the GASB pension expense valuation. You have an actuarial report valuation for each cycle of funding and a GASB 25or 27 disclosure requirement. GASB is changing the rules and it will require a lot more work but you have to have it done. Then there is a question as to who should pay for it. Should it be the pension or the City. The Trustees are not directly involved or responsible for publishing the Cities financial statement. The finance department has to coop with and follow whatever GASB rules are so it is a necessary expenses of keeping the Cities books and the City should pay for it. It has to be done and somebody has to pay for it. It will be up to the City and the Trustees to figure that out.

Armstrong stated if the plan pays for it then it will take longer to meet the points you described because that is more money coming out of the plan.

Dean stated that is correct. Funding this plan is a legal commitment, a long term financial commitment with an actuarial report to guide and a commitment to administer the plan. You keep financial statements, you get the asset information, and you talk to people. You have the requirement as the fiduciary to monitor your asset performance. You have the responsibility to have an actuarial report, to look at it, read it, and learn the terms even though they are arcade. It is a responsibility of having this kind of plan to do certain things and there is a cost in administrating this plan. If you don't intend to do all those things then you shouldn't have the plan. Thirdly is individual participants statements. Here is a sample of one we do for Edmond. This is given to each employee every year. It shows the persons accrued benefit, and their pay history. We can also show their Social Security benefits. This information a person deserves to have. If you were in the private sector it is a legal obligation you have. We suggest you let is do a yearly statement for you.

Russell asked what is the cost of creating this report per employee?

Dean stated it would be between $2500 and $3000.

Hill asked is that for one report a year.

Dean stated yes.

Wilson asked does it do the Career Averaging for the new hires.

Dean stated yes.

Armstrong stated smoothing doesn't smooth out the actual value, but it smoothes out the unfunded liability for next year.

Dean stated that is correct. The unfunded liability and the contribution requirement.

Armstrong asked since it smoothes it out is it reasonable to take out a little more volatility in the management of the portfolio?

Dean stated that is a really good question. Maybe so. I think you might want to live with it for a while to see how it works, but that would be a possibility because you are playing a longer game.

Armstrong stated and that volatility because less of an issue.

Dean stated yes. It is not that you don't see the volatility it just dampens. You will still know the market value.

Warren asked if they adopt smoothing does it start from that day forward or do they go back?

Dean stated we can do it either way.

Ihler stated we appreciate Dean being here today.

MOVED by Hill, **SECOND** by Mercado, to accept the actuarial report and to pay all necessary fees in regards to the report. **AYE**: Ihler; Hill; Kindt; Mercado; Bayones; Ellwanger. **NAY**: None. **MOTION CARRIED**.

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

Magness stated this statement is for the second quarter ending December 31, 2011. There is a considerable amount of cash in the bank in a money market fund. As Armstrong stated earlier they had some maturities and are waiting to reinvest. Next is just a recap of the investments with Morgan Stanley. We have also purchased judgments to receive 5% interest. We have $44,552,000 in liabilities from the equities. The next page is a break down of the revenue and expenses. It shows the second quarter and year to date. The contribution the City has made is $514,000 and for the employees is $323,000. We have gains for this quarter but are in the negative for year to date. We have $250,000 in interest. The lower portion shows the expenditures. Benefits to retirees is in the amount of $791,000 for the quarter and $1.5 million year to date. Refunds are employee that have left employment with the City and are not eligible for retirement so they take a lump sum or roll it over into another investment. We have audit fees of $135. The audit is almost finished. We have been waiting on the approved actuarial report. We bank with BancFirst and they charge a fee for the extra FDIC investment. We also have the Morgan Stanley fees and consultant fees on legal issues. For this quarter year to date we have $710,000 more going out than coming in. The fund balance as of December 31 was $44,050,701.01. The next page is our quarterly retirement refunds. Beside each person we have written the tax that was collect to make up the tax dollar amount. The second quarter amount we have refunded and for federal tax collection is $246,000.

Ihler asked are there any questions for Magness?

MOVED by Kindt, **SECOND** by Mercado, to approve the Quarterly Employees Refunds Made From Retirement System and Quarterly Statement of Receipts and Disbursements **AYE**: Hill; Kindt; Mercado; Bayones; Ellwanger; Ihler. **NAY**: None. **MOTION CARRIED**.

D. Receive Report on Number of Employee Enrolled in the Pension Prior to Career Averaging and the Number of Employees Enrolled in Career Averaging and take action if necessary.

Russell stated as of the December 30th payroll we had 573 general employees. Out of those 54 have been hired after the date of June 30th 2011. Currently we have 54 employees who are under the Career Averaging and 519 under the original pension.

Ihler stated are there any questions.

E. Discuss the pension of Connie Givan and take appropriate action as necessary.

Wilson stated Givan is an employee of the City of Lawton. In 2002 we had a reduction in force and she was laid off. She filed a law suite and it was settled in October of 2003. The settlement agreed she would return to work as a part-time employee in the Planning Division. During the reduction in force Givan chose to retire and to receive her pension. In the settlement it was agreed she would continue to receive this pension. Your packet contained a copy of the settlement agreement and an order from the Federal Court. In 2006 there was a full time position in HR and Givan was got the position. At this point, due to an error, her pension stopped. The error was discovered last month by payroll and it was brought to my attention. Our recommendation to the Board is that we immediately authority the resumption of the monthly pension benefit and authorize a lump sum payment to Ms. Givan in the amount of $30,617.99. The sum does include interest.

Kindt stated this sounds like a regular Court Order.

Ihler stated this is a requirement of the settlement.

MOVED by Kindt, **SECOND** by Ellwanger, to authorize the resumption of Ms. Givan's monthly pension benefit and authorize a lump sum payment to Ms. Givan in the amount of $30,617.99 for the back pension payments owned, with said sum including interest. **AYE**: Kindt; Mercado; Bayones; Ellwanger; Ihler; Hill. **NAY**: None. **MOTION CARRIED**.

F. Discuss (1) an amendment to City Code Section 17-3-4-345 that will correspond with a recently enacted state law pertaining to the forfeiture of retirement benefits upon the conviction of a crime, (2) recommend that the City Council adopt the new version of this code section and take action if necessary.

Wilson stated a State law went into effect in August of 2010 adopting a provision that is similar to what is in our Code. It states if an employee is convicted of embezzlement, stealing, or anything related to their job they lose their pension. It also says they have a right to a hearing before the Board. We would have to include this language into our Code. The law also states the benefits you could lose if convicted do not include the vested benefits you have before the law went into effect. After talking to Papahronis and City Attorney Jensen we need to include the date in our ordinance so we are saying if you are convicted of a crime you will lose your pension, but you won' lose the vested benefits in effect before August 2011. The law will supersede our ordinance. Fortunately we don't have many convicted of embezzlement or theft in the 10 years I have been here. There may have been one.

Endicott asked will those employees be able to come back and claim anything.

Wilson stated no. One additional thing the law does it says if you retire and later are convicted of a crime related to your employment you lose your pension benefits. I would recommend you ask Council to adopt this version of Section 17-3-4-345.

MOVED by Ellwanger, **SECOND** by Hill, to approve an amendment to City Code Section 17-3-4-345 that will correspond with a recently enacted state law pertaining to the forfeiture of retirement benefits upon the conviction of a crime, and to recommend that the City Council adopt the new version of this code section. **AYE**: Mercado; Bayones; Ellwanger; Ihler; Hill; Kindt. **NAY**: None. **MOTION CARRIED**.

V. 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 Nancy Hayes.
B. Consider Memo of Information Regarding the Death of Irene Nelson.
C. Consider Memo of Information Regarding the Death of Ralph Priest.
D. Consider Application for Normal Retirement for David Livingston.
E. Consider Memo of Information Regarding the Death of Lester Kramer.
F. Consider Memo of Information Regarding the Death of Frank Shotts.
G. Consider Memo of Information Regarding the Death of Barry Cousins

Ihler stated I would like to pull Item C as it relates to the death of Ralph Priest.

Kindt stated I would like to pull Items C, F and G.

MOVED by Kindt, **SECOND** by Ellwanger, to approve Items A, B, D, and E of the Consent Items. **AYE**: Mercado; Bayones; Ellwanger; Ihler; Hill; Kindt. **NAY**: None. **MOTION CARRIED**.

Ihler stated I asked that Item C be pulled because it says "please end his insurance deduction from his retirement check". It is my understanding after talking to Duggins that we also want to end his benefits as a result of his death and not just the insurance.

Kindt stated I had the same questions.

MOVED by Ihler, **SECOND** by Kindt, to end the benefits of Ralph Priest as well as his insurance. **AYE**: Bayones; Ellwanger; Ihler; Hill; Kindt; Mercado. **NAY**: None. **MOTION CARRIED**.

Kindt stated the other 2 are the same thing. I haven't questioned it before, but it seems like it ought to be standard about stopping benefits. Item F stated he had health insurance and Item G says Lifetime Only. I just think it ought to be a little more standardized when we are going to stop the check.

MOVED by Kindt, **SECOND** by Mercado, to approve Items F and G of the consent agenda.. **AYE**: Ellwanger; Ihler; Hill; Kindt; Mercado; Bayones. **NAY**: None. **MOTION CARRIED**.

VI. COMMENTS

Ihler stated I have received 1 call and 1 email from existing retirees asking if we were going to consider a possible increase for retirees. I believe Charter indicates we should look at this possibility every 2 years. It doesn't say we have to give an increase, but we need to look at the possibility. At the next meeting there will be an item for your consideration.

Hill asked so these suggestions as far as the employees statement will that be on the next agenda for us to consider.

Ihler stated we can. I would like to do a little more research and get familiar with the information. I don't know if it will be ready by the next meeting.

Hill asked is it to early to consider the GASB 27 additional cost and what the requirement will be?

Dean stated it is not an official requirement yet.

Armstrong asked is an increase to the current retirees built in?

Dean stated no.

Armstrong stated so this would have a negative effect on the plan.

Dean stated yes.

VII. AUDIENCE PARTICIPATION

VII. ADJOURNMENT

There being no further business the meeting adjourned at 11:00 a.m.

MOVED by Hill, **SECOND** by Mercado, to adjourn. **AYE**: Ihler; Hill; Kindt; Mercado; Bayones; Ellwanger. **NAY**: None. **MOTION CARRIED**.