MINUTES
PENSION TRUST COMMISSION
SECOND FLOOR CONFERENCE ROOM
CITY HALL
APRIL 25, 2019 – 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: Dentler, Carl; Ellwanger, Paul; Hadley, Bart; Hill, Andy; Livingston, Steve; Petersen, Ed.
ABSENT: Bayones, Teri.
ALSO PRESENT: Denise Ezell, City Clerk's Office; Perry Warren and Chad Rother, Morgan Stanley; Stephanie Tehauno, Financial Services.

II. Introduction of Visitors

Hadley stated we don't have any visitors with us today.

III. New Business

A. Approve minutes of January 24, 2019.

Motion by Dentler, **Second** by Ellwanger, to approve the minutes of January 24, 2019. **Aye**: Dentler; Ellwanger; Hadley; Hill; Livingston; Petersen**.** **Nay**: None. **Motion Passed**.

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

Warren stated thanks for allowing us to be here to provide an update on the investment account. Starting on page 4. This page reflects the dollar weight in calendar year returns. The first quarter of 2019 the portfolio earned 9.84%. I have broken down the last 4 calendar returns by quarterly return to better reflect the volatility over the last 4 years. Looking at the third quarter in 2015 you see we had a significant decline of negative 6.78%. This represents one of the largest quarterly declines to that point. Then we had the fourth quarter of 2018. You see we had a decline of negative 9.91%. The good news is the first quarter of this year was a positive 9.84. With our allocation we expect volatility. I believe this level is at the upper hand of our expectations. On page 6 we have the time weighted returns as of March 31, 2019. Notice to the far right "Performance Since Inception" beginning November 15, 2007 and ending March 31, 2019. We began with $34,679,131.46, net withdraws of $7,794,874.34, investment earnings of $27,639,254.47 leaving us with a balance of $54,523,511.49 and a return of 5.39%. Please note the custom period starting with June 30, 2016. We changed our benchmark to better track the change in our allocation from 35% equities to 50% with a variance of 20%. We use the benchmark of ERSOLCOL (Employee Retirement System of City of Lawton). On page 35 under Benchmark Definitions you see what comprises the benchmark. It is roughly 50% equities and 50% fixed income, alternatives and cash. The goal is to earn the actuarial assumption of 6.75% over time. We wanted a benchmark to help measure our performance to the market.

There are periods where the market won't allow us to make the 6.75% return with our target allocation. In the "Last 5 Years" column the benchmarked did not earn 6.75%. It earned 6.09% due to the decline in bond returns. The Barclay's Aggregate from the last 10 years went from 3.7 to 2.74 to 2%. Because of this decline we came to the board requesting you allow us to change our allocation. You see in the "Custom Period" we started the period with $46,450,836.25, net withdraws of $1,998,857.32, investment earnings of $9,773,531.97, leaving a balance of $54,225,510.91 and a return of 13.85%. We were able to reach the 6.75% actuarial assumption. We outperformed the index of 10.15%. Notice the last 12 months the benchmark is lagging due to falling interest rates. The Barclay's Aggregate return for the period was 4.48% which was well above its average. You see we earned 9% in 3 years, 5.43% in 5 years and 7.39% in 10 years. Page 7 is an investment summary page with results through April 18th. In the last 12 months we have had withdrawals of $2,100,000, net investment earnings of $3,350,199.88, returns of 6.44% and for the last 10 years 7.19% and 5.51% since inception. The pale blue line on the chart to the right represents the total value and the purple line the net invested capital. The difference between the 2 lines is the investment earning since inception of $28,520,835. The next page is the portfolio x-ray. This page is the tool we use to drill down into the holdings to help evaluate better. The pie chart under "Asset Allocation" you see the holdings of the account is approximately 8% cash, 60.49% US stocks, 7.42% non-US stocks, and 23.32% bonds. To the right under "Stock Analysis" you see we are well diversified by looking at our weight by sector. Cyclical stocks represent 36.5% of the portfolio, economically sensitive stocks 41.17% and defensive stocks 22.17%. Currently we have a slight underweight to healthcare and consumer cyclical stocks. The blue investment style box shows the diversification by style and size. Currently we have 75% in the equity portion in large cap stocks with 24% in large value, 23% in large bend and 28% in large growth. Twenty percent of our equities in mid-cap, 7% in mid-value, 5% in mid blend, and 8% in mid growth. Six percent of our equities are in small cap, 2% in small value, small blend and small growth. In the bond analysis portion of the pie chart we are currently balanced between government bonds at 32.95%, corporate bonds at 31%, securitized bonds at 27.68% and cash at 7.5%. The bonds are diversified by maturity and effect the duration of 4.41%. Page 13 is the "Position Summary" page. This page shows the summary of the different positions of cash, equities, fixed income and alternatives from dollars and as a percentage of the portfolio including the current yield. We have planned withdraws of $300,000 per quarter. Currently the portfolio yield is 1.8%. We anticipate a $1,000,000 from dividends and interest leaving $200,000 of the withdraws to come from appreciation. Pages 14-17 are the "Position Pages". These pages provide more detail than the summary page. Since our last meeting we have made changes to the holdings. We removed and reduced some positions while adding to current position and a few new ones. The goal is to continue to manage the account to meet the 6.75% actuarial return with the least amount of risk. The net effort from those changes was a slight reduction in the total number of holdings. We reduced our equity allocation on April 3, 2019 to slightly under 68% from over 69%. Please turn to page 18. The fourth quarter has tried to provide the largest test so far. You see by the red dot above 2018 the negative 20 which occurred in the fourth quarter of 2018. We have been fortunate that the market has rebounded sharply and that yields have risen slightly on fixed income. This chart shows the annual returns in blue and the intra-year decline in red. With the ability to have 70% in equities we must be prepared for and willing to ride through the declines. Over the last 38 years the average return has been 12% and the average intra-year decline negative 10. Those averages are not hard to handle. The yearly returns that comprise those averages can be. In 1980 the market finished up 26% and that was wonderful for those who stayed the course the whole year. Some decided they could not stand to lose anymore when the intra-year decline hit negative 17 and sold out. We have agreed if the decline is too much for the Board that when it recovers we will reduce our allocation. We continue to believe the current allocation provides the best opportunity to make the 6.75% actuarial return over time. We will be glad to answer any questions.

Hadley stated thank you. Does anyone have any questions?

Motion by Hill, **Second** by Ellwanger, to accept the Morgan Stanley report. **Aye**: Ellwanger; Hadley; Hill; Livingston; Petersen; Dentler. **Nay**: None. **Motion Passed**.

Hadley stated I apology I should have introduced Dewayne Burk the new HR Director. I believe everyone knows him as the Fire Chief.

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

Leonhart stated on your balance sheet as of March 31, 2019 you had cash of $169,467.67. At the end of the third quarter we had assets of $56,449,281.51 and fund equity of $56,182,804.38. On the statement of revenue and expenses at the end of the third quarter revenue contribution was up $5,764,055.64. This was due to the unrealized gain of $4,133,421.57. The miscellaneous revenue was from Joann Hobbs in the amount of $200. Total expenditures for the quarter was $1,523,507.46 and net increase of $4,240,548.18 due to the unrealized gain. On the employee refunds at the end of the quarter there was a total of $267,411.65 that was made from the retirement system.

Hadley stated thank you. Are there any questions.

Motion by Ellwanger, **Second** by Petersen, to accept the financial report. **Aye**: Hadley; Hill; Livingston; Petersen; Dentler; Hadley. **Nay**: None. **Motion Passed**.

D. Consider accepting an engagement letter for Audit Services of the Employee Retirement System financials for the fiscal year ending 2018-2019 with Finley & Cook, PLLC.

Hadley stated Finley and Cook has been retained by the City of Lawton to provide the annual audit for the pension system. The engagement letter dated March 6, 2019 identifies the scope of account and auditing services the firm will provide for the fiscal year ending 2018-2019. By accepting this engagement letter, the system will be billed a sum not to exceed $23,400. A copy of that letter is attached to the agenda item. We are trying to get ahead and have these things in place.

Branstetter stated our goal is to have the engagement letters in hand by May 30th. We would like to be ready when the year ends to begin the yearly audit in July and August. We have multiple components within the city's audit that has to be incorporated. The city needs to have their audit done by December 31st. In order to get ahead of the game we are trying to get all the engagement letters up front. You will not start to incur any expenses until July 1st.

Hadley stated as most of you know the city's audits got behind and stayed behind for several years. We are finally at a point where we are caught up and would like to stay there.

Petersen asked is the engagement letter on page 23 for this year or last years.

Branstetter stated its next years.

Hadley stated the letter says 2018.

Branstetter stated I'm sorry. I don't know how you ended up with the wrong one.

Petersen asked is there any material difference.

Branstetter stated let's double check.

Livingston asked do we go out for bid for this contract. It is for multiple years? How is this company selected?

Branstetter stated we did not go out for bid this time. I do recommend that every 3 to 5 years we do so. Since this is who we have used the last several years they were the recommendation for this year. I didn't feel we had enough time to go out for bids. There is a difference on the back page in the amount. I can certainly go make copies of the current letter. The amount this year is $23,400 and last year was $22,600. Would you like a copy of the new letter?

Petersen stated I would like to see it before we take a vote.

Hadley stated while she is getting the copies let's move on to the next item.

E. Consider ratifying the actions of the Financial Services Supervisor in authorizing payment of the December 14, 2018 and January 24, 2019 invoice from Finley & Cook for services rendered to the Pension Trust.

<u>**Motion** by Petersen, **Second** by Hill</u>, to approve the invoices from Finley & Cook dated December 14, 2018 and January 24, 2019. **Aye**: Hill; Livingston; Petersen; Dentler; Ellwanger; Hadley**.** **Nay**: None. **Motion Passed**.

F. Consider accepting actuary services for the Employee Retirement System financials for the fiscal year ending 2018-2019 with Dean Actuaries, LLC.

Hadley stated Dean Actuary has been the actuary since before I came on the Trust and from my perspective he has been very responsive. The total amount is $14,066 and I don't know how that compares to last year.

<u>**Motion** by Hill, **Second** by Ellwanger</u>, to approve accepting the actuary services for the Employee Retirement System financials for the fiscal year ending 2018-2019 with Dean Actuaries, LLC. **Aye**: Petersen; Dentler; Ellwanger; Hadley; Hill; Livingston. **Nay**: None. **Motion Passed**.

Livingston stated the problem with not going out to bid every so often is everyone gets familiar with the situation. If there is someone local that would like to bid and we don't take it out to bid it will be said we are not giving the local venders an opportunity to bid. We need to make certain we take these out for bids after a certain timeframe to ensure everyone has an opportunity to bid. I don't have a problem with the current auditor or actuary. I just feel we need to go out to bid after a certain timeframe.

Hadley stated that is a good point. We will plan on doing that before next year.

G. Consider authorizing payment of the April 2, 2019 invoice from Dean Actuaries, LLC for services rendered to the Pension Trust.

Motion by Petersen, **Second** by Ellwanger, to approve the invoice of April 2, 2019 for Dean Actuaries, LLC. **Aye**: Dentler; Ellwanger; Hadley; Hill; Livingston; Petersen. **Nay**: None. **Motion Passed**.

H. Consider authorizing John Papahronis with McAfee & Taft to prepare an ordinance clarifying that the city's periodic buy back / buy down of its contract employees' historical sick leave since December 2016 shall be considered pensionable, and authorize the pension chairperson to approve payment for any services Papahronis provides regarding this ordinance.

Wilson stated around the 2001/2002 timeframe our sick leave was capped at 576 on what could be accrued. Anything over that amount the city bought back. Around 2002/2003 Council decided to stop the annual buy down and allow you to have an unlimited accrual of sick leave. They created what was called "terminal leave". When you were eligible for retirement you could use your sick leave plus vacation as terminal leave. In 2015 the actuary realized we were carrying a big liability on the books that didn't look good and there were some accounting issues. The city decided to do away unlimited accrual of sick leave and return to buy back. Council called the accrued sick leave "historical sick" and it was frozen. For those who had historical leave they could still use it as terminal leave. When this change was being made we had Papahronis research whether buy backs would be pensionable. Several Council members wanted to allow the city to buy down historical sick leave. Papahronis is an attorney with McAffee and Taft and is our consultant in regards to pension issues. His analysis in 2016 would be that involuntary buy bucks could be potentially pensionable. From an IRS standpoint the city code didn't specify one way or another. If we choose to do this Papahronis wanted it spelled out in code so there would be no questions with the IRS. Around December of 2016 the City Manager was renegotiating his contract. He had a significant amount of historical leave and Council wanted to buy down some of that leave. If Council was going to buy down his historical leave he wanted it to be pensionable. If it was not going to be pensionable than he preferred to use it as historical leave. Council felt it was not advantageous to pay his salary plus a new city manager's salary for approximately 8 months. It made more sense to buy down his sick leave periodically. His contract allowed the city to buy down his historical leave and it would be treated as pensionable. The City Attorney also had a significant amount of historical leave. Similar language was placed into his contract but it states "upon the passage of an ordinance". He was a little more conservative. Papahronis recommends it can be pensionable and that we amend the retirement provision of the code to say for contract employees that a buy down of historical leave will be considered pensionable. The 4 employees who are contract employees are the City Attorney, City Manager, Municipal Judge and City Clerk and it would only affect those who have historical leave. This would be retroactive to December 2016. I recommend we allow Papahronis to amend the code.

Hadley stated this change was at the direction of the Council. They didn't want to pay the salary of 2 City Managers. In Ihler's mind it should have been pensionable either way. It was important to him that it be pensionable. Council did approve adding it to his contract and bought back 200 hours a year for a period of 3 years. This doesn't happen every day. I believe the Municipal Judge is a part of a 457 plan and not the pension. This will only affect the City Attorney and the City Clerk unless someone within is promoted.

Motion by Livingston, **Second** by Ellwanger, to approve authorizing John Papahronis with McAfee & Taft to prepare an ordinance clarifying that the city's periodic buy back / buy down of its contract employees' historical sick leave since December 2016 shall be considered pensionable, and authorize the pension chairperson to approve payment for any services Papahronis provides regarding this ordinance. **Aye**: Ellwanger; Hadley; Hill; Livingston; Petersen; Dentler**. Nay**: None. **Motion Passed**.

Hadley stated let's move back to Item D. Branstetter is handing out copies of the current engagement letter. Now you have the old and new letter to compare the differences. The primary difference is the cost has gone up $800.

Livingston asked is this a 1 year contract. The old one was a proposal for 3 years.

Hadley stated it is. Since this is our fourth years we would consider doing a new RFP.

Branstetter stated it will be easier to go out for RFP since we have the audit caught up. We will have more time.

Motion by Peterson, **Livingston**, to accept an engagement letter for Audit Services of the Employee Retirement System financials for the fiscal year ending 2018-2019 with Finley & Cook, PLLC. **Aye**: Hill; Livingston; Petersen; Dentler; Ellwanger; Hadley. **Nay**: None. **Motion Passed**.

IV. Old Business

A. Consider application for normal retirement from Anthony Griffith.

Ezell stated this item is from the last meeting. There was a typo on the Benefit Option Selection page. They refigured the amount and made the corrections.

Hadley stated the typo was on the Joint and 2/3 options and it has been corrected.

Petersen asked what counseling do the employees get. He has chosen the 10 Years Certain option and the amount is lower than the lifetime option. He is only 63 and declined health insurance as well.

Ezell stated he is retired military and probably doesn't need the insurance.

Petersen asked does this strike anyone as unusual.

Hill stated if he dies within a year his spouse will receive that amount for the remainder of the 10 years.

Hadley stated 10 Years Certain survives him and lifetime does not. I do believe his wife is younger than him. Griffith is pretty sharp. We don't try to tell the employees what is best for them. We provide the information and they have the opportunity to meet with someone who can advise them. We might want to suggest they take the information and discuss with someone they trust. The same goes with employees who are leaving employment. There have been employees who have quit their jobs and withdrawn their retirement to help with financial situations. I had an employee to do this and I strongly encouraged her not to do so.

Motion by Hill, **Second** by Ellwanger, to approve application for normal retirement from Anthony Griffith. **Aye**: Hadley; Hill; Livingston; Petersen; Dentler; Ellwanger. **Nay**: None. **Motion Passed**.

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 application for normal retirement from Sue E. Smith.
B. Consider application for normal retirement for Michael D. Spencer.
C. Consider Memo of Information regarding the death of retiree Terry R. Reffett.
D. Consider approval for the paid-in-full judgments to be released from the record.

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

VI. Comments

Hadley stated a little over a year ago we discussed purchasing an automated system to calculate an employee's pension. At this time HR is doing it manually and this opens the door for error. At that time we had some IT issues and was unable to move forward. We are re-exploring the idea. At a later meeting we may be bring this back to the Trust.

Livingston stated I ran into a retiree a month or so ago. He and I retired at about the same time. He asked if I remember him telling me that his goal for retirement was to collect a million dollars from the pension fund. He stated he needed to amend his goal because he had almost hit the million dollar mark. My point being is the decisions being made by employees could be a long term decision and will affect them entire life.

Hadley stated I understand there are reasons for every decision. A defined benefit is something that you can count on for the rest of your life. The defined contribution puts the risk on the employee instead of the city. It is one thing for our plan to withstand the ups and downs over a period of 30 to 50 years and another for employees to take those risks. Thank you for your time.

VII. Audience Participation

VIII. Adjournment

There being no further business the meeting adjourned at 9:50 a.m.

Motion by Dentler, **Second** by Hill, to adjourn**. Aye**: Livingston; Petersen; Dentler; Ellwanger; Hadley; Hill. **Nay**: None. **Motion Passed**.