MINUTES
PENSION TRUST COMMISSION
2ND FLOOR CONFERENCE ROOM
NEW CITY HALL
APRIL 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; Kindt, Bill; Livingston, Steve; Mercado, Joe.

ABSENT: Hill, Andrew

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

II. INTRODUCTION OF VISITORS

Ihler stated we have Vanessa Dutton with Eide Bailly and John Papahronis our legal council with us today.

IV. APPROVAL OF MINUTES FROM JANUARY 26, 2012.

Ihler stated there is one item of correction on page 2 last sentence say "depreciation" and should say "appreciation".

MOVED by Kindt, **SECOND** by Mercado, to approve minutes of January 26, 2012 with stated corrections. **AYE**: Ellwanger; Ihler; Kindt; Livingston; Mercado; Bayones. **NAY**: None. **MOTION CARRIED**.

IV. NEW BUSINESS

Ihler stated Papahronis and Wilson need to leave early so we will be moving Items C and E to the top of the agenda at this time.

C. Consider recommending the City Council adopt an ordinance amending Sections 17-3-4-335, 343, 346, 347, 349, Division 17-3-4, Article 17-3, Chapter 17, Lawton City Code, 2005, by amending the consolidation of liabilities and assets, existing plan, restrictions on benefits to conform to IRS requirements, optional forms of retirement benefits, death benefits, and rollover to anther plan or IRA.

Papahronis stated when Congress passes new laws or when the IRS issue new regulations the plan needs to be amended to incorporate those provisions. Last year we completely restated the plan and filed it with the IRS. The amendments today relate to laws that were passed in the last few years that the IRS was not ready to consider. We were waiting on interpretations as to how to amend the plan. The deadline for these laws to be incorporated into the plan is June 30th.

I'm please to say there is nothing pending that I know of. These laws are very technical. There is a limitation on how many benefits can be provided when someone retires and one of these laws effect this limitation. They have changed how the calculation is made on those limitations. I don't believe anyone is every going to reach that limit and that is usually the case.

Ihler stated the limit is $160.

Papahronis stated I have several governmental plans and have just now run into a case where someone has come up against the limit. This is a pretty rich benefit. One of the changes is how it is calculated. The actuary has to calculate how that values relates to this limit.

Ihler asked will that limit go up or down?

Papahronis stated it is indexed and will go up. The plan doesn't have to keep increasing its benefits. Whatever benefit the plan provides will be limited by the limitation. The actual formula doesn't have to go up, but the limitation will.

Ihler stated our cap is $160 and it may to up to $170 based on the formula.

Papahronis stated you are talking about the limitation on the amount of compensation which is also indexed and keeps creeping up. Use to if someone died the pension could be rolled over to a spouse and now it can also be rolled over to a beneficiary IRA. That is good for the participants. There was another law called the "Heart Act" for military personal. If a military person dies or is killed in service they would be treated as if they were still employed with the City. This bill benefits the military personnel. These are the changes and they are administrative things. They are all required and we haven't done anything more than what the law requires.

Ihler stated so these amendments are required to be in compliance with the IRS.

Papahronis stated yes.

MOVED by Ellwanger, **SECOND** by Kindt, to recommend the City Council adopt an ordinance amending Sections 17-3-4-335, 343, 346, 347, 349, Division 17-3-4, Article 17-3, Chapter 17, Lawton City Code, 2005, by amending the consolidation of liabilities and assets, existing plan, restrictions on benefits to conform to IRS requirements, optional forms of retirement benefits, death benefits, and rollover to anther plan or IRA. **AYE**: Ihler; Kindt; Livingston; Mercado; Bayones; Ellwanger. **NAY**: None. **MOTION CARRIED**.

E. Review and discuss documents received from Union Bond & Trust Company and take action if necessary.

Ihler stated we just received this document and it has a May 31st deadline. Instead of calling a special meeting I decided to place it on this agenda.

Wilson stated I have read through the documents and Union Bond & Trust Company is the trustee for Morley Stable Value Fund. Morley Stable is a conservative fund and project your principle. Union Bond & Trust Company wants to enter into a synthetic investment contract with Principle Life Insurance Company. They are an affiliated company. We have until May 31st to file an objection. If we file an objection any funds in our account would be taken out and we would pull out of this fund. When I received the documents I assumed they were referring to the retiree fund. When I spoke with Ihler I didn't know how money was in the account and couldn't tell you if it was good or bad object. They state the fees that would be charged by entering into this synthetic investment contract are reasonable with other such contracts.

Ihler stated I asked Finance and Morgan Stanley to check and see if we had any investment. Warren has indicated that it isn't a part of Morgan Stanley's portfolio. Any monies invested through Morgan Stanley is not in this fund. I haven't received word from Finance. I can't say for certain, but it appears at this time this doesn't apply to us. I believer no action is required.

Wilson stated there is a number I can call to see if they will give us any information.

Warren stated we have no money in their account.

Livingston stated I don't believe we should invest in it. They have synthetic investments.

Wilson asked could this be something we were once in?

Warren stated I can assure you we did not own this.

Wilson stated I'm fine with no action if the Authority is.

Warren stated there is a chance in the past they may have use this for a money market account. Once they have your name and if there is a class action law suit they print a list of everybody that does or may have had an interest.

Ihler stated we only had a few days to react and get this on the agenda. It appears there is no action necessary. We will make an effort to call and see what they have to say. If something comes up we will let you know by email. I would suggest no action on this item at this time.

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

Warren stated thank you for your time. In October we would like to go into a little more detail. We would like to go through the steps and process of why we do what we do and how we do it. Since the last meeting we have appreciated another $1.4 million. That is due to the allocations we have in the stock market. Looking at the Comparative Performance Returns since inception in November of 2007 the account is making 4.66%. Our bench mark is 65% aggregate bonds and 35% S&P. We are lagging just a bit. The main contributor for that is the S&P doesn't have a large foreign exposure. Over time foreign investments make a little more money than the domestics. The S&P 500 since November of 2007 has averaged .64 and we have averaged 4.66. Being conservative during the time the world had some difficulties help. We talked about there would come a point where we may lag a little. Another reason for lagging is because we are preparing for higher interest rates and inflation. Since the last meeting the 10 years treasury is a bit lower than it was. In the middle of March we had some good economic data. The 10 year data went from 1.9 to 2.4%. We were performing better that day than our index because we had things in place. Our maturity was short on bonds and because of that we will be able to move to higher interest. In December 08 and January 09 the 10 year treasury was around 2% and rose to 4%. That was when you heard about quantitative easing. This is where the government bought a bunch of debt to lower interest rates and help to move the economy along. Rates fell again. Recently interest rates were on the rise. A 10 year treasury rose back to 3.6% and they did operation twist where your rates came back down. The economy seems to be doing better and we want to be in a position the next time rates go from 2 to 4% that our portfolio isn't hurt. At some point the economy will stand on its own and we don't want to be in a position that we are so conservative it works against us.

Warren stated on the second page looking at the pie chart you see 40% equities and 60% bonds. By not increasing our equity rating and by increasing our hedges on interest rates we have inflation protection. Page 5 is our top holdings. This is every top equity holding. On page 6 there is an item called "Fixed Income". We have increased our weighting in bonds with higher yield. We have added about $600,000 into bonds with a higher yield. This is because we think rates are going to go higher. Rates move higher because the economy is improving. Our total in equities is about $17 million and our cost is down to $15. On page 9 you will notice the mortgage backed bond portfolio is around $23 million. We have had some appreciation in these bonds. Our index uses the aggregated bond index and longer dated treasury so we will see more price appreciation. We added $600,000 of the Lord Abbet Inflation Fund which yields about 4%. If we see a rise in 10 year treasuries you will see appreciation in addition to the yield. The next position is the Proshares Short 20 Year Treasury. In March I mentioned that rates had rose and this position was up $36,000. Since then rates have fallen so now we are a little under water on it. We anticipate rates will not fall much lower and we want to be in a good position when they rise. We are working hard to manage the portfolio in a way that as rates rise we can take advantage and not have it dampen the volatility. Are there any questions.

Ihler stated thank you.

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

Tehauno stated first is the balance and assets sheet. Cash in the bank is $2.6 million and $2.2 million is in the money market fund. Investments is $22.3 in US government obligations, $16.5 in mutual funds, $2.4 million stocks, $1.8 million judgments, $246,000 interest and accounts receivable for a total asset of $45.1 million. Our liabilities were $1,417. Next is our statement of revenue and expense. Contributions from the City was $577,000, from the employees $347,000, miscellaneous revenue $150, realized gain/loss on Morgan Stanley $1,152, Dividends on Morgan Stanley $24,693, unrealized gain/loss on Morgan Stanley was a gain of $902,279, and interest was $235,371. Expenditures to our retirees was $822,590, refunds of $142,126, audit fees of $402, actuary fees of $6725, bank charges of $96, Morgan Stanley fees of $56,470.79, and Mcafee & Taft consulting fees of $2,068. The last page is the employee refunds to those leaving the City and wanting either a lump sum or to roll into another type of retirement fund. Taxes for January was $4,049, February $2,148 and March $10,795. Are there any questions?

Ihler stated thanks.

D. Receive Audit Report from Eide Bailly for Fiscal Year Ending 10-11 and take action if necessary.

Dutton stated I'm Vanessa Dutton the audit partner for this year. Inside you have 2 deliverables. First the Financial Statement Report and then our Required Communication. This is for the fiscal year ending June 30, 2011. Starting with the Financial Statement on page 1 is our Audit Opinion. This is what we call an "unqualified audit opinion". This means a clean opinion and I'm pleased to report you have received a clean opinion. I would like to direct your attention to page 3 "Management Discussion and Analysis". Management and a consulting firm put together a really nice summary of what happened to your financial statement comparison for the past 2 fiscal years. If you haven't read thought it I would recommend you do. It provides a nice summary of exactly what the changes were between the 2 years. Page 9 is the "Statement of Plan Net Assets" and this is your balance sheet. The next page is your "Statement Changes in Plan Net Assets" and this is your income statement. I'm pleased to report you had a $4.9 million increase in your plan assets. I would direct your attention to page 20. Since you are a governmental entity you are required to be audited in accordance with government auditing standard. It requires us to communicate to you if there is any material weaknesses identified or a significant deficiency during the course of an audit. I'm happy to report we don't have any matter to report. Good job to management. Are there any questions?

Ellwanger stated we have future liabilities to payout to our employees or beneficiaries and that is not reported on the financial statement. Can you answer why?

Dutton stated it is presented on page 10. All the money saved for people retiring is in your equity account which we call "net assets". That is reserved for your beneficiaries. There is a detailed disclosure on your funding status of the plan. It is not trying to be deceptive by any means. It starts on page 15 and tells you what the future liabilities are expected to be and how funded you are at the current time. It is like an agency fund and everything sitting there is for your beneficiaries and not for this particular plan. Any kind of government plan requires significant disclosures on exactly what future liabilities are and you have an actuarial review every 2 years. There is a detailed analysis that shows your history on page 17 that goes back to July 1999. The third column from the last is your funded ratio and it shows there was a decrease. Are there any questions? If not, the other letter to present is the "Required Communications". Our auditing standards require us to inform you if we encountered any difficulties, disagreement, or significant adjustments with management. I'm pleased to report we don't have any. That is another positive note. We do need to direct your attention to the last part of the first page "Accounting Estimates". Those are matters that are more subjects in nature. For instance there is a cash balance. Things such as investments fluctuate in value and it is based on estimated values at the time. We have that and the actuarial disclosures are highly subjective. When we do our audit procedures we make sure the actuary estimates used and their assumptions are reasonable based on our experience with other pension plans. We looked at that and they were. Other than that this is a boring letter and that is what you like to see. Anything that would be necessary to communicate to you as an oversight would be in this letter. Are there any questions?

Ihler stated thank you.

MOVED by Kindt, **SECOND** by Ellwanger, to accept audit report from Eide Bailly for Fiscal Year Ending 10-11 and authorizing payment to Eide Bailly. **AYE**: Kindt; Livingston; Mercado; Bayones; Ellwanger; Ihler. **NAY**: None. **MOTION CARRIED**.

V. Executive Session

Ihler stated before entering into executive session would Anthony Wills or Lisa Cole like to say anything.

Russell stated this is Lisa Cole she is currently a telecommunicator for E911 dispatch.

Cole stated thank you. I thought I had injured my back about four and a half (4 ½) years ago. It got to the point last year I finally went to a doctor. He stated I had fractured the L2 vertebra and it had healed in a wedge. He wouldn't do surgery because it would immobilize the entire lumbar section of my spine and I would be unable to care for myself. He sent me to a doctor in Edmond who does a procedure called kyphoplasy. This is where you break the vertebra and fill it with cement trying to get it back to the original shape. They broke the vertebra above and below and when they did it ruptured the disc between the 3rd and 4th vertebra. They say my problem is degenerative disc disease, osteoporosis, and scoliosis. If they did surgery it would be like putting a screw into a marshmallow. Anything I do could fracture the spine more and it is starting to splinter off. My spinal cord is compressed by my disc. I'm having pain and it is different every day and every hour. Some days it is my lower back, some my left leg, sometimes it feels like I'm being electrocuted and so far nobody has been able to help me. I went to a gentleman in Midwest City and he says he doesn't know if there is anything he can do. I don't know what else to do.

Ihler asked are there any questions of Cole.

Russell stated we will ask you to leave the room while we convene into executive session.

Ihler asked is Wills here?

Russell stated not to my knowledge.

Ihler stated would you check to make certain.

Motion by Kindt, **Second** by Ellwanger**,** to convene into executive session. **Aye**: Kindt; Livingston Mercado; Bayones; Ellwanger; Ihler. **Nay**: None. **Motion Carried**.

The Authority convened in executive session at 9:45 a.m. and reconvened in open session at 10:15 a.m. Roll call reflected Livingston; Mercado; Bayones; Ellwanger; Ihler; Kindt.

A. Pursuant to Section 307B.7, Title 25, Oklahoma Statutes, consider convening in executive session to discuss the retirement application and medical information received from

Anthony Wills applying for a Disability Retirement, Non-Job Related, and take appropriate action in open session.

MOVED by Ellwanger, **SECOND** by Livingston, to deny the retirement application received from Anthony Wills for a Disability Retirement, Non-Job Related. **AYE**: Mercado; Bayones; Ellwanger; Ihler; Kindt; Livingston. **NAY**: None. **MOTION CARRIED**.

B. Pursuant to Section 307B.7, Title 25, Oklahoma Statutes, consider convening in executive session to discuss the retirement application and medical information received from Lisa Cole applying for a Disability Retirement, Non-Job Related, and take appropriate action in open session.

MOVED by Mercado, **SECOND** by Kindt, to approve the retirement application received from Lisa Cole for a Disability Retirement, Non-Job Related. **AYE**: Bayones; Ellwanger; Ihler; Kindt; Livingston; Mercado. **NAY**: None. **MOTION CARRIED**.

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 Receipt of a check from George Hennessee payable to the Employee Retirement System for purposes of buy back.
B. Consider Application for Normal Retirement for Julius B. McNair.
C. Consider Application for Normal Retirement for Catharine Hipp.
D. Consider Memo of Information Regarding the Death of James Liston.
E. Consider Memo of Information Regarding the Receipt of a check from Phillip Gibson payable to the Employee Retirement System for purposes of buy back.
F. Consider Application for Normal Retirement for Terry Reffett.
G. Consider Application for Normal Retirement for Effard Holley
H. Consider Memo of Information Regarding the Death of Stacey James.

MOVED by Kindt, **SECOND** by Ellwanger, to approve the consent agenda. **AYE**: Ellwanger; Ihler; Kindt; Livingston; Mercado; Bayones. **NAY**: None. **MOTION CARRIED**.

VII. Comments

Livingston stated in preparing the agenda it would be helpful if each item had an agenda item commentary. It would be easier for us to tell the items apart. It would have been extremely helpful for Item E. Had I known we had no investment in this company I would have been doing something besides reading this document and getting upset about having synthetic investments. We no longer have recommendations from staff on how they feel about a disability retirement until we are in executive session.

Ihler stated I accept responsibility for this. I had to decide whether to place this item on the agenda today or wait and call a special meeting due to the time limitations. We can certainly do agenda item commentaries, but in this particular case I didn't have an answer from Morgan Stanley at the time. We will work on getting this done. At the last meeting Hill asked about an item for the employee statements. Dean indicated he could provide this serve once a year that shows where the employees are with regards to their retirement. It would outline how many years service and what their retirement payment would be. City staff feels this is a good idea and HR has indicated they are going to work with Dean. This will be addressed through the City staff and would be paid for from the general fund. We are going to move forward with this. I will also have an item at the July 26th meeting for consideration of a cost of living adjustment for retirees. Thanks for your attendance today.

VIII. Audience Participation

IX. Adjournment

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