MINUTES
PENSION TRUST COMMISSION
SPECIAL MEETING
2ND FLOOR CONFERENCE ROOM
NEW CITY HALL
AUGUST 11, 2016 – 9:00 A.M.

Bart Hadley, 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; Hadley, Bart; Hill, Andy; Kindt, Bill; Livingston, Steve (entered late).
ABSENT: None.
ALSO PRESENT: Tim Wilson, City Attorney's Office; Denise Ezell, City Clerk's Office; J.I. Johnson and Krystal Urbanski, Financial Services; Chase Massey, Human Resources; Perry Warren and Chad Rother, Morgan Stanley; Chuck Dean, Dean Actuary; Councilwomen Phillips; Judy Franco, EAC Representative.

II. Introduction of Visitors

Hadley stated we have Judy Franco here today representing the Employee Advisory Committee and Councilwoman Cherry Phillips. I appreciate everyone coming on such short notice.

III. New Business

A. Receive from Chuck Dean a report entitled "IMPACT OF DC PLAN ALTERNATIVES ON ERS FUNDING" prepared by Dean Actuaries, LLC, and take action if necessary.

Hadley stated City Council formed a committee to look into moving to a Defined Contribution Plan for future employees. We as a Trust have some obligation to make certain if this plan moves forward that it doesn't have a negative impact on our current employee retirement system. The Trust agreed to pay for an analysis to see if the move might affect the current plan. Chuck Dean is here to explain the analysis to us.

Dean stated the City has the right to go to a Defined Contribution Plan although there is quite a bit to it. I would not rush into it because you will make mistakes. This doesn't have to be done due to the funding problem. There was a problem of not putting enough into the plan. It wasn't an investment or a Defined Benefit Plan problem. It was a problem of you should have put in this much money and you put in a smaller amount. You did that for years and years and you see the results. I think it was admirable because the City owned up to it. You had to make decisions that weren't easy. They asked us to look at the plan to see what you could afford. We came up with ideas and every idea involved cutting benefits. One idea was to change from final average pay to career average. This could be done smooth and gentle. It isn't a jarring change and it doesn't have an immediate impact. It works over time and this is the kind of solution it needed. Our original recommendation was to include current employees and the City wanted to know if it would work on just new hires.

Hadley stated this was a gentle way of implementing a change.

Dean stated yes. In order to look at that what counts is all the people you haven't hired. We had to do a long term asset liability forecast with new hires modeled in to see what would happen if we just adopted career averaging for those new hires. Based on those studies if the employee contribution was 6.3% and 10% from the City there would not be enough funding but as Tier II people were brought in there was a good chance it would work in roughly 20 years.

Hadley stated that was roughly 4 years ago.

Dean stated July 1, 2011. In every actuarial we have recommended the City put in the 10% and more if they could. Based on those forecast you may not have to do anything. You may do well enough on the 10% and new participants.

Hadley stated we are certainly on a better path.

Dean stated you are on track. You can't say to certainty you have solved the problem but now you can say maybe we have. You have certainly improved and may become solvent. Probably from here on out all it will need is to be tweaked. If you put more money in you improve the odds and could do something later for the Tier II people or a COLA for the retirees. You are in far better shape than you were. Pension plans are real retirement plans. They provide retirement income for life and you don't run out of money. That is where you are. If you had to do something it probably wouldn't be something big in the scheme of things. You could choose to do things that actually turn out not to be solutions but be a bigger problem for you later. The City has control of the pension plan and can decide to change things but in the long term you have to keep funding benefits no matter what. The benefits to be funded are the Tier I benefits. Tier II is not a part of the problem they are a part of the solution and are more than paying for themselves. If you were to make a change one of those could be a Defined Contribution Plan. DC Plan has one big advantage. They are safe in the sense of whatever percentage the City decides to pay they pay and then they are done. So it is financially safe. A Defined Contribution Plan spends more money than a Defined Benefit Plan. They are geared towards and rewards the short service people. The Defined Contribution Plan is going to reward the guy that stays 3 years and leaves. The Defined Benefit Plan is going to reward the person who works 35 years and retires. The City has a 10 year vested. Someone who stays for less than 10 years doesn't cost the city anything. Someone staying a little longer doesn't cost much because they are not retiring. Those getting the best economic value of the pension plan are your career employees who work till retirement. Defined Contribution Plans are more visible because there is an account. You can look at the account and wonder what can I do with that money. You are not supposed to do anything with it until you retire but they could be thinking bass boat. If given the chance they will pull the money out or take a loan. When they get to retirement they will have a certain chunk of money. They will also have to make investment decisions and everyone is an investment expert and I'm sure they made terrific decisions. That may have been needless sarcasm but investment decisions are very difficult. You have to have professionals and they don't know for certain what will happen. They can't guarantee anything but they know more than the average employee. If the City goes with a Defined Contribution Plan they would make a contribution for new hires to that plan and make a contribution to the pension fund to help fund the pension. The first idea we heard was a 7, 6, 5% concept. The City would contribute to the pension plan 7% of pay for the first 4 years, then go to 6% after 4 years and then 5% after 8 years. It is a staggered approach and it would never phase out. A simpler version would to be put in a certain percentage of pay in addition to whatever is going into the Defined Contribution Plan. For our purposes it doesn't matter what the Defined Contribution Plan is. If you don't have the DC Plan the same thing is happening because of the Tier II people are less expensive. The contribution you make plus their contribution goes towards amortizing your unfunded liability. If you take the future hires away you need to replace that contribution to the pension plan in some form or fashion. Five, 6 or 7% was the idea. In order to look at this we need to figure out if the future hires were in the pension plan what would their contribution towards the unfunded liability be, under the 5, 6, or 7% what it would be, which is bigger, if there is a difference which would be sufficient or as good for the purposes of fund the existing benefits. This is all aside from the fact of whether the DC Plan is a good idea in its own eyes. This is very much oriented towards the funding of the pension plan. What really counts is who are these future hires, how many will there be and how fast will they grow. We updated some of the methodology we had used in the original asset liability forecast. We took all the current employees and projected mortality turnover, retirement and updates for projected active employees. On July 1, 2016 there were 508 people. As some retire and some leave you will see that number decrease. This is the amount according to actuarial assumptions it will decrease. As of July 2015 you had 202 Tier II people. After 4 years this puts you where we thought you would be after 5 years. You are on schedule and actually you are a little better than the projection standpoint. That has nothing to do with how the investments are doing. This is a simple forecast. Our baseline projection for this purpose is if you have a level workplace. On page 6 we figure how many people you have to hire in order to keep that level workplace. This is the number of new hires it will take year by year.

Hadley asked does it take into account the possibility if you go to a DC Plan that your turnover rate is going to increase.

Dean stated no. It assumes it will stay the same. A big HR issue is whether it is a positive or negative. Since DC Plans benefits most of the shorter service people it is understandable it may be a positive for hiring people. It is not a positive for people to stay.

Massey stated at this point people aren't staying anyway.

Dean stated if that is your only concern then you want a pension plan with 10 years vested. On page 6 we are able to mathematically solve your number of hires that keeps your population at 508.

Hadley stated for the outsiders obviously the number of employees for the City of Lawton is substantially higher. These are the number of employees that are on this pension plan. Police and Fire are in a different pension. That is the reason the numbers are substantially lower.

Dean stated on page 7 the graph shows you the current group gets smaller and the future hires ultimately take over. On Page 8 and 9 you see the number side of the graph. For the 7, 6, 5% scenario it is kind of complicated because it matters how many new hires you have, how many of the new hires has less than 4 years, how many have 4 to 8 and how many more than that. We had to build all that in. This is a full massive number crunching with the actuarial assumptions to figure out what percentage of your payroll would be subjected to the 7, 6, 5% contribution so we can apply that against your total payroll of new hires in the future. The simpler approach is to just put in 7 or 6 or 5%. That doesn't require this kind of crunching.

Phillips asked is this forecast based on city employees.

Dean stated on city participants. We are forecasting the payroll for the current employees and then adding for future hires who might be DC Plan. We have DC payroll, DB payroll and the total. On page 12 we are looking at contributions that will be made under each of the 3 scenarios. There is a 25 year projection of the contributions that would be made for the DC employees under the 7, 6, 5% and blended/phased approach. We compare that with what the dollar contributions are for Tier II employees. Tier II contribution is the total of 16.3% less the benefits they are actually getting. The cost for benefits is less for the Tier II. They help amortize that service cost and that is the last column on Exhibit 4. We are trying to come up with at least that much money or more. We don't want less.

Phillips asked is the 7, 6, 5% the city's contribution.

Dean stated yes.

Phillips asked does this include what the participant contributes.

Dean stated no. This is assuming you go to a DC Plan and this is money the city will contribute to the pension plan for current participants.

Hadley stated this is just how much money continues to go into our current retirement.

Dean stated I assume everybody can contribute to a 457 plan.

Hadley stated that is correct.

Dean stated so you have a DC Plan now with only employee's money. If the city goes to a DC Plan and decides to put money toward that plan you will have the cost of the DC Plan and the DB Plan.

Phillips asked so in going to a DC plan we still have to fund the DB plan for the current employee.

Dean stated yes. There is no alternative to that. You can push it on to people later or face up. By going to Career Averaging you have done what might be the fix to everything. You are on a schedule that doesn't have a lot of margin. You can always put more money in but you may be okay just as it is. If you do anything on the DC level you don't want to ruin what you already have. That is the number one thing and that is aside from the DC merits versus DB. You need money to fund the pension plan. The Tier II employees are helping with that. If you do anything else you need at least that same amount of money. We calculated that on page 13.

Hill stated I have a question on page 12. Looking at 5.81% Remainder Available to Fund Unfunded Actuarial Liability is a foundational figure to the fact that 5% is totally unsatisfactory. You are saying that 5% isn't going to do the job and will sink the plan.

Dean stated correct.

Hill asked is that a foundational figure right there and if so that proves it.

Dean stated yes. You understand it very well. Doing anything less than 5.8% leaves you worse off than you would otherwise be. So we compared each of these potential DC scenarios. For each of the first 4 scenarios we are subtracting the last line which effectively is what Tier II employees do. This shows whether we are ahead, behind, and the accumulative surplus or shortfall. You see the number year by year and accumulation. You see 7% is the best, 6% will work, 5% doesn't work and blended works well. Blended actually works better than the 6%. This is a part of the issue until you look at Exhibit 6. This projection assumes something that might not be true. It assumes you will stick with the approach. This funding is a significant part of funding the pension. There will be temptations to use this money for something else. On page 16 our illustration illustrates what happens if in 10 years you stop funding the plan. It falls off and doesn't work. You also see what happens if we do this indefinitely. All scenarios work if you do them indefinitely. This means you better plan for 20 to 25 years. If not it falls off the cliff. That is the biggest message here. If you did the Defined Contribution and you plan on funding the pension you better mean it. You being the City. You better follow through for at least 20 to 25 years.

Hill stated what works on the blended is all new hires. On the DC plan the City will contribute 7% for 4 years into the DB Plan. Then at a certain point it will drop. Then all new hires from now until indefinitely 7% will be contributed. They will reach a certain point it drops to 6% and then to 5% but all new hires will contribute 7%.

Dean stated correct.

Hill asked how long does that have to happen before we are healthy.

Dean stated based on our forecast you better plan on 20 to 25 years. After that you will need to look at the funding of the pension. There could be a day you do less and that would be great.

Hadley stated I appreciate you asking that question. I think that is one of the most important points of this whole concept. If the City went that way there would have to be a strong commitment to continue funding our current plan or it will have a huge negative effect on what we have promised the current employees.

Phillips stated we don't want that.

Dean stated the DC Plan absolutely does not create any kind of free lunch. You have a solution in place that is likely to work. If you do something with a DC Plan you better not disturb what you have already. You will disturb the plan if you don't make these contributions indefinitely. I'm not saying that in 25 year you can turn it off. The key results is 7, 6 or blended will work but only if ERS funding contributions are made indefinitely. None of this works if you don't do that. At the bottom of Page 16 are some key points. One thing to keep in mind is DB versus DC and one is not cheaper than the other. You can set up a pension plan or DC plan for the same amount of money. It is not a cost issue. DC and DB do not allocate money alike. They are quite different. In a DC Plan more of the money goes to short service people and you decide if that is good or bad. That is just a fact.

Hill stated 45 years from now the City is going to spend a lot of money. When the Defined Benefit people are gone there is no difference. Right now the City is looking at either way is the same cost.

Dean stated true. Looking 25 years out you basically have the same favorable situation whether you have the DC approach where you followed through on contribution or you have Tier II people. You are in the same situation either way.

Hill stated pensions are going to cost far less in 25 years for the city than they do now.

Hadley stated I think his point is the city could stop funding a level at 10% whether we stay with the current plan or have a DC Plan. You are right at some point in the future the 10% would begin to go down.

Dean stated if we get to a favorable situation you will have a choice to put less in, do a little more such as retiree cola's or do something for the Tier II people.

Hadley stated the retirement benefits for Tier II is substantially less than Tier I. That is the reason it saves the plan money and will help to make it solvent.

Dean stated DB Plans are oriented to providing lifetime retirement income. They are far better for retirement planning purposes and less expensive. Providing retirement income to a DB plan is the cheapest way to do it. You have much less cost. The expensive way is to setup individual accounts with mutual funds and have people try to figure out how to move their money and play the guessing game with the market. Surveys show they guess wrong. They move their money at the exact wrong time. After they lose money they move out when really it is the reverse you should do. At the end you either have a chunk of money you intend to live on and you out live the money or you buy an annuity. If you buy an annuity you don't get a deal.

There are no bargain annuities and they are expensive to buy. It is more expensive to buy an annuity than a pension that is pooling all the risk. A pension doesn't have insurance company profits or contingencies built in. It just pays out the benefit.

Hadley stated that is why you said the DB plan is actually less expensive. You are talking about overall employee/city combined.

Dean stated correct. If you look at it from the standpoint your goal is to provide a reasonable retirement income for career employees it is absolutely the cheapest. It is the cheapest by design because of how it spends the money. It is the lowest cost to operate and doesn't have built in expenses that you have in a DC Plan. Some mutual funds and ICMA are better than others but they all have a lot of built in expenses. Some have an absurd amount of expenses.

Hadley stated part of the reason the DC Plan is less expensive to the city is because it is less of a benefit for the employee.

Dean stated correct. Their only expense is what they will put in. A lot of the expense is after the money is in the Plan. If you give people investments options they don't know what to do with them. You would be better off if you had a DC Plan like an old money purchase pension and don't give them any options. You put it all in a blended account and run with it. The only way you can assure yourself to live off this is to buy an annuity and most don't. Maybe that will change in the future. You have the potential of some very unhappy circumstances of people running out of money to live on. You can blame them and state you gave them money or you can have a different plan and the situation wouldn't come up.

Phillips stated my concern from the time we started looking at this is we would make a hasty decision based upon a low economy, what we think the attitude of the young worker is and what their investment attitude is. I was real uncomfortable with that. I like the DC Plan and the DB Plan. I would like to have both.

Dean stated you do. You have the 457 plan without City contributions.

Phillips stated I'm glad we are talking with you and taking time to really consider this. The economy is going to change. We don't know if it will go up or down but it will do something. I would hate for us to make the wrong decision. The employees and staff are superb competent people and it has been the history they stay. I know things will change with new hires coming in but I want stability for the employees.

Dean stated Tier II people have a Defined Contribution Plan and it is earning treasury plus 2%. This is a guaranteed return. It's not a high return but a guaranteed return. If they leave they get it and if they leave after 10 years they get that plus City money. If they work for a career then they get a good retirement and that's what happens now. It is an account, it is earning interest, it is there and you can have it when you leave.

Phillips stated we are also looking and experiencing low income to the City coffers with lower sales tax and water revenues. How long can we continue to participate at this percentage rate? I don't want to say that sales tax won't go up or down but those are thing that are part of our economic future. I'm uncomfortable with making major changes in this kind of economic environment. That bothers me.

Dean stated there is a tendency for people to think we just do a DC Plan. People who will take your money for a DC Plan are everywhere. Just stand in one place and the wind will blow them to you. That doesn't mean they are a good deal or a plan design is what you should have or that it is the overall retirement program that is best for the employees. On a DB Plan the investment risk is bore by the City. Everyone likes investment risk when they win but one never likes it when they lose. As an individual all this is magnified because it's your life, your future and your retirement income. The employee doesn't have as many chances to smooth things out and to make it up over time. The City spreads it for funding purposes over 30 years and for GASBY 68 over 5 years. The DC Plan puts the risk on the employee and it is magnified because it is much more difficult for the employee than for the city.

Hadley asked are there any questions. I appreciate you explaining this so clearly.

Phillips stated this was very good.

Hadley stated I was happy to see the results and the fact if they go with this scenario it is not going to negatively affect the pension of our current employees. The decision that Council will ultimately make is which is better for the future of the city. There are advantages and disadvantages both ways. With new employees their thought process is not whether we have any kind of retirement system. They are only looking at what dollar amount they will be making. Some are looking for a career they can stick with and is able to retire but a lot of young people don't know if we have a DB or DC Plan. Young people today don't think about it but at some point in their life they will.

Dean stated and won't stop thinking about it.

Hadley stated then it will make a difference on whether they stay or leave based on what kind of incentive we have in place.

Kindt stated it is encouraging to see how fast we are bringing up the career averaging. We already have 208 employees and that is a big plus.

Dean stated correct. I was pleased to see it was on track or better. It is comforting when you look at it and it is in line with what we had predicted.

Hill stated I've been on this committee for 10 plus years and so many times I have seen people retire with a good income. I have dealt with annuities a long time and you explained some things I never totally got straight. I have seen people retire with less than $200,000 in their retirement account but for what they are getting monthly you would have to have $400,000 with an annuity. All the people we have seen go through here and are out there living in the community and spending money is a contribution. This is a healthy thing and I would hate to see it messed with.

Hadley stated as an employee I appreciate the fact that there has been no talk of changing the plan for current employees. I greatly appreciate the fact that there is strong consideration to make sure we continue to fund the current plan. That is great regardless. I understand decades from now it could be a cost saving to the city but until that time what we have and what is being considered are going to cost the city basically the same amount. It isn't going to save money but it is providing a much better benefit to future employees. I hate to see it messed with. I retired as Fire Chief and if the City had just had a DC Plan I probably would work in a couple of different capacities. The fact that I can work 10 years as a general employee and vest is the reason I'm motivated to stay another 6 years. I think that is the case for a lot of people as they get to be my age or younger. If they started at an earlier age they can retire earlier than I can.

Phillips stated I have a client who recently retired from the City and he was shocked when he got his paperwork. He could not believe how much money was there. It created a totally different attitude in his mind about what he had done for the last 30 years.

Dean stated correct. You benefit by communicating. We have talked about the online benefit where people can get those numbers to project and see the details for when they want to retire.

Phillips stated like you said you reach a certain age when you start paying attention to that sort of thing. I'm hoping we can communicate a little better.

Hadley stated I appreciate HR working on that. In our last payroll they provided a breakdown for each employee on what they can expect if they retire early, stay till age 62, or 65.

Massey stated our goal would be to go along with Dean's idea. We would love to get the calculator so employees can go online at any point without making that call to HR. It is a lot of manual work on our part when someone calls. It isn't something we can do in a couple of seconds. We have to call them back.

Dean stated we have a proposal to do that we just need the approval.

Hadley stated we may bring that back for the consideration of the Trust at some point.

Ellwanger stated speaking of communication I understand you have a meeting with the DC Subcommittee today.

Hadley stated yes at 1:30. Councilwomen Phillips is a member of that committee.

Phillips stated with more communication on what we are doing the word will spread on what a great job the COL has to offer. That is what we want and why we keep people here in Lawton to spend money to increase the sales tax and pay a water bill. I see that as a full circle benefit.

Hadley stated that was what Hill was getting at. People retiring here support the community. I don't know when the Sub-Committee will take this to Council but at some point I would like the Trust to make a recommendation to Council either in support, stay neutral or oppose the change. It may be too soon for that. We have the information and I'm definitely more comfortable since we have the report than I would have been guessing whether it would negatively or positively affect our plan. Our primary obligation as the Trust is to maintain the solvency and soundness of the current plan. I will report back the action of the Sub-Committee and what their timeline might be. They have been on hold until we got the report. I suspect things will start to pick up now. We may want to reconvene in the near future to discuss their decision.

IV. Comments

None

V. Adjournment

There being no further business the meeting adjourned at 9:35 a.m.

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