MINUTES
PENSION TRUST COMMISSION
CITY HALL
DECEMBER 17, 2020 – 9:00 A.M.

Terri Bayones called the meeting to order at 9:00 a.m. in the City Hall Banquet Hall. Notice of meeting and agenda was posted on the City Hall notice board as required by law.

ROLL CALL

PRESENT:	Apple, James; Bayones, Teri; Ellwanger, Paul; Hill, Andy; Petersen, Ed; Whipp, Billie.
ABSENT:	Hadley, Bart.
ALSO PRESENT:	Dewayne Burk, Human Resources Director; Denise Ezell, City Clerk's Office; Perry Warren and Chad Rother, Morgan Stanley.

I. Introduction of Visitors

Bayones stated Chuck Dean is with us today and he is going to be the center of the meeting.
Dean stated I have John Kaspar with me also.

III. **New Business**

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

Dean stated here are some handout. We have three (3) key topics. First is the actuarial report, the benefit calculation review and the benefit statement. The benefit calculation was a major study. You refer to it as the pension benefit audit. We don't call it an audit because auditors feel as if they are the only people qualified and trained to do an audit. First of all I'll mention the handout. We work hard on keeping up with all things in a public retirement plan. Part of that is professional training and continuing education. We have one (1) or two (2) webcast every month that we attend. These are put on by the Society of Actuaries or a consulting actuary group. We also look at everything that is published about public retirement plans. We have put together a list of what we think are the most consequential articles, studies or reports that are publicly available during the year. This is our list of all the things that have been published about public retirement plans during the year and the things we think are worthy of your attention. You don't have to sit down and read this now and we are not going to go over every item. This is good to look at even if you just look at the heading and the general contents to get a sense of what the discussions are about. I'll call your attention to page one (1) at the bottom of the first column "2019 Public Retirement Systems Study". This was put out by the National Conference on Public Employee Retirement Systems. They do this study each year and they look at the actuarial assumptions used in funding retirement plans and other issues like that. It is pretty good and worth taking a look at. On page three (3) at the bottom of the first column is "2020 Public Pension Funding Study". This is put out by a consulting firm and they look at the one hundred (100) largest retirement systems in the US. They take public information from the actuarial reports that are published and put it all in a data base to look at the averages, who is where, and the average funding level. The average funding ratio is seventy-three (73) point something percent. They will show you the whole range and talk about the actuarial assumptions used. It is all good information. It has to be looked at carefully because you could misconstrue what these things mean. Sometimes they mean less than you think they mean. There isn't anything else out there that is better. I would recommend when you have time to take a look at this. Our first major topic is the actuarial report. We do the evaluation of the employee retirement system every year. It is an extremely good practice for you to do that with the history your plan with the Tier I and II approach and the funding issues you have had in the past. Just a little history for those of you who don't know the plan. When we first looked at this it was underfunded. As in most public plans the problem was the employer wasn't putting in enough money. They had actuarial reports that said put in this much and they said that's not convenient. They didn't contribute what is called the "Annual Actuarial Requirement". There is an exhibit in the report that will show you how much the plan has been shorted in contributions. If you didn't make a $1,000,000 contribution that should have been made under a thirty (30) year funding policy, it would be added to the prior years. It is adjusted for interest and carried forward. You will see that is a big number. The plan should have had more money put in all along or benefits should have been adjusted. It is a question of having a plan that you can afford and affording the plan that you can. We have emphasized each year that you needed to do something to help this plan to keep it viable. We did studies on how the plan could be adjusted and we always said the one (1) solution was more money. That might be the hardest thing to do but it is always a solution. The other thing is to adjust the benefits. You can adjust the benefits for everyone and make them smaller than what they had accrued in the past. That was one (1) of the key studies we looked at for you. The other possibility is to only adjust benefits for people hired after a certain date. That was your preference. The Trustees and City Management wanted to adjust benefits for new hires. They didn't want to touch the existing employees at that time. This is the reason for Tier I and Tier II. Tier II has the same basic formula except their benefits are not based on a three (3) year average pay. It is based on all the years average pay. This means each year stands along and the benefits that Tier II earns this year is not going to be affected by what their pay is later on. That was an in interesting actuarial projection because it involves people that you haven't hired yet. When we did our original study of that we had a model and had to create the hypothetical employee that you might hire. It was great fun for an actuary. Our conclusion was that the Tier I and II idea would work. It would be a gradual workout to solve the funding issue based on our benchmark forecast. It also assumes you were earning the long-term rate of return. Six and three quarters (6 ¾) is the basis of the actuarial funding report. It looked like it could work but it wasn't a guarantee. You adopted Tier II and proceeded on and we have been monitoring it every year. We projected how many people there would be on Tier II for each year. That forecast was pretty close. Assets are a different matter. They have earned whatever which is not going to be what we had used in the benchmark projection. In July 2017 the Defined Contribution Plan was adopted for people hired after that date. That posed a real problem. You were on schedule with the TIER II and it was helping to solve the problem. They were part of the key to the long-term workout and the issue of keeping the system solvent and solid for the long run. All of the sudden the idea was we won't have Tier II anymore. The Defined Contribution takes away from this plans funding solution. I believe it was Bart Hadley that recognized this and asked we look at what contributions could be made by the Defined Contribution employee that would replace what we were losing from the Tier II employees. Our forecast said you would need to put six and one half (6 ½) percent of pay from the Defined Contribution employee into this plan. That is besides what you are doing in for the Defined Contribution employees. This might be a little better than the Tier II approach for the plan. It would solve the issue and you could proceed with the two (2) plans. It is our understanding it was adopted. You will see in this report multiple times where I emphasized the long-term solvency of this plans depends on that being done. You have to put six and one half (6 ½) percent of pay into this plan to keep it funded at a proper level. It will take a long time for this to all work out and you need every dollar you can get. I'm emphasizing it here in and in writing. The plan is counting on it. I also mentioned that any other source of additional contributions that could be made to the plan would be more than welcomed. We had a conference call yesterday and it is our understanding the City of Lawton received some COVID money from the Federal government and Council has agreed to put $600,000 into the plan.

Burk stated that is correct.

Dean said it is not that the $600,000 is the end all and is sufficient to make up for everything but it is welcomed. I want to make sure that everybody here understands this issue. We can't tell if you are following our recommendation. I certainly hope you are. Does everyone understand that this is one of the major points for this plan?

Bayones stated yes.

Dean stated sometimes actuaries get too technical and you might miss the elephant in the room. If you continue with that your prospects are pretty good. It isn't guaranteed but still good that everyone in the plan will be paid what they were promised. From the employee's standpoint pension plans are best. They provide you a lifetime income that won't run out. With Defined Contributions you have to guess what to do with your little account and guess on how long you will live. That is really difficult. There was a Nobel Prize winner, Sharp, that investment people knew by Sharp Ratio. He came up with that idea. His quote is "spending down savings in retirement is the nastiest hardiest problem in finance" and it is. We have some illustrations that you are welcome to see. They show how difficult it is for people to turn a Defined Contribution plan into retirement income that is enough to live on and to make certain there is enough for your lifetime. It is very difficult. One of the biggest risk is mortality. Mortality risk is a bigger risk than the investment. The fact is you don't know how long you are going to live. People don't know what their life expectancy is. You are likely to live longer than you think. We have a tool on our website that allows you to look at your life expectancy. There is a chance you will live until your ninety (90) or ninety-five (95). This tool will calculate what your percentage is based on your current age, gender, smoking habits and body mass index. If you are trying to plan how to spenddown your Defined Contribution for retirement income the only safe thing is to not assume you will die at your life expectancy. That is just fifty (50) percent. There is a fifty (50) percent chance you will live longer, and you would like to have assets then too. You don't want to be eighty-five (85) with no money. That is why pension plans are so much better if the employer can maintain them. The employer is taking a big responsibility to see that the plan is funded and to make up the contributions necessary. The employer has assumed an obligation saying they are going to adjust contributions so that the plan works. With a Defined Benefit Plan, you have to be responsible adults in running them and most public plans are. Those that have not been get a lot of attention and those that have do not.

Hill stated you need to make that presentation to Council and not the choir.

Dean stated the choir is going to have to convert Council. We are going to have to have a come to Jesus meeting with Council and we can do that if you want. As a plan sponsor the City has that obligation. You undertook that obligation by starting a pension plan. This means the City Council because they make the decisions. Their predecessors gave them that responsibility. Be adult about it and treat it as a priority and not something that you can put off. The City of Lawton can be more responsible than the Federal Government has been in funding Social Security. Social Security is not being funded sufficiently and it will run out of money. Okay, on the actuarial report we will go through the Highlight section on page one (1). At the top is a table where the actuarial assets have gone from $52,810,427 to $56,447,050 from 2017 to 2020. Those are actual assets which means that is a smoothed value not a pure market value. We compared that with the measurements of the plan obligation. That number you usually don't see in the funding studies or other reports. It represents walk out the door benefit. Everyone in the plan has earned a certain pension benefit. It is a definite amount at any point and time. As of July 1, 2020, the present value is about $85,000,000. You have smoothed value assets of $56 so you are short. You would like the ratio to be one hundred (100) percent. That is part of the workout and we are trying to get there. We will skip the Pension Benefit Obligation. The actuarial liability is an accumulative obligation because it involves some smoothing of the contributions into a level pay format. That actuarial liability is about $95,000,000. You are roughly sixty (60) percent funded. The average public retirement system is a little more than that. There are certainly a lot of plans that are worse than that. You would like to be higher and it hasn't changed much over the last few years. With the workout eventually it is going to catch up and you are going to see those number go up and they need too. In the rest of the report we talk about the actuarial evaluation. In the evaluation we took the people in the plan and calculated their projected benefit right now, next year, their projected benefit in the future, and until retirement age. We looked at all probabilities such as whether they stay, retire, whether the retirement was normal or early, mortality, and benefits. We calculated liabilities under actuarial method called Entry Age Normal and that comes up with the required contribution. If you look at page two (2) there is a graph that shows the number of participates in the plan and the number of Tier II participates. You can see the number of participates in the plan is declining overtime. You can also see the number of participates since July 1, 2017 and all the employees that are in the Defined Contribution Plan. This means a decreasing number of people and a decreasing payroll. Anytime we have to compare payroll we use the payroll that is going down. It almost makes it look worse than it is because you can view the payroll for the Defined Contribution Plan, and it is helping fund the plan. In a sense there should be some sort of adjustment for that. There are no specific rules on how that should be done. The report on page three (3) has a nice summary of the plan. It is certainly easier to read than your ordinance. It describes how things are calculated. Normal retirement is either at the age is of sixty-two (62) with ten (10) years of service, age sixty-five (65) if you don't have ten (10) years or when you achieve thirty (30) years of accredited service. Early retirement is at age fifty-two (52) with ten (10) years of service or twenty-five (25) years of accredited service. The formula is two-point three (2.3) percent of the last three (3) year's final average pay. For Tier II it is the same formula expect its career average pay. The other details are here of the plan provisions if you wanted to look at a summary of the plan. The next section is the plan assets. We look at the investment results for the completed year. Your return on market value was five point three four (5.34) percent. If you subtract expenses, it is five point two six (5.26) percent. We show an actuarial value of assets is a smooth value. Market value will bounce around because the market fluctuates. On page seven (7) we show a graph of the historical rates of return. You see it is up and down. If you average them you see it is far more stable. It is a little over five (5) percent. Then you have a detailed chart of what has happened to the contribution, investment returns, benefits paid out for each year. These go up and down. Each year you pay out more benefits even though the number of people is declining. Then we get to the market value at the end of the year. I take back the part about the actuarial value is smooth. It is actually market value. Since your plan is in the workout period and you are not making the contributions this report says you should there is no point to do smoothing, We talked to you last year about the Society of Actuaries did the first major study on mortality of public employees. This had never been done because there was nobody that would pay for it. The Actuarial Society decided it was important and they paid for it. It demonstrates that the mortality of public employees is different than the private sector mortality. There definitely notable difference and there were differences between certain categories of public employees. Police and fire have a higher mortality. This study shows that teachers have a better mortality than anyone. As a group they have a very good mortality. The remaining group is general employees. The Society came up with a mortality table for that group based on experience and pay levels. We used that to come up with a mortality assumption for your plan. It is a professional requirement we recognize that work. I don't believe that we could ignore that table even though it shows the liability of the plan is a higher liability. This means people will live longer than the table we had been using. So, we made that change. On page thirteen (13) we show the results of the retirement study and the percentage of pay that the City would need to contribute if you are funding on a thirty (30) year basis. You are not doing that but if you were the City would need to contribute eighteen point seven nine (18.79) percent on the old assumption and for the new assumptions with some refinements it increased to nineteen point five six (19.56) percent. This year on exhibit four (4) we are showing the evaluation over multiple years and the current evaluation with the current assets earning five point six two (5.62) percent. The required employer contribution jumps up to twenty-three-point four (23.4) percent. That is what it would take to meet a thirty (30) year funding standard. You are doing ten (10) percent plus the six-point five (6.5) percent for the Defined Contribution employees. You are doing more than the ten (10) percent but you are not doing the twenty-three-point four (23.4) percent.

Burk stated the twenty-three (23) percent would be to get it to one hundred (100) percent.

Dean stated it is to fund what you would need over thirty (30) years. It doesn't get you there immediately, but it will get you there. You may get there through this long-term workout of adding new people. It is harder to look at this percentage when you have this diminishing group of participants. You have another plan that is helping to support this plan. There is an interaction and it makes it harder to see exactly where you are and the fact that July 2020 from a market standpoint was not the nicest measurement point. It was better in April and would probably be better today.

Warren asked what would the plan (can't hear) at six point seven five (6.75). If you used the actuarial number what would that be.

Dean stated all of this is predicated on the six point seven five (6.75). Are you saying if we used a lower interest?

Warren stated no, you said it was based on five and a quarter (5 ¼) we would need to contribute twenty-three (23) percent.

Dean stated no, it's the five and a quarter (5 ¼) investment return. That was just one (1) years return. What counts is the return from now to forever forward. It matters that last year's return was five and a quarter (5 ¼) but it doesn't matter as much as what you get over the next five (5), ten (10) or twenty (20) years. That matters more. This kind of plan is a long-term plan with long term obligations. You can ride through ups and downs. So, the plan sponsor is taking two (2) big risk with some smaller ones. One (1) is the investment return. You know if you don't get six and three quarters (6 ¾) you are going to have to put more in if you are going to payout. I think you have to pay everybody what you promised. That is one (1) risk and everyone recognizes the investment risk. It is good to make more money and you're not happy when you have a bad year. This is long term. What counts is the rate of return you get over a long period of time. You will be paying benefits from this plan for decades due to your youngest participate and their life expectancy. The life of the plan is probably fifty (50) years. It dimensions but it is a very long-term program. The other risk is the mortality risk. The employer is taking the mortality risk for the whole group. You have five hundred (500) participants and mortality effects will average out pretty well into the future. Go to page twenty-two (22) which is the GASBY 27. This is not an accounting statement that applies anymore. It has been replaced by GASY 68 and 67. It is interesting because it specifically looks at the accumulative amount by which you have not followed a thirty (30) year funding policy. The City has put in less than that. You see the accumulative shortage in the bottom right corner of $17.3 million. Had you done the thirty (30) year funding your assets would be greater by this amount. This drives home the issue that I have talked about. I don't want to beat the dead horse, but the issues of the plan are from being unfunded over a long period. You are trying to work out of it. The City is to be commended because they have stepped up and are trying to do the right thing. There are no guarantees, but you are on a good course. The next section is Participant Census Data. We show all the participants, their average pay, and the different age bracket. There are exhibits on the active and non-active, retirees, beneficiary, payment status and disabled participants. There are eight (8) disabled participants and John is very familiar with them. Out of the eight (8) benefit calculations how many were correct?

Kaspar stated one (1) was spot on, one (1) was close and the others didn't have a limit or a minimum.

Dean stated they didn't follow the provisions of the plan. The plan is complicated because it is written in legal language. Our interpretation, which I think is the proper one, gives you a different answer for six (6) of the disabled people. There were some big differences in some of them. Sometimes it was more and sometimes it was less. That is a preview of the benefit calculations review. It should be fixable, and it needs to be fixed. Then we show the actuarial assumptions. The interest rate of six point seven five (6.75) percent is the key. We have also included in the report a section called "Risk Assessments". There is a specific requirement in our actuarial statement of things an actuary should do. In an enterprise, like a pension plan, there is risk. There should be something in the report about what is risky and what it not. For example, one (1) of your risk is the investment type. That is a risk with the changes in interest rates which effect bond prices. It affects what you receive, and it can affect the liabilities of the plan. One of the things that you can do is reduce the investment risk. You have fixed income investments and they have coupons that are payable every six (6) months. Those are coming in on a regular basis and you can attempt to match them up better and you will have a lower amount of risk. You will be less subjected to the extremes of interest rates going up and down. Interest rates are so low. I would suggest you read this risk assessment. There is a discussion on page thirty (30) about contribution risk. This is the risk that the plan has if the money being contributed isn't sufficient. You don't have a risk if the plan sponsor is committed to funding the plan. I'm trying to tell you things I think you need to know and not what I think you want to hear. The big decision of trying to do the right thing with the plan the City has done but you have to keep at it.

Bayones stated we have been monitoring the plan and we have language in the Code that will keep the six and half (6 ½) percent coming from the new employees. We are paying attention to that. We do know with the change from Tier II to Defined Contribution can create the turnover that we have with the City. We are staying on top of that. Mr. Burk, our newest Human Resources Director, has found some things that needed to be looked into, which we will look at later today. We are on the right track and we appreciate all the due diligence his department has done in resolving these problems.

Dean stated I can't tell you how happy I am to hear you say that. I know there are all kinds of demands on your funds/resources and I doubt that COVID has helped the tax income for the City.

Bayones stated it probably hasn't helped but I don't think we have been hit as hard as we had anticipated. We did get some additional funding to work out some other things. It has been an interesting year to say the least. They have kept us on our toes when it comes to spending until we see where thing are going to be and how long COVID is going to stay.

Ellwanger stated you emphasized the importance of the six-point five (6.5) percent contribution from the Defined Contribution plan into this plan. Is that being done?

Bayones stated yes. Our Code required that the money be placed into our plan. We made sure that language was in the Code. The City is making certain the ten (10) percent is there.

Dean stated yes, ten (10) percent in total.

Ellwanger stated okay, if I can draw our attention back to page fourteen (14) where it has to do with the required contribution. It has increased somewhat in the last eleven (11) years or so. What are the major factors that have increased that percentage of contribution?

Dean stated this goes back to 2011. The dollar amount required for thirty (30) years funding was $3.182 million. Basically ten (10) years later it is $3.665 million. That is not much of an increase for a benefit based on pay. What is that as a percentage of payroll? Because there is a smaller and smaller payroll the percentage jumps up and it looks worse than it actually is. Maybe there is a better way to present this or some additional information would be useful.

Burk stated maybe on our finance report we pick up what that number is. How much is that amounting to on a year to year basis. How much of it is growing versus the other participant plan. I don' know how valuable that would be but I'm curious to know.

Dean stated in the asset section of the report we show many years of receipts and disbursements year after year. If you look at that it shows employers contribution which should be included in that six and one half (6 ½) percent as employer money coming into the Trust and also the member contributions. The member contributions will be going down as you have fewer people. You should see an increase in the City's total contribution.

Burk stated I'm just curious about if it is broken out specifically with the six and one half (6 ½) percent versus the other.

Dean stated it doesn't show that.

Burk stated one (1) thing you emphasized was the mortality study for public employees. Is that document accessible?

Dean stated I can give you a link or just google Society of Actuary public employee mortality. It will show you more than you want to know.

Ellwanger stated going back to page one (1) the increase of the unfunded actuarial (Can't hear) is two (2) to three (3) thousand. One of those factors is the City's contribution needed about $1.95 million. What does that mean.

Dean stated that was the take from last year's report. We calculated what would be a thirty (30) year funding requirement. If we said let's fund on a thirty (30) years basis what is the City's requirement for that, and it was $1.95 million. Then we compared that with what was actually contributed which was in the asset section. We were comparing what was the actual City money that was contributed for the past year with what the past year actuarial says you would need for the thirty (30) year funding. You are not going to be on thirty (30) year funding if you don't put thirty (30) in. You will be behind.

Ellwanger asked if the City had contribute $1.95 million it would have kept the number the same as the previous year.

Dean stated yes, beside the issues of investment returns. The total payroll of the participant group has been declining because the number of people covered is going down each year. You have those retiring and your turnover and nobody is replacing those people in the plan. We do try to identify the key things that are going on, so this isn't a boiler plate report.

Motion by Ellwanger, **Second** by Hill, to accept the actuarial report and to pay any expense that might have been incurred with this report. **Aye**: Bayones; Ellwanger; Hill; Petersen; Whipp; Apple. **Nay**: None. **Motion Passed**.

B. Receive and discuss pension audit results from Dean Actuaries and consider making a recommendation to City Council concerning audit results.

Burk stated we touched briefly on some of the issues we had noticed with the pension calculations. We sought approval for Dean Actuary to do an audit of all the pension calculations to give us a ninety (90) degree look since our payroll department has been the one calculating benefits. We felt it would be better for an outside entity to look at the calculations to give us a good measurement of where the calculations stand and how accurate or inaccurate they were. Those were the observations we made, and we relayed the information. There was some interpretation with respect to the plan and how it was being applied. I think what Mr. Kaspar is going to tell you will reflect exactly that.

Dean stated John did the line share of this work. He is extremely good at this. We thought the original idea was to take all the information you have on people who are receiving an annuity as of July 1 and what they were being paid and re-adjudicate it to see if they followed the plans provision. We were to see what those numbers were and if they were different. We had roughly two hundred fifty (250) retirees.

Kaspar stated I want to start off by saying that Taressa did a great job going through each one and posting to a spreadsheet some past pays they have recollected from a newer payroll print. For some of the original calculations she has since collected from the payroll are different. Sometimes they differ by $5,000 and sometimes by $500. For the seventy (70) eighty (80) people that she sent to me there is a good portion of them that are different. I'm trusting the ones on the spreadsheet are now correct. It is possible before these corrections are made we do a spot check on five (5) or ten (10) of them to make sure we had made the changes and have the pay straight. Based on the new pay Taressa gave us we made our new calculations and compared them with the old ones.

Burk stated it may be important to note that each year a spot checked was done. Once those come back to us, we go through and provide how the payout was done. The things we ran into is what prompted this. For instance, the practice of using the last seventy-eight (78) consecutive pay periods but the plan talks about using completed years. If you count the last three (3) completed calendar years and you leave in November or December, the last eleven (11) months is not a calendar year. If a person got a pay raise in that time period, by reading the plan document and depending on your interpretation, it wouldn't apply to that last period. That was one practice. Then we found fractional months. If you get hired on the 10th of the month and leave on the 5th of the month they were adding the time period together. The plan says fractional months will be considered a complete month. When you look at all the ways the interpretations were interpreted over the years it was getting inconsistent. The inconsistencies lead to more and more discrepancies. There were also some issues with age and disability. I can't tell you how many hours Taressa and Mrs. Rodrick have spent going through and auditing each file and recreating the pay data. We felt this was what we needed to do in order to get a big picture of where we stand. I think it is important you know how and why we got here.

Dean stated originally, we thought we were looking at two (2) variations. We will do a new calculation and it will use the plan definition of pay, the calendar year pay, the service crediting rule and rounding up if that is what it amounts to, compare that to what the retiree is being paid after adjusting for all the COLA's and see what the differences are. In the course of doing this we discovered those differences but there were other also. The new pay information sometimes is different regardless of how you interpret calendar year or seventy-eight pay periods. Even where we thought the service credit wasn't quite as the plan said but done in a fashion where it appeared it was done one way sometimes and other way other times. It may have depended on who was doing it. Your overall approach in these calculations was closer to a hand calculation than anything that is programmed and computerized. While it was an Excel spreadsheet a lot of the information was typed in and not calculated. There is a calculation by service by comparing one (1) date with another and having formulas that do all the calculations and Excel will do all that. There are things like how many months early is the early retirement. It appears to have been someone trying to figure it out and looking at the date trying to calculate the number of months. They weren't always right, and they weren't always wrong. The joint survivor annuity factors for all the options were just looked up on a table and typed in. As an example, on some they picked up the wrong age. You have paid us to build a benefit calculation system that does two (2) things. It will calculate benefits and will calculate them consistently. It will calculate the joint survivor factors and calculate them accurately. It will calculate exact ages and not round them off. It will follow the plan provisions as we understand the plan. We will tweak it for whatever changes you may want to make to try and fix the past. We may want to amend the plan to say seventy-eight (78) pay periods instead of three (3) calendar years or some specific decisions as the plan wording issues. It is ready to tweaks based on what you decide. It will make consistent calculation if the data is right. If somebody's birthday is wrong, it will calculate it wrong. It will be easier and quicker to do. John went through many iterations of collecting data from you. We did our own calculations and compared it to what was being paid and found areas where there were significant differences. The fact that this was done by hand without any kind of real review until the auditors looked at it wasn't the best idea. You are big enough that you should have this kind of online benefit system. This is a good solution and you will be so much better off going forward. We have the current differences to resolve and we will figure out what to do about those differences. Some are clearly outright errors and you have to do it right. You have talked with your legal counsel. It is pretty easy to tell someone that on review there was some error in the calculation, and they should have been receiving $5 more a month and you are going to increase their pension and give them a lump sum for the missed payments. You probably won't hear a complaint but when you have to say the calculation was in error and you were paid too much it will be different. This is not something that can be fixed by plan amendments. The legal and IRS theory is that you are supposed to pay the right amount. You can't say we were accidently paying Mary Smith too much, but she was such a sweetheart we will just let that go. You can't do that because the theory is it is not your money. It is the Trust's money and if you are paying someone to much you are diluting the funded security of everybody else. You are kind of spending everybody's money to overpay one person and that's not right. That's not reality but it is the theory of the IRS and legal. We think our new calculations are accurate. We will talk about whether some plan amendments are needed to bring you closer to what has been done. I think if the plan says they should be paid more you have to make that up. If the plan says you have overpaid them you have to decide how to cope with that.

Burk stated once it goes through review, we will have a recommendation to present to you for your consideration in moving forward.

Dean stated we have isolated why they are different and have results for every person. We have an elaborate spread sheet by category with all the people with major issues. In some cases, the pay on the original calculation is different than the new pay. One (1) of them is right and one (1) is wrong. The new pay numbers we gave you are correct and what was on the calculation sheet were wrong. We have to use the correct number. I don't know what your answer will be. That is for you to do some research before you finalize the plan to say this is the correct answer. You have good numbers for most decision-making purposes. Some of them will have to be researched and then we would decide what to do. This project is important, and I think you were right to do it. I thought our issues were going to be calendar year versus seventy-eight pay periods and how you round or didn't round or truncated the service.

Kaspar stated here are some of the highs and lows. This is a spreadsheet and I'm trying to get as much information on there for you as possible. I'll describe some of the heading for you. One of the pages has Existing Payments Calculated Big. This means they are receiving too much compared to the new calculations. The Current Monthly column is what they are actually getting paid as of July 1, 2020. We have their retirement date and if the retiree died, we have the survivor in the data base and what they are getting. The backed-out COLA is from page four (4) on the report. We have various COLA's. The COLA's ended in 2005 but we have an accumulative amount from various retirees. If you had someone who started getting paid in 1986, we will have backed out one hundred thirty-three (133) percent to get the backed-out COLA amount.

Dean stated which should have been the original amount.

Kaspar stated this is what we think was their original payment. We have gone from their current monthly to the backed-out COLA and that is what we are trying to match. Under Bigger Smaller Initial Pay Difference are the people that have numbers there and these were supplied by Taressa. I was able to type into the spreadsheet what the original calculation used. The number there will show how much bigger or small the initial pay would be. You can see on Mr. Huck, the third one down, he had a calculation that used $20,000 more than probably should have been.

Dean asked so his final average pay was that much too high.

Kaspar stated yes. Looking at the work from the pencil calculation it looked like someone wanted to not use the first year and put in some new number for the replacement. They added it to the sum of the original three (3) but didn't subtract out the one that was removed.

Dean stated that was a clear error.

Kaspar stated the new number Taressa supplied didn't include the double counting of the pay. In the Should Be column is the calculation using Taressa's new pay and the proper age for the conversion. Actually, it was pretty amazing how accurate some of the ages and services were from someone typing in the age and service. For this number of people, it was quite accurate. The Should Be is based on the new pay of what we think the age and services should be. We thought we would find more people that were going to use the truncated service when they didn't get this extra one (1) month of service for the partial month. If you worked two (2) more days after your date of hire you should have gotten a whole month. It was about fifty/fifty (50/50). Some got it and some didn't.

Dean stated the past calculations wasn't uniform.

Kaspar stated correct. The Should Be column assumes that they did get the partial month. It was rounded up to the amount. They people that were paid too much, for example Northern, were paid too much each month.

Dean asked was Northern our $20,000 mistake.

Kaspar stated no. This was one of the disabilities that didn't have a cap on the normal retirement. The column Back Payments Without Interest takes you to January of 2021 from the date of their original start date. I counted the number of payments and multiplied it by whatever the difference was.

Dean asked did you try to put COLA's in there.

Kaspar stated yes, this includes the COLA differences.

Dean stated that means you had different differences every time there was a COLA.

Kaspar stated correct. The first month will be the should be amount and then every time a COLA date hits it is bumped up to the new number. Then we have the column With Interest. Taressa sent me a table with corrective interest rates.

Dean stated it was some Oklahoma interest rate table.

Kaspar stated it was like post judgment rates.

Taressa stated correct.

Dean stated this is an interest rate you might think of using.

Kaspar stated I took that rate and you can see those are bigger. The last two (2) columns are the should be numbers after applying the COLA's. The most resents ones after 2005 will be the same. We compared those to the difference of what they are getting paid. A good portion of the ones that changed are simple because of the new pay. I would say most of the pays went up and in analyzing one of the worksheets there was a retro pay that wasn't put into the original one. Not sure how that was calculated. I remember going over how the incentive pays was calculated. This is a twice a year pay. Then there was your usual bi-weekly pay, but the retro pay I'm not sure how that was calculated. So, that was included into the pay she supplied. We have pay differences and people who had service bumped up one month. Those didn't make the difference too much. There were people that went up between three (3), four (4), or five (5) dollars. That is generally what one (1) month of service will do. Those wouldn't kick somebody over the $10 limit. Some of the ones that were different were simply because the spreadsheet had a hire date in our data base that didn't match what the calculation had. I would ask Taressa and she would say they had a buyback. Anybody that was different they would just correct the hire date. At the point and time when it comes to correct these maybe that is something to be reviewed.

Burk asked are the numbers on these two (2) sheets what you believe to be the correct number? Is that based on the seventy-eight (78) pay periods or the three (3) calendar years.

Kaspar stated the seventy-eight (78) pay periods. I didn't include the three (3) calendar years.

Dean stated we have the three (3) calendar year too and could show that if we needed to.

Burk stated if it was an overpayment that overpayment would be larger if we went back and looked at the three (3) calendar years and the underpayments would be more significant.

Kaspar stated correct. By looking at all the calculations they were all based on seventy-eight (78) pay periods.

Dean stated that was the one (1) consistency.

Kaspar stated correct. The calendar year method has never been used.

Burk stated I think we found one (1) where it was used.

Macias stated I don't recall.

Karpas stated on the ones she gave us that were off I called Proper Service. Proper Service is what I'm defining as where they got the rounded-up years and months.

Dean stated which is what the plan actually says.

Kaspar stated about fifty (50) percent looks like they are okay. For the normal retirement only five (5) people match the proper service, four (4) matched the truncated service without the extra month, one (1) had five (5) months to much service, one (1) had two (2) months to few, and one (1) had five (5) months to few. This is based on the original worksheet where she would work out the calculation and have a hire date. I would match the hire date to what we had on our spreadsheet. One of the calculations they did completed months or rounded up months. They looked at the exact month and number of days.

Dean stated which is called elapsed time.

Kaspar stated yes, just kind of an elapsed time.

Burk asked so they prorated it by the day.

Dean stated yes.

Burk stated I think what they were doing was taking any fractional month and counting the days worked versus the days in the last month worked and adding those together. If it was thirty (30) or less, they gave them one (1) month. If it was over thirty (30) they game them two (2) months. That was the practice that Taressa was shown. That is how the fractional month was being applied instead of any fraction portion of one (1) counting as a whole month. If you work one (1) day in a month according to the plan you should get credit for the month. The way I understand it was being done you only got one (1) month even though you worked days in two (2) separate months.

Kaspar stated oh, we did all of this on an elapsed time basis. We didn't do anything on a calendar month basis.

Burk stated the calculations were being done as I understand them just like I descried.

Kaspar stated so they did fractional months on both ends.

Burk stated if you worked ten (10) days in the month you were hired and five (5) days in the month you retired you got credit for two (2) months.

Kaspar stated that makes sense but I'm not sure that method was used very often because that would have given you a bigger service.

Burk stated that is the way that Taressa was shown and that is the practice she has been using since she started the position. We went through the Code on some of this and that is not what it says.

Kaspar stated I did see where we had a lot more people with one (1) month too much.

Burk stated I assumed it would be close to a split down the middle.

Dean stated the idea that a fractional month shall count as a month can be construed two (2) different ways. One (1) is the way you just stated and the other is measured from the actual date. If you worked twenty (20) years five (5) months and three (3) days we can round up the three (3) days and give you a full month. Sometimes that is what you did and sometimes you didn't. Those are both legitimate interpretations of the phrase fractional months. I think what we did initially was look at your total period of employment. This is part of the issue in a plan document, so you have to be really careful. It is not just a legal issue when you are dealing with formulas and calculations. You really want to be word specific so that there is only one (1) way to interpret it. You don't want benefit person number one (2) to have a different interpretation than number two (2). You want your calculation system to be programed to exactly match the plan. I would say whatever historically has been done would be considered the justification. In your case it is hard to figure out what has been done historically.

Burk stated obviously it has not been done either way that we have described it.

Dean stated you can't prove that there was an administrative policy of doing it either way.

Karpas stated I haven't analyzed or even thought of the method you described. I can put that on the spreadsheet to compare it with some of the services that we have to see if it does help roundup one way closer to what has been done. If you do amend the plan you can amend the wording.

Burk stated what we are talking about is important for the benefit of the Board, so they understand some of the mistakes and dilemma's we are facing. We have to go in and fix it to prevent it from happening in the future. The practice that Taressa was shown when she took the position was the last seventy-eight (78) pay periods versus what the plans says. The plan says the highest three (3) calendar years over the last six (6) years. That is a sliding scale. If you transferred two (2) years before you left to a position with a lesser pay, was demoted, suspended, or something that effected and diminished your pay in the last year or two (2) and we use the last seventy-eight (78) pay periods your pension potentially could be lower because we didn't use the sliding scale for the three (3) highest calendar years.

Kaspar stated that is a good question for Taressa. When pulling these new pays did you analyze or did you strictly grab the last seventy-eight (78) pay periods. Did you look to see if there was a decrease?

Taressa stated the ones that we could recreate in our GEMS system we did go back for the six (6) years. For all the other ones we tried to go back as far as we could (can't understand) the pay periods to make sure the last three (3) were the highest.

Kaspar stated good. So, it's the proper seventy-eight (78) pay.

Burk stated the goal was to provide you the information so you could determine what the real number was. More often than not the last seventy-eight (78) pay periods was the highest. This gave the employee the greatest benefit. In most cases this is what you will find. That doesn't take into consideration if a person had a break in service. I don't think you will see that, and it is probably very rare. I think that is why you have this sliding three (3) calendar years was to eliminate those breaks or reductions.

Dean stated that kind of provision is common in pension plans. A very prominent way to put it and it was for that exact reason.

Petersen asked is this a subject that can be brought back to the Board after you have a recommended fix. It seems like this is going well beyond what the Board can deal with.

Burk stated we can certainly bring it back again because he is still working through some of the numbers. We wanted to update you on where we are. We met with our pension attorney and discussed some of this as well.

Petersen stated I think it would be totally appropriate to bring this back when that work has been done.

Ellwanger stated I agree. This is ever evolving. Will all future calculations be certified by someone such as yourself.

Dean stated we can do that.

Ellwanger asked is it being done in-house now.

Burk stated yes. We went with this pension calculation system to get away from manual processing. Dean has indicated that will provide an additional accuracy to the plan. It will be based on the formulas and there will be no guessing. Right now, we project what employees are going to get versus what we know they will get. That has created some issues as well. I hate where we are but at the same time, we have been working on this since February. It seems like it continues to grow. The longer this goes the more disparity it creates. We have to be able to say this is what it is and this is what we need to do.

Hill asked so there is going to be some re-writing terms and legal will have to make this clearer.

Burk stated I am confident this will resolve with some changes to our Code on how the pension calculations are done. It might require legal to petition the IRS to accept some of the practices that have been deployed. We are discussing those things. What's the best course of action on the overpayments? Are we going to tell those retirees they owe us thousands of dollars or are we going to try and figure out a way to draw a line and move forward from here? For those who have been underpaid we won't have an option. Before we can make it right, we have to know what right is.

Dean stated a lot of this work is deciding what amendments need to be made. What works best. Once you make those decisions then you know precisely what your plan is. Then you decide how to handle the under and overpayments. You will have to deal with the IRS to see if they will bless it. With an ERISA council involved they recognize that the safest thing to do is to tell the IRS what you propose and have them say it is acceptable. There is a risk if the IRS finds you didn't follow your plan, or you corrected it in a way that didn't follow your plan. They could disqualify the plan which has terrible tax consequences. That is the nuclear penalty and they may or may not do it. The IRS has gotten a little bit more realistic over the years. It comes for the private sector plans where all this is very serious. They leave government plans alone more. They don't go out and seek them where they will do that to the private sector. You have to do things according to your plan document. If you violate your plan and it's not fixable or you don't fix it, they can disqualify the plan. This means you have tax consequences and it is a giant mess.

Petersen stated so you are going to revisit this with the data the City supplies, and you are going to look at these other options then bring back with some suggested fixes.

Bayones stated correct. We need to get our language straight. It needs to be specific. There have been a lot of changes on how, who, what department and what division has dealt with retirement. I have been with the City for sixteen (16) years and I can count at least seven (7) different HR Directors since that time. All of them had a part in this. Payroll used to be under finance and in more recent years it was moved to HR. We have had a lot of different people and departments involved. Everybody seems to be interpreting it differently. With these payment problems we need to get the table right and make the language more specific. It is not going to do any good to have an outside firm do our calculations if we are not communicating the correct language. We appreciate everything you have done.

Motion by Petersen, **Second** by Apple, to table this item until a later date. **Aye**: Ellwanger; Hill; Petersen; Whipp; Apple; Bayones. **Nay**: None. **Motion Passed**.

Bayones stated thank you for your hard work. There has been a lot of work from HR and Dean Actuary. We need to get this fixed not only for retirees but for our plan in general.

Dean stated this is definitely important, but it is benefit calculation fatigue. There are zillions of elements we brought together. We need to amend the plan to be clear about what is intended including anything that might be retroactive and then we can finalize the calculations. That should be pretty easy because the question is do we use the twelve (12) months or the seventy-eight (78) pay periods. You will need to decide about the interest on the back payments. As to be certified we can certify it actuarially and we are certifying the calculation formula and not the data. The data will always come from HR. We are certifying the calculation is corrected based on how we understand the plan to be. Then you have the issue of what will the IRS buy off on.

Bayones stated we have a good start. It is just the more they dig the more they find. We need to work on the fine tuning and then come up with a resolution.

Peterson asked does this also affect the third (3rd) agenda item.

C. *Review a sample employee benefit statement Dean Actuaries and take action if necessary.*
Burk stated one (1) of the Trustees asked to see a copy of the benefit statement.

Ellwanger stated that was me.

Burk stated that is why we put this item on here for your review.

Petersen stated it is a nice format, but it looks like it is affected by what we just discussed.

Bayones stated I agree.

Burk stated it will but as far as the information contained on it though if you wanted a (can't hear)

Petersen asked is this all the individual gets is just this one (1) page.

Kaspar stated the back page has some definitions.

Petersen asked when the employee gets this, they would be looking at the lifetime, ten (10) year certain and joint options.

Bayones stated this goes to active employees.

Petersen stated this is before they retire.

Burk stated that is not done until they are electing their retirement. Then they can pick the option they want.

Petersen asked would that be included.

Dean stated yes. The benefit calculation system has two (2) purposes. It is a system to calculate the benefits consistently accurate and that same system is available to employees to calculate their retirement. They can go in and look at their information to do their retirement planning. It will include ten (10) year certain, lifetime, and joint survivor.

Kaspar stated initially we talked about it would be for you guys to get comfortable with and then open it up to employees.

Dean stated it is very interactive because they can change it.

Kaspar stated they can change their retirement date. To your questions we can also add that to the paper

THE RECORDER STOP AT THIS POINT. THERE WAS FURTHER DISCUSSION ABOUT THE BENEFIT STATEMENT BUT THERE WAS NO ACTION TAKEN.

IV. *Comments*
V. Audience Participation
VI. Adjournment

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

Motion by Petersen, **Second** by Hill, to adjourn. **Aye**: Hill; Petersen; Whipp; Apple; Bayones; Ellwanger. **Nay**: None. **Motion Passed**.