MINUTES
PENSION TRUST COMMISSION
SPECIAL MEETING
SECOND FLOOR CONFERENCE ROOM
NEW CITY HALL
APRIL 13, 2017 – 9:00 A.M.

Bart Hadley called the meeting to order at 9:00 a.m. in the New City Hall Second Floor Conference Room. Notice of meeting and agenda was posted on the City Hall notice board as required by law.

ROLL CALL
PRESENT: Bayones, Teri; Ellwanger, Paul (entered late); Hadley, Bart; Hill, Andy; Kindt, Bill; Livingston, Steve.
ABSENT: Dentler, Carl.
ALSO PRESENT: Kelea Fisher, City Attorney's Office; Denise Ezell, City Clerk's Office; J.I. Johnson, Finance Director; Perry Warren and Chad Rother, Morgan Stanley.

I. Introduction of Visitors

Hadley stated we have Nate Atchison from Finley and Cook here to present the audit.

III. Approval of Minutes from January 26, 2017

Motion by Hill, **Second** by Livingston, to approve the minutes of January 26, 2017. **Aye**: Hadley; Hill; Livingston; Bayones. **Abstain**: Kindt. **Nay**: None. **Motion Passed**.

IV. New Business

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

Warren stated I would like to thank the board for the opportunity to be here and to give an update. The last several meetings we have taken a good amount of time covering lots of information. Since today is my birthday you will get a break.

Warren stated page 4 shows the calendar year returns for the account. Year to date we are up 4.41% and we made 7.05% for the 2016 calendar year. We started managing the whole account November 15, 2007 and we have been down the calendar years of 2008 and 2015. Turn to page 5.

Warren stated look at the performance since inception. We started with $34,679,131.46 and have taken net distributions of $4,694,874.34. We have had a net investment earnings of $20,116,406 leaving the total value as of March 31, 2017 at $50,100,663.64. The last 12 months we have earned 12.15%, the last 5 years 5.51% and since November 15, 2007 4.89%. The chart in the upper right corner illustrates the performance numbers I just mentioned. The difference between the blue line and the red line is the net investment earnings. Eventually the red line will be below here because we pull all our money out. Our goal is to maintain the blue line during that period. Turn to page 6.

Warren stated I want to point out several things on this page. Under the heading Last 12 Months we have distributed $2,598,857.32 and during that same period we made $5,523,574.54. Below those numbers you see the return of 12.13% compared to our benchmark of 9.26%. These numbers reflect our performance of the account during the period of nearly 3%. Next notice the number directly below our bench mark of .44%. This represents the Barclays Aggregate Bond. This is the number we have been expecting and discussing for some time. We discussed at length and made changes to place the portfolio in a position to have the opportunity to earn the actuarial 6.75% over time. We anticipate the return of the bond portion of the portfolio to earn 2-3% over the next several years. Look at the chart in the upper right corner. When we were allocated 35% stocks and the market declined in 2008 we did not decline as much the new benchmark. It took until 2013 for our new benchmark to catch up. With rates staying low and returns on bonds expected to be low we made changes in order to have the opportunity long term to make the actuarial number. We made the changes and they are working. Turn to the next page.

Warren stated the Portfolio X-Ray drills into the portfolio and gives us an illustration of how the portfolio is allocated. We are currently weighted 69.4% in equities. I'm excited to report during the recent quarter we sold approximately $1,350,000 of equities. With equities outperforming stocks we were forced to do that in order to maintain our target allocation. Look at the middle of the page at the two style boxes. The box on the left reflects our stance on interest rates with 44% of our fix income allocated to limited maturities. The current duration of our fixed income holdings is 3.75 years. Looking at the equity style box you see we are balanced between styles and overweight large companies with 70% of the account allocated to large companies.

Warren stated I want to remind you that we are going to continue to see the account move up and down in value. We are managing a long term account and we believe we are allocated to have the opportunity to reach our goals. On page 6 you see since inception the return on the Barclays Aggregate Bond was above 5% and now it is down 4. On the 5 and 2 years number it is 2.3 and the last 12 months it is .44. We thought the change in interest rates would happen in 2016 and during the fiscal year the rate was actually the lowest on the 10 year treasury in June. That is the reason the number is low. Rates had risen and today they are trending back down.

Hadley asked are there any questions. Seeing none I would entertain a motion to accept the report.

<u>**Motion** by Kindt, **Second** by Hill</u>, to accept the Morgan Stanley quarterly financial report. **Aye**: Ellwanger; Hadley; Hill; Kindt; Livingston; Bayones. **Nay**: None. **Motion Passed**.

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

Ezell stated we don't have this report.

C. Receive audit report from Finley & Cook and take action if necessary.

Atchison stated I'm glad to be here to go over the report with you. Let's start on pages 1 and 2 of the bound document. In doing the audit the City puts together the information and we do a test. When it is all said and done what is in this report is what they have given to us and our determination of whether the management information is presented fairly or if there are any other problems. I'm glad to report we have indicated on the work we have done that the financials presented here are fairly presented and all the materials respect format. The City does an excellent job getting us the information to go through and actually test it to make certain everything is there. The biggest part of the audit is looking at the investments and conformation done. It works out well for us at that point. We issued a clean opinion on the statements.

Atchison stated there is a new standard we had to implement to the current year called GASB 72. This has to do with fair value of investments. One thing GASB wanted us to do was give a level as to how the fair values were determined. The bulk of our investments are called Level One and are readily identifiable. There are a couple that might have been in the Level Two. The only investments that might be Level Three are the warrants. Those bear interest at a fair rate but there is no way to go to a market to see what the rates are. Those were about $1.5 million of the total investments which was $47 million at that time. There were no exceptions to the financial statement. We were able to issue a clean opinion.

Atchison stated since this is a governmental audit we have to issue what is called a Yellow Book report. Look at page 21. Indirectly we receive tax payers dollars so we are required to make sure there is a system of checks and balances in place. We are not required to render an opinion on the system of internal control but we are required to test it and report any material weaknesses. This would be something in the system that if not found in a timely manner could cause the financial statement to be mislead. We have nothing to report. Based on what we have seen there is a good system of checks and balances in place. We have a few comments but nothing that would cause an issue. We are also required to look at the compliance with laws and regulations. Not to render an opinion but to do some test work to see if anything is unlawful or illegal. We have nothing to report. The Yellow Book report is clean and we are issuing a clean opinion on the statements.

Atchison stated page 2 is the Management's Discussion and Analysis. This is good reading. It tells you what happened during the year and how we went from the end of last year to this year. The biggest part of it talks about the actuarial items. It is an approach in laymen terms of what increased, decreased, and what happened at that point and time.

Atchison stated the actual financial statements start on page 3. Page 3 is called Statements of Fiduciary Net Position and it is the balance sheet. It is a snapshoot approach at the end of June. It shows our cash and investments with the investments being reflected at fair value. In the middle of the page you see the investments are the biggest assets we have. At the bottom you see the net position is $48.5 and investments represent about $47 million. They are reflected at fair value or market value at the end of June.

Atchison stated page 4 shows our change from last year to this year. At the end of 2015 the total or net assets were approximately $50 million and the end of 2016 it was $48 million. We went down $2.4 million. The question is why did it change. You see the employee/employer contributions stayed about the same. The net investment income in 2015 was $853,000 and in 2016 $812,694 and then you have the payouts. The biggest change is that the market value went down.

Atchison stated our Footnotes start on page 5. Instead of going through all of them I have highlighted a couple. I would like to point out Footnote 5 on page 19. The City picks up from this report any changes in GASB. They have to determine what we call a Total Pension Liability. The City has to book on their financial statement the net payable of our assets. You can see in Footnote 5 that the actuary determined that the total pension liability as of June 30, 2016 was $80 million. Then we look at what the systems net position was at that point. The system shows $50 million to go against the $80. The City has to book on their financial statement that payable. Up until 2 years ago all the City had to do was show it in their notes. Now you have to show what that payable is even though it is not currently due and payable. If the system does well then the payable will go down but if you have an off year it is going to rise. They are also required to show that the pension liability has been determined at 6.75%. They want to know what happens if we raise that percentage up and what happens if we lower that percentage. If you raise the percentage the payable goes down. It assumes we will earn more. If the percentage is lowered we go from $29 to 38 million. The more the system earns the better reflection you will see. The actuary has warned that at some point the City might consider kicking in more cash. That was address on page 20 under Subsequent Events note. We knew the City was considering freezing this plan to start a DC plan and we noted that. I'm sure the reason is to try and limit that unfunded amount.

Hadley stated Council approved that change Tuesday night.

Atchison stated page 23 is primarily information to be used in the notes for the City's auditor. It talks about how the actuary came up with a total pension liability. The column for 2016 show the total pension liability at the end of the year was about $80 million. There was a $2.8 million increase. We showed a table as to why that happened at that point and time. About $2 million of the pension liability is due to service cost and interest. Another $2 million is due to the actual investments or net position of the system dropped. We went from a net pension liability at the end of 2015 of $29 million to $34 million at the end of the current year. There are a lot of different components that make this up and most of the time the better the system does the net pension liability goes down. All in all the take away from the bound document is that it is a clean opinion on the financial statements. We have no finding of material weaknesses or no items of problems that were not in compliance with the rules or laws. From a snapshot approach from the end of June the fair value had dropped down and the net position of the system compared to prior years went down by $2 million. By the time we get to this year it could be up again.

Atchison stated now look at the larger of the 2 smaller documents. This is called the Auditor's Required Communications. This is where we are required to report to you any illegal action. On page 8 we talk about the help we received from the City in getting the financial statements done. I also say that we have to set out conformation and get information on fair value from the City and that has always been great. We have had excellent help and it went really well for us. The actuarial report is generally done after everything else is done. We received this information about 2 weeks ago. On page 8 at the top you see things we are required to talk to you about. We say we have nothing to report and there were no illegal acts, material weaknesses, and we are not aware of any fraud or improprieties. We asked some very point questions of staff and that went well. We are not aware of anything you need to know about.

Atchison stated the small report is our tweaks. We look and test internal control. We saw no material weaknesses. On the last page we brought up 2 items. One deals with outstanding checks. We have a policy when checks are outstanding for a year we either send them to the State or we have a written policy that we have them and know where the retirees is. We are saying if you know where the retiree is and how to contact them have a policy that you won't send the check to the State of Oklahoma. The other item was cash disbursements. One of the things we look at is the segregation of duties to make sure one employee is not doing more than they should. We looked at who signs the checks, who approved the invoice and those things. During our walk through we noted that no employee separate from the person that performs the calculation reviews the calculation of pension benefits. We saw that one person does it all. We believe somebody should look through that to make sure the dollar amount is correct. Once you start paying it could go a long time before finding an error and then you have to fix it. The last thing you want to do is tell a retiree they have to pay back money. Everything went well and we got all the information we needed. I believe the City's auditor should have what they need. I'll answer any questions you have.

Hadley stated thank you.

Motion by Bayones, **Second** by Ellwanger, to accept the auditor's report. **Aye**: Hadley; Hill; Kindt; Livingston; Bayones; Ellwanger. **Nay**: None. **Motion Passed**.

Livingston asked are we going to follow up on these 2 items. When we try to think about how to recover from overpayment, which we have, we wrestle with our decisions. It's hard when you have an individual in a nursing home and you going to take $500 a month back. Have we thought about how to solve this problem?

Johnson stated we are looking into this.

Livingston stated so you have worked something out.

Hadley stated you have a second person to verify the calculations.

Johnson stated yes.

Hadley for those of you who don't know we have recently implemented a slight reorganization in our finance department. We are trying to better separate duties.

Ezell stated the Pension Trust approved purchasing a program from Dean Actuary that is suppose to figure retiree calculations. Will this not take care of the problem?

Hadley stated we did not purchase that program. IT had some Cameron students test the program and they were able to get a lot of private information. We didn't feel comfortable with moving forward with this program. It is my understanding that the new payroll system will do the same as this program would.

Johnson stated I'm not aware of that.

Hadley stated I'll bring this back at the next meeting with more information.

Hill asked so the employees do not have a way to check their retirement.

Hadley stated they can call HR and they will manually calculate it. This would be a good benefit for the employees. Most do not look at it until they get close to retiring. They will be either happy or scrambling to get something done. We definitely need to be a little more proactive with this for the employees.

V. Old Business

Hadley stated Council approved the defined contribution plan Tuesday night and it will go into effect July 1st for all new hires. We are all aware the actuary and auditor have recommended the City put more money into the system and from a budgetary standpoint we haven't been able to do so. We asked Chuck Dean to do a study on the concept of the defined contribution plan. We wanted to make sure it wasn't going to negatively impact the current plan. His analysis found if the City will contribute a minimum of 6% of all new hires salary to the current system for a minimum of 20 or 25 years our system would be on a little bigger fast track towards being fully funded than our current track. Council has specified that the City will contribute 6.5% to the current system and 3.5% to the defined contribution plan. The City contributes 10% into the current plan so there is a potential savings of 6.5% and Council is committed to placing it in the current plan. Wilson and I built into the ordinance several safe guards but the Trust will have to stay diligent with. Council can't make any change to the ordinance without bringing it before the Pension Trust first. We will have the opportunity to analyze the change and make a recommendation. They don't have to take our recommendation but we at least have the ability to voice our opinion. We also were concerned about the future when a vast majority of the employees will be under the defined contribution. We wanted the Pension Trust to have a vested interest in the current system. We changed the document to require that at least 7 of the Trust members be a city employee that is under the old system or be a retiree that is under the system. At some point there won't be many under the old system but we hope at that point the system is fully funded. Those were some safeguards we tried to build in to make sure Council can't go in and make changes. I feel comfortable that the current Council and administration would never use the 6.5% savings for anything other than the current system but you never know with the future. We will have to stay diligent. I'm as concerned as everyone else because I plan on drawing my retirement and I want to make certain it stays in place. I'll give the Council Committee credit because from the beginning they stated this was not to affect current employees or negatively affect the current system. They have committed to the 6.5% until it is funded at 100%.

Kindt stated I'm not sure I would want to be on the Commission 20 years from now.

Hill stated there was a figure of $38 million unfunded liability thrown out at the Council meeting.

Hadley stated $35 million. The actual number was $34 something.

Hill asked did they use the 6.75%.

Hadley stated yes. We could reduce the unfunded liability if we raised the percentage.

Warren stated and if you changed to calendar year it would have made a big difference. It is what it is over time but it is just when you have to report it.

Hadley stated this happened last year and then it went right back up and the overall was much better. Council passed this 5 to 2. Councilpersons Cherry Phillips and Gay McGahee both voted no and spoke against it. Councilperson Phillips was on the committee. I was in a different situation. Tim Wilson was dealing with family issues and was unable to attend the meeting and Councilman Wells had a medical procedure and was unable to attend. Typically they would have presented the item. Councilman Wells tasked me with presenting the argument. I did state that I was the chair for the Pension Trust and that the Trust had voted not to recommend moving towards a defined contribution plan. The EAC also voted not to support the move. I had to stay on one side of it that night based on the direction was I given from my boss.

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 death of retiree Marshall MacDonald.

B. Consider approval for the paid-in-full judgments to be released from the record.

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

VII. Comments

VIII. Audience Participation

IX. Adjournment

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

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