CORAL GABLES RETIREMENT SYSTEM
Minutes of May 8, 2014
Youth Center Theater/Auditorium
405 University Drive
8:00 a.m.

MEMBERS:	J 13	A 13	S 13	O 13	N 13	J 13	F 14	M 14	A-10 14	A-18 14	M 14	APPOINTED BY:
Andy Gomez	-	P	P	P	P	P	P	E	E	P	P	Mayor Jim Cason
Manuel A. Garcia-Linares	P	P	P	P	P	P	P	P	P	E	P	Vice Mayor William H. Kerdyk, Jr.
Bob Campbell	E	E	P	P	E	P	E	P	E	E	E	Commissioner Patricia Keon
Jon G. Ridley	-	-	P	P	E	P	P	P	P	P	P	Commissioner Vince Lago
James Gueits	P	P	P	P	P	P	P	P	P	P	P	Commissioner Frank C. Quesada
Joshua Nunez	-	-	-	P	E	P	E	P	P	P	P	Police Representative
Randy Hoff	P	P	P	P	P	P	P	P	P	P	P	Member at Large
Donald R. Hill	P	P	P	P	P	P	P	P	P	P	P	General Employees
Troy Easley	P	P	P	P	P	P	P	P	P	P	P	Fire Representative
Diana Gomez	-	-	-	-	P	P	P	P	P	P	P	Finance Director
Elsa Jaramillo-Velez	-	-	-	-	P	P	P	P	P	P	P	Human Resources Director

STAFF:
Kimberly Groome, Retirement System Administrator
Alan E. Greenfield, Board Attorney
Dave West, The Bogdahn Group

P = Present
E = Excused
A = Absent

GUESTS:
Ron Cohen

Chairperson James Gueits calls the meeting to order at 8:08 a.m. There was a quorum present. Mr. Campbell was excused and Mr. Garcia-Linares was not present at the start of the meeting.

1. Roll call.

2. Consent Agenda.

All items listed within this section entitled "Consent Agenda" are considered to be self-explanatory and are not expected to require additional review or discussion, unless a member of the Retirement Board or a citizen so requests, in which case, the item will be removed from the Consent Agenda and considered along with the regular order of business. Hearing no objections to the items listed under the "Consent Agenda", a vote on the adoption of the Consent Agenda will be taken.

2A. The Administrative Manager recommends approval of the Report of the Administrative Manager.

1. For the Board's information, there was a transfer in the amount of $2,800,000.00 from the Northern Trust Cash Account to the City of Coral Gables Retirement Fund for the payment of monthly annuities and expenses at the end of April for the May 2014 benefit payments.

2. For the Board's information:

   - Mary Whitley entered the DROP on December 1, 2009 and left the DROP on April 2, 2014. She received her first retirement monthly benefit on May 1, 2014 and was not affected by the IRS 415(b) limits.
   - Charles Scherer, Police Officer, passed away on April 28, 2014. He retired on December 1, 1997 and chose Option 2B – 66 2/3%. His beneficiary began receiving post-retirement monthly benefits on May 1, 2014.

3. For the Board's information, the following Employee Contribution check was deposited into the Retirement Fund's SunTrust Bank account:

   - Payroll ending date April 6, 2014 in the amount of $160,113.58 was submitted for deposit on April 11, 2014.
   - Payroll ending date April 20, 2014 in the amount of $159,974.86 was submitted for deposit on April 25, 2014.

4. A copy of the detailed expense spreadsheet for the month of April 2014 is attached for the Board's information.

5. A copy of the April 2014 FPPTA Newsletter is attached for the Board's information.

2B. The Administrative Manager recommends approval of the following DROP applications: Michael Alicea, Bart Barta, Ivan Cabrera, Michael Frevola, Randy Hoff and Andrew Weidenfeld.

2C. The Administrative Manager recommends approval for the following invoices:

1. GRS invoice #406882 dated April 8, 2014 for actuarial consulting services rendered during the month of March 2014 in the amount of $13,810.00.
2. The City of Coral Gables invoice #05289 for the rental of City's public facilities in the amount of $1,260.24 ($420.08/month) and general liability insurance in the amount of $1,084.50 ($361.50/month) for the months of April thru June 2014.

A motion was made by Mr. Easley and seconded by Mr. Hill to approve the consent agenda.

Discussion:

Mr. Hoff asks Mr. Greenfield if he should not participate since his DROP application is part of Item 2B of the Consent Agenda. Mr. Greenfield responds that Mr. Hoff would not participate in the vote.

Motion unanimously approved (8-0). Mr. Hoff did not participate in the vote.

Mr. Garcia-Linares arrives at the meeting.

3. Request from Fatima Hernandez, pre-retirement survivor of Eduardo Hernandez of the Parking Department who passed away on April 13, 2014, for approval from the Board to allow her to receive Retirement Option 1 – 10 years certain instead of the normal form of payment of 5 years certain. This request is in accordance with the Retirement Ordinance Section 50-232(a)(5) and indicated in the actuary's certification letter. The Administrative Manager recommends approval of this request. *(Agenda Item 4).*

Ms. Groome informs that usually when an employee pass away while employed by the City, the employee's beneficiary receives a lifetime pension benefit under Normal Retirement which is a five year certain for their beneficiary. The actuary did their calculations and the ordinance allows more than one option for the beneficiary but it needs Board approval. Ms. Hernandez has requested the ten year certain option which would allow her beneficiary to receive her pre-retirement pension for up to ten years after the time she receives the pension in case of her death. She is recommending that Ms. Hernandez's request be approved.

Discussion:
Robert Pelier informs that he represents the Hernandez family. He points out that the date of Mr. Hernandez's passing was April 13th and not April 11th. He thanks Ms. Groome for her assistance and cooperation. Fatima Hernandez is also present and she has made a request for the ten year certain option. It is his understanding that Eduardo was a twenty year veteran of the City's employment and they respectfully request that the agenda matter be approved.

A motion was made by Mr. Hoff and seconded by Mr. Easley to approve the recommendation of the Administrator.

Discussion:
Chairperson Gueits asks Mr. Greenfield if he has reviewed this item. Mr. Greenfield informs that he and Ms. Groome reviewed the ordinance together and it is proper.

Motion unanimously approved (10-0).

4. Attendance of Pete Strong and Melissa Algayer of Gabriel Roeder Smith Actuaries to present the 2013 Actuarial Valuation Report. The Administrative Manager recommends approval of the report. *(Agenda Item 5).*

Pete Strong of Gabriel Roeder Smith and Company informs that they were recently retained in the Fall as the Board's actuary and they are very happy to be assigned the work for the plan. He introduces Melissa Algayer who is his associate and co-lead on this plan. They have put many hours over the last few months getting to know the plan well. This plan with all the nuances and all the different features is one of the more complex plans that they have worked on. It required a lot of work setting everything up. They have had four different sets of eyes look at all the set up. When they originally were starting to work they tried to match Nyhart's October 1, 2012 valuation results and were able to come close but not completely. Because they weren't able to match completely they did their due diligence, re-reviewed all the provisions, had many discussions with Ms. Groome and eventually got to a level of comfort with their numbers. They believe their numbers are correct. They are a little higher than Nyhart's numbers but not a lot, roughly 1% in the liabilities. They believe their numbers are correct and more accurately reflect the benefits in the plan. They were unable to gather exactly what Nyhart was doing to be a little less than that. They believe they may not have reflected all of the provisions completely accurately. They didn't see what Nyhart was doing in their software but they just believe their numbers are correct based on all the circumstances, facts and due diligence they went through. The numbers are a little higher than Nyhart but they believe that 1% is within a reasonable tolerance range so they moved forward with their numbers. It did lead to a small actuarial loss for the year versus what they expected to happen even though investment performance was positive. There was about an $8.5 million gain in investments and about a $10 million loss on the liability side for a net loss of $1.6 million.

Mr. Strong informs that what they did that reflected the prior year's numbers throughout the report is reflected all actuarial impact statements that had been issued, adopted and agreed to associated with all changes through January 2014. Those were done by the City's actuary based on ordinances passed through September 2013. They affected the 10/1/2012 valuation results and because the actuarial impact statements adjusted 2012's results they adjusted those in the prior year numbers so their prior year numbers will not match last year's Nyhart numbers but they reflect all impact statements that were released through January 2014. There were three different impact statements that affected the cost. One being the Firefighter's change that was effective 9/30/2013, one was the grandfathering provision for the general employees which was for people under the prior provisions prior to 10/1/2010 who could have retired subsequent to that date and increased their benefits accordingly and the other was to increase the City Contribution to bring the contribution rate down to 17% for the cost sharing provision for the general excluded and general non-excluded employees. If you look at the prior year number compared to this year's number the contribution requirement is down $300,000 but because of covered payroll being down as well due to a reduction in the current active member count and also due to the change in definition of covered payroll which has less pay being credited toward pensionable compensation than before is reflected in their covered payroll numbers. Covered payroll is down and they are still paying off the same unfunded liabilities. Even though the total contribution dollar amount is down this year as a percentage of pay it is higher because payroll is less.

Ms. Gomez asks if the IRC offset provisions are included in this report. Mr. Strong responds that they are included. Ms. Gomez informs that the numbers are different than the numbers she calculated. Mr. Strong responds that they added everything up and this is what they arrived at. Maybe they can talk as far as reconciling the numbers. They started with the August 2013 report from Nyhart that was revised and then added the adjustments for the impact statements. In recent years contributions have been increasing quite a bit as percentage of pay but not so much in the dollar amount because covered payroll has declined in this period.

A short recess was taken at this time.

Mr. Strong informs that during the break he and Ms. Gomez talked about the prior year numbers and they are different by about $20,000. They will go back and reconcile and tell Ms. Gomez how they got their numbers so they can resolve the difference.

Dr. Gomez doesn't want to move forward and have these types of issues continue. If there is a discrepancy he wants it worked out before coming before the Board and presenting this. He doesn't want to move forward and have all these issues all the time based on what happened in the past. Chairperson Gueits asks Mr. Strong what additional information he can give to the Board that will allay some of Dr. Gomez's concerns. Mr. Strong informs that they requested detailed calculations. They sampled like data on individual calculations for people within the valuation and they were able to come very close to what the past actuary was doing. Chairperson Gueits asks if the methodology is identical. He knows actuaries have a tendency to adopt one way of doing things over another and it is almost not entirely scientific. Dr. Gomez states that he has full confidence in GRS and that is why he voted for them to be the actuary. He wants them to be as specific as they can get. Mr. Strong informs that the Board has his full assurance that this report has gone through many levels of review and they believe the benefits in full are coded correctly now. Mr. Garcia-Linares states that he expected them to come in and inform that they were doing better in terms actuarially and now they have actuarial losses. Mr. Strong explains that part of the difference between their numbers and Nyhart's numbers rolls into the actuarial loss. Chairperson Gueits states that the difference in terms of the final result is something that affects the bottom line in a negative way. Mr. Strong explains that it affects the increase in the liability. Chairperson Gueits thinks that it may behoove them to understand where that discrepancy lies because it can change the ultimate result. Looking at the greater picture that actuarial loss will have meaning. Mr. Strong informs that it is a large number in dollar amount but in terms of a percent of the liabilities it is within the actuarial standards of practice range in tolerance. Anytime you have a change in actuary and change in valuation software, the tolerance range is up to 2% of the value of the liabilities and they were about 1% higher. It is within the range of tolerance for a change like this or a change in completely valuating the whole system in terms that they set everything up from scratch and value the system based on their interpretation of all the ordinances, all the plan provisions and all the changes. He can say with absolute confidence that the plan is set up correctly now. Without going to Nyhart's offices and auditing line by line it is not possible to find the nuance differences.

Mr. Easley agrees with Dr. Gomez and that they need to be as concise as possible but as Mr. Strong mentioned at the beginning is they have a very complicated pension fund. Is there any way that they can reduce that complication? Mr. Strong informs that this plan is not the most complicated plan he has worked on but it is in the top 5. He works with about 29 plans.

Mr. Hoff asks if they will get further into the differences. Mr. Strong answers affirmatively. Mr. Hoff states that throughout the report it is noted that the figures exclude police officers. Mr. Strong informs that is for the salary increase experience. They didn't have apples to apples comparison. The pay definition changed effective 10/1/2012 for police officers so the pay data through 9/30/2012 reflects the prior definition of pay and pay data through 9/30/2013 reflects the updated definition of covered pay. If you look at it from one year to the next you will see a sizable reduction but it is not apples to apples because you are not looking at the change before recognizing the change in the definition of pay. Mr. Hoff asks if they are talking about pensionable earnings. Mr. Strong answers affirmatively. Mr. Hoff states that the report shows that salary increases were 2.7% during the last year. Mr. Strong informs that is looking at the whole period from 10/1/2011 to 9/30/2012 versus the period 10/1/2012 to 9/30/2013. The overall average for people working the full year during both of those times, excluding police officers, was 2.7% if you look at total reported pay during both periods it includes step-raises, promotions, etc.

Mr. Hill states that in the ordinance there is a mechanism for retirees to get a COLA if they meet certain steps. Are they funding that now? Mr. Strong informs that it is not being pre-funded and it has never been pre-funded. Mr. Hill asks why. Mr. Strong thinks that is a good question. He would like to go back and ask the original actuary who worked on this plan when the provision was added to the ordinance to find out why it was not pre-funded at the time. He believes it is substantially automatic because of the catch-up provision. If you go four years without a COLA and then you have a market value return of over 10% and you retroactively give that CPI increase up to 8%, you aren't going to hit that 8% over a four or five year time period when average COLAs are about 2% to 3% per year. Assets are volatile so you are going to have several years below 10% and then you are going to have years above 10%. Eventually you are going to trigger a COLA every three, four or five years. Because of the make-up provision to back credit the COLA to the day the last COLA was granted is substantively automatic so it should have been pre-funded along the way. Chairperson Gueits believes that is a structural issue. Mr. Strong believes it is an assumption that should have been made at the time. Mr. Garcia-Linares asks if they are making that assumption in the report. Mr. Strong responds that they are not. Mr. Garcia-Linares asks why. Mr. Strong replies that they are going with the way the fund has always been valued. It would be a Board decision to make an assumption change. They are using all the same assumptions that were used by Nyhart in their 10/1/2012 valuation. Mr. Garcia-Linares asks why it is an assumption change. Mr. Strong informs that the Board has never implemented an assumption to prefund that COLA. Mr. Hoff states that when they approve a COLA it is not prefunded therefore for the next 30 years that COLA affects the unfunded liability. Mr. Strong states that they are paying for a COLA for people who have already retired. In reality they should be funding an advanced COLA for active members before they even reach retirement. Chairperson Gueits asks how other plans are set up. Mr. Strong informs that this is a unique provision because there is a trigger that applies only when you reach a double digit investment return assumption. This is the only plan he has worked on that has this specific arrangement. There are plans he works on where COLA is automatic equal to half the CPI every year and they do use an advance assumption for the COLA. Here it is only triggered when the return is over 10%. Over the long term you are going to have years that are over 10% because of the volatility of assets. You are causing product underfunding of the plan by not prefunding it. He believes a mistake was made when this provision was first implemented back in 1989 that it wasn't prefunded at that time. If it was prefunded originally and that was an ongoing assumption, the level of assets would be higher and you would have put more into the plan over time because the contributions would have been high over time reflecting that and they would be in a better funded position now than they are.

A motion was made by Mr. Garcia-Linares and seconded by Mr. Hill that the Board prefund the cost of living adjustment.

Discussion:

Mr. Strong thinks that before they vote on the motion that they should review some estimates of what the impact would be. Mr. Garcia-Linares thinks they need to do it regardless. Mr. Strong informs that the impact of prefunding the COLA would cause the actuarial liability to increase by approximately $72 million. The funded ratio would decrease from 54.3% down to 47.8%. The actuarial required contribution would increase from approximately $25.2 million up to about $31 million. The cost sharing rates would go to 33% for General non-excluded members and 21% for General excluded members. Dr. Gomez thinks there are some key issues here that he doesn't want to rush into. He thinks they need to look at the impact of the positives and the negatives and he doesn't think they can do it all today. He suggests that the actuary finish their presentation and then they can come back and address these issues. He thinks they need to look at everything and study it carefully before they run into any decisions that they may have to come back and undo later on. Chairperson Gueits thinks that is a point well taken.

Ms. Gomez comments that they have a lawsuit about the COLA on the table. This Board agreed to not do anything about the COLA until the lawsuit was determined. Mr. Garcia-Linares points out that they agreed not to grant the COLA before the lawsuit is determined. Ms. Gomez informs that it is the City's position that the City Commission would have to make the decision on whether they prefund the COLA or not. It is a funding decision. This Board cannot make funding decisions or benefit changes. She is advising as the Finance Director and the City Attorney has asked that no decision be made until he has the opportunity to be at the Board meeting and discuss it with the Board. Mr. Garcia-Linares thinks the Board has a fiduciary duty to this and he doesn't think the City has funded the plan the way it should be funded. They are paying for past mistakes. If this gets triggered in three years they are going to have to fund it retroactive. They have to take this loss. They have to take it now or take it two or three years from now. If it is triggered now or in three years from now, it is retroactive for all this period. Ms. Gomez states that the unrealized losses play into that. Mr. Strong explains that if the COLA is prefunded then they would not fund for each COLA when it is granted. You would be prefunding in advance for all future COLAs. The money would be there and each time you grant a COLA then there would be an actuarial loss and each time you don't grant a COLA it is an actuarial gain and the gains and losses overtime should offset.

Chairperson Gueits asks what happens in three years. Mr. Strong explains that if in three years they granted a COLA because the return was over 10% and the actuarial experience was positive you look back over the last three years and give a cumulative CPI for three years of CPI increases. Chairperson Gueits asks if the COLA was granted and is not funded, how would they pay for it. Mr. Strong answers that they will have to pay for it with future revenue. You are funding it as it is being granted so you are setting up an amortization base to pay for it and you are paying that down over 15 or 30 years but the person is already retired who is getting that COLA so you aren't funding it through active payroll, you are putting it off to future tax payers. So you have future tax payers paying for a retirees' COLA.

Ms. Gomez states that if they prefund the COLA and the contribution goes up to $31 million and now you have additional funds, when is the earliest that the COLA can be paid with those moneys. Mr. Strong responds that it would be immediately. It will be for this year's COLA and all future years.

Mr. Hoff comments that if they prefund the COLA it will have an adverse effect on the unfunded liability. Mr. Strong explains that it would increase the liability because you are adding all that liability for all future COLAs. The money has to come from contributions and they are increasing the liability by paying it with contributions. Past COLAs were granted as they were given which means they are paid for on a forward looking basis after the COLA has been granted. They don't take into account any COLAs that will be granted in the future just the COLA that was granted on that date. Mr. Garcia-Linares states that if the City decides to increase the amount the employees need to contribute and they don't prefund it then those employees who have to pay more out of their pocket have to pay more to fund the COLA for those who retired years before because it was not prefunded in prior years. It is a negative by not prefunding it. They are causing a negative in the City for future employees. Ms. Gomez doesn't disagree with that. She is basing it on how the ordinance is currently written and interpreted. To the City it is a change in a funding decision and it is a benefit change and it would have to change the Code. Mr. Garcia-Linares asks why it would have to change the Code. Ms. Gomez responds that it affects present employees. Mr. Garcia-Linares agrees that it affects present employees but the present employees will be paying for the future COLA they are going to get in the future as opposed to having future employees paying for their COLA if and when it is granted.

Chairperson Gueits asks the Board Attorney's opinion as to what changes in the ordinance would be necessary in order to carry this out if it was something that the Board considers. Mr. Greenfield informs that his opinion is that he doesn't see that there has to be any changes to the Code. The ordinance triggers a COLA under certain circumstances. Obviously, if the City wanted to negotiate and change the ordinance that is up to the City and not the Board. The ordinance does not need to be changed. It is an actuarial funding decision. Chairperson Gueits clarifies that the prefunding is an actuarial decision and not necessarily a legislative decision. Mr. Greenfield believes it is. One of the suggestions he would make is he thinks this is a good discussion and that the Board should know the consequences of prefunding but he is not familiar enough with the litigation that is going on between the City and the plaintiff in regards to COLA. He thinks they did say they would take no action while that lawsuit was pending. The Board can change its mind but he doesn't think it should without having the City here to discuss the situation from the City's point of view. Mr. Garcia-Linares points out that the actuary is telling them his interpretation of the ordinance and how it should be. Mr. Strong informs that if he was the actuary in 1989 he would have advised the Board to advance the funding.

Craig Leen joins the Board meeting via teleconference.

Chairperson Gueits informs Mr. Leen of the Board's discussion. Mr. Leen thinks that prefunding the COLA would need some sort of Commission action prior to it occurring because the concern is they believe any attempt to prefund the COLA now would be funded out of actuarial experience and the pension fund or if it comes from the City fund it would be in violation of the provision of the pension Code that says these types of things cannot come from City funds. They continue to take the same position that the City can certainly do that with the pension but it would need to be done by a discretionary act to fund the COLA by the Commission. The Commission has never been asked to do that. In the past it has granted ad-hoc COLAs by granting revenue in order to accomplish that purpose. Perhaps in order to address that issue it is something that can be raised with the City Commission. He does not believe the Pension Board can unilaterally compel the City to fund this without some type of resolution or ordinance effectuating that. His view is the most the Pension Board can do would be to ask the City to consider it. He thinks the other concern is that there are two parts of the Statute. One part talks about how future tax payers should not be required to pay for benefits at the current time. You can't transfer to future tax payers that burden. The concern is that if they were prefunding the COLA when the ordinance was adopted that would not have occurred but now if the Board authorizes the funding even though the Commission hasn't authorized it would apply to the future tax payers now in comparison to when it was initially enacted you would be requiring them to fund this COLA going forward. His view is that he would like to take more of a look at it and discuss it with Jim Linn. He was just made aware of Mr. Cohen's letter and he would like a chance to analyze it and come back to the Board. He is not saying it would be something they could do in the future and it may be a way to address this issue but he thinks it would be premature for the Board to act especially with a lawsuit pending.

Chairperson Gueits informs that Mr. Garcia-Linares had raised this concern with respect to the shifting of cost to future employees and taxpayers. The funding question has been characterized by our actuary as being one of a change in actuarial assumptions. Mr. Leen informs that he wanted an opportunity to think about it. He would like to attend the next meeting and come and present on the topic and Mr. Cohen can present on the topic so they can determine how to proceed. Mr. Strong believes that when this ordinance was put in to place that because they will have returns above 10% on a regular basis the way the ordinance is worded is that half the CPI should have been considered substantively automatic over time also because of the make-up provision that exists back to the last date a COLA is granted. For that reason he believes a mistake was made in 1989 and that the COLA at that point in time should have been pre-funded when the ordinance was passed. He is not sure why that was not done. The way the ordinance is worded, he believes it should have been prefunded all along. That has not been the case. They are the new actuaries for the plan and this is their first actuarial valuation and they are not reflecting the prefunding now because they believe it would be an assumption change that the Board would need to make. Now there is a zero percent future COLA assumption. They are recommending they change to a future COLA assumption to something between 1% and 1.5%. That will increase the cost of the plan but it will prefund from now on current and future taxpayers will pay for not only retiree COLAs but COLAs that are going to be paid on current active employees once they retire. He believes it is an actuarial assumption that has been zero percent for some time and it should not have and because it has been zero percent it is treated as ad-hoc COLAs every time it is granted. That puts the burden on future taxpayers. If they were to advance funds, an assumption of 1% to 1.5% a year on average then they would be spreading the cost to current and future taxpayers.

Mr. Leen understands what Mr. Strong is saying. He thinks that the way the COLA was enacted considering the State Statutes on the subject that it was basically a benefit whereby the existing COLA would be granted if it could be funded out of actuarial experience which could only be done if it was prefunded at that time or if the pension is not in a deficit. Mr. Strong believes that interpretation exists because the COLA was never prefunded to start with. Mr. Leen states that the issue of whether they can prefund it now without an impact statement and without it being approved by the Commission he thinks it is a contested issue. All he is asking is to request a meeting to reconsider and give the City's final position on the issue.

Mr. Garcia-Linares tables his motion, Mr. Hill seconds it and the Board unanimously agrees.

Ron Cohen, Rice Pugatch Robinson & Schiller, understands the whole issue with the funding of the COLA is going to be tabled and they all are going to try and talk. He is fine with that. He would ask that the Board not take final action on the Actuarial Report today. That the tabling of the COLA constitutes tabling the final approval of the valuation report.

Mr. Strong continues with his presentation of the valuation report. Ms. Jaramillo-Velez thinks that the 10% contribution for firefighters should reflect the date 9/30/2014 and not 10/1/2014. Mr. Strong states that they reflected it effective the first day of the fiscal year ending 9/30/2015. It won't affect the valuation results because they do things on a fiscal year basis. The one day difference doesn't make a difference in the valuation results. Ms. Jaramillo-Velez informs that she wanted to make sure it is taken into account and corrected.

Mr. Strong explains that they had a total net actuarial experience loss of $1.6 million. They had about $10 million on the liability side and about $8.9 million as an offsetting gain on the investment side. The gain on investments is due to the fact that the return on the actuarial value of assets was 11.2% this year compared to their expectation of 7.75%. They are now starting to get the benefit of the gains on the market value of assets and phasing those in. The market value of assets exceeds the actuarial value of assets by $23.3 million. They are now phasing in $23.3 million in market value gains over the next four years being phased into the actuarial value of assets. They can't recognize them all at once because they can only recognize 20% per year. So there was a gain on assets but a loss overall mainly because of the change in valuation software and change in actuary. The other half is due to a mixture of sources. One of them being that last year Nyhart assumed a 0% salary increase assumption for General employees for one year with the regular salary rates resuming thereafter. There was a 0% salary increase for one year and the actual experience if you take General employees, and fire combined altogether the overall expectation was 1.4%. The actual experience came out at 2.7% for the year including step raises, promotions, etc. That created a loss because the higher salary increase than expected. There was also a lot of changes to the 415 limits. Some of the calculations Nyhart had down over reflected 415 unnecessarily. Their calculations showed that there are only 3 people impacted by 415. Last year, Nyhart assumed there were 9 affected.

Chairperson Gueits asks why Nyhart's calculation differed if it is the same methodology. Mr. Strong responds that it wasn't the same methodology. Chairperson Gueits asks why. Melissa Algayer explains that back when they met in October they had already begun work for the Pension Board to do the 415 calculations. They spent a lot of time going through the ordinance and the regulations and clarifying certain points in the ordinance. Basically what it comes down to is in looking at Nyhart's previous calculation they were using overly aggressive assumptions to annuitize DROP balances when members exit the DROP. You have to convert the DROP lump sum to an annuity and reflect that as a benefit and that is also subject to 415. They were using a 9% investment return assumption and 1951 projected to 1965 mortality table which made that perspective annuity much higher than after they went through and had an amendment clarifying what to use for actuarial equivalence for 415. Now that is in place and they believe that is the intent that is to comply with section 415 not the strict reading of the ordinance which is outdated. After they worked that out, they recalculated all those benefits and out of all those people that Nyhart had thought would be affected by 415 they found there were only 3 actually affected. Ms. Groome adds that the ordinance has been amended to include an actuarial equivalent definition. Mr. Strong informs that it increased liabilities a little bit reflecting more benefit being paid from the plan than what Nyhart reflected.

Mr. Strong informs there were some minor losses due to actual demographic experience. They lump them altogether; mortality experience, retirement experience, turnover experience. Because they didn't do last year's valuation it is hard to qualify the impact of each one those individually. They will do that going forward in future valuations.

Mr. Strong states that the market value of assets exceeds the actuarial value by $23.3 million but will be smoothed into the actuarial value of assets over time. Each year they determine what the expected return on assets is and the expected return for the current year is $20.3 million. The actual total market value return was $37.68 million. They are smoothing in $17.3 million over time and 20% is recognized this year of the $17.3 million. That continues over time over the next 5 years. Necessary this year was the ASOP #44 Compliance Adjustment. The Actuarial Standards and Practice #44 requires that you use an actuarial value of assets method that converges towards the actual market value of assets over a reasonable period of time. Using the basis that existed in last year's valuation report from Nyhart it was not converging so an adjustment was necessary in order to have the market value and actuarial value of assets converge within 5 years so that if the return assumption matches actual reality the market value and actuarial value of assets will equal each other after 5 years. It actually helped this year and created an increase in actuarial value of assets this year.

Mr. Strong informs that they did the allocation this year for cost sharing and understand that contribution requirements in excess of city contribution was effective as of 10/1/2009 are shared for general excluded and general non-excluded employees. There was an ordinance at the end of last year that reduced that cost sharing requirement for fiscal year 2014. It is unclear if that will happen again but in the absence of another ordinance like that the member contribution rates for next year will be 14.7% for general excluded employees and 24.56% for general non-excluded employees. It would have been 26.96% last year for general non-excluded employees so it is down a little.

Mr. Strong agrees with Mr. Cohen that the selection of October 1, 2006 as a starting date for measuring cumulative experience gain/loss was somewhat arbitrary. They do not know why Nyhart choose to start recognizing cumulative experience gains and losses starting 10/1/2006. They are not taking the position that this is the final result that you have to have this cumulative position be positive before you can grant a COLA. They are not taking that position. They believe it should be prefunded and then you can grant a COLA regardless. Because the State's current interpretation that it can't because of the cumulative experience loss they are continuing the reconciliation for the current year as well. Mr. Easley asks if other cities granted COLAs with a negative cumulative loss. Ms. Algayar informs that this same issue is pending with a couple of their clients. It is a provision that is tied to positive investment experience and whether or not a COLA can be granted. It is currently being discussed and run by the State. They haven't heard back on the issue. Mr. Strong thinks that ultimately it will come down to whether or not it was prefunded. If it is not prefunded and ad-hoc then the State has taken this position that cumulative experience gains must be positive. Mr. Hoff asks if they all agree that 2006 was an arbitrary number and in 1988 the COLA started wouldn't they go back to 1988. Mr. Strong thinks it will be difficult to get all that data unless they have all the actuarial valuation reports dating back to 1988. Ms. Groome informs that she has all of the reports. Mr. Strong informs that they will have to go through all the reports and look at the gain/loss for 26 years.

Ms. Gomez asks if they can explain the procedures as to how they separated the individuals into the four different groups for the cost sharing. Mr. Strong explains they did it based on the reported division for each employee and the census data was provided by Ms. Groome. They received division reporting for active and inactive members. Then they specifically calculated the actuarial liabilities and normal cost for each division based on the codes in the census data. Then they allocated assets based on the calculations of the actuarial liability in the same proportion. Ms. Gomez asks how they calculated the cost sharing. Mr. Strong explains that they followed the methodology that had been done in the past. They calculate what the current contribution requirement is for those two divisions then compare it to the 10/1/2009 city contribution requirement for those two divisions and the difference is split in half and half that is added to the base member contribution rates.

Mr. Strong states that because the market value was so much higher than the actuarial value of assets and if the market value had been used the funded ratio would have been 58.5% instead of 54.3% so on a market value basis they are over 58% funded. The contribution rate would have been 62.7% versus 67.8%. Mr. Garcia-Linares asks how that compares to their other clients. Mr. Strong responds that it is on the low side. Mr. Garcia-Linares asks where their other clients in terms of funded ratios are. Mr. Strong responds that the lowest client in funded ratio is about 49% and the highest is in the mid-70s. Mr. Easley asks if the other clients are up to date on their assumptions. Mr. Strong replies that some are. He is encouraging most of his clients to adopt the most current mortality rates which is up to date through 2012. That is something that he recommends to the Board to consider.

Mr. Cohen thinks that on the issue of the cumulative gains/losses he asked the Board to ask GRS to look at the methodology that has been used and see if the methodology that was used to calculate the cumulative losses is the appropriate way to do it.

The GRS presentation concludes.

Dr. Gomez states that this Board is responsible for making decisions that affect people and he thinks sometimes these decisions are brought upon them with little information. He expects the City to have the opportunity also to review some of these issues. He thinks some of these issues they just skip over and he doesn't feel comfortable with that. Mr. Easley asks if he is suggesting that instead of receiving this report this month that they should have received it next month. Dr. Gomez thinks that would be a good practice. Ms. Gomez states that she would like to have the presentation first and then give them time to digest it before it is approved. She sees Dr. Gomez's point that they sometime jump to make a motion or do something quickly without having enough time to review it. Chairperson Gueits thinks the process needs to more deliberative. Generally what they can do is have the report made and take a vote on it at the next meeting. Ms. Groome informs that the ordinance is specific as to when the report has to be approved. Mr. Garcia-Linares thinks they need to give deadlines to when reports are due prior to the meetings so everyone has a chance to review it. Ms. Groome explains that the actuary was hired late in the year and they did not get their data until later than normal. Ms. Gomez adds that it was an off year but she does like the fact that the actuary presented the report and then give the Board members time to think about it and then approve the report at the next meeting. Ms. Groome informs that they should get the report by April and then it is presented in May. Chairperson Gueits thinks it is a good practice to look at the key deadlines that occur throughout the year in respect to reporting and approval of important financial documents and have the Administrator provide deadlines to their professionals in having these materials come before the Board with sufficient time for deliberation.

Ms. Gomez thinks the Board needs to allow GRS to speak with the City to answer any questions and address concerns. Mr. Strong informs that they have no problem answering questions and talking with the City if they are trying to understand something but if they have a request for any work to be done then that needs to be allowed by the Board.

5. Items from the Board attorney. *(Agenda Item 3).*
Mr. Greenfield informs that a final draft of the Nyhart complaint was prepared and sent by Jim Linn's office to Nyhart with a cover letter which said this is what he intends to file and asked for a response within 5 days. That letter was on the 29th of April so the 5 days would have been Monday. Ms. Gomez informs that Mr. Linn informed that Nyhart requested 10 extra days and Mr. Linn agreed to that. Mr. Greenfield informs that Mr. Linn invited Nyhart in the letter to sit down and talk prior to filing the complaint. That is the only item he has for the Board.

Dr. Gomez left the meeting at this time.

6. Investment Issues.
Dave West reports on the month of April. They opened up the month of April at $339,427,938. The contributions totaled $10,117. Distributions for the period were $2,801,980. Management fees were $294,338 and other expenses were $1,315. They earned $366,234 in income and a depreciation of $1,067,618 so there was a slight decline in investment value. As of 4/30/2014 the total fund was at $335,639,038. That means that investments on a fiscal year to date was $4.7 million and the appreciation component is $16.8 million so a little over $20 million is going into the fund from investments on a fiscal year to date. The fiscal year to date rate of return net of fees was 6.01%. The total equity portfolio declined 1.06% versus the benchmark. The total fixed income portfolio was up .47% versus the benchmark. The saving graces of the portfolio were the

alternatives and the real estate that continues to drive steady performance and nice income flow to the plan.

Mr. West informs that they have Thornburg on their internal watch. They revisited them with their Investment Policy Committee and their research analysts. They are going to be doing a site visit to them in May. If there is any change in position they will communicate that immediately and then they will let the Board know what transpired at the next meeting.

7. Old Business.

Flow Chart of Retirement System procedures – Ms. Groome informs that this flow chart of retirement procedures was requested by the Board. Chairperson Gueits asks if this is a flow chart of the procedures that are actually being followed so they don't need to implement anything. Ms. Groome answers affirmatively. The Board wanted to know the procedure of the steps for someone who wanted to retire should follow and these are the procedures that are followed.

Ms. Jaramillo-Velez asks what was happening regarding the assistant for the Administrator. Mr. Hoff hands out a proposed job description of the assistant. Chairperson Gueits asks what the next step would be. Mr. Garcia-Linares states that they would have to advertise for the position. Ms. Jaramillo-Velez asks if this needs to be included in the budget. Ms. Gomez explains that if it is a full-time employee then they need to increase the head count in the budget of the City. Then the Board pays back the City the costs associated with the employees. Mr. Hoff asks if Ms. Groome needs full-time or part-time help. Ms. Groome responds that she prefers full-time help. Ms. Gomez informs that if they want to hire a full-time person then they have to change the head count of the City in the budget. She doesn't think this Board can add a head count to the City's organizational chart. The Board can make a recommendation to the City to add the head count. Mr. Garcia-Linares thinks they can hire an independent contractor that is not an employee of the City. Mr. Greenfield informs that they can hire an assistant for Ms. Groome. If they wanted to give them the benefits that they would get if they were a City employee the Board has a right to set the wages, the hours, etc. The Board is the employer so the Board can function however it wants. He thinks Ms. Gomez is right that they can't say this person has to be a City employee but they have a right to hire whoever they want as a Board employee. If it is a question that the person needs to get the same benefits as a City employee then they can do that. Ms. Jaramillo-Velez asks if the Board can make a motion to the City Commission that for the next budget to have an assistant for Ms. Groome added to the budget. Mr. Greenfield believes they can ask the Commission. Ms. Gomez informs that they have to have the budget in by July 1st. They can't hire anyone until it is approved in the new budget. Ms. Jaramillo-Velez informs that they do have a temp-agency. Ms. Gomez states that the Board had issues with hiring someone from a temp-agency. Ms. Jaramillo-Velez thinks they can hire a part-time person from now until the budget is approved. Mr. Garcia-Linares asks that if something comes up in the City and they need to hire more employees, then the City would not hire another employee until 10/1. Ms. Gomez explains that the City Manager would have to put it into the budget. Ms. Jaramillo-Velez thinks they should hire a person part-time and then have a motion for a full-time person so it can be put as a head count into the new budget.

A motion was made by Mr. Hoff and seconded by Mr. Hill to hire a part-time position. Motion unanimously approved (9-0).

A motion was made by Mr. Hoff and seconded by Mr. Nunez requesting the City to add a full-time position to the budget for the Board to fund the position beginning 10/1/2014. Motion unanimously approved (9-0).

Chairperson Gueits thinks they need to set the pay. Mr. Hoff informs that he has the City's classification chart and the classification 17E is for an administrative assistant with a salary range of $38,584 to $52,998. Ms. Jaramillo-Velez believes that is a minimum hourly rate of $18.55. In terms of the part-time positions that amount is a little high. She thinks they should drop the rate a little. A secretary position is a 15C and the minimum is $17.17 hourly rate. Mr. Hoff asks if Ms. Jaramillo-Velez is suggesting $17.17 an hour for the part-time position. Ms. Jaramillo-Velez answers affirmatively. Mr. Greenfield clarifies that the letter he is going to write is for a full-time position. Ms. Jaramillo-Velez suggests that the letter include both part-time position and a full-time position for the next budget paid for by the Retirement Board.

8. New Business.

Mr. Hoff informs that he has been meaning to bring this issue up for a while. They have gone through a lot of things with the Board and Ms. Groome has been asked to do a lot more than she has been doing before. He has copies of Ms. Groome's current job position as well as a survey of Retirement Board Administrators/Managers from throughout the area. He would like to change Ms. Groome's pay classification. He believes the ordinance actually refers to the position as a manager position and Ms. Groome is paid as an administrator. Right now Ms. Groome's pay grade classification is a 22E. He would like to recommend that Ms. Groome be moved to a manager position classification of 26E. Compared to her peers she is the least compensated of others who do the same position in other cities. Since the Board pays her salary and reimburses the City for it as far as reclassification that is something they can do internally. Mr. Greenfield informs that the Board has the right to hire under the ordinance. It doesn't say they can't hire a City employee. Chairperson Gueits asks if Mr. Greenfield could work out the logistics and provide whatever legal basis the City might need. Mr. Greenfield informs that he can work with the City Attorney as long as they are on the same page they can work it out. Ms. Jaramillo-Velez states that 26E is from $59,862 to $82,180 so what Mr. Hoff is suggesting is that she be put in that pay grade and give her an increase. Mr. Hoff agrees. Give her a 5% increase now and that gives her more range to move up over the years. Chairperson Gueits thinks she should have a higher ceiling.

A motion was made by Mr. Hoff and seconded by Mr. Nunez that Mr. Greenfield work with Ms. Jaramillo-Velez, Ms. Gomez and Ms. Groome to come to some sort of plan as far as writing the letter to the City asking the HR Director what they need to do to raise Ms. Groome's classification. Motion unanimously approved (9-0).

9. Public Comment. Chairperson Gueits would like for the Board to think about how they can handle public comment. They sit at the meetings that usually run 2 to 3 hours long. Maybe they should move public comment to the front. Mr. Garcia-Linares suggests that they do as other cities do and have someone fill out a slip and give to the Administrative Manager if they want to comment and then move it up if they have to. Ms. Groome informs that she will put language on the agenda giving that information. The reason she put it at the end of the meeting is for someone who wanted to comment on the issues that were discussed during the meeting.

Ms. Jaramillo-Velez asks if she and Ms. Gomez communicate by email. Mr. Greenfield responds that they cannot. You can't use an intermediary to violate the law. If they use common sense they will work it out. Ms. Gomez states that they can advertise a meeting and have the meeting in someone's office. Ms. Groome remembers that they have done a meeting like that previously when Mr. Gueits was first chairperson.

Mr. Garcia-Linares asks if there is a deadline to approve the actuarial report. Ms. Algayer informs that the State requires the report be submitted within 60 days of receipt from the actuary. They have been pretty lax on that. They will revisit the report at the June meeting.

10. Adjournment.

The next scheduled Retirement Board meeting is set for Thursday, June 12, 2014 at 8:00 a.m. in the Police Community Meeting Room in the Police Station Basement.

Meeting adjourned at 10:37 a.m.

APPROVED

JAMES GUEITS
CHAIRPERSON

ATTEST:

KIMBERLY V. GROOME
RETIREMENT SYSTEM ADMINISTRATOR