

City of Fort Myers General Employees' Retirement System

Minutes: Meeting of February 20, 2013

1. CALL TO ORDER

Chairperson Barbara Carlson called a meeting of the Board of Trustees for the Fort Myers General Employees' Retirement System to order at 9:00 AM. Ms. Carlson called roll. Those persons present included:

TRUSTEES

Barbara Carlson, Chair
Richard Griep, Secretary
William Mitchell
Tom O'Malley
Donna Lovejoy
Eloise Pennington, Vice-Chair

OTHERS

Pam Nolan, The Pension Resource Center
Tim Nash, The Bogdahn Group (phone)
Patrick Donlan, Foster & Foster
Mike Seagle, City of Ft Myers

2. INVESTMENT CONSULTANT REPORT- Tim Nash, The Bogdahn Group

a. Domestic Equity Manager Transition

Mr. Nash reported that the change from Moody Aldrich Partners to Advisory Research is progressing. The change from Manning & Napier to Eagle, however, is not moving forward due to Eagle not being comfortable with signing the Investment Agreement due to a recent update by Christiansen & Dehner. The specific clause pertains to Eagle making the plan whole and covering missed opportunity costs if they should purchase a security that does not comply with the plan's investment guidelines. Eagle's position is that it is that they would make the plan whole if this should occur, but it is too difficult to accurately quantify the missed opportunity cost. The updated Investment Agreement is being recommended by Christiansen & Dehner on all new or revised agreements going forward. Mr. Nash reported that manager reaction was varied, some signed and others would not accept the additional language. Mr. Nash noted that Advisory Research accepted the revised Investment Agreement, and that Dana has also accepted the revision. Mr. Nash recommended that the Board discuss this with Scott Christiansen at the next Board meeting as the only option for Eagle was to drop the language. Mr. Nash will bring research on alternate choices for the Board to the meeting but points out that the Board initially selected Eagle as the most capable, best in class manager having a higher return and lower risk factor over the other managers evaluated.

Since the transition involved liquidating the Moody Aldrich position at \$8M and putting \$6M to Advisory Research and the other \$2M to Eagle, Mr. Nash requested the Board's authorization to place the \$2M in the Russell 1000 Index fund until the transition from Manning & Napier to a new Large Cap manager is able to be completed. Ms. Lovejoy inquired if this was the most cost effective way to move the funds. Mr. Nash said that the transition had already been started and the funds must go somewhere. Mr. Mitchell asked if the Attorneys should just continue with the negotiation. Mr. Nash advised that the Board should have full disclosure of the developments in the transition.

Eloise Pennington moved that the Board authorize Mr. Nash to proceed with the transition to Advisory Research by liquidating the Moody Aldrich position and put the funds over the allocation to Advisory Research into the Russell 1000 Index until the new Large Cap manager is ready to take the funds. Richard Griep seconded. Motion carried 6-0.

b. Fixed Asset - Bond Fund Investments

Mr. Nash informed the Board that the transfer of a portion of the fixed income investments with Galliard to the Templeton Global Bond and PIMCO All Asset funds will be complete by the end of the month.

c. Monthly Flash Report

Mr. Nash reviewed the January Flash report with the Board. Mr. Griep requested the weighted average benchmark be added to the monthly report for the Total Fund Composite (Net/Gross). Mr. Nash said that this was left out for the monthly reporting due to not having the Morgan Stanley Real Estate return. Mr. Griep requested that it be calculated without the RE investments, noting that RE was omitted. Mr. Griep also pointed out that he noted a discrepancy on the Total Domestic Equity Composite return percentage. He calculated it to be 5.40% (a difference of \$31,000.00) instead of 5.49% as reported and thought perhaps it could be attributed to a rounding error. Mr. Nash will review the calculation and advise at the March meeting.

3. ELECTION OF OFFICERS

After some discussion, the Board resolved to initiate the practice of rotating the officers in place to the next office. Ms. Carlson noted that should would be leaving the City's employ in July and Mr. O'Malley will need to ensure a new Union member is selected to fill her position on the Board prior to her departure.

Richard Griep thanked Ms. Carlson for her service as Board Chair and moved that Eloise Pennington move to Chair, Richard Griep move to Vice-Chair and Donna Lovejoy become Secretary. William Mitchell seconded. Motion carried 6-0.

4. APPROVAL OF MINUTES

Richard Griep moved that the minutes of the December 20, 2012 be accepted as amended. Barbara Carlson seconded. Motion Carried 6-0.

Ms. Lovejoy requested that the last paragraph on Page 3 in the minutes from the January 16, 2013 Special Meeting be compared to the record.

5. ACTUARY REPORT - Patrick Donlan**a. Actuarial Valuation**

Mr. Donlan reviewed the finalized 2012 Actuarial Valuation with the Board. He noted that the funding requirement stated as a percent of payroll increased from 31.3% last year to 37.7% for this year's valuation. This was attributed to the change in the investment return assumption from 8.4% to 8.0%, accounting for 2.2% of the increase. Additionally, the payroll decreased from \$22,188,447 in 2011 to \$20,807,217 for 2012. Mr. Donlan also pointed out that the payroll attrition (530 Actives to 504) included an increase in DROP entries from 23 in 2011 to 32 in 2012 contributed to the increased funding requirement. Mr. Mitchell observed that the change of investment return assumption was a move to more accurate assumptions for the plan.

Mr. Donlan next addressed the effects of the four year smoothing adopted in 2008. He noted the market value of the plan's assets in 2011 was \$63.7M; they increased \$11.2M in 2012 for a 2012 year end value of \$74.9M. This was probably the best year in the plan's history. The smoothing, however, put the annualized rate of return at 5.76% which is less than the assumed rate of return (8.4%) and much less than the plan's actual return of 16.23% in 2012.

The [market value](#) of the Accrued Benefits for 2012 increased from \$108M to \$112M. Last year the [market value of the assets covered 58.8% of the *Accrued Benefit* liability](#). This year they would have covered 66.5% of the liability, but the effect of the smoothing brought it to 63.9%. The Schedule of Funding on page 33 shows a steady improvement in the Funded Ratio, which is at 57.34% for 2012, up from the low of 51.24% in 2010. This value, which is derived using the actuarial value of the assets as opposed to the market value, will be used in the City's Annual Financial Report (CAFR). Mr. Donlan discussed the effects of the various components that determine the City's contribution to the plan. The total amount of payroll and lower than expected salary increases resulted in lower member contributions to the plan and the City has to make up the difference to ensure the plan continues to be funded. The rate of return coming in under the expected rate of return resulted in an actuarial loss to the plan; the lack of salary increases when they had been planned for resulted in an actuarial gain, so they offset each other. The good news is that if the plan achieves an actual return of ~~at least 8%~~ this year the [four year average 'smoothed'](#) rate of return will be at 7.8% for 2013. ~~which will decrease the City's contribution.~~

Mr. Donlan concluded by addressing the Unfunded Actuarial Accrued Liability calculation on page 13 of the report.

a. Actuarial Experience Study

The experience study evaluates the patterns of the City's salary increases over the last ten years and recommends an adjustment to the way salary increases are accounted for in the Actuarial Valuation. It also addresses mortality patterns and the mortality table currently used for the valuation. The RP2000 table has an update to reflect more currently mortality patterns and a separate table for disabled lives. Mr. Donlan's recommendation is to apply more specific accounting for the salary increases and use updated mortality information for future actuarial valuations.

Mr. Griep asked what effect these changes would have on the City's contribution to the plan. Mr. Donlan felt that they would result in a more accurate projection of what the contribution will be.

Donna Lovejoy moved that the Board authorize the use of the more detailed salary scale and to add the projection and use of the disabled table for the mortality rate in future actuarial valuations. Tom O'Malley seconded. Motion passed 6-0.

Richard Griep moved that the Board accept the 2012 Actuarial Valuation as submitted. William Mitchell seconded. Motion passed 6-0.

6. ADMINISTRATOR REPORT - Pam Nolan

Ms. Nolan reported that the Danny Poffenbarger overpayment issue had been resolved. Mr. Christiansen received the signed acceptance of the repayment plan, as laid out by Foster & Foster, from Mr. Poffenbarger dated February 8, 2013.

Ms. Nolan advised the Board that mailing of the 2012 Annual Statement, 2012 Summary Plan Description and memo from Christiansen & Dehner regarding designation of beneficiaries was being prepared by PRC and should be complete in the coming two weeks.

7. PLAN FINANCIALS

a. Interim Financial Statements

The Board reviewed the Balance Sheet and Income & Expense Statement for the 2013 Fiscal Year through January 2013.

b. Benefit Approvals

Richard Griep made a motion to approve the submitted Benefit Approvals as amended (update Date Processed on Buybacks). Barbara Carlson seconded. Motion carried 6-0.

c. Warrant - February 20, 2013

Mr. Griep noted that the Travel Expense reimbursement rate for mileage should be .485. Ms. Nolan will apply that rate going forward and continue with applying the City's approved rate for mileage. Ms. Carlson brought up the City's approved mileage usage as opposed to actual mileage. The Board authorized continuing to reimburse actual mileage.

Richard Griep made a motion that the Operating Rules and Procedure be updated to reflect the above regarding mileage reimbursement. Tom O'Malley seconded. Motion carried 6-0.

Richard Griep made a motion to approve the Warrant as submitted. Tom O'Malley seconded. Motion carried 6-0.

8. NEW BUSINESS

9. OLD BUSINESS

10. NEXT REGULAR MEETING

The Trustees previously set the schedule for the next regular monthly meeting on Wednesday, March 20, 2013 at 9:00 am

11. ADJOURNMENT

There being no further business, a motion was made by Richard Griep to adjourn and seconded by Donna Lovejoy. Motion carried 6-0.

The meeting was adjourned at 10:36 AM,

Respectfully submitted,

Donna Lovejoy, Secretary