

## **Minutes: Meeting of December 1, 2010**

### **1. CALL TO ORDER**

Margaret Palmisano called a meeting of the Board of Trustees for the General Employees' Pension Fund to order at 9:02 AM.

2. Mr. Baur took a roll call of the Trustees present. The Board had a quorum for the quarterly meeting. Those persons present included:

#### TRUSTEES

Margaret Palmisano, Chair  
Cher Johnson  
Marjorie Milford  
Stanley Solomon  
Frank Wheelehan

#### OTHERS

Scott Baur, Pension Resource Center  
Scott Christiansen, Christiansen & Dehner  
Nathalie Luke, Aon  
Lynn Skinner, Salem Trust  
Patrick Donlan, Foster & Foster

### **3. NEW TRUSTEES**

The Trustees welcomed Cher Johnson to the Board.

### **4. APPROVAL MINUTES**

The Board reviewed the status of minutes for various meetings. The following meetings appear to require minutes:

- January 30, 2009
- March 4, 2009
- September 2, 2009
- March 3, 2010
- June 6, 2010
- September 1, 2010

Mr. Baur will coordinate the production of the outstanding sets of minutes with Margaret Palmisano.

### **5. INVESTMENT REPORT: AON CONSULTING (Nathalie Luke)**

Nathalie Luke reviewed the content for the quarterly investment report, which included a market commentary, financials for the plan investments, the current asset allocation, and investment performance for the quarter ending September 30, 2010. Ms. Luke noted that, while the quarter was volatile, September posted one of the best months for market gains on record. Ms. Luke reviewed the performance for the market by sector, stating that growth equities outperformed value for the quarter, small cap issues performed better than large cap issues, and changes in currency exchange rates boosted the results for international equities. Bond yields also continued to full during the quarter, and corporate debt outperformed other kinds of debt issues.

Ms. Luke stated that companies were still not deploying their cash. Purchases of bonds by the Federal Reserve Board, meanwhile, continued to support bond prices. While inflation has not yet become an issue in the current market, Ms. Luke recommended that an inflation hedge might provide timely diversification as the current economic situation evolves. She expects continued volatility in the market.

The portfolio returned 8.15% for the fiscal year ending September 30, 2010, net of expenses. The benchmark for performance returned 9.79% for the same period. Ms. Luke indicated that she believes that the earnings assumption rate of 7.5% is still reasonable going forward. The portfolio returned 7.6% for the quarter compared to 8.06% for the benchmark. Ms. Luke reported that Vanguard is reducing the minimum investment requirement for the admiralty share class, which would reduce the internal expenses on some funds used by the Board. The Brandywine Fund continued to struggle, while the Pimco fund performed well recently. A strong cash position reduced the recent returns for the Growth Fund of America.

Ms. Luke reported that the Vanguard Opportunities and Brandywine funds were used to fund the new allocation to the value mid-cap fund managed by Goldman Sachs. Stock selection ultimately hurt the performance for both the Vanguard Opportunities and the Brandywine Fund. Despite the slight recent underperformance compared to the benchmark, the portfolio still has strong longer-term results with performance in excess of the actuarial assumed rate of return.

Nathalie Luke reviewed the asset allocation for the portfolio. She noted that the plan had a slight overweight to cash, although the allocation still falls within the guidelines for the Investment Policy.

**Margaret Palmisano made a motion to allow Ms. Luke to rebalance the portfolio to the target allocations in the Investment Policy prior to the next meeting if needed. Marjorie Milford seconded the motion, approved by the Trustees 5-0.**

## **6. ACTUARIAL VALUATION: FOSTER & FOSTER (Patrick Donlan)**

Patrick Donlan provided the annual benefit statements to the Board for the members of the plan.

Mr. Donlan reported that the funding requirement barely increased as a % of payroll, even with the 4-year smoothing adopted by the Board. With the 4-year smoothing of investment returns, the plan still has losses to recognize from the recent recession. The rolling 4-year average return for the plan is 2.26%, compared to the 7.5% actuarial assumed rate of investment return adopted by the Board. Lower than expected salary increases and higher employee turnover created gains for the plan to partially offset the investment experience.

Mr. Donlan reminded the Board that the Trustees previously adopted the RP2000 mortality table. The actual mortality for the members of the plan did not improve as much

as projected by the new table. The plan also has excess funding based on the current benefits accrued by the members, so the plan remains very financially strong. The City has an additional funding credit of \$439,000 in the plan as well. The Pension Fund currently has a 95% funding ratio.

**Marjorie Milford made a motion to approve the actuarial valuation. Margaret Palmisano seconded the motion, approved 5-0 by the Trustees.**

Mr. Donlan noted that the plan has a 95% funded ratio apart from the \$439,000 internal funding reserve by the City; therefore, the actual status of the plan is even stronger.

## **7. ATTORNEY REPORT**

Scott Christiansen inquired about the impact of the Aon-Hewitt merger on the services contracted by the Board from Aon. Nathalie Luke responded that the firm would ultimately consolidate the investment consulting divisions, but Aon Investment Consulting actually operates as a separate entity and subsidiary of Aol-Hewitt. The merger therefore has no immediate impact on the relationship or the services provided to the plan.

The Board discussed an overpayment to member Rudolph Stengel, a deceased member of the plan. The family has yet to return the overpayment to the plan. Mr. Stengel passed away in December. The Board also discussed the situation for Robert Danico, a member who was underpaid. The actuary is calculating the new amount the member should receive.

**Margaret Palmisano made a motion that the Board expects an investment return of 7.5% for the next year, the next several years, and for the long-term thereafter. Frank Wheelehan seconded the motion, approved by the Trustees 5-0.**

Mr. Christiansen provided an update to the Board Operating Rules and Procedures, modifying the language regarding persons authorized to give the custodian direction. The Board recently hired an administrator for the plan, so the new signature authorization allows either two Trustees, the administrative services director and one Trustee, or the administrator to give direction to the custodian.

**Margaret Palmisano made a motion to approve the change to the Board Operating Rules and Procedures for signature authorizations with the custodian. Frank Wheelehan seconded the motion, approved by the Trustees 5-0.**

Lynn Skinner provided a signature card for Salem Trust. Scott Christiansen indicated that Pension Letter 2 should go to the City, providing the Commission with an update regarding the status of the plan.

Mr. Christiansen discussed the IRS determination letter. He explained that the IRS has taken a new interest in governmental plans, expecting to provide a greater level of "assistance" to such plans. At the recent conference for public pension attorneys, the IRS strongly suggested that plans should obtain a determination letter. The IRS,

apparently, is willing to be more forgiving of any possible issues if the plans voluntarily comply with their requirements. Nine clients of Christiansen and Dehner decided to seek a determination letter so far. The firm will apply for determination letters in a batch for all clients that choose to go through the process to seek a determination letter. The plans must apply by January 31, 2011, to join Cycle E, or wait to make an application until Cycle C opens again. Once the plan obtains a determination letter, Cycle C opens every 5 years for any necessary updates.

**Frank Wheelehan made a motion to defer filing for a determination letter. Margaret Palmisano seconded the motion, approved by the Trustees 5-0.**

## **8. ADMINISTRATOR REPORT (Scott Baur)**

Scott Baur thanked the Trustees for the opportunity to work with the Board and the members of the plan.

He then addressed various items associated with the transition in plan administration. He provided the Trustees with a detailed overview of the transition, along with a timeline for completion of various aspects associated with the transition. He also reported that he already included the Gulfport General Employees' Pension Fund on the website for the Pension Resource Center, making information for the plan available to the participants. The website includes some of the plan documents and forms he received from Christiansen and Dehner, counsel for the Board. Other items, such as minutes and reports from the investment consultant, will be posted to the website as they become available. He urged the Trustees to review the website and provide any feedback.

Mr. Baur provided the Trustees with an updated contact list for the Board, and a separate contact list of other service providers working for the plan. He asked the Trustees to provide any updates as necessary to the information that he had received. He then reviewed a detailed procedure that his firm would use to calculate benefits for members of the plan, created from the Ordinance, Summary Plan Description, and most recent actuarial valuation. He asked the Trustees to review the procedure carefully for consistency with policy and practice as previously administered by the Board. He created a new form for members explaining the retirement process, and he provided the Board with copies of notices to members explaining the transition in plan administration.

## **9. PLAN FINANCIALS**

The Trustees reviewed the disbursements for payment of invoices contained on the Warrant dated December 1, 2010.

**Margaret Palmisano made a motion to approve the Warrant dated December 1, 2010 for payment of invoices. Frank Wheelehan seconded the motion, passed by the Trustees 5-0.**

The Board briefly discussed the policy to charge members for more than one calculation by the actuary, even at retirement. The new administrator will provide members with an

unlimited number of calculations or benefit estimates at no charge, so the policy will not likely raise any further issues in the future.

**Margaret Palmisano made a motion to \$450 for benefit calculations included on the invoice from Foster for a member of the plan. Frank Wheelehan seconded the motion, passed by the Trustees 5-0.**

The Board had not other benefits for members pending approval for the meeting.

#### **10. OTHER BUSINESS**

The Trustees discussed the meeting schedule for 2011. The Board had previously agreed to coordinate meeting dates and times with the other pension boards in Gulfport, so the next meeting of the Board was previously scheduled for January 27 at 1 PM. The Board will continue to hold meeting in the Council Chambers.

Margaret Palmisano asked the Board to revisit discussion regarding a DROP Plan. Patrick Donlan provided an opinion that a DROP Plan for members would have no real impact on the contribution requirement for the City. Scott Christiansen explained the DROP. While a normal retirement does not impact the plan, an early retirement by a member does have an impact since early retirement provisions have an associated cost. The Plan would not have to offer members a fixed rate of return on accounts as well, a matter of some controversy recently. The Pension Fund does offer members a PLOP (Partial Lump-sum Option) at retirement, an alternative to the DROP that both Scott Christiansen and Patrick Donlan prefer. Margaret indicated she would explain the option to an interested member.

#### **11. ADJOURNMENT**

There being no further business and the next meeting having been previously scheduled and approved for January 27, 2011, a motion was made to adjourn the meeting at 11:30 AM.

Respectfully submitted,

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Margaret Palmisano, Secretary