CITY of SPRINGFIELD

POLICE AND FIRE RETIREMENT SYSTEM OF SPRINGFIELD, MO

830 Boonville
Springfield, Missouri 65802
Phone: (417) 839-8214

Minutes
November 14, 2013

1. Call to Order

Cowherd called the meeting to order at 8:30 a.m. Minutes taken by White.

Attendance

Members	Representation	Present	Absent
Charlie Cowherd	President	X	
Paul Carroll	Citizen	X	
Jerry Fenstermaker	Citizen	X	
James Gillette	Citizen		X
Josh Hartman	Citizen		X
Marilyn Hill	Citizen		X
Ron Hoffman	Retiree	X	
Scott Steck	Police	X	
Chris Thompson	Fire	X	
Adam Carter (NV)	Fire	X	
Grant Dorrell (NV)	Police		X
David Inmon (NV)	Retiree	X	
Mary Mannix-Decker (NV)	Finance	X	
Cindy Rushefsky (NV)	City Council Liaison	X	
Dan Wichmer (NV)	Law	X	
Janell Manley (NV)	Administrative Director	X	
Nikki White (NV)	Secretary	X	

NV = Non-voting

2. Approval Meeting Minutes – October 17, 2013 (open session)

Thompson made a motion to approve the October 17, 2013 as presented; 2nd by Fenstermaker. Vote all: Yes.

3. Approval of Financial Statement Ending September 30, 2013

Mannix-Decker reported on the following items of interest:

- The cash balance at the end of September was $7,154,084.
- Brandywine had an increase of $494,138. The fund returned 2.24% compared to the index return of 2.51%.

- Blackstone had an increase of $32,739. The fund returned 0.89% compared to the index return of 0.79%. $4 million was added in October.
- Galliard increased $441,824. The return was 1.06% compared to the benchmark of 1.01%.
- Entrust had an increase of $116,303. The return was 1.60% compared to the index return of 0.79%.
- Pictet increased by $2,976,782. The return was 6.14% compared to the index return of 7.39%. This is one of the funds that money will be transferred out of as the Plan is being rebalanced.
- Prudential increased by $256,450.
- Pyramis' had a decrease of ($8,379). The return was 2.25% compared to the benchmark of 2.67%.
- Wells Fargo had an increase of $4,701,467. The return was 6.93% compared to the benchmark of 6.50%. $4 million was invested this month.
- The State Street Russell 2000 NL Fund increased by $507,443. The return was 6.38% compared to the index of 6.37%. $1 million was transferred out this month.
- The State Street Commodities NL Fund decreased by ($306,968). The return was -2.55% compared to the index of -2.54%.
- The State Street S&P 500 Flagship NL Fund decreased by ($1,196,416). The return was 3.14% compared to the index of 3.13%. $3 million was transferred out this month.
- The US Tips NL Fund increased by $133,184. The return was even with the index at 1.45%.
- The September sales tax was $3,154,650. Sales tax in general looks to be up from last year.
- Total Net Assets at the end of September were $267,500,477, which is a increase of $10,648,670
- Gain/Loss in market value, including managers' fees was $8,255,730 for the month. Total additions to the Plan were $12,320,758.
- Benefit payments totaled $1,580,255. Return of contributions totaled $73,826. Administrative expenses totaled $18,008.
- Net increase in Plan assets totaled $10,648,670.
- Mannix-Decker reported that the City is in the process of doing a payroll conversion. The retiree checks are ran off of the same system. They are looking at best practices as they go through the process. Right now they only have one category that says salary. The retirees aren't really salaried employees so they are fixing it to reflect the type of benefit they are receiving. Examples are age and service, duty-disability, etc. The other change relates to duty-disability payments. There is no tax on duty-disability payments so it's considered non-taxable income to the recipient. For some reason, there are some individuals that want to have taxes withheld from their duty-disability payments.

Mannix-Decker said her only thought is that they are having taxes withheld from this money to apply to other taxable income that they have. This has been going on for many years. Payroll systems aren't set up to withhold from non-taxable income so manual adjustments are required at year-end so that their 1099's are correct. She said it is not the best thing. Nobody likes changing payroll balances. It also delays production of the 1099's. Anytime you are doing manual adjustments, there is potential for error. Mannix-Decker said when Finance goes to the new system they will no longer withhold taxes on any income that is non-taxable. They will let everyone know by the end of the year so that they can plan accordingly. Mannix-Decker said this has been going on since long before she came to the City. The change will take place March 31, 2014. There are about 60 people that this will affect.

Thompson made a motion to approve the financial statement ending September 30, 2013; 2nd by Fenstermaker. Vote all: Yes.

4. Election

Wichmer informed the Board that the deadline for the fire nominations is today. The retiree election is also being conducted until December 6th. There is no way to tell which envelopes are which. Wichmer asked for a motion to allow the Clerk's office to open the envelopes to confirm that there are not nomination forms in the envelopes. They will keep all of the ballots locked up until the December retiree election deadline.

Thompson made a motion to allow the Clerk's office to open the envelopes and confirm whether there is any fire nominations contained in the envelopes; 2nd by Fenstermaker. Vote all: Yes. The Clerk's Office confirmed that there were only retiree ballots contained in the envelopes. There were no fire nominations.

Wichmer informed the Board that he feels the attorney that handles collective bargaining should eventually be the attorney sitting in on the Pension Board meetings. The same is being done for the insurance committee. That attorney needs to have a good understanding of the discussions of all of the committees especially when benefits are being discussed. He said he will still be around to handle the disabilities. This is not a change that will take place immediately. It will take Tina Fowler awhile to get up to speed on the processes. Fenstermaker said that either both Wichmer and Fowler would be conflicted or neither one would be. Wichmer said it's not a conflict issue because the Board will never be involved in the negotiations, but it is important for the attorney to understand what the Pension is doing and understand the agreement process. He said he is not that person. You have to understand labor law and he thinks the attorney dedicated to that would be the best fit. This will be a process that will take place over the next several months, but he will continue to be the attorney for disabilities.

5. Retirement Applications

Retiree's Name	Application Type	Application Date	Retirement Date	Department
Jimmy Bench	Age & Service	11/04/2013	01/11/2014	Fire

Thompson made a motion to accept Jimmy Bench's age and service retirement application; 2nd by Carroll. Vote all: Yes.

6. Administrative Director's Report

Manley asked the Board to let her know if they had any changes to the revisions she made to the Plan booklet by tomorrow. She would like to send the revised copy to the print shop. Basically the revisions took out all of the references to employees after June 1, 2006. Wichmer reviewed all of the proposed changes.

All of the fire overtime recalculations have been completed. Maerz will be attending the meeting today to report on the findings. Manley and Cowherd have meetings next week regarding establishing procedures for the Plan. She has also requested reimbursement for Sheppard's January-June fees. The fees total around $27,000.

Manley said that she and Cowherd had a conference call with Zwiener regarding the timing of the 2014 actuarial report. Zwiener said that he needs his information approved and ready to go by the end of June. That gives the Board 60 days to review the assumptions. Zwiener needs the assumptions approved within those 60-days so that he can complete the final actuarial report in September. Manley said the process of reviewing the assumptions would need to start next March or April. Carter asked why the report is needed in September. Mannix-Decker said it is needed to complete the Plan's audit report which is presented in November. The numbers are also needed for the City's audit. She said her timeline has not changed at all. Cowherd said that Zwiener needs to be able to present a proposal to the Board regarding the assumptions by June of next year. We will have 60 days to review the proposal. Zwiener will be starting his work in March or April, but the Board won't be reviewing the information until June. Cowherd said his concern is was the effect will be on the vote. We wanted to get an idea from Zwiener on what we should expect to see. He asked Zwiener what his most recent recommendation was. Zwiener said that they completed Tulsa's review within the past few months and they bumped their rate of return range down to 7-7.25%. He will also give us a range on the rate of return. He told us last time that 7.5% is still within the range, but it is going to be closer to the 75th percentile than it was. It used to be closer to the 50th percentile. Now Zwiener is thinking the range will be 6.75-7.25%. He is not committing himself to that until he does the work, but he would not be surprised.

Cowherd said that we could push this forward and try to have it done prior to the vote. We had a committee discuss this at length and Zwiener provided a chart to show what happens as the rate of return changes. This information has been given to the public and can be shared again. Cowherd said that he's confident that we will probably change the rate of return. The question is, to what number? We won't know until Zwiener does the study. The question is, is there any reason to rush through that process now in order to beat the April vote? Or do we go through the normal process and simply tell the public that it is probably going to happen and give a projected range. Zwiener is not going to have all of the work done by April regardless of what the Board decides to do. Perhaps the rate of return could be determined, but not the entire evaluation.

Wichmer asked what the smoothed rate has been the past four years. Cowherd said it is about 7.5%. Wichmer said the task force discussion was that with the second tax we would be at 100% with a 7.5% rate of return. Manley said that we also get to 100% with 7.0%. Cowherd said the only way we get there prior to the five-year period (length of the second tax) is if we obtain 7.5% rate of return. Wichmer said he thinks the Board is covered by being in the acceptable range, but that may be a question for Sheppard. Fenstermaker said he thinks the Board runs more risk attempting to get a number prior to April based on an incomplete analysis. Cowherd said that is a very legitimate concern. Carter said really a decision would need to be made by January in order to be used in the campaign. Cowherd said he wants the public to know that the Board is not purposely delaying this decision by any means. We are moving it up a couple of months as it is. The Board agreed that this is process that shouldn't be rushed and would be better off to stick with the normal course of things. Carroll said that from his perspective, being in the industry, 7.5% is too high. He thinks it's better to say to the public that it is probably going down. We don't have all of the facts yet, but it is probably going down. Carter said he feels it is careless to make any statement about the rate going up or going down until the study is complete. Cowherd said that everyone is entitled to their opinion, but he doesn't want to commit anyone here until Zwiener does his report and the Board does its analysis. He would like to disclose that the Board has discussed it and we understand that question of moving the rate is on the table and it will take a closer look at it when the Board has all of necessary information to make a decision. It is true that other plans are reducing their rate of return. Will it happen to us? It could, but we don't know. Carter said he agrees with Cowherd, but that is substantially different than saying it is probably going to go down next year. Cowherd said if someone asks him he may give a different answer than another member. Cowherd said if asked he would say he doesn't know what is going to happen. Carroll said he could not say that he does not know. He would believe right now based on all of the information that he is 95% sure that it will go down. Cowherd said if someone were to ask him his own opinion, he would be more inclined to say that it is likely, but that he doesn't know. If someone asks him the Boards opinion, he would say he doesn't know. The Board will make a decision when they review the information.

Thompson made a motion to follow Milliman's recommendation that we consider the rate of return starting in June of 2014 and to be determined in August; 2nd by Fenstermaker. Discussion: Carter said that he thought Zwiener would be starting it early in 2014. Cowherd said his work will start then, but the Board won't review it until June. Vote all: Yes.

7. Fire Overtime Calculations

Maerz reminded the Board that there were 57 retirees that worked some during the period of January 2005 until the problem was corrected in the payroll system. The Board asked Human Resources to go back the entire period of time, not just the time period required by law. HR determined that there were 33 retirees that were overpaid. That overpayment ranged from $.52-$70.73 over the 7 ½ year period for a net overpayment of $1,662.76. There were six individuals that there was no impact whatsoever and there were 17 who were underpaid. The net underpayment for the 17 was $308.20. If the Board's desire is to move forward, the next step is to re-run the final average salaries. They run a 10-year history and they look at the highest three. They don't know without running it if the final average salaries will even change. Some of those pay periods may not even be in the highest three years that are used in the calculations. You would look at the possibility of reducing the 33 by no more than pennies per month and increasing the 17 by no more than pennies per month. That is assuming that those changes are in the highest three years. Cowherd said the Board needs to decide whether to recalculate everyone or just the 17 underpaid. Thompson asked how many hours this would take. Maerz said that to date they have spent over $20,000 is staff time between the two steps.

Carter asked if the Board has the option since the ordinance said it is based on what they were paid. Cowherd said that he can't believe that you wouldn't fix it. It if was a $50/month issue, there would be no question that we would fix it. Thompson said he thinks we need to get it right, to the penny. Mannix-Decker asked if he was speaking on both over and underpayments. Thompson said yes. Maerz asked if the Board was going to go back and collect what was overpaid. Wichmer said he would not. He would not go to court over $20. He mentioned that you can't reduce their benefit. When we have tried to collect from beneficiaries that received a payment that they weren't entitled to which is very different. They should have never deposited a check for someone that was no longer living. Wichmer said you would create a court battle in trying to reduce someone that the impact is only cents. He doesn't know that it matters either way on correcting the over or underpayments, but he understands the philosophy of if they have been underpaid then they need to be fixed. He wouldn't go back for overpayments though. Cowherd said that it is not likely that we will get sued over underpaying someone by 5 cents over 20 years, but he understands that there is a morality issue that you should pay what you owe. At some point even that grows thin though.

Carroll made a motion to refigure the final average salaries on the 17 that were underpaid and leave the rest alone; 2nd by Fenstermaker. Vote all: Yes.

8. Audit Report of June 30, 2013

BKD reported that they issued an unmodified (clean) opinion of the audit report. During the process they examined employee records to ensure that employees were properly enrolled or properly excluded from the Plan. They selected a sample of participants and recalculated both the employee and employer contributions. They tested 50% of the participants receiving benefits for the first time during the year. Based on their audit work, they have no findings to report.

At the conclusion of the audit, a communication letter was issued. The letter communicated other matters related to policies and procedures that were not consider deficiencies in controls, but rather things that the Board should consider with the operation of the Plan. The first item pointed out that the IPS states that no more than 3.5% of the Fund may be invested in the common stock of a single corporation or bonds of an entity not guaranteed by the United States Government. At June 30, 2013, 3.8% of the investments were invested in Galliard. The second item was that the investment management fees during the year were inconsistently recorded between two accounts, professional services expense and investment management fees.

Carroll said that BKD met with the Audit Subcommittee twice prior to the presentation of this report to review the audit and ask questions. Fenstermaker added that he thinks it is a good report. Thompson asked if they reviewed calculations. BKD said that they test calculations a portion for accuracy using the final salary reports that are generated. They do not go back as far as the timesheet level. That is beyond the scope of the audit. Carroll made a motion to accept the audit report as June 30, 2013 as presented; 2nd by Thompson. Vote all: Yes.

9. Quarterly Investment Report – Segal Rogerscasey

Boucek reported that the preliminary GDP for the quarter is 2.8%. Consumer confidence dropped a bit. Housing is up a little over 15% from where it was last year. At the end of September, the unemployment rate was 7.2%. The biggest unknown is the health care system and how all of that will shake out. The S&P 500 was up 5.2% for the quarter and the Russell 3000 was up 6.3%. EAFE was up 11.6% for the quarter. Bonds were up for the quarter, but a little tougher place to be with the YTD numbers.

Katarski reported that the Plan returned 5.1% for the quarter. The return on investment was $12.6 million. For the calendar year-to-date, the Plan is up 9.85%. Domestic equities were up 6.89% for the quarter. The S&P Flagship Fund was up 5.26% for the quarter (19.85% for the year) and the Russell 2000 Index Fund was up 10.19% for the quarter (27.71% for the year). Pictet was up 10.70% for the quarter (16.78% for the year). Wells was up 5.7% for the quarter (-0.85 for the year). Galliard was up 0.81% for the quarter (-0.67% for the year). SSgA TIPS was up 0.69% for the quarter (-6.76% for the year). Brandywine was up 1.20% for the quarter (-1.57% for the year). There were not performance numbers available for Pyramis since they were funded mid-quarter. PRISA was up 3.68% for the quarter (10.68% for the year). The SSgA Commodity Fund was up 2.14% for the quarter (-8.59% for the year). There were not performance numbers available for Blackstone since they were funded mid-quarter.

Entrust was up 2.62% for the quarter. The total plan was up 5.1% for the quarter, which is $12,676,000 increase in the return on investment.

Boucek stated that the long-term bond investment is the last piece of the transition. He said the long-term bond piece is in there because the duration of your liabilities is long. Segal Rogerscasey still thinks that it is a good thing to have in the Plan portfolio. However, Boucek said that he can't in good conscious suggest that the Plan enter into long-term bonds right now. He talked to the asset liability team early in the week and he just doesn't think right now is the appropriate time to invest in them. He said that what might make sense is to look at floating rate investments until the timing is right for long-term bonds. Boucek said they would be happy to come back next quarter and look more in-depth at that option. He thinks the Plan is fine where it is right now, but floating rate investments might be an option.

Thompson asked if Segal Rogercasey is still comfortable with the 7.5% rate of return. Boucek said that based on the assumptions their answer is yes. However, he would like to come back with a little more detail behind that yes for the Board. Thompson said that the actuary seems adamant that the rate needs to be lowered. He's going to propose a range next year . The likely range will be 6.75-7.25% and the Board will have a decision to make. Boucek said actuaries want to see things more conservative. The negative to that obviously is that it creates shortfalls and cash has to be generated somehow. It's a dicey conversation. He said he would be happy to come back with an analysis for the Board. They may even be able to get something out prior to the next quarterly report. Several agreed that they would like to see Segal Rogerscasey's analysis.

Fenstermaker made a motion to approve the quarterly investment report as presented; 2nd by Thompson. Vote all: Yes.

10. Invoices

BKD CPAs & Advisors			
Auditor	Invoice #238494	Amount: $14,400.00	Final Billing for FYE June 30, 2013 Audit

Thompson made a motion to accept the BKD invoice presented above; 2nd by Carroll. Vote all: Yes.

11. Fire Nominations

White reported that Chris Thompson and Tony Kelley submitted nominations for the voting Fire Representative. The election will be held the first week in December.

Fenstermaker made a motion to accept the fire nominations as presented; 2nd by Carroll. Vote all: Yes.

12. Legal Matters – Closed Session, pursuant to Section 610.021, RSMo.

Thompson made a motion to move to closed session at 11:10 a.m. pursuant to Section 610.021(1, 3, 13, 14) RSMo.; 2nd by Carroll. Vote all: Yes. Open session resumed at 11:17 a.m.

13. Adjournment

Fenstermaker made a motion to adjourn the meeting; 2nd by Thompson. Vote all: Yes. The meeting was adjourned at 11:17 a.m. on November 14, 2013.

 Secretary Signature: Nikki White