TUCSON SUPPLEMENTAL RETIREMENT SYSTEM
BOARD OF TRUSTEES
Meeting minutes from Thursday, July 30, 2015

Members Present:	Robert Fleming, Chairman Kevin Larson, City Manager Appointee Curry Hale, HR Director Silvia Amparano, Director of Finance Michael Coffey, Elected Representative Jorge Hernández, Elected Representative John O'Hare, Elected Retiree Representative
Staff Present:	Dave Deibel, Deputy City Attorney Silvia Navarro, Treasury Administrator Michael Hermanson, Plan Administrator Dawn Davis, Administrative Assistant
Guests Present:	Catherine Langford, Yoder & Langford, P.C. Leslie Thompson, Gabriel, Roeder, Smith & Company (via telephone)
Absent/Excused:	None

A. **Consent Agenda**

1. Welcome Jorge Hernandez, new TSRS Board member

Item A1 was considered separately at the request of John O'Hare. The Board formally welcomed Jorge Hernández.

2. Approval of June 25, 2015 TSRS Board Meeting Minutes
3. Retirement ratifications - July 2015
4. June 2015 TSRS expenses compared to budget

A motion to approve Consent Agenda items A2 – A4 was made by Chairman Fleming and passed by a vote of 5 – 0 (Silvia Amparano absent, Chairman Fleming did not vote).

B. **Administrative Discussions**

1. Determination Letter Renewal / Discussion of Proposed TSRS Code Changes – Cassie Langford

Catherine Langford explained this item relates to taking this opportunity to make minor adjustments to the Plan document in conjunction with application to the IRS for a determination letter renewal. The determination letter application process requests the IRS to review the Plan document (Tucson City Code) and determine if it meets the standards necessary for a tax qualified plan. The application is language based only; the IRS will not audit to see if the Board is operating in compliance with any laws, it is only about documentation. TSRS is required to submit for a determination letter renewal by the end of January 2016. The IRS will soon be suspending this five year renewal program, so this will probably be the last time TSRS will have to submit a determination letter application, and from here we will be on our own for maintaining the Code to keep it in compliance with the tax laws. Currently, our determination letter means if the IRS audits the plan they cannot criticize the language in the Code because the Board has a determination letter proving that the IRS has

approved the language contained therein; in the future the Board will not have that protection. Ms. Langford said there are no compliance changes necessary, just administrative issues that can be fine-tuned or clarified to address issues the Board has encountered since the last Code revisions were completed in 2009:

Funding Policy - Chapter 22-30(h) (statutory authority for Rounding Policy) - the code currently requires the City to appropriate an employer contribution defined as the Annual Required Contribution (ARC); expressed in current terminology as the Actuarially Determined Contribution (ADC). The ARC is defined in the Code as the employer contribution from the City plus the member contributions. Over the last few years, as the Board has been making the funding and the rounding policies, they have been recommending to the Mayor and Council that the City contribute an amount in excess of the ARC because the rounding policy takes the dollar amount slightly above the ARC calculated by the actuary based on the straight actuarial requirements. This proposed change to the Code would incorporate the Board's funding policies into the Code and therefore what the City is required to appropriate, and give the Board statutory authority to have adjustments beyond what the actuary calculated.

Michael Coffey asked if the Board had a rounding policy in practice.

Michael Hermanson answered yes because the current funding policy incorporates a rounding approach that is applied (added) to the recommended employee and employer contribution rates.

Mr. Coffey clarified; the sole effect of this revision was to incorporate that rounding policy into the Code?

Ms. Langford answered yes because the rounding policy currently in place is designed to level out contribution fluctuations for both the City and the plan members, adding stability to the rates. If the Board adopts this change, the rounding policy becomes a part of the annual calculations just like the actuarial factors already take into account.

John O'Hare asked if a goal of the rounding policy was fully funding the plan within 16 years?

Mr. Hermanson answered full funding of the plan is projected to occur by 2028 or 2029, but that target can vary, depending on what the Plan's annual experiences are. The basic strategy behind rounding up contribution rates is to accelerate the funding by adding a slight amount to the contribution amounts paid into the plan, which in turn pays off the unfunded liabilities quicker.

Ms. Langford explained the funding policy language has stated intent to reach full funding but does not include hard wired requirements to reach those funding targets because things change annually. There is some flexibility for the Board because they control the funding policy, so as the funding policy changes over time this language incorporates those changes into the Code.

Mr. Hermanson said in essence the Board has transitioned from a funding policy based solely on the ARC to one that has an additive element of rounding up the rates.

Ms. Langford explained the last time they performed Code revisions all of the defined terms were tied to the actuarial valuation performed every year, and the ARC was divided between the City and member contributions; now there is another piece because the Board is using the funding policy. The funding policy is also where they capture the amortization period and open vs. closed. All of those factors have been used over time but they have not been incorporated directly into the Code through incorporation of the funding policy.

Kevin Larson said he thought of the ARC as an actuarial accounting calculation, which is defined by the first sentence of §22-30(h): "'*Annual Required Contribution' or 'ARC'* means the annual amount necessary to fund all employee segment normal cost amounts plus the amount necessary to satisfy the annual amortization requirements for the System's unfunded accrued liability, as determined by the system actuary in accordance with sound actuarial principles, and as set by the Board on a fiscal year basis." When the funding policy concept is included they are changing the definition so that the funding policy is a part of the ARC. Instead of

trying to add it or change the ARC definition would it be better to say the ARC may be modified or increased by the Board to meet certain funding objectives, making it additive to the ARC instead of a part of the ARC.

Ms. Langford said the first sentence is the definition, and the reason she was trying to incorporate the funding policy into the definition was because the term funding policy is tied to the appropriation requirement. It could be made clearer that the ARC is the ARC with an additive element but it would require more changes to the Code, which could ultimately be more confusing.

Silvia Amparano said when she explained the rounding policy to the Mayor and Council they liked that they were contributing more than was required, which has been a selling point for them to show they are supportive of the plan. She liked giving them that flexibility to decide what they want to do. The ARC has been the required minimum for a long time and changing that may have a negative effect on the opinion of Mayor and Council. She recognized that she was speaking from the point of view of the Finance Director as opposed to a Board Member, but she was not inclined to include the funding policy as a part of the required minimum because she did not want to have that kind of flexibility at the Board level instead of at the Mayor and Council level.

Ms. Langford stated that was a good point because this was definitely an instance in which the Board perspective would differ from the City's perspective.

Mr. Hermanson explained the Board wanted to maintain their fiduciary control over the funding of the plan. Mayor and Council do not have that control; they have control over other factors but not the funding policy.

Ms. Langford said the Board has decided to use the rounding policy for the last few years as a part of the funding policy. As it stands now the Mayor and Council can reject any recommendation including any additional dollar amount resulting from the funding policy. This revision gives statutory authority to the Board's funding policy. From the Board's perspective, believing in the funding policy and the goals of the rounding policy, the goal was to put as much authority behind the funding policy as possible. This Code revision may not be approved at the level of Mayor and Council so the question is whether the Board wants to advance it.

Leslie Thompson calculates the ARC, and the funding policy contribution which incorporates the rounding policy. The funding policy contribution provides the recommendation from the Board to Mayor and Council every year, so the Code must have language that allows the actuary to calculate the funding policy contribution. She expressed concern with the Code language because the annual amortization requirements are determined based on the funding policy, which represents sound actuarial principles. The funding policy is not superseded with anything she feels is more sound, she just follows the funding policy.

Ms. Langford answered the only new language is the bolded words in the revision draft. The language in question was already in the Code. The language predates the formal funding policy put in writing in December 2014. The Code says "in accordance with sound actuarial principles, and as set by the Board on a fiscal year basis." Because the GASB language is changing, the Board may want to revise the Code on a more wholesale level to use an Actuarially Determined Contribution definition so that the new language would fit the current actuarial process.

Ms. Thompson says the Code needs to be specific enough that she can produce the numbers the Board needs, while keeping it vague enough that the Board can change the funding policy as needed without having to perform another Code revision.

Ms. Langford said those were funding policy questions. If there was a consensus from the Board about adding the funding policy to the Code, she and Ms. Thompson could work together to determine a long standing and appropriate language.

Chairman Fleming confirmed the revisions provided were for informational purposes and that the Board would not be taking any formal action at this meeting.

Ms. Langford confirmed this was correct; the revisions presented were for the purpose of discussion at this meeting.

The Board gave the consensus that the policy should expressly require the City to contribute at a level set by the funding policy, which includes the rounding policy.

Final Leave Cash Outs - Tier 1 Members - §22-30(i) (clarification) Ms. Langford said the 2nd revision was included mainly for clarification. The definition of Average Final Monthly Compensation (AFMC) says for tier I members; leave cash outs may be included. The new language would mean that it will be included if it does not decrease the AFMC.

Mr. Coffey asked how it was possible for the leave cash out to decrease the AFMC.

Mr. Hermanson answered there has been a question when a member's current pay rate, as can be the case with demotions, is lower than the AFMC and this can dilute the average final monthly compensation.

Disability Benefits - Chapter 22-30(jj) (SSA determination as evidence; application timing changes) Ms. Langford explained the 3rd revision relates to disability benefits and was a compilation of suggestions based on some of the disability applications the Board has reviewed over the last few years and the difficulties that have arisen when the appropriate answer was not obvious. §22-30(jj) is the definition within the Code of a total and permanent disability. Historically the Code has used language to indicate a member is entitled to a disability pension if they were permanently disabled. In 2009, the rewrite included language that the disability was a condition expected to last for a continuous period of not less than 12 months. This language was not intended to set the bar at 12 months and 1 day, it was meant to show a long term condition. Some examples have shown it is not always clear what is going to happen if a member is going to be disabled for 2 or 3 years, but not permanently, and she thought it was appropriate to move the language back to a permanent standard. This was the first piece of the definition change; "to last for a continuous period of not less than 12 months" has been changed to "continue for a long and indefinite duration." If the medical reports indicate that the member will recover at a time certain in the future, that is probably not permanent. The second change is whether the Board wants to incorporate a Social Security Administration (SSA) determination as conclusive evidence of disability.

Chairman Fleming asked if the Board should use a standard of total and permanent disability rather than any medical long term and indefinite duration if relying on the SSA determination, because that definition has set a different bar for their disability.

Dave Deibel answered that it would be okay because the SSA determination has such a high bar.

Ms. Langford explained they did not want a member to wait for an SSA determination to apply for disability retirement because that determination can take years, but if they already have one when they are applying the Board might want to recognize it accepting that generally the SSA determination is harder to acquire.

There are also timing issues related to utilizing an SSA determination, which are addressed in the following paragraphs of the revision for **Qualification - §22-39(a):**

Chairman Fleming said the revision stated the member had to apply for disability retirement within 12 months of separation from City employment and asked whether it said the member had to have become disabled while employed by the City.

Ms. Langford answered that in §22-39(a) there were two options available for this: (1) they could add language requiring the member to establish that they terminated employment with the City as a result of their disability, which is a high standard to prove, or (2) that their disability developed or was present while they were employed by the City. The old Code language, going back 10 to 15 years, said the disability had to be incurred

while employed. She believed the long term intent of the language was to require that a disability was present at the time of termination as opposed to developing post termination. In terms of qualifying for disability retirement, a time frame after termination should be added in which the member has to apply, and there has to be a connection between the disability, and physical or mental condition while the member was employed by the City.

Curry Hale expressed his support for Ms. Langford's suggestion and asked if the Board could require physical examinations of disability retirees to confirm they were still permanently disabled.

Ms. Langford answered they had the verification process in the Code were the Board could require future medical exams and stop benefits if the member is no longer disabled. If at the time someone is approved there is medical evidence they should recover the Board and staff should be following up. She asked if staff performed disability verification on a discretionary basis or every 5 years.

Mr. Hermanson explained that a disability audit is performed annual by sending out an affidavit for the members to complete and return, that continues until they meet normal retirement age 62, or have attained 80 points, at that point they are not subject to further audit. The affidavit used in the audit states the condition persists and that they are not receiving any earned income. If there is no earned income stated, it may be assumed the member is not working and remains disabled.

Chairman Fleming asked the Board which option they preferred of the 2 presented by Ms. Langford.

Ms. Langford explained option #1 set a higher standard for the member, and it would decrease the number of disability pensions approved which is a cost saving mechanism for the system. The Board needed to consider, in terms of reviewing and approving an application what would a member have to show to meet that standard.

Mr. Hermanson answered one example is they would look for evidence of leave time usage and leave without pay in the payroll record.

Mr. Hale stated the crux of it was whether they were unable to work due to a medical condition.

Mr. Coffey asked how they would assess the quality of the member's argument.

Ms. Langford answered the Board would have to review medical records from the time of termination.

Chairman Fleming stated this would be true for option #2 as well to prove the disability existed.

The Board's consensus was a preference for option #1.

Chairman Fleming asked if it was possible to tie the onset back to the SSA determination so that the Board would be permitted but not required to adopt the SSA determination of the date of onset.

Ms. Langford explained the date of onset was another question and it is addressed in **Application process - §22-39(b)** regarding when the disability benefit would commence. There may be an established date for when the disability occurred which could be different from the date when the pension benefits would begin, and they should focus on when the pension benefits would begin. If someone was disabled before their date of termination their disability benefit would not begin until the completed application for disability retirement was submitted.

Mr. Hermanson stated they did not want to provide a pension benefit to a member who was still being compensated as an employee.

Ms. Langford clarified the benefit would not begin until all leave balances have been exhausted. The question was whether the Board wanted to set a commencement date for a pension disability or leave that to a case by case basis.

Mr. Hale stated he would rather leave it on an individual case basis.

Mr. Larson stated if the Board concluded the member was disabled at the time they separated from City employment they could still start the benefits at a later date and he felt this opened the Board and the City up to litigation.

Ms. Langford said by requiring an application within 12 months they were lessening their exposure on that kind of case already. If they said the pension will commence, if approved, not later than the date of the application, it would give the Board the discretion to go back to the date of termination if appropriate.

Paid Military Leave - Member Contributions - Chapter 22-34(e) (compliance change) – this revision refers to paid military leave for active members called up to serve their country. The IRS requires the plan to address compensation to an individual who is on military leave. So if a member receives payment from the City at the beginning or end of a military leave the Code must address how the City handles that compensation as well as collecting TSRS contributions. The goal is to clarify that if the City is paying any type of compensation to an employee on military leave, member contributions will be taken from that compensation.

Mr. Coffey asked if the City already did this.

Mr. Hermanson answered yes, when a member goes out on military leave and their orders are completed, the member is offered an opportunity to purchase service credits for the period of time they were gone and did not earn service credits, at the same rate they would have paid if they were here. If the member purchases the period of service they were on orders, the City contributes their portion to provide funding for that period.

Mr. Coffey asked if that was standard in other plans as well.

Ms. Langford answered yes, and the language addressed in these changes relates to a small portion of a member's military leave because City compensation will not be provided over the duration of that leave in the majority of cases, this applies to member contributions from any City compensation that overlaps with the military leave.

The next change **Government and Military Service Purchases - §22-36(e)** (expand purchase eligibility) relates to military leave and the purchase of service credits. There is a service purchase provision that has always required the member to be contributing at the time they purchase service credits. There was an instance in which a member was on military leave, and not contributing to the TSRS plan, wanted to purchase service credits and retire. The existing language says the City should be allowing prior military and government service credit purchases as liberally as possible. The change will eliminate the contributing member requirement and allow a member who has not yet requested a refund or retirement to buy service credits. This would allow someone to purchase service credits for military leave that has not yet been completed, or as a deferred vested member who is no longer a City employee contributing to the system.

Mr. Hermanson explained there were 2 ways TSRS sells service for members of the military. In the first method already discussed, an employee completes their military orders, and the employee pays into the plan the amount of contributions missed, based on their pay rate, the period of orders and the contribution rate; the City pays the complementary employer rate for that period. The second method allows an employee to purchase service credits for prior military service that took place prior to City employment. The qualifications for purchasing this type of service require there can be no duplicated benefits derived from the military service, and the member pays the full cost, determined actuarially. In that case, the City does not contribute to the purchase of service credits for prior government service.

Ms. Langford advised that the language could be revised so that employees on military leave who would not return to City employment would pay the full actuarially determined cost.

Mr. Hermanson stated he would like to talk to Ms. Thompson about that idea before taking action on it.

Ms. Langford said the next revision was to **Commencement of Pension to Deferred Vested Members §22-37(d) -** (compliance change), addressing an IRS compliance issue for commencement of pension to deferred vested members. When a vested member with deferred status is notified that they have become eligible to receive their benefits, occasionally they do not take any action to receive those benefits. The Code has always had a rule that if a member does not commence their pension benefits they will not receive any retroactive adjustments to account for the delay. The requirement is that if someone waits past the normal retirement age before beginning to receive their benefits, retroactive payments are not necessary but there should be an actuarial adjustment to the amount of the monthly benefit, to account for the period during which they did not receive their payments once they were eligible. This would not result in a retroactive payment back to their retirement date because it would be an adjustment to the amount of their monthly benefit.

Chairman Fleming asked if this was required by the IRS.

Ms. Langford answered yes; it is seen in private sector plans. The IRS has looked at it on a few governmental plans and has said that even under pre-ERISA rules dating back to the early 1970's a governmental plan should be doing this as well. This was the perfect time to add it to the Code.

The next revision was to **Non-Spouse Beneficiary on Joint and Survivor Election - §22-42(c)** (compliance change). The Code currently has a rule that says benefit payments will be calculated under U.S. Code §401(a)(9), which is the section that governs how much can be paid out over a member's lifetime and the lifetime of their beneficiary. This code section also requires retirement benefits have to start by the time the retiree is 70.5 years old. The revision addresses a joint survivor election where the member has designated a beneficiary other than a spouse and there is a significant age difference between the member and the non-spouse beneficiary because there is a limit to how much can be paid to that beneficiary.

The next revision was to **Rehire of Retirees - §22-37(g)** (Codification of Practice) relating to the rehire of retirees. From the Board's perspective this is a pension suspension issue; the question for the system is whether a rehired retiree should continue to receive a pension benefit during their period of re-employment. The Code currently provides relief from suspension of pension benefits if a member has been separated from service for at least 12 months and they are rehired into a non-permanent classification. There have been a few situations where those criteria have been met, but then the rehired retiree has worked in 2 or more non-permanent classifications in a row. Generally a non-permanent classification lasts for 12 months with a 6 month extension.

Mr. Hale confirmed this was correct and stated the employees did not receive healthcare benefits.

Mr. Deibel explained he and Ms. Langford had worked together to determine whether the non-permanent job a retiree was taking, was different from the job they had retired from. There were also situations in which the retiree wanted to remain in another non-permanent position, so a legal determination had to be made as to whether or not the successive jobs were distinct from each other or whether it was a subterfuge to avoid the benefit suspension rules.

Mr. O'Hare asked if this would affect the pension fund in any way regardless of what the Board decided.

Mr. Hermanson said the actuary could argue that a position was being filled by a non-contributing member, which is not good funding policy for the plan.

Ms. Langford explained the legal issue was that they could not pay a pension to a member without a bona fide termination, which is why the original Code §22-37(g) was written. If a member retired and returned to work

after less than 12 months, or if they returned to a permanent position at any time they are no longer retired which is the legal compliance issue that could affect the entire system if it were a regular practice for retired employees to come back while still receiving a pension. On the actuarial side, they want to limit the rehire of retirees so that City positions are filled with contributing members. The Board may want to be more descriptive, given the situations faced since the last revisions, regarding when the suspension of pension benefits would start. The current revision addresses the situation Mr. Deibel described previously when a retiree works several successive non-permanent jobs.

Mr. Coffey asked if they could include a maximum number of months a retiree can work before their pension benefits are suspended.

Ms. Langford answered yes that could be done.

Chairman Fleming asked if the Board could create a rule stating any retiree returning to any City position, no matter how long they had been gone, would no longer be retired and their benefits get suspended.

Ms. Langford answered they could and recommended using the traditional union rule; if a retiree comes back to work they are no longer retired, their pension is suspended, and they begin contributing to the system again.

Chairman Fleming said presumably the new pension when they retire again will be increased.

Ms. Langford answered that was a complicating factor but it would be manageable.

Mr. Hale and Mr. Coffey expressed their support for this idea.

Mr. Deibel warned that the City Manager's office and the Mayor and Council may react adversely in proportion to the restrictiveness of the revisions. The presented revision is the standard Ms. Langford and the City Attorney's office were currently using. If the Board wanted to completely change the system it should be discussed as a separate item because it could place the other revisions in jeopardy.

Mr. Larson asked if a non-permanent employee was considered an employee from an IRS standpoint receiving a W2, or were they considered consultants receiving a 1099. He expressed support for becoming stricter on the regulations regarding rehiring retirees.

Chairman Fleming stated the Board had expressed collective support for a rehired employee only being allowed to work for up to 18 months before they are no longer considered to be retired.

Ms. Langford answered she would add that to the Code revisions.

Mr. Coffey expressed concern over the use of the term "subterfuge" in the Code language.

Ms. Langford said he was not the first person to express this concern and it would be changed. The next revision was to **Post Retirement Marital Changes - §22-42(a)** (Divorce/Remarriage Have No Impact on Elections), regarding post retirement marital changes. The Code has issues in 2 different areas, first, when a member retires, they have elected a benefit type that is irrevocable; then there is a post retirement divorce and remarriage. The language in the Code has always said on the member benefit side, once is selected and ratified by the Board, the pension starts and the benefit selected is irrevocable; so the ex-spouse cannot be dropped from the pension if they were originally named as a survivor beneficiary. The revisions strengthen that language or irrevocability. The second paragraph deals with the Domestic Relations Order (QDRO) applied before the member retires and they make elections stipulated in the QDRO which then become irrevocable. The revisions say if there is a change in marriage status after the QDRO is accepted, TSRS benefits are irrevocable because on an actuarial basis there must be certainty regarding who will be receiving benefits.

Ms. Amparano asked if the Board should require marriage over a domestic partnership now that same sex marriage is legally recognized in Arizona.

Mr. Hale answered the Human Resources (HR) department is working on making changes in the insurance benefits area that require marriage so that a spouse would be able to receive benefits but a domestic partner could not.

Ms. Langford explained the Board should wait until the changes have been made in HR before the Board considers taking any action.

Mr. Coffey clarified that it was an actuarial issue concerning the age of the former spouse vs. the age of the new spouse.

Ms. Langford answered yes because if a member retired with a spouse that was their age, then got divorced and married a new spouse who was 20 years younger, it would have a significant impact the present value of the benefit, so the revision states the original spouse elected at the time the member retired is who will be paid.

Ms. Langford explained in the Code there is a list of Board member authorities and duties under §22-45(i); she has added the authority to hear and resolve claims. This would be similar to what the Board does when hearing disability applications but it was not written into the Code. It is a responsibility that almost all fiduciary bodies over a retirement plan have.

Mr. Larson asked who handled this responsibility previously.

Mr. Hermanson answered this was just a formalization of current Board responsibilities.

Ms. Langford asked if the Board was still interested in looking into making the System Administrator a Board appointed position as opposed to a finance department employee.

Mr. Hermanson indicated he was leaving the room so the Board could speak freely.

Ms. Langford explained the idea was to make TSRS separate from City oversight. Mr. Hermanson's office would be responsible for reporting to the Board instead of the finance department.

Mr. O'Hare stated there was real value in this idea from a fiduciary standpoint because more value is given to the opinion of the entity responsible for the employee's evaluation, but all of the administrative type tasks, like payroll, could still be handled by the finance department.

Mr. Deibel contrasted that approach with the PSPRS structure, which is required by Arizona State law, and advised the Board to discuss this issue with the City employment lawyers because he was not sure that the Board could just hire someone outside of civil service and provide City benefits and compensation. The PSPRS administrator position was required to be separate by state law; however he is still a City employee that does not fall under the oversight of any City department.

Mr. Hale said based on his experience as a PSPRS Board member he would not advise the TSRS Board adopt a similar structure. It is inefficient with duplication of efforts, and he also believed City oversight is needed over many of the functions.

Mr. Deibel counseled the Board to seriously consider the implications of this action.

Chairman Fleming said the Board may want to look at the PSPRS model and continue the discussion because it would be nice to have more control over the salary, hiring, and firing of the plan administrator, but implementing the PSPRS model for TSRS could be a terrible mistake.

Mr. Deibel explained there were no City Board's with control over hiring, firing, and compensation; the Civil Service system was put in place as required by the City Charter, so it was not as simple as just deciding to make the Plan Administrator an appointed position.

Mr. Hale stated that the PSPRS Board's control over the hiring, firing, and compensation for the plan administrator has created several problems in the past.

Mr. O'Hare said he never suggested the TSRS Board adopt the model of the PSPRS Board. The TSRS Plan Administrator used to be appointed by the TSRS Board.

Chairman Fleming stated this was an issue the Board should continue to discuss at the retreat.

Ms. Langford said for the purpose of that discussion there are other models, besides PSPRS, where the administrator is an appointed position outside of civil service the Board could review.

Mr. O'Hare said no part of this discussion should be taken as a reflection of the performance of Mr. Hermanson because he had been extremely responsive to the Board's requests.

Mr. Hale brought Mr. Hermanson back into the meeting.

Ms. Langford asked if the Board would like to increase Board membership as the plan grows.

Chairman Fleming stated the Board had discussed it and decided they did not want to pursue that course of action.

2. Discussion of Open and Closed Amortization, comparison to TSRS Funding / Amortization Policy (Gabriel, Roeder, Smith & Company – July 14, 2015)

Michael Hermanson said this subject came up when the Independent Audit Performance Commission (IAPC) reviewed actions taken by the TSRS Board in responding to the 2012 ballot initiative called the "Sustainable Retirement Benefits Act". Staff responses to the IAPC report called Review of TSRS Pension Alternative indicated the commission might want additional information to help them understand how open and closed amortization approaches used for payment of unfunded liabilities provide different results. This report contrasts those two approaches with the TSRS funding policy, which is a hybrid method that provides results that are closer to a closed amortization approach than what is achieved through open amortization.

Leslie Thompson explained the reason the unfunded liability is always looked at is because the accrued liability is the value of the benefits that have been earned to date. Ideally the assets would be equal to the accrued liability, but they are not and as a result, there is unfunded liability. The unfunded liability looks, to many people, like the value of what the plan should have but does not. The method to pay that off is the amortization payment and there are a variety of methods allowed.

Closed amortization refers to the number of years needed to pay off the unfunded liability. The actuary will calculate a payment such that the unfunded liability will be paid off in 20 years, and the following year they calculate a payment such that it will be paid off in 19 years, until the unfunded liability equals $0. Closed amortization methods always lead to $0 in unfunded liabilities; to get there the plan has to make the cash amortization payments calculated.

By contrast in the open method; the actuary will calculate a payment such that the unfunded liability will be paid off in 20 years, the following year they will calculate a payment such that the unfunded liability will be paid off in another 20 years so the unfunded liability never reaches $0. The open method is not allowed in the private sector because the private sector entities can close shop and terminate pension plans at any time. In the public sector the entities exist in perpetuity, so the open method is allowed because they will not terminate their pension plans. The other reason the open method is allowed is because when the GASB Statement Nos.

25 and 27 came into effect, the Government Accounting Standards Board (GASB) tested to see if there was a difference in the funding levels between open and closed plans, they found no differentiating distinctions.

The current City funding policy utilizes a rounding policy that has a closed amortization effect, because of its projected negative unfunded liability by the year 2029; even though, technically, the Board has an open amortization method stated in its funding method. As such, TSRS has the budgeting advantage and the actuarial flexibility of an open amortization, but achieves the impact associated with a closed amortization method. Some of the IAPC members did not understand the difference between open and closed plans and became concerned about open amortization as a code for perpetual debt, so they never got around to discussing how the funding policy layers on top of the open amortization method, which solves the problem and, moves the plan to closed amortization in effect.

Michael Coffey asked if, of the 347 surveys conducted on public pension plans, TSRS was absolutely unique in its design.

Ms. Thompson said they were not absolutely unique, but TSRS was unique because although other entities may have a rounding policy, the TSRS funding policy states it will keep the contribution rate stable at 27.5% until the plan is fully funded, which is a nice blend of keeping the rates stable and taking care of the plan.

Chairman Fleming asked if going forward they would see charts showing the difference between the Board's intent and what actually happened based on valuation variations.

Ms. Thompson answered yes, there is a projected funding chart in every valuation, and there would be fluctuations.

John O'Hare asked for clarification on the GASB test showing no significant differentiation between open and closed plans.

Ms. Thompson explained in the comments from the GASB Statement No. 25 or 27, a committee member talks about that survey and discovering there is really no difference in the funded ratio between the open and closed plans in the public sector over a long period of time, given the impact of public sector plans in the past did a lot to meet a statutory rate to stay funded so the funded ratios did not change that much whether the plan used open or closed methods. In today's environment, plans that use open amortization and level percent of pay funding methods make the lowest possible amortization payment and that approach pushes a lot of unfunded liability into the future.

3. Discussion of Topics and possible guest attendees for the October 30th TSRS Board Retreat (Copy of October 2014 Agenda attached)

Michael Hermanson asked the Board to consider what they would like to hear about at this year's Board retreat.

Michael Coffey requested some education and discussion on disability applications and definitions.

Chairman Fleming asked for statistics regarding disability pensions in TSRS.

Mr. Hermanson said there are approximately 156 members receiving retirement benefits from a disability application approved. All of these except for about 70 have not reached age 62 as the normal retirement age, which is when they are no longer audited annually. The average benefit paid to disabled retirees is only $1,000 a month because these retirees have experience a shorter periods of service, averaging only 11 or 12 years. Mike said he would provide more specific information at the retreat on this topic.

Mr. Coffey would like educational materials in order to be able to treat applicants more fairly, and expressed concern over recent Board decisions given the applicants had not necessarily completed all the steps in the City's process before submitting their application for disability retirement.

Curry Hale said members of the medical leave management team could give the Board a presentation on the benefits offered by the City outside of disability retirement.

John O'Hare and Kevin Larson stated they would like to discuss various models regarding a Board appointed plan administrator.

Chairman Fleming and Mr. Hale expressed interest in discussing the rehire of retirees and the process involved in changing the current policy.

Mr. Hermanson advised he needed to receive any requests for guest speakers by the end of August so that they might have time to plan an invitation.

Chairman Fleming and Mr. Larson expressed interest in having fewer investment managers speak at the retreat.

Catherine Langford advised that the Board did not need to meet with each manager every year anymore given Callan's (investment consultant) capacity to evaluate these managers as frequently as necessary.

Mr. O'Hare stated he felt the Board needed to see the managers at least once a year for education purposes.

Chairman Fleming expressed interest in placing the discussion of how many times the Board should meet with the managers on the retreat agenda.

Mr. O'Hare said it would be good to discuss indexing parts of the fund at the retreat.

C. **Investment Activity Report**

1. Update on Transition Manager Activity

Silvia Navarro said the outside counsel has reviewed the proposed contracts and provided revisions, which staff sent to the transition managers for their review and acceptance. Staff has heard back from one of the managers thus far. Once those agreements have been accepted, staff will request a pre-trade analysis to be reviewed by staff and Callan will assist selecting a transition manager to complete the transition in a few weeks.

2. TSRS Portfolio composition, transactions and performance review for 06/30/15

Silvia Navarro reported as of 6/30/15 the total portfolio value was $735.5M, as of 7/29/15, it was $736.9M.

Calendar YTD returns – For the month of June, the Total Fund returned -1.08% vs. the Custom Plan Index at -1.44%; Total Fixed returned -1.52% vs. the Barclays Aggregate at -1.09%; Total Equities returned -1.66% vs. Equity Composite at -1.92%; Total Real Estate returned 2.45%; Total Infrastructure returned 2.66% vs. the CPI +4% at 0.68%. Through 6/30/15, the calendar YTD return for the Total Fund was 2.88% vs. 2.05% for the Custom Plan Index.

Fiscal YTD returns – As of 6/30/15 the Total Fund returned 4.23% vs. the Custom Plan Index at 4.07%; Total Fixed returned 0.67% vs. the Barclays Aggregate at 1.85%; Total Equities returned 5.24% vs. the Equity Composite at 4.26%; Total Real Estate returned 12.74% vs. NCREIF at 10.22% (as of 3/31/15); and Total Infrastructure returned -3.42% vs. the CPI +4% at 4.14%.

Trailing One Year Returns – As of 6/30/15 the Total Fund returned 4.23% vs. the Custom Plan Index at 4.07%; Total Fixed returned 0.67% vs. Barclays Aggregate at 1.85%; Total Equities returned 5.24% vs. the Equity Composite at 4.26%; Total Real Estate returned 12.74% vs. the NCREIF at 10.22% (as of 3/31/15); and Total Infrastructure returned -3.42% vs. the CPI +4% at 4.14%.

$4M was transferred into the pension fund to pay for retiree benefits. To meet liquidity and rebalance the portfolio $2M was transferred from T. Rowe Price, $1M from BlackRock, and $1M from the cash account.

D. **Articles for Board Member Education / Discussion**

1. Still a Better Bang for the Buck (National Institute on Retirement Security, December 2014)

Michael Hermanson advised the Board this report, written by the National Institute on Retirement Security was a sequel / follow up to a report previously issued entitled A Better Bang for the Buck. Both reports compare the cost advantages between defined benefit and defined contribution plans and this report explains three specific areas that provide cost advantages that a defined benefit (pension) plan has over defined contribution plan (401(k) plans).

John O'Hare asked for a PDF copy for distribution to the Mayor and Council.

2. Does the Social Security "Statement" Add Value? (Center for Retirement Research at Boston College, July 2015)
3. Trust Fund Reserve Gains One Year for Projected Depletion Date (Social Security Matters, July 23, 2015)
4. Transition Management – Beyond the Basics (Callan Investments Institute July 2013)

E. **Call to Audience** – None heard.

F. **Future Agenda Items**

Adjournment – 10:30 AM

Approved:

P/P [signature] 8/27/15

Robert Fleming
Chairman of the Board

Date

[signature] 8.27.15

Michael Hermanson
Plan Administrator

Date