TUCSON SUPPLEMENTAL RETIREMENT SYSTEM
BOARD OF TRUSTEES

Meeting minutes from Thursday, September 24, 2015
Finance Department Conference Room, 5th Floor
City Hall, 255 West Alameda
Tucson, AZ 85701

Members Present:	Robert Fleming, Chairman Kevin Larson, City Manager Appointee Rebecca Hill, Interim 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 Art Cuaron, Treasury Finance Manager Michael Hermanson, Plan Administrator Dennis Woodrich, Lead Pension Analyst Dawn Davis, Administrative Assistant
Guests Present:	Jenefer Carlin, CTRA Representative Gordon Weightman, Callan Associates (via telephone) Catherine Langford, Yoder & Langford, P.C. Leslie Thompson, Gabriel Roeder, Smith & Company (via telephone) Frank Romero, City of Tucson Employee Grace Romero, Spouse of Frank Romero
Absent/Excused:	None

Chairman Fleming called the meeting to order at 8:30 AM.

A. **Consent Agenda**

1. Approval of August 27, 2015 TSRS Board Meeting Minutes
2. Retirement ratifications – September 2015
3. August 2015 TSRS expenses compared to budget

The Consent Agenda was approved by a vote of 6-0 (Chairman Fleming did not vote).

B. **Disability Retirement Application – Frank F. Romero**

A motion to approve the disability retirement application of Frank Romero was made by Kevin Larson, 2nd by Rebecca Hill.

A motion to enter Executive Session was made by John O'Hare, 2nd by Kevin Larson, and passed by a vote of 6-0 (Chairman Fleming did not vote).

A motion to return to Regular Session was made by John O'Hare, 2nd by Rebecca Hill, and passed by a vote of 6-0 (Chairman Fleming did not vote).

Chairman Fleming reminded the Board that the motion on the table was to approve the application for medical retirement.

A motion to amend the motion to approve the application of Frank Romero to require a medical reevaluation after 2 years was made by John O'Hare. The motion failed for lack of a 2nd.

The disability retirement application of Frank Romero was approved by a vote of 4-2 (Michael Coffey and John O'Hare dissenting, Chairman Fleming did not vote).

C. **Investment Activity Report**

1. Aberdeen EAFE Plus Manager – Gordon Weightman (Report from Callan Associates, 9/11/2015)

Gordon Weightman said the Board asked for a report on Aberdeen EEAFE Plus at the 8/27/15 meeting, with the transition set up to move assets and increase the Board's international equity exposure would it make sense to give Aberdeen more money given their recent performance history. They manage about $37M now, and through the transition their target allocation will increase to roughly $71M. Given that information Callan had their research specialist in international equity meet with Aberdeen and identified some factors contributing to the recent underperformance. The broad message is they know the performance is poor relative to the benchmark since the Board invested, however the underperformance is explainable based upon some of the bullet points in the memo distributed prior to the meeting. Aberdeen's style is out of favor, they are designed to protect on the down side and they focus on valuation and quality which have not been rewarded. They have had higher exposure to energy and materials relative to the benchmark and those sectors have underperformed. Aberdeen has adhered to their investment discipline by investing in high quality companies within those sectors, but the exposure to the sectors has contributed to the underperformance vs. the benchmark. They have a lower risk portfolio, with a lower standard deviation and a lower return. Risk adjusted returns are favorable for Aberdeen and they are being compensated for the amount of risk they are taking. The good news about the international equity composite as a whole is the Board's 2 managers, Aberdeen and Causeway who have different styles and philosophies, have performed very well in combination despite Aberdeen's performance. Over the last 3 years, through 6/30/15, the Board's composite is up 10.2% vs. the benchmark's 9.4%. Aberdeen has stuck to their process and is still the same firm hired by the Board a little over 3 years ago. Given the environment has been in a prolonged period where things like momentum are rewarded, Aberdeen is poised to turn their performance around. Historically their strategy has worked and has been very strong; this has just been a tough period for them.

Michael Coffey asked if Callan would have, knowing what they know now, recommended Aberdeen 3 years ago.

Mr. Weightman answered when they do international equity searches Callan still likes Aberdeen. Aberdeen would only make it through the screening process if Callan knew the client was not hung up on recent performance, because Aberdeen is currently a buying opportunity, but clients might be skeptical, so they might not make the list based on their recent performance. There has been a bull equity market up until recently, where there has been a correction for a very prolonged period of time. The market has been driven by price momentum, people being willing to pay more for earnings, which is a factor that Aberdeen does not focus on. They are more focused on value and quality of names. A cyclical pattern like this has not been seen for a long time, where stocks have been rewarded based on price momentum. When that changes Aberdeen is positioned to do well. A 3 year period is too short to evaluate any manager, a full market cycle has been 3 to 5 years historically, but it is even longer than that this time.

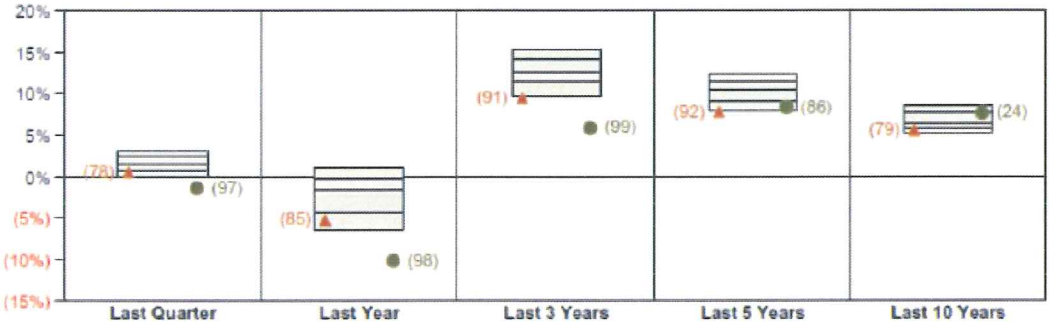
Jorge Hernández said based on Aberdeen's recent history a lot of their institutional clients have pulled a lot of money from Aberdeen's management. Was this an overreaction and would Callan agree with that time horizon action?

Mr. Weightman answered Aberdeen has lost money from clients who have shorter term time horizons, but the TSRS pension plan is being managed in perpetuity so by definition the Board has a longer time horizon. If the Board decided to fire Aberdeen, Callan would have to perform a search to find a new manager, and many times what happens is because performance is so tangible, often times clients hire managers at the peak of their cycle and then they underperform for the first 3 years. It was a little bit of an overreaction for those firms to fire Aberdeen. Not everyone thinks about managers in the same way and there are some consultants who will advise Board's based on manager rankings; other boards have strong watch list criteria. Groups that take a more informed approach and use judgment rather than a static set of criteria have held on to Aberdeen because they recognize the underperformance is explainable.

Kevin Larson said he agreed that they needed to look at a longer period of time, but most of the discussion held was relative to the benchmark when Aberdeen has been weak relative to their peers as well. He understood their risk profile was lower, and asked Mr. Weightman to address their weakness relative to peers.

Exhibit 1

Performance vs CAI Non-U.S. Equity Style (Gross)



	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
10th Percentile	3.05	1.03	15.31	12.41	8.51
25th Percentile	2.39	(0.36)	14.17	11.39	7.64
Median	1.55	(1.66)	12.62	10.47	6.45
75th Percentile	0.67	(4.32)	11.44	9.12	5.70
90th Percentile	(0.12)	(6.53)	9.62	7.87	5.13
Aberdeen EAFE Plus ●	(1.40)	(10.16)	5.85	8.39	7.65
MSCI ACWI x US (Net) ▲	0.53	(5.26)	9.44	7.76	5.54

Mr. Weightman said looking at the median manager in exhibit 1 of the memo, over most time periods there is an active management premium to be gained from international equity. Looking at Aberdeen over the last 3 years, which ties into their 5 year number now, they are at the bottom. There is not much of an explanation to be given for a performance like that. The proof statement to their strategy is, when looking at the last 10 years including 2008; they are in the 24th percentile. They are designed to protect with those quality factors, and they have done so in down markets. When stocks are running as they have in the last 3 to 5 years, given the environment where momentum has performed well, Aberdeen has been at the bottom.

John O'Hare asked how much more time would Callan recommend the Board give Aberdeen.

Mr. Weightman answered they needed to pay attention to the factors that are performing well within the non-US equity market. If valuation and quality factors start performing well and Aberdeen is still trailing he believes then there would be cause for concern.

2. TSRS Portfolio composition, transactions and performance review for 08/31/15

Art Cuaron reported as of 8/31/15 the total portfolio value was $712.5M, as of 9/24/15, it was $705.9M, continuing a downward trend that can be explained, partially, by the volatility in the market.

Calendar YTD returns – For the month of August, the Total Fund returned -3.97% vs. the Custom Plan Index at -3.94%; Total Fixed returned -0.71% vs. the Barclays Aggregate at -0.14%; Total Equities returned -6.07% vs. Equity Composite at -6.35%; Total Real Estate returned 0.70%; Total Infrastructure returned 0.74% vs. the CPI +4% at 0.19%. Through 8/31/15, the calendar YTD return for the Total Fund was -0.06% vs. -0.78% for the Custom Plan Index; Total Fixed returned 0.66% vs. the Barclays Aggregate at 0.45%; Total Equities returned -1.49% vs. Equity Composite at -2.54%; Total Real Estate returned 9.89% vs. NCREIF 7.34 (as of 6/30/15); Total Infrastructure returned -0.19% vs. the CPI +4% at 4.18% (as of 7/31/15).

Fiscal YTD returns – As of 8//31/15 the Total Fund returned -2.86% vs. the Custom Plan Index at -3.08%; Total Fixed returned -0.10% vs. the Barclays Aggregate at 0.56%; Total Equities returned -4.61% vs. the Equity Composite at -5.07%; Total Real Estate returned 1.31%; and Total Infrastructure returned 0.30% vs. the CPI +4% at 0.53%.

Trailing One Year Returns – As of 8/31/15 the Total Fund returned 0.28% vs. the Custom Plan Index at 0.08%; Total Fixed returned 0.22% vs. Barclays Aggregate at 1.56%; Total Equities returned -1.01% vs. the Equity Composite at -2.20%; Total Real Estate returned 13.45% vs. the NCREIF at 14.43% (as of 6/30/15); and Total Infrastructure returned -2.06% vs. the CPI +4% at 4.21%.

John O'Hare stated infrastructure seemed to be at least 6% under in the trailing one year returns and asked if there was a reason for that.

Mr. Cuaron answered he would look into it and provide the Board with an update. Net earnings through august were $12,733.

3. Callan's response to the number of public pension plans they have in their fund Sponsor database

This item was taken out of order and considered after item C1. Gordon Weightman said there were 350 public pension plans in Callan's fund Sponsor database.

John O'Hare asked if the TSRS Board members could get access to the database so they could go through it.

Mr. Weightman answered it was very difficult to provide the plan names and their asset allocations in Excel. They did have an exhibit in the measurement report that shows the range of allocations and the percentage of plans that are invested in various asset classes. Some of the data is from Callan clients, but they also buy some data from BNY Mellon. When BNY Mellon provides the data, they provide it with an identifier instead of the plan name. In those instances Callan gets the asset allocation information but they do not know the name of the plan.

Mr. O'Hare asked if they could filter out the public plans and remove the names.

Mr. Weightman said he would have to think about it and they could discuss it at a later date.

D. **Administrative Discussions**

1. TSRS Plan Document Revisions – Cassie Langford
   a. TSRS Plan Document Revisions – Strike out version
   b. TSRS Revised Funding Policy – Redline version
2. Discussion of adding administrative expenses on top of the contribution rate for TSRS – Leslie Thompson

Catherine Langford stated the first items, with regard to the Funding Policy Revisions, are more comprehensive than initially presented. Initially the goal was to revise the contribution language in the code to incorporate the additions to the actuarial calculations that they make under the Board's Funding Policy. It was determined at the 7/30/15 meeting that it should probably be made clearer and more comprehensive. They are

shifting from the standard of the annual required contribution (ARC) to the actuarial determined contribution (ADC), which is a broader concept. Historically the ARC has been the normal cost plus the amount necessary to cover the unfunded accrued for the year. ADC, in the Code, would now refer to the Board's funding policy, cover the ARC, the rounding policy adjustments, and the administrative expenses of running the system. Currently the administrative expenses are not a specific line item in the actuarial calculation of the contribution; instead they are offset against investment returns. They want to shift the administrative expenses to a position where they are factored into the contribution calculation and appropriated every year. In terms of the Code revisions, they were replacing the ARC language with ADC language for Code purposes. All the other changes will occur through the Funding Policy. It is important to make sure that the Mayor and Council are comfortable with what is covered in the Funding Policy and that they understand how it works since it will be specifically referenced in the Code. On the Code level they want to make sure everything ties together to reach the appropriate amount to be appropriated by the City every year, which is why the definitions of the employer contribution and member contribution rates are being amended.

John O'Hare clarified there would not be any changes to the funded ratio or the City's contribution with the adoption of these changes.

Ms. Langford answered there was one change in how the administrative expenses would be treated.

Mr. O'Hare asked if there would be any changes to the City's contribution.

Michael Hermanson answered there would be an impact on the employer contributions because funding the administrative cost through contributions will increase contribution rates, but the funded ratio would be the same.

Silvia Amparano asked if the Board had already voted on adding the administrative costs to contributions.

Ms. Langford answered no, Leslie Thompson did the study on adding administrative expenses on top of the contribution rates for this discussion.

Mr. Hermanson explained it had been discussed at the retreat on 10/31/14. They discussed resetting the rates to include the round up issues, and specifically about the idea of adding the administrative costs but a decision had not been made yet.

Leslie Thompson directed the Board to look at the following spreadsheet:

Tucson Supplemental Retirement System

30-Year Projection of Liabilities and Costs
7.25% Return on Investment for 2015 and Beyond
27.5% Contribution Rate with additional 0.65% for Administrative Expenses

Valuation Year	Actuarial Accrued Liability	Actuarial Value of Assets	Funded Ratio	Unfunded Accrued Liability (UAL)	Normal Cost ($ amount)	Normal Cost (% of pay)	20-Year Amortization of the UAL	UAL (% of pay)	Covered Payroll	Total Computed Contribution	New Member Contribution Rate	Combined Member Financed Portion	City Financed Portion	City Financed Portion in Dollars	Expected Benefit Payments
2014	$1,012.39	$656.00	64.8%	$356.40	$14.02	11.71%	$25.99	20.52%	$126.64	33.43%	5.25%	5.28%	28.15%	$36	$67.46
2015	$1,030.88	$711.99	69.1%	$318.89	$13.93	11.51%	$23.25	18.20%	$127.77	33.44%	5.25%	5.29%	28.15%	$36	$70.69
2016	$1,047.27	$751.81	71.8%	$295.46	$13.94	11.35%	$21.54	16.64%	$129.50	33.44%	5.25%	5.29%	28.15%	$36	$73.61
2017	$1,061.81	$798.38	75.2%	$263.43	$13.97	11.18%	$19.21	14.59%	$131.63	33.45%	5.25%	5.30%	28.15%	$37	$76.36
2018	$1,074.59	$837.17	77.9%	$237.42	$14.02	11.04%	$17.31	12.93%	$133.90	33.45%	5.25%	5.30%	28.15%	$38	$79.06
2019	$1,085.55	$861.48	79.4%	$224.07	$14.10	10.89%	$16.34	11.97%	$136.48	33.46%	5.25%	5.31%	28.15%	$38	$81.80
2020	$1,094.55	$885.58	80.9%	$208.97	$14.22	10.75%	$15.24	10.94%	$139.21	33.46%	5.25%	5.31%	28.15%	$39	$84.25
2021	$1,101.77	$909.81	82.6%	$191.95	$14.38	10.62%	$14.00	9.83%	$142.32	33.47%	5.25%	5.32%	28.15%	$40	$86.32
2022	$1,107.53	$934.72	84.4%	$172.81	$14.56	10.50%	$12.60	8.65%	$145.73	33.47%	5.25%	5.32%	28.15%	$41	$88.21
2023	$1,111.93	$960.63	86.4%	$151.30	$14.77	10.38%	$11.03	7.39%	$149.37	33.47%	5.25%	5.32%	28.15%	$42	$90.08
2024	$1,114.93	$987.72	88.6%	$127.21	$15.00	10.27%	$9.28	6.05%	$153.26	33.47%	5.25%	5.32%	28.15%	$43	$91.75
2025	$1,116.66	$1,016.36	91.0%	$100.30	$15.26	10.17%	$7.31	4.65%	$157.36	33.47%	5.25%	5.32%	28.15%	$44	$93.24
2026	$1,117.23	$1,046.92	93.7%	$70.30	$15.54	10.08%	$5.13	3.17%	$161.65	33.47%	5.25%	5.32%	28.15%	$46	$94.48
2027	$1,116.83	$1,079.87	96.7%	$36.96	$15.85	9.99%	$2.69	1.62%	$166.19	33.47%	5.25%	5.32%	28.15%	$47	$95.64
2028	$1,115.52	$1,115.54	100.0%	-$0.02	$16.18	9.90%	($0.00)	0.00%	$170.96	10.55%	5.25%	5.31%	5.24%	$9	$96.57
2029	$1,113.48	$1,113.85	100.0%	-$0.37	$16.54	9.83%	($0.03)	-0.02%	$175.91	10.48%	5.25%	5.31%	5.17%	$9	$97.20
2030	$1,110.99	$1,111.76	100.1%	-$0.77	$16.92	9.76%	($0.06)	-0.03%	$181.05	10.41%	5.25%	5.30%	5.11%	$9	$97.55
2031	$1,108.34	$1,109.55	100.1%	-$1.21	$17.33	9.70%	($0.09)	-0.05%	$186.39	10.35%	5.25%	5.30%	5.05%	$9	$97.63
2032	$1,105.83	$1,107.52	100.2%	-$1.69	$17.77	9.65%	($0.12)	-0.06%	$192.02	10.30%	5.25%	5.29%	5.01%	$10	$97.57
2033	$1,103.64	$1,105.87	100.2%	-$2.23	$18.22	9.60%	($0.16)	-0.08%	$197.82	10.25%	5.25%	5.29%	4.96%	$10	$97.33
2034	$1,101.99	$1,104.82	100.3%	-$2.83	$18.69	9.56%	($0.21)	-0.10%	$203.82	10.21%	5.25%	5.28%	4.93%	$10	$96.95
2035	$1,101.10	$1,104.60	100.3%	-$3.51	$19.19	9.52%	($0.26)	-0.12%	$210.03	10.17%	5.25%	5.27%	4.90%	$10	$96.35
2036	$1,101.27	$1,105.52	100.4%	-$4.25	$19.71	9.48%	($0.31)	-0.14%	$216.44	10.13%	5.25%	5.27%	4.86%	$11	$95.64
2037	$1,102.70	$1,107.78	100.5%	-$5.07	$20.26	9.45%	($0.37)	-0.17%	$223.04	10.10%	5.25%	5.26%	4.84%	$11	$94.79
2038	$1,105.67	$1,111.66	100.5%	-$5.98	$20.82	9.43%	($0.44)	-0.19%	$229.84	10.08%	5.25%	5.26%	4.82%	$11	$93.93
2039	$1,110.32	$1,117.33	100.6%	-$7.01	$21.40	9.41%	($0.51)	-0.22%	$236.81	10.06%	5.25%	5.26%	4.80%	$11	$92.99
2040	$1,116.87	$1,123.02	100.7%	-$8.15	$22.01	9.39%	($0.59)	-0.24%	$244.00	10.04%	5.25%	5.26%	4.78%	$12	$92.01
2041	$1,125.51	$1,134.92	100.8%	-$9.41	$22.62	9.37%	($0.69)	-0.27%	$251.38	10.02%	5.25%	5.25%	4.77%	$12	$91.17
2042	$1,136.29	$1,147.09	101.0%	-$10.80	$23.27	9.36%	($0.79)	-0.30%	$258.96	10.01%	5.25%	5.25%	4.76%	$12	$90.48
2043	$1,149.21	$1,161.55	101.1%	-$12.34	$23.93	9.35%	($0.90)	-0.34%	$266.74	10.00%	5.25%	5.25%	4.75%	$13	$89.85
													Total City Financed Portion for 30 years		$732

The assumptions, except where stated otherwise are the same as those used in the June 30, 2014 report.
All dollar amounts in millions

The spreadsheet shows one option, adding administrative costs to the already rounded employer contribution rate of 27.5%. Adding 65 basis points to the City financed portion would bring the contribution rate up to 28.15%. It raises the contributions for the employer and provides for 100% funding a little earlier than previously anticipated. Under this option the unfunded liability reaches $0 in 2028 when under the baseline it does not reach $0 until 2029.

Mr. Hermanson said he wanted to go into how this option works with the Funding Policy and the rounding up of the employer contribution rate.

Ms. Thomson explained that the spread sheet assumes the rounding policy was applied before the administrative expenses; so the expenses are added on top of the employer contributions. This option illustrates the largest impact of the expenses. The other way to accomplish this would be to add the expenses to the employer contributions and then round. The raw actuarial employer contribution was 27.03%, adding 65 basis points would bring it up to 27.68%, which would round to 28%.

Mr. Hermanson said if it was filtered through the Funding Policy, which is another aspect of the discussion, it would be somewhere between 28.15% and the actuarially determined rates are from the valuations.

Ms. Thompson advised the other alternative would be to adding the expenses to normal cost because they are part of the annual cost of the plan. One of the interesting things about TSRS is that employees pay one half normal cost which means it would transfer into employee contribution; so employees would be paying half of the administrative expenses. However the legacy members are capped at 5% contribution rates so they would not be paying any of the administrative expenses. The raw contribution rate for tier II members of TSRS would be 6.62%, adding 32 basis points would bring it to 6.94%, which would be rounded up to 7%. With their current contribution rate of 6.75% the increase would be more than 25 basis points. Tier III members have a raw rate of 4.91%, 32 basis points would bring it up to 5.23%, which would be rounded to 5.25%. They would move from 5% to 5.25%. The employer would pay the other 32.5 basis points. Not all of the administrative expenses would be paid this way because legacy members would not pay, so that cost would have to be let go, or pushed onto the non-legacy employees or the employer.

Mr. O'Hare requested tables showing the division of the expenses for the different options.

Ms. Langford said the expenses were currently being netted against investment returns. If expenses were shifted to any of Ms. Thompson's models the Board could begin thinking about the impact they want to see. The option modeled with the 65 basis points on top of the rounded contribution would result in the contribution of both amounts, the rounding and the full expense load would be factored into the City's contribution.

Mr. Hermanson stated it was important for the Board to understand that if they followed through with the Funding Policy as presented at this meeting, it incorporates the addition of the administrative expenses to the overall calculation and would feed back into the rounding approach, and adding it to the employee contribution rates was not a part of the policy.

Ms. Langford said the option of adding it to each employees segment and the City was viable though complicated because of the legacy cap.

Chairman Fleming asked if it would have to be recalculated or would it always be 65 basis points.

Mr. Hermanson answered that was just what it was at this time.

Ms. Langford said they were trying to avoid fluctuation in the employee rates. The Board would have to decide how much they wanted to ask to collect. Under the Funding Policy they would go with the middle of the road approach as described by Ms. Thompson.

Ms. Amparano thought splitting the administrative costs between the employee and employer contribution rates was not a viable option. She felt this was not a necessary action to reach 100% funding only 1 year earlier, and suggested the Board continue to use the earnings to pay administrative costs.

Mr. Hermanson said the point they were trying to make was that any time there is a cost element it should be identified and funded explicitly.

Ms. Thompson said, from an actuarial perspective, in a year when the Board does not meet investment returns it also means they are not meeting their administration expenses and those cycle back and get spread over the amortization period. Then they are amortizing current debt which heightened the need to discuss the issue because they should not spread current service debt over 20 years.

Kevin Larson said he understood the concerns to the City but he liked the idea of the transparency of the expenses, and expressed support for the model where they add the 65 basis points and round it. It should not add it to the normal costs because it was not necessary. The Mayor and Council is in a position where they are willing to fund more than the ARC, and this should not be the complication to the issue that makes them lose interest in doing so, but the transparency it would bring to the expenses would be positive.

Ms. Langford stated it would also make the returns more accurate.

Mr. O' Hare clarified that the calculations given in the models were predicated on a 7.25% return.

Ms. Amparano asked what the administrative expense was based on.

Mr. Hermanson answered the actual for the previous year was $700K.

Ms. Langford explained the Funding Policy definition is meant to make it clear to Mayor and Council that there is an approved budgeted amount, but when Ms. Thompson does the calculations it would be based on the actual expenses incurred by the end of the year. The Funding Policy is a draft until the Code changes are approved. Adding actually between "expenses" and "incurred" to the wording in the Funding Policy would help to clarify the administrative expense was based on the actual cost from the previous year.

Chairman Fleming asked if it was appropriate for the Board to consider approving the Funding Policy as presented.

Ms. Langford answered if the Board was comfortable with the proposed Code revisions and wanted to give authorization to move forward with them, there should also be a motion to approve the Funding Policy because the draft goes with the Code revisions.

Chairman Fleming asked if it was appropriate to approve the Funding Policy before considering the Code changes.

Ms. Langford answered that was appropriate.

A motion to approve the TSRS Funding Policy was made by Michael Coffey, 2nd by Kevin Larson, and passed by a vote of 6-0 (Chairman Fleming did not vote).

Ms. Langford said item 5 in the Code revisions, dealing with an individual hired as a part time employee and later becomes full time, is a new provision. It was added because the Code currently says an employee's contribution rate is based on their date of hire, but in the cases of a long term part time employee the contribution rate will be determined based on when they become full time eligible.

Mr. Hermanson had requested that addition because there was ambiguity in the Plan Document with respect to how individuals are treated when they did not qualify to become a member until they attained full time status and if they were hired as a non-eligible part time employee 10 years ago their contribution rate would be locked in at 5% like a legacy member. They should land in the benefit tier applicable when they achieve full time status because that is when they actually become a TSRS member.

Mr. Coffey asked for clarification on item number 10 – Post Retirement Marital Changes.

Mr. Hermanson explained there have been issues where people are married when they retire and name their spouse as a surviving beneficiary, so that on the death of the member the spouse will receive the benefit. Then after retiring they get a divorce, or the spouse dies, and the member remarries, and wants to change the designation from the previous spouse. They did not understand why it was not possible when there was nothing prohibiting it in the Code, so this revision is remedying that.

Mr. Coffey asked if this was for administrative convenience.

Chairman Fleming answered no it was for actuarial purposes.

Mr. Hermanson explained it was an actuarial consideration for the plan; it keeps things smooth and steady for the cost of the plan. If retirees are able to change their survivors it changes the costs and they are not funded correctly.

Dave Deibel pointed out there could also be court orders applied to member's accounts.

Ms. Langford said the permanent and irrevocable language has always been in the Code, but retirees going through these circumstances argue that it means if they were married to the same person it is irrevocable, so this new language is just to make the Code provision as clear as possible.

A motion to approve the proposed revisions to the Plan Document was made by Michael Coffey, 2nd by Silvia Amparano.

Mr. Larson had some questions about item 3 – Disability Benefits. In Sec. 22-30(jj) it says "the Social Security Administration's determination shall be treated as conclusive evidence of Total and Permanent Disability." It should say "strong evidence" because it is important that the Social Security Administration's (SSA) decision is

based on the time period when the person was a City employee. If the language is left as it is, a provision should be added to say provided the SSA's determination clearly determines it happened while the person was a City employee.

Ms. Langford said that was a good point that was not discussed in July. What they wanted to focus on was being able to accept the SSA determination as proof someone is disabled. In other provisions, with regard to the commencement of the benefit, there is language that says the person had to have stopped working for the City as a result of the disability. This language makes it clear that even if a SSA determination is obtained they still have to have stopped working at the City as a result of that disability.

Mr. Hermanson added the language also states they have to apply for disability retirement within 12 months of terminating City employment.

Chairman Fleming explained all the conclusive evidence language says is the Board will not re-litigate the question of whether they are disabled, leaving open the question of when they became disabled.

Mr. Larson said in Sec. 22-39(a) – Qualifications the language relates to a person who is no longer employed by the City, and asked if a section relating to applicants who are still employed by the City should be added because several applicants are still City employees, and the deleted language allowed for someone who was currently employed by the City.

Ms. Langford said this was a good point because if it is typical that someone is still a City employee when they apply, the word "terminates" should be removed.

Mr. Deibel asked how the sentence would be restructured.

Ms. Langford answered they should revert to the original language for that sentence.

Mr. Hermanson explained they were clarifying that someone cannot terminate and come back to the City to apply for disability retirement several years later because they have to apply within 12 months of termination. They are also leaving in the requirement of 10 years of City service.

Ms. Langford stated they were also requiring that the applicant establish that they left City employment or went on leave because of the disability.

A motion to delete the proposed revision to Sec. 22-39(a) stating "If a member terminates from employment with the City prior to reaching Normal Retirement Age" and return to the original document wording from the revised Plan Document was made by Kevin Larson, 2nd by Rebecca Hill, and passed by a vote of 6-0 (Chairman Fleming did not vote).

Mr. O'Hare expressed concern over the revision in Sec. 22-30(jj) designating the SSA determination as conclusive evidence of total and permanent disability because it turned the Board's authority over to the SSA.

Ms. Langford explained the independent determination was of the date the benefit would start. If a disability retirement applicant already had a SSA determination the Board's inclination was to take that as proof of disability. If the applicant had not yet applied or they are still in the process, the Board would go through the current procedure to make an independent determination of disability.

Mr. O'Hare stated he would like to see the Board take the SSA determination of disability as a factor but not be bound by it. He asked if the Board would still have the ability to require medical evaluations of disability retirees at a later date if they approved the wording of this revision.

Ms. Langford answered the annual verification of income would continue, and the discretionary follow up for an independent review would still be allowed. The revision only applies to the threshold determination of whether the applicant was disabled. There are some differences between the Board and SSA currently because the

wording including "not less than 12 months" lacks the permanency of a total and permanent disability, which was the reason one of the revisions removed that wording.

A motion to strike the word "conclusive" in reference to the SSA determination as evidence from the proposed amendment to Sec. 22-20(jj) of the Plan Document was made by John O'Hare. The motion failed for lack of a 2nd.

Mr. Larson said he would substitute for the word conclusive because 99% of the time there will not be a question, but there are odd instances in that other 1% of the time.

A motion to replace "conclusive" with "strong" was made by Kevin Larson, 2nd by John O'Hare.

Mr. Coffey felt the sentence lost its meaning with the word conclusive removed. If the SSA determination was not taken as proof of disability it was just more information, so if conclusive is removed, the whole sentence should be removed.

Ms. Langford agreed with Mr. Coffey.

The motion passed by a vote of 4-3 (Rebecca Hill, Michael Coffey, and Jorge Hernández dissenting).

Mr. O'Hare asked if there was a provision in the Code stating the City was required to pay the ARC.

Ms. Langford answered no; they were required to pay the employer contribution, which is the City's share of the ARC.

Mr. O'Hare asked if the Board wanted to change that so they have to pay the City's share of the ADC.

Ms. Langford answered they already had with a revision to Sec. 22-35(b) which changes "Annual Required Contribution" to "Actuarially Determined Contribution". There is another provision, which has not been modified, stating the City will appropriate the employer contribution piece.

The motion to approve the proposed revisions, as amended, to the Plan Document passed by a vote of 6-0 (Chairman Fleming did not vote).

3. October Board Retreat – Draft Agenda

Michael Hermanson stated the draft agenda incorporates all of the topics and issues previously suggested by the Board.

John O'Hare asked if he could contact Mr. Hermanson by email with any other suggestions.

Mr. Hermanson answered yes.

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

1. Understanding the Impact of Negative Cash Flow on a Public Pension Plan (Gabriel Roeder, Smith & Company, September 2015)
2. The Yardstick: A Tool to Evaluate Proposed Reforms of Arizona's Public Safety Personnel Retirement System PSPRS – Final Report (League of Arizona Cities and Towns' Pension Task Force, August 19, 2015)

F. **Call to Audience**

Jorge Hernández distributed an article about Aberdeen that he would like to share with the Board as the conversation continues.

G. **Future Agenda Items**

H. **Adjournment** 9:55 AM

Approved:

Robert Fleming Chairman of the Board	10/30/15 Date	Silvia Navarro Treasury Administrator	11/2/15 Date