# TUCSON SUPPLEMENTAL RETIREMENT SYSTEM
# BOARD OF TRUSTEES
# Meeting Minutes

**DATE:** **Thursday, April 25, 2019**
**TIME:** **8:30 a.m.**
**PLACE:** **Human Resource Conference Room, 3rd floor East**
**City Hall, 255 West Alameda**
**Tucson, Arizona 85701**

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|---|---|
| Members Present: | Mark Rubin, Chairman<br>Ana Urquijo, HR Director<br>James Wysocki, Elected Retiree Representative<br>Jorge Hernández, Elected Representative<br>Kevin Larson, City Manager Appointee |
| Staff Present | Art Cuaron, Pension & Benefits Administrator<br>Tina Gamez, Administrative Assistant |
| Guests Present | Catherine Langford, Yoder & Langford – TSRS Legal Counsel (via Telephone)<br>Dave Deibel, Deputy City Attorney<br>Pete Saxton, Pension Manager<br>Aaron Williams, Principal Internal Auditor<br>Robert Kulze, Principal Internal Auditor<br>Paul Erlendson, Callan LLC (via Facetime) |
| Absent/Excused: | Joyce Garland, Finance Director<br>Michael Coffey, Elected Representative |

Chairman Mark Rubin called the meeting to order at 8:30am

A. **Consent Agenda (00:00-02:53)**
   1. Retirement Ratifications for April 2019
   2. March 2019 TSRS Budget Vs. Actual Expenses
   3. March 2019 Board Meeting Minutes
   4. TSRS March Investment Measurement Service Monthly Review

**A motion to approve the Consent Agenda was made by Kevin Larson, 2nd by Jorge Hernandez.**

**Ana Urquijo moves to modify and approve items 1, 3 & 4 from the Consent Agenda, 2nd by Kevin Larson.**

James Wysocki asked to have item A2 removed from the agenda.

James Wysocki asked Art Cuaron why we're carrying a significance variance in personnel.

Art Cuaron stated the reason for this was due to his salary not being allocated appropriately. TSRS splits half of his salary with the general fund, however it was being charge 100% to TSRS, accounting revised this in March and this is the reason for the variance.

**A motion was made to approve item 2 by James Wysocki, 2nd by Ana Urquijo, passes unanimously (Joyce Garland & Michael Coffey absent/excused).**

B. **Call to Audience (02:54-03:00)**

None heard

C. **Disability Application* (03:01-06:37)**
   1. Leon Howell

**A motion to enter executive session was made by Ana Urquijo, 2nd by Kevin Larson, and passed by a vote of 5-0 (Joyce Garland & Michael Coffey absent/excused).**

**A motion to return to regular session was made by Kevin Larson, 2nd by Jorge Hernandez and passes unanimously (Joyce Garland & Michael Coffey absent/excused).**
**A motion was made by James Wysocki to approve Leon Howell Disability Application, 2nd by Jorge Hernandez. The Disability Application of Mr. Howell was approved unanimously (Joyce Garland & Michael Coffey absent/excused).**

**Break: 9:41 AM**
**Returned: 9:46 AM**

D. **Asset/Liability Model Report**
   1. Discuss ALM Survey Results- Callan **(01:06:52-01:53:34)**

Paul Erlendson presented the survey results to the Board. The results were informative and the Board has received a memo that summarizes this information. The results indicated that some members preferred a more conservative time horizon compared to other members; and most member's highest objective was for a more aggressive portfolio seeking higher returns although this would be subject to more volatility. This agrees with the Board's largest concern, the funded status of the plan. Further, the members were less concerned about the liquidity needs of the plan.

Kevin Larson asked about the plans ability to meet liquidity needs in order to pay the retirees.

Paul stated that liquidity is an issue and discussion has been held with management staff with regard to managing liquidity. The liquidity needs of mature plans such as TSRS is being felt by other similar plans and Callan has identified enough interest nationally that it will be presenting a class in Atlanta called Managing Liquidity.

Paul also discussed how short term liquidity needs should align with the Board's desire for longer term investment strategy. The evaluation of each fund manager in the portfolio should be evaluated over the long term, but not so long that a specific manager is allowed to continue without a review. Additionally, liquidity needs should include asset allocation decisions such as the investment in equities or debt securities and the investment in publicly traded versus privately held securities.

Paul stated there are different tradeoffs when it comes to asset allocations, and the Board may want to consider both the things which can be controlled and the things which cannot be controlled. The factors which can be controlled include the fund's goals, time horizon, and risk tolerance. The factors which cannot be controlled include liquidity needs, capital expectations and liabilities.

The liabilities are estimated by the actuary, and for the Asset/Liability model, Callan will build its own liability model to match the actuarial model. The model will show how plan membership populations assumptions will affect liquidity, and how liquidity and age of the population could result in net outflow of resources. The model uses the combined effect of inflows and outflows within a range of possible outcomes through time. The range of outcomes is obtained by comparing the expected actuarial liabilities to investment returns.

In the model, the required contribution by the City is called the ultimate net cost. The ultimate net cost is related to the liabilities and investment earnings, and investment earnings are primarily impacted by strategic asset class.

The Board requested that Paul send information to the Board as early as possible, with at least a week before the meeting at which the Board would evaluate and possibly vote on a strategy. Paul stated that his firm will provide the information as requested. Further, the information will present a series of different asset class investment strategies and the likely range of outcomes.

The Board requested that Paul provide a recommendation for their consideration, one which matches Callan's understanding of the Board's investment strategy and desire to one investment strategy.
there was other discussion held, noting that Callan has experience in this area, that the Board has an obligation to perform appropriately, that this process was appropriate, and should result in a strategy that had been thoroughly considered.

**No formal action taken.**

E. **Administrative Discussions**

**This item was taken out of order and discussed after item C.**

1. Revision to the Ratification Report **(06:38-24:52)**

Art Cuaron briefed the Board on the revisions to the Ratification Report. Staff continues to evaluate operations for improved efficiency. Modifications have been made to the Ratification Report. Art is seeking direction from the Board on the revised Ratification Report. The new streamline version will offer new accountability to the Board, staff and the general public. The new Ratification Report will reduce the exposure of personal information.

James Wysocki commented that he would like to modify the proposed report.

Jorge Hernandez asked about the estimated/finalized calculation report.

Art Cuaron stated the difference between the estimated and finalized report is the pay outs.

Kevin Larson asked if this new report will save time compared to the old report.

Pete Saxton commented that this report will save time due to it being manually logged into a spread sheet.

Catherine Langford stated that the ratification report is intended to allow the board to verify the people that are being compensated are eligible under the system. Catherine also commented that she would also like to see age plus credited service on this report. The present value of the benefit is helpful information but if it's not available it isn't helpful if the pension is estimated. One this new report (4) of the total retirements are estimates, making the present value column blank. Catherine recommended possible a trending report rather than the ratification report.

**A motion to approve the new report was made by Kevin Larson, 2nd by Ana Urquijo. James Wysocki wants to modify the proposed report, motion fails 2-3 (Jorge Hernandez, James Wysocki and Kevin Larson dissented, Ana Urquijo and Mark Rubin were in favor).**

**A Motion to approve the report subject to the modification of the service credits and age column were made by James Wysocki, 2nd by Ana Urquijo, passed by a vote of 5-0 (Joyce Garland & Michael Coffey absent/excused).**

2. 2019 Disability Audit **(24:53-28:03)**

Art briefed the Board on the 2019 Disability Audit. Art mentioned to the Board that staff has sent out letters to all disability applicants. Art commented this is just to confirm that the applicants are still permanently disabled. Applicants have until May 31, 2019 to reply back to our office. If the applicants don't reply back in a timely manner, the Board has the ability to stop all disability payments. Art will provide an update in May and the final count will be June.

Kevin Larson asked if we have to do any type investigation to confirm that the disability applicants are not working.

Art commented that we don't do any further type of investigation other than the income verification and the letter that they return to us accurate.

Catherine Langford commented if needed they could do more, but at this time it hasn't been needed.

Jorge asked what proof is needed.

Pete Saxon stated that they request the most recent tax form as proof of income verification.

**Discussion held, no formal action taken.**

3. Internal Audit Update – Aaron Williams – City of Tucson Internal Audit **(28:05-01:06:27)**

Aaron Williams presented to the Board the follow up report regarding the fraud prevention mechanisms in the pension division. The Objective of the follow up was to determine if the pension division's plans are in place and addressing fraud prevention mechanisms and segregations duties related to three areas. Wire/Fund transfers and Authorization process, Benefit Payment Process and Member Data Management.

Aaron provided two recommendation to the Board: First would be updating BNY Mellon authorization to dual signatures, currently we have only one authorized signer.

Art informed the Board that the Pension Administrator was the only one dealing with investment and liquidity, due to staff being limited.

Aaron's second Recommendation is to automate the wire and transfer process through BNY Mellon's online system. That would require dual authorization; one initiator and one approver. Aaron discussed the need for a reconciliation process with accounting. Discussion did occur, but currently not set in place.

Ana asked if reconciliation were stopped or has it always been like this.

Aaron commented that accounting records it in the ledger. Accounting performs a monthly process and then put in to the general ledger accounts. Art stated that accounting was doing this quarterly before the monthly process begins. Internal Audit recommends to implement the original recommendations and to ensure the adopted process constitutes proper reconciliation.

Review of the management action plan related to the benefit payment process included the fraud prevention mechanisms and segregation duties. However, management had partially implemented their action plan for rollovers and refunds. Internal Audit recommends recurring checks should be removed from the responsibility of staff that enters information into the system. The modification should be processed and documented in the main accounting system.

Kevin Larson asked how many checks were being processed a month. Aaron stated under 25 a month and that was one of our busiest months for refunds and rollovers. Kevin asked if we could avoid using checks. Art commented that City has looked using paper checks and possibly use debit cards but doesn't know where this stands with City as of now.

**Presentation given by Aaron Williams, discussion held. No formal action taken.**

F. **Articles & Readings for Board Member Education / Discussion**

1. Why the Longest Bull Market Has Failed to Fix the Nation's Public Pensions
2. Why There Is Too Much Emphasis on Recession and the Inverted Yield Curve in 2019
3. Largest DB Plan Sponsors Adjust Policies to Manage Risks

G. **Future Agenda Items**

1. TSRS Rules and Regulations
2. Consideration to Hire External Legal Counsel
3. Internal Audit Update
4. Study Session to Discuss Post Retirement Benefit Increase Policy
5. Asset Liability Model Report
6. Quarterly Performance Review
7. Investment Manager Review Causeway

H. **Adjournment**

**A motion to adjourn the meeting was made by James Wysocki, 2nd by Ana Urquijo, and passed by a vote of 5 to 0.**

Adjourned 10:46 AM

P/P

Mark Rubin
Chairman of the Board

5/23/19.
Date

Art Cuaron
Pension & Benefits Administrator

5/23/19
Date