

**Spokane Employees' Retirement System (SERS)
Board Meeting Minutes
June 27, 2012**

Bill Todd called the regular monthly meeting to order at 1:30 p.m. in the 5th Floor Conference Room at City Hall.

Present: Bill Todd, Brian Brill, Mike Coster, Dean Kiefer, Jerry McFarlane and Jon Snyder

Absent: Steve Sather

Staff: Leo Griffin, Christine Ellingson, Donald Brown and Tim Szambelan

Guests: Tammy Erickson, Jennifer Blake, Emily Ogden, Joe Cavanaugh, Mike Cavanaugh, Richard Czernik, Pam Dolan, Jason Faulkner, Joan Hamilton, Dean Vercruysse and John Bjork

Moss Adams – December 31, 2011 Audit Report

Moss Adams presented a draft report for the 2011 SERS independent audit. The auditors explained how they test critical areas such as the investment assets, investment income, contributions, benefit payments and participant data. Moss Adams expects to issue an unqualified (clean) opinion. Additionally, they expect no comments in the management letter, which is a reflection of the continuing efforts being made by staff.

The auditors explained the due diligence process for SERS' alternative investments. Ms. Erickson explained procedures that Moss Adams uses and pointed out the importance of the onsite due diligence visits performed by Mr. Griffin. She stated that onsite office visits to the alternative investment managers by staff is a very important and key internal control. These onsite meetings can be held in conjunction with the independent investment consultant but cannot be delegated to the independent investment consultant. Onsite due diligence visits reduce the risk of fraud.

In addition, follow-up due diligence performed onsite at the manager' offices, along with attendance at the partnership annual meetings, is strongly recommended; however, follow-up visits can be delegated to, or split with, SERS' independent investment consultant. These requirements are in accordance with the American Institute of Certified Public Accountants (AICPA) Practice Aid for investing in alternative investments. Ms. Erickson stated that these are best practices and necessary given the size of the \$240 million portfolio. The Board members asked further questions about the auditor's processes.

Ms. Erickson commented that SERS recent change and improvement to automated pension calculations reduces risks and improves the quality of the System's internal controls. The chance of an error is greatly reduced with the new method. This issue was a management letter concern expressed by Moss Adams a few years ago. She complimented the staff for their efforts in automating the pension calculations, reducing risk and improving internal controls.

Ms. Erickson stated that GASB is scheduled to release a new Pension Pronouncement this week. The proposed GASB changes are some of the largest pension changes in history. The changes to the footnotes and balance sheet are highly complex and Ms. Erickson recommended that education be provided to staff prior to the implementation date. GASB Statement No. 67, *Financial Reporting for Pension Plans*, is effective for financial statements for periods beginning after June 15, 2013 (SERS is expected to implement Standard No. 67 for its year ended December 31, 2014.) GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* applies to the employer, the City of Spokane, and is effective for fiscal years beginning after June 15, 2014.

Furthermore, Ms. Erickson congratulated staff and the Board on controlling the administrative expenses of operating the Plan. She noted that administrative expenses were reduced for the third year in a row and 2011 expenditures were less than seven years prior in 2004.

Ms. Erickson also stated that SERS' investment performance since restructuring is excellent compared to other plans. She complimented the staff and the Board for a job well done on managing the investment portfolio.

Minutes of the May 30, 2012 Meeting

Jon Snyder moved and Jerry McFarlane seconded the motion to approve the minutes of the May 30, 2012 meeting as distributed. The motion passed unanimously.

Service Retirements

Name	Age	Retirement Date	Years of Service	Option	30-day Notice
David Perry, Jr.	54	06/09/2012	20.5	E	N
Melissa K. Wittstruck	53	07/03/2012	10.7	C10	N
Danny L. Brown	65	07/06/2012	25.9	ST	Y
Marilyn L. Simon	51	07/07/2012	26.4	E	Y
Justin R. Gardella	61	07/14/2012	32.1	E	Y
Frank J. Schutz	70	07/31/2012	5.0	ST	Y
Kathie L. Benham	59	08/04/2012	23.2	ST	Y

Jerry McFarlane moved and Jon Snyder seconded the motion to approve the service retirements as presented on the June Retirement Transaction Report. The motion passed unanimously.

Withdrawals for June 2012

<u>Name</u>	<u>Termination Date</u>
Rachel Zuhlke	10/01/2011
Jennifer Valerien	01/18/2012
Shawn Lindstrom	05/25/2012

Jon Snyder moved and Dean Kiefer seconded the motion to approve the requests for withdrawal as presented on the June Retirement Transaction Report. The motion passed unanimously.

Deaths

<u>Name</u>	<u>Date of Death</u>	<u>Age</u>	<u>Information</u>
Lena Klein	05/29/2012	99	No Further Benefits
Sofia Bonck	05/31/2012	92	No Further Benefits
Rolf Stratte	06/11/2012	68	No Further Benefits

Death information was provided to the Board for review.

Interest Rate on Employee Contributions

The Board determined in 2010 that it would review the interest rate on employee contributions on an annual basis. Bill Dowd, of SageView Consulting, covered this topic within his actuarial presentation at the April 2012 Board meeting. Mr. Griffin went over the highlights of Mr. Dowd's May 23, 2012 letter. A reduction to the interest rate on employee contributions from 4.0% to 2.5% would reduce the accrued liability by \$222,000. Taken cumulatively, the July 1, 2006 reduction from 7% to 5%; the July 1, 2010 reduction from 5% to 4%; and a possible reduction from 4% to 2.5% on July 1, 2012 decrease the accrued liability by a combined \$786,000.

In addition, according to the actuary, "...a decrease in interest on member contributions will also have an impact on the amount of certain optional forms of payment that members elect at retirement. The impact will vary based on their age, service, and compensation level."

Jerry McFarlane moved and Jon Snyder seconded the motion to recommend to the City Council that the interest rate on employee contributions be changed from four percent (4%) to two and one-half percent (2.5%) effective July 1, 2012. The motion passed unanimously.

Mr. Griffin will brief the Mayor and Mr. Snyder suggested that the actuary's letter be sent to the City Council members but that the topic not be placed on the Finance Committee agenda.

Actuarial Study Update and July Board Meeting

At the May 30, 2012 Board meeting, the results of the actuary's Experience Study were presented. In conjunction with recommendations to change certain actuarial assumptions and the cost method (from Projected Unit Credit to Entry Age Normal), the actuary recommended an increase of 1% in total to the employer and employee contribution rates, which if split equally, would increase from 7.75% to 8.25% per side. Mr. Griffin stated that based on a covered payroll of \$90 million, a 0.50% increase would cost the City an additional \$450,000 per year. That amount is not in the projected \$9-\$10 million shortfall for the 2013 City Budget. The actuary is preparing cost projections for plan change scenarios to study the possibility of 'no contribution rate increases.' The actuary will be delivering the results of their study to the Mayor on Thursday, July 26, 2012.

Mr. Griffin recommended to the Board that the regularly scheduled July 25th 1:30 pm Board meeting be moved to 12:30 pm on Thursday, July 26, 2012, which would accommodate the actuary's schedule. At the consensus of the Board, the July Board meeting will be held on July 26, 2012 at 12:30 p.m.; lunch will be available.

Director's Report

Expenditure Summary Report – May 2012

The Expenditure Summary Report was presented to the Board and discussed. Mr. Griffin informed the Board that administrative expenses, through May 31, 2012, are 19% less compared to the same period last year.

Mike Coster moved and Jon Snyder seconded the motion to approve the May 2012 Expenditure Summary Report. The motion passed unanimously.

Schedule of Investments – May 2012

The monthly investment report was presented to the Board for review. The market value of the SERS portfolio on May 31, 2012 was \$227.8 million. Mr. Griffin gave a market update in which he stated that as of June 27, 2012 the S&P 500 was down by over 6% quarter-to-date, but was up approximately 5.9% year-to-date. International equity markets were down 3% year-to-date. Measured on its own, the second quarter, which ends Friday, is looking dismal for the equity markets.

Outside Legal Counsel

Mr. Griffin discussed the current arrangement of K&L Gates serving as outside legal counsel for the Fund. K&L Gates provides two primary services for SERS:

- 1) comprehensive review of the Limited Partnership Investment Agreements and
- 2) administrative legal and tax work related to operating the pension plan.

Mr. Griffin recommended that SERS retain K&L Gates for Limited Partnership and other investment related work and move all other external Plan related legal services to Lane Powell. Lane Powell was one of the firms interviewed in the SERS legal services RFP in fall, 2010. City Attorney Nancy Isserlis is open to this idea, which will require contract approval by the City Council. Mr. Griffin stated that such

a move should save the Plan money while not compromising the quality of the work product received. Arrangements are being made for Lorne Dauenhauer, Shareholder [Partner], and Lewis Horowitz, CEO of Lane Powell to come to Spokane and meet with Ms. Isserlis, Mr. Szambelan and Mr. Griffin.

Jon Snyder moved and Dean Kiefer seconded the motion to approve authorization to pursue entering into a contract for outside legal counsel with Lane Powell. The motion passed unanimously.

Other Business

Mr. Griffin distributed a recently released June 2012 document from The National Association of State Retirement Administrators (NASRA). Independent research performed by Callan Associates reflects that the median public pension plan annualized investment return over the 25-year time period ended December 31, 2011 was 8.3%. Mr. Griffin pointed out that the 25-year time period included three significant market corrections: Black Monday in October 1987, the Dot Com Bust of 2000-2001 and the Global Credit Crisis of 2008. The 8.3% median annualized investment return over 25 years “exceeds the most-used investment return assumption of 8.0 percent.”

In addition, the NASRA Report contained a recent study performed by Boston College who studied 126 public pension plans. SERS uses a 7.5% assumed rate of return which was discussed and reaffirmed at the May 30, 2012 Board meeting. The Boston College Study shows that 76% of the 126 plans have assumed rates of return that are above 7.5% - higher than SERS. Only 10 plans, representing 7.9% of the 126 plans in the Study, have assumed rates of return lower than SERS. The lowest assumed rate of return of 7.0% is used by less than 5% of governmental plans. Mr. Griffin pointed out that a plan’s assumed rate of return is based on many factors including the sophistication of its asset allocation. In summary, SERS’ assumed rate of return of 7.5% is considered a conservative long-term rate of return and is in the bottom quartile as measured against other governmental plans nationwide.

There being no other business, the meeting adjourned at 2:55 p.m.

/s/

Leo F. Griffin, Retirement Director