

Spokane Employees' Retirement System (SERS)
Board Meeting, 1:30 p.m. October 25, 2017
City Hall - Conference Room 5A

AGENDA

- 1) Minutes of the September 27, 2017 Meeting
 - Motion

- 2) Directors Report
 - a. Retirements
 - Motion
 - b. Withdrawals
 - Motion
 - c. Deaths
 - Information
 - d. Expenditure Summary Report – September 2017
 - Motion
 - e. Schedule of Investments – September 2017
 - Information
 - f. Monthly Cash Reconciliation
 - Information
 - g. Other Business
 - Rule of 90 Implementation (Information)
 - 3Q Funding Ratio (Information)
 - 2018 Educational Opportunities (Information)
 - Plan Benchmarking Review (Information)

- 3) Other Business

- 4) Next Meeting – **Wednesday, December 6, 2017 at 12:30 p.m.**

**Spokane Employees' Retirement System (SERS)
Board Meeting Minutes
September 27, 2017**

The regular monthly meeting was called to order at 1:31 p.m. in the 5th Floor Conference Room at City Hall.

Present: Mike Coster, Dean Kiefer, Candace Mumm, Brian Brill, and J.D. Morscheck

Absent: Jim Tieken and Mike Cavanaugh

Staff: Phill Tencick, Christine Shisler, Donald Brown, and Tim Szambelan

Guests: Joe Cavanaugh, Bob Olsen, Dave Hanshaw, Natalie Hilderbrand, John Bjork, and Richard Czernik

Minutes of the August 30, 2017 Meeting

J.D. Morscheck moved and Brian Brill seconded the motion to approve the minutes of the August 30, 2017 meeting as presented. The motion passed unanimously.

Candace Mumm arrived at 1:38 P.M.

Letter to the Mayor Regarding Sustainability

Mike Coster distributed to the Board a letter for their review. The letter outlined the Board's responsibilities as a fiduciary of the SERS Plan and invited the Mayor to attend a Board meeting to discuss any concerns the Administration may have regarding the sustainability of the Plan.

Dean Kiefer moved and J.D. Morscheck seconded the motion to send the letter, as presented, to the Administration. The motion passed unanimously.

Director's Report

Service Retirements

<i>Name</i>	<i>Age</i>	<i>Retirement Date</i>	<i>Years of Service</i>	<i>Option</i>
Brian K. Kreuch	54	09/02/2017	12.7	C-10
James E. Moe	61	10/05/2017	34.0	D
Jody L. Treffry	62	11/02/2017	11.8	ST
Lynn M. Cunningham	63	11/04/2017	25.4	ST

Ms. Shisler informed the Board that Gregory N. Lorenzi has cancelled his retirement application.

Candace Mumm moved and J.D. Morscheck seconded the motion to approve the service retirements as amended on the September Retirement Transaction Report. The motion passed unanimously.

Withdrawals for August 2017

<i>Name</i>	<i>Years of Service</i>	<i>Termination Date</i>
Molly Rose B. Fehringer	2.9	03/03/2017
Lauren E. Pierson	1.3	06/16/2017
Jason H. Ellsworth	2.7	08/08/2017
Sandra D. Willard	0.5	08/09/2017

Candace Mumm moved and Dean Kiefer seconded the motion to approve the requests for withdrawal as presented on the September Retirement Transaction Report. The motion passed unanimously.

Deaths

<i>Name</i>	<i>Date Retired</i>	<i>Age</i>	<i>Date of Death</i>	<i>Information</i>
Jack G. Trelawney	05/06/2000	83	08/24/2017	No Further Benefits
Jack N. Johnston	02/03/2002	81	08/31/2017	No Further Benefits
Otto L. Deneke	09/12/1981	98	09/15/2017	No Further Benefits

Death information provided to the Board for review.

Expenditure Summary Report – August 2017

The Expenditure Summary Report was presented to the Board and discussed.

J.D. Morscheck moved and Brian Brill seconded the motion to approve the August 2017 Expenditure Summary Report. The motion passed unanimously.

Schedule of Investments – August 2017

The monthly investment report was presented to the Board for review. The estimated market value of the SERS portfolio on August 30, 2017 was \$298 million with an estimated rate of return of 0.2% for the month.

Monthly Cash Reconciliation

The monthly cash reconciliation report was presented to provide the Board with additional insight into the ongoing liquidity, transactions, and cash position of the plan.

Consolidated Portfolio Holdings Review

Mr. Tencick presented a portfolio-wide review of the holdings and risk factors for the SERS investments. The portfolio's asset allocation, sector, style, geography and risk factor exposures were shown and compared to the policy benchmark and peer groups.

Investment Fee Analysis

Mr. Tencick presented a review of SERS' investment fees paid, both directly and indirectly. The overall fees paid totaled \$3.75M for 2016, which was 1.35% of the assets.

Most of the fees (62%) were paid to the alternative investment managers, which composed 27% of the portfolio's assets. For most asset classes, the alpha generated by active managers exceeded the cost of the fees paid.

There being no other business, the meeting adjourned at 2:31 p.m.

Phillip Tencick, Retirement Director

DRAFT

SERS Retirement Transaction Report

October 2017

Retirements

	Name	Age	Retirement Date	Years of Service	Department	Option
1	Aaron J. McDanold	61	10/20/2017	16.01	Streets	ST
2	Cassandra D. Friesen	50	12/01/2017	5.80	Accounting	E
3	Daniel L. LaPorte	61	12/05/2017	9.78	Streets	ST
4	Chris J. Lampe	69	02/03/2018	3.69 portable	Engineering Services	ST
	Retirements YTD	48				
	2016 Total Retirements	69				

Withdrawals

	Name	Years of Service	Department	Termination Date
1	Katherine V. Ross	0.84	Mayor	02/05/2016
2	Grifynn M. Clay	0.98	Council	05/06/2017
3	Judy T. Petrucci	3.15	Asset Management	06/08/2017
4	Gina R. Rogers	0.74	Mayor	07/29/2017
5	Diana Whaley beneficiary of Hunt Whaley	3.86	Legal	08/11/2017

Deaths

	Name	Date Retired	Age	Date of Death	Information
1	Virginia M. Watt	09/16/2000	80	08/28/2017	No Further Benefits
2	Alice M. Hartford	07/01/1993	86	09/27/2017	No Further Benefits
3	Bernice H., Rosendahl	11/11/2013	92	10/15/2017	No Further Benefits
4	Russell W. Beseler	04/02/2011	68	10/17/2017	D Option Continues

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
 2017 EXPENDITURE SUMMARY REPORT
 SEPTEMBER 30, 2017

	2016 ACTUAL	2017 BUDGET	SEPTEMBER ACTUAL EXPENDITURES	2017 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
OPERATING EXPENDITURES						
Departmental Salaries	261,984.86	279,341.00	30,472.20	194,020.70	85,320.30	69.5%
Departmental Benefits	76,531.55	80,482.00	7,827.09	57,916.41	22,565.59	72.0%
Reserve for Budget Adjustment	-	10,000.00	-	-	10,000.00	0.0%
Administrative Income	(19,375.31)	(10,000.00)	(5,098.15)	(14,853.04)	4,853.04	
Postage/Supplies/Other	11,432.31	16,500.00	62.49	2,896.12	13,603.88	17.6%
State Audit Charges	11,172.03	12,000.00	584.48	7,363.19	4,636.81	61.4%
Contractual Services	80,222.66	173,475.00	-	121,470.98	52,004.02	70.0%
Travel	7,972.23	15,000.00	606.97	5,043.22	9,956.78	33.6%
Registration/Schooling	805.00	30,285.00	-	15,835.00	14,450.00	52.3%
Other Dues/Subscriptions/Membership	1,993.20	2,500.00	-	731.00	1,769.00	29.2%
Other Miscellaneous Charges	1,278.26	1,826.00	55.00	539.18	1,286.82	29.5%
Amortization	17,649.00	-	-	-	-	
TOTAL OPERATING EXPENDITURES	451,665.79	611,409.00	34,510.08	390,962.76	220,446.24	63.9%
INTERFUND EXPENDITURES						
Interfund - Centralized Accounting	2,303.96	2,347.00	-	1,760.19	586.81	75.0%
Interfund - IT Phones	1,505.77	1,451.00	128.09	1,015.45	435.55	70.0%
Interfund - Risk Management	991.00	760.00	-	570.00	190.00	75.0%
Interfund - Worker's Compensation	198.00	104.00	-	78.00	26.00	75.0%
Interfund - Reprographics	4,930.49	4,500.00	271.75	4,668.30	(168.30)	103.7%
Interfund - IT	12,980.37	14,078.00	1,173.17	9,385.36	4,692.64	66.7%
Interfund - IT Replacement	1,926.96	2,772.00	231.00	1,848.00	924.00	66.7%
Interfund - My Spokane	751.00	-	296.59	296.59	(296.59)	
TOTAL INTERFUND EXPENDITURES	25,587.55	26,012.00	2,100.60	19,621.89	6,390.11	75.4%
TOTAL ADMINISTRATIVE EXPENDITURES	477,253.34	637,421.00	36,610.68	410,584.65	226,836.35	64.4%

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
 2017 EXPENDITURE SUMMARY REPORT
SEPTEMBER 30, 2017

	2016 ACTUAL	2017 BUDGET	SEPTEMBER ACTUAL EXPENDITURES	2017 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
PENSIONS						
Pensions-Annuity Benefit Payments	23,765,712.64	26,000,000.00	2,092,241.02	18,549,768.88	7,450,231.12	71.3%
Pensions-Disability Payments	125,328.48	160,000.00	10,444.04	93,996.36	66,003.64	58.7%
Pensions-Survivor Annuity Benefits Payments	1,846,473.52	2,000,000.00	158,533.26	1,442,918.04	557,081.96	72.1%
TOTAL PENSIONS	<u>25,737,514.64</u>	<u>28,160,000.00</u>	<u>2,261,218.32</u>	<u>20,086,683.28</u>	<u>8,073,316.72</u>	71.3%
Refunds	729,741.16	1,000,000.00	41,979.46	416,003.99	583,996.01	41.6%
TOTAL EXPENSES	<u><u>26,944,509.14</u></u>	<u><u>29,797,421.00</u></u>	<u><u>2,339,808.46</u></u>	<u><u>20,913,271.92</u></u>	<u><u>8,884,149.08</u></u>	70.2%
INVESTMENT EXPENSE*						
Advisory Technical Service	380,964.60	450,000.00	4,412.98	265,015.92	184,984.08	58.9%

* investment expenses are netted against investment income in the statement of changes of plan net assets to arrive at a net investment income amount.

SERS Schedule of Cash and Investments
September 30, 2017

10/19/2017

				Allocation		
				Target	Current	Diff.
Cash Held by Treasurer	Cash	\$	53,368			
US Bank	Short-term Inv		68,688			
Total Cash			122,056	0.0%	0.0%	0.0%
Sterling Capital	Total Return		22,639,719			
Total Total Return			22,639,719	10.0%	7.5%	-2.5%
Hotchkis & Wiley	High Yield - Mutual Fund		22,173,812			
Total High Yield			22,173,812	5.0%	7.3%	2.3%
Polar	LLC		6,470,112			
American Beacon	Mutual Fund		2,501,006			
Castine Capital I	Ltd Partnership		7,512,482			
Post Limited Term High Yield	Ltd Partnership		6,010,149			
Rimrock Low Volatility	Ltd Partnership		9,648,901			
Total Absolute Return			32,142,650	8.0%	10.6%	2.6%
Total Capital Preservation			77,078,237	23.0%	25.5%	2.5%
Hotchkis & Wiley	LC Value - Mutual Fund		16,312,661			
Jackson Square (Delaware)	LC Growth - Mutual Fund		16,130,879			
MFS Heritage	LC Core		16,985,078			
Vanguard S&P 500 Index	LC Core - Mutual Fund		10,232,224			
Total US Large Cap			59,660,842	21.0%	19.7%	-1.3%
Sterling	MC Value		5,830,426			
Vanguard MC Growth	MC Growth - Mutual Fund		4,560,306			
Vanguard MC Index	MC Core - Mutual Fund		3,722,259			
Champlain	SC Core		5,556,491			
Phocas	SC Value - Mutual Fund		4,308,080			
Bridge City	SC Growth		5,877,982			
Vanguard SC Index	SC Core - Mutual Fund		1,003,355			
Total US Small/Mid Cap			30,858,899	11.0%	10.2%	-0.8%
Total US Equities			90,519,741	32.0%	29.9%	-2.1%
Artisan	SMID Value - Mutual Fund		21,932,269			
Euro Pacific	LC Blend - Mutual Fund		21,586,112			
Vanguard International	LC Index - Mutual Fund		-			
Total International Large Cap			43,518,381	15.0%	14.4%	-0.6%
Trivalent	SC Value - Mutual Fund		11,324,655			
Total International Small/Mid			11,324,655	4.0%	3.7%	-0.3%
Berens	Ltd Partnership		11,846,635			
Total Emerging Markets			11,846,635	3.0%	3.9%	0.9%
Total International Equities			66,689,671	22.0%	22.0%	0.0%
Weatherlow Offshore	Ltd Partnership		14,981,932			
Royalty Opportunities I	Ltd Partnership		2,719,344			
Royalty Opportunities II	Ltd Partnership		2,542,811			
Troob	Ltd Partnership		-			
Total Long Biased			20,244,087	7.0%	6.7%	-0.3%
Legacy Partners Realty Fund III	Ltd Partnership		-			
Metropolitan Real Estate Partners	Ltd Partnership		271,468			
Morrison Street Fund IV	LLC		1,276,816			
Morrison Street Fund V	LLC		5,766,542			
Morrison Street Debt Opportunties	LP		3,688,391			
Principal (REITs)	REITs		12,035,256			
Morgan Stanley Prime	LLC		4,666,667			
Total Real Estate			27,705,140	9.0%	9.2%	0.2%
Beach Point	Ltd Partnership		10,146,312			
Total Opportunistic Credit			10,146,312	7.0%	3.4%	-3.6%
Caduceus (OrbiMed II)	Ltd Partnership		10,385,689			
Total Special Opportunities			10,385,689	0.0%	3.4%	3.4%
Total Cash and Investments			\$ 302,768,877	100.0%	100.0%	0.0%

Withdrawals \$ (100,000)
As of August 31, 2017 **\$ 298,489,141**
Estimated Rate of Return 1.5%

Abs. Return and Total Return FI	Thesis 2017.1	54,782,369	18.0%	18.1%	0.1%
High Yield and Opp Credit	Thesis 2017.2	32,320,124	12.0%	10.7%	-1.3%
Equity and Special Situations	Thesis 2017.3	167,595,101	54.0%	55.4%	1.4%

Cash Recon - Oct 17

Date	Transactions	Sources	Uses	Balance
9/22/2017	Beginning Balance			1,358,717.62
9/27/2017	Distribution - Royalty Opps I	24,930.51		1,383,648.13
9/28/2017	Distribution - Legacy Real Estate	29,590.98		1,413,239.11
9/28/2017	Sale - Principal REIT	4,000,000.00		5,413,239.11
9/28/2017	Capital Call - Morgan Stanley Prime Fund		(4,666,667.00)	746,572.11
9/29/2017	Sale - Jackson Square	1,625,000.00		2,371,572.11
9/29/2017	Pension Payments		(2,303,463.82)	68,108.29
10/2/2017	Payroll Contributions	610,637.24		678,745.53
10/2/2017	Interest	579.37		679,324.90
10/10/2017	Returned Pension Payments	1,361.02		680,685.92
10/10/2017	Distribution - Morrison Street IV	14,184.40		694,870.32
10/13/2017	Distribution - Morrison Street IV	78,673.81		773,544.13
10/16/2017	Payroll Contributions	610,401.16		1,383,945.29
10/16/2017	Returned Pension Payments	1,741.31		1,385,686.60
10/19/2017	Purchase - Sterling Core Fixed Income		(1,000,000.00)	385,686.60
10/19/2017	Ending Balance	6,997,099.80	(7,970,130.82)	385,686.60
	<u>Upcoming</u>			
10/26/2017	Capital Call - OrbiMed Royalty Opps II		(350,000.00)	
10/30/2017	Payroll Contributions	610,000.00		
10/31/2017	Pension Payments		(2,300,000.00)	

RULE OF 90 OVERVIEW

October 27, 2017

SERS

Spokane Employees'
Retirement System

Rule of 90

- **Rule of 90:** Employees hired on or after January 1, 2018, shall receive the Tier 4 benefit, assuming all other impacted bargaining units have agreed to adopt Tier 4 by that date. The key provisions of the Tier 4 benefit are as follows:
 1. Retirement benefit of 2% of the employee's highest consecutive three-year average compensation for each year of creditable service, up to a maximum of 80% (40 years).
 2. Employees are vested after 7 years.
 3. Employees may retire at age 50 with no penalty/actuarial reduction with 30 years of service or if the, employee's age plus years of creditable service equaling at least 90, or at age 65.
 4. If an employee retires with less than 30 years of service, an Early Retirement Factor of 2.5% will be applied for each year under age 65.
 5. For calculation of the employee's highest consecutive three-year average compensation, overtime compensation will be capped at 120% of an employee's annual base salary.

Contributions

- Contributions
 - Increase to 9.0% for both Employee and Employer
 - First pay period following agreement by all Bargaining Units and City Council
 - Up to 1.0% additional increase per year based on Actuarially Determined Contribution Rate (ADC)

Implementation

Rule of 90

- PeopleSoft Updates
 - Define scope of changes
 - Third party contracting
 - City resource allocation
 - Testing
- Participant Handbooks
- Code Change
- Board Approval
- Revise Plan Docs
 - External council review for IRS compliance

Contributions

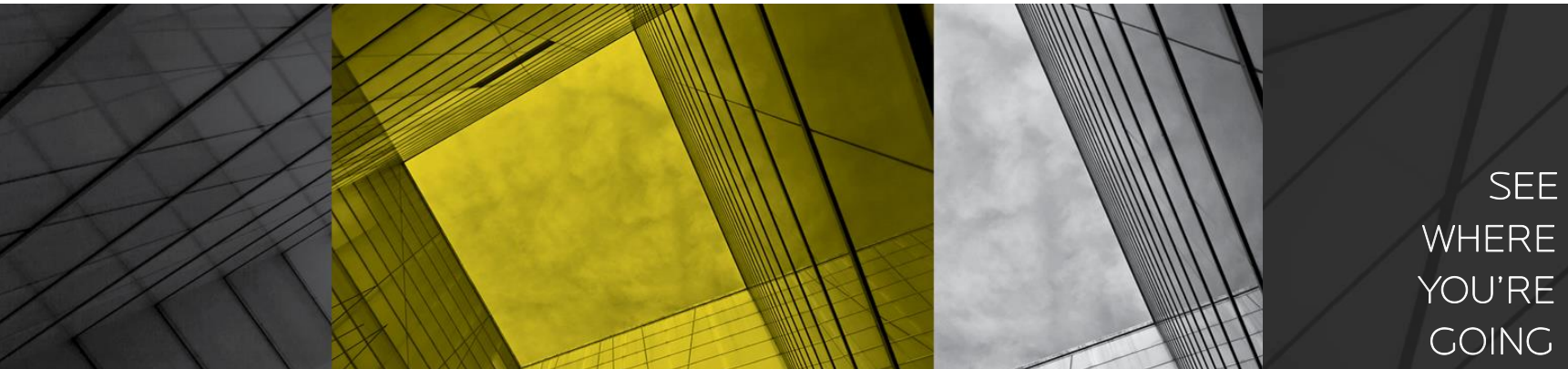
- Update rate for payroll
- Participant communication



Spokane Employees' Retirement System

Plan Design Alternatives
as Requested by the City Administration

April, 2016



Plan Provisions



» Current Plans

- Tier 1 (hired before 1/1/09; employees may elect Tier 2 at retirement)
- Tier 2 (hired 1/1/09 – 12/31/14)
- Tier 3 (hired 1/1/15 or later)
- City and Employee contribution rate is 8.25% per year

» Possible Tier 4

- Hired 1/1/17 or later
- 7 year vesting
- Retirement age 65 or Rule of 90
- Early retirement age 50
 - » Unreduced with 30 years of service
 - » 2.50% per year reduction if less than 30 years
- Multiplier – 2% with no service cap
- Overtime capped at 120% of base salary each year

» Contribution rate

- Effective 1/1/17 the City and Employee contribution rate will increase to 9.50% for all tiers

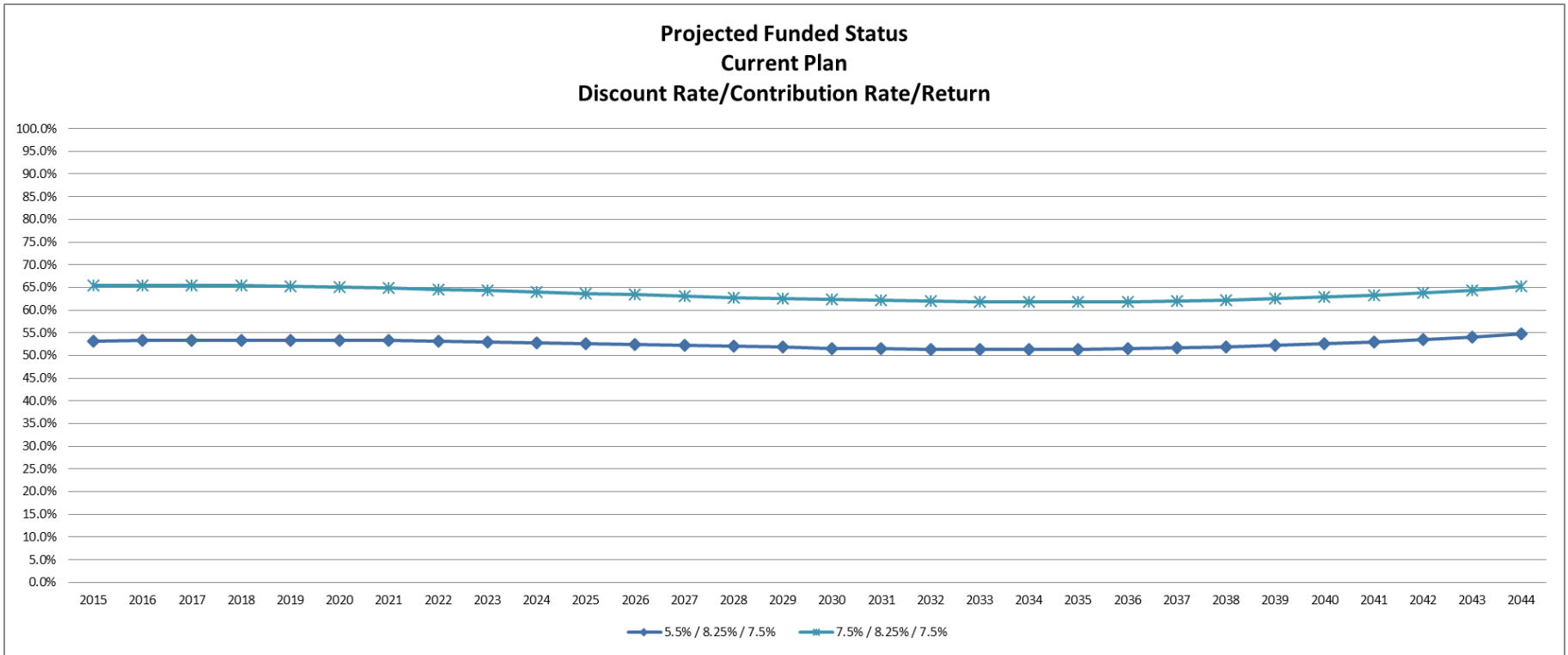
Projection Assumptions and Methods



- » Expected return on assets
 - Baseline 7.5% (current assumed rate of return)
 - Also displayed +/- 50bps
- » Discount rate for liabilities
 - 5.5% based on latest GASB 67/68 blended discount rate
 - » This rate would actually be adjusted each year in the future based on changes in funded status
 - 7.5% based on assumed long term rate of return
 - » This would be the discount rate if current assets plus future contributions were projected to fully fund future benefits for current participants
 - » At the proposed 9.50% contribution rate, the GASB 67/68 discount rate would be increased to 7.5%
- » City and Employee contribution rate
 - Current 8.25%
 - Proposed 9.50%
- » Covered participants
 - Active membership assumed to remain constant so new entrants are added to replace current participants projected to retire or terminate employment in the future
- » All other assumptions are the same as those used to complete the 12/31/15 valuation

30 Year Projections

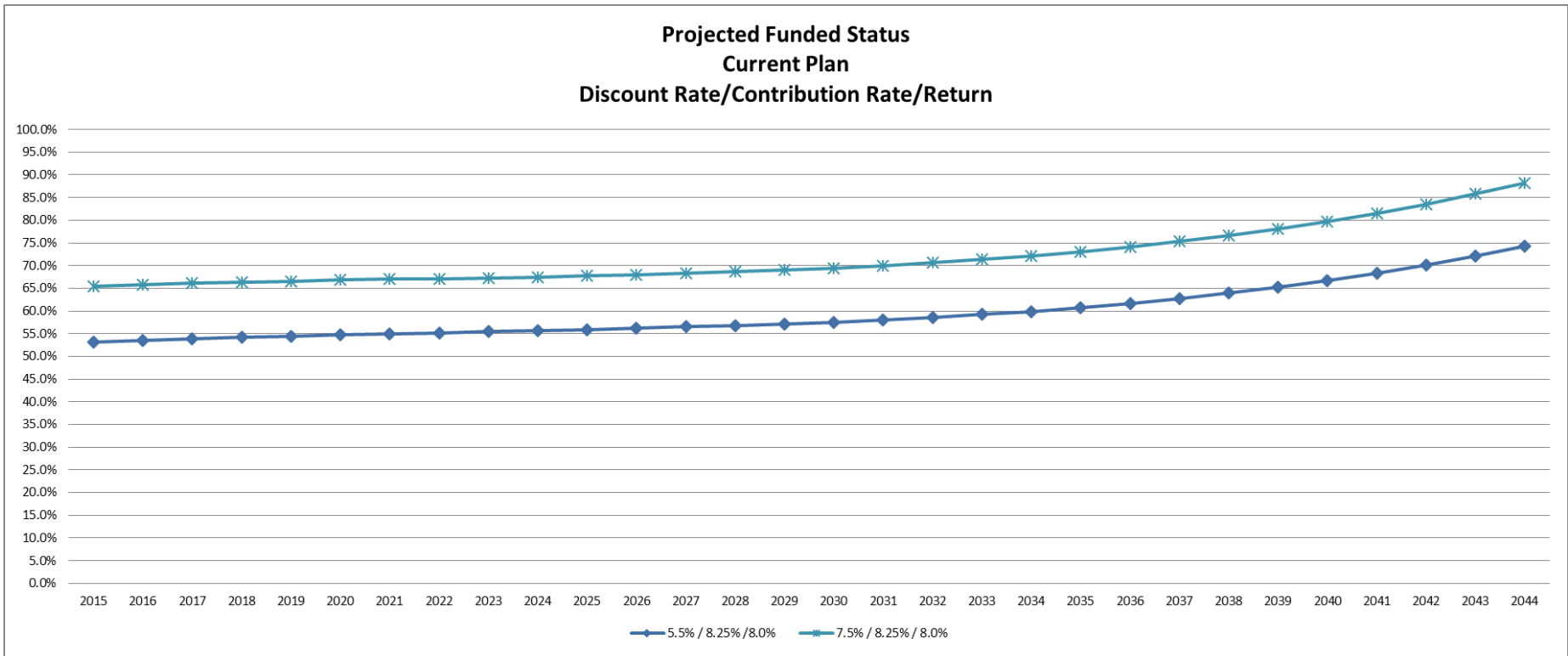
Current Plan; 7.5% Return



» Funded status remains level over the 30 year period

30 Year Projections

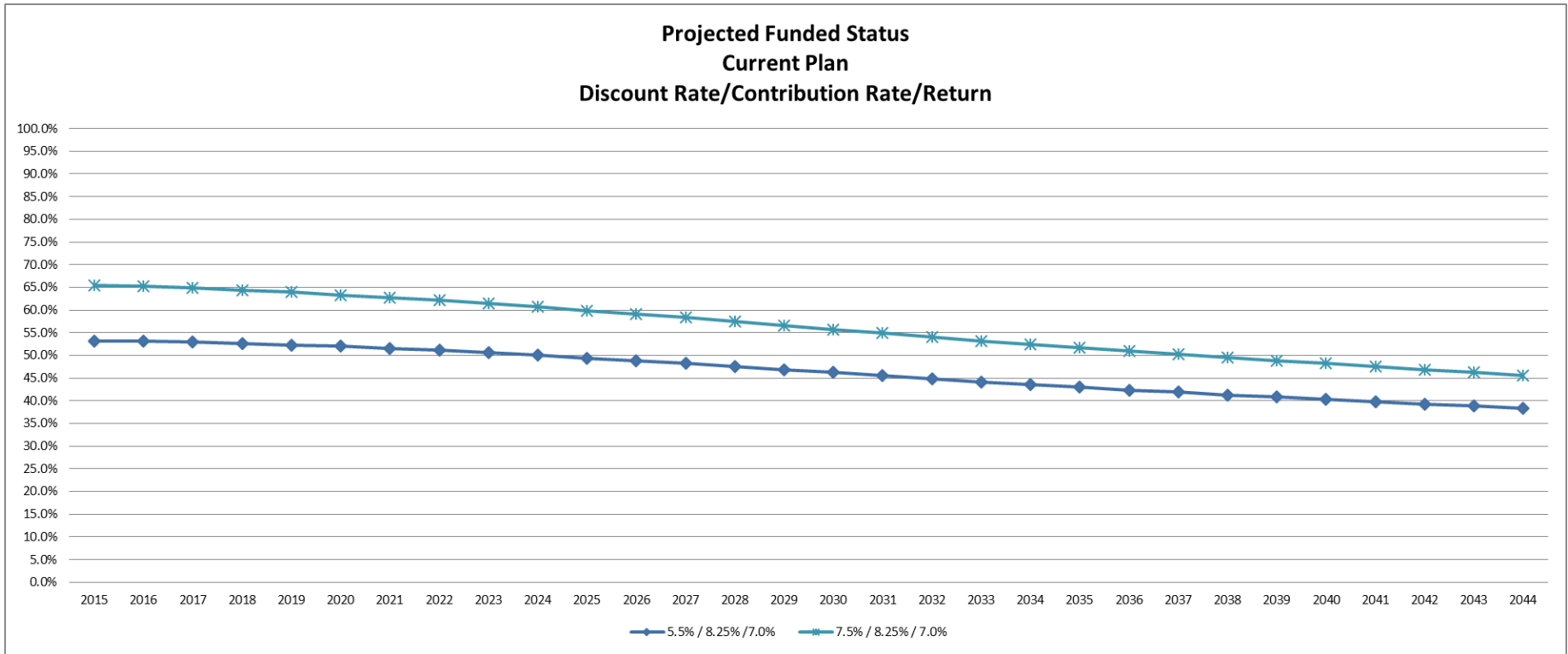
Current Plan; 8.0% Return



» Funded status improves by 15%-20% over the 30 year period

30 Year Projections

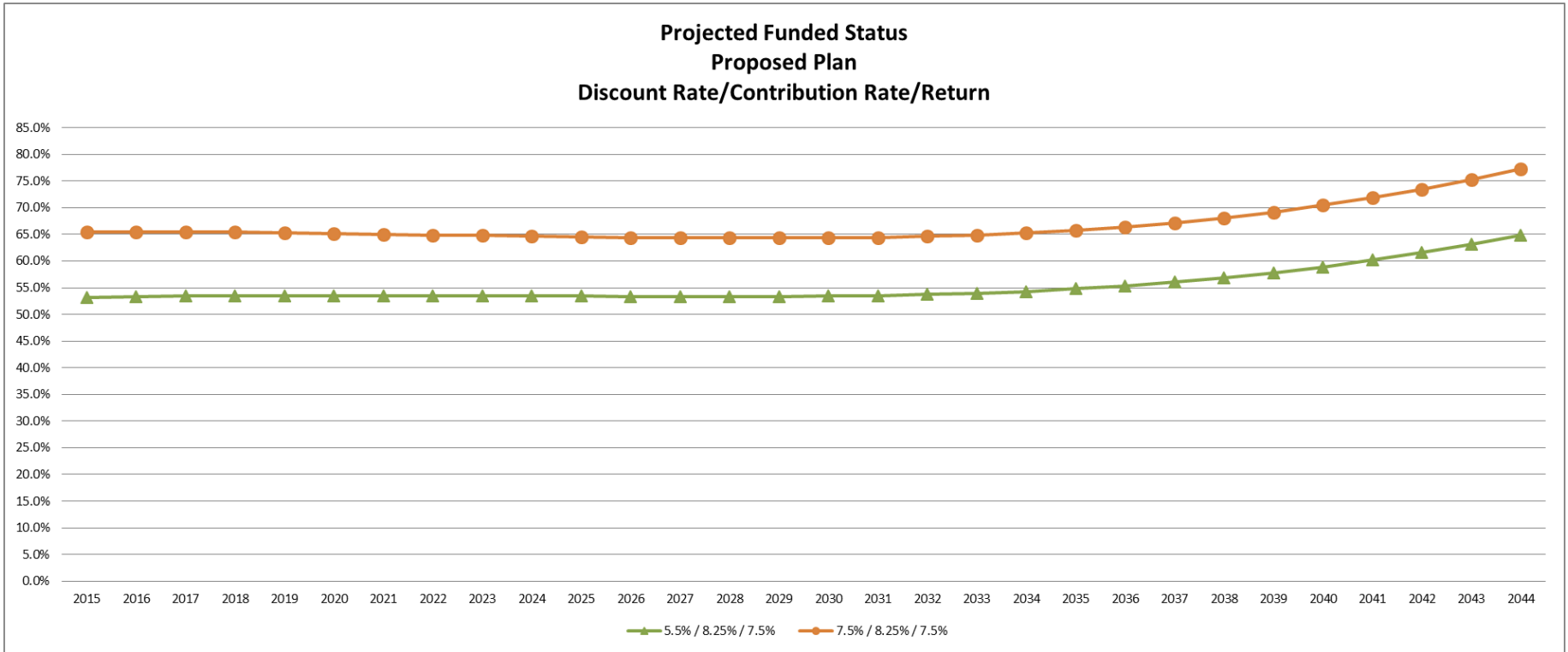
Current Plan; 7.0% Return



» Funded status declines 10%-15% over the 30 year period

30 Year Projections

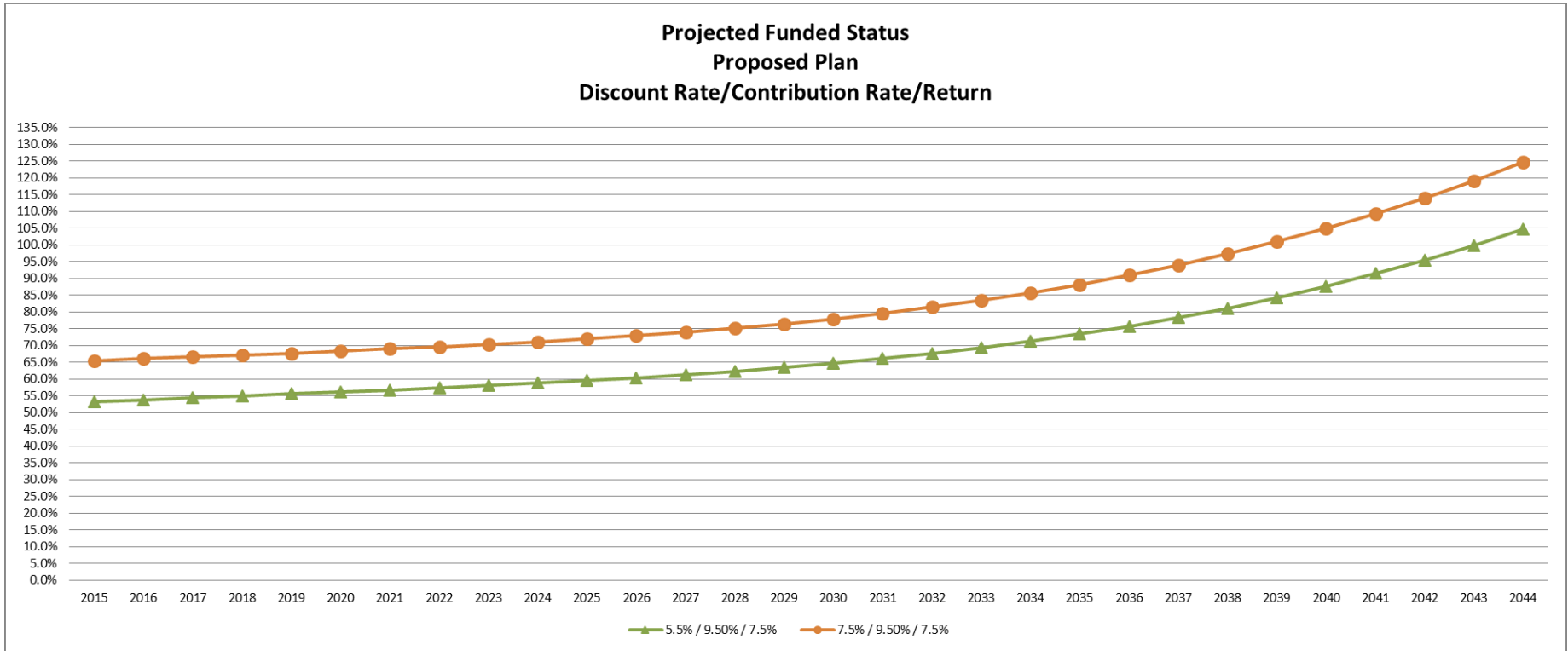
Proposed Plan; 7.5% Return; No Change in Contributions



- » Funded status remains level for the first 20 years
- » The proposed changes in plan provisions have no immediate impact on funded status in the absence of a change in contribution rates

30 Year Projections

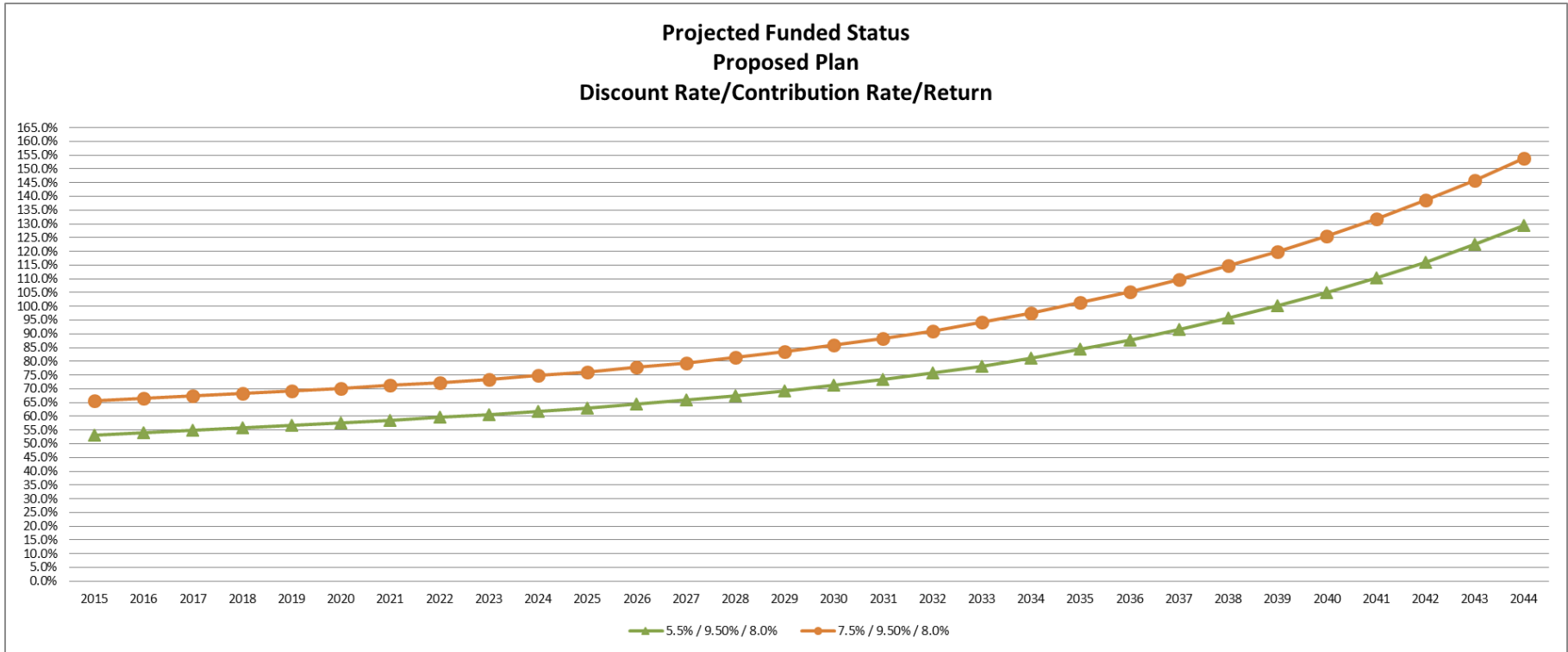
Proposed Plan; 7.5% Return; 9.50% Contribution Rate



» Funded status improves significantly over the 30 year period

30 Year Projections

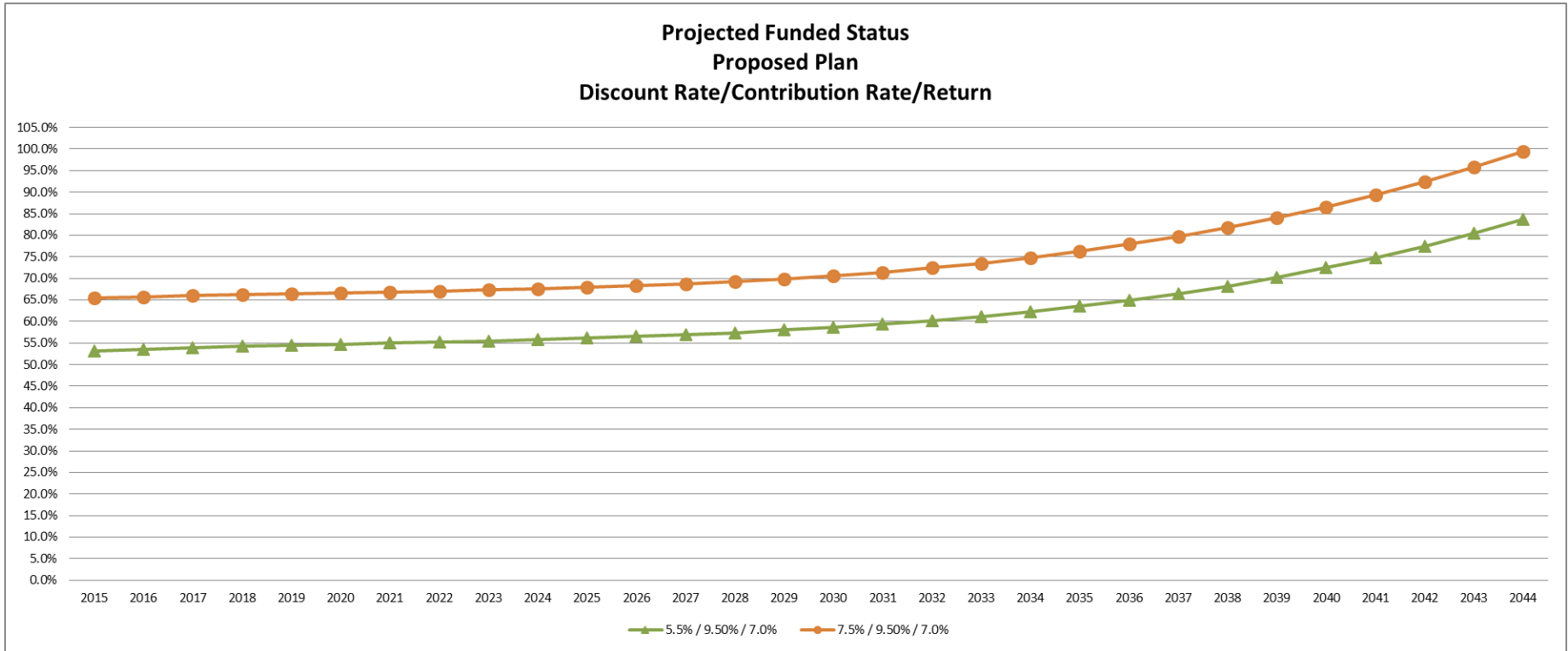
Proposed Plan; 8.0% Return; 9.50% Contribution Rate



» Funded status improves significantly over the 30 year period

30 Year Projections

Proposed Plan; 7.0% Return; 9.50% Contribution Rate



» Funded status improves over the 30 year period

Summary



- » Under the current plan and contribution rate, the projected funded status is not anticipated to improve over the 30 year projection period
 - Depending on actual returns, the funded status could either improve or deteriorate
- » Increasing the contribution rate has a much greater impact on funded status than does the proposed change in plan provisions
 - The GASB 67/68 blended discount rate is projected to no longer apply resulting in an immediate improvement in reported funded status and a reduced Net Pension Liability on the balance sheet
 - The funded status is projected to improve over the 30 year period under each of the investment return scenarios

Pro-Forma Funding Ratio

	<u>Projected</u>	<u>Actual</u>	<u>Variance</u>
Funded Ratio	51.4%	61.6%	10.2%
Assets	283,646,146	302,768,877	6.7%
PV Liabilities	551,645,573	491,693,723	-10.9%
Contributions	12,634,635.21	12,473,202	-1.3%
Benefit Payments	21,532,505.52	20,502,687	-4.8%
Investment Returns	15,212,235.74	33,466,581	120.0%
Discount Rate	5.50%	5.89%	7.1%

Organization	Program	Location	Dates	Cost	Travel	#	Membership	Notes
IFEBP	Investment Institute	Naples, FL	4/9/2018 - 4/11/2018	\$1,140	\$1,250			
IFEBP/Wharton	Portfolio Concepts and Management	Philadelphia	4/23/2018 - 4/26/2018	\$5,295	\$1,500			
NCPERS	Trustee Education Summit	New York, NY	5/12/2018 - 5/13/2018	\$400	\$500			Trustee Training, optional with annual conference
CFA Institute	Annual Conference	Hong Kong	5/13/2018 - 5/16/2018	\$1,200	\$3,500			
NCPERS	Annual Conference	New York, NY	5/13/2018 - 5/16/2018	\$800	\$1,500		\$250	
IFEBP/Wharton	Alternative Investment Strategies	Philadelphia	7/30/2018 - 8/1/2018	\$3,995	\$1,250			
NCPERS	Public Pension Funding Forum	Cambridge, MA	9/9/2018 - 9/11/2018	\$800	\$1,250		\$250	
IFEBP	Annual Employee Benefits Conference	Las Vegas	10/14/2018 - 10/17/2018	\$1,565	\$1,500			
P2F2	Annual Conference	Savannah, GA	10/21/2018 - 10/24/2018	\$425	\$1,500	1		Christine attending
NSIIP	Annual Conference	Dallas	10/31/2018 - 11/1/2018	\$300	\$1,000			Includes Trustee Training

2017 Total	\$15,835	\$5,043
2017 Budget	\$30,285	\$15,000
2017 Difference	(\$14,450)	(\$9,957)
2018 Total	\$0	\$0
2018 Budget	\$15,000	\$15,000
2018 Difference	(\$15,000)	(\$15,000)

Additional Resources		
Benefits Link	Comprehensive Calendar	Online
IFEBP	Education Calendar	Online
CFA Institute Courses	Primer for Investment Trustees	Online