

BOARD OF TRUSTEES OF THE CITY OF ATLANTA
GENERAL EMPLOYEES PENSION FUND
MINUTES OF MEETING

December 3, 2014

A meeting of the Board of Trustees of the City of Atlanta General Employees' Pension Fund was held on December 3, 2014 in City Hall, Committee Room 1, and Atlanta, GA.

TRUSTEES PRESENT:

Douglas Strachan
Aretha Sumbry-Powers
Dr. Gregory Nash
Gina Pagnotta-Murphy

Jim Beard
Angela Green
Jason Esteves

NOT PRESENT:

Yvonne Cowser Yancy and Michael Bond

OTHERS:

Rick Larimer, GEMGroup; Kristen Denius of City Law Department; Ray Adams, Office of Retirement Services; Robert Stanley of Atlanta Public Schools, Nathan Lewis of Security Capital, Gwelda Swilley-Burke of Callan Associates, Eric Atwater of Segal, Marlon Kimpson of Motley Rice.

Mr. Strachan called the meeting to order at 9:30 am and asked the audience to introduce themselves. A quorum was present.

ADOPTION OF AGENDA:

MOTION: A motion was made and seconded to adopt the agenda revised by removing the Audit Report Review- KPMG. The motion passed.

APPROVAL OF MINUTES:

Minutes from the November 5, 2014 board meeting were provided in the meeting packages in advance.

Ms. Green asked that comments on page 4 be clarified to note that her concerns about Community Lending and 5 Stone Green Capital were based on these firms being "upstarts" and that the GEPP had not invested in new "upstart" investment firms in the past. Mr. Larimer will make the edits as requested.

MOTION: A motion was made and seconded to approve the minutes of the November 5, 2014 board meeting, as edited. The motion passed.

GENERAL EMPLOYEES' PENSION FUND PENSION AWARDS:

SERVICE PENSION APPLICATIONS

The Service Pension applications on the attached spreadsheet were presented to the Board for approval.

MOTION: A motion was made and seconded to approve the service pension applications Nos. 1-14 as listed on the attached spreadsheet dated December 3, 2014. The motion passed.

BENEFICIARY PENSION APPLICATIONS

The Beneficiary Pension applications on the attached spreadsheet were presented to the Board for approval.

MOTION: A motion was made and seconded to approve Beneficiary Pension applications Nos.1 - 6 on the attached spreadsheet dated December 3, 2014. The motion passed.

APPROVAL OF CHECK REGISTER AND INVOICES:

The Check Register dated December 3, 2014 was presented for review and approval.

Dr. Nash asked why postage invoice for election ballots - mailed to all retirees - and the postage invoice for the monthly checks / credit advices – also mailed to retirees – reflected a substantially different of recipients. Later in the meeting, Mr. Larimer explained that election ballots were mailed only to retirees whereas monthly checks included refunds, beneficiaries, and disability pensions.

MOTION: A motion was made and seconded to approve 6 items: #55579-#55584 on the Check Register dated December 3, 2014 totaling \$130,071.75. The motion passed.

REVIEW OF OCTOBER 2014 FINANCIALS:

The financials for the period ending October, 2014 were presented and reviewed.

MOTION: A motion was made and seconded to acknowledge receipt of the October, 2014 financial statements as presented for further review by the Finance Department. The motion passed.

LAW DEPARTMENT:

Ms. Denius commented that at the next meeting the board will be asked to review various IRS mandated updates to the Plan that will require a vote and also a Plan amendment to clarify language that defines a spouse to accommodate same sex marriage and military service and military spouses.

ACTUARY REPORT

Eric Atwater presented his Valuation and Governmental Accounting Standards Board (GASB) Review report. The new GASB rules require net pension liability to be reported on the balance sheet and more disclosure information.

City Portion of the Plan

Mr. Atwater explained that the City determines the funding of the Plan. Employees contribute between 8%-13% and the City contributes an amount based on an actuarial calculation. For fiscal year 2015 the City's Annual Required Contribution (ARC) is \$48 million, up from \$42.1 million in 2014. State of Georgia oversees to ensure the contributions are made and GASB determines how the Plan funding numbers are reported and disclosed.

In addition to the contributions of the City and employees, net investment returns added \$189.2 million and benefit payments were \$108.2 million and operating expenses were \$1.5 million.

Mr. Atwater discussed the actuarial accrued liability, funding status and the ARC, and explained why there are differences between the accounting versus funding calculations. It is the result of the different rules and assumptions between the two separate methodologies. For example, the smoothing techniques used by the actuary causes some of the variance by deferring the reporting of investment gains and/or losses to future periods in order to stabilize the contributions required in any given year. The GASB rules and results do not impact the amounts needed to be contributed. The Funded Ratio under the accounting method is 62.9% whereas the funding methodology shows 60.7%. Both are an improvement over last year. Mr. Atwater commented that the most important item for the board to track over time is to make sure the City makes its required contribution. Segal reports this audited number to the board each year.

Mr. Atwater reviewed the projected head count of current active participants, showing that the benefit payment stream continues well into the future by more than 30 years. The same projections were shown for current retirees that also show a very long term liability. A graph showing the Funding levels in the future using the Accounting vs. the GASB Funding method shows that the Pension fund is projected to be 80% funded in approximately 20 years.

Atlanta Public School Portion of the Plan

The APS board determines the funding of the Plan. Employees contribute between 7% - 8%. APS contributes an amount that increases 3% per year until the Plan is fully funded, estimated to be 16 years. The Annual Required Contribution (ARC) for 2015 is \$48.9 million, up from \$47.5 million in 2014.

In addition to contributions from APS and employees, net investment returns added \$20.7 million and benefit payments were \$56.1 million and operating were \$8.4 million.

Mr. Atwater explained that the APS has much different demographics than the City: fewer than 700 employees and 2200 retirees; 90% of the liability is for retirees and the plan is slowly winding down. Total assets are \$121 million and paying out approximately \$56 million in benefit payments. Most of the contributions annually are being paid out directly to fund current benefits.

The Accounting method and the GASB Funding method produce almost identical results for the APS Plan; the Funded Ratio of the APS plan is 18.9%. With the Funding plan in place, the APS plan will reach fully funded status in 2030.

Mr. Strachan asked about a mechanism or law that ensures that future funding will occur. Mr. Beard responded that the discipline is the budget process and any change would have to be voted on and approved by Council. Contribution levels are also overseen by the State of Georgia.

INVESTMENT CONSULTANT REPORT

Performance Review – October 2014 – Ms. Swilley-Burke reviewed the asset allocation vs. targets showing an overweighed position in Domestic Equity – 61% compared to a target of 55% - but still within Policy guidelines. Callan is not recommending any actions at this time because reallocations will be part of the process in bringing on new managers. Market value of Fund assets increased \$26 million

in the month of October to \$1.257 billion with domestic equity up 4.04%, International equity down .61% and fixed income up .81% for the month. Overall, the return for the Fund was 2.63% compared to the Policy Index of 1.85%.

Ms. Swilley-Burke noted that the Investment Policy Statement was voted on and approved at the last meeting, but a minor change (on page 15 to insert “not to exceed 30%” needed to be made as an amendment. Mr. Strachan asked for a motion to approve the amendment.

MOTION: A motion was made and seconded to approve the amendment to language on page 15 to read “not to exceed 30%”. The motion passed. The IPS is now finalized.

A discussion took place on putting a policy in place to have a “quiet period” during investment manager searches during which board members would not communicate with investment managers who are bidding on the mandates. It was suggested this be put in the by-laws. Ms. Denius commented that this type of policy would not be appropriate to be in the by-laws.

Mr. Strachan asked that the By-Laws review be placed on the agenda for the next meeting.

Ms. Swilley-Burke mentioned that the IPS will be sent to each of the managers who will sign and acknowledge receipt and agree to abide by its provisions. Fund Administrator will prepare a list as the signed IPS document are returned.

OLD BUSINESS:

Securities Monitoring Update – No updates.

Approval of New Physicians for Disability Exams – Mr. Larimer presented a resume of physician vetted by Mr. Amis of the City’s Employee Benefit Department and proposed to be added to the list of approved doctors to perform disability examinations on behalf of the board. Board members wanted additional time to read and consider the resume; a decision was deferred to next meeting.

Board Election – Update – Mr. Larimer reported that the Election Notices and Ballots were mailed and ballots are being returned.

Raiford Jackson Overpayment - Mr. Larimer briefly summarized for the board the facts of a pension overpayment error from 2008 which resulted in an overpayment to Mr. Jackson over the past six years of \$235,793. Mr. Jackson addressed the board at the October meeting to explain that although he realized the check was more than it should have been, various health issues and other difficult circumstances occurred in his life at the time that created a need for some assistance. After praying about it for some time, Mr. Jackson concluded the overpayment was simply a blessing from God in his time of need and he asked for the board’s understanding and mercy. Mr. Jackson wrote a letter to the board proposing that he pay \$100 a month toward recovery of the overpayment.

At the board’s request, Mr. Larimer had prepared a list of options showing what the monthly repayment amount would be at 50%, 25% and 10% of his current net monthly benefit.

Considerable discussion ensued with various board members pointing out that Mr. Jackson acknowledged that he knew the payment was wrong but did not take action to correct it. The board expressed a strong sense that their fiduciary responsibility requires steps to recover the overpayment.

NEW BUSINESS:

Cash Projection and Cash Raise – Mr. Larimer presented a Cash Projection for the next 90 days showing cash needs of approximately of a total of \$17.2 million. At last month’s meeting a request was made for a \$20 million Cash Raise; \$7 million was approved and was implemented. This request is for the

additional \$13 million to be funded from the sales of units in the BlackRock iShares Russell 2000 Index ETF, consistent with Callan's recommendation as provided in their memorandum dated November 24, 2014.

MOTION: A motion was made and seconded to authorize the sale of \$13 million of the BlackRock iShares Russell 2000 Index portfolio to raise cash to fund benefits and plan expenses. The motion passed.

Indirect Cost Allocations – Finance Department – Mr. Beard summarized the request from Finance to authorize an internal charge for services provided by Finance to the General Pension Fund to cover the costs of services provided for accounting, audit, HR Resources. Finance Department staff presented a spreadsheet with a breakdown of these costs by internal department. The total amount owed is \$908,175.

A significant amount of discussion and questions ensued, particularly the substantial increase in General Accounting. Mr. Strachan asked for more detail on the specifics of the services provided. Ms. Pagnotta-Murphy questioned why City employees (Finance Department) are being paid by the Pension Fund; don't they already get paid. Mr. Beard explained that indirect cost allocations are a means to charge the expenses of the services provided to various City entities back to those entities that benefit from the services provided.

Mr. Beard agreed to provide more detail and present the data in a more understandable format and present it at the next board meeting.

COLA Adjustment – 2015 – Mr. Larimer presented the draft of the COLA adjustment letter to be mailed to all retirees. As in prior years, the calculations were made by Southern Actuaries who perform the identical calculation for the Police and Fire Plans. Mr. Atwater and Segal will review the calculations on behalf of the General Pension and communicate his review and approval to the Board prior to the COLA letter being mailed. The Plans agree to share the cost.

MOTION: A motion was made and seconded to approve the 2015 COLA Letter as written, subject to review and approval by Segal. The motion passed.

Customer Service Standards – GEMGroup - Update – In response to comments from the October meeting from Ms. Pagnotta-Murphy concerning less than satisfactory customer service to participants rendered to participants, Mr. Larimer reviewed the Customer Service Standards and a Roles & Responsibilities. He stated that he had reviewed these customer service standards and GEMGroup's commitment to these standards with the Atlanta-based staff to ensure that we are meeting these standards.

A frequent complaint from retirees and from Trustees who hear the complaints from their constituents is the length of time between the last day of employment to the time when the first retirement check is received by the participant. Mr. Larimer proposed that the retiree be put into pay status immediately after their calculation has been prepared. This would eliminate from 2-4 weeks in the timeline. The board would still have the final approval of the agenda at the board meeting and would have the opportunity to amend or correct the final pension award if there needs to be an adjustment.

Ms. Pagnotta-Murphy raised another issue concerning the practice of issuing final vacation pay in a supplemental check two weeks after their final regular pay. Mr. Larimer commented that it was a practice implemented by the City HR Payroll. Mr. Gaffney, who has responsibility for City Payroll, commented from the audience that he was not aware of why this practice was implemented. Mr. Larimer will follow up with him before next meeting.

The proposal to shorten the pension processing timeline will be placed on the agenda for next meeting for further discussion when Ms. Yancy can be present.

There being no further business to discuss, the meeting was adjourned at 11:50 AM. The next regularly scheduled board meeting will be on Wednesday, January 7, 2015 at 9:30 am in Conference Room 1, City Hall.

Respectfully submitted:



Douglas I. Strachan, Chair



Jim Beard, CFO & Secretary