MEETING OF THE TRUSTEES

CITY OF CHATTANOOGA GENERAL PENSION PLAN

April 19, 2007

The regular meeting of the City of Chattanooga General Pension Plan was held April 19, 2007 at 8:45 a.m. at the J.B. Collins Conference Room. Trustees present were Daisy Madison, Katie Reinsmidt, Betty Lynn Smith, David Eichenthal, Dan Johnson, Terry Lamb, and Carl Levi. Others attending the meeting were Graham Schmidt, EFI Actuaries; Sharon Lea, City Personnel Office; Doug Kelley, City Personnel Office; Ken Fritz, Nelson, McMahan & Noblett; Steve McNally, First Tennessee Bank; and Jeff Claxton, City Benefits Office.

The meeting was called to order by Chairwoman Daisy Madison. A quorum was present.

The minutes of the meeting held March 28, 2007 were deferred for approval until the next Board meeting, May 31, 2007.

The following pension benefits and plan expenses were discussed for approval:

ACCOUNT SUMMARY

ACCOUNTS PAYABLE

COMPANY	AMOUNT PAYABLE	SERVICES RENDERED
No Activity		
INVESTMENT MANAGERS		
NORTHERN TRUST COMPANY	$7,441.84	Investment management fee for the period ending March 31, 2007
NWQ INVESTMENT MANAGEMENT	$29,780.49	Investment management fee for quarter ending September 30, 2006
	$31,460.60	Investment management fee for quarter ending December 31, 2006
	$68,682.93	MANAGER TOTAL

ACCOUNTS RECEIVABLE

COMPANY	AMOUNT RECEIVED	PURPOSE
No Activity		

REPORT OF ACCOUNT (S) PAID

MUTUAL OF OMAHA (Long-Term Disability)	$9,321.59	Premium for April 2007

MISCELLANEOUS ITEMS

NAME	TRANSACTION
No activity	

Letters of Reallocation

Ms. Madison stated that she had received letters from Pat Cox from CSG to reallocate the assets in the Pension portfolio based on the reallocation plan that was approved by the Board last month. The letters consisted of assets from Insight Capital, Thomson Horstmann & Bryant, and Lord & Trust Builder Investments. The letters authorized withdrawals from these funds to be adjusted and reallocated into the new target. Ms. Madison stated she would give the City Attorney a copy of the letters.

January 1, 2007 Actuarial Valuation

Graham Schmidt, the Plan's actuary from EFI gave a brief presentation to the Board on the 2007 Actuarial Valuation.

The four facets of funding a pension system, he stated, are its underlying principles, the funding method, the smoothing of assets, and dealing with gains and losses.

The underlying principles of a pension system include input items consisting of contributions from the employer, which are actuarially determined, and contributions from the employee, which are 2.0% of pay. Input items also include investment returns. Outflow items include benefits, which include lump sums or annuities, and expenses, which are netted in the assumed rate of return. Theory items include input needed to meet outflow and the overall goal to keep contributions level as a percentage of payroll.

The City of Chattanooga uses the Entry Age Normal Funding Method, the most common method used by public sector retirement systems. The contribution made each year is made of two pieces: the normal cost and the amortization of unfunded accrued liability. The normal cost should remain level as a percentage of pay in the absence of gains and losses, benefit changes, etc. Normal cost is a portion of total present value of benefits allocated to the current valuation year. The City contribution equals normal cost plus the amortization of unfunded accrued liability. The amortization of the unfunded accrued liability is the portion of total benefits that is not provided for by the future normal contributions, or what should have been paid for in the past. This is supposed to be the share of total benefits that people are going to earn based on their past service. If you are contributing to the fund at the actuarially determined rate, and there are no gains or losses, then your actuarial value of assets would be exactly equal to your accrued liability. Mr. Schmidt explained that in our case, we have a surplus. Our assets are either greater or less than our accrued liability. This occurs due to our investments not earning exactly what we expect, demographics that don't behave how we anticipate, or we could have a benefit enhancement that created an unfunded past liability because we hadn't been contributing based on that prior benefit amount. These unfunded liabilities are amortized over an open thirty year period. Because we have a surplus, our contribution is less than the normal cost rate.

Mr. Schmidt explained how the Market Value of Assets (MVA) would fluctuate year to year. He explained how he didn't anticipate the Plan going bankrupt with the ups and downs in the market, so it made sense to "smooth" the fluctuations out to make the budgeting process easier. So, a process called the Actuarial Value of Assets (AVA) would be used instead to determine the cost of the Plan. This would gradually recognize the changes in the asset value from what was expected. 20% of the difference between the expected value and the actual value is taken, so only 20% of the gains and losses are recognized in the year. This is smoothed over a five year period.

Mr. Schmidt next talked about gains and losses and how we deal with them when they occur. He briefly described the impact on the demographics of the current participants, variations due to salary, the impact of new entrants, and the impact of asset performance in the past year.

For the results of the valuation, Mr. Schmidt reported good news. The contribution rate went from 6.97% to 6.36% of active members' payroll. The Plan cost also decreased in dollar terms from $3.81 million to $3.46 million. The reasons for the changes in Plan cost include demographic gains and the impact of the additional assets received as part of a legal settlement earlier in the year.

OPEB Trust

Ms. Madison stated that the City Council authorized the establishment of the OPEB Trust on April 10, 2007 and also for the General Pension Plan Board to act as the Trustee and Investment Committee for the Trust (See notice of resolution adoption in March 28, 2007 minutes). She also stated that the Board would be seeking CSG's expertise in asset allocation and investment issues. After the state approves this process, the trust would be started.

The next Board meeting was scheduled for Thursday, May 31, 2007 at 8:45 a.m. in the J.B. Collins Conference Room.

There being no further business, the meeting was adjourned.

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Chairman

APPROVED:

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Secretary