

MEETING OF THE TRUSTEES
CITY OF CHATTANOOGA GENERAL PENSION PLAN

May 24, 2018

The regular scheduled meeting of the City of Chattanooga General Pension Plan Board of Trustees was held on February 15, 2018 at 8:30 a.m. in the J. B. Collins Conference Room. Trustees present were Daisy Madison, and Carl Levi. Others in attendance at the meeting were Ed Koebel and Jennifer Johnson, Cavanaugh Macdonald Consulting, LLC; Marcia McMurray, McMurray Law Office , PLLC with guests Deb McGee, Marilyn Gray, Jim Gray, and Janet Coonce; Steve McNally, First Tennessee Bank; Scott Arnwine, Gavion, LLC; Wade Hinton, Office of City Attorney; Beverly Moultrie, Madeline Green and Cheryl Powell, City Human Resources Department.

Definitions in the document: GPP is General Pension Plan, OPEB is Other Post-Employment Benefits

The meeting was called to order by Chair Daisy Madison.

A quorum was not present at the beginning of the meeting. The members present allowed the agenda to be modified so that all reports and other presentations were made, but there were no items of business presented for vote.

Approval of Minutes
Administrative Actions

General Pension Plan Actuarial Valuation Results – Ed Koebel and Jennifer Johnson, Cavanaugh Macdonald

Ed Koebel presented a handout set of slides to explain the valuation results for GPP. The first slide shows key findings for the current valuation. One item of note is that this is the last year to include the losses from 2008 in the smoothing. Our results and funding ratios should begin to improve going forward. The reduction in the funded ratio in part is that the discount rate assumption has become more conservative. The slide also shows the market return, the unfunded accrued liability and the employer contribution. The results show that even though the plan has become more conservative, the funding ratios and unfunded liabilities have not changed dramatically.

The key findings for the current year valuation include

- the actuarial return increased to 4.61% with the 10 year smoothing compared to the market return of 13.14% (this is the last year to recognize the loss of \$9 million in 2008),
- the funding percentage declined from 80.3% to 78.8% based on the 7.00% discount rate, and
- the annual required contribution rate based on the 7.00% assumed interest rate is increasing to 20.50% of payroll, up from 19.58% in the prior valuation, or \$10.7 million.

Jennifer Johnson explained the valuation methodology and graphically showed the changes in the composition of the fund for the active, retired and vested members. The number of lives in the active population remained stable while, the vested population grew in number (from 108 to 122 participants) and the retired population grew by 4.6%. The total liability for the retired population, which includes beneficiaries and disabled members, exceeds half of the fund (approximately 55%). On a cash flow basis, the amount of benefit payments to retirees exceeds the amount of contributions from the employees and the annual required contribution. However, the investment income is more than enough to covers this difference. From an actuarial standpoint the largest negative impacts to the change in the fund in the last year were investment income, the increase in service retirements and the longevity of the retirees receiving benefits. The salary increases were not as high as anticipated in the assumptions giving a positive impact to the plan. Newly hired individuals generate a liability before contributions have been collected. Withdrawals of contributions tend to have a positive impact because future monthly benefits are reduced while leaving the City contribution made on behalf of the withdrawing employee in the fund. This year the withdrawal activity was more than anticipated and had a positive impact to the fund.

The next slide reviewed shows the progression over the last five years of the valuation and funding for the plan. It shows the market returns, the increase in the employer contribution (the normal cost and the additional amount to pay for the unfunded liability) and the decrease in the funded ratio and the discount rate over this time period. This provides some perspective and explanation of the changes over this time frame.

Ed discussed the ten year projection this year compared to the results shown from last year. This provides a snapshot of the City's financial position on the valuation date. Projections are designed to maintain a stable population over the ten year time period. The assumption is that the level of market returns is the same as the valuation interest rate. The predicted rate last year was 20.7% of payroll while the actual rate in this valuation is 20.5%. The projection forward indicates that the employer contribution will remain in the 19%-20% range over the next ten years. After the unfunded accrued liability is paid off in roughly 27 years, the employer cost will reduce to the level of the annual normal cost only.

There was a short discussion about changing from 10 year smoothing to a shorter period. In order to make such a change, Ed recommends doing so when the market value and the actuarial value are very close together. This makes a cleaner transition from one smoothing basis to another.

OPEB Trust Actuarial Valuation Results – Ed Koebel, Cavanaugh Macdonald

Ed Koebel presented the set of slides and results of the valuation for the OPEB Fund. This valuation is performed every two years. This fund is still young with a larger funding gap; however, over the past two years the fund increased from \$38.2 million to \$60.6 million. Additionally, the actuarial assumed rate of return was reduced from 7.5% to 7.25%. The key findings for this fund are:

- funding ratio is on an increasing trajectory improving from 22.8% in 2016 to 31.9% in 2018,
- the annual required contribution based on a 7.25% valuation assumption is decreasing to 13.26% of payroll, down from the 13.65% of payroll in the prior valuation, or \$13.3 million, and
- the amortization period remains at 30 years open amortization.

There was a question about the length of the amortization period for this fund. Now that GASB 74 and 75 are in use for retiree health care, Ed suggested that a funding policy be developed for the OPEB plan, similar to the one in place for the pension plan, and close the amortization period for this fund.

The active and retiree population remains relatively the same as the prior valuation. This fund includes both civilian and public safety participants in the active and retiree populations. The assumptions for this fund include the projections of health care costs going forward for both pre-Medicare and Medicare costs with inflation adjustments to create the medical trend rate.

The valuation was also performed using a 7.0% assumed discount rate. The unfunded accrued liability would be approximately \$4.5 million higher and the employer contribution rate would be 13.58% as percent of payroll or \$13.6 million.

Report from Counsel

Wade Hinton presented an issue regarding a pension beneficiary designation that was intended to be made but was not received in the HR office. He introduced Marcia McMurray, an attorney in Cleveland, TN for the family of Robert McGee, a retiree who died April 15, 2018. Ms. McMurray provided a handout and explanation of the proposed solution to this situation.

As background information, Robert McGee chose a Life with Ten Year Certain payment option at the time of his retirement. He had named two nephews and a niece as beneficiaries in effect at the time of his retirement. After retiring he married and wished to name his wife as the beneficiary and completed a new beneficiary form August 13, 2015. He did retain a copy of the document he mailed to the HR office as well as other items associated with the mailing. The HR office did not receive this beneficiary designation form.

Because the HR office does not have the beneficiary designation, Valerie Malueg has been working with Ms. McMurray to create documents for the beneficiaries of record to release their claim and allow the wife to be the beneficiary of the remaining payments of the Ten Year Certain portion of his pension. There are 56 remaining monthly payments. There would be no difference in the amount of payment regardless of who is paid. Since there was no vote today, the resolution of this issue will be taken up at the next board meeting.

Investment Performance Review First Quarter 2018 – Gavion

Scott Arnwine began by saying that the first quarter was volatile. S&P results in January were similar to 2017 where the S&P was positive all 12 months. In mid-February the S&P dropped 10% but gained most of that back in March. So for 1Q the S&P was down 0.8%, the Barclays Aggregate was down 1.5% and the ACWI ex USA was down 1.2%. In this negative environment, the GPP had returns of +0.2%.

Asset allocation decisions and good outperformance by some managers explained the good result. Patten and Patten and Wedge, while negative, had results better than their benchmark and OFI managed to have a positive result. The total hedge fund results were up by 1.3% with both managers posting positive results. Real estate is a small positive; however, at this time we have not received reports on the TerraCap. Total fixed income is positive mainly on the results from Brandywine and the floating rate fund. The 10% of the portfolio invested in the partnerships have not yet reported results for 1Q.

There is a small violation in asset allocation in GPP. In the large cap subset in Total Equity, the allocation has fallen below the minimum outlined in the investment policy due to withdrawals to pay benefits. Gavion would like to bring that up to the minimum. Scott asked if this is something the board votes on or are the investment policy guidelines sufficient for them to act. Daisy Madison said that she could authorize the appropriate changes to be made for ratification at a future meeting.

OPEB results were a positive 0.3% for the first quarter. The reasons for the good results in OPEB parallel those of GPP. There are no allocation violations in the OPEB fund.

The allocations to Diamond Hill that were voted on in April have been made for GPP and OPEB. The allocation to Sustainable Capital for GPP is still waiting for the contract to be finalized.

Scott also reported, based on articles published in industry magazines, that Wells Fargo has been removed as custodian for the Fire and Police Pension Fund (FPPF). Wells Fargo discovered that they were receiving fees from investments in the plan that had not been transferred to the fund. Upon discovery, they did inform the plan and pay these fees back to FPPF.

Gavion does not have any relationships with mutual funds like this. The mutual funds that the plans are in are institutional share classes that have low expenses and do not have marketing fees. As a consultant they are independent and have no relationships with any investment manager or custodian so they receive no compensation directly or indirectly from such relationships.

Steve McNally said that First Tennessee buy/sell investments for the plan on the institutional side of the house and there are no fund arrangements with funding companies. When transactions to buy/sell are made, no money changes hands.

He did say when the GPP investment was modified around 2005, the closest thing to this fee activity was a cash sweep fund that used to be in place but lost its luster. The program has been gone for 10+ years now. At the time, these cash sweep funds were customary and properly disclosed.

Both he and Scott mentioned that arrangements similar to the Wells Fargo situation typically occur on retail funds and not institutional funds.

Election of Officers Discuss options for an Education Event

In order for the board to take action on the funding matters in time for the funding rate to be entered into the financial system, the board approval needs to take place before June 21. So the board needs to have a special called meeting to address these items and the other items that the board could not act on. A called meeting will be scheduled for a date around June 14. Cheryl will poll the board members and set up the meeting.

There being no other business, the meeting was adjourned by Daisy Madison.

APPROVED:


Chairman


Secretary