

Burlington Employees Retirement System
Board Meeting Minutes
April Meeting
May 2, 2013

Board Members Present: James Strouse Jeff Wick (8:42 AM)
Bob Hooper (8:31 AM) Rich Goodwin
Munir Kasti Ben O'Brien
Ray Nails

Others Present: Marina Collins Karen Paul
David Driscoll, Buck Consultants

James Strouse convened meeting at 8:30 AM.

1. Agenda: No need for Executive Session.
2. Approval of 03/28/2013 Minutes: Mr. O'Brien moved to approve, seconded by Mr. Nails. Motion carried 5:0.
3. Approval of Bills: Mr. Nails moved to approve, seconded by Mr. Kasti. Motion carried 5:0.
4. Consideration of Retirement Applications: Mr. Hooper entered at 8:31 AM. Mr. Kasti moved to approve, seconded by Mr. Nails. Motion carried 6:0.
5. Ratify Refund/Rollover of Contributions: Mr. Nails moved to approve, seconded by Mr. O'Brien. Motion carried 6:0.
6. Report on the results of an experience study of the BERS – David Driscoll, Buck Consultants: Mr. Driscoll explained that the purpose of the report is to provide information necessary to decide on the appropriate assumptions to be used in future valuations. The report reviews that past 5 years of service, sometimes that experience is atypical, for example, late retirements are more popular now, this may be because the economy has been a factor and we wouldn't want to change that assumption because we know that the time period was marked by a certain amount of economic distress, so that was taken into consideration. Mr. Driscoll explained that there are some notable items to mention. There are a new set of standards for GASB that are very different from the past and there is a change to mortality assumptions. Mr. Driscoll recommends that a policy be developed to have an experience study every 4 to 5 years. Mr. Wick entered at 8:42 AM. Mr. Driscoll discussed the demographic assumption of terminations. What was experienced was that with Class A there were more than we expected and that assumption rates for under age 40 be decreased and increased for over age 40. With Class B, he proposed an increase in the assumed rate of those leaving in the first 3 years of employment. With Disability

and Pre-retirement deaths there were no changes recommended to the assumptions. Mr. Driscoll explained that with regard to retirements, there is evidence that people are deferring retirement and based on this, he recommended that Class A be left as is and Class B be adjusted to modestly reflect the fact that people are deferring, however, keeping in mind that this may be due to economic considerations. Mr. Driscoll referred members to pages 30 and 31, Post-Retirement Mortality Rates. He said that among Class A we had fewer deaths than expected but Class B had more. With a reference to page 15, the Actuarial Standard of Practice and his recommendation is to change the post-retirement mortality assumption to the RP-2000 Combined Tables with projection of mortality improvements using Scale AA to the year 2017. Mr. Driscoll moved on the Economic Assumptions, which include rates of compensation, investment income and inflation. Inflation over the last 5 years has been very low. This can be attributed to economic weakness. The market model estimates a long term rate of about 2.5% where Buck's model looks at about 3%. He recommended no changes to the inflation assumption. Mr. Driscoll referred members to page 29, Salary Increases. The assumption picks up COLA, merit and promotion and is graded by age. Mr. Driscoll said that the assumptions have held up amazingly well and that the current assumption should be maintained. The next item, interest rate or return on investment, was discussed; it is currently 8%. Mr. Strouse opined that the board has been discussing this and felt that the board has a gut feeling that 8% may be too high and that perhaps the board unfairly criticized you (Driscoll) but we see here that you clearly articulated the long term rate assumption. Mr. Driscoll explained the process that Buck Consultants uses to derive this assumption. On page 20 the illustration shows:

	<u>10-Year</u>	<u>20-Year</u>	<u>30-Year</u>
Expected Return (Geometric)	6.59%	7.75%	8.44%

Mr. Strouse asked; if we were starting the plan from scratch what would your recommendation be? Mr. Driscoll stated that you are going to have to tell me how you are going to invest your money. Mr. Strouse responded the same as they are now. Mr. Driscoll responded that it is really the distribution on the return of assets and how you are going to invest them that drives our recommendation. He said that certainly we know that the last 5 years you have not done that but we also know that the last five years have been somewhat of an anomaly. Mr. Kasti asked whether Mr. Driscoll had a sense of which is better; the Select and Ultimate that the State uses or the simplified method that BERS uses. Mr. Driscoll said that there are reasons to use either, and explained the methods; however, his sense was that what BERS is doing is fine. Mr. Driscoll pointed out that if BERS decided that 7.75% was the rate they wanted to use he wouldn't object. Mr. Wick asked about the rosy picture of going out 30 years. Mr. Driscoll opined that we recognize the environment we are in is not normal, we look at historical data to make assumptions. Mr. Strouse asked if it would be reasonable for this board to recommend to the City Council, while we have an 8% rate of return assumption we are recommending that the City put in additional money. Mr. Driscoll responded that while you can certainly recommend that and it is always good to pay down the unfunded you have to keep in mind that the basis on which credit agencies are rating is changing and if there is a way to put in additional money it won't hurt. Mr. Driscoll mentioned that being 71% funded is not so unusual and that we are not in a horrible position in comparison to some other plans. Mr. Nails suggested that we look at segregating the various groups of workers and figure out which group should maybe pay more by way of employee contribution. Mr. Driscoll then discussed the new GASB rules that will change to reflect market value of assets which will provide greater transparency. For GASB purposes, whether or not you can use 8% will depend on an annual cash flow test. Mr. Wick

asked if we are going to look less attractive. Mr. Driscoll responded maybe or maybe not, and a lot will depend on the future experience of the plan; it takes effect in FY14 and for the City of Burlington in FY15. He recommends a preliminary test calculation to see where the entity falls. Mr. Strouse asked if your current funding method is okay? Mr. Driscoll responded that there is nothing inherently wrong but it's not the one GASB recommends. He discussed the Entry Age Normal Method that GASB recommends but BERS does not use. Mr. Nails asked; based on your knowledge, where would you rank us overall, given the changes to the plan, contributions, etc.? Mr. Driscoll responded that he does worry about the proliferation of the many retirement plan benefit, estimating that there are about 22 variations with fewer than 1,000 members. He thought that that our plan looked more like Chicago than what one would expect in Burlington. The board discussed lowering the amortization time, infusing cash into the system and other things that may improve the look to credit rating agencies under the new GASB rules. Mr. Strouse pointed out that it is not this board's responsibility to worry about the City's financial problems and Mr. Driscoll agreed that you (the board) are the fiduciary of the plan. Mr. Driscoll then summarized the overall results of the Experience Study, that the adoption of the assumptions effectuates a \$230,000 increase to the 6/30/12 City Contribution. Mr. Nails moved to approve the study and adopt the assumptions and recommendations with a request to ask the City Council and the Administration to fully fund as recommended by the Actuary, seconded by Mr. Wick. Motion carried 6:0.

7. RFP – Actuarial Service: The board discussed whether it is time to develop an RFP for Actuarial and Consulting Services. It was agreed that Rich Goodwin would gather more information and report back at a later date.

8. Adjournment: Mr. Nails moved to adjourn at 10:11 AM, seconded by Mr. Wick. Motion carried 6:0.