DRAFT

Burlington Retirement Committee

Meeting of the Committee Members

Agenda

March 11, 2014 5 – 7pm
Contois Auditorium, City Hall
149 Church Street, Burlington, Vermont 05401

Note: The meeting was moved from the Community Room at Fletcher Free Library to Contois Auditorium

Present: Mike Flora, Joe Keenan, Councilor Mason, Susan Leonard, John Federico, Councilor Bushor, Bob Rusten, Councilor Paul, Eileen Blackwood, Bill Rasch

Absent: Jeffrey Wimette (expected), Jane Knodell (expected), Jim Strouse (expected), Mayor Weinberger, Bob Hooper

5:00pm – 5:05 pm **Approve Agenda**

The meeting started at 5:05pm.
Agenda approved unanimously.

(expected 5:00pm – 5:05pm) **Review and Approval of February 25, 2014 meeting minutes**

Minutes approved unanimously (motion by Councilor Bushor, seconded by John Federico)

(expected 5:05pm – 5:10pm) **Public Comment**

Gene Bergman: Urges the Committee to consider the importance of the pension plan for the financial security of those who have worked for the City for years

Rob Ruolff: This is an important issue – poses question to Committee about retirement system financing.

Bob Rusten: Public comment is not the time for questions of the Committee members, only for comments, but I will be happy to speak with you afterward about any questions you have.

(expected 5:10pm – 6:05pm) **VPIC Presentation on Asset Management**
VPIC Chair Stephen Rauh and others

State Treasurer Beth Pearce joined VPIC Chair Stephen Rauh and Matt Considine, Director of Investments, to discuss VPIC's investment strategy. Treasurer Pearce began the discussion:

- VPIC has adopted an investment strategy that minimizes downside risk
- Treasurer Pearce is confident and comfortable in the approach – "the first rule of investment is don't lose money."

VPIC Director Stephen Rauh:

- Provides an overview of VPIC's investment strategy, which consciously avoids a single vision of the future (it is unknowable) and deploys money in a way that no matter what happens, at least some components of the portfolio will work effectively.
    - In 2008, VPIC 55 percent stocks, 30-odd percent bonds, and other miscellaneous items (a stock heavy portfolio).
    - Took a 30 percent loss, and VPIC decided it needed to reduce equity exposure and reconfigured portfolio to reduce sensitivity to market volatility
- In 2013, there was some frustration for VPIC in that the return was quite low relative to other pension funds
    - Fixed income assets did pull the overall performance of the portfolio down, and diversification (while good for risk management) does come at a cost in terms of performance if one asset type (like stocks in 2013) has a particularly high return

Councilor Bushor: When you see an asset class underperforming, can you adapt, alter the portfolio, even mid-year?

Stephen Rauh: Institutional investors can and do fire underperforming managers, but these transitions cost money. Over the long hall, it is an inefficient to have too many changes in an investment portfolio – better to reconsider strategy. Additionally, VPIC shifts money to underperforming managers with the expectation that markets shift and underperformance will be followed by exceptional performance.

Matt Considine: Our approach does involve careful analysis of each manager. When managers are outliers, for whatever reason, we do examine the situation and make sure there isn't a deeper problem.

Treasurer Pearce: We do manage the managers in a disciplined way and plan for the long term—if a stock underperforms, say in 2008, and you move money out, you miss the recovery. This *[VPIC's conservative approach]* is not easy – I had trouble with this at first and spent a great deal of time considering it.

Councilor Mason: Understand the conservative approach, and am not in a position to question the strategy. My concern is that even in a record year for the stock market, the City did not hit its basic benchmark of 8 percent. Should we look more carefully at the rate of return in question here?

Stephen Rauh: More aggressive equity assumptions need to consider the post-2008 market crash environment – stimulus, quantitative easing, etc. We think forward looking returns are going to be sub-par, and that begs the question of how to consider an 8 percent rate of return. That is also a function of the risk factor associated with a particular investment strategy.

Treasurer Pearce: This question about the 8-percent return assumption is in some respects a question for the actuary. And it's also a question of smoothing – some of the return has been impacted as part of the actuarial valuation method that reduces the effect of market volatility on the retirement system

Mike Flora: I have the same concern as Chip – in some ways, looking at this retirement system, it seems like we have an investment problem. I'd like a better sense of VPIC's investment motivation to share with folks who ask me.

Stephen Rauh: Three years ago the actual rate of return fell below actuarial assumptions for the first time. We spent time with NEPC looking at what portfolio would have to look like – resulting in our do no harm, conservative mindset, it's true. Consider, though: If you have a 70 percent funded retirement system and a risky investment strategy, you can really have the wheels come off. We want to avoid a Vegas-type scenario where we try to solve the problem with investments.

Treasurer Pearce: There are too many plans out there with too much risk – trying to solve the problem through a risky investment strategy can backfire.

Eileen Blackwood: Please confirm my understanding: The 5-year annualized return is actually 12.77 percent, and the three-year annualized return is 7.82 percent? So for five years, above 8-percent return actuarial assumption, for 3 years, just below the assumption? (see page 5 of VPIC presentation)

Matt Considine and Stephen Rauh: Yes.

Eileen Blackwood: Okay – so then why do we have an 8 percent expected rate of return if the 30-year projection is between 7.4 – 7.7? (see p. 72 of VPIC presentation)

Stephen Rauh: It is a discussion we've had on the VPIC Board, and it is a question worth discussing with the actuary. That difference can add to the unfunded liability over time.

Bob Rusten: (To the Committee) Remember all that with a change in the expected investment rate of return, you would need to still to make up that funding difference elsewhere – like an increase in contributions to the system.

John Federico: A separate question for the VPIC folks - The three plans in VPIC have unfunded liabilities, correct? [Yes] And VPIC has adopted a diversified investment strategy – so not investing away the problem. Can you talk about the funding method and mechanism in detail and other strategies in detail? How would you combat this problem?

Treasurer Pearce: First, fund the ARC (annual required contribution). Second, pay down the unfunded liability in pieces like a mortgage over time – your system does that, though you may want to talk with the actuary about the method currently employs because it is possible that method back-loads payments. If your system is back-loaded, you are paying greater interest over time. It may be worthwhile to pay more up front to reduce the amount of interest paid over time.

Eileen Blackwood: *[Treasurer Pearce]* Could you step back and explain more about the amortization schedule and how you would address the unfunded liability?

Treasurer Pearce: Explains difference between normal cost and past service cost as the regular expected payment and the payment created by an unfunded liability, respectively. The past service cost to a mortgage payment where you benefit from paying more up front. Speaking generally, funding your ARC is essential to your systems long-term viability.

Bob Rusten: Can you describe a bit about the fees VPIC is paying?

Matt Considine: The last page of the VPIC presentation lists fees involved in the management of VPIC. Total fees equal $155,647.02 quarterly, which is below market rate.

Bob Rusten: You were 55 percent stock in 2008, but mentioned you reduced it after 2008. What is the current amount? What is the all-equity total?

Matt Considine: Refer to page 2 of the VPIC presentation [*where 31.5 percent of investments are focused on equity]*. On page 12, also can see total assets with equity exposure [i.e., hedge funds] at 62 percent.

Councilor Bushor: Have fees increased since 2007? I roughly calculated that the cost to be $620,000 plus, which is quite a bit of money.

Matt Considine: I don't know the exact number, but it is a function of asset value and the fee is below the market standard.

(expected 6:05pm – 6:35 pm) **Meet With One Possible Consultant (Hank Kim, Executive Director of the National Conference on Public Employee Retirement Systems) via phone, and Discuss Outside Consultant Process**
All

Bob Rusten: Hello Hank, thanks for joining us – it is late, 6:42pm, so thanks for staying available. Could you speak to why you are interested in the Committee's work, and how you could be helpful?

Hank Kim, NCPERS Executive Director: I'm interested in my role at NCPERS and helping an NCPERS member, and for helping municipalities generally. I have some experience on this – working on the retirement committee in Virginia Beach to address issues in that retirement system, though the arrangement in Virginia Beach is different, as the municipality is part of a larger state system

Bob Rusten: Questions from Committee members? [None]. Hank, we had talked about a potential plan redesign when we spoke the other day. How could you go about evaluating and potentially offering options for plan re-design? And, are you considered pro-union or pro-management?

Hank Kim: I would use NCPERS database and the experience of the municipal members in our trade association and draw from those experiences to bring ideas in for your municipality. I am not pro-union or pro-management, but rather pro-retirement plan.

Eileen Blackwood: Does pro-plan outlook include hybrid plans?

Hank Kim: The trade association includes one or two hybrid plans. There is a separate association that works with defined contribution plans.

Joe Keenan: We as a Committee need to be able to see where Burlington is in the global picture, and apply different ideas that are out in the public and available, and potentially apply them to our system in a positive way. Is this something you can help with?

Hank Kim: I think I can do that. A solution for Burlington may not be the same as a solution for Long Beach, CA, but I can bring examples of things that did work to Burlington, and evaluate them in Burlington's context.

Hank Kim: I have a question for the Committee – what is the timeline of the work , and what is the time investment considered?

John Federico: In the Council resolution (previously shared), we meet from January through the end of May.

Hank Kim: Then the Committee should know, from mid-April to the end April I am effectively out of pocket planning our trade association conference.

Bob Rusten: When it comes to goal setting, we as a Committee have discussed five areas of importance:

1. Contributions to Fund
2. Unfunded Liability
3. Benefit Complexity
4. Public Confidence in and Support for Pension System
5. Recruit and Retain Staff

Do you have anything specific to say about these different goal areas at this point?

Hank Kim: Not specifics yet. Those are obviously interrelated issues, and they will be difficult to work through.

Councilor Bushor: Will you need additional prep time beyond mid-April?

Hank Kim: No – the conference begins on April 26, and I had built in extra time to prep in mid-April.

—no further questions from the Committee—

Bob Rusten: Thank you for your time, and for staying later than expected.

—call ends—

Mike Flora: We may want to be able to check references of these consultants

Councilor Bushor: Could delegate that to Bob as a Committee

John Federico: I have seen this individual in action, and believe his organization is dedicated to supporting public pension plans.

Joe Keenan: We also need to be accurate about our timeframe expectations– is concluding work by May 30 realistic? Would the Council give us discretion for additional time?

Councilor Bushor and Councilor Paul: This is an important issue that is better to be done right than to be done at a date certain.

Councilor Bushor: My experience is the Council is receptive to extensions if they see a committee is working hard to accomplish the assigned task.

Councilor Paul: And further, over the summer, things tend to slow down as people are away and meeting times are more difficult to schedule.

Councilor Mason: There is some importance in the original date, in that it informs negotiations between the City and the unions that are all opening at the same time.

Brian Lowe: There is some urgency to address these issues, especially with a potential slowdown over the summer – we do need to try and stick to the original deadlines.

Joe Keenan: Agreed, but as we talk with consultants we need to make sure we are accurate about timeline that we are operating under.

6:35pm – 6:50pm **Review of Questions Sent to Buck Consultants and Responses**
All

(Questions and responses posted online)

Time Permitting **Review of Experience Study (FY13 Valuation Report)**
All

[No time to discuss]

6:50pm – 7:00pm **Input for Next Meeting Agenda and Action Items**
All

Potential issues to discuss raised:

- Experience study
- Timeline
- Consultant Barry of Dahab
- GASB 68
- Review of the 20-year history
- Clarity on projected unit credit method vice. entry age normal method

Next Meeting Time: **Tuesday, March 25, 2014 5pm – 7pm**

Meeting concluded at 7:08pm