

Minutes of the Regular Monthly Meeting
Board of Trustees
Employees' Retirement System of the City of Norfolk
January 20, 2005

The regular monthly meeting of the Board of Trustees of the Employees' Retirement System of the City of Norfolk was held in the City Hall sixth floor conference room in the City of Norfolk, Virginia. The meeting began at 12:30 p.m. on Thursday, January 20, 2005, with Chairperson, Michael S. Ives presiding. The following was the result of the roll call:

<u>Attending the Meeting</u>	<u>Not Attending the Meeting</u>
M.S. Ives	A.B. Nusbaum
W.O. Carrow	Vacant
J.D. Hopkins	Vacant
Nancy Johnson	
F.V. Martin	
K.R. Stephenson	

Mrs. Mary L.G. Nexsen, Deputy City Attorney, and Mr. Kamal Khanna, Chief Investment Officer, also attended the meeting.

The minutes of the monthly meeting held December 20, 2004 were approved as printed.

Mr. Wilder presented to the Board a "Resolution" recognizing the service of Mr. Robert J. Keogh, now deceased, as a Trustee of the Norfolk Employees' Retirement System. Captain Carrow made a motion to adopt the "Resolution" recognizing the service of Mr. Robert J. Keogh and to forward said "Resolution" to Mrs. Mary Keogh, wife of Robert Keogh. This motion was seconded by Dr. Hopkins and approved unanimously by the Board.

Mr. Ives informed the Board that this was Captain Carrow's last Board Meeting. Captain Carrow is retiring from the Police Department, effective February 1, 2005, and has accepted a position as Assistant Commonwealth Attorney. Mr. Ives thanked Captain Carrow for his friendship and service over the years with us and wished him much success in his new endeavor. Captain Carrow thanked the Board for their words of encouragement. He stated that he had enjoyed his service on the Board and wished them much success in the future.

Mr. Paul Wilkinson, Consulting Actuary, of Mellon Consultants, Inc., gave the annual report of the actuarial valuation as of June 30, 2004. Mr. Wilkinson presented the Board members with a booklet that summarized the important details of the formal report previously distributed.

The highlights of the presentation are as follows:

Overview of 2003-2004 Fiscal Year

- 2003-2004 Market Value Rate of Return is 11.2%
- Decrease in funded status

Objectives of Actuarial Valuation

- (1) Determine Financial Position as of June 30, 2004
 - Unfunded Accrued liability is \$29.5 million
 - Funded status is 96.5%
- (2) Determine Employer Rate for Fiscal Year 2005-2006
 - Contribution rate for general employees is 11.10%. The contribution rate for firefighters and police is 20.84%. The total composite contribution rate is 14.63% of annual compensation.
- (3) Measure Net Actuarial Gain (Loss)
 - Comparison of actual experience expected
 - Loss for fiscal year ended June 30, 2004 is \$25.5 million

The actuarial asset valuation method was changed June 30, 2004 to a new smoothing method. The new method reflects expected income (based on the valuation interest rate) and spreads over three years recognition of any gains (or losses) due to investment return in excess of (or less than) the expected return. This change was made to better track market performance and to provide better smoothing of the contribution rate from year to year. To transition into this new method, the initial asset value as of June 30, 2004 is set to the market value, with next year's value reflecting asset gains (or losses) for the year beginning July 1, 2004.

The amortization method for determining the accrued liability contribution rate was changed June 30, 2004 from a closed to an open, 20-year level dollar method. The method has been changed so that the accrued liability contribution rate each year is that year's unfunded accrued liability amortized over 20 years. This change was made to reduce abrupt increases or decreases in the contribution rate from one year to the next that could occur as individual amortization amounts reach the end of their 20-year periods.

No other assumptions or methods were changed.

Accrued Liability and Funded Status (Actuarial Value)

Accrued Liability	\$845,670,244
Actuarial Value of Assets	<u>(816,120,329)</u>
Unfunded Accrued Liability	\$ 29,549,915

Captain Carrow made a motion to accept the contribution rate of 11.10% for general employees and 20.84% for firefighters and police as determined by the actuary, Paul Wilkinson, Mellon Consultants, for the Fiscal Year 05-06 and

to certify the same to the City. This motion was seconded by Dr. Hopkins and approved unanimously by the Board.

Messrs. Ives, Carrow, Hopkins, and Martin expressed their concern to the Actuary regarding the discussions that led to the changing of the actuarial asset valuation method and the amortization method for determining the accrued liability contribution rate. Mr. Ives informed the Actuary that the Board is comprised of City employees and citizens of the City, none of which are members of the Retirement System. Mr. Ives further stated that in the future, any actuarial discussions regarding the Retirement System should be done through committee meetings with City employees and citizens of the Board in attendance.

Mr. Ives asked the Actuary, Mr. Paul Wilkinson, to send a letter from Mellon on how discussions of this change originated outlining precise chronological order of discussions/events with City staff that led to the facilitation of recommending changing of actuarial assumptions and methods. A permanent record should be documented as to why this is the best or most reasonable change.

Mr. Bob Bielat, of Cherry Bekaert & Holland, L.L.P., Certified Public Accountants, provided an overview of the audit report of the Employees' Retirement System as of June 30, 2004. Mr. Bielat stated that Cherry, Bekaert & Holland has rendered a clean, unqualified, opinion regarding the financial statements of the System. He stated that the audit was conducted in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and Specifications for Audits of Counties, Cities and Towns, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. In accordance with Government Auditing Standards, they have also issued their report dated November 10, 2004 on their consideration of the System's internal control over financial reporting and their tests of its compliance with certain provisions of laws, regulations, contracts and grants noting no matters involving the System's internal controls and its operations that we consider to be material weaknesses.

Committee Reports:

Administration and Planning:

Mr. Ives reported that the Committee did not have a meeting.

Asset Allocation:

Mr. Ives reported that the Committee did not have a meeting.

Investment Management Review Committee:

Mr. Martin reported that the Committee did not have a meeting.

Training and Education:

Mr. Wilder reported that the Committee did not have a meeting.

Benefit Claims:

Dr. Hopkins reported that the Committee did not have a meeting.

Manager Search & Selection:

Mr. Ives reported that the Committee did not have a meeting.

Mr. Khanna distributed for the Board's information a report summarizing the Fund's performance and commentary on the economy and the markets. This report is attached as part of the official minutes.

Mr. Wilder asked the Board to approve Ms. Rhonda Lundy, retirement Payroll Accountant, to attend the 2005 Higher Education User Group Conference to be held in Las Vegas, Nevada on March 21-24, 2005. The conference is being sponsored by PeopleSoft, the system that processes the retirement checks. Mrs. Stephenson made a motion to send Ms. Lundy to the 2005 Higher Education User Group Conference. This motion was seconded by Ms. Johnson and approved unanimously by the Board.

New Business

A. Applications for vested service retirement:

Carmelita R. Bulosan, Active No. 20766, February 1, 2005, with no refund due.

Wilhelmena S. Credle, Active No. 21356, February 1, 2005, with no refund due.

B. Applications for early service retirement:

James E. Epps, Jr., Active No. 23342, February 1, 2005, with no refund due.

John E. McHenry, Active No. 23515, February 1, 2005, with no refund due.

Demissew Gedamu, Active No. 10095, March 1, 2005, with no refund due.

C. Applications for normal service retirement:

Jane Joyner, Active No. 18167, February 1, 2005, with no refund due.

William O. Carrow, Jr., Active No. 19978, February 1, 2005, with no refund due.

Thomas M. Dove, Active No. 21598, March 1, 2005, with no refund due.

Ceferina Hitchings, Active No. 16938, April 1, 2005, with refund of \$263.95.

Harold P. Juren, Active No. 19213, April 1, 2005, with no refund due.

D. Request that retirement be rescinded:

Kevin J. Moran, Active No. 15512, January 1, 2005, with refund of \$2,057.31.

E. Recommendation by the Medical Board that the following be retired:

Harold Watkins, Active No. 14933, February 1, 2005, with refund of \$2,222.06.

This member requested ordinary disability retirement.

F. Death of retired members:

Arthur M. Kirkby, Ret. No. 01685, death occurred October 21, 2004. Spouse elected monthly benefit of \$906.48.

Frank Tucker, Ret. No. 02912, death occurred November 19, 2004. Spouse elected monthly benefit of \$1,166.76.

Fanetta H. Waples, Ret. No. 01413, death occurred December 21, 2004. No benefit payable due to no surviving spouse or dependent children.

Nell R. Swain, Ret. No. 02465, death occurred December 24, 2004. No benefit payable due to no surviving spouse or dependent children.

James Duffee, Ret. No. 0255, death occurred December 25, 2004. No benefit payable due to no surviving spouse or dependent children.

G. Death of spouses.

Ellis L. Gwin, Sr., Spouse No. 0269N, death occurred December 19, 2004. No benefit payable.

Laura E. Allen, Spouse No. 082N, death occurred December 22, 2004. No benefit payable.

Jimmie L. Collins, Spouse No. 076N, death occurred January 4, 2005. No benefit payable.

Willie M. Wilson, Spouse No. 0497N, death occurred January 9, 2005. No benefit payable.

Ida Taylor, Spouse No. 0603N, death occurred January 13, 2005. No benefit payable.

The Board approved withdrawal of the following non-contributing members:

<u>Name of Member</u>	<u>Active No.</u>
Lendoria Norfleet	28855
Junice M. Armstrong	28876
Jennifer A. Drisker	29392
Stuart J. Macgregor	29437
Veronica Throw	29579
Julian L. Brinkley	29931
Erik E. Priebe	30074
Theresa Ann Clous	30134
Barbetta Lenette Terry	30214
Brandon J. Pitts	30275
Djuan Burden	30392
Abinet Y. Belachew	30472
Joseph McInnis	30508
Total members - 13	

The following report of payments from the Trust Fund was received and filed:

FedEx	(1)	\$ 16.82
Bayview Physician Services, PC	(2)	224.00
Director of Finance	(3)	1,205.02
Dr. John Hopkins	(4)	1,432.21
Lotus Financial Consulting, LLC	(5)	
14,583.00		
Kamal Khanna	(6)	
2,779.98		
Frederick Martin	(7)	779.13

Baker's Crust, Inc.	(8)	212.80
NCPERS	(9)	200.00
State Street Corp.	(10)	9,908.93
Retirement Payroll (est. Jan. 05)		
<u>3,500,000.00</u>		
Total		<u>\$ 3,531,341.89</u>

Money manager invoices submitted to custodian for payment:

Mellon Capital	(11)	\$
5,806.99		
JP Morgan	(11)	38,977.37
PIMCO	(11)	
66,342.00		
Oberweis Asset Management	(11)	
28,233.00		
SsgA (S&P 500)	(11)	
16,327.12		
SsgA (Bond Market Index)	(11)	3,696.28
SsgA (Russell 2000)	(11)	
4,858.58		
Wellington Management	(11)	
<u>58,387.48</u>		
Total		<u>\$ 222,628.82</u>

- (1) Information sent to State Street
- (2) Medical exam for Randolph Moore
- (3) Reimbursement for expenses to attend Public Funds Boards Forum on December 5-9, 2004 in San Francisco
- (4) Reimbursement for expenses to attend Public Funds Boards Forum on December 5-9, 2004 in San Francisco
- (5) Investment consulting services for the period 01-01-05 through 01-31-05
- (6) Reimbursement to attend the following: Burgundy due diligence; Wellington 2004 Research Forum; Public Funds Boards Forum
- (7) Reimbursement for expenses to attend Public Funds Boards Forum on December 5-9, 2004 in San Francisco
- (8) Lunch served for Administration and Planning and Investment Review Committees on December 20, 2004
- (9) Membership for the National Conference on Public Employee Retirement Systems
- (10) Custodial services for the month of October 2004

(11) Investment management fees for quarter ended
09/30/04

There being no further business, the meeting was adjourned at 2:50 p.m.

Chairperson

Executive Director