

Minutes of the Regular Monthly Meeting
Board of Trustees
Employees' Retirement System of the City of Norfolk
December 8, 2010

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 11:30 a.m. on Wednesday, December 8, 2010, with Chairperson, Stephanie A. Calliott presiding. The following was the result of the roll call:

Attending the Meeting

S. A. Calliott
L. A. Bernert
K. W. Crowder
C. R. Neikirk
N. E. Nelson
E. G. Tucker
D. V. Hill

Not Attending the Meeting

Y. T. Allmond
R. V. K. Williams

Ms. Mary L. G. Nexsen, Deputy City Attorney, also attended the meeting.

Jose Benitez and Paris Colburn who work in the City of Norfolk's Budget Office attended the Cheiron actuarial presentation of the meeting.

The minutes for the meeting on November 10, 2010 were approved.

Mrs. Fiona E. Liston and Mr. Stephen T. McElhaney, actuaries with Cheiron, presented the results of the 2010 Actuarial Valuation. Mrs. Liston stated Cheiron has performed the actuarial valuation of the Employees' Retirement System for the City of Norfolk as of June 30, 2010. The purpose of the valuation is to:

- 1. Measure and disclose, as of the valuation date, the financial condition of the System*
- 2. Indicate trends in the financial progress of the System*
- 3. Determine the contribution rate to be paid by the City for Fiscal Year 2012; and*
- 4. Provide specific information and documentation required by the Government*

Accounting Standards Board (GASB)

Mrs. Liston explained that an actuarial valuation establishes and analyzes System assets and liabilities on a consistent basis and traces the progress of both from one year to the next. It includes measurement of the System's investment performance as well as an analysis of actuarial liability, gains and losses. The Actuarial Accrued Liability at June 30, 2010 was \$1.047 million and the Actuarial Value of Assets at June 30, 2010 was \$818 million, equaling to an Unfunded Actuarial Liability at June 30, 2010 of \$229 million.

As of June 30, 2009, the System's accrued liability was 78% funded based on the actuarial value of assets. The results of this valuation determine the contribution rate for the fiscal year beginning July 1, 2011. The contribution rate for General employees is determined to be 19.55%. The contribution rate for Firefighters and Police is determined to be 34.32%. The composite rate is equal to 24.80% of annual payroll.

Mr. McElhaney presented historical review of plan maturity indicators: participation, annual cash flows, asset smoothing, assets & liabilities, and contributions. Key points from the presentation follow:

- Plan was amended to require 5% contribution from all new hires.
 - This has no immediate impact on City costs but will reduce them as new hires are recognized in the valuation process
- One more year in asset smoothing method to recognize August 2009 market losses
 - Projections show one more year of contribution rate increase followed by gradual decline
- Funded ratio of plan is projected to improve from current 78% to 86% by 2025 valuation
 - Expected to drop next year to 74% with final recognition of asset losses
 - Continued gains on liability could offset part of this if pay freezes remain in effect

Mrs. Cheryl Xystros, Engagement Partner, and Ms. Karen Bjune, Engagement Manager, of KPMG met with the Board. Mrs. Xystros informed the Board that the audit was complete, and the draft Comprehensive Annual Financial Report ("CAFR") for Fiscal Year Ending June 30, 2010 is presented for their review. Mrs. Xystros stated that KPMG would be issuing an unqualified opinion regarding the financial statements of the System. Mrs. Xystros discussed communication requirements under the Statement of Auditing Standard (SAS) No. 114. The report covered the following topics:

- Our responsibility under professional standards
- Other information in documents containing audited financial statements
- Accounting practices and alternative treatments
- Quality of accounting principles
- Management judgments and accounting estimates
- Uncorrected and corrected misstatements
- Disagreements with management
- Management's consultation with other accountants
- Significant issues discussed, or subject to correspondence, with management
- Significant difficulties encountered during the audit
- Other significant findings or issues
- Independence

Mrs. Xystros informed the Board that KPMG representatives have read the information in the System's CAFR and completed the audit. KPMG will be issuing the statement letter within the next day or so. The representation letter will explain that KPMG encountered no significant difficulties in dealing with management in

performing the audit, and there were no significant findings or issues encountered during the audit. There were no changes in the accounting policies nor will there be changes next year.

New Business

A. Applications for vested service retirement:

Doris E. Parker, Active No. 21734, November 1, 2008, with no refund due. [[Lake Taylor City Hospital](#)]

Gerald Walker, Active No. 17927, January 1, 2011, with no refund due. [[Lake Taylor City Hospital](#)]

Shirley M. Barnes, Active No. 21246, January 1, 2011, with no refund due. [[Lake Taylor City Hospital](#)]

Brenda L. Betts, Active No. 21980, January 1, 2011, with no refund due. [[Social Services](#)]

B. Application for early service retirement:

Vernon R. Land, Active No. 22724, January 1, 2011, with no refund due. [[Utilities](#)]

C. Applications for normal service retirement:

Thomas K. Perry, Active No. 21948, January 1, 2011, with no refund due. [[Utilities](#)]

Elijah Vaughan, Active No. 25286, January 1, 2011, with no refund due. [[Fire-Rescue Services](#)]

Ellen V. Rogers, Active No. 25396, January 1, 2011, with no refund due. [[EOC/911](#)]

Carroll R. Caton, Active No. 25530, January 1, 2011, with no refund due. [[IT](#)]

Rebecca O. Worley, Active No. 20598, February 1, 2011, with no refund due. [[Human Services](#)]

Sylvia A. Combs, Active No. 21091, February 1, 2011, with no refund due. [[Public Works](#)]

Regina V.K. Williams, Active No. 28578, February 1, 2011, with no refund due. [[Executive](#)]

Diane B. Everett, Active No. 31103, February 1, 2011, with no refund due. [[Grant Administration](#)]

D. Requests that retirement be rescinded for the following:

John M. Haithcock, Active No. 26756, December 1, 2010, with no refund due. [Police]

Martha Turpin, Active No. 26416, January 1, 2011, with no refund due. [Human Services]

E. Death of spouses:

Jane F. Roane, Spouse No. 02626R, death occurred November 17, 2010. No benefit payable.

Dorothy Pierce, Spouse No. 00248, death occurred November 18, 2010. No benefit payable

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

<u>Name of Member</u>	<u>Active Number</u>
Keisha L. Gutierrez	30983
Glenn Roy Gwaltney	31700
Stephanie Herman	31704
Timothy James McConnaughy	31939
Douglas R. Ehman II	32366
Alveta Green	32916
Total Members - 6	

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

Cheiron, Inc.	(1)	\$	250.00
Theodore O. Wilder	(2)		291.24
Baker's Crust	(3)		290.38
Retirement Payroll (Est. for December. 2010)		\$	<u>5,500,000.00</u>
Total		\$	5,500,831.62

- (1) Medical examination for Mark Wethington
- (2) Reimbursement for attending the Fall Meeting of the Association of Municipal Retirement Systems of Virginia in Danville, VA on October 25-26, 2010
- (3) Lunch for Board Meeting held on October 13, 2010

Committee Reports

Administration and Planning:

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

Investment Management:

Mr. Neikirk reported that the Committee did not have a meeting. He did report that for the month of November 30, 2010 the Fund was valued at \$813.7 million. The funding status is approximately 77.74%.

Mr. Neikirk also reported that Jessica notified him that in the first quarter of 2011 (February-March) we should begin investing in the JP Morgan real estate, and approximately April for UBS.

Mr. Wilder informed the Board that he had a conversation with the Director of Finance for the City of Hampton. They have a supplemental plan that is closed, and they are now with Virginia Retirement System. Concerning the supplemental plan, they have transferred all assets to a passive strategy and hired Vanguard to manage the portfolio.

Mary Lou Nexsen advised the Board of her research on drug and alcohol abuse and how it contributes to a person's disability retirement. She contacted VRS but discovered that they do not have any regulations. She contacted the Social Security Administration who does have a regulation on drug and alcohol abuse and how it contributes to a medical condition. They do not look at past usage by the individual but do look at current usage. In evaluating the effect of drug or alcohol abuse on a disability applicant's retirement, their test is whether the use is material or immaterial to the applicant's condition. They will not pay benefits to claimants whose disabling conditions are brought on by or exacerbated by drug or alcohol abuse. They look at what the current examination results are. If the doctor's determination is that the drug or alcohol abuse would make no difference in the claimants medical condition then this is considered immaterial to the claim. However, if not using drugs or alcohol would result in medical improvement then that abuse would be deemed material to the claim, and the claim would be denied.

The Board asked Mary Lou Nexsen to prepare a letter to the System's medical board doctors who review our disability applicants and provide them with the Social Security's Administration statute on this subject. In the letter, she would ask the doctors to take into consideration the federal statute as used by the Social Security Administration and factor the material or immaterial guidelines into medical reports of claimants.

Larry Bernert expressed his concerns about long-term issues of the City of Norfolk's pension plan, and asked the Trustees if this is a good time, that as fiduciaries of the System, an Executive Summary from the Chair to the City Council should be prepared. The Trustees agreed and approved the preparation of the Executive

Summary to the City Council. The Executive Summary will be brief outlining how the Board sees their role, changes made to the Statement of Investment Policy or portfolio allocations, progress in the past 18 months—where we were and where we are today, returns history, and concerns related to rate-of-return over the next five years to include numerical data. There are several issues that are going to continue to evolve and it is important that the City Council is aware of fiduciary issues that concern the Board. The Chair agreed to draft the Executive Summary and circulate it to the Trustees for comment prior to sending it to the Mayor and City Council.

The Chair also asked the Executive Director to survey the AMRSVA in the next month or two and inquire if they have had or having discussions regarding possible changes to their plans as it relates to freezing current employees' benefits versus only making changes for new employees coming into their retirement plans.

Mr. Wilder informed the Trustees that the last assumed rate of return was change from 7% to 7½% on June 30, 1990.

The next Retirement Board meeting is schedule for January 12, 2011 at noon. There will not be an Investment Committee meeting.

Ms. Calliott thanked the Board for their time and dedication during the year and wished everyone a Merry Christmas and a Happy New Year.

There being no further business, the meeting adjourned at 1:47 p.m.

Chairperson

Executive Director