CITY OF
GERMANTOWN
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Retirement Plan Administration Commission Minutes

June 18, 2014 – 5:00 pm.
Administrative Conference Room
Municipal Building, 1930 S. Germantown Rd, TN 38138

MEMBERS PRESENT: City Administrator Patrick Lawton, Alderman Mike Palazzolo, Daniel Dent, Ralph Gabb, and Todd Proctor

MEMBERS ABSENT: Mayor Sharon Goldsworthy, Frank SanPietro

STAFF PRESENT: Chief John Selberg and George Brogdon

ALSO PRESENT: Bill Pickens and Bart Reid with Gerber/Taylor Associates
Attorney Frank Carney of Evans Petree Law Firm

CALL TO ORDER

Ralph Gabb called the meeting to order and announced that there was a quorum.

CHAIRMAN COMMENTS

No comments.

PLAN AMENDMENTS

Mr. Carney began by advising that the City of Germantown pension plan offers two optional forms of benefit: 1) if an employee is unmarried, he/she will receive a life annuity and 2) if an employee is married he/she can receive a joint survivor annuity that can be either joint survivor 50% and 50% or joint survivor 100% and 100% *OR* even if an employee is unmarried, he/she can choose a joint survivor annuity with any beneficiary. A third option has now been added which states that an employee can choose an annuity with a ten year term certain (they are guaranteed ten years of payment even if the employee dies before the end of the ten year period). If there is a beneficiary, he/she would receive the remainder of the ten year payments. Per Mr. Carney, all options are equivalent and therefore does not cost the plan any additional costs, however, the monthly amounts adjusts depending on which annuity is adopted.

Mr. Gabb stated that they would like to present this plan amendment (Amendment No. 5) to the Board of Mayor and Aldermen on July 14, 2014.

****MOTION****

Daniel Dent moved to present Amendment No. 5 to the Board of Mayor and Aldermen on July 14, 2014. Alderman Palazzolo seconded and the motion passed unanimously.

Mr. Carney advised that Amendment No. 6 actually has two amendments. The first, 4.2(b) pertains to a bridge for emergency service employees that pays until age sixty-five. This amendment gives them the option to be paid more closely to social security age (sixty-six, sixty-seven or later). Here again it is actuarial equivalent so the cost is the same, there is just a reduced monthly amount to where they can stretch that bridge out until a longer period of time.

Mr. Lawton reminded everyone that this is something Administration had discussed previously with the RPAC Commission and that he had been working with the City's public safety employees in trying to present the impact of certain changes of the plan and trying to have the bridge in place the way it was intended. However, with some of the younger employees coming on board, the bridge no longer fit. Per Mr. Carney, the bridge would stop before social security began leaving a gap with no monthly payments.

The second amendment (4.4) addresses a onetime 5% cost of living increase and is offered to retirees already in pay status that retired on or before June 30th, 2009. Mr. Lawton said when this was discussed internally with City staff, questions and concerns were brought up such as the last time a cost of living adjustment (COLA) was made and how often does it occur. He advised that Mr. Gabb will be working on language to include in the City's Financial Policy stating that COLA will be considered every two, or three years depending on the inflation rate. Mr. Lawton noted that the cost of living adjustment will come out of the plan, not the General Fund. It will however be factored into the next contribution on a long-term basis.

****MOTION****

Todd Proctor moved to present Amendment No. 6 to the Board of Mayor and Aldermen on July 14, 2014. Alderman Palazzolo seconded and the motion passed unanimously.

OTHER BUSINESS

Mr. Carney explained that there are situations where someone claims a benefit and because of technical provisions of the plan or for a variety of other reasons they are not entitled to the benefit and therefore the claim is denied. When the pension department denies a benefit and the claimant wants to pursue it further, that's when it comes before this body which is the initial source for whether a claim is denied or approved. If this body denies the claim, then the claimant has a right to appeal it back to this body for reconsideration. If the claim is still denied, the claimant has the right to take it to the Board of Mayor and Aldermen under the Legacy Plan.

Mr. Carney said that the City now has a case such as this arising. Back in 1990 (circa), a Qualified Domestic's Relations Order (QDRO) had been entered by the Court and was accepted by this plan. The QDRO tells the Plan Administrator that there is a court order whereby the ex-spouse is entitled to some portion (usually 15%) of the plan. Subsequently, there was an amendment to this order stating that the ex-spouse is to receive 50% and then another amendment for 100%. This QDRO stipulated that the ex-spouse be paid instead of the participant.

Mr. Carney said there is but one problem—governments cannot have QDRO in their retirement plans in the State of Tennessee. This thereby made the order invalid and void. Nobody in a public pension plan can assign their benefit. Per Mr. Carney, in 2008 attorneys representing the plan not only sent a letter notifying the City that they could not have QDROs in the pension plan but also wrote a letter to the participant specifying that this order is now void therefore, the claim has been denied; a phone call was placed to notify the ex-spouse. When the participant died in 2012, the ex-spouse came forward to demand payment. Mr. Carney said that we can't pay her since we cannot honor QDRO. Referring to a hand-out, he noted the only way that this claim could be paid is the result of a child support order.

He further stated that the claim is now before this Commission and a decision will have to be made. He asked that members please refer to handouts with facts and quotes from the statute and the Attorney General's opinion before making their final ruling. The ex-spouse was to receive 100% of what was to be paid to the participant (a Deferred Annuity starting at age 65). Since the participant died before age 65, technically nothing is payable to him and furthermore nothing is payable to her. Mr. Carney's recommendation is to deny the claim. He said that he would write a letter to the ex-spouse under the Commission's instruction.

****MOTION****

Daniel Dent moved to deny this claim and have Mr. Carney to write the claimant a letter. Alderman Palazzolo seconded and the motion passed unanimously.

APPROVAL OF MINUTES

Mr. Gabb called for approval of the minutes from the March 26, 2014 RPAC meeting.

****MOTION****

Todd Proctor moved to approve the minutes as presented from the March 26, 2014 RPAC meeting. Daniel Dent seconded and the motion passed unanimously.

GERBER/TAYLOR—CITY INVESTMENT POSITION

Mr. Bart Reid began by referring to the change in cash value over the past year. Last March, we started off with a value of $52,090,340 and today that portfolio is $62,630,694. He said it has been a great year in that $8.5 million dollars has been portfolio earnings and $2.5 was contributions to the fund. Mr. Reid further explained that portfolio equity risks decreased from 77% to 42% and the growth of assets from inception total $63,051,846 resulting in a 15.9% rate of return. Mr. Pickens noted that the past five years have been very important especially because Germantown's portfolio moved out of a 75-80% equity allocation despite the 2008 recession. We are now at a time where bond yields are very low and equities are much more expensively priced. Per Mr. Pickens, having a more broad, diversified portfolio that is not so "bind" dependent (reduces risk) is a very good and timely move.

Mr. Reid spoke on the performance update through May. He said the portfolio has done well and is up by 3% and the 65/35 is up by 4.4%. Mr. Pickens advised that our allocation is under performing what traditional stocks and bonds have done so far for the first five months of the year. He further advised that the bond market has been up almost 4% and stocks are up 5% over the last five months; having the hedge strategies has hindered us so we are taking fewer risks and are more defensive. Although stocks and bonds are doing really well, our Manager's benchmarks have lagged some (2% vs. 4%); with the Germantown Total Fund being at 3%, Managers have added value over and above our composite index (difference of 3.0% and 1.8%).

Mr. Reid said there are no Manager issues within the portfolio; the biggest eyesore would probably be Harbor which so far this year is up 0.8% versus 4.3% and fiscal year-to-date being 26.9% versus 22.1% for the S&P and 24.5% for Russell 1000 Growth, all out performing since inception. He further explained that Forester Diversified is up 2.1%, out performing their fund of funds index and Alternative Investments which is your long/short equity of 1.7%. In the Fixed Income area, PIMCO Total Return is up 2.5% and 1607 Bond Fund is most impressive by being up 6.1%. Eagle MLP had a great last year and is continuing to be great by being up by 13.9%.

Mr. Pickens discussed Asset Allocations. He said for Real Assets there is a target of 10%; by design, the City is at 7.5% under weighing the MLP strategy by approximately 50%; also, there is a 5% target which was funded by 2.5% mainly because MLP's have been doing so well and valuation levels have been fair. International Equity is at 17.5% and is very opportunistic. In the portfolio, Japan is an opportunistic strategy and is at 2.5% allocation. Between now and the end of the year, moving International Equity up to 20% and possibly adding another Manager to compliment Harbor might very well be considered.

****MOTION****

Todd Proctor moved to approve that the allocation remain the same and accept the report as presented by Gerber/Taylor. Daniel Dent seconded and the motion passed unanimously.

YEAR-END FUND DISTRIBUTION

Mr. Gabb reminded everyone about a change to the funding of the Retirement Plan in the amount of $2,238,029 in December, 2013. At that time funds were made available to the participants (not investments) for six months. At the end of the six months (June, 2014) the fund to pay the participants did not have sufficient cash and fell short by $28,292.80. After receiving a recommendation from the Gerber/Taylor Firm, Mr. Gabb advised that we sold $80,000 of PIMCO short-term Bond Fund to maintain the current allocation. Once funds were paid out to the participants, a cash balance of $51,707 remained. Mr. Gabb further advised that come December, we will sell again; $1,071,252 will pay participants $1.3 million because these employees are not just paying, but are also contributing through the emergency service groups. Since the funding of $2.2 million last year and because the fund has done so well, only $1.6 million will be needed to fund the plan in December.

****MOTION****

Todd Proctor moved to approve the selling of $1,071,252 to ensure that sufficient funds are available for the next six months. Daniel Dent seconded and the motion passed unanimously.

ADJOURNMENT

Having discussed all items on the agenda, Mr. Gabb called for the meeting to be adjourned.