CITY OF
GERMANTOWN
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Retirement Plan Administration Commission Minutes

December 3, 2015 – 6:00 pm.
City Hall – Administrative Conference Room
1930 S. Germantown Rd, TN 38138

MEMBERS PRESENT: Chairman Daniel Dent, Ralph Gabb, Alderman Rocky Janda, Sammy Jobe, and City Administrator Patrick Lawton

MEMBERS ABSENT: Mayor Mike Palazzolo

STAFF PRESENT: Reynold Douglas, Bo Mills, and Steve Wilensky

CALL TO ORDER

Mr. Gabb called the meeting to order at 6:00 p.m. He then called the roll and announced that there was a quorum.

CHAIRMAN COMMENTS

No comments.

APPROVAL OF MINUTES

****MOTION****

Chairman Dent moved to approve the minutes as presented from the September 23, 2015 RPAC meeting. Alderman Janda seconded and the motion passed unanimously.

GERBER/TAYLOR—CITY INVESTMENT POSITION: Amended & Restated Pension Plan (Old Plan)

Mr. Bart Reid reported that this has been a very frustrating quarter in that the S&P was down over 6%, International stocks were down over 10% and Emerging Market stocks were down almost 18% respectively, for the quarter. The only bright spot for the quarter was the bond market or more specifically, the treasury market where bonds were up 1.2%. He further explained that the yield on a ten year treasury is right at 2% therefore, given a rising interest rate environment, a return will be somewhere below that yield number going forward thereby making the expected return on bonds very unattractive. Mr. Reid said the past two years have really limited the allocation of bonds to 15% of the target allocation. Although this quarter was very costly to the portfolio, the volatility has still been in line with the 60/40. The real cost to the portfolio came more from allocations to MLP's and one of the hedge strategies. Per Mr. Reid, the overall performance for the portfolio as a whole has been good for the long term. He said our batting average has been really good—in the past 16 years the portfolio has only underperformed about 4 years with the 65/35% mix of stocks and bonds.

Mr. Reid went on to talk about universal comparison. He said for the one year period we were in the 42nd percentile; year 3 had a very attractive return as we were in the 18th percentile. Years five and seven are a bit frustrating mainly due to international equities drastically underperforming the U.S. Per Mr. Reid, years ten to fifteen's performance since inception was very attractive compared to our peer group. These include all the balanced funds in the Morning Star Universe accounts.

Mr. Reid further advised that on a relative basis, all equity managers have done pretty well this year. The Russell 1000 Value is down by 8.4% and although Harbor Capital Appreciation is down 5.4% for the quarter, it is actually up for the year by 2.7%. Wedge's year-to-date number is down 4.9% versus S&P which is down by 5.3%; he noted that there is a large disconnect between growth and value. The Russell 1000 Value year-to-date is down by 9%, but the Russell 1000 Growth is down only 1.5%. Per Mr. Reid, growth has really outperformed value for a couple of years now because people are taking more and more of a risk and buying stocks at higher valuations creating a momentum driven market. Mr. Reid said it is clear that expected returns going forward are not going to be as attractive as they have been in the last five years where the S&Ps annualized in the 15% range. When this portfolio was reallocated almost two years ago, the focus was on two things—1) stocks being excessively expensive and 2) bonds being excessively expensive. The goal was to reduce our market exposure without increasing the volatility of the portfolio; therefore hedge strategies, long/short term equity, different merger arbitrage, bond strategies, real assets through MLPs and direct real estate through a company called Black Rock Holdings were all incorporated.

Mr. Reid explained that what we own through the Eagle MLP Fund is primarily mid-stream assets which is the transport of oil and gas. The cash flows of the MLPs are not based on the price of oil and gas; most are long-term contracts for transportation fees of the oil and gas that can be re-negotiated. The earnings from these contracts have been intact and cash flows have continued to be steady. Today, although real asset MLPs earnings have been stable, the prices have dropped significantly. Unless something structurally changes, his two recommendations are to 1) bump the MLPs back up to their target allocation of 5% and also 2) to diversify the international exposure by backing away from Harbor International and adding First Eagle Overseas. Referring to a Manager Analysis sheet, Mr. Reid advised that there is no fee difference between Harbor International and First Eagle Overseas. First Eagle Overseas historically has a lower standard deviation and a higher return. Today, per Mr. Reid, they have approximately 20% in cash and a lot of capital along with downside protection if the market should fall. He advised that this is another way to lower the volatility of our overall portfolio. He said that we need to continue to find ways to lower the overall portfolio without lowering the respective return.

****MOTION****

Alderman Janda made a motion to make the following recommendations of our financial advisors: 1) reallocation for the purpose of bringing all funds into target, and 2) divide international equity between Harbor International (50%) and taking the remaining 50% over to First Eagle Overseas (50%) and 3) bump the Eagle MLP Strategy Fund back up to it its target allocation of 5%. Mr. Jobe seconded and the motion passed unanimously.

CITY CONTRIBUTION TO PENSION PLAN—Amended and Restated Pension Plan (Old Plan)

Mr. Gabb advised that under our actuary, the City makes a contribution to this retirement plan each December. The City's estimated balance at January 1, 2016 will be approximately $81,000. Employee's contributions from January through June total $344,762 along with the City's Actuarially Determined Contribution of $1,382,685 gives us a total available of $1,808,379. Per Mr. Gabb, over a six month period ($1,587,942) will be paid out leaving an estimated cash balance of $220,437. Mr. Gabb said that he would like to end with a cash balance of at least

$10,000 therefore the total that needs to be invested is $210,437 with $1,172,248 being placed in the disbursement account.

MOTION

Mr. Jobe made a motion to invest $210,437 and place $1,172,248 in the disbursement account. Alderman Janda seconded and the motion passed unanimously.

GERBER/TAYLOR—CITY INVESTMENT POSITION: Defined Benefit Plan—(Cash Balance Plan)

Mr. Reid stated that since the cash balance plan is very new, an attempt was made to replicate what had been done in the Retirement Plan; unfortunately, because we are dealing with a smaller pool of money, some of the investments can't be accessed. If there had actually been a benefit (near term, year-to-date through September) it would have outperformed the Retirement Plan and the 65/35 index would be down 2-3 versus 3-2 as well. Looking through November and October, Mr. Reid said the plan didn't appreciate as much; it was down a bit more than the market due to the international exposure. Year-to-date through November, both plans are right on top of each other and both are up by .4%. Overall per Mr. Reid, our equities have performed well and all equity managers are outperforming their respective indices; there are no recommendations, just investment targets.

MOTION

Chairman Dent made a motion to leave the allocation as it. Alderman Janda seconded and the motion passed unanimously.

OTHER BUSINESS

No other business.

ADJOURNMENT

Having discussed all items on the agenda, Chairman Dent called for the meeting to be adjourned.

Mr. Lawton stated that over the past several months Administration has been looking at the possibility of an amendment to the Retirement Plan to allow Public Works employees the ability to contribute to the plan (very similar to what Fire and Police are doing) in order to be able to retire at an early age of 50 and normal at age 55. Per Mr. Lawton, the rational is simply due to the labor intensive work (physically demanding) that our public works employees do. Per Mr. Lawton, he and Mayor Palazzolo have been working over the past five or six months with Actuary Richard Ellis and Attorney Frank Carney to try and define what the plan amendment might look like. He further advised that based on the actuarial review, not every employee in the Public Works Department would be able to participate as it might be way too much to contribute to the plan in order to take advantage of it. Therefore, there is a finite number of employees in which this new plan would impact; obviously it is not the new employees because they are participating in the Cash Balance Plan, but it would address approximately 26 Public Works employees who are 45 years of age and under and have been with the City long enough whereby they are not members of the cash balance plan. Per Mr. Ellis' actuarial computations, these employees would contribute about 7% of their salaries and the City would kick in approximately 3.3% (just over $33,000) in to the plan on an annual basis. Mr. Lawton said the one thing that the contribution does not fund is the bridge (an added benefit until their social security begins). He said after speaking with the Mayor and Aldermen individually about this concept, there seems to be general support to proceed and look further into this. Any plan amendment such as this would require approval from this body and then submission onto the Board of Mayor and Alderman (BMA). Through meetings with his group and department heads, it was realized that there are a handful of employees in Facility Services that work in very difficult situations and/or do strenuous types of work that fit this plan's prerequisites as well. Although Administration recommends that we move forward with this amendment/change, we still need to identify and incorporate these additional employees that also qualify for the plan as do the 26 Public Works employees. Mr. Reynold Douglas (General Services Director) advised that there are 3 employees in the Facility Services department that fit the criteria based on the type of work that they do and are able to contribute enough (7%) to the plan to retire early at age 50 (normally 55). Mr. Gabb noted that this is a onetime offer for these employees and they could either accept or reject the plan. Mr. Lawton advised that a thirty day window would be given to this group of employees to make a decision to contribute or not. Mr. Gabb also noted that the $33,000 (3.3% City's contribution) was based on the 26 employees and their acceptance of the plan; this number will change based on number of participants.

Director of Public Services, Bo Mills explained that this group of 26 work outside in the elements finishing concrete, pushing asphalt, crawling in and out of pipes, working on water and sewer main breaks, etc. These are physically demanding jobs that put a lot of wear and tear on a person's body. He advised that these employees have expressed their concerns on Employee Surveys therefore it is very important for them to get this opportunity and have a quality way of life post retirement.

Alderman Janda reiterated that there is a finite number of employees and that this is a onetime deal never to be offered again. It was also understood that Mr. Ellis would finalize the numbers and Mr. Carney would prepare the plan amendment which is to be presented at the next BMA meeting. The thirty day window to accept or reject the plan will start after the Board's approval.

****MOTION****

Mr. Jobe moved that the above amendment and stipulations be made to the Retirement Plan. Alderman Janda seconded and the motion passed unanimously.

Mr. Carney advised that that as of July 1, 2015 the State of Tennessee passed a law that states all public plans now have to honor QDROS or Qualified Domestic Relation Orders. Formally, public plans did not honor QDROS. This meant that if there was a divorce, the plan would only pay the participant and not an alternate payee which would be the divorcing spouse. The qualified order must be worded in a specific way and have specific provisions stipulating that the plan cannot pay an alternate payee any differently or at any different time they would pay a participant. This order could however divide the participant's benefit; when the benefit portion becomes payable to the participant it also becomes payable to the alternate's payee.

****MOTION****

Alderman Janda moved that the Retirement Plan be amended to include Qualified Domestic Relation Orders (QDROS) as required by the State of Tennessee. Mr. Jobe seconded and the motion passed unanimously.

Mr. Carney further advised that another amendment to the pension plan is a change in the actuarial presumptions. The current plan provides for 8% in a 1984 mortality table; this will be amended to 6% and a 2000 mortality table. He explained that the optional benefits must be mathematically equivalent and that a definition of actuarial equivalence is used to make this conversion. By decreasing the interest rate from 8% to 6% and changing the mortality table does not change the value very much but does bring everything current.

****MOTION****

Alderman Janda moved to amend the current pension plan to include an 8% interest rate in a 2000 mortality table. Mr. Jobe seconded and the motion passed unanimously.

Mr. Carney asked that the same amendment to honor Qualified Domestic Relation Orders be made to the Cash Balance Plan.

****MOTION****

Alderman Janda moved to amend the Cash Balance Plan to include Qualified Domestic Relation Orders (QDROS) as required by the State of Tennessee. Mr. Jobe seconded and the motion passed unanimously.

Mr. Carney then advised that the original Cash Balance Plan has interest credits that are only credited if a participant remains to the end of the year. This design was based on if someone left and did not take their account, interest rates would not accrue; it would stop at the time that the participant terminated employment. Per Mr. Carney, the plan has been amended so that now interest credits continue until the participant actually takes their distribution.

****MOTION****

Mr. Jobe moved that the Cash Balance Plan be amended so that interest credits continue until the participant takes their distribution. Alderman Janda seconded and the motion passed unanimously.

And lastly, Mr. Carney reported that every five years the IRS reviews the retirement plan document and then issues a favorable determination letter which states that our plan and the wording of meets all of their requirements to be a qualified plan. He advised that because the City of Germantown's fifth year will end on January 31st, they have gone ahead and restated the plan along with all incorporated amendments as one document. This and all required forms have been submitted to the IRS for favorable determination on both the Defined Benefit and the Cash Balance Plan. Mr. Gabb said that he would take the lead to ensure that everything is filed and that the associated dollar amounts are correct.