POLICE PENSION BOARD

The Police Pension Board meeting was held on February 14, 2013 at 1:00 p.m. with Chairman Mullaney presiding. Members present were Mr. Bonar, Mr. Lynn, Chief Hosfelt, Mr. Stallings, Mr. Unterkofler, and Mr. Koenig.

AGENDA ADDITIONS/DELETIONS
By unanimous consent, the agenda was adopted as presented.

Adoption of Minutes - Police Pension Board Meeting of November 8, 2012
Mr. Stallings moved for adoption of the minutes of the Police Pension Board meeting of November 8, 2012, seconded by Chief Hosfelt and unanimously carried.

Quarterly Performance Review *(Quarter Ending December 31, 2012) (Milliman, Inc.*)
Mr. Jeff Marzinsky, Principal and Employee Benefits Consultant, Milliman, Inc., reviewed the Quarterly Investment Monitor Summary Report for the Quarter Ending December 31, 2012.

In reviewing the Performance Summary, Mr. Marzinsky stated that as of December 31, 2012, the assets in the fund totaled approximately $10.78M, which was slightly reduced from the prior quarter total of $11.01M; however, he explained that this was due in part to regular pension payments of $374,000 for the quarter. He advised members that adjustments were made to the plan after the November meeting and the net return of the portfolio for the quarter was approximately 1.49%, which was slightly better than the plan index of 1.16%. The net return for the quarter was 1.42%.

In regard to the Market Summary portion of the report, Mr. Marzinsky explained that both stocks and bonds had done well during the previous year and equity markets continued to increase in early 2013. He expressed "cautious optimism" about the 2013 markets, stating that corporate earnings were increased and unemployment was reduced slightly.

Referring to Page 9 of the report, Mr. Marzinsky stated that the $0 amounts reflected the new investments added to the plan following the reallocation that occurred in November. He indicated that stock exposure had been reduced, with approximately 60% of funds in stocks and 40% bond investments, reminding members of the goal to retain the target return of approximately 6.5% but lower the level of stock investments and potential volatility. Mr. Marzinsky stated that Milliman would be developing projections regarding future markets; however, he did not feel that major rebalancing or reorganization would be recommended.

Referring to Page 10 of the report, Mr. Marzinsky, stated that the majority of the investments were performing well with some slight underperformance of the market benchmarks. Noting that some investments had trailed the index slightly, he stated that they were performing well when compared to their peers and he did not recommend any major changes to the actively managed funds at this time.

In regard to the passively managed funds listed on Page 11, he noted that the Tracking Error statistics for Vanguard were "somewhat off" due to Vanguard changing some of the underlying indexes used, but he stated no concerns in this regard.

In reviewing the returns on Page 12 of the report, Mr. Marzinsky explained that fund performance had been good since the end of November when the allocation was put into place. Although the plan trailed the index slightly over the year to date, he noted that the return of approximately 10% on the assets of the plan for the year exceeded the 6.5% interest rate used to value the liability of the plan, so the funded status of the plan was improving.

Mr. Marzinsky explained that the style maps on Pages 14-15 allowed for analysis of the consistency of the performance of plan investments and that all equity investments were performing consistently with their purpose for inclusion in the portfolio. He noted that the real estate investment was not designed to fit into a particular category but was a hedge for inflation.

Mr. Marzinsky stated that Milliman would be coming out with their capital market assumptions in the next few days and would determine if the allocation should be "tweaked" and would report back to the Board if changes were needed to achieve the target return. He indicated that slight rebalancing may be suggested but did not anticipate major changes.

Financial Activity for the Fiscal Year Ending June 30, 2012 and Results of Actuarial Study

Mrs. Donna Mitchell, Controller/Treasurer, reviewed information excerpted from a presentation that she provided to Council on January 7, 2013 to update them on the City's unfunded liabilities, including the Police Pension Plan. She explained that the information was from the City's annual financial report and listed the assets of the fund, additions and deductions from last year, the funding status, and the current liability as shown by the actuary. She noted that the last page of the report contained a summary of the assets and liabilities for the General Pension Plan, Police Pension Plan, and the Other Post-Employment Benefits (OPEB) Trust.

Responding to Mr. Mullaney regarding funds received from insurance premiums, Mrs. Mitchell explained that $561,772 was received in contributions from the State last year, as reflected on Page 3 of the report. She advised members that the State appropriates a lump sum each year, which the State Pension Office doles out to the various pension plans, and this amount may be reduced in the future, resulting in a reduction in the contribution that the City will receive.

Mr. Mullaney stated his understanding that some of these funds would be used for the related purpose of health care.

Chief Hosfelt stated that there had been discussion at the State level about increasing the amount of State tax on insurance premiums (which is used to fund police pensions) by 1/4 of 1% and attempts were being introduced to reduce this increase to 1/8 of 1%.

Responding to Mr. Mullaney regarding the annual pension costs for the City, Mrs. Mitchell stated that the annual required contribution was $979,132, as reflected on Page 4, and this was adjusted for interest earned and interest payments, resulting in an annual pension cost of $1,005,735 for the fiscal year. City and State contributions totaled $668,274 and were combined with the increase or decrease (in this case a decrease of $337,461). The net pension asset at the beginning of the year was $535,811 and at the end of the year was $198,350. Mrs. Mitchell explained that if the annual required contribution is over-contributed, it accumulates to an asset, if it is under-contributed, it

builds to a liability. She noted that the full liability is not recognized in the report, just the difference that should be paid on a year-to-year basis. She stated that the plan was still at an asset level; however, she advised Council that when the Comprehensive Annual Financial Report (CAFR) is presented, the City will have to contribute more to the fund in view of the reduction in the State's contribution and that staff will consider how to make up this difference when the budget is developed. She noted that the City had always been able to fund the Police Pension Plan at 100% of the Annual Required Contribution because of the State contribution in the past; however, this would have to be budgeted for in the future.

Responding to Mr. Mullaney, Mrs. Mitchell explained that health care for retirees is paid from the OPEB Trust and is not connected with the pension funds.

Mr. Mullaney stated his understanding that the City of Dover would receive a yearly stipend from the State for health care for retired municipal officers that would offset the City's cost.

In response to Mr. Koenig, Mrs. Mitchell stated that the City had been contributing $95,000 per year to the plan, that this would have to be increased to between $200,000 and $400,000 in the future, and that she would be developing these numbers. She advised members of a $100,000 transfer from the State during the past week (the final COLA payment for the year) which would be added to the fund shortly.

Mr. Stallings moved for adjournment, seconded by Mr. Koenig and unanimously carried.

Meeting Adjourned at 1:23 P.M.

Timothy Mullaney
Chair

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