POLICE PENSION BOARD

The Police Pension Board meeting was held on August 15, 2012 at 3:40 p.m. with Chairman Mullaney presiding. Members present were Mr. Bonar, Mr. Lynn, Mr. Stallings, Mr. Koenig, and Chief Hosfelt. Ret. Lt. Knotts was absent. Councilman Perza was also present.

AGENDA ADDITIONS/DELETIONS

By unanimous consent, the agenda was adopted as presented.

ADOPTION OF MINUTES - POLICE PENSION BOARD MEETING OF MAY 9, 2012

Ret. Cpl. Stallings moved for adoption of the minutes of the Police Pension Board meeting of May 9, 2012, seconded by Mr. Bonar and unanimously carried.

ORGANIZATIONAL ISSUES - ELECTION OF CHAIR

Chairman Mullaney opened the floor for nominations for Chair of the Police Pension Board.

Ret. Cpl. Stallings moved to nominate Rt. Lt. Mullaney to serve as Chair, seconded by Mr. Bonar.

Mr. Bonar moved to close nominations, seconded by Mr. Lynn and unanimously carried.

The motion to elect Ret. Lt. Mullaney as Chair of the Police Pension Board was unanimously carried.

QUARTERLY PERFORMANCE REVIEW *(QUARTER ENDING JUNE 30, 2012) (MILLIMAN, INC.)*

Mr. Jeff Marzinsky, Principal and Employee Benefits Consultant, Milliman, Inc., reviewed the Quarterly Performance of the Police Pension Fund as of June 30, 2012. He noted that there was a slight decline in the asset value during the quarter, with a beginning fund balance of approximately $11M and an ending balance of approximately $10.69M. Mr. Marzinsky explained that most equity indexes were down during the quarter. Some of the actively managed investments within the Police Pension portfolio followed or trailed their benchmarks during the time period, and passive index investments followed their benchmarks. No changes to the investments were recommended at this time.

DISCUSSION - LIABILITY TO ASSET ALLOCATION STUDY *(MILLIMAN, INC.)*

Mr. Jeff Marzinsky, Principal and Employee Benefits Consultant, Milliman, Inc., reviewed the City of Dover DE - Police Pension Asset Liability Study, dated July 31, 2012. He explained that the plan is periodically valued by the actuary, Mr. Scott Porter, Milliman, Inc., who reviews plan liability and determines the contributions required to fund the future benefits of the plan. Mr. Marzinsky noted that since the plan is closed, there is a trend in the plan toward a decline in the duration of liabilities. Mr. Porter informed him that an amortization schedule had been developed to work on funding the plan over the next seven (7) to ten (10) years.

Mr. Marzinsky advised members that, in addition to actuarial input, the expected rates of return and volatility (standard deviation) for asset categories are also considered when developing an asset liability study. He noted that this was included on Page 2 of the report. He stated that the Input

Correlation on Page 3 reflected how closely the investment asset categories move together and that a correlation of 1.00 indicates an exact match. He indicated that assets should not move up or down simultaneously since maintaining diversification is important.

Referring to Page 4 of the report, Mr. Marzinsky noted that the fourth column reflected the Police Pension Plan's current investment allocations. He stated that 36% was currently allocated to fixed income and 64% to equity investments, and the expected return of the portfolio was 6.7%. He pointed out that the target actuarial return of the portfolio was 7.0%; therefore, the portfolio return as allocated might not meet the actuarial valuation return. In addition, he stated that the standard deviation (volatility) reflected that the expected portfolio return had the potential to increase or decrease by approximately 12%. Mr. Marzinsky reviewed three (3) alternative options that were developed to allow members to consider which would add different asset categories and different allocations within categories. He noted that Option 2 would attain the projected actuarial return of 7.0%, add asset categories to the plan, slightly lower the volatility of the portfolio, and create more diversity.

Mr. Marzinsky explained that the three (3) yellow dots on the graph on Page 5 reflected the three (3) portfolio options. The green dot, representing the current Police Pension Plan portfolio, indicated that the portfolio was not as efficient as the alternative scenarios presented. Page 6 showed the variability of potential returns for the dispersion of expected outcomes and demonstrated that Option 2 would reduce the likelihood of a wider dispersion. The graph on Page 7 reflected expected future benefit payments and allowed for the development of the isolated duration number, which indicated that the core of the benefits would begin to be paid in approximately 13 years.

Mr. Marzinsky explained that Page 8 revealed a mismatch in the duration of the assets and the duration of the liabilities of the portfolio. He indicated that Page 9 contained an analysis of an optimal portfolio (Option #2) after adding longer-term fixed income investments and additional equity asset categories. He noted that incorporating these changes would raise the fixed income duration to approximately 11 years and the duration of the overall portfolio to nearly four (4) years. Mr. Marzinsky stated that moving to a completely liability-driven portfolio would not be advisable since equity exposure was needed for asset growth; however, moving closer to the duration liability would be a good idea. He explained that since the plan was closed, the liability duration would decrease as participants age. As the funded status of the plan improves through asset growth and contributions made to the plan, the plan will be "de-risked" by lowering equity exposure and increasing fixed income exposure. Mr. Marzinsky suggested that the Board consider: 1) adding asset categories to the plan, and 2) attaining a better match of the duration of future cash flows to the duration of the assets within the plan.

Responding to Mr. Bonar, Mr. Marzinsky stated that Option 2 would work toward achieving the target return on the actuarial valuation side with a lower volatility than the current portfolio.

In response to Mr. Koenig, Mr. Marzinsky stated that the 13-year isolated duration statistic was based on actuarial valuation demographics and the future benefits for participants of the plan rather than calendar years.

Noting that the liabilities of the plan were based on the plan participants (approximately 26-27 individuals) who were on different positions on the retirement spectrum, Chairman Mullaney stated that it would be unrealistic to project that these liabilities would end after 13 years. He felt that the duration of the liabilities could remain constant or rise for a couple of years depending on what occurs in the medical community.

Mrs. Mitchell stated that when Milliman's services were engaged and the Civilian Pension Plan was closed, she requested that the projected life years of the participants in the Civilian Pension Plan be considered to determine if this figure should be reset. The projections for the Civilian Pension Plan were reset at that time; however, the Police Pension Plan was not reset because contributions were currently being drawn. She indicated that the estimated timeframe for liabilities of the Police Pension Plan had been lowered each year and when this timeframe approaches ten years, it will probably be re-examined to determine if it should be held constant or reset.

In response to Chairman Mullaney, Mrs. Mitchell stated that the last actuarial study was conducted during the previous year. Due to audit and accounting requirements, a full study is conducted every two (2) years; however, an interim study is also performed in the off years. When this information is reported in the Comprehensive Annual Financial Report (CAFR), the most up-to-date market value of assets is included as well as the liability.

Mr. Bonar moved to adjust the portfolio by adopting Option 2, as outlined on Page 4, Portfolio Options, of the City of Dover, DE Police Pension Asset Liability Study dated July 31, 2012 ***(Attachment #1)*****. The motion was seconded by Mr. Lynn and unanimously carried.**

Mr. Marzinsky recommended that parameters be set for cash, fixed income, and equity investments at a future meeting and indicated that different fund managers would also be recommended for the asset categories that were added.

SCHEDULING OF FUTURE MEETING DATES

By unanimous consent members agreed that staff would set future meeting dates and coordinate with members.

Mr. Bonar moved for adjournment, seconded by Mr. Lynn and unanimously carried.

Meeting Adjourned at 4:04 P.M.

Ret. Lt. Timothy Mullaney
Chair

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Attachment
Attachment #1 - Page 4, Portfolio Options - City of Dover, DE Police Pension Asset Liability Study dated July 31, 2012

Milliman | Asset Allocation Study

Portfolio Options

	Option 1	Option 2	Option 3	Gen EE & Police Pension	OPEB
Cash	5.000	5.000	5.000	2.000	1.000
ML U.S. Treasuries, Inflation-Linked	7.000	7.000	7.000	0.000	0.000
Barclays Capital Interm U.S.Govt/Credit	10.000	10.000	10.000	34.000	31.000
Barclays Capital Long Gov/Credit Index	20.000	17.268	12.287	0.000	0.000
Russell 1000 Value Index	12.117	10.000	11.344	14.000	10.000
Russell 1000 Growth Index	10.000	10.738	14.369	14.000	15.000
Russell Midcap Index	5.000	5.000	5.000	8.000	11.000
Russell 2000 Index	5.000	5.000	5.000	5.000	7.000
FTSE NAREIT REIT: Equity	5.000	4.994	5.000	0.000	0.000
MSCI EAFE (Net) Index	10.000	10.000	10.000	23.000	25.000
MSCI EM (Emerging Markets) Index	10.883	15.000	15.000	0.000	0.000
Fixed Income	**42.00%**	**39.27%**	**34.29%**	**36.00%**	**32.00%**
Equity	**58.00%**	**60.73%**	**65.71%**	**64.00%**	**68.00%**

	Option 1	Option 2	Option 3	Gen EE & Police Pension	OPEB
Expected Return	6.75%	7.00%	7.25%	6.70%	7.00%
Expected Standard Deviation	11.3045	12.1307	13.0225	12.1951	13.1609
Expected Sharpe Ratio	0.3760	0.3710	0.3648	0.3444	0.3422

