OTHER POST-EMPLOYMENT BENEFITS (OPEB) BOARD

The Other Post-Employment Benefits (OPEB) Board met on August 10, 2011 at 3:00 p.m., with Mrs. Mitchell (Controller/Treasurer) presiding. Members present were Mr. Hare, Mrs. Williams, Mrs. Hawkins (Human Resources Director), and Mr. Koenig (Interim City Manager).

AGENDA ADDITIONS/DELETIONS

Mrs. Mitchell requested the addition of Agenda Item# 1, Organizational Issues - Election of Chair.

By unanimous consent, the agenda was adopted as amended.

ORGANIZATIONAL ISSUES - ELECTION OF CHAIR

Mrs. Mitchell opened the floor for nominations for Chair of the Other Post Employment Benefits (OPEB) Board.

Mr. Hare moved to nominate Mrs. Williams to serve as Chair of the OPEB Board, seconded by Mr. Koenig.

Mr. Hare moved to close the floor for nominations, seconded by Mr. Koenig and unanimously carried.

The motion to elect Mrs. Williams to serve as Chair of the OPEB Board was unanimously carried.

Mrs. Mitchell relinquished the Chair to Mrs. Williams.

Mrs. Williams questioned the lack of a citizen and/or retiree representative on the OPEB Board. She requested that a motion be made to recommend to the Legislative, Finance, and Administration Committee that the OPEB Board be expanded to allow for additional representation. She acknowledged that OPEB's recommendation was not necessary to present this matter to the Legislative, Finance, and Administration Committee; however, she felt that more weight would be given to favorable consideration of this matter if it had the OPEB Board's support.

Mr. Koenig noted that, if the Board were to be expanded, two (2) additional members would be required to allow an odd number for voting purposes.

Mrs. Mitchell explained that the structure of the Board was established by Code based on advice received from the City Solicitor. She advised members that the purpose of the OPEB Board is to monitor trust investments and that City Council makes all decisions regarding benefits and is ultimately responsible for funding liabilities.

Mrs. Hawkins stated that the members of the Civilian and Police Pension Boards are determined by election and suggested that this might be necessary if members are to be added to the OPEB board.

Mrs. Williams withdrew her request for a motion; however, she requested that Mrs. Mitchell research this matter further with the assistance of the City Solicitor and determine if other municipalities typically designate a civilian and/or retiree representative on such committees.

Quarterly Performance Report *(Peirce Park Group)*

Mr. Lee Martin, Principal and Senior Investment Consultant, Peirce Park Group, reviewed the City of Dover OPEB Trust Investment Performance Report dated June 30, 2011. He offered to discuss information regarding the market environment, as well as the performance of the total fund and individual managers, and to recommend any changes needed.

In response to Mr. Hare, Mr. Martin stated that the fund balance was $6.9M at the beginning of April 2011 and $6.944M at the end of June. However, he noted that the market has declined since the end of June.

In response to Mrs. Williams, Mrs. Mitchell noted that management fees for the OPEB trust fund are $20,000 per year and custodial fees are $5,000. Fees are paid on a quarterly basis. Mr. Martin indicated that these are set dollar fees and are not based on assets.

Responding to Mr. Koenig, Mr. Martin stated that the Performance Summary provided on Page 11 of the Performance Report indicates that the OPEB fund ranks in the 33rd percentile of all other public funds. He advised members that Peirce Park is part of the Wiltshire Cooperative, which consists of major financial consultants in the U. S. who collaborate to obtain rankings.

Mr. Martin explained that very aggressive or very conservative funds typically perform well over the short term (depending on market conditions); however, he recommended that members evaluate fund returns based on long-term performance over three (3) to (5) years and compare fund volatility with the benchmark.

Responding to Mrs. Williams, Mr. Martin explained that actuaries are currently struggling when reviewing pension funds due to the decline in the market. He commended the City for reducing its actuarial assumption to 7%, noting that many local governments are continuing to assume 7.5% to 8.0% returns. Mr. Martin noted that a return of 7.5% is necessary to achieve actual results of 7.0% due to the fees involved, which are typically approximately 0.5%. He indicated that expectations for fixed income returns currently range from 3.5% to a maximum of 5%; therefore, investment goals cannot be met without utilizing equities. Mr. Martin noted that including global funds can be helpful in this regard. He advised members that the best approach is to remain well diversified, engage good investment management teams, and maintain a good rebalancing strategy and that this methodology has served the City well thus far.

Mrs. Mitchell noted that the State recently reduced their actuarial assumption of returns from 8.0% to 7.5%.

Mr. Martin explained that a greater proportion of the OPEB funds are invested in equities than pension funds because the funded ratio of assets to liabilities is extremely low. He noted that 68% of the City's OPEB trust funds are invested in equities.

In response to Mr. Koenig, Mrs. Mitchell explained that the City's contributions to the OPEB fund are made on a quarterly basis as a percentage of payroll.

Responding to Mrs. Hawkins, Mrs. Mitchell noted that if payroll is decreased during the year, budget contributions will be reduced; however, this difference will be incorporated in the subsequent actuarial analysis.

Mrs. Mitchell stated that budgeted funds for OPEB are transferred into the trust from the operating funds and retiree benefits are paid out of the trust. When a balance builds up, these funds are placed into investable assets. She explained that pension and OPEB funds are held in the City's Citizens' Bank account and are transferred to its Wells Fargo account to make benefit payments as needed.

Mr. Martin recommended that the City evaluate how often cash is required from its investable asset account. He suggested revising the City's investment policy to dedicate a portion of its fixed income reserves to cash, which would provide cash flow that could be used to avoid having to sell investments at an inopportune time. [*Clerk's Office Note: The Controller Treasurer confirmed that the City's current investment policy states that the City will keep a cash reserve in a separate account that will pay for benefits for each fiscal year; therefore no change in policy is necessary*.]

Mrs. Mitchell explained that, in managing the City's pension funds, a projection is made regarding the amount of funds that will be coming in through payroll versus those that will be paid in benefits. This allows for advance notice if there is a need to redeem investments. However, she explained that it has been difficult to dedicate Departmental resources to cash management due to the Department's current priority of implementing the ADP system. Mrs. Mitchell stated that, currently, temporary advances from operating funds are being used to manage these needs.

Mr. Martin explained that when Peirce Park is contacted by the City to redeem assets, the current strategy is to sell investments from funds or asset classes where the City is overweighted according to its asset allocation goals. He noted that this process has aided in rebalancing the City's funds to its strategic long-term target. Mr. Martin explained that the OPEB Trust Fund consists of all institutional, no-load fund investments and that all dividends are reinvested on a daily basis; therefore, no cash is held in the account and benefit payments are paid from a separate account.

In response to Mr. Koenig, Mr. Martin stated that Peirce Park had no recommendations for changes to be made to the OPEB fund's current managers or allocations.

Responding to Mrs. Williams, Mr. Martin stated that Peirce Park Group had no investment products available to municipal clients that would generate guaranteed income from annuities. He stated that this type of long-term yield is not available in the current market. Mr. Martin explained that these investments typically require complicated contracts that place restrictions on removal of funds or impose a back-end surrender charge, which would not be viable for the City.

Setting of Future Meeting Dates

By unanimous consent, members agreed that future meetings should be held quarterly and scheduled subsequent meetings for 3:00 p.m. on November 9, 2011; February 8, 2012; May 9, 2012; and August 10, 2012.

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

Meeting adjourned at 4:17 P.M.

Beverly C. Williams
Chair

BCW/JS/ac/tm
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