

Minutes
Employee's Retirement System Board of Trustees
February 8, 2012
Quarterly Meeting

Call to Order: Chair Pro Tem Shawna Goldammer called the meeting of the Employee's Retirement System Board of Trustees to order at 8:30 a.m. at the Main Library.

Board Members Present: Cathy Bianchi
Matt Burns
Peggy Dant
Shawna Goldammer
Donn Hill
Angeline Lavin

Board Members Absent: Dave Nadolski

Staff Members Present: Bill O'Toole, Director of Human Resources
Tracy Turbak, Director of Finance
Tom Huber, Assistant Director of Finance
Gail Eiesland, Chief Assistant City Attorney
Angie Uthe, Compensation & Benefits Manager
Kathy Pottebaum, Benefits Technician
Ann Boden, Financial Analyst

Others present: Firefighters' Pension Fund Board of Trustees members: Randy Farland, Paul Livermore, Matthew McAreavey & Mark Sivertson
Howard Pohl & Jeff Black, Becker, Burke & Associates
Cavanaugh Macdonald Consultants: Patrice Beckham, Eric Gary & Brent Bannister

The Employee's Retirement System Board of Trustees and the Firefighters' Pension Fund Board of Trustees met in joint session.

A motion was made by Dant, seconded by Burns, to approve the November 9, 2011 meeting minutes. Motion carried unanimously.

Howard Pohl presented the Board with the 2011 fourth-quarter performance report. The market value of the Plan increased from \$250.6 million to \$269.2 million. The funds had a rate of return of 7.6% in the fourth quarter compared to the 6.2% median of the Becker, Burke Plan universe. The annual return was 2.5% compared to the median of 1.0%. Results for the past five years of 3.0% were above the 2.3% median. The total Plan had 50% of its quarter-end assets with domestic equity managers, 15% with international developed markets, 3% with international emerging markets, 26% in domestic bonds, and 6% in real estate. The total Plan had top decile performance relative to all plans in the quarter and was top third for the year. It was top third for five years. Risk, as measured by the fluctuation of quarterly returns was top quartile, while the reward/risk ratio was above average.

Pohl also reviewed the board's annualized returns from December 31, 1994, through December 31, 2011, illustrating the following results:

Total Fund	8.6%
Domestic Equity	9.2%
S&P 500	8.1%
International Equity	6.8%
EAFE	4.0%
Fixed Income	8.2%
Barclays Aggregate	6.8%

Howard Pohl introduced his associate, Jeff Black, to the Board. Jeff conducted informational presentations on commodity investments and active versus passive emerging markets management. No follow-up information was requested at this time.

Tom Huber briefly discussed the current asset allocation of the portfolio to target range. Based on prior recommendation from Howard and Board action, the commitment to real estate continues a slight over-weight relative to target range.

Howard Pohl presented the Boards with a revised fee proposal from Becker Burke and Associates. The Board's consultant fees have not changed since 2006 and the proposal was to move from the current fee for service arrangement to a full retainer relationship.

A motion was made by Lavin, seconded by Burns, to enter into executive session pursuant to SDCL 1-25-2(4) for the purpose of preparing for contract negotiations with Becker, Burke Associates for modification of the current contractual relationship. Motion carried unanimously.

A motion was made by Dant, seconded by Bianchi, to exit executive session. Motion carried unanimously.

A motion was made by Lavin, seconded by Burns, to issue a Request for Proposal (RFP) for an investment consultant. Motion carried unanimously.

Actuarial consultants Cavanaugh Macdonald Consulting (CavMac) led the discussion regarding the Plan Design Study report dated February 1, 2012. CavMac began by reviewing the study objective: to assist the boards in discussion and analysis on system alternatives and plan design changes necessary to reduce and stabilize the City's annual pension contributions rates. CavMac provided several design options for Board discussion which included estimated cost savings over time. After lengthy discussion, the Board recommended the following:

Current Employees

- Increase employee contributions by 2% over two years starting in 2014 for all employee groups
 - 1% increase in 2014
 - 1% increase in 2015

- Eliminate access to City health plan for those retiring after 12/31/13. In its place, provide a flat dollar stipend to retirees to purchase their own health insurance. The Stipend Program would be structured as follows:
 - Retiree would receive \$40 per month per year of service until Medicare eligible age (i.e., 65)
 - Inflationary adjustment of 3%
 - The stipend is a benefit to employee/retiree only (no survivorship to spouse)

Future Employees

- Increase new employee contributions by 2% for all employee groups
- Remove lump sum payouts from inclusion in final average pay calculations
- Remove access to city's health plan at retirement and no stipend for future employees
- Increase normal retirement age for General Division employees
 - Age 65 with 5 years of service (currently 60)
 - Age 60 with 30 years of service (currently 55)

CavMac will follow-up with estimated cost savings on the recommendations identified by the Board. The Board believes that the resulting plan provisions will continue to provide the City and its career employees with a sound pension plan while meeting our compensation and benefit objectives.

A motion was made by Lavin, seconded by Bianchi, to forward the above recommendations for changes to the Mayor and City Council for their consideration and action. Motion passed unanimously.

A motion was made by Bianchi, seconded by Dant, to enter into executive session pursuant to SDCL 1-25-2 and 1-27-1.5(2), review of personal medical records for purposes of determining eligibility for disability benefits. Motion carried unanimously.

A motion was made by Lavin, seconded by Dant, to exit executive session. Motion carried unanimously.

A motion was made by Lavin, seconded by Bianchi, to approve duty disability benefits for Ronald Schwint. Motion carried unanimously.

A motion was made by Dant, seconded by Bianchi, to adjourn the meeting. Motion passed unanimously.

The Board adjourned at 2:45 p.m.

Respectfully submitted,

Angie Uthe, Recording Officer