

MINUTES

POLICE RETIREMENT SYSTEM OF KANSAS CITY and CIVILIAN EMPLOYEES'
RETIREMENT SYSTEM OF THE POLICE DEPARTMENT OF KANAS CITY
BOARD MEETING
Tuesday, July 14, 2009

Gary Howell called the meeting to order.

PRESENT:

Gary Howell, Member
Robert Turgeon, Member
Kenny Burnett, Member
Vic Kauzlarich, Member
Dave Reyburn, Member

Angela Wasson-Hunt, Member
Gerald Gorman, Attorney
James Pyle, Staff
Sharon Blancett, Staff
Connie Davis, Staff
Anna Vollenweider, Staff

SECRETARY REPORT:

APRIL 30, 2009 AUDITED FINANCIAL STATEMENTS

Bill Nicks and Corri Pisani from BKD presented the Fiscal Year 2009 audited financial statements for both the Police Retirement System and Civilian Employees' Retirement System. As of April 30, 2009 net assets in the Police plan decreased by \$200.0 million to \$534.3 million. This represents a 27.24% decrease from April 30, 2008 and is mainly due to a -27.02% decrease in investments. For FY2009 total additions included member contributions of \$8.9 million, employer contributions of \$16.7 million and net investment losses of \$179.4 million. Total deductions included benefit payments of \$44.0 million, refunds of contributions of \$746,000 and administrative expenses of \$550,000. As of April 30, 2009 net assets in the Civilian Employees' plan decreased by \$24.6 million to \$71.9 million. This represents a 25.55% decrease from April 30, 2008 and is mainly due to a -25.3% decrease in investments. For FY2009 total additions included member contributions of \$1.3 million, employer contributions of \$3.4 million and net investment losses of \$25.2 million. Total deductions included benefit payments of \$3.7 million, refunds of contributions of \$382,000 and administrative expenses of \$124,000. Mr. Nicks said they were issuing clean unqualified opinions for both plans and that no adjustments were made to the financial statements presented to them at the start of the audit.

Mr. Nicks said the management advisory letter focused on segregation of duties related to handling of cash receipts, purchasing and cash disbursements, and payroll processing. Mr. Nicks said they found no material weaknesses in any of the above processes but were pointing out that with a small staff there would be some inherent weaknesses in internal controls. Mr. Nicks said this was not a new issue for the Retirement Board and they had no specific recommendations for improvements. He also said staff had put compensating controls in place to mitigate identified risks.

Mr. Howell asked if the current market environment will drive any new audit standards. Mr. Nicks said future audit trends will probably focus on actuarial assumptions, the value of certain illiquid investments, securities lending policies, and conflict of interest policies.

Mr. Kauzlarich made the motion to adopt the draft audits, allowing for staff proof reading and minor corrections if necessary. Mr. Reyburn seconded the motion. The motion passed unanimously.

AD HOC COLA AND EQUALIZING SUPPLEMENTAL BENEFIT COMMITTEE

Mr. Pyle reported that the Ad Hoc Cost of Living Adjustment (COLA) and Equalizing Supplemental Benefit Committee held the second of two scheduled meetings on July 8. The committee members attending included Bob Jones, Steve Christensen, Barb Gulick, Mark Heimer, Ed Mulloy, Vic Kauzlarich, Dave Reyburn and Sharon Blancett. Committee members Larry McCoy, Lowell Fundom, and Christine Laughlin will review the additional information as soon as possible. Staff presented information on the impact of dividing funds currently designated for COLA increases between a COLA for all members and funding the equalizing supplemental benefit for those who retired prior to August 2000. The cost of the May 2009 COLA, \$70,400 per month, was used for the calculations to divide the benefit between a COLA and equalizing supplemental benefit. If that amount were divided into a 1.5% COLA for all members and an equalizing supplemental benefit for the 900 members eligible for that benefit, the equalizing supplemental amount would be \$39 per month per eligible member. The same calculation was completed for a 2% COLA and \$26 per month equalizing supplemental benefit. Members with a base pension below \$2600 per month (828 members) would see an increase in benefits while 336 members with a base pension above \$2600 would see a decrease in benefits.

Number of members whose COLA benefit would increase or decrease with a reduced COLA plus the Equalizing Supplemental Benefit.

	Increase	Decrease
Duty Disability	79	30
Non-Duty Disability	40	20
Regular Retired	521	262
Surviving Spouse	188	24
Total	828	336

The committee also looked at the Milliman actuarial model that was reviewed at the June Retirement Board meeting. The Milliman actuarial valuation model allows staff to plug in actual and assumed investment returns for the next 15 years, make changes to assumptions for the amortization period, change assumed payroll amounts, and make changes to cost of living adjustments, the supplemental benefit, and the equalizing supplemental benefit.

The committee reviewed the model results for the Police plan including the 27% investment loss in FY2009 and no other changes to assumed investment rates of return, payroll, contributions or benefits. In that case, the funded ratio of the plan could decline

from the current level of 87% to 81% following the FY2010 actuarial valuation, and to 58% following the FY2012 actuarial valuation.

The committee recognized that the losses incurred in FY2009 will have a significant impact on the funded ratios of the two retirement plans over the next several years and that both retirement system policy and state law may prevent the board from granting future cost of living increases. The committee also recognized how a separate actuarial valuation at the time the Retirement Board considers granting an equalizing supplemental benefit may show a lower funded ratio than the prior year actuarial valuation used for determining the granting of a regular cost of living adjustment.

After reviewing the information for a split COLA and equalizing supplemental benefit, reviewing the Milliman actuarial model and reviewing the statutes related to the equalizing supplemental benefit the committee recommended that the Retirement System develop a plan to educate our members on the impact of the FY2009 investment losses and how they could impact future benefits. The committee did not recommend dividing future cost of living increases between COLA's and the equalizing supplemental benefit if by doing so it reduced future benefits for 336 retired members.

SECRETARY'S UPDATE

2009 Legislation

Mr. Pyle said Governor Nixon signed HB 397 on July 9. The \$600 minimum pension for the four widows and one non duty disability member became effective immediately because of the emergency clause in the bill. Each of the affected members have been contacted and provided a form to make them consultants. Upon receipt of their consultant form we will increase their pension to \$600 per month.

BOPC Study on 30 year Mandatory Retirement

Mr. Reyburn said the BOPC consultant study on the mandatory 30 year retirement was in progress and he expects the BOPC to be contacting the Retirement Systems as soon as the study is completed. Mr. Gorman was asked to research any age discrimination issues related to changing the current 30 year mandatory retirement.

Milliman model review with Rich Noll

Mr. Howell, Mr. Reyburn and Mr. Pyle met with Assistant City Manager Rich Noll to review the Milliman model and to start the discussion for the need to increase contributions for both plans in the FY2011 budget. Mr. Pyle said the models project employer contribution rates increasing to 30.78% in the Police plan and 16.72% in the Civilian Employees' plan in FY2011. Mr. Noll said the city was aware losses incurred by all the city funded plans and that going into the new budget year employer contribution rates would need to be addressed. Mr. Pyle said a similar meeting with Major Dave Zimmerman was scheduled for later this month.

Bidding Professional Services Contracts

Mr. Pyle reviewed the proposed amended board policy on bidding professional service contracts with auditors, actuaries, lobbyists, financial consultants and lawyers. Rather than automatically bidding those services out every 5 years, the board would have the option to have staff conduct peer reviews of other pension plans to determine if the level of service and cost are comparable to the services provided by our vendors. Using comparison data the Retirement Board may decide to issue a Request For Proposal to other providers or negotiate a new contract with the existing provider. If an RFP is not issued, cost comparison data should indicate the current provider is charging the Retirement Board less for equivalent services than the majority of peer pension plan providers.

Ms. Wasson-Hunt requested a report back to the board on where we are in the contract period with each of the current providers. Mr. Howell asked that the peer group for comparison purposes be established immediately. Mr. Reyburn made the motion to adopt the amended policy on Bidding Professional Services Contracts. Ms. Wasson-Hunt seconded the motion. The motion passed unanimously.

OMNIBUS MOTION

Mr. Reyburn made the following motion, seconded by Ms. Wasson-Hunt. Motion passed unanimously.

RESOLVED, that the Retirement Board hereby unanimously approves:

- The minutes of the previous meeting of June 9, 2009;
- The monthly financial statements for May 2009;
- The payment of bills as listed in the Secretary's Reports for this meeting;
- The return of contributions to those persons, who have resigned or terminated service, as listed in the Secretary's Reports for this meeting;
- The purchases and sales of assets as listed in the Secretary's Reports for this meeting;
- The payment or commencement of pensions or other benefits as listed in the Secretary's Reports for this meeting; and
- Any purchases of creditable service as listed in the Secretary's Reports for this meeting.

PUBLIC COMMENTS

A time was set aside for public comments.

ADJOURNMENT

The next regularly scheduled board meeting will be August 11 at 9:00am at the KC Police Credit Union.