

MINUTES

POLICE RETIREMENT SYSTEM OF KANSAS CITY and CIVILIAN EMPLOYEES' RETIREMENT SYSTEM OF THE POLICE DEPARTMENT OF KANAS CITY BOARD MEETING

Tuesday, November 10, 2009

Gary Howell called the meeting to order.

PRESENT:

Gary Howell, Member	Gerald Gorman, Attorney
Bailus Tate, Member	James Pyle, Staff
Kenny Burnett, Member	Connie Davis, Staff
Greg Mills, Member	Anna Vollenweider, Staff
Vic Kauzlarich, Member	
Dave Reyburn, Member	
Patrick Trysla, Member	
Angela Wasson-Hunt, Member	

SECRETARY REPORT:

INVESTMENT PERFORMANCE REVIEW 3rd QUARTER 2009

Bill Miskell of DeMarche Associates presented the September 30, 2009 Capital Market Review and Performance Appraisal Report for the Police Retirement System and Civilian Employees' Retirement System.

	3 rd Q 2009	1 Year ending 9/30/09	3 Years ending 9/30/09	5 Years ending 9/30/09
Police Total Fund	12.2%	1.0%	-0.3%	4.5%
Relative Objective	11.9%	0.9%	-0.8%	3.4%
Police Over/(Under) Relative Objective	0.3%	0.1%	0.5%	1.1%
Civilian Employees' Total Fund	12.3%	0.5%	-0.8%	4.1%
Relative Objective	11.9%	0.9%	-0.8%	3.4%
Civilian Employees' Over/(Under) Relative Objective	0.4%	-0.4%	0.0%	0.7%

The Relative Objective is made up of 34% S&P 500, 10% Russell 2000, 12% EAFE, 23% BG/C, 5% NCREIF, 3% MSCI EM, 3% KCPERS Active PE, 5% DJ-AIG, and 5% ML HY which matches our target asset allocation.

The Police fund out performed the relative objective benchmark by 0.1% for the one year ending September 30, 2009. Asset allocation contributed a loss of 0.3% and active management (fund managers' performance) contributed a gain of 0.4%.

The Civilian Employees' fund under performed the relative objective benchmark by 0.5% for the one year ending September 30, 2009. Asset allocation contributed a loss of 0.8% and active management (fund managers' performance) contributed a gain of 0.3%.

Benchmark Performance	3rd Q 2009	1 Year ending 9/30/09	3 Years ending 9/30/09	5 Years ending 9/30/09
S&P 500 Index	15.6%	-6.9%	-5.4%	1.0%
Russell 2000 Index	19.3%	-9.5%	-4.6%	2.4%
MSCI EAFE Index	19.5%	3.2%	-3.6%	6.1%
Barclays Govt./Credit Index	4.2%	11.5%	6.3%	4.9%
NCREIF Index	-3.3%	-22.1%	-1.3%	6.2%
MSCI Emerging Markets	20.9%	19.1%	7.9%	17.3%
KCPERS Actual Private Equity	-0.5%	-20.7%	-6.6%	
Dow Jones UBS Commodity Index	4.2%	-23.7%	-4.9%	-0.7%
Merrill Lynch High Yield Bond Index	14.5%	21.9%	5.1%	5.9%

Police Fund Manager Performance	3rd Quarter 2009	YTD 9/30/2009	Benchmark YTD 9/30/2009
RCM (large cap growth)	13.1%	29.5%	27.1%
NT Russell 1000G (large cap growth)	14.0%	27.1%	27.1%
LSV (large cap value)	19.3%	19.9%	14.8%
iShares Russell 1000G (large cap growth)	14.0%		
iShares Russell 1000V (large cap value)	18.3%		
Waddell & Reed (small cap growth)	12.9%	29.9%	29.1%
Vaughan Nelson (small cap value)	19.1%		
iShares Russell 2000G (small cap growth)	15.3%		
iShares Russell 2000V (small cap value)	22.3%	17.1%	16.3%
GE (international growth)	16.3%	23.7%	24.2%
LSV (international value)	21.3%	31.9%	33.9%

iShares MSCI EAFE G (international growth)	15.4%		
iShares MSCI EAFE V (international value)	21.1%		
GE (emerging market)	21.8%	65.8%	64.4%
LSV (emerging market)	24.5%	79.1%	64.4%
FCI (fixed income)	4.9%	6.8%	4.7%
Shenkman (high yield)	8.8%		
Prudential (real estate)	-10.2%	-40.9%	-15.1%
Abbott Capital (private equity)	-2.7%	-17.6%	-17.6%
JP Morgan (private equity)	2.8%	-10.6%	-10.6%
Gresham (commodity)	4.4%	17.0%	9.1%

Civilian Employees' Fund Manager Performance	3rd Quarter 2009	YTD 9/30/2009	Benchmark YTD 9/30/2009
RCM (large cap growth)	13.0%	29.4%	27.1%
NT Russell 1000G (large cap growth)	14.0%	27.1%	27.1%
LSV (large cap value)	19.3%	19.0%	14.8%
iShares Russell 1000 Growth (large cap growth)	14.0%		
iShares Russell 1000 Value (large cap value)	18.2%		
Waddell & Reed (small cap growth)	13.2%	29.7%	29.1%
Vaughan Nelson (small cap value)	19.1%		
iShares Russell 2000 Growth (small cap growth)	15.3%		
iShares Russell 2000 Value (small cap value)	22.3%	17.0%	16.3%
GE (international growth)	16.3%	23.7%	24.2%
LSV (international value)	21.3%	32.0%	33.9%
iShares MSCI EAFE G (international growth)	15.4%		
iShares MSCI EAFE V (international value)	21.1%		
GE (emerging market)	21.8%	65.8%	64.4%
LSV (emerging market)	24.5%	79.1%	64.4%
FCI (fixed income)	4.7%	6.6%	4.7%
Shenkman (high yield)	9.9%		

Prudential (real estate)	-10.2%	-40.9%	-15.1%
Abbott Capital (private equity)	-2.7%	-17.7%	-17.7%
JP Morgan (private equity)	2.8%	-10.6%	-10.6%
PIMCO (commodity)	9.4%	25.3%	9.1%

Manager Performance for both plans vs. Peer Group and Relative Benchmark are as follows:

3rd Quarter 2009	Above Benchmark	Met Benchmark	Below Benchmark
1 st Quartile	LSV(EM), FCI, PIMCO		
2 nd Quartile	LSV	Gresham	
3 rd Quartile	LSV(I), GE(EM)		RCM, Vaughan Nelson, Prudential
4 th Quartile			Waddell & Reed, GE(I), Shenkman

1 year ending 9/30/09	Above Benchmark	Met Benchmark	Below Benchmark
1 st Quartile	RCM, LSV(EM), GE(EM)		
2 nd Quartile	Waddell & Reed, LSV(I), FCI, PIMCO		
3 rd Quartile	LSV	Gresham	
4 th Quartile			GE(I), Prudential

Mr. Miskell reviewed the overall performance of the stock, bond, and alternatives market in the third quarter. DeMarche continues to believe we are in a bear market rally and equity markets still have a long way to go to return to the market peak of October 2007. Mr. Miskell said the Dow index peaked in October 2007 at 14,164, during the next 17 months the index value fell to a low of 6,547 in March 2009. Since March the index has gained 48% to close at 9,712 on September 30. The index still needs to increase an additional 46% to return to the peak of October 2007.

Both domestic and international equities had double digit returns in the 3rd quarter. International equity markets outgained domestic markets, aggressive stocks (lower quality companies) outperformed defensive stocks (higher quality companies), and value stocks outperformed growth stocks. Fixed income investments appreciated in price with the higher risk sectors leading the way due to easing credit conditions and strong investor demand. With the economy showing signs of improvement investors are willing to buy bonds that have higher returns (and risk of default) rather than only investing in low return treasury notes.

Mr. Miskell said most of our managers were in line with their quarterly benchmarks with the exception of Shenkman and Prudential's PRISA II fund. All of the managers we have worked with for over five years, with the exception of Prudential, are out performing their benchmark for the five year period ending in September 2009. For the managers we have worked with for ten years or more, all of the managers are out performing their respective benchmark. Mr. Miskell said because Shenkman's high yield bond holdings are more conservative than the benchmark, they will trail the benchmark in aggressive high yield markets. Mr. Miskell said some of Prudential's under performance, against the NCREIF benchmark, is a result of a frequent independent appraisal process and a track record of writing down the value of assets sooner rather than later.

AD HOC LEGISLATIVE COMMITTEE REPORT

The Legislative Committee that included Greg Mills, Angela Wasson-Hunt, Dave Reyburn, Sharon Blancett and Jim Pyle met twice to review possible changes to the Police and Civilian Employees' plans for the up coming session of the Missouri General Assembly. In light of the 2009 actuarial valuation and long term expectation of lower funded ratios for both plans several changes were looked at that would probably not be considered under ordinary circumstances.

The committee recommended the following changes to the Police and Civilian Employees' plans to be effective in August 2010:

Clarify that the medical board of the retirement system certifies that members should be retired on a duty or non-duty disability.

Eliminate the provision that allows members of the Police plan to receive creditable service for a leave of absence of less than 30 days. The frequency with which members are off payroll has increased dramatically in the past 10 years. Members on leave will come back for one day on payroll to ensure they do not lose creditable service. The member does not make contributions and we cannot bill the city for contributions. This change would make the Police plan consistent with the Civilian Employees' plan.

Change the provision in the Police plan that allows members to restore service from a leave of absence of more than 30 days from paying the member contribution rate to paying the actuarial rate. Members should be able to restore service at any time prior to retirement rather than within one year of returning from leave. The committee recommends this provision also apply to members of the Civilian Employees' plan.

Change the provision in both plans that allow members to restore prior service upon returning to employment with the Police Department from paying refunded member contributions plus or minus investment earnings during the time the contributions were refunded to paying the member share of an actuarial rate.

Start retirement benefits in both plans on the first of the month following the month the member retires and pay supplemental benefits only in months when the member receives a full benefit payment. In any month where a member and eligible surviving spouse receive the equivalent of a full benefit payment the supplemental benefit would also be paid.

Prorate the final benefit payment in the Police plan and allow members to designate a beneficiary for the final benefit payment.

Change the Police plan surviving spouse base pension for calculation of cost of living increases to equal 80% of the member's base pension. This would not change the benefits for any current surviving spouses and would not change the way a surviving spouse's initial monthly benefit is calculated.

Talk with Milliman about potential changes to the COLA and Supplemental benefits. 1) Consider starting a COLA at 5 years after retirement or at some future date beyond the following May/June. 2) Consider a graduated COLA based on the length of retirement. 3) Consider different provisions for the supplemental benefit based on years of service or a difference between a member supplemental benefit and a survivor supplemental benefit. 4) Consider paying a 13th check rather than automatic COLA or Supplemental benefits.

Eliminate interest on refunds in the Civilian Employees' plan. This change matches the provisions in the Police plan.

Eliminate the survivor and child's benefit for incapacitated adult children of deceased members.

Increase the retirement age from 55 to 62 for vested members in the Police plan. Increase the vesting time in the Civilian Employees' plan to 15 years, change the retirement age with 10 years of service from 60 to 62, and implementing a minimum age requirement for the Rule of 80 provisions.

Create a catastrophic duty disability benefit in the Police plan that provides a 75% or 80% tax free benefit to member's who are totally and permanently disabled as a result of catastrophic injury in the act of police work.

A catastrophic injury could be defined as a sudden, violent, life-threatening, duty connected injury sustained by an active member that is due to an externally caused motor vehicle accident, gun shot wound, aggravated assault or other external event or events and results, as supported by evidence, in one of the following conditions: loss of sight in one or both eyes; loss of one or both feet above the ankle; loss of one or both hands above the wrist; injury to the spine that results in permanent and complete paralysis of one or both arms, or one or both legs; or an externally caused physical traumatic injury to the brain rendering a member physically or mentally unable to perform the member's duties as a police officer and totally and permanently disabled.

The "act of duty" could be defined as any act of police duty inherently involving special risk, not ordinarily assumed by a citizen in the ordinary walks of life, imposed on a police officer by the statutes of the State or by ordinances or police regulations or by special assignment; or any act of heroism performed in the city having for its direct purpose the saving of the life or property of a person other than the police officer.

Change the definition for a duty disability to include the “act of duty” provision. Change the duty disability benefit to the greater of 50% of final compensation or the actual earned benefit at the time of retirement.

Determine if a catastrophic disability can be tax free and duty and non-duty disability benefits can be considered for different tax treatment.

Change eligibility for non-duty disability benefits to only those members not already eligible for a service retirement. Further define the 10 years service requirement for a non-duty disability to be at the time the member is referred to the medical board of the retirement system for evaluation. Further define disabilities to exclude pre-existing conditions, incurred before the member became a police officer, from eligibility for a disability benefit.

If possible, the following diseases, disorders, or injuries are not duty disability injuries or illnesses: psychiatric illness or injuries including headaches, stress, anxiety disorder, post traumatic stress; and soft tissue back, neck, or spine injury, including a sprain, strain, or repetitive stress injury that does not result in paralysis.

Mr. Pyle was directed to work with Mr. Gorman and Ms. Blancett to have draft legislation prepared for review at the December 8 Retirement Board meeting.

SECRETARY’S UPDATE

Securities Lending Liability

Mr. Pyle said a partial payment of the securities lending liability from last fiscal year was due to Northern Trust on December 15. The payments on the liabilities are \$247,000 in the Police plan and \$34,000 in the Civilian Employees’ plan. Securities’ lending net income in FY 2009 was \$887,000 in the Police plan and \$114,000 in the Civilian Employees’ plan.

Lobbyist Contract

Mr. Pyle reviewed the contract proposal from Steven R. Carroll & Associates for five one year periods from November 2009 through October 2014. The proposal included lobbyist services in Jefferson City for \$26,400 per year. Mr. Pyle reported on the cost comparison of other public retirement plans all of which are higher than the proposal from Mr. Carroll. Mr. Tate made the motion to accept the proposed contract with Mr. Carroll. The motion was seconded by Mr. Reyburn and passed unanimously.

Child Pension for Robert Gregg

Mr. Pyle said Dr. Hutchison had reviewed the medical records of Robert Gregg who is the adult son of deceased retired Officer Ray Gregg. Section 86.1250 RSMo. provides benefits for children of deceased members who are over the age of 18 and mentally or physically incapacitated. Dr. Hutchison determined Mr. Gregg is mentally incapacitated. Mr. Reyburn made the motion to provide a benefit to Mr. Gregg, effective November 1, 2009. The motion was seconded by Mr. Kauzlarich and passed unanimously.

OMNIBUS MOTION

Mr. Reyburn made the following motion, seconded by Mr. Burnett. Motion passed unanimously.

RESOLVED, that the Retirement Board hereby unanimously approves:
The minutes of the previous meeting of October 13, 2009;
The monthly financial statements for September 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.

CLOSED SESSION

Mr. Kauzlarich made the motion to go into a closed session for purposes of discussing pending litigation under the provisions of subsection (1) of Section 610.021 RSMo. Mr. Mills seconded the motion. The following members voted in favor of closing the meeting: Mr. Howell, Mr. Burnett, Mr. Kauzlarich, Mr. Mills, Mr. Reyburn, Mr. Tate, Mr. Trysla, and Ms. Wasson-Hunt.

Mr. Howell declared the meeting closed.

Ms. Wasson-Hunt made a motion to re-open the public meeting. Mr. Tate seconded the motion. The following members voted in favor of re-opening the meeting: Mr. Howell, Mr. Burnett, Mr. Kauzlarich, Mr. Mills, Mr. Reyburn, Mr. Tate, Mr. Trysla, and Ms. Wasson-Hunt.

ADJOURNMENT

The next regularly scheduled board meeting will be December 8 at 9:00am at the KC Police Credit Union.