

**MINUTES OF MEETING OF BOARD OF TRUSTEES OF THE
CITY OF NEWPORT NEWS EMPLOYEES' RETIREMENT FUND**

October 27, 2016

City Council's Conference Room/Tenth Floor

9:00 a.m.

Roll Call: JoAnn Armstrong (X), Bill Eastburn (X), Art Gudikunst (X),
Philip Hatchett (X), Frank James (X), Bobby Lanier (E),
Greg Kubilins (X), Zoe Lumpkin (E), Eddie Harrah (X).

Patrick Murphrey (X), Marty Eubank (E), Bill Keeler (X),
Cathy Matthews (X), Tom Mitchell (X), Tonya O'Connell (E).
Brian Sypolt (X), Jen Etcher (X)

Others Present: Cindy Rohlf, Assistant City Manager
Retirees (4)
NNPS Employee and Spouse

1. Call to Order:

Mr. James called the Retirement Board meeting to order at 9:00 a.m. on October 27, 2016 in the City Council's Conference Room, 10th Floor.

2. Minutes of the Meeting of September 29, 2016:

Upon motion duly made and seconded, the minutes of September 29, 2016 were unanimously approved.

3. Committee on Investments:

Mr. Gudikunst provided a review of the Funds for September.

a. Assets as of September 30, 2016:

Pension	\$842,158,021
Post Retirement	<u>28,843,166</u>

Total	<u>\$871,001,187</u>
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Mr. Gudikunst briefly discussed with the Board the performance of each asset class of the Fund noting that the Fund has earned a 4.3% quarter to date rate of return and a 7.2% year to date return. Mr. Gudikunst noted that several of the active managers who have underperformed in recent quarters have done well lately and have beaten their benchmarks.

b. Timberland Acquisition

Mr. Gudikunst updated the Board that Regions has successfully negotiated the purchase of 6,000 acres of high-quality industrial grade timberland located across 4 counties in central Alabama called the Blueberry Hill acquisition on behalf of NNERF. Mr. Gudikunst noted that the price of \$1,650 an acre is below the market average of price per acre.

c. Cash Withdrawal

Mr. Gudikunst mentioned to the Board that the Investment Committee briefly discussed the monthly cash withdrawals needed to fund monthly Pension benefits and the monies needed to fund the Timberland acquisition. After discussion, the Committee unanimously agreed to recommend that the Retirement Board authorize Finance Staff to withdraw funds from the Small Cap managers: \$1.5 million from Pier Capital, \$1.5 million from Newsouth Capital, \$1.5 million from Earnest Partners, \$2.5 million from Mellon Small Cap Index, and from the Mid Cap managers: \$1.75 million from Federated Investors, \$1.75 million from LSV Management, \$3.5 million from Mellon Mid Cap Index to help fund the October requirements and the Timberland acquisition.

After discussion, the Board determined that an amendment to the motion was needed to reduce the Mellon Mid Cap withdrawal from \$3.5 million to \$2.9 million to fund the monthly Pension benefits and in order to have two separate motions to fund the monthly Pension benefits and the monies needed to fund the Timberland acquisition.

Approved Upon motion duly made and seconded, the Retirement Board unanimously agreed to amend the motion from the Investment Committee to reduce the Mellon Mid Cap withdrawal from \$3.5 million to \$2.9 million to fund the monthly Pension benefits and in order to have two separate motions to fund the monthly Pension benefits and the monies needed to fund the Timberland acquisition.

Approved Upon motion duly made and seconded, the Retirement Board unanimously agreed to allow Finance staff to withdraw \$2.9 million from Mellon Mid Cap for monthly Pension benefits.

Approved Upon motion duly made and seconded, the Retirement Board unanimously agreed to allow Finance staff to withdraw funds from the Small Cap managers: \$1.5 million from Pier Capital, \$1.5 million from Newsouth Capital, \$1.5 million from Earnest Partners, \$2.5 million from Mellon Small Cap Index, and from the Mid Cap managers: \$1.75 million from Federated Investors, \$1.75 million from LSV Management, \$0.6 million from Mellon Mid Cap Index to help fund the Timberland acquisition.

4. Committee on Administration:

- a. There was no business for discussion.

5. Benefits and Welfare Committee:

- a. Assumed Rate of Return

Mr. Mitchell informed the Board that the Committee discussed the assumed rate of return and the impact on the Actuarial Determined Contribution (ADC) if the assumed earning rate is reduced from 7.5% to 7.25%, noting that the ADC would increase by \$2.9 Million. Mr. Mitchell mentioned that reviewing ALL of the actuarial assumptions and making changes where needed MAY have little effect to the overall ADC. For example, if the Projected Salary assumption is reduced from the current 4.5% to 3.0% and Inflation Rate from the current 2.8% to 2.5%, there would be a cost savings of \$2.8 Million to the ADC. So, that combination of changes in the actuarial assumptions would result in an increase of only \$100,000 to the current ADC of some \$40 million. Mr. Mitchell noted that the Committee further discussed having Cheiron proceed

with an Experience Study comparing the actual performance of the Plan to the current assumptions. After discussion, the Committee unanimously agreed to recommend that the Retirement Board proceed with an Experience Study.

Approved *Upon motion duly made and seconded, the Retirement Board unanimously agreed to have the Benefits and Welfare Committee request that Cheiron proceed with an Experience Study.*

6. Disability Review Committee:

a. Case #037503

The Committee reviewed Case #037503. It was the opinion of Dr. Lee that Case #037503 “is permanently unable to perform the required/essential functions of the job of bus driver and the only form of gainful employment the employee will ever be capable of is sedentary type work”. Dr. Lee feels as though her symptoms might improve should she follow the suggestion of her physicians to receive additional surgical procedures. A motion was duly made and seconded, to recommend that the Retirement Board approve 20% partial-occupational disability based on Section 31-58 occupational and non-occupational partial disability benefits.

After discussion, the Board determined that an amendment to the motion was needed to carry over further discussion of Case #037503 to the November Board meeting in order to ensure adequate and proper notice was given of a closed session to discuss Case #037503.

Approved *Upon motion duly made and seconded, the Retirement Board unanimously agreed to amend the motion from the Disability Committee in order to ensure adequate and proper notice was given of a closed session to discuss Case #037503.*

b. Disability Members

Ms. Armstrong informed the Board that Dr. Lee joined the Disability Committee to discuss options on re-evaluating disability recipients. Ms. Armstrong mentioned that going forward, in his IME (Independent Medical Evaluation), Dr. Lee will categorize patients based on possibility of physical improvement. He will inform the committee in his evaluation whether he feels the individual’s condition shows the potential for improvement and the patient should be re-evaluated at a later date, if the condition shows no potential for improvement and re-evaluation would not be beneficial, or if the condition could improve should the patient follows particular instructions from the doctor such as therapy or surgery. Ms. Armstrong noted that the Disability Committee will use Dr. Lee’s recommendation to put a system into place that will allow for disability recipients to be re-evaluated by Dr. Lee; therefore, allowing the Committee to re-evaluate disability status in the future. Dr. Lee has also agreed to review the records of past disability files to aid the Committee in determining the need for re-evaluation of past disability recipients. After discussing and upon confirmation from Dr. Lee’s staff in regards to the cost of the record review, the Committee unanimously agreed to recommend that the Retirement Board allow the Disability Committee to work with Dr. Lee’s office on the records needing to be reviewed and proceed with making appointments for re-evaluation of those patients Dr. Lee surmises may have improved physical conditions since the time of original evaluation.

Approved Upon motion duly made and seconded, the Retirement Board unanimously agreed to allow the Disability Committee to work with Dr. Lee's office on the records needing to be reviewed and to proceed with making appointments for re-evaluation of those patients Dr. Lee believes may have improved physical conditions since the time of original evaluation.

7. Old Business:

a. Contribution – Pre 65 retiree health plans

Mr. Mitchell informed the Board that he had reviewed the proposal of having the Fund help contribute toward a member's city sponsored post-retirement medical insurance premiums with City management and determined that there was no support for a recommendation to increase the City's contribution to pre-65 retirees' medical insurance premiums. Mr. Mitchell noted that City management felt the premiums for the post-65 retirees are reasonable, based on the coverage provided and the City's contribution is substantial. However, because of the small number of pre-65 retirees in the plan and the Code requirement that those retirees be separately rated, the cost to the City for pre-65 retiree premiums are almost the same as the active employees for the PPO and HMO plans, and is actually more than the cost for active employees for the Lumenos plan. The City Manager noted that the City contribution to pre-65 retiree health insurance is significantly higher than the amounts provided for active VRS employees. Mr. Mitchell mentioned that the Benefits and Welfare Committee felt that no further action would be taken regarding the issue.

8. New Business:

a. Cheiron presentation – November 16, 2016 Investment Committee

Mr. Mitchell advised the Board that the Fund Actuary, Cheiron, will present their report on the 2016 actuarial valuations for the Pension and OPEB Funds at the November 16, 2016 Investment Committee at 8:30 am in the EDA Board Room at City Center.

b. Excused Absence from the Board Meeting:

Ms. Lumpkin, Ms. O'Connell, and Mr. Lanier asked to be excused due to a prior commitment.

c. Next Meeting:

November Board meeting will be Thursday, November 17, 2016 at 9:00 am.

d. Adjournment:

There being no further business to come before the Board, the meeting adjourned at 10:00 a.m.

A true copy, attest:



Tom Mitchell, Secretary
Board of Trustees