

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

January 25, 2018

City Council's Conference Room/Tenth Floor

9:00 a.m.

Roll Call: JoAnn Armstrong (X), Art Gudikunst (X), Pax Goodson (E),
Philip Hatchett (X), Frank James (X), Gregg Kubilins (X),
Zoe Lumpkin (X), Eddie Harrah (E)

Patrick Murphrey (X), Marty Eubank (E), Bill Keeler (X),
Cathy Matthews (X), Susan Goodwin (X), Virginia Lovell (X),
Brian Sypolt (X), Jen Etcher (X)

Others Present Retirees (3)

1. Call to Order:

Ms. Goodwin called the Retirement Board meeting to order at 9:01 a.m. on January 25, 2018 in the City Council's Conference Room, 10th Floor.

2. Elections of Chair and Vice Chair:

Ms. Goodwin opened the floor for nominations for Chairman of the City of Newport News Retirement Fund.

Approved Upon nomination duly made and seconded, the Board unanimously approved Mr. James as the Chairman of the Retirement Board for calendar 2018.

Mr. James opened the floor for nominations for Vice Chairman of the City of Newport News Retirement Fund.

Approved Upon nomination duly made and seconded, the Board unanimously approved Mr. Hatchett as the Vice Chairman of the Retirement Board for calendar 2018.

The Chairman thanked the Board and Committees for their work done during 2017, in particular the employee representatives, who are elected by their peers, for being the conduit of information between the Plan members and the Board, and the Investment Committee for their oversight of the Fund's investments and adherence to the Asset Allocation and Investment Guidelines. Mr. James also thanked the retirees who attend the Board meetings regularly for their feedback and support and City Manager Rohlf for her support of the Fund.

Mr. James then highlighted the many accomplishments and changes that were made in 2017. He noted the balance of the fund on January 1, 2017, was \$890 million and was \$987 million on December 31, 2017. He also recalled that the Board directed Cheiron to conduct an experience study of the plan. Through that process, the Board approved lowering the assumed rate of return from 7.5% to 7.35%. In addition, the Fund successfully transferred custodian banks, saving the Fund approximately \$100,000 a year and the Board initiated an Independent Portfolio Evaluation through Asset Management LLC (PFM) with results due in February 2018. The Board also successfully implemented an electronic voting system for employee representatives.

Mr. James noted there was one change in Board membership during 2017: Bill Eastburn resigned from the Board in December due to relocation. He shared that Council will appoint a new member in March 2018.

Mr. James also advised the Board of his goals for 2018, including identifying a viable solution that addresses retiree concerns about pre-65 insurance rates and approving a revised asset allocation and investment guidelines.

3. Minutes of the Meeting of December 21, 2017:

Upon motion duly made and seconded, the minutes of December 21, 2017 were unanimously approved.

4. Committee on Investments:

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

a. Assets as of December 31, 2017:

Pension	\$953,117,334
Post Retirement	<u>33,758,913</u>
Total	<u>\$986,876,247</u>

The Fund has earned 3.9% for the last quarter of 2017.

b. Cash Withdrawals:

Mr. Gudikunst mentioned that at the December Board meeting, the Board denied the motion for the withdrawal of fund for February and March. A Board member inquired why the Committee was not requesting the funds from Mellon Large Cap which has the largest portion of the fund's assets. Mr. Gudikunst shared that the Committee discussed the monthly cash withdrawals needed to fund monthly Pension benefits and noted that it is especially difficult for Large Cap active managers to outperform their respective benchmark, as compared to other market segments. After discussion, the Committee unanimously agreed to recommend that the Retirement Board approve the withdrawal of funds from the Large Cap managers: \$2.9 million each from DePrince Race and Zollo and Fiduciary for the months of February and March requirements, respectively.

Approved *Upon motion duly made, the Retirement Board unanimously agreed to approve the withdrawal of funds from the Large Cap managers: \$2.9 million each from DePrince Race and Zollo and Fiduciary for the months of February and March requirements, respectively.*

5. Committee on Administration:

a. Pension and OPEB Budget for FY19:

Mr. Hatchett advised the Board that the Committee reviewed and analyzed the draft Fiscal Year 2019 Pension and OPEB budgets presented by Staff. For the pension, the budget reflects the actuarially determined contribution (ADC) required by the City and Schools, an estimate of investment income, and an estimate of benefit and other expenses expected in FY 2019. For OPEB, the budget reflects the City continuing to fund OPEB under the pay as you go method, ensuring that City and retiree contributions cover the estimated annual expenses. Mr. Hatchett informed the Board that staff will present the budgets to the City Manager at a budget hearing in February, and then bring a recommendation to the Board at a later meeting.

b. Request for consideration from retiree:

Mr. Hatchett explained that a retiree asked the Finance Department to consider a request to amend her benefits. The individual retired from Newport News Public Schools (NNPS) in 2011 with 18 years of credited service. At the time she was not eligible to receive her NNERF supplemental benefit as she had not reached age 60. She does not recall being made aware that she would be entitled to a NNERF benefit, and so did not apply for NNERF in 2013 when she became age eligible. Instead, the retiree states she first heard about the supplement through a NNPS Human Resources meeting in November 2017. She then reached out to NNPS to inquire about the supplement and was informed she needed to fill out the NNERF application in order to receive the benefit. NNPS assured the retiree that she was informed of her pension supplement during her retirement process. She became age eligible in 2013; however, her application for NNERF retirement was received in 2017. She requested \$14,953 for the 4 years, 9 months of monthly payments that were lost due to no application being on file.

Mr. Hatchett advised the Board that the Committee consulted with the City Attorney's office and, upon review of City Code Section 31.25 and 31.51, she was required to make application for receipt of benefits in order to exercise her right to the benefit.

Approved *Upon motion duly made, the Board unanimously agreed to deny the request of the retiree to amend her benefits pursuant to City Code Sections 31.25 and 31.51.*

c. Retiree Record Review Updates:

i. Retiree Death Data:

Mr. Hatchett noted that Ms. Goodwin informed the Committee that the Finance Department recently determined they did not have a sufficient process in place to help determine when retirees pass away. After researching, staff decided that Finance would utilize an automated monitoring program called Lexis Nexis to better determine when retirees pass away. Ms. Goodwin informed the Committee that after implementing the monitoring program, 13 retirees were identified as deceased between the years of 2013 and 2017 and were still receiving annuity payments. These payments have been discontinued and Ms. Goodwin mentioned that staff has met with the City Attorney's

office to determine what course of actions could be taken to recoup payments totaling approximately \$158,000 made after death. Mr. Hatchett advised the Board that a monthly automated monitoring is now in place that identifies retiree deaths.

ii. Insurance Contributions Review:

Mr. Hatchett mentioned that the Committee was informed by Ms. Goodwin that it was determined that the fund's contribution toward retiree health and dental insurance, which is based on years of credited service, was incorrectly applied for certain retirees. The Committee was informed that a review of all retirees resulted in 35 findings of misapplication of the fund's contribution and that of those 35 findings, 32 retirees were placed into a lower contribution level, meaning they were underpaid by approximately \$17,743. After discussion, the Committee unanimously agreed to recommend that the Retirement Board permit Staff to issue refunds to those 32 retirees whose benefits were erroneously reduced due to a misapplication of the fund's contribution to retiree health and dental insurance.

Approved

Upon motion duly made, the Board unanimously agreed to approve Staff issuing refunds to those 32 retirees whose benefits were erroneously reduced due to a misapplication of the fund's contribution to retiree health and dental insurance.

Mr. Hatchett explained that the Committee was informed that the remaining three retirees were placed into a higher contribution level than the one to which they were entitled, meaning they were overpaid by approximately \$2,642. After discussion, pursuant to Section 31-73 (d) *Changes or errors in records resulting in erroneous calculations or payments*, the Committee was of the opinion that the overpayments occurred through no fault of the retirees and that the retirees could not have been expected to detect the error, and unanimously agreed to recommend waiving repayment for those three retirees who received an overpayment of benefits due to a misapplication of the fund's contribution to retiree health and dental insurance.

A motion came from the Committee to have the Board waive repayment for those three retirees who received an overpayment of benefits due to a misapplication of the fund's contribution to retiree health and dental insurance.

After discussion, pursuant to Section 31-73(d), the Board determined that an amendment to the motion was needed to recommend the Board request the City Manager to waive repayment for those retirees who received an overpayment of benefits due to a misapplication of the fund's contribution to retiree health and dental insurance.

Approved

Upon motion duly made and seconded, the Board unanimously agreed to amend the previous motion to request the City Manager to waive repayment for those retirees who received an overpayment of benefits due to a misapplication of the fund's contribution to retiree health and dental insurance.

Approved

Upon consideration of the amended motion, the Board unanimously agreed to request the City Manager to waive repayment for those retirees who received an overpayment of benefits due to a misapplication of the fund's contribution to retiree health and dental insurance.

iii. Request for Proposals (RFP's):

Mr. Hatchett informed the Board that the contract with Cheiron for actuarial services has expired, but Ms. Goodwin recommended to the Committee delaying an RFP at this time. Cheiron is currently assisting staff with data validation for the terminated vested population and analysis of OPEB scenarios. Ms. Goodwin would like to extend Cheiron for another year until these projects are complete. Staff will request Cheiron provide an estimate for the cost of services for Fiscal Year 2019 and bring the proposal to the Committee for review at a later meeting.

2. Disability Review Committee:

- a. The Committee did not meet and there was no business for discussion.

3. Benefits & Welfare Committee:

- a. Pre-65 Health Insurance Review:

Mr. James advised the Board that the Committee met and reviewed a study to look at the current health care plan structure and the various options to help reduce costs for pre-65 retirees that USI, formerly known as Wells Fargo Consulting, had performed. Michelle Pitz and Greg Snow of USI joined via teleconference to review with the Committee their findings. Ms. Pitz reviewed with the Committee facts on the current pre-65 health care plan, noting per city code the City's pre-65 retirees are separately rated from the active employee's structure, pre-65 retirees are the most expensive population to insure, and retirees must stay in the plan in order to continue retiree coverage in the post-65 retiree Humana Medicare Advantage Plan. Ms. Pitz mentioned the only ways to make the plans more affordable for retirees were plan design changes or changes to the City's contributions which is currently limited in code. Ms. Pitz reviewed with the Committee that all numbers provided were preliminary estimates and more estimates could be provided once more data becomes available. After discussing, the Committee tabled any further discussion until additional information on plan pricing could be provided by USI.

A retiree in attendance at the Board meeting expressed his concerns regarding high insurance costs and low Cost of Living Adjustments (COLA) and requested to attend the next Committee meeting. Ms. Goodwin informed him that the next Benefits & Welfare Committee meeting had not yet been scheduled; however, all meetings are posted publicly.

4. Old Business:

- a. Independent Portfolio Evaluation:

Ms. Goodwin informed the Board that PFM will be attending the next Investment Committee meeting to review the Independent Portfolio Evaluation. The meeting is scheduled for Wednesday, February 14, 2018, at 9:00 a.m., in the Engineering Conference Room on the 7th Floor of City Hall.

b. Closed Session – Securities Litigation Update

A motion was made by Mr. James of the Newport News Employees' Retirement Board, which was duly seconded and unanimously approved, that pursuant to Section 2.2-3711A. of the Code of Virginia, 1950, as amended, Subsection 7, that the Retirement Board hold a Closed Meeting on the subject of litigation, for the purpose of discussing the NNERF's involvement as a named plaintiff in a case. The closed meeting is authorized under:

Subsection (7) consultation with legal counsel pertaining to actual or probable litigation, where such consultation or briefing in open meeting would adversely affect the negotiating or litigating posture of the public body; and consultation with legal counsel employed or retained by a public body regarding specific legal matters requiring the provision of legal advice by such counsel.

After coming back into Open Session, Mr. James of the Board of Trustees of the City of Newport News Employees' Retirement Fund made the motion, which was duly seconded, and unanimously approved, that the members of the Retirement Board certify that to the best of each member's knowledge (1) only public business matters lawfully exempted from open meeting requirements under the Virginia Freedom of Information Act, and (2) only such public business matters as were identified in the motion by which the closed meeting was convened were heard, discussed or considered in the closed meeting by the Retirement Board.

5. New Business:

a. Portfolio Monitoring Agreement:

Mr. Murphrey shared with the Board that the contract with Labaton Sucharow which began in 2013 is due to expire in 2018, as it is a 5 year contract. Mr. Murphrey advised the Board of the services provided by Labaton Sucharow at no cost to the City and questioned if the Board would like to enter into an additional 5 year contract with Labaton Sucharow. Mr. Hatchett made the motion that the Board retains Labaton Sucharow for portfolio monitoring services for an additional 5 years subject to negotiation of agreement by the City Attorney's office.

Approved Upon motion duly made and seconded, the Board unanimously agreed to approve retaining Labaton Sucharow for portfolio monitoring services for an additional 5 years subject to negotiation of agreement by the City Attorney's office.

b. Retirement Board Subcommittees:

Mr. James distributed the list of Retirement Board Subcommittees for 2018 to all Board Members.

c. Next Meeting:

February Board meeting will be Thursday, February 22, 2018 at 9:00 am.

6. Adjournment:

There being no further business to come before the Board, the meeting adjourned at 11:02 a.m.

A true copy, attest:

A handwritten signature in blue ink, appearing to read "Susan Goodwin". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Susan Goodwin, Secretary
Board of Trustees