

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

May 31, 2018

City Council's Conference Room/Tenth Floor

9:00 a.m.

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

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 (4)

1. Call to Order:

Mr. Hatchett called the Retirement Board meeting to order at 9:00 a.m. on May 31, 2018 in the City Council's Conference Room, 10th Floor.

2. Minutes of the Meeting of April 26, 2018:

Upon motion duly made and seconded, the minutes of April 26, 2018 were unanimously approved.

3. Committee on Investments:

a. Assets as of April 30, 2018:

Mr. Goodson provided a review of the Funds for April.

Pension	\$944,353,980
Post Retirement	<u>33,031,788</u>
Total	<u>\$977,385,768</u>

b. Regions Update:

Mr. Goodson informed the Board that Regions advised the Committee that they had received an offer on a 202 acre tract of land owned by NNERF. After a brief discussion, and based upon the recommendation from Regions, the Committee unanimously agreed to recommend the Retirement Board permit Regions, based upon their recommendation, to counteroffer and negotiate the sale of the tract of land.

Approved Upon motion duly made, the Retirement Board unanimously agreed to permit Regions, based upon their recommendation, to counteroffer and negotiate the sale of a tract of land owned by NNERF.

c. Investment Policy:

Mr. Goodson mentioned that the Committee continued their review and discussion of the NNERF Investment Policy and Guidelines by reviewing the "Monitoring and Performance Standards" for managers of the Fund. The Committee was provided with draft language proposed by Rich Dahab along with various other ideas provided by staff to be reviewed. Ms. Goodwin noted that having a process to monitor manager performance is important and the Committee needs to be able to document decisions regarding manager retention and termination. Mr. Goodson advised the Board that the Committee felt the current investment policy is very loose regarding manager monitoring and that they would like to have an established set of criteria (or "guardrails") to monitor manager performance so that there is a clear, measurable, timely, and consistent basis for terminating managers. After looking at the document presented to them, the Committee decided that they would prefer to see more explicit quantitative and qualitative monitoring standards and a watch list option incorporated into the investment policy. Staff will work with Rich Dahab to update the policy based upon the recommendations from the Committee and will bring back a draft at the June Committee meeting along with an example of a manager watch list based upon the suggested monitoring standards. Mr. Hatchett encouraged the Committee to also consider revisiting adopting a revised asset allocation, as that discussion has been tabled for several months. Ms. Goodwin mentioned that the Committee would be revisiting the asset allocation at a future meeting and any changes would be incorporated into the revised Investment Policy Guidelines. Mr. Goodson noted that, although some time has passed since the asset allocation has been updated, the impact to the Fund has been minimal as the current allocation is working well and the recommended changes to the asset allocation that were presented last spring were not significantly different than the current allocation. Ms. Goodwin reminded the Board that she had asked them to table adopting that allocation until after the independent study. Based on the results of the study, the committee would like to revisit the allocation again before moving forward.

d. Pension & OPEB Preliminary Performance Report:

Mr. Goodson advised the Board that Rich Dahab discussed with the Committee the performance of each asset class of the Fund, noting that the Fund has earned -.02% net of fees for the last quarter and has earned 7.6% net of fees for the fiscal year. Mr. Dahab informed the Committee that the market was very volatile for the quarter.

e. Investment Consultant Contract:

Mr. Goodson noted that, at the June Investment meeting, the Committee will discuss the contract of the investment consultant, as it expires on June 30, 2018, and has an option to renew for one additional year. The Committee will bring a recommendation to the Board at the June Board meeting.

4. Committee on Administration:

a. Pension and OPEB Budget FY19:

Mr. Hatchett noted that the Committee again reviewed and analyzed the Fiscal Year 2019 Pension and OPEB budgets. For the pension, the requested 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 requested 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. The City Manager recommended that City Council approve the budget requested by Staff for the Pension fund. For the OPEB fund, the City Manager recommended the City continue to fund OPEB at the same level budgeted for FY 2018. City Council adopted the City Manager's recommended budget on May 8, 2018. The Committee unanimously agreed to recommend that the Retirement Board adopt the 2019 Pension budget of \$87,734,000.00 as approved by City Council.

Approved Upon motion duly made, the Retirement Board unanimously agreed to adopt the 2019 Pension budget of \$87,834,000.00 as approved by City Council.

The Committee proceeded to unanimously agree to recommend that the Retirement Board adopt the 2019 OPEB budget of \$8,245,000.00 as approved by City Council.

Approved Upon motion duly made and seconded, the Retirement Board unanimously agreed to adopt the 2019 OPEB budget of \$8,245,000.00 as approved by City Council.

b. Terminated Vested Record Review Update:

Mr. Hatchett mentioned that both City staff and NNPS staff have begun reviewing the existing list of terminated vested employees. These are employees who are qualified to receive retirement benefits based upon credited service (5 years), but who left service prior to being able to receive retirement benefits based on age or credited service. Staff is verifying employee records to confirm the employees are benefit eligible and have been notified of their benefit and eligibility date. The initial City review has been completed and Staff is awaiting an update by NNPS on their review. Staff has offered assistance to work with NNPS on their review in order to ensure the review is completed before fiscal year end. When the review is complete, the updated data will be provided to the Fund's actuary. It was reiterated to the Committee that Staff has also been looking into improving how terminated vested employee data is maintained. Ms. Lovell took the opportunity to introduce Sae Kim to the Board. Mr. Kim is an undergraduate intern who will be assisting Finance Staff with their portion of the terminated vested record review. Ms. Lovell also added that there are more than 4,000 terminated vested files emphasizing the scope of work of the project.

c. Service Agreement:

Mr. Hatchett advised that the Committee continued their discussion on the Administrative Policy presented by Staff which lists the responsibilities of the City in the administration of the Pension and OPEB funds. Staff made a few minor updates to the Service Agreement to make the agreement easier to read, clarify certain responsibilities and update how often the agreement

needs to be reviewed by the Board. After discussing, the Committee unanimously agreed to recommend to the Retirement Board to approve the Administrative Policy as amended regarding the scope of services provided to the NNERF by the City.

Approved Upon motion duly made, the Retirement Board unanimously agreed to approve the Administrative Policy as amended regarding the scope of services provided to the NNERF by the City.

5. Benefits and Welfare Committee:

a. Pre-65 Health Insurance Review:

Mr. Harrah stated that the Committee has been discussing two ways to bring savings to our pre-65 retirees: plan design changes and changes to the City's contribution structure. At their last meeting, the Committee decided to table discussion of changes to the City's contribution structure and focus on plan design changes as they can lower premiums for all retirees. The plan design changes that are being considered impact deductibles, copays, coinsurance and out of pocket limits. Changes to networks or covered services are not being considered at this time. Ms. Goodwin mentioned that with the plan design changes that are being looked at, it is estimated that all tiers (i.e. single, single + spouse, family) will see a decrease in annual premiums. The plans will basically remain the same with the exception of deductibles, copays, coinsurance and out of pocket limits. Mr. Harrah mentioned that several retirees were in attendance at the Committee meeting and they provided great feedback on the options presented and were generally happy with the changes being discussed. Staff has been asked to work with USI to finalize the changes and bring back final designs to the Committee and Board in late summer.

6. Disability Review Committee:

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

7. Old Business:

a. There was no old business for discussion.

8. New Business:

a. FY 2019 Cost of Living Adjustment (COLA):

Ms. Goodwin announced that, based on Section 31-55(c) of City Code, the FY 2019 COLA for retirees is 1.05%. Retirees can expect to see the increase in their July, 2018 annuity. A retiree in attendance at the Board meeting asked why the NNERF COLA is less than the Virginia Retirement System (VRS) COLA. Ms. Goodwin mentioned that the NNERF COLA and VRS COLA are both based on a formula using the US Consumer Price Index (CPI) and that, in many years, the VRS calculation results in a higher COLA. She encouraged the retiree to compare the value of the overall benefit package offered by NNERF to that offered by VRS, mentioning that NNERF retirees receive a higher initial annuity due to the higher multiplier used by NNERF, life insurance at no cost, a spousal annuity benefit that does not require the retiree elect a lower

annuity, and a contribution to retiree health insurance of up to \$14,000 per year. The retiree also suggested the Board revisit the stipulation that retirees are not eligible to receive a COLA until after they have been retired for 12 months, which could potentially cause a retiree to wait 23 months before receiving their first COLA. Mr. Hatchett mentioned the Benefits and Welfare Committee would examine his request.

b. Excused Absences:

Mr. Hatchett noted that Mr. James, Ms. Armstrong, Mr. Gudikunst, and Mr. Kubilins were all excused from today's meeting.

c. Next Meeting:

June Meeting will be Thursday, June 28, 2018, at 9:00 a.m.

d. Adjournment:

There being no further business to come before the Board, the meeting adjourned at 10:01 a.m.

A true copy, attest:


Susan Goodwin, Secretary
Board of Trustees