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City of Austin Employees' Retirement System

MINUTES
CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM
Special Called Board Meeting
Education & Planning Workshop
Tuesday, July 28, 2009
6550 Comanche Trail, Austin, Texas

Board Members Present	Absent	Staff and Guests Present
Art Alfaro		Stephen C. Edmonds, Executive Director
Janet Bartles		Donna Boykin, Finance Manager
Eyna Canales-Zarate		Rhonda Helm, Operations Manager
Reagan David		Rosaree Koepsel, Administrative Supervisor
Francine Gertz – arrived at 9:14 a.m.		Barney Knight, General Counsel
Ed Golden		Eric Ralph, Investment Consultant
Elizabeth S. Gonzales		Lewis Ward, Actuarial Consultant
Sam Jones		Keith Brainard, NASRA
Mark Monteith		Dr. Lacy Hunt, Hoisington Investment Mgt. Co.
Anthony B. Ross, Sr.		Adam L. Berger, AQR Capital Mgt., LLC
		Joe Lee, AQR Capital Mgt., LLC
		Jeff Knodel, City of Austin
		Jim Link, PFM
		Michael McDonald, City of Austin
		Russell Nash, City of Austin
		George Oswald, Retired Member

The meeting was called to order at 8:56 a.m. by Board Chair, E.S. Gonzales.

1. Agenda Review and Opening Comments

   E.S. Gonzales welcomed Board Trustees, staff, and guests. The workshop is essentially divided into two sections: the morning section will focus on benefit design issues and the afternoon session will focus primarily on economic and investment education.

   The overall objectives for the workshop include: constructive dialogue with the City of Austin management and their consultant concerning possible benefit design changes for future employees; discussion on communication strategy to our membership with respect to benefit design and funding; determination on next steps with respect to potential benefit design changes; continued discussion on non-traditional investment strategies; and, consensus on operational priorities for the near term.

2. Approval of June 23, 2009 Board Meeting Minutes

   E. Canales-Zarate moved to approve the June 23, 2009 Board Meeting Minutes. A.B. Ross, Sr. seconded the motion. Motion carried unanimously.

F. Gertz arrived at 9:14 a.m.

3. Public Pension Trends and Emerging Issues

   Keith Brainard, Research Director, National Association of State Retirement Administrators, gave a presentation entitled "Overview of Public Pension Trends". His presentation reviewed the current state of the public pension community and discussed plan design issues and variations to the traditional defined benefit-centric model. He concluded that state and local governments are likely to respond to the decline in capital markets and the recession by continuing a trend toward lower retirement benefits for new hires, higher retirement ages, increased use of defined contribution plans in concert with defined benefit plans, and increased emphasis on cost-sharing with employees.

4. Benefit Design and System Funding

   E.S. Gonzales reviewed that Deputy Chief Financial Officer Jeff Knodel met with the Benefits and Services Committee at their June 2009 meeting concerning preliminary discussions that are underway with respect to possible benefit design changes for future employees. The goal is to consider restructuring benefits to be more sustainable in terms of cost to the plan sponsor. At that Committee meeting it was noted that no decisions had yet been made and that an ongoing dialogue with the System as changes are considered was important. An important element of the decision-making will be the cost-savings that can potentially be generated. After discussion, the Committee agreed to proceed jointly with the City to obtain actuarial analysis of various possible avenues for restructuring future benefits.

   Conceptual questions for the Board and the City include: What would be a reasonable design for a new tier of participation of future employees? What level of benefit (in terms of replacement of income) is reasonable for a "full-career" employee? What age limitations should be imposed (normal retirement age) to receive unreduced benefits? Should "early" reduced benefits be allowed, and if so, at what age? What benefit structure would be competitive in the local market? What are the long-term financing objectives?

   The Board discussed that the ideal scenario would be to keep the 69% replacement ratio but refine full service career to be 30 years. Lewis Ward, COA ERS' actuary, provided actuarial workbooks to facilitate the discussion of modifying the benefit options/design to different scenarios. Some issues have been deferred until an analysis of the basic benefit structure has been completed (e.g. split between defined benefit and defined contribution plans; preservation of purchasing power for retirees).

   The data presented indicated that modifying the benefit eligibility for normal retirement to age 65 with 5 years of creditable service or age 62 with 30 years of service and for "early" reduced benefits at age 55 with 20 years of creditable service does not achieve financial stability for COA ERS even with substantial reductions in the multiplier for future employees. Other options for consideration would be increased employee/employer contributions or reduced future benefit accruals for current employees. It was noted that modifying benefit accruals for current employees is a gray area in light of an opinion by the Texas Attorney General.

   The Board and City will continue discussions on the proposed benefit design to develop long-term solutions to the System's funding situation.

5. Economic Outlook

   Dr. Lacy Hunt, Executive Vice President, Hoisington Investment Management, made a presentation concerning Macroeconomic Analysis. This topic is relevant to investment decision-making, particularly as it reflects his historical analysis of the effects of debt on the economy.

6. Alternative Investments

   Adam Berger, QDRO Capital Management, LLC, made a presentation on hedge fund fundamentals and replications strategies. He discussed the pros and cons of investing in hedge funds for investment portfolio diversification.

7. System Benchmarks and Operational Priorities

   S. Edmonds reviewed high level system-wide benchmarks for 2008. He noted that there are some that may need to be reviewed and modified in the future. In addition, he provided a comparison against standards developed by the Public Pension Coordinating Council. The System is not meeting one standard due to issues related to adequacy of funding.

   Environment review issues include: investments increasingly complex with associated audit requirements; IRS stepping up review of public plans; GAO is surveying a sample of public pension plans, including COA ERS; more public visibility of public pensions, including COA ERS; ongoing economic distress – local budgets are strained, even without pension obligations; capital market projections are changing – conventions of diversification may also be changing; COA ERS employees approaching retirement eligibility; office space limitations (space plan completed but implementation deferred); tiered system will present implementation challenges (staff/technology); GASB 25 and 27 disclosure requirement changes; market value liability disclosures.

   Operational priorities discussed include: new asset liability study; continue to work with City to develop long-term solutions; determine any legislative needs (e.g. retirees returned to work); review/enhance ethics disclosures (re: placement agents, manager/consultant conflicts, etc.); fill Operations Officer position; plan for future staffing needs; fiduciary education session.

The meeting was adjourned at 4:36 pm.

E S Gonzales
E.S. Gonzales, Board Chair

9/22/09
Date

Stephen Edmonds
Stephen C. Edmonds, Executive Director

9/22/09
Date