MEETING OF THE TRUSTEES

CITY OF CHATTANOOGA GENERAL PENSION PLAN

April 20, 2006

The regular meeting of the City of Chattanooga General Pension Plan was held April 20, 2006 at 8:45 a.m. in the City of Chattanooga J.B. Collins Conference Room. Trustees present were David Eichenthal, Carl Levi, BettyeLynn Smith, Daisy Madison, and Dan Johnson. Others attending the meeting were Doug Kelley, City Personnel Office; Sharon Rogers, City Personnel Office; Mike McMahan, Nelson, McMahan & Noblett; Graham Schmidt, EFI, Inc.; and Teresa Hicks of First Tennessee.

The meeting was called to order by Chairman David Eichenthal. A quorum was present.

The minutes of the meeting held March 16, 2006 were approved.

Upon a motion duly passed, the following pension benefits and plan expenses were approved:

ACCOUNT SUMMARY

ACCOUNTS PAYABLE

COMPANY	AMOUNT PAYABLE	SERVICES RENDERED
AEG CAPITAL MANAGEMENT	$6,857.00	Litigation
CITY OF CHATTANOOGA	$25,000.00	Reimbursement of administrative costs to the City of Chattanooga for fiscal year 2006
CONSULTING SERVICES GROUP	$16,591.75	Professional services for quarter ending March 31, 2006
INVESTMENT MANAGERS		
BRANDYWINE ASSET MANAGEMENT	$11,294.77	Investment management fee for quarter ending March 31, 2006
DUFF & PHELPS INVESTMENT MANAGEMENT	$13,070.00	Investment management fee for quarter ending December 31, 2005
SMH CAPITAL ADVISORS	$8,717.66	Investment management fee for quarter ending March 31, 2006
	$33,082.43	TOTAL

ACCOUNTS RECEIVABLE

COMPANY	AMOUNT RECEIVED	PURPOSE

No activity

REPORT OF ACCOUNT(S) PAID

HARTFORD LIFE AND ACCIDENT INSURANCE CO. (Long-Term Disability)	$12,429.27	Premium April 2006

MISCELLANEOUS ITEMS

NAME	TRANSACTION

No activity

Actuarial Study

Mr. Schmidt from EFI presented an actuarial valuation of the pension plan as of January 1, 2006. He explained that the four facets of funding a pension system were underlying principles, funding method, smoothing of assets, and dealing with "gains and losses." The underlying principles include the input (contributions from employer and employees and investment returns) and outflow. The funding method used by the pension plan is the Entry Age Normal method which calculates the pension fund's contribution by adding normal cost to the amortization of unfunded accrued liability. The third facet, smoothing of assets, is done by gradual recognition of asset value deviations between the expected and actual. The market value of assets (MVA) will fluctuate year to year so the actuarial profession introduced the concept of actuarial value of assets (AVA). The pension plan's AVA is calculated by adding 20% of the difference between MVA and AVA to the expected value. EFI deals with the fourth facet, actuarial gains and losses, by determining the financial impact of variations between actual experience and expected experience. The gains and losses are best presented by comparing results in the gain/loss from the demographic experience of prior participants, the impact of salary variations, the impact of actuarial asset values from expected, and the impact of new entrants on the pension plan.

The results of the 2006 valuation show total employer contribution increases from 6.67% of pay to 6.97% of pay. Contribution would increase from $3.6 million to $3.8 million. The 2006 increase is close to what the previous year's actuarial valuation had predicted for this year.

Reasons for the cost increase include demographic experience, change in salary increases, addition of new plan members, an actuarial loss on plan investments, and a change in actuarial methodology. Actual demographic experience was close to the expected behavior, resulting in a slight increase in Plan cost of 0.24% of pay, but a small decrease in cost as a dollar amount. This year's loss also included a change in the reporting of retiree COLA amounts. The data reported in last year's valuation did not include the value of the most recently granted COLA increase for those members currently receiving benefits. This year, the reported data did include this information. The aggregate increase from last year to this year was about 0.10%. Due to the delayed reporting of COLA increases, there was a slight increase in cost. Salary increases below those assumed caused a cost reduction of 0.43%. The cause of this salary gain was the inflated baseline salary amounts due to high overtime usage in the previous year's valuation and the subsequent policy goal of reduced use of overtime for 2006. The actual payroll was about $0.6 million less than expected. The addition of new plan members resulted in a cost increase of 0.55%. Overall, active participation in the Plan has increased only slightly: There were 1,531 active members on January 1, 2005, and there are 1,534 in this year's valuation. A large proportion of the increase in Plan cost as a percentage of payroll (0.44%) was due to an actuarial loss from Plan investments. Plan assets returned 6.44% on an actuarial basis, but over 8.4% on a market basis, resulting in an actuarial loss of about $2.7 million. The low return on the actuarial value of assets results from the deferral of earlier losses under the asset-smoothing method. Amortizing this loss over a period of 30 years will result in a cost increase of approximately $240,000. EFI eliminated the practice of including partial years of service from the projection of retirement benefits, except under the old formula. This change was due to a clarification in administrative procedures from pension administration officials. This change in methodology was to reduce the cost by 0.50% of pay.

Mr. Schmidt stated that the actuarial value of assets is still somewhat higher than the market value, and if asset returns are as expected he expects that plan costs will continue to increase in the near future, as the deferred losses from the past several years continue to be recognized. While the plan costs associated with asset smoothing are lower this year than the costs based on market value, Mr. Schmidt stated that this is only temporary. The actuarial value of assets will be above and below market value about an equal amount of the time, so that the Plan costs using the smoothed value will be below or above those using market value about 50% of the time. Over time, the difference average out.

Mr. Schmidt concluded by answering questions from the board members. Mr. Johnson inquired as to whether the contributions were from both employees and employer. Mr. Schmidt referred to page 25 of the actuarial valuation and pointed to the Contributions column. In this section, employee and employer contributions are separated in dollar amounts. Mrs. Madison asked if there was a sizable difference between 2005 and 2006. Mr. Schmidt stated that in general, budgeting changes over time. Mr. Eichenthal stated that the prior year was higher otherwise and Mr. McMahan added that the employer contribution is based on actuarial estimates. Mr. Eichenthal also stated that it would be useful to see the investment on return use 7.5%. Mr. Schmidt commented that this percentage rate wouldn't see much of a change, but he could do more research and show more in an educational meeting some point in the future. He stated that the he is trying to get 80% of value at only 10% of the cost so that he can show us a wide range of possible outcomes. Mrs. Madison asked what the rate of return has currently been. Mr. Schmidt responded to 7 ¾ percentage over time, mostly. Mr. Eichenthal asked Graham to come back in May at the proposal and explain to the board members again. Mr. Schmidt added that the numbers included in this valuation are only as of January, 2006. He stated that he would need to project the assumptions for a future date by capturing an increase in average age and pull new entrants in to see if we would meet our expectations and see where we fall. He stated that the current funding ratio is only a point in time and it can change. It holds a lot of uncertainty and doesn't give a good idea of associated risk. Mr. Eichenthal asked Mr. Schmidt if it impacted the higher age of participants if new hires didn't stick around long enough to be vested. Mr. Schmidt commented that he had worked with a previous study on that issue and never got a straight answer. He said that he would be able to answer this at the next educational meeting. Mrs. Madison asked if the age of participants was true for both the public and private sectors. Mr. Schmidt said that this is generally true and it increases the cost of the Plan because of vested benefits. There being no more questions related to the study, Mrs. Madison asked Mr. Schmidt to attend next week's City Council Committee Meeting on Tuesday, April 25 at 3:30. Mr. Schmidt agreed to attend.

Mr. Eichenthal asked if there was a motion to recommend to the City Council the contribution rate of 6.97% of pay for purpose of budget. Mrs. Madison commented that she didn't think it was necessary and that this board needed to act on how they felt on the matter. Mr. McMahan stated that the city charter provides that the Pension Board should make a recommendation to the City Council based upon the actuarial valuation. Mrs. Smith made a motion for a City contribution rate of 6.97% and Mr. Levi seconded. The motion unanimously carried. The board thanked Mr. Schmidt for his time in preparing the actuarial valuation and for the presentation.

Report from Counsel

Mr. McMahan distributed copies of the RFP comparisons and stated that the committee had narrowed the search down to three custodians. They were AmSouth, First Tennessee, and Regions Bank. First Tennessee, he stated, was the only one to have local management.

Mrs. Madison stated that the bottom line was that CSG did some cost estimate changes to the RFP comparison so that the board could better make their final decision. She stated that AmSouth was non-local and did not make a bid on record-keeping charges. First Tennessee stayed in line with their fee schedule over the past and will continue to do so. Mr. Levi put into motion to keep First Tennessee as the official custodian on the General Pension Plan and Mr. Johnson made a second. Mr. Eichenthal asked if all were in favor and all agreed.

Discussion

Ms. Hicks added that someone from First Tennessee would attend the meetings in the future. She also added that it would be beneficial to have a copy of the minutes each month so that they could keep up to date with what happens in the board meetings. The board agreed. Ms. Rogers would be the official minute taker in this meeting and in the future meetings. She will send Ms. Hicks a copy of the approved minutes each month.

Mr. Levi made the suggestion that the board bring schedules to the next meeting for at least a month in advance. He stated that it was very hard to obtain a quorum from month to month. All agreed. Mr. McMahan stated that Ms. Rogers would need to restart the advertisement in the local newspaper to announce the monthly Pension Board Meetings. Mr. Eichenthal stated that the board should look ahead to the months of June, July, and August to adjust in the next meeting.

The next board meeting was scheduled for Thursday, May 25 at 8:45 a.m. at the Development Resource Center, Room 2B.

There being no further business, the meeting was adjourned.

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Chairman

APPROVED:

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Secretary