MEETING OF THE TRUSTEES

CITY OF CHATTANOOGA GENERAL PENSION PLAN

June 7, 2012

The regular meeting of the City of Chattanooga General Pension Plan Board of Trustees was held on June 7, 2012 at 8:30 a.m. in the J. B. Collins Conference Room. Trustees present were Daisy Madison, Katie Reinsmidt, Dan Johnson, Terry Lamb and Steve Perry. Others attending the meeting were Valerie Malueg, City Attorney's Office; Teresa Laney, First Tennessee Bank; Scott Arnwine, Consulting Services Group; Robert Longfield, Consulting Services Group; and Madeline Green, Douglas Kelley, and Cheryl Powell, City Personnel Department.

The meeting was called to order by Chairwoman Daisy Madison. A quorum was present.

Steve Perry made a motion to approve the minutes of the February 16, 2012 meeting. Terry Lamb seconded the motion. There was no discussion. The minutes of the meeting held on February 16, 2012 were unanimously approved.

Doug Kelley presented the benefit and plan expenses in the General Pension Plan and OPEB Trust administrative action reports, attached to the end of these minutes.
Katie Reinscmidt made the motion to approve the administrative actions. Terry Lamb seconded the motion. There was no discussion. The administrative actions were unanimously approved by the Board.

EFI Actuaries – Review of January 1, 2012 Actuarial Valuation

Greg Stump provided a handout to the Board and provided a slide presentation of the results of the valuation for the pension benefits as of 1/1/2012. The slide presentation included a discussion of pension funding, using the analogy of a college fund accumulation, the impact of market events over the recent past on the funding of the pension plan, and the effect of GASB reporting changes.
For pension plan, the valuation summary results show that there is an increase in the unfunded liability with a smaller increase in the assets. The funding ratios have decreased and the total contribution needed has increased. The percent of pay rate of contribution is 13.65% for 2012.

> *Question regarding market returns vs. the change in smoothed asset value. The change in asset value in the summary reflects the operation of the funds, not investment activity. Note that recent benefit payments have not been covered by the increase in assets requiring liquidation of assets to pay benefits.*

Greg then looked at the City's contribution history and funding history since 2006 to see the impact of market events in late 2008.

> *Dan Johnson brought up question about normal cost and Greg provided a definition of normal cost as the incremental annual cost to recognize increases in salary and service; this cost tends to be relatively level because it also recognizes returns on investment and time until retirement. That is, you can think of it this way: for an individual it is an amortized amount of the total future liability and for the plan as a whole it is the total of the amortized values for all individuals in the plan.*

Greg returned to the graph to indicate that the smoothed value of assets has not changed very much since 2008.

For OPEB results, the last valuation was two years ago. The funding mechanism works the same, but there are more variables. Besides market returns, Greg mentioned that variables such as medical inflation also affect results. Medical inflation for the City is less than average, basically because of good claim experience, with the result that the accrued liability has decreased, plan assets have increased, funding ratios have increased from 3.4% to 13.5%, and the required contribution rate has decreased from 14.94% to 13.07%. Keep in mind that the funding for OPEB includes the General Pension and the Fire and Police Pension adding more people into the OPEB funding. The accrued liability for OPEB is currently less than half that for pension with a much smaller block of assets because it has been funded for a shorter time period.

Now consider the current economic environment. The current funding approach includes a continued deferral of asset losses. The resultant increase in the contribution rate is expected to continue until it peaks at about 18%

before it begins to decline (assuming no other market downturns). The amortization period is 30 years while the asset smoothing period is 10 years.

- *Daisy asked a question about the potential move to close open 30 year amortization. Greg thinks that perhaps the move is about "open level percent of pay amortization for 30 years" where the normal cost is a low payment and increased by an index of some type. In this scenario the unfunded liability continues to grow and never declines. The amortized payment is generally less than the interest. So the movement may be to discontinue this type of amortization. The City uses a level dollar thirty year amortization where the contribution covers the interest.*
- *Terry Lamb asked about the slide showing the investment return assumption and the effect at 8.5% and 10%; Greg indicated that the slide shows the tempering effect of asset smoothing*

Greg then addressed the GASB changes expected to be implemented in 2014. The rules should be finalized in June. These changes apply to accounting only, not funding, including methods of cost recognition, the determination of the discount rate, and the actuarial cost method applied. The impact will be an increase in accounting costs reflected on the books but no change in actual funding. Accounting and funding will not be in lockstep. There are changes in terminology with the new reporting method. Actuarial Accrued Liability becomes "Total Pension Liability"; Unfunded Actuarial Accrued Liability becomes "Net Pension Liability"; Annual Required Contribution becomes "Pension Expense" (numerically, the change in unfunded year to year); and Net Pension Obligation is no longer used. The focus will be the Net Pension Liability, how close you are to the target, on the balance sheet. The actuarial cost method required is the Entry Age Normal with final decrement, essentially the method already used by the City for determining costs. There will be two sets of numbers – one for funding and one for accounting. Currently cost recognition uses 30 year open level dollar amortization. For accounting this period will change to an amortization over the "working lifetime" (approximately 10 years). These changes will tend to create a more volatile cost to be reported in the statements. On the Assets, the asset expense will be determined reporting 1/5 of the expense over each of the next five years. Of major concern is how the market will view the results.
Questions

- *Will there be a way to show the actuarial basis of funding? Yes, exhibits will be included in the reporting.*
- *How is the discount rate reflected? The expected return can be used but you have to finance your current obligations. If unable to do this, a lower discount rate is required to be used in the out years resulting in a blended discount rate that is lower than the current rate.*

The expected return graphic shows the probability of achieving the expected return over 20 years assuming 3.0% inflation. Based on the curve presented, our current assumed rate of 7.75% has a 52% probability (likelihood) of being realized, assuming 3.0% inflation, over the next 20 years.

- *Robert Longfield mentioned that the Unfunded Accrued Liability is shown on a smoothed value and accrued basis and the GASB changes are on a market value basis, so what is the gap in the pension liabilities? The accounting value (GASB) of Net Pension Liability is reported on the balance sheet with the change reported each year. The initial GASB reporting will be the booked liability, but going forward the operational change in the liability will be reflected, but this change is not necessarily related to the actual contribution.*
- *Daisy mentioned that currently pension funding contributions exceed benefit payouts. On one hand, payouts decrease liability, but other forces have the effect of increasing liability. Present funding includes the catch-up contributions due to the 2008 downturn. The larger contribution rate and the liquidation of assets to pay benefits are affecting earning capacity.*

Greg mentioned that for OPEB, currently the attention is on the aspects of the funding plan rather than on the size of the fund. This attention to the plan could be a similar sentiment for pension plans.

- *Terry Lamb asked if there is any investing that is out of sync with funding relative to what is seen with other plans. Greg said that he has no big concerns with the City plan at this time.*
- *Steve Perry mentioned that if the rate assumption decreases, the asset expense assumption increases*.

Consulting Services Group Performance Review of 1st Quarter 2012

Robert Longfield pointed to the range of returns slide, pp. 10-11 in the material provided, to show that the results are consistent between fund managers and S&P. For economic outlook, 1Q results showed strong performance, however, rolling forward, all the equity gains were gone by June 1. In 1Q the main fuel for performance was driven by economic policy of Europe: long term refinance organization buying debt and putting money into the economy. US stock market was reasonably priced. Secondary issues include US Profit margins at highs, retails sales better than expected, unemployment fell in slightly in 1Q, GDP was above expectations. Investors continued to look for yield, so REITs and high yield investments were appealing.

In 2Q more European concerns emerge and continue to evolve. There will continue to be concerns surrounding the banking crisis, the fate of the euro, and the cost of European debt. Investing in International stocks will be cautious but no one is completely backing away, particularly for global companies that also have more domestic concerns and may find value or opportunity in including international investments. There are still concerns from a macroeconomic perspective, e.g. fiscal cliff driven by scheduled tax increases and expiration of tax cuts at end of year. GDP is forecast to decline 4% next year with a potential for recession in 2013. There is a positive outlook for the US stock market over the 3-5 year horizon but volatility will likely be higher. Managers will focus on broader diversification by attempting to balance exposure to several asset classes and not be overly concentrated in any one area.

Scott Arnwine began the discussion of particular managers, directing everyone to page 3 in the summary. The fund for the quarter was up 8.6% with a composite of 7.7%. Equity manager results as a whole were up in double digits on a relative basis driven by financial and technology stocks. In particular, Patten & Patten was slightly below their benchmark, but strong, while other managers were above their benchmark.

- Patten & Patten results were driven by financials and technology. Mild weather affected the performance of energy sector, and stock selection for consumer staples and discretionary was down.
- NWQ top sectors were financial and technology stocks and gold mining. GM results were strong with higher volumes, new product line, and new partnerships. NWQ's financial holdings overall were up significantly after a difficult 2011. Computer Associates announced $2.5 billion return to shareholders with 400% dividend increase and repurchase of shares.
- Wedge had good performance overall except in financials. Best performance was in technology and consumer staples.
- Small cap Insight performance was up 15.5% as they are bouncing back from difficult times. Inhibitex stock increased after Bristol Meyers Squibb said they were going to buy them. United Reynolds was up 45%. Results for household durables increased with the positive movement in the housing market.
- THP Microcap Trust was up due to good stock selection in healthcare, materials and consumer discretionary while underweight in industrials.
- Thornburg International was in a very difficult market for non US equities in 2011. Doing well were Japanese manufacturers Toyota and Komatsu. Also having good results were Novo Nordisck (diabetes pharmaceuticals), SAP, and LVMH Möet (particularly growing in China).
- Alternative managers – Fund of funds
  - Pointer Funds is the Chattanooga based long term equity fund of funds had good performance across their managers, mostly driven by security selection rather than overall market bets, gross and net exposures have grown since last fall. Managers have generated positive returns while remaining conservative.
  - Ironwood, a broader based fund of funds, had all five sectors positive. Manager selection drives performance with exception of one of the managers of a small portfolio.

- Duff and Phelps - Real Estate – REITs performed well for the quarter

- Fixed Income – not the best place to be during the quarter, significant allocation to non-US, US corporate and high yield, so the performance was better than the index.

Robert Longfield handed out the April estimate for the total pension fund. He highlighted that two managers are being watched from an asset allocation and relative performance standpoint: SMH high yield and RidgeWorth SEIX.

Discussion

> *Terry Lamb asked the group to look at page 10 results. He expressed some concern about the interpretation of the chart and how we are using it to measure/monitor City funds. We should be made to feel comfortable that we know what the benchmark is, that we understand it, and can apply/interpret it. Looking at the chart, it is not clear what funds are in the universe of funds included in the summary of public funds performance. Robert explained that the portfolios included are not managed by CSG, but consists of a universe CSG subscribes to which is pulled together by Investment Force from numerous consultants. Robert mentioned that public funds are not well-defined but includes all types of public funds. Dan Johnson suggested creating a comparison against a known population of funds. Daisy asked for more information from CSG about the nature of the benchmark, how good it really is, and whether a better benchmark/measure mechanism is available.*

He also provided the results for the OPEB Trust for April which has only been in operation for about a year. The results for the time period were had a similar story to the results for the pension funds.

Before moving to the next agenda item, Daisy backtracked to obtain approval of the pension contribution rate indicated in the actuarial valuation presentation. The pension contribution rate proposed is 13.65%. ***Terry Lamb made a motion to fund at this rate. Katie Reinscmidt seconded. There was no further discussion. The motion carried.*** The proposed OPEB contribution rate is 13.07%. ***Terry Lamb made a motion to fund at this rate. Katie Reinscmidt seconded. There was no further discussion. The motion carried***.

Proposed Budget

Doug Kelley presented the proposed budget for the FY2013 including both pension and OPEB. There were small changes made from the prior year based on the operation of contracts and the anticipated change in the website. Robert Longfield concurred that the cost of CSG would change for the coming year because of the selloff of Ironwood. ***Dan Johnson made a motion to accept the budget as presented. Katie Reinscmidt seconded. There was no further discussion. The motion carried.***

Election of Officers

Dan Johnson asked if there are attendance requirements in the Pension Board bylaws. Valerie Malueg indicated that there are no specific attendance requirements but that not attending regularly is grounds for replacement. Discussion was raised concerning Trustee Betty Lynn Smith and Board Secretary Carl Levi both of whom may be reappointed. It was decided to postpone election of officers until the August meeting.

Ratification of fund transfers from Northern Trust Investments

This refers to the program in place for Daisy to authorize liquidating assets to fund benefit payments on an as needed basis. ***Terry Lamb made a motion to approve after the fact transfers made to fund benefits. Katie Reinsmidt seconded the motion. There was no further discussion. The motion carried.***

Report from Counsel

Valerie mentioned that the board approved $5,000 in September 2010 to have Miller and Martin provide an analysis and a legal opinion regarding the effect of the new IOD compensation program on employee contributions to the General Pension Plan while on IOD and, consequently, the pension benefit. She has not yet received the analysis or opinion and she will follow-up with Chris Crevass for a response.

Adjourn

The next Board meeting is scheduled for August 16 at 8:30 a.m. in the J.B. Collins Conference Room.

There being no further business, the meeting was adjourned.

ATTACHED REPORTS

GENERAL PENSION PLAN

PART I – PARTICIPANT SUMMARY

SUMMARY OF PENSION APPLICATIONS

NAME	DEPARTMENT	TYPE/OPTION	MONTHLY AMOUNT	EFFECTIVE DATE	NOTES
Beck, Perry	Public Works	Normal-No option elected	$829.08	July 1, 2012	
Brunker, Frederick	Planning	Normal-Option E	$2,869.30	March 1, 2012	
Burke, Roger L.	City Wide Services	Normal-Option D	$177.52	April 1, 2012	
Eilders, Lon L.	Police Services Center	Normal-Option A	$819.04	June 1, 2012	
Kilgore, George W.	Public Works	Normal-Option B	$2,493.72	April 1, 2012	
Kellogg, Faye	Police Services Center	Normal-No option elected	$633.41	May 1, 2012	
Langmann, Marilyn	Library	Normal-No option elected	$1,296.27	May 1, 2012	
Lawson, Charles K	Parks and Recreation	Early Ret-No option elected	$492.70	June 1, 2012	
Love, Elluwead	Neighborhood Services	Normal-No option elected	$1,053.06	March 1, 2012	
Lowery, Nelsene	Neighborhood Services	Normal-No option elected	$1,372.10	March 1, 2012	
Milchak, Frank J.	Library	Normal-Option D	$664.37	April 1, 2012	
Robinson, L. Jean	Police Services Center	Normal-No option elected	$805.08	March 1, 2012	
Rumph, Otis	Public Works	Rule of 80-No option elected	$875.28	May 1, 2012	
Wilson, Calvin L.	Public Works	Rule of 80-Option D	$1,159.45	May 1, 2012	Two Year DROP of $35,656.76
Young, Gary E.	Public Works	Normal-Option B	$2,038.14	April 1, 2012	

BENEFIT REVISIONS/CONVERSIONS-PENDING BOARD REVIEW/APPROVAL

NAME	TYPE/OPTION	PREVIOUS AMOUNT APPROVED BY BOARD	REVISED AMOUNT	EFFECTIVE DATE

no activity

SELECTION OF OPTIONAL BENEFIT REPORT
VESTED OR AGE 62 AND OLDER PARTICIPANTS

NAME	OPTION	DATE
Austin, Alice	Option B	3/26/2012
Born, Jackie	Option B	6/1/2012
Gaunt, Leroy	Option B	5/18/2012
Gilbert, Roderick	Option B	1/24/2012
Jeffries, Heather	Option A	4/24/2012
Magruder, Emma	Option A	5/18/2012
Mattheiss, Mary Jane	Option B	5/1/2012
Robinson, Jean	Option A	2/5/2012

DISABILITY BENEFIT REPORT

NAME	TYPE	MONTHLY DISABILITY BENEFIT AMOUNT	EFFECTIVE DATE
Boynton, James	job related	$2,165.23	April 4, 2012

LUMP SUM DISTRIBUTIONS (FOR RATIFICATION-CHECKS PROCESSED)

NAME	DEPARTMENT	EMPLOYEE NUMBER	TERMINATION DATE	REFUND AMOUNT	Notes
Smith, Annette	Public Works	62814	1/11/2012	$153.89	
Bonner, Marquis	Parks and Recreation	67990	1/24/2012	$164.60	
Weiss, James	Public Works	66813	2/9/2012	$486.89	
Lounds, Raymond	Public Works	19940	5/16/2011	$10,471.15	
Deweese, Donna	Neighborhood Services	64009	3/8/2012	$2,355.69	
Farris, Ronald D.	Fire	30315		$3,161.35	spouse Velma died 2/17/2012
Akers, Jeremy	Public Works	68010	2/17/2012	$282.71	
Harvey, Arley	Public Works	60341	3/15/2012	$8,940.16	
Shugart, Jenny	Public Works	63049	3/1/2012	$3,180.58	
Tinker, LeAnn	General Government	63361	1/27/2012	$5,441.86	
Carmack, Adam	Public Works	68215	4/26/2012	$293.00	
Russell, Anne	Parks and Recreation	66771	4/9/2012	$681.33	
Watts, Cathy	General Government	65724	4/30/2012	$1,284.91	
TOTAL				**$36,898.12**	

PART II – ACCOUNT SUMMARY

ACCOUNTS PAYABLE

COMPANY	AMOUNT PAID THIS PERIOD	FYTD	PURPOSE
Prior quarter total		**$131,096.26**	
Neathawk Dubuque & Packett	$1,950.00		CMA License and Web Hosting January 1, 2012 to December 31, 2012
CONSULTING SERVICES GR(	$18,075.25		Consulting services for Jan1 - March 31, 2012
FIRST TENNESSEE	$26,363.18		General Pension plan expense for period ending 3/31/2012
CITY OF CHATTANOOGA	$45,000.00		Fiscal Year 2012 reimbursement for services provided by Personnel Department
EFI ACTUARIES	$19,375.00		Valuation services provided for the period Jan 1, 2012 through June 7, 2012
COMPANY TOTAL	**$110,763.43**	**$241,859.69**	

INVESTMENT MANAGERS

COMPANY	AMOUNT PAID THIS PERIOD	FY12TD	PURPOSE
Prior quarter total		**$149,910.20**	
DUFF & PHELPS	$13,437.00	$35,945.00	Investment management fees for quarter ending 3/31/2012
INSIGHT	$15,783.52	$58,308.62	Investment management fees for quarter ending 3/31/2012
NWQ INVESTMENT	$27,347.47	$50,426.83	Investment management fees for quarter ending 3/31/2012
PATTEN & PATTEN, INC.	$9,833.47	$17,594.68	Investment management fees for quarter ending 3/31/2012
SMH CAPITAL ADVISORS	$8,397.47	$23,570.84	Investment management fees for quarter ending 3/31/2012
WEDGE CAPITAL	$23,295.45	$62,158.65	Investment management fees for quarter ending 3/31/2012
MANAGER TOTAL	**$98,094.38**	**$248,004.58**	

ACCOUNTS PAYABLE – *INVESTMENT MANAGERS* (REVISION)

No Activity

ACCOUNTS RECEIVABLE

COMPANY	AMOUNT RECEIVED	EFF DATE	PURPOSE
Diversified Partners III, L.P.	$150,000.00	2/14/2012	City share of 6% distribution from the fund
COMPANY TOTAL	**$150,000.00**		

REPORT OF MISCELLANEOUS ACCOUNT TRANSACTIONS

COMPANY	AMOUNT	FYTD	EFF DATE	PURPOSE
Prior quarter total		**$2,400,000.00**		
Northern Trust Investments	$600,000.00		2/24/2012	withdrawal to cover February benefit payments and miscellaneous expenses
Northern Trust Investments	$450,000.00		4/26/2012	withdrawal to cover April benefit payments and miscellaneous expenses
Northern Trust Investments	$500,000.00		5/22/2012	withdrawal to cover May benefit payments and miscellaneous expenses
MISCELLANEOUS TOTAL	**$1,550,000.00**	**$3,950,000.00**		

REPORT OF ACCOUNT(S) PAID

COMPANY	AMOUNT PAID THIS PERIOD	FYTD	PURPOSE
Prior quarter total		**70700.73**	
THE HARTFORD	$8,793.23		Long term disability (50%) - March 2012
THE HARTFORD	$8,850.70		Long term disability (50%) - April 2012
THE HARTFORD	$8,857.06		Long term disability (50%) - May 2012
LTD TOTAL	**$26,500.99**	**$97,201.72**	

OPEB TRUST

PART I – ACCOUNT SUMMARY

ACCOUNTS PAYABLE

	AMOUNT PAID		
COMPANY	THIS PERIOD	FYTD	PURPOSE
Prior quarter total		**$6,380.41**	
FIRST TENNESSEE	$1,710.11		Custodial services for quarter ending 3/31/2012
COMPANY TOTAL	$1,710.11	**$8,090.52**	

INVESTMENT MANAGERS

	AMOUNT PAID		
COMPANY	THIS PERIOD	FYTD	PURPOSE
Prior quarter total		**$0.00**	
MANAGER TOTAL	$0.00	**$0.00**	

ACCOUNTS RECEIVABLE

	AMOUNT PAID		
COMPANY	THIS PERIOD	FYTD	PURPOSE
Prior quarter total		**$0.00**	
COMPANY TOTAL	$0.00	**$0.00**	

Chairman

APPROVED:

Secretary