

**PENSION COMMISSION
City Conference Room
260 Constitution Plaza
Friday, March 30, 2012
9:00 a.m.**

MINUTES

PENSION ADMINISTRATION

MEMBERS PRESENT: Peter Stevens via telephone, Chairman; Frank Lord; Gene Goldman; Marc Nelson, Employee Representative; Adam Cloud, Secretary

STAFF PRESENT: Donna Parker, Plan Administrator; Anne Coleman, Assistant Plan Administrator; Lisa Silvestri, Assistant Corporation Counsel; Gary Draghi, Director of Investments; P. Wayne Moore, Acting Assistant Director of Investments; J. Sean Antoine, Acting Assistant Treasurer; Terry Williams, Senior Administrative Assistant

OTHERS PRESENT: Richard Pokorski, Employee Benefits; Doug Moseley, NEPC (MERF'S General Investment Consultant); Jose Sanchez and George Zoltowski, both from City of Hartford Office of Management and Budget; Sgt. Richard Colton, President and Gary Dumas, Union Advisor, both representing City of Hartford Police Union

Acting Chairman Frank Lord called the meeting to order at 9:08 a.m. and presided over the meeting due to Chairman Stevens' absence.

I. Minutes of the Meeting of February 24, 2012

There were no changes or corrections to the minutes as presented.

A motion was made, seconded and unanimously adopted to accept the minutes of the February 24, 2012 meeting.

II. Survivor Benefits

A motion was made, seconded and unanimously adopted to approve the following survivor benefits:

Garry, Constance, survivor of the late Charles Garry, member of the Municipal Employees' Retirement Fund (MERF) who died January 22, 2012 (Survivor benefits under the MERF; Emp. #279102 / 980230)

| | | |
|--------------------|------------------|-------------|
| Effective Date: | February 1, 2012 | |
| Annual Allowance: | | \$ 8,264.76 |
| Monthly Allowance: | | 688.73 |

Greenberg, Rhoda, survivor of the late Sidney Greenberg, member of the Municipal Employees' Retirement Fund (MERF) who died December 25, 2011 (Survivor benefits under the MERF; Emp. #S306800 / 980229)

| | | |
|--------------------|-----------------|--------------|
| Effective Date: | January 1, 2012 | |
| Annual Allowance: | | \$ 14,678.16 |
| Monthly Allowance: | | 1,223.18 |

Lutzen, William, survivor of the late Beatrice Lutzen, member of the Municipal Employees' Retirement Fund (MERF) who died February 26, 2012 (Survivor benefits under the MERF; Emp. #S039764 / 980232)

| | | |
|--------------------|---------------|-------------|
| Effective Date: | March 1, 2012 | |
| Annual Allowance: | | \$ 2,661.12 |
| Monthly Allowance: | | 221.76 |

Marvin, Jack, minor child survivor of the late John Marvin, member of the Municipal Employees' Retirement Fund (MERF) who died January 27, 2012 (Survivor benefits under the MERF; Emp. #B945926 / 980231)

| | | |
|--------------------|------------------|-------------|
| Effective Date: | January 28, 2012 | |
| Annual Allowance: | | \$ 1,200.00 |
| Monthly Allowance: | | 100.00 |

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III. Regular Retirements

A motion was made, seconded and unanimously adopted to approve the following regular retirement benefits:

| | | <u>AMOUNT</u> | | |
|--|-------------------------------|---------------|--------|--------------|
| <u>Bello, Matilde</u> | | | | |
| Emp. # 942837/ 990425 | | | | |
| Union: CHPEA | | | | |
| | | Years | Months | Days |
| Term of Service (including Sick Exchange): | | 9 | 0 | 0 |
| Sick Exchange: | | 0 | 0 | 0 |
| Grounds: | Vested Service | | | |
| Termination Date: | February 1, 2005 | | | |
| Effective Date: | May 25, 2008 | | | |
| Average Salary: | Highest 2 out of last 5 years | | | \$ 47,878.69 |
| | Final Base Pay | | | 48,633.00 |
| Pension Allowed: | 22.50 % | | | 10,772.76 |
| Monthly Payment: | | | | 897.73 |

| | | | | |
|--|--|-------|--------|--------------|
| <u>Hunt, Nellie</u> | | | | |
| Emp. # 362468 / 990427 | | | | |
| Union: SCGA | | | | |
| | | Years | Months | Days |
| Term of Service (including Sick Exchange): | | 39 | 0 | 0 |
| Sick Exchange: | | 0 | 0 | 0 |
| Grounds: | Service | | | |
| Effective Date: | February 4, 2012 | | | |
| Average Salary: | Highest 5 out of last 10 years | | | \$ 10,119.10 |
| | Final Base Pay | | | 10,217.00 |
| Average Social Security: | | | | 7,581.24 |
| Pension Allowed: | (2.00 % x Average Salary in excess of Average Social Security + 1.00% x Average Social Security) x Service | | | 4,936.20 |
| Monthly Payment: | | | | 411.35 |

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III. Regular Retirements (continued)

| | | <u>AMOUNT</u> | | |
|--|--------------------------------|---------------|--------|--------------|
| <u>Shimelman, Joanne</u> | | | | |
| Emp. # 904342 / 990426 | | | | |
| Union: Local 1018C | | | | |
| | | Years | Months | Days |
| Term of Service (including Sick Exchange): | | 22 | 0 | 0 |
| Sick Exchange: | | 0 | 0 | 0 |
| Grounds: | Service | | | |
| Effective Date: | March 10, 2012 | | | |
| Average Salary: | Highest 5 out of last 10 years | | | \$ 52,577.24 |
| | Final Base Pay | | | 55,661.00 |
| Pension Allowed: | 44.00 % | | | 23,133.96 |
| Monthly Payment: | | | | 1,927.83 |

| | | <u>AMOUNT</u> | | |
|--|-------------------------------|---------------|--------|--------------|
| <u>Toce, James</u> | | | | |
| Emp. # 730726 / 990424 | | | | |
| Union: HMEA | | | | |
| | | Years | Months | Days |
| Term of Service (including Sick Exchange): | | 16 | 0 | 0 |
| Sick Exchange: | | 0 | 0 | 0 |
| Grounds: | Vested Service | | | |
| Termination Date: | February 3, 1997 | | | |
| Effective Date: | March 10, 2012 | | | |
| Average Salary: | Highest 2 out of last 5 years | | | \$ 44,441.21 |
| | Final Base Pay | | | 43,407.00 |
| Pension Allowed: | 32.00 % | | | 14,221.20 |
| Monthly Payment: | | | | 1,185.10 |

IV. Pension Benefit Adjustments

Acting Chairman Lord introduced the item. The Plan Administrator, Donna Parker, explained that due to a settlement with the City, Robert Lawlor was awarded additional pension service. Ms. Parker also stated that in addition to an increase in his monthly pension, Mr. Lawlor was due a retroactive payment of \$10,799.69 back to his date of retirement, February 14, 2008.

A motion was made, seconded and unanimously adopted to approve the following pension benefit adjustment:

Lawlor, Robert
Emp. #990022

From: \$ 1,810.15
To: 2,074.07

V. Separations from Pension Payroll

The following separations from Pension Payroll were placed on file:

| <u>EMPLOYEE NUMBER</u> | <u>NAME</u> | <u>DATE OF DEATH</u> | <u>PENSION AMOUNT</u> | <u>PENSION PLAN</u> |
|------------------------|-------------------|----------------------|-----------------------|---------------------|
| 50393 | Blesso, Ronald | 02/03/2012 | \$ 1,451.62 | MERF |
| S516504 | Blesso, Ronald | 02/03/2012 | 1,987.53 | MERF |
| S817199 | Dalrymple, Annie | 02/27/2012 | 629.68 | MERF |
| 319651 | Hall, Maureen | 02/14/2012 | 1,260.32 | MERF |
| 39764 | Lutzen, Beatrice | 02/26/2012 | 443.51 | MERF |
| 478911 | Marcotte, Lucinda | 02/24/2012 | 632.32 | MERF |
| 640264 | Rothberg, Edythe | 02/08/2012 | 681.15 | FRF |

The pension for the following individual has been reinstated since the Pension Unit has received verification of her status.

| <u>EMPLOYEE NUMBER</u> | <u>NAME</u> | <u>DATE OF REMOVAL</u> | <u>PENSION AMOUNT</u> | <u>PENSION PLAN</u> |
|------------------------|----------------|------------------------|-----------------------|---------------------|
| 502600 | McGuire, Alice | 02/01/2012 | \$ 558.09 | MERF |

VI. Request for Refunds of Pension Contributions

A motion was made, seconded and unanimously adopted to approve the following refunds of pension contributions:

| <u>NAME</u> | <u>AMOUNT</u> |
|---------------------------|---------------|
| Alutto, Maria | \$ 3,654.64 |
| Anderson, Ryan* | 13.38 |
| Archer, Jessica* | 21.35 |
| Bocachica, Rosa* | 245.97 |
| Cotton-Saylor, Gabrielle* | 707.44 |
| Crisostomo, Yohaira | 79.78 |
| Davis, Kinyarda* | 1,487.10 |
| Farrell, Euna* | 152.07 |
| Farrell, Lisa* | 152.66 |
| Griffin, Ganine* | 860.42 |
| James, Katina* | 948.37 |
| Lee, Robert* | 68.31 |
| Lopez Jr., William | 203.13 |
| Mercer, Carolyn* | 27.64 |
| Montealegre, Yadira* | 539.46 |
| Morales, Iris* | 1,701.69 |
| Nembhard, Phyllis* | 91.95 |
| Pappalardo, Gaetano* | 275.86 |
| Rankins, Velma* | 620.68 |
| Rios, Aida* | 258.72 |
| Rivera, Noella | 836.91 |
| Rivera, Rafael* | 119.61 |
| Sailor, Amy* | 933.06 |
| Sanchez-Collazo, Felisa* | 1,273.72 |
| Sanchez, Maria | 514.39 |
| Smith, Molly* | 45.56 |
| Soto, Nancy* | 1,013.68 |

VI. Request for Refunds of Pension Contributions (continued)

| <u>NAME</u> | <u>AMOUNT</u> |
|------------------------|---------------|
| Vega, Monica* | \$ 623.79 |
| Vega, Petra* | 186.60 |
| Williams, Dianne* | 1,424.30 |
| Willingston, Paulette* | 20.57 |
| Zaleski, Kimberly A.* | 1,078.27 |

None of the above members is vested, or, if vested, he or she has been informed of, and has waived, his or her rights to a vested benefit in lieu of a contribution refund. The amounts shown above include interest.

* Additional interest due to the member.

VII. Other Service Purchases

Acting Chairman Lord introduced the item. The Plan Administrator, Donna Parker, explained that the following individual recently requested the purchase of military service under the provisions of Chapter 2A of the City of Hartford Municipal Code. Mr. Donald indicated that he was told he could not purchase his military service when he was hired in April 2006, Ms. Parker continued, and he asked the pension unit review his request again. Ms. Parker concluded by stating that based on his Form DD214 it appeared that he should have been able to purchase 4 years of military service and he was misinformed when he was hired.

A motion was made, seconded and adopted to approve the waiver of the one year time period to purchase military service due to the fact that it appeared that the applicant was not properly informed of the opportunity to make the purchase:

| <u>NAME</u> | <u>TYPE</u> | <u>AMOUNT</u> | | | <u>PURCHASE PRICE</u> |
|--------------|------------------|---------------|---------------|-------------|-----------------------|
| | | <u>Years</u> | <u>Months</u> | <u>Days</u> | |
| Donald, John | Military Service | 4 | 0 | 0 | \$ 5,230.23 |

VIII. Hardship Withdrawal Request

Acting Chairman Lord introduced the item. The Plan Administrator, Donna Parker, stated that the Pension Unit had received one request for a hardship withdrawal from the Section 457 deferred compensation plan.

Application 12-02: Ms. Parker summarized the request by stating that the applicant had requested a hardship withdrawal for foreclosure of his primary residence. Ms. Parker went on to explain that foreclosure of a primary residence met the IRS guidelines for a Hardship Withdrawal and recommended that the Commission ratify the approval given by The Hartford's Hardship Review Committee and the Pension Commission's Review Committee.

A motion was made, seconded and adopted to ratify the approvals for hardship withdrawal request 12-02 as presented.

IX. Consideration of MERF Budget for Fiscal Year 2012-2013

Acting Chairman Lord introduced the item. The Secretary, Adam Cloud, asked if there were any questions or comments about the proposed MERF budget for FY 2012-2013, which was presented at the February 24, 2012 meeting. There were no questions or comments.

A motion was made, seconded and unanimously adopted to accept the MERF Budget for FY 2012-2013.

X. Consideration of July 1, 2011 Actuarial Valuation Report

Acting Chairman Lord introduced the item. The Secretary, Adam Cloud, introduced Liz Churney, the MERF's actuary from Hooker & Holcombe, and explained that she would discuss the actuarial valuation report as of July 1, 2011, which finalized the draft valuation report and experience study presented at the February 24, 2012 Commission meeting. Before Ms. Churney started her presentation, Secretary Cloud asked her to explain for the members of the audience the purpose of the valuation report and why the report was done.

Ms. Churney explained that the MERF was a pension plan set up for retirees from the City of Hartford and the pension plans were different for each union and group. Every year a liability for the obligation was estimated as of a snapshot date, June 30th, and compared to the assets in the trust at that time, she continued.

Before presenting the valuation report Ms. Churney discussed with the Commission how to present the City's recommended contribution in the report. In prior years the Aggregate cost method was used to calculate the annual contribution, Ms. Churney stated, and under that cost method the City's contribution was calculated as a percentage of payroll and then converted into a dollar amount. She continued to explain that as of July 1, 2011 the cost method was changed to the Entry Age Normal cost method in order to spread the unfunded liability over a slightly longer period of time and under the Entry Age Normal cost method the City's contribution was calculated differently, first as a dollar amount and then translated into a percentage of payroll. Ms. Churney then asked the Commission if they would prefer to present the City's contribution as a flat dollar amount or as a percentage of payroll.

During the ensuing discussion, Marc Nelson, the employee's representative, asked what was most common under the new cost method, and Liz Churney explained that a flat dollar amount was the most common under the Entry Age Normal cost method. The Plan Administrator, Donna Parker, and Secretary Cloud explained that the City's payroll system had recently been modified so that the City's pension contributions were automatically transferred to the MERF with the weekly and bi-weekly payrolls using the percentages of payroll generated by the valuation report and this new process was working very well. Commissioner Goldman asked if the payroll department could add a flat dollar amount to the percentage amounts that were being deducted and transmitted to the MERF automatically. Ms. Parker said that she would ask the payroll department.

Next, Ms. Churney stated that she had a discussion with Secretary Cloud about what amortization period to use for the amortization of the unfunded actuarial liability under the Entry Age Normal cost method. She explained that she had selected a 15 year amortization period for the valuation report because the average future working lifetime of the group was approximately 13 years. However, she added, other periods could be used and among Hooker & Holcombe's clients about 20% used 10 years or less, 30% used 15 years, 20% used 20 years and 30% used over 20 years. If a 20 year amortization period was used instead, the City's contribution would decrease by \$ 2.9 million from \$36.1 million to \$33.2 million, Ms. Churney noted.

Secretary Cloud expressed his concerns that if the MERF had less assets in a volatile market, returns would be reduced and the Commission had a duty as fiduciaries, regardless of budgetary issues, to take a conservative approach. Commissioner Goldman explained that both methods had a mechanism to converge to the same total liability and that any differences between the methods should decrease over time.

Commissioner Lord asked if there would be any impact on the budget if the Commission did not approve the valuation report at this meeting and he realized that the Commission would normally approve the valuation report at the March meeting, but it was important to decide how to allocate the contribution among the groups. Secretary Cloud stated that

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the Commission should consider what was in the best interests of the MERF and to look at the long term perspective, not just 2012-2013, so we should look at different allocations among the groups.

As a result the Commission decided to table approval of the valuation report until the April 27, 2012 Pension Commission meeting and to have a Special Meeting on April 13, 2012, where Ms. Churney would present some alternative contribution allocation methods for the Commission to consider in advance of the April 27th meeting.

Next Ms. Churney reviewed the July 1, 2011 valuation report. She explained that the recommended contribution would fund the obligation through time and the July 1, 2011 valuation was used to project the contribution for the FY 2012-2013. Ms. Churney said that investment losses from 2007 through 2009 were still being spread into the contribution and the smoothing of these losses would continue to increase the contribution for two more years. Changes in the population and the investment losses increased the City's recommended contribution from \$28.5 million for FY 2011-2012 to \$32.6 million for FY 2012-2013, she stated.

Every five years an experience study is completed to compare actual plan experience during the past five years to the plan assumptions, Ms. Churney continued to explain, and with the 2011 valuation report an experience study was completed. To better reflect the actual plan experience, she said, the retirement, salary increase and termination assumptions were adjusted with the 2011 valuation and these assumption changes increased the City's contribution from \$32.6 million to \$37.7 million for FY 2012-2013.

This year, Ms. Churney continued, the actuarial cost method was changed from the Aggregate cost method to the Entry Age Normal cost method and although under both methods the total obligation remained the same, each method allocated the obligation differently over time. Ms. Churney noted that under the Aggregate cost method the overall obligation was compared to the plan's assets and spread over the future working lifetime of the active employees, which was about 13 years. Under the Aggregate cost method demographic shifts could change costs and sometimes produced odd results, she added, which made it difficult to understand the impact of changes. Under the Entry Age Normal cost method the past service liability was compared to the plan's assets and the resulting unfunded liability was amortized over 15 years, Ms. Churney continued to explain, then a normal cost was developed assuming every employee earned a year of service and one year of benefit accrual. As a result, she concluded, the Entry Age Normal cost method was more explicit and the change in cost method reduced the City's contribution by \$1.6 million to \$36.1 million.

In conclusion, Commissioner Goldman gave Ms. Churney two suggestions regarding alternative allocation and amortization methods for developing the City's contribution to present at the April 13, 2012 Special Commission meeting. Then Commissioner Lord asked the Plan Administrator to investigate the practicality of using a flat dollar allocation

method, in addition to a percentage of payroll allocation, to deduct the City's contribution to the MERF through the City's payroll system.

A motion was made, seconded and unanimously adopted to table approval of the July 1, 2011 actuarial valuation report to the April meeting in order to receive additional information from Hooker & Holcombe to consider at the April 13, 2012 special meeting.

XI. Annual Review of Section 457 Deferred Compensation Plan

Acting Chairman Lord introduced the item. Secretary Cloud introduced Amy Humphrey from the Hartford and asked her to review the City's Section 457 Deferred Compensation Plan results for 2011.

Ms. Humphrey began her presentation by explaining that the assets in the Deferred Compensation Plan had decreased by 3% during 2011 to \$69.6 million as of December 31, 2011 and 44.6% of the assets were invested in the General Account, which was earning 4% interest. She added that during 2011 contributions increased by 1.6% and participation in the Plan increased by 10% due mostly to Sharon Roberts being The Hartford's dedicated representative to the City's Plan. However, withdrawals exceeded contributions, especially among the retired employees who had account balances exceeding \$100,000, and Ms. Humphrey stated that we needed to make sure that participants were aware of their options within the Plan upon termination.

During 2011, Ms. Humphrey continued, there were 1400 accounts in the Plan, of which 827 participants were actively contributing, and there were 126 new participants in the Plan during 2011, compared to 105 during 2010. Donna Parker, the Plan Administrator, noted that an information session with the Police Department earlier this year also generated some new enrollments in the Plan. Secretary Cloud added that Sharon Roberts was great at communicating the Plan and promoting it.

Next Ms. Humphrey reviewed additional Plan statistics including:

- 36% of the participants had all of their assets in only one fund, the General Account
- 41% of the population was between ages 35 and 49, with the next largest group age 50 to 64 and this group would need education appropriate for employees close to retirement
- There were 169 new loans during 2011 with an average outstanding balance of \$10,000 and about 5% of the fund was from outstanding loans, which should not be alarming.
- About 30% of the participants checked their balances through the customized website and 43% transferred assets using the website.

She concluded by stating that the remainder of the report showed the number of employees

in each investment option and the amount in each fund.

Secretary Cloud stated that the Commission also hired Retirement Plan Solutions (RPA) as a consultant and RPA met quarterly with his staff. During 2011 RPA and his staff went through a process, he continued, to reduce the number of funds, select better investment choices from the best performing of The Hartford's offerings and renegotiated fees with The Hartford. He added that RPA continually reviewed and monitored the funds to find the best solutions for the membership. Gary Draghi, Director of Investments, added that RPA also helped draft an Investment Policy Statement for the Plan.

Next, Secretary Cloud asked Ms. Humphrey to update the Commission on The Hartford's news that they were planning to sell their retirement business and to discuss the impact on the assets of the Section 457 Plan. Secretary Cloud also informed the Commission that based on a conversation his staff had with The Hartford, HIMCO, which manages fixed income for the MERF, would not be part of the sale and there would be no immediate impact on the investment management side and only the retirement and life insurance businesses were being considered for sale.

Ms. Humphrey explained that The Hartford announced its intentions to sell the retirement, life insurance and Waterbury Financial businesses and that they would stop selling individual annuities on April 27th. Participants would still be able to contribute to the Section 457 Plan, she continued, and it would take 12-18 months to find a buyer and to complete the sale. Nothing would change in the meantime, she added, and the Plan would be the same contract with the same service, but after the sale she did not know what would happen. The Hartford has \$52 million in retirement assets, of which \$9 million is in Section 457 plans, and it is an attractive and healthy book of business, Ms. Humphrey said, and the decision to sell was just a change in strategy for The Hartford.

Secretary Cloud stated that the contract would stay the same until the contract expired on December 31, 2014 and at that time the City would need to renegotiate the contract with the new firm or to put the Plan out for new bids. Chairman Stevens asked when the appropriate time would be to put the Plan out to bids. Secretary Cloud responded that he had a discussion with HIMCO and they would let him know when there was a suitor and at that point we should decide if we should send out a Request for Proposals.

Commissioner Goldman asked Ms. Humphrey what would be the status of The Hartford's general account. Ms. Humphrey replied that the management and retention of the general account would be the subject of negotiation. Commissioner Lord added that The Hartford would not want to do anything to jeopardize their current customers because that would hurt the potential sale of the business.

Secretary Cloud stated that he had called the Mayor to suggest setting up a meeting with the Chief Executive Officer of The Hartford to discuss the potential for layoffs and the impact on the City demographically, the grand list and potentially the City's bond rating.

Commissioner Lord mentioned that Wellington, who is the underlying manager of The Hartford's mutual funds, is moving its senior staff to Pennsylvania and 50 employees who work in Simsbury received offers to move to Pennsylvania.

Next, Ms. Humphrey reviewed some of the participant questions she had received. Participants had asked who would buy the business, which she did not know. There had been questions regarding fund changes and she replied that the funds would move to the new provider unchanged, but the new provider might eventually decide to change the funds. Participants also had questions about outstanding loans, which would remain in effect, and the contract between the City and The Hartford, which would also remain in effect.

Commissioner Goldman asked if there would be changes to the website. Ms. Humphrey responded that the new provider would set up a new website and there could be technology improvements.

Secretary Cloud asked about the level of communications and if there was a plan in place to disseminate information to the participants. Ms. Humphrey stated that she had a copy of the final plan sponsor and participant communications with her to distribute to the Commission and that her intent was to post the letters to the website and to mail the participant letter to the participants, but she would discuss the strategy with the City first. She added that Sharon Roberts would also be available to meet individually with the participants and that she would be sharing any additional communications from The Hartford with the City and we could decide how to disseminate the information.

There were no additional questions for Ms. Humphrey.

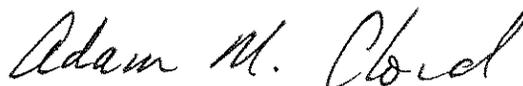
The Commission received the report for advice and placed it on file.

XII. Other Business

Acting Chairman Lord introduced the item. There was no Other Business to come before the Commission at this meeting.

There being no further business, Acting Chairman Lord adjourned the Pension Administration portion of the meeting at 10:52 a.m.

Attest:



Adam M. Cloud, Secretary