City Of Cincinnati Retirement System
Board of Trustees Meeting

Minutes

November 3, 2011 / 1:00 P.M.
City Hall – Committee Room B

Present:
Madelynn Matlock, Chair
Bill Partridge, Vice-Chair
Karen Alder
Don Beets
Mark Berliant
Mike Fehn
Chris Meyer
Brian Pickering
Mike Rachford
Roger Sims

Staff Present:
Paula Tilsley
Don Beresford
Cheryl Volk

The meeting was called to order at 1:05 P.M.

APPROVAL OF MINUTES
R. Sims made a motion to approve the minutes with a minor correction. B. Partridge seconded the motion and the motion passed. The minutes with the noted correction were approved.

NEW BUSINESS

INVESTMENT COMMITTEE
Chris Meyer provided the following report:

- Investment Guidelines Update
  The Investment Guidelines were updated to reflect various amendments and specific changes in asset allocations that were previously approved by the Investment Committee and Board of Trustees over the past six months.

  Board Action
  C. Meyer made a motion to approve the updated Investment Guidelines. The motion was seconded by M. Fehn and the motion passed. The Investment Guidelines were approved.

Morgan Stanley
The Investment Committee approved Marquette's recommendation that Morgan Stanley Prime Property Fund, LLC be placed on alert due to the resignation of David Morrison, Co-portfolio Manager of the PRIME portfolio. Marquette's position is that the other co-portfolio manager, Scott Brown, has and continues to perform the lead role thereby dampening some of the concern over the departure. Marquette continues to keep the PRIME fund on their list of "search eligible" products. B. Christenson to monitor Morgan Stanley for other possible personnel departures.

3rd Quarter Report 2011
- Market Value $1.9 billion
- Total fund return -9.1% for the quarter, outperforming its policy benchmark of -11.1%. Over the trailing 12 months, the CRS returned +2.2% outperforming the policy benchmark of +0.9%.

REVISED EXPERIENCE ANALYSIS STUDY

On November 3, 2011, the CRS Board of Trustees reviewed a revised Experience Analysis Study prepared by Marquette Associates. Previously, the Board had requested Marquette to run additional simulations using a 7.5% target rate of return and to evaluate the impact on the downside risk and downside probability by lowering the rate of return, and the ramifications on liability and drawdown when assuming a lower target rate of return.

The Board had also previously requested Cavanaugh Macdonald, the actuary, to gather additional capital market assumption data from other investment consultants from across the country and present a revised Experience Study.

Cavanaugh Macdonald actuaries, Eric Gary and Ed Koebel attended the meeting via conference call and provided a revised experience analysis. The purpose of the investigation was to assess the reasonability of the actuarial assumptions for the CRS. The experience analysis included:

- An investigation of the economic and demographic experience for the City of Cincinnati Retirement System (CRS) for the five-year period ending December 31, 2010.
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- New proposed withdrawal, disability, death and retirement rates, salary increases, and mortality tables to better reflect the actual experience of the CRS membership.

- Capital market assumption data from seven other investment firms.
- The impact on liabilities comparing 8% vs 7.5% assumed rate of return

Results of the Revised Experience Analysis Study:

- The analysis of the seven investment consultants found that only 40% expected outcomes of an average return greater than 8% over a 50-year time horizon.

- Using the 7.5% and 7.75% assumptions resulted in lower discount rates with increases in the Unfunded Accrued Liability (UAL), and increases in the employer required annual contribution.

- Marquette's methodology involves Monte Carlo-type analysis based on a historic time period and current interest rates with a 10-year time span.

- Cavanaugh Macdonald's methodology spans a 50-year time frame. By expanding the time horizon, the average return does not change much but the volatility declines significantly.

- Based on a 50-year time span and the current market, the results of the experience study indicate there is a 50% chance the real rates of return will be between 4.48% and 7.13%. Adding the 3% inflation assumption raises these figures to 7.48% and 10.13%.

Board Action
The Board discussed its preference to use a rate of return assumption that could be expected to occur approximately 70% of the time. B. Partridge made a motion to adopt a market return assumption rate of 7.5% for the CRS pension and health care funds. M. Berliant seconded the motion and following a roll-call vote, the motion passed. The assumed rate of return of 7.5% effective 1/1/2012 was approved.

K. Alder	Yes
D. Beets	No
M. Berliant	Yes
M. Fehn	Yes
M. Matlock	Yes
C. Meyer	Yes
B. Partridge	Yes
B. Pickering	No
M. Rachford	No
R. Sims	Yes

<u>GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB) 25 AND 27 EXPOSURE DRAFTS</u>
Cavanaugh Macdonald Actuaries, Eric Gary and Ed Koebel provided a report on the recent GASB exposure drafts. In summary:

GASB is proposing changes to improve standards and address its concerns with how state and local governments present accounting and financial information. The exposure drafts serve as notification of these changes.

Reasons behind GASB changes:
- Improve consistency and transparency
- Enhance decision usefulness of pension information
- Assist users in evaluating accountability and inter-period equity related to pensions.

GASB's authority extends only to accounting and financial reporting, not to funding.
- GASB 25– Financial reporting for retirement plans
- GASB 27 - Accounting and financial reporting for employers who have retirement plans
  - CRS has been reported as a single-employer plan.
  - Will need to reaffirm the single-employer position given the participation of University of Cincinnati, University Hospital and Hamilton County.
- GASB 43 and 45 may also apply to CRS due to the medical benefits provided by the system.

GASB changes:
- Unfunded portion of pension obligation would be reported as a liability on the balance sheet portion of the employer's financial statement.
- If current and expected future plan assets related to current members are insufficient to cover future benefit payments, the long term rate of return cannot be used as the discount rate.
- All plans required to use Entry Age Normal cost method to develop the Total Pension Liability
- Annual changes in Net Pension Liability will generally be reported as pension expense as they occur
- Will create volatility in pension expense

- Employers are required to provide substantial additional disclosures

More information will be provided once GASB completes their revision process. The target effective date for the City of Cincinnati and the CRS is year 2013. Administration to research and verify if CRS will continue to be considered a single-employer plan.

OTHER BUSINESS

- The meeting calendar for year 2012 was distributed.
- Board members to contact Madelynn with recommendations for a new Board member.
- City Council to be notified of the change in the assumed rate of return.

Motion was made by M. Berliant and seconded by C. Meyer to adjourn the meeting. Motion was approved and meeting adjourned at 2:40 P.M.