CITY OF PHILADELPHIA
BOARD OF PENSIONS AND RETIREMENT
Meeting of June 23, 2011

<u>MINUTES</u>

On June 2, 2011 Paula Weiss called the Regular Meeting of the Board of Pensions and Retirement to order at 9:06 a.m. in the Board's Conference Room.

Present:	Rob Dubow Paula Weiss Alan Butkovitz Harvey Rice Albert D'Attilio Brian Albert Carol Stukes Ronald Stagliano John Reilly Veronica Pankey James Leonard Hilary Cornell
Also Attending:	Francis Bielli – Board of Pensions Mark Murphy – Board of Pensions Sumit Handa – Board of Pensions, Investment Unit Brad Woolworth – Investment Unit Christopher DiFusco – Law Department Benjamin Hinerfeld – Law Department Joauna Riley – Board of Pensions, Law Unit Dana Gayeski – Intern, Law Department Chester Skaziak – Retiree Wayne Pollock Carmine D'Alessandro Scott Porter, Cathy Wanen, Robert Duzibi – Milliman Consulting Group Ken Kent, Karen Zangara, Anu Patel – Cheiron Consulting

Paula Weiss stated that the first order of business was the consideration of the Minutes of June 2, 2011.

Brian Albert made a motion to approve the Minutes of June 2, 2011. John Reilly seconded the motion.

The motion to approve the Minutes of June 2, 2011 carried unanimously 8-0.

CONSIDERATION OF (97) PENSION APPLICATIONS AND (107) WITHDRAWAL APPLICATIONS

Ronald Stagliano made a motion to approve. Brian Albert seconded the motion.

The motion to approve carried unanimously 8-0.

APPLICATION FOR SERVICE-CONNECTED DISABILITY BENEFITS

Case of Geraldine Brooks, Application for Service-Connected Disability Benefits – Plan "J"

This is an ***administrative application*** by Geraldine Brooks, former Custodial Worker, Philadelphia International Airport, for Service-Connected Disability Benefits in Plan "J".

Ms. Brooks sustained the injury while cleaning up after an overflowed toilet in the ladies room. She slipped on the wet floor several times and injured her wrist and knee. It is difficult for Ms. Brooks to sit or stand for long periods of time. Her date of injury is February 17, 2001.

Brian Albert made a motion to deny. Ronald Stagliano seconded the motion.

The motion to deny carried unanimously 8-0.

Case of Paul D. Nichols, Application for Service-Connected Disability Benefits – Plan "J"

This is an application by Paul D. Nichols, former Semi-Skilled Laborer, Health Department, for Service-Connected Disability Benefits in Plan "J".

Mr. Nichols sustained the injury as he was entering the rear of the pick-up truck and his foot slipped off the bumper. In another incident Mr. Nichols tripped and fell and injured his arm. His dates of injury are February 1, 2007 and April 14, 2009.

Carol Stukes made a motion to approve. Brian Albert seconded the motion.

The motion to approve carried unanimously 8-0.

APPLICATION FOR SURVIVORSHIP BENEFITS

Case of Harold Jackson, Deceased, Application for Survivorship Benefits in Plan "J"

This is an application by Lizziell Jackson, legal widow of Harold Jackson for survivorship benefits in Plan J.

Lizziell Jackson is appealing the Administrative denial from the Board of Pensions to apply for benefits as common-law widow because she does not meet the two year requirement as a qualified widow.

Harold Jackson, a former heavy equipment operator, retired May 4, 1993. He died November 30, 2010. At the time of retirement he designated Lizziell Jackson, under Option 4, as beneficiary for the pension and life insurance. Harold and Lizziell were married February 28, 1992. They did not have any children together.

In Mrs. Jackson's notarized statement, she says she and Harold Jackson met in 1987 and began living together after about two years. She states they married 3 years later. Letters and documents were submitted to the Board for review.

Carol Stukes made a motion to approve. Ronald Stagliano seconded the motion.

The vote tied 4-4. The Chair voted to deny making the vote 4-5. Motion fails and is denied.

Case of Bruce Watkins, Deceased, Application for Survivorship Benefits – Plan J

This is an application by Alan Watkins as the adult dependent son of Bruce Watkins, for survivorship benefits in Plan J.

Bruce Watkins, a Laborer in the Streets Department, retired effective September 21, 1987. At the time of his retirement, he selected survivorship option 4. Bruce Watkins died on March 27, 2002. His death certificate states that he was divorced.

In a notarized affidavit dated May 23, 2011, Alan Watkins states that he is the only dependent of Bruce Watkins and that to the best of his knowledge his father had no minor children at the time of his death. In a separate statement made the same date, Mr. Watkins states that he has had diabetes since high school. He also states that SSD payments of $1,113.00 monthly are the only income he has. In a follow-up statement dated June 1, 2011, Mr. Watkins said he does not receive SSDI for adults disabled since childhood, but receives Social Security disability based on his own work record.

In a diagnosis Mr. Watkins's physician stated that Alan's renal failure is directly related to his uncontrolled juvenile diabetes which was diagnosed when he was seventeen.

The pertinent documents were submitted to the Board for review.

If approved, Alan Watkins would receive survivorship benefits of $312.63 monthly.

Brian Albert requested to table the case for additional information, either in the form of added information from the doctor or an additional letter from another doctor. He did not want to send it to a hearing panel as it may delay the case too long.

Brian Albert made a motion to table the case for 30 days. Harvey Rice seconded the motion.

The motion to table the case for 30 days carried unanimously 8-0.

OLD BUSINESS

<u>Case of Donna Walker, Application for Service-Connected Disability Benefits – Plan "B"</u>

This case was **denied** at the May 19, 2010 Board Meeting. A Hearing Panel was held on March 16, 2011.

The history of the case is as follows:

This is an application by Donna Walker, former Police Officer**,** Police Department, for Service-Connected Disability Benefits in Plan "B".

Ms. Walker sustained the injury when she fell into a depression next to a metal construction plate in the parking lot. She landed on a metal plate, twisting her ankle and landed on her back causing her right leg to go numb from knee to ankle immediately. Her date of injury is July 18, 2007.

Brian Albert made a motion to deny. Harvey Rice seconded the motion.

The motion to deny carried unanimously 8-0.

<u>Case of Neil O. Murray, Application for Service-Connected Disability Benefits – Plan "J"</u>

This case was **denied** at the January 28, 2011 Board Meeting. A Hearing Panel was held on June 1, 2011.

The history of the case is as follows:

This is an application by Neil O. Murray, former Correctional Sergeant, Prisons Department, for Service-Connected Disability Benefits in Plan "J".

Mr. Murray sustained injuries to his back, knee, hip and foot during his tour of duty when he slipped on a wet spot on the floor near the facility's gym. His date of injury is April 17, 2007.

Brian Albert made a motion to deny. Carol Stukes seconded the motion.

The motion to deny carried unanimously 8-0.

<u>Case of Edgar Gaskin, Deceased, Application for Survivorship Benefits as Common Law Spouse - Plan "D"</u>

This case was **deferred** to a Hearing Panel at the March 24, 2011 Board Meeting. Ms. Gaskin's attorney has chosen to proceed strictly based on the record therefore she cancelled her hearing but still wants the Board to render a decision. Attached is the letter from June Cipressi, Attorney dated May 6, 2011.

This is the history of the case:

This is an application by Maryanne Gaskin, as common-law spouse of Edgar Gaskin, for survivorship benefits in Plan D.

Edgar Gaskin, former police officer, died August 1, 2010. Mr. Gaskin retired on September 7, 1985. He elected survivorship Option #4 naming Maryanne Gaskin (nee Berry) as his life insurance beneficiary. Maryanne and Edgar were married on September 6, 1985. In a sworn statement, Mrs. Gaskin states they met and starting dating in the 1970's. In 1982 they bought a home together at 5732 Walnut Street "in common-law status". They have no children from this marriage. Mrs. Gaskin submitted letters and documents to the Board for review.

Brian Albert made a motion to deny. Albert D'Attilio seconded the motion.

The vote tied 4-4. The Chair voted to deny making the vote 5-4. Motion carries and is denied.

<u>Case of Charles Quigley, Request to Appeal Administrative Denial to Change Survivorship Option - Plan "Y"</u>

This case was **denied** at the March 24, 2011 Board Meeting. A Hearing Panel was held on May 4, 2011.

The history of the case is as follows:

Mr. Quigley retired with a Separation Service pension in Plan "Y" effective May 29, 2008.

At the time of his interview, he chose Survivorship Option #2 and named his, now ex-spouse, Patricia Ann Quigley. Enclosed is a copy of the Divorce Decree.

In a letter dated January 28, 2011, Mr. Quigley's attorney wrote a letter to the Board requesting that Mr. Quigley be allowed to change his option from Option #2 to Option #1. He states that the reason for this request is that the Quigleys' were divorced on January 14, 2011 and they both waived their rights to each other's pension benefits. Enclosed is the copy of the Settlement Agreement dated November 9, 2010, which includes a waiver of rights. (See page 13, #8)

The Board sent a letter to Mr. Quigley's attorney on February 10, 2011 administratively denying his request. The letter references §22-702 of the Code, which states that the members option choice is irrevocable and that any re-designation must take place within a year of the survivors death. Since Mr. Quigley's spouse is not deceased, he may not change his option.

In a letter dated February 11, 2011, Mr. Quigley's attorney sent a letter to the Board appealing the administrative denial. His attorney references the Settlement Agreement and claims that Mr. Quigley was not told that his option selection was irrevocable.

Brian Albert made a motion to deny. Ronald Stagliano seconded the motion.

The motion to deny carried unanimously 8-0.

NEW BUSINESS

- **Executive Director's Report**

  Fiscal Year 2012 Medical Panel – Joauna Riley stated that the medical subcommittee met and recommended that the Medical Panel list be ratified as it stands now. The subcommittee is in the process of putting together a survey to send to applicants applying for service-connected disability benefits as well as the doctors on the medical panel. The survey will go out sometime in the beginning of July, 2011.

  Ms. Weiss stated that at some point in the year, the subcommittee will also look at some orientation and training for the doctors. The training would be to make sure they are all providing the best customer service and are aware of the Board's expectations of them as providers for the pension board to our members.

  Mr. Bielli added that he and Ms. Riley are going to put together a quasi training program for the doctors that would be approximately 15-30 minutes to give them examples of cases so that they understand what the Board is looking for so that the Board may make the most informed decisions.

  Brian Albert made a motion to ratify the Medical Panel. Ronald Stagliano seconded the motion.

  The motion to ratify the Medical Panel carried unanimously 8-0.

  Mr. Bielli stated he wants to schedule a legislative subcommittee meeting sometime after the second week in July to address the DROP legislation once it becomes approved.

  Mr. Stagliano said that with the pending DROP legislation there are two issues that need to be addressed. One is that there are many questions about people who are currently DROP eligible. Second is the actuarial reduction for Option 5 and how to calculate it. At some point the Board needs to put something out in writing explaining Option 5. He also requested a copy of any updates to the current reduction tables for options 2 and 3.

  Mr. Bielli stated that the actuary is setting up actuarial factors and tables for option 5 in the event that it becomes law. Once the tables are set up he is hoping they can come up with a general rule of thumb, but right now there isn't one. The tables for options 2 and 3 are being worked on, as they haven't been updated in several years. The updated tables should be available in the new fiscal year. Also, the Annual Report should be done sometime in the next couple of weeks.

Discussion ensued regarding option 5. Ms. Stukes stated one of the questions that would need to be addressed is how someone would know what their final pension benefit would be and how the pension is calculated. The way it reads now is if someone chooses option 5, they can't take another option. They don't understand that option 5 will reduce their pension in the long run and if they take options 2 or 3, the pension would be further reduced. This will have an impact on a lot of people.

Mr. Bielli stated that selecting option 5 means you also have to select one of the other options from 1 through 4. He suggested to the Board to send him any other questions before the legislative committee meets. They want to make sure the regulations are crystal clear, streamline the application process, and update every form. Staff has been advised not to give out any information until the proposed legislation is finalized.

Mr. Reilly added that this is new legislation and only doable for those who aren't grandfathered in. Anyone who has reached the minimum retirement age right now is grandfathered in the DROP the way it is now.

Ms. Stukes asked if they are grandfathered in for the percentage rate or for the law that is being amended. She is also receiving these types of questions.

Mr. Bielli said that is something the Law Department can clarify for us.

Ms. Weiss suggested the subcommittee go through the legislation line by line and then bring it back to the Board and have a full discussion of what the legislation says. After the subcommittee meets a fact sheet could be made to explain it to people. Another suggestion made was for the full Board and staff to have training so that everyone is giving out the same information.

FYI

a. Litigation Summary – Christopher DiFusco stated there weren't any substantive changes since last month. He requested an Executive Session be placed on the Agenda next month.

Mr. Stagliano brought up the subject of obtaining Ipads or laptops for the Board. Ms. Weiss stated that the Board discussed this subject previously and it was documented that there would be a price savings, however they would need to find something that is user friendly and make sure it works for everyone.

PRESENTATIONS FOR ACTUARIAL CONSULTANT – RFP

Milliman Consulting

Presenters: Scott Porter, FSA, EA, MAAA
Katherine Warren, FSA, EA, MAAA

Mr. Porter and Ms. Warren introduced themselves and said they were pleased to be able to present their qualifications for the Pension's Board Actuarial Consultant. They would be the lead consultants on the project team, along with team members Bob LaMontagne, FSA, Robert Dezube, FSA and Alan Perry, CFA.

Katherine Warren began her presentation by stating that Milliman has been working with public pension plans since 1947. They are a large independently owned firm managed by 350 principles. Milliman can provide small firm services with the benefits of a larger firm. They have extensive public plan experience throughout the firm. Each principal has control and authority over client relationships. The employee benefits research group is located in Washington, DC. Their job is to inform Milliman Consultants of things that are happening on the legislative front and anything that would affect pension plans. Milliman has its own proprietary computer valuation system for the annual valuation system. It's an in-house system that was built to handle large complex benefits common to large public systems like Philadelphia. Its' capabilities include multi-year, open group projection and its projection models will allow insight into future trends.

Philip Harris stated his personal experience has been with retirement plans of the State of Maryland and as a benefits consultant with the Commonwealth of Pennsylvania. Milliman was founded in Philadelphia and they also have an office in Baltimore, Maryland. Their focus is on employee benefit consulting, institutional asset management and individual financial retirement planning. They have previous experience with the Board of Pensions and the School District of Philadelphia. They would also lead the creation of an annual benefit statement project.

Mr. Porter stated that Milliman has over 60 years experience. They participate in public organizations affecting public pension plans and they produce their own public pension newsletter.

Mr. Bielli asked what effect GASB changing their reporting on unfunded liability would have on a pension fund such as Philadelphia's.

Mr. Porter replied that in terms of funding, the City follows its own funding rules. GASB sets accounting rules. This hasn't had a big impact on most of their clients. Some are concerned with introducing bonds. The accounting side would be a big impact which you may need to focus on at some level. For pensions this is GASB 25 and 27. GASB 45 deals with OPEB (Other post employee benefits), notably health care. Most of the changes being made right now are on the pension side.

Mr. Reilly stated that a lot of pension plans across the country include medical benefits after retirement. GASB 45 would have a big impact on the bottom line.

Mr. Porter continued by stating that Milliman has a team of experienced consultants, each with 20 plus years experience and each consultant has a FSA, the highest credential for an actuary. He has consulting experience of 20 years and has been the lead consultant with the New Jersey Teachers' Fund and the Pennsylvania Budget Office.

Mr. Dubow asked if he could talk further on work load balance, how available the consultants would be to the City staff and how many other funds that he and Ms. Warren are working with now.

Mr. Porter answered that each client is treated seriously and they are always there to answer questions. It would usually be he or Ms. Warren but they also have a team that would assist them in their absence. They are currently working with three or four other large pension funds.

Ms. Warren stated that there are another two funds that are significant but Philadelphia would be an important client for them. They are well aware of the need for quick turnaround. She has 20 years experience and has been working with the Pennsylvania Public Employee Retirement Commission and is a lead consultant for the Act 44 Benefit Plan Study for Philadelphia. Tim Nugent would be the valuation manager and has assisted as well with the Act 44 Plan Study.

The rest of the team introduced themselves, their credentials and what their role would be in the consulting team for the Pension Fund.

Bob LaMontagne is primarily a peer reviewer and has been a lead consultant to Septa and the Philadelphia Housing Authority for the last 15 years. In terms of time availability, Milliman's practice is to have two consultants up to date and active on each of the plans of this type. With respect to union negotiations, he stated they have been very active with Septa and the collective bargaining process as it relates to pensions. Their job has been to sit down with union and management representatives and make everybody aware of the financial condition of the plans and to present the costs involved with the proposals either the union or management may make.

Mr. LaMontagne stated he wanted to talk about DROP. They first started working on DROP in Florida with 600,000 participants. When they first did the study they found that it was expensive and the legislature advised them to come up with a way to fund the program so that it doesn't include contribution rates. The method they came up with is when someone goes into DROP there is a separate contribution rate that is paid on the DROP payroll which means that people in DROP are funding DROP. The base contribution rate is in theory, not impacted by adding the DROP option. When the DROP plan started in 1998, they looked at different ways to change the program: reverse drop, dropping or increasing it, keeping it for current employees and eliminating others, shortening or lengthening the DROP deferral. They have done studies why DROP has cost money and what can be done to lower the DROP cost but keep it in place.

Ms. Stukes asked if this pension fund has general employees as well as police and fire, and if Florida has one big fund or separate funds.

Mr. LaMontagne stated that Florida has seven classes that include police, fire, teachers, judges, legislature, county officials and general employees. Anyone can elect into DROP. The regular employees' contribution rate is up to 11% and the special risk employees such as police and fire is 22%. There is one unified rate for DROP which is 17% of pay. It is one big fund where they allocate assets and develop costs for five or six costs centers. It is one large retirement system that just has separate costs centers. The assumed rate of return is 7 ¾. One of the ways they help systems understand what the costs would be is to use projection models which are customized to each system. He demonstrated some sample modeling.

Ms. Warren stated that in respect to transition, one of the first things they would do is replicate prior evaluations and plan revisions. They have a head start with the Special Pension Commission's comparison study. Their reports are tailored to each client and will include an executive summary and details of the calculations. Their project modeling is also a good communication tool.

In closing, Mr. Porter stated that Milliman has institutional knowledge and a qualified and experienced team. They have a proven record with large public systems, everything is client specific and they believe they are a good fit for Philadelphia.

Mr. Leonard stated that the Law Department read in a recent article that there is a trend with actuaries to reduce their liability in their contracts to their clients. He asked Mr. Porter to comment on this as their proposal has a $1,000,000 limitation on liability.

Mr. Porter replied that every firm has a limitation on liability. He stated they are a large firm with many different practices and require having an explicit amount of liability. The dollar level can be discussed further with the legal department.

Mr. Dubow asked if when looking at our reports from an actuarial standpoint, if there is something our actuary should do differently.

Mr. Porter stated the two key assumptions in anything is investment returns and post retirement mortality assumptions. There is a recent change in dealing with post mortality demographic assumptions. This change was to put into reports to show the mortality improvement assumption and how that is being improved and projected. The investment return assumption is something to be looked at also.

Mr. Stagliano asked for comments on the assumed rate of return.

Mr. Porter said he can't answer that completely because he doesn't know how the assets are invested. How the assets are invested determines what to expect and what the real rate of returns are.

Cheiron Consulting

Ken Kent, FSA, FCA
Karen Zangara, FSA

Mr. Kent began his presentation stating that Cheiron has grown significantly since coming on board with Philadelphia. The firm was started in 2002 as a spinoff of a group of consultants who worked for a national consulting firm who refused to accept the firm's nationwide policy of imitational liabilities that they wanted to impose on all contracts. They believed they should stand behind their work, and that the public entities and the multi employee plans they serve would not accept those types of policies. Since 2007, revenue has grown more than 300% and they are the seventh largest consulting actuary in the country. Their focus on serving both sides of the industry which are governed by joint boards of labor and management takes a special skill set to make sure both sides are satisfied. He introduced Karen Zangara, Lead Actuary and Anu Patel, Project Manager.

Ms. Zangara referred to page 3 of the booklet which listed their public sector experience and plans they have worked with. She stated that Mr. Kent would be the lead actuary and she would be the co-lead, which ensures there is always someone there to provide seamless service.

As the list is made up of City, County and Federal plans, Mr. Dubow asked if different issues arise with the plans.

Mr. Kent stated there are different issues. Typically, cities are dealing with state laws and well as municipal codes. Like Philadelphia, the funding is defined by State law but the benefit structure is defined by the City Code within the parameters the State may impose. They find similar situations across the country. That gives them the knowledge base of how legislative processes work and that is where their expertise is.

Mr. Dubow asked if dealing with the complexity of the types of other funds affects this team and if it draws too much on their time.

Mr. Kent stated he is the backup actuary for the City and County of San Francisco but the plan is being run by an actuary in Portland. However, he would attend a meeting if the lead actuary in Portland couldn't be there. He is also the co-lead actuary with Pennsylvania Employee Retirement System (PERS) and Ms. Zangara works with him and goes to most of those meetings. What he has learned there has clearly provided opportunities to help him in Philadelphia. He has 10 clients and has co-leads on all of them but he is responsible to make sure everything happens. He is always up to date and available to step in, but there is usually someone else to step in. If he isn't available Ms. Zangara would be.

Ms. Zangara stated that as co-leads, one of the strengths of Cheiron is that they get their hands dirty in the numbers and thoroughly review all work. The peer review actuary is Fiona Liston, FSA who has 29 years experience predominately with public sector plans. She peer reviews the work product provided to the City. The Project Manager is Anu Patel who is a dedicated and hard worker. All of the staff has FSA's, the highest credentials for actuaries. As Special Resource we have Jim Holland who has been at the IRS for 30 years and drafted numerous technical issues around pension plans.

Mr. Kent stated that knowing there are annual filings that go to PERC, they have called their actuary and asked how they want to treat the City Deferred Contribution for the filing of Act 205 forms so they can best provide the information. They also look for ways to assist in administration working with Mr. Bielli and Mr. Murphy to make easier ways to deal with some of the administration. They provide an open projection model that allows seeing the implication of alternatives. He doesn't believe any other competitor has a model where the lead consultant programs the model to illustrate specific needs in terms of questions. They remain unbiased and do not assume to know everything when providing information as there is a diverse group around the table as well as the interest of the plan participants.

At the next valuation Cheiron will be talking about the Pension Adjustment Fund and how it behaves differently from the regular fund because of the difference in the law, where that fund is looking at five year smoothing assets and for funding purposes you're looking at 10 year smoothing assets. That should give some unexpected results you should be aware of.

Pages 8, 9 and 10 of the booklet are about Cheiron's modeling and how they communicate. They prefer to show pictures, models and things that can be moved around and challenged. There are also models of individual testing to compare systems.

Sumit Handa, Chief Investment Officer asked Mr. Kent to explain some of the best practices he has discovered working with other plans. He asked what the best ideas are right now.

Mr. Kent replied that there is a lot of debate over the level of costs and the assumption rate that is being used as a discount rate. He believes they should continue to look for opportunities to move that down. The way we measure liabilities should be different from your objectives in terms of long term rate of return. The reason he believes this is as long as we're saying whatever our long term rate of return is should be our discount rate then you're accepting a 50/50 proposition that next year your costs will be higher or lower. There is a small probability you're going to hit 8.15%. We want our clients to be on the right side of that bet. The opportunities we are applying should be that when you do have favorable investment returns that we take an opportunity to remove some of the risks of the system. For many of our clients we have gone through a process of looking at funding and addressing the downturn in the 2008 market and we looked at alternative ways to restructure to get ahead of the legislative process going on in Harrisburg as it relates to municipal plans which would have imposed restrictions on the City's funding. The p-scan model also is one of the best practices across the country.

Mr. Handa asked what ideas would Mr. Kent disagree with or believe to be the worst ideas.

Mr. Kent stated there are some things being challenged by the actuarial profession. The interpretation of the normal cost of the funding method is dictated by the State. There is a different version of that method that says that if we put in a new tier plan for new employees that is a lower benefit structure then we will redefine the normal cost component based on that new tier and push everything else into the actuarial liability and spread that over 30 years. That would de-fund the Plan and put it at a much higher risk. We don't support that methodology because for Plans such as Philadelphia where you have a material negative cash flow the challenge is getting the funded status up and that's going to take hard work because of the financial resources.

Mr. Dubow asked if in addition to the investment assumptions, if there are other things they should be changing.

Mr. Kent said things the Board should be looking at are moving to justifying the mortality assumption and justifying why you're not using a projection scale. Life expectancies are expected to improve every year, so the best practice is to build that into the assumption. Also, how the Pension Adjustment Fund is going to work relative to the balance of the Fund. Funds could be moving into that pool during a period when the Fund is still under 50% funded.

Mr. Stagliano asked for some comments on a recent article in the Wall Street Journal about GASB.

Ms. Zangara replied that there are a number of changes GASB is reviewing for public sector plans including changing the discount rate for reporting purposes and putting on the balance sheet the full and unfunded liability. Changing the discount rate would take into account the future cash flows and contributions and is expected to be issued as an exposure draft. It will probably go into effect in 2012. Once they have final guidance they would look at the impact on the City in terms of cash flow.

Mr. Kent said he was responsible for the Academy of Actuaries response to GASB and he testified in front of them as it relates to one of the components, which says that if you change an assumption for retirees it has to be fully expensed in the year you did that. This would create a great deal of friction if the mortality assumption is not conservative enough. They're looking at defining an assumption from the sources when meeting the obligations of the Plan aren't either in the assets or anticipated to be received by the sponsor. It will come up as a different expense than what your funding requirement is. When GASB first came through the City was funding according to the Funding Policy of the City and that's what's been maintained for purposes of GASB. They want to compare what that amount is to what is being contributed, and to the extent of what is being contributed on the MMO basis which is below the funding policy then you basically have an additional liability on the books. They are going to change it so your additional liability is your entire unfunded. They want the total piece on the books which will change the balance sheet of the City and change public plans across the country.

Mr. Leonard asked Mr. Kent to comment about the trend in the industry to negotiate the limitation on liability and why Cheiron doesn't subscribe to it.

Mr. Kent said the trend started when actuary firms were being sued for significant amounts of errors. The largest settlement occurred last year for ½ billion dollars. A number of those firms got together and said we all should do this. The idea was the errors were being used to create lawsuits against actuarial firms to recapture money, so the firms set up these policies to limit what they could be sued for. We do everything we can to do the numbers correctly. We don't want to make mistakes that are material that affect the money you get from the State, the money you call for from the City and to fund the benefits, the value of the liabilities of the Plan.

After listening to the presentations from both firms, the Board discussed the results.

Ronald Stagliano made a motion to hire Cheiron as the actuarial consultant subject to negotiations. Alan Butkovitz seconded the motion.

The motion to hire Cheiron as the actuarial consultant subject to negotiations carried unanimously 8-0.

Brian Albert made a motion to adjourn. Ronald Stagliano seconded the motion.

The meeting adjourned at 12:25 p.m.