GENERAL EMPLOYEES RETIREMENT BOARD MEETING
February 13, 2004, 9:00 A.M.

I. CALL TO ORDER

The meeting of the General Employees Retirement Board of Trustees was called to order by Chairman James McC. Wearn at 9:00 a.m., February 13, 2004, in the Town Council Chambers. Attending were Chairman Wearn, Vice Chairman Robert Garvy, Secretary Patricia McLean, and Trustees Peter Elwell and Brett Madison. Also attending were Attorney Rhoda Yen (in lieu of John McCracken, who was unable to attend), Finance Director Jane Skittone, and Human Resources Director and Plan Administrator William Crouse.

Mr. Wearn expressed kind remarks regarding former Mayor Paul Ilyinsky who had passed away recently. Mr. Wearn then requested that the Board join him in a moment of silence in remembrance of former Mayor Paul Ilyinsky.

II. ANNUAL ELECTION OF CHAIRMAN, VICE-CHAIRMAN, AND SECRETARY

Mr. Wearn called for nominations for Chairman. Nomination of Mr. Wearn to serve as Chairman was made by Mr. Garvy and seconded by Mrs. McLean. Mr. Wearn called for further nominations and there were none. **Nominations were closed on motion by Mr. Elwell and seconded by Mr. Garvy and Mr. Wearn was elected Chairman by acclamation.**

Mr. Wearn then called for nominations for Vice-Chairman. Nomination of Mr. Garvy to serve as Vice-Chairman was made by Mrs. McLean and seconded by Mr. Elwell. **Nominations were closed on motion by Mr. Elwell and seconded by Mr. Madison and Mr. Garvy was elected Vice-Chairman by acclamation.**

Mr. Wearn called for nominations for Secretary. Nomination of Mrs. McLean was made by Mr. Madison and seconded by Mr. Elwell. **Nominations were closed on motion by Mr. Garvy and seconded by Mr. Elwell and Mrs. McLean was elected Secretary by acclamation.**

III. APPROVAL OF AGENDA

Mr. Wearn called for any changes to the agenda. With no changes raised, Mr. Wearn stated that the agenda would stand approved by the Board.

IV. APPROVAL OF MINUTES OF REGULAR MEETING OF NOVEMBER 14, 2003

Mr. Wearn referred to Mr. Crouse and questioned whether prior requested editorial changes had been made to the minutes. Mr. Crouse responded that all were noted and made.

Mrs. McLean moved approval of the minutes of November 14, 2003, with the previously incorporated revisions, Mr. Elwell seconded, and the motion carried unanimously.

V. ADMINISTRATOR'S REPORT

Mr. Crouse reported that the fiduciary liability insurance that had been motioned and approved by the Board at the November 2003 meeting had become effective January 1, 2004. Mr. Crouse then stated that the amounts of the insurance were $10,000,000 with $150,000 deductible.

Mr. Crouse reported that the Board had previously requested to incorporate a new section titled *Guidelines* and another titled *Audit* into the Trustees Information Booklet. Mr. Crouse stated that along with the new sections that were provided in the meeting packets was an updated list of Board members and service providers.

Mr. Crouse reported that Marilyn Shawaga, secretary of the Public Works Department, had met the conditions of age and service for retirement and elected the DROP.

Mr. Elwell recommended that phone numbers and titles be provided for the Plan Administrator and Finance Director on the contact list of Board members and service providers.

With no further comments from the Board, Mr. Wearn thanked Mr. Crouse for the administrator's report.

VI. QUARTERLY REPORTS

A. Roanoke Asset Management

Adele Wiseman of Roanoke Asset Management appeared before the Board and presented the quarterly report, a copy of which is on file with the Plan Administrator.

With no questions or comments from the Board, Mr. Wearn thanked Ms. Wiseman for the quarterly report.

B. Loomis, Sayles & Company

David Sowerby of Loomis, Sayles & Company appeared before the Board and presented the stock portfolio results of the quarterly report, a copy of which is on file with the Plan Administrator.

Steve Dougherty of Loomis, Sayles & Company then presented the bond portfolio portion of the quarterly report, a copy of which is also on file with the Plan Administrator.

With no questions or comments from the Board, Mr. Wearn thanked Mr. Sowerby and Mr. Dougherty for the quarterly report.

C. Callan Associates

Jeanne Valcik of Callan Associates appeared before the Board and presented the performance report through December 31, 2003, a copy of which is on file with the Plan Administrator.

Ms. Valcik stated that investments were on target with no recommendation to rebalance at that time.

Mr. Garvy referred to Ms. Valcik and questioned whether 2004 would be a very important year regarding the performance of the Loomis equity portfolio. Ms. Valcik responded that Loomis would agree that 2004 would be a very important year for the portfolio. Ms. Valcik continued that the expectations for the year were that the quality stocks in the portfolio would participate in the market return for the year. Mr. Garvy stated that shortly it would be five years since the time of reassessment with Loomis and expressed that the position of the portfolio be sound and produce good relative returns. Mr. Sowerby briefly expressed that the portfolio, given the market anticipation, would perform well in 2004.

Mr. Wearn thanked Ms. Valcik for the quarterly report and presentations.

VII. DISCUSSION OF PRELIMINARY CALLAN WORK PLAN FOR 2004

Jeanne Valcik of Callan Associates appeared before the Board and presented the 2004 Work Plan, a copy of which is on file with the Plan Administrator.

Ms. Valcik emphasized that the purpose of the work plan was to assure stable communication between Callan and its clients, allow for appropriate investment planning and to assure proper distribution of excellent investment tools produced by Callan. Ms. Valcik then distributed to the Board various examples of works produced by Callan, all of which are on file with the Plan Administrator, and brief discussion was held for clarification. Ms. Valcik stated that the consideration to rebalance would be added to the quarterly and deleted from February and August as the policy statement had been changed to reflect that rebalance be considered every quarter. Ms. Valcik then distributed a Client Service Team contact sheet for the Board's records. Ms. Valcik recommended that the information be placed in each of the Trustees Information Booklet.

Ms. Valcik referred the Board to the 2004 Capital Market Projections report where brief discussion was held regarding expected returns for the year. Ms. Valcik stated that as the allocation was shown incorrectly and the report did not provide small cap data, an updated version of the report would be distributed prior to the May meeting.

Ms. Valcik distributed the Performance Update report where discussion was held regarding tactical allocation. Ms. Valcik stated that if any Board members were interested in receiving the research on the report, she would provide those for review. Ms. Valcik recommended the Board be set up on the Callan contact list as this would allow the Board to receive the information on a regular basis. Ms. Valcik encouraged the Board to use the contact list for answers to questions or concerns. Ms. Valcik questioned whether the Board was interested in adding an item to the May meeting to include a short presentation on performance measurement which would assist in better understanding the various statistics in the performance reports. Mr. Wearn requested the pleasure of the Board. Mr. Elwell stated that he felt it would be very helpful to those Board members who were not as experienced as other members. The remaining Board members agreed with Mr. Elwell's comments and Mr. Wearn requested to have the Ms. Valcik's presentation scheduled for the May meeting. Ms. Valcik referred the Board to the November quarter where brief discussion was held regarding Callan search statistics. Mr. Wearn stated that the research statistics would be a valuable tool to the Board and requested that these be provided for review. Ms. Valcik requested that the Board provide contact information for her records. Mr. Wearn recommended that Ms. Valcik provide Mr. Crouse with her request of contact information. Mr. Crouse would then proceed to gather the necessary information.

Mr. Wearn thanked Ms. Valcik for the quarterly report and presentations.

A short break was taken.

The Board reconvened at 10:35 a.m.

VIII. DISCUSSION OF ORDINANCES AND REPORTS FROM GABRIEL, ROEDER, SMITH

A. Duty Disability Special Provisions

Mr. Crouse stated that the Board had previously requested that the three ordinance provisions be provided in the form that they were submitted prior to the meeting. Mr. Crouse stated that the requested information had been provided in the Board members' packets previously distributed as written and submitted in 2002 along with a cover memo which included brief history on each. Mr. Crouse then distributed revised ordinances dated February 9, 2004 as requested by the Board at the November meeting. Mr. Crouse continued that Mr. McCracken had prepared two of the ordinances with revisions, the Duty Disability and the Purchase of Service Credit for the Board's review. Mr. Crouse stated that very few changes were made as the originals submitted had very minor changes. Mr. Crouse continued that the Surviving Spouse ordinance had not been changed as submitted in 2002. In addition, Mr. Crouse stated that the Board had directed Brad Armstrong to review the ordinances and provide an actuarial valuation report covering the three ordinances. Mr. Crouse referred the Board to the letter from Mr. Armstrong dated February 3, 2004 where brief discussion was held regarding the three proposed ordinances. Mr. Crouse stated that Mr. McCracken had rewritten the Duty Disability Special Provisions ordinance and that it met the language that was submitted for the non-bargaining members of Public Safety and that it was virtually the same language for all employees Town wide. Mr. Wearn questioned whether Mr. Crouse's experience had been communicated to Mr. Armstrong for his explanation. Mr. Crouse responded affirmatively and stated that Mr. Armstrong had not submitted a report for review as one had already been done in 2002 and there continued to not be a material cost. Mr. Elwell stated that the reason was most likely due to the rarity of cases which would cause the Duty Disability provision to not have material impact. Mr. Crouse agreed and stated that Mr. Elwell's comments were the reason why Mr. Armstrong came to his conclusion as in those few occasions the change would not be significant. Mr. Wearn requested a moment to have the Board review Ordinance 4-03. Mr. Elwell stated that the Board would recall that Ordinance 4-03 was one of the two ordinances on which the Town Council had moved ahead at the end of 2003 in furtherance of the recommendation of the Public Safety Board. Mr. Elwell then stated that the other of the two ordinances did not affect the General Board as it was particular to the Public Safety Board and its plan. Mr. Elwell recommended to have the Duty Disability Special Provisions ordinance referred to the Town Council for recommendation to adopt on first reading at the March 9, 2004 Town Council meeting and second reading in April as this would allow the provision to be added to the plan for the General employees. Mr. Wearn stated that he was in agreement with Mr. Elwell's comments.

Mr. Elwell moved to refer to the Town Council for recommendation, adoption of the Duty Disability Special Provisions ordinance on first reading at the March 9, 2004 Town Council meeting with second reading at the April Town Council meeting with the previously incorporated revisions, Mrs. McLean seconded, and the motion carried unanimously.

B. Automatic Survivor Benefits After Death

Mr. Wearn stated that what had been contemplated by the Board was to provide for a new spouse once a retiree had retired. Mr. Wearn expressed his concerns as a representative of the tax payers and residents of the Town that there would be an added tax payer cost or cost to the system for the benefit of the spouse who would have joined the retirement system post retirement of the retiree and who had not been a supporter during the participant's working years for theTown. Mr. Wearn continued that all spouses lend tremendous support to their partners who would be an employee in the Town system. Mr. Wearn further expressed that it was those whom he felt the responsibility to care for and consequently it would be his thought that because there would be a cost although to the Town system for the change, that the percentage of the additional payment or contribution be recalculated when there was a new spouse so that it would be cost neutral to the Town. Mr. Wearn stated that he was interested in providing support for the existing spouse however the Town would have no connection with the new spouse after retirement and he expressed a philosophical question regarding whether the tax payers and resident should support such. Mr. Elwell stated for confirmation purposes that Mr. Wearn was not proposing a change in the contribution rate of the employees to fund the anticipated cost but instead was proposing that the actual pension received by those who would be affected be discounted in some fashion to reflect that it would otherwise have a cost for the tax payers. Mr. Elwell then stated that instead of receiving the full 75% survivor benefit, there would be amount less than 75% that would need to be calculated prior to approval that would be what those individuals in those circumstances. Mr. Wearn concurred. Mr. Crouse stated for informational purposes that the General Board's provisions would be slightly different from that of the Public Safety Board should such action be taken.

For better understanding of the provisions and circumstances, Mr. Crouse briefly stated a recent incident which involved an employee who had been killed on his way to work and had recently remarried as his prior spouse had passed from a tragedy two years prior. Mr. Crouse stated that within the family members there had been an emotional split in the feelings of the new spouse as there were issues in the marriage and as a result the situation had become a very heated emotional situation. Mr. Crouse then stated that these situations were extremely rare and it would not change anything except in the angle to try to make the provision cost neutral.

Mr. Crouse directed the Board to Mr. Armstrong's Actuarial Valuation Report from 2002 where brief discussion was held regarding the actual cost of .25% of the total payroll. Mr. Crouse stated the cost would be $22,766 and that the number was fixed as there would not be new individuals incorporated as the provision was a retro benefit. Mr. Crouse stated that it could be actuarially figured if needed. Mr. Garvy questioned as to whether the cost would be proportionally reduced from the pension of the new spouse. Mr. Wearn stated that the benefit would be proportionally reduced so it would be cost neutral to the system. Mr. Garvy questioned Mr. Crouse as to how it would be proportionally reduced. Mr. Crouse responded that there was not an actuarial report available to provide exact numbers as to how many individuals were involved. Mr. Crouse continued that it would be actuarially spread out over everyone who would be affected and potentially affected by it, meaning anyone who retired prior to 1995 who would lose a spouse and remarry would be potential. Mr. Crouse stated that there were 103 retirees of which the biggest portion would be those who retired prior to 1995. Mr. Crouse stated that there would be further clarification once Mr. Armstrong provided an actuarial report. Mr. Wearn stated that the Ordinance would be adjusted in such a circumstance and further expressed that the Board would possibly need to consider having a General employees' Ordinance separate and apart from Public Safety as it appeared that the ordinances were going forward at different times and there were different considerations and statutory differences. Mr. Wearn recommended that possibly at a future time to consider and request that Mr. McCracken provide a presentation on having two separate ordinances, one specifically on the General retirement system and the other on Public Safety. Mr. Wearn stated that it had been his philosophical concern regarding the issue. Mr. Crouse stated that Mr. McCracken had recently sent him a letter and requested that the particular issue be placed on the agenda for the May meeting for both Boards. Mr. Crouse stated that Mr. McCracken had previously discussed the issue with George Frick and had come to the conclusion that it would be in the best interest of both Boards. Mr. Elwell stated that as a Town Manager, he had previously recommended to move very cautiously with any improvements during the period when the market had been performing poorly. Mr. Elwell continued that the particular item at hand would be for future consideration for the Council at the July meeting. Mr. Elwell stated that it was not certain that the time would be ideal for adoption of both the Automatic Survivor Pension and the Purchase Service Credit ordinances by the Town Council as the actuarial report needed to be received and reviewed and the issues would then need to be assessed by the Board. Mr. Elwell then stated that a determination needed to be made by the Board that when the time was right, when the Council determined that it was fiscally responsible to move forward with improvements, which provisions the Board felt were appropriate, as this would allow for simultaneous movement with Public Safety.

Mr. Elwell stated that he felt it was not in the best interest of the Town or that of the individual participating employees, to be bring recommendations for benefit improvements that were substantively different from one another when the dollars were so minor. Mr. Elwell then stated that there could possibly be times when the difference in a cost of providing an improvement would be substantially different for certain groups of employees as compared to other groups of employees and those distinctions would need to be made. However, Mr. Elwell stated that he felt this was not one of those circumstances. He continued that due to the fixed population, the $22,766 was the cost if every individual married after retirement and lived through the actuarial estimations. The above stated cost would be the worst case scenario. Mr. Elwell stated that realistically, the cost to the plan would be less than $22,766, a plan which had $51,000,000 in funds. Mr. Elwell further expressed that when the Council was ready to adopt the provision, that it be in everyone's best interest, all of the affected employees and also the Town as an organization and employer and the taxpayers who support the operation to provide the benefit improvement equally to all affected employees. Mr. Elwell recommended that the Board recommend to the Council that whether it be in July or at a later date, that the adoption of the ordinance not include the discounted factor and instead make the benefit improvement from 1995 retroactive for all of the affected employees who retired prior to that time.

Mr. Wearn commented that his thoughts were that the philosophical issues should not be determined based upon the cash dollar effect. Mr. Wearn further stated that the Town Council should take the opportunity through the Finance and Taxation committees and through the full Council to reconcile the question of whether there could or should be differences and if so what those differences may or should be. As a result, Mr. Wearn stated that the General Board would not need to take a position at the current meeting and could better place the matter in front of the Finance and Taxation committees of the Town Council for the ultimate selection. Mr. Elwell stated that the Town Council would be the ultimate determiners of how to move forward, however they would certainly rely to a great extent upon the Board's recommendations in these matters.

Mr. Elwell emphasized that he concurred with Mr. Wearn's philosophical observation because anything that would have a cost impact would have a cost impact in the short-term upon to the Town's taxpayers and not upon all of the participants who would share the burden of the plan. Mr. Elwell stated that the cost impact was so small particularly because the $22,766 was not a fixed number but a highest potential cost number, and to differentiate between the Public Safety employees and General employees on the particular matter without the details before the Board for review would not be in the best interest of the Town. Mr. Elwell stated that the distinction could have negative impacts far beyond the value of having protected the taxpayers from the small cost. Mr. Elwell stated that it would be best to recommend to the Town Council not simply to forward the issue as a question but the General Retirement Board to recommend on behalf of the General employees that the benefit improvement be made at the appropriate time, simultaneously with the Public Safety employees and in the same manner. Mr. Wearn responded that the dollar amount of $22,766, while small in comparison to the budget, did add up for many residents who were on a fixed income and as a result it was the responsibility of the members of the retirement boards selected by the Town Council to be representatives of the taxpayers and citizens.

Mr. Wearn expressed his concerns in response to Mr. Elwell's comments regarding not varying from Public Safety's actions and requested further clarification as he felt that he had possibly misunderstood. Mr. Elwell stated for clarification that the intent was to make the point that he did not mean to suggest that in all ways at all times the two plan s would match, the plans did match currently and they would not match in the future and not every improvement needed to be identical for both plans. Mr. Elwell continued that there would be times when the dollars were more material and there would be reasons, statutory, local, or otherwise why the two plans should be modified in different ways, however this issue was not one of those. Mr. Elwell expressed that his opinion as a member of the Board, was that it would be more appropriate for the General Board to proceed with the same betterment as it was a small, corrective improvement that had been applied and would be applied in the future to all retirees on and after September 30, 1995 and to extend this to those who retired prior to that date. Mr. Elwell then recommended that the General employees proceed equally to the Public Safety employees for the benefit.

Mr. Madison expressed his thoughts regarding the matter and stated that if the Town was providing the benefit for retirees from 1995 forward, it would be proper to include those 80 individuals prior to 1995.

Mrs. McLean stated that she had discussed this very subject with several coworkers and that she agreed with Mr. Wearn's comments. However, Mrs. McLean expressed her thoughts from an employee's point of view and as a single woman, that she contributed the same amount as her coworkers who may be married. As a result, if she were to not marry, the retirement would die with her, where a married coworker's retirement would go to their spouse. Mrs. McLean recommended that the contribution factor be adjusted according to a menu, similar to the medical contributions, as it would assist the employees to make a conscious decision at that time. Mrs. McLean emphasized that she did view the philosophy of Mr. Wearn's comments and was completely opposed to allowing a free ride. Mr. Wearn agreed with Mrs. McLean's comments and stated that the Board should research the possibility to provide the General employees with a menu of different options to choose. Mr. Wearn requested to have the area explored as it would allow for more fairness for the General employees to plan their future.

Mr. Wearn stated that the Board would most likely recommend the ordinance to the Town Council, however he would vote against the recommendation as it would allow the Council to be aware of the difference and perhaps consider the issue and make their selection with an informed decision on the alternate views that were selected. Mr. Wearn continued that he recognized that the views expressed were well debatable and of good merit.

Mr. Elwell moved to recommend to the Town Council the adoption of Ordinance 5-03, the Automatic Survivor Pension provision, including amendments, beginning with its consideration in July at a time to be determined by the Town Council, Mr. Madison seconded, Mrs. McLean and Mr. Garvy voted aye. Mr. Wearn voted nay. The motion carried.

C. Purchase of Service Credit

Mr. Crouse stated that Mr. Armstrong had prepared an actuarial valuation report on April 30, 2002 which had maintained validity for the Board's current use. Mr. Crouse stated that Mr. Armstrong recommended in his letter of February 3, 2004 to make amendments to two sections of the ordinance. Mr. Crouse continued that the recommendation referred to Section 82-73(b) and (e) which were regarding interest rates that were utilized for the DROP participants. Furthermore, Mr. Crouse stated that Mr. Armstrong had recommended that those rates not be used and instead have the interest rate established at the rate that was credited to member contributions which was established at 5.5% but which in the future at the August meeting would be established by the Board. Mr. Crouse referred the Board to the actuarial valuation report and Ordinance 6-03, *Purchase Service Credit*, where brief discussion was held for further clarification.

Mr. Wearn questioned whether Mr. Armstrong's recommended revisions had been incorporated in Ordinance 6-03 submitted by Mr. McCracken on February 9, 2004. Mr. Crouse stated that it had not as they had crossed in the mail.

Mr. Madison referred to Section 82-73, *Prior Governmental Service Elsewhere* and questioned whether it had been limited to those who worked in other municipalities and if so how many employees met the criteria. Mr. Crouse stated that his understanding was that it was not restricted to prior governmental experience. Mr. Crouse continued that the General Board and the Public Safety Board wanted to allow the option to be available to any employee that met the criteria outlined in the ordinance. Mr. Elwell stated that the provision related not only to prior municipal service and referred the Board to page 256 in Section 82-73 where brief discussion was held regarding service in any other municipal county or state government or district, meaning any public employment other than Federal would apply. Mr. Elwell continued that the ordinance also stated the outright purchase of service that would not be related to prior governmental service. As a result, between the two sections, it would affect every employee, a benefit available to all employees.

Mr. Elwell referred the Board to Section 82-73(f) and questioned whether there would be a five year period at the beginning after adoption when it would be available to all qualified employees or would it not be available to those who had been with the Town for at least five years. Mr. Crouse responded that the language had been implemented regarding new employees only, however the Board determined that they did not want to restrict current employees regarding the purchase. Mr. Elwell stated that clarification needed to be made regarding Section 82-73(f) and Section 82-54(5). Mr. Crouse stated that there were certain requirements under Federal guidelines that required decision making within a certain period of time. Mr. Crouse stated that Mr. McCracken would be the advisor in answering questions regarding the specified item.

Mr. Elwell questioned the calculation regarding whether it was adequately specified in the ordinance, the manner in which the payment owed by the employee would be calculated. Mr. Elwell expressed his concern that further clarification was needed. Mr. Elwell recommended to have the item placed on the May agenda for further discussion, as the Board would be allowed to hear from Mr. McCracken and ultimately if ready to move forward, direct Mr. McCracken to make changes that would be the necessary points. Mr. Wearn agreed with Mr. Elwell's comments and stated that if the example were clear, it would be wise to attach the example to the ordinance and return with an explanation on Section 1 revision in Subsection (f) for the one-time opportunity and the five-year limitation. Mr. Madison requested clarification in regards to the need to be vested in order to purchase service credits and whether it was a ten year vesting period. Mr. Madison expressed the importance to make the option open ended for the employees, otherwise you would not be able to participate. Mr. Crouse stated that the vesting was a requirement because the purchase of service credit could not be used for eligibility or vesting years, only for service credit and for the benefit.

Mr. Wearn expressed the Board's consensus to have Mr. Crouse meet with Mr. McCracken and have the ordinance updated to reflect items discussed and review the revised ordinance in May.

IX. REPORT ON QUARTERLY EXPENDITURES

Ms. Skittone presented the report on quarterly expenditures, a copy of which is on file with the Plan Administrator. No transfer from the money managers was recommended at that time.

Mr. Elwell moved to accept the report on quarterly expenditures, Mr. Madison seconded, and the motion carried unanimously.

X. REQUEST FOR AUTHORIZATION TO UTILIZE DEATH RECORDS CROSS CHECK SERVICES OF PENSION BENEFIT INFORMATION

Mr. Crouse requested the approval to once again use the services of Pension Benefit Information to check the status of retirees, with a cost of approximately $115.46 for 103 pensioners.

Mr. Madison moved to accept the recommendation and to authorize the administrator to engage the services of Pension Benefit Information to check the status of retirees, Mrs. McLean seconded, and the motion carried unanimously.

XI. ANY OTHER MATTERS

Mr. Wearn called for any other matters to be raised. No further matters were brought before the Board for discussion.

XII. ADJOURNMENT

There being no further business, Ms. McLean moved to adjourn. Mr. Elwell seconded, and the motion carried unanimously.

The meeting adjourned at 11:35 a.m.

Approved: ______________________
Brett Madison, Secretary