



**DISTRICT OF COLUMBIA RETIREMENT BOARD
MEETING MINUTES
OCTOBER 20, 2011
12:15 PM**

MEMBERS PRESENT

Michael J. Warren, Chairman
Lyle M. Blanchard
Barbara Davis Blum
Joseph M. Bress
Joseph W. Clark
Deborah Hensley
Darrick O. Ross
Edward C. Smith
George R. Suter
Thomas N. Tippett

DCRB STAFF PRESENT

Eric Stanchfield, Executive Director
Erie Sampson, General Counsel
Sheila Morgan-Johnson
Joan Passerino
Tom Anderson
Daniel Hernandez
Donnie Bryant
Leslie King*
Corrine Koch
Deborah Reaves
Katie Schultz
Yolanda Smith
Denice McSears
Rabinai Carson

MEMBERS NOT PRESENT

Diana K. Bulger
Judith C. Marcus
Lasana Mack, Ex-Officio

OTHERS PRESENT

Brenda Mathis, OCFO
Jonathan Craven, Cavanaugh Macdonald*
Ed Koebel, Cavanaugh Macdonald*

*Not present at Roll Call

ROLL CALL

Chairman Warren called the meeting to order at 12:15 p.m. Mrs. Deborah Reaves called the roll.

APPROVAL OF MINUTES

Mr. Warren made the following motion, which was seconded by Ms. Blum:

Motion #1: *To approve the September 28, 2011, Board meeting minutes. A voice vote was called and the motion was approved 10-0. (See Tally #1)*

CHAIRMAN'S COMMENTS

Chairman Warren updated the Board on the following items:

- Change to Board of Trustees meeting schedule: Chairman Warren proposed having a bi-monthly Board meeting schedule instead of meeting monthly. Preparation for monthly meetings occupies DCRB staff when they could be performing more useful tasks. Also, the bulk of the Board's work could be driven by the Board's committees. A discussion followed. Some trustees were concerned that meeting less than monthly may be perceived as a political negative. Mr. Stanchfield noted that the Board rules require that

the Board meet quarterly, and by meeting bi-monthly, DCRB would be fulfilling that requirement. Also, Mr. Stanchfield stated, the new schedule may bolster Trustee attendance at committee meetings and Ms. Hensley agreed. Mr. Bress inquired about best practices. Mr. Warren emphasized that this change will allow the committees to have enough time and resources to devote to the issues before them, and they will drive the issues. He also noted that he learned the Chairman of the D.C. Water and Sewer Authority (WASA) board is recommending a move in the same direction. In the future, at the request of the trustees, meeting schedules will be mailed to trustees farther in advance. A change to the Board Rules was not necessary;

- Other changes to Board meetings: The Board and Mr. Stanchfield discussed new technology that the Board is considering adopting in the next few months, including iPads for meeting materials and voting by phone to address quorum issues;
- Change to Board Rules: Ms. Sampson noted that she has drafted changes to the Board Rules, which will be presented to the Operations Committee at the next meeting;
- Mr. Warren informed the Board that he will be traveling to Chicago on November 10-11, 2011, to attend the Fiduciary Service Leadership Summit;

Mr. Warren made the following motion, which was seconded by Mr. Smith:

Motion #2: *To approve Ms. Blum's travel to accompany the CIO and investment analysts on an upcoming onsite visit to Cliffwater to plan design and implementation of the real asset program. A voice vote was called and the motion was approved 9-0 with one abstention. (See Tally #2)*

GENERAL COUNSEL REPORT

Ms. Sampson, the General Counsel, did not have a written report.

INVESTMENT COMMITTEE REPORT

Ms. Blum, Investment Committee Chair, read the following items into the record to be voted on by the Board:

- Ms. Blum made the following motion, which was seconded by Ms. Hensley:

Motion #3: *To authorize staff to close the [redacted pursuant to D.C. Code §§2-578(b) and 1-909.05(e) and (f) because public disclosure of the action items would jeopardize DCRB's ability to implement them or to achieve investment objectives] account and to transfer the two illiquid products to a dormant account at State Street Global Advisors to monitor at no management cost fee to the Board. A voice vote was called and the motion was approved 10-0. (See Tally #3)*

OPERATIONS COMMITTEE REPORT

Mr. Clark, the Operations Committee Chair, read the Operations Committee Report, including the following items:

- Retired Firefighter Election: A desire to use electronic balloting in the upcoming Retired Firefighter Election was expressed by members, so the following motion was made by Mr. Clark and seconded by Mr. Bress:

Motion #4: *To permit qualified voters to cast their ballots electronically in the 2011 Retired*

Firefighter Election. A voice vote was call and the motion was approved 10-0. (See Tally #4)

- Mr. Clark gave an explanation of DCRB's search for new office real estate due to the impending expiration of the original 10-year lease. DCRB proposes to retain a real estate broker to evaluate and negotiate an extension to its lease with Akridge Company, because, as Mr. Clark noted, CB Richard Ellis (CBRE) was found to offer the best deal. It is common business practice to retain a real estate broker with knowledge of the local real estate market and with ability to forecast the direction of real estate rental property rates. DCRB evaluated proposals from three real estate brokers (Broadstreet, CBRE, and the Townsend Group), and CBRE was determined to be best qualified to represent DCRB to evaluate the Akridge proposal and to negotiate the best deal possible;

The following motion was made by Mr. Clark and seconded by Mr. Tippett:

Motion #5: *To authorize the Executive Director to engage CB Richard Ellis (CBRE) to represent DCRB in lease negotiations with the Akridge Company. The motion was approved 9-0 with one abstention. (See Tally #5)*

A discussion of the best practices of performing a commercial real estate search followed. Ms. Blum requested that the Board negotiate another 10-year lease due to the cost savings, instead of a 5-year lease. Ms. Morgan-Johnson noted that there will be no direct cost to DCRB in this process, and any realized savings will be shared between DCRB and CBRE. The cost-savings will be rebated to DCRB. Trustees and staff discussed the process of searching for commercial real estate and of using CBRE as a real estate broker. Trustee Blanchard, as an expert in this field, was consulted on the matter, and he noted he has no concerns with this process being followed by DCRB staff.

- **Fiduciary Liability Insurance:** the Board renews its fiduciary policy on an annual basis. The policy is due to be renewed on November 1, 2011. Trustees shall pay the waiver of recourse fee via check or money order. Checks are to be made out to Aon Risk Services to the amount of \$25 and must be given to Ms. Yolanda Smith as soon as possible;
- **Actuarial Audit RFP:** it is industry best practices to conduct an actuarial audit every three years. DCRB staff was scheduled to release the RFP for actuarial audit services in 2011. However, Cavanaugh Macdonald has served as the Board's actuary for two years and is in the process of completing its second annual calculation. Therefore, the staff believes it is prudent to release the RFP and conduct the audit in 2013 to provide the actuary a full three years of experience.

PRESENTATION OF EXPERIENCE STUDY

Presentation by Jonathan Craven and Ed Koebel of Cavanaugh Macdonald

Mr. Koebel introduced Mr. Craven. He noted that this study is typically done every four to six years and that this is the first time Cavanaugh Macdonald has done this study for DCRB. The presentation covered the economic and demographic assumptions reviewed in the study.

First, Mr. Koebel covered the economic assumptions reviewed, including the price inflation (CPI), the investment return, and wage inflation. The current price inflation is 4.25% with the

real rate of return at 2.75%. Cavanaugh Macdonald recommends that DCRB lower price inflation to 3.75% and raise the real rate of return to 3.25%. The investment rate of return is at 7% and would remain there. Mr. Koebel then noted that price inflation is currently 4.25% and real wage growth is at 0.50%. Cavanaugh Macdonald recommends that DCRB lower price inflation to 3.75% and raise real wage growth to 0.75%. Wage inflation is currently at 4.75% and would be lowered slightly to 4.5%. He noted that some of the reasoning behind these changes comes from a long-term (30-50 year range) evaluation. Cavanaugh Macdonald's recommendations are similar to those of the Social Security administration. Mr. Koebel referenced that NASRA's Public Fund surveys completed in FY2001 and again in FY2009 were used as guides.

Mr. Koebel explained in brief the stochastic projection expected range of real rates of return created by Cavanaugh Macdonald using Meketa's capital market assumptions and policy target asset allocation. He noted that Cavanaugh Macdonald utilized a much longer time horizon for the projection period. He also covered the administrative and investment expenses, including manager fees, in the process. The recommended long-term expense ratio of 0.65% is due to expected increases in administrative expenses in the near term. Several projects will add ongoing maintenance expenses in the future. Mr. Stanchfield gave a short summary of some of the ongoing projects, including data reclamation. Mr. Koebel gave an explanation of the ASOP No. 27 building block approach to figuring an investment return assumption, which is currently 7%. Cavanaugh Macdonald's recommendation is to leave the assumption at 7%. In comparison to other public retirement funds, DCRB is among the most conservative in terms of investment return assumptions. The average assumption for public plans is around 8%. Cavanaugh Macdonald's recommendation for the wage inflation assumption is to lower the assumption to 4.5% from 4.75%. The impact of these economic assumptions would place the funding ratio of the Teachers' Retirement Plan at 119%, the Police Officers' Retirement Plan at 108.9%, and the Firefighters' Retirement Plan at 108%.

A discussion about the risks of changing these assumptions occurred between Chairman Warren and the other Trustees. Mr. Clark inquired whether the Board should assume a higher rate of return, given the flux of instability in the global marketplace. Mr. Koebel stated that, based on the asset allocation currently held by DCRB, it is a good allocation for a real rate of return in the 3.25% to 3.75% range. Mr. Craven noted that the net result is still 7%, even though they are rearranging the pieces. A discussion of DCRB's funding ratio and its financial and political implications followed. Ms. Morgan-Johnson clarified DCRB's actions in 2011 with regards to its exposure to private equities. Mr. Tippett noted that he is comfortable with where the Fund's actuarial assumptions are now and is reluctant to change them.

Mr. Koebel continued to summarize demographic data collected. The demographic assumptions reviewed included the rates of withdrawal, the rates of disability retirement, the rates of retirement, the rates of mortality, and the rates of salary increase. Mr. Koebel explained the significance of each assumption and also covered how some of them would change over the next few years. He noted that the rates of withdrawal will increase in the coming years.

Ms. Hensley provided some clarification to assumptions affecting the Teachers' Plan. With regards to the rate of withdrawal for the teachers demographic, Cavanaugh Macdonald has determined that there is a possibility that the actual counts are an anomaly, and they have only slightly increased rates after four years of service. Mr. Koebel noted that Cavanaugh Macdonald

recommends decreasing disability rates for the teachers demographic for most ages to reflect experience, and there were less actual disability retirements than expected. With regards to the assumptions for rates of retirement for the teachers, Mr. Koebel noted that Cavanaugh Macdonald recommends that DCRB change rates slightly to more closely reflect experience (more older ages retiring and fewer younger retiring). Cavanaugh Macdonald recommends that DCRB change to a new table for post-retirement mortality for the teachers. The new table is set back one year for males and five years for females. These tables reflect improved mortality going forward. They recommend no change to the teacher's demographic salary scale assumptions at this time and will reexamine the data in four years.

Mr. Craven presented the retirement demographic assumptions for the police. He noted that the police demographic assumptions for withdrawal were to change the withdrawal rates to more closely reflect the experience of the Plan. They also recommend decreasing the assumed disability rates for most police ages to reflect experience. With regards to the retirement assumptions for police, Cavanaugh Macdonald recommends that DCRB use the same criteria for both public safety plans (firefighters rates based on service and police rates based on age). For the post-retirement mortality for police, they recommend changing to a different table, and they recommend changing the disability mortality rates to match experience more closely. Mr. Craven noted that they recommend no change to the salary scale assumptions for police.

Mr. Craven also presented the retirement demographic assumptions for the firefighters. He noted that Cavanaugh Macdonald recommends increasing withdrawal rates for firefighters at most ages to more closely reflect the experience of the Plan. With regards to the disability retirement assumptions for firefighters, Cavanaugh Macdonald recommends decreasing disability rates for all ages to reflect experience. Mr. Craven noted that they recommend changing the assumptions of the rates of retirement and the disability mortality rates slightly to match experience. With regards to post-retirement mortality rates, Cavanaugh Macdonald also recommends a change to the table. No changes to the rates of the salary scale for firefighters were recommended.

Other assumptions covered in the presentation included asset methodology and valuation cost method. Currently, DCRB uses a 7 year smoothing of market gains and losses with a 20% corridor around the Market Value for the asset methodology assumption. Cavanaugh Macdonald recommends no change at this time. They also noted that, with regards to the valuation cost method assumption, they recommend DCRB seek legislation to allow for a change to the Entry Age Normal Cost Method (EAN). EAN is the most widely used Cost Method in the practice and provides for the highest degree of contribution stability among other cost methods. Finally, Mr. Koebel summarized the proposed demographic assumption changes to each of the plans.

A discussion by the Board and staff followed the presentation. Mr. Tippett stated that his preference is that DCRB not make any changes one way or another to the economic assumptions. Many others were in agreement with Mr. Tippett and did not change the economic assumptions.

The following motion was made by Mr. Clark, which was seconded by Ms. Blum:

Motion #6: *Move to accept the demographic changes to the plans as proposed by Cavanaugh Macdonald in the experience study for the four year period ended September 30, 2010. A voice vote was called and the motion was passed 9-0. (See Tally #6)*

BENEFITS COMMITTEE REPORT

Mr. Suter, Benefits Committee Chair, noted that the Benefits Committee met on October 6, 2011, and he updated the Board on the following activities:

- **Post-Retirement Health Care Coverage Changes:** Since October 1, 2009, several legislative changes have been made to District retiree health care coverage eligibility and cost-sharing. The final changes became effective October 1, 2011. The changes impact approximately 400 Teacher and Police/Firefighter annuitants and survivors who have District health care coverage. A copy of the letter sent on October 14 to annuitants was provided to trustees. Another, more detailed letter will be mailed in late October. Ms. Passerino stated that Benefits staff has gotten about a dozen calls, some of which were directed to DCRB by DCHR, even though the first letter sent on behalf of the District Government directed annuitants to call DCHR. Furthermore, DCRB is working with OCFO to develop a process for handling those retirees and survivors whose annuities may be insufficient to cover their new premium amounts. If DCRB and OCFO decide that retroactive premiums should be made, they will need to collect those premiums separate from annuitant pension payments. The Board made it clear that it will not collect any retroactive overpayments on behalf of the District;
- **Annuitant Verification Project:** On August 3, 2011, a first letter was mailed to 200 selected annuitants requesting that they complete a Verification of Receipt of Annuity Form. By August 30, 2011, 146 completed forms were received, and a second reminder letter was mailed to the remaining annuitants on September 2, 2011. On October 3, 2011, a third letter was mailed to the remaining annuitants who had not yet responded, and calls were placed to these annuitants by DCRB staff. They were advised that their benefit will be suspended if a response is not received by the payroll cut-off date (approximately October 19) for November payments. The Benefits staff will make every effort to contact these annuitants before their benefits are suspended.

No action items were recommended by the Committee.

LEGISLATIVE COMMITTEE REPORT

Mr. Blanchard, Legislative Committee Chair, informed the Board on the following activities:

- **Meeting with Councilmember Muriel Bowser:** DCRB staff and some trustees will participate in a meeting with the Legislative Counsel to Councilmember Bowser soon.

No action items were recommended by the Committee.

EXECUTIVE DIRECTOR REPORT

Mr. Stanchfield noted he had no other topics to discuss or business to report since all topics have been reported on earlier in the meeting.

OTHER BUSINESS

No other business was reported.

ADJOURNMENT

Motion #7: *Mr. Warren moved to adjourn the meeting at 3:09 p.m. The motion was seconded by Mr. Suter. A voice vote was called and the motion was approved 9-0. (See Tally #6)*

**DISTRICT OF COLUMBIA RETIREMENT BOARD
RECORD OF OFFICIAL BOARD ACTIONS**

Tally #1		Date: October 20, 2011			
Members	Aye	Nay/ Oppose	No Vote/ Abstain	No Vote/ Recuse	Absent
Blanchard, Lyle M.	√				
Blum, Barbara Davis	√				
Bress, Joseph M.	√				
Bulger, Diana K.					√
Clark, Joseph W.	√				
Hensley, Deborah	√				
Marcus, Judith C.					√
Ross, Darrick O.	√				
Smith, Edward C.	√				
Suter, George R.	√				
Tippett, Thomas N.	√				
Warren, Michael J.	√				

Tally #2		Date: October 20, 2011			
Members	Aye	Nay/ Oppose	No Vote/ Abstain	No Vote/ Recuse	Absent
Blanchard, Lyle M.	√				
Blum, Barbara Davis			√		
Bress, Joseph M.	√				
Bulger, Diana K.					√
Clark, Joseph W.	√				
Hensley, Deborah	√				
Marcus, Judith C.					√
Ross, Darrick O.	√				
Smith, Edward C.	√				
Suter, George R.	√				
Tippett, Thomas N.	√				
Warren, Michael J.	√				

Tally #3		Date: October 20, 2011			
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Members	Aye	Nay/ Oppose	No Vote/ Abstain	No Vote/ Recuse	Absent
Blanchard, Lyle M.	√				
Blum, Barbara Davis	√				
Bress, Joseph M.	√				
Bulger, Diana K.					√
Clark, Joseph W.	√				
Hensley, Deborah	√				
Marcus, Judith C.					√
Ross, Darrick O.	√				
Smith, Edward C.	√				
Suter, George R.	√				
Tippett, Thomas N.	√				
Warren, Michael J.	√				

Tally #4			Date: October 20, 2011		
Members	Aye	Nay/ Oppose	No Vote/ Abstain	No Vote/ Recuse	Absent
Blanchard, Lyle M.	√				
Blum, Barbara Davis	√				
Bress, Joseph M.	√				
Bulger, Diana K.					√
Clark, Joseph W.	√				
Hensley, Deborah	√				
Marcus, Judith C.					√
Ross, Darrick O.	√				
Smith, Edward C.	√				
Suter, George R.	√				
Tippett, Thomas N.	√				
Warren, Michael J.	√				

Tally #5	Date: October 20, 2011

Members	Aye	Nay/ Oppose	No Vote/ Abstain	No Vote/ Recuse	Absent
Blanchard, Lyle M.			√		
Blum, Barbara Davis	√				
Bress, Joseph M.	√				
Bulger, Diana K.					√
Clark, Joseph W.	√				
Hensley, Deborah	√				
Marcus, Judith C.					√
Ross, Darrick O.	√				
Smith, Edward C.	√				
Suter, George R.	√				
Tippett, Thomas N.	√				
Warren, Michael J.	√				

Tally #6			Date: October 20, 2011		
Members	Aye	Nay/ Oppose	No Vote/ Abstain	No Vote/ Recuse	Absent
Blanchard, Lyle M.	√				
Blum, Barbara Davis	√				
Bress, Joseph M.	√				
Bulger, Diana K.					√
Clark, Joseph W.	√				
Hensley, Deborah	√				
Marcus, Judith C.					√
Ross, Darrick O.	√				
Smith, Edward C.					√
Suter, George R.	√				
Tippett, Thomas N.	√				
Warren, Michael J.	√				

Tally #7			Date: October 20, 2011		
Members	Aye	Nay/ Oppose	No Vote/ Abstain	No Vote/ Recuse	Absent

Blanchard, Lyle M.	√				
Blum, Barbara Davis	√				
Bress, Joseph M.	√				
Bulger, Diana K.					√
Clark, Joseph W.	√				
Hensley, Deborah	√				
Marcus, Judith C.					√
Ross, Darrick O.	√				
Smith, Edward C.					√
Suter, George R.	√				
Tippett, Thomas N.	√				
Warren, Michael J.	√				