



**DISTRICT OF COLUMBIA RETIREMENT BOARD
MEETING MINUTES
DECEMBER 20, 2012
10:00 AM**

MEMBERS PRESENT

Michael J. Warren, Chairman*
Lyle M. Blanchard*
Barbara Davis Blum
Joseph M. Bress
James E. Bunn
Deborah Hensley
Judith C. Marcus
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
Vernon Valentine
Peter Dewar
Corinne Koch
Leslie King
Sebastian Podesta*
Deborah Reaves
Katie Schultz
Rabinai Carson

MEMBERS NOT PRESENT

Diana K. Bulger
Jeffrey Barnette, ex-officio

OTHERS PRESENT

Brenda Mathis, OCFO
Jonathan Craven, Cavanaugh MacDonald
Ed Koebel, Cavanaugh MacDonald
Tom Cavanaugh, Cavanaugh MacDonald

*Not present at roll call.

ROLL CALL

In the temporary absence of Chairman Warren, Mr. Bress called the meeting to order at 10:05 a.m. Ms. Deborah Reaves called the roll.

APPROVAL OF MINUTES

Ms. Hensley made the following motion, which was seconded by Mr. Bunn:

Motion #1: To approve the November 15, 2012 Board meeting minutes. *A voice vote was called and the motion was approved 9-0. (See Tally #1)*

CHAIRMAN'S COMMENTS

Mr. Bress updated the Board on the following items:

- Trustee Reappointments: Both Mr. Lyle Blanchard and Mr. Joseph M. Bress were reappointed as trustees to the District of Columbia Retirement Board;

- Trustee Elections: Mr. Bress announced the results of recent elections: Mr. George Suter, re-elected Retired Police Officer trustee; Mr. Nathan Saunders, elected Active Teacher trustee; and Mr. Edward Smith, re-elected Active Firefighter trustee. Mr. Bress congratulated the winners, and noted that the Board will be sorry to see Ms. Deborah Hensley leave her position as the Active Teacher Trustee.

EXECUTIVE DIRECTOR'S REPORT

Mr. Stanchfield updated the Board on the following items:

- DCRB Trustee Reappointments: On Friday, December 14, 2012, Trustees Joseph Bress and Lyle Blanchard testified at a public roundtable of the D.C. Council Committee of the Whole, chaired by Council Chairman Phil Mendelson, on the Council's nomination of Mr. Bress and Mr. Blanchard for reappointment to DCRB. DCRB Chairman Michael Warren also testified in support of their reappointments. The Committee of the Whole approved the two reappointment resolutions on December 18, 2012. The terms are: Joseph Bress: January 28, 2013 to January 27, 2016; and, Lyle Blanchard: January 28, 2013 to January 27, 2017;
- Retirement Modernization Program Steering Committee: A steering committee, comprised of key staff at DCRB, was established in December 2012 to oversee DCRB's portfolio of projects included in the Retirement Modernization Program. Committee members will provide guidance on the performance, scope, and quality of the projects. The committee will also develop the direction and coordination needed for the multiple projects and priorities of DCRB in the upcoming years;
- DCRB Employee Handbook: DCRB's Human Resources Director, Vernon Valentine, introduced DCRB's employee handbook by conducting multiple workshops with staff in mid-November. This new handbook is a comprehensive arrangement of DCRB and District policies as it relates to all aspects of human resources (working at DCRB, benefits, time reporting, employee relations, employee conduct, etc.). All employees have been required to attend the sessions, read the handbook, and sign an acknowledgement form;
- 2012 Financial Audit: The audit firm of CliftonLarsonAllen LLP is completing the FY12 audit of DCRB's financial statements. The audit results will be presented to the Board at the January 17, 2013, meeting;
- Fall DCRB Report Newsletter: The Fall 2012 newsletters were mailed to all members the last week of November and distributed to active members electronically. Additionally, those individuals who opted to receive the newsletter by signing up through the DCRB website, and annuitants providing us with their email addresses, have also received the newsletter electronically. The design of the newsletter has been modified slightly, and DCRB have included additional internal graphics based on the responses from members about the visual display of the newsletter;
- New Temporary Hires: Marquetta Miller has joined DCRB and will be assisting the executive office team on a temporary basis. Ms. Miller has worked with DCPS and DDOT performing executive support administrative duties. Michael Fonville joined the Benefits Department's Member Services group in a temporary capacity to assist with the phone calls from members. Michael will be with DCRB until Carletta Cutchember returns from maternity leave;
- DCRB Job Openings: DCRB is currently recruiting for a Staff Attorney and an Investment Analyst. The job announcements can be viewed at <http://dcrb.dc.gov/newsroom/job-announcements>.

GENERAL COUNSEL'S REPORT

Ms. Erie Sampson, General Counsel, reported that there is no General Counsel report to be presented to the Board.

INVESTMENT COMMITTEE

Ms. Blum, the Investment Committee Chair, updated the Board on the following items:

- Investment Committee Meeting Schedule: The next meeting of the Investment Committee will be held on Thursday, January 17, 2013 at 10 a.m. before the Open Board of Trustees meeting;
- Gun Manufacturer Due Diligence: In light of the recent shooting in Connecticut, DCRB staff is currently working with the Board's investment managers to determine if DCRB has any direct or indirect exposure to companies that manufacture guns or ammunition. She noted that the only holding is an investment through Pantheon Capital Partners (Wellspring IV) in a company called Crossman that produces air guns and pellets sold at places like Dick's Sporting Goods and Wal-Mart. Less than 1% of the Board's assets are invested in Crossman;
- Fund Value: As of November 30, 2012, the market value of the assets in the Fund was approximately \$5.331 billion, an increase of 1.1% from October 31 closing. Ms. Blum noted that for the month, the domestic equity, developed markets equity, and fixed income segments outperformed their respective benchmarks. The performance of the emerging markets equities segment essentially matched that of its benchmark. All public asset classes were within target ranges;
- Update App For Fund Performance: Mr. Bress noted that the new app is available and recommended that Board members add it to their iPads.

No action items were brought before the Board by this committee.

OPERATIONS COMMITTEE REPORT

On behalf of the Operations Committee, Mr. Bress presented the following items to the Board:

- FY 2013 Election Results and Certification: The American Arbitration Association ("AAA") counted ballots on December 5, 2012 for the election of Trustees to represent the Active Teachers, Active Firefighters, and Retired Police Officers. Leslie King and Yolanda Smith of DCRB observed the ballot count. At the December 17, 2012 Operations Committee meeting, the motion was presented to certify the results of the election; however, there was no quorum. It is the consensus of the Committee to present the election results to the Board for approval.

Retired Police Officer Election Results:

A total of 2,016 votes were counted, of which 1,894 were paper ballots and 212 were telephone votes. AAA submitted the certification of results that states the following:

229 – Guy R.X. Middleton

195 – Ronald C. Monroe

1219 – George Suter

370 – Danny Gregg
3 – Blanks and Voids

Active Teacher Election Results:

A total of 613 votes were counted. AAA submitted the certification of results that states the following:

35 – Waleska Lopez-Davila
270 – Nathan Saunders
202 – Deborah Hensley
18 – Christopher E. Jones
68 – Helena Newman
18 – Levi Bowman
2 – Blanks and Voids

Active Firefighter Election Results:

A total of 565 votes were counted, of which 446 were paper ballots and 119 were telephone votes. AAA submitted the certification of results that states the following:

68 – Brian K. Lee
465 – Edward Smith
32 – Wayne Conway Willis Young

Mr. Bress made the following motion, which was seconded by Ms. Hensley:

Motion #2: That the Board certifies the results of the 2012 Election Results for the Active Firefighter, Active Teacher, and Retired Police Officer. *A voice vote was called and the motion was approved 9-0. (See Tally #2)*

- Presentation: Class and Compensation Study: This study was presented to the Operations Committee at its most recent meeting.

Mr. Bress made the following motion, which was seconded by Ms. Hensley:

Motion #3: To go into closed session pursuant to D.C. Code §§ DC Code §2-575(b)(10), 1-736(c) and 1-909.05(e) to discuss personnel matters. (10:20 a.m.) *A voice vote was called and the motion was approved 9-0. (See Tally #3)*

Mr. Bress made the following motion, which was properly seconded:

Motion #4: To exit closed session. (11:05 a.m.) *A voice vote was called and the motion was approved 11-0. (See Tally #4)*

After a short break, Mr. Warren called the meeting back to order at 11:16 a.m.

- Presentation: Proposed Amendments to Funding Policy and Impact on FY 2014 Actuarial Valuation, Cavanaugh Macdonald Consulting: Mr. Cavanaugh, Mr. Craven,

and Mr. Koebel gave an overview of the new DCRB Proposed Funding Policy Amendment.

Mr. Cavanaugh noted that due to the planned changes in the Governmental Accounting Standards Board (GASB) pension accounting standards, many pension boards (especially those that relied on the current standard for funding practices) have been faced with adopting funding policies or amending their funding policies to ensure communication of their expectations regarding contributions. DCRB has been working on a draft policy for some time. Cavanaugh Macdonald built a projection modeler to assist the Board in seeing the potential future impact of their decisions. He stated that the projections modeler was built based on the entry age normal actuarial cost method which is the cost method established as a result of a change in statute over the last year. The Board reviewed several combinations of assumption changes and decided to change the discount rate from 7.0% to 6.5%, the inflation rate from 4.25% to 3.50% and the wage inflation assumption from 4.75% to 4.25%. In addition to the assumption changes, the Board adopted a funding policy which included a minimum contribution amount equal to the normal cost for each plan.

Cavanaugh Macdonald gave the following overview: the entry age normal method produces two contribution amounts which are the normal cost and an amortization amount for the unfunded actuarial accrued liability (UAAL). When plan assets exceed the actuarial accrued liability, the UAAL is negative and the plan is considered in a surplus condition. Under the entry age normal method, this surplus condition results in negative amortization contribution amounts. The projection modeler built by Cavanaugh Macdonald was programmed to calculate these negative contribution amounts when the plans were in surplus condition. The funding policy the Board adopted does not allow for negative contribution amounts.

The 2012 actuarial valuation results include surplus positions for the Police and Fire groups. Using the Board-adopted minimum contribution amount of the entry age normal cost, the total required District contribution would be \$173.3 million. If the negative amortization amounts for the Police and Fire surpluses are allowed, the required District contribution is \$142.3 million (which is very close to what the projection modeler predicted). Cavanaugh Macdonald believes that the expectations of the Board were based on using the negative amortization payments, although the funding policy adopted did not allow for it. Because of this, Cavanaugh Macdonald has proposed the funding policy be amended to allow for negative amortization payments as long as the District contribution does not fall below the lesser of the entry age normal cost or the current active member contribution rate. This amended funding policy results in a District contribution amount of \$142.3 million.

A discussion about contribution levels followed. Mr. Cavanaugh noted that the calculations are based on project payroll, so if payroll does not go up, calculations will be off. The District has paid more in the past and contributions are going down, which is very usual for most other retirement systems. Mr. Cavanaugh stated that when a system is fully-funded or near it, like DCRB, the leveraging is huge, so small changes in policy can create large fluctuations in contributions. Mr. Bress noted that there will be education sessions for Trustees and staff in the future so they will better

understand this issue and will be able to communicate DCRB's position to other stakeholders, such as the D.C. Council.

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

Motion #5: To approve the Amended Funding Policy as presented and recommended by the actuaries:

The purpose of the funding policy is to state the overall funding goals for DCRB, the benchmarks that will be used to measure progress in achieving those goals, and the methods and assumptions that will be employed to develop the benchmarks.

I. Funding Goals

The objective in requiring employer and member contributions to the Plan is to accumulate sufficient assets during a member's employment to fully finance the benefits the member receives throughout retirement. In meeting this objective, the Plan will strive to meet the following funding goals:

- To maintain an increasing or stable ratio of Plan assets to accrued liabilities and reach a 100 percent minimum funded ratio;
- To maintain adequate asset levels to finance the benefits promised to members;
- To develop a pattern of stable or declining contribution rates when expressed as a percentage of member payroll as measured by valuations prepared in accordance with the principles of practice prescribed by the Actuarial Standards Board, with a minimum employer contribution equal to the lesser of the normal cost determined under the Entry Age Normal funding method and the current active member contribution rate;
- To provide intergenerational equity for taxpayers with respect to Plan costs; and
- To fund benefit improvements through increases in contribution rates in accordance with statute.

II. Benchmarks

To track progress in achieving the previously outlined funding goals, the following benchmarks will be measured annually as of the actuarial valuation date (with due recognition that a single year's results may not be indicative of long-term trends):

- **Funded ratio** – The funded ratio, defined as the actuarial value of Plan assets divided by the Plan's actuarial accrued liability, should be increasing over time, before adjustments for changes in benefits, actuarial methods, and/or actuarial assumptions, with a target of at least 100 percent.
- **Contribution rate history** – Employer and member contribution rates should be relatively stable or declining from year to year when expressed as a percent of active member payroll.
- **Unfunded Actuarial Accrued Liability (UAAL) amortization period** – The amortization period for the Plan's UAAL will be set to 20 years in 2012 and will be closed and set to decline one year each year until a funded ratio of 100 percent is reached. The amortization of the UAAL will be developed using the level dollar methodology.

III. Methods and Assumptions

The actuarial funding method used to develop the benchmarks will be entry age normal. The method used to develop the actuarial value of assets will recognize the underlying market value of the assets by spreading each year's unanticipated investment income (gains and losses) over a seven-year smoothing period (1/7th per year), as adopted by the Board.

The actuarial assumptions used will be those last adopted by the Board based upon the advice and recommendation of the Plan's actuary. The actuary shall conduct an investigation into the Plan's experience at least every three to five years, and utilize the results of the investigation to form the basis for those recommendations.

The Board will have an audit of the Plan's actuarial valuation results conducted by an independent actuary at least every five years. The purpose of such a review is to provide a critique of the reasonableness of the actuarial methods and assumptions in use and the resulting actuarially computed liabilities and contribution rates.

IV. Funding Policy Review

The funding policy components will be reviewed and amended as necessary following each experience investigation conducted by the Board.

A voice vote was called and the motion was approved 9-1. (See Tally #5)

- Presentation: FY 2014 Actuarial Valuation, Cavanaugh MacDonald: Cavanaugh MacDonald gave an overview of the key findings of the 2014 Actuarial Valuation. The key findings were: a 14.0% investment return for the fiscal year ending

September 30, 2012; funded status improved slightly for Police and Fire but decreased for Teachers; Teachers' Retirement Plan Contribution for 2014 fiscal year is estimated at \$31.6 million, which is up from \$6.4 million for the 2013 fiscal year; and, the Police Officers and Firefighters' Retirement Plan Contribution for the 2014 fiscal year is estimated at \$110.8 million, which is up from \$93.2 million from the 2013 fiscal year. Mr. Koebel noted that the changes for 2012 included the actuarial cost method change, which changed from the aggregate method to the entry age normal method. Economic assumption changes and the new funding policy were discussed. The actuaries then gave an overview of the rates, gains, losses, and other information from the past fiscal year.

Mr. Bress made the following motion, which was seconded by Mr. Tippett:

Motion #6: That the Board adopt the District contribution, as presented in the actuarial valuation report as of October 1, 2012 for 2014 contributions. *A voice vote was called and the motion was approved 10-0. (See Tally #6)*

- FY 2014 Budget Presentation: Mr. Podesta gave an overview of the FY 2014 Budget, and highlighted some key changes in the structure of the budget. Increases in the Budget include: additional 4.2 FTEs requested, staff increases, revised turnover/leave assumptions; IT requests needed to continue to establish the infrastructure, security and projects needed to support DCRB's operations and initiatives; rent based on actual expenditures. Budget reductions include: investment manager fees, due to a sizeable shift in the assets from active management to passively-managed index funds during FY2012; Data Reclamation and Pension Information Managements System (PIMS) schedules; continually improving accuracy in estimating recurring operational costs. Mr. Podesta noted that the percent of the 2012 budget that was expended was 61.6%. The budget has remained at the FY 2013 amount of \$30.3 million. Mr. Podesta emphasized that DCRB is well-funded, and unexpended budget remains in the Trust.

Mr. Bress made the following motion, which was seconded by Ms. Marcus:

Motion #7: To accept the FY 2014 Operating Budget. *A voice vote was called and the motion was approved 11-0. (See Tally #7)*

BENEFITS COMMITTEE REPORT

Mr. Suter noted that the Benefits Committee did not meet in December 2012. He updated the Board on the following committee items that have occurred since the November Board meeting:

- Business Process Reengineering Project: During September, October, and November, Linea Solutions, Inc. ("Linea") held work sessions with the DCRB Benefits staff to review and analyze current business processes. Along with their review of the processes, Linea has been discussing their findings and potential recommendations with DCRB's BPR Project Team. An assessment of the current processes, recommendations for re-engineering them, and a final strategic planning document are schedule to be delivered to DCRB soon. In January 2013, Linea will begin to conduct a skills assessment of DCRB's Benefits staff to identify training needs and

- the best placement of staff within a reorganized Benefits Department structure;
- Teachers' Plan - Option 2 Implementation: DCPS and the Washington Teachers Union's (WTU) collective bargaining agreement for contract years 2007-2012 contained Option 2 that allows "excessed" teachers with twenty or more years of creditable service to retire full benefits, subject to a budget of \$1.7 million per year over the next five years. Eight teachers who applied for Option 2 were eligible, and the WTU asked DCRB's actuary to calculate the cost of Option 2 for those teachers. The completed cost estimate exceeded the available budget. After considering the cost, DCPS and the WTU mutually agreed to revise their agreement and to accomplish their goal in another way. Mr. Suter emphasized that this agreement does not involve the District of Columbia Teachers' Retirement Plan or DCRB;
- Plan Amendments and Summary Plan Description: The D.C. Council passed the required tax law amendments to the retirement Plans (see Legislative Committee Report below). A subsequent vote is scheduled for December 18, 2012. The appropriate changes will be in the 2012 Summary Plan Descriptions, which are expected to be sent for printing in early 2013.

No action items were brought before the Board by this committee.

LEGISLATIVE COMMITTEE REPORT

Mr. Blanchard referred the Board to the written Legislative Committee Report. He highlighted the following items:

- **B19-1017, "Retirement of Public-School Teachers Omnibus Amendment Act of 2012"**
- **B19-1018, "Police Officers, Fire Fighters, and Teachers Retirement Benefit Replacement Act of 1998 Amendment Act of 2012"**
- **B19-1019, "Police and Firefighter's Retirement and Disability Omnibus Act of 2012"**

On December 4, 2012, the DC Council passed emergency legislation.

No action items were brought before the Board by this committee.

OTHER BUSINESS

Mr. Warren brought the following items to the Board's attention:

- Notice of Final Rulemaking, Section 1805 of Chapter 18: This compensation rule was published as final in the D.C. Register;
- Ms. Marcus noted that she has received compliments on the timeliness of the mailing of the Open Enrollment packages this year;
- Mr. Stanchfield noted that Mr. Dewar would be available to provide demonstrations of the new dashboard to anyone who is interested, and he may give demo at January meeting or afterward;
- Mr. Warren thanked the Trustees for their service to the Board over the course of 2012. He also extended thanks to staff for its work;
- Mr. Warren thanked Trustee Deborah Hensley for her service to the Board over her term as the Active Teacher Trustee, which will end on January 27, 2013. The January 2013 Board of Trustees meeting will be her final meeting for her term.

ADJOURNMENT

Motion #8: Ms. Marcus moved to adjourn the meeting at 1:00 p.m. Ms. Hensley seconded the motion. *A voice vote was called and the motion was approved 11-0. (See Tally #8)*

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

Tally #1		Date: December 20, 2012			
Members	Aye	Nay/ Oppose	No Vote/ Abstain	No Vote/ Recuse	Absent
Blanchard, Lyle M.					√
Blum, Barbara Davis	√				
Bress, Joseph M.	√				
Bulger, Diana K.					√
Bunn, James E.	√				
Hensley, Deborah	√				
Marcus, Judith C.	√				
Ross, Darrick O.	√				
Smith, Edward C.	√				
Suter, George R.	√				
Tippett, Thomas N.	√				
Warren, Michael J.					√

Tally #2		Date: December 20, 2012			
Members	Aye	Nay/ Oppose	No Vote/ Abstain	No Vote/ Recuse	Absent
Blanchard, Lyle M.					√
Blum, Barbara Davis	√				
Bress, Joseph M.	√				
Bulger, Diana K.					√
Bunn, James E.	√				
Hensley, Deborah	√				
Marcus, Judith C.	√				
Ross, Darrick O.	√				
Smith, Edward C.	√				
Suter, George R.	√				
Tippett, Thomas N.	√				
Warren, Michael J.					√

Tally #3		Date: December 20, 2012			
Members	Aye	Nay/ Oppose	No Vote/ Abstain	No Vote/ Recuse	Absent
Blanchard, Lyle M.					√
Blum, Barbara Davis	√				
Bress, Joseph M.	√				
Bulger, Diana K.					√
Bunn, James E.	√				
Hensley, Deborah	√				
Marcus, Judith C.	√				
Ross, Darrick O.	√				
Smith, Edward C.	√				
Suter, George R.	√				
Tippett, Thomas N.	√				
Warren, Michael J.					√

Tally #4		Date: December 20, 2012			
Members	Aye	Nay/ Oppose	No Vote/ Abstain	No Vote/ Recuse	Absent
Blanchard, Lyle M.	√				
Blum, Barbara Davis	√				
Bress, Joseph M.	√				
Bulger, Diana K.					√
Bunn, James E.	√				
Hensley, Deborah	√				
Marcus, Judith C.	√				
Ross, Darrick O.	√				
Smith, Edward C.	√				
Suter, George R.	√				
Tippett, Thomas N.	√				
Warren, Michael J.	√				

Tally #5		Date: December 20, 2012			
Members	Aye	Nay/ Oppose	No Vote/ Abstain	No Vote/ Recuse	Absent
Blanchard, Lyle M.	√				
Blum, Barbara Davis	√				
Bress, Joseph M.	√				

Bulger, Diana K.					√
Bunn, James E.	√				
Hensley, Deborah		√			
Marcus, Judith C.	√				
Ross, Darrick O.					√
Smith, Edward C.	√				
Suter, George R.	√				
Tippett, Thomas N.	√				
Warren, Michael J.	√				

Tally #6			Date: December 20, 2012		
Members	Aye	Nay/ Oppose	No Vote/ Abstain	No Vote/ Recuse	Absent
Blanchard, Lyle M.	√				
Blum, Barbara Davis	√				
Bress, Joseph M.	√				
Bulger, Diana K.					√
Bunn, James E.					√
Hensley, Deborah	√				
Marcus, Judith C.	√				
Ross, Darrick O.	√				
Smith, Edward C.	√				
Suter, George R.	√				
Tippett, Thomas N.	√				
Warren, Michael J.	√				

Tally #7			Date: December 20, 2012		
Members	Aye	Nay/ Oppose	No Vote/ Abstain	No Vote/ Recuse	Absent
Blanchard, Lyle M.	√				
Blum, Barbara Davis	√				
Bress, Joseph M.	√				
Bulger, Diana K.					√
Bunn, James E.	√				
Hensley, Deborah	√				
Marcus, Judith C.	√				
Ross, Darrick O.	√				
Smith, Edward C.	√				
Suter, George R.	√				
Tippett, Thomas N.	√				
Warren, Michael J.	√				

Tally #8			Date: December 20, 2012		
Members	Aye	Nay/ Oppose	No Vote/ Abstain	No Vote/ Recuse	Absent
Blanchard, Lyle M.	√				
Blum, Barbara Davis	√				
Bress, Joseph M.	√				
Bulger, Diana K.					√
Bunn, James E.	√				
Hensley, Deborah	√				
Marcus, Judith C.	√				
Ross, Darrick O.	√				
Smith, Edward C.	√				
Suter, George R.	√				
Tippett, Thomas N.	√				