

CITY OF OLNEY
FIRE PENSION BOARD
JULY 11, 2013

AGENDA #1 “CALL TO ORDER” The City of Olney Fire Pension Board met in the Fire Station at 9:10 a.m. on July 11, 2013, with Firefighter Mike Hill presiding.

AGENDA #2 “ROLL CALL” The following members were present: Firefighter Mike Hill and Michael Pipher, Retired Firefighter Clarence Smith, City Treasurer Chuck Sanders and City Clerk Belinda Henton.

AGENDA #3 “APPROVE MINUTES FROM FIRE PENSION BOARD MEETING ON MAY 30, 2013” Firefighter Pipher moved to approve the minutes from the Fire Pension meeting on May 30, 2013, seconded by Mr. Sanders. A unanimous voice vote was received.

AGENDA #4 “TREASURER’S REPORT”

4-A “Discussion: Income and Expense May 1 - June 30, 2013” Mr. Sanders distributed and reviewed the income and expense statement for May and June. Mr. Sanders believed there is approximately \$125,000 available for investment once the tax levy is received and the certificate of deposit matures.

4-B “Discussion: Investment Schedule and Maturities” A certificate of deposit for \$100,000 will be maturing at LPL on July 16, 2013. There will be two more certificates of deposit maturing in October. The variable annuities have been liquidated and placed in fixed and variable investments with Morgan Stanley. The total investment with Morgan Stanley is \$630,000 which has decreased their fee from .8% to .65%. Mr. Sanders reported the bond market has gone down substantially resulting in a \$15,000 to \$16,000 loss, but equities have increased. Mr. Sanders believed that Morgan Stanley will advocate that the Fire Pension Fund convert the Nationwide 3% fixed annuity to a variable investment.

Mr. Sanders distributed a list of investment rates from the local banks and Edward Jones. Edwards Jones presented a fixed income proposal. Five bonds were suggested and could be purchased at a discount costing \$103,031.37. These investments would not be considered an equity investment.

Edward Jones is also requesting that the trustees and treasurer of the Fire Pension Fund sign an indemnification agreement. Mr. Sanders expressed concern with the wording and has reviewed this document with the City Attorney. Mr. Sanders does not want to sign this document unless Edward Jones can convince him of the need. Mr. Sanders explained there are

insurance policies that can protect trustees against claims. He did not believe either the Fire or Police Pension Funds have such coverage, but he will be checking into such a policy.

Eric Laughlin and Dan Anderson, Morgan Stanley representatives, joined the meeting through a conference call at 9:34 a.m. Prior to the meeting Board members were provided a quarterly report from Morgan Stanley. Morgan Stanley reported that the stock market is doing well and reviewed the performance report.

Recently Morgan Stanley representatives had a conference call with the City Manager and City Treasurer to discuss funding or under funding of the pension plans. Mr. Sanders added that all three City pension funds are under funded. This phone call was to help City staff understand why the under funding has changed so significantly from the past few years. Mr. Laughlin explained there are several reasons, but it comes down to a variety of assumptions. Past rate of returns expected were unrealistic especially when you can only have 10% in equity. Expected returns have been lowered.

The bond market is at an all time low. Mr. Laughlin explained the reasons for this change. The Fire Pension Fund has experienced a 2.6% quarter to date decrease and a 2.3% year to date decrease in the bond investments.

Mr. Laughlin reviewed the various aspects of the investment summary report. He noted that the annuity that Morgan Stanley is holding for the fund is not included on this report, but as of July 10, 2013, the value was \$137,752.

Mr. Laughlin explained dollar cost buying is important in the long run. The fund is only allowed by statutes to have 10% invested in equities. This should be maximized to help in meeting the long term goals. The Nationwide annuity was converted to a 3% fixed annuity, but equities this year earned an average of 6%. Unfortunately, the Department of Insurance looks at this annuity as an equity. Morgan Stanley recommended to slowing get out of this fixed annuity and move into equity funds.

Concerning the bond investments, there are other options for the bond portfolio if the Board is uncomfortable with the existing bond strategy. There are portfolios with shorter duration. Shorter term bonds have the same interest rate risk, but smaller returns since they are for a short time.

Mr. Anderson reminded the Board they need to view the fund's investments as long term. The right thing to do is to mix bonds and stocks to reach the 5.5% goal.

Mr. Sanders clarified there are two amounts to address; the \$125,000 available for investment and the 3% fixed annuity.

Morgan Stanley suggested investing 50% of the \$125,000 in bonds with them and the other 50% locally in a short term certificate of deposit.

Morgan Stanley explained it makes sense to purchase bonds when the cost is down which will pay off in the long term.

Morgan Stanley suggested to avoid the tactical decisions, the investment policy could be changed to dictate the type of investments to be made as a long term goal.

Mr. Sanders clarified at the end of June the Fire Pension investments with Morgan Stanley were down \$12,000, but the bond market averages 5%. It is reasonable to expect that in the long term the fund will recover the \$12,000. Morgan Stanley agreed with Mr. Sanders, and explained the loss is only realized if the bonds are sold before they mature. At this time the loss is only on paper.

Morgan Stanley also suggested investing a portion of the \$137,000 fix annuity over a six-month period into true equity.

Mr. Sanders questioned how active McDonnell is in managing the funds. Morgan Stanley representatives answered they are very active managers. They have an investment strategy for each fund and they stay within that range. The Fire Pension strategy is intermediary.

Mr. Sanders asked if Morgan Stanley recommends staying in the intermediary strategy. Morgan Stanley answered yes, long term intermediary strategy with dollar cost averaging, but the fund also needs to maximize stocks.

The conference call with Morgan Stanley was ended at 10:26 a.m.

The Board discussed the various options.

The Board then participated in a conference call to LaNae Mitchell from Edward Jones at 10:33 a.m.

Mr. Sanders discussed the document that Edward Jones requested the fund to sign. Mrs. Mitchell commented the same form was signed in 2003.

Mrs. Mitchell discussed the suggested bonds for investment. She looked at government-sponsored agencies for bonds that were discounted and had the highest rate. The Board would have to make the decision on what rate they wanted.

Mr. Sanders asked if Edward Jones recommended putting all of the \$125,000 into the proposal or phase into the proposal. Mrs. Mitchell would not make a recommendation, but

explained the Board needs to look at future maturities and then take into consideration the interest rates.

If interest rates go up and the \$125,000 is invested in bonds, Mr. Sanders asked if there will be a period of time the bonds will loss value. Mrs. Mitchell commented that bonds do fluctuate, but if they are held to maturity there is not an issue. Bonds only lose value if they are liquidated before they mature. Edward Jones would not make a recommendation on how to invest. She would not recommend putting \$125,000 in the bonds. She did suggest using Black Rock as a financial advisor.

The conference call with Edward Jones ended at 10:49 a.m.

Mr. Sanders moved to invest \$60,000 with Morgan Stanley to be invested as a fixed investment according to the intermediary strategy and leave the balance in the money market account at Citizen National Bank, seconded by Retired Firefighter Smith. A unanimous voice vote was received.

Mr. Sanders agreed with Morgan Stanley's recommendation to phase out the \$137,000 fixed annuity and convert this investment into a true equity. He suggested reinvesting \$23,000 every month into an equity for the next 6 months.

Retired Firefighter Smith moved to liquidate the Nationwide annuity monthly over a 6 month period of time and reinvest in another qualified equity while staying within the 10% limit, seconded by Mrs. Henton. A unanimous voice vote was received.

AGENDA #5 "COALITION FOR QUALIFIED PLAN STATUS" The Fire Pension Fund recently received a request to contribute \$300 to the Coalition for Qualified Plan Status. Mr. Sanders has investigated this group and recommended participation. He explained the plan document applies to all municipal Fire Pension Funds within the state. There is a requirement to maintain the plan document. There are frequent IRS changes that need to be updated in the plan document. When the plan documents became out of date, the Coalition was formed. They hired an attorney to get the document up to date. Last year they requested that all funds contribute \$400 toward helping update the plan. Last year our Fire Pension Fund elected not to contribute. Many neighboring communities have been contributing. This expense has not been budgeted. He explained since the plan document has to be updated, and the Fire Pension does not want to undertake the job, he recommended contributing the \$300. The Coalition does account for the money they spend.

Firefighter Pipher moved to contribute \$300 to the Coalition for Qualified Plan Status, second by Firefighter Hill. A unanimous vote was received.

AGENDA #6 "ELECTIONS OF BOARD OFFICERS" Firefighter Pipher moved to nominate Firefighter Hill as President, seconded by Mr. Sanders.

Mr. Sanders moved to close nominations, second by Firefighter Pipher.

Retired Firefighter Smith moved to nominate Firefighter Pipher as Vice President, seconded by Firefighter Hill.

Mr. Sanders moved to close nominations, seconded by Firefighter Pipher.

Firefighter Hill moved to nominate Mrs. Henton as the Secretary, second by Retired Firefighter Smith.

Mrs. Sanders moved to close nominations, seconded by Firefighter Hill.

Mrs. Henton moved to nominate Retired Firefighter Smith as Assistant Secretary, seconded by Firefighter Hill.

Mr. Sanders moved to close nominations, seconded by Firefighter Pipher.

Mr. Sanders moved to elect the nominated officers, seconded by Firefighter Pipher. A unanimous voice vote was received.

AGENDA #7 “ADJOURN” Mrs. Henton moved to adjourn, seconded by Firefighter Pipher. A unanimous voice vote was received.

The meeting of the Fire Pension Board adjourned at 11:10 a.m.

Belinda C. Henton
Secretary