

Spokane Employees' Retirement System (SERS)
Board Meeting, 1:30 p.m. July 26, 2017
City Hall - Conference Room 5A

AGENDA

- 1) Minutes of the July 26, 2016 Meeting
 - Motion

- 2) Director's Report
 - a) Retirements
 - Motion
 - b) Withdrawals
 - Motion
 - c) Deaths
 - Information
 - d) Expenditure Summary Report – June 2017
 - Motion
 - e) Schedule of Investments – June 2017
 - Information
 - f) Cash Reconciliation – July 2017
 - Information
 - g) Sustainability Review
 - Discussion
 - h) Other Business

- 3) Other Business

- 4) Next Meeting – **Wednesday, August 30th at 12:30 p.m.**

Spokane Employees' Retirement System (SERS)
Board Meeting Minutes
June 28, 2017

The regular monthly meeting was called to order at 12:31 p.m. in the 5th Floor Conference Room at City Hall.

Present: Mike Coster, Jim Tieken, Mike Cavanaugh, Candace Mumm, Dean Kiefer, Brian Brill, and J.D. Morscheck

Staff: Phill Tencick, Christine Shisler, Donald Brown, and Tim Szambelan

Guests: Bill Dowd (SageView), Tammy Erickson and Kris Ryan (Moss Adams), Joe Cavanaugh, Bob Olsen, Dave Henshaw, Natalie Hilderbrand, Joan Hamilton, Diana Windsor, Kim Bustos, John Bjork, and Richard Czernik

Moss Adams – December 31, 2016 Audit Report

Moss Adams presented the 2016 SERS independent audit report. The auditors explained how they test critical areas such as the investment assets, investment income, contributions, benefit payments and participant data. Moss Adams issued an unqualified (clean) opinion. They had no negative comments or areas of concern in the management letter, which reflects the continuing diligence of staff.

SageView Consulting – Experience Study

SageView presented the 2012-2016 experience study. As a result of the plan's experience, changes to demographic assumptions were recommended for retirement rates, termination rates, and the mortality table. Changes to economic assumptions were recommended for inflation and salary increases. No changes were recommended to the actuarial methods. The recommended changes would result in a slight increase in contribution rates (17.87% to 18.21%) and a slight decrease in funded status (53.0% to 51.8%).

Mike Cavanaugh moved and Jim Tieken seconded the motion to adopt the recommendations as presented by SageView. The motion passed unanimously.

Minutes of the June 7, 2017 Meeting

Candace Mumm moved and Jim Tieken seconded the motion to approve the minutes of the June 7, 2017 meeting as presented. The motion passed unanimously.

Director's Report
Service Retirements

<i>Name</i>	<i>Age</i>	<i>Retirement Date</i>	<i>Years of Service</i>	<i>Option</i>
Sandra M. O'Connor	52	07/06/2017	9.3	ST
Darlene L. Esperas	65	07/13/2017	26.8	ST
Maryann G. Carey	64	07/15/2017	13.7	E
Jo Anne E. Wright	70	07/29/2017	19.5	ST
Donald B. Nelson	65	08/12/2017	35.4	D

Jim Tieken moved and Dean Kiefer seconded the motion to approve the service retirements as presented on the June Retirement Transaction Report. The motion passed unanimously.

Withdrawals for June 2017

<i>Name</i>	<i>Years of Service</i>	<i>Termination Date</i>
Makaila A. Bergeron	0.4	05/12/2017

Mike Cavanaugh moved and Candace Mumm seconded the motion to approve the requests for withdrawal as presented on the June Retirement Transaction Report. The motion passed unanimously.

Vesting

<i>Name</i>	<i>Department</i>	<i>Years of Service</i>
Scott A. Lowell	Solid Waste Management	6.0

Deaths

<i>Name</i>	<i>Date Retired</i>	<i>Age</i>	<i>Date of Death</i>	<i>Information</i>
Jack D. Bryan	10/19/1996	70	05/15/2017	No Further Benefits
Arleigh Q. White	05/12/1990	87	06/01/2017	E Option Continues
Marjorie L. Cromwell	01/19/1985	93	06/04/2017	No Further Benefits

Vesting and Death information provided to the Board for review.

Expenditure Summary Report – May 2017

The Expenditure Summary Report was presented to the Board and discussed.

Dean Kiefer moved and Mike Cavanaugh seconded the motion to approve the May 2017 Expenditure Summary Report. The motion passed unanimously.

Schedule of Investments – May 2017

The monthly investment report was presented to the Board for review. The estimated market value of the SERS portfolio on May 31, 2017 was \$293 million with an estimated rate of return of 1.0% for the month.

Monthly Cash Reconciliation

The monthly cash reconciliation report was presented to provide the Board with additional insight into the ongoing liquidity, transactions, and cash position of the plan.

Contribution Interest Rate

Mr. Tencick presented a white paper that discussed the US Treasury Note rates. Being that there is no change in the one-year average, rounded to the nearest 25 basis points, for the 5-year US Treasury Note from last year, the interest rate on contributions will remain at 1.5%.

2018 Budget

The 2018 Budget was presented to the Board and discussed.

Mike Cavanaugh moved and Dean Kiefer seconded the motion to adopt the 2018 Budget as presented. The motion passed unanimously.

There being no other business, the meeting adjourned at 1:56 p.m.

Phillip Tencick, Retirement Director

SERS Retirement Transaction Report

July 2017

Retirements

	Name	Age	Retirement Date	Years of Service	Department	Option
1	Paul E. Putman	58	07/06/2017	32.2	Fleet Services Advanced	ST
2	William F. Thomas	63	07/08/2017	25.0	Wastewater Treatment	ST
3	Jerry J. Richardson	71	08/02/2017	15.1	Solid Waste Disposal	E
	Retirements YTD	42				
	2016 Total Retirements	69				

Withdrawals

	Name	Years of Service	Department	Termination Date
1	Charles Kline	1.0	Code Enforcement	02/15/2017
2	Laura Hathorn	0.5	Planning Services	05/01/2017
3	John Focht	2.0	Engineering Services	05/05/2017
4	Michael Yates	0.6	Water Division	05/22/2017

Deaths

	Name	Date Retired	Age	Date of Death	Information
1	Ila I. Greenaway	06/09/2015	99	06/12/2017	No Further Benefits
2	Gary R. Driskell	08/14/1999	82	06/22/2017	No Further Benefits
3	Larry V. Stevens	09/07/2011	67	06/23/2017	E Option Continues
4	Lorraine C. Johnson	06/01/2015	76	06/29/2017	No Further Benefits
5	Lawrence E. Maly	04/06/1991	86	07/14/2017	D Option Continues

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
 2017 EXPENDITURE SUMMARY REPORT
 JUNE 31, 2017

	2016 ACTUAL	2017 BUDGET	JUNE ACTUAL EXPENDITURES	2017 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
OPERATING EXPENDITURES						
Departmental Salaries	261,984.86	279,341.00	20,469.80	122,608.87	156,732.13	43.9%
Departmental Benefits	76,531.55	80,482.00	6,235.14	37,619.80	42,862.20	46.7%
Reserve for Budget Adjustment	-	10,000.00	-	-	10,000.00	0.0%
Administrative Income	(19,375.31)	(10,000.00)	(4,762.30)	(9,754.89)	(245.11)	
Postage/Supplies/Other	11,432.31	16,500.00	84.32	2,257.54	14,242.46	13.7%
State Audit Charges	11,172.03	12,000.00	2,266.71	4,070.41	7,929.59	33.9%
Contractual Services	80,222.66	173,475.00	45,383.00	86,998.34	86,476.66	50.2%
Travel	7,972.23	15,000.00	961.60	4,149.85	10,850.15	27.7%
Registration/Schooling	805.00	30,285.00	-	15,285.00	15,000.00	50.5%
Other Dues/Subscriptions/Membership	1,993.20	2,500.00	-	210.00	2,290.00	8.4%
Other Miscellaneous Charges	1,278.26	1,826.00	55.00	374.18	1,451.82	20.5%
Amortization	17,649.00	-	-	-	-	
TOTAL OPERATING EXPENDITURES	451,665.79	611,409.00	70,693.27	263,819.10	347,589.90	43.1%
INTERFUND EXPENDITURES						
Interfund - Centralized Accounting	2,303.96	2,347.00	-	1,173.46	1,173.54	50.0%
Interfund - IT Phones	1,505.77	1,451.00	122.07	633.84	817.16	43.7%
Interfund - IT Communications Replacement	-	-	-	-	-	-
Interfund - Risk Management	991.00	760.00	-	380.00	380.00	50.0%
Interfund - Unemployment	-	-	-	-	-	-
Interfund - Worker's Compensation	198.00	104.00	-	52.00	52.00	50.0%
Interfund - Reprographics	4,930.49	4,500.00	202.48	3,817.31	682.69	84.8%
Interfund - IT	12,980.37	14,078.00	1,173.17	5,865.85	8,212.15	41.7%
Interfund - IT Replacement	1,926.96	2,772.00	231.00	1,155.00	1,617.00	41.7%
Interfund - My Spokane	751.00	-	-	-	-	
TOTAL INTERFUND EXPENDITURES	25,587.55	26,012.00	1,728.72	13,077.46	12,934.54	50.3%
TOTAL ADMINISTRATIVE EXPENDITURES	477,253.34	637,421.00	72,421.99	276,896.56	360,524.44	43.4%

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
 2017 EXPENDITURE SUMMARY REPORT
 JUNE 31, 2017

	2016 ACTUAL	2017 BUDGET	JUNE ACTUAL EXPENDITURES	2017 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
PENSIONS						
Pensions-Annuity Benefit Payments	23,765,712.64	26,000,000.00	2,068,662.64	12,280,953.42	13,719,046.58	47.2%
Pensions-Disability Payments	125,328.48	160,000.00	10,444.04	62,664.24	97,335.76	39.2%
Pensions-Survivor Annuity Benefits Payments	1,846,473.52	2,000,000.00	158,621.04	967,640.85	1,032,359.15	48.4%
TOTAL PENSIONS	<u>25,737,514.64</u>	<u>28,160,000.00</u>	<u>2,237,727.72</u>	<u>13,311,258.51</u>	<u>14,848,741.49</u>	47.3%
Refunds	729,741.16	1,000,000.00	(512.82)	155,205.65	844,794.35	15.5%
TOTAL EXPENSES	<u><u>26,944,509.14</u></u>	<u><u>29,797,421.00</u></u>	<u><u>2,309,636.89</u></u>	<u><u>13,743,360.72</u></u>	<u><u>16,054,060.28</u></u>	46.1%
INVESTMENT EXPENSE*						
Advisory Technical Service	380,964.60	450,000.00	4,391.88	152,202.84	297,797.16	33.8%

* investment expenses are netted against investment income in the statement of changes of plan net assets to arrive at a net investment income amount.

SERS Schedule of Cash and Investments

June 30, 2017

7/20/2017

	Type		Allocation		
			Target	Current	Diff.
Cash Held by Treasurer	Cash	\$ 49,511			
US Bank	Short-term Inv	123,933			
Total Cash		173,444	0.0%	0.1%	0.1%
Sterling Capital	Total Return	22,437,631			
Total Total Return		22,437,631	10.0%	7.6%	-2.4%
Hotchkis & Wiley	High Yield - Mutual Fund	21,760,218			
Total High Yield		21,760,218	5.0%	7.4%	2.4%
Polar	LLC	6,460,260			
American Beacon	Mutual Fund	1,319,350			
Castine Capital I	Ltd Partnership	7,414,272			
Post Limited Term High Yield	Ltd Partnership	5,960,481			
Rimrock Low Volatility	Ltd Partnership	9,545,506			
Total Absolute Return		30,699,869	8.0%	10.4%	2.4%
Total Capital Preservation		75,071,162	23.0%	25.4%	2.4%
Hotchkis & Wiley	LC Value - Mutual Fund	15,726,524			
Jackson Square (Delaware)	LC Growth - Mutual Fund	16,309,843			
MFS Heritage	LC Core	16,317,688			
Vanguard S&P 500 Index	LC Core - Mutual Fund	9,793,857			
Total US Large Cap		58,147,912	21.0%	19.7%	-1.3%
Sterling	MC Value	5,770,648			
Vanguard MC Growth	MC Growth - Mutual Fund	4,374,640			
Vanguard MC Index	MC Core - Mutual Fund	3,598,673			
Champlain	SC Core	5,376,820			
Phocas	SC Value - Mutual Fund	4,072,699			
Bridge City	SC Growth	5,717,434			
Vanguard SC Index	SC Core - Mutual Fund	959,312			
Total US Small/Mid Cap		29,870,226	11.0%	10.1%	-0.9%
Total US Equities		88,018,138	32.0%	29.8%	-2.2%
Artisan	SMID Value - Mutual Fund	21,377,260			
Euro Pacific	LC Blend - Mutual Fund	21,684,145			
Vanguard International	LC Index - Mutual Fund	-			
Total International Large Cap		43,061,405	15.0%	14.6%	-0.4%
Trivalent	SC Value - Mutual Fund	12,065,800			
Total International Small/Mid		12,065,800	4.0%	4.1%	0.1%
Berens	Ltd Partnership	11,184,021			
Total Emerging Markets		11,184,021	3.0%	3.8%	0.8%
Total International Equities		66,311,226	22.0%	22.5%	0.5%
Weatherlow Offshore	Ltd Partnership	15,955,597			
Royalty Opportunities I	Ltd Partnership	2,741,717			
Royalty Opportunities II	Ltd Partnership	2,196,375			
Troob	Ltd Partnership	-			
Total Long Biased		20,893,689	7.0%	7.1%	0.1%
Legacy Partners Realty Fund III	Ltd Partnership	26,953			
Metropolitan Real Estate Partners	Ltd Partnership	335,121			
Morrison Street Fund IV	LLC	1,276,816			
Morrison Street Fund V	LLC	5,463,605			
Morrison Street Debt Opportunities	LP	3,229,458			
Principal (REITs)	REITs	15,090,377			
Total Real Estate		25,422,330	9.0%	8.6%	-0.4%
Beach Point	Ltd Partnership	9,918,712			
Total Opportunistic Credit		9,918,712	7.0%	3.4%	-3.6%
Caduceus (OrbiMed II)	Ltd Partnership	9,366,621			
Total Special Opportunities		9,366,621	0.0%	3.2%	3.2%
Total Cash and Investments		\$ 295,001,878	100.0%	100.0%	0.0%
	Withdrawals	\$ -			
	As of May 31, 2017	\$ 292,962,593			
	Estimated Rate of Return	0.7%			
Abs. Return and Total Return FI	Thesis 2017.1	53,137,500	18.0%	18.0%	0.0%
High Yield and Opp Credit	Thesis 2017.2	31,678,930	12.0%	10.7%	-1.3%
Equity and Special Situations	Thesis 2017.3	163,695,985	54.0%	55.5%	1.5%

Cash Recon - Jul 17

Date	Transactions	Sources	Uses	Balance
6/23/2017	Beginning Balance			686,941.21
6/26/2017	Payroll Contributions	625,259.56		1,312,200.77
6/26/2017	Capital Call - Morrison Street Debt Ops		(325,008.14)	987,192.63
6/28/2017	Distribution - Metro V	13,359.03		1,000,551.66
6/29/2017	Distribution - Royalty Ops	62,326.27		1,062,877.93
6/29/2017	Rebalancing - High Yield to Beach Point		(900,000.00)	162,877.93
6/30/2017	Sale - Hothckis & Wiley High Yield	2,200,000.00		2,362,877.93
6/30/2017	Pension Payments		(2,239,225.21)	123,652.72
7/3/2017	Interest	279.92		123,932.64
7/5/2017	Lump Sum Distribution		(1,591.83)	122,340.81
7/10/2017	Payroll Contributions	616,373.14		738,713.95
7/13/2017	Purchase - Principal REIT		(727,000.00)	11,713.95
7/14/2017	Distribution - Morrison Street IV	23,640.66		35,354.61
7/19/2017	Correction - Redeposit	1,596.90		36,951.51
7/19/2017	Correction - Reissue		(1,560.14)	35,391.37
7/20/2017	Ending Balance	3,542,835.48	(4,194,385.32)	35,391.37
	<u>Upcoming</u>			
7/25/2017	Payroll Contributions	610,000.00		
7/31/2017	Pension Payments		(2,269,040.44)	
7/31/2017	Subscription - Angelo Gordon Super Fund		(10,000,000.00)	

SERS SUSTAINABILITY STRATEGIC REVIEW

July 26, 2017

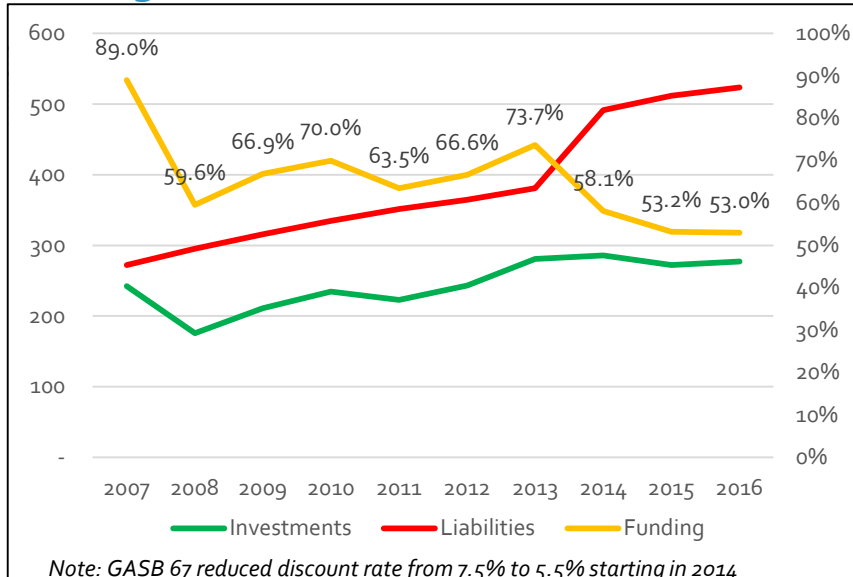


The problem

- Glide path vs. projected
 - Not going to close funding gap on current path!
- Contribution to city's balance sheet
 - 32% of ALL City Liabilities
 - 126% of General Obligation Bonds outstanding

Key Plan Metrics

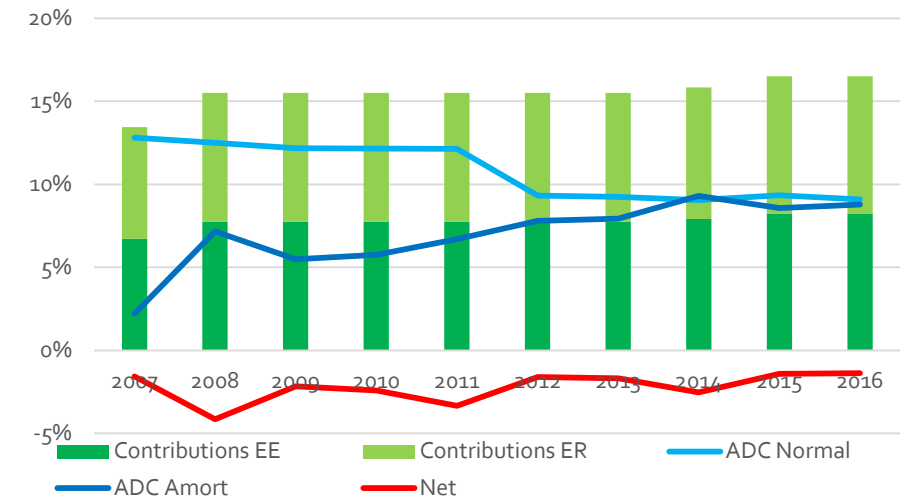
Funding Status



Funding Status by Tier

	Members	Liability (\$Ms)	Liability/Member	Assets (\$Ms)	Funding
Retired/Vested	1,451	299,979	206,740	256,856	50.8%
Active 5/50	863	205,728	238,387		
Active Rule 75	337	16,118	47,829	18,372	114.0%
Active Rule 80	260	1,909	7,343	2,104	110.2%
Total	2,911	523,735	179,916	277,332	53.0%

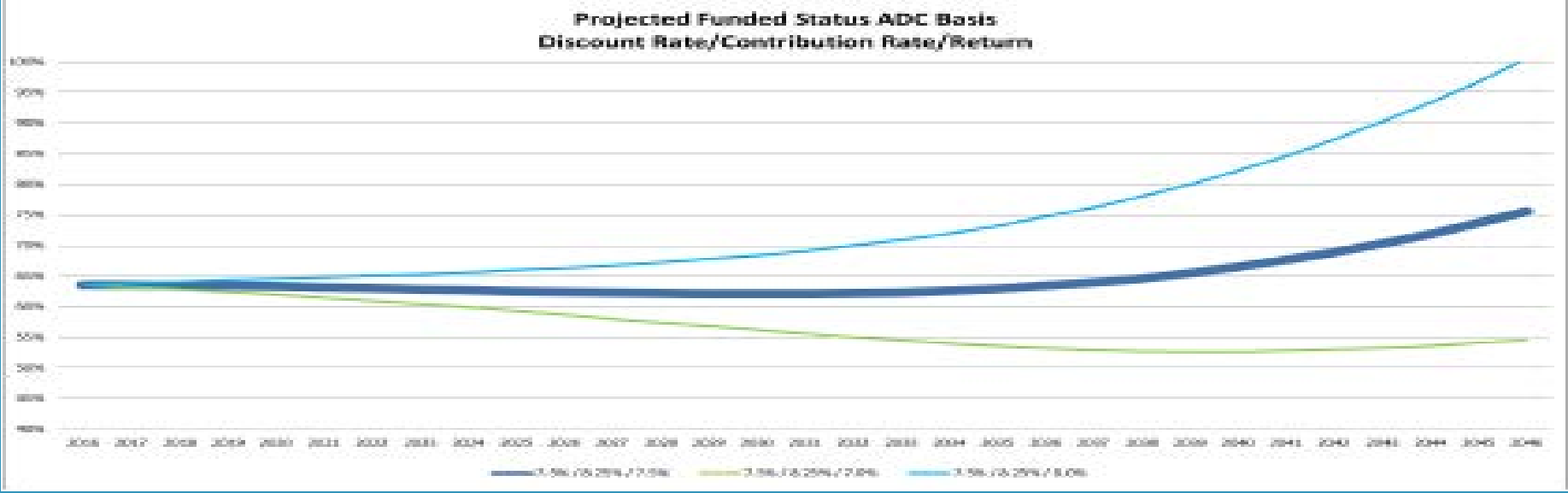
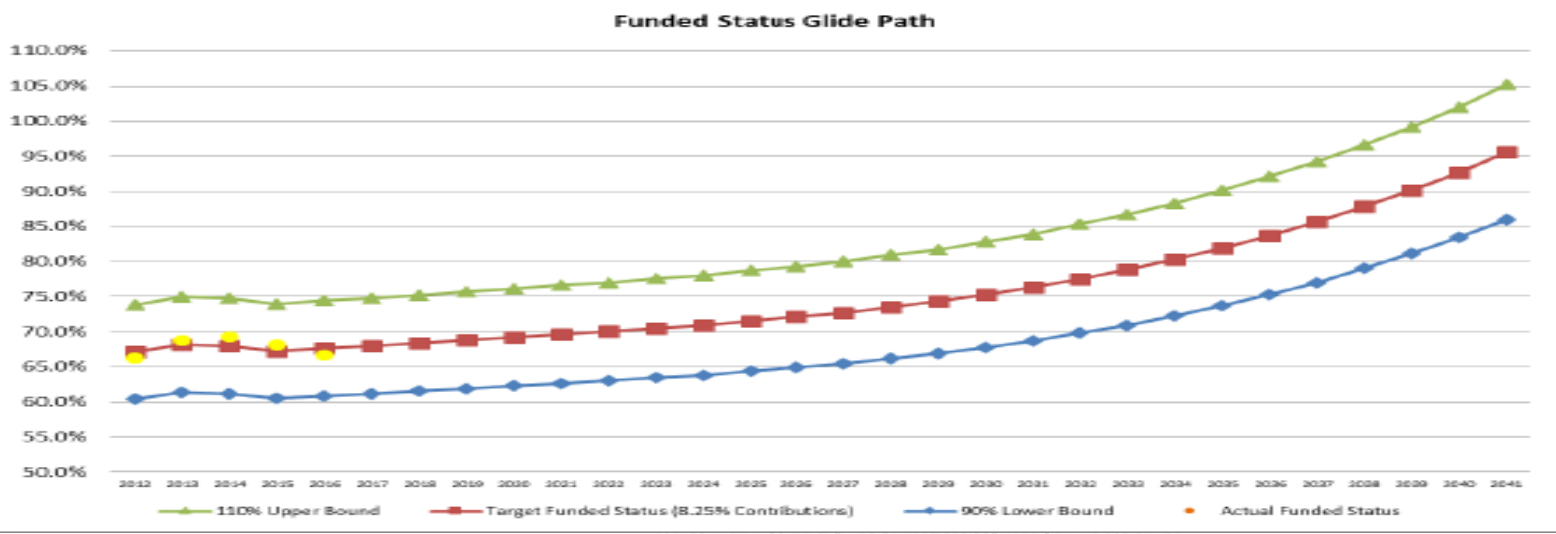
Contribution History



Investment Performance

	1 yr	3 yr	5 yr	10 yr
SERS Plan	6.71%	3.65%	8.14%	4.92%
Policy Index	9.87%	4.44%	8.74%	5.11%
Variance	-3.16%	-0.79%	-0.60%	-0.19%

Glide Path vs Long-Term Projections



Current Strategy Sufficient?

- Funding Policy: 8.25% for EE and ER
 - Pending: 9.0% (\approx ADC), with mechanism to adjust
- Investment Strategy: Grow our way out seeking 7.5% return
- Plan Design: New Tiers (75, 80, 90?) to reduce future liabilities
- Valuation Assumptions: Follow actuary recommendations, with Future \approx Past

Next Steps

- Develop process
- Define objectives
- Develop framework
- Identify and engage stakeholders
- Identify and engage experts
 - Arnold Group
- Develop and evaluate alternatives

Framework

➤ Goal: 90%+ Funding Ratio

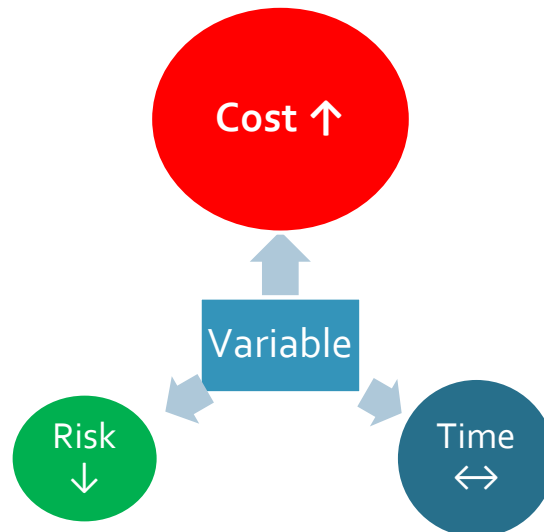
- How much? When? How likely?

Variables

- 1) Funding Policy
- 2) Investment Strategy
- 3) Plan Design
- 4) Valuation Assumptions

Constraints

- 1) Vested Benefits (Liability)
- 2) Approval/Implementation Authority



Variables

- Funding Policy

- Contribution Rates → Must meet ADC to close funding gap!

- Cost: +/- \$1.0M per 100bp (split evenly between EE and ER)
 - Time: 7-10 years (compounded)
 - Risk: Reduced via lowered hurdle rate

- Lump Sum (e.g. Pension Obligation Bond)

- Cost: Reduce/Eliminate amortized costs, Increase financing costs
 - Time: Align with payback of lump sum contribution
 - Risk: Increased, requires return spread over cost of capital; process and feasibility TBD

- Investment Strategy

- Target Rate of Return

- Cost: +/- \$1.2M per 25bp (1.1% of payroll)
 - Time: Unchanged
 - Risk: Inverse relationship to cost

Variables

- Plan Design
 - Cost: Short Term – Fixed; Long Term – Variable
 - Time: Short Term – Fixed; Long Term – Variable
 - Risk: Short Term – Fixed; Long Term – Variable
- Valuation Assumptions
 - Cost: Short Term – Variable; Long Term – Fixed
 - Time: Short Term – Variable; Long Term – Fixed
 - Risk: Mean Reverting

Arnold Foundation Case Studies

- San Jose, CA – Ballot initiative reduced DB benefit, partially overturned in court
- Utah – Moved to DC Plan
- Jacksonville, FL – Closed DB plan to new EE, funded deficit through sales tax increase
- Arizona Public Safety – Hybrid plan for new EE
- Rhode Island – DB frozen, future benefits accrued under hybrid plan; COLA suspended until 80% funded, then progressive
- Houston – Pending: Benefit reductions, obligation bonds, ADC required, “cost corridor”

Alternative Models

1) Corporate Plans

- De-risk through investment allocation (LDI), plan design (closing), and buyouts
 - Benefit: Reduce earnings volatility, minimize plan risks
 - Cost: Higher contribution rates to offset lower returns, cannot subsidize from active pool, buyout cost greater than assumed
 - Risks: Lower retention and retirement readiness

2) European Model

- Centralized, discount at risk-free rate, invest for market returns
 - Benefit: Minimize risk with most conservative valuation method
 - Cost: High contribution rates
 - Risks: Return spread covers liability growth (e.g. increased longevity)

Alternative Models

3) Australian Model (Superannuation)

- Centralized, DC Plan, Mandatory ER Contributions
 - Benefit: Cost certainty for employer, Good participant outcomes
 - Cost: Contribution rates similar to DB plans
 - Risks: Lifetime income level uncertain

4) Canadian Model

- Centralized, Minimize costs through investment performance
 - Benefit: Record of strong performance reduced costs, investments can hedge risks or provide local stimulus
 - Cost: Extensive staff, knowledge and cost required
 - Risks: Scalability, persistence

Alternative Models

5) Guaranteed Income

- DC Plan with required annuity option
 - Benefit: Cost certainty for employer, Income certainty for employee
 - Cost: Generally higher than DB Plan to provide same income level
 - Risks: Lifetime income level uncertain, fiduciary risk in selecting annuity provider