



"RE-BUILDING THE CITY'S WATER SYSTEMS FOR THE 21ST CENTURY"

EMPLOYEES' RETIREMENT SYSTEM OF THE Sewerage & Water Board OF NEW ORLEANS

MITCHELL J. LANDRIEU, President

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February 15, 2018

The Pension Committee met on Thursday, February 15, 2018 in the Board Room, 625 St. Joseph Street, New Orleans, LA. The meeting convened at 9:00 A.M.

Present:

Director Joseph Psychaud, Chairman
Director Eileen Gleason
Director Ralph Johnson
Director Lewis Stirling
Mr. Christopher Bergeron
Mr. Marvin Russell
Mr. John Wilson

Also in attendance: Director Robin Barnes; Mr. Octave Francis III of FFC Capital Management; Mr. Mike Conefry of Conefry & Company; Ms. Janice Leaumont of Capital One; and the following Sewerage & Water Board staff - Ms. Marcie Edwards, Executive Director; Mr. Steve Woolridge, Finance-Treasury; Mr. James Thompson, Office of Special Counsel; and Dr. Tim Viezer, Chief Investment Officer.

ACTION ITEMS:

1. None

PRESENTATION ITEMS:

2. Conefry & Company actuarial presentation
3. Custodian Presentation

Chairman Joseph Psychaud began the meeting by asking that the order presentation of the presentation items be reversed.

Ms. Janice Leaumont of Capital One described the custody, investment and administrative services that her firm provides to the Employees' Retirement System of the Sewerage & Water Board of New Orleans (ERS). These specific services include safekeeping of securities, settling trades, accounting and reports, and electronic transfers. Capital One interacts with the finance/treasury function at the Sewerage & Water Board (S&WB) and FFC Capital Management. Capital One's subcustodian – Bank of Montreal (BMO) – has also provided securities lending services for ERS. BMO Securities Lending has earned \$1.92 million for ERS since 2001; or about \$120,000/year. Dr. Viezer acknowledged and thanked both Capital One and FFC for their assistance in facilitating the fund transfers need to pay pensions during the recent freeze emergency. Dr. Viezer also noted that S&WB's finance/treasury provides certain controls and noted that FFC provides both general investment consulting and investment operations consulting services.

At the conclusion of the Capital One presentation, Ms. Marcie Edwards - interim Executive Director - requested a brief overview of the retirement system. Dr. Viezer and Mr. Thompson outlined the overall structure: S&WB (the water utility) is the employer sponsor of the retirement system (ERS). S&WB and ERS are separate entities created by State of Louisiana law. ERS is a hybrid corporate and public pension plan. The governing fiduciary body consists of the nine (9) Board of Directors of S&WB who also serve on the Board of Trustees of the ERS. The Board of Trustees has fifteen members which also includes three (3) elected employee Trustees and one (1) retiree member Trustee. The Pension Committee has nine (9) members: five Directors, three employee Trustees, and the one retiree Trustee. The Louisiana statute contains enabling language for the Board of Trustees which has approved Rules and Regulations of the retirement system and an Investment Policy Statement governing the oversight of the pension fund. Mr. Sterling asked who assisted the oversight. The external entities include: FFC Capital Management (general investment and investment operations consultant), Capital One (custodian), Conefry & Company (actuary), and Weiler & Rees, LLC (outside legal counsel).

Dr. Viezer noted that optimizing the governance structure was a topic that was introduced in 2017 and would continue into 2018. He also noted that greater transparency of the pension fund oversight costs was an objective. Mr. Johnson and Chairmen Peychaud asked that Dr. Viezer resend governance documents, orientation material, and the action plan timeline to the new Trustees. Before turning the meeting over to Mike Conefry (Conefry & Company), Dr. Viezer placed the actuary's presentation into context. Five Pension Committee meetings would be devoted to a campaign to educate the Committee to the tools and issues regarding the three primary pension policies: benefits, contributions, and investment. The February meeting would introduce actuarial concepts around pension funding. The Asset/Liability Study Consultant would outline to purpose and process of the asset/liability study. In April, the Executive Director of the New Orleans Municipal Employees' Retirement System would discuss how NOMERS' Board made its recent policy changes. The actuary would return in May to present and updated actuarial valuation. The asset/liability study's phase I is hoped to be completed in June.

Mr. Conefry used a 2005 presentation to explain what is pension funding, why and how it is done. He noted that ERS was effectuated on January 1, 1957. The primary goal of the actuarial valuation is determining the plan contribution; this is an annual, self-adjusting process. The employer contribution acts as a balancing item. The employer plan sponsor generally prefers stability and smoothness in making contributions to the plan. Dr. Viezer noted that the Board of Trustees ought to decide whether to amend the current Investment Policy Statement objective of "maintain flexibility in determining the future level of contributions" to "provide a stable funding environment which mitigates the effect of large changes in investment performance on funding contribution volatility."

The maximum contribution is based upon a 10-year amortization. The minimum contribution is a 30-year amortization. However, an open, 30-year amortization never truly achieves 100% funding but is more of a mathematical limit. Dr. Viezer noted that a written funding policy is a Government Finance Officer Association (GFOA) best practice. Mr. Conefry noted that the current employer contribution as a percent of payroll is 20.235%. He also quoted his latest valuation report: "[the] current actual employee contribution is 6% of payroll effective January 1, 2015. By Board resolution R-248-2014, as long as the Retirement System is not 100% funded, the Employer Contribution percentage shall be calculated as if the Employee Contribution percentage has remained at 5% of payroll." The extra 1% goes to the unfunded liability.

It was noted that employees also participate in Social Security and that the average regular retiree pension is \$24,715/year. Ms. Barnes pointed out that the pension offered by S&WB should be viewed in the context of recruiting employees.

Mr. Conefry explained the concept of "actuarial present value" using the analogy of a residential mortgage. Actuarial present value is a building block concept. However, a life annuity has more variables than a residential mortgage. Dr. Viezer asked whether the analogy of a residential mortgage could be extended to suggest that shorter amortization periods might produce savings that might be useful for a long-lived infrastructure entity like S&WB. Mr. Conefry answered that the conceptual savings had to be evaluated in context of intergenerational fairness to stakeholders. Mr. Conefry focused the Committee's attention to page 7 of the actuarial valuation. He explained the relation of the actuarial present value of expected benefits, the actuarial present value of future normal cost contributions, the actuarial value of assets (smoothed by a 7-year moving average), and the unfunded actuarial liability. Turning to page 24 of the valuation report, Mr. Conefry

showed the calculation of the funded ratio, which is 81.3%. Dr. Viezer noted that the inactive plan participants' share of the projected benefit obligation ("PBO") is 69.4%. That number is relatively high and translates into lower capacity for risk taking. Mr. Conefry also noted that the better funded a plan, the more "leverage" exists in the impact of changes in plan assets on the funding ratio. Mr. Thompson, briefly outlined the Louisiana constitutional constraints on changing benefits to retirees and vested active members.

The Committee asked several questions on ERS retirement calculations, cost-of-living adjustments, and DROP. Finally, Mr. Wilson announced that several "rank and file" meetings to provide an update on the pension were being planned and the first was scheduled for Monday, February 26th at the Carrollton plant.

INFORMATION ITEMS:

Information item(s) 4 through 8 were received.

4. Conefry & Company, "The Pension Funding Crisis – An Actuarial Perspective"
5. Conefry & Company, "[S&WB ERS] 2017 Actuarial Valuation," May 24, 2017
6. Conefry & Company, "[S&WB ERS] Historical Funded Ratios"
7. Conefry & Company, "Deferred Retirement Option Plan"
8. Janice Leaumont, "Wealth and Asset Management Overview"

ADJOURNMENT:

There being no further business to come before the Pension Committee, the meeting adjourned at approximately 10:16 A.M.

Respectfully submitted,

Joseph Peychaud, Vice Chair