SEWERAGE & WATER BOARD OF NEW ORLEANS
BOARD OF TRUSTEES' MEETING

WEDNESDAY, FEBRUARY 20, 2019
11:00 AM

625 ST. JOSEPH STREET
2ND FLOOR BOARD ROOM

FINAL AGENDA

ROLL CALL

1. **APPROVAL OF MINUTES date July 11, 2018**
2. **ACTION ITEMS**
   a. Resolution (R-200-2018) 2019 Pension Cost of Living Payment
   b. Resolution (R-199-2018) Investment Policy
3. **EXECUTIVE SESSION**
4. **PUBLIC COMMENT**
5. **INFORMATION ITEMS**

ADJOURNMENT

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

LaToya Cantrell, President

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July 11, 2018

The Board of Trustees met on Wednesday, July 11, 2018 in the Board Room, 625 St. Joseph Street, New Orleans, LA. The meeting convened at about 10:00 A.M.

Present:

Dr. Tamika Duplessis, President Pro Tempore
Ms. Robin Barnes
Mr. Christopher Bergeron
Ms. Eileen Gleason
Ms. Stacy Horn Koch
Mr. Ralph Johnson
Mr. Marvin Russell
Mr. Lewis Sterling, III
Mr. John Wilson

Also in attendance: Ms. Jade Brown-Russell, Acting Executive Director of the Employees' Retirement System (ERS) and Sewerage and Water Board (S&WB); and the following S&WB staff – Ms. Yvette Downs, Chief Financial Officer, Mr. James Thompson, Office of Special Counsel; and Dr. Tim Viezer, Chief Investment Officer. The following service providers were also present: Callan LLC – Mr. Cody Chapman, Ms. Karen Harris, and Mr. Weston Lewis; FFC Investment Advisors of Raymond James – Mr. Octave Francis III; and Capital One – Ms. Janice Leaumont.

ACTION ITEMS:

1. Approval of June 20, 2018 Board of Trustee Minutes.

EXECUTIVE SESSION:

2. None.

PRESENTATION ITEMS:

3. Callan: Asset Allocation and Liability Study Results
4. FFC-Raymond James: Asset Allocation Study

President Pro Tempore Dr. Tamika Duplessis began the meeting by reading the Employees' Retirement System mission statement into the record: "to prudently manage an actuarially sound pension fund solely in the interest of participants and beneficiaries in a cost-effective manner."

Dr. Duplessis then asked for a motion to approve the last meeting's minutes. Ms. Eileen Gleason moved to approve the minutes and Mr. Lewis Sterling III seconded the motion. The motion carried. Dr. Duplessis introduced the asset-liability study and turned the meeting over to Callan LLC.

Mr. Cody Chapman introduced his colleagues Ms. Karen Harris and Mr. Weston Lewis. Mr. Chapman stated that their study integrated two sides of a pension plan - assets and liabilities - in order for the Board to make decisions that are more informed. Mr. Chapman noted that the good news is that ERS is relatively well funded and has a reasonable discount rate.

Ms. Harris began by defining the liability assumptions that determine the employer contribution rate to the pension. She noted several points. First, Callan excluded the DROP funds from the analysis. Those funds as are invested in cash equivalents and would not be included in the asset allocation. Second, changes in market value will affect the unfunded liability and thus the employer contribution. Third, Callan used the same employee contribution rate used by the actuary (5%) rather than the actual 6% employee contribution rate. Therefore, the Board of Trustees could actually reduce the employer contribution rates in the Callan analysis by one percentage point.

Ms. Harris outlined four workforce scenarios that Callan considered: keeping the workforce level over time, raising the workforce over five years to 1,500 employees, assuming that all employees eligible to retire do so immediately as they are eligible, and closing the plan to new employees. Callan examined the impacts of two ways of amortizing the unfunded liability on contribution rates (15-year closed and 30-year open) over the four workforce scenarios. Callan examined three other sets of scenarios: lowering the discount rate, a Katrina-like disaster in New Orleans, and large declines in the financial markets.

The workforce scenarios were treated as deterministic (certain) events rather than subject to chance. Ms. Harris noted that the actuary's payroll growth assumption (5%) was based on the experience of the past 20 years, but payroll was lower (3%) in recent years. As a result, the pension plan was experiencing "actuarial gains." Callan's analysis suggested that liabilities might have peaked and would remain level over the next ten years. The funded ratio rises from 76% to 92% over the next 10 years. The normal cost rises from 10.0% to 12.5%. Callan does not believe that the required return of 7.00% is achievable over the next 10 years. They project the current asset allocation to achieve only 5.65%. Again, the level of market value of the plan assets affect the funded ratio and thus the employer contribution rate.

Ms. Gleason asked whether Callan considered recent changes in hiring (e.g., hiring more experienced and higher paid employers). Mr. Bergeron later asked a related question. Ms. Harris replied that Callan used the hiring patterns over the past five years to determine the composition of new hires in the forecast. Mr. Lewis Sterling III noted that higher paid employees would pay higher levels of employee contributions into the fund. Mr. Ralph Johnson asked for a clarification on the 15-year closed and 30-year open amortization methods. Ms. Harris noted that closed amortization rates were always better for the plan than open as the latter never really paid off the unfunded liability. Callan projected that a 30-year open amortization would pay off less than one-half of the unfunded liability at the end of 20 years. As a result, employer contribution rates would remain elevated.

Ms. Harris reviewed the expected results of the workforce scenarios. The employer contribution rates ranged from 21% to 27% in the level workforce scenario. Increasing the workforce results in a lower contribution rate. The first eligible to retire scenario had no meaningful impact, as it appears already assumed in the actuary's valuation. Closing the existing plan to new entrants results in a significant increase in the employer contribution rate on covered payroll. The employer would probably contribute into an alternative plan as well, so Callan did not expect closing the plan would save costs. . Later, Mr. Weston Lewis stated for the record that Callan believed that defined benefit pension plans offered a social benefit to the public by attracting and retaining employees and providing the most cost-effective and efficient basic retirement income. Lowering the discount rate to 6.00% immediately increased contributions by eight percentage points but the lower investment hurdle causes the contribution rate to decline over time.

Ms. Harris used 2017 data from the National Association of State Retirement Administrators (NASRA) to answer a question about an industry standard for unfunded liabilities. She noted that ERS's funded ratio was 81% compared to a peer average of 73.8%. ERS's discount rate of 7.00% was lower that the peer average of 7.50%. Both comparisons were favorable.

A Katrina-like scenario that would curtail employee and employer contributions would cause an 11% decline in the asset base from rising liquidity needs. A catastrophic disaster could exhaust the fund's assets in 14 years if the disaster completely closed New Orleans. The liquidity analysis revealed that 4% of the fund's assets per year would be liquidated to meet benefits using a 15-year closed amortization rate and 6% of the fund's assets per year would be liquidated to meet benefits using a 30-year closed amortization rate. Callan believed that ERS did not need a 1.75% allocation to cash but could use its fixed income allocation or an overlay program to generate both higher returns and liquidity.

Mr. Octave Francis III of FFC Investment Advisors of Raymond James then reviewed the fundamentals of portfolio construction. He discussed the trade-offs between risk premia assumed in investing and the variability of those results. Mr. Francis stated that it is futile to try to pick the best performing asset class each year. A better approach is to minimize risk for a given level of expected return. This approach results in a diversified portfolio. To determine the proper allocation, a portfolio manager must consider the retirement system's time horizon, risk tolerance, and goals.

Ms. Harris continued the asset mix discussion. She presented Callan's projected returns by asset class. She noted that ERS's portfolio could only be expected to achieve its discount rate of 7.00 % by investing 100% in equities [This was not a recommendation]. Dr. Tim Viezer noted that Louisiana R.S. 11:3821.D. constrained the fund to "no more than 65%" in equities. Ms. Harris underscored that the returns were expected but not promised. In general, Callan recommended increasing the allocation to Non-U.S. equity and to real estate and decreasing the allocation to fixed income. Callan proposed five asset class mixes along a continuum of risk. Ms. Harris compared ERS's current asset mix to a peer group. The peer group median Non-U.S. equity allocation was 20% versus ERS's 9%. Mr. Chapman noted that the market weight of Non-U.S. equities is between 40%-50% and ERS has only 20% of its equity invested internationally. 73% of the peer group invests in real estate and median allocation is 9% versus ERS's 3.25%. The peer group median fixed income allocation was 26% compared to ERS's more conservative 36%. Callan did not believe that private equity was an appropriate allocation for ERS.

Ms. Harris repeated that the liability growth rate based on salaries was 3% versus the 5% assumed by the actuary. Since this situation results in an actuarial gain, the required return could be conceptually lowered to 6.50%. Mr. Chris Bergeron asked if the study considered the recent wage increases at S&WB. Ms. Harris replied that the study considered compensation as of January 1, 2018. Mr. Sterling said that the required return would be 7.00% if viewed from a 20-year perspective, but only 6.50% if only recent experience was considered. Ms. Stacy Horn Koch state her concern that if wages did not increase at S&WB the organization would have difficulty attracting new employees. Dr. Viezer noted that the analysis thus far had not considered the use of active investment management. Ms. Harris said that a return of 0.25% to 0.50% would be reasonable expectations for active management and that Mix 3 plus 0.50% of returns to active management had a chance of achieving a 6.50% return, but it required taking more risk.

Ms. Harris then reviewed the results of "stochastic analyses" which considered a range of outcomes and the probabilities associated with those outcomes. She noted that asset market value variability rather than variability in liabilities drove funded ratio volatility. She stated that duration matching bonds would not be appropriate because although the liabilities are long duration they are relatively interest rate insensitive. The cost-of-living adjustment (COLA) is capped at 2% and asset variability is dampened by smoothing. The funded ratio moves from 75.5% to 83.5% in the expected case by in the 97.5th percentile (2.5% probability) it was as low as 60.0%. The employer contribution rate was expected to be between 25% and 28% but could be as high as 38% of payroll in five years. Callan devised a metric called the "ultimate net cost over ten years" that combined the unfunded liability and cumulative contributions paid over ten years. Using this metric and comparing the various asset mixes expected ultimate net cost (the reward) and the 97.5th percentile outcome (the risk), they evaluated each mix on a risk/reward basis. That analysis supported both Mix 2 and Mix 3. If S&WB were concerned about contributions, Mix 2 would be a good choice. If S&WB and ERS could handle more risk, Mix 3 would be a good choice. Finally, Ms. Harris discussed the extreme market scenarios. In those stressed financial markets, ERS's funded ratio could drop to 50.0%.

The Board of Trustees had one public comment from Mr. Dexter Joseph. Mr. Joseph raised a concern about the potential of S&WB hiring older, more experienced, and higher paid employees who could vest their pensions and then retire to earn a lifetime benefit. Mr. Joseph believed that such employees could recoup their employee contributions in four years. Mr. Joseph added that "vesting is the problem."

INFORMATION ITEMS:

Information item(s) a through d were received.

ANY OTHER MATTERS:

5. None.

ADJOURNMENT:

There being no further business to come before the Board of Trustees, Dr. Duplessis called for a motion and Ms. Gleason made a motion to adjourn, which was seconded, and the motion carried. The meeting adjourned at approximately 12:00 P.M.

Respectfully submitted,

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Tamika Duplessis, PhD – President Pro Tempore

R-200-2018

JANUARY 1, 2019 COST OF LIVING ADJUSTMENT FOR BOARD PENSIONERS

WHEREAS, it is the policy of the Sewerage and Water Board of New Orleans to provide a Cost of Living Adjustment to pensioners based on the increase in the Consumer Price Index, with a maximum increase of no more than 2% as provided in Article VI, Section 6.1(d) (1) of the Rules and Regulations of the Employees' Retirement System of the Sewerage and Water Board of New Orleans; and

WHEREAS, the change in the Consumer Price Index for All Urban Wage Earners and Clerical Workers from August 2017 to August 2018 is 2.877%; and

WHEREAS, such funds are to be made available by the Pension Fund of the Sewerage and Water Board of New Orleans to provide for a Cost of Living Adjustment to said pensioners.

NOW, THEREFORE, BE IT RESOLVED that the Pension Fund of the Sewerage and Water Board of New Orleans implement a 2% cost of living increase on the first ten-thousand dollars ($10,000) of said pensioners' original Retirement Allowance (that is, the annual pension benefit paid at the time of retirement), effective January 1, 2019, for pensioners who attained age 65 on or before December 31, 2018. The cost of living increase for a partial year of retirement after age 65 shall be pro-rated based on the actual number of days retired and over age 65 during the twelve-month period ending December 31, 2018 (that is, the number of days elapsed between attainment of age 65 and December 31, 2018).

I, Ghassan Korban, Executive Director,
Sewerage and Water Board of New Orleans,
do hereby certify that the above and foregoing
is a true and correct copy of a resolution adopted
at the Regular Meeting of the said Board,
duly called and held, according to law, on
December 19, 2018.

Ghassan Korban
EXECUTIVE DIRECTOR
SEWERAGE AND WATER BOARD OF NEW ORLEANS

R-199-2018

REQUEST FOR APPROVAL TO REVISE THE SEWERAGE & WATER BOARD OF NEW ORLEANS EMPLOYEES' RETIREMENT PLAN INVESTMENT POLICY STATEMENT

WHEREAS, the Board of Trustees is responsible for overseeing the Retirement Systems' investments and has adopted a long-term investment horizon such that the chances and duration of investment losses are carefully weighed against the long term potential for appreciation of assets; and

WHEREAS, the purpose of the Sewerage & Water Board of New Orleans Employees' Retirement Plan Investment Policy Statement is to guide the Board of Trustees in effectively supervising, monitoring and evaluating the investment of the SWBNO Employees' Retirement System assets; and

WHEREAS, the primary investment objective shall be to achieve full funding of the actuarial accrued liability so that such assets are preserved for the providing of benefits to participants and their beneficiaries and such long-term return without undue risk maximize the amounts available to provide such benefits; and

WHEREAS, the Board of Trustees approved a revised asset allocation plan (R-153-2018) on October 17, 2018 which is not reflected within the current Investment Policy Statement.

NOW, THERFORE, BE IT FURTHER RESOLVED that the Sewerage & Water Board of New Orleans Employees' Retirement Plan Investment Policy Statement is approved as revised to incorporate the new asset allocation plan, and;

NOW, THERFORE, BE IT FURTHER RESOLVED by Board of Trustees of the Employees' Retirement System of the Sewerage and Water Board of New Orleans that the Executive Director be empowered to rebalance the plan's strategic allocation on a relative basis, depending upon market conditions, in accordance with the revised policy.

I, Ghassan Korban, Executive Director,
Sewerage and Water Board of New Orleans,
do hereby certify that the above and foregoing
is a true and correct copy of a resolution adopted
at the Regular Meeting of the said Board,
duly called and held, according to law, on
December 19, 2018.

Ghassan Korban
EXECUTIVE DIRECTOR
SEWERAGE AND WATER BOARD OF NEW ORLEANS