

New Orleans Firefighters Pension Reform Working Group

December 15, 2014

MINUTES

Members Present:

Deputy Mayor/CAO Andy Kopplin

Councilmember Stacy Head

Chief Timothy McConnell

Paul Mitchell

Tommy Meagher

Nicholas Felton Jr

Hardy Fowler

Scott Jacobs

Greg Rattler

Paul Flower

1. Call to Order

The meeting was called to order at 3:05pm.

2. Approval of Minutes

Mr. Rattler offered a motion for approval. Mr. Jacobs provided a second to Mr. Rattler's motion. The motion to approve the minutes was unanimously approved.

3. Presentations

New Orleans Firefighter Pension Fund Benchmarking Analysis – Vijay Kapoor of The Kapoor Company

- Recap from 1st meeting
- Benchmarking
 - Internal Benchmarking
 - NOLA Police and non –uniformed pension benefits
 - External Benchmarking
 - Firefighter pension benefits in other cities

Plan Projections & Pension Plan Governance— Eric Atwater & Melanie Walker (Segal Consulting)

Eric Atwater gave a presentation on pension plan projections. Mr. Atwater noted that a few assumption changes needed to be made. He noted modifications to salary growth and disabled mortality assumptions for purposes of modeling future plan liabilities and cost. Additionally, Atwater assumed that 100% of DROP/PLOP would be paid immediately, for modeling purposes. Segal did not suggest any modifications to assumptions relating to mortality, retirement, or turnover. Atwater mentioned that, as a result of 2014 legislation, savings will gradually increase as new hires replace current employees. Savings could reach approximately \$1.0M, on average, over the next 25 years. Melanie Walker spoke to 3 scenarios for board structure:

- Non-voting, investment authority (5 members)
 - Advise Board of Trustees on investment decisions
- Investment board with exclusive authority over investment decisions (9 members)
 - 2 ex-officio
 - 3 retirement plan members
 - 4 independent trustees with investment/finance experience
- Combination of scenarios 1 & 2
 - Separate investment board
 - Investment board directs all investments
 - Investment advisory council advises investment board

Walker offered the following suggestions during her presentation:

- Improve internal controls
- Implement identified fiduciary best practices
 - Board committees
 - Determine need for additional board policies
 - Develop a board strategic planning process and create a board governance manual
- Consider a board structure that ensures independent and expert investment advice
- Explore options for utilizing levers

4. Question & Answer

Councilmember Head asked if New Orleans firefighters participate in LAMP. Mr. Vijay Kapoor responded that he didn't know of any firefighters who participated in LAMP. Councilmember Head asked Kapoor to explain the exact statute that he references on page 12 of his presentation. Kapoor responded that he didn't know the exact number, but he believes it is a state statute.

Deputy Mayor/CAO Kopplin asked if changes noted in Kapoor's benchmarking analysis required legislative approval. Kapoor stated that legislative approval has been required in the past, citing

Lexington as an example. Kopplin inquired as to whether legislative approval for changes was required in Atlanta. Mr. Eric Atwater stated changes required a supermajority of the city council in Atlanta.

Deputy Mayor/CAO Kopplin asked Kapoor to explain DROP comparisons. Kapoor stated that firefighters tend to have longer DROP periods. The interest that firefighters receive is superior to the other plans, noted Kapoor. When asked about back DROP, Kapoor noted that other plans do offer a back DROP. When asked about PLOP, Kapoor responded that it is actually really typical. However, the ability to DROP and PLOP is unique. Kopplin asked Kapoor about advantages relating to the ability to DROP and PLOP. Kapoor stated that he wasn't sure of any advantages.

Mr. Felton said Kapoor's report didn't include the actuarial payment. Kapoor referred Mr. Felton to the bottom of slide 5. Kapoor's figure does not include additional contributions, per the consent judgment. Chief McConnell said the calculation does not include future contributions. Kapoor stated that, per the consent judgment, the City owes \$19.8M. The City has made a \$4.6M payment towards that judgement.

Councilmember Head asked Walker to name the entity responsible for internal controls. Melanie Walker said the board would be responsible for internal controls. Head said some of Walker's suggestions seem to suppose a larger plan with more members. The small size of the plan and small size of gross assets result in less money to have individuals serve on an advisory basis. Walker stated that she presented best practices. She believes that problems must be assessed and priorities must be set. Head asked if reforms implemented in other places combined plans that were in jeopardy. Walker responded that once a plan reaches a certain level of distress then a streamlining of investment administration can occur.

Mr. Felton asked if Walker had ever seen a plan with required expertise for appointments. Walker suggested that Felton look at Wisconsin and Washington, which have robust policies for investment. Felton pointed to a 2025 projection of a \$7.8M reduction. Atwater said "those are resources that could be available".

Chief McConnell asked about the disability/mortality table. Chief McConnell said he thinks the percentage is higher. "There are people who take a regular pension", said McConnell. Atwater said his firm looked at a lower mortality for those 239 individuals. McConnell recommended that Atwater speak to the actuary. Chief McConnell asked Kapoor if he factored the 13th check component into calculations. Kapoor responded that he had not factored the 13th check into calculations.

Mr. Jacobs asked about best practices for a similarly sized fund. Walker said risks must be analyzed. She noted that she didn't have a suggestion or recommendation relative to size. Councilmember Head asked if there's a best practice of percentage. Walker said the percentage is usually balanced. Then, Walker suggested a check and balance on investment expertise.

Mr. Jacobs asked if an insurance policy could cover errors. Walker stated that it depends on the type of error. She does not believe that insurance can cover someone's bad choice. Louis Robein said all of the fiduciary problems associated with underfunding have been excluded from the policy.

5. Adjourn

Mr. Felton offered a motion to adjourn the meeting at 5:26pm. Mr. Mitchell provided a second to that motion. The motion was approved unanimously.