MINUTES

DEKALB COUNTY PENSION BOARD

December 10, 2009

The DeKalb County Pension Board held a meeting on December 10, 2009 in the Finance Department conference room. The following members were present: Michael Bell, James Butler, Andrella Kenner, Christopher Prickett, Joe Stone, and Ed Wall. Others present: Eric Atwater, Jeff Johnson, and Rocky Joyner of The Segal Company; Keith Barker, Gordon Burkette; Nathan Fowler; Jelani Hooks; Louis McGregor; Michelle Thomas; and Paul Wright.

Ed Wall, Chairman of the Pension Board, called the meeting to order.

The Board discussed the definition of disability retirement. The Board again affirmed their desire to change the service requirement for disability retirement from five years to "vested." Ms. Thomas elucidated that the term "vested" is not defined in the pension code, only that the concept of eligibility for normal retirement is defined. The Board also stated their desire to clarify the language in the pension code to make the Board's decision more straightforward when employees apply for disability retirement. Specifically, when an employee applies for disability retirement, is physically unable to perform his current job, and Human Resources can find another available "equivalent" position for the employee, the Board should not approve the disability retirement application if the particular employee is physically able and qualified to perform the second position. Joe Stone stressed that Human Resources would strive to make the equivalent position's salary be as close as possible to the employee's former salary. Michelle Thomas voiced difficulty in defining "equivalent job." The Board asked Ms. Thomas to present to the Board at their next meeting a draft of a home rule ordinance to change the definition of disability retirement so that the five-year service requirement is changed to vested and to delete the language related to the employee's one-year inability to perform his current job if another equivalent position is available.

The Board then discussed the travel and expense reimbursement home rule amendment that the Law Department had drafted. Ed Wall reminded the Board that he had requested several edits of an earlier draft presented at the Pension Board's November 18, 2009 meeting. After reviewing the later version, Mr. Wall asked that the language stating that a Board member must apply to the Chairman at least 60 days in advance of the travel date be changed to 30 days. Based on such a change, Andrella Kenner motioned, Christopher Prickett seconded, and the Board approved the language in the travel and expense reimbursement home rule amendment.

Andrella Kenner motioned, James Butler seconded, and the Board approved entering Executive Session to discuss the medical condition of a disability retirement applicant.

After Executive Session, James Butler motioned, Andrella Kenner seconded, and the Board approved deferring Donna Smith's disability retirement application to the next Board meeting.

The Board then discussed a proposed early retirement incentive program ("window"). Ed Wall announced that he had met with County staff and Rocky Joyner, Jeff Johnson, and Eric

Atwater of The Segal Company for several hours the previous day to discuss the costs of some of the various early retirement incentives. Mr. Atwater reported that the County staff and Segal had discussed several options and fine-tuned their recommendation to one option.

Eric Atwater explained that if all 917 employees currently eligible to retire did retire without regard to a window, then the annual required contribution (ARC) would actually decrease by approximately $1.4 million, because the resulting increase in the amortization of the unfunded actuarial accrued liability would be more than offset by the elimination of these employees' total normal cost from the ARC formula. However, because of the resulting decrease in total salary, such an event would increase the cost as a percentage of payroll by about 2%. Approximately 700 of the 917 employees eligible to retire as of December 31, 2009 are in the "tax funds." The tax funds include all departments except Airport, Sanitation, and Watershed Management.

Eric Atwater then presented the details of the proposed early retirement incentive program. Any employee currently age 50 and with at least eight years of credited pension service would be awarded an additional two years of pension service; any early retirement penalty would be removed; the employee would be given a choice of either 10% or 25% of the actuarial present value of his total pension benefit paid as a lump sum, the remainder paid as an annuity; and the pension fund would pay as a benefit an amount equivalent to the employee's unused annual leave, up to 60 days, increased by 50%, with a minimum increase of 25 days. Because the pension fund is initially funding the benefit equal to the inflated annual leave payout, Michael Bell agreed that the County will slightly increase their historical ⅔ share of the total pension contributions. Dr. Bell explained that the County is targeting 400 employees from the tax funds to accept the early retirement window; if fewer than 400 such employees accept the window, then the remaining number could be subject to a reduction in force.

Eric Atwater illustrated the details of the early retirement incentive with four sample employees, each of whom would be eligible for the proposed window.

James Butler doubted that many people would opt for the lump sum payout because all of the lump sum would be subject to income tax. Joe Stone observed that these employees could roll over some or all of the lump sum to an IRA and/or the County's §457(b) deferred compensation plan, thereby taking maximum advantage of the IRS limits on these retirement plans. Ed Wall reiterated that the lump sum option would be revenue neutral to the pension plan.

Rocky Joyner of The Segal Company predicted that 25% to 50% of eligible employees would accept the window. Michael Bell pointed out that the possibility of a subsequent reduction in force would incent more employees to accept the early retirement window.

Rocky Joyner and Eric Atwater then presented the Board a table showing the increase in the ARC under various "take rates" of the window. If 25% of eligible employees accepted the window, the ARC for 2011 would increase approximately $200,000; if 50% accepted the window, then the 2011 ARC would increase approximately $400,000; and if 100% of eligible employees accepted the window, the 2011 ARC would increase approximately

$700,000. Mr. Joyner and Mr. Atwater then presented an estimate of the impact on the 2010 County budget if 50% of the eligible employees accepted the window, another 250 employees were subject to a reduction in force as of July 1, 2010, and these 750 positions were not refilled. Under this scenario, Segal predicted that the total County expenses would decrease approximately $15 million in 2010. Michael Bell reiterated that the County's target is to eliminate 400 positions from the tax funds.

The Board then discussed adding a "25-and-out" feature to the early retirement incentive program. This would allow employees under age 50 with at least 25 years of pension service to retire immediately without an early retirement penalty. Rocky Joyner stated that this would add significant cost to the pension plan. Christopher Prickett recalled that in their initial presentation of early retirement incentive options, Segal labeled the 25-and-out program as having minimal cost. Mr. Prickett also indicated that this option would be easy to explain to employees and would likely result in a high take rate. Since the Board requested at their previous meeting to have The Segal Company price the cost of the 25-and-out program, Mr. Prickett expected to have that provision as an available option instead of only the sole previous program the Segal presented to the Board. Ed Wall pointed out the Board of Commissioners, through home rule, could adopt an early retirement incentive program with or without the Pension Board's recommendation. Andrella Kenner countered by stating that she believed that it is the Pension Board's responsibility to recommend one of the early retirement programs to partially relieve this burden from the Board of Commissioners.

James Butler expressed his opinion that as a Pension Board member, his primary responsibility is the solvency of the pension fund. Even though he would be eligible to retire under the 25-and-out incentive and would accept the offer if available, he would still vote against that addition to the early retirement incentive program because of the added cost it would impose on the plan, especially on the remaining employees. Christopher Prickett again expressed his disappointment that the Pension Board has been presented with only one option after the Board requested Segal to price multiple options. Ed Wall explained that after he met with Segal and the County staff to review the costs and associated take rates of the multiple options, he learned that the 25-and-out option would be a significantly higher cost to the County; therefore, he accepted the culpability for not having Segal present the costs of the 25-and-out option to the Board at this meeting. Eric Atwater reminded the Board that because of time pressures, the Segal staff could not have presented costs of each option they initially presented to the Board.

Rocky Joyner explained that a window occurring in May 2010 would affect pension costs starting in 2013. Michael Bell reminded the Board that the pension code puts the ultimate cost of the County's defined benefit pension plan on the County and its taxpayers. James Butler suggested that the Board entertain a imposing a cap on the employees' future contribution rates.

Paul Wright had earlier computed that 109 additional employees as of December 31, 2009 would be eligible for the 25-and-out provision.

Ed Wall motioned, Christopher Prickett seconded, and the Board approved recommending both (a) an early retirement incentive program for employees at least age 50 who are within two years of retirement eligibility; granting two additional years of pension service; removing the early retirement penalty; granting options of 10% or 25% of the actuarial present value of their retirement benefit paid as a lump sum; and awarding an additional 50% of annual leave with a minimum of five additional weeks paid out as an additional retirement benefit from the pension fund, with the County's increasing their historical ⅔ share of the total pension contributions over the next 30 years in order to fund this payout in lieu of annual leave; and (b) an early retirement incentive program allowing all employees under age 50 who have at least 25 years of service to retire immediately without penalty. Michael Bell expressed his desire to have the Board revisit this issue if The Segal Company projects a 25-and-out window as being cost-prohibitive. Keith Barker observed that of the 109 additional employees who are eligible for the 25-and-out window, approximately 70 are in public safety; therefore, these positions would undoubtedly be refilled, thereby creating additional pension liability.

Ed Wall asked Michelle Thomas for a written opinion to validate the legality of the portion of the early retirement incentive program dealing with the annual leave payout's being converted to a retirement benefit and then paid out of the pension fund. Rocky Joyner suggested that any employee who opts for the age-50 window sign an affidavit stating the employee is declining the County's annual leave payout and instead will receive a lump sum benefit (equivalent to the annual leave payout) from the pension fund.

James Butler asked about the status of a web-based pension estimator for employees. Paul Wright reported that it is still in the works and is aware that the Pension Board requested it.

Christopher Prickett then expressed appreciation to the Board members and the County staff for organizing additional meetings and working hard to create an early retirement incentive program that the entire Board can support.

Andrella Kenner motioned, James Butler seconded, and the Board approved entering Executive Session to discuss personnel issues.

After Executive Session, Ed Wall announced that the Board took no action in Executive Session.

James Butler reported that since he has worked for the County more than 25 years, he would be eligible for the window. He also stated that he would continue to the best of his ability to fulfill his fiduciary responsibilities as a Board member. Christopher Prickett acknowledged that since he has more than 25 years of pension service, he would also be eligible for the window.

Because there was no further business, the Board adjourned the meeting.

Paul Wright

Paul Wright
Clerk, The Pension Board of DeKalb County