

Montgomery County Employees' Retirement Board

Meeting Minutes from Tuesday, July 6, 2010

A meeting of the Montgomery County Employees' Retirement Board was held on Tuesday, July 6, 2010 at 11:00am in the Commissioner's Conference Room, 8th Floor in Norristown, PA 19404.

Members present: Commissioner James Matthews, Chairman; Commissioner Joseph Hoeffel, Vice Chairman; Commissioner Bruce Castor; Controller Diane Morgan, Secretary; Thomas Ellis, Treasurer

Also in attendance: First Deputy Controller Kevin Hoke; Deputy Treasurer Ava Tuturice; Chief Operating Officer Robert Graf; Deputy COO James Maza; Solicitor Barry Miller; Retirement Manager Marisol Lezcano; Pension Accountant John O'Brien; Director of Communications John Corcoran

Outside Presenters: Hank Stiehl from the Hay Group

Secretary Diane Morgan called the meeting to order at 11:10am.

On the motion of Ms. Morgan, seconded by Mr. Castor, the minutes of the May 19, 2010 meeting of the Board were unanimously approved.

Next, Ms. Morgan introduced Hank Stiehl from the Hay Group to review his latest letter about the ARC dated June 4, 2010. Mr. Stiehl explained the four payment options which included changes to the funding method and the salary assumption. The salary assumption can be lowered because inflation has been very low and it is reasonable to look at that assumption. Use of the aggregate funding method would be a more conservative approach but not necessary. Theoretically at some point funding methods will cross paths. It is less costly to stay with the aggregate method as opposed to the entry age funding method.

Mr. Castor asked what the average salary increase was for the past decade. Mr. Stiehl explained that for the past 5 years it has been less than 4.5% and closer to 3%. Long term employees, who have been employed by the County for 10 years plus, actually experienced an average salary increase of 4.5%. The Hay Group looked at lowering the assumption to 4% but did not because the impact was not that great, so they used 3.5%.

Mrs. Morgan inquired to whether or not the assumptions can be changed back and how often. Mr. Stiehl's response was "yes". If salaries increase, the Hay Group will start to raise the salary assumption by quarter point increments. This would not be done immediately; it would only occur if there were a few years of increases in a row.

Mr. Matthews inquired about moving to a defined contribution plan. Mr. Stiehl explained that a study would need to be done. Bill 566 was going to create a defined contribution plan. ACT 96 would have been frozen and only new hires would go into the defined contribution plan with a percentage of pay contribution and a county match. Costs are higher initially and not much initial relief is experienced by the Retirement Fund. Relief for defined benefit plans is not possible until membership declines. There is an initial increase in cost for managing both types of plans.

In the private sector they terminated defined benefit plans and moved to defined contribution plans. In defined contribution plans there will always be a predetermined percentage of pay to match and level costs. It is only cheaper if there is no contribution.

Montgomery County Employees' Retirement Board

Meeting Minutes from Tuesday, July 6, 2010

Referring back to his letter, Mr. Stiehl explains that all of the suggested ARC payments are reasonable options. He continues to say that it is important to fund, at least always fund some of the ARC. If the market turns around, there will be a return on assets. The relative position is worse initially even if the market has recovered because liabilities continue to increase. There is a lag behind the market. Contributing more money helps close the gap more quickly.

Mr. Matthews asked what other counties were doing. Mr. Stiehl replied that the Hay Group provided 26 reports and quite a few of the counties are making the whole ARC payment. He has not seen any counties yet not contribute. The Hay Group's view is that the more you can put in the better; the fund will improve faster.

Mr. Matthews asked Mrs. Morgan to schedule a meeting in one month, sometime in mid-August, in order to make a decision on which payment option the Board will choose.

Next, Mr. Ellis announced that he had been approached by a company expressing interest in purchasing the Retirement Fund's outstanding securities litigations. He suggested this as a possibility only if there is over \$1 million in value and asked Mr. Cowen of Cornerstone to talk to Wachovia because there are only 3 or 4 major lawsuits. Mr. Ellis does not believe these to amount to a sizable figure.

Mr. Matthews expressed dissatisfaction about having to be at a deposition for 3 hours in Delaware for a case recently in which the Retirement Fund is lead plaintiff. The most a lead plaintiff gains in these cases is \$30,000 to \$40,000. Mr. Miller explained that he has asked Mr. Mazer of Chemicles and Tikellis, LLP not to approach the Retirement Board with cases this small.

Having no additional business to discuss before the board, Chairman Matthews adjourned the meeting at 11:40 am.

Respectfully Submitted,



Diane Morgan
Controller – Secretary