

CITY OF PITTSBURGH
OTHER POST EMPLOYMENT BENEFITS TRUST FUND

SEMI-ANNUAL BOARD MEETING

CITY OF PITTSBURGH
DEPARTMENT OF FINANCE
CITY-COUNTY BUILDING
ROOM 200
PITTSBURGH, PENNSYLVANIA 15219

WEDNESDAY, APRIL 10, 2019

APPEARANCES:

Other Post Employment Benefits Trust Fund Board:

Ms. Margaret L. Lanier, Chairwoman
Ms. Yvonne Hilton, Member
Mr. Bruce Kraus, Member
Ms. Janet Manuel, Member

As Counsel for Other Post Employment Benefits Trust Fund:

Frank, Gale, Bails, Murcko & Pocrass, P.C.
Frederick N. Frank, Esquire
Gulf Tower, 33rd Floor
707 Grant Street
Pittsburgh, Pennsylvania 15222

As Presenters:

Keith McFarland, Vice President
Senior Institutional Portfolio Manager
Fifth Third Bank
1 South Main Street
Dayton, Ohio 45402

Evi Laksana, ASA, MAAA
Korn Ferry
12012 Sunset Hills Road, Suite 920
Reston, Virginia 20190

Also Present:

Patrick Cornell, Senior Budget Analyst
Adam Hoffman, Internal Auditor
Kevin Pawlos, Senior Manager, Operating Budget
Kiersten Walmsley, Budget Analyst

1 (Whereupon, the meeting commenced at 2:00 p.m.)

2 P R O C E E D I N G S

3 - - -

4 MS. LANIER: Okay. If everybody is ready, we'll
5 call to order our Other Post Employment Benefits Trust Fund
6 meeting, semi-annual board meeting. The date is April 10th,
7 2019. The time is 2:00 p.m. This meeting is being called to
8 order.

9 We'll have roll call.

10 Council President Kraus?

11 MR. KRAUS: Here.

12 MS. LANIER: Council -- I mean Controller Michael
13 Lamb?

14 Director Janet Manuel?

15 MS. MANUEL: Here.

16 MS. LANIER: And Solicitor Yvonne Hilton?

17 MS. HILTON: Here.

18 MS. LANIER: And Margaret Lanier is present.

19 MR. FRANK: You have a quorum.

20 MS. LANIER: We have a quorum.

21 Do we have anyone here that would like to make a
22 public comment?

23 With no one here to make a public comment, we'll
24 move on to the approval of the minutes.

25 Can I get a motion for approval of the minutes from

1 the last biannual meeting of November 7th, 2018?

2 MR. KRAUS: So moved.

3 MS. MANUEL: Second.

4 MS. LANIER: All in favor, signify by saying aye.

5 MS. HILTON: Aye.

6 MR. KRAUS: Aye.

7 MS. LANIER: Aye.

8 MS. MANUEL: Aye.

9 MS. LANIER: Okay. The minutes have been approved.

10 Next we'll move into bills and communications. Our
11 fund balance as of March 31st, 2019, is 23.2 million. The
12 first quarterly transfer of \$625,000 into the OPEB Trust Fund
13 was made March 31st, 2019. Transfers to the police arbitration
14 fund -- that's an internal job for the City -- has continued
15 again for this year. Transfers to the fire arbitration fund
16 from the city general fund has continued again for the year as
17 well. Also, the account for the disabled firefighters has been
18 established with an initial deposit of \$28,545. This will be a
19 yearly deposit of the same amount.

20 Are there any questions?

21 With no questions, we're going to move on to the
22 solicitor's report.

23 MR. FRANK: Thank you. As I reported at the last
24 board meeting, there was an open issue regarding funding of the
25 OPEB account for the disabled firefighters. This was mandated

1 under the 2017 arbitration award, but in the arbitration award
2 there was no specific provision for what the contribution would
3 be on an annual basis. To try to resolve this, at our request,
4 Korn Ferry, our actuary, projected the present value of the
5 liability for the three disabled firefighters that we have.
6 And the present value of that liability over the next 72 years
7 was \$2,055,251.

8 The Chair and I met with the firefighters and their
9 counsel in December. We proposed an annual contribution to the
10 disabled firefighters' account of \$28,545, and with that annual
11 contribution we would fund the present value within that
12 72-year period. The proposal was acceptable to the
13 firefighters. We confirmed this by memorandum from our Chair.
14 We made the first contribution of \$28,545 in January for 2018
15 and will make a similar contribution every year before the end
16 of this year and thereafter, and we are establishing a separate
17 line item fund with our investment advisor for this fund.

18 I reminded the trustees that on their ethics form
19 they have to note that's also being filed in their position as
20 a trustee of the OPEB fund, and they are due May 1.

21 Under the state pension law, professional services
22 providers to any municipal pension fund, including this, must
23 complete an annual disclosure to the pension fund of any
24 political contributions, any gifts to city officials, any
25 business relationship with the City, and any lobbyist that it

1 has retained. We have two professional service providers: my
2 firm and Fifth Third. The disclosures are due May 1. We have
3 advised Fifth Third that theirs is due by May 1. My firm's has
4 been filed, and we expect Fifth Third's to be timely filed.

5 Any questions?

6 MS. MANUEL: No.

7 MR. KRAUS: No.

8 MS. HILTON: No.

9 MR. FRANK: Okay. Thank you.

10 MS. LANIER: Thank you, Solicitor.

11 We will move on to the Fifth Third report.

12 MR. McFARLAND: Okay. I'm going to give a report.

13 I also have -- in the back of this book, it shows the deposit
14 for the firefighters of 28,500. Right now it's in a money
15 market. And as it grows, we'll be able to invest it in a
16 similar fashion, not necessarily the same type of investment
17 because of the size. But that's in the back, and it just shows
18 the balance and the interest that it's earning currently.

19 So what I'm going to do is first go over -- do a
20 market update. The information on the first few pages,
21 pages 3 through 6, is as of 2/28. The 3/31 information for
22 this part hasn't come out until, I believe, today so it's not
23 in the book. This is as of 2/29. So I'm not going to go over
24 this specifically, just give you some high-level market
25 information. But the report, we'll go over a review as of

1 3/31.

2 The market over the last, say, six months, we've had
3 a wild ride. We had the fourth quarter, particularly December,
4 where we had equity markets drop off of the face and then rally
5 back the first part of this year. Much of that was not due to
6 any type of fundamental market information; it was due to
7 really uncertainty.

8 We had -- the Fed throughout 2018 was reducing
9 stimulus in the market and raising short-term interest rates.
10 There was concern that that was going to go too far, even
11 though the Fed had made it clear that they're watching market
12 conditions. And they have been more clear since then as some
13 political statements caused some volatility with the Fed
14 unnecessarily.

15 Also, trade wars with China has created a lot of
16 volatility in the market and really, again, comments created
17 more volatility than was really there. Negotiations have
18 continued. The threats of tariffs have been at least put to
19 the side currently. And there does seem to be some progress
20 being made, and that has also stabilized the market.

21 And the other thing is the Fed, as they've looked at
22 their target for inflation and, I believe, whatever the new
23 normal would be for interest rates. And I think the market
24 looked at that being somewhere in the 250 to 275 range.
25 They've kind of lowered that. Inflation has kind of stabilized

1 right at or just below 2 percent.

2 In addition, the European Central Bank has just come
3 out, and they have continued with slowing growth in Europe to
4 keep rates low. And we've seen the German 10-year trade
5 negative over the last month.

6 And, really, if you look at what happened over the
7 last four or five months, even more than what's happened in the
8 market has been what has happened with interest rates. And the
9 short-term interest rates -- we talk about the Fed raising
10 short-term interest rates, but the real thing that's happened
11 in the market is the 10-year bond. We've seen that tumble from
12 320 to -- over the last couple weeks, it's been in the 240s,
13 and today it's right plus-or-minus 250. And that has been the
14 biggest constraint with the Fed, and it does seem that, at
15 least for the rest of 2019, they're going to be on pause as far
16 as raising short-term interest rates. The yield curve is
17 essentially flat across the board all the way out to ten years.
18 With Fed funds being 225 to 250 and the 10-year at 250, really
19 there's not a lot of -- there's no spread between interest
20 rates, short-term and long-term interest rates. And that might
21 be as big a story as any for what's going on in the market.

22 MS. LANIER: Right.

23 MR. McFARLAND: But that continues to be somewhat
24 stimulative to equity markets, and we've seen -- we saw strong
25 earnings in the fourth quarter and earnings reports --

1 generally, 70 percent of companies beat their earnings targets
2 in the fourth quarter, though we do see slowing growth, though
3 it's starting to slow even more in the developed international
4 markets, though we have seen a rally in both developed and
5 emerging markets, particularly China. With trade tensions
6 somewhat easing, we've seen China recover a little bit. And,
7 also, China was made a bigger part of the emerging market
8 index. Sometimes it's the things that are going on behind the
9 scenes that also make a difference in markets and, with that,
10 become a bigger part of the index. More of their companies as
11 part of the MSCI Emerging Market Index, that also creates
12 buying for -- with a lot of indexing in the market.

13 So with that, I will get into the actual report, and
14 we'll start on page 7. And as of 3/31, the value is at
15 23,174,583. We're about 50 -- well, counting the real assets
16 and alternative strategies, just under 60 percent in equities.
17 Fixed income at just under 37 percent. And just over -- well,
18 under 4 percent in cash.

19 If you go to page 8, we'll see how the equities are
20 invested. You'll see that predominantly about 73 percent in
21 domestic equities, about 28 percent in international equities.
22 In a normal market, we might be -- you would see that to be
23 maybe 2-to-1, so maybe 67 percent domestic with about 33
24 percent international. We're overweighted to domestic,
25 obviously, with the volatility in the international markets as

1 they continue.

2 The next page takes a look at the fixed income.
3 And, again, the fixed income investments in this portfolio
4 consist of two different pools of money, some that we invest in
5 mutual funds and ETFs -- and those are to provide broad
6 exposure to the market -- and then a good chunk of this is also
7 invested in individual bonds. And particularly in a rising
8 interest rate environment that it doesn't appear we're in, at
9 least right now, that holds -- in a rising interest rate
10 environment, you own those bonds. You know your yield to worse
11 when you buy those bonds. Therefore, that risk -- when
12 interest rates rise, the price of bonds decreases. When you
13 own individual bonds, you know what you own when you buy it.
14 So that creates some stability, and it reduces volatility for
15 the overall portfolio.

16 And if you look on the next page, you see the
17 statistics for those bonds. If we look over to the bottom left
18 and you look at the credit quality, S&P at A+, Moody's at Aa3.
19 So it's a high quality. It's -- 20 percent of the overall
20 fixed income portfolio is in government bonds. We have some
21 corporate bonds. And then you'll see 56 percent of it is in
22 those mutual funds that I described previously.

23 The next couple of pages, if we go through, you'll
24 see the actual individual bonds. And you'll see these are all
25 going to be -- the corporates are going to be companies that

1 you recognize.

2 If you go to pages 12 and 13, you'll see the listing
3 of the government bonds. And, remember, we're always going to
4 get -- no matter what the current price of that bond is, we're
5 going to get the par value back at maturity. And when you have
6 a volatility in the fixed income markets -- and that's what
7 we're -- the environment we're in. We talk about volatility in
8 equity markets, but there is volatility in fixed income as
9 well. You reduce that because you know what you're going to
10 get at the end. And that's not something you can say with a
11 stock.

12 MS. LANIER: I see Philip Morris International. Is
13 that cigarettes?

14 MR. McFARLAND: Yeah, Philip Morris.

15 MS. LANIER: Page 12, yeah.

16 MR. McFARLAND: Yeah. That would be -- now, you
17 don't have any specific socially responsible restrictions on
18 the portfolio, but if there's a bond or a company that you
19 don't want to own, we certainly can sell it. And if that's not
20 something --

21 MR. KRAUS: So let's pretend we wanted to do that.
22 What would the process be?

23 MR. McFARLAND: Just tell me, and I do it.

24 MR. KRAUS: And that would require an action of the
25 Board --

1 MR. FRANK: Correct.

2 MR. KRAUS: -- in some way to do that?

3 MR. FRANK: Correct.

4 MR. McFARLAND: And if you wanted to apply some of
5 those type of restrictions on the portfolio, that's an easy
6 thing to do. I can help you with that process. And we can
7 apply that screen as to what we actually purchase.

8 MS. LANIER: And I'm not sure if we had reached out
9 to you or not, but there's nothing in here that has anything to
10 do with guns, is it?

11 MR. McFARLAND: Not directly.

12 MS. LANIER: Not directly. Yeah. Okay.

13 MR. McFARLAND: But those types of --

14 MR. KRAUS: Well, wait a second. I don't know that
15 I like the answer "not directly."

16 MR. McFARLAND: I mean -- what I'm saying -- let me
17 say that differently. When we do socially responsible -- like
18 there are companies that have -- and we do invest money for a
19 lot of Catholic organizations. So, secondarily, they may have
20 relationships with companies that -- and that's the reason I'm
21 not going to universally say that none of these companies have
22 a relationship with the purchase of guns. When we do a deeper
23 dive -- we actually have a company, when we screen, that will
24 screen specifically. So none of these companies have any
25 direct investment in guns.

1 MS. LANIER: Okay.

2 MR. McFARLAND: But to say that -- I don't want to
3 say because I don't --

4 MS. LANIER: Right. I understand.

5 MR. McFARLAND: I haven't done the investigation.
6 So I'm just saying that as -- maybe you could say that the U.S.
7 government bonds have direct investment in weapons.

8 MS. LANIER: Yeah. Okay. Okay. Thank you.

9 MR. McFARLAND: And then at the bottom, pages 16
10 through 17 just looks at the different equity funds. And we
11 invest in -- what we do on the institutional side is we're able
12 to invest in these funds in the lowest cost possible. We
13 invest in institutional shares. We use our size as we have
14 over \$35 billion in investments, so we can get the lowest cost
15 in investments. And we also invest in a lot of passive
16 ETF-type investments where the management fees are 10 basis
17 points or less so that -- so we're able to use our size to gain
18 those economies of scale.

19 So we'll go to page 19, and we'll see where the
20 rubber meets the road. And this goes through 3/31, so it
21 reflects what happened in the fourth quarter and the rally that
22 we've had since then.

23 And so we'll look at the gray lines. And I'll start
24 at the second gray line, which is fixed income, which are the
25 bond portfolio. And you'll see year to date that's up

1 2.9 percent. And that's somewhat a reflection of interest
2 rates that actually came down during this first part of the
3 year, so the value of that bond portfolio will go up. Over the
4 last year, it's up 4.2 percent and 2.5 percent over the last
5 three years. You'll see the Bloomberg Barclays Intermediate
6 Gov/Credit Index, which is a proxy for the bond -- the overall
7 bond market, that portfolio.

8 And that's the reason we invest in different types
9 of investments, to hedge -- we know -- at least at some points,
10 we know the direction of interest rates. Now we see that
11 interest rates are going down. And we expect that interest
12 rates will rise slightly during this year, but it appears, as
13 the Fed has come out and said they're going to be on pause,
14 that interest rates -- we hope the 10-year moves up as that
15 will show some strength in the economy. But we don't expect to
16 see interest rates go up a lot.

17 And a lot of that has to do with what's going on
18 globally. When you see German, their 10-year -- which is the
19 strongest economy in Europe -- negative, that means that money
20 is going to flow into our bond market. That's the market of
21 safety. And if you can get 2 1/2 percent on a 10-year in the
22 U.S. versus a negative rate in Germany, that's what you're
23 going to do.

24 Equities you'll see year to date up 12.8 percent.
25 Again, a big bounce back after what happened in the fourth

1 quarter. You'll see over the last year up 3.2 percent,
2 reflecting that negative fourth quarter, but an average
3 return -- and this is the average annual return over the last
4 three years -- of 12.1 percent of the stock part of the
5 portfolio.

6 Real assets, which are primarily REITs, you'll see
7 that's up. And, again, that's a reflection of interest rates
8 coming down, which is stimulative to the real estate market, up
9 15.8 percent year to date.

10 In alternative strategies, here we're just simply to
11 get low-volume -- low-volatility returns. And you'll see
12 that's up 5.2 percent year to date and an average 5.2 percent
13 over the last three years. We're really just trying to beat
14 inflation with that investment.

15 If we go to page 20, you'll see what the overall
16 portfolio has done. Year to date it's up 8.3 percent versus
17 the proxy for your stated asset allocation and your trust
18 agreement of 8.2 percent. That's what that -- if you look at
19 that blended index. Over the last year, the portfolio was up
20 7.4 percent, and since we've invested back in October of '14 up
21 5.4 percent.

22 And, again, this -- and the back page is really
23 nothing to talk about. It just shows that recent deposit into
24 the firefighters account, that 28,636. Right now, it's
25 invested in a money market which is paying 2.3 percent. We

1 will begin investing that in a similar strategy. Obviously,
2 with the size, it makes -- it's going to be an incremental-type
3 investment.

4 That really covers what we have. Are there any
5 questions?

6 MR. KRAUS: So I'd like to follow up on Margaret's
7 lead on the Philip Morris investment. Can you advise us what
8 we would do if we chose to remove --

9 MR. FRANK: You would have to make a motion advising
10 your investment advisor that you do not want to invest in
11 Philip Morris. You could do it that way, Mr. President, or you
12 could say that you do not want to invest in any cigarette
13 manufacturing company. You could do the same thing -- I don't
14 believe we have any gun manufacturers in our portfolio, but you
15 could, again, direct that none of the funds are to be invested
16 in any gun manufacturers.

17 And there's precedent for this that we have had over
18 the past years. Many years ago, there was a prohibition in --
19 against investing in South Africa when it was under Apartheid,
20 so this is certainly within your power.

21 MR. KRAUS: Thoughts?

22 MR. FRANK: I mean, I don't want to speak for an
23 investment advisor, but I think that unless he tells us to the
24 contrary, we would have alternative investments.

25 MR. McFARLAND: Oh, absolutely. Yeah, of course.

1 MR. FRANK: And this would not impact our ability to
2 grow the portfolio. I mean, the question is if we were saying
3 we don't want to be in an S&P 500 index fund, that may be more
4 difficult to deal with.

5 MR. McFARLAND: Right.

6 MR. FRANK: But if you target those particular
7 areas, I think we can fulfill our fiduciary responsibility. As
8 our investment advisor is saying, invest well, but yet
9 eliminate those two categories.

10 MR. McFARLAND: And that -- this is not an unusual
11 request. I do this many times. I invest with a lot of
12 Catholic organizations that have specific USCCB restrictions
13 and other organizations that -- like I invest with the YWCA,
14 and they have certain issues that they don't want to invest in.
15 So that -- this is something we do. I just need -- just tell
16 me what you don't want to do, and we can certainly invest in
17 other types of assets.

18 MS. LANIER: Well, I want to make a motion that we
19 remove our assets from the Philip Morris, Inc. --
20 International, Inc., and place it somewhere else.

21 MR. KRAUS: I'm not sure you can make the motion as
22 the Chair.

23 MR. FRANK: Somebody else can make the motion.

24 MS. LANIER: Somebody else can make it.

25 MR. KRAUS: I'll make that motion to divest from any

1 cigarette companies and any gun manufacturers, as per our
2 solicitor's advice.

3 MS. LANIER: Thank you.

4 MS. MANUEL: Second.

5 MR. FRANK: Now we need a vote unless there is
6 discussion.

7 MR. KRAUS: Let's do roll call on it then.

8 MS. LANIER: Roll call vote.

9 Solicitor Hilton?

10 MS. HILTON: Aye.

11 MS. LANIER: Director Manuel?

12 MS. MANUEL: Aye.

13 MS. LANIER: Council President Kraus?

14 MR. KRAUS: Aye.

15 MS. LANIER: And the Chair, aye.

16 MR. FRANK: Motion carries.

17 MS. LANIER: The motion carries.

18 MR. KRAUS: Thank you for catching that, Margaret.

19 MS. LANIER: Yeah. I catch stuff like that.

20 MR. McFARLAND: Yeah. Anytime you see something, if
21 you have a question about it, just let me know. There's always
22 another alternative.

23 MR. KRAUS: Yeah. That's good.

24 MS. LANIER: So we had four votes. Votes carry.

25 We'll move on to our Korn Ferry presentation.

1 MS. LAKSANA: Good afternoon. So this is our first
2 full OPEB valuation for the City, and there may be certain
3 things that seem to cause more actuarial accrued liability
4 increase or decrease just because of the switch in actuaries.
5 We try to identify those and highlight those in our report.
6 And if you guys have any questions anytime during the
7 presentation, feel free to stop me and ask questions.

8 So the agenda for today. We're going to start with
9 some basics of OPEB valuation. And I don't know how familiar
10 you are with the OPEB valuation process, but I just try to
11 explain the basics of it. And then there's some valuation
12 results that we can go through, highlights on the assets, and
13 how to manage OPEB liabilities.

14 I'm not going to go through the appendix. The
15 appendix contains basically just basic information that we use
16 in the valuations, mostly the assumptions. Those can be read
17 at your own leisure. But if you have any questions, feel free
18 to ask.

19 So getting into the basics of the OPEB valuations,
20 there are essentially four different components that go into an
21 OPEB valuation. And I'm on Slide 5.

22 So the OPEB -- in order to calculate the OPEB
23 liabilities, we have to know who are eligible for the benefit.
24 Currently the OPEB valuation that we do for the City includes
25 benefits for police officers and firefighters. Only those

1 hired prior to January 1st, 2005, are eligible. And then we
2 have a new group this year, which is the EMS, but only those
3 hired before January 1st, 1988, are eligible for the benefit.
4 And then we have a small group of municipal retirees that we
5 value life insurance liabilities for. So that's the "who."

6 And then we have to -- because these are benefits
7 that are supposed to start at retirement, we have to know when
8 retirement is going to start, so we have to know what is the
9 definition of retirement.

10 And, then, obviously, we need to know what are the
11 benefits. So the City provides subsidized medical and
12 prescription drug, subsidized life insurance, as well as
13 Medicare Part B premium reimbursement. So those are the facts.

14 And then we have to build in and use some
15 assumptions. Because these are basically long-term cash flow
16 projections, we have to put in demographic assumptions, such as
17 an assumption when an active -- whether active employees who
18 reached retirement or not, whether they will terminate before
19 they reach retirement. So those are demographic assumptions.
20 And then when somebody is eligible to retire, they do not
21 retire at one age. They retire at different ages, so we have
22 percentages assuming people retire at different ages.

23 And then we have the economic assumption which is
24 for discounting all the future cash flows into today's dollar,
25 as well as health care trend assumptions, which are the

1 increase in the health care costs that we are projecting into
2 the future.

3 So moving on to Slide 6, the OPEB valuation process,
4 like I mentioned, we basically project benefit payments for
5 everyone who are eligible, so the active employees and the
6 retirees. And then we factor in all the various demographic,
7 economic, and health care assumptions. And then we discount
8 all those future benefit payments to today's date, and then we
9 basically attribute those liabilities to service that was
10 already done, meaning they were already accrued, some of this
11 benefit, and then service that will still be done in the future
12 for those who are still actives.

13 So moving on to Slide 7. There are essentially two
14 types of OPEB subsidies. So the explicit subsidy is pretty
15 easy to understand. If you tell your employees at retirement
16 you will pay, let's say, 10 percent of your premium, that is
17 your explicit subsidy. You are paying 10 percent of the dollar
18 amount of the premium.

19 The implicit subsidy is a little bit hard to
20 understand because implicit subsidy is what we call a hidden
21 subsidy. If you have a \$500 premium, once you split it between
22 actives and retirees, in combination of the two, is it 500.
23 Retirees will cost you 700, but the active employees will cost
24 you 300. So there's cross-subsidy going on. The difference
25 between the true retiree health care costs, the 700, minus the

1 blended premium, the 500, is what we call the implicit subsidy.
2 So all plans that use a blended premium as a basis for
3 determining retiree contribution will have an implicit subsidy,
4 and they will have an OPEB liability.

5 Any questions so far?

6 So moving on to Slide 9, we are going into the
7 valuation results. So we describe some of the changes that we
8 have made since the prior valuation. The first and the biggest
9 thing is that the accounting standard has changed. So there
10 are certain things that are required to be changed on how we do
11 the valuation because the accounting standard has changed.

12 The first one is how to determine the discount rate.
13 Before, under GASB 45, it is more informal guidance. Now,
14 under GASB 75, we have to do cash flow projections to make sure
15 that your trust actually is able to pay for all future benefit
16 payments.

17 When determining the blended discount rate, we have
18 to know essentially what you are contributing policy-wise into
19 the trust. And currently we are using the 2.5 million annual
20 contribution in our projection.

21 And you are also currently paying for the full
22 benefit payments from outside of the trust, so, essentially,
23 your future -- your benefit payments for your retirees will
24 always be funded. So these actually created an increase in
25 your accounting discount rate from what it was, which was

1 4.25 percent, to 6.7 percent this year. So you will see a
2 decrease in your OPEB liabilities because of this discount rate
3 increase. This is the single assumption that basically
4 decreases your OPEB liabilities in your balance sheet.

5 So like I mentioned, there is -- a new group who is
6 now eligible for retiree health benefits is the EMS. They
7 have -- there are only very few people who are eligible, so the
8 liability increase is very minimal. It's less than 1 percent.

9 Now, there was an experience study done in 2017 for
10 the pension plan. And since the last OPEB valuation was done
11 in '16, those do not reflect the new assumptions. So now they
12 are reflected in this year's assumptions. So the impact of all
13 those changes, it increased the liability by about 6.3 percent.

14 And then health care trend rates have been updated.
15 And this is an annual update that we will always do every time
16 we do a full valuation. And this also has a very minimal
17 impact on the City's liability.

18 The next page outlines the revisions since prior
19 valuation. So these are not necessarily changes that we made,
20 but I think this is more a byproduct of the switch in
21 actuaries.

22 So on the police officers group -- and I mentioned
23 these during the OPEB presentation. So in the CBA, it does not
24 explicitly mention that there's no coverage for surviving
25 spouses of existing retirees, so anybody who died after they

1 retired. So the report in 2016 notes that coverage is only
2 provided for spouses of living retirees. But since the CBA
3 does not explicitly mention that there is no coverage for
4 surviving spouses, we included that in this year's valuation.
5 So if that needs to be adjusted or that is not the actual
6 policy, we would need to know so that we can rework the
7 liabilities again. So this actually increased the liability by
8 4.7 percent.

9 On the firefighters, the Medicare Part B
10 reimbursement for those who retire on or after 2006 is actually
11 frozen as of the date when they are eligible for Medicare. The
12 2016 report does not explicitly state that the premium
13 reimbursement was frozen, so we reflected that in this year's
14 valuation, and liability decreases by 1.6 percent.

15 Now, for police and fire, there seems to be no
16 liability valued for Medicare Part B reimbursement for existing
17 retirees who are currently under 65. So when they turn 65,
18 they are eligible for this benefit. So, technically, the
19 liability should be valued, but those weren't valued by the
20 2016 report. So that increased the liabilities by 7.7 percent.

21 If you go to Slide 11, those show essentially the
22 comparison between 2016 GASB 45 that was done by the prior
23 actuary and then 2017, which is under the new accounting
24 standard, GASB 74. That estimate was also done by the prior
25 actuary. 2018 numbers under GASB 74/75, those are essentially

1 the end-of-the-year liability number done by the prior actuary.
2 So the only numbers we produced this time around is the
3 12/31/18 GASB 74/75.

4 As you can see, the liabilities actually decreased
5 from 532.9 million as of beginning of 2018 to 429 million as of
6 the end of 2018. And the single biggest reason for that is
7 because the discount actually increased to 6.7 percent.

8 Looking at the actuarially determined contribution.
9 So those are essentially -- actually, if you are trying to fund
10 this benefit, this is what we suggest you contribute so that it
11 will cover all your future liabilities. Those numbers are not
12 remarkably different from what your prior actuary calculated.
13 It stays around like 35 million or so.

14 Any questions?

15 MS. LANIER: This is the recommended amount here?

16 MS. LAKSANA: Correct. That is the recommended
17 amount.

18 So Slide 12 shows the reconciliation of total OPEB
19 liability from the beginning of the year to the end of the
20 year. So the beginning of the year is the expected number as
21 calculated by your prior actuary. And we just basically rolled
22 that forward to 12/31/18, assuming there's no gain/loss and all
23 assumptions are actually realized. We are expecting that the
24 518 million will -- as of 2016 will grow to 538 million as of
25 12/31/18.

1 But we made a whole bunch of changes. As I
2 mentioned, the addition of the EMS, hardly any increase in
3 liability. You guys actually have a favorable claims
4 experience. The actual claims experience is lower than what we
5 expected, so that decreases the liabilities.

6 We updated the mortality, termination, disability,
7 and retirement based on the 2017 report. That creates a net
8 increase in the liability.

9 Health care trend rate update did not -- does not
10 make a huge change in the liability.

11 As you can see, the updated discounted rate actually
12 decreased liability by 155 million, so that is the one single
13 biggest thing that caused a decrease in liability.

14 So we arrive at an actual total OPEB liability of
15 429 million as of 12/31/18.

16 Slide 13 has a comparison of the total OPEB
17 liability and the actuarially determined contribution, or the
18 ADC, by the various groups. These are funding purposes. So
19 one thing to note is under the new accounting standard, GASB
20 74/75, there could be a difference in the discount rate used to
21 calculate the ADC, which is the recommended contribution,
22 versus what actually is being used to determine your accounting
23 liabilities. For this year for the City, it is just slightly
24 different. So the discount rate for the accounting is 6.7, for
25 the funding is 6.75. So it is not very different. I think

1 once the total -- once the trust asset is actually able or
2 sufficient to pay for the benefit payments, those two discount
3 rates will be the same. So for fiscal year 2019, we are
4 recommending 35.9 million for the actuarially determined
5 contribution. You are not required to fund that amount. And
6 we included the split between the four different groups in
7 the -- on the page.

8 Slide 14 shows the historical contributions that the
9 City has made. So the City actually made contributions -- the
10 expected retiree health care expenses for your retirees, you
11 made that contribution plus 2.5 million.

12 So the purple line shows what we are recommending as
13 far as contributions. So as your assets increase, it is
14 expected that your ADC will actually decrease. And as we use a
15 higher discount rate to set those recommended contributions,
16 that amount will continue to decrease.

17 As you can see, your dark green bars, which
18 represent your retirees' health care expenses, is increasing in
19 the five-year period. And I have a chart later on in the back
20 that actually shows in the 30-year period what it's going to
21 look like. But the City's additional contributions of 2.5 has
22 remained the same in the past five years. So this chart just
23 shows the gap between what we are recommending and what the
24 City is actually contributing.

25 The historical funding level, it shows the total

1 OPEB liability in the five-year period. There's a decrease,
2 obviously, in 2019, and that's because of the discount rate.
3 So the benefit itself does not necessarily change; it's just
4 the discounting of the future payments that have changed.

5 So I'm not going to go through the discussion on
6 discount rate. But essentially what it does is under GASB 75,
7 we have to do cash flow projections to show that the City's
8 OPEB trust can actually pay for future benefit payments.

9 On Slide 17, the left side is what the prior actuary
10 did, which is why he came up with a much lower discount rate
11 than what we are suggesting.

12 The second chart on the right is what the City's
13 policy as far as OPEB -- OPEB charge contribution is. So the
14 prior actuary assumed that you are not funding the pay-go cost
15 or the retiree health care expenses, which is why after two
16 years your trust is going to be depleted. So there are -- he
17 is assuming that you are only contributing the 2.5 and that you
18 are going to pay for the -- paying costs from the trust. You
19 are not funding the pay-go costs.

20 The chart on the right, you are actually funding
21 your pay-go costs, so you are actually funding whatever is the
22 retiree-paid claims or premiums they have to pay plus
23 2.5 million. So over the next 50 years or so, your trust is
24 going to continue to grow. And then if you compare it to the
25 benefit payments, which is the purple line, your trust balance

1 will -- actually overshoots that by quite a lot. So if you
2 continue with the current contribution policy, you are going to
3 overfund this benefit.

4 So I'm just going to go through very quickly on the
5 asset side. It basically just shows, okay, the asset classes,
6 how it was presented in the 2016 report versus how it was
7 presented in this year's report. It just has more breakdowns
8 of asset classes. And we received the information on the real
9 rates of return from Fifth Third.

10 So all we are saying, essentially, is that based on
11 the information that we know with the asset classes and the
12 target allocation and the real rates of return, 6.75 percent is
13 still an appropriate expected long-term rate of return of the
14 trust.

15 Slide 20 shows the reconciliation of the trust, the
16 inflows and the outflows from the trust.

17 Slide 21 shows the breakdown by the different asset
18 classes, and we show the historical information for '16 through
19 '18.

20 So moving on to managing OPEB liability, so are
21 increasing retiree health care costs sustainable? So if you
22 look at Slide 24, it shows the projected benefit payments for
23 the next 30 years or so. So as you can see, the retiree health
24 care expenses, they are expected to continue to grow until
25 about 2033 before they start to decrease. At its peak, you're

1 going to be paying 36.5 million as shown in the 2034 column,
2 36.5 million plus 2.5 million of additional contribution that
3 you are putting in. So you will contribute essentially 39
4 million for your OPEB benefit. Is that a number that you can
5 fund essentially? So after that point, yes, it will decrease.
6 But from here -- from now to 2034, you are going to have an
7 increasing health care cost.

8 Like I mentioned previously, so there are several
9 ways you can manage OPEB liabilities. And it all -- it all has
10 to do with how you manage your health plan essentially. There
11 are several traditional options that you can do essentially to
12 help lower the OPEB liabilities. You can make the benefit
13 requirements more restrictive. You can modify the contributed
14 requirements. But, you know, I understand these are bargained
15 benefits, so you may face some challenges there.

16 So the next best thing is basically managing the
17 health plan cost. The City, I don't think, currently have any
18 kind of high deductible plan. And that can be something that
19 can be used as an offering to help manage the health care
20 costs.

21 And for those who are on Medicare, you can also
22 change the way the plan coordinates with Medicare even if you
23 buy fully insured products. You can buy fully insured products
24 that coordinate differently with Medicare.

25 The other strategy is that you eliminate the

1 Medicare retiree prescription drug because the donut hole is
2 closed by 2020, and, you know, some retirees will be able to
3 find a pretty good benefit out there by purchasing their own
4 policy. And there are a lot of Part D policies that are being
5 sold out in the market.

6 So talking about the funding of your OPEB liability.
7 So the current funding policy is you are paying 2.5 million
8 plus the benefit payments being paid from outside of the trust.
9 The trust is expected to be more than 100 percent funded in 30
10 years. So if you continue under the current funding policy,
11 you will essentially overfund this benefit. Is it sustainable
12 for the City to continue paying for the full benefit payments
13 from outside of the trust, or can you actually start using some
14 of the money in the trust to pay for a portion of your retiree
15 health care expenses?

16 So what we are recommending is that you do what we
17 call a trust projection analysis. It can model, essentially,
18 various funding scenarios. You can answer the question of at
19 what point can the trust be used to pay for future benefit
20 payments while ensuring that, you know, you have enough money
21 until your last person dies. And then, basically, how long
22 should you make the 2.5 million extra contribution? Is that
23 really necessary for the life of the trust?

24 We can also test the trust balance sensitivity under
25 various expected-rate-of-return scenarios.

1 So those are all that I have. Anybody have any
2 questions?

3 MS. LANIER: Okay. With there being no questions,
4 we'll move on to our presentation of resolutions.

5 MR. FRANK: Adam, did you correct that?

6 MR. HOFFMAN: (Nods.)

7 MR. FRANK: Okay.

8 MS. LANIER: Resolution 1 of 2019. Resolution
9 authorizing the payment for professional services rendered by
10 Frank, Gale, Bails, Murcko & Pocrass, P.C., in the amount of
11 \$2,669.94 for the months of November 2018 through March 2019.
12 Can I get a motion --

13 MR. FRANK: Actually, we caught there was an \$18.50
14 extra in the bill. Well, you know, if it's wrong, it's wrong.
15 So that should be 2,651.44. That's the correct amount.

16 MR. KRAUS: That's what I have.

17 MR. FRANK: Yeah. But what she read was -- she had
18 the old resolution.

19 MS. LANIER: Oh, I have the old one.

20 MR. KRAUS: So moved as corrected.

21 MS. LANIER: Can I have a second?

22 MS. HILTON: Second.

23 MS. LANIER: Okay. Motion passed.

24 MR. FRANK: We need to call the motion.

25 MS. LANIER: Motion to approve? Sorry about that.

1 MR. KRAUS: Motion to approve. We have a second.
2 All in favor?

3 MS. LANIER: All in favor?

4 MS. HILTON: Aye.

5 MR. KRAUS: Aye.

6 MS. LANIER: Aye.

7 MS. MANUEL: Aye.

8 MS. LANIER: Motion carried.

9 And that was only the one resolution.

10 Next, we'll move on to new business. Is there any
11 new business?

12 Our next meeting is scheduled for November 6, 2019.
13 I'll open the floor for any new business.

14 MS. MANUEL: How do we make a motion for Korn Ferry
15 to do the trust analysis, or, you know, at least how can we
16 move that forward?

17 MR. FRANK: Just to make a motion asking them to do
18 that.

19 MS. MANUEL: Okay. Perfect.

20 MR. FRANK: And then somebody seconds, and we vote
21 in favor of it. And I think we maybe want to refer
22 specifically to a portion of the report where you proposed
23 that, the specific portion. I thought it was towards the end.

24 MS. LANIER: 26. Is it 26?

25 MS. LAKSANA: Uh-huh.

1 MR. FRANK: I would just reference the trust
2 projection analysis proposed on page 26 of the Korn Ferry
3 report.

4 MS. HILTON: Before you make the motion, do we have
5 a current professional services agreement with Korn Ferry, and
6 the cost of this is either built into it or would be added to
7 it? How does that work?

8 MR. FRANK: Well, actually, the City employs Korn
9 Ferry.

10 MS. HILTON: Oh, okay.

11 MR. FRANK: So it would not be a responsibility of
12 this fund. But I don't know how -- are they being paid on a
13 flat fee?

14 MR. HOFFMAN: Right now, yeah. A monthly flat fee.

15 MR. FRANK: Okay. Assuming that we would -- we
16 could condition the motion that this would be part of the fee,
17 without any extra fee.

18 MS. HILTON: Okay. Thank you.

19 MS. LANIER: So you can --

20 MS. MANUEL: I make a motion that Korn Ferry
21 completes the trust projection analysis.

22 MS. LANIER: Is there a second?

23 MR. KRAUS: Second.

24 MS. LANIER: All in favor signify by saying aye.

25 MS. HILTON: Aye.

1 MR. KRAUS: Aye.

2 MS. LANIER: Aye.

3 MS. MANUEL: Aye.

4 MS. LANIER: Motion carried.

5 Is there any continued business that we need to
6 discuss?

7 With no continued business, I need a motion to
8 adjourn the meeting.

9 MR. KRAUS: So moved.

10 MS. MANUEL: Second.

11 MS. LANIER: Thank you. Meeting adjourned.

12 (Whereupon, the meeting adjourned at 2:46 p.m.)
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C E R T I F I C A T E

COMMONWEALTH OF PENNSYLVANIA :
COUNTY OF ALLEGHENY : SS.:

I, Rita A. Ross, Registered Professional Reporter, do hereby certify that the foregoing pages containing the proceedings before the OTHER POST EMPLOYMENT BENEFITS TRUST FUND BOARD were reduced to stenotype by me and afterward transcribed by me or under my direction.

I hereby certify that the foregoing pages are a true and accurate transcript of said proceedings to the best of my skill and hearing ability.

I do further certify that I am not a relative of any party hereto, nor am I otherwise interested in the event of this action.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal of office at Coraopolis, Pennsylvania, on April 17, 2019.

Rita A. Ross

RITA A. ROSS, RPR

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