

NORWALK MUNICIPAL EMPLOYEES' PENSION BOARD MINUTES

Minutes from Meeting

NOVEMBER 12, 2003

ATTENDANCE: Jim Murphy, Chairman; Patricia McCormick, Don Nelson; Larry Manzi; Vicki Bove; Michael Salvator; Rebecca Hoeffler;

STAFF: Sara LeTourneau, Personnel Director; Tom Hamilton, Finance Director; Fred Gilden; Comptroller

OTHERS: Clayton Cheek, IVY; John Anderson; Blackstone; Peter Randall, Blackstone; Ellen Petrino, EAI; Karen Nolting, EAI

CALL TO ORDER

The Chairman called the meeting to order at 6:05p.m.

IVY - CLAYTON CHEEK

Mr. Cheek thanked the Board for investing with IVY. Mr. Cheek introduced himself as the Director of Client Development and one of his responsibilities is heading the Institutional Marketing for North America. He said he has 15 years in the business. He distributed a booklet for the Board's review. Mr. Cheek gave an update on the IVY asset management group. Mr. Cheek said that IVY is presently up to 8.7 billion dollars in assets. He added that IVY has been around since 1984 and is one of the oldest fund to fund organizations with 124 employees based in Garden City and also have offices in London and San Francisco. Mr. Cheek said the London office was started in 2001 and the San Francisco office was started in April of 2002. He added that IVY presently has 33 people dedicated to research. He said that this was one of the largest dedicated staff and it shows in the numbers.

Mr. Cheek reviewed the investment booklet he distributed. He said that the City of Norwalk's initial investment was about one year ago of with 7.5 million and add an additional 7.5 million from February 2003. He said the balance as of October 2003 is \$17,076,844. Mr. Cheek said that was growth of just over 13% net return on the investment. Mr. Cheek said that Rising Stars is a fund that is dedicated to off shore trading. He said the manager's focus is on long and short equity markets. He added that that was the specialty in equity trading.

Mr. Cheek said that they get the name off Rising Stars because we focus on managers that have less than \$300 million in assets under management. He added that this is small in the hedgefund market. Mr. Cheek said what IVY has found is that smaller managers can generate superior returns and get into opportunities that

bigger managers really don't focus on. Mr. Cheek said the smaller managers tend to have a lot of energy and drive.

Mr. Cheek said that the portfolio on page five gives the Board a breakdown of the allocation of the portfolio as of October 31, 2003. He added that there are 17 managers to the fund and the graph shows the various specialties that each of the managers represents. Mr. Cheek said the 27 % of the fund are towards Generalist, 13% towards Healthcare, 15% towards Consumer and the Global component at 4%. Mr. Cheek said that a special situation would be the focus on distressed companies which is a different opportunity that IVY is taking advantage of. Mr. Cheek said that the Board could see in the graph the various number of managers that IVY has in each of the specialties. Mr. Cheek said that in the volatile arena of Healthcare/Biotechnology, IVY has multiple managers with each manager having a different focus with what they are trying to do in that market place. Mr. Cheek said that gives IVY the diversification to mediate that volatility. Mr. Cheek said that Technology only has one manager. He added that the manager would keep a low net exposure to the market place so that they aren't subject to the volatility swings that you see in the technology industry. Mr. Cheek said that the chart is a bottom up driven process that IVY would find managers that we think would generate the return profile that IVY wants for this fund. He added that they would restrict it to 25% of the portfolio. He stressed that finding the talent is IVY's expertise and not trying to forecast where the market would be at the end of the year. Mr. Murphy asked Mr. Cheek how does IVY figure out what the city owns and what it is worth. He asked Mr. Cheek to prove that the Pension really does have \$17 million and to prove it to the Board. Mr. Murphy said that it was important for everyone to understand what the Pension has and how it was priced concerning hedgefunds. Mr. Cheek responded that that was not applicable to this fund because these managers are generally investing in publicly traded U.S securities. He said that IVY has one manager that does global securities but there are generally publicly listed traded securities and that the price is set the by the Exchange every night. Mr. Cheek said that IVY creates a rough estimate of value for these funds everyday. Mr. Cheek said that transparency with the managers are as low as the security level but not with each one. He added that there is no ambiguity to the pricing of the portfolio. Mr. Cheek said that they are speaking to the managers several times a month for their positions for their top holdings. He added that any manager that has more than 100 million dollars in assets under management has to list their long holdings with the FCC every quarter.

Mr. Cheek said that IVY could go on to the address system and check what was listed with the FCC versus what IVY understands them to have. Ms. Petrino asked if this action was voluntary. Mr. Cheek responded that it was mandatory. Mr. Cheek said that this listing of assets has been around for a couple of years.

Ms. Petrino said that the hedgefunded funds require transparency to use the fund. Ms. Petrino asked Mr. Cheek how many of these funds do IVY receive from the prime broker. Mr. Cheek said that it was a small number of managers that we get a daily position downloaded from the prime broker. He added that hedgefunded managers are in demand and very protective of having everyone see their positions. Mr. Cheek said that

the better managers are more restrictive on what information they provide. He said that the hungry managers would want to get the assets in the door and show you every position. He said that they view that as a negative position. Mr. Cheek said IVY would get a good idea of the manager's position by holding conversations with them. He added that those are the two big concerns as trustees to plans.

Mr. Cheek discussed the returns. He said that Rising Stars fund started in July of 1996. He added that every year was positive until last year. Mr. Cheek said that for year 2003 it was up 13.6% net and that is a return achieved on the assets this year. He added that this has been steady stable return for the managers. Mr. Cheek said that managers minimized the down side risk and was taking advantage of the better market environment today. Mr. Cheek said he would explain why IVY was not capturing all the upside of the market place. Mr. Salvator asked if there was any one manager that was contributing to the performance or is it all the 17 managers across all of the sections. Mr. Cheek said it was broad. He added that the best manager is up about 28% for the year and the worst manager is down by 1% on the year. Mr. Cheek said that the manager was listed in the report as of October 31 but was taken out because of performance.

Mr. Cheek discussed the statistics on page 7 of the report. He said that since the inception it has annualized 12% net returns with an annualized standard deviation of 8.8%. He said the key point is that a higher return is generated with a less volatility and significantly lower deviation than what you see in the report for Russell 2000. Mr. Cheek said when meeting with the Board earlier he wanted to have the Beta at .35 compared to the Russell 2000. He said that they are still showing the same sensitivity. Mr. Cheek said that Correlation is strong at .82. He added that what this was saying is that IVY is sensitive to the market and the managers are good at taking a lot of the risks out of the market and avoiding the big downturns.

Mr. Cheek said on page 9 the report shows Rising Starts Offshore monthly performance. He said it shows on a month by month basis how the portfolio has done when the market is down. Mr. Cheek said the graph shows how the managers reduce the exposure when the markets are down.

Mr. Cheek said that page 10 of the chart needed some explanation. He said that the bar chart show what the net exposure is that the portfolio has overall to the market. He said that in July 1997 goes up to 55%. He said that that means the managers were 55% long for the market. He added that it was 75% long, 20% short, netting to a 55% position. Mr. Cheek said numbers can vary but what IVY looks at is what the net exposure is balancing those two out.

Mr. Cheek said that the line charts are showing performance for S & P and Russell 2000. He said it shows how the managers reacted with the dip in October of 98 and reduced their exposure. He said that the managers were very aggressive after the rally started to expose itself. Mr. Cheek said the managers reduced their exposure in the fall of last year after WorldCom to the lowest it has ever been. He added that the managers became defensive because it was an uncertain market. Mr. Cheek said the managers have not

bought into the recent rally that has been going on. He said that the managers have focused on more growth speculative stocks. Mr. Cheek said presently they are about up to a 40% net long but are still being very cautious. He said that IVY likes managers that can find good opportunities and key risk management function is what IVY is looking for. Mr. Salvator asked if there was a lot of leverage in the portfolio. Mr. Cheek responded that currently it is about 95% gross invested and that is adding both the short and long. Ms. Petrino asked what was the most aggressive manager. Mr. Cheek responded that the most aggressive manager is 121% long and 72% short. Mr. Cheek said that the manager is about 48% net loan to market. He said the gross exposure is 60%. Mr. Cheek said that the prime broker would allow the managers to offset the long position with their short. Mr. Cheek said that they expect a generous return with the portfolio. He also said that this is a very consistent portfolio and a very well understood strategy with the managers.

Mr. Cheek said on page 11 is a list of various managers that are in the fund and the time frame that has been invested with them. He said some of the managers tend to be specialist in their area. Mr. Cheek said that there are three managers with four different funds that are event driven. He said that banks shut their doors to hardship companies. Mr. Cheek said our managers looked at these companies to add them to the portfolio. He said some of these managers have done extremely well. Ms. Petrino said that these are equity type returns. Mr. Cheek agreed.

Mr. Cheek said that IVY fired five managers from this portfolio this year. He said that three of them grew beyond 350 million a year threshold and the other two because IVY wasn't happy with their performance or stock selection.

Ms. Petrino asked what the long was. Mr. Cheek responded that it was primarily a global manager trading in Canada, the UK, and the U.S. and some Irish stocks. He gave an example that Trident is 92% long and 10% short so it is 82% net long. He added that the portion of the portfolio is somewhat restrained because of that. Mr. Cheek said that Trident is the global manager in the pie chart at only 4% of the portfolio but he has done exceedingly well. Mr. Cheek said Trident is up about 13% for the year and able to do a tremendous job.

Mr. Hamilton asked what the fees were. Mr. Cheek said that the hedgefund manager would charge a 1% fee a year plus 20% of the profits. He said that IVY, as fund manager with picking the hedgefunds would charge 1.5% fee on this product. He said that overall it would be 2.5% and 20%. Mr. Cheek said this represents a lot of work and the turnover of managers is high. Ms. Petrino asked if IVY challenges itself in regard to having the smaller managers. Mr. Cheek responded that this portfolio was trying to get the managers in their gross cycle when IVY thinks they can generate their strongest return. He said that there is a limit to the amount of money that IVY can manage with this type of product. Mr. Salvator commented that there are presently 17 managers. He asked if that was the target for IVY. Mr. Cheek responded that it would range between 15-17 managers. He added that IVY does not want to go over 20. Mr. Cheek said that it reduces the upside potential when there are too many managers. Ms. Petrino asked if there were specific

staff working on Rising Star. Mr. Cheek responded there is a specific portfolio manager for the Rising Star. He said that Bob Meshi has been portfolio manager for about 3 years.

Ms. Petrino confirmed that there are no managers in this fund that have engaged in a market mutual funds timing issue. Mr. Cheek responded no.

Mr. Cheek asked that the Board be sensitive to the information in the portfolio.

The Board thanked Mr. Cheek for his presentation.

BLACKSTONE-JOHN ANDERSON & PETER RANDALL

Mr. Murphy welcomed Mr. Anderson to the Pension Board meeting. Mr. Anderson introduced Mr. Rand as his partner that would help with the presentation.

Mr. Anderson said that he and Mr. Rand are part of the Product Development Legal and Client service team. He said that they both are involved in all aspects of the process. He said that they would give an update on BAM and what has evolved over the last two years.

Mr. Rand distributed the reports for Blackstone. He said that in Section 2 the BAM report currently 6.4 billion under management. Mr. Rand said that there were four strategies and there were a wide variety of funds varying on the risk return profile. Mr. Rand said that the majority of the growth over the last year and a half has been with the Madison Strategy, which was opened January of 2002. He added that Madison is very conservative and well diversified. He said that there has been an interest in switching to the Park strategy. Mr. Rand said that the investment with Park is at 80% and 20% diversified. He said the fifth strategy is about 40%-50% long shore equity management. He said that it was more directional toward equity markets and as you can see the equity markets take a turn towards the upside. He added that the interest has increased in those two funds. Mr. Rand said the Park strategy has three different funds in it comprising the \$1.17 billion. He said the City of Norwalk is in the Park non-taxable fund has about \$590 million under management. Mr. Rand said that within the Park non-taxable fund it is 80% long shore equity managers.

Mr. Rand said that the Columbus strategy is a backbone to the business. He said that Columbus has a bench of managers that would get in when they are about \$50 million to \$200 million in assets under management. Mr. Rand said that going forward Blackstone hoped to graduate them onto the other four strategies in one to two years. He said that once they can sustain a business, get the right people, have the right office and starting on the hedgefund then the only concern would be if they could run the business.

Mr. Anderson said that the question is if it is a sustainable business. He said that Blackstone believed it is. He said that there are some restraints. He said one concern is that there are no false diversifications and not adding managers just to add them. Mr. Anderson said that Blackstone wanted to keep the number of managers fairly

concentrated in the funds so that there is meaningful impact on the overall portfolio. He said Blackstone closed the partner strategy last year because of the idea of having too many managers to raise the assets. Mr. Anderson said that Blackstone has over \$570 million of internal money invested in these strategies. Mr. Murphy asked for an explanation of the firm's investment.

Mr. Anderson said that the firm has capital investment and partners that invest directly. He said that the investors are invested in these funds whether they have \$5million or \$500 million and have the same allocation of the team's time to the portfolio.

Mr. Rand said that on page 9 there is a breakdown of the client base. He said that there are over \$500 million invested in strategies. He said that there was about 50% of the assets with the Arissa money.

Mr. Anderson said that what the team does is a thorough review of the underlying managers and our portfolio's to make sure they can handle the new Arissa capacity and also a lot of issues that prohibit a transaction.

Mr. Rand said there is a breakdown of the entire team on page 18, Section 3. He said that Blackstone has had to hire some new employees to better monitor our existing managers and to service the new clients as well as the old clients. Mr. Rand said that Bob Lavin used to be Managing Director but will now head the fixed income area. Mr. Rand said that Steve Sullen would focus on the hedge equity long shore type of fund. Mr. Rand said that Blackstone hired Chris Rapsowich for the risk management team and to build up Blackstone's risk system. Mr. Anderson that one issue is that you hear a lot about transparency. He said that they don't always get full level transparency from every manager. He added that it is important to aggregate the data up from the ones you do and for the ones you don't to understand the key risk return drivers of every strategy.

Mr. Anderson said that they hold weekly meetings with the entire team to discuss the current issues. He said that Blackstone receives weekly performance from about 90% of the managers. He added that it was more data points to understand the manager's reaction to the market.

Mr. Anderson said that the business financial team was broken out to see where the dollars are going. He said that money coming in and going out and not pricing the portfolio correctly is something that Blackstone reviews to hopefully avoid some of the potential laws out there. Mr. Murphy asked Mr. Anderson if he had a model of the maximum dollar amount in the portfolio. Mr. Anderson replied that it is not a set number because it was always changing. He added that with the Park strategy there is a good amount of capacity.

Mr. Anderson said on page 27, section 4 shows the capital balance since inception is \$16 million. He said it is about 8.8 net. He added that there is no management fee. Mr. Salvator asked what terms were for hiring managers.

Mr. Anderson said that they try to negotiate terms, fees and risk capacity, liquidity, and key man provisions. He added that Blackstone would like to grow with the manager as they grow. Mr. Gilden asked for an explanation of the fee option. Mr. Anderson responded that it is 2% flat management fee and the second option is 1% management fee and 10% incentive fee and the third option is the 15% incentive fee. Mr. Gilden asked if options could be changed if necessary. Mr. Anderson said on a semi-annual basis.

Mr. Hamilton asked if the incentive fee is calculated on a quarterly basis. Mr. Anderson said that there is a high watermark that is used to determine incentives.

Mr. Anderson said on page 28 the Board could see that Blackstone has 27 managers in the portfolio. He said 82% of the managers are long shore hedge equity managers and 20% are other diverse fund strategies. Mr. Anderson said that with the portfolio they want to participate in the upside and protect capital on the down side. He said that in 2002 the Park strategy it was relatively flat in performance. He said that in 2003 it has trailed S & P. Mr. Anderson said that the money managers in this portfolio particularly on the hedge side are fundamental hedgefund managers. He said there was not a drastic change.

Mr. Anderson said on the highlights of the portfolio are on the upside have been those managers that have had longer net exposure. He said that those that are net long have more Betas to the equity markets and the equity market value would capture that because of the exposure to the equity markets. He said on the downside it has been those with net short exposure or those that have had low exposure but have been on a Beta adjusted basis, short in the technology area. Mr. Anderson said that three managers were added to the portfolio.

Mr. Anderson said the interest rate category is up about 3 1/2%, which is less than expected. He said the currency manager is in a good position and up about 15%. Mr. Anderson said the key areas of manager turnover are style drift and personnel turnover and performance. He added that turnover in general for the year is about 10%. Ms. Petrino asked what the range of performance for the long short fund. Mr. Anderson responded that on a year to date on the long short investment performer is up about 60%. He added the best performer was at 70% net long and the lowest performer was a 13% short technology manager. Mr. Anderson said that Blackstone would stress test the portfolio managers. He added that was very important to do.

He said that there are 16 points that Blackstone looks at with the managers. He also said that they pro-actively look at the portfolio instead of reactively looking at it. He said that historically managers have the ability to change their exposures, the past numbers may not tell you the story of what might happen in different environments.

Ms. Petrino asked if there are too many managers. Mr. Anderson said that by the number of the managers that they have been up significantly and we try to balance some of those with the down side protection.

Mr. Anderson said that he was willing to share more of the manager level material with Ms. Petrino. He added that in a forum such as this, Blackstone is reluctant to do so.

Ms. Petrino said that the Board was trying to replace some funds and at the time Blackstone did not have the hedge equity funds. She asked Mr. Anderson to compare the hedge equity fund to what the pension has now. Mr. Anderson responded that the difference between Park strategy and the hedge equity strategy is that the hedge equity strategy is 100% long shore hedge equity.

Ms. Petrino asked if there was much manager overlap between hedge equity and the Park strategy. Mr. Anderson responded that there is some overlap, not much.

Mr. Anderson said that in the appendix there are terms that would give you the performance on every offering that is available to the City of Norwalk.

Mr. Murphy thanked Mr. Anderson and Mr. Rand for their presentation.

EAI-ELLEN PETRINO/KAREN NOLTING

Ms. Petrino said that EAI partners were selling the consulting division to Milliman USA Partners. She said that the closing should be January 1, 2004. Ms. Petrino said that Milliman was buying the consulting services for their firm. She said that Milliman was in health care and insurance. Ms. Petrino said that EAI would fill the void of investment services for Milliman. She added that everyone would be staying with EAI and there would be no downsizing. Ms. Petrino said someone is coming from Philadelphia to run this office. She added that this would not have an effect on the City of Norwalk.

Ms. Petrino distributed the report from EAI. She said that on page one is the Executive Summary with spreadsheets in the back. She said it also shows the asset classes. She said that the September ended with \$272.8 million and year to date earned 16.5% against the custom benchmark recognizes the styles of 14.1 and 13.6.

Ms. Petrino said that the next page shows the allocation of assets of actuals and target allocation. She added the table below shows the percent versus the target market value. She said that all of the long US equity includes Zeziger. Ms. Petrino said that this shows that EAI was very close in all of the categories.

Ms. Petrino said that page three shows where the return is coming from. She said that the asset class that contributed to your return was the long US equity category.

Ms. Petrino said page four shows the performance relative to the custom benchmark in the first bar charts. She said that the Board could see that we are ahead of the benchmark.

Ms. Petrino said page five is summary and conclusions. She said that during the third quarter we made the change and the TCW continued to be funded. She added that Lazar was terminated on August 7th.

Mr. Murphy asked when Silchester was coming in for a presentation. Ms. Petrino said she has them scheduled for March 10, 2004.

Mr. Murphy asked if there were employees trading. Ms. Petrino said that the market police found it and closed it down. She added that it was not going on for a long time.

Ms. Petrino said that the Boston Company was on the watch list and have been downgraded to a hold because a manager left. She added that there were still 6 managers left. She said that the Boston Company quarterly was very strong and their year to date is decent. Ms. Petrino said that they have moved the fixed income target to 25%, which is down from 40% years ago. She said the question was is 25% low enough. Ms. Petrino said pension funds are uncomfortable under 25% and endowments are comfortable at 15%. She said that there are still fixed obligations and 20% would be the lowest that she would recommend.

Ms. Petrino said that the Board should continue to talk about fixed income and rising rates into next year. Mr. Gilden asked about the hedge fund at 25%. Ms. Petrino responded that the question would be do we have enough inflation protection or hedge in the portfolio.

Ms. Hoeffler said that a meeting should be scheduled the first of the year to review this.

Ms. Petrino said that the Boston Company is ahead as of year to date. She said that they are ahead of the medium and this was very positive. She said that TCW is ahead of the benchmark and ahead of other growth managers. Ms. Petrino said Zeziger Capital is exceptionally strong because this measures their total fund. She said that they have made up most of their loss.

Ms. Petrino said that LSV was doing very well relative to their very strong benchmark. She said Artisan is behind their benchmark. Ms. Petrino said that Artisan has good basis points under performing but also has a tremendous history. She said she believes that Artisan is in a phase of under performing.

Ms. Petrino said she added a development comments section. She said that this would tell of any organizational changes and what the research rating was.

Ms. Petrino said page one showed the most recent market values that EAI received at \$283.8 million.

Ms. Petrino said that the appendix showed the investment management structure as a summary. She said it showed the styles, benchmarks and targets.

APPROVAL OF MINUTES OCTOBER 8, 2003 AND CORRECTED MINUTES JUNE 11, 2003

Mr. Murphy said that the minutes were terrible. Ms. Petrino said that she would put the minutes in electronically, edit them, and then would distribute them to the Board. She said the Board could look at the minutes and review.

Mr. Murphy said the minutes would be tabled until next meeting.

APPROVAL OF PENSION APPLICATION (S)

Mr. Murphy said that there was an application from Mr. DePaulis for pension approval. He said Mr. DePaulis has 35 years of service and is 58 years old and requesting early retirement. He said that Mr. DePaulis final year of salary was \$61,735 and his annual monthly benefit would be \$3,457.50. Mr. Murphy said that the commencement date was November 1, 2003. Mr. Murphy said that Mr. DePaulis selected the normal form as his option.

Mr. Murphy said that Norma J. Van Essen submitted an application for pension approval. He said that Ms. Van Essen has 21 years and 10 months of service. He said that the final salary for Ms. Van Essen was \$25,605 and the monthly benefit would be \$932.00. He said that the commencement date would be December 15, 2003. Mr. Murphy said that Ms. Van Essen selected the normal form as her option.

Mr. Murphy said that Ms. Marie Meserole from the Board of Education has submitted an application for pension approval. He said that she had 14 years and one month of service. Mr. Murphy said that her final salary was \$23,670 and the monthly benefit would be \$461.50. He said the commencement date would be January 1, 2004. Mr. Murphy said that Ms. Meserole selected the normal form as her option.

**** MS. HOEFFER MOVED TO ACCEPT THE PENSION APPLICATIONS**

**** MOTION SECONDED BY EVERYONE.**

**** MOTION PASSED UNANIMOUSLY.**

SUBCOMMITTEE REPORT

Mr. Murphy asked Ms. McCormick for a Subcommittee report.

b) Consultant for Administrative Manual

Ms. McCormick said that they talked about a couple of things. She said one was the completion of the pension plan that was being worked on by the consultants, which is a separate issue, but a very important issue. She said the other issue was about hiring a consultant to put together an administrative manual and to put together a lay person's document that could be used by all members of the pension plan for a better understanding of the pension plan. She said that the Subcommittee would recommend to the Board that the Board pay for the consultant and the proposal for the administrative plan. She said that there was a plan in place for a person working on the Pension plan.

She said that they were moving ahead leaving blank spaces for the items that are now in litigation.

Mr. Murphy said that the Board would do a proposal for the administrative side and use the current actuary or consultant that is working now for the pension.

Ms. LeTourneau said that there is a law firm responsible for drafting the pension plan document to do the summary of plain language rather than bringing in an outside consultant who would have to familiarize themselves with the pension plan document. Ms. McCormick asked who would be paying for the work. Ms. LeTourneau responded that the City would be paying for the work.

Mr. Murphy said that he believes that there is not a limitation to the Board and that the plan would be paid for by the Board. Mr. Hamilton asked if the Milliman group could be asked to perform this service. He added that they are on board with the city and it is certainly within the scope of services for them to perform this work. Mr. Murphy suggested to get a price from Milliman. Ms. McCormick asked what the time frame would be. Mr. Hamilton said that Milliman would have to answer that.

Mr. Murphy asked that Mr. Gilden email everyone with a price from Milliman for services to be performed on the Administrative Manual.

Mr. Hamilton said that the SPD would be performing by Shipman and Goodwin unless they quote a ridiculous price.

**** MS MCCORMICK MOVED TO HIRE A CONSULTANT TO DO THE ADMINISTRATIVE MANUAL FOR THE PENSION PLAN.**

**** MOTION SECONDED BY MR. SALVATOR**

**** MOTION PASSED UNANIMOUSLY.**

a) Calculation of Final Average Salary.

Ms. LeTourneau said that the other item the Subcommittee talked about was the final average salary. Ms. LeTourneau distributed a list of applications from the June pension application approvals and an example of a list of calculated salary and contractual salary. She said that the calculated salary is a reference to the proposed method. She said the contractual salary is the result using the method that had been employed. Ms. LeTourneau said for example there was an employee that was on long term disability and had a long period of time where there was no pay. Ms. LeTourneau said that the method suggested here would be that the employee would get paid based on actual wages that are earned by the individual and the wage basis for the pension contributions that are being made. Ms. LeTourneau said that under the pension plan document it states that the final salary shall be the highest consecutive twelve months of salary. She said that she would like to have definitions on the following. Ms. LeTourneau said that twelve months specifically refers to calendar months and that salary refers to actual wages received not hypothetical wages that would have been received. She said that there would be a

difference in the actual final average monthly salary between the two ways that the calculation has been done. Ms.

LeTourneau said that someone has to have the actual payroll records with them in order to arrive at the calculation.

Ms. LeTourneau gave an example of the new calculation. She said that if a person retires on July 1st earning a yearly salary of \$48,000 but with the step and merit increase would retire with a salary of \$52,000. She said that this person did not contribute to the extra salary received but would be paid by the pension plan on the higher amount. She said another example would be if an individual retired August 29th having worked 5 weeks that month. She said that there were 5 pay periods that month which increases their average weekly salary. She said that the actual earnings are driving the calculations. Ms. Hoeffler asked Ms.

LeTourneau if she was making a motion for the floor. Mr. Murphy said Ms. LeTourneau could not make a motion because she was not on the Board.

Mr. Salvator asked if the wages were looked at weekly. Ms. LeTourneau said that the final average salary defines it as 12 months. Ms. LeTourneau said that this Board is the only one that can interpret this and make a decision.

Mr. Murphy said that as an offshoot from this that the unions would sit down and negotiate this. He said he realized that most retirees would retire on July 1st. Ms. LeTourneau said that the actuaries that are doing the evaluations are making their final recommendations on the basis of the actual based wages earned by an individual and the amount of money that individual is contributing to the pension plan. She said that the calculations are thrown off.

**** MS. HOFFER MOVED THAT THE BOARD ACCEPT THE CALCUALTION FOR AVERAGE SALARY AS RECOMMENDED BY MS. LETOURNEAU.**

**** MR. SALVATOR SECONDED.**

**** MOTION PASSED WITH ONE ABSTENTION (MS. MCCORMICK).**

Ms. McCormick said that the person that retires on July 15 would be penalized for the last month for the last worked consecutive month. Ms. LeTourneau said no that this was not the way the calculation works. She explained the calculation to Ms. McCormick. Ms. McCormick said that people in her union depend on the new salary for their pension. Ms. LeTourneau said that the employee should then wait until July to retire. She said that should be a simple decision.

Ms. McCormick said that if employees in her union took sick time into August they would lose the higher pay based on the new calculation of actual wages earned. Ms. LeTourneau said that that is the employee's choice.

Ms. Hoeffler asked if sick time are wages earned. Ms. LeTourneau said that the wages should be actually worked salary.

Mr. Murphy said that a meeting needed to be scheduled to review this information from Ms. LeTourneau.

Ms McCormick said that this would be a disservice to her people if this decision was made before the new layman's book is printed. She said that people do know when to retire and that seems to be the first of July. Ms. LeTourneau said that it was not because the pension board has authorized it. Mr. Hamilton said that there are people that would be affected by it. Ms. LeTourneau said that she was talking about the decision from this point forward.

Mr. Hamilton said that Ms. LeTourneau interpretation is the most straight forward as far as reading this language. Ms. McCormick said that there was a certain amount of sick time that most people are paid at retirement. Ms. LeTourneau said that sick time is at the rate of pay at that point in time. Ms. LeTourneau said that there was an employee that was out on disability with no pay at all. She said that when this person retired, he had not contributed to the pension plan at all but was paid at the rate of pay as if that person was actually contributing to the plan, but he wasn't.

Ms. Hoeffler said that this was not fair to the people that was actually working and contributing to the plan.

Ms. McCormick asked who would be the person in Personnel to ask pension questions. Ms. Le Tourneau said she was the contact for information regarding any pension information. Ms. Le Tourneau said that ultimately the Board has the interpretation of this issue.

Mr. Murphy said that this was not an issue for tonight's meeting.

OTHER BUSINESS

Ms. Petrino said that there was a meeting scheduled with the Boston Company for December 10, 2003. She asked if the Board would like to have the meeting or defer the meeting until January. Ms. Hoeffler asked if there were any burning issues that had to be discussed at the December meeting. Ms. Letourneau said that any pension applications could be circulated by fax or email. Ms. McCormick asked if any applications would be processed under the old system. Ms LeTourneau said that she does not have any pending applications at the moment.

ADJOURNMENT

**** MS. MCCORMICK MOVED TO ADJOURN.**

**** MOTION SECONDED BY DON NELSON.**

**** MOTION PASSED UNANIMOUSLY.**

The meeting was adjourned at 8:30pm.

Respectfully submitted,

Jean Lane for
Telesco Secretarial Services

