

## **APPROVED BOARD MINUTES**

### **LOUISIANA CLERKS OF COURT RETIREMENT AND RELIEF FUND**

#### **BOARD OF TRUSTEES MEETING**

**WEDNESDAY, OCTOBER 12, 2011**

**WHITE CASTLE, LOUISIANA**

**9:00 AM**

A meeting of the Louisiana Clerks of Court Retirement and Relief Fund Board of Trustees was held on Wednesday, October 12, 2011, at 9:00 AM in White Castle, Louisiana.

The meeting was called to order by President Mark Graffeo. Tammy Foster gave the invocation and Gary Loftin led the Pledge of Allegiance.

#### **MEMBERS PRESENT:**

President Mark Graffeo  
Lynn Jones  
Tammy Foster  
Jim Martin  
Cliff Dressel  
Hart Bourque  
Ann Ardoin  
Gary Loftin  
Louie Bernard

#### **OTHERS PRESENT:**

Debbie Hudnall, Executive Director  
Jessica Portis, Consultant  
Gary Curran, Actuary  
Denise Akers, Attorney  
Michelle Cunningham, Auditor  
Chris Kershaw, Controller

#### **Guests Present:**

Christine Crow  
Richard Arceneaux

#### **APPROVAL OF MINUTES:**

Cliff Dressel moved that the minutes of the July 27, 2011 meeting be approved. Motion seconded by Hart Bourque. **Motion carried.**

#### **COMMENTS BY PRESIDENT:**

President Mark Graffeo welcomed everyone to Nottoway and thanked them for their attendance. He stated that the markets had certainly been a roller coaster ride for the last three months. He reported that most of the Retirement Board members attended the LAPERS seminar in New Orleans in September and that it was very informative and productive. It also provides the opportunity for the Board to obtain their mandated educational hours.

Gary Loftin reported that the December meetings would be December 6, 7, and 8 in Shreveport/Bossier. He stated that the dates had been set for the meeting. The powers that be had changed the qualifying dates and that qualifying would be December 7, 8, and 9 which would be overlapping the meeting. Gary said he hoped everyone would still be able to make arrangements to attend because they have some special events planned.

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**FINANCIAL REPORTS: (ON FILE IN OFFICE)**

Jim Martin presented the financial reports for July and August 2011.

July 2011-	FYTD Revenue	\$ 1,939,660
	FYTD Deductions	\$ (2,365,097)
	Investment Gain (Loss)	\$ (2,035,723)
	Total Investments	\$ 357,925,752
	Total Assets	\$ 375,684,900
	Net Income (Decrease)	\$ (2,365,097)

August 2011 -	FYTD Revenue	\$ 3,828,022
	FYTD Deductions	\$ (4,499,768)
	Investment Gain (Loss)	\$ (15,280,216)
	Total Investments	\$ 344,626,006
	Total Assets	\$ 362,095,929
	Net Income (Decrease)	\$ (15,951,962)

Jim also presented the financial reports for the Retirement Administrative Fund for the months of July and August 2011. He noted that a surplus had been carried over from the prior year and that the Board had intentionally drawn that fund balance down.

May 2011 -	Total Fund Balance	\$ 78,951
	FYTD Revenue	118
	FYTD Expenses	48,069
	Net Income (Loss)	\$ (47,951)

June 2011 -	Total Fund Balance	\$ 217,327
	FYTD Revenue	250,232
	FYTD Expenses	102,472
	Net Income (Loss)	\$ 147,760

Motion was made by Tammy Foster to receive the financial reports. Motion seconded by Ann Ardoin. **MOTION CARRIED.**

**INVESTMENT COMMITTEE REPORT:**

Chairman Gary Loftin stated the Investment Committee had their monthly conference call on October 5<sup>th</sup> with Jessica Portis and Dan Holmes and received market updates from them. He informed the Board that the opportunity with Clarion that was presented to the Investment committee would be presented to the full Board today by Summit.

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**SUMMIT STRATEGIES GROUP: (Reports on file in office)**

**Market Overview:** Jessica Portis reported that September was a very difficult month in the equity markets. She said that this was the results of: investors are beginning to fear that growth rates here in the US and abroad are going to be much slower than anticipated; the European debt crisis and the concerns in the US on our debt level; the weakness in the employment in the United States and the weak housing markets. Summit believes the markets will continue to be very volatile day to day and markets will continue to be in the neighborhood of where they are currently. She spoke about Operation Twist which is a policy whereby the Federal Reserve is going to be purchasing longer dated instruments in the fixed income market place with duration of 10 years or longer. Feds are trying to push investors into longer investments; however, investors were not impressed.

Jessica then gave the following report of the performance of the Clerks' Retirement portfolio stating that the fund was down \$31 million from June 31<sup>st</sup>.

**PORTFOLIO PERFORMANCE**

	<b>September</b>	<b>1 Mo.</b>	<b>FYTD</b>
<b>Total Investments</b>	\$329,647,750		(8.55%)
<b>US Equity</b>			
QMA	\$ 30,213,221		(15%)
Rothschild	\$ 19,145,139		(16.57%)
Westfield	\$ 25,942,024		(18.03%)
Ironbridge	\$ 23,801,727		(19.85%)
<b>Intl. Equity</b>			
Vontobel	\$ 41,038,528	(3.32%)	
Mondrian	\$ 7,406,671		(2.72%)
William Blair	\$ 7,203,775		(18.20%)
DFA	\$ 16,309,388		(22.16%)
<b>Fixed Income</b>			
Pyramis	\$ 64,266,899		2.07%
SSgA Tips	\$ 12,000,342		4.52%
<b>Hedge Funds</b>			
Blackstone	\$ 11,025,615		(1.31%)
Magnitude	\$ 11,100,796		(.91%)
UBP	\$ 5,027,902		(1.03%)
<b>Real Estate</b>			
Clarion	\$ 35,570,824		4.21%
<b>MLP'S</b>			
Harvest	\$ 9,005,558		(4.04%)
Tortoise	\$ 8,928,995		(4.45%)
<b>Hancock Cash</b>	\$ 1,350,346		.03%

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Louie Bernard asked if there was any dialogue when managers do not do well. Jessica reported that Summit's Research Staff of 25 people are in constant contact with managers and also often before a Board meeting, she reaches out to the money managers to get updates. She said the managers with a Value component in their portfolios are the ones that lagged.

Jessica informed the Board that a unique opportunity had presented itself with Clarion Lion Property. Clarion Fund was originally owned by ING based in the Netherlands. As of June 30, 2011, the ING Investment amount was \$124.8 million (140,531.98 shares), or about 3.8% of Fund equity. On June 9, 2011, Clarion Partners management purchased the Clarion business from ING, and is now the sponsor of the Fund. ING would like to sell its shares in the Fund and has proposed a Rights Offering. The offer is being made to each existing shareholder based on their pro-rata interest in the Fund. Shares are being sold at a 10% discount to the June 30, 2011 Net Asset Value of the Fund. The purchase price paid will also be offset by ING forgoing its third quarter 2011 dividend. The voluntary share purchase will take place in late November, with an election to be submitted by November 2, 2011. Shares purchased as part of the Rights Offering would be locked up until April 1, 2015. Clerks currently own 38,422.82 shares. The purchase of 1,446.03 shares is being offered, which equates to \$1,155,926. Based on the September 30, 2011 preliminary market values, there is a slight overweight to Real Estate of .7%; however Summit recommends Clerks participate in the Rights Offering.

**REBALANCING RECOMMENDATION:** Jessica made the following recommendations to the Board for rebalancing the portfolio:

1. Bring Hedge Fund portfolio to allocation  
Fund from Pyramis by redeeming \$5 million and distribute evenly to Blackstone and Magnitude
2. Bring International Equity allocation back inside targeted range  
Redeem \$2.0 million from Pyramis and withdraw \$2.0 million each from Rothschild and Westfield  
Transfer \$4.0 million to Vontobel and \$2.0 million to DFA
3. Fund purchase of additional units of Clarion Lion Property  
Transfer \$1,155,926 to Clarion from Cash account

Gary Loftin moved to accept the recommendation of Summit as to the rebalancing the portfolio and the participation of the Rights Offering with Clarion. Motion seconded by Louie Bernard. **Motion carried.**



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**AUDIT REPORT:** Michelle Cunningham, with Duplantier, Hrapmann, Hogan & Maher, gave the audit report for the period ending June 30, 2011. Michelle informed the Board that the Retirement Fund received the highest and cleanest audit that you can receive. She reported that the Fund's assets exceeded its liabilities at the close of the fiscal year by \$378,083,955. The net assets had increased by \$76,391,482 or 25.32%. The increase was due primarily to the positive market conditions. Contributions to the plan by members and employers totaled \$21,949,587; \$8,059,602 collected from ad valorem taxes; \$322,191 collected from revenue sharing; and net appreciation in the fair market value of investments of \$64,403,968. The total return on the Fund's investments for the year was a positive 24.3%. Pension benefits paid to retirees and beneficiaries were \$19,227,632 an increase of \$963,707 from the prior year. DROP benefits paid to participants were \$1,523,341, an increase of \$76,146 from the prior year. She reported that at the end of June 2010 total investments were \$295,585,892 and total investments at the end of June 2011 were \$369,672,023. Motion was made by Hart Bourque to accept the audit report. Motion seconded by Jim Martin. **Motion carried.**

Michelle thanked Debbie and Chris for their tremendous help in the performance of the audit because they did a great job in getting all of the information to them in a timely manner. She said as the years have gone by, retirement systems have gotten more complicated in regard to what the staff has to do in order to keep the books in proper order. Michelle said that Debbie and her staff do a tremendous job. Debbie stated that she appreciated all of the work that Chris did during the audit and that she was certainly happy to now have a CPA in the office to help maintain the complicated accounting of all of the investments. She said when she became the Executive Director there were about 7 money managers and there are now 16 money managers.

**ACTUARY REPORT: (On file in office)** Gary Curran said he would like to echo what Michelle had said. He said that it was a pleasure to work with Debbie and her staff. He said that his office has extensive programs to run the Clerks' data through to validate it and that they do not have another client whose data is as clean as the Clerks' data and none of them get the data to them as quickly as the Clerks. He said that becomes more difficult each year because the plans become more complex. He said the clerks are actually running 3 separate pension plans with 3 different benefit structures for 3 different groups of people.

Gary commented on the assumptions used in the actuarial report. On June 30, 1989, the unfunded accrued liability was determined to be \$58,719,822 and was frozen and amortized over forty years with payments increasing at 4.75% per year. For fiscal years 1999 through 2002, the Board froze the employer contribution rates. The additional payments of \$6,660,791 and the accrued interest reduced the unfunded accrued liability by \$9,536,353 as of June 2005, and shortened the remaining amortization period to June 2026. However, in 2006 a statutory change was made to re-amortize the frozen unfunded accrued liability through June 2029.

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He said no changes were made to assumptions used in the prior year report. However, an additional set of assumptions related to retirement and DROP entrant rates was used for persons first employed on or after January 1, 2011. There were no plan changes for the current year.

<u>Year</u>	<u>Market Value</u>	<u>Actuarial Value</u>
2002	-3.0%	-0.3%
2003	2.9%	-0.9%
2004	12.3%	2.9%
2005	8.7%	7.2%
2006	11.5%	16.7%
2007	14.3%	10.2%
2008	-6.3%	7.9%
2009	-19.3%	-6.1%
2010	8.7%	4.1%
2011	22.1%	5.8%

Gary reported that the actuarial value of 5.8% was a result of the losses for 2008 and 2009 which are included in the 5 year smoothing. Gary said the environment is now the exact opposite of what it was years ago. He said that if you went back 15 to 20 years ago, most of the income was interest income and you could count on it and may have had little capital gains. Today, the capital gains drive everything and capital gains are volatile. The Clerks' Fund had \$64,403,968 in capital gains for the year. This volatility also makes the contribution rates volatile. The market value rate of return measured over the last ten years was 4.5% and for the last 20 years 7.0%. The required actuarial rate of return is 8%. He said that it doesn't make sense to maintain the 8% required amount when the fund has not been able to earn it in 20 years. Gary suggested that this is something we need to have on the agenda in the future. He said he would be more comfortable with 7.5% rate, but that it would increase the cost and therefore increase the employer rate. He said timing is an issue in reducing the rate.

Gary reported that the average regular retiree of the Clerks Fund is 71 years old with a monthly benefit of \$1,761. The number of retirees and beneficiaries that are receiving benefits from the system increased by 46 during the fiscal year and by 158 in the past 5 years. The payments have increased by \$5,847,563 for the same period. He also reported that the average active member is 47 years old with 12.86 years of service and an annual salary of \$37,577.

#### Census Data of Clerks Retirement System

Active Members	2,194
Terminated with Funds	460
DROP	132
Retired	<u>975</u>
<b>TOTAL MEMBERS</b>	<b>3,761</b>

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Gary reported that based on many factors, the required net direct employer contribution rate is 16.25% for fiscal year 2013. He informed the Board that R.S. 11:105 and 107 allows the Board to freeze the contribution rate at the prior year's level or may set the rate at any amount not to exceed the minimum recommended contribution rate by more than 3%. He said he would recommend that the Board maintain the current rate. He also informed the Board that for each percentage under the assumed 8% rate of return, the employer contribution rate would increase by .56% and likewise for each percentage above the assumed 8% rate of return would reduce the employer contribution rate by .56%. Gary informed the Board that any monies received above actual cost would go into the Funding Deposit Account that could be used to either to reduce the employer rate or to pay down on the unfunded liability. The current balance of the FDA is \$603,658.

Gary reported that they had determined there has been more than a 3% increase in the CPI-U since the last COLA granted; therefore, the requirements of R.S. 11:1549 for the granting of a 2.5% COLA (limited to a maximum of \$40 per month) have been met. However, in order to grant any cost of living increase to regular retirees, the ratio of the plan's assets to benefit obligations must also meet the criteria established in R.S. 11:242. For fiscal 2011, the fund has not met the necessary target ratio. The Target Ratio for Current Fiscal Year is 93.82% and the Actuarial Value of Assets Divided by PBO as of Fiscal 2011 which is 74.21%. Therefore, the Fund is unable to grant COLA's to retirees at this time.

Gary reminded the Board that the actuarial report has to be approved by the Public Retirement Systems Actuarial Committee which would not be done until sometime in January. Jim Martin moved that the Actuarial report be accepted and the tables submitted by Gary Curran. Motion seconded by Cliff Dressel. **MOTION CARRIED.**

Jim Martin moved that the previous mortality tables be maintained for the purpose of option calculations. Motion seconded by Cliff Dressel. **MOTION CARRIED.**

**APPLICATIONS AND REFUNDS: (On file in office)**

Debbie reported there were 7 applications for DROP and 7 applications for regular retirement. Gary Loftin moved that the applications be approved. Motion seconded by Ann Ardoin. **Motion carried.**

Debbie further reported there had been 33 applications for refunds for the fiscal year in the amount of \$190,311.

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**REPORT OF EXECUTIVE DIRECTOR**

Debbie presented a copy of letter from Bob Tarcza in reference to the change in his hourly rates. She reminded the Board his contract with the Clerks stated that his fees are governed by his contract with LASERS. Their current contract went into effect on July 1, 2008 and expires on December 31, 2011. He has now executed an amended agreement with LASERS effective January 2, 2012 and expiring on December 31, 2015. His hourly rate for tax work will increase from \$275 per hour to \$295 per hour and the hourly rate for non-tax work will increase from \$250 per hour to \$275 per hour. She said that this did not require any action because it had been approved in his contract.

Louie asked if Mr. Tarcza was contacted on as needed basis. Debbie reported that he was contacted only on tax issues and that in the last month she had to contact him about a tax issue. A member wanted to transfer from our system to another system and when the application was submitted to Greg Curran, he suggested that the receiving system might not be a qualified plan and suggested that we contact Bob Tarcza to make sure there would be not tax issues. Bob researched the issue and sent a letter stating that if someone transferred to or from a system that was not a qualified plan that the Clerks could lose their qualified status. Therefore, a new policy has been put in place that before we can transfer to or from a system that we must first have a letter from that system stating that they are a qualified plan.

Debbie reported that a letter had been submitted to the Legislature verifying that all of the Board members had their appropriate educational hours.

In reference to HR 149, (which requested the systems to study the nature of irrevocable decisions and to provide the legislature with proposals for allowing members and retirees to revoke certain elections under certain circumstances), Debbie reported that the Directors of all the State and Statewide system had met and discussed this issue with Gary Curran. Gary graciously agreed to contact the other actuaries for the purpose of putting together a report relative to cost issues. This report will then be circulated among the state and statewide system directors for review and input.

Debbie reported that she had received a note from Edmond Kinler along with a copy of the Assessor's law regarding Back DROP requesting that the Board consider introducing legislation this year that would allow for the Clerks to have Back DROP. Gary Curran stated that from a design stand point he liked Back DROP better, but from a cost stand point, he didn't think we could add anything to the Clerks' plan at this point that would add to the cost and this most certainly would. Gary said even if you did away with DROP now and converted to Back Drop, it would have substantial cost. The Board asked that Debbie contact Edmond to let him know that for reasons stated we are unable to do so at this time.



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Debbie reported that she had been contacted by some members who are state employees that would like for the Board to consider allowing their annual and sick leave to apply toward retirement. Debbie asked Chris Crow to comment on it further. Chris said she thought they had a legitimate argument from their perspective. She said the two things for the Board's consideration is that some Clerks' members work along side those in LASERS who are allowed to apply annual and sick leave toward retirement. The state employees all accrue leave at the same rate and those who are not allowed to apply it toward retirement tend to take more days off rather than lose their leave time. Chris suggested that whatever the actuarial cost would be to the system could be paid by the employee or employer. After discussion, the Board asked Gary Curran to determine if it would be a cost to the system.

Debbie presented the Compliance Report that had been completed for the Auditors and asked the Board approve the response. Cliff Dressel moved that the response to the Compliance Report be approved. The motion was seconded by Gary Loftin. **Motion carried.**

**Computer System Upgrade** – Debbie reported that the Association staff continues their due diligence on a new retirement computer system before making any recommendations to the Board, but it has been put on hold until the audit was completed.

**ATTORNEY:** Denise Akers followed up on the 2012 legislation that had been proposed by Bob Tarcza. She recommended that the Board proceed with the following 3 proposals in order to maintain the qualified plan status.

**1. Benefit Calculation Limits** - A qualified governmental plan must comply with the limitations in the Code, there are limits on the amount of compensation that can be taken into account when calculating an employee's retirement benefit. The limit is \$245,000 for 2011. Even if the vast majority of the Fund's participants are not in danger of violating this limit, the plan document should include a provision that complies with the compensation limits.

**2. Notice of Eligible Rollover Distributions** – A qualified governmental defined benefit plan must make available the direct trustee-to-trustee transfer of eligible rollover distributions under the Code. The Fund currently meets this requirement. In addition to requiring the availability of direct trustee-to-trustee transfers, the Code also requires the plan administrator to provide written notice to any recipient of an eligible rollover distribution. The Fund could achieve compliance with these requirements via the adoption of an administrative rule setting out the duties of the plan administrator.

**3. Provisions for Military Personnel** – The Fund must also make amendments to comply with two federal acts relating to the pension rights of military personnel: the Uniformed Services Employment and Reemployment Rights Act of 1994 ("USERRA") and the Heroes Earnings Assistance and Relief Tax Act of 2008 ("Heart").

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**4. Disability Retirement** – The Fund's disability retirement provisions, while not in direct conflict with the Code, should be amended to reduce the tax liability of certain members. The current options are problematic because they leave open the question of whether certain disability benefits are taxable. He informed the Board there should be two separate plans for those whose disability is work related and those whose disability is not work related. He further informed the Board that Regular Retirement is considered community property and Disability Retirement is separate property.

Denise said this proposal was simply a recommendation. Gary Curran felt that it would be more applicable to the fire and police systems and didn't think that it is worth having to totally redo our disability benefits.

**5. Administrative Rulemaking** – Many of the amendments to the Fund's plan document that are required by the Internal Revenue Code and related IRS regulations could be made through the adoption of administrative rules. He recommended legislation that would provide that any amendment which is required solely due to changes in the Internal Revenue Code may be enacted through the Louisiana Administrative Code. Denise highly recommended that the Board approve this recommendation.

**6. Definitely Determinable Benefits and Actuarial Assumptions** – Another requirement imposed by the Code is that benefits payable under the Fund be definitely determinable from the plan document, rather than subject to employer discretion. The Fund's plan document will need to contain a provision removing discretion over actuarial assumptions from the Board of Trustees or any actuary employed by the Board. Gary Curran said this is something that needs to be done by Administrative Rule rather than by legislation. Denise said she would get with Bob and with Gary's input draft the proper language.

Louie Bernard moved that the Board proceed with all of the recommendations except the one pertaining to the Disability Retirement. Motion seconded by Hart Bourque.  
**Motion carried.**

Denise said she would tell Bob Tarcza to proceed with drafting the legislation that could be presented at the December meeting.

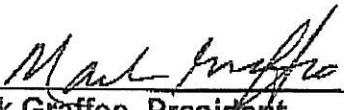
Debbie reminded the Board that any retirement bills would have to be prefiled by January 27<sup>th</sup> because the Legislative Session convenes on March 12<sup>th</sup> and ends June 4<sup>th</sup>.

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There being no further business to come before the Board, Hart Bourque moved that the meeting be adjourned. Motion seconded by Ann Ardoin.

**MEETING ADJOURNED.**

**APPROVED:**

  
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Mark Graffeo, President

Respectfully submitted,

  
\_\_\_\_\_  
Debbie D. Hudnall, Executive Director