MINUTES OF MEETING OF THE HUMAN RESOURCES AND
FINANCE COMMITTEES
LANE TRANSIT DISTRICT BOARD OF DIRECTORS

February 24, 2009

Pursuant to notice given to *The Register-Guard* for publication on February 19, 2009, and distributed to persons on the mailing list of the District, a meeting of the Lane Transit District Board of Directors Human Resources Committee and Finance Committee was held at 4 p.m. on Tuesday, February 24, 2009, in the District's conference room at 3500 E 17th Avenue, Eugene. The following Minutes relate to business conducted during the meeting by the Board Finance Committee.

Present: Michael Dubick, Chair
Gerry Gaydos
Ed Necker
Dean Kortge
Mary Adams, Director of Human Resources and Risk Management
Diane Hellekson, Director of Finance and Information Technology
Mark Pangborn, General Manager
Jeanne Schapper, Clerk of the Board/Recording Secretary

CALL TO ORDER – Mr. Dubick called the meeting to order at 3:58 p.m.

DRAFT REQUEST FOR PROPOSALS FOR AUDIT SERVICES: Chief Accountant/Internal Auditor Carol James presented information on the criteria for evaluation of the proposals. The firms are scored based on a point system: 75 points for the technical proposal, which includes 40 points based on experience and expertise and 35 points based on audit approach. After the points are tallied, the choice is narrowed down to a few proposals. The cost proposal (25 points) is then the deciding factor among the remaining proposals. Firms with staff who are experienced in evaluating Oregon governmental agencies and who have considerable experience auditing a federal grant program, including FTA, HUD, ODOT programs, is desirable. Interviews of remaining firms have not been done in the past since there was a very clear demarcation based on the above criteria.

Mr. Dubick stated that he had reviewed the Request for Proposal and found it to be solid. The three Board members all agreed with the staff recommendation for the auditor's selection process.

LTD RETIREMENT PROPOSAL: Ms. Adams said that the Deferred Compensation program has a five-member advisory committee set up within the plan that monitors the program and makes decisions about the program. About two years ago, discussions began concerning the fee structures of the investment options for the employees in the plans. Over time a couple of plan changes have been made. The proposal before the committees this evening is an additional proposal that would reduce fees for members and, hopefully, increase the investment earnings for members. The Board Committee members are being asked to decide at this meeting if they wish to forward this proposal to the full Board for its approval. Ms. Adams introduced David Hausam of AIG-Valic who created the Executive Summary.

Mr. Hausam, Certified Financial Planner, said that the discussion of the proposal would include the relationship with the District over the last decade and the relationship with parent company, AIG. AIG began its relationship with LTD with the deferred compensation plan, which is a voluntary plan that anyone at the District could use to set money aside on a pretax basis for retirement. A few years later, AIG began working with the 401A salary plan for Administrative employees, and AIG was the sole provider for investments in that plan. A few years later as assets grew, the fee structure was reduced; therefore, the amount that went to AIG was less and the amount remaining in employees' accounts was greater.

Mr. Hausam continued. The next proposal is to move from an annuity platform to a mutual fund platform, which comes with a reduction in Valic fees and an increase in return for clients that stay with the plan. On average, the fee structure in the new plan is about one half of a percent lower: a reduction on average of 1.7 percent to 1.2 percent. The proposed platform would have fewer fund options than the current plan. Studies have shown that a couple of dozen funds is preferred to facilitate ease in decision making.

The current plan has more than 60 funds; the proposed plan has about two dozen funds. Mr. Hausam stated that it seemed to make sense to move to a mutual fund platform with a less daunting array of options.

Valic, a wholly owned subsidiary, has been in business since 1955. In 2001 Valic was acquired by AIG, who elected to maintain Valic and other companies it acquired as wholly owned subsidiaries. With regards to the recent unfavorable news concerning AIG, Valic has an independent balance sheet separate from AIG. AIG has no access to Valic's client's investments and does not have access to Valic's operating profits. Actions which may have affected AIG's credit rating would not affect Valic's. Valic's bond rating remains strong. Fixed investments, such as those maintained in LTD's plan, are highly regulated and significant reserves are set aside in addition to the funds invested by clients. It is known that as of the last four to five months, AIG has indicated that they are seeking a buyer for Valic. It is imagined that by the end of the year, Valic will not be part of AIG.

In response to a question from Mr. Necker, Mr. Hausam said that when a company offers a fixed investment (people put money in with a fixed rate of return), that type of investment is highly regulated. Additional monies are required to have in reserves in case there is a period of time that the investments do not perform up to that fixed-return level. The return on investments would be protected. Currently, for every $1.00 in investments, $.92 in reserves is set aside. In the current proposal, variable investments (mutual funds) perform gaining or losing with the market and don't have a back up of reserves. A true fixed account does.

Mr. Dubick asked if, in switching from variable annuities to mutual funds, would employees have to roll from one fund to another? Will they need to pick specific funds and then move funds from one account to another, doing paperwork from one company to another? Mr. Hausam responded that in the transition from the old to the new plan, Valic would declare that all funds of a certain type in the old plan would map over to a similar platform in the new plan. If an employee wishes to move funds to a different arrangement than the current one, he/she is free to do that. All of these activities would take place under a tax sheltered umbrella so that there would be no 1099 reporting or impacts of that nature.

Mr. Kortge stated that there are advantages to variable annuities and asked if Valic could simply reduce the costs. Mr. Hausam stated that the cost was reduced earlier during the relationship with LTD; however, the structure of the mutual fund platform has lower costs for Valic as well, which is passed on to the client. The lowest cost annuity platform would not be as low. Also, even though this is a mutual fund platform, as people retire, if they want to annuitize their balance (which offers a lifetime stream of income), they would have that option. This is consistent with both the old and new plans.

Ms. Hellekson clarified that the 457 Deferred Compensation plan is the public sector version of a 401K and has an advisory committee that makes decisions within the rules of the plan, but the trustee for the plan is LTD. This means that plan changes and amendments have to be approved by the Board of Directors. This is not true for changes in the retirement plans.

Ms. Adams added that monies from both plans would be moved to the proposed model.

Mr. Dubick wished to confirm that because fees were lower in the new plan, that more money would be available for employees' investments. Mr. Pangborn confirmed Mr. Dubick's assessment and added that employees support the change.

Mr. Gaydos asked for clarification as to the risk to employees in each plan. Ms. Hellekson responded that the risk is about the same. She added that having fewer choices may be easier for most employees. In addition, 1.26 percent is a fee average. Actual fees will be disclosed in the cost structure to employees so that they may make informed decisions.

MOTION Mr. Necker moved that the proposal to modify LTD's 457(b) and 401(a) Retirement Plans, as described in the Executive Summary presented by AIG-Valic, be forwarded to the full LTD Board of Directors for discussion and approval. Mr. Dubick provided the second.

VOTE The motion was approved as follows:
AYES: Dubick, Kortge, Necker (3)
NAYS: None

LTD PENSION PLAN FUNDING: Ms. Adams reiterated that the reason that members of both committees were asked to meet together was because the issue has implications to both Human Resources and Finance processes. Long-term funding of both the ATU and salaried plans will be discussed. A second item to be discussed involves adding formal language to both plans that describes circumstances in which COLAs could be provided to retirees.

Each plan has a separate board of trustees. January 2008 was the last time an actuarial assessment was performed. At that time, the funding level for the ATU plan was 55.7 percent. The actuary estimates that the level will be lower (46 percent) in the 2010 assessment, based on the reduced earnings incurred in the down market during the last several months.

The Board made a policy decision about three years ago to increase the District's contribution over a 20-year period in order to fully fund both pension plans at 100 percent. It is certain that when the 2010 assessment is received, it will be determined that LTD will need to make a larger contribution than is currently being contributed. In response to a comment from Mr. Kortge regarding changing the policy, Ms. Adams said that there are pension plans that have less than a 100 percent funding goal.

LTD contributes $3.69 for every hour worked towards the cost of this plan for representative employees, which amounts to approximately $2 million of the current budget. Ms. Hellekson added that the benefit is specified by contract; the contribution is specified by actuary.

Ms. Adams added that this amounts to a $420,000 to $700,000 increase in 2010 to make up for recent investment losses of approximately 31 percent. In response to a request from Mr. Dubick, Ms. Adams said that she would get the dollar figure that corresponds to the recent investment losses. Ms. Adams added that investment cycles are cyclical; there are turnarounds. The District had a very strong investment cycle over the last twenty years and is expecting the same in the next twenty years. Investments should be thought of in the long term.

The salaried plan is managed by a different set of trustees. The funding level is higher and is estimated to be higher than the ATU funding level--mostly because of increases in the ATU retirement plan in the last several years that has not occurred with the salaried plan. The ATU plan also has a bigger pool of money, so perhaps more investment losses have occurred. The plan funding level estimated for 2009 is 61 percent, which is more favorable, perhaps due to the smaller pool of money involved.

The contribution for the salaried plan differs from the ATU plan in that it is a percentage of wages as opposed to cents per hour. The percentage is 16.2 percent or approximately $1 million in the current budget. The increase that is projected for this plan is approximately $176,000, bringing the annual contribution up to more than $1 million.

Mr. Pangborn added a thought: The actuarial loss on the market value of assets (ATU plan) for the 2008 calendar year was about $5.7 million. Ms. Hellekson added that estimates are on a two-year actuarial cycle. Typically the contribution rate is changed every two years after the analysis is done. Staff propose that the District deal with the problem now, rather than wait a year and a half, or July 1, 2010.

Ms. Adams continued. Retirees are dealing with the same economic issues that most active employers and plans are dealing with, and they are asking about potential COLAs (Cost of Living Adjustment). The District has not implemented a COLA for retirees in the salaried plan since 1999. ATU retirees received the last COLA adjustment two years ago and have had more years with adjustments than not, but still not every year. In the last two years, neither set of trustees approved a COLA. The ATU plan is the only plan that contains COLA language, which states that trustees are required to consider a COLA once each year. The salaried plan contains no COLA language.

Mr. Gaydos inquired about a tiered approach, switching to defined contribution plans. Ms. Adams answered that this is a possibility. Plan design changes are certainly something that the trustees could review. Alternatives, such as joining PERS, have been discussed in the past.

Mr. Gaydos suggested a cap on the liability, with new employees added to a new plan. He stated his support of the plan in the short term; however, in the long term he questioned the financial feasibility of the current plan.

Mr. Kortge added that with a defined contribution in a private plan, retirees may get an increase or a significant decrease in benefits. The positive aspect of a defined benefit is that there is a guaranteed income. It seems that the tradeoff should be a fixed benefit for no COLA. If COLA language is added, it should be tough language.

Mr. Pangborn referred to the PERS model, which kept a defined benefit plan, but reduced the benefit, e.g. Tier 1, Tier 2, and Tier 3. Tier 3 will earn less than Tier 2 or Tier 1 because the plans are too costly. Another option is to migrate from a defined benefit plan to a hybrid, which is half defined benefit and half defined contribution.

Mr. Dubick said that there should be a minimum actuarial level in the account in order to have any hope of maintaining the system. Perhaps the language should state something to the effect that the funds need to exceed the minimum amount, and then a COLA could be considered. If that level is not achieved, the COLA should not be an option.

At the request of Mr. Kortge, ATU representative Brian Pasquali offered the union's perspective. He said that it had been two years since retirees had enjoyed a COLA adjustment. Ms. Adams confirmed that the pension plan requires that the trustees consider a COLA once each year. Ms. Hellekson clarified that the union contract, however, does not contain any such language.

Mr. Dubick asked if employees had considered paying some of the retirement money. LTD can afford to contribute only so much and stay viable. At the same time, that viable amount may not come anywhere near the amount needed to pay future retirees.

Mr. Pangborn reiterated that District representatives would be back in negotiations with the union in about one year. A number of issues will be on the table, and retirement will be one of the issues. Salem Transit does not have a defined benefit plan; it is a defined contribution, which means that the employer puts up something and the employee puts up something.

In response to a question from Mr. Kortge, Ms. Adams said that staff are working on COLA language for the plans. Many plans contain COLA language—usually in the range between two percentages, but it is not unusual for plans to contain language around plan funding levels. One thing the District needs to be cognizant of is being clear to retirees about what they can expect.

NEXT MEETING – The next meeting of the Committee will be held at 4 p.m. on May 12 to make the final selection of the auditor.

ADJOURNMENT – There was no further discussion, and the meeting adjourned at 5:03 p.m.

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Recording Secretary