MINUTES OF DIRECTORS MEETING

LANE TRANSIT DISTRICT

SPECIAL BOARD MEETING/WORK SESSION

Monday, June 13, 2011

Pursuant to notice given to *The Register-Guard* for publication on June 9, 2011, and distributed to persons on the mailing list of the District, the Board of Directors of Lane Transit District held a special Board meeting/work session on Monday, June 13, 2011, beginning at 5:30 p.m. in the LTD Board Room at 3500 East 17th Avenue, Eugene.

Present:	Mike Eyster, President Greg Evans, Vice President Dean Kortge, Secretary Ed Necker, Treasurer Mike Dubick Gary Gillespie Mark Pangborn, General Manager Jeanne Schapper, Clerk of the Board Ginger Morton, Minutes Recorder
Absent:	Doris Towery

CALL TO ORDER/ROLL CALL: Mr. Eyster convened the meeting of the Lane Transit District (LTD) Board of Directors and called the roll at 5:35 p.m. With the exception of Ms. Towery, all Board members were present.

PRELIMINARY REMARKS BY BOARD PRESIDENT: Mr. Eyster said that he will be requesting feedback later in the meeting on the committee assignments that were distributed.

ANNOUNCEMENTS AND ADDITIONS TO AGENDA: There were no announcements or additions to the agenda.

WORK SESSION

Pension Plan Design Presentation: Director of Human Resources and Risk Management Mary Adams explained that the redesigning of LTD's retirement plan for salaried employees had been ongoing for more than a year. The initial work was done when the FY 2010-11 Amalgamated Transit Union (ATU) labor contract was negotiated, and discussions on the ATU and Salaried Employees' Retirement Plan are underway.

Ms. Adams introduced Pete Sturdivan, lead actuary with LTD's pension plan actuarial firm Milliman, Inc. Mr. Sturdivan explained that the purpose of his presentation was for the Board to decide if it would like to adopt a new retirement structure for the salaried employees, and if so, which structure. He also hoped to provide direction with respect to the overall cost of the plan.

Mr. Sturdivan presented two types of retirement plans: 1) Cash Balance Plan, and 2) Defined Benefit Plan. He explained that the current administrative retirement program is a combined defined benefit plan and defined contribution plan. The current plan provides a determinable monthly benefit at retirement based on final average pay plus an individual account of which the District contributed 6 percent of pay to each member annually.

Plan 1 is a cash balance plan, which is a modified defined benefit plan that expresses benefits in terms of account balances. It is based on specified annual additions to the account balance and a specified rate of return. Unlike a defined contribution plan, the Cash Benefit plan is credited with a specific interest rate stated rather than the actual return on the trust fund itself. Typically, the benefits provided are in lump sums, but could be annuities as well.

Plan 2 is a defined contribution plan, which provides a benefit based on the accumulation of predetermined contributions. The level of annual contribution is specified in the plan as 4 percent of pay. Under a defined contribution plan, if an employee quits, dies, retires, or becomes disabled, the account balance would normally be payable. However, lump sums do not have to be paid, and the normal form of benefit may be an annuity purchased from an insurance company. Mr. Sturdivan explained that under the defined contribution plan, the employer has no responsibility with respect to the participant's investment return and disbursement of funds. The employer could retain some fiduciary responsibility to allocate the investments while the participant remained employed.

The current plan for LTD salaried employees was established in 1975 and the ATU plan was established in 1972. In the ATU plan, there was a nominal contribution to an employee participation account at three years, and the monthly benefit was based on $64 multiplied by years of service (vested after five years). The contribution rate was $4.26 per hour. At the end of 2009, the market value of the assets was $13 million. Fiduciary responsibility was borne by the trustees of the plan, who made investment decisions with the help of consultant R.V. Kuhns.

The current plan for LTD salaried employees is a combined defined benefit/defined contribution plan. The monthly benefit is based on final average pay for the highest three years of pay (vested in five years). Participants can retire with full benefits at age 60 or with 30 years' of service. The retirement benefit is 1.67 percent of pay multiplied by credited service multiplied by final average pay. The current contribution rate is 18.3 percent of salary. The market value, as of 24 months ago, was $7.9 million. Trustees have made investment decisions with help from R.V. Kuhns. Coupled with the average pay plan was the defined contribution component, in which the District contributes 6 percent of pay into individual accounts.

Mr. Sturdivan explained that there also is a deferred compensation plan in which all LTD employees can elect to participate, and these funds become immediately vested. AIG-Valic or Hartford are investment managers, and the employee self-directs the funds.

A comparison made between the LTD salaried employees plan and the Oregon Public Service Retirement Plan (OPSRP) shows that the retirement age of OPSRP is age 65 versus age 60 for LTD. Full benefit was based on average pay with a multiplier of 1.5 percent for OPSRP and 1.67 percent for LTD, and the normal contribution rate for OPSRP is 6.1 percent of salary versus 1.67 percent for LTD. The reason for the difference in normal contribution rates is attributable to the difference in age at retirement.

Mr. Sturdivan said that the remaining presentation was conditioned on Board input that 1) current retirement benefits were at a high cost; 2) employees should be responsible for retirement income decisions and post-retirement risk; and 3) the total employer obligation should be kept to 9 percent of total annual pay.

Mr. Sturdivan presented a comparison between the two proposals and the current plan. Plan 1 was essentially a fixed account, and Plan 2 was a variable account.

Plan 1 is a cash balance plan. The normal retirement age is 65 with five years of service, and early retirement is 55 with 10 years of service. The employer's initial contribution rate is 7 percent of pay for up to five years of service, and increases by years of service up to 14 percent of pay after 20 years. The plan guarantees a return of 4 percent.

Plan 2 is a defined contribution plan. Retirement and early retirement age were the same as Plan 1. Under this plan, the employer contributesd 4.5 percent of pay up to five years of service, and the rate increased by years of service up to 9 percent after 20 years of service.

He explained that coupled with both plans is a matching formula. The District contributes 50 percent of the amount of individual contributions up to 6 percent of base salary, and the employer contribution is capped at 3 percent.

Mr. Sturdivan made it clear that redesign of the current retirement plan would affect new employees only. Worth noting is that 35 percent of new administrative employees had transferred from the ATU, so the question remained how a new retirement plan would affect ATU transfers.

A summary of estimated costs to the District shows that the cost of the current plan is 17.9 percent of payroll; Plan 1 is 8.9 percent, and Plan 2 is 9.2 percent. It could take up to 20 years to achieve the reduced percentages.

Mr. Sturdivan said that the proposed restructure of the retirement plan would keep LTD in step with how retirement plans in the private sector had been restructured. He also said that, both locally and nationally, there is a definite move to cash balance and defined contribution retirement plans.

Mr. Sturdivan said that the major decision points before the Board were:

1. Adopt a new retirement structure?
2. Will the new structure be cash balance or defined contribution? If so, is 6.5 percent of pay acceptable?
3. Adopt a matching contribution benefit? If so, is 3 percent of pay acceptable?
4. Current members: reduce Part 2 benefits?

When asked about the investment risks to the District of the two plans, Mr. Sturdivan responded that with the cash balance plan, the Pension Trustees, and ultimately the District, retained the investment risk during the participant's employment; whereas the Defined Contribution Plan was structured so that the investment risk was borne by the participant.

Mr. Dubick said that a new retirement plan was necessary for new employees; but in the future, as the economy improves, he hoped that there could be other incentives offered to attract employees. Mr. Pangborn replied that with the defined contribution plan, the percentage of the matching employer contribution could be increased.

The Board members were in favor of a redesigned retirement benefit structure for salaried employees and opted for the defined contribution plan. A consideration was that it seemed desirable to put the investment risk into the hands of the plan participant rather than the District. The 6.5 percent base rate and 3 percent matching contribution rate was acceptable.

Mr. Kortge advised that January 1, 2012, was a realistic date for adoption of a redesigned retirement plan, and the Board should strive to achieve that date. Ms. Adams indicated that a plan would come back to the Board for discussion at the next meeting.

Oregon Health Strategies Project: Ms. Adams said that the District has been a member of the Oregon Coalition of Health Care Purchasers (OCHCP) for the past seven years. There are currently more than

30 employer members in Oregon who are committed to working with partners to promote and maintain a healthcare delivery system that provides quality, accountability, and affordability for employers.

The Purchaser's Coalition has been very aggressive in finding grant funding to conduct pilots for health care alternatives. In 2010 Pfizer Inc. and the National Business Coalition on Health, along with the OCHCP, formed a collaborative, which was underwritten by Pfizer. The collaboration was formed in order to invest in the health of the workforce by ensuring that employees and their families receive high-quality, cost effective, evidence-based health care. Employer participation is free, and 11 Oregon employers have joined the Oregon collaborative.

The guiding principle of the Oregon Health Strategies Project is that employers with strong internal teams matched with actionable data were better able to foster healthier, more productive employees and achieve higher value for the dollars invested.

Ms. Adams said that there were 12 employers involved in the study, six private and six public. The expected outcome for LTD would be coordinated and aligned benefits, improved health outcomes for employees and dependents, and reduced long-term benefit costs.

The project is a three-year, three-phase study. During Phase 1 a baseline data tool was prepared. Phizer, Inc. originally tested the tool with the Kansas City Coalition. Results from the data tool were so accurate that Kansas City made beneficial long-term cost controlling decisions. Phase 2, which has not yet begun, will be intervention design and implementation. Implementation could be as simple as changing the food in vending machines. The study will provide information about best practices used by employers and the cost and health improvement results. Phase 3 would evaluate outcomes.

Ms. Adams said that the data sources were health care providers; screenings; and internal data such as worker's compensation, disability benefits, and leave programs. Data also came from the Empower Diabetic Program and in-house events.

Study results enabled comparisons between LTD and private and public employers, both local and national. Results also provided an evaluation methodology and data-proven best practices, which had been hard to find in the health care system.

Ms. Adams said that Phase 1 was completed and that the initial version of the cost estimator data had been received. Phase 2, which interpreted data and interventions, would determine how some might be effective. She would provide a report on Phase 2 within the next calendar year.

PUBLIC COMMENT: There was no public comment.

ADJOURNMENT: Mr. Eyster adjourned the meeting at 7:50 p.m.

LANE TRANSIT DISTRICT ATTEST:

Dean Kortge
Board Secretary

Jeanne Schapper
Clerk of the Board

Date Approved: November 16, 2011