

**FOURTH QUARTERLY MEETING
ERIE COUNTY EMPLOYEES' RETIREMENT BOARD**

NOVEMBER 15, 2012

Members Present: Fiore Leone, Chairman
Joseph Giles, Vice-Chairman
Sue Weber, Secretary
James Sparber, Member

Members Absent: Ronald "Whitey" Cleaver, Member

Also present: Deanna Holtz, Pleasant Ridge Manor
Tom Gardner, Pleasant Ridge Manor
Jack Walburn, Pleasant Ridge Manor
Douglas Gilkinson, Pleasant Ridge Manor
Cindi Marzka, Boetger & Associates
Karen Dorich, County Employee
Ray Reade, Erie County Retirees
Philip Legler, Erie County Retirees
Melissa Gruzca, PNC
Tony Keim, PNC
Michael Keim, RBC
Michael G. Crofton, Philadelphia Trust Company
Doug Riley, Boston Advisors
Carol Hillhouse, Erie County Retirees
Gale Ward, Erie County Retirees
John Signorino, Erie County Retirees
Karla Anderson, Erie County Retirees
Sheryl D'Amico, Erie County Retirees
Robin Shultz, Erie County Retirees
Jeri Taylor, Erie County Retirees
Ruth Mason, Erie County Retirees
Karen Snow, Pleasant Ridge Manor
Sue Tuedhope, Pleasant Ridge Manor
Patti Mattis, Erie County Retirees
Kathleen Smith, Erie County Retirees
Bill Benner, Erie County Retirees
Gloria Metzger, Erie County Retirees
Doug Ebert, Erie County Employees
Jackie Johnson, Erie County Retiree
Marie Lewis, Controller's Office
William F. Amick, Controller's Office
Tom Talarico, Solicitor
Frank Burnette, Morrison Associates

Chairman Leone called the Erie County Employees' Retirement Board to order at 12:11 P.M. in Room 114A, Erie County Courthouse.

Karen Dorich spoke on behalf of the County of Erie Employees and asked the Board to consider restoring the interest rate to 5.5%. Ray Reade spoke on behalf of the Retiree Association. A COLA has not been granted for four years. The first year cost for granting a COLA is \$460,000 at .85%. It will be more expensive to grant in the future due to retroactivity. The County currently has a Fund balance of \$22 myn. The Pension is 94% funded. The cost for each of the 280,000 residents of Erie County is \$1.64. I respectfully ask that you consider the COLA this year. The timing is right.

Mr. Leone stated that he would like Mr. Reade and the other retirees to understand a few things. The ARC for this year is \$5.7myn. Our system is solvent because this group requires the Administration to put in the funding that is needed for the annual contribution. If the County were to go bankrupt tomorrow, we would need another \$30myn to \$40 myn to cover the Plan. We have taken the responsibility to say we want the system to continue to be solvent and do what's best for not just the retirees but everyone concerned. The Interest Rate earned by the employees cannot go below 4%. I am not interested in raising the rate. It probably costs us money to do the 4%. We are as responsible as we can be to every employee of this system and all 280,00 citizens. Council gave County employees a 3.25% increase because it had not been given in the past two years.

Chairman Leone called for approval of the minutes of the Third Quarterly Meeting held on August 16, 2012.

Motion to approve made by Mr. Giles, seconded by Ms. Schaaf and carried by unanimous voice vote.

Chairman Leone called for the approval of an interest rate for the Erie County Employees for 2013.

Motion by Mr. Sparber, seconded by Mr. Giles to keep the interest rate at 4% for the Erie County Employees for 2013. Motion carried by unanimous voice vote.

Cindi Marzka gave the report of Boetger and Associates who does the annual evaluation of the Retirement Plan and calculate the annual funding requirements, It is \$45 myn under funded. The 94% funded refers to the benefits earned to date. If the Fund were to close, 94% of the current benefits are funded but the future benefits for active employees is underfunded by \$45myn. The ARC this year is \$5.9myn. Our projections based on 5/31/12 valuations show the underfunding will be \$50myn by the end of the year, The ARC for 2013 will be \$6.5 myn, the highest it's been in the twelve years we have worked with you. This Pension is governed by Act 96 mandates. In regard to the COLAS, the retiree base is becoming large. There are currently under 600 retirees. Their annual pension payments are \$9.2 myn. ACT 96 requires that a COLA be determined by the increase in annual CPI from the the date of retirement to this date. If a COLA were approved this year, it would be retroactive and cover the past four years as well. We have asked the State to consider a one year COLA rather than retroactive but the state has not

changed ACT 96. The \$6.5 myn ARC is assuming a 7.5% rate of return. The Fund's return for the past five years is 3.56% and ten years is 5.92%. We still have losses from prior years imbedded. It would have more than 7.5% to pay off those weaker yearfreeze.

Chairman Leone called for a motion regarding a 2013 cost of living increase for the Erie County Retirees.

No one from the Board moved to approve a cost of living increase. The motion failed.

Chairman Leone called for the approval of the proposed dates for the quarterly Retirement Board Meetings in 2013. The dates are as follows:

February 21, 2013 @ 12:00 P.M.
May 16, 2013 @ 12:00 P.M.
August 15, 2013 @ 12:00 P.M.
November 21, 2013 @ 12:00 P.M.

Moved by Mr. Giles, seconded by Ms. Schaaf and carried unanimously.

Frank Burnette presented the report of Morrison Fiduciary Advisors, Inc. Mr. Burnette stated that after rebalancing the fund in October, he took \$9 million out of Equities and placed it in a Money Market account. He recommends that the Board authorize him to place the \$9 million into a Vanguard Short Term Bond Fund.

Motion by Ms. Schaaf, seconded by Mr. Giles for approval of the utilization of a Vanguard Short Term Bond Fund for \$9 million as a vehicle until the Board gets a clearer economic outlook and feel comfortable committing it to other investments and carried unanimously.

Mr. Burnette said revenues for security lending are dropping off to about \$50,000 per year and I have considered alternatives. The collateral is invested in a real plain vanilla money market fund.

Mr. Burnette noted some personnel changes with some of the Money Managers. Jim Keim retired from RBC with Michael Keim replacing him. Emerald has had some changes but he feels comfortable with the gentlemen taking care of the account. He is considering consolidating the Emerald small and midcap styles. Joe Bongiorno has retired from C.S. McKee and Jeff Dabendeck will be replacing him. The president of Wells Capital Management has retired and he has been replaced by an existing team member.

Michael Crofton gave the report of Philadelphia Trust. Philadelphia Trust has been very cautious for the past two years in anticipating the current market environment with many troubling issues. These issues are not priced into the market. This is a very difficult time to be invested and it's better to remain cautious. In regard to the portfolio performance, this is our tenth year with a cumulative return of 146.78%. The market returned 112%. So

we have averaged 14.6% per year. For this year we are lagging the benchmarks because we are fearful of the risks. Equities through the third quarter are up 10.67%. We held a lot of cash resulting in a blended return of 9.46%. However, the next ten years will be spectacular but with extreme volatility on the near term

Doug Riley gave the report of Boston Advisors. We agree with most of Philadelphia Trust's economic view but we differ in that in our view stocks are fairly valued on a near term basis. Some delay compromise will be made on the fiscal cliff leading to a positive market outcome. We are cautious about 2013 with a possible recession. Our return for the September quarter is slightly ahead of the S & P benchmark at 6.51%. Year to date return is 14.26%. The three, five and since inception returns are ahead of the benchmark.

Mr. Burnette stated he has an updated Investment Policy statement that has to be approved by the Board.

Chairman Leone called for approval of the updated Investment Policy for the Erie County Employees' Fund.

Motion to approve made by Mr. Giles, seconded by Mr. Sparber. The motion passed with Ms. Schaaf recusing her vote.

Frank Burnette gave the total Pension Fund performance review. As of 9/30/12, the YTD return is 10.47%, the one year is 18.54%, and three year is 9.84%. The three year rank is the 30th quartile, seven year is 17th quartile, and this year is 50th quartile.

These adjustments have been made to the Investment Policy: updated proxy voting language relative to securities litigation, added guidelines for foreign equities, and high yield securities lending language, and included vendor requirement for Errors and Omissions insurance. I will begin to show the returns at the Controller's suggestion of both gross and net of fees.

Fiore Leone called for any other business

Ms. Schaaf recommended the Board schedule a work session regarding renewal of their Fiduciary Liability Policy.

Mr. Leone stated that the Board will also need to approve the Actuary's contract at that meeting.

Ms. Schaaf stated she would schedule a public meeting at the Board's convenience.

There being no other business, the meeting was adjourned at 1:17 P.M.

Mary E. Schaaf, Secretary
Erie County Employees' Retirement Board
Pleasant Ridge Manor Employees' Retirement Committee
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