



## **FIREFIIGHTERS RETIREMENT SYSTEM**

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### **MEETING OF THE BOARD OF TRUSTEES July 11, 2013**

A meeting of the Board of Trustees was held on July 11, 2013 at the Public Safety Building in Baton Rouge. Mr. Charlie Fredieu, Chairman, called the meeting to order at 8:30 a.m.

Mayor Durbin gave the invocation and Mr. Jeselink led the pledge of allegiance.

Mrs. Susan Waite called the roll. A quorum was present.

#### **MEMBERS PRESENT**

Mr. Charlie Fredieu  
Mr. John Broussard  
Mayor James Durbin  
Mayor Mayson Foster  
Mr. Perry Jeselink  
Mr. Jerry Tarleton

#### **OTHERS PRESENT**

Steven Stockstill  
Kelli Rogers  
Layne McKinney  
Jason Starns  
Susan Waite  
Margaret Corley  
Stephanie Little  
Greg Curran  
David Barnes  
Rhett Humphreys  
Tom Hiner  
Russell Owens

#### **MINUTES**

MOTION: Mr. Jeselink moved to approve the minutes of the board meeting held on June 13, 2013. Mr. Tarleton seconded. The motion passed.

**APPLICANTS**

- New Members

PROCEDURE: The FRS enrollment process, including the completion of the applicant forms, the physical examination, and the completion of any waivers of preexisting conditions, must be completed and all documents received by FRS within six months of the date of employment. If the FRS enrollment process is not completed within six months from the date of employment, the applicant will be a member eligible to begin vesting for regular benefits from the date of employment, but not eligible to begin vesting for disability benefits until the completion of the enrollment process. It is the statutory responsibility of the employer to insure that the enrollment process is timely completed or to provide FRS with notice of noncompliance by the applicant. If a member who has not completed the enrollment process becomes injured in the line of duty and applies for disability benefits, then the member must prove that the disabling condition was not preexisting. Each enrollment application is reviewed by staff to determine eligible job classification, date of hire, employer certification, and medical waiver information. Each application for membership was completed and submitted in accordance with all applicable state laws.

Mr. Starns presented the list of new member applicants. (see attached Exhibit #1) He stated that all applications were in order.

MOTION: Mr. Jeselink moved to approve the new member applicants. Mr. Tarleton seconded. The motion passed.

- Retirees

PROCEDURE: To retire, a member must furnish the retirement office with an application for retirement. When the application is received by the retirement office, the member's file is reviewed for proper documentation and to determine that the applicant meets the legal criteria necessary to receive payment in the form of a monthly retirement benefit. Calculations for retirement are performed by the benefit analyst and verified by the system's administrator. All retirement applications were submitted and benefits calculated in accordance with all applicable state laws.

Mr. Starns presented the list of new retirees. (see attached Exhibit #2) He stated that all applications were in order.

MOTION: Mr. Jeselink moved to approve the new retiree applicants. Mr. Tarleton seconded. The motion passed.



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- **Disability Application**

PROCEDURE: To obtain disability benefits, a member must furnish the retirement office with an application for disability retirement. For the following applicant(s), the application for disability retirement, current job duties, and all medical records pertaining to the injury or illness were received and reviewed by the retirement office staff. An appointment was scheduled with a State Medical Disability Board doctor specializing in the area of the claimed disability. The doctor submitted a detailed report in laymen's terms of his findings based on the examination performed and the medical records reviewed. Prior to the meeting, the board of trustees was provided with the disability application, job description, State Medical Disability Board doctor's report and all medical records related to each applicant, for their advance review. (R.S. 11:215, 216, 218, & 2258)

[NOTE: By giving advance notice on its posted agenda, the board of trustees reserved its right to enter executive session pursuant to R.S. 42:17(A)(1) for discussion of any privacy protected physical or mental health information related to the disability applicant.]

Mr. Starns presented the disability application of [REDACTED].

MOTION: Mr. Fredieu moved to enter executive session. Mayor Durbin seconded. The motion passed unanimously. The board entered executive session.

MOTION: Mayor Durbin moved to resume public session. Mr. Tarleton seconded. The motion passed unanimously. The board resumed public session.

MOTION: Mayor Durbin moved that, based on the contents of the medical narrative reports submitted by Dr. Broussard and Dr. Mays, and when comparing the reports one to the other, there is sufficient ambiguity in Dr. Mays report, such that it is deemed to be a conflict of opinion between the two doctors, which thereby prompts sending the applicant to a third doctor, all pursuant to the procedures set forth in R.S. 11:218(D)(3). Mr. Jeselink seconded. The motion passed.

The discussion of this matter was concluded with no further action being needed or taken.

**MONTHLY FLASH REPORT - JUNE 2013**

Mr. Barnes presented the monthly flash report for June 2013. (see attached Exhibit #3) The overall fund was up/down as follows: -1.6 % for the month of June as compared to the allocation index of -1.5%; 11.6% for the fiscal year to date, which for this month only is the same as the trailing twelve month, as compared to the allocation index of N/A%; and 8.2% for the trailing 3 years as compared to the allocation index of N/A%.

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After a question and answer session, the discussion of this matter was concluded with no action being needed or taken.

**COMMITTEE REPORT - INVESTMENT COMMITTEE**

[NOTE: The Investment Committee met on July 10, 2013, at the FRS office in Baton Rouge at 3:00 p.m. to discuss the following business set forth in its posted agenda - (A) The FRS monthly investment performance results for June 2013, (B) Request for exception to FRS written investment policy regarding Advisory Research, Inc., an existing FRS investment advisor, and (C) Emerging Market Equity RFP, and all matters related to the foregoing items. The minutes of that meeting are embedded herein. Committee members present were Charlie Fredieu in the capacity of ex officio member and acting chairman; Afranie Adomako, Mayor Mayson Foster, and Jerry Tarleton. Also present were, Perry Jeselink, Steven Stockstill, Kelli Rogers, Layne McKinney, Susan Waite, David Barnes, Rhett Humphreys and Margaret Corley.]

Acting committee chairman Fredieu gave the committee report and, in doing so, he recognized Mr. Barnes who provided information to the board as follows:

- Advisory Research - Request for Exception

Mr. Barnes reminded the board of the request by Advisory Research for an exception to the FRS Investment Policy Statement prohibiting investment management employees from investing in the same securities held in the FRS portfolio. He said the FRS investment officer informed Advisory Research of the board's denial of the request and requested that Advisory Research change its employee trading policy. Mr. Barnes said that Advisory Research indicated that it would revise its employee trading policy effective July 1st. Mr. Barnes pointed out that Advisory Research's change prohibits its employees from trading alongside its clients within 24 hours of a client's trade. He expressed continued concern regarding the revised employee trading policy and said that a copy of the revised policy has been requested and NEPC will review it upon receipt thereof.

The discussion of this matter was concluded with no action being needed or taken.

- Emerging Market Equity - Request for Proposals

Mr. Barnes began by advising the board of the RFP search process for an allocation to a new asset class, Emerging Market Equity. A public advertisement was posted in *Pensions & Investments Magazine* and in *The Advocate* from May 15 - June 3, 2013. Twenty-seven investment managers responded, two of which were immediately excluded because they either failed to complete the database questionnaire properly or failed to meet the minimum criteria. The 25 remaining candidates were then evaluated and scored using NEPC's proprietary Performance Analysis Statistical Software.



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The results were reviewed by NEPC's research team and FRS staff and the list of candidates was then narrowed. Mr. Barnes went on to advise the board that it was NEPC's recommendation to the Investment Committee to invite the following candidates for interviews by the board: (A) Acadian Asset Management LLC; (B) Dimensional Fund Advisors L.P.; and (C) Neuberger Berman.

Kelli Rogers then advised the board that based on her review of the information provided by NEPC, her recommendation to the Investment Committee was that they also invite OFI Institutional Asset Management for an interview, even though the company was only formed in 2001, it has returns in a full market cycle including 2008 which was a down market, and OFI performed the best.

Mr. Stockstill indicated that the FRS investment committee voted to recommend the interview of the four candidates as recommended jointly by NEPC and Ms. Rogers, and that it be conducted in a board meeting that would begin on Wednesday, August 7, 2013 at 2:00 p.m.

MOTION: Mr. Tarleton moved the recommendation of the FRS investment committee in the form of a motion. Mr. Durbin seconded. The motion passed.

The discussion of this matter was concluded with no further action being needed or taken.

- Emerging Market Debt - Request for Proposals

Mr. Barnes advised the board of the status of the RFP's for the emerging market debt manager search. Ten candidate responses were received, three of which did not meet the minimum criteria and had been eliminated. The next step is to run NEPC's proprietary quantitative screen which looks for consistency of out performance over a long period of time. All data will be reviewed and a manageable list will be presented to the board next month, from which the board can choose those managers they wish to interview.

The discussion of this matter was concluded with no action being needed or taken.

- Global Tactical Asset Allocation - Request for Proposals

Mr. Barnes updated the board of the status of the RFP for the global tactical asset allocation manager search. He said the RFP advertisement was published last week and responses will begin to be received.

The discussion of this matter was concluded with no action being needed or taken.

This concluded the committee report of the Investment Committee.

## **LEGISLATION**

Mr. Stockstill introduced to the board for discussion and action if warranted at this time, legislation from the 2013 legislative session:

- Senate Bill No. 10 (Act No. 170)

Mr. Stockstill said this bill requires the board to decide whether to continue the cost-of-living adjustment (COLA) structure of FRS as it currently exists under present law or to restructure it according to the terms of this bill. The board must make a decision on or before December 31, 2013.

Ms. Stephanie Little explained that the idea of the bill originated from the Sheriffs' Pension and Relief Fund, who specifically asked Gary and Greg Curran to come up with some way out of target ratio purgatory. Greg Curran agreed with Ms. Little. Ms. Little said some legislators called this a self-checking mechanism, meaning if you give a COLA, your funded ratio will obviously decrease, which would impair future COLAs, so it helps regulate the system's well-being as well as the COLA.

Mr. Fredieu asked if electing the new COLA structure does away with the target funded ratio structure?

Greg Curran said that, by next year, he thinks a majority of the systems will opt in to the new COLA rules. He said, from his perspective, the target ratio was designed in another period, a period before actuarial funding and it just no longer served its original purpose very well. Mr. Curran said the new structure uses a general approach of looking at the health of each system in determining the ability of the system to withstand the cost of COLA's and so it tracks based on a true measure of the system's assets and liabilities, the funded ratio of each plan and uses that to determine how frequently a COLA might be paid. He said it still retains the idea that you have to have sufficient earnings to pay COLA's so that you are not pushing yourself into further funding problems. The three tiers are nice, they're clean and simple, there's no math behind the tiers, this is just a reasonable approach. Mr. Curran said the legislature obviously agreed that it was a reasoned approach to limiting COLA's. He said one thing the board should know is, under the target ratio law, in theory you could pay a COLA every year if you met the criteria; but, under this law nobody can pay COLA's more than once every other year, so there is some limitation to it that didn't exist before.

Mr. Curran distributed a copy of the target ratio page from the most recent FRS Annual Actuarial Valuation. (see attached Exhibit #4) He asked the board to focus on the last two numbers on the page. He said the resulting target ratio for FRS is 94.39%. So FRS would need a funded ratio of that or above to consider paying a COLA. The FRS funded ratio is 73.6%. FRS is unlikely to pay a COLA in the foreseeable future. He said, for FRS, it's a pretty obvious decision to opt in to the new law. It doesn't require FRS to ever grant the COLA, but it will allow greater flexibility. The only



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reason to not opt in to the new law would be to wait for the day where FRS exceeds the target ratio and is able to pay annual COLA's. But, he said, FRS is far from it and may never reach it. The target ratio will reach it's crescendo in a few years. FRS will hit the 40-year mark from when it was created and, at that point, it's going to be determined based on changes and assumptions and mergers how the ratio fluctuates, but it's going to be in the neighborhood of 100% when FRS passes calendar year 2016.

Mr. Curran said some statewide systems are already at the 100% funded level. When FRS eventually reaches the 100% level, it would have to permanently remain 100% funded under the target ratio measure to be able to pay a COLA. He said some statewide systems have a tougher decision. If a system is at 4 or 5% from the target, do you make the decision? Mr. Curran said in a case like this, where FRS is 20% south of the target, if he were in FRS' shoes, he would find it to be a more obvious decision to elect in to the new COLA method. He said the only down side is it's every other year at best.

Mr. Curran said that once FRS elects into the new COLA method, G.S. Curran & Company will do the valuation this year, FRS is in the 70%+ category, FRS could pay a COLA if it has excess interest earnings. He said to remember that it is calculated on an actuarial basis. Just because FRS had an 11% year doesn't mean it is going to have that this year and I don't believe it will this year because FRS is still holding on to part of 2009. But, going into 2014, FRS should start to see a case for, with decent returns in the market, a chance for it to start to have that year where the smooth actuarial rate of return would be above 7½% and then, at that point, FRS will not have paid a COLA within the prior three years and the board would have the right to make a decision at that time.

Mr. Fredieu asked if the bill retains the requirement for excess interest earnings. Mr. Curran and Ms. Little jointly answered in the affirmative. Mr. Curran said the bill replaces the target ratio portion of the law, but doesn't replace the excess interest requirements.

Mr. Fredieu asked how the bill affects the board's ability to authorize an additional 2% COLA for retirees who have attained at least age 65. Mr. Curran said the bill allows the board to make a decision about paying the COLA or COLAs that are available. At the point where FRS meets the requirement, the board can decide which COLA or COLAs to grant and the over-age 65 is one of the COLA options. Whether FRS can afford the over-age 65 COLA, that depends on the year it has when it is finally eligible to pay it. When that year occurs, the actuary will lay out the cost of each of the possible COLA's.

Mr. Curran said that, even with really great investment markets, it would take a decade at least to get FRS out of the hole created by the target ratio law and even with that he's not sure FRS could do it. It's possible, but it would be unlikely in the next ten years that FRS is paying a COLA if the board

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does not elect in. He said FRS would be much more likely to pay a COLA in the next ten years if it elects in.

Mr. Curran said the new measure is a very reasonable approach. He said even if FRS finds itself in a case where it gets above 90% funded one day, and it can pay a COLA every other year at best, as an actuary, that's a very reasonable limitation. Based on that, FRS isn't guaranteeing itself the ability to give COLA's in the next few years by making the election, but the likelihood is significantly higher that FRS would be allowed to pay a COLA in the next few years if it makes the election into the new statutory language and elects out of the target ratio. However, if FRS were to see its funded ratio go down, it would have to get back up above 70% to ever be allowed to give a COLA under this bill. Things could happen that would cause FRS to be outside the permissible ranges. In that situation, FRS would never have met the target ratio law either, so there isn't any downside in that regard.

After further lengthy discussions, this matter was concluded with no action being taken.

- Senate Bill No. 156 (Act No. 184)

Mr. Stockstill said this bill repeals the Funding Review Panel.

**PROPOSED POLICY - NON-JOB RELATED DISABILITY RETIREE MAKING  
APPLICATION FOR JOB-RELATED DISABILITY**

Upon request by the executive director, Chairman Fredieu deferred this item indefinitely.

**ADJOURNMENT**

MOTION: Mr. Tarleton moved to adjourn. Mr. Jeselink seconded. The motion passed.

There being no further business, the meeting of the FRS board of trustees was adjourned.

**FUTURE MEETINGS:**

**FRS Board of Trustees  
3100 Brentwood Drive  
Baton Rouge, Louisiana  
Wednesday, August 7, 2013 at 2:00 p.m. and continuing on  
Thursday, August 8, 2013, at 08:30 a.m.**



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SUBMITTED BY:



Susan L. Waite, FRS Board Secretary

APPROVED BY:



Mr. Charles Fredieu, FRS Chairman