

**FIRE AND POLICE PENSION ASSOCIATION  
BOARD OF DIRECTORS  
May 27, 2010  
Final Agenda**

- 7:30 a.m.      **Call to Order**  
Approval of April 22, 2010 Board Meeting Minutes
- 7:35 a.m.      **Internal Audit Report - Investments**  
*Tim O'Brien, Internal Auditor*
- 7:50 a.m.      **Consideration of Audit Committee formation**
- 8:10 a.m.      **Investment Risk Committee Report**
- 8:30 a.m.      **Review and approval of new Master Investment Policy Statement**
- 9:30 a.m.      **Break**
- 9:40 a.m.      **Investment Report**
1. Review of April 2010 Performance
  2. Review of managers
  3. Update on rebalancing activity
  4. Annual Investment Allocation Review
  5. Alternative Growth Annual Commitment Pacing Plan
  6. Investment Markets Risk Metrics Report (PCA)
  7. Other matters
- 10:00 a.m.     **Presentation of January 1, 2010 Actuarial Studies**  
*Joe Newton, Gabriel Roeder Smith & Co.*
- 10:40 a.m.     **Determination of contribution rates, SRA and COLAs in the statewide plans**
- 11:00 a.m.     **Break**
- 11:15 a.m.     **Approval of certification to Joint Budget Committee re Old Hire Employers receiving state assistance**
- 11:20 a.m.     **Update on Statewide Health Care Defined Benefit Plan**
- 11:30 a.m.     **Review of death and disability benefit decision-making process**
- 11:50 a.m.     **Review of board's findings and determinations in the matter of Jennifer Browne**
- 11:55 a.m.     **Review of Hearing Officer recommendation in the matter of Dallas Huber**
- 12:00 p.m.     **Legal Report**
1. Litigation update
  2. Other matters
- 12:10 p.m.     **2010 Legislative session report**  
*Tony Lombard  
Bill Clayton*

12:30 p.m.

**Staff report**

1. CEO report
2. Consider canceling June educational session, with education session at July meeting
3. Other matters

12:40 p.m.

**Chairman's report**

1. Monthly discussion
2. Annual evaluation of independent audit firm
3. Conference evaluation
  - a. Kirk Miller – SALT conference
  - b. Sue Eaton – TEDS @ NCPERS
4. Other matters

1:00 p.m.

Adjourn and lunch

**FIRE AND POLICE PENSION ASSOCIATION  
MINUTES - BOARD OF DIRECTORS MEETING  
May 27, 2010**

**FPPA Office**  
**5290 DTC Parkway, Suite 100**  
**Greenwood Village, CO 80111**

**BOARD MEMBERS PRESENT:** Chairman Leo Johnson, Vice Chairman Tim Nash, Kirk Miller, Jack Blumenthal, Todd Bower, Sue Eaton, Lyle Hesalroad, Cliff Stanton and Monica Cortez-Sangster.

**BOARD MEMBERS ABSENT:**

**STAFF MEMBERS PRESENT:** Dan Slack, Kevin Lindahl, Scott Simon, Gina McGrail, Kim Collins, Austin Cooley, Claud Cloete, Jeff Kaszubowski, Sean Ross, and Janette Hester.

**OTHERS PRESENT:** Neil Rue and John Linder, Pension Consulting Alliance (PCA); Joseph P. Newton and Todd Kanaster, Gabriel Roeder Smith & Company (GRS); Tony Lombard and Bill Clayton, Lombard & Clayton; Tim O'Brien, FPPA Internal Auditor; and Craig Bardo, BroadRiver Asset Management, public attendee.

*Notice of this meeting and a copy of the agenda were posted in the building lobby of the FPPA office and on the FPPA website at least twenty-four hours prior to the meeting.*

At 7:30 a.m., Chairman Leo Johnson called the meeting to order and noted that there was a quorum present. Chairman Johnson called for a motion to approve the minutes.

Todd Bower moved approval of the minutes of the April 22, 2010 board meeting. Kirk Miller seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

**Internal Audit Report - Investments**

Chairman Johnson welcomed Tim O'Brien, FPPA internal auditor, to the meeting. Mr. O'Brien gave a presentation on his internal audit of investment manager reconciliations, investment manager fee calculations, and the authorization of cash flow from investment manager portfolios. Mr. O'Brien explained the methodology and assumptions of his audit covering the timeframe of January 1, 2009, to March 31, 2010. Mr. O'Brien concluded that FPPA was in adequate compliance with the tested procedures and made minor recommendations to improve processes. Staff concurred with Mr. O'Brien's recommendations and agreed to take the necessary actions to implement the recommendations. Mr. O'Brien answered questions from the board and concluded his presentation.

### **Consideration of Audit Committee Formation**

Dan Slack referred the board to a copy of the 2006 draft charter for an FPPA audit committee. The 2006 draft charter, which was approved and adopted at the April 26, 2006, board meeting, was prepared and presented on that date by Mr. O'Brien. The 2006 draft charter established the purpose, responsibilities and duties of the audit committee. The board determined at the 2006 meeting that the board, sitting as a committee of the whole, would function as the audit committee. Mr. O'Brien noted that this audit committee had been inactive to date, although the board had performed many of those functions, sitting as a board.

Chairman Johnson led the discussion regarding qualifications of audit committee members and the scope, function and duties of the audit committee. Jack Blumenthal noted that the audit committee would review the internal audit plan and questioned if the committee would have access to preparation of the annual budget.

Mr. Slack requested clarification on the responsibilities of the executive team in preparing and executing the annual budget. Kim Collins noted that the strategic plan guides budget preparation and execution. The board determined to keep the current process whereby the CEO and staff prepare and present an annual budget to the entire board for approval. The CEO has authority to move money from line item to line item so long as the board is kept informed throughout the year of those actions.

Mr. O'Brien made several suggestions regarding an agenda for the first several meetings of a newly-created audit committee. Mr. Slack requested a motion to create an audit committee.

Mr. Bower moved to approve the creation of an internal audit committee, which would hold formal committee meetings, take minutes and post public notice of each meeting. Mr. Miller seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Chairman Johnson appointed Mr. Blumenthal to serve as chairman of the audit committee, and Lyle Hesalroad and Vice Chairman Tim Nash to serve as committee members. Staff support for the audit committee will include Mr. Slack, Ms. Collins, Kevin Lindahl and Mr. O'Brien. Mr. O'Brien then left the meeting.

### **Investment Risk Committee Report**

Mr. Bower reported that the newly-created Investment Risk Committee (IRC) met on May 14, 2010. The following IRC members were in attendance: Mr. Bower, Mr. Miller, Mr. Slack and Mr. Lindahl. Also in attendance were Scott Simon, Austin

Cooley, Claud Cloete, Jeff Kaszubowski, and Sean Ross from the investment staff, and Neil Rue and John Linder from PCA.

The IRC discussed and adopted various guidelines for operating the IRC, including its role in the investment process, reporting responsibilities, meeting requirements and the process for reaching committee consensus. The IRC reviewed the final revisions to the Master Investment Policy Statement and concurred that the policy was in compliance with board policies. The IRC reviewed the Annual Investment Allocation Review and provided concurrence that the recommendation was in compliance with board policies. The IRC reviewed the Alternatives Annual Commitment Pacing Plan and provided concurrence that the recommendation was in compliance with board policies. The IRC reviewed the Absolute Return Portfolio Construction recommendation and requested the investment staff to provide further analysis on the legal structure of the potential investment vehicles.

### **Annual Investment Allocation Review**

Mr. Rue and Mr. Linder updated the board on current market risks and return assumptions relative to the original assumptions utilized within the most recent asset liability study. PCA concluded that the FPPA Investment Staff's recommended investment structure remains reasonable, and both the structure and the strategy appropriately reflect FPPA's risk tolerance, as expressed during the 2009 Asset Liability Study. Mr. Rue reported that the newly-proposed investment structure for the FPPA portfolio appears to be beneficial, indicating average annual returns and longer-term compound returns modestly higher than under FPPA's current structure. This confirms the intention of the 2009 asset liability study process, which was to shift the portfolio to a more risk-management centric structure in light of the volatile markets.

Mr. Simon presented recommended changes to the investment structure and discussed operational or risk constraints which should be considered in the reasonable implementation of the Investment Allocation Policy Targets. Recommended changes included the following:

1. Create an investment class of growth-oriented public debt under global growth. FPPA will not create a strategic allocation to the class but will measure incidental exposure as may be created from its fixed income managers.
2. Restructure the 7% target allocation of real estate to a 2% target allocation to private equity real estate (to be added to the private capital allocation) and 5% to real assets, which will include allocation to core real estate and potentially other real assets strategies, such as energy resources, timber, infrastructure, metals & minerals, and agriculture.

3. Rename Private Equity to private capital as a reflection that it includes both equity and debt strategies. With the additional 2% allocation to private equity real estate, the private capital allocation target increases to 14%.
4. Long-term target allocations to the alternative growth investment classes will be implemented over time. Lower interim target allocations were adopted that could be achieved in the near-term. Higher interim target allocations were adopted for global public equity and fixed income to accommodate this implementation constraint.

Incorporating these changes, Mr. Simon recommended the following interim Investment Allocation Targets and Ranges.

Investment Class	Long Term Target Allocation	Interim Target Allocation	Interim Range	Benchmark
<b>GLOBAL GROWTH</b>	<b>45.0%</b>	<b>49.0%</b>	44%-54%	
Global Public Equity	45.0%	49.0%	45%-53%	MSCI ACWI IMI
Growth-Oriented Public Debt			0%-5%	Citigroup High Yield
<b>RISK REDUCERS</b>	<b>31.0%</b>	<b>33.0%</b>	28%-38%	
Fixed Income	20.0%	22.0%	19%-25%	BC US Aggregate
Absolute Return	10.0%	10.0%	5%-15%	Blended
Cash	1.0%	1.0%	0%-3%	3 month T-Bills
<b>ALTERNATIVE GROWTH</b>	<b>24.0%</b>	<b>18.0%</b>	13%-23%	
Private Capital	14.0%	13.0%	8%-18%	Blended
Real Assets	5.0%	4.0%	1%-7%	Blended
Opportunistic	5.0%	1.0%	0%-5%	Blended

Mr. Blumenthal asked if there was a link between actuarial projections and the portfolio strategy. Mr. Rue noted that the future potential for 8% growth in the portfolio may be difficult to achieve. Mr. Bower raised the concern that employer contribution rates continue to remain at 16% for the statewide defined benefit plan, while most other plans have 20% contribution rates. He stated that higher member contribution rates should be considered soon to help avoid problems in the future. Chairman Johnson advocated the use of a task force to educate the members. He noted that a statewide member vote may be needed to make any changes. Gina McGrail stated that the benefits communications team has been educating the members during visits about the legislation that was enacted and the possibility of increasing member contribution rates. Ms. McGrail also stated that the process of increasing contribution rates would require involved implementation. Mr. Slack suggested adding this issue as a discussion item to the July Strategic Planning Session agenda with a next-steps presentation by staff.

### **Alternatives Annual Commitment Pacing Plan**

Mr. Simon presented the results of the FPPA alternatives investment pacing model. These results were consistent with a Hamilton Lane analysis and Townsend

assumptions. While the investment consultants will offer recommendations for portfolio investments, FPPA will make the final decision on commitment based on total portfolio considerations. PCA concurred with staff's recommendations. Staff recommended the following Alternatives Annual Commitment Pacing Plan for 2010:

- \$90 million to private capital
- \$20 million to private equity real estate
- \$30 million to real assets
- \$40 million to opportunistic investments

Mr. Blumenthal requested a further analysis regarding the liquidity of the alternatives portfolio. Staff will prepare this analysis for board review.

### **Review and Approval of New Master Investment Policy Statement**

Mr. Simon provided a copy of the final recommended changes to the new Master Investment Policy Statement for consideration by the board. Changes incorporated conclusions from the recommended Annual Investment Allocation Review and the Alternatives Annual Commitment Pacing Plan. Mr. Simon reviewed additional changes including:

- The investment staff may utilize one or more currency manager(s) to measure and hedge currency exposure across the total fund. The retention of a currency manager will be governed by the Master IPS manager selection and review criteria.
- Related to appropriate partnership investments, FPPA endorses the *ILPA Private Equity Principles*.
- Investment recommendations for which due diligence is led by the investment staff will be limited to dollar amounts representing up to a 1.5% threshold level of fund assets at the time of investment and must be consistent with the approved portfolio construction of the investment class."
- Mr. Simon reviewed the performance/risk objectives, the benchmarks, and the active/passive index strategies for each investment class.

Mr. Simon answered questions from the board.

At 9:32 a.m., Mr. Bower left the meeting.

At 9:45 a.m., Mr. Miller moved approval of the Annual Investment Allocation Plan for 2010. Cliff Stanton seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Mr. Miller moved approval of the Alternatives Annual Commitment Pacing Plan. Mr. Stanton seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Mr. Miller moved approval of the new Master Investment Policy Statement, dated May 27, 2010. Mr. Stanton seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

The meeting recessed for break and reconvened at 10:02 a.m.

### **Investments Report**

Mr. Simon provided the monthly investment report for April and a market summary update. He noted that the U.S. economy continues to show signs of recovery. A financial crisis intensified in Greece, while Portugal and Spain showed signs of sovereign debt issues. Mr. Simon reported that risk aversion returned to the markets the last week of April, erasing much of the gains for the month. The U.S. equity markets maintained a strong month (8.23% YTD), and Barclays Universal fixed income index had a solid month (3.17% YTD). Mr. Simon reported that the Total Fund was up 1.55% (net of fees) for April, bringing YTD to 4.96%. The Total Fund closed the month of April with \$2.95 billion in net investible assets. Mr. Simon reported that FPPA equity managers were in line with their benchmarks, with the exception of negative relative performance from Fiduciary (domestic large cap equity). FPPA's fixed income managers showed strong relative performance. Mr. Simon reported that the investment staff reviewed and approved a Hamilton Lane recommendation for \$15 million commitment to H.I.G. Bayside Loan Opportunity Fund II.

In rebalancing activities, Mr. Simon reported that FPPA redeemed \$30 million from WAMCO (core-plus fixed income) to maintain cash above a 1% allocation and to accommodate anticipated cash flows. Mr. Simon stated that PCA and the investment staff have provided risk reports for 1Q 2010 in the board packet. Mr. Simon answered questions from the board.

### **PCA Presentation - Investment Markets Risk Metrics Report**

John Linder presented the May 2010 edition of PCA's investment market risk metrics report. The purpose of this report is to identify cumulative risks in the market and to develop risk-oriented responses to trends that become apparent. He referred the board to the risk overview page of the metrics report and noted several highlights:

- Risk premiums have expanded since the end of April causing the price of risk assets to fall.
- U.S. public equity market valuations remain above average, while international equity valuations are below historical averages.
- Credit spreads tightened to historical 15-year averages in April, but expanded again in May.
- Equity volatility made new lows (near 40) for April but spiked on European debt worries at month-end and into May.

- The yield curve remains extremely steep, portending expansion, but potentially future inflation.
- Breakeven inflation is at 1.9% and commodity prices declined in May.
- Due to the record low levels of treasury bond yields, the level of treasury bond rate risk in current market prices will be included in next month's risk metrics report.

Mr. Linder answered questions from the board and requested feedback from the board on the report. He concluded his report at 10:13 a.m.

### **Presentation of 2010 Actuarial Valuation Results**

Joe Newton, FPPA consultant and actuary with Gabriel Roeder Smith & Company (GRS), gave a presentation on the actuarial valuation results for plans within the statewide defined benefit system (statewide defined benefit plan [SWDB], the statewide hybrid plan – defined benefit component [SWH], and the Colorado Springs new hire pension plans) and the statewide death & disability plan (SWD&D). Mr. Newton reviewed highlights of the actuarial valuations for all plans. He reported that the total fund (net) returned 19.93% on a market value. With smoothing, the return for the actuarial value of assets was 5.19% - 6.12%. Mr. Newton reported that the SWDB will need further recovery in the actuarial value of assets to provide future COLAs at historical levels without a contribution increase. Mr. Newton reported that liability management and contribution rate policy will play a key role in maintaining the actuarial soundness of the plans. He reported that as of January 1, 2010, the SWDB plan is 100.0% funded on a current law basis, the SWD&D plan is 106.3% funded on a current law basis, the SWH plan is 126.9% funded on a current law basis, the Colorado Springs New Hire Police Plan is 80% funded and the Colorado Springs New Hire Fire Plan is 83.0% funded. Mr. Newton presented the impact of increased contribution rates to the SWDB plan per the recently approved legislation. He reviewed GRS recommendations for contribution rates, SRA and COLAs for the various plans. Mr. Newton answered questions from the board and concluded his presentation.

At 11:15 a.m., the meeting recessed for break. Mr. Rue, Mr. Linder, Mr. Cooley, Mr. Cloete, Mr. Kaszubowski and Mr. Ross left the meeting.

### **Determination of Contribution Rates, SRA and COLAs**

At 11:31 a.m., the meeting reconvened and Chairman Johnson called for motions on the contribution rates, the stabilization reserve account (SRA), and COLAs.

Statewide Defined Benefit Plan Stabilization Reserve Account Contribution Rate:  
Based on the board's practice to fund towards a COLA, GRS is recommending an SRA rate of 0%. The current SRA rate is 0%.

Mr. Miller moved to set the SRA contribution rate for the members of the statewide defined benefit plan at 0%, effective July 1, 2010, through June 30, 2011. Lyle Hesalroad seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Statewide Defined Benefit Plan Stabilization Reserve Account Contribution Rate for Members of Departments that have Re-entered the Plan: GRS is recommending an additional SRA rate of 3.66%. This will be added to the base SRA rate that GRS is recommending of 0%. The current SRA rate (combined) is 3.82%.

Mr. Miller moved to set the SRA contribution rate for the members who are subject to the 20% continuing rate of contribution with the statewide defined benefit plan at 3.66%, plus 0% for the base SRA, effective July 1, 2010, through June 30, 2011. Mr. Hesalroad seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Statewide Defined Benefit Plan Stabilization Reserve Account Contribution Rate for Members of the Supplemental Social Security Plan: Based on the board's practice to fund towards a COLA, GRS is recommending an SRA rate of 0%. The members of this new plan will get one-half of the SRA granted to the statewide defined benefit plan members. The current SRA rate is 0%.

Mr. Miller moved to set the SRA contribution rate for the members of the Supplemental Social Security program within the statewide defined benefit plan at 0%, effective July 1, 2010, through June 30, 2011. Mr. Stanton seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Cost-of-Living-Adjustment for Statewide Defined Benefit Plan (including members of Departments that have Re-entered the Plan and Members of the Supplemental Social Security Plan): GRS reported that there is no surplus in this plan using smoothed assets under current law. An ad hoc 3% COLA would cost the plan approximately \$4.4 million. Funding for a permanent COLA produces a \$281 million unfunded liability (smoothed assets). The CPI-W for 2009 was -0.7%. The Social Security Administration did not grant a COLA on January 1, 2010. Last year the board granted a 1.35% COLA. GRS noted that the current contribution rate of 16% would support a 1.25% permanent COLA (smoothed assets). The COLA increase could apply to benefits paid October 1, 2010, through September 30, 2011.

Mr. Blumenthal moved to set the ad hoc COLA for retirees and beneficiaries of the statewide defined benefit plan at 0%, effective October 1, 2010, through September 30, 2011. Vice Chairman Tim Nash seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Statewide Hybrid Plan – Defined Benefit Component Contribution Rate: GRS reported the defined benefit component required contribution rate is 11.49% based on the normal cost for benefits with COLAs and recommends that FPPA consider increasing the current rate (which is set at 11.4%) to 11.5%.

Mr. Miller moved to increase the statewide hybrid plan – defined benefit component contribution rate to 11.5%, effective July 1, 2010, through June 30, 2011. Vice Chairman Nash seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Cost-of-Living-Adjustment for the Statewide Hybrid Plan – Defined Benefit

Component: GRS reported the cost of a one-year 3% COLA for current retirees is .03% of pay. The CPI-W for 2009 was -0.7%. The Social Security Administration did not grant a COLA on January 1, 2010. Last year the board granted a 3.0% COLA. GRS noted that an 11.5% contribution rate would support a 3.0% permanent COLA (smoothed assets). The COLA increase would apply to benefits paid October 1, 2010, through September 30, 2011.

Mr. Blumenthal moved to set the ad hoc COLA for retirees and beneficiaries of the statewide hybrid plan – defined benefit component at 0%, effective October 1, 2010, through September 30, 2011. Mr. Miller seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Defined Benefit System: Colorado Spring New Hire Pension Plans: Ms. Collins stated that the board will vote on matters regarding the Colorado Springs new hire pension plans at the July 22, 2010, board meeting, after the City of Colorado Springs has had the opportunity to review the results of the actuarial studies. These benefit matters will take effect January 1, 2011, per the plan documents.

Statewide Death & Disability Plan (including Members of the Supplemental Social Security Plan) Contribution Rate: The SWD&D contribution rate may be adjusted every two years for members hired on or after January 1, 1997, but in no event may the adjustment for any two-year period exceed one-tenth of one percent of the member's salary. GRS strongly recommends not to decrease the current contribution rate. GRS recommends the board consider increasing the rate to 2.7% to strengthen the sustainability of the plan. Approximately 60% of the employer plans require their fire and/or police members hired after 1996 to pay all or a portion of the D&D contribution. This is up from 46%, as reported last year.

After discussion as to the appropriate rate to maintain the continued sustainability of the plan, Mr. Miller moved to retain the statewide death & disability plan contribution rate at 2.6%, effective January 1, 2011, through December 31, 2012. Vice Chairman Nash seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

Cost-of-Living-Adjustment for the Statewide Death & Disability Plan (including Members of the Supplemental Social Security D&D Plan): Per the statewide death & disability plan, on an annual basis, the benefits for occupational disability retirees and their beneficiaries and for survivors of active members shall be increased by a percentage to be determined by the board but not more than 3%. The statutes require an annual 3% COLA for totally disabled retirees and their beneficiaries. GRS reported that an ad hoc 3% COLA would cost the plan \$4.3 million. Funding

for a permanent COLA produces a \$110 million unfunded liability (smoothed assets). The CPI-W for 2009 was -0.7%. The Social Security Administration did not grant a COLA on January 1, 2010. Last year the board granted a 0.4% COLA for members receiving occupational disability benefits and for survivors of active members. GRS noted that the current contribution rate of 2.6% would support a 0.4% permanent COLA (smoothed assets). This COLA would apply to benefits paid October 1, 2010, through September 30, 2011.

Mr. Miller moved to set the ad hoc COLA for the statewide death & disability plan for occupational disability retirees and their beneficiaries and the survivors of active members at 0%, effective October 1, 2010, through September 30, 2010. Vice Chairman Nash seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

**Approval of Certification to Joint Budget Committee  
re Old Hire Employers Receiving State Assistance**

Mr. Slack provided a copy of a letter dated May 18, 2010, and exhibits from Mr. Newton to the board regarding the liability and funding position of the old hire pension plans receiving State assistance. Ms. Collins reviewed the report being sent to members of the Joint Budget Committee (JBC), which staff prepared based on Mr. Newton's letter. Mr. Slack requested that the board send the letter and report as proposed.

Mr. Stanton moved to send the letter and report to the Joint Budget Committee vice- chairman and committee members. Vice Chairman Nash seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

**Statewide Health Care Defined Benefit Plan**

Ms. McGrail provided a memo to the board regarding the statewide health care plan (SWHC Plan). She stated that the Internal Revenue Service (IRS) had recently contacted Mr. Lindahl with questions regarding the employer pick-up of contributions. Although the IRS did not indicate a ruling might be imminent, staff determined it appropriate to review with board members the history, plan provisions, and the steps involved in implementing the SWHC Plan. Ms. McGrail noted that a health care plan document was approved by FPPA and submitted to the IRS on May 19, 2004. An election of eligible members in the statewide retirement plans was held in 2005 and resulted in a 71% approval rate to offer the plan. Implementation was deferred, pending the receipt of a favorable private letter ruling from the IRS. The IRS issued a favorable determination letter on the statewide healthcare plan, but FPPA is still awaiting a private letter ruling regarding the employer pick-up provision of the plan. She stated that the tax free healthcare benefit was designed to assist retirees in paying for health care.

Ms. McGrail reviewed the benefit structure and provisions of the health care plan. She reported the logistical steps that would be required by staff to implement the benefit, including ASPEN system enhancements; the development of application

forms, communications materials; employer education on contributions submission; and notice to employers sufficient to allow budget adjustments. She noted that staff estimates it could take 6 months or more to implement the program, if a favorable IRS determination is received. Staff anticipates the following steps will be needed to implement the SWHC plan:

- An updated actuarial study is recommended by GRS to determine if the funding of the benefits of the plans is feasible.
- A new membership election may need to be conducted for the members of those departments who entered FPPA defined benefit system following the 2005 election.
- Members and employers will need training on the benefit provisions.
- Employers will need training on deducting and submitting contributions for this plan. It is possible that system enhancements would need to be made on the employers' payroll systems, as well.
- Rules and Regulations may need to be drafted and subsequently adopted by the FPPA Board for administration of the plan.
- Forms and communication materials will need to be developed.
- Additional ASPEN programming will be required.
- FPPA staffing levels will need to be evaluated.
- How this plan might interact with the PPA-HELPS provision would need to be researched.
- The impact of recent federal health care legislation may need to be evaluated.

Ms. McGrail requested board authorization to proceed with an actuarial study and an election of new members, if an IRS response letter is positive. She estimated that the cost of an election would be \$5,000. She answered questions from the board.

Vice Chairman Nash moved to authorize staff to proceed with an actuarial study upon approval by the IRS. Mr. Blumenthal moved to amend the motion to require Gabriel Roeder Smith & Company to also provide the percentage of plans that offer a health care plan as a benefit. Mr. Hesalroad seconded the motion, as amended by Mr. Blumenthal. MOTION CARRIED IN FAVOR UNANIMOUSLY. Mr. Newton and Todd Kanaster left the meeting.

### **Review of Death & Disability Benefit Decision-making Process**

Mr. Lindahl provided a memo in the board packet regarding the processes and standards for administering disability and survivor benefits of the SWD&D Plan. The review of how disability and survivor benefits are administered is Goal 1 – Objective 2 of the *FPPA Strategic Plan 2010 – 2012*. Mr. Lindahl reviewed the history of the process from inception until 2004, when the board adopted rules that established the death and disability review committee (DDRC) and expanded its use of hearing officers to hear cases and conduct evidentiary hearings. Mr. Lindahl

reviewed in detail the current award and appeal process. He noted that the DDRC lacks authority to make initial determinations that are adverse to the member and that members currently maintain the ability to come before the board with a hearing. Mr. Lindahl provided three flow charts: one chart illustrated the current determination of D&D benefits process, as approved in 2005; and the other two charts presented staff-recommended options for consideration.

In preparation for proposed rule changes, Mr. Lindahl requested direction from the board regarding proposed rules changes that staff will prepare. Mr. Lindahl, Ms. McGrail and Mr. Slack clarified the appeal process and answered questions from the board. After discussion, the board directed staff to proceed with editing and drafting the rules for presentation and consideration at the September board meeting.

### **Review of board's findings and determinations in the matter of Jennifer Browne**

Mr. Lindahl reviewed Jennifer M. Browne's *de novo* hearing held on April 22, 2010. At that hearing the board determined that Ms. Browne's disabling condition was not caused by a work-related injury or disease and ordered that written findings be prepared for consideration at the May meeting. Mr. Lindahl provided a copy of the post hearing briefs filed by attorney Richard Radabaugh on behalf of Ms. Browne and by FPPA staff. Mr. Lindahl stated that Timothy J. Parsons, attorney and counsel to the board, had reviewed the documents and Mr. Parsons' comments had been incorporated into the draft findings and determination letter provided in the board packet.

Mr. Hesalroad moved to approve the findings and determination document. Mr. Stanton seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

### **Review of Hearing Officer Recommendation re: Disability Status of Dallas J. Huber**

Mr. Lindahl reported that Hearing Officer Michael W. Sutherland had conducted an evidentiary hearing, as requested by Dallas J. Huber through her attorney, Richard Radabaugh. The evidentiary hearing to request a permanent occupational disability was held on March 9, 2010, at which Ms. Huber was present and testified under oath. Hearing Officer Sutherland has recommended that the board find that Ms. Huber be granted a temporary occupational disability status and be denied permanent occupational disability status at this time. Mr. Radabaugh submitted a written objection on behalf of Ms. Huber regarding the hearing officer's recommendation and alleged certain factual errors in that decision. Mr. Lindahl reviewed the alleged discrepancies and answered questions from the board.

Mr. Hesalroad moved to remand the recommendation to the hearing officer to review and resolve the factual discrepancies alleged by Ms. Huber's counsel. Vice Chairman Nash seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

At 1:05 p.m., Vice Chairman Nash, Mr. Blumenthal and Mr. Stanton left the meeting. Tony Lombard and Bill Clayton joined the meeting.

### **2010 Legislative Session Report**

Chairman Johnson welcomed Mr. Lombard and Mr. Clayton and called for a legislative session report. Mr. Lombard reported that the governor had signed all the 2010 bills submitted to the legislature. Mr. Lombard and Mr. Clayton reviewed the status of HB 10-1354, which was written to eliminate the Pension Reform Committee and interim committees. He reported that this bill had passed the House but was subsequently stopped in the Senate. The bill was eventually passed after the amendment language regarding interim committees was revised.

Mr. Lombard and Mr. Clayton stated that the political arena will be changing next year. They will present new FPPA bills in the first two weeks of the 2011 legislative session. Mr. Clayton reported that these bills will not count against the limit of 5 for each legislator. Mr. Lombard and Mr. Clayton requested a copy of the letter that is being sent to the Joint Budget Committee (JBC). They will schedule a meeting during the off season with the two new JBC members to provide education regarding the history of FPPA. Mr. Lombard and Mr. Clayton answered questions from the board.

### **Legal Report**

Mr. Lindahl gave the litigation report. He reported that the Tronox and Kerr-McGee case defendants have filed four motions to dismiss. Responses to these motions have been filed and court decision on motion to dismiss are pending. Mediation in this case is set for June 1-2, 2010, and Mr. Lindahl will attend the settlement conferences. In other legal department activities, Mr. Lindahl reported receiving responses from 16 law firms regarding the RFP for investment counsel. The investment counsel interview process will begin in the near future. Mr. Lindahl answered questions from the board.

### **Staff Report**

Mr. Slack reported receiving continued inquiries regarding re-entry into FPPA and informational meetings have been conducted. He stated that the provider for staff payroll has been switched from PayChex to PayChoice. Mr. Slack reported that a draft RFP is being prepared for the defined contribution plan service provider (currently Fidelity). The RFP will be issued in mid-June. The RFP responses will be reviewed and a recommendation will be made to the board at the conclusion of the process. Mr. Slack suggested that the board cancel the June 10<sup>th</sup> board educational

training session. The board agreed to cancel the June 10<sup>th</sup> session; the the scheduled benefits education information will be presented at the July 22<sup>nd</sup> board meeting.

Mr. Slack and the executive staff answered questions from the board.

### **CHAIRMAN'S REPORT**

Chairman Johnson stated that the Independent Auditor Evaluation Form would be deferred until the July 22<sup>nd</sup> meeting. He noted that the evaluation of the independent auditor would become a responsibility of the audit committee in the future. Sue Eaton gave an evaluation of her participation at the NCPERS Trustees Educational Seminar. Mr. Miller reported on his attendance at the SALT Conference 2010 and gave a synopsis of speaker presentations.

At 1:40 p.m., Mr. Miller moved to adjourn the board meeting.

Mr. Hesalroad seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.