



Meeting Minutes  
City Council

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Monday, October 27, 2008

12:00 PM

Council Chambers

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**Special Called Meeting**

**1. Call to order by the Mayor at 12:00 P.M.**

**Present** 6 - Darrel Dover; Jim Hargis; Chris Moore; Harold Perrin; John Street and Tim McCall

**Absent** 6 - Judy Furr; Faye McCall; Ann Williams; Charles Frierson; Cecil Province and Mitch Johnson

**2. New Business**

**COM-08:149** Email from Finance Director Jim Barksdale dated October 24, 2008, concerning the non-uniform pension plan.

**Attachments:** [Email](#)

*Mayor Formon explained he has been receiving calls from several people concerning the Principal fund that covers retirement for the non-uniform employees.*

*Finance Director Jim Barksdale explained he sent out the email at the request of Mayor Formon due to questions regarding the non-uniform pension plan. He further explained over the last 24 days there has been a decline due to recent events with the stock market. He stated the current value of the plan as of Friday, October 24, 2008, was \$4.65 million. He expressed his concern over the required minimum amount becoming so low the City may have to make up the difference to ensure payments to retirees. Mr. Barksdale noted Principal keeps them advised of the required minimum amount. He stated the City is not in immediate jeopardy of having to cut a check to cover the difference, but if the market keeps declining then the City may have to pay. Discussion was held concerning the value of the plan from 2006 to current. Mr. Barksdale stated the City should not panic, but they do need to look into what can be done to protect the City. He explained Principal suggested they meet with their advisor to look at how the future contributions are going. He further explained currently 60% of the contributions are in the stock market, while the remaining 40% is in bonds. He noted bonds are currently doing better than the stocks.*

*Ms. Rae Willis from Principal Financial Group stated the required \$3.8 million is known as the benefit index. She added if the plans reaches or goes below the \$3.8 million it triggers the purchase of annuities in order to guarantee the benefits for the existing retirees. She noted that is the payout option the City chose when it moved to Principal in 2004. Councilman Dover questioned who pays for the annuity. Ms. Willis explained it is paid out of the plan assets. Councilman Dover questioned how much would have to be drawn out if the plan dropped to \$3.7 million. Ms. Willis answered she doesn't know, but the asset level for the plan is \$3.8 million. She further explained if it hits that \$3.8 million then annuities are purchased to cover all of the existing retirees. Councilman Dover then questioned whether the City has the option*

to put money into the plan. Ms. Willis answered yes, the City can put money into the plan in order to prevent the plan from reaching the \$3.8 million level. She added the City doesn't have to, but there is that option.

Mr. Barksdale stated when he spoke with Ms. Heather Black on Friday if the City went the annuities route, then the City would have to purchase \$2.1 million. He added that amount will change day-to-day.

Councilman Moore questioned the need for the special called meeting since the City is \$700,000 on the positive side with the retirement plan. He expressed concern over the unnecessary worry the special meeting may have caused the employees. Mayor Formon stated the meeting was called due to the multiple calls they received Friday. He explained they wanted to solve the panic from the calls without waiting another week or two. Ms. Willis stated from January 1, 2008, to October 24, 2008, the S&P 500 index was down 39%. She explained the key to keep in mind with the benefit index is once an annuity is purchased then the existing retirees are no longer a liability to the City. She further explained is an annuity is purchased the existing retirees become Principal's liability. She added the City always has the option of putting more money into the plan to prevent an annuity purchase. Councilman Dover questioned when the City makes its payment. Mr. Barksdale answered the payment is made at the beginning of the year. Councilman Dover then questioned whether the City can choose to make monthly payments. Ms. Willis answered yes, Principal doesn't dictate when deposits are made. Councilman Dover explained it makes more sense to him to make monthly payments in order for some shares of stock to be purchased at a lower price.

Councilman Moore stated the employees should've been assured on Friday that the pension wasn't in jeopardy. He added there isn't a person on the Council who would be opposed to spending \$3.8 million if needed in order to secure the employee's retirement. Mayor Formon reiterated that was the reason for the meeting, to assure the employees the City is supporting the plan.

Councilman Dover explained the City has two choices to make, to change the asset allocation or the payment for next year will be higher due to the actuarial study. He cautioned against changing the asset allocation because stocks will be sold at the lowest price. Councilman Moore added the City could also change to a different form of retirement, such as APERS. Ms. Willis addressed changing the retirement plan, noting the City is the one who designed the plan, not Principal. She added the City can make changes to the plan without having to move it. She explained Principal just administers the plan, while the City designs it. Councilman Hargis noted Principal Financial has taken on the investment responsibility. Ms. Willis stated the stock market is in an unprecedented time in which the whole market environment is down, so diversification in stocks and bonds is not helping much since everything is done. Councilman McCall stated part of the investment responsibility of Principal is to advise and consult with the City. He questioned at what point does Principal go to the City and advise doing something different. Ms. Willis answered they are fulfilling the role of investment advisor for the plan. She explained the City specifically stated the plan should be 60% in stocks and 40% in bonds, so the City's advisor has made recommendations within those parameters and has changed those recommendations over time. She further explained back in February or early March the City's Principal advisor sent out a letter specifically talking about how he would like to re-position the investments within the plan.

Councilman Hargis stated he is disappointed that the administration has not taken action to make sure Ms. Willis visits the City on a regular basis to discuss the plan and the status of the investments. He added he has enough confidence in Principal to

agree with adding more money to the plan to prevent reaching the threshold amount. Councilman Moore stated he is not comfortable with adding money to the plan until the City is closer to reaching the required amount. Ms. Willis stated depending on market conditions the City could hit the trigger. Mayor Formon noted if the market keeps on performing at the same amount the City could hit or go below the required amount in eleven to twelve days. Councilman Dover stated the City has to either pull out of the plan or ride out the storm and if the threshold is reached then the City will add money. Councilman Moore questioned the daily fluctuation of the plan. Ms. Willis stated she's not sure of the daily fluctuation, but the 60% invested in stocks sees a lot of activity. Mr. Barksdale noted on Wednesday when he spoke to the City's advisor the threshold was \$4 million, but it lowered to \$3.8 million on Friday. Councilman Perrin cautioned against taking the money out because that would mean a loss. He stated the City should add money into it.

Councilman Perrin questioned whether a contract had been received with the firm that was supposed to do a study comparison with the current plan and APERS, including how much it would cost to make change to the current plan. Mayor Formon stated the company was given a deadline, but no contract has been received yet. Councilman Perrin suggested if a contract is not received, then the City should go to the next firm in line.

Councilman Moore motioned, seconded by Councilman Dover, to add money as needed to the plan as opposed to selling assets if the required threshold is reached. All voted aye. Mayor Formon voted aye in order to pass the measure.

Councilman Moore noted Mr. Barksdale will be able to let the Council know how much money must be added in order to keep the City at the minimum threshold. Ms. Willis noted if the threshold is met the plan will automatically purchase annuities. She added the City has the option to change how future benefits are handled so future retirees are not paid out of that benefit index process. She explained the City can choose to pay future retirees benefits out of the plan, so there would be no growing amount annuities may have to be purchased for.

Mr. Barksdale asked for clarification in that Principal will not purchase the annuities without the consent of the City. Ms. Willis agreed, stating the City will have the option to also put money into the account as opposed to purchasing annuities. She explained they will contact the City when the threshold is reached so the City can choose whether to purchase the annuities or to add money to the account.

Councilman Hargis expressed concern regarding the "mouse trap" method in which Principal operates which makes it difficult for the Council to transfer to another provider. He noted the services are just fine, but the way in which Principal holds the City against its will is not right.

Councilman Moore clarified that the motion made today will keep the plan solvent. He added he did not want any miscommunication between the City and the employees. Mayor Formon agreed that was the point of the meeting today.

Discussion was held concerning Lehman Brothers. Ms. Willis explained Lehman's asset management is not part of the bankruptcy proceedings. She further explained the parent company is going through financial difficulties, but if the parent company goes under the effect would be nominal on an investment the City is utilizing. Mr. Barksdale questioned whether that was the reason some items have been placed on a watch list. Ms. Willis answered yes, it is due to the name association with Lehman.

Employee Representative Larry Jackson expressed concern that Ms. Willis kept

referring to existing retirees, but did not detail any effects on current retirees. He then discussed the change to Principal. He noted the City has made a commitment for better retirement for non-uniform employees, which is what caused the change to Principal. He then discussed the Principal benefits versus the benefits offered by APERS. He stated the employees are not satisfied with the Principal benefits.

Discussion was held concerning the pending contract with Wertz to compare the current retirement plan with APERS. Human Resources Director Gloria Roark explained the company indicated they could not have the report back in time to put in the 2009 budget. Mayor Formon noted Wertz has not provided the City with a contract yet. Ms. Roark added Principal gave the City information last year regarding increases in benefits and what it would the changes would cost the City. Councilman Moore stated he would like an outside company to research the cost. Councilman Hargis explained they would like to know whether Principal can offer the same benefits at a lower cost to the City and employees. Ms. Willis noted the administrative cost will not increase even if plan benefits are increased. She added the benefits of APERS are much higher than the plan the City currently has, which means the City will need to deposit more than it does now in order to mirror those benefits. Further discussion was held concerning the pending study being done concerning APERS and Principal. Mayor Formon noted there were some benefits offered by APERS that are not able to be mirrored by Principal.

This item was Read.

**3. Adjournment.**

**A motion was made by Councilman Chris Moore, seconded by Councilman John Street, that this meeting be Adjourned. The motion CARRIED by a Voice Vote.**

**Aye:** 6 - Darrel Dover; Jim Hargis; Chris Moore; Harold Perrin; John Street and Tim McCall

**Absent:** 6 - Judy Furr; Faye McCall; Ann Williams; Charles Frierson; Cecil Province and Mitch Johnson

\_\_\_\_\_ **Date:** \_\_\_\_\_  
**Doug Formon, Mayor**

\_\_\_\_\_ **Date:** \_\_\_\_\_  
**Donna Jackson, City Clerk**