THE BOARD OF MANAGERS OF THE CITY OF BIRMINGHAM RETIREMENT AND RELIEF SYSTEM met via Teleconference Call on July 8, 2020 at 3:00 p.m.

The following Board Members were present, namely:

Randall Woodfin, Member No. 1
Martin P. Leonard, Member No. 2
Steven A. Schultz, Member No. 4
Otis Luke, Member No. 6
Dale Wyatt, Member No. 7
Kasandra Brundidge, Member No. 8
Ronald Vaughn, Member No. 9

Chairman Randall Woodfin, Mayor, called the meeting to order.

Board Member Martin P. Leonard made the motion to approve the June 10, 2020 Board Minutes. Board Member Kasandra Brundidge seconded.

The minutes of June 10, 2020 Board Meeting were APPROVED.

Board Member Leonard made the motion to approve the financial statements for the month of May 2020. Board Member Otis Luke seconded.

The Board Members APPROVED the financial statements for the month of May 2020.

Board Member Steven A. Schultz made the motion to approve the investment activity for the month of June 2020. Board Member Dale Wyatt seconded.

The Board Members APPROVED the investment activity for the month of June 2020. (BBVA Compass) – Richard Underwood

The Board Members APPROVED the investment activity for the month of June 2020. (Quantitative Management/Prudential) – Kevin McGrory

The Board Members APPROVED the investment activity for the month of June 2020. (Xponance, Inc.) – Charles Curry

The Board Members APPROVED the investment activity for the month of June 2020. (INVESCO Capital) – Mark Blackburn

The Board Members APPROVED the investment activity for the month of June 2020. (Lazard) – Anthony Dote

The Board Members APPROVED the investment activity for the month of June 2020. (Thornburg Investment Management) – Greg Whitaker

The Board Members APPROVED the investment activity for the month of June 2020. (Rhumbline Advisers) – Denise D'Entremont

The Board Members APPROVED the investment activity for the month of June 2020. (Penn Capital) – Steve Loizeaux

The Board Members APPROVED the investment activity for the month of June 2020. (Cooke & Bieber) – Thad Fletcher

Board Member Luke made the motion to approve the Service Pension applications. Board Member Brundidge seconded.

The Board Members APPROVED the application of Douglas Flowers, an employee with the Parks & Recreation, for SERVICE PENSION at the rate of $2,294.99 per month (DROP Amount $89,309.08, DROP Date 07/31/2017), effective August 1, 2020 under the provisions of Article VI, Section 1 of the pension law.

The Board Members APPROVED the application of Michael A. Miller, an employee with the Public Works Department, for SERVICE PENSION at the rate of $2,606.95 per month (DROP Amount $101,448.94, DROP Date 06/30/2017), effective July 1, 2020 under the provisions of Article VI, Section 1 of the pension law.

The Board Members APPROVED the application of Willie J. Murray, an employee with the Parks & Recreation, for SERVICE PENSION at the rate of $1,275.69 per month (DROP Amount $49,643.22, DROP Date 07/17/2017), effective July 18, 2020 under the provisions of Article VI, Section 1 of the pension law.

The Board Members APPROVED the application of Carl Robinson, an employee with Equipment Management, for SERVICE PENSION at the rate of $3,399.89 per month (DROP Amount $10,285.01, DROP Date 04/06/2020), effective July 7, 2020 under the provisions of Article VI, Section 1 of the pension law.

The Board Members APPROVED the application of Ronald Jennings, an employee with the Police Department, for SERVICE PENSION at the rate of $3,841.07 per month, effective April 10, 2020 under the provisions of Article VI, Section 5 of the pension law.

Mr. Jennings has been receiving a Supplemental Pension in the amount of $2,492.70 since April 12, 2019.

The Board Members APPROVED the application of Vernon Johnson, an employee with the Police Department, for SERVICE PENSION at the rate of $3,763.97 per month, effective April 13, 2020 under the provisions of Article VI, Section 5 of the pension law.

Mr. Johnson has been receiving a Supplemental Pension in the amount of $2,546.35 since March 5, 2020.

The Board Members APPROVED the application of David Marable, an employee with the Police Department, for SERVICE PENSION at the rate of $5,519.07 per month, effective April 25, 2020 under the provisions of Article VI, Section 5 of the pension law.

Mr. Marable has been receiving a Supplemental Pension in the amount of $3,292.82 since July 5, 2019.

The Board Members APPROVED the application of Ural Mitchell, an employee with the Fire Department, for SERVICE PENSION at the rate of $4,481.43 per month, effective July 8, 2020 under the provisions of Article VI, Section 5 of the pension law.

Mr. Mitchell has been receiving a Supplemental Pension in the amount of $2,750.40 since September 16, 2014.

Board Member Brundidge made the motion to approved the Widow's Benefits applications. Board Member Wyatt seconded.

The Board Members APPROVED the application of Joseph Bouchillon, widower of Terry A. Bouchillon, a former employee with Parks & Recreation, for WIDOW'S BENEFITS at the rate of $1,588.25 per month, effective May 8, 2020 under the provisions of Article VI, Section 10(A) of the pension law.

The Board Members APPROVED the application of Geletta M. Pospisil, widow of Thomas M. Pospisil, a former employee with the Birmingham Museum of Art, for WIDOW'S BENEFITS at the rate of $636.81 per month, effective May 21, 2020 under the provisions of Article VI, Section 10(A) of the pension law.

The Board Members APPROVED the application of Inelle Richardson, widow of Nathaniel Richardson, a former employee with the Public Works Department, for WIDOW'S BENEFITS at the rate of $320.00 per month, effective June 1, 2020 under the provisions of Article VI, Section 10(A) of the pension law.

The Board Members APPROVED the application of Mary Ellen Thomas, widow of John L. Thomas, a former employee with the Public Works Department, for WIDOW'S BENEFITS at the rate of $1,052.90 per month, effective May 15, 2020 under the provisions of Article VI, Section 10(A) of the pension law.

Mr. Greg Burchell of Morgan Stanley presented via Webinar and Teleconference.

Mr. Burchell referenced the handout, and stated the market has been more bullish than the consensus. Morgan Stanley believes the bear market has been good; it always starts with a recession, but does not end with a recession. Morgan Stanley believes the health crisis was triggered by the recession. As a result, it brought an unprecedented, monetary fiscal stimulus that might otherwise would not have been possible to put pressure on reopening the US economy. The market seems to be doing remarkably well, considering the size of the equity rally. Index prices and risk premiums led to leadership in the market, but the pattern looks the same as 2009.

Mr. Burchell stated Morgan Stanley is cautiously optimistic in terms of the stimulus that is coming into place. In retrospect, recessions have typically alternated between the consumer and the corporate channels. This particular recession has been unique; the corporate sector overshadowed the consumer sector. The Quantitative Easing program is propping up the economy. The economy will continue to see the support of the US Federal Reserve. However, legislation offering a new stimulus has not necessarily made an impact yet or probably will pass. Morgan Stanley thinks the economy will continue to move higher, and recover from the recession.

Mr. Burchell stated Morgan Stanley favors stocks over bonds; equities; and financial over consumer cyclical. When looking at asset allocation, Morgan Stanley likes smaller companies and value-oriented companies. Morgan Stanley will continue to see volatility, but they are cautiously optimistic. Morgan Stanley is not so blind to believe that there could be some unknowns they do not see coming that could cause the market to hiccup. Morgan Stanley does think volatility will remain in place but for the Retirement & Relief System's portfolio, the bond market is going to be challenged. The scenarios that Morgan Stanley focuses on are the withdrawals for pension obligations.

Mr. Burchell stated in the last twenty-four months, the Retirement & Relief System went through a complete restructure of the fee structure. Morgan Stanley is evaluating the structure; going from a base+ performance fee on the majority of the asset managers. In order to make an appropriate comparison, which is a year over year comparison, Morgan Stanley is coming up on the anniversary on the preliminary data for a full year in September 2020 to be disseminated to the Board Members in October 2020. Morgan Stanley is pleased at what they are seeing at this point, and they think the Board Members will be pleased at the results of the restructuring of the fees.

Mr. Burchell referenced the current asset allocation, and the Retirement & Relief System has $1.03 billion dollars. The majority of the balance is in equities at approximately 68% and little over $250,000.00 in bonds. It is Mr. Burchell's understanding that cash needs to be raised to meet pension obligations.

Mr. Aaron Saxton, Deputy Director of Finance, stated Mr. Burchell is correct. The cash operating account currently has a negative balance of $1.3 million dollars.

Mr. Burchell recommended to the Board Members to take money away pro rata from all equity managers. If that is agreeable with the Board Members, Mr. Burchell stated they will have to vote for approval on that. Mr. Burchell recommends taking $15 million dollars to replenish the 1st Quarter of 2020 for pension obligations, and it will be done pro rata across all equity managers.

Board Member Wyatt asked Mr. Burchell how long will that $15 million dollars last. Mr. Burchell stated it should fund the 1st Quarter.

Mr. Saxton stated Mr. Burchell is correct. It has been awhile since the Finance Department has done a regular quarterly distribution. The Finance Department would typically do $15 million dollars per quarter.

Mr. Saxton stated he thinks he heard Mr. Burchell mentioning funding 1st Quarter 2020. Mr. Burchell stated he did say that, but it is whatever the first quarter of the fiscal year is.

Mr. Saxton stated it is the 1st Quarter 2021.

Board Member Leonard made the motion to transfer $15 million dollars to the City's account by taking it out of equities on a pro rata share among the equity managers. Board Member Wyatt seconded.

Chairman Woodfin stated they is a motion on floor, and asked the Board Members if they have any discussion, questions, or concerns.

Board Member Wyatt asked Mr. Burchell how long will it take to make that transaction happen. Mr. Burchell stated it can be done within two weeks; make sure all the money managers have adequate time to liquidate at a comfortable rate.

Board Member Brundidge asked Mr. Burchell if this has been done in the past. Mr. Burchell stated the Finance Department and Morgan Stanley has set aside a budget at approximately $60 million dollars in the past. On an annual basis, it is expected cashflow out of the fund at approximately $15 million dollars a quarter.

Board Member Leonard stated he thinks Board Member Brundidge's question was if this something that is done often, and the answer is yes.

Board Member Schultz stated he thinks it was last year that $60 million dollars was liquidated based on Mr. Burchell's recommendation, and that is why the Board Members did not have a quarterly dispersal in a while. Mr. Burchell stated that is correct. Morgan Stanley took advantage of some market increases, and the Finance Department put the money on the sidelines to prepay pension obligations. The Finance Department has now gone through of that.

The Board Members APPROVED to transfer $15 million dollars to the City's account by taking it out of equities on a pro rata share among the equity managers.

Mr. Burchell referenced the handout, and stated the Segal Company looks at the expected benefit payments; the inflows in terms of contributions from both payroll and the City; and calculate expenses. Morgan Stanley tracks the actual withdrawals. For at the last six years at least, there has been an excess number above the actual projection. Mr. Rocky Joyner of the Segal Company will talk about it a little bit today. The actual experience that went into the valuation have numbers that differ a little bit from the most recent experience, and it has caused an excess of withdrawals above the projection. Morgan Stanley focuses on the withdrawal rates. With an expected return of 7.50%, it is clear that there is not a lot of room after inflation to really grow the assets for them to keep up with potential benefit payments. The trend is to move the expected investment perception down. However, it is not necessarily the right thing to do at this time, but it is certainly something that is going to be more and more challenging to hit that 7.50% return in the future; given specifically where bonds are and the Retirement & Relief System's inability to go into other asset classes.

Board Member Schultz asked Mr. Burchell what is the annual rate of withdrawal percentage. How is it calculated? Mr. Burchell stated $62,147,466.00 was withdrawal for pension obligations for FY2020. The amount was divided by the ending balance of the total fund, and that is how it is calculated.

Board Member Schultz referenced the handout, and stated it was relatively flat between 2014 and 2019. Mr. Burchell stated that is correct.

Board Member Schultz asked Mr. Burchell why did he say "it is higher or unexpected". Mr. Joyner stated he can answer the question.

Mr. Joyner stated with regards to the City of Birmingham Firemen's & Policemen's Supplemental Pension System, there are a lot of police officers retiring earlier than expected. The Supplemental Pension System's cashflow happens in a different manner. This particular retirement pattern does not flow over into the Retirement & Relief System, because the employees are still waiting out their ten years they would have had under the Supplemental Pension System prior to coming into the Retirement & Relief System with a thirty-year benefit. For the Retirement & Relief System, the cashflow is not expected to be significantly different than it has been in the past, unless people start taking an early retirement.

Mr. Joyner referenced the handout, and stated the payroll percentage is significantly higher now than it was for the City's portion. The Segal Company will be updating the handout, and providing Mr. Burchell with new information after the valuation presentation in the next couple of weeks.

Mr. Burchell referenced the handout, and stated the expected cashflow out of the fund in 2014 was approximately $148.9 million dollars, but it was actually $59 million dollars. It is the projected vs. the actual. Board Member Schultz stated he understands, but the percentage is off 5.75% and it was remarkably flat. The R&R's percentage is not like the Supplemental Pension System, which is precariously on life support at this point.

Mr. Burchell thanked the Board Members.

Mr. Rocky Joyner of the Segal Company presented the 2019 Annual Valuation Summary via Webinar and Teleconference.

Mr. Joyner referenced the handout, and stated the City's Actuarially Determined Contribution (ADC) is 16.06% of pay as of July 1, 2019. Based on the current rate of 12% of pay, there is a deficit of 4.06% of pay. The statutory rate had increased from 7% to 7.25% to 8.5% to 9%. The City's contribution is 3% in excess of the statutory rate, which is a good thing for the funding of the Retirement & Relief System. The normal cost is 9.45%; 7% of that is covered by employees. The normal cost is the cost for a new participant coming in. Of the City's 12% contribution, 9.55% is used to pay off the amortization payments on the unfunded liability. Fortunately, the unfunded is of some size that it is not being amortized. The Segal Company anticipates that the funding percentage will continue to decline and contributions will continue to rise. Mr. Joyner stated he and the City has had several discussions in the past about meeting the ADC. When the City gets closer to meeting the ADC, it will be less of a hit on the pension fund.

Mr. Joyner stated during the past year, the increase in the ADC went from 15% to 16% primarily due to two sources: 1) The contributions were not as much as the ADC wanted; that hurts the ADC and 2) There was an $18 million-dollar loss on the investment return, and that was primarily due to December 2018. The month of December 2018 was a bad month in the markets.

Mr. Joyner stated the funding percentage is still approximately 70% on the actuarial and market as of 2019. It was down a little bit from 2018. The funding percentage has been on the decline for several years; it is not falling off a cliff but it is gradual. The Actuarial Standards Board is debating to modify some of their rules, and the funding method used for the Retirement & Relief System may change. If a change occurs, the Segal Company will cross that bridge.

Mr. Joyner stated Mr. Burchell had mentioned the cashflows with the City of Birmingham Firemen's & Policemen's Supplemental Pension System. The cashflows for the Supplemental Pension System has been difficult for the past year and a half. House Bill #397 allows public safety personnel to retire and come back to work at the discretion of the City, if the position is needed. For whatever reason, the City had twice as many people hired under this option. The assumptions for the Supplemental Pension System was set back in 2015. This does not directly impact the Retirement & Relief System, but it does indirectly. The Supplemental Pension System has a different retirement pattern.

In the last year and a half, this pension plan had twice as many police officers retire much earlier in their service careers than expected. Mr. Joyner stated he had a discussion at length with the Supplemental Pension System Board Members earlier. It does not affect the Retirement & Relief System nearly as much, because the public safety personnel will go through their thirty years in the R&R which is about the same the R&R would have had anyway.

Mr. Joyner stated the market value of $1.042 million dollars in 2019 was a small decline from $1.055 million dollars in 2018; it is not nearly as difficult compared to other pension plains around the country. When final accounting is done and the Segal Company gets the receivables, the market value may not be hit as bad as what the Segal Company was thinking originally. From the City's perspective, they would have to book the net pension liability each year. The closer the City gets to paying the full ADC, the better the Net Pension Liability (NPL) number will look. On a funding basis, the NPL would have been $437 million dollars. On a General Accounting Standard Board (GASB) basis, the number would have been $931 million dollars at 4.97% discount rate. Due to the way GASB wants the numbers done, they want cities to use a blended rate if a city is not paying the full ADC. If the City was paying the full ADC, the number would be $444 million dollars. If the City's 12% contribution had been place in 2019, the NPL would have been $763 million dollars instead of $931 million dollars. As the City gets closer to paying the full ADC, each percentage point has a significant impact on the NPL numbers.

Mr. Joyner stated the active members went down 6%. It is an impact on the pension plan, because it produces future liabilities and reduces current contributions going into the plan. At some point, the City will have to decide what the right number of active members are in order provide services to the taxpayers in Birmingham, AL. Once that happens, this will give the Segal Company a better figure on the contribution rates. The forty-five public safety employees who retired and came back to work are continuing to make contributions, but they are not getting any additional accruals.

Board Member Wyatt gave Mr. Joyner an example stating if a firefighter retires with twenty-six years of service under the Supplemental Pension System, the Supplemental Pension System pays the full benefit to the Retirement & Relief System to maintain their full-service pension until the thirtieth year.

Board Member Wyatt asked Mr. Joyner if the firefighter comes back, will they pay into the Retirement & Relief System again. Will the City match it? If so, will the pension fund get some more contributions that will not increase the pension liability for the Retirement & Relief System? Mr. Joyner stated yes. Board Member Wyatt is correct. For the Retirement & Relief System, the contributions are still coming in. The extra contribution is when a person has been replaced. The Retirement & Relief System is losing a little bit of contribution because it was more salary when the person retired rather than working until twenty-six years or twenty-seven years, but that is not a big deal.

Board Member Wyatt stated it is not negative but if one hundred people pay into the Retirement & Relief System, there will be no increased benefit or no increased liability going into the fund. Mr. Joyner stated that is correct. The earlier retirements under the Supplemental Pension System make the cashflow more negative, as mentioned earlier by Mr. Burchell.

Mr. Joyner stated the market value continues to increase little bit on an annual basis, but there was a little bit of decline in the market in 2019. However, the decline has not been precipitously declining. It has been raking in minimal but instead of being leveled, there are no gains going towards the unfunded. It is staying at 70%, with a slight gradual decline.

Mr. Joyner stated the Retirement & Relief System had pretty good returns during the last ten years at 8.45%. As Mr. Burchell mentioned earlier, it may be difficult to achieve that in the bond market going forward. However, the past ten years has been pretty strong. The funding percentage is in the low seventies on an actuarial basis from 2013 to 2019, and it is starting to decline a little bit more. But, extra contributions are coming in from the City and hopefully the market will stabilize.

Mr. Joyner stated the Retirement & Relief System is still assuming 7.50%, which was set the last experience review in 2015 and 2016. It is time to do another experience review, and the Segal Company needs to get that completed before they do the July 1, 2020 evaluation. The 7.50% discount rate is now higher than the national average. The national average is approximately 7.25%. The 7.50% is not out of line, but it is on the high side. The Segal Company is not making any recommendations to go any lower, because they want to look at all assumptions at one time.

Mr. Joyner stated COVID-19 ran rapid over the investment markets in March 2020. Since that time, the markets did not recover everything but they recovered a significant amount. If COVID-19 has a 0% return in the July 1, 2020 valuation, the spread between the required contribution and what is being contributed would be even greater. This does not factor in a potential up-market in 2021. If there is a down market at zero, there would be an upmarket at 10% or 12%. The Segal Company has not done a whole lot of modeling at this point; they want to see what the impact of COVID-19 has done or might have done. Prior to COVID-19, the projection of the Retirement & Relief System would have had at 7.50% going forward for the year. The assets would actually continue to climb during the whole twenty-year period [2019 – 2039] in the projection period. With COVID-19, the projection would climb a little bit and start to trail off at a 0% return in the year end 2020 without a return to normalcy. It is not like the Retirement & Relief System is going to run out of money in the next twenty years or thirty years, but the COVID-19 scenario is a downer and it is not what the Segal Company would like to see. Pre COVID-19, the funding percentage had a twenty-year period that will gradually go from 70% down to 60% with all things being equal. With 0% return due to COVID-19, that will accelerate the percentage decline even though the assets do not seem to climb quite as much.

Mr. Joyner stated he is aware that the City has been working to pay the full ADC at some point. The contribution rate will level off a little bit above at 16%. The assets will continue to grow at that point because the City is building reserves for the future; the funding percentage would start to increase. Over the next twenty years, the pension plan will get up to 80% and keep going upwards when paying the full ADC.

Mr. Joyner stated the Board Members will need to consider that the Segal Company will need to do a full experience review in Fall 2020, and do the actuarial valuation in Spring 2021. The Segal Company will monitor what COVID-19 has done, and they will work with Mr. Burchell on getting an updated cashflow projection. Mr. Burchell will use the projection to make recommendations to the Board Members when pulling money from the cash operating account to pay pension obligations.

Mr. Joyner stated that concludes his report.

Chairman Woodfin asked the Board Members if they have any questions for Mr. Joyner.

Board Member Brundidge asked about the experience review. Mr. Joyner stated the Segal Company gathers data for the five-year period and looks to see if people are retiring when they are supposed to; if the mortality table is similar to the number of deaths each year; if the salaries are what the Segal Company is expecting; etc. In a five-year period, changes should not be made one year at a time because that can be too much fluctuation from year to year. Over a five-year period, the trend can set in and picked up as it is being done. The last study was done for the period ending June 30, 2015, and it is time do a study for June 30, 2020. It has always been the R&R Board Members' policy, as far back as Mr. Joyner can remember. The Segal Company also looks at investment return; inflation; and salary scale. Any assumption the Segal Company uses to try to determine what the future cost for the City is going to be, the Segal Company will study it.

Board Member Schultz asked if the discount rate was dropped to 7.00%, will it increase by 1.00%. Mr. Joyner stated the ADC will go approximately to 6.00%.

Board Member Schultz stated for clarity that would be on a $200 million-dollar payroll; this change alone would be an additional $6 million dollars. Mr. Joyner stated that is correct, however he is not sure as what might happen with the other assumptions.

Chairman Woodfin thanked Mr. Joyner for his presentation.

Chairman Woodfin asked about the recommendation presented to the Board to change the administrative procedure for repayment of workers' compensation offsets, as required by the Retirement & Relief System, as referenced on the agenda.

Chairman Woodfin asked if this item was discussed at last month's Board Meeting, as he was not in attendance.

Chairman Woodfin asked Ms. Jill Madajczyk, Director of Human Resources, if she is present at today's Board Meeting. Ms. Madajczyk stated she is present.

Ms. Madajczyk stated the change of the administrative procedure for repayment of workers' compensation offsets is under the Retirement & Relief System. If an employee has been injured on the job; receives workers' compensation; and ultimately applies for and receives Extraordinary Disability, the R&R plan calls for 100% repayment of the workers' compensation. The "now" retiree will not receive any funds. For instance, if the City had paid $10,000.00 in medical expenses and wages, the first $10,000.00 of pension payments will be paid back to workers' compensation which is part of the general fund. There have been several situations, and most recently, where there is a significant amount of money that is owed. The retirees approached the Human Resources Department and asked if they could go on a payment plan, because their pension check is their only source of income.

Ms. Madajczyk stated she and Mr. Jay Turner, Board Counsel, made a request to the R&R Board Members that Human Resources allow retirees who owe the City money be allowed to make payments on workers' compensation, as oppose to the Pension & Payroll Department taking 100% of their pension payment until such time they owe zero. Ms. Madajczyk and Mr. Turner also proposed that the City would be in effect turning a lump sum requirement into a payment over time and the repayment schedule would bear a 6.00% interest rate. For instance, if someone owes the City $10,000.00 based on the pension they may receive, Human Resources would say "pay us $125.00 a month for the next seven years and we will charge 6% interest on the outstanding balance".

Ms. Madajczyk stated there seems to be some confusion, as some individuals believe that the workers' compensation offset stayed with the pension plan. The offset is an offset to pay back what was paid out of workers' compensation before the individual was perceived to be totally disabled and unable to return to work. It is not money that the pension plan keeps, but it is money that goes back to the City's general fund.

Board Member Leonard stated Ms. Madajczyk is talking about money going into the general fund. It is Board Member Leonard's understanding that there is no transfer of any dollars from the R&R fund to the City's general fund. When a lump sum payment is made from workers' compensation, the employee will not see an Extraordinary Disability benefit until such time that lump sum payment is amortized or comes to zero; there is no actual transfer of moneys from the pension fund to the general fund.

Board Member Leonard asked Ms. Madajczyk if he is correct. Ms. Madajczyk stated she had asked for clarity on that from the Finance Department. The issue is whether or not the transfer has been occurring, but the pension fund would not have any rights to keep an offset based on workers' compensation because the retirement fund does not pay those funds.

Board Member Leonard stated that does not answer his question. Is there any transfer of moneys from the pension fund to the City's general fund? Ms. Madajczyk stated the Finance Department runs the payrolls, including pension payroll. It is Ms. Madajczyk's understanding that the pension payment is made and it is made back to the general fund. Ms. Madajczyk asked if Mr. Aaron Saxton, Deputy Director of Finance, or someone from the Finance Department to confirm during this teleconference call.

Board Member Leonard stated he asked the Finance Department too, and the answer is no.

Board Member Wyatt stated he was on the R&R Board along with Board Member Leonard when [past] Board Members passed this law. The City of Birmingham became a workers' compensation city based on a lawsuit filed years ago. Prior to that, the City was exempted from workers' compensation. The City now has to follow workers' compensation guidelines. The idea was not that the pension fund was going to repay the City for those benefits, but the idea was that the employee was not entitled to both. If an employee gets one, they will not be entitled to their 70% pension too. It was not the pension fund was going to supplement and pay the workers' compensation benefit. If a workers' compensation benefit was received, the employee would have to offset some of their 70% disability pension. The employee was not going to get both. It was not as if the pension fund was going to pay the workers' compensation benefit on behalf of the City; it is an offset but it is not reimbursed in the workers' compensation fund.

Ms. Madajczyk stated she guesses no one from the Finance Department is on the phone during this meeting, but she asked that specific question prior to making a presentation to the Board Members. The Human Resources Department still wants to present the change to the Board Members as an alternative, because there are several pensioners who have not received an income for several years because of workers' compensation payments are being made. The overwhelmingly majority are medical expenses and the individual does not have any source of income, while the City is offsetting that 100%. Over the last three months, the Human Resources Department had several pensioners approach them and asked if they could do a payment plan. Whether it would stay with the pension fund or be paid back to the general fund, the issue becomes something for the Board Members to consider. If so, would the Board Members want to charge interest? If that is the way it has been handled, it will stay with the pension fund. If there is an interest charge, it will be something that will go into the pension plan. The issue is that Human Resources is presenting the change, and felt it was not an unreasonable request from a pensioner to be allowed to make payments. In many situations, it is not cash that these individuals would receive in their hands. It is money that the City paid out on the individual's behalf. The individual may have received some workers' compensation wages, but they are also paying back medical bills that the City paid on their behalf.

Board Member Leonard stated he never thought medical bills that were incurred was always paid by the City, as a result of an injury. Before workers' compensation, the Extraordinary Disability benefit was a replacement of the person's income because they could no longer work. Ms. Madajczyk stated the City is self-insured under workers' compensation for medical expenses and wages.

Board Member Leonard stated it is his understanding that the pension fund never paid for medical expenses to begin with. Ms. Madajczyk stated the pension fund did not pay for the medical expenses, and it did not pay for the wages either.

Board Member Wyatt stated the lump sum payout is what the pension fund is offsetting. The pension fund is not offsetting any medical payments or anything else. Under the law, the only offset is the lump sum payout that a pensioner gets; that is what the pension fund is offsetting.

Board Member Wyatt stated as long as that money stays with the pension fund and is not transferred to the general fund like it has been done historically, he would like to make the motion to approve the offset to be amortized over whatever number of years the Finance Department thinks is appropriate and charge whatever interest rate they think is appropriate, as long as those moneys stay with the fund and the interest rate goes to the fund.

Board Member Leonard asked Board Member Wyatt who is making the loan. Board Member Wyatt stated the pension fund is not making a loan. The pensioner is supposed to pay it back all at one time. For example, if a pensioner gets $4,000.00 a month but owes $10,000.00, they would get a portion of the $4,000.00. A certain amount would be taken out every month also to reset the offset until the offset is paid off.

Board Member Leonard asked Board Member Wyatt who will get the interest income. Board Member Wyatt stated the R&R fund would get the interest.

Board Member Leonard stated at last month's Board Meeting, the Board Members were told that the City would get the interest income. Board Member Wyatt stated he and Board Member Leonard are talking about two different things.

Board Member Wyatt stated the way he is making the motion is for the money to stay with the pension fund, just like it always has been. The Board Members has never made a payment to the general fund out of the pension fund, and they are not going to start now. If the City wants to offset that reimbursement/repayment offset over a number of years, the pension fund would generate the interest.

Board Member Leonard stated he and Board Member Wyatt are on the same page, but Board Member Leonard stated he wants some assurance that the money will not be transferred from the Retirement & Relief System to the City's general fund.

Mr. Saxton stated the Finance Department looked at some examples, and he has never seen where funds were transferred to the general fund for Extraordinary Disability settlements. Mr. Saxton stated he believes when there was a settlement, the staff members would notate what the settlement amount was. The staff members would keep track of what the EOD payments would have been until the pensioner met that settlement amount, and the Finance Department would start dispersing checks at that point. At no point did the Finance Department find where funds had been transferred to the general fund, based on looking at the examples.

Board Member Leonard stated he will take what Mr. Saxton said as gospel truth. Board Member Leonard stated his discussion about moneys being transferred from the pension fund to the general fund is over with, because he is satisfied that is not what is happening.

Board Member Leonard apologize to Board Member Wyatt for taking so much time, and he is ready to entertain Board Member Wyatt's motion.

Board Member Wyatt acknowledged Board Member Schultz, prior to remaking his motion.

Board Member Schultz stated the statute does not say anything about reimbursement to the workers' compensation fund, when discussing the offset. It states "the offset is made by the pension fund". It does not mention paying anything until the offset is met. The statute does not give the pension fund any command to pay workers' compensation or the general fund back. The statute does not state anything about creating an indebtedness, and Board Member Schultz stated he is not sure the City can legally do that.

Board Member Wyatt stated the law mentions there would be an offset, but not an offset out of the pension fund at 100%. Board Member Schultz stated that is correct. If a person pays the offset back with interest, it will create an indebtedness. Board Member Schultz stated he is not sure if the statute allows that, but Ms. Madajczyk can do the research. At this point, the pension fund will take on a risk under this new administration. Board Member Schultz stated he is fine with that risk, but the Board Members will have to acknowledge that there is a risk.

Mr. Turner stated he wants to address the pension plan creating an indebtedness, as it was discussed at last month's Board Meeting. The plain reading of the pension plan is that the amount would be repaid in full without some elaborate payment; that is the most conservative approach the Board Members can take. The statute will be taken at its plain reading. However, Mr. Turner stated he thinks it does offer flexibility because it does not dictate the terms of how that repayment must be made. Mr. Turner stated he thinks the Board Members have flexibility within the statute.

Board Member Wyatt stated the interest rate is irrelevant to him. If Board Members charge it, it would be good for the pension fund as a guaranteed interest rate on some money. If the Board Members do not do it, it would not hurt Board Member Wyatt's feelings either.

Board Member Wyatt made the motion for the Finance Department and Pension Administration to allow the repayment of the workers' compensation offset to be amortized over whatever period they feel necessary to do it.

Board Member Leonard seconded the motion.

Board Member Brundidge asked if there is a statute, can the Board Members read what it says specifically vs. the Board Members trying to get an interpretation. Board Member Brundidge also asked for a roll call vote if the Board Members vote on this.

Board Member Schultz stated the statute is under the Alabama Code. Mr. Turner is right about the plain reading of the statute not having any provisions about paying the general fund back or workers' compensation. It states "the pension fund cannot offset the workers' compensation amount that is paid". Mr. Turner had mentioned that the statute does not say how to do that. It would be under the Board Members' jurisdiction as to how it is administered, and it can be administered the way the motion is presented. Board Member Brundidge thanked Board Member Schultz.

Board Member Brundidge asked for a roll vote.

Chairman Woodfin stated he understands Board Member Brundidge wants a roll call vote, but he wants to make sure the other Board Members have the chance to speak to this issue.

Board Member Luke stated he wants to read the statute for himself.

Board Member Schultz stated it is Alabama Code § 45-37a-51.226, b5.

Chairman Woodfin asked the Board Members if there is any further discussion.

The Roll Call vote went as follows:

Steven A. Schultz, Member No. 4: AYE

Ronald Vaughn, Member No. 9: YES

Dale Wyatt, Member No. 7: YES

Martin P. Leonard, Member No. 3: AYE

Kasandra Brundidge Member No. 8: NO

Otis Luke, Member No. 6: YES

Randall Woodfin, Chairman: YES

Chairman Woodfin stated the MOTION PASSES.

Chairman Woodfin stated he will be calling the Board Members at some point, prior to the next month's Board Meeting.

Board Member Wyatt made the motion to adjourn. Board Member Leonard seconded.

There being no further discussion, the Board Members APPROVED to be adjourned.

ATTEST:

Lorren Oliver **Secretary**	**Randall Woodfin** **Chairman**