

Minutes of the City of Plano Retirement Security Plan Committee

May 18th, 2006

The City of Plano Retirement Security Plan Committee met in regular session on May 18th, 2006 at 8:30 am in the Building Inspections Training Room of the Plano Municipal Center. Committee members present were Karen Rhodes, Kien Liew, and Ron Timmons. Committee members absent were Mike Busch and John McGrane. City staff present was Darlene McAndrew from Human Resources and Tom Muehlenbeck, City Manager. Guests present were Leon Andrus from U.S. Trust.; Diane Wetherbee from City of Plano Legal department; Citizen Steve Doud; Mark Randall, Julie Nguyen, and Tahir Islahi from Gabriel, Roeder, Smith and Company.

I. The meeting was called to order by Vice Chairman Ron Timmons at 8:40 am.

II. General Discussion

There were no outside speakers

III. Approval of minutes from the October 20, 2005 and February 2, 2006 meetings

Upon a motion by Member Liew, seconded by Member Rhodes, the October 20, 2005 and February 2, 2006 meeting minutes were unanimously approved.

IV. Quarterly Appraisal Report by U.S. Trust

Leon Andrus provided a handout containing the RSP Summary Investment Performance for the first quarter of 2006. The current asset allocation and estimated income demonstrated an increase in the equity market with a strong increase of 10% in the international market.

There were some purchases and sales in the portfolio during the first quarter. United Parcel Services was added to the portfolio. Dupont and Microsoft were sold during the first quarter. Lehman Intermediate and Gov't./Corp. Bond Index were two bonds purchased in the first quarter

Overall the international stocks performed well in the first quarter. They are up about 12.7% and are doing well compared to the world markets.

The market caps and guidelines revealed a breakdown of the individual holdings for the first quarter. Currently the small cap stocks are at 7.6%. It is best to keep small cap stocks low since they have been affected and may continue to do so. Generally the small cap stocks perform well. The medium cap stocks are at 47.2% while the large cap stocks are at 45.3%.

The Sector Weightings for the first quarter revealed a -10.5% with Sysco due to the company's issues with delivery.

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The S&P 500 Forward P/E Ratio Against Y-o-Y Core CPI Since 1970 reviews trends. As interest rates and inflation go up, the P/E ratio (the market) goes down and vice versa. It is not a pure linear relationship. If the inflation rate is at 4-5% then interest rates could be 5-6%, affecting the valuation of the market which could drop from 15% to around 12% with some moderate risk in the P/E ratio.

V. Ratification of the payment to U.S. Trust

Motion by Member Liew, seconded by Member Rhodes, the committee unanimously ratified payment to U.S. Trust in the amount of \$30,184.00 for services rendered for the period beginning January 1, 2006 through March 31, 2006.

VI. Ratification of payments Gabriel Roeder

Upon a motion by Member Liew, seconded by Member Rhodes, the Committee unanimously approved payment to Gabriel, Roeder, Smith & Company in the amount of \$16,175.00 for the billing period of January – February 2006.

VII. Ratification of payments to participants:

Name	Amount	Payment Method
Ball, Rebecca	\$1,408.27	Lump Sum
Black, David	\$3,854.68	Rollover
Alain, Charles	\$5,845.65	Lump Sum
Clark, Patricia	\$605.97	Monthly
Demara, Lacey	\$993.50	Lump Sum
Duke, Carlton	\$153.71	Monthly
Gurley, Angela	\$87.09	Monthly
Hall, Eileen	\$333.54	Monthly
Hamilton, Sabrina	\$10,267.20	Lump Sum
Kargol, Kathy	\$421.66	Monthly
Keylon, Linda	\$1,219.37	Monthly
Kyles, Joyce	\$622.50	Monthly
Lorenz, Janet	\$3,975.22	Rollover

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Matherlym, Glenn	\$110.41	Monthly
McCluskey, Judy	\$5,955.17	Lump Sum
Miller, Connie	\$599.96	Lump Sum
Moorer, Ruth	\$8,181.48	Lump Sum
Newell, Barbara	\$640.02	Monthly
O'Neal, Carol	\$171.17	Monthly
Orr, Vanessa	\$3,446.11	Lump Sum
Peterson, William	\$1,182.68	Monthly
Privett, Sonny	\$6,289.12	Rollover
Ragsdale, Jerry	\$149.37	Monthly
Rednour, Jeremy	\$550.25	Lump Sum
Roys, Ernest	\$594.75	Monthly
Taylor, Clare	\$9,714.71	Rollover
Udnerbrink, Charlene	\$2,985.12	Lump Sum
Yarbrough, Debra	\$1,496.67	Rollover

VIII. Plan Amendments

City Attorney Diane Wetherbee led discussion regarding the option for terminated participants who do not make an election. Mrs. Wetherbee provided recommendations from our tax consultants regarding the IRS regulations. There are currently two options stated in the plan document for employees:

- Option #1- Lower the 'cashout threshold' from \$5,000 to \$1,000; any benefit valued above \$1,000 may not be distributed without Participant consent. Such benefits are maintained in the Plan until the Participant later requests distribution (or distribution is mandated at age 70 ½).
- Option #2 – Adopt 'automatic rollover' procedures. Any benefit valued in excess of \$1,000 but not to exceed \$5,000 must be rolled to an IRA on behalf of the Participant, if the Participant does not request distribution. Plan must establish a written with a financial institution for the acceptance and administration of such IRAs.

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Upon a motion by Member Rhodes, seconded by Member Liew, the committee unanimously approved to adopt option #2, 'automatic rollover' procedures for terminated participants who do not make an election.

IX. Consideration of IRS provision allowing payouts of sick/vacation leave to be considered compensation

This is a new regulation set by the IRS effective in 2006 that would permit the City of Plano to count as 'compensation' (for benefit calculation purposes) any accrued sick and vacation pay that is paid within 2 ½ months after termination of employment. If the committee decides not to rule in favor of the new non-mandatory IRS regulation, then the calculation would remain as is. This is something that can be decided later. In the absence of a motion we will move along.

X. Actuarial Valuation Report by Gabriel, Roeder, Smith

Mark Randall presented the Actuarial Valuation as of December 31, 2005, using member data, financial data, benefit and contribution provisions, actuarial assumptions and methods as of this date.

Valuations are performed biennially with the intent to measure the actuarial liabilities, determine the 30 year level percent of pay contribution rate, provide other information for reporting (GASB), explain changes in the actuarial condition of the Plan, track changes over time, and warn about potential future problems and issues.

Some key issues and changes indicate investment losses in 2002, 2004 and 2005 yet our target interest rate is at 8% therefore if a fund does not meet this requirement, a loss is generated. The post-retirement mortality table changed from the UP-1984 (Unisex Pensioners) to the RP-2000 (Retirement Protection). There have been no changes to benefit provisions.

The number of active members has increased from 1,908 to 1,952 since December 31, 2003 averaging a 1.1% annual increase. Payroll for active members increased 8%, from \$89.8 million to \$97.0 million over the past two years while the average pay for active members increased from \$47,090 to \$49,703, averaging 2.7% annually. The average age of active members is 43.0, compared to 41.9 as of December 31, 2003. As of December 31, 2003 the average years of service are 8.8 compared to today at 9.4 years.

The number of active retirees and their beneficiaries increased from 203 to 249 since December 31, 2005 for an average annual increase of 10.8%. The average annual retiree benefit is \$3,600. There are 7.8

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active members for each retiree which is a decrease from 9.4 two years ago.

The assets for fair market value increased from \$46.3 million to \$55.1 million with a return on market value of assets at approximately 5.58% annually since December 31, 2005. All actuarial calculations are based on actuarial assets and the actual return. The rate of return on market value of assets is around 8% with 10, 20, 30 year periods and based on the probability of when people will retire (reference page 6, table 12). The actuarial value is currently \$56.6 million, compared to \$48.9 million at December 31, 2003 and the annual actuarial return was 4.3%. The actuarial value is 102.7% of the fair market value. The historical asset values show the market values were congruent with the actuarial values through 2001 where a slight increase in actuarial values due to the market value not making 8% standards.

City Manager, Mr. Muehlenbeck recommended city council be provided a yearly RSP report as well as provide a copy of the valuation report.

XI. Other Business

▪ Election of Chairman

This was an error in the agenda as it is a council appointment.

▪ Appointment of Secretary to the Committee

Upon a motion by Member Liew, seconded by Member Rhodes, the Committee unanimously approved Christine Donald as Secretary to the Committee.

XII. Adjournment

Upon a motion by Member Liew, seconded by Member Rhodes, the Committee adjourned at 10:35 am.

Respectfully Submitted,

Christine Donald
Plan Secretary