

**Minutes of the City of Plano
Retirement Security Plan Committee
October 21, 2004**

The City of Plano Retirement Security Plan Committee met in regular session on October 21, 2004 at 3:00 p.m. in the Building Inspections Conference Room of the Plano Municipal Center. Committee members present were Kien Liew, Karen Rhodes, Ron Timmons, and John McGrane. Committee member Mike Busch was absent. City staff present was Darlene McAndrew from Human Resources. Guests present were Leon Andrus from U.S. Trust, and Karen Mann and Ed Peschke from JP Morgan (Bank One).

I. The meeting was called to order by Chairman Liew at 3:05 p.m.

II. Approval of Minutes

Upon a motion by Member Timmons, seconded by Member Rhodes, the July 15, 2004 meeting minutes were unanimously approved.

III. Quarterly Report by JP Morgan

Karen Mann introduced Mr. Ed Peschke who will now be responsible for working with our Retirement Security Plan. Ms. Mann has moved to a different area of responsibility within JP Morgan. Karen Mann stated that as of 6/30/04, the market value of the plan was \$47,470,744. There was \$657,887 in contributions which included employer contributions of \$647,021, a redeposit of a check plus two class action lawsuit settlements which totaled \$10,866. There was \$269,512 in withdrawals which included 160 monthly pensions, 5 lump sum distributions, the quarterly custody fee of \$7,919, actuarial fee of \$18,466, and investment management fee of \$26,526. There was a gain of \$344,113. Interest and dividends reflected \$332,625. Unrealized gain/loss for the quarter was (\$1,560,621). The total value with accrued income on 9/30/04 was \$47,130,562.

IV. Quarterly Appraisal Report by U.S. Trust

Mr. Andrus reported the market value of the portfolio reflects that we have a little more in cash than usual. Within the next couple of weeks the cash will be shifted into short-term bonds. The total plan was down 2% in September. The primary reasons for this were equities were disappointing, health care had a tough quarter, and technology stocks were also difficult, but they appeared to be doing better in October. In the consumer discretionary, there were some stocks that were difficult. Bonds did well in the quarter.

The RSP total for the 3rd quarter ending 9/30/04 was down -2%, year-to-date is down -0.6%, and the 12 months ending 9/30/04 is up 8.5%. The portfolio consists of 9% small cap funds, 37% Medium cap funds and 54% large cap funds. SYSCO Corporation is a new purchase, and some of the oils have been trimmed since they appear to continue to be rising in cost.

The diversification of the portfolio shows technology and health care are over weighted. Mr. Andrus continues to believe technology is under valued in today's market. Texas Instruments is doing very well, but the stock does not necessarily

reflect that. The technology companies have very good financial statements, and their businesses continue to do well, but there is still considerable skepticism as to when this may end and whether 2005 will continue to be good.

Health care stocks are reasonably valued because they have not performed very well. Numerous drugs are coming off patent so the competition is greater. People have concerns that the pharmaceutical industry may have many changes over the next ten years which may affect companies' growth rates.

Mortgage rates are continuing to stay low based on the 10 year Treasury bonds. Typically bond yields go down when bond investors are concerned about the economy. Mr. Andrus prefers 10 year treasury yields move back up to 4.25 or 4.5 to indicate there is some strength likely to occur in the economy.

Bond portfolio – Quality is the same, BBB bonds remaining in the portfolio are Ford and GM. Ford bonds mature in August of 2005. Member Rhodes inquired about what Mr. Andrus thought about Merck. Leon Andrus expressed that they will hold it currently, the yield is 5%. Merck obviously will encounter numerous lawsuits, a potential risk down the road. Over the next year or two there may be a lot of volatility, so we may want to get out of them temporarily and return once they stabilize.

Mr. Andrus feels that the oil price will continue to be the biggest factor in the market from now until the end of the year. The election will be a factor, but probably only on a short-term basis. If the United States were to encounter another 9/11 type of attack, the market should not be down like it was then. It has adjusted somewhat to be better able to handle that type of situation if it occurs. Mr. Andrus stated that they recommend to their clients to be in a more conservative position in their overall asset allocations because if there is another 9/11, they want to have part of their portfolio set aside in a conservative manner so they can use that for liquidity or cash flow needs so they don't have to sell stocks at low prices. Mr. Andrus, Karen Mann and Edward Peschke left the meeting.

V. Review of Plan Document and Benefit Calculations

Referring to the proposal for a Comprehensive Plan Administration Review of the Retirement Security Plan by Gabriel, Roeder, Smith & Company Darlene McAndrew stated that we would provide GRS with the various benefit calculations under each scenario, and they would check it for consistency and correctness and be sure it is in compliance with the plan document. The database report is pulled from PeopleSoft, and that report is sent to GRS for them to produce the statements. We have previously run into some glitches with the People Soft system, but internally we are working on these problems. The problems have to do with the conversion of the old Cyborg system to the new PeopleSoft system. The benefit statements are produced every spring, and the evaluations are done every other year. Darlene believes that the review of the benefit distributions is the same as benefit calculations. The calculation is performed by speaking with either the retiree or terminated employee. They make their election on an election form and it is signed and we process it through

the bank. Darlene thinks perhaps GRS wants to know what the City's process is for benefit distributions. The bank handles all payments to the retirees/terminated employees. The bank will only take the information from authorized City personnel, not the retiree/terminated employee directly. The bank continues to pay the participant until the City notifies them otherwise. GRS also suggested they would review the Investment Policy if the Committee desires. Darlene recommends the plan document be reviewed to make sure our plan is up to date as far as possible new laws that may have gone into effect. She also recommends GRS review the benefit calculations and provide clarification on what part of the plan document they would be reviewing. The Committee agreed with Darlene's recommendation.

VI. Ratification of Payment to U.S. Trust

Upon a motion by Member McGrane, seconded by Member Timmons, the Committee unanimously ratified payment to U.S. Trust in the amount of \$26,526.00 for services rendered for the period beginning July 1, 2004 through September 30, 2004.

VII. Ratification of Payment to Gabriel, Roeder, Smith & Company

Chairman Liew recommended making sure the computer system glitches from last year are fixed prior to running the next benefit statements. Upon a motion by Member Timmons, seconded by Member McGrane, the Committee unanimously approved payment to Gabriel, Roeder, Smith & Company in the amount of \$7,471.00 for July 2004.

VIII. Ratification of Payment to Participants

Upon a motion by Member McGrane, seconded by Member Rhodes, the Committee unanimously ratified payment to the following participants:

*Andrews, Scott R.
Brown, Jean
Farmer, Timothy
Gunn, Rosa
Kellum, Glen
Mower, Ernest R.
Odom, W. Kyle
Smithey, Jason
Stae, William Curt
Tawwater, Sherrie
Ware, Anthony Sr.
Weaver, Eric
Wesson-Grimes, Bettie*

IX. Other Business

Chairman Liew stated that from the last RSP meeting it was determined for Total and Permanent Disability the Plan pays 60% of current or average minus TMRS even beyond the age of 65. Darlene asked Roger Arokiam if GRS was valuing that in the evaluation. Roger Arokiam's answer was the evaluation was done in accordance with the plan document. Darlene McAndrew stated that the City

currently has about 10 or less employees on disability. The City had an outside company do a review of the City's supplemental plans, Mr. Al DiCristofaro with The Retirement Store. He didn't do a review of RSP, but they discussed this issue. After some research, Al said he was not aware of any standard market outlets that could provide this type of coverage. He suggested possibly looking into non-standard insurance companies such as Lloyd's of London. Darlene stated that she had spoken to several insurance carriers and the consensus was the same, they could not or would not write such a policy. Darlene also contacted the City's life insurance broker and he said he will continue to do some research and will let Darlene know if he finds something.

Member Timmons stated he had two conflicts with the 2005 meeting schedule, April 21 and July 21. The Committee decided to move the meetings to April 14th and July 28th, pending room reservations.

X. Adjournment

The meeting was adjourned at 4:20 pm.

Respectfully submitted,

Cathy Persons
RSP Plan Secretary