

**Police Pension Fund**  
**Board Minutes**  
**Of**  
**December 13, 2007**

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**PRESENT:** Thomas M. McMahon, David M. Cituk, Ryan Hottenstein, Kevin L. Rudy, William Heim, Michael A. Fizz, Louis R. Rizzuto (Solicitor), Toyia Reed (HR Coordinator/Pension)

**ABSENT:** None.

**ORDER:** Meeting was called to order by Mayor, Thomas McMahon @ 10:05 A.M.

**PRESENTER:** **1. Nick Yaniello – Wachovia Securities**  
**Re: Portfolio Performance Review**

Mr. Yaniello presented the members of the board with the recommendations for both Small and Mid Cap Managers to be added to portfolio. He asks that the material be reviewed and ready to be discussed at the next meeting. Board member, Kevin Rudy asked Mr. Yaniello to inform the board of the current portfolio value. Mr. Yaniello did not have that information available.

**2. Robert LaMontagne – Milliman Consultants & Actuaries**  
**Re: COLA Proposal**

At the October Pension Board Meeting, Mr. LaMontagne was asked to provide the cost of providing an ad-hoc cost of living increase to certain retirees and beneficiaries. He provided the board with two scenarios. Both scenarios were essentially patterned in the same manner as the cost of living increase that was given in 2001. Mr. LaMontagne tried to maintain some equality in terms of how much of the increase in the overall cost of living was going to be and consistent with the amount of COLA that was being proposed. For example, in the 2001 COLA there was a 32.50% increase in the pension benefits for the retirees. Anyone who retired prior to 1980 was given a 32.50% increase and that represented approximately 25% - 26% of the total increase in cost of living from 1980 -2001. The approach that was taken in the current proposals was by taking the 25% - 26% total increase in cost of living and replaced it with 30% - 35% and then applied that to the increase in the cost of living from 1980 – 2007. The first scenario would provide increases as follows:

Prior to January 1, 1980	13.16% increase
1/1/1980 – 12/31/1984	9.08% increase
1/1/1985 – 12/31/1989	7.17% increase
1/1/1990 – 12/31/1994	4.97% increase
1/1/1995 – 12/31/1999	1.99% increase
1/1/2000 – Present	0.00% increase

This first scenario would increase the plan liabilities by \$1,540,000. This increase in liability will be amortized over a 10 year period, as required under state law, which will increase the Minimum Municipal Obligation by \$209,000 each year for the next 10 years.

The second scenario would provide increases as follows:

Prior to January 1, 1980	19.32% increase
1/1/1980 – 12/31/1984	13.09% increase
1/1/1985 – 12/31/1989	9.95% increase
1/1/1990 – 12/31/1994	6.66% increase
1/1/1995 – 12/31/1999	1.99% increase
1/1/2000 – Present	0.00% increase

This second scenario would increase plan liabilities by \$2,113,400. This increase in liability will be amortized over a 10 year period, as required under state law, which will increase the Minimum Municipal Obligation by \$286,500 each year for the next 10 years. Board member, David Cituk asked Mr. LaMontagne if the increase in plan liabilities from either the first or second scenario be funded by the municipality, City of Reading, or general taxpayers if the plan falls short of its actuarial assumption or the investment policy? Mr. LaMontagne informed the board that these numbers for each scenario are based upon the anticipation that the Police Pension Plan will earn the 7.5% rate of return in moving forward. The plan will have to earn in excess of 7.5% rate of return to allow any of these additional costs to be paid for. Mr. Cituk just wanted to clarify that if the plan does not earn the 7.5% rate of return that the additional cost is fully the responsibility of the taxpayers and this municipality, City of Reading. If the plan would exceed the 7.5% rate of return would that eliminate any municipal responsibility? The MMO will remain the City of Reading's obligation regardless of the rate of return of the fund. Mr. LaMontagne informed the board that the MMO would be reduced if the fund was to exceed its 7.5% rate of return. If the fund would not earn the 7.5% rate of return the MMO would be increased. Board member, Kevin Rudy asked Mr. LaMontagne if he took the mortality rate into consideration when calculating the figures for either COLA scenario. Mr. LaMontagne informed the board that the analysis was done using the retirees who were alive and receiving their benefits along with their beneficiaries as of January 1, 2007. Mr. Rudy wanted to clarify that no mortality rate was used at all. Mr. LaMontagne informed the board that his firm does anticipate future mortality when computing this analysis. There were deaths that were anticipated to occur during 2007, during 2008, etc. These estimates were based on the census data, the actuarial assumptions and methods, and the plan provisions (except for the potential ad-hoc increase) reflected in the January 1, 2007 actuarial valuation. Mr. LaMontagne informed the board that if the COLA was to be effective in 2008 or even 2009; the cost would be slightly lower because the cost would apply to fewer retirees. Mr. Rudy, asked Mr. LaMontagne, based on the estimates presented, would the Police Pension Fund be able to support the COLA as

stated in the first scenario? Mr. LaMontagne stated that it all comes down to the fact that it is going to increase the minimum municipal obligation by \$209,000 and it is a question of whether or not the City of Reading can afford the additional contributions to the police pension fund. Mr. LaMontagne feels that the Police Pension Fund is pretty well funded with the pension bond issuance; although it is not fully funded. Therefore, any additional costs on top of the current plan would have to be paid for by using additional dollars. Board member, Sgt. Michael Fizz stated that last month, Mr. Barilani, informed the board that historically (1926 -1941) the rate of return has been 7.9%. Currently, the Police Pension Fund must remain at a rate of return of 7.5% to cover current costs. Sergeant Fizz asked how much is \$209,000 out of that .4%? Mr. LaMontagne informed the board that the 7.5% rate of return is the investment return after the investment expenses have been paid off. Any excess interest earnings on the fund may go towards the cost of the cost of living increase. Board member, Ryan Hottenstein clarified that the increased liabilities of \$1,540,000 is in addition to the already \$7.09 million unfunded liability. The Minimum Municipal Obligation is paid to the Pension Fund by the City of Reading. Board member, Chief William Heim, questioned if he was correct in thinking that this Board doesn't have the ability to grant a Cost of Living Increase without City Council's approval. Really anything that is done at the pension board meeting is a recommendation for City Council to take into consideration. Board Solicitor, Louis Rizzuto, informed the board that once City Council approves the cost of living increase; it would be up to the police pension board to implement it. Councilman Stratton Marmarou asked that the members of the Police Pension Board submit their recommendation to City Council to consider approval of a cost of living increase for the retirees of the Police Pension Fund. Board President, Mayor McMahon suggests that the members of the Board pass this issue along to City Council with a recommendation to consider a cost of living increase. **MOTION** by Cituk/Rudy to forward from the Police Pension Fund Board to City Council and Administration, Cost of Living Increase Scenario #1...**MOTION PASSED UNANIMOUSLY**

**MINUTES:**

**MOTION** by Heim/Fizz to approve the minutes dated November 8, 2007.....**MOTION PASSED UNANIMOUSLY**

**FINANCIAL REPORTS:**

**MOTION** by Cituk/Fizz to approve the following financial Reports ...**MOTION PASSED UNANIMOUSLY.**

Financial Report	November 2007
Statement of Transactions	November 2007

**BILLS:**

**MOTION** by Hottenstein/Heim to pay the following bills.....  
**MOTION PASSED UNANIMOUSLY.**

1. Lou Rizzuto – Legal Fees	\$ 1,097.50
2. Milliman	\$ 9,300.00
3. Invesco	\$ 9,888.88

**APPLICATIONS:** None.

**D.R.O.P.**

**APPLICATIONS:** None.

**REFUNDS:** None.

**CORRESPONDENCE:**

**1. Criminal Investigator John Lackner  
 Re: Civilian Buyback**

Criminal Investigator Lackner submitted a letter of intent to buyback five years of Civilian Service Via payroll deduction of \$5.00 per pay and a copy of the buyback calculation. **MOTION** by Rudy/Cituk to accept the correspondence as presented...**MOTION PASSED UNANIMOUSLY**

**OLD BUSINESS:**

**1. D.R.O.P. Manual Update**

Solicitor Louis Rizzuto informed the members of the board that the DROP manual is done and ready for distribution.

**2. Calendar Year**

The recalculations have not been completed for the affected persons. Board member, Kevin Rudy asked Toyia to calculate some figures as presented to the members of the board. Mr. Rudy states that in this presentation it should illustrate the cost if the board were to recalculate the calendar year for all current retirees. The total difference is \$22.14 per month for (4) randomly selected retirees who retired between the years of 1980-1990 and 1990-2000. **MOTION** by Rudy/Hottenstein to have members of the board study the cost to have the calendar year be enacted for all retirees as it was for the previous (21) people that were affected and corrected...**MOTION PASSED UNANIMOUSLY**

**3. Board Elections**

A notice of the board elections was sent to both active and retired members of the Police Pension Fund to solicit nominees for (1) active representative and (1) retired representative.

**NEW  
BUSINESS:**

**1. Board Elections**

**Re: Poll Watchers**

Harry Storch and Jess Cwiklinski have volunteered to work the polls for the election of the Police Pension Fund Board on January 4, 2008. **MOTION** by Rudy/Cituk to pay \$150 to both Harry Storch and Jess Cwiklinski to be poll watchers from 7:00 am – 7:00 pm in Council Chambers for the upcoming election....**MOTION PASSED UNANIMOUSLY**

**2. DROP Dates**

**Re: Correction**

Officer Craig Christman asked the members of the board if the issue of the incorrect dates on some of the DROP applications were corrected due to the FOP Bargaining Agreement requiring all bargaining unit members to retire upon the completion of thirty (30) years of service effective January 1, 2008. Toyia will work with Sgt. Fizz to correct the incorrect dates.

**3. Kevin Rudy – Board Member, Retired Representative**

**Re: Last Meeting**

Today is the last meeting that Board member, retired representative; Kevin Rudy will serve on the Police Pension Fund Board. He has served for seven (7) years on this board. He will not be running in the upcoming election. The members of the board expressed their appreciation of all the hard work and time he put in.

**ADJOURNMENT:** **MOTION** by Cituk/Fizz to adjourn @ 10:55 A.M.

Respectfully submitted: \_\_\_\_\_  
HR Coordinator/Pension