

Creating An Investment Policy for Employee Pension Plans

Preparing for Our Future
Financial Sustainability

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Background

- The City of Frederick does not have an Investment Policy for employee pension plans
- Recent performance has been volatile
- All three plans are underfunded according to Government Finance Officers Association (GFOA) guidelines

Issues Raised

- Lack of **process** and the associated fiduciary implications. An undocumented Investment Policy Statement, no Investment Committee until recently, no Independent Consultant.
- **Asset allocation** that may not be ideal for a \$70M institutional public pension plan.
- **Investment management** that is 100% ING's think tank, as opposed to best-in-class "open architecture."
- Challenged **performance**.

Schedule of Funding Progress – Pension Plans¹

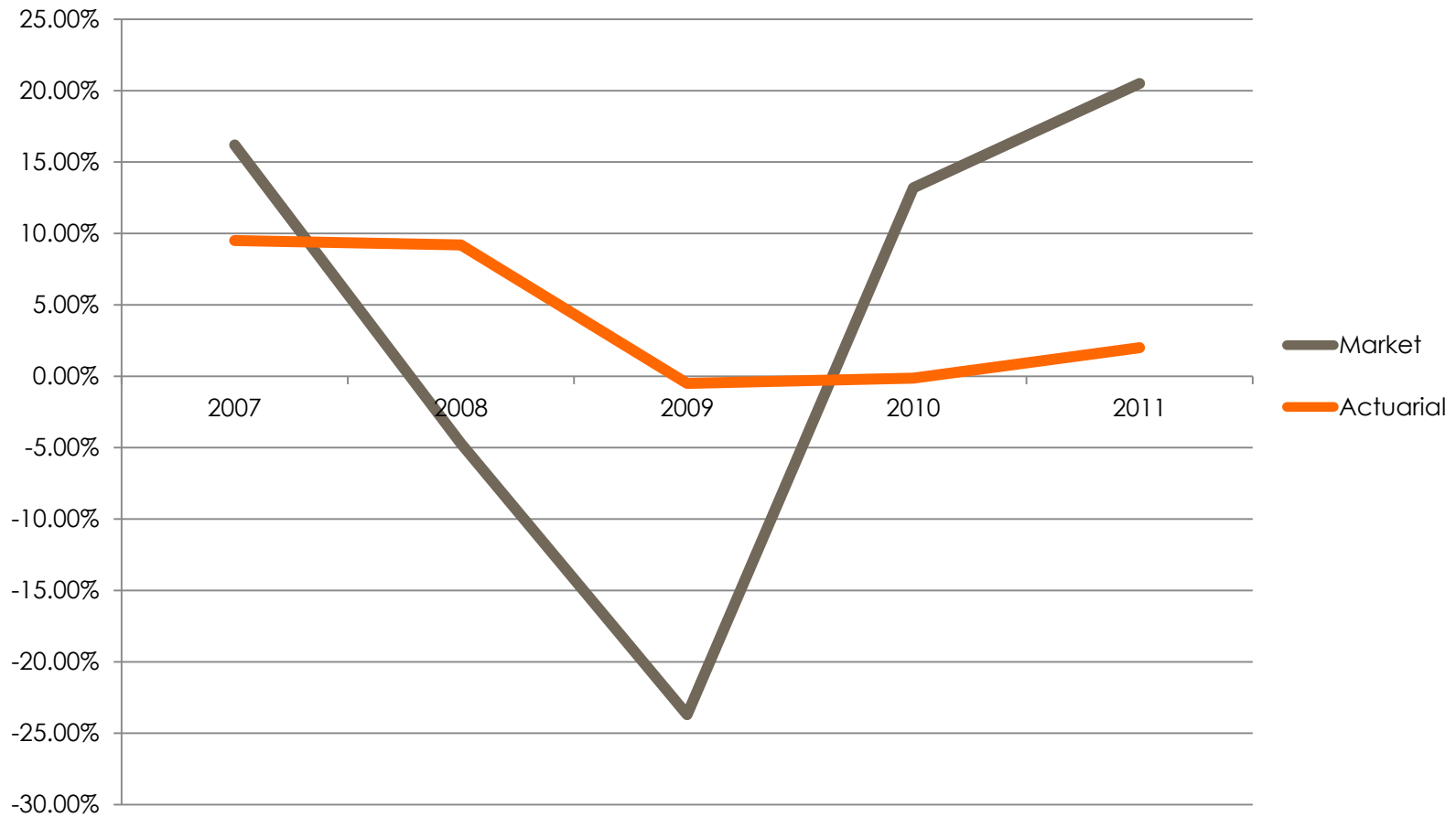
	Unfunded Actuarial Accrued Liability	Funded Ratio
30-Year Plan	\$ 11,591,240	47.74%
25-Year Plan	40,481,213	45.22%
22-Year Plan	39,809,291	51.49%
TOTAL	\$ 91,881,744	

¹CAFR FY 7/1/10 - 6/30/11

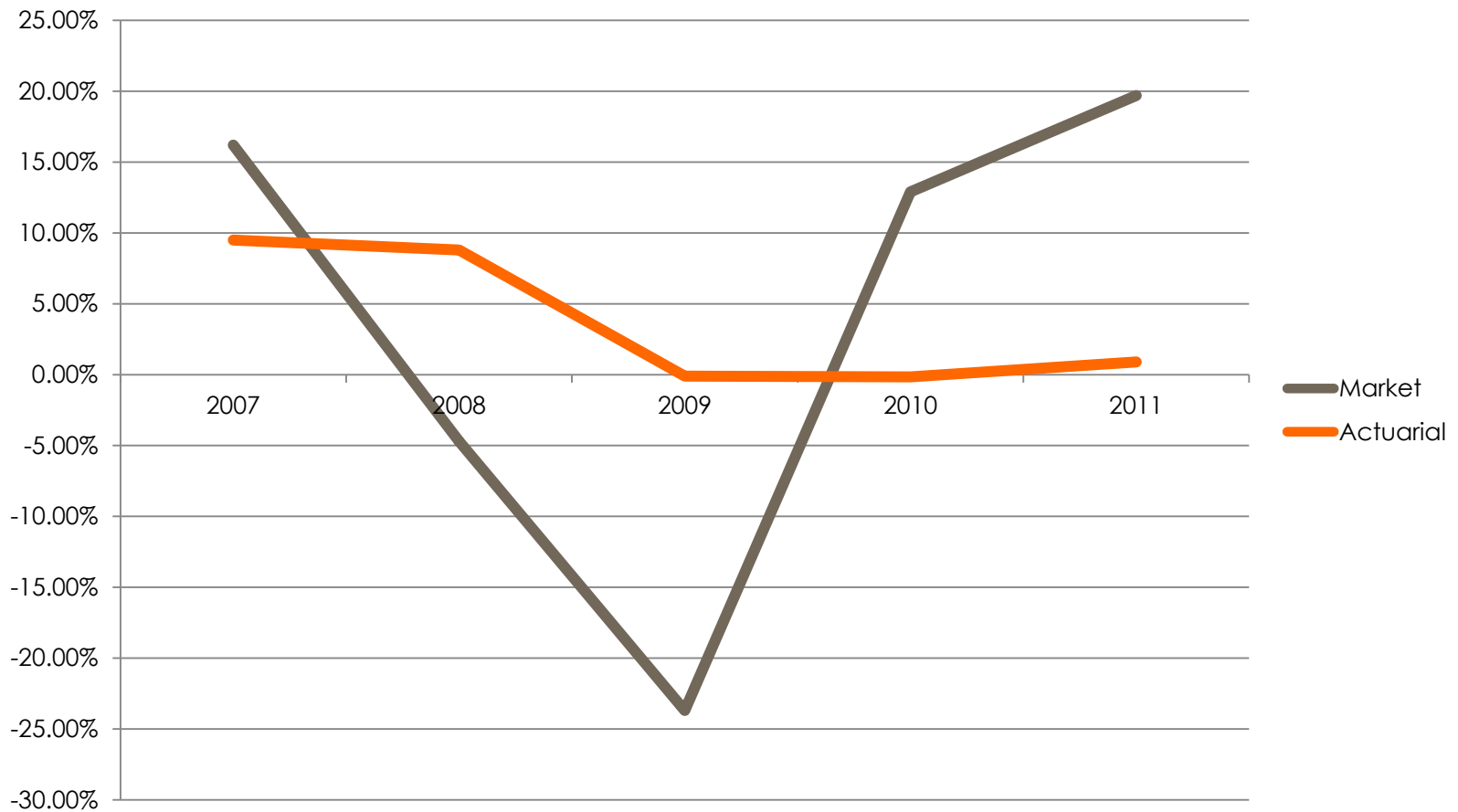
Annual Rate of Return on Pension Investments

		30 Year	25 Year	22 Year
2007	Market	16.20%	16.20%	16.70%
	Actuarial	9.50%	9.50%	10.30%
2008	Market	-4.70%	-4.70%	-4.70%
	Actuarial	9.20%	8.80%	7.80%
2009	Market	-23.70%	-23.70%	-23.70%
	Actuarial	-0.50%	-0.10%	0.20%
2010	Market	13.20%	12.90%	13.50%
	Actuarial	-0.13%	-0.15%	-0.50%
2011	Market	20.50%	19.70%	20.50%
	Actuarial	2.00%	0.90%	2.80%

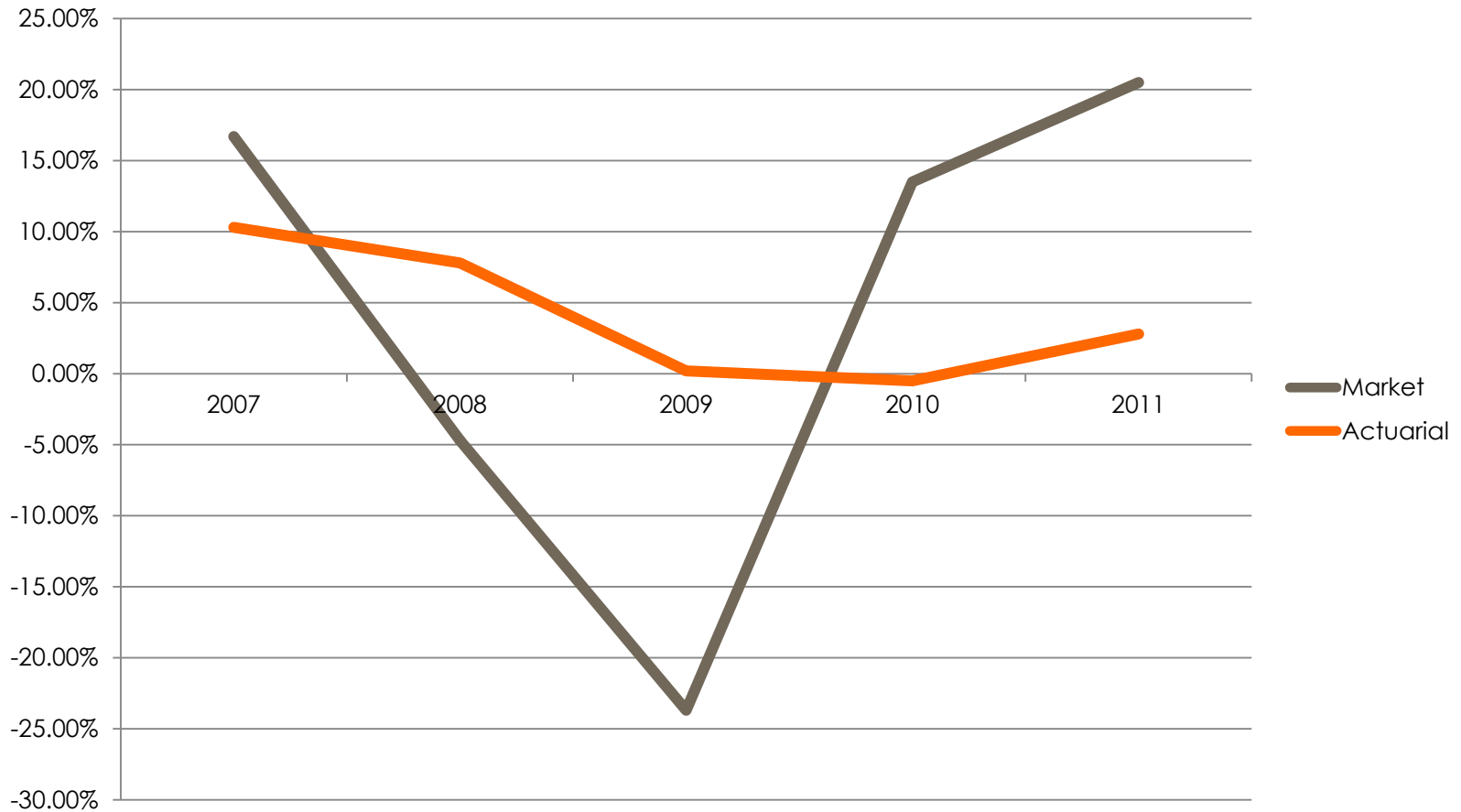
Annual Rate of Return on Pension Investments - 30 Year



Annual Rate of Return on Pension Investments - 25 Year



Annual Rate of Return on Pension Investments - 22 Year



Maryland Law

The trustees or other officers in charge of any pension or retirement system or fund or other postemployment benefits fund of any political subdivision of the State or any agency or department of the political subdivision may invest, redeem, sell, exchange, and reinvest moneys under their custody or control as provided by law by the governing body of the political subdivision and shall comply with fiduciary standards that at least meet the standards set forth in **Title 21, Subtitle 2 of the State Personnel and Pensions Article** in connection with funds under their custody or control. (Md. Ann. Code Art. 95, §22(b)(2))

GFOA Best Practices

A Pension Investment Policy should contain the following elements:

- Statement of purpose
- Roles and responsibilities
- Standard of care
- Asset allocation
- Rebalancing
- Investment guidelines
- Reporting and monitoring
- Corporate governance

Statement of Purpose

- Pay benefits as promised by the Plan in such a way that the cost (defined as contributions) and risk (defined as funding level volatility) are manageable
- Establish guidelines for the Plan's investment portfolio in the areas that most influence investment returns and funded status of the Plan
- Develop accountability standards that will monitor progress

Statement of Purpose

- The Investment Committee of the Plan is responsible for supervising the investment of all assets owned by the Plan
- The Committee will review the Investment Policy Statement at least once per year

Next Steps for Consideration

Assessment of our goals, objectives and mission

- Evaluation of our asset structure and the liability-management requirements of our mission
- Cash-flow analysis to support our budgeting process

Development of an “Investment Policy Statement”

- Analysis of our asset and liability requirements
- Creation of investment-manager guidelines and monitoring techniques

Next Steps for Consideration

Asset-Allocation Study

- Forward-looking, dynamic portfolio-construction recommendations and probability analysis
- Policy-compliance evaluation of our current portfolio construction

Investment Manager Evaluation

- Applied research and evaluation of manager(s) (including alternative investments)
- Trading and execution evaluation of managers and conflict-of-interest analysis

Next Steps for Consideration

Reporting and Communications

- Custody services and review of performance-measurement and monitoring services
- Educational presentations to facilitate complete understanding of the results

Ongoing review and monitoring

- Portfolio rebalancing
- Investment Policy Statement compliance

Sample Investment Policies for Pensions

- Rockville
- Baltimore City
- Riverdale Park
- Maryland State Retirement and Pension System (Annapolis, Bowie Police, and Hagerstown are participants)
- Frederick County
- Montgomery County
- Vanguard

Sample Investment Policies (Non-Pension)

- [Hagerstown](#)
- [Rockville](#)
- [La Plata](#)
- [Maryland Municipal League](#)
- [Howard County Public School System](#)
- [Talbot County Public Schools](#)
- [Los Angeles, CA](#)
- [Lincoln, NE](#)
- [Bloomington, MN](#)
- [Louisville, KY](#)
- [Spokane County, WA](#)